

# EFB NEWS #03

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## European Family Business going East!

*For the first time in its history, European Family Business held a business conference and General Assembly in Poland. EFB strongly believes in the crucial role of this country, as it has proved itself as being a driving force for family entrepreneurship in Eastern and Central Europe. The Employers of Poland, its largest business organization, hosted the events that took place in Warsaw on December 1 and 2.*

Throughout the past centuries, Poland has been an embodiment of the numerous virtues which are integral to family business. Polish entrepreneurs are a major driving force in the buoyant economies of Eastern and Central Europe. Today, many of them are starting to face the first succession and transfer of ownership challenge within their companies.

Because of this, EFB decided to hold a business conference and its General Assembly in Warsaw, under the invitation of the Employers of Poland, the largest business association in the country. A preparatory meeting took place in July between President Philip Aminoff and Secretary General Jesús Casado with Andrzej Malinowski, President of Employers of Poland.

On December 1, the event, held at the Radisson Blu Centrum Hotel, started with a conference on business and entrepreneurship in Eastern and Central Europe. A series of discourses and round tables were attended by more than 30 participants from Poland and other countries of the EU, many of them current Polish family businesses.

The President of the Employers of Poland, Andrzej Malinowski, noted that EFB-GEEF was invaluable since it represented responsible ownership.

The speech given by the Deputy Prime Minister of Poland, Waldemar Pawlak, pointed out that "family businesses are the essence of a true economy", and he stressed the need for better



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regulation within the EU, to better serve the citizens of Europe. He also likened family business to Chopin, because both innovate whilst being inspired by traditions and heritage. Mr. Pawlak noted that the Polish Presidency had worked hard to promote able institutions, smart regulation, and an active society.

EFB's President, Philip Aminoff, thanked Mr. Pawlak words and praised Poland's economic strength, the sound political mandate given to its Government in recent elections, and its well organized Presidency of the European Council. "All three virtues are not very common in Europe today", he added. Mr. Aminoff said that in times of trouble some typical characteristics of family businesses come up front, such as agility, capacity to adapt and resilience, and he felt confident of the event's contribution to the successful growth of family businesses in Europe.

The keynote speech was delivered by EFB's Vice-president Charles Robinet-Duffo, who explained to the audience, comprised of many Polish entrepreneurs and family business owners, the nature and challenges of these type of companies



Using his own business as an example, an insurance company now run by the third generation, he spoke of the challenges that came when the business was transferred.

A first round table on succession in family businesses followed the opening ceremony. With Paolo Morosetti from the Italian family business association as a moderator, the topic was discussed by Tamás Kurti, from KURT Corp (Hungary), Adam Rozwadowski (Enel-Med, Poland), Dariusz Rochman (Work Service, Poland) and Diana Wessling (WESSLING Holding, Germany).

Some interesting aspects of the discussion were, the possibility of issuing shares to the next generation in order to make them already feel like co-owners, or the development of tools to foster communication between family members.

The second round table, moderated by Albert Jan Tomassen, from Family Business Netherlands, gathered family owners and entrepreneurs from Italy (Gigi Buzzi, Buzzi Unicem SpA), The Netherlands (Robert Westland, Westland Cheese Group), UK (Hugh Trevor-Jones, Lowe and Fletcher Ltd.) and Finland (Philip Aminoff, Helvar), moderated by Hugh Trevor-Jones, Lowe and Fletcher Ltd.. They all shared their experiences, from a western perspective, on working in Central and Eastern Europe. The event was closed with a joint dinner.



EFB-GEEF's General Assembly took place the following day, where Secretary General Jesús Casado reviewed the actions and results of 2011 and presented the 2012 action plan. An important outcome of the GA was the approval of EFB-GEEF's new policy papers on, Debt and Equity, Family Business Education, and Fostering Entrepreneurship.

The Employers of Poland, the country's largest business association was invited to attend the General Assembly, as recognition of its contribution to the success of the business conference of the previous day and the good relations between both organizations.

The preliminary dates for the next General Assembly have been set for the 15th and 16th of May. With the support of Othmar Karas MEP, EFB-GEEF will be organising an MEP event at the Brussels European Parliament on the 16th of May.





