

HOW FAMILY CAPITAL WINS

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GOVERNANCE
LEADERSHIP
VALUE CREATION

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**HOW FAMILY
CAPITAL WINS**

DAVID A. KAMENETZKY

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VORWORT

LIEBE FAMILIENUNTERNEHMERIN, LIEBER FAMILIENUNTERNEHMER,

seit vielen Jahrzehnten diskutieren Fachleute weltweit, Professoren, Universitäten – oft sehr theoretisch – über die Frage, was Unternehmen im Besitz von Familien von anderen, z.B. börsennotierten, Unternehmen unterscheidet – und dabei insbesondere die Frage: Was macht sie so erfolgreich?

Die Frage scheint auf den ersten Blick müßig, auf jeden Fall ist sie nicht von Theoretikern zu beantworten. Wer Unternehmerfamilien kennt oder – wie ich selbst – in einer solchen aufgewachsen ist, weiß, dass es etwas fundamental anderes ist, für ein Unternehmen die persönlichste Form der Verantwortung zu tragen.

Verantwortung ist das Schlüsselwort – und sie umfasst nicht nur die Verantwortung für das Unternehmen als solches. Es ist die Verantwortung für viele Menschen und deren Angehörige, klar, aber auch und insbesondere für die eigenen Familienmitglieder, deren Wohlergehen unlösbar mit dem des Unternehmens verbunden ist, es ist die Verantwortung für die derzeitige Generation, aber im Grunde auch für die noch gar nicht lebenden, zukünftigen Generationen. Und am Ende ist es die Familie als Institut unseres Lebens selbst, die solche Unternehmen erst möglich macht. Man muss zuerst "Familienmensch" sein, um dann als Unternehmer das Beste zu tun. Aus diesem Bewusstsein heraus handeln Familienunternehmerinnen und

-unternehmer. Und die eigentliche Herausforderung ist, dies in Erfolg der Unternehmen umzusetzen. Es ist spannend, der Frage nachzugehen, welche Faktoren dabei entscheiden.

Diese Themen habe ich oft auch mit dem Ihnen vielleicht bekannten David A. Kamenetzky diskutiert. David hat über viele Jahre auch global bedeutsame Unternehmen in Familienbesitz in relevanten Positionen begleitet und geführt. Aus den Gesprächen entstand der Gedanke, die Faktoren, die den Erfolg der Unternehmen in Familienbesitz ausmachen, in einer Studie zu dokumentieren, die gerade nicht wissenschaftlich aufgebaut ist, sondern stattdessen die Nähe zu den Familien nutzt und tief in ihre reale Wertewelt eintaucht, um herauszuarbeiten, was sie wirklich erfolgreich gemacht hat und macht. Dabei haben wir – auch weil wir ein Beratungsunternehmen mit Einheiten in Europa, Nordamerika und Asien sind und uns die internationale Perspektive bedeutsam erschien – Familienunternehmen in Europa, Nordamerika und Asien untersucht.

Ich freue mich, Ihnen die Ergebnisse in Form dieses Readers zu überreichen.

Die Ausarbeitung zeigt sehr deutlich, was die zentralen Erfolgsfaktoren des langfristigen Erfolgs von Familienunternehmen sind:

- Getrennte, zugleich voneinander abhängige Mechanismen zur Governance und zur Konfliktlösung für die Familie und das Unternehmen
- Kontinuierliche Einbindung der Familie (oder benannter Mitglieder) in kritische Geschäftsentscheidungen
- Fähigkeit, Talente außerhalb der Familie sowohl für exekutive als auch nicht-exekutive Führungspositionen zu gewinnen und an das Unternehmen zu binden
- Möglichkeit der Anpassung von Kapital-Allokation an das sich ändernde Investitionsumfeld
- Sicherstellung einer guten Reputation
- Und nicht zuletzt natürlich: Das Bewusstsein und Annehmen einer großen Verantwortung

Ich freue mich, wenn der Inhalt der Studie Ihr Interesse findet. Sollten Sie dies vertiefen wollen, sprechen Sie uns gerne an.

Beste Grüße



Christoph Zeiss
Founding Partner



John Kim
Global Managing Partner

PREFACE

DEAR FAMILY ENTREPRENEUR,

For many decades now, experts, scientists and academics around the world have discussed – often very theoretically – what sets family-owned companies apart from others, such as those listed on the stock exchange and, above all, what makes them so successful.

At first glance, the question seems irrelevant, at least it cannot be answered hypothetically. Anyone who is familiar with family businesses, or grew up in one like I did, knows that it is something fundamentally different to assume this most personal kind of responsibility for a company.

The key word here is responsibility – and I don't just mean responsibility for the company per se. Of course, it's about being responsible for the many people in the company and their relatives. But also, and above all, it's about responsibility for the members of your own family, whose well-being is inextricably linked to that of the company. It is responsibility for the current generation, but also for future generations, who may not yet have been born. Because ultimately, it is the family as an institution that makes such companies possible at all. You have to be first and foremost a "family person" before you can do your best as an entrepreneur. And it is this awareness that drives the actions of family entrepreneurs. The real challenge is turning this knowledge into success for the company. It is fascinating to explore what the key factors are in this respect.

I have often discussed these questions with David A. Kamenetzky, whom many of you may know. David has advised and held management positions in global, family-owned companies for many years. Following our discussions, he had the idea of documenting the factors that contribute to the success of family-owned companies in a study – not necessarily a scientific one, but one that uses his close relationships with members of these families and examines their unique set of values in depth to find out what really makes them successful.

In doing so, being a consulting firm with units in Europe, North America, and Asia, and because an international perspective seemed significant to us, we have studied family businesses in Europe, North America, and Asia.

I am pleased to present the results to you in the form of this reader. The book shows very clearly the key success factors that contribute toward the long-term success of family businesses:

- Separate but interdependent governance and conflict-resolution mechanisms for the family and the businesses
- Continuing involvement of the family (or designated members) in critical business decisions
- The ability to attract and retain talent from outside the family for executive and non-executive roles

- The ability to adjust capital allocation according to the changing investment environment
- Ensuring that the business's activities remain in good repute
- And finally, being aware of and accepting a great responsibility

I hope that the study and this book find your interest. If you would like to discuss them further, we would be delighted to hear from you.

Best regards



Christoph Zeiss
Founding Partner



John Kim
Global Managing Partner

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The life expectancy of a corporation is much shorter than a human being. We're already more than 100 years old, so beating the odds is no small feat and, in our case, required that we found a way to renew our group. Ultimately, it turned out that our structure as a conglomerate was standing in the way. Changing that structure has been a catalyst that has liberated us in profound ways and become a catalyst for our portfolio renewal.”

ROBERT MAERSK UGGLA
CEO OF A.P. MØLLER HOLDING

Family businesses are an age-old part of the corporate landscape that inspire perennial fascination. The most successful are household names that have achieved global recognition and generated great wealth for successive generations of the families that founded them. Yet for all the attention that these businesses attract, their leaders rarely if ever speak publicly about their inner workings, and they often reveal less financial information about themselves than comparable businesses quoted on the public markets.

As a result, the narrative that surrounds such families and their companies tends to be sparsely informed and lacking in insight. Family businesses frequently find themselves generically criticised for hoarding capital among a small group of wealthy individuals, or for being out of step with modern corporate governance and best practice.

These charges usually disintegrate quickly when scrutinised to any depth, particularly as regards the most successful companies. For this paper, I have been fortunate to interview senior members of some of the world's leading business families, and what emerges from these conversations is a unique insight into how such families have secured their companies' success through many generations. We learn here about the steps they have taken to safeguard and balance the interests of their family with the needs of their companies, and there are valuable lessons for anyone interested in understanding the sources of truly long-term business success, regardless of the ownership structure and governance.

What stands out from these conversations is the longstanding commitment of many families to ensure the businesses evolve and innovate over time, and adjust to changes in the marketplace, be they driven by technology, globalisation or general consumer demand.

Most of the companies examined went through a rough patch at some point, which was usually down to changes in the marketplace requiring restructuring of the core business or unresolved succession questions and leadership gaps. But they re-emerged stronger and more competitive, largely due to the resilience and long-term commitment of the family, their willingness to support the business during difficult times, and their ability to push through drastic restructuring, personnel changes and changes to the business and product portfolio.

Many business families also have a longstanding commitment to making a positive contribution to society. This places them and their companies in the vanguard of sustainable practice and awareness of working with the full stakeholder spectrum, the most important business movement of our time. I am grateful for the time and insights granted by Dr Frank Stangenberg-Haverkamp, Chairman of the Family Board and Deputy Chairman of the Board of Partners of E. Merck KG, and Johannes Baillou, Chairman of the Board of Partners and Deputy Chairman of the Family Board of E. Merck KG; Dr Wolfgang Malchow, former Managing Partner of Robert Bosch Industrietreuhand; Jérôme Mulliez, Member of the Family Board of Association Familiale Mulliez; Juvencio Maeztu,

Deputy CEO, Management Board Member and CFO of Ingka Group, the largest IKEA franchisee; Robert Maersk Uggla, CEO of A.P. Møller Holding; and Søren Thorup Sørensen, CEO of KIRKBI, the parent company of LEGO. I am also grateful for the assistance of Christoph Zeiss, Managing Partner of Heads! International.

EXECUTIVE SUMMARY

- Multi-generational family-owned businesses are better placed to compound wealth than other ownership structures and, freed from quarterly reporting constraints, they are often able to take both a longer and far broader approach to stakeholder capitalism which recognises the full resonance of a company's place in society.
- When the earnings power of a family enterprise exceeds its investment needs, families are frequently able to develop highly diversified investment platforms that compete successfully with private equity or venture capital for investment opportunities, while leveraging the family's entrepreneurial skills, background and reputation.
- Family businesses have proven very adept at recruiting and retaining the most talented managers outside their families, proof that the best groups are seen as entrepreneurial, growing profitably and in touch with evolving business trends.
- The key requirements to safeguard the longevity of family-owned businesses are: separate but inter-dependent governance and conflict-resolution mechanisms for the family and the businesses; continuing familiarity and involvement of the family (or designated members) in critical business decisions; the ability to attract and retain talent from outside the family for executive and non-executive roles; the ability to adjust capital allocation according to the

changing investment environment, regard for the family's financial needs and the availability of capital; and, finally, care in ensuring that the business's activities remain in good repute and do not conflict with the broader needs of society (i.e. protecting the licence to operate).

INTRODUCTION

We live in a world in which financial headlines are dominated by companies that are either in public ownership or backed by private equity. When they do appear in the media, coverage of family-owned businesses tends to focus on challenges specific to them – infighting, mishandled succession planning or heirs selling the founders' legacy.

This can create the impression that family-owned companies are struggling to remain relevant and to compete for professional talent.

As capital markets have developed over recent decades and become more accessible for companies and investors alike, many in corporate finance predicted a retreat of family-owned businesses. They should accept external investment or sell, it was said.

In hindsight, these predictions were not only self-serving attempts to win deal mandates or secure attractive investment opportunities – they were also wrong. To this day, many of the world's leading brands and companies remain in family ownership and continue to thrive. Family-controlled investment vehicles increasingly compete successfully with private equity or venture capital for deals, thanks to their rapid decision-making, longterm perspective and entrepreneurial culture.

Around the world, the role of family capital is deep-rooted and expanding, fuelled by the golden age of entrepreneurship that we are experiencing. A 2015

McKinsey study estimated that in developed countries there will be more than 8,000 founder- or family-owned companies with sales worth more than \$1bn by 2025¹. A London Business School study of 30,000 companies across Europe confirmed the staying power of family businesses. It found that older firms in France, Germany and Italy were more likely to be family-controlled than younger ones².

According to Michael Vad, Head of Spencer Stuart's Family Business practice in EMEA, those family firms often compete more successfully for top talent than companies in broad public ownership or held by private equity, thanks to the cultural environment they create and the long-term wealth-creation opportunity they offer³.

It is important to be realistic, however – breaking through to become an evergreen, multi-generational family enterprise or investment holding company is not a given and requires huge effort from the owners. Most family-owned companies last no longer than one or two generations (the Family Business Center puts the average at 24 years⁴). Just 30% reach a second generation, only 12% a third⁵. A tiny proportion – 3% – develop practices that allow them to remain successful beyond the fourth generation.

