



Handing over the business to the next generation

An Interview with Dr. Andreas Jacobs, Member of the Supervisory Board of Jacobs Holding AG

by Carolyn Lutz and Felix B. Waldeier

AvS – International Trusted Advisors: There are many ways in which a company can be successfully transferred across several generations – and also many risks. From your point of view, what are the crucial aspects that owners of family businesses must take into consideration? Dr. Andreas Jacobs: Being an entrepreneur is not easy. You need to be courageous, skilful in dealing with people, and have the right education and experience for the job at hand. In a family business, dealing with the family is the top priority; that poses a further challenge in three dimensions. First, there must be a horizontal balance, that is, between the siblings of the entrepreneurial family. Second, there must be a vertical balance between the generations; the allocation and distribution between today and tomorrow. Third, there must be a farsighted leader who knows when to hand over the business and to whom – and in which kind of structure he/she leaves the company and the family.

How did this generational change take place in your company?

After building Jacobs Suchard into the third largest coffee company in Europe, in 1987, my father had bought out his three brothers and sisters who held largely equal rights in the family company. For this he indebted himself, while at the same time pursuing a globalisation of the company. This led to having to sell Jacobs Suchard in 1990 for financial reasons. Thus, there was also no successful transition from the second to the third generation. In the end, everyone received a nice pay-out but the distinguishing characteristics of a family business – bringing together family members across generations, setting aside the individual interests in favour of those of the company, moving even closer together in bad times – were suddenly gone.



Could, in your opinion and in retrospect, the loss of the company and accompanying loss of family cohesion have been avoided?

My father was too strong a personality to let his siblings with almost equal rights have an agenda different from his own. The voting rights should have been distributed differently in order to improve the culture of the majority, including veto rights and a strong role of independent third parties. Instead, 100 years of Jacobs coffee as a family business came to an abrupt end.

Against this background, how did you proceed on a corporate level – or in other words, how did you succeed with a fresh start?

One of the new / old roots was the industrial chocolate business Callebaut, which the buyer, Philip Morris, did not want at the time. This has now become a small star, which has increased its production volume from 50,000 tons of chocolate per year to almost 2 million tons today. I was able to accompany the company for over 10 years as President, and I take pride in the fact that the stock price of the company – we are listed on the stock market, and hold a good 65% of the shares – has increased by eight times since then.

Barry Callebaut went public in 1996. Is listing a family business not correlated to the risk of losing the long-term entrepreneurial view through short-term satisfaction of shareholders? How did you manage to reconcile these two forces?

Combining a dominating or a majority participation of the family with an exchange listing is not only possible, to me it represents even “the best of all worlds”. There are three main reasons for this:

The exchange listing forces us to have “state-of-the-art” reporting, controlling, compliance and governance. So I do not have to play judge and jury, but the company receives its stimulus directly from the stock market.

Furthermore, the stock market listing forces us to achieve sustainable financial performance. Sustained because the CEO ensures that the stock market price increases by improving the performance quarter by quarter. At the same time, as President, I ensured that in three years, six years or ten years, we achieved our long-term goals resulting from the right strategy and the right team.

Finally, the stock market listing facilitates the procurement of cash: capital, mezzanine, bonds and bank loans can be procured much more easily and quickly if the company has a regular rating or at least good coverage by the financial analysts.

From an economic point of view, this sounds reasonable. But what advantage do the family members have from listing their company?

For family members, too, an exchange listing is advantageous. It offers the individual members initially greater fungibility and management of their own portfolio, by enabling the selling and



buying of shares on the stock exchange. In addition, it requires a stable dividend policy and thus disciplines the family shareholders not to squeeze out nor to plough back too much cash.

Can an exchange listing pose an advantage for external managers in the company?

Absolutely! It allows for a more attractive “Management Compensation Programme”, which today is essential for attracting and retaining good managers. In our companies, the top ten managers earn 50% of their salary through the equity participation programme. At the same time, however, it is just as important that a stock exchange listing allows a neutral performance assessment by the management.

You and your family are investing in different companies in different industries. Did this holding structure result from the perception of opportunities or was a corresponding investment strategy already planned for a long time? How do you take decisions?

Already some twenty years ago, my father began to divide his assets. Half went to his heirs, his wife and us children, and the other half to a family holding company. This holding company invests any excess into a foundation. While the heirs can now individually dispose of their assets, they decide jointly at the holding company and the foundation – but only on two things. On the one hand, on the appointment of the Board of Directors of the holding company and of the Board of Trustees. And on the other hand, on a possible distribution of the holding company to the Foundation. All other decisions are taken exclusively by the bodies of the companies or the Foundation.

What about the operational influence of family members? Not every family member wants to work in his or her own company – others are interested, but they cannot cope with the entrepreneurial challenges...

