

BMG Family Business Forum 2010

Evolving as a Family Business:

„Success and Continuation among Generations“ –

The challenge of handing over control to 2nd and 3rd generations

Dr. Christian Schmidt

London – June 17, 2010

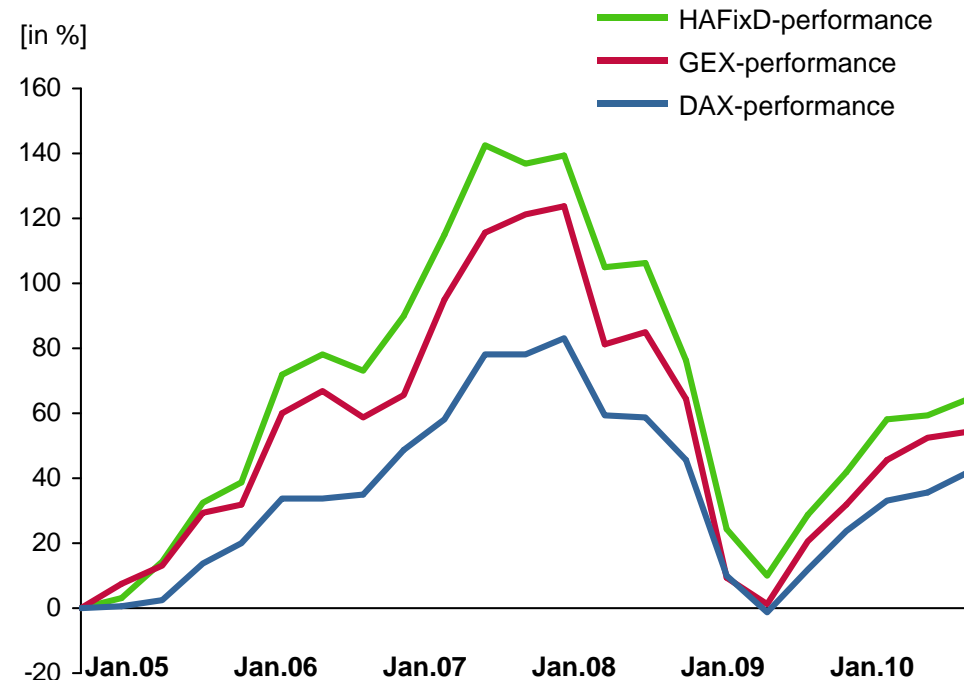
Family businesses play a vital role in the German market, out-performing non-family owned companies

Successful German family businesses¹



German family businesses are among the largest companies world wide benefiting from excellent reputation

