

Next Generation Family Business Boards for the Digital Future

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The “New Reality” and “Forced Digitalization” call for a digitally literate Next Generation in Family Business Boards

The “Bazooka” of government aid against Covid-19 was deployed – via video conference. Companies upheld operations – with locked-down employees working from home and industry sensors providing the data. Companies won new customers – if they were able to sell online or deliver their services via Zoom, Microsoft Teams, and tools for digital collaboration. In short: The global economy learned to switch to a variety of digital solutions at light speed during the Covid-19 pandemic and, while the global stock market crashed ~30% in March 2020, technology-related stocks lost less than average, later significantly outperforming and often even multiplying in value in a strongly rebounding market.

Hence, Covid-19 made it crystal clear: Leveraging digital technology is no longer just an option. Digital tools and business models have become core building blocks of any business. Triggered by the Covid-19 experiences, more technology orientation and digital dependency has become the “New Reality”, leading to a “Forced Digitalization” across industries and markets globally. The trend is not new. It was merely intensified by the global pandemic. A drastic change in consumption and purchasing patterns has emerged. 80% of customers prefer online shopping with home delivery and perceive it to be faster, cheaper, and more convenient than “traditional shopping”. 40% of customers are willing to switch to new brands, if their “old favourites” cannot be found online. 50% of consumers (and this involves both B2B and B2C) plan to maintain their changed habits towards digital business models and accept them as an integral part of the “New Reality” (Facebook, 2020). This development is critical for businesses as it indicates the ongoing “tectonic shifts” and highlights the importance of digital transformation journeys and the redesign of business models in the direction of “digital first” – even, and maybe especially, in traditional Family Businesses.

Failing to plan for greater digital adoption and the usage of information technology and data-oriented strategies would be grossly negligent. While factory and process automation are expected to grow at single-digits, robotics, industrial software, and new markets are expected to grow 12%, 7% and double-digit per annum, respectively, with new markets including, for instance, an additional 3.5bn USD from 2019 to 2020 for 3D printing. Furthermore, an additional 5.3bn USD YoY for artificial intelligence, and drones adding 4.7bn USD YoY (UBS, 2020). Internet penetration is expected to reach 85% of world population by 2030, consumers to spend 70% of their media time digitally by 2029, e-commerce to grow 15% annually for the next 10 years, Fintech to post a 10.5% CAGR between 2018 and 2030, and the data amount in the “digital universe” to develop 10-fold between 2020 and 2030 (UBS, 2020).

This “New Reality” comes at a time in which a second, publicly invisible, “tectonic shift” is taking place: The

global inter-generational succession of Owners and Board members in Family Businesses. In the next 20 years, “the great wealth transfer” will see the largest transfer of wealth and ownership from the Senior Generation to the Next Generation in the global economy, ever (Forbes, 2019).

Facing the “New Reality” and dealing with “Forced Digitalization” whilst managing inter-generational succession at ownership and Board levels will become a deciding factor in the coming years for long-term survival and success of Family-controlled enterprises, such as for example the German Mittelstand. If managed well, it is an unprecedented opportunity. If missed, it is a huge risk – possibly the biggest single external risk facing Business Families and their operational assets today. The force and speed of change, and thus the opportunity or risk, will be magnified even more by the capital now flowing into the global economy through Covid-19-triggered government stimuli. Family Businesses with governance systems that are well prepared for succession and digitalization at the management and Board level will use this inflow of stimulus capital wisely and allocate it well to the right digital initiatives. Those that lack knowledge in the field, might take wrong decisions and misallocate Family and government capital and, even more importantly, miss out on the opportunities offered by the “New Reality”, and instead become victims of it.

In the face of these tectonic shifts, excellent and knowledgeable stewardship will make the whole difference. This is, of course, a central task of the management team. However, it is typically the Board that represents the long-term ownership perspective and will have to trigger and assure the delivery of the digital transformation journey.

