

Q&A Report: Successful External Succession in Family Businesses

Question	Asker Name	Answer(s)
Question to Morten: does the research shows which are the 3 basic conditions of the family business context to make the external succession successful? Domenico	DOMENICO ZACCONE	I think Andreas will talk of this: - Communication - Skills - Personality
You mentioned in the beginning that family firms are well-positioned for solving big problems such as the pandemic. Why would they be better suited for solving big problems than “regular” firms?	Naja Pape	Sometimes yes: They have to cater to their next gen and if you have to do business for future generations it is very hard to ignor the worlds big challenges. However, some of the biggest environmental catastrophes have been done by family firms: Think Opiod crisis US, natural gas explosions in Indonesia.
How would you differentiate between a Private Equity approach to a business vs. the perspective of a family ownership? Has that practical implications for business decisions?	Andreas Albath	I think there are similarities but also differences: - Both may think long term. - Growth is paramount for most PE owned firms to take it to the next level. - Nothing is sacred for the PE firms everything is measured in bottom line. - The GOOD family firm may have a broader view including social goals.
those very long term businesses you referred to, have they had external managers or board members over generations?	Rhian Anwen Hamill	They have both, but true that the mostly have family managers if they are available. Some have adopted sons, some have sons or daughters in law though, so family is flexible
In what respects are the family business success factors Peter just shared are different from success factors of any other business? Thanks	Nambaya Ouattara	live answered
A question for Peter- you briefly mentioned the Shareholder Council. Can you explain more about the role and responsibility of this governance body vis-a-vis the family meeting, shareholder assembly and family council?	Rebeca White	If there are only family shareholder, the shareholder assembly is the same as the Family Shareholder council. If there are other external sharholder involved, it aligns the interest of family sharholder so that they spek with ONE voice in the shareholder assembly. It’s important that family shareholders stand united.
Why are the numbers of next generation members willing and able to develop a career declining?	Philip Mackeown	Let me start and Andreas can follow up: - Families are changing - Parents do not force it upon the next gen - next gens demands more than a salary, they want a life with broader meaning. - Families are spreading around the world, so less natural focus on the business. - Education: for small and medium sized firms, next gens go to university and end up finding it less interests...
Peter, What is the rationale that executive management focus on the 1-3 year horizon and not slightly longer like a typical business execs considering that family businesses take a longer term view?	Arun Chelladurai	In a professional setting, C-Suit should have a limited term in offe according to good corporate governance. As contrats often last for 4 year, and they need to deliver performance and execute the stratregy during this time. They need to act in any case quickly to respond to a fast changing business environment.