1 McKinsey – Joining the family business: An emerging opportunity for investors – Åsa Björnberg, Heinz-Peter Elstrodt, and Vivek Pandit

2 <https://www.economist.com/special-report/2015/04/16/united-by-diversity>

3 Interview with Michael Vad, Head of Spencer Stuart's Family Business practice in EMEA, December 2020

4 familybusinesscenter.com, 2010

5 <https://hbr.org/2015/04/leadership-lessons-from-great-family-businesses>

It's worth pointing out though that the success of the multi-generational, family-controlled industry champions examined in this report also contrasts with the dramatic shrinkage of average corporate lifespan. While it stood at 61 years in 1958, the heyday of the post-Second World War recovery, today it has dwindled to just 18 years⁶.

When families invest the time and effort to ensure their businesses become evergreen, they have an opportunity to compound wealth over the long term. Those businesses often achieve global scale. Many are leaders in their industries today, having prospered through decades of political and economic shifts, successive cycles of innovation, and generations of family ownership and management.

What sets these businesses apart is rarely scrutinised to any great depth. Yet broad lessons about all forms of business follow from an exploration of the practices that family owners have developed to build and transfer wealth and control from one generation to the next, all while safeguarding entrepreneurial freedom and keeping the founding family united behind their investment strategy.

In the context of the current debate about wealth inequality, it is notable that stakeholder capitalism is a critical concern in many multi-generational family businesses. The “get rich quick” mantra is generally absent, irrespective of culture or geography. This is due to the relative indifference inside family businesses to the quarterly financial reporting

6 <https://www.imd.org/research-knowledge/articles/why-you-will-probably-live-longer-than-most-big-companies/>

that dominates life at public companies, and their ability to pursue multiple financial and non-financial goals, be they investments in deep, industry-changing innovation or the long-term compounding of capital combined with the welfare of employees and their families. They not only have more freedom to define their own criteria for success but many of the families behind major privately owned corporations also see that their “licence to operate” depends on society’s acceptance of their business practices. Many share a desire to contribute to society at large and, as Michael Vad notes, take great care over the way their employees are treated as they seek to cultivate loyalty and long-term development. “If nurtured well, a strong culture is often the major competitive advantage for a family business when seeking to attract and retain the best talent in order to achieve sustainable long-term goals,” he says⁷.

At their core, all the businesses examined here – Merck KGaA (pharmaceuticals and technology), Bosch (technology), Ingka Group (IKEA franchisee – home furnishing), Maersk (shipping), Mulliez (retail) and LEGO (toys/ play) – share a determination to combine financial performance with a higher social calling. While they may not be as well known for it as companies that are more outspoken about their environmental or social aspirations, they have long demonstrated that synergies exist between financial and reputational capital. And they have done so while

developing distinctive cultures that allow them to attract and retain the world-class talent required to lead their industries. In this, they stand as role models for modern, value-creating, progressive capitalism.

7 Interview with Michael Vad, Head of Spencer Stuart’s Family Business practice in EMEA, December 2020

1 HOW FAMILY-CONTROLLED COMPANIES EVOLVE TO SURVIVE

Family companies can be as fragile as any other: as noted above, only 3% reach the fourth generation⁸. On this journey, they go through natural stages of evolution, characterised by the level of management and operational control that the founders and their heirs retain, and the evolution of their family and business governance practices.

At many first- or second-generation family businesses, there is little or no separation between the family and the company. The founders are Chairman and CEO, board and management, and while they might be working with teams or have built organisations of thousands, their most senior employees rarely gain significant autonomy. Topics such as culture, talent, capital structure and strategic bets – all mostly in the hands of the CEO at a publicly listed company – are too sensitive to delegate, so the professional manager's role is mostly one of execution. Similarly, at this early stage, family dynamics or decisions that could affect the business, such as allocating capital between investment and dividends, are resolved directly by the founder. While these issues can become a bottleneck when a business grows, they are integral to the founder's success since they are vital in laying the foundations for a lasting business.

There are many examples of founders who have been unable to let go and delegate critical decisions to their heirs. However, those who start the transition early and spend time codifying the company culture, defining

⁸ <https://hbr.org/2015/04/leadership-lessons-from-great-family-businesses>

a powerful mission and purpose, and establishing governance frameworks and succession plans for both family and business can ensure their legacy is protected for many generations.

The evolution of family-owned companies often sees the founder or their heirs relying increasingly on external managers to run the business, while governing business matters through a board. These companies tend also to put in place separate but interdependent conflict resolution and governance mechanisms for the family, including policies for the involvement of family members in the business (covering employment or internships, training in advance of assuming board positions and board succession planning, etc), as well as long-term liquidity and estate planning. Even when critical roles such as that of the CEO pass to external management, the family usually retains control over topics such as corporate culture, senior appointments, capital structure and M&A via the board. The CEO's role tends therefore to be more operationally focused than at non-family companies, where the CEO will have greater control over strategy.

At this stage of development, the family's focus shifts to governance. Bodies such as a Family Assembly (for all members, including spouses and children) are often established, along with a Family Shareholder Council (for members of the bloodline who have reached adulthood and are direct owners), governed by a Family Board that provides a mechanism for conflict resolution and succession planning independent from the business, and

balances the interests of different family branches and shareholders.

Families can either keep to this form of governance or evolve it further, creating a clearer division between family and business governance. External directors or advisors may be appointed to both family and company boards. Policies are often established to govern the family's involvement in the business and their interactions with it. Formalising rules that cover these topics is onerous but critical if a family wants to avoid conflicts that could spill over and damage the business.

Family-controlled investment vehicles increasingly compete successfully with private equity or venture capital for deals, thanks to their rapid decision-making, long-term perspective and entrepreneurial culture.

External directors and advisors play important roles alongside the controlling family at many large businesses, including Merck KGaA, the German pharma and technology company, and Auchan and Decathlon, retailers controlled by the Mulliez family. These businesses have external board chairs, while the family exercises control through a Family Assembly, Shareholder Council or Family Holding that nominates family and external members to the various corporate boards. Ultimately, of course, the families behind these businesses retain majority voting

rights and have the power – within listing rules – to appoint and remove members of the board in the event of serious disagreements.

There are also businesses, such as Bosch, Maersk, LEGO/KIRKBI and Ingka Group (IKEA franchisee), where a founder has left full or partial control with a trust or foundation. Levels of family involvement vary significantly between these models: at Bosch, the family continues to enjoy economic benefits but has no management involvement. At IKEA, the family is involved in governance but has no economic ownership, while at Maersk and LEGO/KIRKBI the founding family retains direct control of the business, in the former case through a trust structure and in the latter via direct ownership of a majority stake.

Although there is a variety of ownership, governance and management models for family-owned companies, several important themes are found in all successful examples. These include an emphasis on high-quality family and corporate governance, with built-in conflict resolution mechanisms; an appreciation of the need to attract talented professionals; strong business and family values and culture; an understanding that private ownership allows for long-term financial bets on both organic growth and M&A; a belief in the importance of good corporate citizenship, environmental sustainability and the delivery of broader social benefits; and efforts to diversify within the business or through non-core investment activities.

THE GOVERNANCE MODEL FOR FAMILY-CONTROLLED BUSINESSES – A SEPARATION OF POWERS

The most important factor in the success of the family-owned companies I interviewed was good governance, particularly the establishment of separate governance frameworks for the family and its companies. Effectively separating the family's desires from the needs of the companies is a delicate – but essential – balancing act. It helps keep everyone focused on their area of responsibility and frees the company to concentrate on its strategic objectives.

Across the interviews conducted (see Exhibit 1), a consistent theme emerged. The families or foundations behind those businesses had clearly defined their role as separate from the management of the business. Starting with a commitment to maintain unity, they concentrated on family governance and ensuring the right representation – including succession planning – of family shareholders on the various holding and corporate boards. The family's main role in the business, carried out through its board delegates, is to act as a long-term, anchor investor, providing stability and a cultural "North Star". This enables the companies to navigate the natural ebbs and flows of business cycles. And it implies that the family places huge trust in the management, which is essential to enable aligned, strategic decision-making.

Governance challenges for a family-owned business usually begin when the founder retires or dies without a succession plan in place. If this happens, the family may struggle to preserve and build on what has already been achieved. But if the succeeding generations can create clear and binding governance structures for the

A Four-Layered Governance Approach

Family Assembly

Family Shareholder Council

Company Board of Directors

Executive Board

family and its companies, the opportunity exists for a family business to become an entrepreneurial, “evergreen” enterprise that can compound wealth for generations to come.

A four-layered governance approach: Family Assembly, Family Shareholder Council, Holding or Company Board of Directors and Company Executive Board

A sophisticated form of governance is one set up to solve potential disputes, which left unsolved might lead to a blocking of business decisions or even a break-up of the business.

The Family Assembly

A Family Assembly usually comprises all family members above a certain age such as 18. It serves as a forum for family members to meet, stay informed about family matters and receive information about the performance and strategy of the business. The role of the Family Assembly and its elected chair is to review and update family governance (such as rules for membership of the family assembly) and to ensure members are aware of the family culture and history, and have a good understanding of the business. The assembly's activities may include overseeing charitable projects, safeguarding the family reputation and developing a Family Charter. The Family Assembly may orchestrate meetings of younger generations to allow them to familiarise themselves with each other, and to learn about the values and principles underpinning the family's activities as well as their responsibilities towards each other.

The Family Shareholder Council

The Family Shareholder Council is a subset of the Family Assembly, comprising family members who hold shares (in most cases this excludes spouses, children or family members who might have sold their shares to other family members). The Family Shareholder Council usually has a more substantive role than the Family Assembly. It sets the strategy for the family companies, develops the family's long-term vision for its business interests, oversees rules for ownership and trading of family shareholdings, and runs training programmes for family members covering business operations and strategy. The Family Shareholder Council often operates through a chair and a small board, drawn from its wider membership.

The Company Board of Directors

The Family Shareholder Council nominates family members to serve on the boards of the family's companies or a family holding company. In some instances, the Family Shareholder Council is also involved in selecting non-family members to join the Board of Directors.

Additional roles for the family members of company boards can include nominating the Chairs and CEOs of family companies, determining dividend payouts and capital allocation, monitoring the capital structure (in particular determining the right levels of leverage) and setting policies on the exchange of information about the business's performance with the Family Shareholder Council or Family Assembly.

The Board of Directors of the business appoints and removes members of the Executive Board. It monitors the Executive Board and approves significant transactions or investments within a framework set by the Family Shareholder Council.

The Executive Board

The Executive Board runs the company. Its role is to execute the strategy approved by the Board of Directors. It usually includes the CEO, CFO and other executive functions of the company or companies.

Where there is insufficient separation between family governance and company governance, direct exposure to complex family dynamics might harm or slow down business activities or hamper swift decision-making.

The advantages that good governance gives family businesses

Good governance – of both family and company – forms the backbone of any great family business, a backbone that enables it to overcome two troubling defects of public companies: short-termism and the agency problem (whereby conflicts of interest arise between management and owners). Strong governance systems align the interests of the family shareholders and professional management, and give managers a vital sense of stability that enables very long-term planning.

Some might argue that private equity ownership can create a “best of both worlds” between public markets and family ownership. Indeed, with its five- to seven-year investment cycle, private equity has a more medium-term investment horizon than public companies. However, where the private equity model falls short is its focus on exit from day one.

The inevitable consequence of the general partner (manager)/limited partner (investor) model is that private equity exists to extract as much value as possible from portfolio companies during a limited holding period, and to provide the highest-possible returns to investors (which also maximises the carry paid to general partners). The main problem with this approach is that it often results in underinvestment, particularly in the later stages of the holding period, which is detrimental to long-term business performance. There is little incentive for private equity firms to invest heavily in a business that is close to the end of its investment period: too little time remains to realise a return. This is particularly problematic during periods when companies need to invest in innovation to respond to industry disruption.

Family-owned businesses have a big competitive advantage because their ownership structure enables them to concentrate on much longer-term performance. The family owners of LEGO, for example, have drawn up a brand strategy for the company through to 2032⁹, while

⁹ Interview on 17th March 2021 with Søren Thorup Sørensen, Chief Executive Officer of KIRKBI A/S

the Mulliez family, who own retailers including Auchan, Decathlon and Leroy Merlin, undertake periodic 15-year visioning exercises to agree their collective goals. These businesses can therefore think in terms of generations when planning and consequently participate in “megacycles” rather than passing fads.

We are in the early stages of several investment megacycles thanks to climate change, digitalization, healthcare improvements and demographic shifts. Well-governed family companies are ideally positioned to capitalise on these opportunities, such as Maersk’s pivot away from oil to wind energy and hydrogen, and Ingka Group’s investments in renewable energy stretching back more than a decade¹⁰.