Performance of German family businesses

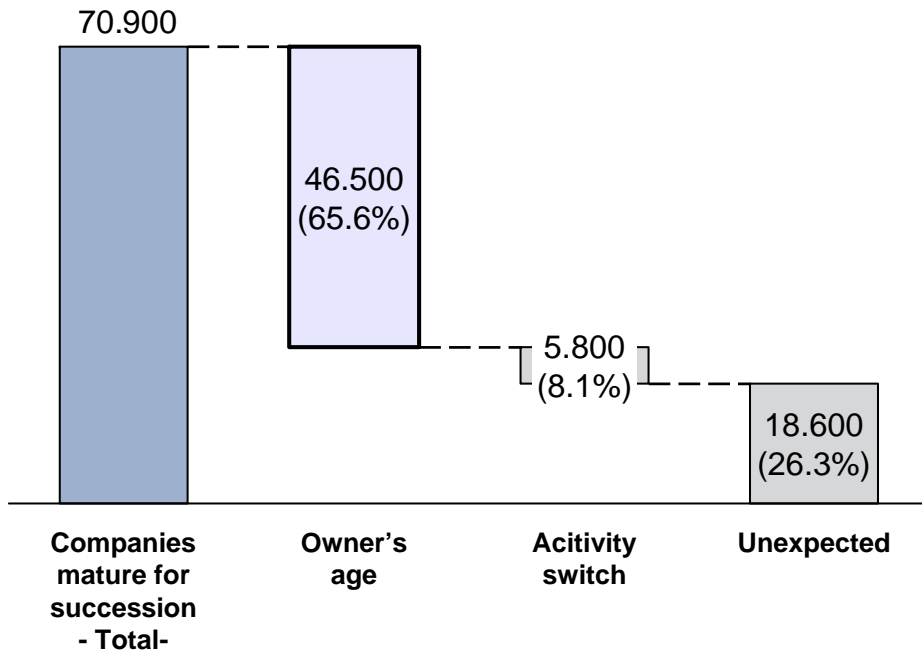


Performance drivers for family businesses is clear focus on core businesses as well as long-term strategy and performance management

GEX: German Entrepreneurial Index; HAFixD: Hauck & Aufhäuser Familienindex Deutscher Unternehmen; DAX: Deutscher Aktienindex; ¹ 2009 sales figures
 Source: Deutsche Börse; Hauck & Aufhäuser; SCOPEIN

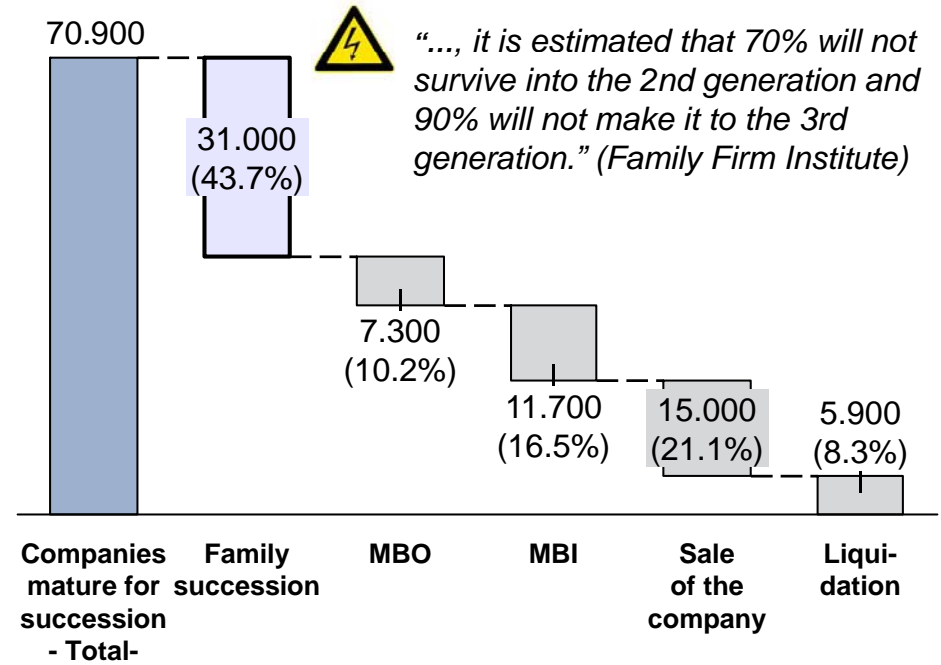
Succession does not necessarily mean success

Reasons for company successions in Germany



Company owner's age represents the main reason for required succession planning

Selected succession options in Germany

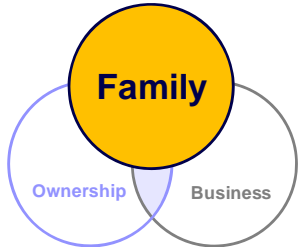


Transferring the family businesses to the next generation is the preferred succession option despite low success rate for company survival

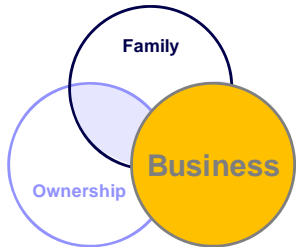
MBO: Management Buy-Out (employees' participation); MBI: Management Buy-In (external management);
 Source: IfM Bonn 2007 study for company's with annual turnover > 50.000 €, SCOPEIN

