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Making external executives successful in family businesses

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The Wendel International Centre for Family Enterprise

Contents

Foreword	3
Summary	4
How family businesses and external executives interact	5
1. What makes family businesses special	7
2. Family businesses and the COVID-19 pandemic	14
3. Making external executives successful in family businesses	24
Research constraints	44
About the authors	46
References	50

Foreword

PwC

Based on PwC's revenue performance analysis among the 100 largest unlisted family businesses worldwide, family businesses managed by external executives grew by 7% on average between 2015 and 2019, while those managed by members of the owner family grew only by 4.9%. But not all family businesses perform better under non-family management, so what steps can companies take to ensure sustainable and successful futures? This study reveals the reasons for success and failure with advice for survival.

AvS – International Trusted Advisors

In the "Learnings from the Practice" section, AvS – International Trusted Advisors offer perspectives on key issues of succession, leadership and ownership, drawing directly from real-world experiences in our consulting work. Further to this, in this study, AvS, INSEAD and PwC examine the challenges family businesses face and offer practical advice on topics including: the pros and cons of "family business spirit"; what it means to be a "good owner"; the role of the Board and importance of sound governance; the implications of internal vs. external CEO succession; how to assess leadership potential; how to successfully onboard and actively integrate external executives.

INSEAD, Wendel International Centre for Family Enterprise

The transition of leadership and management is a key point in time for all family firms and is a cornerstone for the Wendel Center at INSEAD. Today, there exists a variety of transition models, from the traditional family succession to an increasing use of external leaders. This gives rise to new challenges on how to integrate non-family executives into the family firm. In this report INSEAD, AvS and PwC identify the best practices that mitigate the transition challenges and share our knowledge on how to identify, select and integrate new non-family executives into the European family firm. We hope that the findings and the stories we bring to life will inspire families in businesses all over the world.

Summary

Most family businesses are infused with a unique "family business spirit" that expresses the values they embody. Family businesses are specifically geared towards long-term development; the owners want to pass on not only a company, but also a legacy to the following generations. This unique focus comes with particular challenges in terms of growth, development and succession, and any long-standing family business will have to consider bringing in external executives to help address these challenges. While recruiting outside talent has several advantages, it also raises concerns for family owners about finding the "perfect fit".

Unlike other companies, family businesses seeking to hire external executives are not merely attempting to find and attract skilled and experienced individuals. A successful candidate must also share the values and culture of the company to ensure his or her inclusion and a healthy relationship with family owners, for whom it is not just a business. The unprecedented global economic disruption caused by the COVID-19 pandemic increases the importance of external executives, while modifying their duties and relationships with owners.

The initial survey, conducted from September 2019 to March 2020 in face-to-face interviews, examines how external executives can be successful in family businesses and reveals the unique relationship between executive and owners. This relationship is personal and critical to the success of the business, and should be nurtured to build a long-standing collaboration. The key is for each party to understand their respective duties and responsibilities, and to recognise each other's value while keeping egos under control. Although many family owners and executives are aware that mutual respect is essential, this is still often overlooked. A carefully tailored onboarding process can make the difference between a successful hire and failure, and we set out in the report, *Making external executives successful in family businesses*, the key steps to take.

A second survey, conducted by AvS – International Trusted Advisors in June 2020, shows how family businesses are addressing the COVID-19 pandemic and that the disruption has triggered both operational and behavioural changes. Family businesses in the survey have relied on their agility and commitment from the owners to overcome the crisis. Nevertheless, they risk losing irreplaceable key workers and have had to restructure their activities to comply with restrictions and measures put in place to to contain the pandemic. These businesses also report that they have adopted a paternalistic role during the crisis, taking greater care of their stakeholders who need support. COVID-19 has encouraged solidarity between owners, executives and other employees as they confront the emergency together.

How family businesses and external executives interact

Results from our surveys

Survey 1

The experience of family businesses hiring external executives

In the first survey, we interviewed owners and senior executives of 50 large family businesses in Switzerland (15), Germany (15), France (6), the Netherlands (3), the UK (3), Italy (3), Denmark (2), Spain (2) and Liechtenstein (1). A quarter (24%) were publicly-listed companies, while the total sample included some of Europe's largest family-owned companies, with an average annual turnover of €8.5 billion and 41 percent have a workforce of more than 10,000 employees. Overall, the average age of these businesses was 118 years, with the oldest able to trace their roots back to the 17th century.

The purpose of the survey was to understand the reasons family businesses hire external executives and their experiences in doing so. More specifically, we aimed to understand how these executives are recruited, how they are integrated into the company and how their relationship with the family develops. These elements have a direct impact on whether collaboration between external executives and a family business is successful.

Survey 2

COVID-19's impact on family businesses

In our second survey, independent from the first survey, 41 family business owners and chief executives in Germany (29), Switzerland (7), Italy (3), Spain (1) and Luxembourg (1) provided insights about how the COVID-19 pandemic has affected their organisations. These interviews produced valuable information about the challenges they are facing, how they are tackling them, what opportunities they have identified and how the unique characteristics of family businesses are helping them to navigate the crisis. This survey also reinforced the findings of the first survey, concerning the relevance of external executives, and how the COVID-19 pandemic has reshaped their role and redefined their relationship with family members.

1 What makes family businesses special

> "The ideal is to keep the best of the family business spirit while embracing good governance."
>
> CEO of an Italy-based, international cosmetics company

A

Unique characteristics

The uniqueness of family businesses comes from the company and its ownership being intertwined. It is expressed first and foremost in the culture that families have infused in their companies. Thus, even where the owning family does not take part in day-to-day operations, the business is often still defined by the ideals and values of its founders. The executives and owners interviewed for the first survey confirmed that beyond corporate ties, there is an emotional bond between the family and the company that characterises its culture and values, and explains the strong desire to preserve and pass on the business to following generations (Gomez-Mejia, et al., 2011).

In many family businesses, the owning family retains a strong influence on the company. For example, 42% of the survey had at least one family member on the management board. The structure of these families is typically traditional and patriarchal, with very few female CEOs from inside the family running the larger companies. In Germany, for instance, 21% of senior management positions in the 500 biggest family businesses are held by women (Bain, 2019).

The importance attached by family businesses to safeguarding wealth means their approach and vision are naturally long-term, with the priority being to hand on the company in good shape to the next generation.

Consequently, they worry less than other companies about short-term results (Clinton et al., 2018). Their financial management is very conservative, with an emphasis on building up reserves and avoiding debt. Another widespread feature of family businesses is their public commitment to social responsibility. Many are involved in the community where they operate and are often reluctant to fire employees, whom they consider part of the company (Fitzgerald et al., 2016). This sense of social responsibility can also extend towards their clients, suppliers and wider society. Larger family businesses are often involved in environmental or social projects on a global scale and set up foundations dedicated to managing their philanthropic activities. This attachment to social and environmental values has grown in recent decades and is particularly evident among the younger generation of family owners.

Learnings from the practice

Listed family businesses – best of both worlds?

Many CEOs of listed family businesses in our survey said that this set-up provides "the best of both worlds". A public listing can bring greater professionalism, managerial discipline, results orientation, transparency and higher governance standards. These advantages can still be combined with the family business virtues of long-term thinking, careful financial stewardship and strong values – as well as (some) protection from the downsides of being listed, such as quarter-by-quarter thinking and activist investors.

"It was a difficult decision to join a family business and to move from a big corporate to a mid-sized company. But I wanted to be a CEO and to really pilot a business. The first 10 days were the toughest of my career… but then the adrenaline kicked in and I set about trying to save the company."

First-time, female CEO who led a successful family business turnaround

A unique feature all family businesses share is succession, which many researchers agree is the single most important and problematic issue that the owners face. Only a small proportion of family firms survive the transition between the first and second generation – and even fewer survive to the third generation (Holton, 2016). Succession should not be seen as a single event where the baton passes from one leader to the next; it is better understood as a multistage process stretching over time that is affected by many factors.

One of the most important is the next generation's intentions and capacity to lead the business. This is a growing problem when seeking candidates from within the family; only 20% of students with a family business background worldwide are prepared in principle to take over the succession of the business (Zellweger, Sieger, & Englisch, 2017). Hence, family businesses increasingly need to turn to an external leader to ensure the succession, with success depending critically on his or her ability to acquire their predecessor's knowledge and commitment to the business.

Learnings from the practice

The 'legitimate owner'

Aptitude and inclination for an entrepreneurial role cannot be inherited or simply "taught" to the next generation, let alone forced upon them. And even competence at handling social media and familiarity with digitalisation and new ways of working does not mean that an heir has the skills to lead a large organisation. The key to solving this dilemma is to mentally separate the role of owner from that of an operational executive and maintain this distinction.

We believe that only those who take the owner's role seriously and perform it professionally are legitimate owners. The most important task of an owner is to ensure that the company is well managed and adequately financed. The owner does not have to take care of operational management directly; he or she can (and in many cases must) delegate this responsibility. At the same time, the owner cannot evade his or her ultimate responsibility: that the family does not destroy the business, nor the business destroy the family.

Learnings from the practice

Role separation

Approximately 70% of successful entrepreneurial families lose control of the business and suffer serious emotional damage between the first and third generations. In 60% of cases, these problems can be traced back to interpersonal conflicts involving a breakdown of trust and communication. To avoid these risks, family businesses should address the following questions:

How to create appropriate, effective monitoring mechanisms for executives who are also (co-)owners?

How to ensure that on fundamental issues, management gets the timely, well-founded decisions that they should expect from a competent owner?

How to ensure that family members working in the company are employed, developed, managed and remunerated according to their abilities?

How to protect the interests of the shareholders who are not working in the company?

How to avoid the phenomenon, observable in many hierarchies, that over time executives are promoted to positions they cannot handle – also known as the "Peter Principle"? Family businesses are often prone to have employees who "belong to the family" or have been "loyal" for many years and who benefit from special favours and protection as a result.

How can first-class talent be attracted, selected, integrated and retained in the company, regardless of whether the individual is an external executive or a family member?

The key to solving all these issues is to strictly separate the roles of owner and management. Both roles must be exercised in a professional and effective manner so as to secure and grow the business while maintaining harmonious relations.

Key aspects of a successful succession

Leadership succession

- **Critical question:** Should a family member or an external executive manage the business going forward?
- **Issues:** Principal-agent problem; professional experience and competencies
- **Tasks:** Strategy development and execution
- **Horizon:** 1 to 3 years

Board succession

- **Critical question:** Should family members or external board members support and supervise the management team?
- **Issues:** Competent external perspectives that constructively challenge the management versus trust in internal board members who represent the family's interests
- **Tasks:** Assess executive management; approve business strategy and significant investments and divestments; balance shareholders' long-term interests with short and medium-term business needs and strategy
- **Horizon:** 1 to 5 years

Ownership succession

- **Critical question:** Who and when are core family, in-laws and strategic investors eligible to become shareholders?
- **Issues:** Alignment of long-term interests and expectations of all shareholders; provisions for dividends and additional capital needs; long-term vision for the business
- **Tasks:** Decide on dividends, capital and important company business at the General Shareholder Meeting or Family Council; nominate and select board members; represent the interest of the family owners on the board.
- **Horizon:** 1 to 20 years

Learnings from the practice

The pros and cons of the family business spirit

The best family businesses have a corporate culture which provides long-term stability, a platform for rapid, independent decision-making, a sense of purpose and strong values. However, the flip side is that when family branches and shareholders are involved in private or open conflicts between themselves or with external management, the risk of the latter leaving the company increases disproportionately.

Many family businesses display uncertainty about how an external recruiting process should be managed. They know intuitively that hiring an unsuitable senior executive could become painful and very costly. Yet many companies appear to make the wrong decision, especially the first time, because external recruitment for top positions does not happen frequently in most family businesses.

