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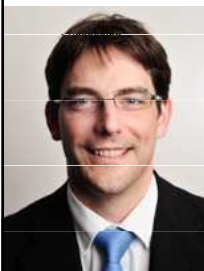
## Family owned Firms:

Current situation and  
potential for succession

Frank Halter



CFB-HSG



### Halter Frank

Dr.rer.pol.

born 1974, married, two children

#### Personal background

- 2009 PhD at European Business School (DE)
- 2001 finished studies at University of St.Gallen
- KMU-HSG: Member of the board, responsible for executive education
- CFB-HSG: Member of the board
- Member of 1 "Verwaltungsrat"
- 1999-2003: Member of "VR" of Halter Bonbons AG

#### Areas of interest

- Complexity and dynamics in family firms
- Conflicts and emotions in family firms
- Succession
- Life cycle-oriented leadership

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## Agenda

- Definition and Significance of Family Firms
- The characteristics of Family Firms
- The strengths and weaknesses of Family Firms
  
- Succession: facts & figures
- Succession: an integrative approach
- Succession: some empiric results
- Succession: the perspective of the successor
- Succession: success factors and recommendations

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## Definition and Significance of Family Firms

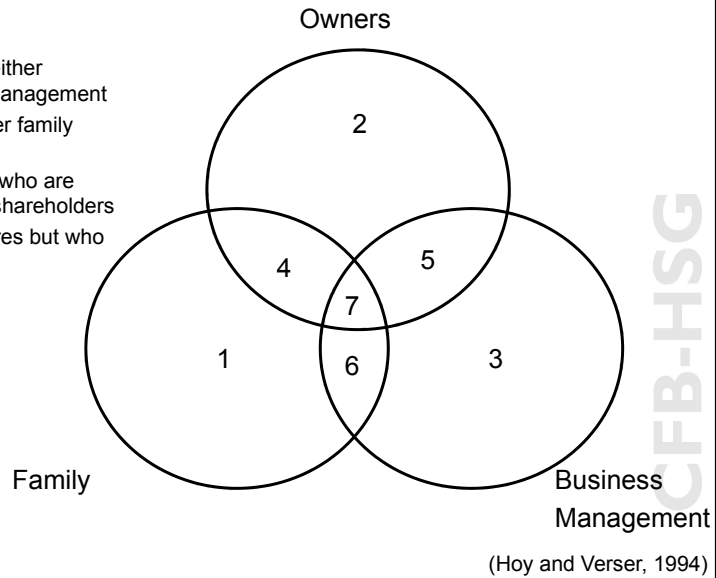
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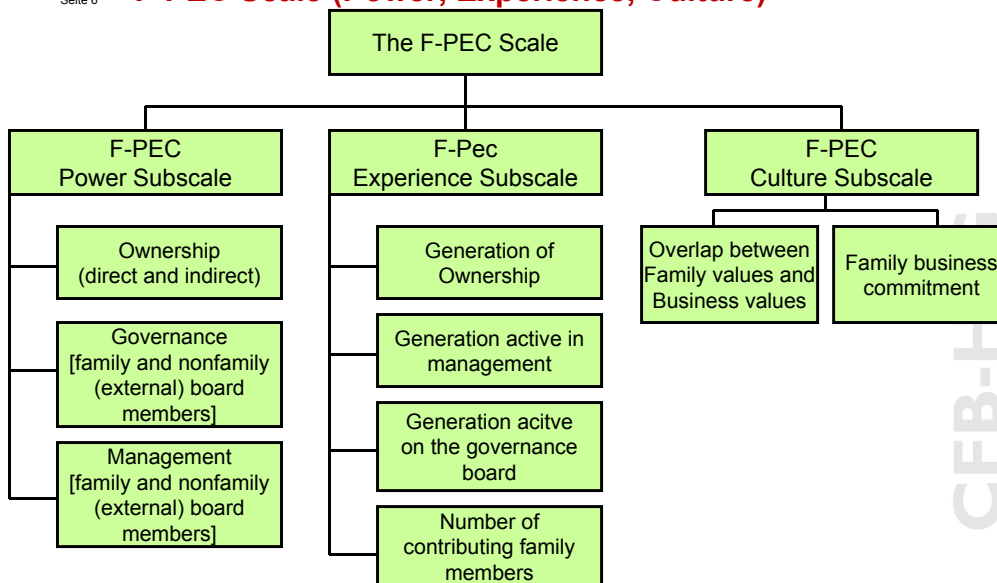
EQUIS

## Definition of Family Firm: Three circles model of family firms...

- 1: Family members who are neither shareholders nor business management
- 2: Shareholders who are neither family members nor management.
- 3: Employees or management who are neither family members nor shareholders
- 4: Family member holding shares but who are not management
- ....



## Definition of Family Firm: F-PEC Scale (Power, Experience, Culture)



## Definition of Family Firm: SFI – Substantial Family Influence

Condition that must be met in order to talk about a family firm...

$$\text{If } S_{Fam} > 0 \text{ SFI} : \left( \frac{S_{Fam}}{S_{total}} \right) + \left( \frac{MoSB_{Fam}}{MoSB_{total}} \right) + \left( \frac{MoMB_{Fam}}{MoMB_{total}} \right) \geq 1$$

S = stock  
SFI = substantial family influence  
MoMB = members of management board  
MosB = members of supervisory board  
Fam = family

(Frey, Klein, Halter, Zellweger 2004)

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## The Significance of Family Firms: The number of family businesses in SUI (1)