Why do so many companies fail in their transition among generations? – The complex interactions of family, business, and ownership

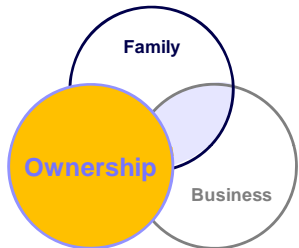
Succession related challenges



- Inadequate **family succession planning** process: Unclear, delayed and w/o communication
- No clear **separation between family and business** activities
- **Family disputes** among heirs, especially in large families
- **Dilution of family wealth** among generations: Internal vs. external career opportunities



- **Business decisions** highly influenced by individual family member interests
- No talent-oriented **hiring policies** and arbitrarily **compensation policies**
- Unclear **decision processes** and rights
- **Dilution of business power** due to split of business: sibling rivalry, growing families, etc.



- Lack of **coordinated active ownership**
- Inadequate **governance mechanisms** exposing business to family conflicts
- Unclear **ownership rights and succession**, e.g. selling of shares
- **Drain of capital** due to paying exiting family members off

The complex interactions of family, business, and ownership threatens the survival of many family businesses

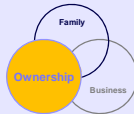
Source: Tagiuri & Davis; Harvard; SCOPEIN

Family Succession Planning embedded in Family Governance mechanisms & Communication secures company survival and success among generations

Integrated Family Business Succession Model

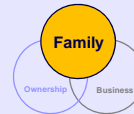
Coordinated ownership

- Corporate and family governance
- Values and vision of owners, family wealth, fortune & philanthropy
- Ownership transfer rules
- Advisory board
- Business interests before shareholder interests



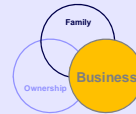
Family cohesion

- Defined influence, role, and function of family and existing relationships
- Common agreed-upon family values
- Established conflict resolution process
- Management qualification before family membership



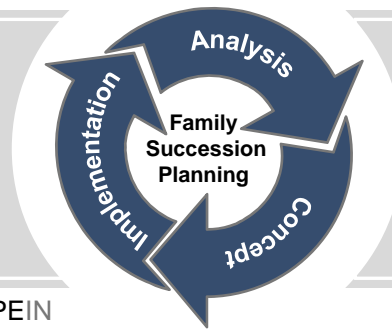
Putting business first

- Defined corporate strategy and mission
- Leadership model and company culture
- Clear structural and process organisation
- Focusing on value ensurance & creation: profit, ROI, company value, growth, etc.