A newly-appointed external executive in a family business will often be "judged" on whether he or she is a successful "fit" after only a few weeks or months. If the individual feels wrong for the job, even before the honeymoon period is over, it is often due to a lack of deep understanding of the culture: how a family business "ticks" and the "dos and don'ts" in this special environment. Many family businesses are difficult to analyse from the outside; their true performance, for example, is often not published. It is still surprising how little some executives appear to research a family business's culture before signing an employment contract; in particular, how this culture might differ quite dramatically from that of a publicly-owned company. On the other side, it is equally surprising how little effort some owners invest in the hiring process and the careful integration of external talent.

B

The relevance of external executives for family businesses

Family owners will need to consider professionalising their company as the business grows and requires more formal management with a board of directors and rigorous strategic planning. Most importantly, this process involves recruiting executives from outside the family (Songini, 2006). Reasons for professionalisation can vary but one of the most critical and visible changes is to appoint a non-family "professional" CEO.

Family businesses often have dominant leaders who have founded and nurtured the company and take key decisions rather than delegating to senior executives or the board. Founding CEOs often manage their business with passion and insight, which can be a tremendous asset and advantage during the early years. Their personal drive and motivation are the foundation stones on which the business's culture and history are built. However, the complexity of the decisions that need to be taken may outgrow the founder's skills as the business expands, and therefore there is a need to bring in additional talent to maintain growth. The new external CEO may in turn want to bring in new skills and different management practices to improve efficiency and profitability.

Different situations can prompt family businesses to resort to external executives. Firstly, a company may face external threats that it needs to overcome, including poor financial performance, loss of market share or lower customer satisfaction, any of which may force owners to revise their organisational model and hire outside executives or bring experts on to the board. In other settings, the difficulties are internal: the family does not have next-generation members who are interested in getting involved with the business or who have the required skills. There may also be conflict in the family about the succession, ownership strategy, or day-to-day management, or about the different roles held by family members within the business. In this context, appointing an external executive can be a way to reconcile family members and restore peace.

Resorting to external executives is not necessarily a response to negative circumstances. It can also be a carefully considered decision by the family to seize new business opportunities. For example, the company may be in a strong growth phase with a need to outsource its production or attract capital from outside investors. The company's expansion may require more professional executives who have experience in the industry and possess superior managerial skills, while investors may insist on the recruitment of fresh talent before they put money into the company.

External executives do not merely bring new skills into the company. They can make the business more attractive to investors and to the next generation, as well as to other external candidates who see there is no glass ceiling in the company. Furthermore, experienced non-family board members perceive that the owners are willing to collaborate with outsiders in order to develop the business. Another benefit of external executives is that they reduce the risk of founders' fault in day-to-day operations, while giving founders more time to build a long-term strategic vision for the business. These executives are also more likely to act as change agents with the capacity to turn the business around, especially when a new CEO is committed to improving performance and key managerial practices.

A wealth of research has highlighted the positive impact on performance at many family businesses that make the transition from a family CEO to an external

executive (Bennedsen, Perez-Gonzalez, & Wolfenzon, 2007). A family CEO's closeness to the business may be a disadvantage, especially during the later stages of growth, because he or she may be entangled in tensions between the demands of family members and the company's strategic business objectives. These close emotional ties often make family CEOs more cautious in their management decisions. By contrast, external CEOs often take an extra level of entrepreneurial risk during the initial years of their tenure; they adopt new approaches to transform the business and look for new sources of profit with a fresh eye. Some research indicates that the degree of entrepreneurial risk levels out during a professional CEO's time at the company. However, the earlier risk-taking may still help boost performance (Huybrechts, Voordeckers, & Lybaert, 2013).

Despite the benefits of hiring external executives, family owners may have concerns about the process. Many see this transition as a loss of control over the business and worry about the uncertainty that may result. Many families believe it is more efficient to retain both ownership and management of the company to minimise information asymmetry and managerial appropriation (Yung-Chih & Shaomin, 2014). Additionally, they may think family executives perform better because of their higher emotional attachment to the company's success and believe they have specific knowledge about the business that is harder for outsiders to obtain. Nonetheless, family businesses should be prepared to overcome any possible reluctance to recruit external executives, particularly in difficult times, if appointing an outsider offers the best path to achieving the company's long-term success.

Learnings from the practice

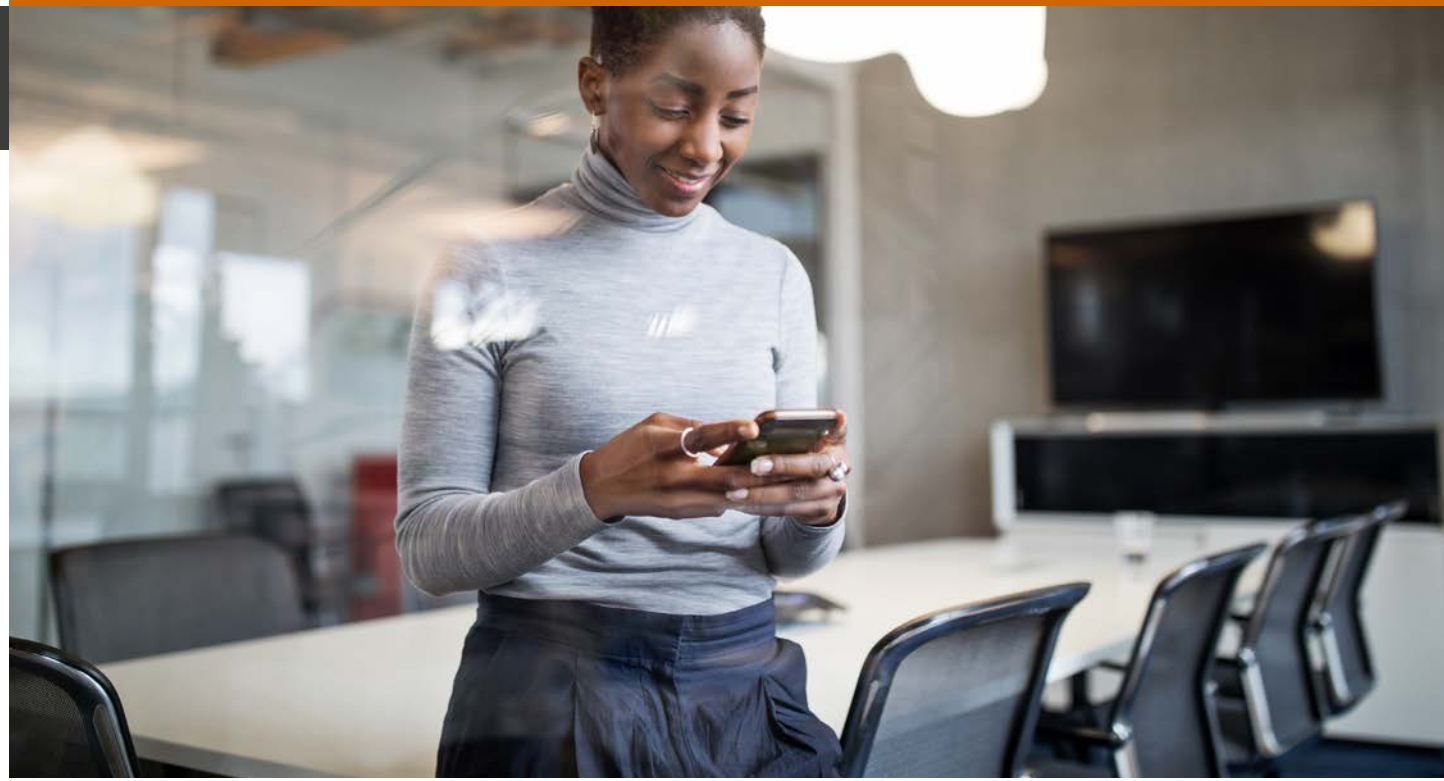
CEO succession: Internal vs. external appointments

Appointing a new CEO is likely to be the most important personnel decision that most boards and owners will make. The choice of whether to appoint an internal or external candidate is often difficult and sometimes highly emotional. Below, we summarise the relative advantages and drawbacks.

Internal appointment	
For	**Against**
Conveys a sense of stability and continuity rather than disruption Indicates that the company promotes from within, up to the most senior level Is a known quantity – you know what you are getting Knows the organisation, so is more likely to be a natural fit Less steep learning curve, especially if he or she is mentored by the current CEO	Less likely to act as a change agent or achieve a breakthrough improvement Potentially less likely to challenge and "stand up" to the board
External appointment	
For	**Against**
Conveys a sense that the company is striving to improve and not rest on its laurels Shows the company is committed to recruiting the best global talent Injects new knowledge and best practices from other organisations Provides fresh perspective to identify weaknesses and opportunities more effectively More likely to question the status quo, demonstrate independence and be an agent of change	Steeper learning curve and potential difficulties adapting to the culture Risk that unsuccessful internal candidate(s) become demotivated or leave

2 Family businesses and the COVID-19 pandemic

When struck by an economic downturn, family businesses are often more resilient than other companies because they can more easily mobilise their resources.

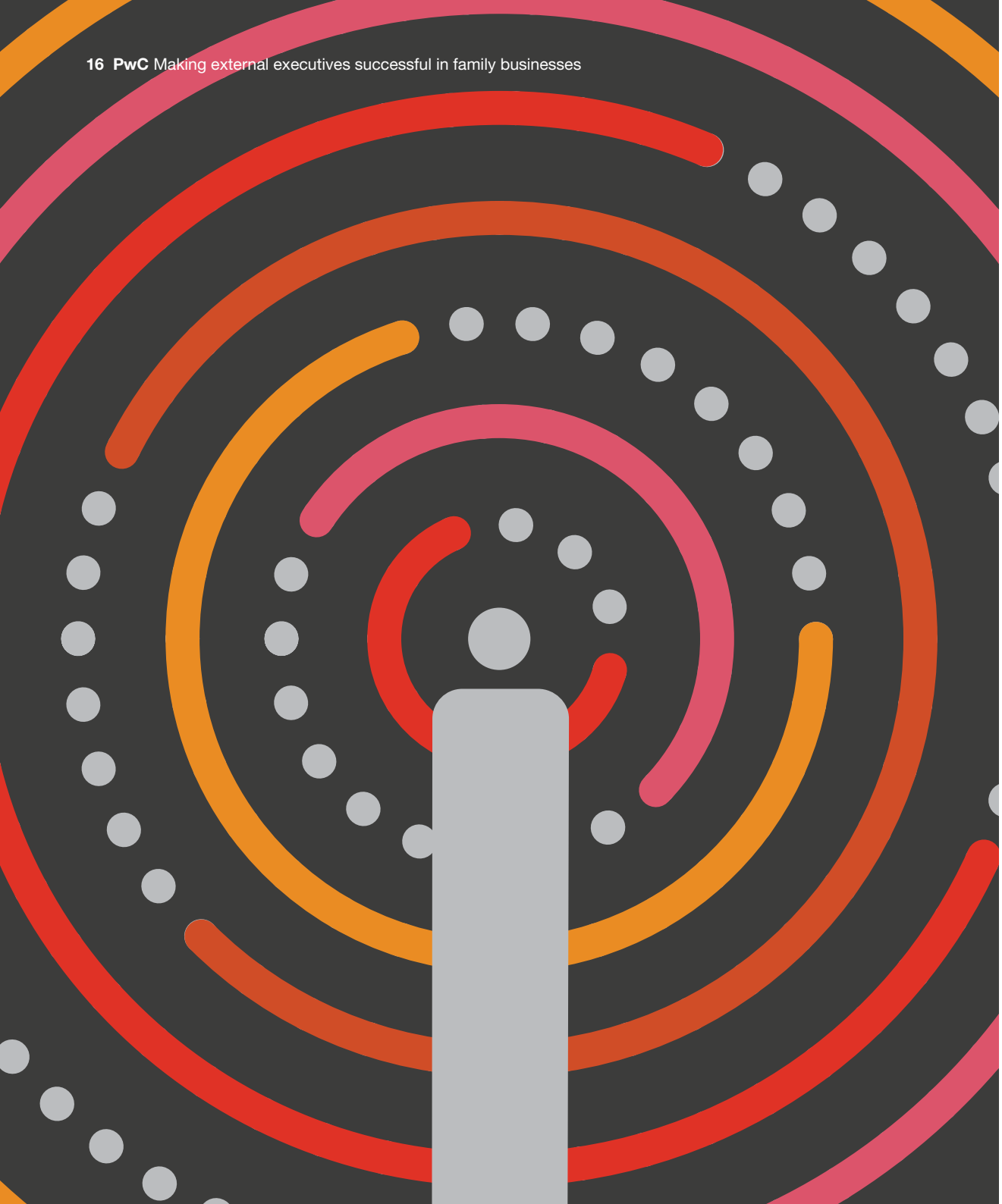


Economic crises now have a global impact due to the internationalisation of trade and the interconnectedness of countries. Such crises potentially jeopardise the survival of companies which are not sufficiently agile to adapt rapidly to disruption. Frequently, a crisis affects both companies and their stakeholders and leaves little time for reaction and decision-making (Kraus, et al., 2020). For all these reasons, crises are commonly perceived as threats that bring negative changes, although they can also present opportunities for organisations.