“ The role of the family is to keep the family together. Even if the company is doing well, if the family is not united, sooner or later you will end up with a huge problem. We both understand that the time we invest in the family, in uniting the family, in bringing in and training up the next generation on family business issues, is time well spent.”

Johannes Baillou

Chairman of the Board of Partners of E. Merck KG

¹⁰ <https://www.reuters.com/business/environment/ikea-owner-sets-aside-4-blm-euros-green-power-projects-2021-04-20/>

3 HOW LEADING FAMILY BUSINESSES HAVE DEVELOPED EFFECTIVE GOVERNANCE MODELS

A stable relationship between the family and its businesses is critical to success. The following case studies examine the steps that six leading family-owned businesses took to put the right governance structures in place.

A.P. Møller: Restructuring separates family foundation from day-to-day management

A.P. Møller, whose largest holding is its stake in A.P. Møller-Maersk, the world's biggest shipping company, has undergone a significant transformation over the past decade that has created a clearer separation between its controlling foundation and the operating businesses. This enabled a major corporate restructuring to release capital for long-term investments in new ventures, aligned with the group's stated purpose of "building businesses that have a positive impact on society".¹¹

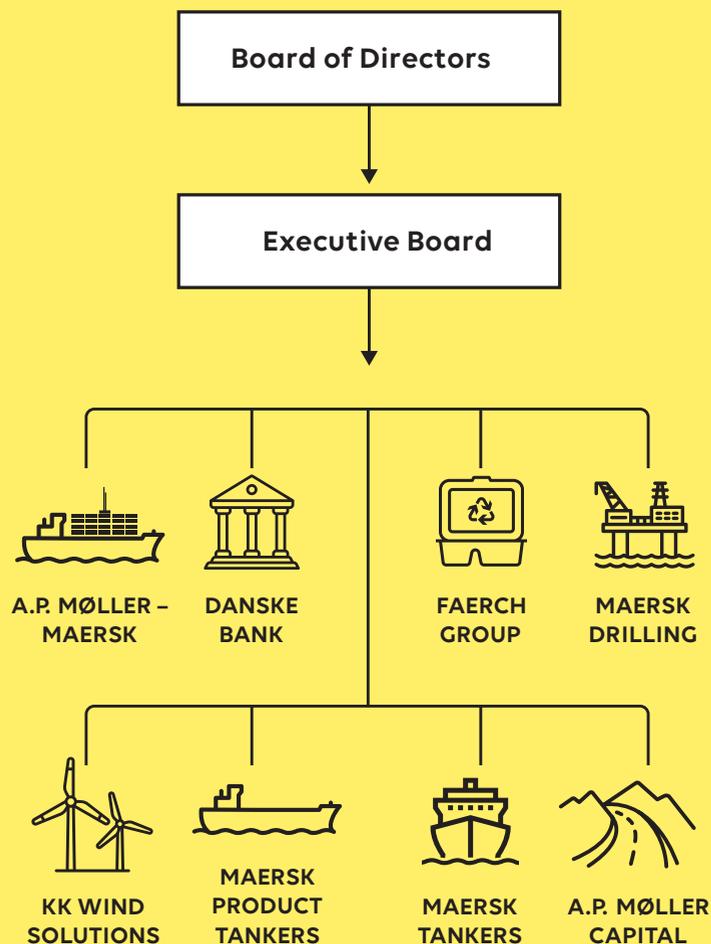
Background: The transformation

Arnold Peter Møller, great-great grandfather of Robert Maersk Uggla, CEO of A.P. Møller Holding, laid the foundations of the group's governance model. Arnold established a trust, the A.P. Møller Foundation, in 1953 that controls the family businesses. The foundation also acts as the family's main philanthropic arm and is allocated a substantial portion of the group's profits.

Despite its durable governance framework, the group experienced a power vacuum between 2001 and 2016 because none of Arnold Maersk Mc-Kinney Møller's three

¹¹ <https://apmoller.com/our-purpose/>

A.P. Møller Holding



daughters wished to take over executive management. As a result, he remained as CEO until he was 80 and was actively involved in the company until his death in 2012, aged 98.

However, one of the three, Ane Maersk McKinney Uggla, was interested in the foundation and in 2012 succeeded her father as chair. With the help of her son, Robert Maersk Uggla, she set about rejuvenating the group¹².

Together they oversaw a major restructuring. While the foundation originally held its stake in the Maersk shipping line directly, the restructuring created a holding company, A.P. Møller Holding, controlled by the foundation and responsible for managing its business interests. Robert Maersk Uggla became CEO of A.P. Møller Holding. This restructuring was accompanied from 2016 by a major reshaping of the group's portfolio of businesses, including the divestment of the majority of its hydrocarbon-related activities – reduced from almost 40% of its net asset value to less than 10% today – and investment in areas such as the global supply chain, energy transition and the circular economy. It also included a thorough overhaul of the management of Maersk that brought in new executive and non-executive leadership from outside.

As Robert Maersk Uggla observes: "The life expectancy of a corporation is much shorter than a human being. We're already more than 100 years old, so beating the odds is no small feat and, in our case, required

¹² Interview on 12th January 2021 with Robert Maersk Uggla, CEO of A.P. Møller Holding A/S

that we found a way to renew our group. Ultimately, it turned out that our structure as a conglomerate was standing in the way. Changing that structure has been a catalyst that has liberated us in profound ways and become a catalyst for our portfolio renewal.”

The tight-knit group of family members was able to take decisions quickly, which facilitated the restructuring process. Not every family company will benefit from having a small nucleus of decision-makers, but in Maersk’s case this was key.

Advantages of the new governance model

The transformation led by Robert Maersk Uggla and his mother turned the group from a slow-moving conglomerate with old-fashioned management and a weak performance culture to a modern holding company with stakes in a variety of businesses. This includes Maersk as the core holding as well as a significant, non-controlling stake in Danske Bank.

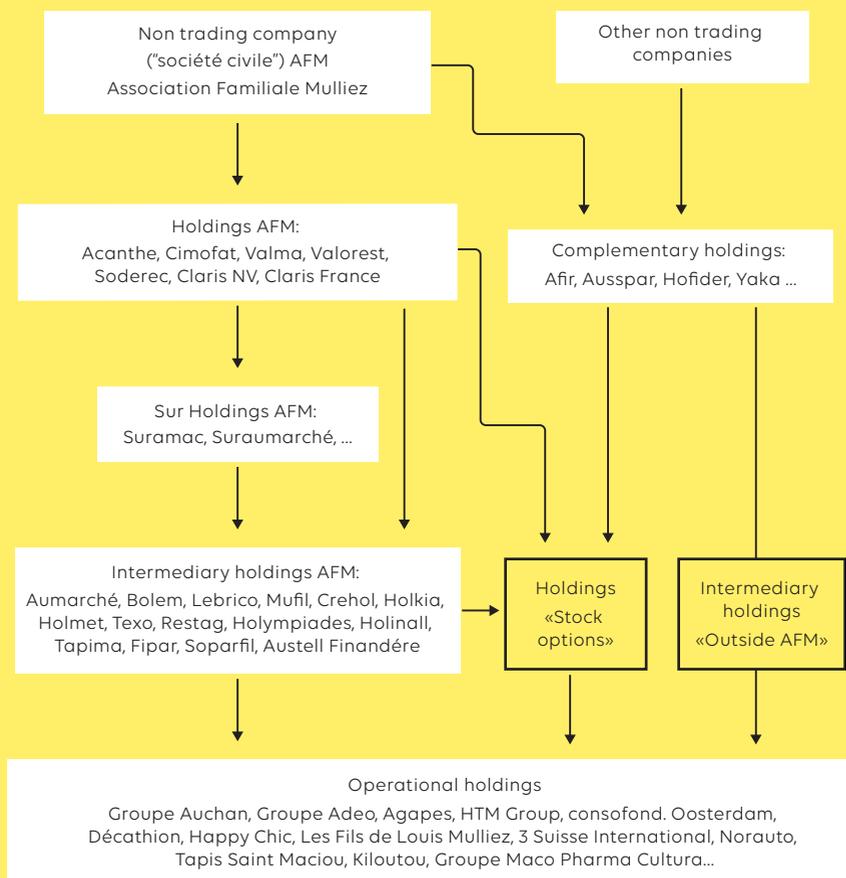
Beyond these longstanding holdings, the group is using the \$7bn-plus proceeds from the sale of Maersk Oil & Gas in 2017 to assemble a group of assets intended to provide a “new leg” for the future. Investments to date include several in the sustainable energy sector, with A.P. Møller Holding now a leading tier one supplier platform to the global wind OEM industry, as well as to manufacturers of electrolyzers for green hydrogen. It has also acquired Faerch, Europe’s largest supplier of sustainable packaging, which is now poised to expand into other parts of the world and waste value chain.

Robert stresses that one of the main planks of the group’s improved governance structure was to establish a system of independent boards for the operating companies, replacing its top-heavy conglomerate structure that had many complicated layers of management. Simplifying the structure makes sense; however, Robert freely admits that the “second leg of the adventure is still to be proved”.

“A positive that came out of the power vacuum was the professionalisation of the board,” he says, “as well as reaching to the outside for management.”

Another benefit was the ability to attract external talent to manage the company’s investments in its new business areas. Having established A.P. Møller Holding as the family’s main investment vehicle, the group recruited leading investment professionals from blue-chip private equity firms such as Blackstone and Carlyle to manage its \$25bn investment programme in the next business megacycles. In 2021, Henrik Poulsen, the outgoing CEO of the global renewable energy company Ørsted, joined as the group’s senior adviser overseeing its sustainability-related investments. This would not have been possible within the old structure.

Association Familiale Mulliez



Source: Boussemart, 2010

Association Familiale Mulliez: Governing an extended family of family businesses

When done right, excellent governance can breed a culture of entrepreneurialism. There is no better example than the Mulliez family, which owns a string of multinational retailers including Auchan, as well as dozens of other retail and non-retail businesses.

Background: The pact that underpins family unity

Although Louis Mulliez-Lestienne established the family's original textile manufacturing business in 1903 in northern France, it was only in 1955, following a challenging period that began with his death in 1951, that his children and grandchildren agreed to create the Association Familiale Mulliez (AFM), on a 10-year trial basis. This organisation oversees the extended family's many business interests and controls the various holding companies that own them. The governance rules agreed in 1955 – and since updated several times – are rooted in the family's devout Roman Catholicism. They describe how and when family members can become shareholders and allow for limited intra-family trading of shares.

By the early 1950s, there were already more than 100 family members and maintaining unity among the different branches had become a challenge following the death of Louis Mulliez-Lestienne. The solution that leading family members adopted in setting up AFM enshrined a central Mulliez family principle, described in an article published by INSEAD¹³ as *Tous dans tout* (Everyone in everything). This

13 INSEAD, The Mulliez Family Venture, Yann Cornil, June 2015

ensures that ownership of the many businesses is pooled among the now 850-strong extended family via a holding company. Family members receive shares in the holding companies and so have a proportional interest in all the family companies. New ventures, built using capital and expertise generated by earlier business successes, remain under a single umbrella, until they potentially achieve financial autonomy and have sufficiently adopted the family culture and governance processes.

“It’s an art to be able to come up with that and to be able to get the engagement of family members,” says Jérôme Mulliez, Member of the Family Board of Association Familiale Mulliez. “If it’s being driven or written by an outside lawyer, it doesn’t have the same weight as it does if it’s written by a family member who was able to find the right word, the right angle, the right meta-rules, which are based on family values that have been shared from our ancestor.”

A key feature of AFM is that family members are not granted shares in the companies automatically. Instead, once they reach the age of 22, they can earn them by completing a rigorous set of educational and loyalty requirements. This governance structure has entrenched a strong work ethic across the family and has bred a culture of entrepreneurialism that has spawned many leading companies, including Auchan, a multinational retail group established in 1961, Decathlon, the sporting goods retailer set up in 1976, and Leroy Merlin, a home improvement and gardening retailer with outlets in Europe, Asia, South America and Africa, which was acquired between 1979 and 1981.

