



**Succession Planning and Regeneration in Family  
Businesses for new Growth through an innovative  
training programme**

## **WP6: Final version of the SPRING Training and Consultancy Programme Train-the-Trainers Handbook**

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## Introduction to the Training Handbook

The training programme was developed through an EU-funded project entitled “Succession Planning and Regeneration in Family Businesses for New Growth Through an Innovative Training Programme” funded by the European Programme Erasmus+ Key Action 2 ‘Cooperation for innovation and the exchange of good practices – Knowledge Alliances’. The main aim of the SPRING project was to design and pilot an innovative and practical Training and Consultancy programme that can be jointly offered by universities and adult training and consultancy companies across Europe, which will facilitate family businesses become more competitive, profitable and sustainable with a higher growth potential. The programme was designed by experts in the field of family businesses, including Professors, VET trainers and Consultants.

This training handbook is meant to be used as a Train-the-Trainer guide for trainers and consultants working with owners, managers, directors and other members of family businesses.

Through the delivery of this training programme we aim to help members of family businesses to:

- Acknowledge the legacy, traditions, culture and values of their family business and start building their strategy for the future
- Acknowledge and learn how to balance intergenerational dynamics
- Identify opportunities for growth
- Develop a good growth strategy
- Become more sustainable
- Identify new market opportunities and internationalise
- Set up good governance structures
- Recruit new talent and/or identify the most suitable successor for their family business
- Enhance their entrepreneurial skills and mindset of their members
- Develop 21<sup>st</sup> century leadership skills that will help junior members become successful successors
- Develop a good succession plan
- Understand the value of Business Angels and investors and assess other financing options for growth

The SPRING training modules are available at the SPRING training platform (<https://www.platform.euspring.eu/>). There are 11 modules in total divided in 5 main pillars:

- I. FAMILY BUSINESS DYNAMICS
- II. STRATEGY FOR CONTINUITY
- III. FAMILY & BUSINESS GOVERNANCE
- IV. SUCCESSION PROCESS
- V. MAPPING YOUR FUTURE

All training modules follow a common structure as follows:

- Short description, objectives, critical issues and expected impact
- Case study
- Relevant principles, frameworks and tools
- Exercise, lessons learnt and conclusions

We encourage trainers to read the Training Handbook to familiarise themselves with the topics addressed by each training module before delivering the Training Programme and to utilise the PowerPoint Presentations uploaded on [SPRING's learning platform](#) as accompanying presentations to the training material that is included in this Training Handbook.

The SPRING team suggests delivering the SPRING Training Programme via the following ways:

### **A. Professional trainers and/or consultants working with family business members**

Each training module is suggested to be offered over a period of 1-2 hours, depending on the amount of time that each trainer is willing to provide trainees for completing any accompanying exercises and reviewing each case study. The materials can be used for both face-to-face and online seminars. The assignments can be carried out in the classroom with the facilitation of a teacher. They can also be completed by the trainees on their own without the help of a facilitator as explained below.

### **B. Self-paced remote learning**

Any individual interested in the topics addressed by the training modules, including owners and other members of family businesses and under- or post-graduate students, can follow the training modules via the SPRING's online learning platform [here](#) in their own time following their own desired pace. They can still complete the assignments on their own to acquire hands-on practice at the concepts being learnt. They can also contact the SPRING team to get in touch with the trainers who contributed to the development of the SPRING Training Programme.

### **C. Undergraduate or Postgraduate Courses in Business-related studies**

The entire content of the Training Programme can be integrated within existing undergraduate, postgraduate and MBA programmes focusing on Business Administration, human resource management, management studies and other related fields.

## PILLAR 1: FAMILY BUSINESS DYNAMICS

*In a family business, it is vital to manage not only the family business, but also the business family. The mission, vision, traditions, culture and values of these two spheres might not be the same, but they should be aligned. This pillar covers all these issues, as well as the dynamics within a family business.*

### 1.1 Acknowledging the past and building the future (legacy, traditions, culture, values)

#### Part 1: Short description, objectives, critical issues and expected impact

*Have you ever thought about where you would like your company to be in the future? Do all family members in the business share a common purpose? Are new generations formally aware of this common purpose and this vision for the future of the company? Are they personally committed to this view? How important is the role of the organisational culture in day-to-day business?*

In a family company, it is vital to manage not only the family business, but also the business family. The mission, vision and values of these two spheres might not be the same, although they should be aligned. They are key aspects for the company that, in most cases, are not explicitly or formally articulated within the organisation. The characteristics and values that define and differentiate a business family determine the future of the family business. Therefore, the answers to these questions are crucial to ensure long-term continuity. This module covers all these issues. The aim is to provide family businesses with valuable tools to ensure a fit between innovation and tradition, formalisation and spontaneity, and old, present and future values. The decision-making time frame of this module is the next 25 years.

#### Part 2: Case study

In 1975, CityBuilding was created as the real estate division of a Spanish furniture company founded in 1958. Initially, the furniture company and real estate division management was shared, but in 1988, they were fully separated.

The 1990s marked an era of change for the furniture company. It experienced considerable growth. In 1992, the family decided to create a board of directors. The board comprised the five siblings who were most adept at business management and two external advisors (to ensure objectivity in the decision-making process and to complement the knowledge that the family members lacked). Given the high degree of complexity of the family (there were 10 siblings, all of whom had shares), they began working on the first family constitution. The goal of this family constitution was to establish a series of rules, values and guidelines for the family to follow to deal with situations arising in the course of business operations. Sometimes, the individual desires of family members



were not aligned with the business logic. This protocol provided a robust framework to specify the common values and principles of both areas, acting as a foundation for a strong corporate culture. At that time, some discrepancies arose due to differences in management styles. Some of the siblings were in favour of professionalising the business, whereas others preferred less standardised procedures. In light of these disagreements, three of the siblings decided to step down from the ownership of the company because their preferences were not aligned with those of either group. Subsequently, the other seven siblings bought their shares. In 1997, they completed the family constitution by doing the following:

- creating a family council (which also included in-laws) to solve possible conflicts and unify common principles,
- implementing development and training plans for all family members to increase professionalisation, and
- forming a junior committee of third-generation adult members.

In 2002, the furniture company was led by a family member who managed the company through intuition and a low degree of professionalisation. This combination of factors was a possible cause of its subsequent bankruptcy. By contrast, the real estate leader advocated the professionalisation of both the governance and management of the company. The two different styles of leadership caused conflicts. These conflicts could have been avoided if common values had been shared by all members of the business family. Protocols can help overcome this issue. As a result of these conflicts, two important changes were made.

- Four of the siblings, who were shareholders, moved to CityBuilding (the other three remained in the furniture company) to establish a new board of directors, together with three external advisors.
- A new family constitution was drafted (completed in 2006), and a succession plan was prepared to resolve conflict and establish shared values and principles.
- Between 2006 and 2008, four major events happened externally (in the general environment) and internally.
- The furniture business filed for bankruptcy. This situation was mainly due to two causes: the low degree of professionalisation of the furniture company's leader and the arrival of fierce international competition (led by Ikea) in the sector.
- There was a real estate boom in Spain, where CityBuilding had a strong reputation.
- A succession process plan was designed for the following five or six years, with the help of an external consultant. 'The plan detailed the professional development process of the candidate'. The succession plan 'included a transition period during which a non-family executive would be acting as temporary president of the board of directors'.
- In 2008, CityBuilding's president passed away unexpectedly.

At that time, one of the president's daughters was considered a potential successor, given her qualifications. However, the family members decided to elect a new president because she was still not ready in terms of education and training. Finally, one of the external advisors and a family shareholder were elected president and vice-president of the company. After two years of the new presidency, the president left the company, and the vice-president took over as president. Today, the successor candidate assists the president in his work and is



continuing with her training. The company works with a very explicit and well-developed code of conduct, which includes excellence in every area of work, mutual respect, active listening, constructive discussion, reflective decision making and assertiveness.

### Key points:

- Although the business family logic may not be perfectly aligned with the family business logic, the way to achieve a strong corporate culture is by looking for shared and common values in both areas and by building a strong link between them.
- A family constitution that is applicable to the family business helps identify and reflect upon these common business family values whilst fostering cohesion across the organisation. The key is to focus on shared foundations rather than discrepancies.
- A dedicated institution or body can also help manage conflict between family members and establish effective protocols based on shared principles and values.
- A low degree of professionalisation in the leadership can result in business failure.
- External advisors can add objectivity and professionalisation to the leadership.

Link to the full case study: <https://www.mdpi.com/2071-1050/11/7/1873>

### Part 3: Relevant principles, frameworks and tools

#### **Best practices to achieve a strong corporate and organisational culture**

*When facing unexpected issues that could jeopardise the sustainability of your company (divorce, having no offspring or no successor interested in the continuity of the business, an innovation that reduces customers' interest in your products, etc.), do you think your company has a clear idea about where it is heading that could help overcome these issues? Do you think that these issues could harm the essence of the family business, its values and the relationships between family members?*

Recent studies show that proactively formalising a succession plan has a positive impact on the sustainability of family firms. Family succession planning can be thought of as the professionalisation and formalisation of rules and specific protocols that family businesses adopt at each stage of succession. Traditionally, one of the biggest challenges facing family-owned businesses has been their professionalisation, especially given that family interests and business duties often clash. The use of protocols helps overcome any difficulties that may arise. When drafting the protocol, it is crucial to consider not only the family members and their attitudes, desires and behaviours but also the specific circumstances. These considerations provide the foundations that support the organisational culture of the family business. This organisational culture, which is fostered within the family, must be transferred to all other areas of the company. The four-room model (Baron and Lachenauer, 2021) can help align family harmony with business development. This model suggests the need to reflect on the relationships and roles played by the different members of the business and the family. Under this approach, the company is like a house with four rooms. Each room is associated with a different group of members, which has specific



interests, acts in accordance with specific rules and adopts particular roles. These four groups are the owners, the board, the management and the family. Because of its idiosyncratic relationships and behavioural patterns, each group should address and manage only its own issues. This approach will help clarify roles, thus reducing conflict. The four-room model offers family businesses a tool to support their decision making within the company. It enables family businesses to identify the scope of action of each interest group and delegate the remaining decisions to the most appropriate room. In this framework, the hierarchy is, from top to bottom, first the owners, then the board and lastly the management. This hierarchy is a result of the fact that both the management and the board report to the owners, or in other words, the owners have the power of decision over the board members. Assuming a high level of interaction between the family and company, the family room (i.e. family members) is positioned alongside the previous three rooms, influencing the decisions taken everywhere in the house. Managing this influence and fostering emotional and cognitive cohesion amongst family members will help the family prepare future successors and achieve long-term sustainability.

### **1. Mission, vision and values:**

Whereas the mission represents the company's core business and main objective, the vision reflects what the organisation is striving to become. The values of a family business are a set of explicit and implicit principles that are aligned with both the family and the company perspective. The underlying family logic may not be compatible with the economic interests of the company. Therefore, the values defined in the business domain do not always coincide with those of the family. A useful recommendation for family businesses is to establish a solid, consistent basis of common values in both areas. This basis offers a good starting point on which to build a strong organisational culture.

Generally, values are largely influenced by the 'role models' that have been decisive in the company's history since the beginning. Therefore, these values may have been taken for granted and may have been embraced only on an implicit level. It is necessary to explicitly and formally state the values that define the business, and a balance between economic and non-economic interests must be found. Accordingly, the company must identify the values that customers perceive rather than the values they are offered; these values do not always match. In turn, these values serve to strengthen the sense of belonging to the company amongst both family and non-family members. They can also have a positive effect on the communication between members. The protocols are responsible for explicitly establishing these principles.

### **What to do:**

- a) Ask each of the business's family members to write down their dream for the business. Then, try to put into writing a 'SHARED dream' of the business's family members.
- b) Put into writing the role of each family member (now and in the future) in making this shared dream a reality. Is every family member aware of the role of each other member? Does everyone believe that these roles will help achieve the shared dream? If the contribution of any role is not clear to everyone, it should be discussed.



- c) Identify the reasons that might lead you to consider selling, closing or breaking up the family business or to stop being a family business. Are the mission, vision and values of your company properly considered when making such a decision? Make sure that the rest of the family members know and agree with these reasons.
- d) Discuss and then formally state the values that govern the relationship between the family and the business. To identify these values, reflect upon a) how you treat people and understand your customers' needs (care more), b) what really offers value to your customers and what does not, in order to identify what is being wasted (simplify), c) how you address innovation and achievement (can-do), and d) what is making you a better family business (legacy). Be sure that those values are acknowledged by everyone.

### 2. Culture:

The corporate culture refers to the set of values, attitudes and beliefs that are shared and internalised throughout the organisation and that determine the company's objectives, way of seeing the world and way of acting towards customers, suppliers and stakeholders in general. In family businesses, culture is greatly influenced by the values of the first generation. It is enriched by the values of subsequent generations, but it is generally conveyed informally. A strong company culture represents a source of competitive advantage and makes a company sustainable in the long run. Explicitly defining the company's culture strengthens it, makes it visible and enables it to be described to internal and external stakeholders. For this reason, one of the key recommendations for family businesses is to get to know their organisational culture explicitly, avoiding any ambiguities. This means thinking about the type of business, family and management culture in the organisation. Doing so can help get to know where the family business is right now and where it would like to get to. This will determine the culture and management approach of the new successor.

As generational changes occur in the company, a planning process covering all possible areas is needed. This should include a stable and long-lasting family council. The use of planning mechanisms ensures that financial and non-financial objectives are achieved. However, this **family council** cannot be effective if cultural aspects are overlooked.

#### What to do:

- a) Write an extensive history of your business, identifying its failures and successes. Make sure that all members of the business family read it.
- b) Identify the specific actions by the company to promote a strong feeling of belonging amongst all family members involved in the business. If you are not able to identify any, think of ways of doing this, and then implement them.
- c) Do you know how non-family members feel about working in your family business? Do they feel that the company shows an interest in them as individuals and as workers? Are they aware of the mission and vision of the company and its key values? Identify specific actions that the company could take to promote a strong feeling of belonging amongst non-family members involved in the business. If you are not able to identify any, think of ways of doing this, and then implement them.

### 3. Tradition vs. innovation:

Today, **innovation is a key element** for any company attempting to move forward and grow its market share. It is linked to long-term leadership rather than a short-term management mindset. In the case of family businesses, tradition is often associated with offering the same products in the same way as the founder did. This view conditions the future development of the company. However, it is usually the wrong approach. The right view is to consider the **innovative culture** rather than the product itself as the real value provided by the founder. **The founder's entrepreneurial spirit** must provide the basis for the culture of a successful family business. New family members in management positions should preserve that tradition; they must encourage innovation, which, at some point, might involve making changes to products or processes that have strong emotional roots in the history of the company.

In family businesses, the decision to innovate is usually particularly hard for two main reasons: family owners also pursue socioemotional wealth (i.e. non-financial benefits), and several (family) members are usually involved in decision making. In fact, **managers of family businesses are simultaneously running a family and a business. Family board members should be aware** of these aspects in order to make better decisions regarding innovation. Non-family members of the management team or external advisors who share the values of the company can really help identify business opportunities by also understanding the concerns of family businesses in relation to **achieving the right balance** between the business and the family.

#### What to do:

- a) Identify the formal mechanisms implemented by the company to monitor changes in the environment in order to identify opportunities. Do you think these mechanisms are enough?
- b) Apart from monitoring the environment, write down other mechanisms that could encourage the development of new products, services and processes in your company. Do you think it would be worth enhancing or extending them?
- c) Does the next generation have an entrepreneurial view of the firm? Judge how you identify next-generation members' willingness to innovate and look for future growth prospects. Talk about innovation with the next generations and share your point of view.
- d) Family and non-family employees should be aware of this entrepreneurial spirit. Communicate it through specific actions.

### Part 4: Exercise, lessons learnt and conclusions

Exercise: Think of your business five years in the future and try to imagine three challenges that it will have to overcome (successors not keen on running the business, a high number of successors from different families interested in managing the company, siblings who do not get on well on a personal level, an innovative product

launched by a competitor, low employee performance due to a lack of motivation, an offer to buy your business by a large international company, etc.).

How would you deal with these challenges? How do you think the next-generation CEO would deal with them? Identify how and why the mission and vision of the company play an important role in overcoming these challenges. How prominent is the role of company values when addressing these challenges? What might the consequences of formalising the corporate culture of the organisation be for the way these challenges are addressed? Perform a Force Field Analysis for the possible approaches to address each challenge (identify forces for and against change). Check Appendix 1 for a more comprehensive explanation of this analysis.

### Lessons learnt and conclusions:

- Family businesses should define their mission, vision and values explicitly. Formalising cultural and corporate values can provide a sustainable competitive advantage because the enduring presence of these values and beliefs creates stability during leadership transitions and industry upheavals.
- It is important to promote good relationships and open communication amongst family members, as well as the senior non-family management and leadership team, council and board.
- The tradition of the family business is not necessarily linked to exactly what the founder initially created; instead, the founder's creation should be thought of as an innovative vision. The entrepreneurial values of the founder should serve as a reference but should be adapted to the new demands of the environment.
- The socioemotional aspects of decisions surrounding change and progress should be considered but should not restrict the company's future vision or innovation.

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## 1.2 Balancing intergenerational dynamics

### Part 1: Short description, objectives, critical issues, expected impact

#### Short description:

Succession is a major challenge and many family businesses fail due to a variety of reasons, mainly related to intergenerational dynamics. This session will address these dynamics by bridging intergenerational relationships, developing confidence and ensuring co-existence between generations and managing conflicts.

#### Critical issues:

There are unique challenges for the current generation such as:

- Inability to delegate and share power
- Inability to let go
- Reluctance to plan succession
- Reluctance to train successor
- Lack of trust in successor's abilities

There are unique challenges for the next generation such as:

- Feeling of entitlement
- Identity and roles
- Lack of credibility
- Lack of commitment
- Lack of leadership abilities
- Lack of decision-making capabilities

#### Objectives:

- to raise awareness of the critical intergenerational dynamics challenges for the current and next generation in the succession process.
- to provide insights on the critical aspects when preparing and educating the next generation for leadership in the family business.
- to provide insights to prevent, identify and deal with the main conflicts that could arise around the succession process.