## Letter from the President

Dear friend,

On December 2, EFB-GEEF's General Assembly was held for the first time in Warsaw, hosted by Employers of Poland with the presence of Deputy Prime Minister Waldemar Pawlak.

In recent years, EFB-GEEF has been growing eastwards. First to join was Bulgaria, followed by Hungary earlier this year. Now we went to Poland to extend the message of Family Business in Central and Eastern Europe.

The entrepreneurs in Central and Eastern Europe who established companies after 1990 are now, twenty years on, approaching their retirement age and they have started to think about the long term future of the companies they have built. In this connection, many companies will be sold to new owners. Others will be closed; but a good number will also be taken over by the next generation in the entrepreneur's family, and will become family businesses.

Given the size of the Polish population and its economy, Poland's contribution to the growth in the number of family businesses in Europe over the next decade or so will be significant. This is likely to give the Polish economy an extra boost. Most of the fastest growing economies of this world are in fact economies where family businesses play a major role, as evidenced by a very recent paper by Credit Suisse, the Asian Family Business Report 2011.

Poland has impressed its fellow Europeans through its ability to achieve three impressive results in combination: a strong economy, a repeated strong political mandate for the government and an active and well-organized presidency.

The Polish presidency is helping Europeans to remember a key issue that cannot be left in the shadow of all economic summits, namely civil society. The importance of a well-functioning civil society may easily be forgotten in times of rapid economic progress, but becomes very evident when the going gets tough. Today, we live in troubled times.

The key qualities required by somebody who faces trouble and wants to survive are: agility, ability to adapt to changing circumstances and resilience

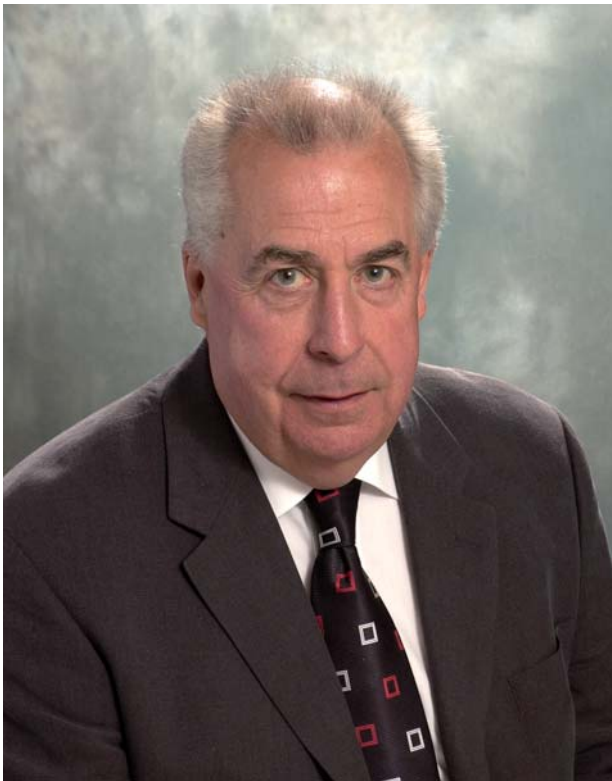
Interestingly, these qualities do not apply only to nations or individuals; they are also typical characteristics of well-run family businesses, because family businesses are built to survive in the long term. They are a key component in resilient economies. But they are important for several additional reasons too:

- » Relevance to national economies.
- » Difference in time horizon from SME's: 'on loan from the next generation'.
- » A local voice of long term entrepreneurship for local governments.
- » The importance of Family Business for a functioning democracy.

European Family Businesses-GEEF promotes policies that are conducive to long term family entrepreneurship. Our basis is local family businesses associations. They typically start by sharing experiences and insights. They then progress towards establishing and promoting good family business practices. Once these steps have been taken, most family business associations become interested in policies that are conducive to long term entrepreneurship. This is the specialty of European Family Businesses-GEEF, good policies in the fields of legislation, taxation, regulation, education and corporate governance.

Best,  
Philip Aminoff





# “It is very important in a family business to create the discipline of retiring on the due day”

## Interview with Roger Pedder.

Chairman of UCG

Roger Pedder is a British entrepreneur and former chief of the shoe empire Clarks. The Chairman of the Unquoted Companies Group (the UK's chapter of EFB), says he has never enjoyed anything more than being an entrepreneur, and that the enjoyment of running and developing a family business is far more important than wealth.

