The Economist

Search Economist.com

Welcome
My account
Log out
Manage my newsletters

Site feedback

Home
This week's print edition
Daily news analysis
Opinion
All opinion
Leaders
Letters to the Editor
Columns
KAL's cartoons
Correspondent's diary
Economist debates
World
All world
Politics this week
United States
The Americas
Asia
Africa
Middle East
Europe
Britain
Special reports
Business and finance
All business and finance
Business this week
Economics focus
Management
Economics A-Z
Business education
All business education
Which MBA?
Markets and data
All markets and data
Daily chart
Weekly indicators
World markets
Currencies
Rankings
Big Mac index
Science and technology
All science and technology
Technology Quarterly
Technology Monitor
Culture
All culture
Style guide
People
People
Obituaries
Diversions
Audio and video
Audio and video library
Audio edition
The World In
The World in 2009
The World in 2008
The World in 2007
The World in 2006
The World in 2005
The World in 2004
Research tools
All research tools
Articles by subject

Business

European family firms in the recession

Dynasty and durability

Sep 24th 2009 | BERLIN AND PARIS
From *The Economist* print edition

Family-run firms are supposed to be safe havens in times of crisis, but many of Europe’s biggest have come unstuck

Maersk

WHEN Germany invaded Denmark in 1940, A.P. Moller, founder of A.P. Moller-Maersk, a shipping company (above on the left, with his family), refused to co-operate with the Nazis. He sent his son (second left), then 26, to run the business from America instead. These days the younger Mr Moller, now 96, is helping the firm through the recession. Because of overcapacity in container-shipping, the firm is on course for its first full-year loss. Mr Moller is no longer involved in the business day to day, but he keeps an eye on cash flow and gives advice to the chief executive, who is not a family member. Events today, in Mr Moller’s view, are moving even faster than they did in the 1930s.

Having a century or more of experience is supposedly a big advantage for family firms in difficult times. Many big European family businesses, after all, have survived two world wars and successive waves of nationalisation. As a result they tend to be wary of debt and seldom panic. According to a global index compiled by Credit Suisse, a bank, family firms have outperformed the MSCI World Index by 4.8% since its launch in January 2007. Some people even argue that family firms, with their lower leverage, long-term approach and loyalty to employees could point the way toward a more stable kind of capitalism. “Family businesses value honest, careful work and keeping close to the customer,” argues Fernando Casado of the Family Enterprise Institute in Barcelona, “not easy money and speculation.”

Family-owned or closely held firms dominate Germany in particular. Of the 1,000

Comment (5)
Recommend (48)
E-mail
Share
Print
Reprints & permissions

Related Items

From *The Economist*
Trying times for El Corte Inglés
Sep 24th 2009
Why Germany's manufacturers are struggling
Feb 19th 2009

Country briefing
Germany

Articles by subject
Economics A-Z
Special reports
Style guide

Country briefings
All country briefings
China
India
Brazil
United States
Russia

My account home

Newsletters and alerts
Manage my newsletters
Manage my e-mail alerts
Manage my RSS feeds
Manage special-offer alerts
More »

Print subscriptions
Subscribe to *The Economist*
Renew my subscription
Change my print subscription delivery, billing or e-mail address
Pay my bill
Activate premium online access
Report a missing copy
Suspend my subscription
More »

Digital subscriptions
Subscribe to Economist.com
Manage my subscription
Mobile edition
Audio edition
Download screensaver
More »

Classifieds and jobs

The Economist Group
About the Economist Group
Economist Intelligence Unit
Economist Conferences
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance
Reprints and permissions

EIU online store

Economist shop

biggest German companies, only 170 are listed. Albrecht von der Hagen, the director of Die Familienunternehmer, a lobby group for family businesses, says members' first priority is to ensure the survival of the family firm and that this trumps any desire to expand or increase profits. One example is B. Braun Melsungen, a family-owned medical company with 38,000 employees and nearly €4 billion ($5.9 billion) in sales last year. Equity makes up almost 40% of its balance-sheet and although it made €185m in profit last year, it paid out less than a tenth of that to its shareholders. Little wonder that even in the downturn, banks have been knocking on its door.

But several of Germany's biggest family firms have not proved so conservative of late. Adolf Merckle, the founder of a drugs, cement and engineering conglomerate, committed suicide on January 5th after burdening his empire with heavy debts and misguided financial gambles that ultimately cost his family control. Madeleine Schickedanz, a big shareholder in Arcandor, a department-store and mail-order group which went bankrupt in June, is now living on €600 a month, after entrusting the firm to managers who restructured endlessly yet failed to modernise its drab department stores.

Schaeffler, a family-owned firm that makes bearings, was almost felled by the loans it took on to take over Continental, a car-parts company three times its size. In late August it completed a €12 billion restructuring that may just allow the family to retain control. Porsche, a carmaker controlled by the Piëch and Porsche families, also had to be bailed out after a bid to buy Volkswagen backfired. And Sal Oppenheim, a bank that has been in family hands for over 200 years, may now sell itself after a number of loans went sour.

This run of failures points to some big problems with family capitalism. The first is that one of its main strengths, the alignment of ownership and management, can become a weakness when control passes to the next generation. "Sometimes they are arrogant, sometimes they are naive, sometimes they are really very good, but they are never the original entrepreneur," says Volker Beissenhirtz of Schultze & Braun, a German law firm.

Family-owned firms also seem to lose caution as they get bigger. In the case of small family concerns, a "house bank" often wields significant influence through its power to extend or deny credit. Such bankers understand their clients' businesses and steer them away from excessive debt. But when family-owned firms become too big to rely on a single bank, resorting to syndicated loans and the like, their many bankers tend to monitor them less closely, says Jörg Rocholl of the European School of Management and Technology in Berlin.

Elsewhere in Europe, the crisis may prompt some welcome changes to family capitalism. Italian families have long been criticised for constructing complex chains of ownership which allow them to exercise control over large groups with minimal outlay. But banks are becoming far less willing to finance these "Chinese boxes", because the controlling firms are usually financially weak and can collapse in hard times. "Chinese boxes are more prevalent when there is plenty of cheap money from banks," says Emma Marcegaglia, president of Confindustria, Italy's leading business group. "Now banks may say, 'If you want money, let's simplify the structures.'"

One way in which family-firms have differentiated themselves during the crisis is by refusing to slash their workforces. In Portugal, says Peter Villax, president of the Portuguese Family Business Association, large family firms have eschewed lay-offs. They have been inspired by Alexandre Soares dos Santos, chairman of Jerónimo Martins, a food-distribution firm, who declared in February that his company would sack workers only as a last resort after cutting salaries, bonuses, investment and dividends. Marcegaglia Group, a family-owned steel company, has been the only one in the industry in Italy not to fire a large portion of its staff, says Ms Marcegaglia. "We have lost fewer jobs in Italy compared to other European countries because of family firms," she says.

Although several family firms have had a terrible crisis, in one industry they have shone. Consumers have sought out discount shops, which are largely in family hands in Europe. Aldi and Lidl, two German discount chains which have won customers across Europe, are family businesses, as are Colruyt, a Belgian one, and Netto, a pan-European one which is owned by A.P. Moller-Maersk. In clothing, too, families own value fashion brands Zara, Hennes & Mauritz and Primark.

The reason families dominate discounting, says Philippe Suchet of Exane BNP Paribas, an investment bank, is their long-term approach: they know that keeping prices low for customers is the only way to survive over generations. Listed retailers, by contrast, often face pressure to raise prices in order to meet short-term financial goals. With the exception of department stores (see article), the crisis has therefore confirmed one old truth: that families are best of all at shopkeeping.