FAMILY WARS OR PROFESSIONAL EXCELLENCE, CONTINUITY AND SUCCESSION?

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GOVERNANCE IN FAMILY ENTERPRISES: MAXIMIZING ECONOMIC AND EMOTIONAL SUCCESS

LONDON: PALGRAVE MACMILLAN, 2014: 272 P.

Family businesses have a strong economic significance regarding the contribution to GDP and the number of employees on a macro level, as shown in several international studies. Approximately 70-80% of the operating firms in Europe are family businesses (Mandl, 2008). According to estimates, family businesses' contributions to global GDP vary between 70 and 90%, while more than 30% of the Fortune Global 500 companies belong to this category (Elstrodt – Poullet, 2014).Many of the world's oldest companies are "family-founded" and family-owned firms. They include very successful companies with a strong family identity and a professional family governance system. For instance: Cargill, Samsung, LVMH, BMW, Clarks Shoes, H&M, Heraeus Holding and so on.

This book contains global models and excellent representative examples of multigenerational family enterprises. It can help family businesses in Central and Eastern Europe to improve their governance structure and methods.

The family business has a specific recipe for the success, namely the so called "familiness". This is a unique combination of resources which come from the family, the interaction of the family and the business sub-system. It provides a long-term competitive advantage for family businesses. In a lot of family firms we can find various roots of conflict relating to nepotism, intergenerational struggles, sibling rivalry, marriage, parenting, the free-rider problem, age differences, family size, scapegoating and so on. There are some general remedies for maximizing economic and emotional success in a family business: planning; communication, education and training, external benchmarking and family governance combined with corporate governance. This very impressive book is a wonderful contribution towards helping the family and the family firm thrive and improve their economic and emotional value without conflict, family confrontations, or sibling jealousy. The authors will deepen our understanding of the significance of family governance and offer guidance for family leaders, based on the collected knowledge and research of successful family governance methods culminating in over 50 years of experience.

Alexander Koeberle-Schmid is an excellent economist in a family owned-business. He works as a family business advisor for medium-sized and large family enterprises covering a range of different issues, such as: governance structure, management succession, family council, family office, family philanthropy and family constitutions.

Denise Kenyon-Rouvinez is the Wild Group Professor of Family Business and co-director of the Global Family Business Centre at IMD in Switzerland. She has been dealing with complex governance and the wealth systems in Asia, Europe and America. She is author of a wide range of books and outstanding articles on family business and succession. She is the founder of the Family Business Network in French speaking Switzerland.

Ernesto J. Poza is an internationally recognized speaker and consultant to family-owned and family-controlled enterprises for various issues including strategic thinking, family business continuity, growth opportunities, family entrepreneurship, succession planning and change management. Ernesto Poza has

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advised the top management of numerous Fortune 500 companies. He is a member of the editorial board of the Family Business Review and the Journal of Family Business Strategy. He is a founder of the Family Firm Institute, and he is the author of seven books, as well as over 50 articles in world- renowned professional journals and periodicals.

The book GOVERNANCE IN FAMILY ENTERPRISES is divided into four parts and thirteen chapters with a strong and extensive literature base and up-to-date case studies of family firms in North America, Latin America, the Middle East and Asia. Each chapter is split into three sections. The first section contains interviews or case studies with a family business owner or manager, the second section covers the methodology and the third is a conclusion with recommendations and the list of important definitions (for instance: family council, family history book, annual general meeting, family philanthropic foundation).

The first chapter of this book demonstrates the aim of good family business governance and the indicators of inadequate governance. It defines the two overlapping components of family business governance, and the different stages in family business governance solutions for different types of family enterprises (sole owner – owner managed, sibling partnership – family managed, cousin consortium – family monitored). The second chapter summarizes the challenges to family business governance: nepotism as a family-first attitude, professionalization as an inability to change, delegating and institutionalizing a successful business model, succession and continuity planning, responsible stewardship of the business, family conflicts, the belief that fair means equal, the solution of wealth and the current leader's unwillingness to transfer power, altruism, the erosion of the entrepreneurial culture, and the lack of transparency and oversight. The third chapter offers an overview of the elements needed for achieving effective governance, and the principles and policies, which are often contained in a family constitution. The key issues dealt with in this chapter are: dividend distribution and reinvestment policies; employment and participation policies; mission, duties and the culture of trust; wealth management; owner-manager alignment; family assembly and the multifamily office; as well as out-and-out relevant and thought-provoking circumstances connected to family business continuity. The fourth chapter is the last one of the first section of the book. The reading public can become acquainted with the meaning and relevance of responsible ownership with the aid of two interviews (Franz M. Haniel, Haniel Group and Karl-Erivan Haub & Christian Haub, Tengelmann Group), whose topic sand emblematical issues involve the fundamental roots of responsible ownership, the types of ownership, and the tasks of responsible owners.