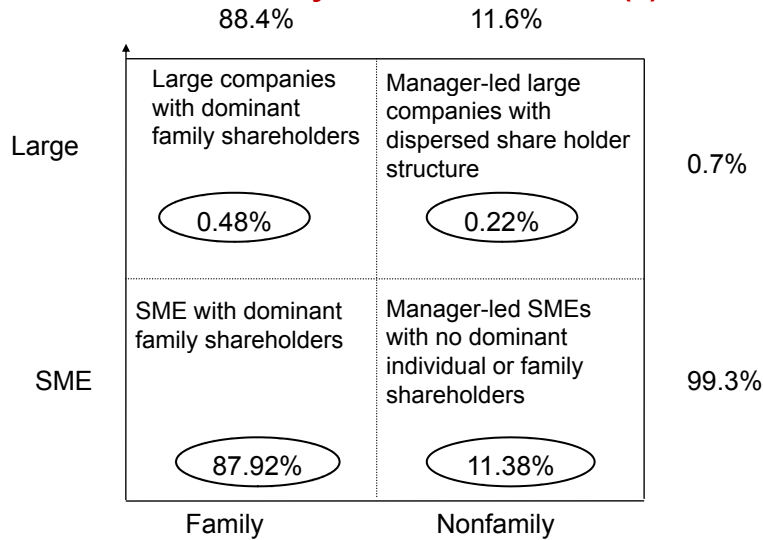
Emp- •loyees	Companies in Switzerland*		Returned questionnaires		Family businesses in sample		Total number of family businesses in Switzerland	
	Number	%	Number	%	Number	%	Number	%
	A	B	C	D	E	F=E/C	G=F*A	H=B*F
< 10	271632	87.84%	320	33.37%	287	89.69%	243620	78.78%
10 - 49	30894	9.99%	390	40.67%	316	81.03%	25032	8.10%
50 - 99	4474	1.45%	111	11.57%	78	70.27%	3144	1.02%
100 - 249	1227	0.40%	92	9.59%	69	75.00%	927	0.30%
250 - 499	822	0.27%	21	2.19%	16	76.19%	626	0.20%
500 - 999	127	0.04%	13	1.36%	8	61.54%	78	0.03%
>= 1000	52	0.02%	12	1.25%	7	58.33%	30	0.01%
<b>Total</b>	<b>309228</b>	<b>100%</b>	<b>959</b>	<b>100.00%</b>			<b>273451</b>	<b>88.43%</b>

\* figures from the Swiss National Bureau of Statistics, National Census 2001.

(Frey, Klein, Halter, Zellweger 2004)

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## The Significance of Family Firms: The number of family businesses in SUI (2)



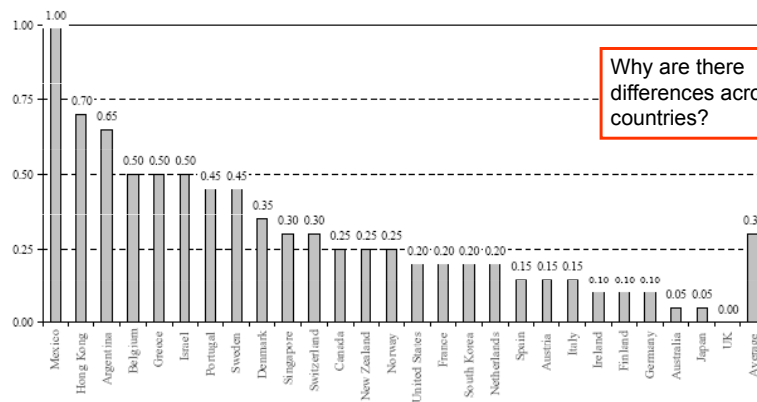
(Zellweger 2006)

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## The Significance of Family Firms: The Family firms on the world's stock exchanges

Figure 1: Family control of publicly traded firms around the world

How to read this figure: E.g. in Switzerland 30% of the largest publicly quoted companies are controlled by families (on a minimal ownership level of the family of 20%). Source: La Porta et al., 1999.



Definition of family firm: if an individual or a family controls at least 20% of the votes of a company.

Why are there differences across countries?

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## The Significance of Family Firms: Large family firms around the globe

### Large family firms around the world:

- Quandt family: second largest car manufacturer in Germany
- Mittal family: world's largest steel company with 224'000 employees
- Walton family: owning the world's largest super market chain
- Johnson family: world's largest mutual fund provider
- Cuervo family: world's largest Tequila producer



Freude am Fahren

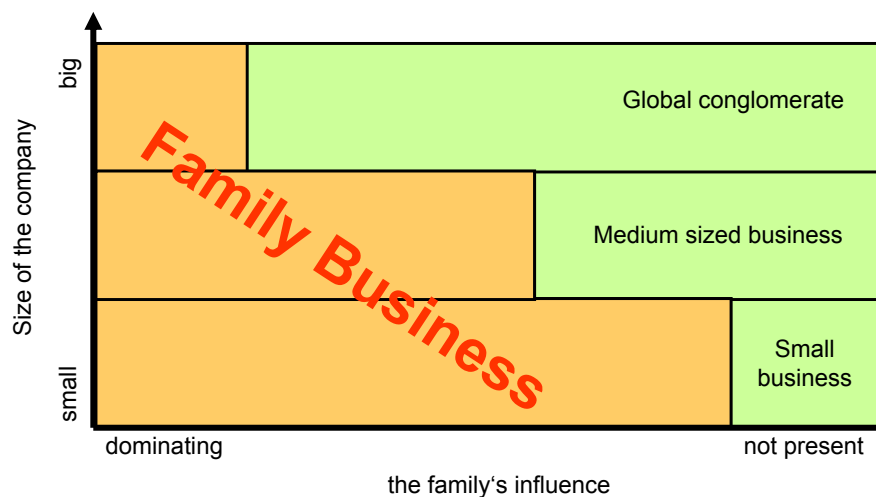


### Large family firms in Switzerland:

- Hoffmann family: one of the world's largest pharmaceutical firms
- Hayek family: world's largest watch producer
- Pictet family: top class private bank
- Schmidheiny family: leading supplier of cements and aggregates

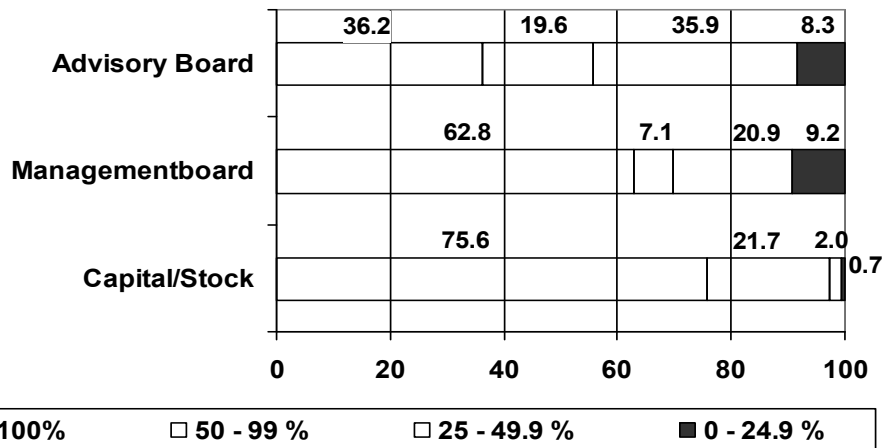


## The Significance of Family Firms: Family Businesses in Switzerland and Germany



(adapted from Klein 2000)