The objective of this session is NOT to provide a standard solution on HOW to educate and prepare the next generation. However, participants should gain deeper insights on the difficulties and challenges of the process for all generations involved. Based on these understandings, self-reflection can happen, eventually leading to greater awareness of one's own situation. This module will suggest a route map that can be used to address these critical issues: Awareness; Reflection; Preparation & Education



## Expected impact:

Key learnings are related to:

- Understanding the emotional dynamics in family businesses with regard to succession and how these can be managed to create the succession bridge to the next generation
- Growing up and the individuation process in family business systems (System Theory)
- Tools to visualise the emotional dynamics between generations such as the Olson model
- Understanding the relevance of a whole-person learning approach when preparing the next generation

## Part 2: Case Study

### The Berlab case

by Fabian Bernhard and Rania Labaki

William Berlab, the only son of the third generation of Berlab, a winery business based in rural Germany, was not interested in taking over the business from his father. When confronting the family with his decision to study art and design instead of business management, the disappointment of all family members was high albeit not outspoken.

Since the 1950s, the heir and leader of the winery was always selected based on primogeniture. Despite the fact that William had two sisters which were as capable as him to study business and follow a leadership path, he had to reconsider his decision. Being raised on the traditional values of his predecessors, he had feelings of obligation to respect the will of the family and abide by their expectations.

Consequently, he changed his plans and enrolled into a top business school in the USA – paid by his father. Back in Germany, after graduation and a short-term experience in a multinational firm, he was pressed by his father to take over his managerial position in the family business. Soon thereafter, the son felt confused and conflicted as for the cultural differences pertaining to what he had learned in the Anglo-Saxon corporate world and the actual situation in his family business. The weight of traditions, informal arrangements and nonprofessional management lead him several times to rifles with this father as well as with other senior employees in the business who see him as an intruder wanting to impose his American view of the world.

While William recognised fundamental differences in values, beliefs and goals with his father, he did not raise this issue with him or other family members but started doubting himself. Since the father is well respected for his wise business decisions in the past, the son believed that his father was probably right and became more and more submissive to his father's wishes. In addition, the father gradually extended his paternalistic leadership style on the private life. For example, he started suggesting his son to date with the daughter of another family winery owner. The father stressed the benefits of a potential marriage both for the business growth as well as for the timely upbringing of the next generation to take over the business in due time.



Additionally, in times of gender equality movements, William's sisters decided to stand-up for themselves by claiming a managerial role in the family business, on an equal foot to their brother. They have been long silenced by their father who openly treated his children unequally. Their envy kept on growing since a very young age as William was always the one to get praise and support, up to financing his studies abroad while the daughters had to pursue studies in art and literature at the only local university.

Facing these family, business, and personal dilemmas, the son was getting more and more unhappy and depressed.

### Part 3: Relevant Principles, Frameworks and tools

Succession is a major challenge to family businesses:

There are unique challenges for the current generation. Long standing family business owners, and especially founders, face difficulties to delegate and share power. After many years in power they have difficulties to let go of their current position which goes along with certain benefits such as influence, status, but also identity. They tend to avoid planning for their succession putting the continuity of the family business at risk. And not rarely, the relationship with the (potential) successor suffers from such behaviours. Research has identified different archetypes of family business managers facing succession, that range from the Ambassador willing to let go and accompany the succession during the process, to the Monarch who claims that he will let go but sticks to his power and never let go, the General who will put barriers hindering the success of the successor and to the Governor who retires and disconnects completely from the business and the successor (slide 8).

On the other side there are also unique challenges for the next generation. Having grown up in a family business they sometimes can tend to feel entitled for certain benefits such as status, position, or power in the business. The next gens who do not have an understanding of the functioning of the family business system regularly run into conflicts in regards to their overlapping roles in the family and business systems, e.g. they are unaware which norms to follow and how to behave in family vs. business settings. Next gens also lack credibility, as being part of the owning family may not guarantee them respect and authority per se by the various stakeholders of the family business, e.g. with employees, suppliers, customers, etc. Besides the external credibility (i.e. with outside stakeholders), also gaining internal credibility (i.e. self-efficacy, self-esteem, identity) can become a challenge to them. Another frequent problem is the lack of commitment to the business, due to various reasons, such as a general interest in pursuing a career outside the family business or commitment to the business for unfounded reasons such as the lack of equal or better opportunities in other workplaces whether in terms of status or financial rewards. Related to this, commitment can be normative, i.e. fulfilling the wishes of the parents or calculative, i.e. based on opportunity costs calculations, rather than affective. The research shows that those who have an affective and normative commitment are more likely to succeed their career in the family business. In the same time, the attitude of the next generation towards the current generation is as important. Being overly active and wanting to revolutionise the existing business processes or at the other extreme being passive and

obedient to the current generation do not seem to contribute to the succession process as would an active attitude do, that recognises the ambivalence of the current generation and balances their listening and initiatives to gain the confidence and make incremental progress in the process of succession (slide 9 and 10).

When next gens follow the wish of their parents, when they imitate and copy their behaviours, when they lack an understanding of their own values, beliefs, wishes, and emotional dynamics, they risk weak decision making capabilities and might lack leadership attitudes and behaviours. Past research has argued this to happen frequently in families in business for various reasons. Children in such environments face challenges in the individuation process when growing-up. A frequent result of unhealthy individuation can lead to overly emotionally enmeshed next gens or the occurrence of strong family conflict (See Bowen theory and/or the Olson model on slides 11 and 12). By realizing their level of individuation and their family position on the model in terms of levels of cohesion and flexibility, both the next generation and the current generation learn about the characteristics of the family relations and of the type of motivation and challenges that drive them. They are therefore able to build on a safe base to engage in healthy conversations.

More formally, another practical advice to complement solving the above-mentioned risks may be in the way to educate the next generation. While most families seek the best education for their next generation by formal and traditional methods, such forms bear some shortcomings. For example, most family business education is primarily rooted in cognitive learning or by gaining second-hand experience through successful family business owners. However, other components of learning, especially gaining competences related to first-hand practical experiences and emotional intelligence are not included regularly. Therefore, it is recommended to include elements of what has been called a whole-person-learning approach into next gen family business education (Slide 13).

Holistic learning can include very hands-on elements and exercises such as:

- Practical application of cognitive learnings, such as theories and key concepts of family business leadership
- Strengthening self-reflection through exercises, e.g. developing a life-plan, participating in coaching sessions, learning about their family by interviewing parents/drawing genograms/researching the own past, etc.
- Normalizing of next gens in order to gain a better understanding of their situation and recognizing that they face common challenges, e.g. by meeting and discussing with their peers of other family businesses
- Strengthening one's emotional intelligence by gaining a better understanding of one's own emotionality, but also practicing emotional and social competencies in one's daily life and in interaction with others
- Working on one's communication and establishing a healthy climate of open communication in one's family. This might require in cases the help of coaches, mediators for families in crisis, and communication experts.

The ultimate result of applying these techniques should be next gens with increased levels of self-awareness, practical reflexivity, and self-authorship in their lives, in order to be prepared to leadership succession within a healthy intergenerational dynamics framework.

Research reports that such next gens are better in understanding their attachment to the family and the business which often goes along with commitment and identification to the family business. They regularly are individuated family members who efficiently manage typical expectations in the family business. They have also better ability to balance the various roles in a complex family-business environment, and behaviour which is aligned with one's beliefs and values. They usually enjoy more trust by the current generation and the incumbent, as well as higher levels of internal/external credibility. While a whole-person learning does not intend to "make the next generation to want to join the family business", it aims at supporting them in making a well-informed and fully aware decision. If they decide to seek a career inside or outside the family business, this decision provides them to do it well prepared and based on self-authorship. There is no preformatted decision tree but a decision that is based on a holistic understanding of the environment and what works and what does not.

Finally, such education can increase next gens' time horizons. It allows to gain insights on the past, present, and future, which eventually strengthens the ability for intertemporal choices. The Berlab case discussions and the self-reflections of participants help in that direction. To keep participants actively involved during the training, they will be given the opportunity to practice the principles they have learnt or apply the new information in a practical manner. The participants will be asked to answer a series of questions about the Berlab case along the module to reflect and apply immediately each concept:

### 1. Archetypes of current generation

What archetype(s) did you identify in the Berlab case? What are the pros and cons?

### 2. Archetypes of the next generation

According to your experience, knowledge or intuition, which types of motivations would facilitate the success of the succession process? Which one(s) describe(s) the Berlab next generation?

### 3. Individuation process

Looking into individuation on a continuum, which level of individuation seems most appropriate? Why?

How do the Berlab family members stand on this continuum?

### 4. The Circumplex Model of the family and marital systems

Where does the Berlab family stand?

What are the drawbacks and the advantages? What does it take to move to a balanced family type?

### 5. Whole learning approach

How would this approach be useful for the Berlab family?



### Main references of the module for additional exploration:

Barbera, F., Bernhard, F., Nacht, J., & McCann, G. (2015). The relevance of a whole-person learning approach to family business education: Concepts, evidence, and implications. *Academy of Management Learning & Education*, 14(3), 322-346.

Bowen, M. (1978). *Family therapy in clinical practice* (2004 ed.). Lanham, Maryland: Rowman & Littlefield Publishers.

Labaki, R. (2011). The Nova Group case study: Family dynamics in a multigenerational French family business. *International Journal of Management Cases*, 13(1), 27-42.

Labaki, R. (2018). La transmission intrafamiliale de l'intention à la réalité: la perspective de la nouvelle génération. [Cahiers du FBN France]. FBN France, Paris.

Olson, D. H., & Gorall, D. M. (2003). Circumplex model of marital and family systems. In F. Walsh (Ed.), *Normal Family Processes: Growing diversity and Complexity* (3rd ed., pp. 514-548). New York: Guilford Press.

Sharma, P., & Irving, P. G. (2005). Four bases of family business successor commitment: Antecedents and consequences. *Entrepreneurship Theory and Practice*, 29(1), 13-33.

Sonnenfeld, J. A., & Spence, P. L. (1989). The Parting Patriarch of a Family Firm. *Family Business Review*, 2(4), 355-375.

### Suggested case for additional practice:

The case "Envy me? The Rise and Fall of Gucci": <https://publishing.insead.edu/case/envy-me-rise-and-fall-gucci>

The purpose of this case is to introduce students to the psychodynamic perspective (psychological forces that underlie human behavior) on family owned or influenced businesses. The events that led to schisms in the family and the sale of the company are dramatic and well documented. We approach the case as allegorical, in a sense, challenging students to deconstruct critical family and business events, and analyze the way Gucci family members reacted and interacted. The objective is for students to identify the logical reasons behind the seemingly irrational behavior of various family members, and finally, to understand that every family business is a potentially a Gucci, in terms of potential for fantastic success or dramatic collapse.

#### Part 4: Exercise, lessons learnt and conclusions

In the end of the module, participants will be asked to reflect on their own situation related to each model or tool of the course and to discuss it in pairs. This will allow them to apply the learnings to their own situation.

##### 1. Archetypes of current generation

Do you know of members whom you identify as part of the archetypes? Which ones? Which archetype describes the current generation in your family business?

##### 2. Archetypes of the next generation

Which one fits your attitude or the attitude of the next generation? Are the perceptions similar among generations? What does it take to move to an archetype which seems appropriate for you for better relationship dynamics between the next and the current generation?

##### 3. Individuation process

Looking into individuation on a continuum, where do you find yourself on the continuum? Where do you find other members of your family? Was it the case when you were younger? If not, why did it change and how?

##### 4. The Circumplex Model of the family and marital systems

Where does your family type stand? Why? How did it evolve over time and how should it evolve for healthier intergenerational dynamics?

##### 5. Whole learning approach

Reflecting on the approach:

- Learn more about your family by interviewing parents/drawing genograms/researching your own past
- Discuss with your peers from other family businesses to gain insights
- Work on intergenerational communication towards a healthy climate of open communication

#### **Important learnings:**

- It is essential to educate both the current and the next generation about the intergenerational issues during succession.
- Both the next generation and the senior generation face unique challenges which are different from those outside a family business system.
- While the next generation usually have sufficient formal and cognitive-based education, the unique social and emotional competencies to become successful in a family business regularly are underdeveloped. It is therefore important to prepare the next generation and the senior generation for addressing the succession question through the identification of the different archetypes, the level of individuation and the family type.
- Taking actions towards holistically educated next generation members with strong self-awareness, social and emotional competencies, as outlined in the whole person learning approach can lead to important outcomes for the long-lasting and healthy family businesses relationships.



## PILLAR 2: STRATEGY FOR CONTINUITY

**When you think about growth of your family business, what ideas and pictures do show up in your mind? Do you think growth is relevant to your family business? This pillar deals with such questions to help you think of your strategy for continuity, growth and internationalisation.**

### 2.1 Strategy for Growth

#### Part 1: Short description, objectives, critical issues, expected impact

When you think about growth of your family business, what ideas and pictures do show up in your mind? Do you think growth is relevant to your family business? If this is the case, why? If this is not the case, why?

This module deals with questions like What does growth mean for our family business? Should our family business grow? Why? Why not? What are the dimensions of growth? When - at what rhythm – should we grow in each dimension? Where to grow? Who will lead the growth? How much to grow? How to grow? How to fund the family business grow? How will the family contribute to growth, and benefit from it?

The aim is to trigger in family business owners and managers critical thinking about their family business growth and provide them with valuable tools to sustain viable and robust growth strategy design and planning for their family businesses.

*A good strategy does more than urge us forward toward a goal or vision. A good strategy honestly acknowledges the challenges being faced and provides an approach to overcoming them. And the greater the challenge, the more a good strategy focuses and coordinates efforts to achieve a powerful competitive punch or problem-solving effect. Unfortunately, good strategy is the exception, not the rule.*

Rumelt, R. (2011). Good Strategy/Bad Strategy. (p.4).

The approach to family business strategy growth adopted in this module assumes that:

1. family values and business philosophy are the foundations for the planning process;
2. strategic thinking has implications for the family as well as for the management team;
3. successful families and businesses are driven by a Shared Future Vision;
4. Long-term family business success requires formulating family and business plans while exploring the different areas and dimensions of growth.



### Part 2: Case study: Amarelli. Liquirice since 1732

What made it possible for a small family business, disadvantaged by the isolation and lack of adequate infrastructure in Calabria, to resist wars and destruction, fights for the hoarding of raw materials and competitive pressures, time and fashions, as to passing down the business for fourteen generations?

In the long business' history it is possible to distinguish periods characterised by different contexts and strategies, and yet united by three elements that have constituted the common thread: quality, link with the region, and innovation. In a vision and oriented to pursue the longevity of the business, preserving its identity and values.

For over a century, from the foundation of the *concio* (the plant) to the mid-nineteenth century, the business, relying on innovation consisting of the "invention" of the *concio*, enjoyed the natural superior characteristics of the raw material and the millennial culture of processing present in the region. It also took advantage of the improvement of maritime transport and tax concessions granted by the Bourbons to the businesses in the industry to grow and expand its market, reaching the capital, Naples.

The first crisis in the sector came with the unification of Italy; Amarelli leveraged the superiority of the raw material to establish itself on the international markets, first of all the English one, particularly demanding and therefore able to recognise and appreciate the superiority given to the product by the raw material of the best quality.

With the entry in the twentieth century, the rhythm of technological innovation changes, imposing the shortening of time intervals between one intervention and another. In the first three decades of the century, under the guidance of Nicola, the introduction of high-capacity steam boilers, pumps and extruders improved the efficiency of processes, reducing costs and improving working conditions.

Giuseppe had to deal with difficult moments: the war on the price of raw material with the gigantic Mac Forber, the suspension of the activity of the *concio* during the Second World War, the deep industrial crisis of Calabria in the post-war period. During these years the sense of belonging to and strong link with the region is evident in its cultural traits, in continuity with the social and political commitment that had characterised the previous generations. The *concio* becomes much more than a simple production plant from which to make money, it represents a way of perpetuating the presence of the family in the region, of guaranteeing income and future for the families of the workers. To its survival, first, to its revival and modernisation, subsequently, land, buildings, and other assets were sacrificed.

In this context, the business will be joined by Giorgio, the 13th generation. His era is characterised by a further acceleration of technological innovation, also experiencing the highest competitive pressure. A very challenging context, but also one in which the elements that characterise the business' strategy are combined in a more composite way, bulding the base of its resilience; ie its capacity over time to absorb and deal with challenges and

changes in the financial markets, in the political and social environment, always reorganizing itself, and remaining sensitive to growth opportunities.

Surely it has been decisive an approach to business paying to economic and financial results, but tempered by a moral sense deriving from the very long relationship with the region, with the environment and with the people surrounding the business.

The fundamental strategies characterizing the business' strategy during the last decades - the one led by Pina and, subsequently, by Fortunato, can be summarised as follows:

- Attention to quality, and strategic positioning of the product that assumes the world elite as the target audience;
- Relationship with the region characterised by a double-wire relationship: Amarelli, over time, has exploited the microclimatic and soil resources, processing an infesting root and making it the core business of its economic activity; on the other hand, it has offered employment, development, recognition to the Calabrian area, what finds the highest expression in the museum exhibition and in the involvement in cultural events;
- All-round innovation, achieved through investments in machinery, advanced technologies and staff skills, in compliance with the artisan tradition; but also through innovation in management, product, packaging, communication, aiming to create a relationship with the customer through investments in person-to-person, one to one marketing.

If, until the 90s, Amarelli adopted a follower strategy - ie, liquorice was packaged in the Calabria sachet as the Sailsa marketed the Sailsa mint sachet - in those years Amarelli realises to have distinctive skills and character and starts to leverage in them to build its competitive advantage.

The Amarelli brand has been synonymous with the most exquisite Italian liquorice in the world since 1731; an ambassador of taste and an ancient craft tradition, Amarelli still preserves the sense of an ancient processing, made of careful work and of wise experience, of entrepreneurial wisdom and love for its region.

The aim of Amarelli has always been to meet the new without breaking with tradition, the basic element of the success of the product. In the tradition we find Rossano's licorice culture, which for years has been an opportunity for work for the Rossano community and for all the inhabitants of the province of Cosenza, as well as being a source of pride for the economic history of Calabria.

All this has been accompanied by a wise management of succession processes. Lived in the past as a family fact, by virtue of which one became an heir and business leader as a mere consequence of being the son of the present owner, in the last generations education has received high and growing attention.



### Key points:

As Mr. Gerard Lipovitch suggested when he asked the authors to write the Amarelli case *“it is certainly not a coincidence if this family & company have managed to last and progress since almost 300 years with a so unique product, maintaining a high level of quality, adapting its products to a changing demand, while finding new clients and new markets.”*

*There are many interesting things to find into the Amarelli’s story, especially the kind of topics students interested in Family Businesses can learn from it: **resources and the ability to make value out of it; link with the history and culture of the region; strategy and never ending innovation; values passed from generation to generation.***

### Guiding questions:

- How have the family and the firm evolved over time, and especially in the course of the 12<sup>th</sup>, 13<sup>th</sup>, and 14<sup>th</sup> generation (relating also to industry and market developments)?
- How has the family coped with the many changes and challenges characterizing the evolution of the local economy, and the industry?
- How have the family, ownership, and governance structures as well as mechanisms evolved from the 11<sup>th</sup> to the 14<sup>th</sup> generation?
- How have the succession processes in ownership and management been managed?
- What is the vision and strategy on how to successfully and sustainably manage family-related and business-related goals in order to survive for so long and across different generations?
- How does the family leverage on culture and local resources to build its overall strategy, and what is the role of the Liquirice Museum in the strategic map of the family and the business?
- How does the international outlook of the firm look like? What are the plans for the future?
- What has been the role played by laws in the evolution of the family firm?

