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It’s all relative: the four keys to family business longevity

Surprisingly few company founders take the time to plan ahead when handing over the reins to the next generation. Here’s why it’s worth the trouble

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Li and Fung Group chairman William Fung Kwok-lun (Left) and CEO Spencer Fung. Founded more than 100 years ago, the Fung family have steadily built the company into one of the world’s largest global supply chain firms. Photo: K. Y. Cheng

More than 110 years ago, Fung Pak-liu, an English teacher, and Li To-ming, a local merchant whose family owned a porcelain shop, started an export trading company in Guangzhou, shipping porcelain, fireworks, jade handicrafts and silk, mainly to the United States.

In 1937, Fung’s son had a dream to transform the tiny export company into a world class player. To fulfil his dream, Fung Hon-chu opened the company’s first branch office in Hong Kong, then a fast-growing port city and financial centre that offered him the opportunity to be much closer to his global customers.

Three years after his co-founder died in 1943, Li sold his 300 shares in Li & Fung to the second-generation leader. Since then, the Fung family have steadily built the company into one of the world's largest global supply chain firms, while at the same time contributing to the spectacular development of Hong Kong.

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For long-lasting, successful firms such as Li & Fung, the role that founders play is critical to the longevity and leadership of the family and business. Without visionaries, their companies and successors can falter for lack of direction. And yet many owner-managers focus their attention on short-term goals instead of thinking long-term.

If asked why, many founders might argue that there is not enough time in the day to complete even the day-to-day jobs, much less tomorrow's tasks. In reality, these owner-managers often avoid long-term planning because the process can touch upon some pretty hard questions that require quiet periods of reflection.

Research shows that two out of every five founders who expect to retire within two years have, surprisingly, not put any long-term plans in place. And yet these same founders are still as vulnerable to shocks from unforeseen hospitalisation or unexpected departure from this world as those founders who do make plans.

In fact, it is well documented that firms with long-term planning in place are in a much better position to withstand the health shocks of their founders than those firms without.

Long-term planning requires time and reflection. Owner-managers have to ask themselves many questions: when is the right moment to retire? Who will take over the firm upon retirement or death? Are next generation members of the family interested in the business? Are they capable of running it? Should the firm be sold beforehand?

While the answers to these tough questions will to be unique to each family, every long-lived family-run business combines four common themes in their heritage.

● Using family assets

Utilise the special, tangible or non-tangible contributions and resources that families deliver to their firm within and across generations. Typical examples are strong values, powerful networks or something as simple as the name and reputation of the family and the firm.

Consider the Hoshi Ryokan, a beautiful hotel located in a small village five hours by car from Tokyo. It was founded in 718 and has been operated by the Hoshi family for 46 generations, making it the oldest family-run hotel in the world. For the business and the family, the name Hoshi and the hotel's 1,300 year-old history are without doubt the strongest assets the family has. No wonder that in Japanese culture a long-surviving business name is associated with good fortune.

● Solving roadblocks

Most long-lived firms have good track records of eliminating roadblocks or reducing their impact on family and business. Roadblocks can arise from internal and external sources, but getting round them is the key to success. The Wendel family, for example, managed to overcome an external roadblock put in its way by a dramatic change in regimes.

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The Wendel family business traces its origins to 1704, when Jean Martin Wendel acquired on France's eastern border an iron forge that would become one of Europe's largest steel companies. But the French revolution of 1789, the Franco-German war of 1870, and the two world wars, all presented roadblocks for the Wendel family and their enterprise. Even when they were prevented from operating their steel mills in times of war, they always managed to restart the family business as soon as borders were restored. Ironically, it was in peace time when the steel assets were finally separated from the family – their mills were nationalised without compensation in 1978. Determined to survive, the 300-member family decided to continue their journey without the steel mills. They set about creating a publicly traded investment company which in 2015 reported annual revenues of nearly €8 billion. Their ability to go beyond even the most difficult barriers clearly paid off.

Not all roadblocks are institutional; they can arise from powerful market forces. Consider what happened to the Fung family in the 1970s, when a shift in low-cost commodity production put their export business on the line. Third gens William and Victor Fung, the sons of Fung Hon-chu, hastened back from their studies in the United States to work on transforming the business into a global supply chain manager. The rest is history. Today, Li & Fung employs over 22,000 people worldwide, has over 250 offices in 40 markets, and connects 15,000 suppliers with 8,000 customers through its sourcing services.

● Planning succession

Succession planning consists of four challenges:

1. Understanding succession culture: aligning succession models with the cultural and institutional environment of the firm, the family and the country.

2. Transferring family assets: ensuring that assets are transferred across generations efficiently and transparently.

3. Preparing the next generation: setting goals and objectives for higher education and management experience outside the family firm.

4. Planning in due time: taking 20 years to plan a succession is the norm, not the exception.

● Continuing innovation

The last takeaway is especially powerful. Successful family-run firms reinvent themselves in each generation. Consider the gun-maker Beretta, whose family traces its roots back to 1526, when founder Bartolomeo Beretta delivered 185 gun barrels to the Republic of Venice. For centuries its core business has been the production of light firearms dedicated to sport, hunting and shooting; and to the military and law enforcement sectors. Innovation is absolutely essential in their business. Would today's police officers consider using pistols with the same power and accuracy as one that Beretta made nearly 500 years ago? Not if they want to stay alive!

Fung Pak-liu, and especially his son, would have been proud that their descendants have turned a family vision into a global reality. Their focus on transforming both their firm and their beloved Hong Kong into modern powerhouses were instrumental in creating a long-lasting family business whose current fourth-generation leader, Spencer Fung, continues to set high standards and make dreams come true.

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