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EFB touches base in awakening Ireland

On the 4th of December, EFB hosted its winter conference in Dublin. Entitled, 'Strengthening Family Business: an Irish Perspective,' the conference was a chance for EFB to engage with the local Irish family business community via open discussions as Ireland will preside over the European Council in January.

Roger Pedder, President of European Family Businesses, opened the conference, by stating that EFB were in Ireland to lend support to the development of the newly formed FBN chapter in Ireland. In his address, he noted that family businesses tended to be a stable part of the European economy, as they did not indulge in excessive amounts of debt, and he noted that family businesses have endured because of their intrinsic prudent nature. In addition, the President of EFB also remarked that family businesses 'enjoy better relationship between ownership and employment to a degree that the quoted sector finds difficult.' Mr Pedder explained that EFB existed to represent family businesses everywhere by promoting a level playing field for family businesses compared to other forms of enterprise, and to have regulatory environment that is conducive to long-term entrepreneurship. Finally, the President stated that 'family businesses still had to improve their act' to better support family business interests in Brussels by promoting 'best, good, and successful practices.'

Clarke Murphy, CEO of Russell Reynolds Associates, delivered a fascinating presentation entitled, 'Succession Planning in the Family-Controlled Firm.' He remarked firstly, that Russell Reynolds Associates have been helping family businesses with the construction of frameworks to create smooth transition from a succession planning standpoint, which Mr Murphy noted is a unique process in family businesses. He also highlighted that companies can be very vulnerable at the moment of succession, and therefore, effective 'succession planning is preparation not selection'. Mr Clarke Murphy also stressed the important link between good governance and good succession planning. Finally, Mr Murphy stated that some family businesses, when looking for



the successor to lead the company, tended to think in terms of 'who is next'. He also remarked that, thinking in terms of 'what is needed next' was a much more effective way of picking a successor.

Christophe Bernard, Head of Middle Markets at KPMG, announced the formal long-term partnership between KPMG and EFB. Mr Bernard stated that KPMG proudly share the same values of family business, and that family business represents about one third of global revenues for KPMG. He concluded that KPMG would actively work with EFB in promoting family business issues at the EU level.

The first panel was dedicated to the local family business community, namely the challenges associated with the Irish family business. Olivia Lynch of KPMG Ireland, who was panel moderator, started the session by underlining the current economic situation in Ireland. She remarked that due to recent austerity measures, Ireland has seen general rises on most personal taxes. Regarding family business, she noted that, although there was a lack of statistics surrounding family businesses in Ireland, she believed that there was little doubt that family business accounted for about half of employment in Ireland.

Philip Mackeown, Executive Director of Family Business Network Ireland and Non-Executive Director at Musgrave Group plc., remarked that the Irish FBN chapter was still in its infancy. On the issue of family business advocacy in Ireland, he believed that the family business community would be capable of being a valuable stakeholder in domestic policy debates, once the family business network had been strengthened.

Col Campbell, Family Director of the Campbell Bewley Group, stated that one of the major challenges facing his family business was the difficulty surrounding the internationalization of the business. In addition, he noted that in Ireland, attracting talent to family businesses, when compared with the quoted sector, was difficult as there was still a perception that career progression would be limited due to family interests taking precedent.

Vincent Carton, Managing Director of Carton Brothers, noted that the family had been in business since 1775. He remarked that one of the recent challenges for family businesses in Ireland had been the lack of political focus on this form of enterprise. He noted that in the last 15 years the focus by the banking sector was primarily centred on real estate. However, he remarked that this was starting to change due to the crisis.



A view of Dublin.

Panel to deal with the topical issue of the 'changing role of women in family businesses.' Moderated by Professor Morosetti of Bocconi University, the discussion produced a lively debate amongst the panellists and audience. As a preamble, Professor Morosetti noted that current research showed that there was no direct correlation between gender and performance. In addition, he reminded the audience of the recent debates in Europe on the issue of gender quotas on company boards.