Family Governance

Advisory Board
Board of Directors
Family Constitution
...
Policies
Family Office

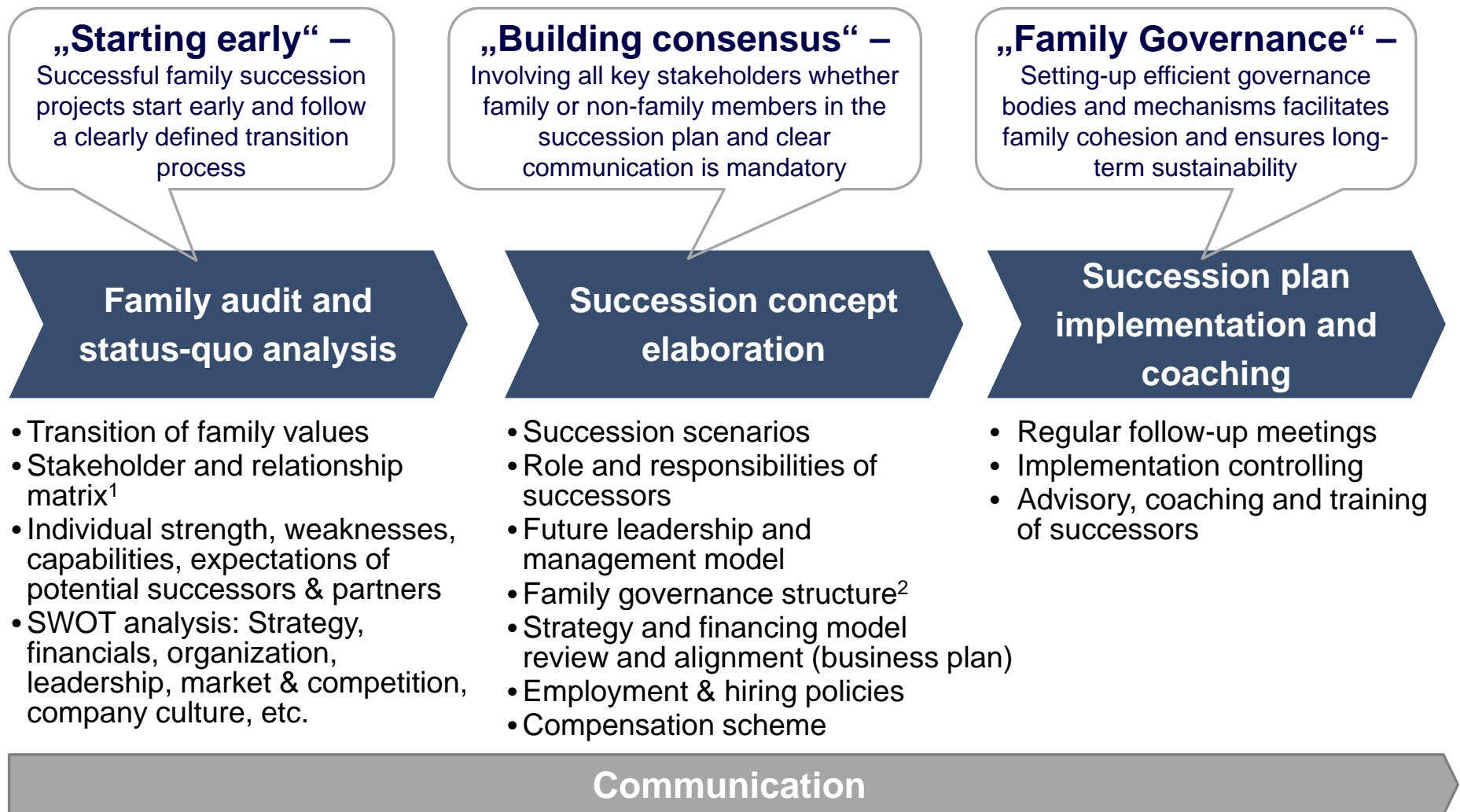


Family Business meetings
Communication channels
Family Council meetings
...