Link to the full case study: [https://www.henokiens.com/userfiles/file/Case\\_study\\_Amarelli.pdf](https://www.henokiens.com/userfiles/file/Case_study_Amarelli.pdf)

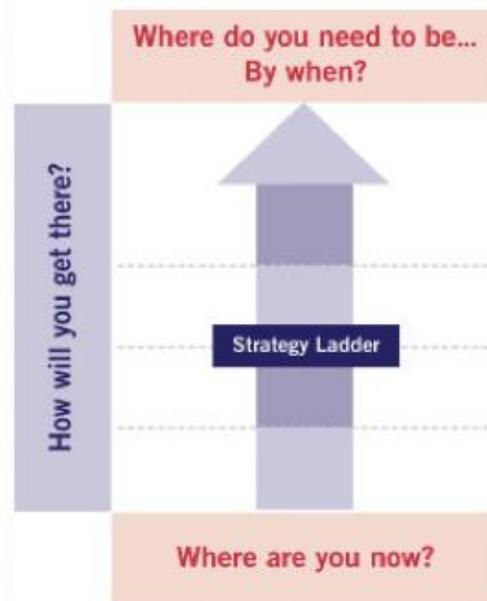
### **Part 3: Relevant principles, frameworks and tools**

“Strategy” is the determination of the basic long-term goals and objectives of an enterprise, the adoption of courses of action and the allocation of resources for carrying out these goals. Chandler (1962).

Rumelt suggests that strategy is a coherent set of analyses, concepts, policies, arguments, and actions that respond to a high-stakes challenge. ... Responsive to innovation and ambition, selects the path, identifying how, why, and where leadership and determination are to be applied. (Rumelt. R., 2012. P. 6).

A good strategy has an essential logical structure... made of three elements: a diagnosis, a guiding policy, and coherent action. (Rumelt. R., 2012. P. 7).





Ice-breaking questions:

- Are you used to speak about the business' growth in your family and in your business?
- What does growth means to you, your family and your family business?
- How do you measure growth? Which parameters do you use?
- Are you happy with the growth of your family business?
- In your perception, in your family business is there a good balance between the family's and the business growth?

Explore the pros and cons to family business growth, also inviting participants to share their personal ideas on both aspects.

Plenary discussion: Is growth necessary for your family business? Why? Why not?

Open a discussion with participants about what do they think about growth, its dimensions, the reasons in favor or against growing their family businesses.

Growth can be intended and measured in many ways:

- Number of employees in the payroll
- Market share
- Revenues
- Profitability
- Cash flow
- Creation of long-term value
- Creation of new business units
- Creation of new businesses



- Return to stakeholders

Invite the participants to take a broad view about growth.

During the discussion take note of all the different dimensions of growth mentioned by the participants during the discussion

In addition to the dimensions emerged, invite participants to think about other growth dimensions as those suggested by Hoover, Edwin A. "Biggest Isn't Always Best." Family Business, Volume 14, Number 2 (Spring 2003), 30–33.

1. In competence (understanding what differentiates your company and "serves as your strongest foundation for continued success")
2. In strength (getting better at determining the company's best customers and suppliers and becoming more disciplined)
3. In integrity (becoming more proficient at doing what you say you'll do, showing respect to stakeholders)
4. In performance (providing the best customer service and responsiveness)

Close this section of the module by proposing to participants a self-reflection exercise on the same topic. Invite participants to make a written statement on the following questions:

- Should we grow or not?
- If so, in which dimensions should we grow? And, how much?

### How much to grow?

Is the family business capable of the desired / expected / aimed growth?

What are the internal and external conditions that favor and hinder such achievements?

This section of the module will guide participants to explore the different areas in which the firm's capability for growth needs to be assessed:

- Explore the firm's Marketing, Organisational and Financial capabilities
- Analyse trends in the external environment
- Analyse Market and Industry
- Define the firm's strategic potential
- Identify opportunities for growth
- Identify the right people
- Explore the different way and instruments to fund the business' growth
- Explore how will the family contribute to growth, and benefit from it

#### Part 4: Exercise, lessons learnt and conclusions

Think of your business five years in the future, define your goals for growth and synthesise the relevant information based on the principles, frameworks and tools explored by this module.

##### Lessons learnt and conclusions:

- Family business owners should identify their desired /aimed growth and design a strategy to achieve it
- Defining a growth strategy is asking about why, what, who, where, when and how to grow
- Healthy growth is growth that is sustainable and profitable. It requires finding a balance between growth (to keep up with the competition) and sustaining a high level of quality, service, and profitability
- Growth is challenging for both the business and the family

##### References:

Carlock R. S and Ward J. (2001). Strategic planning for the family business: Parallel planning to unify the family and business. Springer.

Hoover, Edwin A. "Biggest Isn't Always Best." Family Business, Volume 14, Number 2 (Spring 2003), 30–33.

Pendergast, J.. Healthy Growth for the Family Business (A Family Business Publication). Palgrave Macmillan US.

Rumelt, Richard. (2012). Good Strategy/Bad Strategy. Profile Books Ltd. UK.



## 2.2 Entrepreneurship & Innovation-based growth

### Part 1: Short description, objectives, critical issues, expected impact

Family firms have traditionally been conservative in doing business. We perceive and consider them as unadventurous, slow to change, and too fond of familiar traditions and habits. However, an *entrepreneurial mindset* and *innovation* are essential vehicles both for the survival and growth strategy of every business, not least, family firms. Simply defined, innovation is the creation of value through the commercial exploitation of new ideas, concepts, products/services, processes, business models and smart strategic moves.

Drawing on and inspired by the influential and practice-focused book of Morris (2006), the primary purpose of this module is to offer to participants a practical insight into the innovation approach of family firms. To achieve this purpose, the following objectives are set:

- Get an insight into the core issues concerning innovation strategy;
- Offer a detailed description of the innovation practice;
- Establish the parameters of the innovation process;
- Review the different growth stages based on innovative practices;
- Get exposed to models / examples adopted by innovative family firms.

### Part 2: Case study

#### Mini Case Study: Ktima Georgiadi

A family business focusing on sharing the history of Cyprus through products and services.

Three different products and services:

- Traditional multi-purpose venue (restaurant, weddings venue, conference room, museum, coffee shop, oil packing)
- Golden Donkeys Farm (Milking process, excursions, botanical garden, amphitheatre)
- Golden Donkeys Shop (cosmetics, olive oil, olives and alcoholic drinks- all made from donkeys' milk)

<http://www.ktima-georgiadi.com/>

Ktima Georgiadi offers different products and services, which are a combination of Breakthrough and Business model innovations (see further). By offering products developed from the milking process, the family business succeeds a breakthrough innovation while the business model innovation is achieved as a result of the combination of the three different services and products that the family offers. This led to a competitive advantage since it focused on the three different elements of its business model: that is, the 'traditional multi-purpose venue', the 'Donkeys Farm' and the 'Donkeys Shop'. The innovation relating to the service refers to the 'traditional multi-purpose venue' while the two remaining elements of the business model, the 'Donkeys Farm'



and ‘Donkeys Shop’ pertain primarily to the product innovation. Interestingly, the family shareholders showcase creativity and innovation in terms of the differentiated products/services that the company offers as well as the packaging innovation, with specific reference to the advantages of donkeys’ milk for cosmetics and olive-related products.

### Part 3: Relevant principles, frameworks and tools

Since innovation is literally how your family firm creates its own future, innovation as a process cannot be separated from the development and implementation of strategy. Hence, the development of a highly productive innovation capability is one of the most important strategic priorities for any firm. At the same time, all innovation must be guided by strategic priorities and intentions. As such, this module **should be read in parallel** with the one devoted to strategy.

Before we go any further, however, let us clarify the basic concepts and establish the parameters of innovation in family firms:

There are **four different types of innovations**:

- *Incremental innovations* that are usually the responsibility of product management and marketing teams;
- *Product & technology breakthroughs* for which responsibility have technology groups that are typically part of a research and development unit within your firm;
- *Business model innovations* for which responsibility have the top-level management within family (see case study-Ktima Georgiadi)
- *New ventures* which are probably developed by a corporate level venture group as part of a corporate initiative that seeks to create new markets and new futures.

Each of them addresses a different aspect of the competitive situation - incremental innovations enable you to keep pace with the competition, while breakthroughs, new business models, and new ventures can put you significantly ahead. Keep reading! We explain how further.

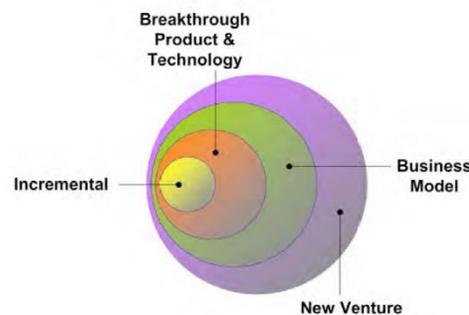


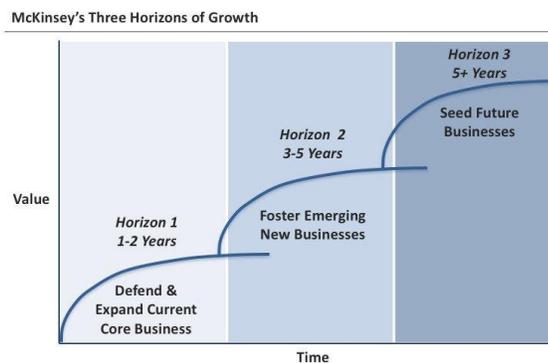
Figure 1.  
The 4 Types of Innovation

(Source: Morris, 2006, p. 23; Permission to use is required)



In addition to the different types of innovation, we need to acknowledge the different stages of growth, the so called, **3 Growth Horizons**.

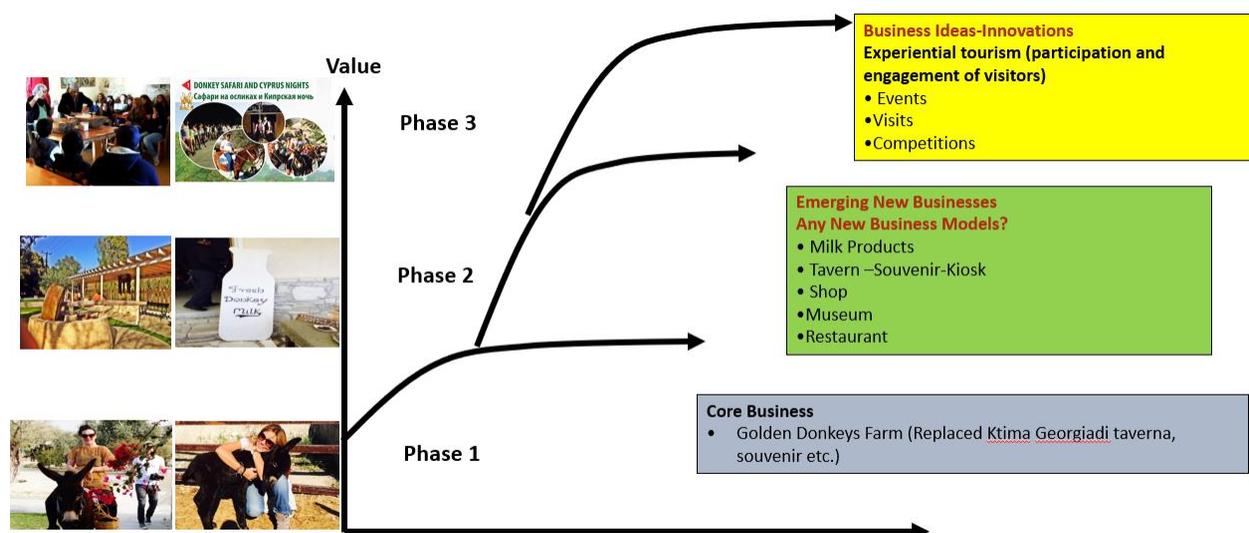
- **The First Horizon** (The first 2 years): This is where you defend and expand the current core business. We can usually find examples of market expansion, centralisation and standardisation in this stage.
- **The Second Horizon** (3-5 years): After a period of 3 to 5 years, a business fosters new business units through expansion in new markets or even overseas.
- **The Third Horizon** (5+ years): This is the stage where new innovations come into play, new products and services (or processes) are launched creating a long-term growth horizon for the future.



(Source: Baghai et al, 1999; Permission to use is required)

**What about the case study?**

### The 3 Growth Horizons of Ktima Georgiadi



However, to succeed at innovation **you have to have to know how to innovate**. You must have better insights that become better ideas than your competition, and that you must test and develop these ideas through rigorous processes, which we refer to here as “methodology.”

A key point is that to succeed at innovation you cannot rely on any single point of view.

The only way to out-think and out-create them is to find and exploit a broad range of strategic innovation viewpoints:

- **Top-down**, viewpoints emanating from senior managers.
- **Bottom-up**, viewpoints emanating from people throughout the family firm.
- **Outside-in**, viewpoints emanating from everyone, including customers, vendors, competitors, and the society at large in which the firm exists and operates, and
- **Peer-to-peer**, viewpoints emanating from partners.

This is where different viewpoints from family members across different generations come into play. The Top-down and Bottom-up viewpoints relate to the ideas and input from all the members of the family firm that can lead to succeeding a competitive advantage through innovations. We also need to consider the expertise, experience, personality, trust and other characteristics of each family member that can influence the innovation outcome. Remember, pairing young with old helps in team development, creativity and innovation.

With all these key concepts in mind, we now ask you to consider the following questions:

- Are you satisfied with the pace of innovation in your family firm?
- Are you satisfied with the results?
- Are the people in your family firm as creative as they must be to meet the demands of your markets?

**If your answers to these questions lean towards ‘no’, then this is what you must start doing.**

# 1

By taking into account the four different types of innovations, go and:



**[1]** Conduct a detailed audit of your own firm’s innovation process (methodology). Assemble a diverse team of employees and do the audit as a workshop. Solicit their ideas for improvements, and have them prepare five initiatives to address the most important shortcomings.





[2] Think about the four different types of innovation and evaluate the last five or 10 innovations your firm produced to see what categories they fall into. What does that tell you about your existing innovation process?



[3] Make an **Innovation Table** for your industry. Which firms introduced which innovations? In what areas have they done better, and in what areas has your firm done better? Which competitor has been the most innovative over the last five years?

Performing the above three little exercises, where does the result leave you? Go back to your 'strategy' and integrate the notion of 'innovation'. How to do this? Keep reading.



Now that you have a picture of the extent to which (if any at all) innovation is part of your way your firm 'does business', you must make sure that the next steps relate as less as possible to 'luck'! Irrespective of how many creative people exist in your firm, relying on their random efforts then you are risking your success on chance, and that is not good enough. You must develop and apply the right micro-processes (methodologies) and make the shift from luck to consistency, predictability, and sustainability.

What you first need is to come up with some **ideas** (that is Phase 1: **Ideation** in Figure 2) that will either initiate or boost your innovativeness in your family firm. It is the so called **idea hunting** that refers to the aggressive pursuit of opportunities to create change by examining specific issues that your firm and/or your customers are already facing or soon will be, and using this awareness as a stimulus for new ideas. Some actions you take to achieve this are the following:

- Create an **Innovation Advisory Board** and invite five outsiders who know your industry to give you their candid feedback about your firm and its innovation initiatives;
- Set up or improve your systems to gather **customer feedback**; from there, start innovating...
- Focus your next **strategy meeting on innovation**, and ask each person attending to propose three new ideas that have never been discussed before in such meetings;
- Hold a business model **innovation workshop** and invite 25 people from different parts of the firm to come together for a day to brainstorm new business model ideas in the morning, and then develop 3 or 4 of them into real proposals in the afternoon;
- Establish a linkage with a **local university** by funding a professor and graduate students in social or technical areas that are important for your firm's future. Ask them to prepare and present an analysis of your industry



and an evaluation of your firm’s positioning, and to propose five research areas they could work in that would add significant value to your positioning over the next three years.

# 3

Once **creativity** (see Figure 2) starts taking place in your firm, **innovation** is not the case just yet. You must **target** where innovation should be applied to! According to Morris (2006), in a typical large firm there are at least 40 distinct aspects of the business where innovation could make a difference (see Table below).

Business Structure	Administration	Organisation	Customer experience	Customer service	Supply chain	Product / Service
<ul style="list-style-type: none"> <li>-Alliances &amp; partnerships</li> <li>-Capital formation</li> </ul>	<ul style="list-style-type: none"> <li>•Information flow</li> <li>•Automation</li> <li>•Insourcing / outsourcing services</li> </ul>	<ul style="list-style-type: none"> <li>•Structure type</li> <li>•Facilities infrastructure</li> <li>•IT infrastructure</li> <li>•Employee / contractor mix</li> <li>•Employee experience</li> <li>•Decision making processes</li> <li>•Facilities effectiveness</li> <li>•Process to improve processes</li> <li>•Education &amp; training</li> </ul>	<ul style="list-style-type: none"> <li>•Communication process</li> <li>•CRM</li> <li>•Brand / image</li> <li>•Advertising</li> <li>•Feedback</li> </ul>	<ul style="list-style-type: none"> <li>•Service process</li> <li>•Communication</li> </ul>	<ul style="list-style-type: none"> <li>•Distribution system</li> <li>•Manufacturing</li> <li>•Communication</li> <li>•Automation</li> </ul>	<ul style="list-style-type: none"> <li>•Product offering</li> <li>•Product availability</li> <li>•Technology (hidden)</li> <li>•Technology (evident)</li> <li>•Manufacturing</li> <li>•R&amp;D</li> <li>•User interface</li> <li>•Packaging functionality</li> <li>•Life cycle model</li> <li>•Sales model</li> <li>•Sustainability / Social responsibility</li> <li>•After-sale service</li> <li>•Distribution</li> <li>•Style</li> </ul>



A question that can further help set the criteria/boundaries of your targeting process is the following:

**Is the industry in which your family firm exists and operates a change technology-driven or is it customer-driven one?**

If change in your industry is technology-driven then emphasis on research and development is of paramount importance if it is to keep up with your competition. If the latter, then the key sources of new ideas should be found wherever you can capture the customer's voice, and your innovation portfolio will reflect this. What processes do you use to get deep into the minds of your customers? To understand their spoken and unmet needs and expectations?