Characteristics of Professional Boards and responsible ownership in Family Businesses

Few Boards of Family Businesses are really prepared for the challenge. Many Family-owned businesses are only slowly morphing from “Owner-operated” to “Owner-controlled”, and from analogue to digital business models. The speed of change and the pressure to adapt is ever increasing in today’s Volatile, Uncertain, Complex and Ambiguous (VUCA) context. Such times call for “the Owners to do their job properly” and proactively nurture future-oriented change. This typically has to start at the Board level.

So, what is “the Owners’ (and hence the Board’s) job” in the “New Reality”? The most important task is to ensure that the company has a clear mission and strategic orientation for this “New Reality” and its digital aspects, is well managed, supervised by the right team, and adequately financed. This does not require the Owners to run daily operations. In “Owner-controlled” companies, daily operations are entrusted to professional managers and Owners typically obtain professional support in guiding and supervising their operational assets through Advisory or Supervisory Boards. In doing so, the Owner must act wisely and constantly check whether the Board as a team really has the necessary skills and expertise to supervise and positively impact the company’s management in a future-oriented manner. In the “New Reality”, the definition of necessary skills has changed: Digital expertise is becoming a crucial skill for any Board! Further, anything else than a Professional Board is no longer an option to protect Family capital in operational assets. But not all Boards are created equal.

According to our observations, in Germany and abroad, Boards tend to go through three stages of development. When a Board is first established, often by a founder or patriarch who likes to be

surrounded by a few trusted advisors without really handing over serious responsibility to them, the Board will be filled with “Friends & Family” who may regard the seat as an honour, a gratification or a social obligation. Such Board members are often motivated by a desire for harmony and hesitate to develop – and voice – an independent opinion.

In the second phase, the Board will include independent outsiders who are chosen for their individual achievements and reputation, thus honouring and “decorating” the company and its owners – potentially without really making sure that they are (1) effective in the specific role of being a Board member, and that they (2) actually have the determination, specific expertise, and time, to really contribute to creating an effective, best-in-class corporate governance. In extreme cases, the members of such a “Trophy Board” can be dominant, “alpha” individuals, sometimes driven by ego and vanity. They may be accustomed to being listened to rather than to listening. And they may expect to be catered to, rather than to help and actually “serve and support” the management.

In the third stage, the “Professional Board”, which few Boards actually reach, one finds capable, devoted, and “humble” Board members who are independent and competent, and fully dedicated to serving the cause of future-proofing the business. They are motivated to create real impact and want to complement each other in the spirit of a true stewardship team, to which every member contributes specific expertise.

A Professional Board understands itself as a stewardship team that is dedicated to future-proofing the Family Business and protecting and nurturing the capital of the Family. It operates based on a well-thought-out short-, mid- and long-term agenda, with relevant topics, and a reasonable order and time allocation, along a consistent roadmap in each Board meeting. Its members are 100% “present” during the sessions, i.e. no one is distracted by smart phones etc., and the meetings are moments of top performance and good energy. Members receive all relevant materials with sufficient lead time, typically one week ahead of the meeting, and everyone arrives at the meeting having read the materials, allowing the use of meeting time not for presentations but for questions, comments and suggestions, i.e. discussing the issues rather than taking in the information. A Professional Board devotes ~70% of its time to reflecting and discussing the future of the business and the long-term allocation of Family capital. It cultivates an atmosphere of candid, reflected discussions, where ideas flow freely, and respectful disagreement is encouraged rather than suppressed. It undergoes periodic evaluations of its performance, either in an auto-evaluation or, preferably, with the help of competent external experts. It stands for maturity and gravitas, built through experience, rather than ego-centric character or vanity. It strives to guide, constructively challenge, and empower the management team, and is clear in its role as a representative of the owners. It stewards operational Family wealth into the digital future by empowering and supporting the operational team.