Communication

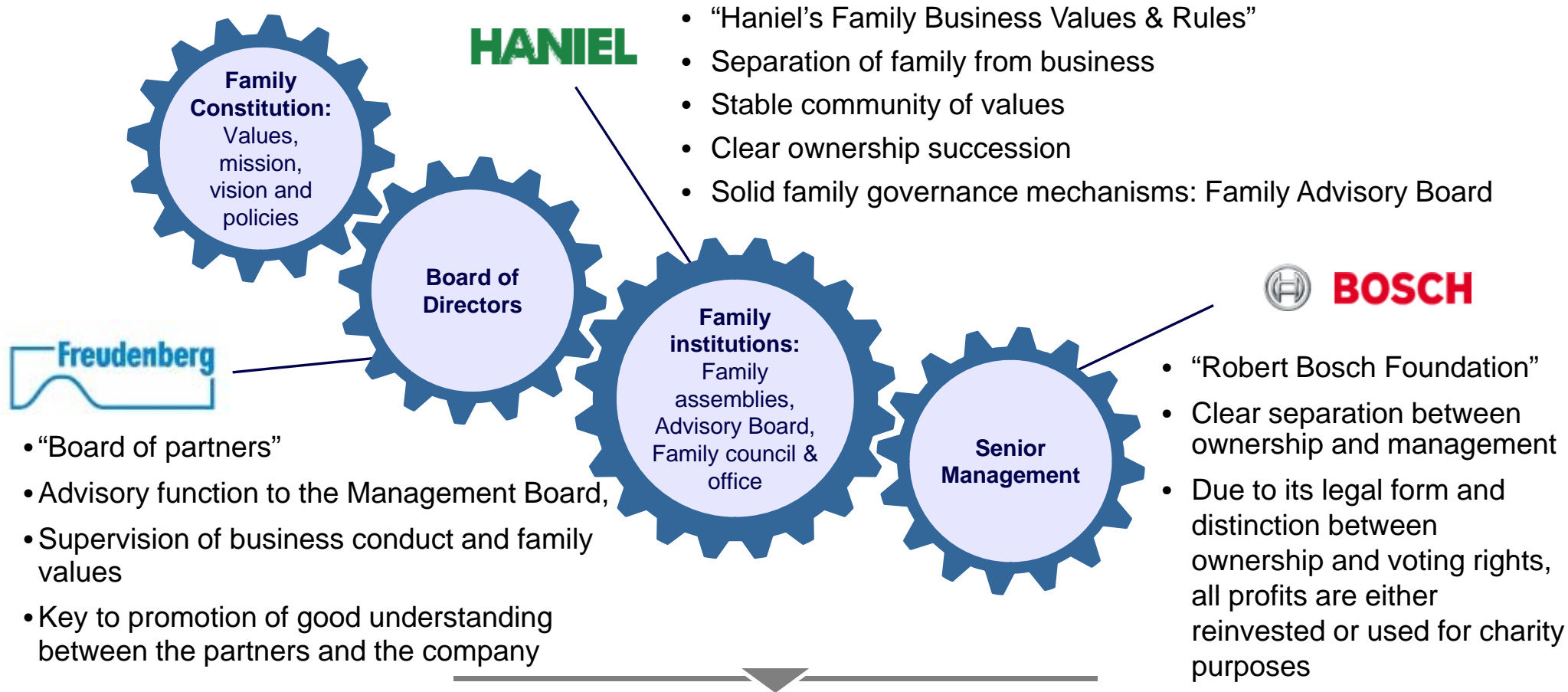
ROI: Return on investment; Source: Tagiuri & Davis; Harvard; SCOPEIN

Solid family succession plans are the result of a timely, clearly defined process with targeted communication



¹ network analysis of managers, owners & family members; ² incl. conflict resolution/decision processes; SWOT: Strength, weakness, opportunity, threat; Source: SCOPEIN

Family Governance is decisive for successful continuation among generations



Clear Family Governance mechanisms ensure family cohesion, long-term sustainability and thereby successful business continuation and expansion among generations

Source: SCOPEIN

More than 250 years of successful business makes Haniel a role model how family businesses can stand the test of time

Case study of successful family businesses

Separation of family from business

- No conflicts of interest through only non-family management since the beginning of 20th century

Stable community of values

- Basic principle: “Company interests before individual interests”
- Sustainable growth and value enhancement given a long-term investment perspective
- Maximum claim of 25 % of the Group annual net income by family shareholders