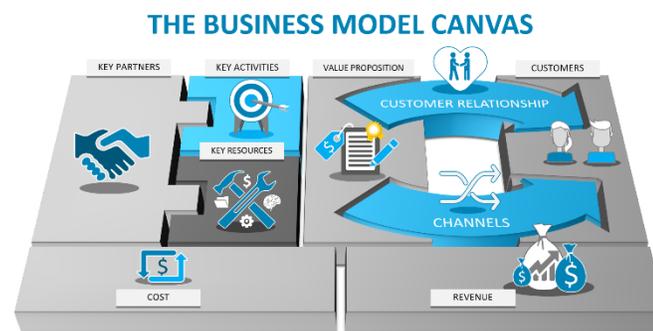
The **targeting** will determine the **type of innovation**; that is, whether you go incrementally, whether you opt for a product/service & technology breakthrough, whether you intend to employ an innovative business model, or even whether a new venture is your next move. Two principles should, nevertheless, guide you in any of the above four types:

- **Letting the past help shape the future**; that is, look to the past for guidance and inspiration for innovation.
- **Combine traditional materials with new ideas**; that is, the ability to combine traditional materials and techniques with the new can lead to products that simply can't be imitated by competitors. At the same time, you, this way, offer appealing propositions for consumers.



#### Part 4: Exercise, lessons learnt and conclusions

We would like you to test your understanding by taking the following exercise. Having in mind (a) the values that define your family firm, (b) the past and traditions that have brought the firm to the stage it is today, (c) the growth horizon that your business falls into, we want you to list three process-oriented and three outcome-oriented innovations that you could start tomorrow. Please note that **innovation as a process** answers the question “how” innovation is deployed or implemented, while **innovation as an outcome** answers the question “what” and “what kind of outputs” do innovation generate. Finally, please use the Business Model Canvas to detail ONE process and ONE outcome-oriented innovation, i.e., the best two of the six you came up with.



**As a final take away message, we summarise everything that has been mentioned above through the ten Principles on Innovation (as per Morris, 2006) that should serve as the roadmap for you going forward:**

- 1 Innovation is essential to survival, and all innovation is strategic.
- 2 There are four types of innovation: incremental, breakthrough products & technologies, new business models, and new ventures.
- 3 The longer you wait to begin innovating, the worse things will get.
- 4 Innovation is a social art; it happens when people interact with one another.
- 5 Innovation without methodology is just luck.
- 6 All four strategic innovation viewpoints (i.e., top-down, bottom-up, outside-in, and peer-to-peer) are critical to success.
- 7 Great innovations begin with great ideas; to find them, identify unknown and unmet needs.
- 8 Effective innovation requires very careful targeting.
- 9 Prototype rapidly to accelerate learning.
- 10 There is no innovation without leadership.
- 11 Innovation is more successful when different viewpoints and perspectives across generations are considered.



## 2.3 Internationalisation

### Part 1: Short description, objectives, critical issues, expected impact

Internationalisation is a natural development for firms and contributes to the success and longevity of family businesses by raising sales and developing the business in a sustainable way. To achieve successful internationalisation there is no Magic formula and that is why it is very important for family business to be aware of the demands and steps needed to accomplish an internationalisation process successfully.

In this context, this module intends to analyze the most common strategies on the part of family companies regarding the internationalisation decision, as well as the main decisions and steps to take into consideration. At the end, participants should be able to decide which strategy is more appropriate for their own family business as well as understand the steps that are involved in the internationalisation process.

### Part 2: Case Study

#### Case Study – APC Musical Instruments, Ltd. (source: Vilaça (2013))

Foundation: 1976

Nº of workers: 45

Headquarters: Braga (Portugal)

Business area: chordophones musical instruments (classical and acoustic guitars, Portuguese guitars, ukuleles, mandolins, Bouzoukis, etc.)

The company was founded by its managing partner, António Pinto Carvalho, after his return from overseas. He had the need to outline his future and that of his family. Currently, his entire direct family works at the company, namely his wife and two children, who are also partners in the company, and each one is responsible for an area. António Pinto de Carvalho inherited his grandfather's structure, learning and developing instrumental art even before setting up the company.

APC has become one of the largest instrument manufacturing companies in the world and the largest national in this field, producing and selling more than 12,000 instruments annually in more than 20 countries. Currently, it is in an expansion process, expanding its work area, investing in human resources, in order to expand its international knowledge, responsiveness and requirements of the international market.

In its earlier stages the company worked at requested to several customers from foreign markets. In 2008, it was faced with a major challenge, when informed that one of its largest international customers, with 40% of the total



invoicing volume, would cease its work. APC reorganises itself, looking for solutions to compensate for its loss, turning again to the internationalisation process.

It then begins to develop partnerships with commercial agents and distributors in several countries, currently exporting to more than 20 countries, with a tendency to reach more regions of the world, through the strengthening of its team and an active search for international alternatives. Its sales strategy went through a direct search in resellers and participation in international fairs that facilitated this connection.

In 2009, after a contact in one of these fairs, the company managed to develop a new instrument for a customer who was accompanied by an agent. In addition to the challenge of creating a new innovative product, the partnership with this agent allowed the company to catapult the company to several European countries, achieving international recognition of the brand, achieving more partnerships, agents and distributors. This evolution quickly translated into the company's financial success and longevity.

APC achieved a new strategy in international markets by creating representation systems, creating several brands to streamline and disseminate its products internationally. At the same time, it continued its international missions and market surveys, obtaining even more direct retail customers (instrument stores), distribution solutions in different countries with exclusivity and direct customers already distributors.

Since 2014, the company reformulated its strategy, seeking to diversify with new customers and with new markets. Since then, APC has only sought to work directly with local stores and small distributors, applying new credit management rules that do not compromise the company's activity and lower the commissions. Thus, it manages to sell at a more competitive price and without commissions from intermediaries.

**Synopsis:** APC show us that, at a first stage, developing partnerships with commercial agents and distributors in foreign markets is a good strategy for small companies that do not fully know how a market works. In order to obtain these partnerships the presence in international fairs is fundamental. Later, the case study show us that, after gaining some knowledge about the foreign markets, the company is able to create its own representation systems. However, the allocation of human and financial resources as well as a close study and research of the markets are essential to comply with the needs to manage these markets.

### Part 3: Relevant Principles, Frameworks and tools

Internationalisation can be described as “the process that increases participation in international operations” (Welch & Luostarinen, 1988:36) or as “*an act of entrepreneurship, because it is a strategy in search of opportunities for firm growth and wealth by expanding into new markets*” (Lu & Beamish, 2001:567).



The major steps involved in internationalisation are:

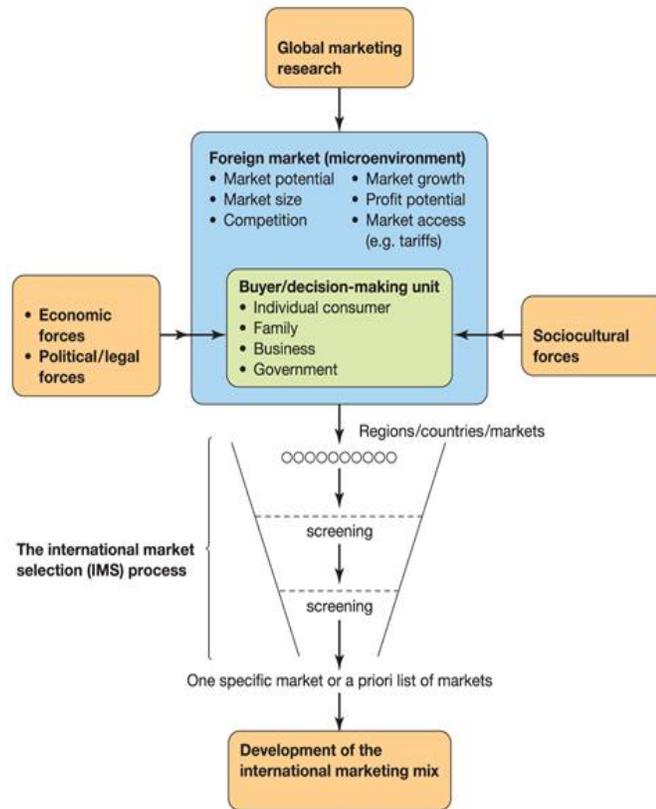
**Export commitment.** Are you really committed with this decision? Are you really committed to the need to allocate financial resources to internationalise? Are you really committed to the need to hire or allocate human resources to this job? On a scale of 1 to 5 (maximum commitment) rate your commitment.

**Self-diagnosis of export potential.** Please reflect on the following:

- Motivation, will and commitment of decision makers;
- Product (attributes) and quality;
- Production capacity “versus” exportable production capacity;
- Economic and financial situation;
- Critical factors for business success;
- Strengths and weaknesses, competitive advantages;
- Human resources profile and skills;
- Technical resources;
- Type of management and organisation;
- Strategic bets;
- Existing information system;
- Main gaps and difficulties to overcome.

**Search and market selection:** Is the market big enough to present a profit opportunity to the company? How will it be in the long run? What are the main competitors in this market? What are their strengths and weaknesses? Are there difficulties with regulations, imports of the product, customs duties, taxes and local taxes? What are the cultural differences? The political and social stability? Logistics and distribution costs, currency risk, etc.? Look at Figure 1 and try to elaborate a table with this information for your target markets and rate them on a scale of 1 to 5, attributing 5 to the most attractive market.

Figure 1 - Deciding in which markets to enter



Source: Hollensen (2014:152)

## Alternative forms of entry

Exporting		Licensing	Direct Investment
Indirect - Trading companies	Direct - Direct Selling - Agents - Distributors - Concerted Sales Delegation - Piggy Back - Export Consortium	- <i>Franchising</i> - <i>Joint Ventures</i>	- Production company - Mixed production company - Production branch
 Degree of commitment, risk, control and profit potential			



**Action strategy.** In this step a strategic plan should be elaborated that answers to:

- Export target markets and segments;
- Strategies pursued to explore the markets;
- Specific operational steps to be taken;
- Timing of execution;
- Financial funds to be allocated to finance the export budget.

**Organisational model and human resources.** Direct export usually implies the existence of an international marketing organisation in the company, that is, the creation of an export / marketing area / team with its own salespeople. Often, this area consists only of an export sales manager, responsible for sales directly and possibly one or two assistants. Subsequently, it evolves to a more complex structure when the volume of external invoicing justifies it.

**Monitoring.** Review, evaluate and controlling is an ongoing process that has no end in export activity and involves predicting and anticipating scenarios of future evolution of markets and products. This process also involves constant and systematic assessment of the degree of customer satisfaction.

**Some advice:**

- Going international to countries that are closer geographically, offers advantages in the way of conducting the business process, at the linguistic, educational, cultural level and also advantages arising from similar levels of development;
- Direct export is the simplest form of internationalisation, involving less risk, allowing to obtain experience and greater knowledge of some of the international markets;
- Like other types of companies, FB must seek to overcome barriers to internationalisation, by establishing strategic alliances, in order to minimise risk, better detect business opportunities, acquire market knowledge and overcome other adversities;
- FB should monitor the international environment correctly;
- Family businesses wishing to evolve in their internationalisation processes must be more receptive to incorporating into their staff managers not from the family, with experience and knowledge of the specificities of international markets, investing in their qualification, expanding their networks and presence in international fairs.



#### Part 4: Exercise, lessons learnt and conclusions

##### Exercise:

Q1: What type of entry mode would you choose or think that is more appropriate for your company?

Q2: How would you select the countries/segments to internationalise your business?

Q3: What internal obstacles do you oversee in your internalisation process? How can you surpass them?

##### Lessons learnt

Sometimes being a family business might bring additional constraints to internationalisation processes, as there is the fear of losing its main characteristics as well as ownership of the family business. However, family ownership can generate additional opportunities in internationalisation and international investments, granting even more freedom to managers, facilitating the development of business models and their transfer abroad and governance structures based on trust.

When going international FB can minimise risk by going international to countries that are geographically closer, by monitoring international environment correctly, by choosing the right way to entry and by developing strategic partnerships. The case study showed that the presence in fairs was the first step for APC Musical Instruments, Ltd to get in contact with local agents that helped the company to enter in the distributions systems of international markets. Market surveys were also very important to decide which market to enter. In a later stage, already in possession of greater experience in international markets, the company was able to work directly with local stress and small distributors, allowing the APC to achieve better strategies of credit management, lower the commissions, and consequently more competitive prices. This evolution quickly translated into the company's financial success and longevity.

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## PILLAR 3: FAMILY & BUSINESS GOVERNANCE

*Family businesses have better odds of survival and better chances to become sustainable across generations, if they set the right governance structures in place and start the educational process of the subsequent generations in this area as soon as possible. This pillar considers the means by which the family business can achieve this.*

### 3.1 Family & Business Governance

#### Part 1: What is family business governance?

There is no doubting the importance of family businesses, not only for what they represent to the economy, through their vital contribution to employment, but also for the personal commitment they show to local and regional communities, the long-term stability they bring, the responsibilities and risk they take as owners, and the values they stand for.

<sup>1</sup>In this module we will cover one of the most important components to ensuring that your family business stands the best chance to become sustainable across generations. The Family Business Network notes that many family businesses have a very short life span beyond their founder’s stage and that some 95 percent of family businesses do not survive the third generation of ownership.<sup>2</sup> The IFC also highlights that, ‘this is often the consequence of a lack of preparation of the subsequent generations to handle the demands of a growing business and a much larger family. **Family businesses can improve their odds of survival by setting the right governance structures in place and by starting the educational process of the subsequent generations in this area as soon as possible.**’

**Governance structures of family firms relate to three spheres of influence: the family, ownership and business systems.**

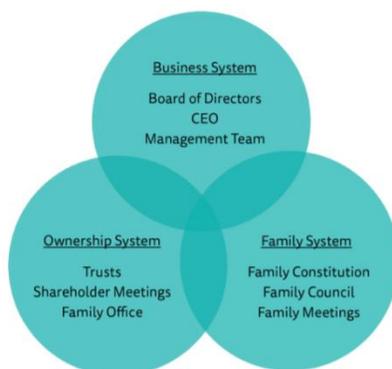


Figure 1: Family Business Governance Systems

<sup>1</sup> IFB Research Foundation 2019

<sup>2</sup> The Family Business Network, [www.fbn-i.org/fbn/main.nsf/doclu/facts](http://www.fbn-i.org/fbn/main.nsf/doclu/facts).



## Part 2: Case Study

Your governance needs will depend on which stage of ownership your business finds itself in. During their development cycles family businesses tend to share very similar challenges. Each stage presents different challenges and issues that if properly managed can ensure the continuity of the family business.<sup>3</sup>

It is important to remember, that your family business is unique. There is no one-size fits all approach to managing family business governance. We can learn from the experience of others, but your experience is, once again, unique. Understanding what challenges, you are, or will be facing, is paramount so that you can create the right structures to face these challenges. For example, certain challenges stem from nepotism or family conflicts, as well as the lack of professionalism to a culture of entitlement. Figure 2 highlights typical shareholder issues that many experts have flagged as being recurring for family businesses during particular ownership phases. In figure 3, we highlight the potential governance solutions to these persistent issues. **As we can see, as the family gets bigger, so do the challenges.**

Ownership Stage	Dominant Shareholder Issues
Stage 1: The Founder(s)	<ul style="list-style-type: none"> <li>• Leadership transition</li> <li>• Succession</li> <li>• Estate planning</li> </ul>
Stage 2: The Sibling Partnership	<ul style="list-style-type: none"> <li>• Maintaining teamwork and harmony</li> <li>• Sustaining family ownership</li> <li>• Succession</li> </ul>
Stage 3: The Cousin Confederation	<ul style="list-style-type: none"> <li>• Allocation of corporate capital: dividends, debt, and profit levels</li> <li>• Shareholder liquidity</li> <li>• Family conflict resolution</li> <li>• Family participation and role</li> <li>• Family vision and mission</li> </ul>

Figure 2: IFC Family Business Governance Handbook, 2018

Ownership Structure	Management Structure
Sole Owner - Ownership succession plan - Board of directors	Owner-Managed - Management succession - Board of directors - Risk control compliance management system
Sibling Partnership - Annual General meeting - Ownership succession plan - Conflict management	Family-managed - Management succession - Board of directors - Risk control compliance management system
Cousin consortium - Annual general meeting - Chief family officer - Family meeting/assembly - Family educational programme - Family philanthropic foundation - Family office	Family-monitored - Management succession - Board of directors - Family council - Risk control compliance management system

Figure 3: Adapted from Koeberle-Schmid, Governance in Family Enterprises, 2014

<sup>3</sup> IFC, IFC Family Business Governance Handbook, 2018



### CASE STUDY: Clarks Shoes



In 1993, sixth generation Clarks Shoes – one of the UK’s oldest independent family-owned businesses – came within a whisker of being sold because the perceptions and aspirations of family shareholders had become disconnected from those of company management. Also, there were disagreements among the family around ownership and strategy.

The crisis was followed by a period of renewal including radical changes in business strategy and systems, plus a focus on building new ways for the owners to engage with their business. A family shareholder council and a strengthened board were at the core of new governance structures designed to improve communications, shareholder involvement and strategic clarity on business issues.

The family shareholder council remains the pivotal governance structure:

- It represents virtually all 350 of the family shareholders, who together own around 80% of Clarks.
- A “Governance Code” has been agreed, laying down guidelines about the division of responsibilities between management and ownership, and setting out clearly the objectives of the family council.

- The council comprises 16 council members drawn from family shareholders and elected by them for four-year terms.
- To be eligible for election, council members must have the backing of a fixed, identifiable percentage of the share capital, so each family shareholder knows who their family council representative is.
- The council meets four times a year, with meetings attended by the company chairman, CEO and finance director, who make presentations and discuss business strategy and performance. Meeting summaries are distributed to family shareholders via the ClarksNet website.
- Family issues also feed into company board discussions via the council’s right to nominate two family non-executive directors.
- Between family shareholder council meetings, the council chair has regular meetings with the company chairman to ensure a continuous two-way flow of information.

Having worked for more than two decades on building this system, family members are under no illusions that their task is now complete. Across recent years the family shareholder council has conducted a full review of its governance code and constitution to ensure it is fit for purpose. It has also formally articulated its ownership vision and values. Families and companies constantly change, and at Clarks regular reviews and appraisals with consultants help to ensure that their hard-won governance system continues to foster long-term ownership and strategic engagement with the board and the company.