## The Significance of Family Firms: Control / Power through families in FBs



(Fueglistaller, Halter 2004)

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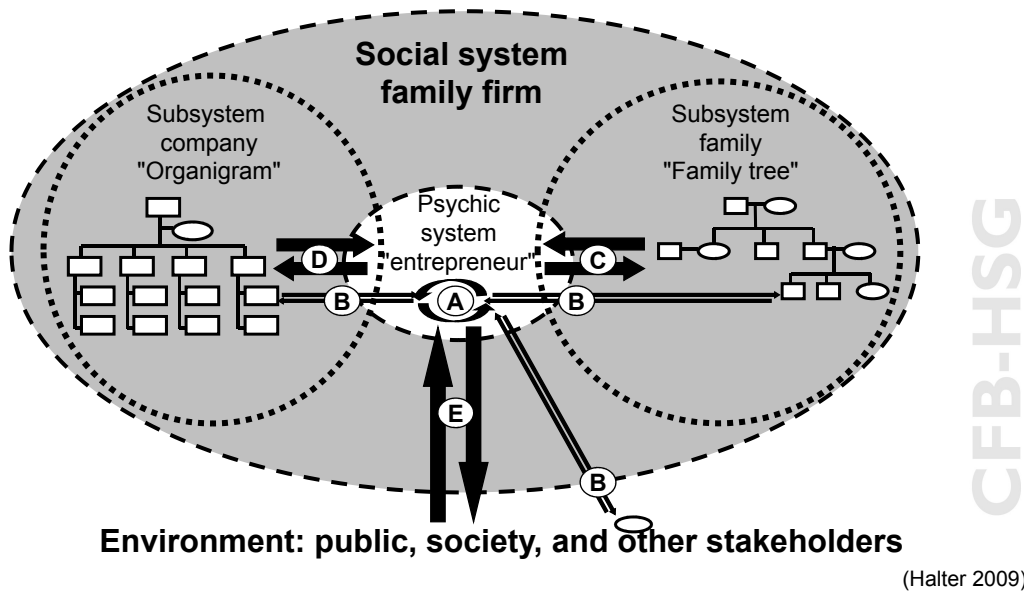
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## The characteristics of Family Firms



EQUIS

## Basic understanding family firms Multiple perspectives necessary (1)



(Halter 2009)

## Basic understanding family firms Multiple perspectives necessary (2)

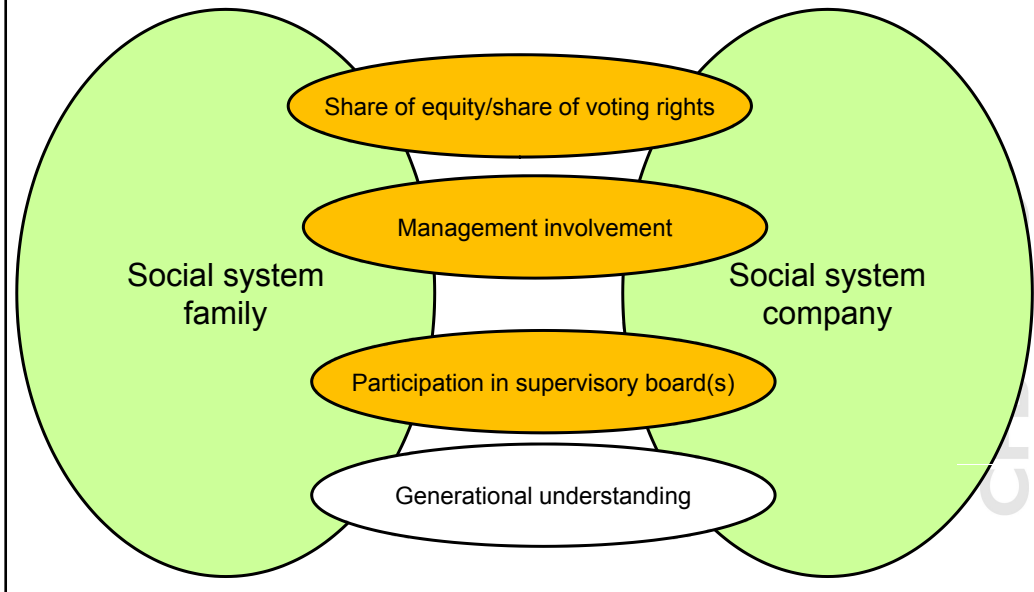
- A: Intrapersonal level
  - Physiology and psychology
- B: Interpersonal level
  - Relationships and communication
- C: Organizational level of the family
  - Roles, functions, and tasks
- D: Organizational level of the company
  - Roles, functions, and tasks
- E: Stakeholder and environment level
  - Bund, Kanton, Gemeinde, public opinion, society, customers, suppliers, banks...
- F: Time as level of analysis

(Halter 2009)



## Perspectives on family firms

### Hard factors



## Perspectives on family firms

### Soft factors

	Family	Company
Identity	Person oriented	Function oriented
Language	Oral	Written
Behavior	Emotional	Rational
Orientation	Internal orientation	External orientation
Attitude toward risk	Risk averse	Risk appetite
Attitude to change	Change as danger	Change as opportunity
Evaluation of organizational members	Independent of performance	Depending on performance
Value of the system	Value in itself	Value through revenue
Relationship principle	Feelings and kinship	Contract
System membership	Permanent	Terminable
Life cycle	Limited	Unlimited in theory

(Halter 2007, i.A. Mühlebach 2004;  
Rosenbauer 1994; Terberger 1998 u.a.)



## The strengths and weaknesses of Family Firms

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### The Strengths of family firms (I)

- **Resources of the family**
  - Knowledge: concerning products and industry
  - Financial assets: loyal equity from family members
  - Human resources: commitment of family and no-family members
  - Social assets: relationship to customers, suppliers, sales representatives and the public
- **Efficient leadership**
  - Lean and economical organization
  - Quick decision paths
  - Trustful relations among homogeneous manager groups
- **Little conflicts of interest**
  - Smaller conflicts of interest since ownership coincide with management (Principal-Agent-Theory), but beware: agency conflicts due to altruism.

