

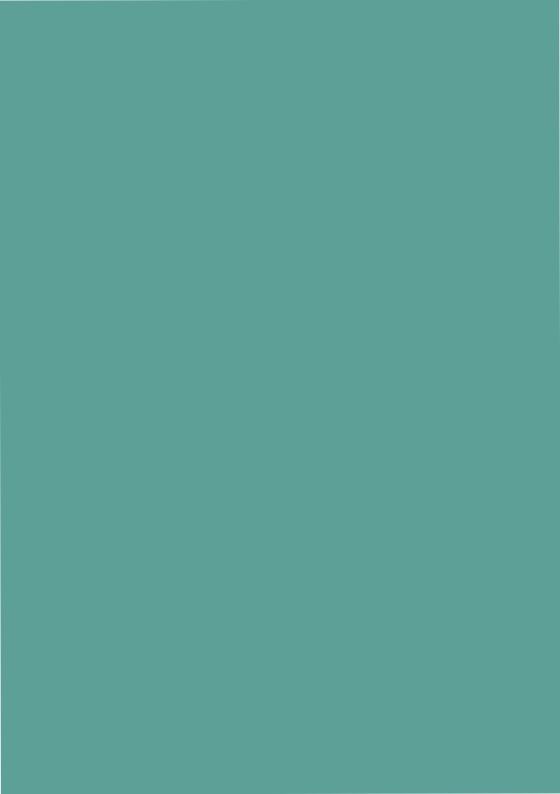
# **TOMORROW'S LEGACY**

SUCCEEDING IN FAMILY BUSINESS









#### **FOREWORD**

Saxton Bampfylde has worked with a broad range of the UK's leading family businesses for more than 20 years, nurturing and supporting senior leaders and seeking out external non-family leadership talent when needed.

We have always taken a keen interest in the dynamics of owning and operating a family business, the challenges and opportunities this poses and the importance of strong leadership at both executive and board level as custodians of a business' longevity. Our own history and transition to an employee-owned business model demonstrates our real insight into creating a legacy business, requiring the consideration of many interested parties. We understand the transition between generations and the implications this has on the role of senior leaders.

Our aim in developing this report was to gain a broad perspective across the family business world, about future leadership, succession planning, how leadership roles are evolving and the skills and attitudes required as they move forward. We were delighted to have talked to 26 executives, nonexecutives and consultants from family businesses across many different sectors and geographies who all shared their thoughts and insights to feed into this report. This group of interviewees was a balance of family and nonfamily perspectives. We wanted to consider why and how the integration of non-family leaders into family owned organisations has been undertaken and look at the challenges and opportunities leaders and their businesses face as they look to future generations.

We hope that you will find this piece a stimulus for thought. We have thoroughly enjoyed our research in this area and the conversations with our contributors. We would warmly welcome any feedback on the areas explored.



W.Ludlow

**Kate Ludlow** 

Partner, Director & Head of Family Owned Practice kate.ludlow@saxbam.com

**Stephen Bampfylde** Partner, Chair

stephen.bampfylde@saxbam.com



# Saxton Bampfylde

## **TOMORROW'S LEGACY**

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In the UK, family businesses are a significant force. Employing almost 12 million people across 4.8 million businesses, these organisations generate over a quarter of the UK's GDP and contribute 21 per cent of UK government revenues<sup>1</sup>.

The continued success of this group of businesses in the UK is paramount. A keen focus on future-proofing and positive succession planning is essential, perhaps more so than for other private sector organisations, however it is not always prioritised as much as it should be. As a starting point we consider what is it about family business that makes it such a successful and powerful economic driver.

"A healthy economy needs family business."

#### THE SECRET SAUCE

The dynamic within family business is hard to define. It is innate and ebbs through these organisations, transcending generations. The engrained values central to the founding core of each individual business continue to be reflected and held in the highest regard today by each individual we talked to. These values are at the heart of what makes each business what it is and drives it forward.

Profit is not king in family business; or certainly not compared to the weight placed on profit by other private sector businesses and their shareholders. Strong financial performance and a healthy bottom line are of course key to maintaining a sustainable and thriving business, but there is so much more to it than that.

In family businesses, the people really are fundamental. For most family businesses that have survived beyond one generation, there is a sense of responsibility and long-term prosperity which creates strong bonds across the workforce and are at the core of what many businesses do and the communities in which they work. The relationship between family businesses and the communities in which they operate has evolved in a symbiotic nature and it is this connection that is so often at the core of the business approach. The trusted, committed and interested familial approach, which as one contributor described was as far away from 'a shop floor attitude' as possible, is that which engenders loyalty and mutual respect.

As the world has evolved and the local and regional are morphed more easily with national and global markets, there is still an emphasis for many family businesses on maintaining this link with the communities in which they operate. Communication is key in this relationship, and is the best way to build up a common narrative that can be carried forward and engage new audiences as employees, partners, customers or supporters.

This story is typically well told, with the leaders of family businesses frequently adopting the role of the 'custodial guardian' as the business moves away from its entrepreneurial foundations and towards future generations. In this role, sustainability, long-termism, and social and cultural responsibility become more innate ways of operating at an executive and board level and this spreads naturally throughout an organisation.

However, no business can thrive in today's global market, no matter how loyal the staff and local community are, without a keen aptitude towards change. This brings with it a requirement for constantly evolving skills, a fact that is augmented by the continuously changing digital world.

"Got to run your business by values."

"We behave in a certain way as it is the right thing to do. It's not all about the economics."

"We are at the heart of the communities we serve."

"It has become increasingly important to highlight community and the sense of sustainability."

"Need to know the difference between a trend and a fad. We say we 'hurry slowly'."

