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THE ENDURING STRENGTH OF FAMILY BUSINESSES

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SOLID FOUNDATIONS

Family-owned businesses are often best able to cope with unforeseen shocks, thanks to their long-term viewpoint, prudent financial approach, and their loyalty to the enterprise and its employees.

CLARITY AND COHESION

All too often family businesses are brought down by internal challenges, from overly dominant owners to botched succession planning. Robust governance is the best way to mitigate these weaknesses.

NEW BEGINNINGS

Every crisis also creates fresh opportunities for those firms that are able and willing to adapt quickly. For family businesses, this form of renewal depends upon a thriving entrepreneurial spirit.

HERITAGE AND MODERNITY

A sense of history and legacy regularly lie behind the success of a family business. The key challenge is understanding when to retain these, and when to replace them with modern advancements and technology.

PICTET REPORT

FOREWORD

It's become something of a cliché to point out that 2020 has been a year of unprecedented events and paradigm shifts. With the Covid-19 pandemic, the world has undoubtedly experienced a shock unlike anything in living memory. For business owners, entrepreneurs and investors, the crisis is also far from over – the fallout will continue to affect decisions for months and years to come.

Yet, as Peter Vogel from IMD Business School points out in our interview in this issue of Pictet Report, 'change and disruption are ever-present; social, technological, environmental, economic and political forces are constantly in flux.' While Covid-19 certainly represents a disruption on a vast scale, many patterns discerned during previous crises have already held true. One of these patterns is that family-owned firms are more resilient and better able to adapt, and often emerge stronger, than their peers.

In this issue of Pictet Report, we meet a group of entrepreneurs and owners of family businesses around the world to unpack exactly why these enterprises tend to fare better in times of upheaval. What emerges is a potent combination of quantifiable strengths – solid balance sheets, higher reinvestment of profits – and more nuanced, qualitative factors – such as long-term thinking and 'stewardship values'. It's this combination that makes family-owned companies both robust and adaptable.

We see this in enterprises steeped in heritage and craftsmanship, from the Gaja winery in Italy to the Danish furniture manufacturer Carl Hansen & Son, to Yamagata Dantsu, one of the world's finest makers of custom and handmade carpets. But we also find it to be true in larger, more industrial firms, including Firmenich, the world-leading fragrance and taste company headquartered in Geneva, and Azimut-Benetti, the global motor-yacht group based in Turin.

We have taken a broad approach to this report, profiling not just multinational companies but also enterprises that are market leaders in specific niches. This has allowed us to draw wider conclusions about family-owned businesses and how they behave in times of crisis. Even though it feels as though we're still in the midst of this most recent shock, it's already possible to recognise patterns, to identify lessons to be learned and uncover insights. One of the key insights is that the real strength of family-owned businesses lies in their hunger for innovation, combined with their sense of heritage and long-term thinking.

Marc Pictet and Boris Collardi
Partners of the Pictet Group

FIRMENICH

In a time of crisis, Firmenich turned to its core values

The CEO running the family-owned business outlines the company's impressive response to the pandemic and explains what an 'inclusive capitalism business model' looks like.

'There's no playbook for this. So, I turned to our values, which are the fundamentals of the company.'

When Gilbert Ghostine became CEO of Firmenich in 2014, he became the first person outside of the owning family to run the Geneva-based fragrance and taste company in its 125-year history. Having previously worked for the alcohol and beverage multinational Diageo for over two decades, and with experience of working on four separate continents, he was certainly qualified to take on the role. Yet the added pressure of running a business named after its owning family was still palpable.

'Suddenly when you look at your business card, you see not only your family name, but also the family name of the company you lead and work for,' he says. 'This makes your responsibility bigger because you're responsible for your own reputation. But it's also your responsibility as a non-family member to uphold the reputation of this family and this organisation and ensure it remains untarnished.'

Luckily for Gilbert, his predecessor as CEO, Patrick Firmenich (now Executive Chairman), managed Gilbert's arrival in the job, organising a two-month 'roadshow' to meet customers, to visit the company's facilities worldwide, and to understand a B2B industry that was fairly new to him. During that time, Gilbert says the best piece of advice Patrick Firmenich shared was 'to take my time and really immerse myself in the business, but, most importantly, to understand the values and purpose of the organisation.'