*What are your views on how to manage a family business today, opposed to how it was conducted 50 years ago, when you started?*

Well, it has obviously changed. Even within private family businesses that do not have any external shareholders it now requires much effort by way of facilitation in making family appointments to a high level in the business. As the days have

passed from when it was very easy to ignore the merit or acceptability of a candidate, it's now much more important for the family candidates to demonstrate their ability, experience and, to a certain degree, their acceptance within the business.

*What is your personal track record in family businesses? Where did you start?*

I joined Clarks in 1963 as a trainee and 4 months later I became the Chairman's personal assistant. Each year he chose one from the intake of that year to be his p.a. He chose me. People in that position used to hold it for one year. I held it for over three. That tells you something of my relationship to the family Chairman of the day and of my relationship with the company. I only left that office when the newly appointed head of the Retail, which didn't exist at the time, asked the Chairman to release me. So I went straight from the Chairman's office to the sales floor of Clark's shoe shop in Oxford Street in London. Some might have found it difficult, but personally, I found it easy. I was like a duck to water. Thereafter, my initial career was in Clark's Retail.

I also met my future wife in the Retail Division who was the Chairman's daughter. I'm sure many people will understand it was not an easy position. Nobody ever forgives you for marrying the boss's daughter! 42 years later we are still married with 5 children and 9 grandchildren so I guess we have proved our point. However, I did leave the company in 1970, a year and a half after we got married and I left mainly because I became almost a "non" person. I was neither 'family' nor 'non family'. My brothers in law weren't terribly pleased to have their sister's husband working for them so I left the business for the better part of eighteen years and made an entirely separate career from Clarks, mainly in retail. I also went to Stanford Graduate School of Business, where I undertook the Sloan Program\* in 1973.

When the company got into difficulties, during the 80's, the large shareholders became very concerned and said to the board that they would like it to appoint me as a director as I was the only family member with an external track record. I was rather forced onto the board and I became the black sheep of the family for the second time! Subsequent to that, the company and the family got into even greater problems, which culminated with the board soliciting a bid for the company in 1993, which was put to an Extraordinary General Meeting of the company but the family shareholders rejected it. So, for the first time in a generation perhaps, the family said clearly: "this is our company, it is our responsibility, we will retain it". And six months later, having initially become deputy Chairman, I was appointed Chairman. I held that position from 1993 to 2006, when I was 65 and I retired. I think it is very important in a family business to create the discipline of retiring on the due date and others have followed my lead.

*You've got five children and 9 grandchildren. Did any of them succeed you in the company?*

My eldest daughter worked for the company for a considerable period. She ended up by being a Ladies Fashion Buyer for the retail chain. When she had her children she left the company and is bringing up her family. My second son went to the United States at the invitation of the Clarks North American CEO and has built a career where he is now a Product Director responsible for

something like 40% of the North American company's product range. He is the only one who is likely to succeed to a really senior management post within the business. My other three children don't work in the business and never have. My youngest daughter is probably the most famous of us. She was 10th in the Ladies 200 meter Butterfly in the Sydney Olympics, and has several medals from various championships.

*What would be your diagnosis of the current problems within the EU today\*\*?*

the pieces don't all fit, and to force them together, into a monetary union -too early in developing the grand design, has been very difficult for Europe. This has not allowed the economies to adjust within the Euro. Greece is the most obvious example, where an overvalued currency, the Euro, has not allowed Greece to find its natural position within Europe because it can't be competitive with an overvalued Euro. It applies to other countries as well (Italy, Ireland and Spain). The UK is not in the Eurozone, but if it was, it would apply to some degree. I'm afraid that is a fairly common problem.

The second major problem, I think, is that Governments have been spending beyond their means on social welfare for too long. Governments, given the relative failure of their economies, have overspent on services they can no longer afford to provide and that has run up unsustainable debt. So if you think about a hard Euro currency in a country that has a very large social security sector and an uncompetitive economy it adds up to a very big problem indeed. That is clearly true in Greece, and we know to a considerable degree it's a problem in Spain. If the UK was a member of the Eurozone it certainly would be a bigger problem, because it's a large economy that has racked up a huge burden of debt in trying to create a socially secure society.