<sup>1</sup> www.ifb.org.uk/research/about-family-business

For family businesses, ensuring they have the correct skills to help them adapt to market changes is as great a challenge as in any other commercial business, and indeed may perhaps be even more so for family businesses where there is less flex to match competitive salaries. The ability to take a longer-term view is, however, a luxury more often afforded in the family business space and this can bring significant advantage. For example, it tends to mean longer tenures, greater job security and a chance to be part of an organisation that it is community-minded and values driven. The potential flexibility and agility of a family business is also significant, as it is not beholden to shareholders outside the family. However, the owners must fully appreciate this and ensure the leadership balances operational efficiency with good tactical decision making and a strategic outlook.

To sustain their business and family interests, an increasing number of businesses are looking externally for advice. consultancy and leadership talent. This was highlighted particularly in relation to technology and digital advances where the greatest level of change has come in the past ten years. The idea of going 'outside' for advice, skills or strategic input is gaining traction, and the majority of those we talked to emphasised how valuable this is.

Whatever the business, wherever it exists, and whoever is leading it, each family business has its own way of ensuring success. It is the personal involvement and pride of the family that brings passion to the fore and creates the distinction and culture which sets these companies apart. Right across this group of organisations, it is impossible to underestimate the emphasis put on ensuring alignment between the heritage and values and how this drives the vision, strategy and implementation.

"We only survive by consistently putting things hack in "

"Everyone, family and non-family, needs to be sensitive to the heritage."

"Being in a family business is as close as you get to a vocation in the business world."

### SAME BUT DIFFERENT

"We are like any other business; we just happen to be owned by a family."

"We are a profit optimiser, rather than maximiser."

When comparing their own to other private sector organisations, it was evident from those we talked to that despite many clear distinctions, there exists a considerable number of similarities. Impacted by the same political, cultural, social, technological and economic trends as non-family private businesses, there are similar challenges, but it is the way that these are played out that sets family businesses apart.

The importance of good chemistry between the leadership and board 'is not unique to family business' but it was emphasised as likely to encourage greater communication, which is essential for building that loyalty and trust which holds such weight in family organisations. The idea that working in a family business brought 'a totally different feeling and level of job satisfaction' was a comment that reflected much of the sentiment in our conversations.

While the need to ensure profit and shareholder dividends was not disputed, the commitment to staff costs, pensions, salaries and job security for employees was considered more significant than in other commercial organisations. Making temporary gains by reducing jobs or creating efficiencies in staff benefits was not a preferred route for delivering profit.

Whether the slower level of pace discussed by many family leaders is more about risk aversion or more akin to opportunism, where swift decisions can be made if needed, there was a clear sense that the strategic view, rather than the financial rewards are far higher up the agenda for family business.



#### **CHARTING THE FAMILY COURSE**

A fundamental area that was highlighted repeatedly throughout our discussions was the need to examine the journey of each organisation. That goes far beyond simply looking to the future, but must consider where it has been, where it is going, how it will get there, what needs to be maintained and what needs to change. A strong narrative context is central to this journey, both to gain a stronger strategic vision but to also attract and sustain talent inside and outside the family. Capturing values was considered vitally important; with values often only in the hearts and minds of owners rather than written down, it was felt this posed risk to the business in the longer term.

To move forward and ensure a consistency of vision and direction, a number of those we talked to had introduced a style of family charter or constitution. It was felt that this helps consolidate thinking from across the family group about the direction and vision for the business. It also brings with it the opportunity to interject a more professional element to the organisation by capturing formal strategic, cultural and business approaches. This is a tool that can then be carried forward and updated or amended as needed by future generations.

As part of this process it is vitally important to openly expose the personal objectives of the owners and marry them with the business' objectives. This requires honest, well-directed and managed conversations. This, more often than not, comes from external voices and is increasingly gaining a more formalised approach through consultants, non-family executives and board members.

When signing up to a deep-level exploration of the family, the business and its values, there does need to be a commitment to honesty, self-reflection and openness. It is just as vital that there is a clear understanding and explicit agreement about who is running the business, what control will be given and how the shareholder model and operational input works.

The creation of a family charter or constitution in itself is not enough. It cannot be produced just to look good. It needs to be lived, breathed and evolved, impacting on the business for the long-term good and helping to inform future generations about what has gone before, and how and why they may need to move it on.

"We are custodians. We don't want to just leave it in better shape, it has to be in relevant shape too."

"With longevity comes tradition and a lot of inward looking."

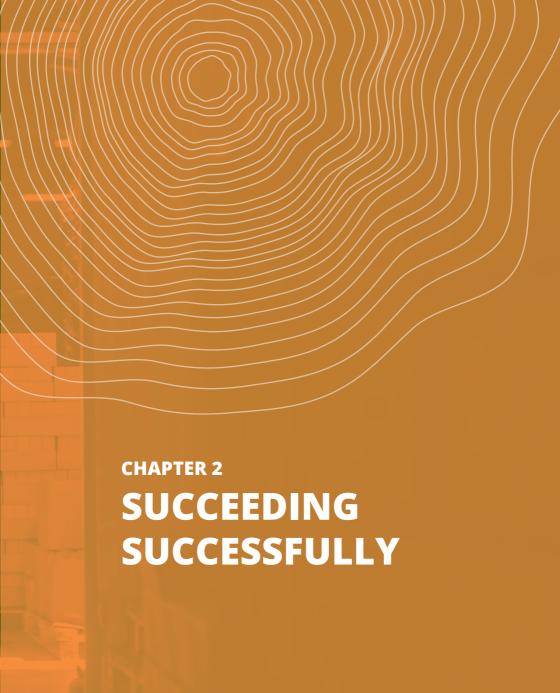
"Naming the elephant - families can't do that. You need an external consultant."

"Everyone must be on board the bus. We can only move at the pace of slowest person, but you need everyone on board."