Since a good Board is a team, the composition is key. Several studies have shown a correlation between diversity in Boards and company performance (AvS – International Trusted Advisors, 2020). Diversity has many dimensions: Gender, age, nationality / international experience, social and professional background. But it goes beyond these outer “labels”. In selecting Board members, it is essential to understand how they think and feel to achieve a “rich” diversity of perspectives. Experiences, skills, and ways of thinking should be complementary in the Board. So how does an adequately composed Professional Board look like? We believe that its members need to be chosen on multiple dimensions:

- **Relevant experience** – this can be functional, industry or topic-based, or it could simply be experience from leadership in businesses or the public service.
- **Analytical strength** – Board members need to be able to process large amounts of complex and sometimes ambiguous information, and distil the essence from it.
- **Sound judgment** – Board members need to be able to take decisions based on limited facts, especially in crisis situations, and must not suffer from “analysis paralysis”.
- **Humble and constructive attitude** – Board members should show true time commitment and a certain degree of humility: Wanting to really contribute to future-proofing the business and limiting one’s interventions to what benefits the group rather than seeking confirmation for own experiences and views.
- **Honesty, integrity, and independence** – Board members must be the personification of good governance and open communication.
- **True teamwork** – Board members need to be able to work in groups: Being able to listen to and value differing points of view and striving to contribute to the group’s bigger cause.

Additional considerations to add digitalization expertise to Professional Boards post Covid-19

The “New Reality” imposed by Covid-19 reinforces an additional and very particular challenge for Professional Boards: Digital competence. During the Covid-19-triggered wave of “Forced Digitalization” owners of Family Businesses were, and continue to be, challenged to quickly bring digital competence to the Board, or rapidly educate current Board members and owners in digital affairs. Based on +600 digital projects and close collaboration with owners, Boards and C-levels, we can suggest five key considerations when defining a “digitally versed and future-oriented Next Generation Board”:

1. Leadership or Board role in a digital transformation journey of a similar company

When evaluating digital competences of potential profiles, the track record in leading a successful digital transformation journey of a similar company or in a similar industry should be one point of analysis. The key question is: How did the digital maturity of the company improve under the leadership or Board mandate of the respective candidate? What kind of experiences does the candidate bring from similar digitalization challenges in comparable or different industries? The challenge lies in evaluating potential Board member’s impact on a quantitative basis. Key performance indicators and digital frameworks can help review the digital maturity of another company during the candidate’s tenure on their Board. Indicators such as share of online revenue, implementations of new digital business models or digital products, level of automatization in operation, or margin expansion through digital initiatives are just a few examples that can be used. More generally, the fact that the potential “digital” Board member may already hold or have held a Board mandate in a “sustainably digitalized” company will be a good indicator for the experience and involvement with topics in technology, IT, hard and software.

2. Entrepreneurial spirit and experience

As digital initiatives are highly entrepreneurial in nature, entrepreneurial experience is decisive when it comes to selecting Board members that can support and steer a company’s digital transformation

journey. This experience can range from having started an own (digital) company (e.g. a start-up), having taken over (and possibly also digitalized) an existing firm (e.g. as private equity investor) or the establishment of a new (ideally digital) business unit in a multinational company (e.g. as member of the top management team). This point remains a crucial challenge in Mittelstand companies until today. Studies across the 80 largest German Mittelstand companies (that is, SMEs of German speaking markets) show, that presently only 34% of the managing directors have true entrepreneurial experience. The Covid-19 effects raise new entrepreneurial challenges for every industry and company. Owners and current Board members must quickly absorb additional entrepreneurial capabilities, especially in the digital domain, to adapt to the “New Reality”. Great potential candidates can also come from the increasing pool of younger entrepreneurs that have successfully sold or merged their (digital) companies (e.g. Software, E-Commerce etc.) in the last decade. Such an “exit” can also contribute to the acceptance and credibility of such incoming Board members in a Board that might have rather “senior incumbent Board members”.