Source Research Foundation 2019: IFB

### Key takeaways

What we can see from the Clark’s case study was a classic disconnect between management and the owners. What was paramount to the renewed success of Clark’s was an improvement in the communication channels, a better strategic alignment, and a more effective board. In this example, the creation of a formalised ‘governance code’ was key to ensuring the continuity of the family business. Indeed, the family business governance needed to evolve to better reflect the situation of the family. So how does that translate into your situation?

### Part 3: Understanding Family and Business Governance

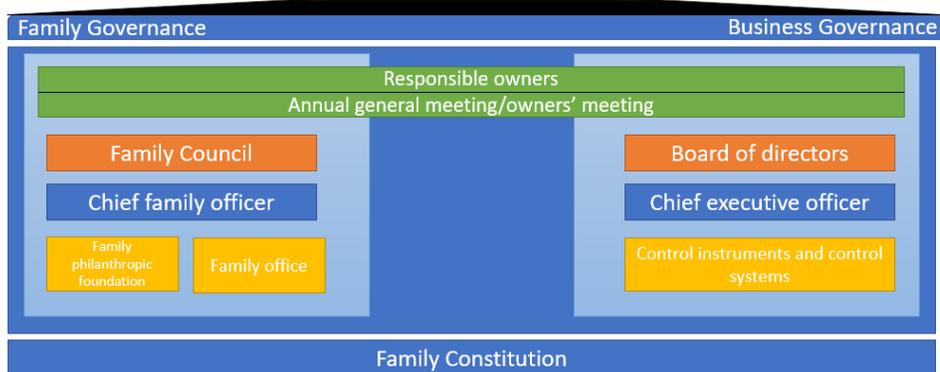
In this section we will provide you with a set of good practices that should be applied by the family business managers/successors for improvements in that specific area. The institute of Family Business remarks that **‘successful family business owners learn to manage two facets of governance. Corporate governance, covering the direction for business operations and strategy, and secondly, family governance, providing a framework of rules that define family members’ roles and responsibilities, and how the family interacts with their business.’**

#### Family and business governance

On one hand, effective family governance will promote effective ownership communication and deliberation<sup>4</sup>. Furthermore, it will provide family members with a shared sense of identity and mission that transcends their individual interests in the business.”<sup>5</sup> Many family businesses have noted that structure is very helpful when discussing sensitive issues. On the other, successful business governance will establish appropriate structures of management and control within a company covering the direction for business operations and strategy. Both must work in tandem and both must be adapted to the situation of the family business.

#### Bridging family and business Governance

In figure 3 we present the Koeberle-Schmid et al. family business governance model. Both the family and business governance work with one another. Effective governance helps family business achieve both economic and emotional value.



Source: adaptation of the model by Koeberle-Schmid et al. 2014

<sup>4</sup> Ward (2005), ‘The value The Value of Hands-on Ownership’, in John L. Ward (ed.) Unconventional Wisdom: Counterintuitive Insights for Family Business Success, John Wiley & Sons, pp. 203-220; p.224.

<sup>5</sup> Craig E. Aronoff and John L. Ward (2011) Family Business Governance: Maximizing Family and Business Potential, Palgrave Macmillan, p.84

## Creating Effective family and business governance

It is crucially important to define, as a family, whether governance is orientated toward the interests of the family or the business. In general, 'families should always consider the two principles of "responsible ownership" and "fair process"'.<sup>6</sup> If one wants to secure continuity, there are 5 critical domains that must be addressed to build effective governance:

### 1. Decoupling family and business decision-making

Separating family and business decision making is the goal. But this is complicated because in most family firms' individuals often have dual roles. It's not possible – or indeed desirable – to eliminate all personal interests or conflicts of interest, but family governance procedures make it easier to identify and address them with reasonable objectivity.<sup>7</sup> Well-run family business systems funnel decisions to the appropriate decision-making body. Family members and others play different roles and behave differently according to which body they sit in.<sup>8</sup>

### 2. Clarity of role

The main challenge in family business governance relates to the existence of an additional layer of relationship that the owning/controlling family brings to the business. - For shareholders this complexity includes understanding the various interconnections among the owning/controlling family members. These roles include:

- ✓ Family member/owners
- ✓ Family member/directors
- ✓ Family member/managers
- ✓ Family member/employees
- ✓ Family members who are not shareholders, but are extended family and heirs
- ✓ Family members who are some combination of these roles<sup>9</sup>

If possible, it is essential to ensure that the roles and responsibilities of (non) family members are objectively clearly defined and formalised. In doing so, one will remove any ambiguity and mitigate any potential for conflict.

### 3. An effective board

Many small family businesses do not have board of directors. However, 'the board of directors is a central institution in the governance of most companies, including family-owned ones. The role, structure, and composition of the board of directors vary from one family business to another. These are usually determined by

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<sup>6</sup> Koeberle-Schmid et al. (2014) 'Governance in Family Enterprise: Maximizing economic and emotional success', p.15

<sup>7</sup> Building Family Governance, IFB Research Foundation 2019, 2<sup>nd</sup> edition

<sup>8</sup> <https://hbr.org/2015/09/making-better-decisions-in-your-family-business>

<sup>9</sup> OECD, 'Practical Guide to Corporate Governance, Chapter 5: Governance challenges For Family-owned businesses'

the size and complexity of the business and the maturity of the owning family.<sup>10</sup> A board can be particularly useful during the succession process. There is no one-size fits all model here but consider that the board must apply a system of checks and balances. For example, as a general rule of thumb, the CEO and Chairman should be separate positions. In addition, the tasks and duties of board members should be clearly defined.

#### 4. Logical and formal organisational structures

What we have learnt from the case study of Clarks shoes is that formal structures can be an effective tool to ensure greater alignment between all stakeholders. In other words, informality gives way to rules, procedures and structures. It makes sense to organise governance early when the family enterprise is young and the family group relatively small. During this period, family relations are often harmonious, while big issues like succession remain a distant prospect.

As mentioned previously, ‘no two families or businesses are alike, and family governance systems work best when they are tailor-made – shaped by the age, size and culture of the business, the family’s degree of involvement and the personal dynamics among family members.<sup>11</sup>

	Family Meeting	Family Assembly	Family Council
<b>Stage</b>	Founder	Sibling partnership/ cousin confederation	Sibling partnership/ cousin confederation
<b>Status</b>	Usually informal	Formal	Formal
<b>Membership</b>	Usually open to all family members. Additional membership criteria might be set by the founder	Usually open to all family members. Additional membership criteria might be set by the family	Family members elected by the family assembly. Selection criteria defined by the family
<b>Size</b>	Small size since family still at founder stage. Usually 6–12 family members	Depends on the size of the family and membership criteria	Depends on criteria set up for the membership. Ideally 6–12 members
<b>Number of meetings</b>	Depends on the stage of the business’ development. When business is growing rapidly, can be as frequent as once a week	1-2 times a year	2-6 times a year
<b>Main Activities</b>	<ul style="list-style-type: none"> <li>› Communication of family values and vision</li> <li>› Discussion and generation of new business ideas</li> <li>› Preparation of the next generation of business leaders</li> </ul>	<ul style="list-style-type: none"> <li>› Discussion and communication of ideas, disagreements, and vision</li> <li>› Approval of major family related policies and procedures</li> <li>› Education of family members on business issues</li> <li>› Election of family council and other committees’ members</li> </ul>	<ul style="list-style-type: none"> <li>› Conflict resolution</li> <li>› Development of the major family-related policies and procedures</li> <li>› Planning</li> <li>› Education</li> <li>› Coordination of the work with management and the board and balancing the business and the family</li> </ul>

Source: IFC Family Business Governance Handbook

#### 5. Fairness not equality

Family business governance ultimately is there to ensure that a fair and objective procedure is in place that treats everyone in an unbiased way. Family members will all have different relationships to the business – some might be employed, some might just be shareholders, some may be both – not all might agree on the outcome. ‘But what you can do is make sure that the family’s governance model supports and protects decision-making arrived at by fair process. If a family member believes the process to be fair, they can usually accept a decision they do not personally agree with<sup>12</sup>.

<sup>10</sup> Koeberle-Schmid et al. (2014) ‘Governance in Family Enterprise: Maximizing economic and emotional success’, p.15

<sup>11</sup> IFB Research Foundation 2019

<sup>12</sup> IFB Research Foundation 2019

## 6. Overview of the traditional roles

Family Businesses tend to feature, but not always exclusively, the following roles and positions.

**CEO:** Making major corporate decisions, managing overall operations and resources. Also acts as the communication links between the board, corporate operations and the public. CEO is elected by the board and shareholders<sup>13</sup>.

**Chairperson:** The chairperson's primary role is to ensure that the board is effective in its task of setting and implementing the company's direction and strategy. The chairman is appointed by the board and the position may be full-time or part-time. In a family business, this is normally a family member as they can set the business plan out with their family values<sup>14</sup>.

**Board:** Boards of private family companies have more flexibility in the roles they play than public company boards as they're not bound by the SEC and stock exchange listing rules that set responsibilities for public company boards and board committees. The board are usually involved in the areas of corporate strategy, company performance, CEO evaluation, compensation and succession, risk management, compliance and external communications. Ultimately, if something goes wrong with the business, the board are accountable<sup>15</sup>.

**Family Council:** The family business provides feedback to the board on how the board's decisions impact the family and then provide input on how to optimise these decisions. The family council also facilitate the growth of the family values and goals within the business. Without this input of the family council on these values the business may lose its' way and not make sense<sup>16</sup>.

## Part 4: Exercise, lessons learnt and conclusions

"Good family governance can take many forms, but its key function is to promote effective ownership communication and deliberation. Large family ownership groups need to be educated about the business, its history, and its current challenges. They need to understand the values, vision, and goals of the business and the family, and how these are related and support each other. Good family governance, however, needs to do more

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<sup>13</sup>

[https://www.investopedia.com/terms/c/ceo.asp#:~:text=A%20chief%20executive%20officer%20\(CEO,directors%20\(the%20board\)%20and%20corporate](https://www.investopedia.com/terms/c/ceo.asp#:~:text=A%20chief%20executive%20officer%20(CEO,directors%20(the%20board)%20and%20corporate)

<sup>14</sup> <https://www.iod.com/news/news/articles/The-role-of-the-chairman#:~:text=The%20chairman's%20primary%20role%20is,%2Dtime%20or%20part%2Dtime.&text=To%20take%20the%20chair%20at%20general%20meetings%20and%20board%20meetings.>

<sup>15</sup> <https://corpgov.law.harvard.edu/2014/07/30/what-is-a-boards-role-in-a-family-business/>

<sup>16</sup> <https://jordanramis.com/resources/articles/family-council-for-family-businesses/view/#:~:text=The%20family%20council%20can%20provide,the%20business%20within%20the%20family.>



than provide information. It must enable ownership discussion and feedback. The family itself must make decisions, including fundamental decisions about how it will govern both itself and the business.”<sup>17</sup>

Now it's your turn to implement some of the key findings and lessons learnt from this governance training module. We know that no two-family businesses are alike. But we know that certain governance processes have worked for some family companies. What you must do is put into place the one that works for your situation.

Questions you must ask yourself:

- ✓ What are the main governance challenges that you will be facing in the future?
- ✓ What's the purpose of the business, including the family's view on sustainability?
- ✓ Is there a board of directors? Is there a constructive communication with the board of directors and the owners?
- ✓ If there had to be an unplanned ownership and management transfer tomorrow, does your company have the right structures in place?
- ✓ Have we explored whether there's a consensus across the family about the importance of the family business and how to maximise its success?
- ✓ Have we looked at ways to set up separate governance processes for the business and the family?
- ✓ Do you have regular meetings to discuss the family's relationship with the business?
- ✓ Do you have rules about who can work in the business, who will be on the board, who can own shares?
- ✓ How should
- ✓ Does the family have a code of conduct to strengthen interpersonal relationships and communication skills?
- ✓ Is there a plan to educate the next generation about the business, ownership and governance?

For further reading check out the GCC governance code governance guidelines for family businesses – checklist ([click here](#)).<sup>18</sup>

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<sup>17</sup> John L. Ward. (2005), “The Value of Hands-on Ownership”, in John L. Ward (ed.) *Unconventional Wisdom: Counterintuitive Insights for Family Business Success*, John Wiley & Sons, pp. 203-220; p.224

<sup>18</sup> <https://fbc-gulf.org/mediafiles/articles/doc-1360-20171116053708.pdf>



## 3.2 Sustainability

### Part 1: Short description, objectives, critical issues, expected impact

The concept of “Sustainability” has been taken to refer simply to continuous ability. For example, business sustainability is applied to longstanding organisations’ resistance towards external adversities. However, sustainability has a wider scope, and is not limited to business management, since it considers not only the present but also the future interests.

This topic takes on a particular nuance when it comes to family businesses. In this case, the focus is in the generational sustainability of the business, that is, how to ensure that the business continues passing from generation to generation, without forgetting that family businesses have a significant social dimension and they support the development of the regions. Thus, in the context of the SPRING project, we will define sustainability as the process by which we will focus on the need for engaging family members, to ensure business continuity and the means by which the family owned business can be successfully transferred to the next generation.

This module main aim is to understand how to engage the family in order to promote continuity and the transition of the business to the next generation. At the end, the participants will be able to identify the key forces that a family business should consider continuously in order to ensure multi-generational sustainability.

### Part 2: Case Study

**Miele** (Source: IMD, 2017)

According to the orthodox management education of the past few decades, Miele has done everything wrong. In the 1970s it specialised in household appliances when the trend was to diversify. In the 1990s and 2000s, it refused to outsource manufacturing operations when cheaper locations became viable and competitors were rushing to do so. It invested even more in training its loyal, Germany-based staff when the trend was to downsize and cut costs. After 117 years, it remains a thriving, hi-tech manufacturing firm, with \$4 billion of revenues and exports to 47 countries. It is strategically bold and confident and it successfully renews its entrepreneurial spirit to enable it to implement its strategies. Miele exhibits all or most of the principles in the *Family Business Secrets of Success model*, all or most of the time. One can clearly observe visionary leadership, entrepreneurial flair, a long-term perspective and continual strategic thinking and renewal. One can also observe collective pride in the family’s adherence to unchanging values - respect, openness and fairness - having a commitment to the community and its employees and refusal to sacrifice its ethos for short-term gains or to follow a fad. One can also observe a high concentration of ownership as well as an extreme closeness of the family to the firm. Dr Peter Zinkann, third generation member and former co-managing director, likened running a successful company to being the conductor of an orchestra: “Miele’s success cannot be attributed solely to marketing efforts and senior management; it is the success of the *whole* company... What really matters is not merely being different, but

rather being *coherent* in the ways we differ. Everything must fit together like the notes in a beautiful piece of music. A single false note in a Mozart string quartet would destroy the overall harmony.

### Discussion Questions:

#### **(1) How does the company nurture harmony within the family and the business as a whole?**

- Sharing of certain values (respect, openness and fairness)
- Commitment to the community and employees
- Discuss to get consensus (e.g. *"He said he was discussing for two weeks with the family about a washing machine"*)
- Rational process of decision-making, even if it takes time (e.g. *"The company comes first, then the family. We have never had any voting on anything that wasn't 100%"*)

#### **(2) "What really matters is not merely being different, but rather being coherent in the ways we differ". What does this mean in practice?**

- For the last 115 years the company always paid attention to detail, along with the durability of the products. Nowadays, a time in which the planned obsolescence is a reality, Miele still follows these principles in the fabrication, but at the same time she tries to move with the times (e.g. entering in the field of intelligent household appliances).

Further reading: "Miele boss explains how his two-family business has lasted four generations".  
<https://www.theguardian.com/business/2014/jun/13/miele-boss-family-business-four-generations>

### Part 3: Relevant Principles, Frameworks and tools

Family businesses fight to be sustainable over multiple generations. Thus, there is a need to endow a family business with a simple and effective tool to manage the business for sustained growth from one generation to another. These are the key forces that a family business should consider continuously in order to ensure multi-generational sustainability:

1. Effective governance
2. Corporate social responsibility and involvement with the local community
3. Economic stability
4. Succession planning
5. Strategic planning



It is crucial to give more importance to succession planning, strategic planning, corporate governance, leadership, values, capital and advisors to ensure business longevity (Table 1).

WHAT	HOW
<b>SUCCESSION PLANNING</b>	<ul style="list-style-type: none"> <li>Founder Initiative</li> <li>Successor Ability/Desire</li> </ul>
<b>STRATEGIC PLANNING</b>	<ul style="list-style-type: none"> <li>Family Commitment on Continuity</li> <li>Family Issues and Goals</li> </ul>
<b>CORPORATE GOVERNANCE</b>	<ul style="list-style-type: none"> <li>Decision Making Structure</li> <li>Planning/Problem</li> <li>Solving Structure</li> </ul>
<b>LEADERSHIP</b>	<ul style="list-style-type: none"> <li>Competent Family Member Leadership</li> <li>Effective Leadership Skills</li> </ul>
<b>FAMILY BUSINESS VALUES</b>	<ul style="list-style-type: none"> <li>Family Norms</li> <li>Business Norms</li> </ul>
<b>FAMILY CAPITAL</b>	<ul style="list-style-type: none"> <li>Human Capital</li> <li>Social Capital</li> </ul>
<b>FAMILY FIRM ADVISORS</b>	<ul style="list-style-type: none"> <li>Formal Advisors</li> <li>Informal Advisors</li> <li>Family Firm Board Advisors</li> </ul>

Table 1. Criteria for sustainability of multi-generation family businesses  
Source: Oudah, Jabeen and Dixon (2018)

In 2014, Davis pointed out the three ingredients for the long-term survival and success of family enterprises in his framework of family enterprise sustainability. The axiom says that wealth builds rapidly in the first generation, is generally maintained in the second generation, and often declines significantly or entirely in the third generation.



The three-generation rule described above is not inevitable; it is a choice. Families that defy it, and regenerate their wealth over several generations, follow the practices described Davis’s Family Enterprise Sustainability Framework.

The framework is represented as a triangle, with three focal points: (i) Growth of Assets; (ii) Family Talent; and (iii) Family Unity. Growth of assets is attained by adopting a portfolio approach to the family’s assets and businesses, including prudent diversification. Family unity and talent are essential to support the bold decisions which must be made in order to continue to grow the assets of the family and maintain family financial discipline.

This is the foundation of a multigenerational wealth strategy. In order to endure for generations in a sustainable manner, families need to grow their financial assets while maintaining unity and building talent, as represented in Figure 1.