#### **CHAPTER 1: INSIGHTS**

- The sustainability and longevity of family businesses is closely linked with its people and the communities in which it operates. This engenders respect, trust and commitment to reinvestment and innovation.
- Family businesses are unique in their ability to create a personal and engaging narrative outlining the importance of the people and the business' journey from foundations to the future
- Family businesses take a long-term view, placing a greater focus on the strategic delivery and wider implications for the business, than making significant and short-term profit.
- The introduction of a family charter or constitution presents an opportunity to capture values and set vision. This requires honest and self-reflective conversations, often most successfully facilitated by someone with an external viewpoint.





#### THE BEST SUCCESSION

Right across the family sector succession planning has become a central issue. No longer does having the right surname or even the qualifications get you the job. There is a considerable shift towards attitude, desire and what is considered 'right' for the business in terms of leadership, whether that be a family member or not.

Succession planning differs from organisation to organisation, but when the added element of family is thrown into the mix it requires additional considerations to ensure the sustainability and strategic direction of a business. Whether succession planning was even an appropriate term was a key point of discussion, with one commentator suggesting the term was 'too binary' and didn't reflect the breadth of what it encompassed. The term 'business continuity planning' was generally considered more appropriate. It encourages families to think about what they wanted the business to achieve, rather than necessarily which member of the next generation would be the leader.

In an ever-changing business environment, the need to keep up has emphasised the requirement for a wider, more professionalised skills mix amongst leaders. Where, and indeed in whom, this skills mix could be found was central to much of the thinking about succession planning.

From our conversations there were attributes and talents that were repeatedly highlighted: a leader with visibility and good communication skills; a leader who knew the business from bottom up; a sense of shared ideals; digital skills and awareness; and, for many, a leader with a global view or experience.

With the increasingly professionalised nature of all areas of business, the need for outside experience and fresh talent has become a key priority for many organisations. For some this was seen as a risky move; for others it is just a practical reality.

Size and timings also matter when it comes to succession planning. The majority of family businesses are recognised as small to medium enterprises (SMEs), and leaders tend to have longer tenures than in other businesses. As such, the pool for leadership talent coming through the ranks is not always available.

"Great challenge of succession is where many businesses fail."

"We have really focused on this considerably in past 10 years."

"We are not as concerted in our succession planning as we might have been. We are looking to change that now."

"Promoting within was always seen as less risky, but to keep business moving we needed to take more risks." "We're an SME and don't always have an heir and a spare." Whether the timing is right or not however, the sense of future proofing a business is becoming more pertinent with each generation that is introduced. For those we talked to, there was a keen eye on the future and in particular successive leadership talent. Some were committed firmly to familial leadership, while for others the ability to lead was something that had to be proven, although keeping it in the family fitted best with the business model. For other businesses, non-family leadership talent was brought in almost by default, and there were others that had made the strategic decision to move away from family in the key operational leadership role.

"It is in my DNA

– I have never
regretted coming
into this business."

It was clear that succession planning is by no means a one size fits all approach. It is something that is constantly evolving. It was also evident that as businesses evolve, so too do the generations coming through to work in and lead them. There was a real openness and willingness to learn from others and to hear about what has worked for them when it comes to succession planning.

#### **GENERATION NEXT**

"Families that endure through generations tend to be regenerative businesses." As a business moves from one generation to the next, the need for continuity is paramount. Finding the right leaders to move it forward cannot be approached lightly. The need for future generations of leaders 'to be good stewards' in a business' evolution was emphasised time and again.

"We take the greatest care it will get to the next generation."

It is in this area, however, where some of the greatest challenges lie. The outgoing generation can often present the greatest challenge to succession planning. A 'resistant exiter' brings an additional dynamic to the continuity of the business and must be handled carefully to ensure a smooth and successful transition. It is essential that control is relinquished to allow successive generations to advance and develop the organisation in their own way, however this requires a sensitive and open approach, often best served by an outside facilitator.

"A family member for family sake is a dangerous thing." It was acknowledged through all our conversations that future generations must 'earn their place at the table' and that great care must be taken over the choice of a leader from successive generations. There must be a clear measure of value by bringing in a family member as a future leader to the business.

A need to prove oneself has become more necessary in today's environment than in years past with comments suggesting that future generations are 'not destined to inherit the leadership; this is no longer a gravy train' and that they 'wouldn't gain the promotion if [they] didn't merit it'.

However, the need to prove oneself was not just limited to the future generations. Due to increasing trends of globalisation, digitalisation and automation, the world is a very different place even compared with 20 years ago. The world today is much more accessible, open and navigable than it was. The ambition to live and work abroad, for example, is readily achievable, and for many the family business is not as appealing as it might have been to previous generations.

The so-called millennial generation is accustomed to choice, our interviewees highlighted, and for many a long-term career no longer holds the interest it once did. In some quarters this has created an intergenerational strain and highlights the need for better forms of engagement and a clearer understanding of cross-generational priorities. One area where this was felt most keenly was charitable and community involvement. It was recognised that this perhaps resonates more with the millennial generation therefore needs to be communicated more overtly than it has been before. No longer should it go unspoken or presumed, it needs to be part of the clear narrative told by family businesses.

Our interviewees highlighted an increasing need for competitive compensation packages to attract the next generation of both family and non-family members. As the skills and jobs market evolve, there are levels of competition for those coming in from the next generation. As such, employers must have a realistic and relative approach to salary and benefits. This can present challenges for some family businesses where budgets are more restricted, and it needs careful consideration in the wider succession planning agenda.

The presence of family in leadership across the generations has a very positive impact in many areas. It brings reassurance for the ownership model, reflects strong family values and emphasises continuity and loyalty. There was some risk of competition and conflict within families when moving through generations and it was acknowledged that in some cases this was leading to a shift in culture. It was argued however that if due diligence is done then leaders being brought on board should be well embedded and have been closely involved in the business from an early age to ensure they are ready to take on their role within the family firm.



#### **NEVER TOO EARLY**

When the business is in the blood, there is really never too early an age to start encouraging interest and gauging aspirations. Many of those we talked to shared stories of talking about business at the family meal table or bringing young people in for work experience or just to get a sense of 'what makes the office tick'.