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## The Strengths of family firms (II)

- **Higher ability to risk**
  - Lower rate of external capital (dependency on banks)
  - Patient capital: allows for unique investment alternatives
- **Continuity**
  - Continuity of leadership and low labor turnover (average CEO tenure of US and European CEO's: 3 – 5 years)
  - Steady returns → reliable companies → positive stock market performance (Zellweger et al., forthcoming)
- **Employee commitment:** long-term employees with a high loyalty to the firm.
- **Business culture:** strong business culture, increases with age of the firm.
- **Human resource management:** Family managers are often good at human resource management, make efficient use of labor, pay lower wages to employees and themselves.

## The Weaknesses of family firms

- **Succession planning**
  - Heirs: conflicts, abilities?
  - At every change of generation approximately 30% of all companies alternate their owner or go out of business. But, is that higher than with large nonfamily firms?
- **Dependence on owner and family situation**
  - Owner as a figurehead but also as a potential risk.
  - e.g. Erb case
- **Family internal conflicts**
  - Family internal conflicts can disable a company
  - Abuse of the firm's assets
  - e.g. Chemipharm case (refer to the course on succession)
- **Recruiting of highly qualified managers**
  - Given the fact that they will never be able to cover top positions in many family firms

## Strengths and Weakness of Family Firms: Bivalent Attributes of the Family Firm

Disadvantages (-)	Attribute	Advantages (+)
Norm confusion and anxiety. Family business and ownership issues can get mixed up. Lack of business objectivity.	Simultaneous Roles	Heightened family and company loyalty. Quick and effective decision-making.
A stifling sense of being overwatched. Resentment toward family and business	Shared Identity	Heightened family and company loyalty. A strong sense of mission. More objective business decisions.
Family members can point out weaknesses. Early disappointments can reduce trust in work interactions	Lifelong common History	Relatives can draw out relatives' strengths and complement their weaknesses. A strong foundation can encourage a family to weather adversity.
Lack of objectivity in communication. Resentment and guilt can complicate work interactions. Covert hostility can appear	Emotional Involvement and Ambivalence	Expression of positive feelings creates loyalty and promotes trust.
Can trigger sensitive reactions that can distort communication and encourage conditions for conflict.	Private Language	Allows for more efficient communication with greater privacy.
Can lead relatives to feel over watched and trapped	Mutual Awareness and Privacy	Improved communication and business decisions that support the business, owners, and family
Fierce rivalries can develop between relatives	Meaning of the Family Company	Company symbolism can develop a strong sense of mission for employees.

(Tagiuri, Davis 1996)

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## Strengths and Weakness of Family Firms: Seven system-constituting paradoxes

- **Paradox I:** Family Influence as a resource and a threat for the firm.
- **Paradox II:** Being loyal towards the own nuclear family and the extended family.
- **Paradox III:** Combine short-term investor interests and long-term survival of the firm.
- **Paradox IV:** Fulfill the expectation of the family for equal treatment and comply to the inequality paradigm in the business context due to differing personal achievements.
- **Paradox V:** Assure growth and independence.
- **Paradox VI:** Assure adaptability in the business context and continuity of family traditions.
- **Paradox VII:** Provide protection within the family context and ask for performance and personal exposure in the business context.

(Wimmer, Groth, Simon 2004)

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## Succession: Facts & Figures

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## Economic importance of Succession

### The case of Switzerland

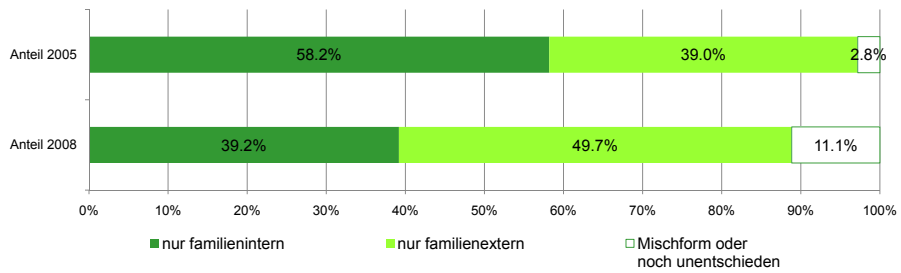
Employees	Small and medium-sized enterprises			Employees		
	Absolute number*	Succession within five years		Absolute number*	Absolute number affected	
		Percentage	Absolute		Within five years	Annually (affected/5 years)
0–9	261,584	24.8%	64,873	839,366	208,163	41,633
10–49	30,638	33.9%	10,386	692,285	234,685	46,937
50–249	5,472	30.5%	1,669	618,532	188,652	37,730
>250	1,028	33.3%	342	1,035,197	344,720	68,944
<b>Total</b>	<b>298,722</b>	<b>25.9%</b>	<b>77,270</b>	<b>3,185,360</b>	<b>976,220</b>	<b>195,244</b>

\* Data: Swiss Federal Statistical Office, 2005 Business Census

➔ **Succession quota increased from 18.5% (2005) to 25.9% (2009)**

(CS 2009, S. 9)

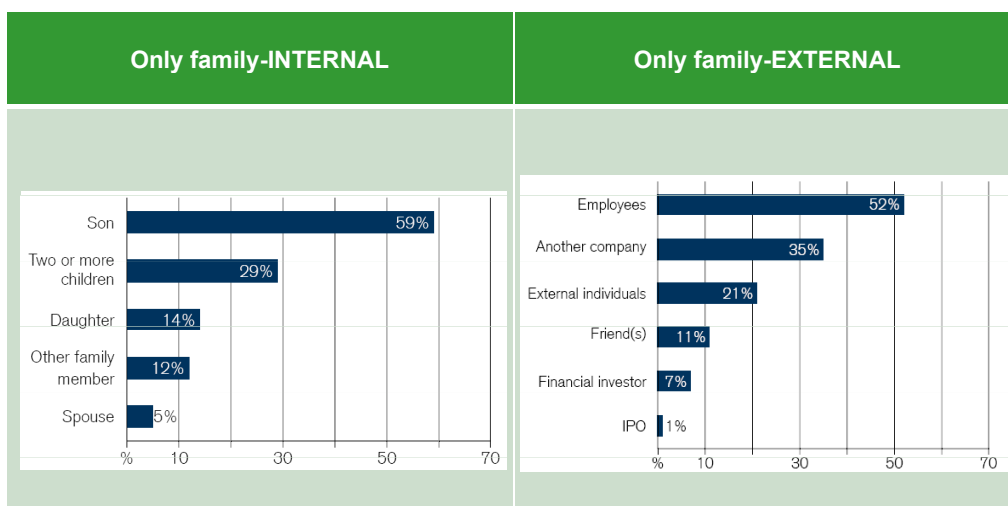
## Succession configuration (broader sense) Internal and external succession compared (2005-2008)