Every five years, AFM elects the Family Board, which comprises seven family and up to three independent members. The board meets monthly and has five tasks, says Jérôme Mulliez: (1) to set out the family’s vision for the next 15 years; (2) to appoint and dismiss CEOs and chairmen of portfolio companies; (3) to determine capital allocation to and dividend payments from each company; (4) to ensure ownership is closely controlled (“Very often families have realised that they’ve been taken over by management or by outsiders,” says Mulliez); and (5) to develop the *affectio societatis* – the willingness to stay together – through information, communication and training for family members. The Family Board holds a regular debrief with the board of each operating company and also has powers to veto M&A proposals that risk putting any of the companies under excessive financial strain.

The critical importance of ‘family architects’

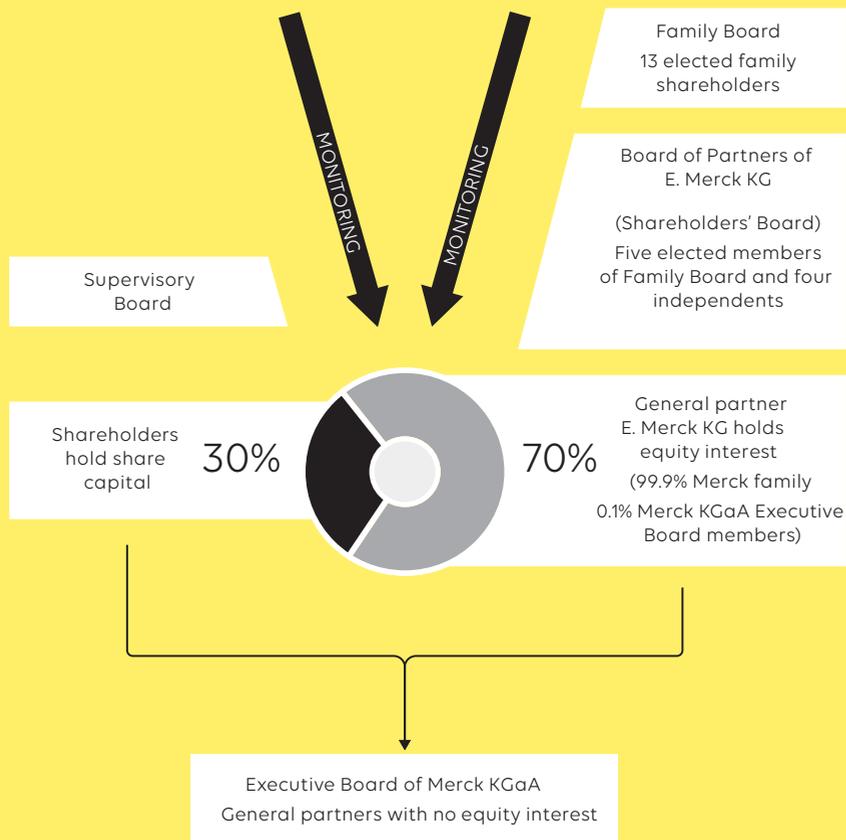
As the story of AFM makes clear, the success of the Mulliez family companies is not due simply to brilliant entrepreneurs. “In our family, we’ve been very lucky to have both amazing entrepreneurs and what I call amazing family architects,” says Jérôme Mulliez. “It’s an art. It requires the same level of skill that is required to build a company.” The Mulliez family architects have helped to create, modify and rejuvenate the governance rulebook as times change.

This has also required AFM to ensure mechanisms exist to allow family members to sell their shares back to the holding companies and exit.

"It's essential to have a way to let disgruntled shareholders leave without jeopardising the whole story, or the whole legacy. The main way to do this is to have a modest dividend," says Jérôme Mulliez. "You need a liquidity pool to buy out those shareholders that want to take money off the table because they don't agree any more with what's being done or they want to do something else with their lives. And because we have that they're more willing to stay and get involved. They know that if they want to, they can leave subject to certain rules, because you don't want a liquidity squeeze which puts the companies in danger. So that's part of the rulebook... because having disgruntled shareholders creates so much negative energy. It's a hassle; you don't want that."

The rules also set down retirement ages for senior family members. "There's a real risk of having super-successful guys hanging on to power for too long. So we have this unwritten rule that by 60 you should give up any executive role and by 65 you should withdraw from any governance role, because otherwise you're not in tune with the world anymore."

Merck KGaA



Merck KGaA: Walking the line between family and management

The older a company grows, the more important sound governance structures become. For Merck KGaA, the oldest pharmaceutical and chemicals company in the world, clear divisions of responsibility between family shareholders and professional managers have been the key to success. Established in 1668 and now in its 13th generation of family ownership, Merck KGaA went public in 1995, listing 30% of its share capital on the Frankfurt Stock Exchange.

Background: The separation of powers

The separation of management and ownership is a common theme for many successful family-owned companies. Good governance demands that professional managers be given sufficient power to shape things and make decisions. Only then can they fulfil their role as sparring partners for the owners and drive forward the company's development.

The permeability of the organisation for non-family managers is therefore crucial: top managers will join the group only if they have clear opportunities to advance. Merck has attracted talented professional managers by adhering to the rules of the game: trusted outsiders run the group while control remains within the family, which keeps out of day-to-day matters and instead focuses on strategic issues and family unity¹⁴.

14 Interview on 24 February 2021 with Dr Frank Stangenberg-Haverkamp and Johannes Baillou

The family manages its relationship with Merck KGaA through two bodies: the Family Board, which focuses on long-term strategy, and the Shareholders' Board (officially known as the Board of Partners) which is equivalent to the Supervisory Board in other German corporations.

“ It is very important that you behave sensibly and keep to the rules of the game, but also that you know the key people well, not just the top five but the next level down that manages a large company, the next generation that’s coming through. You can only do that if you are right in the middle of the firm.”

Frank Stangenberg-Haverkamp

Chairman of the Family Board and Deputy Chairman of the Board of Partners of E. Merck KG

Every five years, family shareholders elect 13 of their number to serve on the Family Board. The Family Board then elects five of its 13 members to sit on the Shareholders' Board. The Family Board elects a further four external members so that the Shareholders' Board has nine seats overall, with an inbuilt family majority. Dr Frank Stangenberg-Haverkamp is Chairman of the Family Board and Vice Chairman of the

Shareholders' Board, and Johannes Baillou is Chairman of the Shareholders' Board and Vice Chairman of the Family Board.

“If one of our two positions was taken by someone who would rather be CEO of the operating businesses, we would be heading for a complete car crash. They simply have to understand their role,” says Johannes Baillou.

The difficult balance between hands-on and hands-off

However, in the real world the line between family and business is inevitably fuzzy. The family and management must maintain a close but delicately balanced relationship – to be effective shareholders, the family must maintain a deep understanding of the business, which inevitably implies more day-to-day involvement than a typical Supervisory Board seat would entail.

Frank Stangenberg-Haverkamp explains how this balance is struck within Merck KGaA: “With these two chair positions, we have offices in the company and here we meet very freely and communicate very closely with the various members of the senior management team, managers, our subsidiaries, factories, etc. So we have a very good insight and are therefore meaningful partners in dialogue. Because if you are on a Supervisory Board that only meets for three hours four times a year, you just don't know as much about the company's operations as when you are permanently present.

“It is very important that you behave sensibly and keep to the rules of the game, but also that you know the key people well, not just the top five but the next level down that manages a large company, the next generation that’s coming through. You can only do that if you are right in the middle of the firm.”

This close daily involvement of two senior family members in the business is counterbalanced at Merck KGaA by another decision, taken before the listing in 1995. This ensured that family shareholders were barred from exercising direct influence on the business and instead vested all their individual rights as shareholders in the Family Board. This makes clear how power is exercised and how the family carries out its role as owner.

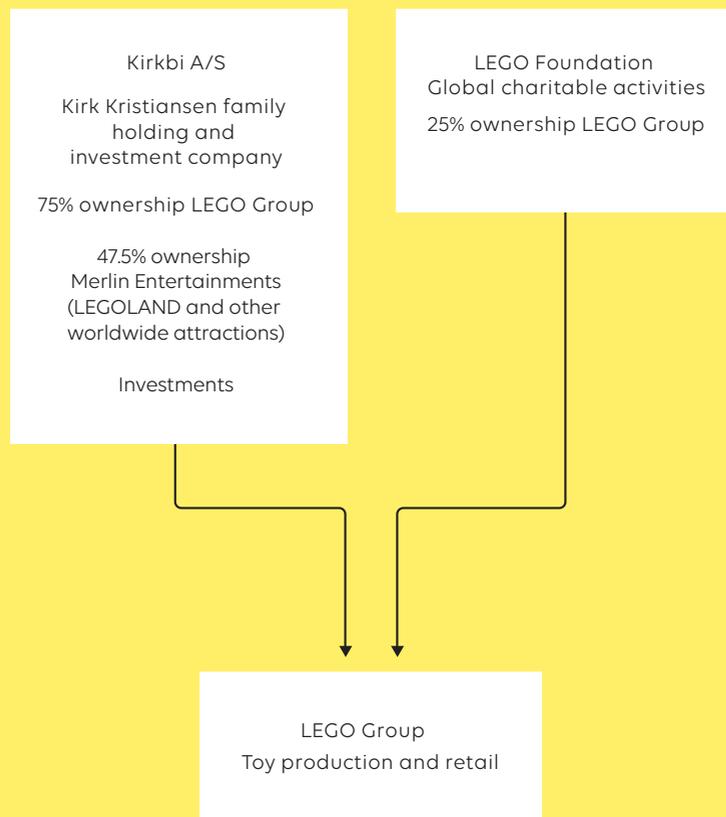
“Our governance structure is very unusual,” says Johannes Baillou. “We took all power and rights away from the family shareholders, with their agreement, before we went to the stock exchange in 1995. All their rights were transferred to the Family Board, which can therefore take decisions very quickly. The family shareholders themselves only have the right to elect the members of the Family Board every five years.”

He continues: “The role of the Family Board is to keep the family together. Even if the company is doing well, if the family is not united, sooner or later you will end up with a huge problem. We both understand that the time we invest in the family, in uniting the family, in bringing in and training up the next generation on family business issues,

is time well spent,” he says. “I often see second- and third-generation families that have real problems because they have members who are not allowed to play along, so they want to have their share or get out.” But when the company has assets worth tens of billions of euros, the money to buy them out is simply not available. “It’s a very difficult area,” he says.

The close involvement of two leading family members in the day-to-day management of Merck and the ability this brings to take rapid decisions that have the full support of the family has allowed the business to undertake a major restructuring during the past 20 years, involving significant M&A activity and major investments.

KIRKBI/LEGO



KIRKBI/LEGO: Borrowing the best of listed-company governance

LEGO, founded in 1932 by Ole Kirk Kristiansen, is 75% owned by KIRKBI, the Kirk Kristiansen family holding company. The remaining 25% is held by the LEGO Foundation, which promotes childhood learning and development through play. The foundation receives a quarter of LEGO's dividends every year to fund its worldwide activities. KIRKBI is chaired by Kjeld Kirk Kristiansen, grandson of the founder.

Background: The 'most active owner'

LEGO's founding family follow the principle that in each generation one member will be chosen to be the "most active owner", says Søren Thorup Sørensen, CEO of KIRKBI and Vice Chairman of LEGO. "There's one person in each generation who's going to be the core person from the family to engage with the businesses," he explains. "And it's not only for the sake of the family as it is to provide clarity in the businesses over who represents the family." Over the past decade, this pivotal role has been transferring gradually from Kjeld Kirk Kristiansen to his son Thomas, who joined the board of LEGO in 2007 and became Chairman in 2020. He had succeeded his father as Chairman of the LEGO Foundation in 2016.

However, the highly influential role of "most active owner" is anchored within a governance system at both KIRKBI and LEGO that draws heavily on the frameworks and processes used within listed companies. "The family really want to make sure that the leadership teams are reporting to a board, like in a listed company. They say: 'We

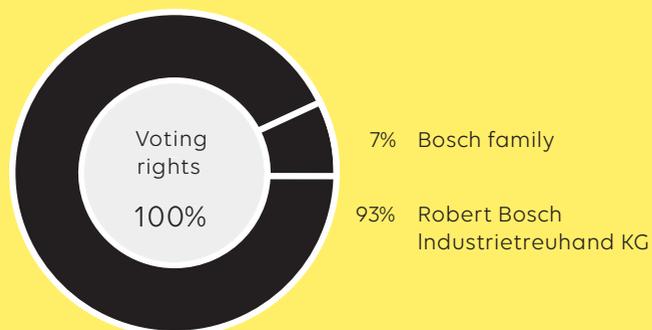
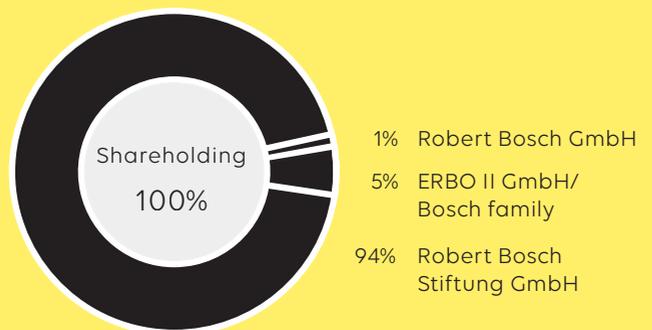
want to use what is best from listed companies and then take all the bureaucratic stuff away.' So the frameworks around strategy, discipline, good governance, committee structures, we use that. But we don't spend time on all the boring stuff like quarterly reporting to the stock market, investor relations and so on."