So you now have a situation where you have poor sovereign States, which are highly indebted, being supplicants to rich sovereign States who are not so highly indebted. The richer states are being asked to put their hand in their pockets and they don't like it. Internal tensions like these are very difficult to resolve. It will take time to create some sort of rebalancing within Europe. If you look at commercial Europe, it's probably in quite good shape, but the sovereign problems are being transferred into the real economy and are beginning to seriously affect European business. That is my reading of the situation.

*You have already seen quite a few situations of crisis during your extensive career, either at the national or international level, so perhaps you can offer some hints of where the solutions could come from to solve all these problems...*

First of all, the scarcest commodity is time, because you cannot adjust these fundamental differences very quickly. Secondly, I

would say it needs to be negotiated through on a less frenetic basis, with regard to financial markets and media pressure. I don't think we are as insecure as the commentators would have us believe. The markets are extremely volatile and a piece of good or bad news causes massive overreactions. But if you take the trend line in between, it actually says that it isn't as bad as the fear-mongers claim. We don't have a crash on our hands but we might get one if the fear-mongers get their way.

I think we need a mixture of debt reduction, economic stimulation (largely through the private sector) less political grandstanding and strong nerves. I'm personally a buyer of good equity. I'm buying now. Prices are low, most multinationals which have spread across the globe are doing pretty well, and corporate cash-flow is in relatively good state.

*Do you consider yourself as an entrepreneur?*

I went really straight from being a corporate boss to an entrepreneur after 25 years in the corporate sector. I started a business, along with a partner, in the pet market. We sold in large stores anything needed for any kind of pet; from a dog to a snake or a scorpion. We were pioneers in Europe and successfully grew the chain to 70 stores or so. Finally in 1996 we sold it literally for "a number we couldn't refuse." I regret selling it to this day. I've never enjoyed anything more, frankly. There is so much nonsense that goes on in corporations, which waste time, effort... Running your own business, directing things on a daily basis from and starting it from absolutely nothing can be, and it was my case, very satisfying indeed. The money is secondary the satisfaction of running and developing a business is much more.

\*a one year MBA course for experienced managers leading to a MSc in Management.

\*\* This interview was conducted before the EU Summit of 8/9th Dec 2012. Roger wants to make it clear that he, personally, would have "preferred the UK to have made a more serious effort to continue to discuss the problems of the Eurozone with EU partners to find solutions rather than absent itself from them, as so many of the issues are common not only to those continuing but also to the UK".



# 2011, a fruitful year

The New Year starts for EFB with a positive outlook. The work undertaken during 2011 has showed its fruits in terms of improved awareness within the EU of family business issues. Commission officials, members of Parliament and authorities from the Member States have better heard the voice of long term entrepreneurship in the fiscal, legal, and administrative fields.

The December General Assembly held in Warsaw had an important outcome with the approval of EFB-GEEF's new policy papers on Debt and Equity, Family Business Education and Fostering Entrepreneurship, all three very relevant issues for the adoption of family business oriented policies within the European Union.

EFB's staff, led by President Philip Aminoff and Secretary General Jesús Casado, promoted within Brussels, and both the Hungarian and Polish Presidencies, for a broader legal implementation of the family business definition, as well as to ensure that family business sensibilities were taken into consideration in the consultations related to Corporate Governance, the Single Market Act, the transfer of business, cross border dividends or access to finance.

A level playing field between debt and equity was a key battle horse for EFB in Brussels. Gradually, EU officials and opinion makers are becoming aware that equity finance is crucial for strong and sustainable business growth. In the midst of a deep sovereign debt crisis the policy required to promote equity finance is very straightforward: it is to create a level playing field for all

forms of finance. This can be done by establishing tax neutrality between equity and debt. EFB will be pursuing this issue closely in 2012, since companies with stronger balance sheets means a more stable economy, feeding innovation, growth and job creation.

Other debates in which EFB has actively contributed are related to cross-border inheritance tax and dividend distribution. Both topics were treated in several high level meetings with DG Enterprise, DG Taxation and officials from the cabinets of Commissioners Tajani and Semeta. Awareness has also been raised among key representatives of the European Parliament and Council, the latter well aware of EFB's mission and objectives thanks to President Aminoff's address to the EU Competitiveness Council.