One commentator highlighted that the children would be shareholders eventually and therefore they must understand the business and its people. The same individual was however quick to point out that while a leadership role was not pre-determined, even as a shareholder the responsibility of ensuring longevity in the business was still hugely important. They must 'retain and understand the purpose for which the family business has been maintained all these years.'

Engaging younger family members is not always an easy task, especially as the shareholder group grows. However, even the most benign shareholders have the potential to make a real impact on a business and therefore it is important to keep communication open, and more importantly, relevant.

Our interviewees talked passionately about the various ways in which their organisations were engaging with younger members, including introducing internship schemes and regular gatherings for younger members of the family to interact and learn a bit about the business and its culture. The commitment to the next generation is very real from many family businesses, and the willingness to share and learn from these initiatives is clearly acknowledged.

"We need to make them aware of the responsibility."

"Treat children by their individuality, not by their family name."

#### **NOT SO TAXING**

When considering succession planning, it is not just the business itself, but the wider political, economic and social environment that was often referred to. It was considered vital to look outside the immediate business context at what might impact successive leaders.

For many family businesses, a political agenda was not high on the list of priorities. This may explain why many of them have weathered so many generations as focus has not been distracted away from the business. However, it was noted that a regard for family business at both national and local government level is typically minimal, with little reflection of the considerable tax revenues, economic and employment impact it generates.

One area that did require serious consideration for our interviewees was the tax regime in the UK. It was emphasised in many of our conversations how important it is that this regime is supportive of family business and enables, rather than inhibits, succession. With such a strong economic presence in the UK, both in terms of employment and contribution to HMRC coffers, there is a very clear mandate for family businesses to be mindful of legislative and fiscal threats.

It was in this area that some of our interviewees looked outside the UK for best practice. For example, in Germany it was highlighted that business property relief was greatly reduced and passing on business assets didn't incur inheritance tax provided the business continued to operate for seven years. This was considered by many to be a real incentive for keeping family business alive and well<sup>2</sup>. In Germany, 91 per cent of the business market is made up of family owned organisations, which has a significant impact both economically and politically<sup>3</sup>.

There is, then, a recognition that for family businesses having a keen eye on succession is more important perhaps than for any other business model. These businesses often take their success from the passion and drive of the family members leading them forward, but with greater options available to new generations than ever before and an ever-increasing skills mix required, having the right leadership in place is vital both now and for future generations.

"A more welcoming tax regime enables greater facilitation of succession."

<sup>2</sup> www.ft.com/content/cd1ec712-80c7-11e6-8e50-8ec15fb462f4

<sup>3</sup> www.familienunternehmen.de/en/data-numbers-facts

#### **CHAPTER 2: INSIGHTS**

- Succession planning is higher up the agenda for family business than ever before, and more so than in any other business model.
- The term 'succession planning is often considered too binary and it was suggested that 'business continuity planning' was a better description as it focuses the direction of the business, not simply which member of the family should be the part leader.
- Engaging the next generations earlier on helps to make them aware of the
  opportunity as an employee, responsibility as a shareholder and allows them to
  be able to contribute more knowledgeably to the family business in the future.
- Going into the family business is no longer always the default choice for upcoming generations, who are presented with greater opportunities for international travel or employment, different career paths and competitive salaries
- The tax regime in the UK is not as welcoming as it could be for family businesses compared with other countries, such as Germany. Concerns also exist around potential threats of non-favourable tax regimes being introduced.





#### **BRINGING NON-FAMILY ON BOARD**

Transition is one of the hardest processes in life, and in business this can be felt acutely; in family business even more so. It needs to be considered, effective and well-communicated.

The majority of those businesses we talked to were beyond second generation, with one having existed for 20 generations.

With only 20 per cent of family businesses in UK surviving into the third generation, as each generation passes, the pressure intensifies on its leaders to keep it going, build on previous success and fulfil the 'responsible steward' role through to the

The success of these businesses cannot be denied and that is largely because they know themselves, their customers, their market and, importantly, their staff. That level of self-awareness is vitally important, highlighting both what makes it work and what might be missing. These elements are fundamental for a business to move forward and to think about the current and future leadership. It is also why an increasing number of family owned organisations in later generations are going beyond their own bloodline to find new senior leaders.

The complexity of the business environment and the impact of external factors such as socio-economics, politics and technology, creates a huge challenge across all sectors and models. However, with family business the need to satisfy the culture, values and long-term perspective adds additional layers of complexity, particularly when trying to identify the best and most suitable leaders. As the business moves into a professionalised stage, this often marks the right time to separate ownership from executive leadership.

For many, going outside the business is the most obvious conclusion to addressing this issue. The cultural fit is paramount, and the right candidate must have a clear understanding that legacy and family values are at the heart of many business decisions. Our interviewees highlighted that the right external leader should be able to keep the ship steady while allowing for evolution and reinvention where necessary.

"If we are moving to a more professional business we need an external CEO."

"When you get past the third or fourth generation it becomes much more fragmented and an external CFO is more likely."

"If we didn't have new blood the business could have failed"

"Must be an alignment of values between family and non-family. That is fundamental' "

<sup>4</sup> Institute of Family Business 'The State of the Nation, The UK Family Business Sector' 2016/17 www.ifb.org.uk/media/3090/ifbrf-sector-report-2016-17-final-web-version.pdf

The risks of bringing in a non-family member to a business were also considered in our conversations and it was particularly with this in mind that communication was deemed essential. The importance of avoiding the impression of 'parachuting someone in' is significant. All communications must be open, direct and honest

"Cultural strength is always greater than the qualities of the individual" Another risk factor was highlighted as the size and style of the business. There was emphasis in many of our discussions that only when a business was at the right size could it be managed by someone externally. It was generally agreed that if done at the right time, when the company is the right size, this can make the transition much smoother and allow the new leadership better chance of enduring. This is something that we explore further in Chapter 4.