Anne Berner, Managing Director of Oy Vallila Interior Ab and board member of EFB, firstly stated that she had been running her family business for the last 26 years. On the quota issue, she noted that in Finland women had always been a major part of the workforce, and therefore, the societal arrangements generally allowed women greater opportunities. She believed that the quota system was not the right way of encouraging women into boardrooms. Instead, Mrs Berner suggested that a more effective mechanism was the support services provided by mentoring schemes for women.

Nathalie Veronelli, Vice-President of Eigenmann, firstly noted that her company was over hundred years old. She remarked that in Italy the board quotas might ➔



From left to right: Jesús Casado, Minister Perry, Roger Pedder and Philip Mackeown.

be needed to force the societal change, by at least obliging consideration of women candidates by the often male led business world. She believed that family businesses offered greater opportunities to women, since the often cited difficulty that women have of managing business and family, was not an issue in family businesses, because they were already intrinsic to the business.

On the question of gender quotas in boardrooms, **Caroline Keeling**, Group Managing Director of Keelings, believed that in some areas of the business world, namely the quoted sector, she saw some potential value by the introduction of measures to promote women on boards. However, she feared that a situation would arise, like the Norwegian example, where the same group of women, would be sitting on the company boards, and that indeed the quota system would not entirely improve the situation. Finally, she stated that 'there are no glass ceilings if one pushes hard enough.'



The conference was closed by the keynote speaker **John Perry**, Minister for Small Business, and Irish SME Envoy to the European Union. He spoke of the importance of family business by stating that 'Europe has been built of their contribution to economic and social prosperity.' In addition, he emphasised the need to 'acknowledge the essential contribution family businesses make to the economy and the long-term stability they bring.' Minister Perry also remarked that, 'family businesses tend to take a long-term approach to their investment in an enterprise, sector and community. In many ways they can be viewed as 'stewards' of the enterprises and jobs they create and it is imperative that policymakers do their utmost to create the framework for this sector to continue to flourish.' Finally, he thanked 'European Family Businesses for their continued support and commitment to this vital sector of the European economy.'



Jesús Casado elected as FFI board member

Jesús Casado, EFB's Secretary General, has been elected for a three year term, to the board of the Family Firm Institute, FFI is the leading association worldwide for family business professionals and the organization of choice for advisors, consultants, educators, and researchers who help perpetuate trans-generational family businesses. In adopting a multidisciplinary and genuinely global perspective, FFI understands family enterprise as a fundamental driver of global economic growth, prosperity, and stability.

For its global network of professionals, educators, researchers, and family business owners, FFI provides opportunities to participate in multidisciplinary educational programs and earn professional designation; enables collaboration at conferences, seminars and online; and creates a single space for interaction, cross-pollination of ideas, expertise and perspectives to further the field of family enterprise.

Professionals, educators and researchers as well as family business owners from more than 88 countries across the globe (almost half of all nations) belong to FFI. Together they create the oldest and most prestigious multidisciplinary professional association for family enterprises in the world.



EFB contribution to Entrepreneurship 2020

After months of consultation, the European Commission has recently published the long awaited Entrepreneurship 2020 Action Plan.

In its response to the public consultation, European Family Businesses highlighted some key issues including, the need for a more balanced approach to entrepreneurship and SME policy i.e. equal attention towards existing businesses and start-ups. In addition, EFB highlighted the often overlooked reality that the legal, fiscal, and administrative environment that matters for entrepreneurs is the environment that arises out of the combined effect of legislation and regulation at the corporate and private level.

Within the consultation, encouragingly the European Commission had a section dedicated to business transfers highlighting the growing importance of the issue in Europe. European Family Businesses highlighted four crucial issues which need addressing in the context of business transfers: awareness raising among business owners to start early preparation for succession (for example: success through succession); accurate data on the types of business transfers in Europe compiled yearly by Eurostat, and shown clearly by Member States company registers; better implementation by the member states of already existing Commission recommendations; promotion of education concerning the different types of business transfers and the exchange of best practices.