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(CS 2009, p. 13 and PwC 2005)

## Succession configuration Internal and external succession (2009)



(CS 2009, p. 13)

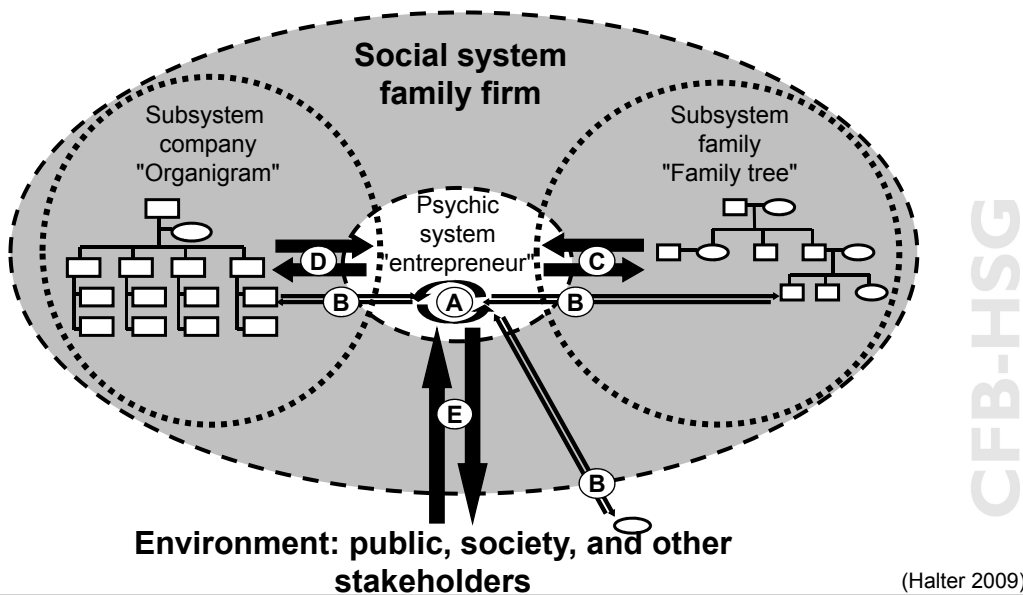


## Succession: an integrative approach

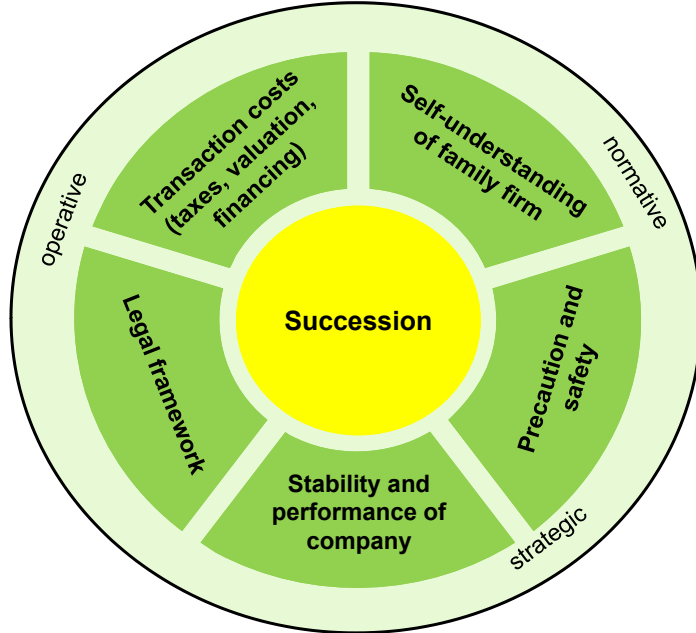


Successful  
Succession  
Frank Halter  
10.09.2009  
Seite 30

### Basic understanding family firms Context: multiple perspectives necessary



## Five basic themes

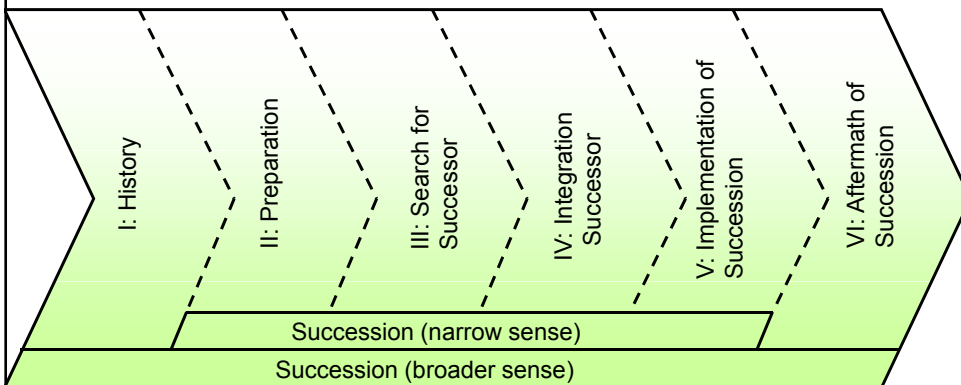


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## Basic understanding succession

### Process perspective

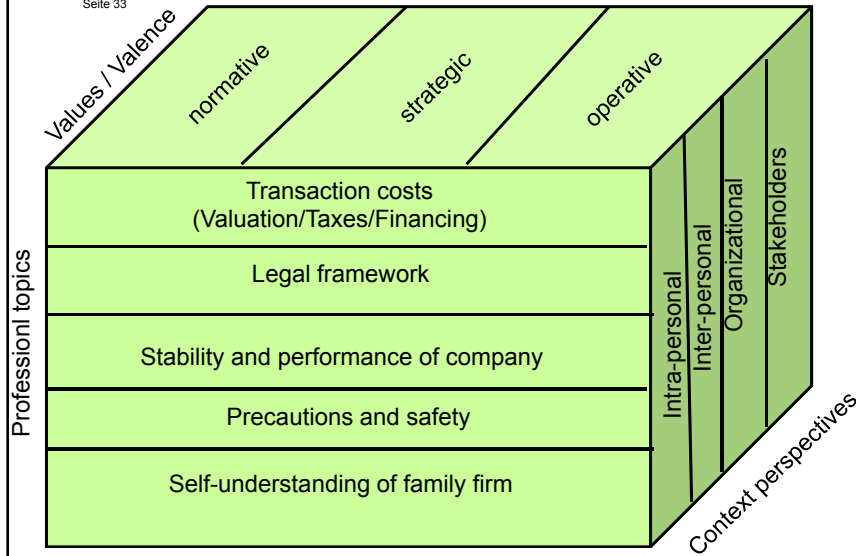


(Halter 2008)