For family businesses, the stakes are high; surviving a crisis is not just about preserving a commercial enterprise, but also about protecting a tradition and a legacy with a distinctive culture and set of values (Gomez-Mejia, et al., 2011). In addition, a family's emotional attachment to the business can affect its performance during a crisis by reducing the probability that the company will follow formal crisis procedures (Kraus et al., 2020). On the other hand, the focus by family owners on ensuring the continuity of the company may allow them to overcome crises more easily, because their long-term priority is to be able to pass on the business to the following generations (Bauweraerts, 2013). Such a mindset can enable them to be prepared to sacrifice financial gains where necessary if it increases the chances of survival. (Minichilli, Brogi, & Calabrò, 2016).

Family businesses can develop long-standing relationships with their stakeholders because of this idea that the company is anchored in time and meant to last. In particular, many family businesses consider it their responsibility to take care of their employees (Carney, 2005). In sum, it is often the case that family businesses pursue both economic and non-economic goals and need to constantly engage with stakeholders to reach their objectives. When struck by an economic downturn, family businesses are often more resilient than other companies because they can more easily mobilise their resources (Amann & Jaussaud, 2011). This resilience is frequently combined with a more flexible, less bureaucratic leadership style which allows family businesses to take rapid decisions in a crisis.

Long-standing families whose companies have existed for decades or even centuries can also count on their experience of surviving wars, pandemics and other natural and manmade disasters to overcome the latest crisis. The lessons drawn from the past are passed on to the next generations as part of the business's heritage, providing them with tools and recipes for successfully overcoming emergencies.



The ability of family businesses to withstand a crisis can also be bolstered by their financial stability, in contrast to other businesses whose primary focus is on not losing money. This difference was significant during the 2008 global financial crisis, when family businesses performed better because they were less leveraged and had pursued a more cautious long-term strategy involving fewer financial risks.

In the space of a few months, the COVID-19 pandemic plunged the world into the worst global health crisis of modern times. Many companies had to close down abruptly, while businesses that could maintain their operations had to implement costly social distancing and sanitary measures to ensure the safety of their employees. Governments tried to support companies by remunerating idle employees, but COVID-19's economic impact was still extremely severe. The numerous measures taken by countries to contain COVID-19 disrupted both supply and demand (del Rio-Chanona, et al., 2020). The demand shock came from consumers who reduced their overall spending, especially on non-essential items such as leisure and travel. A range of other factors weakened purchasing power, including massive layoffs and uncertainty about the future. Meanwhile, many companies could not adapt to the disruption to their supply chains; those with manufacturing bases in other countries were sometimes unable to access their products, forcing them to shut down operations (del Rio-Chanona, et al., 2020).

A

The impact of COVID-19 on family businesses

How did family businesses react to this almost unforeseeable crisis? So far, there are only a few examples of research that has looked at how family businesses are overcoming the disruption (Kraus, et al., 2020). What is clear is that the pandemic has raised the question of whether the particular characteristics of family businesses mean they are better equipped to survive crisis than other companies.

In our second survey, which focused specifically on this issue, several respondents did not believe that a family company was naturally in a stronger position to cope with COVID-19's impact.

However, a majority felt that the business was more resilient because it was family owned. In their view, the company's long history and the inspiration derived from previous generations who had battled through turbulent times had bequeathed an institutional solidity and state of mind that whatever might happen, "this crisis too, will pass". Within this framework, our interviews with CEOs and family owners have allowed us to identify some of the direct impacts that the pandemic has had on their businesses. From these discussions, a set of behavioural and operational changes has emerged which may prevail even after the pandemic is over.

It appears that although committed employees have been a strength in family businesses, they could also represent a risk. The COVID-19 pandemic has made family businesses realise the extent of their reliance on long-time and loyal key workers in order to function. These employees may hold unique knowledge and capabilities that make them irreplaceable. When they are suddenly unavailable for weeks or months, family owners confront a conundrum with no obvious solutions. Large, publicly-owned companies typically have detailed talent development policies and several deputies who can step in to replace senior executives. In contrast, mid-sized family businesses often have no back-ups in place. This increasing awareness of their lack of a talent pool suggests family businesses may be increasingly inclined to turn to external executives. In the wake of COVID-19, they need to reconsider the value such executives can bring to the company and prepare succession plans and alternatives for when they unexpectedly lose a key worker. Among the survey respondents, several businesses reported that they have started to map out their organisational deficiencies and talent development needs in a more systematic way to build greater bench strength in their management teams.

On the positive side, interviewees confirmed other research from previous crises which indicates that family businesses face fewer cash issues than other companies, allowing them to take a step back from the turmoil and prepare more calmly for the post-crisis era. It is often also easier for family businesses to leverage liquidity and they frequently have lower debts (Aronoff & Ward, 1995).

"There are only well-led companies and badly-led companies."

Owner and CEO of a Germany-based company engaged in the production and design of machinery and equipment

"This is a conservative, family-driven company. We have always believed in the family and the ExCom that cash is king. Today, we are cash-rich with zero debt."

CEO of an Italy-based global manufacturer of confectionery products

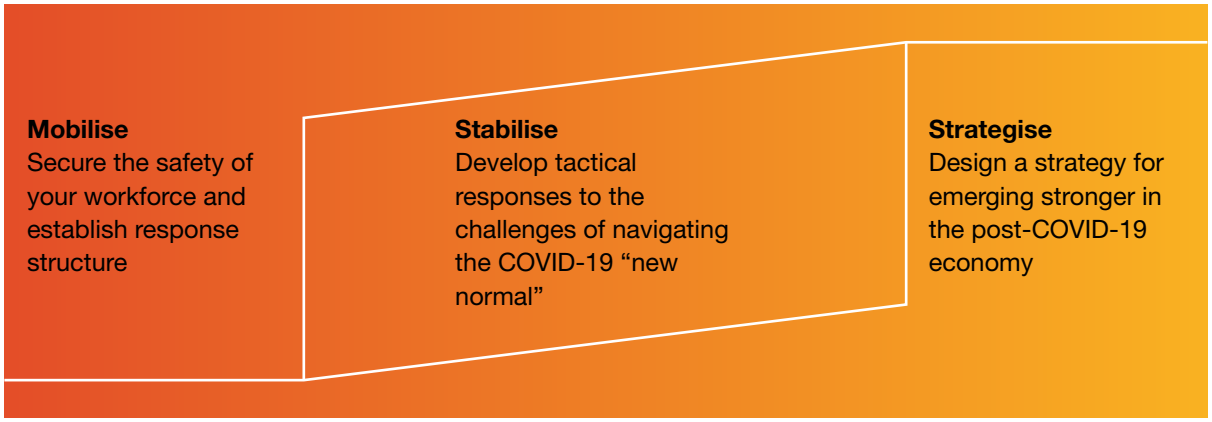
Many of the businesses in the survey said they had contingency plans for a crisis, and either had cash readily available to reinvest or were able to rapidly engage in discussions with their stakeholders to identify potential cost savings. Many also refused to resort to massive layoffs, reflecting a sense of responsibility to the local communities in which they operate – especially if they were based in a small town where they were the major employer. Instead, they chose to implement a range of more measured actions involving part-time work, furloughs, mandatory holiday taking, hiring freezes, wage cuts for blue-collar staff, and salary and bonus cuts for executives.

Key lessons

- The long-term loyalty and commitment of family business employees has been one of the sector's strengths, but the COVID-19 pandemic has revealed the risks of over-reliance on irreplaceable workers with no back-up ready to step in. In this context, turning to external executives to alleviate a shortage of talent becomes relevant.
- The financial stability and sound debt management of family businesses has increased their ability to withstand the turmoil compared with many other businesses.

The three waves of a COVID-19 crisis response

Organisations that successfully accelerate the speed with which they progress through the waves tend to emerge stronger.



Source: PwC

B

Behavioural change: Becoming more paternalistic

The COVID-19 pandemic has reinforced the sense of responsibility that many family businesses have traditionally shown towards their employees. Confronted by the distress caused by the pandemic, family businesses in our survey said they felt a stronger duty of care for the wellbeing of their workforce. Interviewees mentioned how they believed that everyone at the company had to cope with the challenge together. For example, in a family business located in northern Italy, more than 40% of employees on the main site contracted the virus, many older people in the area were infected, and almost everyone lost a family member or friend. The priority quickly became to implement safety measures to protect employees, while ensuring mental health support was available as people looked for reassurance.

The founder of a family business in Germany explained that he, his wife and children wrote personal letters to the management of all group companies to assure them of the family's unwavering support in this time of crisis. They set up an emergency fund bolstered by bonus payments and dividends to help employees in need. The development of a closer relationship holds true for other stakeholders as well. Some family businesses felt they had to be at the side of their customers and should use the crisis as an opportunity to get closer to them.

"Domestic problems are bubbling up and people talk to me more now. I am encouraging employees to open up and talk! Psychological needs and fears have to be addressed."

Owner and CEO of a Switzerland-based manufacturing and technology company

Despite social distancing, good communication has been critical to maintain mutual interactions with customers, suppliers and employees. Respondents reported that they had developed more effective ways to communicate, increasing their usage of traditional digital channels like emails, while some businesses also used messaging apps, created FAQs sections on their websites or set up a hotline service.

Lastly, interviewees confirmed that communication between the CEO and senior management with family members has been more intense since the start of the crisis. Almost all the CEOs stated that they had increased the frequency of their one-on-one communication with the family business owner. Discussions are more emotionally loaded and often mean being responsive and available round-the-clock, with the focus on the survival of the business and the safety of employees. One CEO described how his family business owner who had lost close friends to COVID-19 had become increasingly reliant on him for reassurance and solace.

"Yes, we are more expensive [than other competitors], but we are Swiss and guarantee high quality. We always deliver, and we are working for you 24/7. We help our customers and show them that we are better."

Owner and CEO of a Switzerland-based manufacturing and technology company

"You need to provide factual clarity about what is being done – combined with a lot of human empathy! We have been open and honest with all the employees, stayed close, sent regular updates; the constant message has been 'we are all in this together'"

CEO of a Germany-based provider of digital workplace solutions as well as educational and training services

Learnings from the practice

Caring is more important than charisma

The prevailing image of how a CEO should appear and communicate is changing rapidly. COVID-19 has accelerated the shift away from the stereotype of a charismatic, fills-the-room, lone decision-taker, but the pandemic is not the only trigger. Other factors already present before the pandemic include the need for inclusive decision-making and the empowerment of executives; increased understanding of the performance benefits of diversity among leadership teams; the growing importance of millennials in the workplace and customer base; and the search for greater purpose in one´s work. Against this background, the current times of great uncertainty have propelled CEOs and owners to adopt more caring approaches to management and more inclusive communications. Leaders need to demonstrate that they care about employees and communities and create a "people first" culture. Being compassionate is not the same as being soft.