EFB also made reference to the need to forge closer relationships between universities and businesses i.e. Family business owners and entrepreneurs need to be directly engaged in the learning process, since they bring practical expertise, passion, commitment and hands-on know-how into the class room.

With regards to Access to Finance, EFB communicated strong arguments for a level playing field between debt and equity.

Finally, in the section open to free comment, the European federation of family business associations proposed a potential initiative that focuses on promoting family/non business successors as a way of boosting the number of entrepreneurs in Europe. EFB argues that, 'Family successors and non-family successors represent a massive pool of often untapped potential in Europe's existing SMEs and family businesses. Potential future successors have already been exposed to the business environment, and they often possess a detailed insight into the operations of their families' enterprises. If given the right tools, and working in the right environment, successors (including non-family members) have the potential to be the 'stewards' of their companies.'

Anne Berner, Managing Director of Oy Vallila Interior Ab
and board member of EFB



Anne Berner

Recognising Long-Term Ownership

Most of us Europeans have a relationship to ownership. It has been tradition in many countries and areas to own your own house or your land or your forest. In Finland we can easily accept the ownership of land or forest - this is accepted as a part of your income. For some reason we do not feel the same way with the ownership of shares in a company. Ownership of shares seems to be privileged and should thus be treated in that manner.

Let's look back in time. The key to the development of ownership lies in the founding of the limited liability company - what we know as LTD. It is one of the great innovations that made industrialization successful and enabled growth as we know it in the past 200 years.

Family business owners have three principal rights to their ownership - the right to dividends on the shares, the right to manage the ownership, and the rights to transfer the ownership. Today in many LTDs

one of these rights, the right to lead and manage the ownership has been delegated to the management. At the same time one of the fundamental ownership tools - the steering of the owned company has changed. This change has also brought with it a change in perception of ownership.

Ownership has for a long time not been seen as a value creator for businesses and has been treated in an unequal way in most European countries, especially by means of taxation. The Boston Consulting Group states in a paper written by Heino Meerkatt and Heinrich Liechtenstein in February 2010, that operational value creation is a product of engaged ownership. They believe that in the future, businesses with engaged owners will enjoy a superior competitive position. To go even further the writers state that to prevent another crisis, owners must take responsibility for ensuring that their businesses are creating value sustainably.

Family businesses tend by nature to have engaged owners and seem now to be getting more interest through various studies. Another article by BCG (Kachaner, Stalk, Bloch) states that the performance of family businesses looks very different from that of traditional public companies. During good economic times, family companies have slightly lower earnings, but during downturns, they outperform their peers. A focus on resilience, which influences the strategic choices of family businesses, means that they keep the bar high for capital expenditures, they carry little debt, they acquire fewer and smaller companies, they show a surprising level of diversification and they are more international. Maybe most important of all they retain talent better than their competitors do. Family businesses are driven by the family dynamic - true - and in hard times, family values give a sound foundation for post crisis times.

The Harvard Business Review 07/12 published an interesting article by Justin Fox and Jay W. Lorsch - asking what good are shareholders? In modern corporations, the role of the outside shareholders is to provide money, information and discipline. In recent years they have done poorly and all three fronts. Improving corporate governance will require separating outpatient shareholders from short term traders and determining how others can step in to perform tasks that shareholders cannot. Institutional owners have become the chief owners of the shares of corporations in many countries, like for instance in Finland. Most of them lack however the motivation, time and competence to provide management with ownership steering.

We need a new understanding of long term ownership - the meaning of patient capital for the sustainable growth of our businesses by engaged owners. We need to see that ownership is a dynamic power. True owners you can find in long term family businesses, but also on new starting entrepreneurs and in some of the private funders of risk. The state can be seen in some cases as a true owner, although not as a very dynamic one.

It seems clear that long term ownership is needed to build up the trust and values on which our future growth of our economies can be based upon.

