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Key Finding

Institutionalisation matters for family businesses, to ensure value creation, scalability and especially longevity.

Business Application

The right private equity partner can play a significant role in this process by opening doors, improving processes and facilitating a smooth generational handover.

Family firms account for 70% of GDP globally and 60% of global employment and are key drivers of economic growth and business innovation. The GPEI report, *The Institutionalisation of Family Firms – From Asia-Pacific to the Middle East* (November 2017), draws on insights from 123 family firms and 14 experienced private equity investors in Asia and the Middle East to test how family owners can ensure continuing business success, scalability and the longevity of their enterprise.

The survey measured family firms' level of institutionalisation across six attributes and captured both business-related measures (Business Attributes) and characteristics unique to a family firm (Family Attributes). When combined and normalised, the output for each business across these six attributes provided an institutionalisation score used to compare a firm to its peers.



Family Attributes – Measure the sophistication of engagement between the family and the business and the family's unique strengths.

Business Attributes – Measure the strength of a family firm's operating model and its ability to sustain competitive advantage.

The study identified two distinct groups – first- to third-generation family firms (Ascendants) and fourth-generation firms and beyond (Champions) – separated by a distinct gap or chasm in their institutionalisation score.

Follow-up interviews revealed concrete lessons for family owners on how to bridge this gap and ensure the longevity of their family's enterprise:

- Family businesses that choose to institutionalise early by appointing professional boards and operating executives tend to ensure long-term value creation and continuity across

generations, whereas families who opt for closely held business decisions often favour control and short-term decision-making flexibility over long-term sustainability.

- Private equity firms can help family businesses by introducing processes that address weaknesses, preserve the family's competitive advantage, ensure non-disruptive passing of the baton from one generation to the next and help the founders monetise some of their investment – all for the price of a minority stake.

Some of the conversations with family firms highlighted a lack of awareness of the value a well-aligned (and incentivised) PE partner may bring.

Read more:

- “Mature family firms must institutionalise”. Available at <http://workingcapitalreview.com/2017/11/podcast-institutionalization-of-family-firms-claudia-zeisberger-insead/>
- *The Institutionalisation of Family Firms – From Asia-Pacific to the Middle East* (2017). Available at <https://centres.insead.edu/global-private-equity-initiative/research-publications/documents/insead-the-institutionalization-of-family-firms-2017.pdf>

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Research interests: private equity as a transformation agent; venture capital; family businesses & family offices; risk management