"A family leader is welded into the seat with no parachute."

The potential that a non-family member could leave a business after only a few years brought mixed feelings. There were those for whom this notion created an uncomfortable prospect, while for others it was the potential for a short tenure that they felt would bring dynamism and greater scrutiny to the role of leadership. For the latter individuals, this was a large part of the appeal behind bringing on a non-family leader.

"Generation was too young, but as soon as we could we moved it back to family." Having a significant age gap between generations has for some organisations also played a deciding role in the move away from family in leadership roles. There were some who felt that outside experience brought a potential boost as a 'stop-gap' while the next generation came through the ranks. One interviewee explained that outside experience provided an opportunity for family members to be able 'to watch, clone and learn' from.

There is no doubt that whatever stage or generation a family business is at, the attitude has to be one of inclusivity to make a relationship with an external senior leader work. It is important not to make them feel like outsiders while providing sufficient incentives to make them want to work as hard as the family members do, despite not being a shareholder. It really is about striking the right balance with your 'hired gun'.

#### THE HIRED GUN - A NON-FAMILY **PERSPECTIVE**

The term is misleading perhaps, but the 'hired gun' concept was something that non-family interviewees referred to several times in our discussions. The implication was typically self-effacing and not intended to create any sort of hard boundary, but the imagery it evokes shows a distinction of which these people were keenly aware.

When we asked people why they had joined family organisations as non-family members, the reasons were far-reaching and showed a real desire to drive the change that such a transition can offer.

There were those who had reached an impasse working within large corporations and cultures: 'I didn't want to work with faceless institutions anymore'. A regularly highlighted notion was that family business offers 'a greater sense of integrity, innovation and genuine approach' than other organisations.

The attraction of a longer-term approach was also highlighted as a very appealing quality for those looking to move into family business roles. However, avoiding a 'pointless appointment' was also stressed: there needs to be a clear place for an outside perspective. The potential for micro-management from family was emphasised as a significant deterrent. The value and the experience that a non-family member is bringing to the table absolutely needs to be recognised for the dynamics to work.

Emotional and personal commitment are essential for non-family members to demonstrate, not just when thinking about their own career, but also in their investment to the family legacy. One interviewee summed this up: "would never sign up to something that didn't match my vision of life and needs. I need to be emotionally committed to this role".

Timing and the non-family/family dynamic is fundamental in the decision-making process for those coming in from outside. Thinking about the business model, the composition of the executive and non-executive team, where the family is on its journey and which generation it is at must be considered before any non-family member makes that move. One interviewee was very clear that 'working under the original patriarch didn't appeal, as there was less opportunity to define strategy'. A keen awareness of what is being entered into is essential for both family and nonfamily when moving down the route of an external leadership appointment. This was summed up perfectly in a comment: 1 get to play with the train set, but it is their train set at the end of the day'. "It requires a certain psychology or mind shift to come on board from outside "

"Too many businesses are too myopic and this business has a much longer term view"

## INSIDE BUT OUTSIDE BEING NON-FAMILY

The business dynamic is what ultimately makes it work or not and that requires as much effort from family and non-family alike. The commitment must be there from both sides. It is, in the majority of cases, a clear career choice and one they will remain in for a large part, if not all, of their working lives, all being well.

However, despite decades or even a life-time career dedication to a business, there are limits. They will *'never be family'* in its truest sense, and therefore the ability to hold shares or in some cases make the final decisions will never likely reside with non-family members.

It is therefore important that aspirations of salary, benefits, personal and professional goals are made clear between senior non-family and family personnel. The potential for resentment can be catastrophic for relationships and ultimately for the business if there are not clear and open discussions at leadership level.

Positive alignment with both the business and the family is imperative for leaders, particularly those coming from a non-family perspective. Many of our interviewees highlighted that finding this balance required becoming an expert, by learning to always 'be asking the right questions'.

This questioning approach allows a greater understanding of the personal versus the business dynamics. A strategy can only be established when there is a clear understanding of how these two areas sit together and that strategy can only be effectively delivered through a relationship that has a mutual understanding and common end goal. One interviewee described this need for a collaborative approach to strategy: 'people need to work on the business, not in it'.

Successful relationships between non-family and family require considerable hard work and are dependent on trust and mutual respect. They require sensitivity and empathy, with high degrees of emotional intelligence. It is not just about driving the bottom line and delivering shareholder profit.

There needs to be cultural alignment, this is fundamental. The communications between family and non-family at board and senior executive level need to continuously review the business' approach in light of its values and culture. The 'political' approach also needs to also be considered, particularly when dealing with early generation entrepreneurs. It is common for many to feel inextricably linked to the business they might view as their 'baby' and have a tendency to micromanage rather than stand back.

The reality for any leader coming into a family business is that a certain amount of humility will be required. If the fit is right and everyone has worked hard to make sure of this at the beginning of the process, then they will most certainly start to feel like part of the family before long.

"Respect the legacy; bring it with you."

"Those who share the vision and values stay; others who don't leave."

#### POWER IN THE GOVERNANCE

For each organisation we talked to, despite being a family business and sharing many common approaches, upsides and challenges, the models of family and non-family across the non-executive and executive functions differed considerably.

For example, there were some that had only family in the senior executive position and hadn't deviated across the generations as it was believed that only with that model would the passion exist to successfully take the business forward. These same organisations had introduced non-family into the non-executive role generations beforehand. There were also organisations that maintained family only at group board level, with all the subsidiary businesses run by non-family. This was also a strategic decision as it seemingly 'reduced the dependency on family succession planning'.

Despite the many different approaches, there was a general consensus that a mix at the senior leadership level was more likely to bring success. Being able to separate family and business decision-making was fundamental. It was suggested by many that if a chair was family, then an MD or CEO should be non-family, or vice versa. A mix of family and non-family on boards particularly can help the family grow and keep up to speed with professional qualifications, wealth generation and sustainable business models.