Trust is essential when dealing with matters of life or death, and many respondents say they hope that this greater and often more intimate level of communication will lead to even closer relationships with family owners. They believe that the behavioural changes that COVID-19 has precipitated are deeply rooted in the strong sense of responsibility that characterises family businesses. In this sense, they are not merely reactions to the immediate crisis. Many respondents believe the collective response to the pandemic has reconnected people within the company and renewed their commitment to the business, with increased motivation, cohesion and team spirit. The hope is that this strong sense of solidarity, combined with various operational improvements, will endure once the crisis is over.

Key lessons

- The pandemic has hit everyone at family businesses indiscriminately, pushing owners to step in to take personal responsibility for their employees' wellbeing.
- Communication has become more empathetic and candid, with the focus on survival of the business and the safety of employees. Executives and owners have engaged more often, increasing mutual trust.

C

Operational change: Never waste a good crisis

The best family businesses have the mindset and long-term vision to see beyond an immediate crisis and seize the opportunities created by upheaval. These are times to drive changes and transformational initiatives. The first priority is to focus on safeguarding operations and enabling remote working from home. Almost every company in our survey had to implement forms of virtual or home office working arrangements for employees and managers. Some senior executives have expressed scepticism about whether virtual interactions can fully replace physical meetings, especially for strategic planning and brainstorming that used to take place off-site in face-to-face groups. Respondents who were less familiar with virtual meetings worried about issues such as finding a proper presentation style with the same force and weight as during a personal meeting. However, no one doubted that the technology worked and in many instances had allowed the continuation of activities.

Family businesses in the survey are building on these forced experiments to explore the possibility of extending new working methods, once governments lift restrictions and lockdowns come to an end. From their perspective, the potential advantages include fewer face-to-face meetings, meaning reduced travel costs and a lower carbon footprint, responding to customer needs for greener corporations. In addition, remote working can help employees achieve a better work/life balance and reinforce their motivation and commitment to the business. It also means less time and stress expended on commuting, which could increase productivity. Family businesses with smaller on-site teams could also scale down offices, reducing rents and fixed costs.

Linked to this trend, COVID-19 has accelerated the digitalisation of family businesses. Bricks-and-mortar family companies faced a brutal sales decline compared to digital businesses that could keep online stores running. Among our survey sample, those businesses which were able to switch to online retailing during the pandemic and associated lockdowns had less severe sales losses. In the long run, many family businesses in the survey plan to develop go-to-market strategies focused on e-commerce and omnichannel models, rather than remaining reliant on traditional channels that were decimated by the pandemic.

Younger family members are often able to think out of the box and can be more inclined to push digitalisation and the adoption of new technologies.

"The big opportunity for the company is to accelerate the change that we had planned, to become quicker and more e-commerce enabled."

CEO of an Italy-based company that provides household electronic products

The global pandemic has also forced family businesses to rethink whole supply chains, many of which operate on a just-in-time basis and have been badly disrupted. In our survey, even companies that did have stocks eventually ran out after several months of total inactivity. Plant shut-downs, cross-border workers unable to commute, unavailable products and materials and fluctuating prices all made it impossible for supply chains to function normally. It is striking that almost all interviewees highlighted their over-reliance on imports. Many have production sites in-country, while also depending on demand from from external markets. Indeed, even before COVID-19 became a global pandemic, these companies' activities had already been significantly disrupted.

Many of the owners and CEOs in the survey believe that COVID-19 provides opportunities to drive change and transformations. Some family businesses interviewed took the initiative to push through restructurings that would have been more difficult to implement in normal times. For example, they were able to obtain support in the form of government-backed loans and other state aid from COVID-19 programmes in the countries where they operate. In addition, some interviewees said they had set up teams and committees to ensure the best people were in the right positions to tackle the crisis.

Meanwhile, COVID-19 has prompted greater engagement by the next generation in some of the participants in the survey. On the one hand, this involvement has encouraged multi-generational thinking, where the owners are even more mindful of the legacy that they want to leave. On the other hand, younger family members are often able to think out of the box and can be more inclined to push digitalisation and the adoption of new technologies. Other potential benefits include improved decision-making, greater diversity and a better gender balance within family businesses that draw on the insights of different personalities and younger age groups. While younger family members may not yet have the skills and experience to run the business, they can contribute to management discussions. Several CEOs who were interviewed saw younger family members as a valuable resource and were grateful for their involvement. In some cases, it was an opportunity to prepare the next generation to take over the business. For instance, one family has used the crisis to start an education and onboarding process for younger members to help them become better informed and more knowledgeable shareholders over time.

Learnings from the practice

Council of youngers

NextGens often show great commitment and ambition, but can feel constrained about their role in driving the family business forwards. Their key message for the current generation of owners is: trust us, help us and together we can prepare for disruptive change and future-proof our business. We want to be agents of change and believe we have what it takes to succeed in a digital world.

Despite these opportunities, family businesses are still operating like their publicly-owned counterparts in extremely volatile market conditions under the threat of a second COVID-19 wave. While some countries are slowly reopening borders and ending confinement, others are being forced to reinstate local and regional lockdowns. In this uncertain environment, CEOs in the survey say that forward planning feels like guesswork. They have to build action plans that can be swiftly adapted to a rapidly evolving situation and incorporate best or worst-case scenarios. Although they lead businesses with a long-term vision, they are obliged to maintain a short-term perspective and put many strategic goals to one side as they focus on maintaining core operations. During many interviews, CEOs referred to projects that had to be put on hold due to their inability to bring the right person on board or to train staff. For many other family businesses, mergers and acquisitions are no longer a priority, either because cash is critical to survival or because they expect valuations to drop further. In this atmosphere, a cautious "wait and see" mentality is common.

Key lessons

- Family businesses are attempting to seize the opportunity created by the pandemic to push through structural changes and accelerate digitalisation. They are drawing lessons from the remote working measures they were forced to implement to improve their future competitiveness.
- COVID-19 has prompted family businesses to tap into the underutilised resource of younger family members, who bring fresh ideas to the task of implementing necessary changes to secure the company's long-term prospects.

Conclusion/outlook

Family businesses may indeed be better equipped to survive the COVID-19 pandemic than other companies. Drawing on their historic experience of other crises, they display a strong resilience rooted in their distinctive culture. Most of the businesses in the survey remain optimistic about their ability to overcome the crisis. Their strengths typically include liquidity, which makes them less vulnerable than less conservatively managed businesses. Some deficiencies such as lack of talent and over-dependence on key employees may have been exposed, but family businesses have also been adept at tapping into underutilised resources; for instance, by involving younger generations in the business sooner than anticipated.

Ultimately, the ability of the businesses in our survey to weather the COVID-19 storm has sprung from the unique emotional bond that connects the company with the founding family. Owners have experienced a renewed sense of responsibility towards the business and their employees' welfare. Executives have shifted their strategic thinking to ensure the safeguarding of operations while acting as a support to owners. By forcing family owners and external executives to take on extra responsibilities and accelerate structural changes, the pandemic has reinforced relationships and opened the door to further cooperation. Meanwhile, employees who were fully engaged as stakeholders were ready to make some sacrifices for the sake of the business. All these developments are potential sources of long-term strength after the pandemic is over.

3

Making external executives successful in family businesses

"After World War II, my father always had external executives by his side. He depended on them, especially in the 1960s when he pushed the business forward. He could only do this with highly qualified external executives here in Germany and abroad. My grandfather relied on external executives, my father did and so do I. I learned that it is not bad to rely on them and that there will be different opinions or conflicts with them. I depend on hiring people who are better than me."

Owner and Chair of a German producer and supplier of fastening, assembly and systems technology

Learnings from the practice

The right stuff

The ideal profile of an external executive for a family business should include not only experience but also specific skills and competency in key areas. This might include the ability to initiate change, to modify a business model or to bring about a true customer focus across a large organisation.

Apart from entrepreneurial and social abilities, the skill most critical to success is the ability to work well within the specific environment of a family business. This is probably the central competency that differentiates suitable from unsuitable executives for family businesses. It can be spotted with performance-based prediction – what has someone done in the past that demonstrates that he or she will function well within a family business culture? And even more importantly: does his or her style of management fit in?

In our experience, the majority of external executives don't fail because of functional shortcomings. We have encountered situations where the functionally strong executive appeared completely taken by surprise when "suddenly" asked to leave. They have missed the subtleties of critical feedback on behaviour – which the owner assured us they had made crystal clear. Hired on competency, fired on chemistry and style.

A

Attracting and retaining external executives

Finding and recruiting

Any long-established family business will inevitably face the need to hire external executives. Whatever the reasons – to fill roles the family cannot or to rejuvenate leadership with new talent – family businesses must be able to attract and recruit the best qualified external executives. The challenge is to know where to find such executives and make them successful within the company. It's natural for a family to look for potential executives from within. Internal candidates have the advantage of knowing the business and its culture, which makes the transition easier. Some interviewees recounted how they climbed the corporate ladder after working several years for the same family business, ultimately becoming a natural successor to C-level executives. The family recognised their skills and experience and trusted them to lead the business.

Various studies have shown the importance of networking, not only within family businesses but also, in the case of directors, via professional bodies and through personal relationships (de Klerk, 2009; Pittaway et al., 2004). Among the interviewees, though, the relevance of professional relationships was relatively limited for internal candidates, suggesting that it was their experience within the company and their skills rather than their relationships that allowed them to become C-level executives. From the study, it appears that personal relationships can be more important when it comes to finding suitable external candidates. Natural networking exists at a certain level between family business owners and C-level executives within an industry. Some interviewees had not worked for the family business before but knew family members who approached them directly. These exchanges often took place in informal circumstances such as dinners, events or exhibitions, which allowed both parties to get to know each other on a more personal level. Interviewees were motivated to find the right personal chemistry rather than relying on resumes, reputation or references. Focusing essentially on personality traits, some family members turned to their own circle and asked friends to join the company.

"I was already employed by the company as a brand manager. While working with the international marketing director, I also started working more closely with the family, which led us to get to know each other better. From the start, it was clear we had the same way of thinking."

CEO of a Netherlands-based food group

"The owner and I got to know each other through our children's school. Over the years, it became a private friendship. He approached me at a birthday party and said: 'You have to help me now and take over the role of CFO.' I did and I have never regretted it."

CFO of a German biscuit and cake manufacturer

The survey also confirmed another trend in executive recruitment (one that is also true for recruiting directors): the growing relevance and importance of executive search firms. Family owners often use a third party to help them look for a candidate in whom they find a personal connection, who they can trust and has the right chemistry to manage their company. It might be that they simply did not know any suitable candidates, they didn't want to hire someone for the sole reason that he or she belongs to the family, or that he or she has already been working for the company. Whatever the reason, family businesses increasingly trust executive search firms to assist them when no internal candidates are suitable. As well as searching for the right fit, executive search firms can support family businesses through the whole process by handling matchmaking, managing expectations, contract negotiations, referencing, etc.

"From the beginning I say openly that having an external executive is better than hiring someone solely on the basis that he is a family member. A family member is always the second choice for me."

Owner and CEO of a German fashion purchasing association

Family owners often use a third party to help them look for a candidate in whom they find a personal connection, who they can trust and has the right chemistry to manage their company.

Learnings from the practice

Assessing leadership potential

We believe that evaluating future potential will increasingly be as important as looking at current skills.

We see leadership potential consisting of the ability to successfully deal with new and unforeseen challenges, the capacity to strengthen existing capabilities and to develop better ways of working together. This requires a set of skills and personality traits that combine seemingly contradictory qualities. People with truly exceptional leadership potential will be strong across different dimensions in each of three categories:

Intellectual scope:
curiosity (expanding the relevant set of information, embracing complexity) and insight/making sense (condensing all the relevant information, reducing complexity).

Inner strength:
firmness (determination, perseverance, being true to fundamental values) and flexibility (adaptability, resilience, being able to come back after experiencing failure).