3. Digital experience and data-focused client centricity

Only 8% of managing directors of the top 80 German Mittelstand companies state digital experience as part of their Curriculum Vitae, e.g. holding a leadership role in a Software or IT company, a technology firm or an e-commerce venture. Being +50 years old on average, most German Mittelstand top managers are not “digital natives”. Of course, it is possible to adapt to the digital landscape and there are plenty of examples where senior executives and Board members are doing an outstanding job in advancing their own skills. Still, it is way more difficult to successfully embrace the “rules of digital” when starting from scratch in comparison to being a “digital native”. An incoming Board member, who has digital experience and is able to support and inspire the respective senior Board members and top management team in becoming digital, can be a great addition. Furthermore, a focus on data-based decision making and customer centric strategies will be of particular value. As markets and client needs are changing quicker than ever, an incoming Board member with a mindset to leverage data insights and artificial intelligence, wherever possible, will assist in reducing uncertainty through data and limit decision-making based on pure “gut feeling”, always putting the client perspective first. Such data-focused client centricity will also assist in the analysis of potential M&A projects and supporting “digital due diligence” processes on the target companies. As many Mittelstand companies will need to grow by acquiring digital entities, an incoming Board member with such expertise will be of particular value in wise and impactful long-term Family capital allocation.

4. Communication skills across generations and knowledge gaps

Potential “digital” Board members are likely to be significantly younger than current Board members. This triggers a need for an exceptional skill: Communicating well with other Board members of significantly older age and less experience in the digital domain. Such communication will need to be nurtured by explaining digital concepts in layman’s terms, listening and absorbing “senior expertise”, and then combining them with digital insights in a respectful, yet proactive way. Younger Board members may need to show a certain degree of humbleness in their interaction and communication to get the digital agenda well positioned, and the entire team up to speed on digital initiatives. There will be no room for “nerdy” or arrogant behaviour as the Board and top management team can only fully support

digital transformation initiatives if they are truly understood by them and bought into by the whole “intergenerational team”, combining senior expertise with younger digital knowledge.

5. Individual digital footprint

Potential “digital” Board members should have their own “digital footprint”, which helps them reach out to a wide audience and nurture a diverse network. Through such a “digital footprint”, the incoming “digital” Board Member can contribute in two ways:

On the one hand, thought leadership is nowadays mostly won via digital channels such as LinkedIn. A “digital” Board member can help position the company as forward-thinking and industry-leading by sharing the company’s contributions through the Board member’s own social channels. On the other hand, a strong “digital footprint” on (B2B) social media platforms will assure that the “digital” Board member can nurture and continuously monitor valuable networks. Such networks can bring partnership opportunities, clients, technological insights, and international reach to the company.

To profit from these digital opportunities, a potential Board member needs to have interesting digital stories to tell and inspire others to exchange thoughts and expertise. Also, “Next Generation Board members” can only stay ahead of trends and successfully help with the transformation of the companies they are connected to, if they are in a constant exchange with their digital networks to absorb recent developments and future trends, which develop and grow at ever increasing speeds.

Onboarding “digital” Board members and bridging the gap between traditional Family Businesses and digitalization expertise

To ensure digital competence in a Board, and to attract “digital” Board members is easier said than done. Few companies have a well-defined digital recruitment strategy, and fully understand how this talent pool thinks and behaves. It is critical to understand that demand for digital talent, whether at the Board or management level, far outstrips supply. And whereas the common, safe assumption used to be that most senior executives or entrepreneurs would want to take on a Board role at some stage, it is not a given with digital talents. The things that they value most in business life – autonomy, entrepreneurial freedom, openness and high frequency of communication, lack of hierarchy, quick decision-making, fast results – are qualities that they perceive (with some justification) to be lacking in larger or more traditional organizations such as the Mittelstand. Some well-known digital entrepreneurs would describe the idea of being part of a traditional, non-digital focused business with a level 1 or 2 Board structure as “torture” (they may think “why should I join a group that might not even want to listen and learn, and put my reputation at risk, if I can create another digital business from scratch in the same amount of time?”). Also, just appointing one “digital” Board member will not be enough. If potential “digital” Board members perceive a risk of being seen only as a narrow topic expert, the “digital youngster” and not an equal, they will not consider contributing to a Mittelstand Board. At best, the full benefit of their perspective will not be accessed. At worst, they will never join, or get frustrated and quickly leave.