Balancing the right to decide and the need to listen

Both KIRKBI and LEGO have two-tier board structures with a majority of external members. However, the realities of family ownership mean that the board members necessarily accept that ultimate authority remains with the family, while the family accept that they must create a forum where debate and differences of opinion are encouraged if they are to enjoy the benefits of their external members' experience and knowledge.

"The board members have voting rights but generally decisions are taken in good dialogue with the family," says Søren Thorup Sørensen. "But the family has a genuine wish to get different perspectives... It's very much for the family to make sure that we are not too introvert and that we get the right perspectives from the outside. Of course, board members know there are certain things that the family will decide. But generally the family listens to the input and supports it. So it's not as if the family go in and say: 'This is what I want,' because then people won't want to be on the board."

The Bosch Group



Robert Bosch: Charitable foundation as anchor shareholder

Setting up foundations to own family companies is a popular strategy in Europe. The German industrial group Robert Bosch GmbH operates under the majority ownership of a charitable foundation. The company is perhaps best known to the public for its household appliances, although it is also the world's biggest supplier of automotive components, which account for 60% of its revenues.

Background: Independent management backed by ultra-long-term shareholders

Robert Bosch died in 1942. The company he left behind, Robert Bosch GmbH, is 94% owned by Robert Bosch Stiftung, a charitable foundation established after the Second World War to ensure the long-term security of the company, as laid down in its founder's will.

The remaining shares are owned by the Bosch family, who have retained just 7% of the voting rights, and by Robert Bosch GmbH. Through a limited partnership, Robert Bosch Industrietreuhand, senior management controls 93% of the voting rights, with no economic interest. The management's vehicle is governed by a board of 10, with a majority of external members.

Neither the Bosch family nor the foundation plays any part in the day-to-day running of the business. However, the presence of the foundation as an anchor shareholder in perpetuity has enabled Bosch to make long-term decisions based on the values of its founder that have helped it achieve long-term success.

It is striking that in several cases, the governance practices at Bosch do not have legal force but are the result of custom and practice. The size and composition of the board that governs the management's limited partnership is not laid down, for example; nor is the method of calculating the sum that the company will send to the foundation each year for its programmes in health, education and global issues, including climate change and inequality. Instead, says Dr Wolfgang Malchow, former Managing Partner of Robert Bosch Industrietreuhand, this is decided within the management's limited partnership, sometimes "simply with an agreement that in the next three years it will probably be so-and-so high, so that they can plan".

Similarly, instead of being written down, ties between the foundation and the company are maintained through human relationships. He explains: "The connection between the foundation and the company actually comes in terms of personnel. It is customary that within the Board of Trustees of the Foundation, which right now consists of nine people, there are usually two or three former Bosch managing directors who, after working in the company, have retired and are then active in the Board of Trustees of the Foundation. But that is not laid down anywhere either. That's just how it has developed culturally for decades."

An ownership structure geared to investment megacycles

Having a charitable foundation that is a committed but passive majority shareholder gives Robert Bosch GmbH an evergreen ownership structure that enables its management to concentrate on investment megacycles,

while avoiding the distraction of short-term financial results. The opportunities in these very long-term trends are huge, but they require massive investments and a corresponding ability to absorb years of losses. Alongside its charitable purpose, therefore, the Bosch foundation plays a critical governance role by guaranteeing the stability of the capital structure.

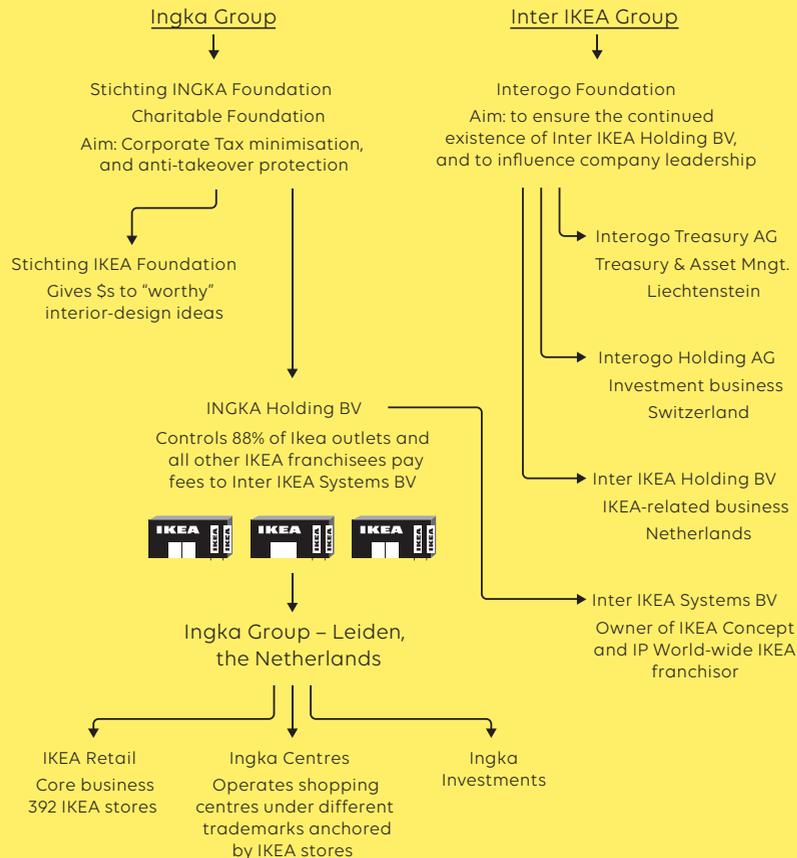
"When I think back to when we entered the semiconductor industry," says Dr Wolfgang Malchow, "the losses were higher than sales. We invested lots and lots of money for many years. Today, it is one of the core elements within the company."

However, alongside the advantages of foundation ownership there are also challenges, given the highly competitive and capital-intensive nature of the industrial sectors in which Bosch operates. These markets require significant scale to achieve the best unit economics, which in turn requires heavy capital expenditure and a willingness to make strategic acquisitions to accelerate growth without selling shares.

"With the shareholder structure we have at the top, we can't do share deals, of course. But we could, purely theoretically, float sub-companies on the stock market. After long discussions, we have always said that we might grow a little more slowly but we will continue to retain overall control within the company."

IKEA/INGKA

Inter IKEA Group and Ingka Group have the same founder, as well as a common history and heritage, but are two groups of companies with different management and owners



Two family members sit on the Ingka Group Supervisory Board.

IKEA: Foundations embed IKEA's purpose as a social-impact business

Established in 1943, IKEA, the Swedish furniture manufacturer, is a great example of a family-owned company whose longterm stability has been ensured through the transfer of ownership to foundations. In this way, the financial interests of the founder's family and the business have been separated, and the family's influence is focused on corporate culture. IKEA today operates across 30 countries and is the world's leading furniture producer, with annual sales of more than \$40bn.

Background: The transition to ownership by charitable foundations

Initially set up as a single entity, in 1982 founder Ingvar Kamprad separated IKEA into two units, Inter IKEA Group and Ingka Group. The former is the owner of the IKEA Concept and worldwide IKEA franchisor. Ingka Group is the largest of 12 franchisees operating IKEA stores and other sales channels in 32 countries; it consists of three businesses: IKEA Retail, Ingka Investments and Ingka Centres. Inter IKEA Group and Ingka Group have the same founder, as well as a common history and heritage, but are two groups of companies with different management and different owners.

Ingka Group is owned by Stichting Ingka Foundation and Inter IKEA is owned by the Interogo Foundation. This was done, says Juvencio Maeztu, Deputy CEO and CFO of Ingka Group, to secure the long-term resilience of the companies and the IKEA brand.

Built for purpose, Ingka Group reinvests the majority of its profits in the business and pays the remainder as dividends to the Stichting INGKA Foundation, which pursues charitable aims by making funds available to Stichting IKEA Foundation.

Money does not pass from Ingka Holding or Ingka Foundation to the family. Ingvar Kamprad's family can influence the company only via their seats on the various Supervisory Boards, which allows them to take part in the selection of senior management. The biggest responsibility for the Supervisory Board is to keep the culture and values of the company alive by choosing the right management team, says Juvencio Maeztu.

Foundation ownership guarantees IKEA's social-impact mission

The foundation structure has enforced a significant separation between the founding family and the business in the years after the death of its founder, Ingvar Kamprad, in 2018.

Ownership by a series of foundations has ensured the company's longevity and allowed it to become one of the biggest social-impact businesses in the world. Profits are either reinvested to fund further growth or they go to the foundations for charitable purposes, especially supporting children's welfare and environmental protection.

This governance framework has protected the group from adverse events such as political upheaval or market

turbulence, as well as avoiding a succession crisis within the founding family following the death of Ingvar Kamprad.

"With this ownership structure we are built for purpose, and able to think in generations," says Juvencio Maeztu. For example, it has enabled Ingka Group to take an extremely long-term approach to international expansion, notably its 14-year wait to generate profits in India. "There was no pressure from the senior management team to take shortcuts in order to make profit," Maeztu adds. "Instead, it was about doing things properly and setting things up to optimise the long-term value."

Conclusion: Good governance is the key to long-term success

The significant efforts that all these companies have put into developing their governance frameworks have delivered huge benefits to the businesses and their owners. Businesses such as Merck, Maersk and LEGO all required major restructuring efforts that were made possible by the quality of their governance structures. Their success in developing these structures helped to overcome succession challenges, reset strategy and attract world-class professional managers, and has proved critical to the significant recent value creation that many of them have achieved.

4 HOW FAMILY COMPANIES ENGAGE WITH EXTERNAL CAPITAL

Good governance also ensures strong financial management. This brings the option to tap the capital markets to fund expansion and growth. There are numerous family-controlled companies that have chosen this course. Walmart, the world's largest retail chain, was founded by Sam Walton in 1962 and went public in 1970 through an IPO. The Walton family retains control to this day, as do the founding families behind Merck KGaA, LVMH, Hermès, BMW, Estée Lauder, H&M, Heineken and L'Oréal.

Opening up family businesses to the capital markets, whether by selling equity or debt, offers access to capital that can accelerate growth and fund capital-intensive business models. Various approaches to accepting external capital are possible, depending on growth plans and the family's willingness to work with other shareholders. An IPO of the main business is not always required or desirable. A new business could be developed through a new company that raises third-party capital, while the original business remains private.

Sometimes the use of external financing is unavoidable. The enormous investments that car manufacturers such as BMW are making to transition to electric vehicles and address digitalization and new mobility concepts could not be funded entirely from private resources. Nevertheless, there is no question that the Quandt/Klatten families, who control almost 47% of BMW's capital, are and will remain anchor shareholders and the key voices in the Bavarian automaker's long-term development.

A partial opening of a family business to outside capital can also help to reduce the potential for family conflict. There will always be some family members who view the growing pressure to innovate and invest in a competitive global environment and their responsibility for tens or hundreds of thousands of employees as a burden rather than an opportunity. They may welcome the opportunity to increase their personal freedom by raising capital for growth and innovation from external sources. This may be particularly true if they see their professional future outside the company, or if their personal assets are heavily invested in other industries. Sharing entrepreneurial risk between the family and capital markets can offer a way to prevent the owners from becoming overburdened financially and psychologically.

Companies that have accessed capital markets can find it easier to compete for external talent than their privately owned counterparts, which often rely on “shadow equity” (which offers benefits based on the notional value of unlisted shares) or cash compensation. Participation and incentive programmes are easier and more transparent to implement if market prices can be used to establish performance criteria. Equally, adhering to standards set by capital market laws and corporate governance and compliance regulations forces family-controlled companies to professionalise their governance.

