Making External Executives Successful in Family Businesses

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Our world is changing

A	D	A	P	T
Asymmetry Increasing wealth disparity and the erosion of the middle class	**Disruption** The pervasive nature of technology and its impact on individuals, society and our climate	**Age** Demographic pressure on business, social institutions and economies	**Polarisation** Breakdown in global consensus and a fracturing world, with growing nationalism and populism	**Trust** Declining confidence in the institutions that underpin society

This highlighted “four” global crises

1

Crisis of prosperity

2

Crisis of technology

3

Crisis of institutional legitimacy

4

Crisis of leadership

… and then Covid-10 occured.

Society

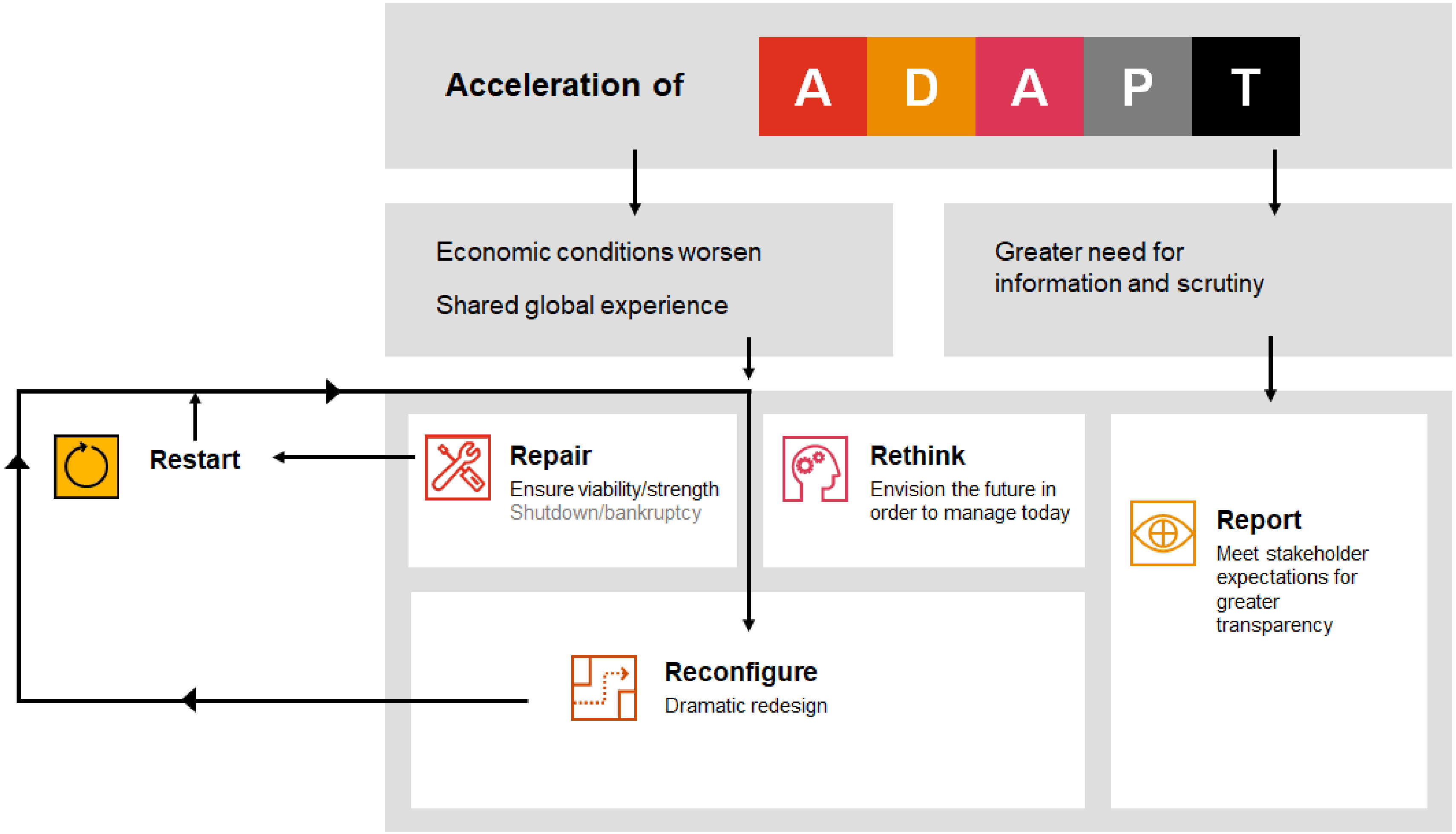
Much greater debt
Real risk of sovereign failure
Negative GDP
Significant unemployment
Failure of entire industries without support