However, it is vital that the balance is struck properly with the corporate governance model to guarantee security in the eyes of family shareholders and to ensure the ultimate responsibility of stewardship for the generations to come. The introduction of a family charter or constitution, shareholder agreements, family shareholder councils or governance codes were all examples of how organisations had moved to formalise the governance model as they recognised the essential value it holds. This can be particularly crucial when a non-family member is introduced into the leadership team for the first time as it must be balanced with concerns that this could lead to a permanent shift away from family. These systems and structures create reassurances and reference points to ensure that family voices are always being heard.

"Governance model needs to offer the checks and balances."

"Helps to provide a more thoughtful and long-term approach."

"Striking the governance halance "

With the introduction of the Wates Principles, which came into effect on 1 January 2019, there are increased pressures on larger family businesses to demonstrate that they have complied with a corporate governance code and prove that they have taken into account the interests of all shareholders. The impacts this has on staff, suppliers, customers and others is considerable. James Wates, the author of the report highlights that "The Wates Corporate Governance Principles provide a tool to help large private companies look themselves in the mirror, to see where they have done well and where they can raise their corporate governance standards to a higher level... After all, good corporate governance is not about box ticking." 5

No matter whether a leader is family or not, the level of responsibility for running an organisation which has been going for decades, if not centuries, is vast. A collaborative approach with open communication is essential in today's leaders and that is most definitely not unique to family business. Working together is essential to steer a safe passage into the next generation.

#### **CHAPTER 3: INSIGHTS**

- As family businesses move into more professionalised markets, the need for outside experience and fresh talent becomes more valuable.
- For many family businesses moving into third or fourth generations the families have become broad and disparate, and an external leader can be more likely. However, anyone brought in externally must still be a strong fit within the family's culture – evolution or reinvention cannot come at the expense of the business' culture.
- A 'hired gun' is a tricky concept but demonstrates a specific role and huge value
  that bringing in outside experience offers. Anyone coming into a family business
  from outside is expected to show complete commitment to the role, balanced
  with the knowledge that they will never truly be family. This requires the right
  personality, attitude and skills.
- Balance within the business is essential the introduction of non-family members can strike the right chord whether leading the executive or nonexecutive. It enables the preservation of business interests whilst separating those from personal interests.

<sup>5</sup> www.wates.co.uk/wp-content/uploads/2018/12/Wates-Corporate-Governance\_Screen\_2018-2.pdf





Entrepreneurs establish businesses, and many of these begin as family ventures. Whether these businesses continue to operate according to that model or not, the UK's entrepreneurs are still injecting new and dynamic ventures into the social and economic make up of our society every day. Those driving these businesses forward need to have a long-term perspective and that changes the fundamental way they often choose to operate and the models they follow.

"Crucible from which many businesses are born "

There is a growing recognition that family businesses need to evolve their leadership models, in spite of the initial challenges this may present. Sometimes charged with being too internally focused, we were keen to examine how family businesses operate beyond the UK and why they adopt their chosen business models.

#### LOOKING INTERNATIONALLY

We asked those we interviewed to share experiences of international family business and how they compared to those in the UK. We have already touched on the German system in Chapter 2, and this was referenced by a few interviewees as an approach that the UK could learn from. Interviewees particularly highlighted the ways in which German legislative and tax systems could make setting up and maintaining ownership of a family business more appealing.

Other countries that were mentioned included the United States, where almost a third of privately-run businesses are family owned. They employ 60 per cent of the US workforce and generate 64 per cent of the gross domestic product (GDP). The entrepreneurial approach in the US clearly continues to be a strong driving force, but the longevity does not appear to be as deep-rooted as in other parts of the world, with only 12 per cent surviving from second to third generation in family ownership, compared to 20 per cent in the UK.6 It was highlighted that this is in part down to a different tax regime, but also borne of a serial approach to entrepreneurialism that continues the cycle and encourages family businesses to be sold and founders to move on elsewhere.

"If entrepreneurialism is important to the economy then it is important to ensure you have a thriving private sector."

6 www.prnewswire.com/news-releases/family-owned-businesses-create-78-of-new-us-jobs-andemploy-60-of-the-workforce-300613665.html

"Try to find best practice and promulgate globally."

In Japan and China, family business is hugely influential and important to economic growth. In Japan, this has been the case for multiple generations while in China family business has seen huge success post-1979 when free market trade was permitted. However, there are serious challenges when the notion of succession planning is considered. In these two societies, which were both founded on the ideals of Confucius, it was observed that there is a considerable reticence to talk about death and the leadership exit to make way for a new generation. It has also been suggested that there is a crisis of succession in China as forthcoming generations have not been brought into the business early enough or had the opportunity to look at other sectors and other geographies to take forward their careers<sup>7</sup>. This is an area that many of our interviewees have recognised as fundamental to creating an holistic connection with future generations in the UK.

There is no doubt that in the UK we can observe and learn from the way family businesses operate in other parts of the world. The connection and mutual respect which exists amongst family businesses is universal and while there are cultural boundaries and physical borders, the underlying philosophy of such business ownership provides a strong bond. The opportunity to share ideas, learn about cultural differences and establish connections provides an excellent platform for family businesses in the UK for the future as they increasingly look to an international customer, supplier or partner base.

7 www.ft.com/content/5fa885ac-c61b-11e7-b30e-a7c1c7c13aab

#### ALTERNATIVE BUSINESS MODELS

As well as looking beyond our shores, we also wanted to consider different business models and approaches taken by family owned organisations in the UK.

According to a recent PwC Global Family Business Report, first generation family businesses outperform those run by subsequent generations in their ability to achieve double-digit growth. It was suggested that this highlights a real need to balance business model continuity with an appetite for disruption to bring about continued growth overall.