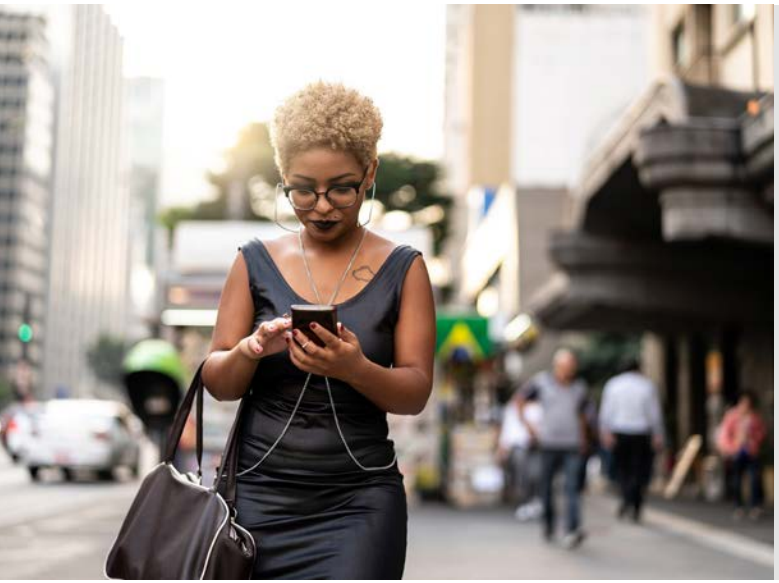
Outer reach:
being strong with people both one-on-one ("retail" – connecting with individuals, building strong relationships and loyalty through empathy and persuasion) and in groups ("wholesale" – fostering team spirit and rallying a group behind a common cause).

Self-awareness is an over-arching driver of potential because it transcends all three categories in each of their dimensions.

From our discussions with family owners and executives, two distinct groups of external executives have emerged. There is a distinction to make between those who had no connection with the business before joining but who did have a relationship with the family and those with no connection to the family or the business whatsoever. The distinction is significant because it affects the integration and onboarding of candidates after they've been recruited: each group has different dynamics. Candidates who had connections beforehand are more proactive and in these cases the integration and onboarding processes tended to be more informal. Some interviewees who personally knew family owners explained how they even designed their own onboarding and integration. The family business had set up a process but these people could take the liberty to circumvent it and felt comfortable enough to go ahead and meet people and visit facilities. Additionally, it was easier for them to overcome issues such as the lack of transparency about the company and disagreements with the owners during their first few days because they already had a relationship before joining.

83%

of the external managers interviewed had no relationship to the owner family before joining the company.



Learnings from the practice

Hopes and fears

According to our conversations with executives the hopes of external executives joining a family business mostly focus on a stable business platform with long-term, reliable investment horizons as well as decision–making independent of quarterly results. They expect to find flat hierarchies, few decisions-makers and straightforward and apolitical lines of communication (no grey men or hired guns). And they hope to find the bright side of the family business spirit – with a value-based entrepreneurial culture which is strongly people-orientated.

Conversely, their fears will be around potential hidden agendas among family members and a general lack of transparency (such as a failure to disclose existing problems, share information on the real financial state of the business or admit to personal conflicts), irrational behaviour (such as family shareholders who do not think they are accountable to anyone and who act in an arrogant or entitled fashion) and an inconsistent approach (such as family members who are protected from censure or a system of promotion based on tenure rather than performance).

“We ended up with a non-family member as CEO and it worked really well. The situation arose because we could not find a suitable family member to be CEO. We had to fill it with an external. We did not want to force a family member to do a job he/she did not want or was not fit for simply because we wanted family in this role.”

Owner and Chair of a Swiss industrial manufacturer

The critical role of the chair

The question of whether to have a family member as Chair is often a dilemma for family businesses. Even if they reluctantly appoint a non-family member, it can be a great advantage, especially from the perspective of attracting and retaining talented external executives.

In a family business, the Chair has an extended bridge-building role that goes beyond being the link between shareholders and the management team. They have to protect the interests and the legacy of the owning family, whether it retains family members in the management team or not. He/she may also be a bridge between the generations – those just getting involved and those retired from the business. And the Chair plays a lead role in safeguarding both the business and the family in the long run. At the same time, he/she must also think about the management of the company as well as being responsible for good governance, and should assist the management team. All this should be taken into account when making the appointment.

Many family members interviewed highlighted not only the importance of the role of the Chair, but also how the person chosen inspired them, which was a critical factor in getting them to join the business. For some there was strong personal chemistry; for others there was clear mutual interest in working together. Owning families should consider all this when making the appointment and remember that whoever they choose is part of a team that must work with the CEO.

“[The Chair] was smart, politically astute. I felt I could work with him. He was supportive and I could learn from him.”

CEO of a UK private bank and wealth-management business

Learnings from the practice

Good governance makes for better hiring

The sustainability of a business depends on its long-term ability to attract capable leadership talent, and that in turn depends in large measure on the quality of its governance. Good governance, therefore, is not only important for its own sake, but also as a requirement for attracting – and retaining – top management talent, be it external or internal.

To achieve the desired outcome the board needs clarity of purpose. The primary purpose of the board, at least in a private enterprise, is to exercise the owners' rights and obligations as well as those of other stakeholders and to protect their interests, ensuring that the company is well managed, that fundamental decisions are taken on the basis of good judgement in a timely manner. A productive and well-functioning board, however, is also an indispensable resource for management. The best CEOs appreciate – and seek – the advice and questions of critical, independent-minded board members, especially an experienced Chair.

A key focus for an effective board is talent and it has to make sure the company is managed by the best people available. This means not only selecting and employing the right executives, but also helping them integrate. It must supervise, support and challenge them to help them grow and compensate them adequately to retain them. When necessary it must replace them.

The Chair is pivotal

The Chair should be both a serious thought partner and mentor to the executive team and personify the identity and values of the company and its owners. This is never more true than in times of crisis when the board, and particularly its Chair, must ensure the company reacts in a calm, reasoned and expedient manner. The Chair must also ensure that the executive leadership team is up to the task, backed and supported by the board where appropriate – or replaced in a timely manner in accordance with the established succession plan.

The board as a bridge

We see a wide variance in the supervisory boards of family businesses – in terms of size, composition, level of professionalism, degree of independence and strength of mandate. One aspect that is of particular importance to the CEO and executive committee of family businesses is the degree to which the board is willing and able to act as a bridge between family shareholders and external management – advising, monitoring and intermediating when necessary between the two camps.

Key lessons

- When they cannot find suitable internal candidates for succession, family owners look for an external candidate with the right personal chemistry as well as a particular set of skills and experiences. Either they turn to their close friends or they use the expertise of executive search firms to assist them through the whole process.
- The style of the external candidate's introduction and onboarding will depend on whether he/she had an existing relationship with family members.
- The Chair has a unique and critical bridging role to play with the family, but he/she also needs to meet the expectations of external executives.

B

Building a relationship between family members and executives

Understand the fundamentals

The challenges faced by external executives include the unique spirit of any family business, where the culture and values are paramount, and the emotional value family members attach to the business. A natural tension can arise that is rooted in two potentially conflicting visions. The family, on the one hand, is so intimately linked to the business and its history that it believes it is irreplaceable. The management, on the other hand, provides the skills to lead and govern the company and can have a tendency to think it does not need the family. Making external executives successful in family businesses is about reconciling these two positions to make sure both sides understand the value of the other. It is about building a long-lasting relationship and allowing both sides to express themselves.

Interviewees used different terms to describe how they perceived the relationship with their counterparts. The main lesson is that one size does not fit all – there is no silver bullet that works for all family businesses. Indeed, interviewees gave varying opinions and advice about what this relationship is and should be. What emerged was the extent to which different visions and ideas were influenced by personal experiences, and that it can be very difficult to take a step back to reflect about what makes the relationship work. In other words, the views some expressed and the advice they gave proved to be relevant in their own personal situations but would not necessarily have worked for other family businesses and executives.

This conclusion is all the more relevant when it comes to the relationship a CEO has with the family. All the interviewees, despite their different points of view, stressed the importance of getting it right and emphasised that this relationship was a critical part of working in a family business. For some, it is purely a professional relationship – it is about the business rather than being friends and this is how the relationship should stay, with no place for feelings. Others described a very special bond where intimacy and closeness prevailed, how their personalities were alike and that they were very good at listening to each other because they had shared some very special moments during the course of their work.

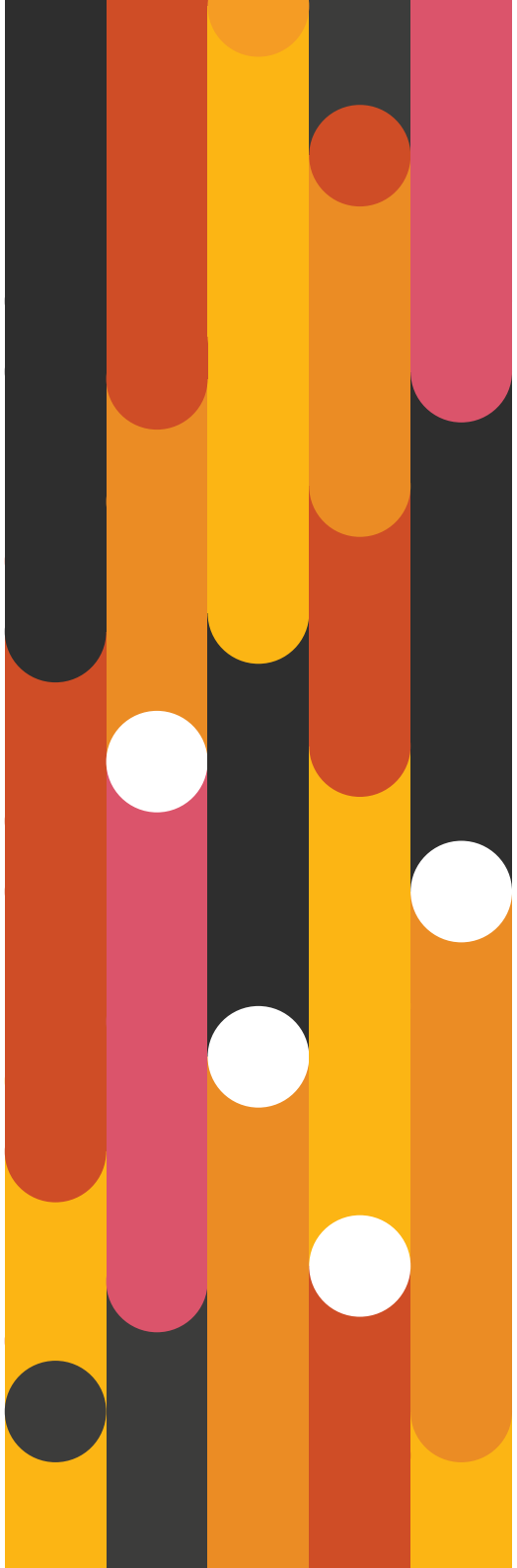
Taking a step back, the best analogy to describe the relationship between an external CEO and a family member would be the one between a king or queen and a head of government. In both instances, the relationship allows for personal development, but there are also certain characteristics of which both parties must be aware. A royal family has longevity across several generations; its story is closely linked to that of its nation; it is loved by its people; its political involvement has greatly decreased – government is responsible for the country on a daily basis and its head takes decisions

> “As an external executive you have been given power by family members. But as someone once told me, it’s not my name above the door.”
>
> CEO of a Liechtenstein project development group

to carry out reforms; the head of government holds the executive power on behalf of the monarch for only a limited time; and the head has the responsibility to ensure there is a legacy to pass on. CEOs were very clear: the power they wield is not theirs but lent to them by the family only for a period of time. One CEO talked of the duty of his position, which comes with a lot of power and responsibility, and that he would never imagine treating the company as if it were his fiefdom.

Beyond these common characteristics, each CEO will also need to define their own relationship with family members because the position is a delicate one where they have to take care of both the business and the family. The external CEO has to be professional and display the right character traits to handle situations. Resilience under stress is vital. Situations may arise where the interests of the family and the business do not align, and it is down to the CEO to be firm enough to be heard while staying in tune with family members.