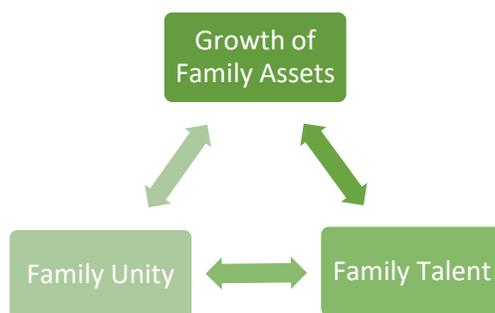


Figure 1. Family Business Sustainability Framework  
Source: Davis (2014)

Note that:

- Sustainability of a family business is a function of both business success and family functionality.
- Any individual in either system may affect parts of both systems.
- The family system can be a source of capital for the business system, but income is usually generated in the business system that supports the instrumental needs of the family system, at least in part.

### Part 4: Exercise, lessons learnt and conclusions

As we saw, sustainability is the process by which we will focus on the need for engaging family members, to ensure business continuity and the means by which the family-owned business can be successfully transferred to the next generation. The module tried to clarify the importance of the sustainability of the family business across the time and the generation.

Here we will propose two brief reflexion exercises. The responses should be discussed with the group:

- 1 “Family is often labelled as the emotional arena, and business is labelled as the rational arena” (Olson et al., 2003). How can be this an obstacle to sustainability? How to surpass this problem? And, this is really a problem?
- 2 What is the role of a family business? Does it exist simply to make money, or should it also serve society's needs or the family needs? Link this with CSR?

### References

Davis, J. (2014). Family Enterprise Sustainability and Family Business Model | John Davis Concepts. Retrieved from <https://johndavis.com/family-sustainability/>. Accessed 28/02/2020.

Oudah, M., Jabeen, F., & Dixon, C. (2018). Determinants Linked to Family Business Sustainability in the UAE: An AHP Approach. *Sustainability*, 10, 246.

## PILLAR 4: SUCCESSION PROCESS

*This pillar covers the process of developing a business strategy to effectively implement the business generational transition, how to select the right successor and how to train him/her on those skills and qualities that set effective leaders apart.*

### 4.1 Strategies for Successful Succession Planning

#### Part 1: Short description, objectives, critical issues, expected impact

What is Succession Planning?

The term succession planning typically refers to the process of developing a business strategy providing prescriptions about how business generational transition can be implemented effectively. It is designed to create insights into the company and environment in which the company operates. It is suggested that succession planning address five issues:

1. why is the family committed to perpetuating the business?
2. who should participate in the business transition preparation, when should they be prepared and what are the contingency issues in planning?
3. how will the family resolve various conflicts, both on the family and the business side?
4. how about the structuring of wills, the use and constitution of boards of director and the potential roles of family business consultants?
5. how does the family see itself and the company in the future?

#### Part 2: Case Study

The following is a summary of the Pass the Baton within the family, a case study on succession issues that goes through the many challenges that family businesses face when it comes to succession planning, its process, implementation and transition. To see the full case study you can press on the link below; <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.553.4020&rep=rep1&type=pdf>

Michael Stone Ltd was established in 1899 in the UK, selling and delivering wholesale food, disposables and catering equipment. It went through a rough time during the war but started recovering soon after by delivering quality goods and an excellent service. It went on from one generation to another increasing and diversifying products and expansion its points of sales.

When it came to the succession planning to the 4<sup>th</sup> generation, the owner who had two children, believed in having a well planned succession strategy, and was ready to implement it gradually, once he felt the right candidate was qualified, acquired the necessary skills and was fit for the job.

This case study highlights that company founders encounter psychological deterrents to successful planning as it includes a letting go of power. In addition there is a concern of losing the central role within the family. They avoid succession planning for fear of loss of identity, loss of family harmony and loss of privacy.

### Part 3: Relevant Principles, Frameworks and tools

Successors have to prepare themselves to handle the residual conflicts and stress subsequent to succession.

The case study illustrates the following:

- The importance to initiate constructive dialogue with respect, understanding and complementary behaviour between family members
- The relationship between business succession issues and business performance
- Preparation level of the successors
- Nature of relationships among family members
- Types of planning and control activities

**Conclusion:** Succession is not simply a single transfer of the baton, it is a multi-staged process consuming time, which also takes into consideration the ongoing health of the business and family dynamics

### Part 4: Exercise, lessons learnt and conclusions

#### **Key Findings:**

- Effective succession planning, creates a structure to put the right players and training in place to pave the way for continuity which is essential to the business legacy and future
- It is suggested that planning, implementation and transition should occur gradually in a period of between 2-5 years
- Current leadership and future successor should set shared goals for the future of the business
- Emotional factors and fear of letting go
- Being unprepared when a personal crisis forces you away from the business temporarily or permanently
- Crippling the business by handing it over to an ineffective or unqualified successor
- A plan provides the peace of mind of knowing your business will be in good hands

#### ***What to Do? A Five-Step Process***

By following 5 key steps relevant to almost all family businesses, the business can create a viable plan and position the business for continued success and growth

#### **Step 1: Establish goals and objectives**

- Develop a collective vision, goals and objectives for the business
- Determine the importance of continued family involvement in leadership and ownership of the company but also consider the option to bring in professional management
- Identify goals for next generation management both personal and business
- Identify and retain a team of professional advisors

### **Step 2: Establish a decision-making process**

- Identify and establish governance processes for involving family members in decision making
- Establish a method for dispute resolution if required
- Document the succession plan in writing
- Communicate the succession plan to family/stakeholders

### **Step 3: Establish the Succession plan**

- Identify successors
- Identify active and non-active roles for all family members
- Identify required additional support for the successor from family members

### **Step 4: Address Taxation implications**

- Transfer of ownership, death or divorce and other possibilities to minimise taxes and avoid delays in transfer of stock

### **Step 5: Create a Transition plan**

- Establish a timeline for implementation of the succession plan

Succession Planning can often incorporate sensitive issues. Thus, it is imperative to balance transparency with confidentiality, timely communication and informed decisions.



## 4.2 Talent Management

### Part 1: Short description, objectives, critical issues, expected impact

Talent Management is one of the important issues when succession is being discussed and planned. Naturally, these plans and discussions depend of the size of your family enterprise. A family enterprise with 10 employees excluding the family members needs to plan differently from larger organisations.

It also depends on your family. Do you have children? If yes, are they interested in and capable of becoming your successor(s)? Perhaps you already have grandchildren who could take over.

Whatever your situation, you need to find:

- a) The right person
- b) With the right skills
- c) With the right attitude
- d) At the right place
- e) At the right time

In the [SPRING Family Business Legacy and Succession Handbook](#), we have labelled this issue as the **FIVE RIGHTS**.

As can be expected the critical issues are to find the right people – hopefully – within your own organisation so that your enterprise will continue to flourish and grow.

In the following section we show you an example of how this family enterprise has successfully started to hand over the baton to the next generation.

### Part 2: Case Study –ABB Talent Management

Case Study Talent Management and Succession Planning: Family Enterprise in Northern Germany\*

*\*name withheld for reasons of data protection*

K.H. established his small family enterprise in the north of Germany 20 years ago. The company is predominantly active in milling and turning (metal products, and one of the more important customers is VW in Wolfsburg.

The company currently (September 2019) employs 30 employees. As K.H. is 57 years old, he started thinking about retiring and thus potential successors.

The choices he had were to recruit from within his company or his family. As he has three children, the choice was made in favour of the family.

K.H. has a daughter (21) and two sons (29 and 28), and all three of them have been active within the company working in various places and involved in several projects since their childhood.



The aim is to transfer the company to these three children in the years to come with K.H. letting go more and more, but still available in an advising capacity.

All three children are not yet married and live “at home” – at home being a large mansion where everybody – K.H. and his wife (and dog), and the daughter and sons – has their own separate flat with certain common area where the whole family can meet, of which the dining and living rooms are the most important places. If possible, they also try to have one meal per day together.

Each “successor” has their own specific role in the enterprise and attended corresponding (university) courses to learn their trade.

Thus, the daughter is responsible for the general business admin side of the business and HR, one of the sons – having studies engineering – is in charge of production and innovation, whereas the other son who studied economics and business just as his sister is in charge of purchasing, sales and marketing.

The main aim of the company is to make it fit for future challenges, to innovate and thus find diversify, create new products and find new markets.

In order to fully integrate the three children as successors many family discussions took place, all of them – also K.H.’s wife who is only marginally involved in the business – very open and frank, and everybody wrote down their notion of future roles and objectives. In part these discussions were attended by external advisors helping to clarify the current situation and trying to identify the necessary steps to move forward towards transition and succession.

Everything was laid down in writing (governance), SWOT analyses were made and the most important issues were defined:

1. Continue producing top-quality products (partly custom made products)
2. Keep innovating and create new products; diversify if applicable
3. Retain happy customers (customer loyalty)
4. Find new customers
5. Make sure not one customer is so important that it could harm the business if they decided to go to the competition
6. Retain their employees and avoid employee fluctuation

NB – now in July 2021 the situation in this company is still relatively safe. New products and customers have been found to tie the company over the current pandemic, and according to K.H they are fairly optimistic that they will be stronger at the end of the pandemic than before.



### Part 3: Relevant Principles, Frameworks and tools

- I. Let us start looking for successors within the family. In normal situations this is the easiest choice:
  1. Succession must be based on merit. It is useless to make your son/daughter your successor if s/he has shown no interest whatsoever, has different plans for their future, etc. If you have two or more children, you will have to think carefully whom you will hand over your life's work. If you look at our case study you will see a good example how to do it, and in the [SPRING Family Business Legacy and Succession Handbook](#), you will see two examples how not to do it. What do we mean by merit? The successor must have shown interest, the right attitude and motivation and should have already had responsibility in your company.
  2. The choice is often influenced by emotion. Up to a certain level this is acceptable, as you need to like and trust your successor. Succession will never work if those two key components are not in place. Then again, they must show the right attitude in continuing and accepting your legacy and the (un-)written values of your company. Right attitude also means how they behave towards your customers and your employees. These two groups are your most valuable assets, and the plan is to increase them and not the opposite. In my company, we have the saying. "Your salary comes from the invoices our customers have paid". Thus, you need to groom your children from an early age and make sure they want to keep the business going. If this can be seen at an early stage, their academic and/or vocational training can already consider this plan. If this happens at a later stage make sure they are offered and then take the relevant courses.
- II. Recruiting from within the company, and usually your potential successor will already have worked a number of years in your company – ideally five years or more:
  1. Does s/he have the right – at least partly - skills and qualifications (and in Germany very important the correct documentation to show s/he has achieved these. Is s/he willing to acquire additional skills and qualifications if necessary, and is s/he willing to invest the time and work to achieve these?
  2. Is he a trusted and motivated employee, and do you like him/her? Will his co-workers accept him/her as the new leader of the company, or is there a risk that employees will leave the company. Remember: Losing key workers to the competition can be the start of a downhill slide towards closure.
  3. Is s/he actually interested in taking over? Although this is the last issue in this ranking, it is certainly the most important issue.
  4. 80% of a company's knowledge, skills, experience is held by 20% of the work force. Do you know who they are? (This actually also an issue when looking for successors within the workforce, but not the topic of our presentation.) Later on we hope to give you some ideas how to find and identify these people.
- III. Recruiting from outside the company is the third possibility to find a successor. This is not the topic of our handbook, but still some thoughts concerning this process:
  1. It is the most problematic and difficult solution, as the risk of failure and selecting the wrong person is very high and thus very costly (in the worst case ruining your business).
  2. The main issue is where and how to find such a person. You will certainly need a lot of outside help (Chamber of Commerce, Banks, external advisors, lawyers, consultants and head-hunters).

**To sum up: You need the right person with the right skills and right attitude at the right time and right place.**



The general question here is of course how to find the right people at the right time. The chart below may help you with this aspect.

1. Professional qualifications <sup>[1]</sup>	weak <----> strong				
	1	2	3	4	5
Business training (university or vocational)	—	—	—	—	—
Technical Know-how	—	—	—	—	—
Practical experience in various enterprises	—	—	—	—	—
Knowledge in Accounting and Controlling	—	—	—	—	—
Professional experience (e.g. engineer)	—	—	—	—	—
<b>2. Personal qualifications</b>					
Like to deal with people	—	—	—	—	—
Communicative skills	—	—	—	—	—
Interpersonal skills	—	—	—	—	—
Ability to work in a team	—	—	—	—	—
Ability to cooperate and work with others	—	—	—	—	—
<b>3. Entrepreneurial qualifications</b>					
Social skills	—	—	—	—	—
Ability to manage staff	—	—	—	—	—



### Performance - Assessment

<b>Results</b>	Employee surpassed expectations	Excellent results. Social skills and methodological skills can still be improved	Results above expectation	Top notch key player
	Employee fulfilled expectations 100%	Good results. Social and methodological skills can still be improved	Strong key player	Very good social and methodological skills
	Expectations below average	Employee's work and results below average	Good social and methodological skills. Overall work results can still be improved	Very good social skills and methodological skills. Overall work results can still be improved
		Necessity for improvement	Good	Very good
	<b>Social and methodological skills</b>			

Performance Level	Colour Coding
Level 1	
Level 2	
Level 3	
Level 4	
Level 5	

The above is the usual performance assessment you find in large enterprises, but perhaps you can use it as a basis for assessing people in your own company.

We hope this helps you identify worthy and reliable successors. If you already have your own performance appraisal, you may certainly compare and then select the one best for you.



#### Part 4: Exercise, lessons learnt and conclusions

##### Talent Profile for employees and potential successors

Your career progression is vital: our growth as a company depends on your growth and development as an individual.

The Talent Profile helps you get the right people in the right jobs at the right time. It is a passport to opportunity. It needs to be kept updated and you can:

- Find out about relevant jobs quickly with e-mail alerts.
- Apply to vacancies quickly and easily.
- Make sure you are considered for internal vacancies you might not know about.
- Get more access to learning and development, career planning and international assignments.
- Get better support from HR and your manager.

Your manager and HR use the information you record there as a basis for:

- Performance and Development Appraisals, Development Plans
- Internal job applications
- Succession Planning

It is very important that the employees complete their talent profiles accurately and keep all the details up to date. One example is to ask your employees to upload their linked in information. The first chart a few pages back can also help you create your own talent profile.



Performance Plan - Prospects for future		
Key Assignments - Proposal Employee	Targets agreed on	
Social and Methodological Skills - Proposal Employee	Targets agreed on	
<b>Performance - Review</b>		
Results key assignments	self assessment employees	Fulfilled target (assessment supervisor and/or agreed target)
Results social and methodological skills	self assessment employee	Fulfilled target (assessment supervisor and/or agreed target)
Participated in training courses - Review	self assessment employee	Fulfilled target (assessment supervisor and/or agreed target)
<b>Total Review</b>		
Review Employee	Review Supervisor	
<b>Professional Interests and Targets</b>		
Remarks Employee	Remarks supervisor	
Global Mobility	Employee is prepared to work at a different site Yes/No	Geographical preferences/limitations Yes/No
<b>Plan for further Qualification</b>		
Proposal Employee	Courses agreed on	

Then there are the questions you yourself as the owner must ask yourself, and bear in mind that a normal succession process will take about two years or even longer, but you need to get the basics in place as soon as possible. Again, the [SPRING Family Business Legacy and Succession Handbook](#), will give you more detailed advice.

- I am ready to plan and carry out my succession.
- I have a clear vision and aims for my personal future.
- I can judge what my successor will have to be capable of doing so that the enterprise will be successful.
- The enterprise can be handed over in its current status.
- I know the key factors for the success of my enterprise and know that it will also be successful in future.
- I know the detailed processes which are needed to confirm the value of the enterprise.
- I can judge how long the process of succession will take.
- I know how I can finance my life after leaving my enterprise.
- I know which form of succession is suitable for which situation.



- I am aware that I am still personally liable after having transferred the enterprise.
- I know the fiscal consequences of transferring my enterprise. I know the necessary steps for a successful transfer.
- I know how I can successfully communicate the succession with my employees, suppliers and customers.
- I am aware which responsibilities I transfer at what time.
- I have thought about how my leaving the company shall be done, and what effects it will have on my company.
- I have explained the transfer and the consequences to my partner and family.
- I know exactly how to spend my time in the months after the transfer.
- I know my future relations with the enterprise and act accordingly.
- My health insurance is sorted on the long-term basis.
- I am well organised concerned my regular expenses.

We now need to have a closer look at the key terms “performance” and “potential”. These are also often used in the [SPRING Family Business Legacy and Succession Handbook](#).

It is quite simple actually:

- Performance shows your work and efficiency in the past. The present shows the person’s readiness and willingness to accept new tasks and responsibilities.
- Potential looks into the future and shows the person’s possibilities for further growth and development.

But which criteria are considered to be a “potential”?

- LEADERSHIP SKILLS – meaning the person shows an incumbent tendency towards leadership (this can also become visible at a very early age during childhood). S/he is authentic and can motivate the other employees. Incidentally – leadership can be learned and improved on, but it cannot actually be taught!
- PURSUIT OF PERSONAL DEVELOPMENT – the person is very devoted to learning, improving their skills. They can deal with positive feedback and can learn from prior mistakes.
- BALANCED LEVEL OF VALUES AND RESULTS - they work passionately to bring the company forward and do not lose sight of the crucially important business values and future.
- DEALING WITH COMPLEX ISSUES AND SITUATIONS - they show their ability to quickly adapt to new situations and challenges (also very often visible at a young age), they can think in concepts and deal with ambiguous situations.

HOW TO FIND THE RIGHT CANDIDATE WITH TALENT MANAGEMENT?

1. You need to make use of the same definitions and questions within your whole workforce if you want to identify a potential successor.
2. Everybody completes the same set of questions.
3. When analysing the candidates have a look at and distinguish between past performance, current activities, and (future) potential.
4. Make sure you stick to the important criteria of validity, reliability and objectivity.
5. Do not only look at the strengths, but also at the weaknesses and distinctive personality traits.
6. Can s/he work in a team, and does the workforce accept him/her as such?
7. Give talents the possibility for self-reflection, and give them certain projects including inherent responsibilities to check their aptitude.



## 4.3 Developing 21st century leadership skills for successors

### Part 1: Short description, objectives, critical issues

*“Telling CEOs these days that leadership drives performance is a bit like saying that oxygen is necessary to breathe”.*

*McKinsey and Company, 2015 study<sup>19</sup>*

Billions of euros are spent yearly in leadership training programmes, as millions of managers and supervisors throughout the world are seeking to become better leaders. This is due to the fact that the success of a company relies heavily on its people having the leadership qualities necessary, as proven by a number of research projects conducted in the past decades. This is even more evident through the results of a 2015 study conducted globally by McKinsey in 2015, which indicated that over 90 percent of CEOs are already planning to increase investment in leadership development because they see it as the single most important human-capital issue that their organisations face<sup>20</sup>. In many cases these leadership programmes fail to achieve their initial objectives in developing leaders and talent and thus millions of euros as wasted.