Why is the scope of family business 'leader' solely confined to leadership of the company?	Philip Mackeown	For many family businesses, their place in the local community and their responsibility to the wider society beyond the factory gates is very important. In this sense, the scope of the FB leader can indeed extend (well) beyond what is shown on the company org chart.
with so many themes shifting towards new concepts (e.g. ESG), how does this affect the selection of advisors, given lack of past performance record in many cases?	Irina Phillips	It should in the first place influence your board composition, to bring new perspectives and experience to the business. Important in to understand that ESG has already become a business imperative, not any longer nice to have
If owning families should undertake such diligence and preparation for external 'executives' why not the same process and attention to the preparation, selection and development of family successors?	Philip Mackeown	Agree this is of equal importance. NextGen development and onboarding in a position as responsible owner, competent board member or new leader. This is why I and my team spend much time with our clients on this topic.
Do family owners have to make share ownership available to external 'executives' to secure the best candidates?	Philip Mackeown	No there are better ways to align and incentivize by setting the right KPI's who are focusing on long term value creating rather than purely profits
Do you see any relationships between the longevity of family firms and their degree of "external" professionalization?	Jiawei Ye	No, but there is a strong correlation with having proper family governance and codified written values in place or not.
Given the war for talent why should/would non-family executives choose to join a family company when their talents are so in demand?	Philip Mackeown	Many like the environment of trust and values and less shareholder pressure since Family Shareholders provide long-term passionate capital compared to PE or institutional investors
Thank you for this presentation. Did you observe gender differences in terms of process and behavior when it comes to external CEOs?	Rania Labaki	No, we did not have sufficient data to analyse this interesting aspect.
is the onboarding support best achieved via one on one or team coaching or management consulting assignment?	Rhian Anwen Hamill	I believe it's a lot about 1:1 - but relying on the input from the team
Difficulties to hire during this pandemic : fear of the future ? online interviews Contract for change :	Sophie Velge Lammerant	Very good question Sophie and it's difficult to get to know each other and assess the cultural fit with an external candidate. Nevertheless there are options incl. using VC etc. From my perspective it is most that a new candidate and the family defines the challenge / role for driving transformation. In almost all industries the rules are changing and the recipes of the past will not work in the future anymore. Is the family and boards ready to re-define the search profile ?
Problem is the family tends to have a long-term thinking but external have shorter-term mindset, how to bridge that? I have found it quickly gets very demotivating for the external when the timelines and appetite is different.	Seng Teong Chua	Very good point. The Board have a role to play to bridge this. This is what I mean with the different speed and level of professionalization of Business vs Family.
Contract for change Can you rely on the new CEO to drive change or should you clearly know which changes you need to bring to your FB ? I guess mix of both	Sophie Velge Lammerant	Yes, I would say it's a mix of both. But often the degree of change really wanted / requested by the owning family - and the change agenda of the incoming CEO differ. Alignment is super-important!
Why do longstanding family firms like Hoshi Ryokan, 1,300 years old, always keep a family member as CEO but bring in a professional as the operational manager? Kengo Itoh	Brian Henry	For these firms NAMES/LEGACY means everything for the future of the business and the family. So there is a real value in having the family name in the operation. Same can be said about other bigger and younger companies: HERMES France, and Jadine Matheson

What are the top 3 reasons for non-family CEO's to resign from a family business?	Philip Mackeown	live answered
How do you make sure that the external executive shares and acts according to family values?	Carola Yannouli	I would say: by sharing the value system of the family pro-actively in the very beginning. If the family has a family charta - why not share the most important elements as well. so many hiring FB owners are too secretive...
Peter - how do you manage when a Professional Manager competing with the Family Patriach's son for the CEO position?	MSA KUMAR	In fact this is an unfair competition and good external candidates will withdraw from such a situation. UNLESS there is a fair, transparent and established process inplace in which external advisors like AvS conduct an independent assessment and non family mambers oin the board taking the final desicion. Miele in Germany is a good exampls for such a process, which is so far working well for this family.
those who can build and drive businesses are rarely those who can step away, they have total engagement, relentless energy and often a directive personality... how to square the circle when it comes to asking them to stand away, be nurturing of successor talent?	Rhian Anwen Hamill	Great question. Succession shall focus not only on onboarding the next generation but also transition the incumbent generation from a leader role into a board and later on in a mentoring role. This aspect is often forgotten to address and need to be part of the succession process. This is why succession is not and event but process.
How is the „ability to build sucessors“ at Alibaba measured?	Andreas Albath	They have a rotation model, that every 4 years at the lastes you have to rotate. After 2 - al the latest 3 years you need to have identified and mentored the new candidate to prepare him/her for your job. Alibaba is the only company doing a Talent baöalance shaheet, that Jack Ma kept the ultimate responsibility for. Aspects like ability to attract talents, people skills development etc. are measured as Assets and bad retention rates etc. as liability. It is worth to do an entire seminmar on this topic. Very inspirng and I had the pleasure to discuss this with Alibaba Managemt last year.
Andreas, very good podcast and enjoyed your session. Are you publishing quantitative outcomes from the CEO research, how long had average time of external tenure been, did you pick up from family members their views of successful appontments v failures, did the CEOs identify what had worked well and what had been probematic (in terms of entering a family business as an outsider)?	Tony Bogod	We will share the full report in January; the study is more comprehensive than the slides we had time to share during the webinar. The report addresses the most problematic areas and includes key "lessons from the practice" - as well as specific, practical tips for both FBs and "outsider" execs on best practices in onboarding & integration.
'@Mr Jacobs: You had to change the DNA of your family/family business. What were the most important steps to do so?	Mercedes Grau	live answered
What are some of the main causes of wrong external hires by family businesses given that they have the network, resources and clarity of vision for their business at their disposal?	Snigdha Gorana	It is true that FBs may have a considerable network and resources at their disposal but bear in mind that there has been a "war for talent" for many years and that it is a competitive market. Top CEOs have a choice as to what they do and who they work for. "Clarity of vision" is also not a given when we talk about the question of what the ideal profile of the next CEO should be - and what his/her mission should be (or how much autonomy to give them). Lack of alignment between stakeholders is one important cause of wrong hires.