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## The St.Gallen Model of Succession



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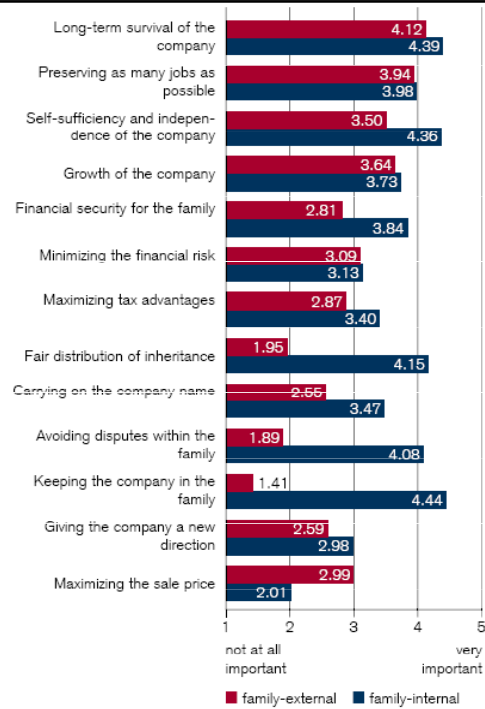
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## Succession: some empirical results



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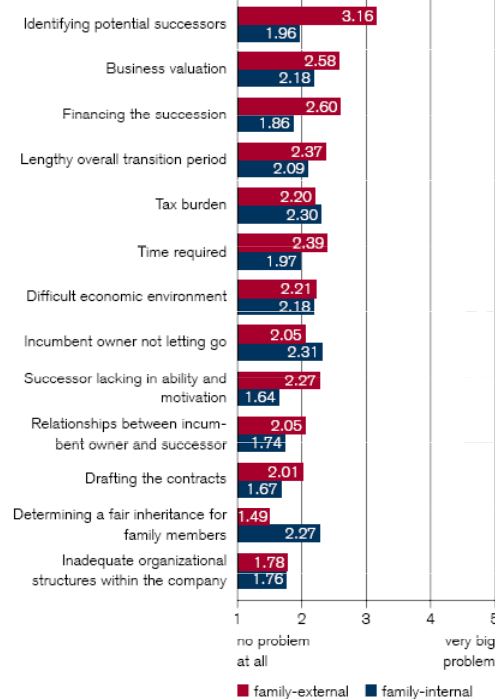
## Preparation Aims



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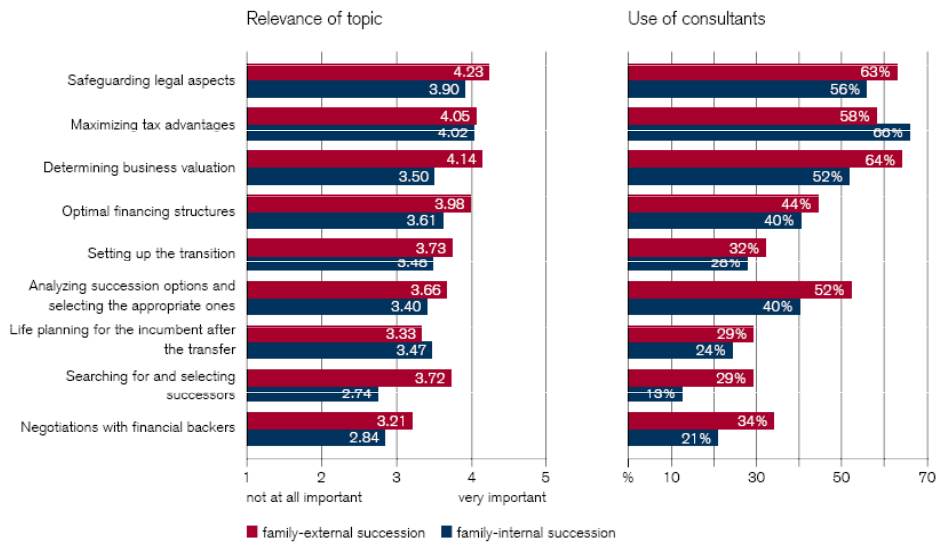
(CS 2009, p. 16)

## Configuration Problem areas in the context of succession



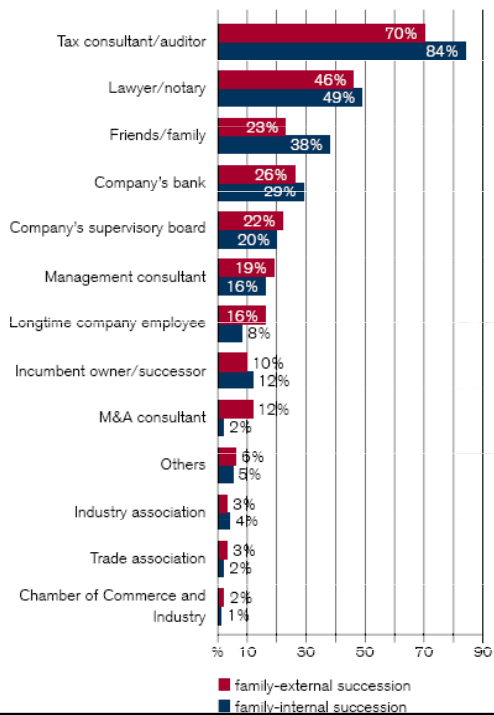
(CS 2009, p. 19)

## Relevance of topics for advice and usage of consultants



(CS 2009, p. 20)