It's often said that values are what you fall back on in times of crisis – and the Covid-19 pandemic has been a real test of this theory. 'There's no playbook for this,' says Gilbert, who is now six years into his role. 'So, I turned to our values, which are the fundamentals of the company, and I got inspired to make sure we take the right decisions to protect our people, to positively impact our community, and to maintain business continuity.'

It has to be said, Firmenich's response to the crisis has been impressive. The company, which turned over more than 3.9bn Swiss francs globally in 2019, is an essential player in food, hygiene and sanitation chains, so it couldn't simply mothball facilities; the operation had to keep going. The first priority for the management team was to ensure the health and safety of its 10,000 employees around the world. The company imposed an internal travel ban as early as January, and in the first week of March all employees who could do so were made to work from home.

At the same time, though, Gilbert and his team looked to how they could support the wider community. 'We produced and supplied free of charge 100 metric tons of hand sanitiser for hospitals, medical and emergency services in Switzerland, the US, Singapore, Indonesia and Malaysia,' says the CEO, adding that 'hand sanitiser is not something we produce as a company, so we had to improvise and adapt our equipment'.

This is just one recent example of how Firmenich has looked to have a positive impact on the wider world, but in truth this has been core to how the company has operated for decades. Take sustainability, for example. It may have become a buzzword in business over the past 15 years, but *durabilité* (a French word for sustainability) was written into the company's core values way back in 1956. In 2018, Firmenich became one of the first two businesses worldwide to receive a triple-A rating from the Carbon Disclosure Project (CDP), – the other was L'Oréal. In 2019, Firmenich was one of only six peers.

Having attended the COP 21 climate conference in Paris in 2015, Gilbert announced that Firmenich would be running on 100-per-cent renewable electricity by the end of 2020. 'When I came back to Geneva, my colleagues were excited but petrified at the same time,' he recalls. The company met that target in February 2020, ten months ahead of schedule, across all of its 48 manufacturing facilities worldwide. Firmenich's next goal is to become a carbon-neutral company, and it has set a series of targets in 2025 and 2030 in order to get there.

For Firmenich, however, sustainability is just one part of a wider strategy to have a positive impact on the planet and society. Another key area of focus, for instance, is youth employability. 'It was a big challenge before Covid, and now with Covid and with unemployment skyrocketing in Europe and North America, it will become an even bigger challenge,' says Gilbert. That's why, building on its own 60-year experience with apprenticeships, Firmenich has become a founding member (alongside Nestlé and Microsoft) of the Global Alliance for Youth, which has promised to create 15 million youth employability opportunities by 2022.

This all falls into the company's approach to business, which Gilbert calls its 'inclusive capitalism business model'. These initiatives, according to the CEO, prove that 'you can be successful, you can generate value for your shareholders, and at the same time positively impact all your other stakeholders.'

Part of the reason why Firmenich is able to deliver such bold, future-facing strategies is its structure as a privately owned family company, and one with highly disciplined governance based on meritocracy. 'It combines the best of both worlds,' says Gilbert, 'the rigour and accountability of public companies and the long-term vision and passion of private companies. It's an extremely powerful combination.'

Today, the Firmenich family is involved at the board level, as you might expect. However, the family is in the minority here – despite owning 100 per cent of the company's shares, the family has only four of the nine seats on the board; the others are held by independents. Moreover, there is not a single family member on Gilbert's Executive Committee. 'That doesn't mean we won't ever have a family member on the committee in future,' he explains, 'but it's driven by meritocracy, pure meritocracy.'

For Gilbert, the importance that the Firmenich family places on rigorous governance and meritocracy is one of the central reasons why Firmenich the company has been so successful, and why he backs it to continue being successful in the future. Alongside governance, he also points to four other crucial determiners of sustained success: long-term vision, resilience, dedication to positive environmental and social impact, and reputation. This constellation of five core attributes could really be used as a guide for any family company searching for success.●