For many, operating a group board structure that oversees the executive but does not get in the way was considered a preferable option as they move through the generations. Remaining at the forefront of the business world by having outside talent overseen by family and a business-interest board was mooted as a particularly successful approach.

Many considered that a model which mixes public and private ownership would be very hard to make work, creating too much conflict. It was asserted by several interviewees that family business should remain either privately owned or wholly bought out. Many of these individuals considered that the beginning of the end for family ownership was marked when shares were ceded to a public shareholder base.

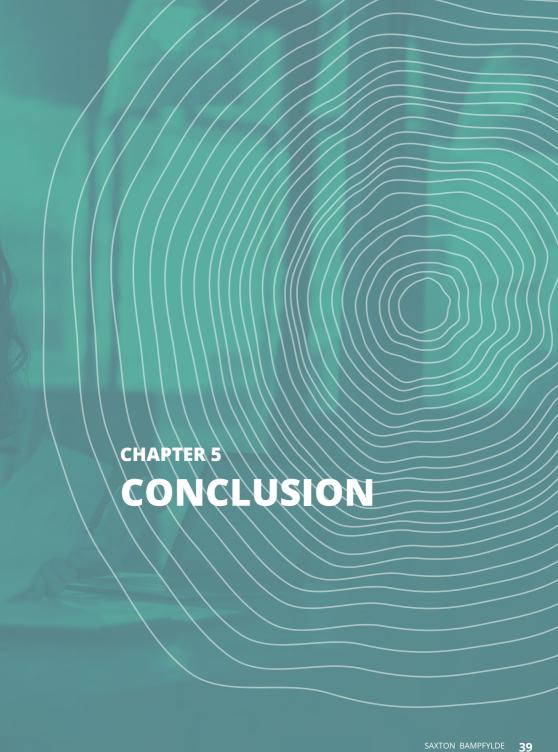
The general consensus was that there is currently a relatively benign regime in the UK towards family ownership, however this is not a case for complacency. There was a very clear understanding that there are still avenues being explored by civil servants for additional tax generation right across the private sector, and that successive governments may choose to focus more heavily on family business as an example.

Whether this happens or not, there are alternative models that may well be considered as family businesses move forward in the future. If successive generations really can't look ahead and see themselves in a leadership role - be it executive or non-executive - then maybe that raises the question of other alternatively owned models, such as employee or co-operative ownership as a serious consideration for the future.

### **CHAPTER 4: INSIGHTS**

- The approach of family businesses internationally (particularly Germany, US, Japan and China) are of interest in the UK market – what can be considered as best practice for other family businesses.
- Capital investment is important to aid disruption and innovation and this
  is not always readily available in the quantity it might be in a profit-driven
  organisation.
- The consistency and stability provided by a family business model is more likely to fare better in cyclical sectors, such as construction.
- Alternative business models could be considered if family business ownership
  and operation is not the favourable option in successive generations.
   Models such as employee or co-operative ownership could become serious
  consideration for the future.





### **KEEPING THE ENGINE RUNNING**

### "We want to make it last for the next 200 years."

Family business has an undoubtedly important part to play in the UK's economy, both on a national and local scale. As an important 'feeder of economic activity into the system', family businesses build relationships with staff and customers that last for generations. In today's political and economic climate, we face an almost unprecedented level of change across many areas of life and as a result, short-termism has become almost the default position. The long-term view and steady approach that is adopted in family business life is now more important than ever, providing a sense of 'continuity and reassurance in an uncertain world'.

Family businesses recognise the importance of people in bringing their success. Their willingness to invest in skills, talent and professional experience both inside and outside the business is more prevalent than ever before. Encouraging innovation through training, mentoring and coaching aids good long-term decision making, while recognising that 'family doesn't always know best' and that other experience, ideas and suggestions can be welcome is going to be vital in their future success.

These businesses are well placed to continue to thrive for many more generations to come, provided they are prepared to share ideas, communicate best practice, and learn from one another. However, they must get succession right. They need to ensure their businesses have the skills and the flexibility to cope with the rapidly changing context in which they are operating, as globalisation, digitalisation and automation continue to heavily impact the way in which the business world operates.

Whether they originate from inside or outside the family, family business leaders need to continue to be of the highest calibre. The success of this remarkable group of businesses, which continues to help drive our country forward, is reliant on having the leadership talent in place, both now and in the years to come.

# Top 5 succession and talent development challenges facing family business\*:

- 1. Emphasis and focus being placed on succession by board and management is not as strong as is needed.
- 2. The talent pool is more competitive and expensive than ever before.
- 3. Globalisation brings more opportunity for travel and international employment for future talent. A tough work life balance impacts the desire of future family prospective leaders to join.
- Timing and need for outside talent depends on size, stage and the strategic approach of business.
- Concerns over potential inheritance tax (IHT) structural changes which could make family business succession prospects less appealing in the future.

\* According to our interviewees who answered this question

## What to consider when appointing a non-family leader

1. Be clear about how and where a non-family leader will add value to your business.

Define the opportunity for contribution at a strategic and/or operational level: this will shape the candidate profile that you are looking to identify and set the tone for conversations with the candidate at each stage in the process. Make sure all the family members/board understand and are in agreement with this.

### 2. Chemistry is King.

Invest time at a briefing stage to share and articulate the key markers of your organisational culture. The best leaders can develop and evolve their skills set, but can't learn and attune to an organisation's innate values. Make sure that you are comfortable with their alignment to your values, culture and both the heritage and ambition of your business.

3. Think about style and approach as much as substance.

Look carefully for evidence of positive personal chemistry with a range of key leaders from across the business. Get to know the whole person, not just the CV and experience, but what motivates them outside of work for example.

4. Understand what the family will learn from the appointee.

Be clear about what can be gained from the outside experience / perspective of a non-family leader, discuss this with the successful candidate as part of their onboarding

### 5 questions to ask as a non-family leader joining a family business

1. Do you understand where the business is on its journey?

Is it the right size, structure and growing at the right pace for you to have impact? Explore the business and family ambitions carefully as part of the selection process and again when you join. To make an informed decision about the opportunity you will need to develop a clear picture of the business, its leaders and ambition. This is particularly important in relation to the development of your strategic approach.