While it’s important to acknowledge that many family-owned businesses prosper without ever going public, there are nonetheless sound reasons for family businesses

to accept external participation at both the management and ownership levels.

5 TALENT, VALUES AND CULTURE – ENGINES OF SUCCESS FOR FAMILY-OWNED COMPANIES

Family-owned companies often express a distinctive set of values that reflect the legacy of their founders. These shape the corporate culture and can both inform business decisions and help attract talent to the company.

Family businesses naturally tend to place great emphasis on the legacy of the founder or subsequent shareholders. Many of them therefore develop a documented system of values that provides a “North Star” for strategic decisions as well as codifying how the company conducts its business and what it stands for, internally and in wider society.

Values and principles are usually shaped and lived in practice by the founding generation. It may not be until later years that they become explicit guidelines. At Mars, the company values were summarised and published in a letter by the founder’s son, Forrest E. Mars Sr., in 1947, but it was not until 1983 that Forrest’s children took the letter as the basis for the company’s Five Principles¹⁵.

Ingvar Kamprad, the founder of IKEA, set out his values and goals in the “Testament of a Furniture Dealer” in 1976, stating: “We want to offer a wide range of beautifully designed and functional furnishings at prices so low that as many people as possible will be able to afford them.” His testament still guides the company today.

¹⁵ <https://www.mars.com/about/five-principles>

The founder's values can also be passed on as a legacy to future generations and developed in a contemporary way. Robert Bosch stipulated in his will that the proceeds from his fortune should be used "to alleviate all kinds of hardship and above all to enhance the moral health and spiritual strength of the people". His liberal social values are followed by the company today through the Bosch Foundation's support of projects in health, education, science and civil society, with €105m donated in 2019 alone.

Research by McKinsey indicates that family-owned businesses outperform non-family firms on inspirational leadership, career opportunities and rewards and recognition. It found that employees reported a high level of trust in family leaders and a sense of togetherness in their organisations. Family-owned companies also score significantly higher on shared vision and meaningful values.¹⁶

According to Spencer Stuart¹⁷, "family businesses are known for their strong, distinctive cultures – cultures that are often heavily influenced by the vision, style and values of the founder and carefully maintained through the generations. If managed well, a strong culture can prove to be a major competitive advantage for a family business seeking to attract and retain the best talent in order to achieve sustainable long-term goals."

¹⁶ <https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/fine-tuning-family-businesses-for-a-new-era>

¹⁷ <https://www.spencerstuart.com/-/media/2020/july/culture-familybusiness/culture-family-business.pdf>

This view was strongly endorsed in many conversations with the leaders of major family businesses. Juvencio Maeztu, CFO and deputy CEO of Ingka Group¹⁸, IKEA's parent company, explains that talented people join IKEA to be part of the IKEA family and because it is one of the biggest social-impact companies in the world.

Søren Thorup Sørensen, CEO of KIRKBI and Vice Chairman of LEGO, says: "We cannot attract the people who want to work like they do in the private equity world to make their lifetime wealth in five years. Those people do not come and work for us. But we have relatively attractive terms; we have great values; we have a lot of fun. It's a very nice company to work for where you can make a positive impact in the world. And a lot of young people think that being in a company that is actually thinking about sustainability and doing good and well is important to them. So I say that we can attract really high-calibre people."

The companies owned by the Mulliez family also attract talent through their corporate values. The Mulliez companies have a longterm outlook, high levels of trust and autonomy, and a culture that values devolved decision-making and minimal bureaucracy. Free from the constraints of public ownership, the companies' long-term outlook enables them to focus, for example, on the "green agenda", with each business aiming to align with the 1.5°C limit on global warming set by the Paris Agreement. Mulliez companies such as Auchan, Decathlon and Leroy Merlin also set aside a portion of their equity for employees.

¹⁸ Interview on 27 November 2020 with Juvencio Maeztu, CFO and deputy CEO of Ingka Group

Leadership competence model

Each quality is defined by several competences



Source: Heads! International

This helps ensure better alignment of interests and rewards those who are creating value on a day-to-day basis, says Jérôme Mulliez. These measures create a sense of being part of something bigger and emphasise the goal of creating a positive impact, all of which helps to attract talented people to the business.

Søren Thorup Sørensen argues that it is much harder to embed values in a listed company with a fragmented shareholder base because they might be impacted by “the CEO of the week”. At LEGO, by contrast, employees can look around and still see the values of the carpenter who founded the company in 1932. This conveys a powerful message and provides a sense of purpose and meaning that goes beyond the pay cheque.

Christoph Zeiss, founder of the recruitment firm Heads! International, says that bringing in external management is a way to bridge the gap that often exists between the interests and imperatives of family and business – “concepts from different stars”, he notes.

However, finding the right people for the top ranks is even more important for a family business – where international surveys show that relationships between individuals prevail – than other companies, according to Christoph Zeiss. It is essential to recruit employees who understand and support the values, culture and aims of the family business, and do not simply want to do business with them.

He says that it is important to be aware of the most desirable leadership qualities when hiring chairpeople or senior executives, with the strongest leaders combining modesty with determination and self-discipline. “The search for those rare people is ambitious and requires support by people who very much understand and even live family businesses,” he adds.

How approaches to employee development reinforce culture

Many family-owned companies also pay close attention to the growth and development of their employees, in part because developing talent from within engenders loyalty and helps to spread and reinforce the company’s values.

Organic development of talent does not mean that family companies are averse to external hiring. But much as they might debate whether to grow organically or through acquisition, these businesses tend also to focus on internally developed talent for the day-to-day running of the business, while looking externally to acquire skills that do not exist within the organisation. IKEA has hired externally to bolster its digital skillset because this area of its business had changed radically from the traditional IKEA model and the existing workforce lacked the necessary expertise. Overall, however, the company’s focus remains on developing talent from within.

Internal development has advantages and disadvantages. It allows people to learn “the company way” of doing things at the grassroots level and then transfer these lessons across countries and teams as individuals rise through the

organisation. But there is also a risk that concentrating on internal development might create a company that is introverted and lacks novel ideas for products and processes. Some get round the issue of innovation by using freelance workers. IKEA has a team of 100-200 freelance designers working alongside its 20-strong in-house team. This fresh blood generates many of the 2,000-2,500 new products that IKEA launches every year¹⁹.

It is also healthy to look externally for senior managers, since the pool of talent outside the family is clearly larger than within. Most of the largest family-owned companies in the western world have adopted this approach. According to consultancy firm PwC, family businesses managed by external executives grew by 7% between 2015 and 2019, while those managed by members of the controlling family grew by only 4.9%²⁰.

How values inform strategy

Values can help a company do more than just attract talent. They can act as an important reference for management when setting business strategy – or resetting it if the company veers off course.

In 2004, for example, LEGO almost went bust. The company’s values proved vital in returning it to growth after a decade of difficulties. LEGO had diversified beyond its core business, “the brick”, into family leisure parks, video-game software,

19 Harvard Business School, IKEA, Eric Van Den Steen and Alon Galor, 4 January 2017

20 <https://www.pwc.com/gx/en/services/family-business/assets/pwc-family-business-study.pdf>

media and childrenswear in an attempt to emulate Disney. This led to a loss of focus on its core business and a decline in the quality of its products. LEGO's diversification strategy diverted it from one of its key values, "quality", which it had to rediscover.

According to a Harvard Business School report, one of the first acts of Jørgen Vig Knudstorp, LEGO's first external CEO, was to halve the range of building components to about 5,000²¹. This helped improve quality and standardised the production line. He also sought more insights from customers, which helped bring back elements of "fun". These changes to LEGO's strategy reinstated the original values of the company and helped put the LEGO brand back on track to become the success it is today.

A stone's throw away is the only Danish company larger than LEGO, A.P. Møller-Maersk (Maersk). Now in its fifth generation, Maersk's values directly shape its strategy. The principle *nyttig virksomhed*, which loosely translates as "useful business" or business that makes a positive contribution to society, governs the group's investment decisions and way of life.

Robert Maersk Ugglå²² says *nyttig virksomhed* has been a guiding principle in the shipping company since the 1940s and now forms the basis for all investment decisions made by Maersk's investment arm. Indeed, it resonates so

21 Harvard Business School, Lego Crisis, Jan Rivkin, Stefan Thomke, Daniela Beyersdorfer, February 2013

22 Interview on 12 January 2021 with Robert Maersk Ugglå, CEO of A.P. Møller Holding A/S

strongly that it forms the main purpose for all investments, sitting above the need to maximise financial returns in the pecking order.

The concept of *nyttig virksomhed* is widely embraced as well in the operating cultures of Møller-Maersk companies. During the "Maersk Bridge" project, which delivered a weekly planeload of face masks to address shortages in Europe during the Covid-19 pandemic, employees worked to achieve something that was not part of their job description and provided no financial benefit to Maersk. However, the company's belief in *nyttig virksomhed* meant that it valued making a positive contribution above other concerns: Maersk Bridge was a natural part of the company culture.

For Merck, the way the company treats its employees is emblematic of its overall values and an important factor in its success, says Johannes Baillou. "We would rather spend a bit more money and ensure that the workers, the men and women who work for us, are treated decently... But it goes further than that, our directors see how we treat our employees, and these subjects are discussed. For example, we do not have a company jet even though we could afford it. We want our board of directors to keep their feet on the ground and maintain a humble attitude in their everyday dealings. Employees notice this kind of thing all the time, with great interest, and I believe that showing these values in our behaviour towards one another has a very positive effect on the overall outcome in the long term."

“ It’s important to be clear about what you mean by performance. It’s an easy mistake to define it as just shareholder returns. I mean, without shareholder returns life can be challenging but if you measure performance in terms of that alone, you won’t build a solid foundation for a family legacy. Long-term family owners need way more than that.”

Jérôme Mulliez

Member of the Family Board of
Association Familiale Mulliez

ESG AND SUSTAINABILITY - WHY FAMILY-OWNED COMPANIES ARE IN THE VANGUARD

Family companies' focus on the long term, their strong corporate values and their desire to be good employers and corporate citizens make them natural champions of sustainability and responsible investment.

It is only in the past few years that environmental, social and governance (ESG) issues have become central to many public companies' corporate strategy. By contrast, many family-owned companies have emphasised positive impact since their inception and have funded foundations that pursue positive social change. Their values and culture have therefore made them early adopters of the ESG principles that are now spreading throughout the commercial world.

For example, the Mulliez family in France were pioneers in promoting social housing and holidays for staff as early as the 1930s and 1940s. More recently, all Mulliez family companies have committed to work towards limiting global warming to the 1.5°C increase set by the 2015 Paris Agreement.

Bosch's website says it is the first major industrial company to have attained CO2 neutrality, reaching this milestone at its 400 sites in 2020, according to internal calculations²³. Bosch used four levers to achieve its goal: increased energy efficiency; generating its own renewable energy; buying more green electricity; and offsetting all unavoidable CO2 emissions with climate-compensation measures. Achieving

23 <https://www.bosch.com/stories/sustainability-likeabosch/>

carbon neutrality has been a work in progress for the past 50 years. “Environmental protection” has been a topic of conversation at Bosch since 1970, and in 1973 it published its first environmental protection guidelines. This long predates the ESG movement of today, and its emphasis on conservation stems directly from its founder, Robert Bosch, who was passionate about nature.

A.P. Møller-Maersk is also focused on positive impact²⁴. Governed by the concept of *nyttig virksomhed* (“useful business”), the company has always emphasised the greater good, and the philanthropic nature of the A.P. Møller Foundation (Maersk’s parent company) means that it donates far more capital externally than it provides to family members. Furthermore, through its investment in companies such as KK Wind Solutions and its exit from the oil industry in 2017, A.P. Møller Holding manages to offset some of the carbon footprint caused by its shipping business. “The purpose of our holding company, and this is very clearly stipulated in our charter, is not to maximise returns but to preserve what we call *nyttig virksomhed*,” says Robert Maersk Ugglå.

The investment arm associated with IKEA, Ingka Investments²⁵, helps offset IKEA’s carbon footprint by acquiring forestland. In January 2021, it purchased 8 million acres in the US from The Conservation Fund, significantly increasing its forest holdings²⁶. In every country

²⁴ See <https://apmoller.com/our-purpose/#values>

²⁵ See <https://www.ingka.com/sustainability/>

²⁶ <https://www.ingka.com/news/ingka-investments-acquires-forestland-in-united-states-from-the-conservation-fund/>

where it operates, Ingka Group’s forest-management units hold the Forest Stewardship Council certificate. Between September 2019 and August 2020, Ingka Group planted 600,000 seedlings in the US, afforesting 480 hectares (1,186 acres), and globally close to 7 million seedlings.