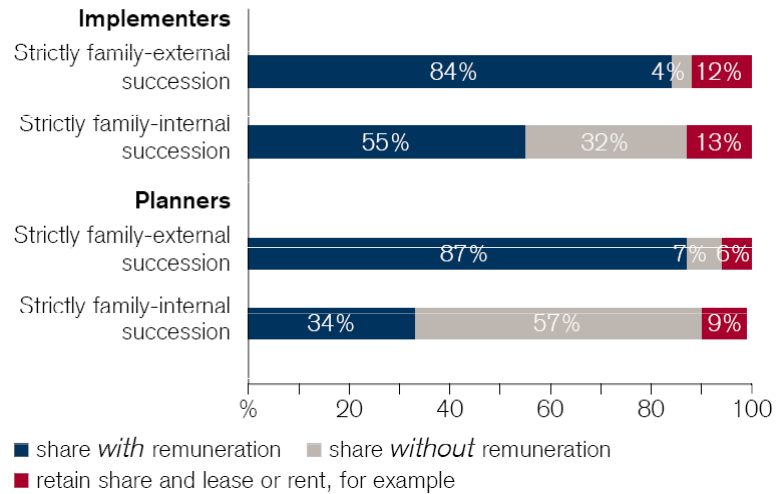
## Which Advisors did you consult?



(CS 2009, p. 22)

## Challenge (1)

### Hand over WITH and WITHOUT remuneration

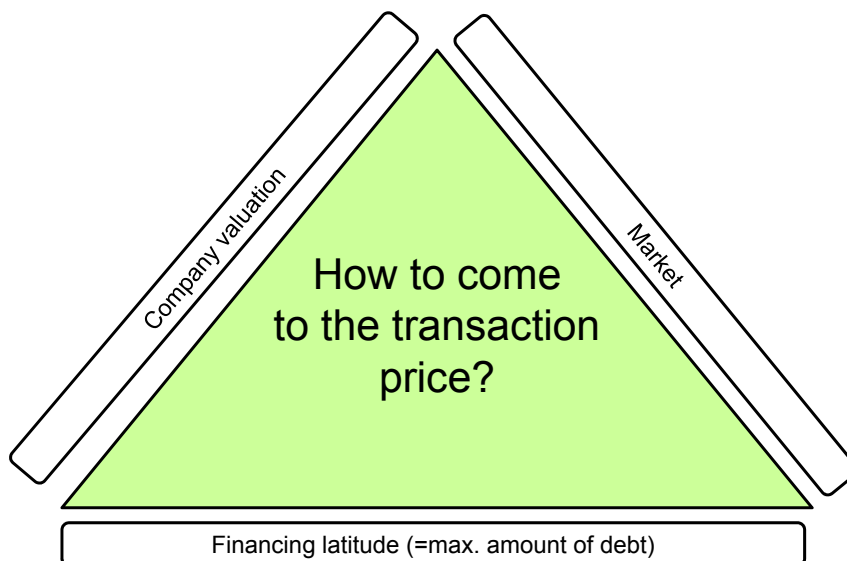


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(CS 2009, p. 26)

## Challenge (2)

### Discrepancy between valuation and price

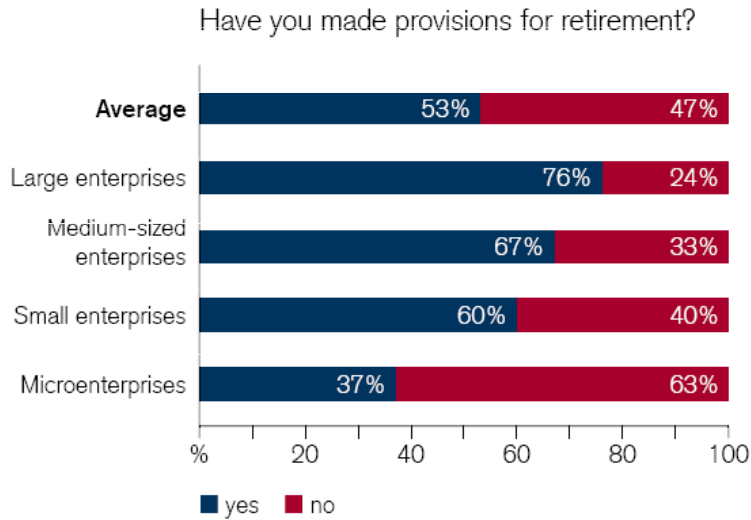


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(Halter 2009)

### Challenge (3)

#### Have you taken financial precautions?



(CS 2009, p. 24)

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## Succession: The Perspective of the Successor



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## Students and entrepreneurship

### Intended career of students (SUI)

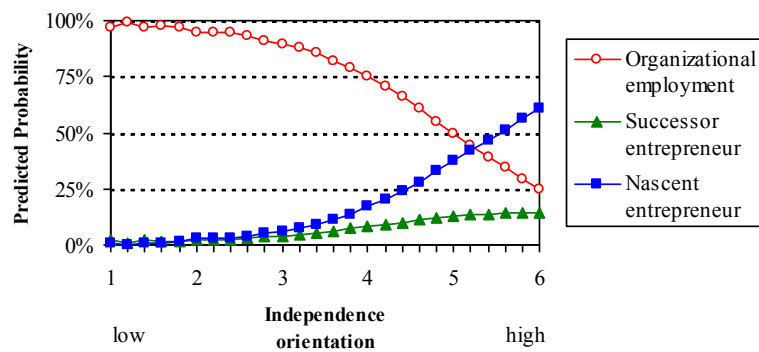


(Numbers in %, n=8'825; Source: Fueglistaller, Halter 2006)

## Motives and entrepreneurship

### Independence orientation

Figure 2: Probability for career intention depending on strength of independence orientation (n=5'373)

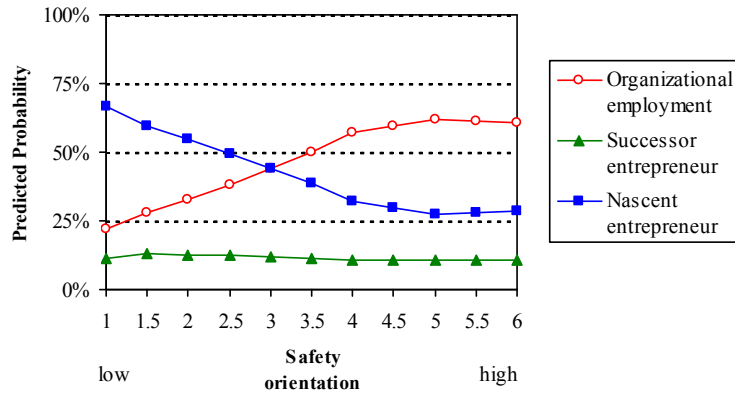


(Halter, Zellweger, Baldegger o.J.; Zellweger, Halter o.J.)