Business

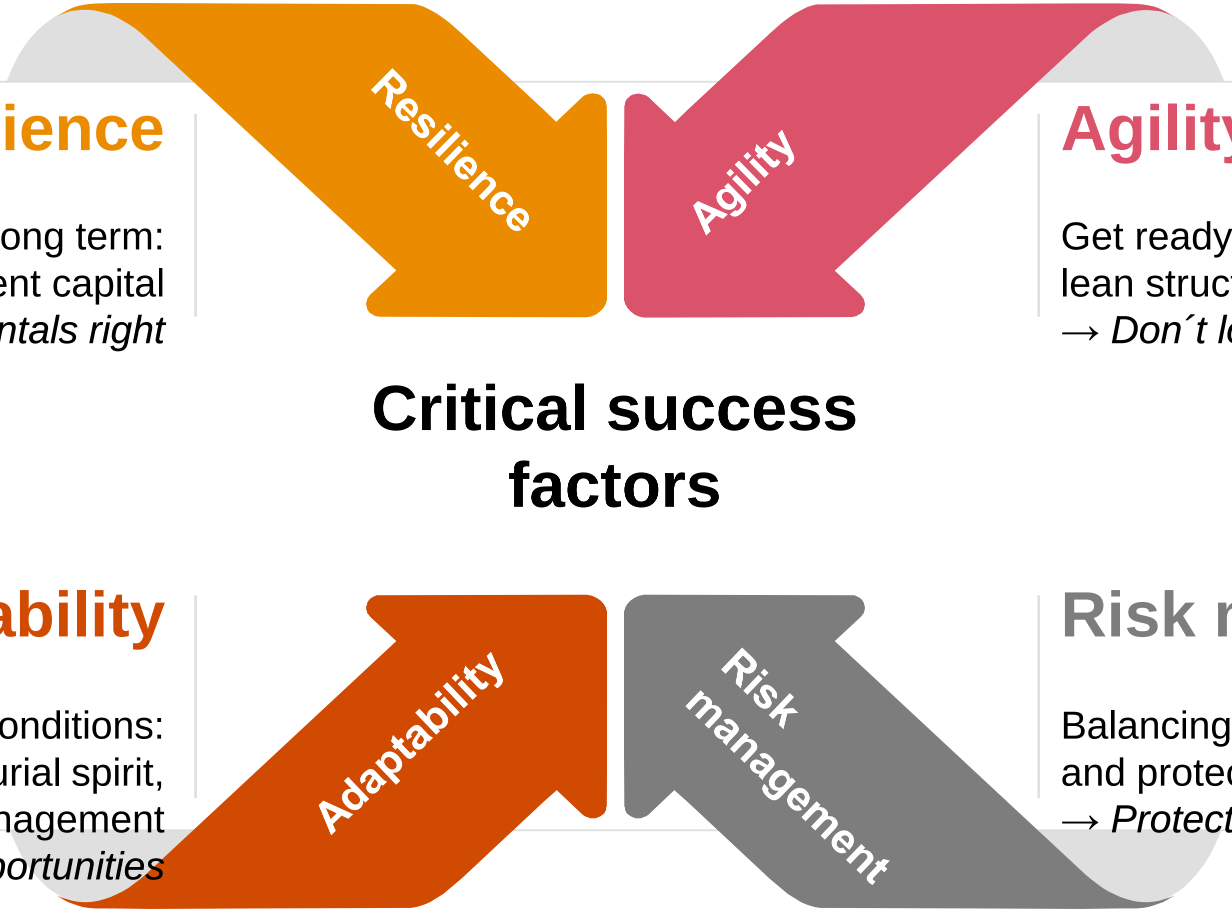
Much weaker balance sheets
Highly unpredictable political context
Small businesses severely damaged
Indebted to government
Shut down

And the world had a shared experience.