This is one of the reasons why European Family Businesses (EFB) states as its first objective the need to promote a full understanding of the key role of long term family-owned enterprises in Europe's economy. The second objective being to press for policies that will support the creation of a level playing field for family businesses compared to all other types of companies.

To support these objectives and to create an understanding for the long term ownership, EFB is creating a committee for ownership and entrepreneurship. I look forward to working with you all on coming closer to our objectives and to ensure recognition for the contribution of family business to the rebuilding of the success of Europe.

Article.

Clarke Murphy, Managing Director and global head of the CEO Board Services practice at Russell Reynolds Associates.

Finding an outsider who fits at the top- Just like family.



Any CEO transition is challenging, but bringing in a non-family CEO to run a family-influenced company brings an extra layer of complexity due to years, if not decades, of family dynamics and history. This is true even if the family relinquished day-to-day management long ago. But the good news is that this complexity can also be a great benefit-provided that the board questions some of the unspoken assumptions it may have about the succession process and looks at the company in a different way.

For example, it is often implicitly assumed that one task of the outsider CEO will be to "professionalize" the company and make it more like non-family firms: more linear and clinical in its decision making and less personal and emotional. But boards can take that perspective too far, and end up throwing out the baby with the bathwater-very often, the firm has certain advantages precisely because of its family roots. For example, there is research to suggest that family firms can make longer-term capital investments, execute more quickly on entrepreneurial decision making, have greater employee loyalty and a deeper commitment to research and development than non-family firms. In addition, family firms may have certain assets, like a business network that spans generations, that are particularly valuable.

Of course, there will be the bad along with the good. The company's human resources strategy and compensation policies may not be attracting top talent, or its decision making could be weighed down by the need for consultation with multiple constituencies. The bottom line is that the board needs to make a deliberate, thoughtful inventory of not only what needs to be changed but what needs to be preserved, realizing that some of what needs to be kept will come from the company's family history.

Company culture at the core of the process

In addition to an inventory of the company's plusses and minuses, before embarking on a CEO search, the board must also fully assess the company's culture-the unwritten code of values, expectations and procedures that makes the organization unique. In undertaking this cultural assessment, the board needs to be aware that the family members themselves are likely to have a less-than-perfect perspective on that culture. This is because family decision makers often think about their company as "just a business" and don't address head-on the role of family in their enterprise. Family businesses also may have a private "family language" that is a highly effective way to communicate but that can hinder the organization from looking at itself in a more objective way. Because of this, it's the board's responsibility to foster a non-threatening discussion that probes at the unspoken.

This cultural analysis needs to include issues specific to the family ownership of the firm. What is the exact nature of the family's involvement? Do certain family members have "shadow control" that isn't captured on an organizational chart? What will the role of the family be in the CEO selection process? In addition to providing a guiding framework for the succession process, this close examination of the role of the family may also uncover corporate governance issues that need to be addressed, such as the boundaries between the board and management, or the role of family and non-family members on the board.

After taking a measure of the culture of the company, the board then needs to understand the emotions surrounding the succession: Is it generally positive, or is it fraught with tension? Asking these questions and others like them helps paint a picture of what the new CEO will be walking into-and which skills he or she will need to be successful. The board will then want to probe for these sorts of experiences and capabilities in the selection process. If, on the other hand, there is that same high level of family involvement but the business is fairly stable and the overall emotional environment is positive, the board is likely to look for a strategic leader who can implement a long-term vision while preparing the family for changes that may come in the future.

In the end, having a robust and objective succession planning process does more than guide the selection of the next CEO-it provides the board with structured insight into the company itself, further strengthening its ability to perform its oversight role.



Jesús Casado

Letter from the Secretary General

Dear friend,

2012 has been a turbulent year for the European economy. Predictions for the coming years point to a further decline in Europe's GDP. However, there are some signs that the right reforms are being implemented and that there is a renewed focus on the real economy.

Now, more than ever, the European Union and its Member States must put in place a framework where the private sector can flourish and continue to create wealth for society.