The interviews conducted in the course of the survey highlighted another element that greatly affects these relationships – the state of the business when the external executive takes up their role. In fact, this may have a greater influence on the relationship than on their own success or failure. Here again, personality and preferences play a decisive part and it should not be assumed that just because a business is in bad shape the relationship will necessarily deteriorate or that the executive fails. Some executives said they welcomed finding themselves in turnaround situations where they could make substantial changes.



"I am in a trusted position at the behest of the family, but the cardinal sin would be to say that I was the family. I think that would be completely inappropriate. There are certain things that I know the family would say and comment on that I shy away from because I think that is their privilege. And that can take a little time to figure out."

Executive Chair of a Danish consumer products group

"The most critical element for new employees is that they need to know their roles and place within the company and the family."

Chair of a German educational media provider

A challenging relationship

The nature of the relationship itself is complex. While the framework in which it develops is set, there is still room for fine-tuning it between family members and external executives so that each can find what works and develop that. It is complex not only due to the freedom for individuals to express themselves, but because also managing the family can quickly become challenging. When recruiting and integrating external executives, family owners have to recognise and work with their recruits' egos. These executives are highly qualified, with proven track records and years of experience and knowledge in the industry. And given their success, they hold themselves in high esteem. This aspect of their personality was evident during almost all the interviews. It was neither arrogance nor vanity, but rather a strong belief in their character and skills – they were self-made professionals. Most importantly, for many of the executives in the survey who were successful in family businesses, this emerged as an underlying self-belief that they expressed in different ways. Some expressed it in resilience, others in respect for duty, while for still others it showed in a strong will to prove themselves. One CEO reported that from her own experience the level of skills of those working in family businesses was lower than elsewhere. This CEO saw it as another way to demonstrate what she could do. She also perceived the need to be more operational and that being a CEO in a family business meant being "both a general and a foot soldier.

The human ego is complex and may find expression in various ways that perhaps are not immediately obvious during interview, something family owners must keep in mind. During the survey cases emerged of unsuccessful hires, with interviewees pointing to the personality or ego of the candidates as the reason for failure. One family member explicitly said that in their company they did not like narcissists or egomaniacs.

> "Everyone has a little vanity and it is important to be aware of that."
>
> Former Managing Director of a Swiss company engaged in producing confectionary

> "The CEO was a very top-down–I-know-it-all guy. He could not go into detail and did not accept someone knowing more than him so as to help him make different decisions. This is why this project failed."
>
> Owner and Chair of a German manufacturer of machinery components

Learnings from the practice

Wanted: Big talent, small ego

Family businesses are often characterised by modesty and restraint – they put company over personal interests. This means family businesses principally look for decent, competent personalities with a strong track record, especially in strategy and leadership. In other words: they are looking for outstanding talents with small egos.

If you are not down-to-earth and a doer you won't survive in that type of situation. People are super nice, but your organisation will spit you out if you are arrogant or if you work in an ivory tower.

CEO of a Swiss confectionery company

While self-belief and confidence in one's abilities are necessary to be successful in family businesses, they have to be carefully balanced. Unanimously, family owners, board members and even C-level executives surveyed stated how important it was for external leadership to know their place and keep their ego under control. It is the perfect balance between self-belief and humility that allows them to be welcomed into the business and be successful.

However, external executives are not the only ones to have egos. They are also found among family members who embody the legacy of the business and carry its history with them. They have a deep and unique knowledge about the company, so they may think they know most about what is best for the business. Yet external executives are brought in to help the business grow and they need to be able to express themselves and use their skills in the service of the company. Family members have to tone down their ego in order to make the recruitment a success.

It takes both sides to make the relationship fruitful and goes beyond controlling oneself – the cornerstone of this relationship is trust. The ability to build lasting trust is critical and will determine the success or failure of the candidate. All executives interviewed said trust was the key factor in dealing with the family and maintaining their position.

Unanimously, family owners, board members and even C-level executives surveyed stated how important it was for external leadership to know their place and keep their ego under control. It is the perfect balance between self-belief and humility that allows them to be welcomed into the business and be successful.

Key lessons

- A complex and unique relationship develops between a family and an external executive. While the relationship allows for personal development, it has characteristics similar to a political relationship where the royal family entrusts the head of government with executive power for a limited period of time.
- The position the CEO holds involves a delicate balancing act, as he/she has to manage both the interests of the family and of the business. Some character traits such as resilience to stress will be vital to perform well over the long run.
- Maintaining a relationship involving highly skilled individuals driven by self-belief is hard. Keeping egos under control on both sides is absolutely necessary to make an external hire successful.

C

Sustaining the integration

Aligning the family and executives

Ensuring the success of an external executive is hard work that must be sustained. The style of the relationship should be clear from the outset. However, it is also an ongoing collaborative effort that changes over time. This collaboration means working hand-in-hand to obtain and convey accurate information so C-level executives and owners can align standpoints and interests. With this in mind, the survey found that the greatest challenge for interviewees, whether executives or owners, is communication. Along with trust, communication is fundamental to success and includes several aspects for which both parties are accountable.

The owners' responsibility is to ensure they are clear about what being an owner actually means to them. Some will be very hands-on, while others will be more distant and allow executives greater freedom in decision-making. Whatever the case, it is crucial that they convey their view clearly. It is equally important that they make sure the management team understands what, in their opinion, doing a good job involves. Legacy, values and culture are part of the special family business spirit and success is not exclusively measured in financial key performance indicators (KPIs). Family owners may have non-monetary priorities such as the welfare of their employees and they must make C-level executives aware of these.

"Successful integration involves two-way communication and a balance between the value agenda and the family values."

Owner and Chair of a Swiss company engaged in retail, real estate, private equity, financial services and renewable energy

"We were clear on a narrative; my role is to lead the organisation and make it relevant for the future."

CEO of a UK private bank and wealth-management business

Such priorities, inextricably linked to the culture of the business, may be hard to grasp, especially if they are unwritten. Their communication is vital and this is a responsibility shared between both sides. It is incumbent upon executives to know and understand such rules and cultures. Since these elements cannot be fully appreciated by simply reading and talking to people in the organisation, owners must play their part to communicate them.

External executives bring with them their own conceptions of the world, their own ideas and principles. As already mentioned, it is their responsibility to manage any diverging interests between the business and the family itself. But they should also clear up any misconceptions prevailing within the company. One CEO explained that the greatest challenge for the new management team was to address the discrepancy between the company's internal and external image. Internally, the company was perceived as more competitive and profitable than it really was and this led to a lack of urgency about what had to be done to remedy the situation. Executives need to be ready and able to convey their visions and convictions to bring everyone together in turnaround situations.

Trust and good communication are key to building relationships and ensuring the successful collaboration between external executives and family owners in the long run.

It is just as important for external executives to be clear about their own values as it is for the family owners. Values define leadership style and executives must be able to convey them to their teams and the family members to inspire and earn their trust. More importantly, the culture and values of the executive must be aligned with those of the family business. Interviewees stressed how critical this was and that without it, a fruitful, sustainable relationship was impossible.

The critical importance of onboarding

Trust and good communication are key to building relationships and ensuring the successful collaboration between external executives and family owners in the long run. Achieving both is a lengthy process and integration, even carried out well, can take years because the candidate needs opportunities to show their skills, meet people and be accepted. It's something family businesses must pay special attention to. The whole point of this phase is to get to know and understand each other better.

External executives should use the integration period to understand what is worth fighting for because they cannot change everything in a family business. This implies trade-offs and side-stepping matters that might have been of importance to them in the past or in other businesses.

The onboarding process is extremely important given the challenges of successfully integrating external executives. According to the interviewees, it is increasingly the case that any formal introduction process lasts several months as the hires learn about the people, culture and values of the business. But it may take longer, particularly if there is much to be changed.

"The industry was ethical and I could stand behind the product. It was a brand and product that I can identify myself with."

CFO of a German biscuit and cake maker

"This is a continuous journey of adjustment. It takes years to understand the brand, the culture, what it means and stands for."

Executive Chair of a Danish consumer products group

"This phase was very worthwhile for both parties because I learned a lot about the family. It also takes time because the candidate has to build their presence, show their skills and be accepted by external stakeholders and employees."

CEO of a Liechtenstein project development group

The executives interviewed did not accept their positions in order to be in full control, and while they appreciated putting their skills to use at the highest executive level, their motivation for accepting a position was the learning opportunities it offered them.

It is not in the best interests of anyone to throw candidates in at the deep end without the support of a mentor or a partner. Believing external executives should be independent and able to manage their own introductions is a misconception. The executives interviewed did not accept their positions in order to be in full control, and while they appreciated putting their skills to use at the highest executive level, their motivation for accepting a position was the learning opportunities it offered them. As the esteem in which they hold the Chair showed, they seek collaboration and opportunities to develop. Letting them manage their induction themselves, or not sustaining it, can rapidly hinder them. It is the responsibility of the owning family to provide their executives with the environment in which to flourish.

Many family businesses prepare for the arrival of a new hire with an onboarding plan, but almost no one among the interviewees had a standardised onboarding process. This is understandable since continuity and longevity are key values of family businesses and CEOs and other senior executives often hold their positions for a very long time. Furthermore, at the highest level, the onboarding process should be tailored specifically to each candidate. Although the process is not standardised, this does not mean that there is no onboarding at all. Typically, onboarding in the family businesses surveyed takes about six months, depending on the scope of the company and its presence in international markets. During most onboarding processes, either the owner or a designated person was in charge to ensure that the new hire would get access to everything they would need. Most external C-level executives interviewed reported travelling to most of the facilities and trying to meet as many employees as possible to gain insight into the company.

“There is no set plan as it depends on the position and the person who starts at the company. I make sure that they understand all the connections and meets the important people in the company, but they must also be ready to stand on their own two feet.”

Owner and CEO of a German fashion purchasing association

Learnings from the practice

Onboarding of new executives is not just "nice-to-have"

The appointment of any leader to a new role is a decisive moment in both the executive's life and that of the organisation. Yet while great energy and attention is often given to the selection of that leader in terms of a comprehensive search process, there is another element to the appointment that, in our view, is at least equally important: making sure the leader is well prepared for success.

In cases where a C-level hire does not work out, it is predominantly not because of an error of recruitment but due to issues that arise in the first six months of tenure: these can include inadequate preparation; cultural misunderstandings; lack of contextual awareness; misjudgement of internal politics; and a lack of executive committee knowledge. The first three to six months are therefore critical for the success (or failure) of a new hire – no matter how experienced and well prepared the new leader might be. An organisation must therefore devote significant attention to the transition of that new leader, regardless of whether he or she is an internal or external hire. It is all the more critical when the new leader is the first external executive or CEO in a family-owned enterprise, and still more so when it is the executive's first time working for a family business.

AvS - International Trusted Advisors have made it an integral part of any executive search process to support our clients – and the newly appointed hire – during the critical onboarding and integration process. We believe that a well planned and executed integration plan, which also focuses on cultural integration, can significantly reduce the time it takes new leaders to reach their full effectiveness and, perhaps more importantly, reduce the risk of failure.

Integration is even more important for CEOs

In this exceptionally difficult and challenging era of an economic downturn and ongoing pandemic, new CEOs will have even less time to prove themselves and build trust. A planned and active integration programme provides critical and timely support. It ensures the new CEO lands well, building trust, demonstrating quick wins and setting the right priorities, to fulfil their potential.

Despite the need and relevance of onboarding processes for family businesses, their value is still underestimated. Within family businesses, the process is viewed as a simple formality that can speed up integration and provide time for the candidate to adapt. What is more surprising is that the surveyed candidates also took a casual approach to onboarding – something they managed more or less by themselves. Some CEOs said they created their own onboarding plan, even in instances where the company supported them. These comments and observations illustrate how the ego can become an obstacle towards better integration. If the candidate does not see the value of the process and thinks he or she can handle it themselves, it becomes harder for the company to set up. This is all the more true if the company itself fails to grasp that onboarding can benefit both sides.

