ALL IN THE FAMILY

How boards of **founder-led** and **family-run** companies can adapt to ownership changes with **agility.**

By Gregory Trueblood

lthough perhaps not a household name to many outside of Japan, Kongō Gumi—a construction company based in Osaka—has long held the moniker of “world's

Just how old, you ask? 1445 years, to be exact. Should one be interested in tracing Kongō Gumi's corporate lineage to the very beginning, look no further than the scroll that denotes the firm's creation in 578 A.D. by founder Shigemitsu Kongō.

In the case of Kongō Gumi, several factors contributed to the company's enduring longevity. Yet, a decision to go public in 2005 shifted the business into the realm of a post-founder family enterprise.

For Kongō Gumi and Masakazu Kongō—the 40th and final Kongō to lead the firm—this decision

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was seen as a way to raise much-needed capital and increase the company's access to financing, which had been depressed for decades due to exorbitant debt on their balance sheet.

Additionally, financial difficulties related to a decline in demand for traditional Japanese-style temples and other wooden structures, and an increase in competition from larger, more modern firms, was a key driver as well.

Ultimately, it would seem, even the world's oldest family-owned firm was not immune from disruption within its ownership structure.

In January 2005, Kongō Gumi went public on the Osaka Securities Exchange. Yet, just one year later, the company was acquired by a larger conglomerate: Takamatsu Construction Group Co. Ltd.

Although Kongō Gumi's superlative record may never be challenged, they are certainly not

"[Don't] think just about management and operational excellence, but also think about what it is that you own, how it's owned, where your enterprise is going, and how disruption is affecting that environment."

—John Davis
Future Family Enterprise Program Faculty Director,
MIT Sloan School of Management

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A Cautionary Tale
The failure of Sears has been attributed to their transition from a founder-led company to a publicly traded one, whose new executives were more focused on financial engineering and short-term profits than on building a sustainable business.

"Identify and recruit a successor who shares the values and vision of the family and who has the necessary skills and experience to lead the business forward."

—David C. Bentall
Author, *Leaving a Legacy: Navigating Family Businesses Succession*

the only family-run business thrust into the world of post-founder family enterprises.

According to a study by the *Harvard Business Review*, approximately 33% of Fortune 500 companies are family-run, although the report notes that percentage can fluctuate over time, as companies may change ownership or control structures.

Additionally, some of the world's largest brands faced similar transitions when moving away from founder-or-family-led ownership structures, including:

- **Ford Motor Company**: Henry Ford founded Ford Motor Company in 1903 and served as its CEO until his son, Edsel Ford, took over in 1919. Since then, the company has remained in the hands of the Ford family, with various family members serving in leadership positions.

- **Walmart:** Sam Walton founded Walmart in 1962 and was succeeded as CEO by his eldest son, S. Robson Walton, in 1992. The company is now primarily controlled by the Walton family.

- **Samsung Group**: Lee Byung-chul founded Samsung Group in 1938 and was succeeded as CEO by his son, Lee Kun-hee, in 1987. After Lee Kun-hee's death in 2020, his son, Lee Jae-yong, took over as de-facto leader of the company.

A common question among companies exploring ownership changes is: What involvement and influence should boards exercise during, and after, a company has transitioned or changed hands?

"To understand the future of your family's enterprise, you need to gain altitude," says MIT Sloan Business Faculty Director for the Future Family Enterprise Program, John Davis, in a video message on the university's website. "Think about *what* it is that you own, *how* it's owned, *where* your enterprise is going, and *how* disruption is affecting the environment."

Perfecting Professionalization

In his book, *Family Business*, author Ernesto Poza defines professionalizing as the process of transforming a family business from an informally run organization, with decision-making concentrated in the hands of family members, to a more formally run organization, with decision-making based on sound business principles and practices, and with roles and responsibilities defined and assigned based on merit and qualifications, rather than family status alone.

Poza, a fellow at Cambridge Institute for Family Enterprise—a leading education and research center dedicated to family enterprise issues—is not the only academic to suggest that boards can either greatly help or hinder an enterprise through a period of great transition.

"[Although] most executives agree that it's management's responsibility to develop the company strategy and then discuss it with the board...we also commonly hear from founders that they don't need a board because they already know what's right for their company," writes Mary Ann Cloyd, in *"What Is a Board's Role in a Family Business?"* published by the Harvard Law Forum on Corporate Governance.

Cloyd suggests that a lack of board input—or the complete absence of a board entirely—is a dangerous liability, noting that when an enterprise faces a new situation, such as a change in ownership structure, an established board that understands a family-led business can help executives respond to innumerable challenges with sound advice and perspective.

Succession To a Non-Family Member (or Sale)

In *Leaving a Legacy: Navigating Family Businesses Succession*, author David C. Bentall writes that succession to a non-family member can be a viable option when there is no family member who is willing or able to take over the business,

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or in the case of a sale to a third-party.

"It is important to identify and recruit a successor who shares the values and vision of the family and who has the necessary skills and experience to lead the business forward. This process may involve searching for external candidates, evaluating internal candidates, or a combination of both," he writes.

One cautionary tale of what can happen when a successor does not share the values or vision of the founder after transitioning from a family-led organization into a publicly traded company is that of Sears.

In the 1980s, the iconic American retailer began to struggle as it faced competition from discount retailers like Walmart and Target.

In an effort to turn the company around, Sears brought in outside executives and began to focus more on financial engineering than on retail operations. This led to a series of missteps, including the acquisition of Dean Witter Reynolds and Coldwell Banker, which distracted the company from its core retail business.

In 2005, Sears merged with Kmart, another struggling retailer, in an $11 billion (USD) deal intended to create a stronger competitor to Walmart. However, the merger failed to adapt to changing consumer trends and competition from e-commerce giants like Amazon. Ultimately, Sears filed for bankruptcy in 2018.

"Sears failed because it lost touch with the needs and preferences of its customers, and it failed to invest in its stores and online in a meaningful way," said Neil Saunders, managing director of GlobalData Retail in an interview with *CNBC*.

According to author Bentall, once alignment is found between a family-controlling group and external successor, boards can play a key role by, "developing a comprehensive succession plan that includes a clear timeline, a transition strategy, and a plan for communicating the transition to employees, customers, and other stakeholders."

Bentall advises companies that their succession plan should also, "address issues such as compensation, incentives, and governance structures, to ensure that the new leader has the support and resources necessary to lead the business successfully."

Protecting CEO Value

One final variable to consider is how a CEO can enhance their value while helming a company in transition, especially if they plan to remain chief executive post-sale of their company, or if listed on a public exchange. One such blueprint is Walmart, or more specifically, Sam Walton, who continued serving as CEO 22-years after taking the company public in 1970.

As is the case with Walmart, the CEO in family and founder-run companies is often a family member or someone who has a deep understanding of its values and culture. However, once their company goes public, the CEO's role may shift to a more strategic and corporate-focused position, as they have a greater responsibility to the shareholders and must make decisions that are in the best interest of the company as a whole.

Andrew Keyt, executive director of the Family Business Center at Loyola University Chicago's Quinlan School of Business and author of *Myths and Mortals: Family Business Leadership and Succession Planning,* says CEOs can add value by shepherding a "unified vision" for the future amid such transitions.

"Beyond financial gains, the successful multi-generational family-business [CEOs] create

"Beyond financial gains, the successful multi-gen family-business [CEOs] create strong and enduring family relationships, significant contributions to their communities, and establish a legacy for future generations to be proud of."

—Andrew Keyt
Executive director of the Family Business Center at Loyola University Chicago's Quinlan School of Business

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