We need to engage in a more sustainable way to create the future



Critical success factors to succeed in the „new normal“



Critical success factors

Resilience

Robustness to survive for the long term:
Family unity and patient capital
→ *Get the fundamentals right*

Agility

Get ready for good decision making:
lean structure, timely and reliable data
→ *Don´t lose time*

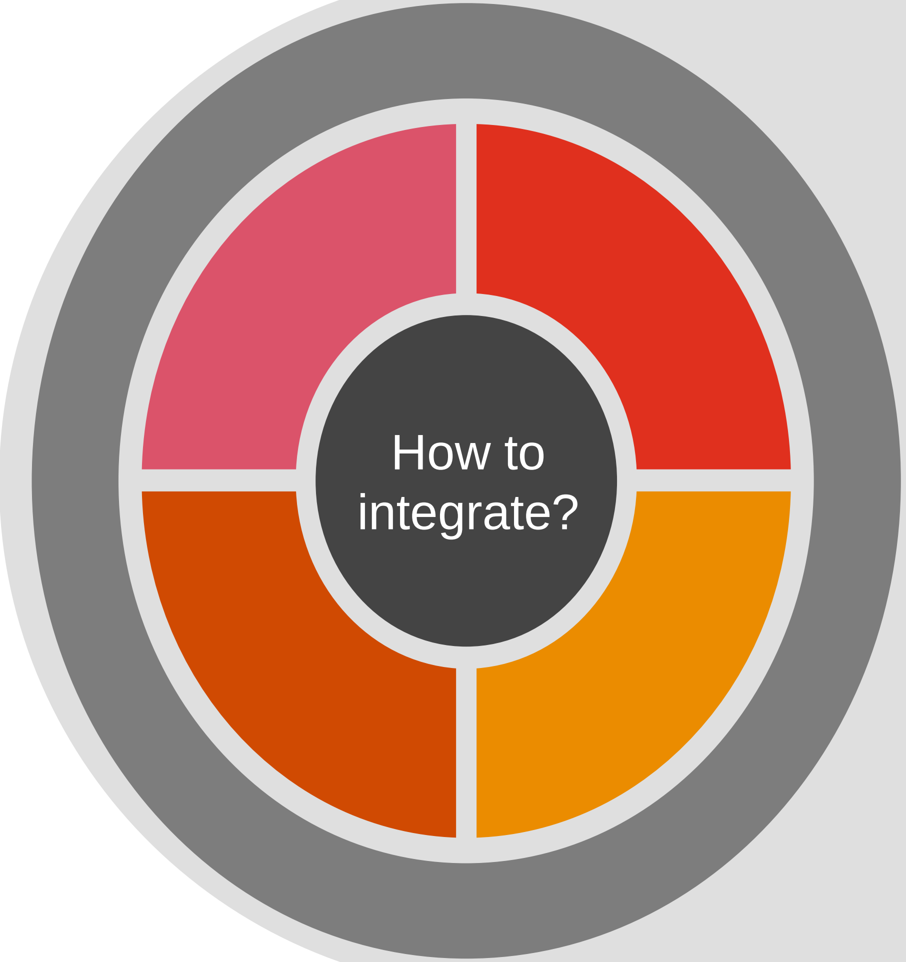
Adaptability

Ability to adjust to changing conditions:
company culture/entrepreneurial spirit,
innovation, talent management
→ *Seize new opportunities*

Risk management

Balancing need for change/ investments
and protecting the core business
→ *Protect your legacy*

Integrate different bodies of good governance structures



Executive management
Responsible for strategy development and execution.
time horizon: short to mid-term (1-3 years)

Board of directors
Control and advise management, approve strategy, major investments and evaluate management performance.
time horizon: short to mid-term (1-5 years)