<p>To Andreas Did you loose the internal candidate when you benchmarked?</p>	<p>Edward Mörk</p>	<p>probably the wrong Andreas - but if I can fill in: no, they didn't loose the top internal candidate - but it was due to a extensive feedback, mentoring and coaching process (...a lot of this being done by Andreas J. himself)</p>
<p>Really great session - attending from South Africa, but sit on the Family Council of our UK based family business which was founded by my great great uncle in 1851 (169 years ago)</p>	<p>Alexandra Fraser</p>	<p>live answered</p>
<p>question to the David Bain panelists: I agree governance is one of the key enabler for a successfull external successionwhich is you non executive or independent directors</p>	<p>DOMENICO ZACCONE</p>	<p>live answered</p>
<p>Do you have examples of independent directors (of family businesses) adding substantial value to the smooth transition of an external CEO?</p>	<p>J Jeffrey Louis</p>	<p>Yes! Good governance is very important both to the selection & transition processes, as well as to helping FBs attract top talent. A good CEO will want to know about the Board composition and how decisions are made; whether the Board is "professional". There is also a wider point: that diverse teams, whether around the Board table or anywhere else, make better decisions. And diversity in this sense also means independence of thought, bringing different perspectives, and questioning the status quo.</p>
<p>Should families looking for non-family executives target those executives who have lost faith working in/for 'public' companies?</p>	<p>Philip Mackeown</p>	<p>I wouldn't look at it quite this way - that FBs should target execs who have lost faith in public companies (a push factor) - but more that FBs should target execs who are attracted by the virtues of good FBs, such as longterm perspective or the pursuit of more than just profits (a pull factor). FBs should hire execs who "run towards them", not people who run away from something else.</p>
<p>How important is it for a family-owned company in the first generation to have a Board of Directors?/ Does type of ownership influence the importance of having a Board?</p>	<p>Rebeca White</p>	<p>It becomes increasingly important over time because - hopefully - the business is growing, becoming more international, and also more complex. A one-man start-up in a garage probably doesn't need a formal Board (but probably still does need sources of good, outside advice). A big FB, even if it is still in the hands of the first gen, does need good governance and advice - and therefore a Board. The same is true for companies under other ownership types.</p>
<p>Does the adoption of quarterly reprotng practises from the listed sector impact the ability to maintain long term horizons within the family business?</p>	<p>Rhian Anwen Hamill</p>	<p>Excellent question. Not necessarily - FBs need to have good, timely reporting and forecasting, but this doesn't automatically mean that the business then becomes short-term oriented. There are many examples of listed companies which are still controlled by family shareholders who think about their business in terms of decades.</p>