What are those skills and qualities that set effective leaders apart, especially when we are talking about family businesses? There is no straight-forward and simple answer when it comes to describing specific skills, attitudes and behaviours that effective leaders need to have, due to the fact that in each situation, industry, country and context these attributes/skills may differ. What works well in one company may not work well in another. There are no core skills, behaviours and personality traits which form the “ideal” leader, and diversity should be encouraged, based on the unique strengths and capabilities that each person has. This of course becomes even more specific and challenging when we are talking about family businesses, as they have distinctive characteristics and face their own issues, including striking the right balance between family and business dynamics and determining desired leadership capabilities in line with the company’s values, tradition and strategies. **Succession is often called the Third Leadership Challenge, and it involves one of the most important decisions to be made for any family business, within a generation.**

**The challenge for current CEO mirrors the need to select the best possible successors. On the other hand, hundreds of leadership research projects take place every year, aiming to identify a simple checklist of key**

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<sup>19</sup> McKinsey and Company survey on leadership behaviour (2015), main results found in:

<https://www.mckinsey.com/featured-insights/leadership/decoding-leadership-what-really-matters>

<sup>20</sup> *State of Human Capital 2012—False Summit: Why the Human Capital Function Still Has Far to Go* (PDF–1,204KB), a joint report from The Conference Board and McKinsey, October 2012.

leadership traits, which will make our understanding of this complex issue a lot more clear. These checklist could include skills like: Self-awareness, integrity, decisiveness, fairness, courage, passion, humility, being an active listener, specialist knowledge, knowledge of the business and its customers, creativity and imagination, endurance and tenacity and finally, last but not least, proven to deliver results.

**Thus, we aim to focus on those skills that show a candidate has the potential and the drive/willingness to take on a leadership role within the family business. In many cases CEOs can spot this kind of potential to their future successors among children from a young age. The key question is, what are these top leadership traits or skills for successful leadership within small to medium sized family owned enterprises, based upon practice and experience? Then how do the potential candidates measure up?**

With this challenging task as hand, we aim to provide a simple and easy-to-follow framework concerning the suggested skills and behaviours for family successors. **This module will detail the practical steps that successors need to take to maximise their potential for success and to prove themselves to be worthy successors.** Our aim is to help successors of family businesses to unleash the power that strong leadership can bring to a family company and provide practical and hands-on suggestions on how to develop those most important and key leadership skills that will help them in excelling, in order to continue successfully the business that their families- or past generations of family members- have started and lead these companies to further growth, sustainability and profitability?

In this module, besides presenting the key leadership skills and behaviours for family successors, we will also be giving practical examples on how they can achieve this professional growth through everyday developmental activities. We assume that the new successor will come from the family, with existing involvement in the day-to-day operations of the business, continuing the operation of the family business, developing new strategies in handling the current and future challenges created by the highly volatile external environment and expanding the company's activities into new markets, industries or through a diversified portfolio. This makes it even more important that family business managers hone their leadership skills<sup>21</sup>. Home grown talent is key, developing future successors from within to fill 80% of vacancies including top jobs is key and this is best done through fostering attitude and aptitude from within the workforce and the family. Building internal capability and supporting people to become all that they can be through encouragement and simultaneous part-time mentoring and appropriate training and education is key.

Of course it goes without saying that not all who hold managerial positions within family firms are born leaders. But leadership can be learned and this is what we are striving to showcase through this module, laying down the basic principles of what makes effective family business leaders and how these behaviours and skills can be developed over time by young successors.

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<sup>21</sup> <https://familybusinessperformance.com/why-leadership-is-important-to-the-success-of-your-family-business/>

Why is it important for younger family members to develop their leadership skills, before succession takes place? When the new family business leader possesses leadership skills, his/her contribution to the growth of the company is extended. This person acts as the glue that holds the entire company together. Chosen poorly s/he will pull the business and family apart that's why so many family owned businesses fail. An effective leader knows how to motivate people and influence the family members and the other employees to work in a productive and efficient manner. This leads to meeting or even exceeding company milestones and goals. When family business leaders keep the team motivated, they can secure the success of the entire business. Our module focuses exactly on this area, keeping your employees motivated, loyal and productive, through the new leader's behaviour and actions.

### Part 2: Case Study

The relevant case study, which is short and to the point and we are proposing for both senior and younger members of family businesses to read, is entitled "Leadership in a family business: a case study" and can be found here:

<https://blog.luz.vc/en/how-to/leadership-in-a-company-family/>

The case study discusses the case of Rui, 29 years old, the future successor of his father's business, exploring Rui's main difficulties as the new family business leader and how he has worked with a coach to become more equipped with the right array of skills and attitudes for this new leadership position. Rui's father was the Founder and President of the company. Once his father announced to Rui that he wanted to step down and he wanted Rui to be the successor, Rui visited a psychologist and business consultant with an expertise in leadership and personal development because:

- a) He did not consider himself "prepared".
- b) Felt that he did not understand enough the dynamics of the business.
- c) Did not have the ability of his father to dictate orders when there was a problem in the company or to give feedback and guidance when a mistake was made by the employees of the company.
- d) In general he felt that he was still a student, he had lots to learn.
- e) He would end up failing and the company would be going bankrupt.

The organisation had 20 employees and lacked new installations and up-to-date management tools. Following this initial evaluation of the organisation status, the consultant acted as Rui's coach and worked with him consistently over a period of time, with the aim of awaking in Rui his ability to inspire and guide his team. The fact that Rui was afraid that he would fail reinforced the coach's certainty that Rui identified with the family business and therefore Rui did not consider abandoning the company in search of another professional achievement. The coach worked with Rui to emphasise to him the positive side of his entrepreneurial journey which is, in itself, indicative of potential leadership, despite the anxiety observed as a result of future uncertainties;

Thus, from the situations that were presented to Rui, the coach listed and conceptualised some possible attributes that make up the **profile of a leader** for Rui's case:

- Superior understanding of a particular subject or business, but always preserving the attitude of humility in relation to the group's knowledge;
- Self-confidence enough to inspire confidence to others, to believe in their own attitudes and fulfil their own *expectations*;
- Ability to influence, which implies in being able to communicate with its leaders - speak the same language as these people;
- Knowing how to listen: develop a listening capacity sufficient to allow the other to also position themselves;
- Adopt a posture of coherence and congruence, that is, their attitudes must match their thinking and what they preach and speak through the corridors;
- To perceive the right moment to correct / rectify unwanted attitudes and to point out desirable solutions;
- Give a positive return preferably in a collective way, as a recognition of the right attitudes of the leaders;
- Punish or reward with justice, when this is necessary, but never exposing a collaborator to personal embarrassment;
- Be open to welcome your leader in situations that flee the rule and when their suffering is manifest;
- Temperament: adopt posture and attitudes that respect a certain direction but without fear of going back and rectify old positions;
- Have yourself your leader whom you can refer to and consult, aware of the transitional condition of any leadership;
- Fall in love as much as you can for your craft, business or cause.

As we will see in the next section of our module, many of these attributes perfectly fit the attributes and skills indicated in recent professional studies conducted by the Harvard Business Review and McKinsey & Company.

### Part 3: Relevant Principles, Frameworks and tools

As mentioned in our training module on “Balancing Intergenerational dynamics”, there are unique challenges for the senior generation, as often they have difficulties to let go of their current position, after many years in power. This leads to the senior members avoiding the whole planning process for their succession and as a result their relationship with the (potential) successor may suffer from such behaviour. On the other hand, the younger members of the family businesses may feel entitled for certain benefits such as status, position, high salaries or power in the business. Thus, the first thing that a young family leader needs to develop is **humility**, manifested through **appreciation and respect for the tradition, values and culture** of the company, while also **giving credit for past successes** that the previous generation and the departing CEO have achieved. The new CEO has to ensure this **legacy is kept alive** and transformed into its new future form. Thus, the young family business leader needs to be able to **codify the unique values and culture** of the business while designing the company's new strategy, transforming the business and going forward.



Identifying and developing leaders in a family business can be more difficult than in a traditional business. As mentioned in an article by the **“Family Business Consulting Group”**<sup>22</sup>, *“leadership is a subject that touches upon many aspects of the family firm. From next-generation development to succession planning, from board effectiveness to the integration of non-family executives into the firm and beyond. But leadership can be difficult to define and many individuals within the system of family businesses have their own definition of what good looks like”*. **There is no correct or standardised leadership model**, mainly because the leader's team supports the leader's position and this varies according to the environment, culture, time and moral values of those involved, among other aspects<sup>23</sup>.

In a 2015 article by Harvard Business Review (HBR)<sup>24</sup>, **“Leadership lessons from great family businesses”** it is stressed that the *“competencies most frequently required for success at the top of any sizable business include **strategic orientation, market insight, results orientation, customer impact, collaboration and influence, organisational development, team leadership, and change leadership**. In family businesses you should also look for people who **understand the company's ownership dynamics, accept that responsibility for multiple generations comes with the job, and are able to manage social ventures and sustainable growth**. Along with competencies, candidates must demonstrate **potential—the capacity to change, learn, and grow into increasingly complex and challenging roles that we might not envision today**”, what we call a growth mindset<sup>25</sup>.*

This article's findings also closely coincide with a professional survey conducted by three directors of McKinsey & Company (2015)<sup>26</sup>, entitled **“Decoding leadership: What really matters”**, where they studied a large number of companies across all continents and found that the four most important/key leadership behaviours are the following:

- **Solving problems effectively.** *The process that precedes decision making is problem solving, when information is gathered, analysed and considered. This is deceptively difficult to get right, yet it is a key input into decision making for major issues (such as M & As) as well as daily ones (such as how to handle a team dispute).*
- **Operating with a strong results orientation.** *Leadership is about not only developing and communicating a vision and setting objectives but also following through to achieve results. Leaders with a strong results orientation tend to emphasise the importance of efficiency and productivity and to prioritise the highest-value work. This is also relevant to team leadership and collaboration and influence, as only through motivating and influencing professional people can a team achieve strong results and high performance.*
- **Seeking different perspectives.** *This trait is for managers who monitor trends affecting organisations, grasp changes in the environment, encourage employees to contribute ideas that could improve performance, accurately differentiate between important and unimportant issues, and give the appropriate weight to*

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<sup>22</sup> <https://www.thefbcg.com/Family-Business-Leadership>

<sup>23</sup> <https://blog.luz.vc/en/how-to/leadership-in-a-company-family/>

<sup>24</sup> <https://hbr.org/2015/04/leadership-lessons-from-great-family-businesses>

<sup>25</sup> <https://www.forbes.com/sites/glennllopis/2018/04/24/the-12-crucial-leadership-traits-of-a-growth-mindset/#5422c58075d7>

<sup>26</sup> <https://www.mckinsey.com/featured-insights/leadership/decoding-leadership-what-really-matters>



*stakeholder concerns. Leaders who do well on this dimension typically base their decisions on sound analysis and avoid the many biases to which decisions are prone. Moreover these people do not leave in a bubble with only good news reaching them. They seek to hear the bad news first, they want to know about different opinions and perspectives, they work effectively with diverse teams and are able to lead difficult conversations successfully in a respectful, diplomatic, empathic and inclusive way. Finally, leaders who seek different perspectives are also eager to have more creative and out-of-the-box ideas suggested to them, in order to be different and more innovative compared to their competitors.* This willingness by family business successors on sustainable innovation<sup>27</sup> is analysed in the article by Yun-Zhong Wang and al. (2019). These leaders never start learning and they are always curious and eager to evolve and become better over the years.

- **Supporting others.** *Leaders who are supportive understand and sense how other people feel. By showing authenticity and a sincere interest in those around them, they build trust and inspire and help colleagues to overcome challenges. They intervene in group work to promote organisational efficiency, allaying unwarranted fears about external threats and preventing the energy of employees from dissipating into internal conflict. These leaders have high emotional intelligence, as they can see the other person's perspective during an argument and can empathise when their co-workers are going through a challenging personal or professional problem. The open-door policy is part of the company's culture and employees can count on this leader when they want to discuss a difficult subject or need guidance and support during the implementation of their tasks/work.*

Both study findings presented above, by HBR and McKinsey & Company, along with the case study results with Rui as our future successor, show that family business leaders can take their company to the next level, ***through team leadership, excellent communication skills, having a supportive and friendly attitude towards employees, combined with effective problem-solving skills, a strategic mindset, strong results orientation and an open-mind towards diverse opinions and ideas, valuing different perspectives and continuous learning, which will lead to change, through creativity and innovation.*** These leaders build loyalty, high productivity, increased motivation and commitment, by encouraging active participation in decision-making and autonomy in one's job.

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1.1 <sup>27</sup> Yun-Zhong Wang<sup>a</sup>, Fang-Yi Lo<sup>b</sup> and Shan-Ming Weng (2019)<sup>a</sup>, *"Family businesses successors knowledge and willingness on sustainable innovation: The moderating role of leader's approval"*, Journal of Innovation & Knowledge, Volume 4, Issue 3, July–September 2019, Pages 188-195



## Part 4: Exercise, lessons learnt and conclusions

A usual tension in family businesses comes when successors try to create a link between tradition and innovation, meaning protecting the company legacy whilst building a bridge to a sustainable future. This is not an easy and straight-forward process and it demands careful handling.

Theory and practice shows that the leader's job in any business, even so in family businesses, is of paramount importance when it comes to leading the company to the future successfully. The young business leader is responsible for the preservation of a legacy coupled with the ability to adapt leadership styles to changing market conditions and generational change. The young successor needs to be explicit about the competencies and behaviours that must be identified and followed, in order to support the core business values and strategy and to ensure these are developed over time.

**We suggest that the best way to develop leadership skills for young successors is through applied learning. This focuses the mind on acquiring skills that really impact on personal development and profits.**

In order to lead successfully a family business one needs to start with understanding the culture (“the way things are done around here”), strategy, and traditions. The new successor should also evaluate the industry's life cycle, the company's strengths and opportunities for growth, its market value, and the family's core competencies and goals in order to evaluate whether the business is still the right fit for the family. To achieve this the new family business leader needs to have long and honest discussions with the employees of the company, at senior, junior and basic level. Skip-level meetings is one of the methods used by CEOs in order to have meetings with lower-level employees, avoiding the middle-level management on purpose and having honest feedback and a presentation of the real picture of the company's operations from the front-line employees. Key issues discussed could be any complaints that these employees have, suggestions for improvement, new ideas for becoming sustainable and innovative, etc. Moreover, rotated training of the new successor through different business units of the company, different geographic regions, and different roles can be used, in order to deeply understand the operations, technology, customers, needs, and culture of the company (while gaining also more feedback from the employees of the company). Once this rotation is completed, the new successor should be able to provide suggestions for improving the companies' operations, linked to KPIs and tangible results of the company's performance in the next 3-5 years.

Every leader starts first with himself/herself during the personal and professional development process, as self-awareness is key. Leadership theories and studies depict a large number of traits, behaviour attributes, skills and abilities that leaders should have. It is not of course realistic nor possible for any leader to have all of these. What we have done in our module is focus on those attributes/skills that are considered as the most important ones in leading a family business for the new successor. A great practical tool that is often used in leadership development programmes is the “**Professional Action Plan**”. The table below can be completed by the family business successor at the start of his/her entrepreneurial journey, identifying first of all his/her strengths, as it is important



to fully utilise these strengths while leading the company into its new era. What is even more important is for the leader to identify the key skills for development. Even person, even the most successful, experienced and intelligent people, have areas that they can further develop. The family business successor can identify 2-3 key areas that are the most important and relevant to the industry they are operating, the specific goals/KPIs they want to achieve and the future business strategy of the company and focus on developing these over the next 6-12 months. Every young family business leader can work with an experienced coach/mentor, as Rui did in our case study presented above, to guide them through this path of self-discovery, self-awareness and development of the right leadership skillset and competencies.

Every skill takes time to be developed, it is not an easy and straight-forward process. The Professional Action Plan demands that the leader identifies the negative and positive forces that will come into play while trying to develop these skills, the time framework it will set for himself/herself, acting as a deadline, to develop each specific skill and the developmental activities it will undertake for enhancing that particular skill. For example, if a successor wants to develop empathy and emotional intelligence (EI) further, he/she may provide a 6-month time framework for himself/herself, identify as a positive force a colleague that has increased EQ and empathy that will work as a mentor for him/her, identify as a negative force the highly pressured work schedule and number of deadlines for the next 6 months and have as developmental activities to talk on a weekly basis with a number of colleagues (including lower-level employees) and make an effort to really listen to the challenges that they face at the workplace, their suggestions for improving their company, innovative ideas that the company can employ, etc.

Besides developing a professional action plan, the new successor can strengthen self-reflection through exercises, e.g. developing a life-plan, participating in coaching sessions, learning about their family by interviewing parents/drawing genograms/researching the own past, etc.

Selecting a company's next CEO is one of the most significant decisions in an organisation's life. In every company, it is critical to find the right fit; in a family-owned business, the fit factor is even more consequential. The success and sustainability of the family's main asset and source of income, and a significant piece of their identity, rests largely in the hands of the individual selected to be CEO of their family-owned business. No family company can afford an error in today's competitive and fast-changing business environment. An under-performing CEO, or one that is not in sync with the owners' vision and values, can set a company and a family back, and some companies may never recover or regain their balance, focus and drive<sup>28</sup>.

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<sup>28</sup> [https://cfeg.com/insights\\_research/CEO-Succession-in-the-Family-Business](https://cfeg.com/insights_research/CEO-Succession-in-the-Family-Business)



Leadership is acquired in practice, it is not innate knowledge and the leader does not form instantaneously through a small number of developmental activities. On the contrary, the new successor walks his/her path step by step, driven by self-desire, always learning while also teaching, being generous and ethical and developing their particular way of leading<sup>29</sup>.

Strengths	Skills for development	Specific goal	Time frame	Positive/Negative forces	Developmental activities

**Table 1: Professional Action Plan**

Another useful and practical exercise is the STAR principle. Each successor must cite a Situation, a Task, an Action that they took and the Results they achieved in tangible terms to prove that they are worthy and progressing. Ideally this task/action should be linked to a strategic goal of the company for the future, as we are selecting the right candidate who can lead the company successfully into the future. This STAR presentation can be prepared by each candidate for the successor role and presented to the Board of Directors, in order to make the final decision and not the CEO who may be involved sentimentally into the whole process. The STAR principle should be focused on targets set and results achieved linked to hard results, like profitability, revenues, reduction of costs, business development, innovation project, opening operations in new markets, productivity level, etc. during this presentation the candidate should also explain what they have learnt through this situation and how they would have handled things differently now that they have experienced this situation. These will be valuable lessons that the new successor will utilise throughout his/her entrepreneurial journey.