The second section of the book consists of three chapters, where the authors introduce their four-step model for a professional board of directors in a family-owned firm. In summary, the four steps are four questions and the related, potential answers are: What benefits should a board generate for the firm and the family?; What are the overriding tasks and duties in five specific themes: operational and strategic monitoring, advice and the generation of new ideas, personnel selection, networking and family communication?;What contingent factors should we define? How can we regulate them? The book highlights four relevant factors: structure (size of board, the term of office, age limit, the board meeting, sufficient external representation); competence (specific qualifications and personal qualifications); instruments (director's liability, reporting system, selection system and committees); and remunerations and other costs.

We also consider the issue of evaluating the board and address five questions: Who will be evaluated on the board? What will be the content of this evaluation? Who will be subject to evaluation? Who will carry out this evaluation? How can the evaluation be structured? The answers depend on the type of family firm, so in the following two chapters the authors make a comparison between family CEOs and non-family CEOs, including topics relating to the succession process: the so called competence development planning process for the grooming of the next CEO; and the alternative leadership pattern of some highly performing family firms. The seventh chapter is an introduction to the control system for a family enterprise, based on three main dimensions: control performed by outside - external audit (statutory audit and validation of reporting); control performed within the company; and reports (shareholder reports and intermediary reports). The chapter is intended to help family businesses based in the Central-Eastern Europe within a domestic relations system. These businesses are now being forced to reinterpret the past, their proven business model, their business strategy (due to the generation change), as well as deal with the professionalization and internationalization dilemmas. This chapter will aid these businesses in setting their control systems.

In the third part of this masterpiece, we can find an outline of three Western Europe-wide known and applied governance methods: the Family Council, the Family Office and the Family Philanthropic Foundation. The family owner or the committed reader can explore the typology, structure and management of the single-family office and the multifamily office, as well as the ways and principles of efficient family philanthropy management. The relevance of these three governance bodies or methodologies is reflected in the following interview extracts:

> "We use the family council as a safe harbour, a relaxed space where we update each other about our lives and aspirations … the family council operating as the executives committee helps us develop the family business/family wealth strategy [...] The family council is composed of the five siblings and the two parents" (Maria Luisa Ferré Rangel, chairperson in Gruppo Ferré Rangel, fifth-generation).
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> "Our own multifamily office is to align the longevity and stability of a family business alongside the professional excellence of a financial services partnership [...] As a family business it creates an interesting dynamic because you need to ensure that you can mix the stability that the family ownership brings with the professionalism and dynamism of a financial services partnership" (Alex Scott, executive chairman of SandAire, fourth-generation).
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> The fourth and final part of the book covers facts and figures relating to the documentation of governance structure. In the eleventh chapter the authors present a short interview (with the chairman of the Miele's managing directors) and methodology overview. Following this, they present the German Governance Code of Family Enterprises. In the twelfth chapter we offer a lot of useful information, best practices, examples and recommendations for the planning and design of the family constitution, which in this region of the EU is in its infancy. "In Chinese the same word means both 'crisis' and 'opportunity' [...] a crisis always brings opportunities. For a family business like ours, I believe that it means that new energies and success will come from the current challenging time".

This quotation from an interview with Sophie Lammerant, who is the director of the Bekaert AK family council, remains in the centre and focus of the last chapter. As an epilogue the authors consider one by one the challenges that family firms will face in the coming years: cultural change and globalization; demographic change; an increasing role for women, both as owners and executives; the rights of the minority shareholders and the transparency, communication, and a professional board.

When we take into consideration the fact that the share of this sector will increase to 37 per cent in 2025 from 16 per cent in 2010, that two thirds of family business reported growth last year and 15 per cent of them plan to grow aggressively over the next five years according to the latest international PwC survey (*Global Family Survey,* 2014), we contend that this book will be compulsory reading in the family business sphere as well as in business and management education.

This book helps to eliminate the roots of conflicts and family wars. The dark side of the family business is illustrated in the Family Wars by Grant Gordon and Nigel Nicholson (2008), but that is another story …

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