2. Do you understand the motivation behind your appointment?

You will have been appointed to bring outside professional experience and skills: be clear about what specific abilities you have been selected for as this will likely offer a valuable starting point as you settle into the role.

3. Has the appointment process given you the time to get to know the business?

Prepare yourself for a process that is likely to require more investment. Use this to your advantage as it will allow you to gain greater clarity on

the priorities for the appointment, organisational culture and the business's ambition. It will also provide an opportunity to start building relationships with colleagues and board members and partners.

4. Can you be open and direct in your questioning?

Use your time with board executives and non-executives to have an open and honest discussion. This will help you build relationships, whilst also developing a clear sense of the expectations and requirements of the role and the context of the business and its ambitions.

5. How do the values and culture impact day to day operations and strategic decision making?

A good process will provide you with the opportunity get to know the business. It is important to evaluate this against your personal motivation and leadership style. Be honest about whether you are happy to work in an organisation that takes a longer-term view and whether this ownership structure aligns with your own leadership ambitions.

### METHODOLOGY

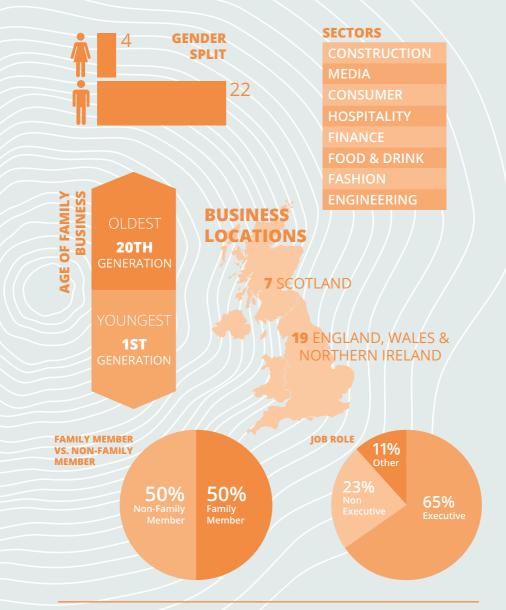
To produce this piece, we spoke with 26 executives, non-executives, and consultants from family businesses across many different sectors including construction, media, food and drink, publishing, retail and manufacturing. We selected interviewees from across the UK to provide national, regional and local viewpoints and also considered learnings and experience gained from those working in or interacting with international family businesses. We ensured that we had a balance of both family and non-family perspectives.

The focus of our questioning was on the challenges and opportunities facing family businesses as they look to the future, the emphasis on and approach taken towards succession planning, and the consideration and practicalities of introducing and integrating non-family leaders. We considered the increasing professionalisation of family businesses and the skills required from leaders both now and in the future. Our interviews also explored the potential benefits of bringing in outside talent into these organisations. We looked at the culture, the ongoing need for communication and the priority placed on preserving family values. We explored the rationale behind non-family leaders joining family businesses and what made the dynamic work, or indeed not, and the vital role this plays in the continuing evolution of the family business model.

To encourage our leaders to speak openly, we assured anonymity. This ensured that we were gathering honest thoughts, observations and learnings. We have incorporated anonymous quotes throughout this piece to reflect our conversations and the themes arising, and to give an indication of thought and response.

Our questioning was open-ended to give participants the opportunity to express their opinions and to provide their individual view of working in, owning, advising and operating family businesses. We conducted these interviews over a period of three months.

# OVERVIEW WHO WE SPOKE TO



### **FURTHER READING**

There were a number of materials that we reviewed as part of this piece of work. Some of the publications to highlight include:

- The Family Business Survey 2018 Determining the Family Business Agenda www.familybusinessunited.com/news/the-uk-family-business-agenda
- Institute of Family Business, The State of the Nation, The UK Family Business Sector 2016/17 www.ifb.org.uk/media/3090/ifbrf-sector-report-2016-17-final-web-version.pdf
- PwC Global Family Business Survey 2018 The Values Effect www.pwc.com/gx/en/family-business-services/assets/pwc-global-family-business-survey-2018.pdf

### **ACKNOWLEDGEMENTS**

We would like to thank all of those who took part in this piece of work. They shared their thoughts and insights openly and honestly and demonstrated passion and pride for the organisations in which they work and the sectors they represent. We recognise the time pressures faced daily and we are very grateful that they were able to be part of this project.



### **ABOUT SAXTON BAMPFYLDE**

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# SAXTON BAMPFYLDE TEAM CONTACTS



Kate Ludlow
Partner, Director, Head of Family Owned Practice
kate.ludlow@saxbam.com
+44 (0)20 7227 0827



Stephen Bampfylde
Partner, Chair
stephen.bampfylde@saxbam.com
+44 (0)20 7227 0803



Augusta Bunting
Partner, Consultant
augusta.bunting@saxbam.com
+44 (0)20 7227 0884



Sian Carnegy-Arbuthnott Partner, Consultant, Scotland sian.carnegy@saxbam.com +44 (0)131 603 5707



Mary Few Partner, Consultant, Scotland mary.few@saxbam.com +44 (0)131 603 5702



Mike Hounsell
Partner, Consultant
mike.hounsell@saxbam.com
+44 (0)20 7227 0842



Sarah Orwin Partner, Consultant sarah.orwin@saxbam.com +44 (0)20 7227 0811



Cassandra Woolgar Partner, Leadership Services cassandra.woolgar@saxbam.com +44 (0)20 7227 0824







### **LONDON**

9 Savoy Street London WC2E 7EG +44 (0)20 7227 0800

### **EDINBURGH**

46 Melville Street Edinburgh EH3 7HF +44 (0)131 603 5700

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