## Motives and entrepreneurship

### Safety orientation

Figure 6: Probability for career intention depending on strength of safety orientation (n=5'373)



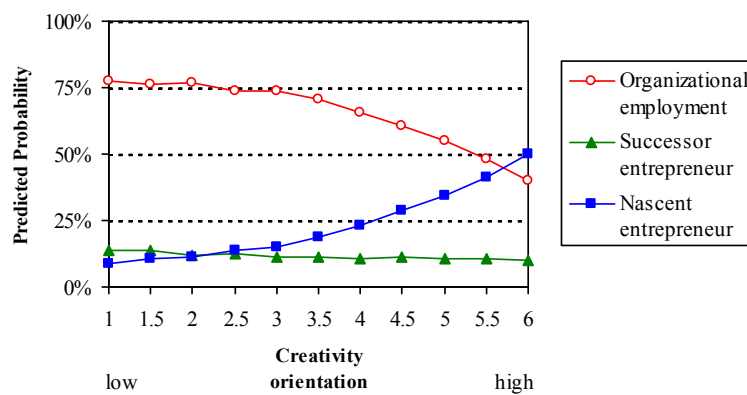
(Halter, Zellweger, Baldegger o.J.; Zellweger, Halter o.J.)

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## Motives and entrepreneurship

### Creativity orientation

Figure 4: Probability for career intention depending on strength of creativity orientation (n=5'373)



(Halter, Zellweger, Baldegger o.J.; Zellweger, Halter o.J.)

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## Areas of conflict of succession

### The big differences

#### The leaving entrepreneur

- thinks and acts rather past-oriented
- has become tired over the years
- way older than the trainees
- has a lot of experience, which can be an obstacle as well
- wants to save his lifework or even wants to build his own memorial
- has to let go of responsibility
- has raised the successor as father or mother and served as a role model (whereas active entrepreneurs do not play the main role in education in most cases)

#### The successor

- thinks and acts rather future-oriented
- is full of energy and ideas
- in terms of age closer to the trainee (future co-worker)
- little experience – a possible source of mistakes
- has to find his personal style
- has to assume responsibility
- has been raised as a child in the now leaving generation of entrepreneurs, has maybe suffered from high expectations

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(Boom, 3/01)

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## Success factors and recommendations



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## Success factors for succession

- Individual level
  - CAN and WANT of KÖNNEN und WOLLEN von Leaver/Successor
- Interpersonal level
  - Open and trustful communication
  - Structure and define common time in the company
- Organizational level
  - Performance and potential of the company
  - Business Plan
  - The first 100 days
- Environmental level
  - Law and changing regulations
  - Economy
  - Changing values
  - Deal with rumours
- Time as perspective
  - Process phases, milestones, documentation
  - Involvement of trusted persons
  - Think in scenarios

(Halter 2009)

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## Recommendations

### For Switzerland

- further awareness raising (free from taboos)
- Openness for sustainable solutions in the sense of the companies

### For entrepreneurs

- Investment in sustainable business models
- Securing own retirement provisions
- Increasing the number of options for succession
- Deep assessment of personal values and goals

### For consulting

- Raise awareness of the complexity of problems and questions
- Overcome standard solutions
- Cooperation in networks

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## Literature (small selection from Switzerland)

### Books:

- **Halter, Frank 2009:** Familienunternehmen im Nachfolgeprozess: Die Emotionen des Unternehmers. Lohmar: Josef Eul Verlag.
- **Müller-Tiberini, Franziska 2008:** Erben in Familienunternehmen. Zürich: Orell Füssli.
- **Hilb, Martin 2005:** New Corporate Governance - Successful Board Management Tools. Berlin: Springer, 2005.
- **Fopp, Leonhard 2004:** Herausforderung Unternehmer-Nachfolge - Sichern Sie Ihr Lebenswerk!. Zürich: Orell Füssli.
- **von Moos, Andreas 2003:** Familienunternehmen erfolgreich führen - Corporate Governance als Herausforderung. Zürich: Neue Zürcher Zeitung
- **Müller-Tiberini, Franziska 2001:** Wenn Familie den Laden schmeisst: Modelle zur Führung von Familienunternehmen. Zürich: Orell Füssli, 2001.
- **Hegi, R.; Staub, L. (Hrsg.) 2001:** Fortsetzung folgt... - Unternehmensnachfolge in KMU erfolgreich gestalten. Zürich: Versus, 2001.

### Studies:

- **Halter, Frank; Baldegger, Rico; Schrettle, Thomas 2009:** Erfolgreiche Unternehmensnachfolge. Studie mit KMU-Unternehmern zu emotionalen und finanziellen Aspekten. Zürich: Credit Suisse (Hrsg.)
- **Frey, Urs; Halter, Frank; Zellweger, Thomas 2005:** Nachfolger gesucht! – Empirische Erkenntnisse und Handlungsempfehlungen für die Schweiz. Zürich, PricewaterhouseCoopers.
- **Frey, Urs; Halter, Frank; Zellweger, Thomas 2004:** Bedeutung und Struktur von Familienunternehmen in der Schweiz, St. Gallen, KMU-HSG.
- **UBS AG (Hrsg.) 2003:** Nachfolge im Unternehmen - Eine Herausforderung für Unternehmer, Verwaltungsräte und Familienaktionäre. UBS Outlook Nachfolge. Zürich: UBS AG.

### Others:

- **Fueglistaller, Urs; Halter, Frank** Familienunternehmen in der Schweiz. Empirische Fakten zur Bedeutung und Kontinuität. In: Der Schweizer Treuhänder, Nr. 1-2. S. 35-38.
- **May, P.:** Unternehmensnachfolge leicht gemacht. Tipps, Erfahrungsberichte und Checklisten für Unternehmer. Frankfurt/Main 2000.

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**Thank you very  
much for your attention!**

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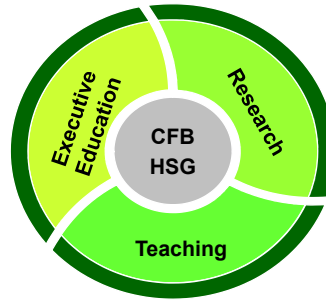


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