<p>1) The vast majority of family businesses are small and medium. What would you advise the set up of the Board be (family and non) and governance be?</p> <p>2) How do you convince them about succession discussions being serious and not done on a Friday night at 18:00</p>	<p>Olivia Mathijssen</p>	<p>1) The specific set-up and composition of a Board is contextual and depends on the business and family, e.g. how big and global is the business, what are the opportunities and challenges, etc. An important guide is that the owners (and management) have an advisory group that can provide relevant perspectives and give professional, constructive oversight.</p> <p>2) The data is compelling: most FBs fail at the point of succession or generational handover; the number of FBs that get to a third generation is tiny.</p>
<p>Is the decision a binary one, family OR non-family executives?</p>	<p>Philip Mackeown</p>	<p>Absolutely no. They can work well together. There are many good examples.</p>
<p>Do you think that family owned businesses are more purpose driven ? or are all professional firms now convinced that they have to define their purpose ? Maybe family business have been values driven since much longer ...</p>	<p>Sophie Velge Lammerant</p>	<p>FamBiz at least want to be more value driven, but often fail to communicate what impact they make on environment, people, communities etc.. I see a big risk, because ESG reporting and sustainable practices and finance is currently the no 1 topic for listed companies and investors. According to what we see and currently capture in our PwC Global Family Business survey show clearly that these topics are not amongst the top 3 priorities for FamBiz. They are still more focussed on digitization, staying independent and protecting profitability. This may cause the risk of losing the licence to operate in the public view. FamBiz should be more committed and more vocal about their values and impact and should hold themselves accountable by measure and communicate this.</p>
<p>Can INSEAD please provide a link to be able to purchase/download the case of the chocolate company mentioned by Andreas Jacobs?</p>	<p>Rebeca White</p>	<p>thank you Rebeca, please send us your email to family enterprise centre and we will guide you</p>
<p>How different are the concepts you were presenting if the ownership of a company is not just one family, but rather 2-3 families/individuals?</p>	<p>Grossmann Péter</p>	<p>The concepts may not necessarily change - but they probably become even more important. The more complex the ownership, and the greater the number of family members with a stake, the more that good governance becomes essential. And this may mean not just a professional Board but also mechanisms for the family to discuss and agree on the big decisions, and some 'rules' that everyone agrees to play by - e.g. a family charter.</p>
<p>Is family purpose the same as company purpose? If so, why?</p>	<p>Philip Mackeown</p>	<p>live answered</p>
<p>FB's have probably the advantage of having a Next Generation very open to disruptions both digital and environmental</p>	<p>Sophie Velge Lammerant</p>	<p>Yes! A digitally-savvy NextGen should be utilised by the current generation. And calling on the NextGen to contribute on such topics is also a way to begin/deepen the process of preparing them to be good owners themselves.</p>

<p>From Indonesia, what would be a good expectation on a non family CEO tenure? 5 yrs? or less or should be as long as things run smoothly? (no limitation)</p>	<p>Aminul Pulungan</p>	<p>This is very much dependent on the specific situation of the family and business, and what the CEO's mission is. A CEO may be brought in with a specific, time-critical and time-limited mission (e.g. to save a failing business). If the mission is to ensure the smooth running of a well-working business, then there is advantage in continuity. But: no-one can go on forever and a CEO should not assume he/she has a 'meal ticket' for life. Owners need to make regular (i.e. annual) reviews of the business and management - to assess whether the right CEO for the past 5 years is still the right CEO for the next 5 years (or not).</p>
<p>One thing which hasn't been mentioned about outside executives but which it strikes me Gilbert manifests in spades is that they need to be as proud and as passionate about the family business as the family is!</p>	<p>Rhian Anwen Hamill</p>	<p>live answered</p>
<p>Thank you Sonia and team for organising this great webinar - very relevant now that I'm in the middle of a CEO selection for a family-owned business (as a Chair)!</p>	<p>Fennemiek Gommer</p>	<p>live answered</p>
<p>But you can achieve your purpose in slightly different ways - so surely family and business purposes can be aligned but differ slightly?</p>	<p>Alexandra Fraser</p>	<p>Yes. The family might decide to run a business primarily for profit so as to fund another external or philanthropic goal. But alignment is nonetheless important, and the family and business purposes (and values) should not contradict. To be avoided at all costs is that: "the family destroys the business, or the business destroys the family"!</p>