Shareholder council
Represent the interest of the business owners (family and/or non family) in order to protect the investment (family wealth) and dividends
time horizon: long-term (1-10+ years)

Family council
Represent the interest of all family members, focus on family cohesion, family values and set the foundation for strong family bonding and a sense of belonging. Focus on “emotional dividends”:
time horizon: multi-generational (25+ years)

Our research shows: Family-owned businesses managed by external executives grew significantly better than those managed by the owners

While **family businesses managed by external executives grew on average by 7.0 percent** in the period from 2015 to 2019, **those managed by members of the owner family grew on average by only 4.9 percent.**

These results are based on an analysis of the revenue compound annual growth rates (CAGR) of the 100 largest unlisted family businesses worldwide.

The difference is about

43%

Survey 1 - The experience of family businesses hiring external executives

50

Structured interviews conducted with owners and senior executives in family businesses. The sample included some of Europe’s largest family-owned companies. The average annual turnover was €8.5bn.

Across 9 European countries: Switzerland, (15), Germany (15), France (6), the Netherlands (3), the UK (3), Italy (3), Denmark (2), Spain (2) and Liechtenstein (1).

Interviews conducted between September 2019 and March 2020.

Interviews conducted face-to-face in English or local language.

Survey 2- Covid 19's impact on family businesses

41

additional interviews - independent from the first survey - conducted with family business owners and chief executives of Europe's largest family-owned businesses.

Across 5 countries:

Germany (29), Switzerland (7), Italy (3), Spain (1) and Luxembourg (1).

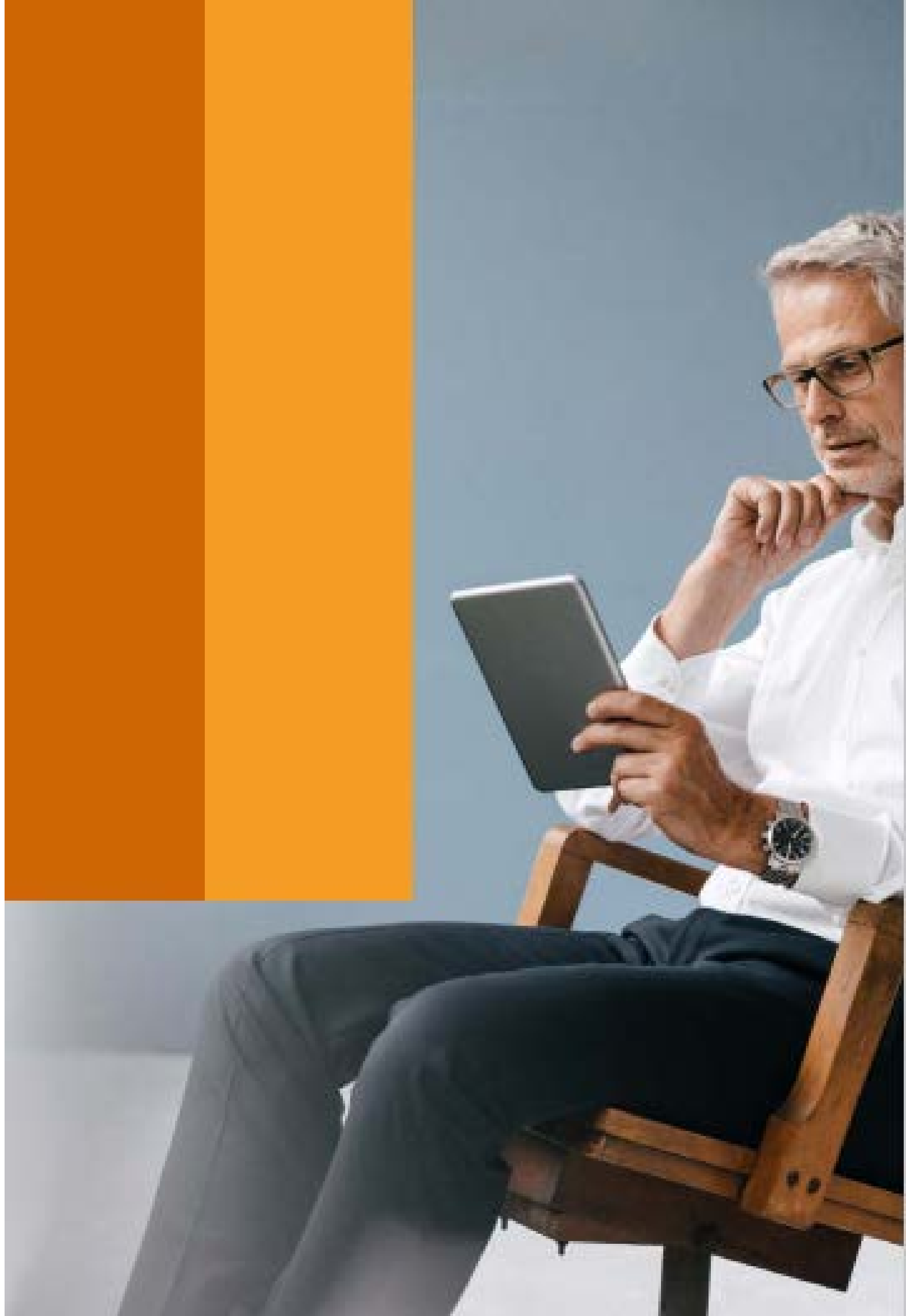
Interviews conducted in June 2020, in the middle of the pandemic's first wave.

