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Shooting arrows to protect the castle

...entrepreneurship & international family firms at Munich Business School. In Singapore last week for a symposium organised by Spring Singapore and UOB-SMU Entrepreneurship Alliance Centre (USEA), Prof Bergfeld used the analogy to help companies better understand...

IF FAMILY businesses are like established castles, then sustaining them beyond the third generation would be about building smaller cannons and shooting arrows strategically, rather than building big cannons to strengthen the existing fort.

The analogy came from Marc-Michael Bergfeld, professor of entrepreneurship & international family firms at Munich Business School. In Singapore last week for a symposium organised by Spring Singapore and UOB-SMU Entrepreneurship Alliance Centre (USEA), Prof Bergfeld used the analogy to help companies better understand the concept of family business succession.

Drawing on the insights gathered from his research on European corporate dynasties, he likened established family businesses to 'castles', which are mostly beautiful, with established technologies in established markets. Even if a family business may have already built a strong foundation and been professionally managed, he cautioned against putting all resources on the existing stronghold and advised business owners to pay attention to 'what is going on in the woods' as that could eventually be a menace to their wealth and existing companies.

'Outside of your castle, you would have your markets, and you would have technologies that are developing quickly,' he said. 'And that might threaten the existing castle that you have today and that is nurturing your family.'

He suggested that established family businesses consider structuring entrepreneurial activities to areas outside the 'castle'. These activities may have different dimensions of markets and technologies.

'So instead of building a (big) cannon, build a smaller cannon in your existing field of technology, in your existing market,' said Prof Bergfeld. 'Make sure that the castle is well protected . . . but in addition, use some arrows - smaller cash, small money - in different environments in order to nurture entrepreneurship and nurture innovation.'

The responsibility of starting new ventures could be dished out to the sons and daughters, or future company leaders, who could treat the journey as a learning base and a common ground from which to discuss the future of the family business with the elders.

'It's not only good for the kid - because losing 100 or 200 grand is better than losing $20 million,' added Prof Bergfeld. 'So give him small money so that he can develop a venture in a future area of technology. He or she will learn a lot. But in addition to that, (if successful) he will also protect the castle because he claims a certain environment out of which no more unfriendly 'Robin Hoods' can come because you have already position yourself there.'

If history is any indication, a fortress today may not be in existence 10 or 15 years down the road, said Prof Bergfeld. 'So it's maybe good to have a second castle or at least a second village to which the family can go when the environment changes drastically (such) that the former castle falls apart.'

Using the example of a family business in the printing industry, he said that the son may be clueless about the printing business but savvy with digital technologies. He could then be tasked with building a new venture in a future field that is familiar to him. The new venture could also serve as a common ground from which the multiple generations discuss the future of the family businesses and seek to align their thoughts.

Prof Bergfeld pointed out that a number of European conglomerates had evolved similarly. Siemens, which started out as a family business in telephony industry, has since transformed into a diversified group with interests in industry, energy and health care, while the original 'castle' in telephony is no longer its core.

His insights are drawn from a study of 24 European companies, which have an average age of 150 years and estimated to rake in about 30 billion euros (S$51.3 billion) in turnover a year. He was one of two keynote speakers at the USEA symposium titled 'Preparing for Family Business Succession: Necessary to Keep Within The Family?', held at the Singapore Management University last Thursday. The other keynote speaker was Kevin Au, associate director of Centre for Entrepreneurship, The Chinese University of Hong Kong. The event was supported by the Business Leaders' Alumni Club.

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