Other Institutional meetings have been conducted at the highest level during the year. Hungarian Prime Minister Viktor Orbán, Polish Deputy Prime Minister Waldemar Pawlak, EU Commissioners Antonio Tajani and Oli Rehn met with President Aminoff and Secretary General Jesús Casado. All of them were supportive and aware of the important role that family businesses have to play in the future.

Exploratory contacts were also made during 2011, with potential new members, namely in Poland, Austria and Slovenia. Hungary joined the organization at the General Assembly held in Budapest. EFB also welcomed a new sponsor, Deutsche Bank, for the next three years.



# Secretary General Jesus Casado spoke at the SME Week in Brussels

Held at the European Parliament in Brussels, EFB's Secretary General, Jesús Casado, was invited to speak at the SME Week workshop on Transfer of Business. Mr. Casado firstly stressed that the topic of the conference was a pressing issue for family businesses, as a study performed by the Dutch Ministry of Economic Affairs (2010) showed that, 73 per cent of all family businesses are from the first generation, 17 per cent in the second, and 10 per cent in the third or later generations.

He noted during his speech that the transfer is also of 'ownership'. For families and entrepreneurs, the business is not seen as a liquid asset but as a property which is built and developed by the family over generations; resting on values, traditions and know how. Moreover, the transfer of business differs according to size of the company and the size of the family.

Secretary General Casado gave to the attendees, comprised of MEPs, EU officials and entrepreneurs from across Europe, EFB's message, based on best practices from its membership:

## 5 Golden Rules to Better Prepare Succession.

- 1 Define a common project.
- 2 Have a solid governance structure (business/family).
- 3 Prepare it in advance: Transfer is not a single event, but a process that must absolutely be planned in advance in order to succeed. Experts recommend period of 10 years to prepare a transfer, with owners beginning to think seriously about succession as of 50 years of age, and planning to retire at about 60 to 65 years old.
- 4 Identify and educate the successor/s and give them space: Based on an Italian study from Bocconi (2010): 'firm leaders with less than 50 years appear to have higher performance both in terms of profitability and revenue growth. Businesses that have chosen their successor outperform the companies that haven't'.

National Family Business Associations give practical advice on how to prepare the next generation as shareholders or to help plan the company to reinvest and to distribute dividends. Mr. Casado also pointed out that inheriting is not the same as creating, and that siblings do not have to earn the same.

- 5 Get external professional advice.



Jesús Casado also shared with the audience, the organization's feedback on policy making, in order to improve the legal framework for family business and entrepreneurial succession. His points were:

- 1 Simplify the tax and regulatory framework: The European Commission should aim at a better implementation of the already existing recommendations. In particular:
  - Reduced Inheritance and gift taxes.
  - Level-playing field between debt and equity.
  - Reinvestment tax reliefs
- 2 Business transfers should receive at least the same extent of support as start-ups. According to 2002 project on business transfers from the Commission, existing companies conserve on average five jobs whereas a start-up generates on average two jobs.
- 3 Eurostat should have accurate data on the 'Transfer of Business' at the EU Level, and Member States company registers should show it more clearly.
- 4 Increase efforts in dissemination of best practices: Seminars and workshops and co-operation between employers' organizations and specialized family business networks should be encouraged.





# How Basel III and higher capital demand for banks may influence lending to European SMEs

## Interview with Dr. Cornel Wisskirchen.

Co-Head German MidCaps and Member of the Management Committee Germany, Deutsche Bank AG.

The financial system should become more stable - that was the aim of the Basel Committee on Banking Supervision when it called for more stringent capital requirements and refinancing rules for banks in September 2010. Then in response to the euro crisis, last October the euro area government heads agreed on further add-ons to prescribed capital quotas. Although the rules laid down by the EU summit do not take effect until mid-2012 and Basel III will be phased in from 2013 up to 2019, it is already clear that the new rules will affect not only banks, but also the financing environment for small and medium-sized enterprises. We spoke to Dr. Cornel Wisskirchen from Deutsche Bank about the effects of the new regulation.

