The European Family Business Summit: 25th of November 2014 Berlin

On 25th of November, Berlin was the setting for the first European Family Business Summit. 220 Family business entrepreneurs from 14 European Union countries joined together to discuss salient political and business topics facing family businesses across Europe.

The conference chair, **Jesus Casado, Secretary General of EFB**, launched proceedings by highlighting the key importance of the Summit to strengthen the voice of family business in Europe. He emphasised the '**need for Europe's family businesses to be present with a strong united voice.**' In addition, he reminded the audience that EFB '**is on the front line of European advocacy**' and therefore it is imperative for the family business community to be actively involved to strengthen its influence.

The conference was opened by **William Pedder** who delivered the address on behalf of his father, Roger Pedder, President of European Family Businesses. The title of his address was '**Patient Long-Term Capital**', which he argued is the counter to 'unbridled capitalism' and short-termism. In the context of the economic crisis, he stated that Europe must rebalance the playing field in favour of patient capital. Mr Pedder also remarked that '**Europe must be cautious now not to create an environment where financing is equated to debt financing as it has arguably been in the past**.' Mr Pedder called on Europe's policy makers, national and European, to focus on 'a strategy for growth that supports businesses of all sizes and all forms of ownership.'

Andreas Torner of Deutsche Bank welcomed the participants to 'Unter den Linden.' Mr Torner noted that the conference was being held in the location where the bank was founded in 1870. Mr Torner remarked that Deutsche Bank were **proud to be supporting EFB** in their endeavours in creating a better understanding of the role and importance of family businesses across Europe. Mr Torner declared that Deutsche Bank's role 'is to finance the real-economy, and we take this role very seriously.'

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The first panel discussion, entitled from 'Local to Global,' was on the topical issue of business internationalisation. The panellists included (from left to right) Christian Rast, Partner and Head of Global Center of Excellence, Strategic Sourcing and Procurement at KPMG; Tom O'Neill, chairman of Clarks Shoes; Philip Aminoff, Chairman of Electrosonic and Ex-Chairman of EFB. The panel was moderated by Jeevan Vasagar, Berlin correspondent for the Financial Times, who quizzed the panellists on their experience of operating across borders, as well as the challenges and opportunities that come with 'going global.'

Mr O'Neill remarked that Clarks' global expansion came organically when the business in the home country became saturated. He noted that global expansion is very often dependent on the nature of the business and how it has grown in the domestic market. On the ease of doing business, Mr Aminoff noted that some EU markets can be heavily regulated which has an impact on expansion, whereas '**business in the US, is easier to get going**.' When asked about the challenges of operating in the EU's single market, Mr Aminoff declared that '**Corruptissima re publica plurimae leges**' (The more numerous the laws, the more corrupt the government). He explained that the single market is overregulated and complex, and '**regulation cannot replace responsibility**.' He noted that regulatory burdens must be removed to unleash the full potential of the single market.

On the motivations for going global, Mr Rast remarked that there are four major motivations for this: profitable growth; serving clients globally; diversification of assets; investing in foreign start-ups. He added that the reasons given by family businesses who are less inclined to go international, often cite the lack of familiarity with foreign markets culture, as well as the lack of contacts and network. On this point, Mr O'Neil noted that barriers to entry can be numerous; for example, fiscal regimes can be onerous, and legal impediments such as rules governing the ownership of a business.

Following on from this point, the panellists all pointed to the importance of board diversification to facilitate global expansion and to overcome potential barriers to entry. Mr Rast noted that becoming international at board level can have a significant impact on the business '**the board is the representation of the company's growth, aspiration, and values, across the world**.' When asked what two recommendations they would have for any family business aspiring to go global, Mr Rast believed that, 'internationalisation starts with your own mindset,' but he also warned that, '**the more you drive internationalisation, do not neglect the importance of your home market**.' Mr O'Neil recommended that substantial preparatory research is critical to '**quantify what is out there', and to also 'identify the barriers to entry'.** Mr Aminoff noted that it was crucial to get quality legal advice and to get involved with local trade associations in the target market to build the necessary contacts and network.