There was one notable exception. One family member stressed the importance of the onboarding process and the need to have responsible people who are all on the same page around the table. It is worth observing that this person had seen a number of failures when hiring external executives in the past. It was these failures that had pushed them to reflect on what went wrong and why. That was when they realised the value of onboarding.

So onboarding matters. It is the opportunity to build trust and improve communication, the two cornerstones of an external executive's success. It is the period when they can overcome a lack of knowledge about family shareholders and owners, any lack of transparency and honesty, and inadequate in-house ambitions and expectations. There is much more to it than touring the company to learn about the facilities and meet staff. The main exchanges should be between the new executive and the family because together they need to address all the critical aspects of the relationship. They have to define the change agenda and the purpose of the executive, and discover the visions and values they share.

Learnings from the practice

Active rather than passive integration is crucial

Active integration support begins the moment a new leader is chosen. The focus of this initial discussion should be on challenges and opportunities within the organisation and/or function – and the risks involved. This is an important discussion in any transition, but is particularly so in family businesses which tend to have unwritten rules. It can be a tricky moment and companies can greatly benefit from professional support when announcing a new leader and preparing the selected person for the new role.

The support should start long before the new executive actually starts work. The new leader will need to understand the company culture; identify the most important stakeholders (which may include members of the family owning the business who do not have a formal role in the organisation); the extent of their own role and influence in the organisation; how everyone tends to operate; and the expectations (and underlying concerns) placed on the executive by the owners, board and line executives.

A strategy should be developed for how the new leader should best communicate what he or she intends to do. How is the new leader's agenda going to be designed, who will need to be aligned, what are the potential pitfalls of the job? It's worth thinking about how to anticipate and prevent problems. A clear communication plan for an incoming CEO can be key to establishing the agenda and aligning important stakeholders inside and outside the organisation right from the start.

It should be clear prior to the start in the new role who the new leader must meet in the early days and the steps required to get a grip of the organisation as quickly as possible. This might include measures designed to get a clear, transparent view of the new team – the direct reports and their aspirations, hopes and fears. Best practice is to use the opportunity to conduct a formal management appraisal prior to the new CEO joining so he/she can gain a timely, impartial and insightful overview of the top team.

Personalised coaching can help the CEO to develop trust in his or her team and shape first impressions. Active integration support during the first three months can include coaching, 360-degree evaluations and targeted feedback, all focused on helping the leader get strong initial traction. A feedback loop needs to be established ensuring that the new executive can course-correct quickly as required.

Many businesses assume they can organise a successful onboarding themselves – or can even do without a systematic onboarding process completely. We have seen cases where it was assumed that top executives or outstanding talents "will know how to swim". Indeed, it can be assumed that when a highly experienced, highly skilled – and highly paid – executive takes on new responsibilities this person will know what it takes to be successful from the start and will have done thorough due diligence (including meetings with stakeholders and reference checks) beforehand. But the point of joining is a critical moment and one that even experienced executives will not have lived through that many times. It is an error to assume that success in this situation only hinges on the executive in question. It is a task for the entire organisation and in particular it is the responsibility of the owners and their representatives, in many instances the board and especially the Chair.

Learnings from the practice

The “change contract”

When rapid and urgent transformation is needed, how does an external executive best make the necessary changes to the company? The pace and type of change are fundamental, with many considerations. First: the level of buy-in for change. At the beginning, external executives tend to underestimate the importance of a formal agreement on any change process they recommend. After the first 100 days at the company, the successor should present to the family or advisory board a written report on the perceived status of the business and on the planned change measures. Only on a formal ‘go’ signal should the plan be enacted. Second: many people do not want change and would rather keep familiar processes in place. The momentum and energy generated by the handover of leadership must be exploited - change must be initiated promptly. The more the team feels that everything will remain the same, the more difficult it will be to get something new off the ground. Third: change planning and implementation must not take place behind closed doors. The entire team must be brought along, integrated, motivated and held accountable. This may require enormous change for each individual and everyone must be supported closely by the new leader and his/her management team. Only in this way can such an important process succeed.

A statement of intent

It is still rare for a CEO successor to be formally announced to the organisation. An official public statement by the family that the incumbent has chosen their successor according to professional criteria and that this successor has now been fully entrusted with wide-ranging responsibility for the business is all too often missing. Yet the formal act of ´anointing´ the successor should carry at least the same importance in the handover communication as saying farewell to the founder/family member.

Key lessons

- Communication in all its forms is the greatest challenge for family owners and executives. It is the responsibility of both parties to make sure they convey their visions, their expectations and their ambitions so these can be aligned.
- Integration into a family business is a lengthy process that can take years. Onboarding processes should be implemented not only to get executives up to speed but also to align, build trust and establish the basis for effective communication.
- While some family businesses do organise integration plans for new hires, many treat it as a mere formality and most do not do it well enough. Family owners and executives still widely underestimate the value of onboarding and its critical contribution to a successful hire.

Learnings from the practice

Onboarding tips for the organisation

Begin the onboarding during the interview phase – be open about the strengths and weaknesses of the company, the culture, stakeholder maps and how decisions are made.

Dedicate time to discussing team and organisational dynamics during interviewing and onboarding stages to help the new executive avoid invisible cultural barriers.

An assessment of how an executive's strengths and weaknesses align with objectives for the role can help provide a customised roadmap for onboarding. Consider using an impartial executive coach who can offer an objective sounding board and/or help with course correction if necessary.

Ensure operational overviews and clear performance expectations derive from strategic priorities and communicate these with the executive. Avoid surprises.

If a problem is identified, address it quickly – the earlier an issue is exposed, the easier it can be resolved.

Do not forget to help with family orientation and integration if the move requires a relocation – and career counselling for the executive's spouse in the case of dual-career couples. An unhappy spouse is the leading cause of failed expat assignments.

Onboarding tips for the hired candidate

Be proactive in communications and alert for cues on culture. In some cases, it is a fine line to work within the culture while seeking to change it.

Signal that building relationships is a priority.

Don't focus only on your superiors. Building relationships with your team and knowing how to work within the matrix will have a huge influence on your success. Commissioning a management potential analysis is a way to gain timely and deep insight into the strengths and weaknesses of the executive committee.

Consider crafting an 'elevator speech' that sets out your reasons for joining and what you hope to contribute.

Use HR. There is a reason it is called Human Resources – it can advise you not only on team skills and gaps, but also provide a reality check with feedback on how your performance and style are perceived by those within the organisation.

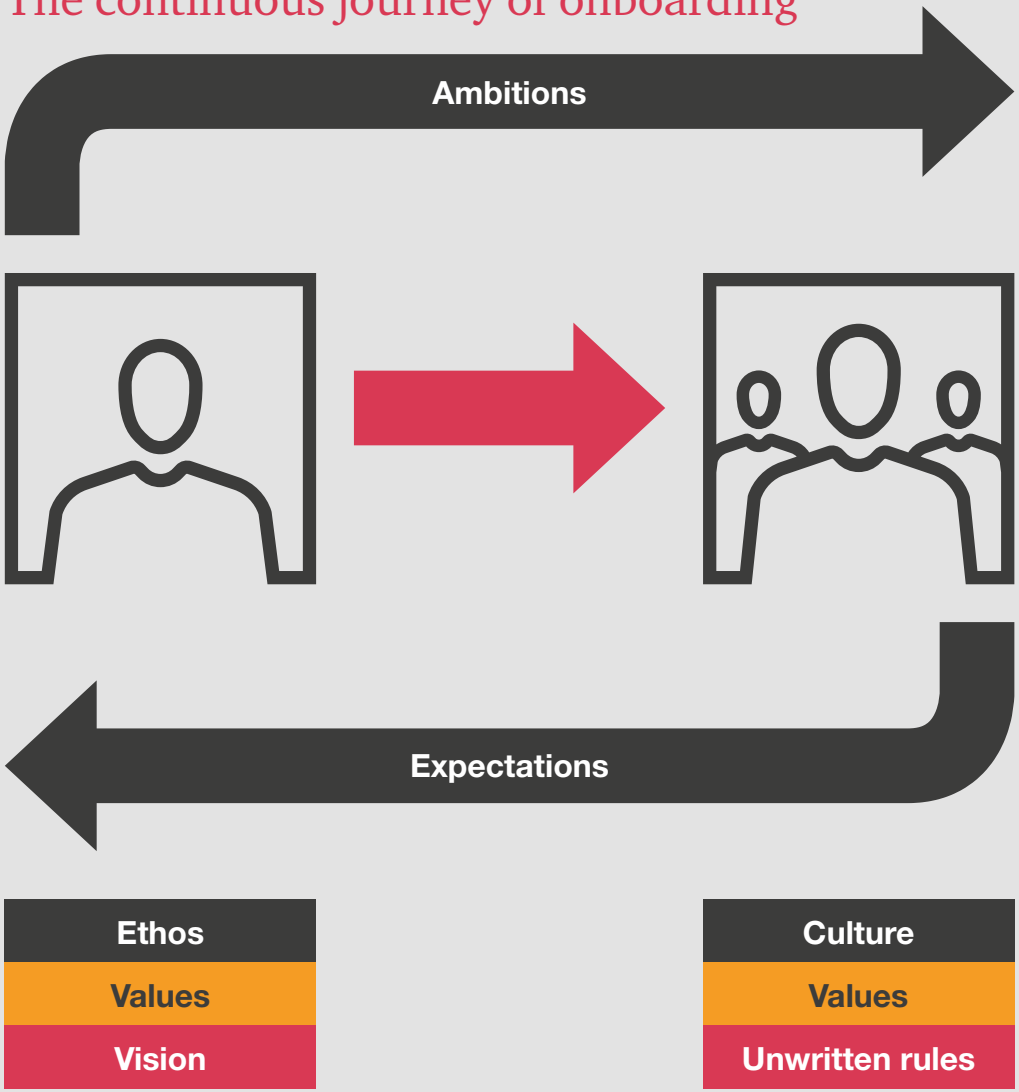
Be mindful of different stakeholders and communicate clearly, openly and frequently – this is even more important if you were brought in as an agent of change.

Conclusion

The hiring, onboarding and integration of external executives at a family business is a complex process, with a number of elements that need careful consideration. Unlike a conventional company, a family business is best understood through its culture, values and people. Ensuring an external executive understands and fits with these is central to the selection process. One of the main goals of the family business is not the maximisation of profits, but its longevity and maintenance of what it stands for. Because family businesses are unique, hiring a successful external executive is not just about their skills and personality. They have to work together to create a narrative and change agenda that will serve as a solid basis for the relationship.

Integration into family businesses also takes time and the onboarding process should be treated as a continuous period of adjustment during which the family owners and executive get to know one other and align their visions. It cannot be left to the executive to realise their own onboarding. On the one hand, the family carries its history, culture, values and most likely a set of unwritten rules that the executive needs to know. It is the family's responsibility to provide the executive with the right environment in which to learn and understand all this. On the other hand, the executive will bring a certain ethos – their values and vision that they have to convey to the team and the owners so as to best manage the interests of both the business and the family. Trust and effective communication are the two cornerstones upon which to build and sustain this process, especially when it comes to managing the different egos that may threaten the process. Humility goes a long way on both sides.

The continuous journey of onboarding



Source: PwC

Active integration programme for a new CEO

The process should begin early (long before the start date) and continue through the first six months.

Phase 1 – Between signing up and starting: Building understanding

Kick off discussions with the incoming CEO by going through their plans, expectations and integration agenda in detail.

Undertake one-on-one, confidential discussions with the CEO´s future direct reports covering their individual expectations, concerns, hopes for change, challenges and how to address them, etc.

Share the latest HR performance evaluations on the direct reports or, if there are none, conduct a management appraisal analysis. The objective is to provide the incoming CEO with a consolidated, outside-in perspective on the team and individuals ahead of their first day.

Cultural survey: share any pre-existing employee surveys. If none exist, commission a short questionnaire to assess the organisation's culture, typically covering four dimensions: vision and goals; performance and execution; organisational orientation and decision-making; learning and renewal.