Naturally, we try to fill the key positions in the individual companies with family members. My brother Christian, for example, directed the Jacobs Foundation for a long time before he handed over the office to our sister Lavinia some time ago – while my successors in the presidency of Jacobs Holding are my two brothers Philippe and Nicolas. We were obviously successful in transferring the responsibilities within the family. Nevertheless, we are keen to ensure that we have mainly independent and professional people in these committees, in order to make sure that family politics and possible frictions and rivalries are not taken into the committees.

Looking at the holding of positions as well as the voting rights, we could still question the rationale behind your commitment to the holding company in combination with your investments in Barry Callebaut. Successful profits ultimately end up in the Jacobs Foundation – and not directly with you. Isn't that demotivating?

This is a good and important question! It follows the rational that capital and voting rights should always be kept together. In other words: “If one cannot reap the fruits of his/her own actions, one loses interest, works as an employee, and the passion for the family enterprise is lost.” This is a



possible danger that many advisors warned us about. Nevertheless, we have deliberately chosen this structure for the following two reasons:

With one half of the inherited wealth, each one of us received enough to live. With the introduction of the other half into a holding and foundation devoted to the common good, the family will be charitably committed and dedicated to society for generations.

Our holding company, our foundation and many foundation projects carry our name. It is hardly conceivable for me that we are no longer interested in these institutions, which bear our name. Take, for example, the Jacobs University in Bremen: when my father decided to name it after our family, it was clear to all of us that we will be supporting it as long as we have the means to do so.

But does this structure also enable future generations to engage in the operational business and the foundation?

As long as my or our offspring want to be entrepreneurial and have a corresponding professional training, they will have the opportunity to develop themselves entrepreneurially and to contribute to the company or the Foundation. As for many family businesses, the core question remains: will the following generation develop enough enthusiasm in order to become entrepreneurial themselves? Every descendant must answer this question for him or herself. From my point of view, the answer is very rarely connected to the amount of money or size of the company. Entrepreneurship does not necessarily require much money, nor does a lot of money automatically lead to entrepreneurship. Therefore, we did not have a problem with the separation of voting rights and capital, and believe that the family will continue to be engaged in entrepreneurial activity.

How do you want to ensure that this will work as smoothly as possible in the future, also when very fundamental decisions have to be taken? Do you have a clear “family governance” model?

Our entrepreneurial family consists of six tribes, who, as already mentioned, decide in a Family Council on the appointment of the Board of the holding and the Foundation, as well as on a possible dividend of the holding company to the Foundation. All other decisions are made in the bodies and management of the companies. There is a clear distinction between confidentiality and the right to speak between family councils and societies. My two sisters and my older brother Christian are not involved in the Board of Directors of the Holding, which is why they receive less information about our portfolio companies. This asymmetry of course only works as long as and to the extent that they have confidence that those who are responsible for the company work well and also in their interest. It is therefore essential to maintain an informal, personal and trusting communication culture outside the Family Council and outside the committees. Luckily, we were doing that successfully even after the death of my father nine years ago.

Based on your specific structure and the interaction between family and company, can you formulate general advice on how future generations should be prepared for their role?



A family business lives from the family – in present and future generations. Accordingly, it is essential to promote the next generation in the best possible way. It is important to take into account that not all descendants can be educated to be entrepreneurs in family businesses – there is no “entrepreneurial gene” or an entrepreneurship course to be taken! The only thing we can do is to create an environment for them which transports the appropriate values and creates role models, so that they can enjoy freedom and still learn to deal with it in a responsible way.

Andreas, thank you for these insights!



THE TRUSTED ADVISOR are our firm's regularly published articles, featuring not only insights derived from our project work but also guest posts and interviews with leading business figures. They offer food-for-thought and practical advice on a variety of key topics in the leadership, ownership advisory, governance and strategy domains.

Should you wish to receive **THE TRUSTED ADVISOR** automatically and on a regular basis, please send an e-mail to: tta@avs-advisors.com

You are welcome to recommend and share our articles. All previously published articles can also be found on our website: www.avs-advisors.com/trustedadvisor

Office Frankfurt

Untermainkai 31
60329 Frankfurt
Germany

frankfurt@avs-advisors.com



Office Geneva

Rue du Mont-Blanc 19
1201 Genf
Switzerland

geneva@avs-advisors.com

Office Zurich

Tödistrasse 36
8002 Zürich
Switzerland

zurich@avs-advisors.com

Office Hamburg

Neuer Wall 80
20354 Hamburg
Germany

hamburg@avs-advisors.com

Office Paris

7, rue Georges Ville
75116 Paris
France

paris@avs-advisors.com

Office London

9 New Square
Lincoln's Inn
London WC2A 3QN
United Kingdom

london@avs-advisors.com

Office Bogotá

Edificio Bogotá Trade Center
Cra. 10 No. 97A-13, Torre A,
Oficina 701
Bogotá, Colombia

bogota@avs-advisors.com