KIRKBI prides itself on building a sustainable future for the family-owned LEGO brand through the generations²⁷. Outside LEGO itself, the investments the family-owned holding company makes are partly focused on sustainability. KIRKBI invests in renewable energy and the energy transition; the circular economy for plastics; and forestry-based carbon offsets²⁸. Since 2012, KIRKBI has created a major sustainability-focused investment portfolio, partnering with the likes of William Demant Invest A/S, the evergreen investment company associated with the foundation-owned hearing specialist Demant A/S.

Family-owned companies are frequently owned or part-owned by foundations, to which they remit a portion of their profits to fund philanthropic work usually linked to the concerns of their founders. The Mulliez family has founded both a foundation, *Fondation Entreprendre*, and a network, *Réseau Entreprendre*, which concentrate on promoting entrepreneurship. The A.P. Møller Foundation focuses on issues such as sustainability, highlighted by the recent establishment of an open-source, non-profit centre for net zero shipping. Profits accumulated over many

²⁷ See <https://www.kirkbi.com/about/sustainability/>

²⁸ Interview on 17 March 2021 with Søren Thorup Sørensen, CEO of KIRKBI A/S

decades have enabled the families behind companies such as Walmart, Bosch, Maersk, LEGO and IKEA, among many others, to create large, well-funded foundations. These add a further important dimension to their efforts to create social impact and, in many cases, donate very significant sums. The LEGO Foundation, which funds projects for children that support learning through play, distributes \$300m-\$400m a year globally²⁹.

Companies such as these are guided by their long-term commitment to creating social benefits as well as profits. However, their ability to do this depends above all on the stability of their ownership structures, the importance of which cannot be overstated. The personal commitment and long-term perspective of their controlling shareholders allow them to invest huge sums in sustainability-linked initiatives that have a multi-decade time horizon.

²⁹ Ibid.

7 ORGANIC GROWTH VS M&A - WHY THE 'SLOWER BUT STEADIER' APPROACH WINS

Family-owned companies tend to favour organic growth over transformational M&A. This reflects both their cautious use of leverage and a desire to avoid diluting their corporate culture.

In financial terms, family companies tend to take a more conservative approach towards growth than non-family-owned companies. This gives them greater resilience and tends to result in more consistent performance over time. Boston Consulting Group compared 149 medium and large public companies against family-owned companies across the same countries and industries, and found that the family companies made less money in good times but did better when conditions were tough³⁰.

There are four main ways in which family companies manage their finances more conservatively than others. Their approaches to managing costs, capital expenditure and M&A are all more conservative than in non-family-owned businesses. They also tend to prioritise investment in long-term growth over dividend distributions.

A conservative approach towards managing costs leads to more stable performance. Family companies often target median or slightly below median levels of salary and make up the remaining compensation with performance-related pay. According to Mercer Capital, family-owned companies have lower levels of debt because they are more risk-averse and more wary of the existential threat of debts

30 Harvard Business Review, What you can learn from Family Business, Nicolas Kachaner, George Stalk, Alain Bloch, November 2012

becoming out of control³¹. There are significant benefits to this cautious cost and debt strategy: staff numbers do not balloon, resulting in fewer layoffs during downturns. The families behind these companies frequently demonstrate their commitment to careful cost management and their rejection of ostentatious spending through their own public behaviour. It is well documented that Mars has modest headquarters and that IKEA's billionaire founder, Ingvar Kamprad, would fly economy class.

The best family-owned companies are especially careful when it comes to capital expenditure, living within their means and spending less than they earn. Projects must offer a good return on investment to gain approval. Due to the relative frugality of family-owned companies, some opportunities may be missed during periods of expansion but they are less likely to be left exposed during downturns. This careful approach to capex is also a feature of alternative ownership structures such as private equity; however, here it is often too cautious because the private equity firm is thinking only about the returns it can generate during its holding period, as opposed to much longer-term success. The result is often underinvestment.

Family-owned companies also tend to have more conservative financial policies and attitudes towards M&A, and are often loath to contemplate dilution of their equity holding. Consequently, they place a high priority on achieving strong organic growth. For example, Mars and

31 <https://mercercapital.com/family-business-director/why-do-family-businesses-tend-to-borrow-less-money/>

Bosch aim to generate two-thirds of their growth organically and one-third from acquisitions. In more extreme cases, companies such as LEGO have never made an acquisition, while the Mulliez-owned retailers Decathlon, Auchan and Leroy Merlin have pursued very little M&A activity and then only opportunistically, rather than treating it as a core strategy for growth. Jérôme Mulliez says that decisions on M&A are taken by company boards, rather than the family, unless they would push the company "beyond what we call financial prudential ratios, in which case we have the ability to veto an acquisition because it puts the company at too much risk from a financial perspective relative to the value creation".

There are exceptions, of course – Merck KGaA has radically transformed itself over the past 15 years by completing approximately €40bn of acquisitions and disposals³², while LVMH has created a stable of 79 leading luxury brands through billions of dollars of acquisitions³³.

When facing a slowdown in packaged food, Mars Inc. diversified its offering from confectionery into the fast-growing petcare sector. The move began in 2007 with the acquisition of Banfield Pet Hospital and has continued with the acquisitions of BluePearl Veterinary Partners, Procter & Gamble's pet food brands, in 2014 and VCA Inc

32 <https://www.merckgroup.com/en/news/versum-closing-07-10-2019.html>

33 <https://www.forbes.com/sites/susanadams/2019/10/31/the-100-billion-man-how-bernard-arnault-stitched-together-the-worlds-third-biggest-fortune-with-louis-vuitton-dior-and-77-other-brands-and-why-hes-not-done-yet/>

in 2017³⁴. Being family-owned meant there was no impact on its source of funding despite the change in strategy. Its ownership structure supported the transition rather than hindered it, making petcare Mars's largest business segment.

A.P. Møller Group, which holds A.P. Møller-Maersk as its main asset, has undertaken a major restructuring over recent years. Despite being a world leader in the shipping sector through Maersk, Robert Maersk Ugglå acknowledged that theirs was a "lousy industry from a return point of view" and was "stagnating" at the very time the family was "doubling down" on it. Having completed an internal reorganisation in 2016 that created A.P. Møller Holding as the investment arm of the A.P. Møller Foundation, the family decided on radical change and switched strategy to target the renewable energy sector.

Soon afterwards, the group reduced its exposure to fossil fuels by selling Maersk Oil to the French oil group Total for \$7.4bn. The new corporate structure enabled A.P. Møller Holding to make investments on behalf of the group with a clear strategic focus. This is evidenced by three significant acquisitions: KK Wind Solutions in September 2019, Faerch Plast for \$2.3bn in December 2020 and Green Hydrogen, also in December 2020. All three have a sustainability slant³⁵.

34 <https://www.mars.com/news-and-stories/press-releases/vca-acquisition>

35 Interview on 12 January 2021 with Robert Maersk Ugglå, CEO of A.P. Møller Holding A/S

Although family-owned or controlled companies have employed M&A to transform themselves, there are reasons other than financial stress that usually lead them to proceed cautiously. They are particularly wary, also, of diluting their distinctive culture. The risk of a poor integration that results in a larger but less cohesive company is one they are generally unwilling to take.

"When we bought the foreign subsidiary of a competitor, it was super-hard to transmit our values," says Jérôme Mulliez. "If you don't have the proper HR resources to do that, then, yes, you have a big asset somewhere but it doesn't fit very well with the overall picture. So the prerequisite for doing M&A is to have sufficient HR to take ownership, instil our values and generate superior organic growth, which shows that you can bring something to the business." Ultimately, the goal for most family-owned companies is not to be the biggest but to be the fittest, so a cautious approach to pursuing inorganic opportunities is the norm.

Family companies' conservative approach to capital structure is also reflected in their dividend policies. With a focus on long-term success – and in some cases the need to preserve a liquidity pool to allow disgruntled family shareholders to exit – payout ratios are relatively modest to ensure the companies can continue to invest in growth.

Frank Stangenberg-Haverkamp, Chairman of the Family Board of E. Merck KG, voices a widely expressed opinion among interviewees when he says: "Our dividends are OK

but not incredibly high... But our main aim is to invest in the future and to keep pressing ahead with our two areas, technology and science." This prudent approach is also seen in other family-owned companies such as Bosch, AFM and LEGO, where, says Søren Thorup Sørensen: "[The family] have a saying that the businesses go beyond the needs of any individual family member. Of course, family is important but the businesses are more important. It's more important to reach all children in the world with a good LEGO experience than for the family to get a dividend."

The benefits of patient capital

Family-owned companies benefit from the patience and long-term perspective of their anchor shareholder. When it comes to innovation, lack of pressure from short-term expectations allows them more autonomy in setting their growth strategy and means they can make decisions on R&D spending over long time horizons. This approach would be hard for public markets to digest. Dr Wolfgang Malchow of Robert Bosch argues that longterm investments involving many years of large losses are possible only in family/foundation-owned companies³⁶. It is common knowledge that IKEA took several years to reach profitability in the US and 14 years before it was profitable in India³⁷. Only the most patient investors are willing to accept losses and uncertainty on this scale in order to generate outsized returns in the long term.

³⁶ Interview in November 2020 with Dr Wolfgang Malchow, former Managing Partner of Robert Bosch Industrietreuhand KG

³⁷ Interview on 27 November with Juvencio Maeztu, Deputy CEO, Management Board Member and CFO, Ingka Group

Time and patience also proved a huge benefit for Merck's investment in liquid crystals. The company began its research in 1904 but it was not until 1968, after a 30-year hiatus, that Merck started investigating liquid crystal structures. It took another 30 years before its work began to generate significant returns during the telecommunications boom. Over a period of almost a century, Merck gathered more than 2,500 patents for liquid crystals, highlighting the benefits of its stable capital structure³⁸. Prudent financial management, combined with conservative dividend policies that prioritise putting money back into the business, have enabled family-owned companies to pursue very long-term investments that would have been difficult, if not impossible, within other ownership structures. Their approach to financing themselves provides a further point of differentiation that protects these companies from financial stress, makes them more resilient and allows them to concentrate on very long-term goals.

Due to the relative frugality of family-owned companies, some opportunities may be missed during periods of expansion but they are less likely to be left exposed during downturns.

³⁸ IMD, The Mercks of Darmstadt: What Family Can Do, 2009

8 DIVERSIFICATION – FROM FAMILY BUSINESS TO INVESTMENT VEHICLE

Family-owned companies often generate significant excess capital. This can be deployed to build diversified investment portfolios that often focus on sustainability-linked themes.

The most successful business families own groups of high-quality, conservatively financed operating companies that are among the leaders in their sectors. These companies are often capable of generating more than enough cash to meet their own investment needs. This gives the family scope to invest the excess capital in other sectors and companies, and so build a long-term investment portfolio.

Developing this kind of private investment vehicle benefits the family by diversifying their financial risks. But it is difficult for public companies to emulate because investors in public markets tend not to favour conglomerates. Many leading business families, such as the Waltons in the US and the Wallenbergs in Sweden, have followed similar paths and used funds generated from their original business to diversify their holdings and acquire stakes in other companies.

The restructuring of Maersk and the formation of A.P. Møller Holding over the past decade gave the family a platform to make investments beyond its historic areas of activity. A.P. Møller Holding now has net assets of around \$25bn, largely accounted for by the shipping line and an earlier diversification into financial services, via the family's stake in Danske Bank. These assets give it significant capital

resources and a major advantage over private equity: its evergreen investment horizon. This has helped it attract seasoned professionals from blue-chip private equity firms such as Carlyle and Blackstone to lead its new investment programme.

A.P. Møller Holding's investment strategy has three elements: all excess capital is held in a financial portfolio that tracks an index, with the liquidity deployed into direct investments where A.P. Møller Holding has a controlling interest; the company invests in themes or megacycles where it can benefit from its experience and skillset; and all investments must conform with the principle of *nyttig virksomhed*.

Robert Maersk Ugglå says the company concentrates on four main investment themes: "resource efficiency" (in practice mainly focusing on renewable power), the circular economy, the global supply chain and "changing demographics" (encompassing areas such as healthcare). It examines around 10 opportunities and aims to make one investment per year. So far these have included KK Wind Solutions, a leading supplier to the global wind-power market, and Faerch, a European sustainable packaging supplier. The investment team is supplemented, as at many private equity firms, by operating partners – experienced executives from the sectors in which the family plans to invest.