The signs from Brussels are positive. The Commission has explicitly recognized that *"to bring Europe back to growth and higher levels of employment, Europe needs more entrepreneurs"*. The second week of January, the Commission unveiled its 'Entrepreneurship in the 2020 Action Plan.' As a follow up to the Small Business Act review of April 2011 and of the Industrial policy communication adopted last October. The proposed Action Plan sets out a renewed vision and a number of actions to be taken at both EU and Member State level to support entrepreneurship in Europe. It is based on three pillars: developing entrepreneurial education and training; creating the right business environment; role models and reaching out to specific groups.

It is encouraging to see, that within the Action Plan, the Commission has recognized that, *"transferring a business from one generation to the next is the defining feature of a family business and the greatest challenge that it can face"* (COM(2012) 795/2).

Amongst the various actions proposed to improve the business transfer environment, EFB particularly welcomes the Commission's initiative to set up a business transfer working group to compile best practices that facilitate business transfers. In addition, we welcome the call by the Commission to the Member States for better data compilation and monitoring the business transfers. In particular, I consider very encouraging the call to the member states to *"review tax regulation with respect to its impacts on the liquidity of a small or medium-sized family business in case of a succession of ownership without impacting revenues negatively"*.

Europe's citizens and businesses face an uncertain year. However, it seems that our policy makers are now sowing the seeds that will hopefully unleash the wealth of entrepreneurial talent that exists in Europe. By setting an agenda which puts entrepreneurship at the top, I believe that Europe knows the remedy to its problems. What we must do together is to ensure that the momentum, created by this important action plan, is not lost and that we grab this opportunity to force a cultural change in Europe, where the entrepreneur is finally seen in a positive light.

Jesús Casado

A third industrial revolution for Europe

The European Commission's Director General for Enterprise and Industry, Daniel Calleja, was invited to address the Annual Conference of Instituto de la Empresa Familiar (IEF), EFB's chapter in Spain. Mr. Calleja spoke before an audience of 500 family business owners, and presented the Commission's strategy for boosting entrepreneurship and growth.



Instituto de la Empresa Familiar, EFB's chapter in Spain, holds an Annual Conference renowned to be one of the most important events of the year for the Spanish family business community. It has also become an essential event in the national political and economic calendar, attracting considerable media attention.

Among the speakers, Daniel Calleja, Director General for Enterprise and Industry of the European Commission, delivered a timely speech on the Commission's strategy for boosting entrepreneurship and growth. He underlined, that the Commission recognised the importance of family businesses via their essential contribution to the economy, and that the EC would be adopting a fresh approach to family business issues.

Mr. Calleja emphasised the necessity of re-focusing efforts towards the real economy to enable new businesses to blossom through three main pillars: ensuring that the financial sector effectively serves the real economy, providing European companies with the appropriate tools and support to help their competitiveness in international markets, and creating a favourable legal framework for businesses and entrepreneurs.

The high ranking EU official said that it is "totally crucial to start taking measures to allow a third revolution in Europe's industry. Our aim is both simple and ambitious: a 20% weighting of this sector in the EU's GDP by 2020". Daniel Calleja assured that for its fulfilment, "our innovation capacity will be critical". Therefore, he continued, it is vital for Europe to turn into a favourable environment for the implementation and durability of industry. To make that happen, "it is necessary to act over four main pillars: financing, access to markets, education and finally investments to foster industrial innovation".

Mr. Calleja also outlined the need for new entrepreneurs, as a way of securing future economic growth in Europe. He also dedicated part of his speech to family owned companies, stating, "paradigm of continuity, of strategic vision in the development of businesses, of prudent risk assumption, and in many cases, of sustainable development and employment".

He identified business transfers as a key challenge for the EU and the Member states, and he announced that in 2013 the Commission will launch a project to identify best practices so that national and regional Governments may adopt appropriate tools to significantly raise the success rates of business continuity following a transfer.