Interviews conducted by telephone in local language.

Succession in Family Businesses

Succession is the single most important and problematic issue that owning families face

- Few family firms survive the transition from one generation to the next – and it appears to get more challenging with each new generation.
- Succession covers 3 different dimensions: *leadership, supervision* and *ownership*.
- Many owning families have little or no experience with recruiting successors from the outside – and often get it wrong
- Owners worry about a loss of control over the business.



CEO succession: internal appointments...

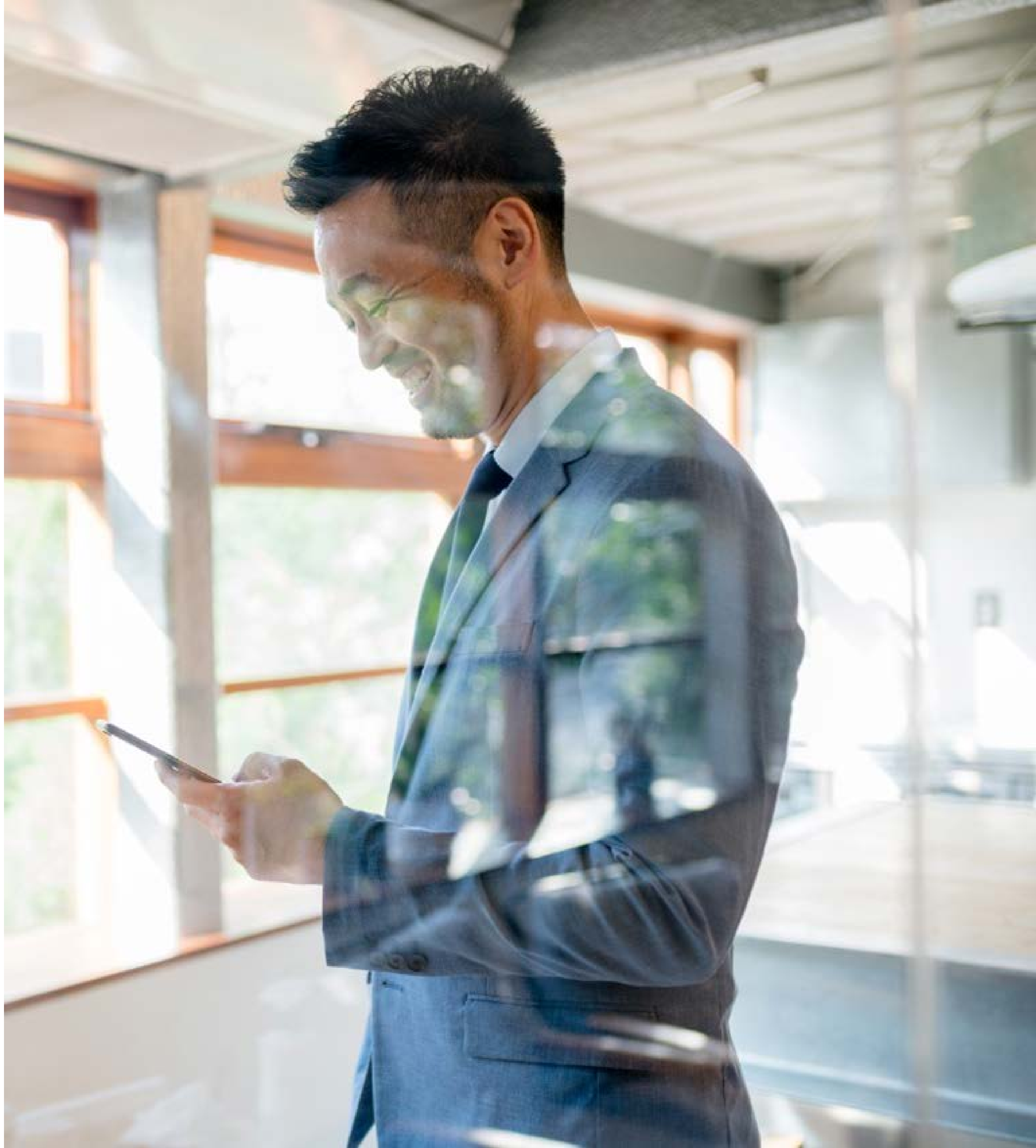
Internal appointment	
For	**Against**
Conveys a sense of stability and continuity rather than disruption Indicates that the company promotes from within, up to the most senior level Is a known quantity – you know what you are getting Knows the organisation, so is more likely to be a natural fit Less steep learning curve, especially if he or she is mentored by the current CEO	Less likely to act as a change agent or achieve a breakthrough improvement Potentially less likely to challenge and "stand up" to the board