*The most important question first: do the decisions of the EU summit supersede Basel III?*

The EU heads agreed in October that the major European banks must achieve a core capital ratio of 9% by July 2012 to ensure they are equipped to deal with the current sovereign debt crisis. This measure is only temporary and is not directly related to the Basel III-framework, which - in addition to the capital ratio requirements - also includes rules on capital quality as well as liquidity provisions. However, as the banks will now have to put up more capital earlier than expected, the impact of Basel III will be felt sooner than envisaged by the Basel Committee.

*Do the new capital requirements and Basel III really offer protection against another banking crisis?*

We can never fully exclude the possibility of a crisis. But to a certain extent the new capital and refinancing requirements will increase the stability of the banking system as a whole. However, this is not a guarantee that all the banks in the market today will survive nor is it a form of comprehensive protection against crises in general - indeed, these may also be cyclically driven.

*Will Basel III dampen economic growth?*

Theoretically, the long transition periods under Basel III give banks and companies enough time to adjust. However, from mid-2012 the banks will already have to meet the higher capital requirements agreed at the EU summit. As a result, the markets are already putting pressure on the banks to comply with the new rules today. This not only makes refinancing more difficult for banks, it also forces them to restrict or even cut back certain activities. This will most likely have consequences for the real economy. The EU Commission estimates that macroeconomic growth could slow by 0.5% as a result of Basel III on a stand-alone basis.

*Does that mean, in other words, that companies will receive less credit?*

Theoretically yes, but in practice probably not. Banks have only two options for meeting the new requirements: they can either reduce their risk-weighted assets (e.g. grant fewer loans) or they can increase the capital cover. The latter can only be achieved through the retention of earnings or by raising fresh capital - both of which will be difficult for many banks in the current environment. In addition, returns in the corporate loan market are not very high. However, for many banks their SME franchise is core as they have limited other structurally attractive areas, which means they will defend it fiercely. Also, the capital bound in these diversified portfolios is rarely driving banks' capital challenges. We therefore expect that the number of banks who are willing to lend to SMEs will not decline significantly. But, it remains to be seen whether the competitive landscape will be redefined.

The situation will definitely get more difficult for companies which have low profitability ratios, scarce equity, but high investment needs.

*Will short- and long-term loans be treated in the same way?*

As they are more difficult to predict, from a regulatory perspective long-term loans (more than a year) are automatically seen to be riskier and banks must provide more capital for them. Nothing will change in this respect. What is new is that banks are now required to have long-term refinancing for long-term loans. For Deutsche Bank, which already refinances in line with maturity, nothing will change in this respect.

*But, ultimately, won't lending become more expensive for companies?*

Loan prices depend on many different factors. With regard to the before mentioned refinancing and cost of liquidity even now banks are required to distribute these costs equitably in line with the "user pays" principle, i.e. these costs are passed on to the customers. Moreover, we can say that from now on banks will have to hold more capital for their corporate lending business, too, and that results in higher cost. Nevertheless we do not expect large price hikes on corporate loans but think that increased capital requirements will be reflected in slimmer returns for banks. Experts are predicting that the full-blown effect of Basel III on average interest rate cost will be around 0.5 percentage points. Based on the current historically low interest levels within the EU, it is more important for companies to protect against a potential medium-term interest rate rise by use of appropriate interest rate hedging and management instruments.

*What else can companies do to mitigate the effects?*

Even under Basel II, the capital requirements for the lending business depended on the respective credit-worthiness of the borrower, the collateral and the term of the loan. The rules under Basel III enhance this effect: by supplying increased collateral, companies can ensure that banks need less capital and therefore offer loans at lower margins. In principle, Basel III gives a clear signal to companies to set the course for an improved financing structure now. Fundamental preconditions include a medium-term corporate financing strategy, a transparent group of partner banks and a strong capital base. Companies with a disproportionately high dependency on traditional bank loans should attempt to broaden their financing sources and - where appropriate - use capital market instruments. Additional supporting measures, which always have a positive impact, are working capital optimization and a professional liquidity management.

*What will change for Deutsche Bank's corporate clients?*

Deutsche Bank projects that it will already meet the high requirement of 9% Core Tier 1 capital by December 31, 2011 - six months earlier than required by the European Banking Authority - and we are well prepared to meet all announced regulatory requirements. We have a strong commitment to our corporate clients and we intend to expand corporate lending.