Once an adequate match is found, the process of onboarding a “digital” Board member needs to be carefully managed. The existing organization must accept and embrace the fact that a “digital” Board

member is likely to be younger and may have a career track that is perceived as atypical. The working and communication styles of digital natives may be very (sometimes radically) different. Improving the digital literacy of the Board will pay off for everyone in the long run – but one must not assume it will always be plain sailing or that everyone will speak the same language from day one. Here, external experts can help smoothen the ride and improve the performance of a Board that has recently added (a) “digital” Next Generation member(s).

Outlook: The essential challenge of connecting Europe’s tech expertise with the legacy of the Mittelstand

In summary: Embarking on digital transformation journeys for the German Mittelstand and Family Businesses across Europe is not only a necessity, but much rather real urgency in the “New Reality” triggered by Covid-19. To bridge the gap between the Mittelstand’s tradition of excellent engineering and ingenuity, and the digitalization potential of Europe’s tech talent, both worlds need to connect. As a first step, digital entrepreneurs can educate traditional Family Businesses and their Boards on the basics of digital transformation. As a second step, digital natives should be a core ingredient of Next Generation Boards across European Family Businesses.

Courage Partners Group

Courage helps global Business Families and their companies and offices to leverage their legacy and successfully venture into the future, across generations. The firm advises Business Families on long-term family alignment & strategy, succession & governance, control & performance of operational assets, and integrated monitoring of diverse family holdings. The firm also runs the Courage Center of Global Family Business at Munich Business School - a think tank for Business Family topics, and the Courage Institute - an education and networking platform for Next Generation leaders from around the globe. In September 2020, Prof. Dr. Marc-Michael Bergfeld, Founder of Courage, was ranked amongst the Top 100 Family Business Influencers globally, and Top 5 professors in Europe, by Family Capital.

AvS – International Trusted Advisors

AvS – International Trusted Advisors provides the owners and top decision-makers of privately-held companies with senior level advice on key issues of governance and leadership, leading and accompanying clients through critical transitions with consistent tailor-made solutions at the highest possible levels of quality and diligence. Projects include advice on Governance Structures, Ownership Strategy, Succession Planning, and Mediation, as well as Executive/Board Search, Evaluation and Integration of Senior Leaders, and Evaluation of Board Performance and Senior Executives. In September 2020, Andreas von Specht, Founder of AvS – International Trusted Advisors, was ranked amongst the Top

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OMMAX – Digital Solutions

OMMAX – Digital Solutions is a digital strategy consultancy based in Europe, specializing in sustainable digital value creation whilst catering to an array of mid-sized companies, large enterprises and more than 50 PEs around the world. Composed of >120 international experts and >600 realized digital projects in the fields of digital strategies, digital operational excellence, data science and transaction advisory services, OMMAX is a forerunner concerning holistic data-driven strategy consulting and end-to-end execution of digital solutions. Dr. Stefan Sambol is a digital expert with +15 years of expertise in accelerating growth of digital companies, developing digital growth strategies, customer engagement models in sales and marketing, and scaling digital products. His focus lays on executing the digital transformation for leading Private Equity firms and his work-experience spans across leading consulting and company builder enterprises (Rocket Internet). At OMMAX, he has driven local and global digital strategy setting and execution across +30 countries, always assuring a focus on data analytics and competitive insights and driving entrepreneurial innovations in the digital world.

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