The panel discussion was followed by a presentation by **Clarke Murphy, CEO of Russell Reynolds**. In his address, entitled 'Time for New Corporate Governance in Family Businesses', Mr Murphy opened with the statement that, '**if you want continuity, transfer, and stability, you must continue good governance**.' Referring to his experiences across the world with family businesses, Mr Murphy declared that the underlying issue with governance in this sector is finding the right balance between family and independence.

Mr Murphy explained that Russell Reynolds and IESE Business School had recently completed a survey to gain a better understanding of the corporate governance practices in European family businesses on Board composition, Board efficiency, CEO succession planning and CEO/Chairman backgrounds. He revealed that the study suggested that there are five potential opportunities to strengthen governance in family businesses. Mr. Murphy explained that with:

- ✓ a greater proportion of independent Board members one can ensure stability and continuity;
- ✓ increased levels of Board diversity, one can improve the preservation of capital;
- ✓ greater frequency of Board meetings, a better understanding of where growth potential resides can be attained;
- ✓ increased strategic engagement from the board, profitability can be improved;
- ✓ a rigorous CEO succession planning process, the board can ensure smooth succession which invariably strengthens continuity and stability.

When quizzed on the level of female CEOs in family businesses compared to publicly listed companies, Mr Murphy noted that research showed that in Europe and America, female CEOs where far more present in family companies. On how best to prepare the next generation, Mr Murphy noted that successors must work outside the family business to understand achievement but more importantly failure as - '**failure is the best training in the world.**'

Antti Peltomäki, Deputy Director General for the European Commission's DG Enterprise and Industry followed the panel discussion. In his address, he noted that the new Commission would be focusing on the competitiveness of the real economy. He informed the audience that '**the Commission's ambition is to bring the share of manufacturing in GDP to 20% by 2020 in order to create jobs**.' Mr Peltomäki noted that the Commission's industrial policy would focus on better access to market, access to resources (finance, energy, raw materials and skills), innovation and modernisation, and a business friendly regulatory environment. On the topic of family business, he noted that the Commission would be stepping up its efforts to improve the transfer of business environment across the European Union.

The second panel discussion entitled, 'Bringing Competitiveness back to Europe,' saw a frank and open discussion on the challenges facing European businesses. The panellists were (from left to right) **Simone Bagel-Trah, Chairwomen of the Supervisory Board and the Shareholders Committee of Henkel AG, Francisco Riberas, Chairman and CEO of Gestamp, Philip D'Ornano, President of Sisley**.

In the opening discussions, Mrs Bagel-Trah noted that there is a connection between family ownership and competitiveness. She explained that her family business is majority owned by the family, with a small part of the equity listed on the DAX. She noted, therefore, that even with external shareholders, the business has the ability to think long-term. Regarding the obstacles facing the industrial sector in Europe, Mr Riberas remarked that Europe should not forget that first and foremost, European industry must deliver products, processes that are attractive to the market. On the topic of labour, he believed that unions and companies must work closely together in a different model, where they do not sit on opposite sides of the table 'we need a consensual relationship with stakeholders.'

On the issue of company size, Mr D'Ornano noted that, as a mid-sized business, Europe's constant focus on SMEs is unbalanced. He noted that the SME focus has not helped the growth of businesses, declaring that, '**what we are missing in Europe is the development of mid-sized companies**.' He remarked that creation of a separate business category in France had helped the sector gain recognition of its importance. He called on the EU to broaden its support for all forms of business and to remove the administrative barriers once a company leaves the confines of the SME definition.

On the topic of digitalisation, Mr D'Ornano remarked that the process is already fully underway in most business sectors. He added that the business sector '**expects governments to digitalise their own administrations**' to make it more efficient and reactive. Asked whether businesses need help in this field, Mrs Bagel-Trah added that reforms could be useful in the field of data protection, where common rules in the single market would be favourable, and investment in broad band internet infrastructure.