<sup>29</sup> <https://blog.luz.vc/en/how-to/leadership-in-a-company-family/>

## PILLAR 5: MAPPING YOUR FUTURE

*The final pillar aims to help family businesses understand the value of Business Angels and investors and help them see these other financing options for growth.*

### 5.1 External Investors

#### Part 1: Short description, objectives, critical issues, expected impact

Successful family businesses that have endured, have put in place robust legal structures and governance mechanisms aimed at ensuring growth and continuity of the family business, which can only be achieved if succeeding generations of owners continue to grow and expand the business. For them to grow and increase their profit, they need strong financing. The recent economic climate has had an impact on their ability to finance their expansion projects through bank loans, so to fund this expansion, family firms are often willing to **offer equity**. This is expected to be crucially important, **post Covid-19**. After the world's economy emerges from the results of the pandemic, family businesses that have survived, will need **strong, practical advice** that will ensure their recovery and growth for the sake of the business, the economy and society as a whole, local, regional, national and transnational. The general desire of family businesses to maintain full control over their company, however, often **limits their growth financing options**.

**Private Equity** funding often requires the entire business to be sold to maximise value in the event of an exit, and **Corporate Strategic Partners** often see any investment as part of a longer-term plan to secure full control.

However, the owner's desire to retain sovereignty over their business does open the doors to an underutilised group of investors, **Business Angels (BA's)**, many of which have family business experience as well as significant investment capital and are willing to bridge the funding gap of family businesses. BA's are more willing to invest in exchange for a minority stake in the company, maintaining the family owner's majority control. Not only can BA's provide a source of funding, they can also provide insights that are extremely beneficial to the business.

Recent surveys show BA's and family businesses are a good match for each other and the experience can be overwhelmingly positive on both sides. However, such partnerships can only happen if the respective parties can **find ways to connect** and communicate more effectively. BA's are appreciated as investors by family businesses as they are patient investors that take a long-term view and are not focused on a rapid exit strategy, willingly give chances for the business to perform. However, an appropriate arrangement for the exit of the BA's needs to be structured at the outset of the partnership.

The main **objectives** of this Module are to help family businesses understand the **value of BA's** as investors, to find ways of advertising their financing needs and connect to appropriate BA's, and to formulate **exit strategies**



for their BA investors. In order to get it right, there is a real need for a **due diligence pre-investment phase**, that will protect both parties; this is what this module aims to prepare the family businesses for.

**The present Module assumes that the Family Business wishes to maintain control of the business within the Family in the long run and that the majority of the family members who are shareholders do not wish to exit by selling their share in the Family Business.**

## Part 2: Case Study

Case Study: A Manufacturing Family Business in Yorkshire & Hampers region, UK:

A manufacturing family business, based in Yorkshire & Hampers region in the UK, had external investors in addition to the three family investors. As stated by the founder, *“that wasn’t part of the plan, but the banks refused to lend us enough. That left a hole I was not prepared to fill by investing everything I had. We need to spread the risk – as a family, we’d rather have 60% of something successful than 100% of something we’re struggling with. I’m not against loans but I hit a wall... But I have a mind to buy them out in the medium term – at least 3-5 yrs.”*

There was initially a high level of resistance to external investors, but eventually the business owners felt they had little alternative. This example serves to highlight the magnitude of such a decision in the eyes of the owners, the care with which it needs to be considered, and the importance of the rationale underlying the decision. As per the owner’s comment above, there is a plan **to buy out the external investors in 3-5 years**. This was agreed with the external investors prior to the investment completion and included in the shareholders agreement.

However, there was no consideration of the role of the investors before the investment was concluded. As a result, the owners have - in practice - found the relationship occasionally tense, but ultimately of benefit: *“I looked for two things from investors – people who could add value by expanding our customer base, as well as cash. The investors clubbed together to provide cash which has been really well received. However, there have been some tensions. I have overruled on minority decisions but not where there has been a majority consensus view on an issue. If it’s a major decision and you can’t agree, you defer it until somebody changes their view. Or possibly I change my view to go with them. Negotiation and compromise are crucial.”*

This indicates the value of taking account of another point of view, especially during important phases, such as the establishment of a business or the relieving of pressure as the business grows. During these phases, recognition that owner/managers do not possess all the skills or capacity required, and possibly not even the skills needed for effective oversight of employees in a particular area of the business, is important for growth to succeed. All these, need to be well-thought of, during the agreement phase with the external investors, in order to avoid conflicts during these important phases of the business operations.

### Lessons learnt from Case Study:

#### 1. Governance lessons

- Surely the family business requires a clear **Strategy** as a vital context within which to decide that funding (and how much of it) is actually required, for how long and for implementing which parts of the growth strategy.
- It is obvious that first of all the business must take a **conscious decision** to look for suitable BA's to partner with, so that it has adequate time to **prepare and plan** for it through a **due-diligence pre-investment phase**; it is unwise to wait until this becomes the last alternative (after the search of other funding sources fails) and look for BA's when the business is with the back against the wall.
- To avoid tensions once the partnership with the BA's is signed, consideration of the **role of the investors** needs to be well thought out and drafted before the investment is concluded, again as part of the **due-diligence pre-investment phase**. This should include the very important issue of **conflict and disagreement resolution** within the business decision-making bodies, such as the BoD.

#### 2. BA's generic & required characteristics

The main generic characteristics that BA's bring into a family business are:

- Corporate, entrepreneurial, management and mentoring **experience & expertise**
- Access to large **networks** of contacts
- **Flexibility**

In practice Family businesses should seek BA's with specific characteristics:

- Relevant **sectoral** & industry background, expertise & network
- Personal **family business experience**
- **Long-term view** – not looking for a rapid exit
- Appreciation of specific family business **values**

### **Part 3: Relevant Principles, Frameworks and tools**

#### Introduction: The need for External Investment

While family businesses have the unique characteristics of a family, they, like other companies are often in search of financing to propel growth. To increase profit and accelerate growth, a business requires strong financing and a solid strategy. Access to capital post global financial crisis is not always easy and finding financing can be very difficult for a business, especially a family business. A key differentiator between family businesses and other companies is the fact that the majority of family businesses view maintaining control over their company as a key success factor, which can make financing options even more limited. Other attributes of family businesses that limit financing options even more, include an emphasis on managing the company with longevity in mind (as a legacy to preserve for future generations), and a desire for business information to remain confidential.



### Potential Sources of External Investment

The most common sources of business growth investments contacted by family businesses looking for external investment are **Private Equity (PE)** and **Corporate Strategic Partners (CSP)**.

**PE firms** make money by buying, transforming and selling their investments. They try to sell the companies at a much higher price than what they paid for them. So, PE funding often requires full control of a business, so that it can be transformed with maximising profit as the ultimate goal and then the entire business to be sold to maximise value in the event of an exit.

A **Corporate Strategic Partnership** is usually a mutually beneficial arrangement between two separate companies that do not directly compete with one another. Businesses have long been engaging in strategic partnerships to enhance their offers and offset costs. The general idea is that two are better than one, and by combining resources, partner companies add advantages for both companies through the alliance. However, when **CSPs** invest money in a business, it is often seen as part of a longer-term plan to eventually secure full control of the business.

It is evident therefore, that both PE and CSPs usually fall short of family businesses' expectations from their external investors, both in terms of maintaining control and longevity of their business. Recent studies have identified an underutilised group of investors, **Business Angels (BA's)**, many of which have family business experience as well as significant investment capital. There are many natural affinities between BA's and family businesses. Many BA's were either rooted in family businesses to start with, having inherited money from a family business or still being connected to one. Others were first generation entrepreneurs not having formally transitioned to a family business model on their own yet. In either case, the consequence was the same: **an amazing convergence of values, cultures, processes and perspectives.**

### Understanding Business Angels (BA's)

A BA is an independent individual who provides capital, networking, experience and mentoring for the development of a business. Typically, BA's (or angel investors) are wealthy individuals who invest their own money in unlisted, potentially high-growth companies to which they have no family ties. Even though they usually invest in very early stage businesses or startup's, some BA's are also attracted by **well-run established family businesses in growth or scale-up stages**. They will usually expect to have a direct, hands-on approach to the investment, which some family businesses may find intrusive, but which can in fact be of tremendous help to a growing business. As well as extensive personal experience, a business angel will often provide access to a strong network of business contacts. Wider factors such as personal chemistry between the BA, shared values, vision clarity and the existing management team are also of critical importance. In most family businesses, **values** become "the rudder of the ship" of the business. It's therefore **a big deal for there to be synergy between an outsider and those inside the family business on values**, which guide behavior and business decisions and that



DO NOT CHANGE over time; they are the DNA that makes the business what it is. They are also the basis of GOOD STRATEGY as well as the basis for innovation and entrepreneurship itself.

The **ideal** family business for a BA is one with a good product or service and a capable management team, but which needs help with strategic issues and additional capital in order to take the next step in growing the business. Potential BA's will expect to examine information about the business, including family constitutions, business plans and projected cashflows, but their reviews will generally not be as detailed or as rigorous as those of a PE firm. They will normally expect to realise their investment in around **4–7 years**, usually by means of a sale to family members, or to a mutually approved third party.

There may also be less pressure to provide a return on this form of investment within this timeframe, but this needs to be agreed before the investment transaction is completed. BA's are appreciated as investors by family businesses as they are patient investors that take a long-term view when it comes to well-run family businesses and are not focused on a rapid exit strategy, willingly giving chances to the business to perform.

The rules for each side of a **successful family business – BA partnership** are summarised in the table below:

FAMILY BUSINESS	BUSINESS ANGEL
<p>Already has a clear &amp; documented <b>Business Strategy</b> &amp; Family Business <b>Values</b></p> <p>Needs (and is willing to accept) <b>help</b> with strategic issues</p> <p><b>Needs Capital</b> &amp; is willing to <b>give equity</b> to outsiders in return</p> <p>Is in <b>growth</b> stage</p> <p>Is willing to accept BA as member of the <b>BoD</b></p> <p>Is willing to treat BA as a <b>part of the family</b></p>	<p>Has a <b>long-term</b> investment horizon</p> <p>Accepts to maintain <b>low levels of interference</b></p> <p>Has relevant <b>sector experience &amp; network</b></p> <p>Has <b>family business experience</b></p>

The **Investment Expectations** of the BA's are summarised below:

- **Investment Horizon** (from investment to exit): **4-7 years** (under certain conditions such as high dividend policy, this may be extended)
- **ROI**: Average expected compound annual **ROI of 30%** -> **2.9X – 6.3X** (4-7 years)
- **Expected Profitability Growth**: really depends on the evaluation method used, but as a rule of thumb, it needs to follow expected compound annual ROI, therefore a **YoY 30% growth**
- **Exit Strategy**: One of the most important issues when sealing the deal with a BA, is the pre-agreed Exit Strategy, that is **when, how** and to **who** the BA will sell his/her share in the family business. The usual exit



routes of BA, when investing in what they usually invest in, **startup companies**, are: to sell a business to a competitor, plan an IPO or sell part of the company to a venture capital fund. It is however, a very different story when it comes to Family Businesses: as most **Family Businesses opt to maintain control** of the business long after the BAs are gone, the BA's exit route needs to accommodate this. Therefore, the exit route options for BA's investing in Family Businesses are:

- Shares bought back (**redeemed**) by the company itself. In this case, a special class of shares (**redeemable shares**) are issued and allocated to the BA's which can be acquired back by the company at a value which is calculated on a pre-agreed formula, usually based on the valuation of the company at the time of the exit. Funding of the exit in this case comes either from external sources such as banks, or from retained profits, or a combination of the two.
- BA's shares **sold to family member shareholders** either on a pro-rata basis or based on pre-agreed proportions. In this case, funding for the exit is provided individually by the family members who agree to buy the BA's shares. Here too, the value of the shares is calculated on a pre-agreed formula, usually based on the valuation of the company at the time of the exit.
- BA's shares **sold to mutually agreed third parties**. This option involves most risks, as a third party interested to buy may not be found or the interested buyer may not be accepted by the family.
- Any **combination** of the above routes.

Outside investors not only can provide a valuable business perspective but expect that deep involvement as part of an **emotionally driven relationship**. Be ready to make them part of more than the shareholders' assembly: **they are buying into the family** as much as they are investing in the business. The BA's could be invited not only to the usual business governance processes and bodies (eg. The BoD) but also to the unusual ones, those closest to the family heart. It may prove very beneficial to invite those precious partners to **key family activities** such as unofficial family gatherings, meals, etc.

### Matching with the right BA's: Principles of Good Practice

Family businesses looking for BA's as investors should bear in mind the following factors that are **most likely** to attract BA's:

- Sustainable business investment opportunities, where family members rely on the business and have their reputation invested in its success
- High profitability, Strong cash flows, High solvency, Long-term capital appreciation
- The potential for strong organic growth
- Investments with a reasonable level of risk and good capital security
- Chances to contribute advice and expertise and have a say in the companies' future developments
- Personalised touches and long-term quality relationship - this emotional dimension of the relationship is the glue that holds it together and justifies a number of trade-offs in the above financial factors. In a way, these

investors are willing to accept emotional rewards with a face value almost equivalent to financial rewards, or in various combinations that prove very attractive to the family businesses.

Once interested BA's are identified, the family business should select based on the following criteria:

- Long-term horizons, not focused on a rapid exit strategy
- Industry and family business expertise
- Low levels of interference
- Trusted partners who can treat information with discretion and have lower reporting requirements and more flexibility than other sources of finance

In addition to the above general criteria, the following are important discussion topics with potential investors:

- Capital needed
- Market access required
- Investor's specialist expertise

In short, a lot of **preparatory work** needs to be done by the family business in order to understand the characteristics of the Investors they need. They need to ensure that both parties are signing up to the same journey, they both know what is expected of them and how differences will be moderated. The **precursory due diligence checklists** that need to be fulfilled to ensure critical success factors are achieved are analysed in the "Practical Tips" section below.

### Practical Tips

- Bearing in mind what BA's are looking for, develop an **investment opportunity executive summary** and a **pitch deck** (10-15 slides) that includes at least a description of the family business, the need for funding (amount needed, use of funds, etc), financials including ROI and exit strategy. Here, the family business also needs to make sure that the investor will be fully exposed, upfront and personal, not just cosmetically, to its family values, through the company's aligned value proposition. Use the "**Investment Opportunity Executive Summary**" checklist below:

#### **Investment Opportunity Executive Summary** checklist (1 page)

- **Description** of the Business – Include basic info e.g. company size, turnover, profits, target market, industry trends (5-10 lines)
- **Value Proposition** – What differentiates the company from competition (3-5 lines)
- **Family Business Values** – The most important values that make up the DNA of the business (3-5 lines)
- **Growth Strategy** – Description of the basis of planned growth (market penetration, product development, market expansion and/or diversification) (5-10 lines)
- **Funds** required – Analysis of funds required and how they will be utilised to fuel the growth strategy (5-10 lines)

- Create a separate document with the required **investment terms**, including business valuation, mechanisms to manage the possible dilution of control and the preservation of independence. It is important to offer a board seat to the investors. Outside perspectives on boards, panels and committees can be invaluable contributions, especially in times of rapid change and transformation. This document will form the basis of the **term sheet agreement** that will be signed with the prospective investors.
- Create a detailed list of ideal **BA's characteristics** for the family business and a list of **questions** to be posed to interested BA's. Use the "**Investor description**" checklist below:

**Investor Description checklist**

- Preference between 1 BA or a syndicate of BA's – Usually 1 external investor is easier to manage, however, a syndicate may bring in multiple levels of expertise.
- Prioritise the following BA characteristics (re-write in order of priority):
  - **Long-term** investment horizon
  - Accepts to maintain **low levels of interference**
  - Relevant **sector experience & network**
  - **Family business** experience
  - **Growth management** experience
- **Reasons** for needing BA's as external investors – Is it just cash or more? (3-5 lines)
- Ways to **maximise value** of BA – Description of role of the BA in the business (3-5 lines)

- Identify and contact local and national **Business Angels Networks (BAN's)** to promote the family business financing needs by sharing with them the **investment opportunity executive summary**; it is important to keep the business details confidential at this stage. A good starting point is the [European Business Angels Network \(EBAN\)](#).
- Once the **investors are selected**, and the investment transaction takes place, BA's should be treated as **part of the family**. It may prove very beneficial to invite those precious partners to **key family activities**, taking them on as **quasi-members of the larger family assembly**. Use the "**Investors in Key Family Activities**" checklist below

**Investors in Key Family Activities checklist**

- List of **official Family Business bodies & fora** – eg. BoD, General Assembly, etc
- List of **unofficial Key Family Activities** – List ALL such activities, including regulat gatherings, meals, parties, etc.
- Investors as **quasi-members of the family** – Description on how this can be achieved, indicating which official & unofficial family bodies & activities the BA will be invited to participate in. (5-10 lines)



## Part 4: Exercise, lessons learnt and conclusions

### Exercise/Assignment

1. Bearing in mind the issues outlined in this module, create 3 documents as follows:
  - a. In one page, using the **Investment Opportunity Executive Summary** checklist, provide information on your family business.
  - b. In half a page write a **description of the ideal BA investor** for your family business. – Based on the “Investor description” checklist try to prioritise which investor characteristics are important to your business and why.
  - c. In half a page, outline ideas on how the selected investor could **participate in key family activities**, treating him/her as a **quasi-member** of the larger family assembly. – Based on the “Investors in Key Family Activities” checklist try to prioritise which family activities the external investor(s) will be invited to participate in and why.
2. Using the [EBAN website](#) as a starting point, identify BAN’s in your country/area that could potentially have investors interested in your family business.

### Conclusion

There is a natural interest by BA’s to invest in family businesses. Their long-term investment horizon, their commitment to strong values and legacy, their deeply personal relationships, etc. are very attractive to many outside parties. To help make that relationship last, one has to recognise that **the emotional rewards need to be earned as regularly as the dividend checks**. The hard work starts after the investment has been completed: this is when one needs to go beyond the passive alignment of values to **an active governance and relationship participation**. The secret of a lasting relationship is, not surprisingly, an active management of the elements that made it flourish in the first place, i.e. **combining solid emotional benefits with best practice governance**. The burden of managing that relationship is not light, and to a large extent should be treated as an additional “cost of capital” from BA’s. But when one takes into consideration the additional benefits brought about by this category of investors, it is easy to see that the net balance is still massively positive, which can provide a superb return on the emotional investment. In order to get it right, there is a real need for a **due diligence pre-investment phase**, that will protect both parties; this is what this module aims to prepare the family business for.



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