Phase 2 – The first 90 days: Building trust

Tour key offices and sites, ideally with the Chair.

Hold one-on-one sessions within the first two weeks between the new CEO and their direct reports, with discussions focused on personal experiences, challenges and expectations.

Team-building offsite: to be held with the new CEO and their direct reports within one month. Use discussions and feedback sessions, team dinners and extra-curricular activities.

The Chair should mentor from above but also select a manager who knows the group well or a senior HR executive who can have part-ownership for the onboarding in addition to their day job.

Appoint a chief of staff or similar to help the new CEO be more effective and to serve as a liaison officer. Typically, the individual put into the role is a high-potential, early-to-mid level employee. For the employee, this can be a good developmental opportunity and typically the length of tenure would be one to two years.

Schedule meetings with key customers, suppliers and other external partners, co-ordinated by and done with the co-operation of the executives in charge of these relationships. To be completed within the first 180 days.

Have a programme of meetings with key family members and ideally include the next generation.

60-day check: develop a short questionnaire to check on the CEO´s initial thinking, assessment of operations and critical decision-making requirements, and seek the impressions of the Chair.

Phase 3 – The second 90 days: "Building momentum"

Run a 360-degree (confidential) feedback exercise conducted no later than 180 days into the CEO's tenure and include referencing from key stakeholders (Chair, board, executive committee).

Aim to take the pulse of both the CEO and the organisation to gauge integration, alignment, performance and overall level of fit.

Provide positive reinforcement, alignment messaging or course correct as appropriate. It assists the CEO and the company to recognise shared endeavours, build momentum and focus on long-term goals.

Research constraints

The necessity of good onboarding protocols and processes that need to be sustained over time is underlined by the first survey. Yet while interviewees freely answered all the questions, and were guaranteed anonymity, only a few reported issues during onboarding or even unsuccessful hires.

Most interviewees (92%), including both family owners and external executives, were men, reflecting the reality of a male-dominated sector. However, it would have been interesting to have a more balanced gender sample to compare the experiences of men and women, especially regarding onboarding. In this context, it appears significant that while very few respondents had a mixed experience of their onboarding, some of those whose induction was most complicated were women. It would have been useful to have more female perspectives in order to analyse whether any gender-related differences emerged during the process of recruiting and integrating external executives. Additionally, the fact that the respondents were all European family businesses may be fairly significant, given the role of culture and values in such enterprises.

The necessity of good onboarding protocols and processes that need to be sustained over time is underlined by the first survey. Yet while interviewees freely answered all the questions, and were guaranteed anonymity, only a few reported issues during onboarding or even unsuccessful hires. This discrepancy suggests that owners and executives may have preferred not to disclose some information to protect the reputation of the business or the family. Nonetheless, it was possible to infer in several instances that more thorough and tailored onboarding processes would have prevented some hiring failures.

For the COVID-19 survey, it is important to note that the interviews were conducted in June 2020, in the middle of the pandemic. It is still too early to draw all the lessons and insights from this unprecedented emergency and it would be worth re-interviewing the respondents at a later time to discover how effectively they managed to overcome the situation; in particular, what changes were implemented that will be fully integrated once the pandemic is over. Will the extra care for employees and the collective solidarity that arose during these hard times prevail in the long run and become integral to the company's culture and values? Or were they just a temporary phenomenon that helped the business navigate a path through the turmoil?

About the authors

Peter Englisch
Global Family Business and EMEA Entrepreneurial and Private Business Leader, Partner,
PwC Germany
+49 201 438 1812
peter.englisch@pwc.com

Peter is PwC's Global Family Business and EMEA Entrepreneurial and Private Business (EPB) Leader. He has more than 28 years' experience in providing both international and national companies with assurance and advisory services, and in supporting family-owned businesses and family offices in addressing a broad range of issues, including succession, governance and growth strategies. Peter is the co-author of a number of family business, family office and growth company publications with the Center of Family Business of the University of St. Gallen, Switzerland, and with other academic partners. He is a board member of the Family Firm Institute (FFI), a Certified Public Accountant and tax advisor in Germany, and a US Certified Public Accountant (CPA). Peter holds a Master's degree in Economics from the University of Münster, Germany.

Johannes Rettig
EMEA EPB Business Development Leader,
Director, PwC Germany
+49 0201 438 2744
johannes.rettig@pwc.com

Johannes is PWC's EMEA EPB Business Development Leader. He has more than 21 years of professional experience in diverse roles in Business Development, Marketing and Knowledge Management, working for Professional Services firms, supporting leadership teams across service lines, market segments and industries in particular in proposal and credential support, as well as thought leadership surveys and publications. Johannes is specialized in market research and knowledge management projects on a Global and EMEA level with a focus on Small and Medium-sized Enterprises (SME), Entrepreneurial and Family Businesses (public and private) as well as Family Offices. Johannes holds a Master's degree in Economics from Paderborn University, Germany.

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The pivotal role of family businesses in economies worldwide is underpinned by their unique long-term vision, values and legacy. Success is built on their ambition and value systems. It grows with their potential and agile decision-making. It shapes their legacy. This distinctive set of characteristics gives family businesses its competitive advantage. However, this competitive advantage can be threatened by today's fast-paced change and radical disruption in the market.

That's where PwC comes in. As your trusted advisors, we can help family businesses manage ownership and growth at every stage, by providing support with family governance, succession planning and business continuity, next generation education and transition, private wealth management and family offices, philanthropy, values and purpose and more. No matter where your business is on its journey to success, we can be at your side with the insights and solutions you need to stay fit for growth and moving forward at the right pace.

Further information is available at: www.pwc.com

Morten Bennedsen
Hoffmann Chaired Professor of Family Enterprise (INSEAD)
+33 1 60 72 91 94
morten.bennedsen@insead.edu

Morten Bennedsen is the André and Rosalie Hoffmann Chaired Professor of Family Enterprise, the Academic Director of the Wendel International Centre for Family Enterprise, Professor of Economics at INSEAD and the Niels Bohr Professor at the University of Copenhagen. He obtained his PhD from Harvard University, Master from London School of Economics and is a leading researcher in family business and corporate governance. He is the author of 3 books, 30 articles in top economics and finance journals, 200 global cases, reports and media articles on 6 continents and writes regular columns in China, Hong Kong, Korea, Singapore and Taiwan. He served as an advisor to the Danish and UK Government, EU, private equity funds and the World Bank. He gives talks and consults with families and national, regional and global service providers in Europe and Asia.

Sonia Tatar
Executive Director, INSEAD Corporate Governance Centre & INSEAD Wendel International Centre for Family Enterprise
+33 1 60 72 92 63
sonia.tatar@insead.edu

Sonia holds a dual Executive Director position for INSEAD Centres of Excellence in Corporate Governance and Family Business. She has an extensive experience in the broad leadership and governance combined with Executive Education expertise. She has been an active member of several Boards and Governance Groups Inititiaves. Sonia has worked with different stakeholders predominantly with family owners, investors, and shareholders. She has been an instrumental contributor to businesses acquisition, hand-over and transfer. Across her career span, Sonia has worked in multinational organizations around the world holding a number of senior leadership positions. Prior to joining INSEAD, she has held the position of CEO Worldwide at Les Roches Global Hospitality Education. Start-up companies and has been a strategic partner to many organizations helping with their global expansion and corporate leadership.

As a strong advocate for thought leadership, Sonia is a guest speaker to various forums such as The Board Summit - Auroa50, The United Nations World Tourism Organization, Women in Leadership Conference, the Global Lodging Forum and others. In 2017, she was nominated among the “100 leading personalities” in Suisse Romande and recognized as the “Exporter of Knowledge”. She was also recognized as “Women of Power” in 2013.

François-Lucien Vulliermet
Associate for the Wendel International Centre for Family Enterprise and at the CSR & Ethics Research Group at INSEAD

François-Lucien Vulliermet is a Research Associate for the Wendel International Centre for Family Enterprise and at the CSR & Ethics Research Group at INSEAD. His interests are in corporate governance, global justice, and business ethics. Prior to joining INSEAD, François-Lucien worked as a Researcher at the Harvard Business School. He holds a MSc in Business Administration from the University of Karlstad and a MA in Applied Ethics from the University of Linköping.

About the INSEAD Wendel International Centre for Family Enterprise

Established in 2004, the INSEAD Wendel International Centre for Family Enterprise is a leading centre of excellence that drives the study and research of family-owned companies. Through running of events and development of leading educational programmes designed for members of family enterprises and people actively involved in the field, the Centre helps to raise awareness of the importance of family enterprise as a sustainable business model. Family firms are not only the most prevalent type of company worldwide but they are also proven to be amongst the most successful.

The Centre contributes to improving the performance of business families around the world. It achieves its mission through research and publications, development of case studies, participation in conferences, offering academic courses and professional education programmes for family enterprises.

The Centre is recognised by business families, academics, consultants and the business community at large as a leading international source for family business scholarship: generating, disseminating and applying knowledge related to family enterprise.

INSEAD activities in the field of family business were initiated thanks to the Wendel family, and further developed with support from other family businesses and individuals, the Berghmans Lhoist Chair in Entrepreneurial Leadership, and the André and Rosalie Hoffmann Chair and Research Fund in Family Enterprise. They are gratefully acknowledged.

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Andreas von Specht
Founder
AvS – International Trusted Advisors
+49 (173) 1008889
a.specht@avs-advisors.com

Andreas von Specht is based in Paris and Frankfurt – and founded AvS – International Trusted Advisors in 2011. Today, the firm operates out of fully owned offices in Germany, Switzerland, France, the UK, Colombia and most recently Singapore - with additional cooperation partners in the US, Canada, Dubai, Australia and Indonesia. Andreas advises Family Businesses and Family Offices on C-level searches and succession, board appointments and family ownership issues.

Until 2010 and during his almost 17-year career with global search firm Egon Zehnder, Andreas was part of the German Leadership Team and later headed the Global Consumer and Retail Practice based out of Paris. Over time, Andreas increasingly focused on global family businesses and their governance projects. He started his professional career in 1985 in the consumer goods industry where he worked in various marketing, sales and general management positions with international family businesses Mars Snackfood, Bacardi and Van Houten.

Andreas is invested in several private companies and serves on a small number of boards. He represents the family shareholders of his own family since more than 25 years on the Advisory Board of Berenberg Bank, Germany's oldest private bank (founded in 1590). He gained a degree in Business Administration from the European Business School network in Germany, the UK and France.

Nick Harris
Managing Director
AvS – International Trusted Advisors
+41 78 766 2425
n.harris@avs-advisors.com

A British national, Nick Harris gained a BA in History from York University followed by a Masters in International Relations from Cambridge University.

He began his career as an Analyst covering the Retail & eCommerce Sector for Mintel based in the City of London. In this role, he supported clients in various financial and industry sectors with analysis and insight into companies, markets, and consumer behaviour.

In 2004, Nick moved to Geneva, Switzerland to join the global executive search firm Egon Zehnder, where he spent more than a decade. From 2008 to 2014, he served as Global Practice Specialist and a Member of the Global Leadership Team for the firm's Consumer & Retail Practice. In this capacity, he supported family businesses, multinationals and private equity firms. Assignments included the assessment and recruitment of CEOs, Non Executive Directors, and Functional Leaders in Finance, Marketing, Sales, Digital & e-Commerce, Operations, Transformation & Restructuring, and HR.

Nick joined AvS – International Trusted Advisors in 2015 and today serves international family businesses, family offices and private equity firms in the areas of executive search, board search, management appraisal, succession planning and talent development.

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AvS – International Trusted Advisors is an international consultancy that advises entrepreneurs, shareholders, supervisory boards and top management of family businesses and family offices. The firm focuses on succession planning, executive search and board search, management appraisal, board review, and the development and implementation of ownership strategies. Our experienced and multi-lingual consultants are active globally from fully-owned offices in Germany, Switzerland, France, the UK, Singapore and Colombia, with additional cooperation partners in the US, Canada, Dubai, Australia and Indonesia.

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