"I try to bring in senior executives, because the investment team is fairly lean," says Robert Maersk Ugglå. "Also, from an ownership point of view, we have limited bandwidth so we need to find people in our ecosystem who can come in and act on our behalf when we are owners. So it's partly about figuring out how to get the sector expertise, but it's also about having the capacity to be an engaged owner in these companies. But I must say I think our investment team has built up a lot of expertise in the last few years because we focus so heavily on these themes."

Another Scandinavian giant, IKEA, has a similar investment vehicle in the form of Ingka Investments. With \$20bn of firepower, Ingka Investments seeks opportunities that will create synergies with IKEA and helps neutralise the retailer's carbon footprint through sustainability investments. IKEA's goal of becoming climate positive by 2030 would be hard to achieve without the activities of the investment arm. As such it has accumulated a portfolio of sustainability-focused companies such as RetourMatras, which recycles 90% of the materials used in mattresses, and Morssinkhof Rymoplast, a leading player in the European plastic recycling industry.

KIRKBI, the parent company of LEGO, has an investment portfolio of approximately \$12bn, according to Søren Thorup Sørensen, CEO. This is divided between "core capital" – a \$10bn liquidity buffer for the family and its businesses, roughly 70% invested in equities – and \$2bn of "thematic capital" that is invested in three sustainability-

linked areas: renewable energy, the circular economy for plastics, and forestry to act as an offset for carbon emissions. Both financial and sustainability measures are applied to the thematic investments, and although they must all show a profit, above that bar the non-financial measures carry greater weight.

“We started with core investments and did thematic later on,” says Søren Thorup Sørensen. “Now the core is so sizeable that the family is comfortable there is enough for their pension fund and their businesses. So they are willing to take on more risk on the thematic side. I would expect the thematic side to outgrow the core over the next three to five years.”

Exor is the holding company of the Italian Agnelli family. It has a century-long history of investments which notably include auto and truck manufacturers Fiat Chrysler Automobiles, Ferrari and CNH Industrial, global reinsurer PartnerRe, the football team Juventus FC and the international newspaper The Economist. Exor is an investment platform whose culture combines entrepreneurial spirit with financial discipline. Its purpose is “to build great companies, while providing opportunities for our people to grow, make a positive contribution to society and deliver superior returns to our investors”.

The Waltons, quite likely the world’s wealthiest family, established Walton Enterprises as an investment arm, along with many other trusts and foundations, to manage

the vast wealth that Walmart has created. Extremely discreet and private, Walton Enterprises has no website, yet holds more than \$100bn of the family’s stake in Walmart. Byron Trott, founder of merchant bank BDT Capital Partners and an advisor to some of the world’s richest families, says that unlike the current generation of Waltons, “the Walton family has groomed the next generation as a generation of entrepreneurs”.³⁹ The younger members of the family are investing locally in their home town, Bentonville, Arkansas, and have acquired a majority stake in the cycling brand Rapha.

Managing such generational transitions is one of the top priorities for the world’s richest families. About \$3.4 trillion of billionaire wealth is expected to be transferred over the next two decades, according to a 2018 report by PwC⁴⁰, and succession planning is a dominant concern. For now, the family’s holdings outside Walmart are a fraction of their overall wealth, which is still anchored by the retailer that Sam Walton founded in 1962. Gradually, though, the younger generation is investing some of those returns in their own varied ventures. “You have family leadership at the board level, non-family management leading the operating company and other family members working as innovative investors and entrepreneurs,” Byron Trott says.

In recent years, an increasing number of family investment holdings have raised external capital, as they see more

39 <https://financialpost.com/personal-finance/high-net-worth/a-guide-to-investing-from-the-waltons-the-richest-family-on-the-planet>
40 https://www.pwc.ch/en/publications/2018/PwC_Billionaires_2018.pdf

opportunities to invest than can be pursued with their own available funds. They might also see an opportunity to share compensation of the investment team with outside investors. It is important, however, that the family members understand and manage the conflict that is inherent if there are different investment timelines between outside capital and family money, and the potential for tensions between the family and the investment team if the latter is incentivised to drive liquidity events to access the carry that outside investors commit to pay. Transforming family holding companies into managers of outside money is a step that needs to be carefully considered, as interests aren't necessarily aligned.

In the long term, diversification is important for companies' long-term survival and success. Family-owned companies are best positioned to diversify because they have an anchor shareholder closely involved in shaping and, where necessary, resetting their strategy. Being able to adapt to a constantly changing world is essential; having the financial stability and long-term outlook that family ownership provides helps family-controlled companies navigate these challenges more effectively than their peers.

“ What is deeply, deeply important is that, as an employee, the values you read about on the wall and the values you experience in the business and when you meet a family member must be the same.”

Søren Thorup Sørensen
CEO of KIRKBI

CONCLUSION

Far from dwindling into insignificance, family-owned businesses are in fact often thriving and competing very successfully against other forms of ownership and control, such as public companies and those owned by private equity.

This is not confined to the most successful groups in a sea of other family companies that are out of step with modern business thinking and stakeholder activism and pressure. On the contrary, when governed by structures that balance the interests of the family and its businesses effectively, family-owned companies have an enviably modern set of attributes. The presence of an anchor shareholder who speaks with one voice brings financial stability and enables these companies to think in terms of generations rather than the next year or two, as is the case at public companies. They can invest on a much longer time horizon than private equity firms that focus only on their holding period – typically three to five years. They are able to see through significant restructurings or portfolio changes at their businesses – as one can observe through the case studies of Merck KGaA, Maersk or LEGO – and provide substantial capital to new ventures, such as those at Mulliez, Bosch or IKEA, allowing them to build significant new lines of business over time. The flexibility that comes with this longer horizon also enables them to fully realise the synergies available from financial and reputational capital.

Naturally, not all family companies become champions in their field. From research and interviews with some of the world's leading family-owned companies, common themes

have emerged that highlight the key factors required to build a global powerhouse.

These include: (1) good governance; (2) clear values; (3) strong financial discipline; (4) a clear sustainability focus; (5) diversification; and (6) long-term commitment and ability to make the sweeping changes sometimes necessary to emerge from tough periods more strongly.

The best family-owned companies plan for the long term because they are hoping to pass ownership to the next generation. To do this successfully, they need to ensure their cultures are resilient and open to innovation; they are aware of the importance of safeguarding the environment that the company relies upon to exist and thrive. By virtue of being long-term thinkers and strategists, family companies have long been focused on changes in the external marketplace and the set of topics that are now grouped under the ESG heading, and they will continue to be so.

These issues are becoming the most pressing of our time. As legacy companies face ever more new entrants and increased technological competition, they must continue to innovate. And as the private sector steps up its efforts to ensure it operates in a more sustainable and socially conscious way, it turns out that the oldest form of ownership and governance is extremely well placed to lead by example and set precedents in these areas.

Being able to adapt to a constantly changing world is essential; having the financial stability and long-term outlook that family ownership provides helps family-controlled companies navigate these challenges more effectively than their peers.

“ [The family] have a saying that the businesses go beyond the needs of any individual family member. Of course, family is important but the businesses are more important. It's more important to reach all children in the world with a good LEGO experience than for the family to get a dividend.”

Søren Thorup Sørensen
CEO of KIRKBI

DAVID A. KAMENETZKY



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A values-based leader and consumer technology investor, David A. Kamenetzky has a history of successfully steering some of the largest global multi-generational family-held businesses through periods of transformation. As an investor in some of the most recognizable and fastest-growing digital-native consumer brands, Kamenetzky has deep insight into consumer and investment trends and is experienced working with founders and their teams to drive shareholder value. He is a board member of several privately held companies, as well as the publicly listed Kuehne + Nagel International AG, and is an adviser to entrepreneurs and founders in the US and Europe.

Kamenetzky holds a Licentiate degree in Accounting and Finance from the University of St. Gallen, Switzerland, and a Master of Science in Foreign Service from Georgetown University, USA.

From 2019 to 2020, he served as Chief Executive Officer of Joh. A. Benckiser and Non-Executive Chairman of JAB Investors. Between 2016 and 2019, Kamenetzky was the Chief Strategy and External Affairs Officer and a Member of the Group Executive Committee of Anheuser-Busch InBev SA/NV (AB InBev), a leading global consumer goods company. From 2006 to 2016, he served as a Member of the Executive Board of Mars Inc., a leader in confectionery products and veterinary health services and one of the largest family-owned companies in the world. Previously, from 2000 to 2006, he was Vice President at Goldman Sachs in London and Frankfurt, and from 1993 to 1998, he was Chief of Staff in the office of Ignatz Bubis, President of the Central Council of Jews in Germany.

EXHIBITS

EXHIBIT 1:

COMPANY INTERVIEWS

1. **Bosch** – Interview in November 2020 with Dr Wolfgang Malchow, former Managing Partner of Robert Bosch Industrietreuhand KG
2. **IKEA** – Interview on 27 November 2020 with Juvencio Maeztu, CFO and Deputy CEO of Ingka Group
3. **A.P. Møller-Maersk** – Interview conducted on 12 January 2021 with Robert Maersk Ugglå, CEO of A.P. Møller Holding A/S
4. **Mulliez Companies** – Interview on 4 February 2021 with Jérôme Mulliez, Member of the Family Board of Association Familiale Mulliez
5. **Merck KGaA** – Interview on 24 February 2021 with Dr Frank Stangenberg-Haverkamp, Chairman of the Family Board and Deputy Chairman of the Board of Partners of E. Merck KG, and Johannes Baillou, Chairman of the Board of Partners and Deputy Chairman of the Family Board of E. Merck KG
6. **KIRKBI A/S** – Interview on 17 March 2021 with Søren Thorup Sørensen, CEO of KIRKBI A/S

EXHIBIT 2:

MULLIEZ'S 10 DO'S OF A FAMILY COMPANY

1. **Every family company started with an entrepreneur. It is important to maintain the entrepreneurial spirit in your family and as a feature of company structure.** Balance it with a culture of risk management – often absent at entrepreneurial level – low to moderate leverage, diversification and company life-cycle management, because things change over time.
2. Carry out a regular vision exercise to examine why you want to stay together as a family: what you want to achieve and who will make it happen. **Working together on the “why” is very important.**
3. **Identify the roles** of owner, entrepreneur, family architect, director and manager; ensure all members have regular opportunity to express their views and opinions.
4. **Recognise the duties,** rights and obligations of each role. Do not place more value in one over another, except maybe entrepreneurship. Over-communicate and over-involve.
5. **Don't let business operations be affected** by the ups and downs of family dynamics.
6. Maintain a **united front.** Squabbling, in-fighting and public differences of opinion have the power to undermine everything you're trying to achieve – from attracting the right talent down to the bottom line.
7. Allow your **family capital to breathe** and be measured. As Jérôme Mulliez says, it's crucial that there is a way for disgruntled shareholders to leave without a liquidity squeeze that might endanger the business. The existence of a liquidity pool to buy out such shareholders avoids that risk, and often has the effect of encouraging them to remain, as they feel they have options.
8. Ask yourself: what can I/should I do for the business? Do you have a vision, a plan, a leader, a team – and is this plan being executed? Is the company culture aligned to the family's values but also sufficiently customer and collaborator-centric?
9. Encourage management to hold a **longterm vision** – with goals that can be shared with the board of directors, with family and independent board members. Ensure the values that the family stands for are clearly defined and shine through in all stakeholder relations, as well as in the company's reputation.
10. **Share what you have: not just your will, but also knowledge, power and ownership.** Leroy Merlin, for example, is owned 12% by its staff, and Decathlon by 10%. It is only fair to share the equity with those who create it.

EXHIBIT 3:

COMPANY VALUES**Bosch:**

www.wearebosch.com/index.en.html

IKEA/Ingka Group:

www.ingka.com/this-is-ingka-group/

LEGO/KIRKBI:

www.kirkbi.com/about/purpose/

Merck KGaA:

www.merckgroup.com/en/company/strategy-and-values.html

A.P. Møller Holding:

apmoller.com/our-purpose/

Association Familiale Mulliez subsidiaries:

Auchan: www.auchan-retail.com/en/who-we-are/

Adeo: www.adeo.com/en/who-we-are/

Decathlon: www.decathlon.com/pages/our-story

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