Clear ownership succession

- No sale of company shares to non-family members

Solid family governance mechanisms

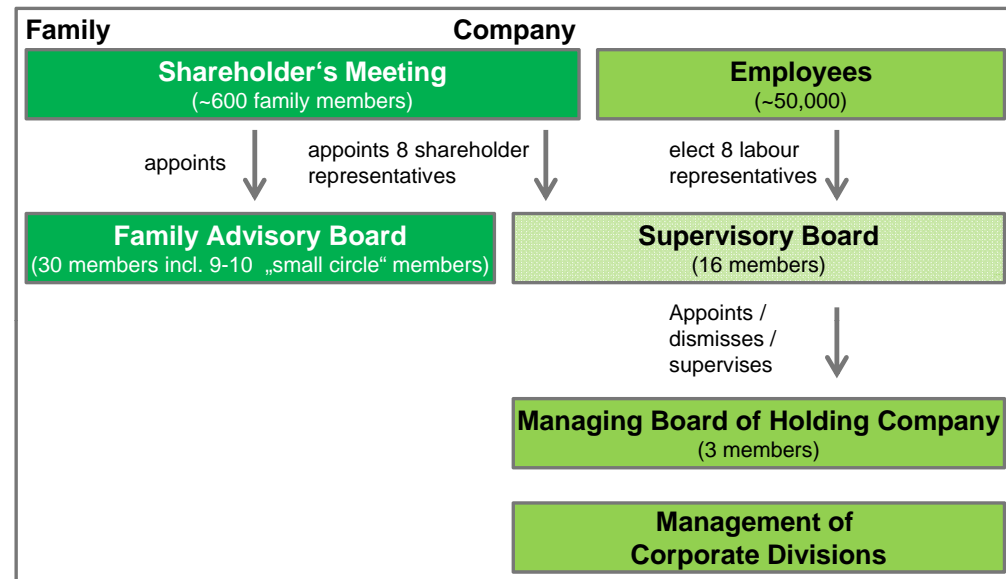
- Family Advisory Board: Efficient communication between owners and management, definition of business policies & corporate strategy consultation

HANIEL

“Cohesion in the family is essential for the successful future of a family-owned enterprise. We must understand that safeguarding the family’s unity is just as important as the company’s value-oriented management.”

(Franz M. Haniel, Chairman of the Supervisory Board of Haniel since 2003)

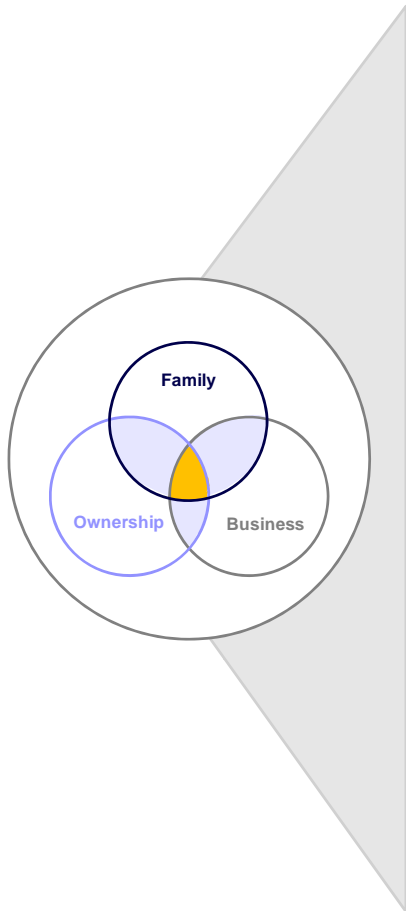
Group organisation



Source: Haniel company website; SCOPEIN

Be the one in eight that succeeds in family succession among generations, ...

...simultaneously achieving sustainability and company growth



- **Family cohesion** is the basis for the successful future of a family-owned company
- Success and continuation among generations is enabled by a clearly-defined **family business succession process** and well-established **family governance mechanisms**
- Involving all key stakeholders through **targeted communication** and **expectation management** is mandatory
- Recommended **separation of family from business activities** ensures proper allocation of resources and business decisions free from interest conflicts
- Family governance bodies help to **consolidate the family's voice towards business**, acting as one owner
- Family businesses have to build a **more comprehensive set of capabilities** including strategic, financial, and operational

Source: SCOPEIN



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Family succession is one important option to continue existing family businesses

Framework for succession options	Integrated Ownership and Management	Separated Ownership and Management	Abandoned Ownership and Management
Family member	Family succession	<ul style="list-style-type: none"> • Holding • Initial public offering (IPO) • Employee participation • Foundation • Interim management • Company split-up 	<ul style="list-style-type: none"> • Liquidation
Non-family member	<ul style="list-style-type: none"> • Management Buy-out (MBO) • Management Buy-In (MBI) 	<ul style="list-style-type: none"> • External management • Interim management • Sale & management by previous owner • Equity holding 	<ul style="list-style-type: none"> • Sale of the company to 3rd parties
Ownership		Management	

Source: SCOPEIN