… vs. external appointments

External appointment	
For	**Against**
Conveys a sense that the company is striving to improve and not rest on its laurels	Steeper learning curve and potential difficulties adapting to the culture
Shows the company is committed to recruiting the best global talent	Risk that unsuccessful internal candidate(s) become demotivated or leave
Injects new knowledge and best practices from other organisations	
Provides fresh perspective to identify weaknesses and opportunities more effectively	
More likely to question the status quo, demonstrate independence and be an agent of change	

The modern family business leader

- Covid-19 has accelerated the shift away from the stereotype of a charismatic, fills-the-room, lone decision maker.
- In times of uncertainty, CEOs and owners need to adopt a more caring approach, become even more inclusive in their communication – and create a ‘people first culture’.
- Successful external leaders in FBs have the ability to keep their ego under control – and know their place.



Finding and binding

- The selection of a new leader for a Family Business is complex: assessment of competencies; evaluation of potential; suitability for the specific culture.

- ‘Performance based prediction´ is still very important: what has someone done in the past, that may predict her / his success in the future.

- But the FB owner should also form a view on the *development potential* of their succession candidate: can the new leader deal with new situations and overcome unforeseen challenges?

Hopes and fears

Hopes

Longterm orientation; reliable investment and decision-making horizons; flat hierarchies; a non-political environment.

Fears

Potential hidden agendas among family members; general lack of transparency; irrational behaviour and conflict between shareholders.

Key Learning

Good governance makes for better hirings!
The Chair has an important role – during and after the hiring process (‘bridge builder’).

Onboarding (really) matters

The ´change contract´: how best to manage change when a rapid transformation is required?

1) Agreement on the level of buy-in for change between owner and CEO.

2) Announcement of change: Deal with resistance against change in the organisation - the momentum and energy generated by the handover of leadership must be exploited.

3) Change planning and implementation must not take place behind closed doors – the entire team must be brought along.

Active integration begins long before the actual start-date

Phase I

Between signing and starting: Building Understanding

Phase II

The first 90 days: Building Trust

Phase III

The second 90 days: Building momentum