Finally, the panellists were asked to express their wishes to make Europe more competitive. All agreed that a fair taxation model is needed, Mr D'Ornano declared that '**we need time to develop the business**,' referring to the fiscal levies placed on family business transfers. Mr Bagel-Trah noted that more investment is needed in research and development, to move Europe towards a sustainable economy, decoupling economic growth and resource deployment. She added that the EU Commission needs to give family businesses a stable regulatory environment, '**so we can plan for the long-term'**. Mr Riberas called for a stronger support of the industrial sector, with an active promotion of the increase in the size of the companies.

In his address, **the Chairman of *Die Familienunternehmer-ASU*, Lutz Goebel**, noted that European family entrepreneurs are now very often global in their outlook, but, their hearts remain in Europe. He explained that, '**family entrepreneurs are deeply committed to work for a peaceful, prosperous and competitive Europe**.' Mr Goebel also welcomed the approach laid out by the New European Commission President Jean Claude Juncker that the '**European should be big on big things and small on small things**.' He echoed the sentiments of various other people throughout the day that Europe needs to become more competitive, by eliminating unnecessary barriers and empowering family businesses. Finally, he made reference for the need to complete the Trans-Atlantic Investment Partnership, in a timely fashion, whilst ensuring a '**fair and balanced deal between equal partners which mutually respect each other's high standards**.'

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Finally, the closing address was delivered by none other than Angela Merkel, Chancellor of the Federal Republic of Germany. The Chancellor welcomed the initiative of cooperation between European family businesses, declaring that '**it is right and good that this Summit will initiate the start of a tradition of European cooperation amongst family businesses.**' On family business in Europe, she recognised that '**an important and essential characteristic of family businesses is the responsibility they assume: responsibility for their own workers, responsibility for the region and responsibility for the generations to come.**' Referring to family businesses contribution to the German economy, she noted that they '**combine the fundamental values of freedom and responsibility**'. In addition, Mrs Merkel acknowledged the positive social and environmental contribution that this form of enterprise provides to the European economy.

On the topic of inheritance taxation, where the Federal Constitutional Court is poised to rule on the current exemption regimes in Germany, she recognised that, '**in Germany at least, the issue of inheritance tax is a specific feature which plays a role when making it possible to transfer a business from one generation to the next.**' She noted that '**in the Coalition we are unanimous: We want to ensure that a business transfer can proceed sensibly for every case. That is why we stand by the regulation we have now.**'

Udo Vetter, Vice-President of EFB, Alfonso Libano, Vice-President of EFB, with Chancellor Merkel and Lutz

Regarding Europe, she noted that the high rate of youth unemployment should not be acceptable. On the EU and its future strategy, she explained that Brussels would focus more on important issues that can be solved more effectively at European level rather than at the national or regional level. Chancellor Merkel also made referenced to the need to dismantle unnecessary bureaucracy, stating that '**the issue of improved legislation should take on even greater meaning in the new Commission.**' She recognised that '**nothing is more important for entrepreneurs than legal security, stability and peace as a basic prerequisite to pursuing successful economic activity.**' On the sensitive issue of the Transatlantic Trade and Investment Partnership (TTIP), she declared that '**we want as comprehensive an agreement as possible.**'

Chancellor Merkel ended her address by encouraging the family business community to be more active and present at the National and European level. She stated: '**it is important that your voice is heard loudly and clearly in Brussels and at home. As German Chancellor I can say that you are the backbone of our economic strength. You are aware what is required to guarantee competitiveness.**'

European Family Businesses is a federation of 11 national family businesses associations. Our aim is to make political decision makers aware of the contribution of family businesses to society at large and to promote policies that are conductive to long term entrepreneurship. Our members represent turnover in excess of one trillion Euro, 9% of European GDP.