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From the best families
The characteristics of a successful family-run firm

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We often hear that someone comes from "one of the best families". But what is it that distinguishes great families and dynasties, be they the Medicis or the Rockefellers? Why do they stand out? What makes them exemplary?

They have an unshakeable system of guiding values that forms the foundations on which future generations can build. They are passionately dedicated to economic stability and making a profit, and use all the means at their disposal to this end. But they also want to be philanthropists and patrons who leave a meaningful impression on human history. They take on responsibility for their fellow Man in many ways. They think long-term, indeed in generations, and always look beyond the horizon and current trends. They are familiar with sustainability.

All members of such families know that they must learn to live alongside all others in the long term. Loyalty, cohesion, fairness and reliability are therefore key values, and their imperatives are always superior to those geared towards rapid benefits for the individual. They treat one another in a civilised manner, seek compromises, cultivate a certain courtesy as well as consideration. Humanity counts for more than elbows, integrity more than trampling on those below.
An outstanding family history, with all its traditions and rituals, elicits feelings of home and of identity without blurring the view to the future and all the challenges that lie ahead. A certain amount of pride and a strong sense of independence are passed from one generation to the next. Role models are fostered.

All these attitudes are lived without making a great hullabaloo. Credibility is more important than publicity. Whatever inner conflicts may arise – and they arise even in the best families – the family presents a uniform image to the outside world. After all, blood is thicker than water.

Can there be any more powerful basis for economic activity? Every day, we are astonished to read about anonymous, stock exchange-oriented companies that think only about their quarterly results, drive their share price up through massive job cuts, find clever ways to avoid paying taxes in their home country, and permit corruption and other erosions of their values. How comforting it is, therefore, that most German companies operate just as profitably while employing other means. That is the reason for this book. It is intended to show that there is another way. And what a way!
Ninety percent of all German companies are owned by a family or families. These far more than a million companies together provide 60 percent of all the jobs, develop almost three-quarters of the country's patents and generate far in excess of half the gross national product. Most of them are small – many of them very small – but let us not forget Bertelsmann, Haniel, Henkel, Heraeus, Miele, Oetker, Otto and Tengelmann, to name but a few of the bigger ones.

While we read about veritable waves of redundancies at DAX30 companies on an almost daily basis, family-run firms are the force driving growth and job creation. The Federal Chancellor's comments clearly show that she understands and respects the significance of this. The stock exchange also reflects it: shares in the German Entrepreneurial Index, which brings together many of Germany's listed owner-controlled public limited companies, outperformed the DAX by between 5 and 9.6 percent in recent years.

Why are family-run firms often so successful? Why do they have this immense significance for our economy? Because they value continuity and tradition to a far greater extent than most other companies. Because their investment horizon spans generations and they have a long-term strategy. Because they focus on a few core areas, in which they attain USPs and market dominance. Because they live for sustainability. Because the family that owns them can afford to push through certain personal ideals without compromising profitability. Because the responsibility of their bosses and their value system radiate a reliability and credibility that is essential for staff and partners alike. Because the latter know whom they will be dealing with today and tomorrow and who can really take decisions.

Because decisions do not have to pass through complex committees and can therefore be taken quicker than in many a major corporation. Because wrong decisions can often be corrected more rigorously and less vainly that in anonymous public companies (we need only think about BMW/Rover compared to Daimler/Chrysler). Because family-run firms have entrepreneurial spirit and guts rather than excellent administration to thank for their position. Because the optimistic attitudes underlying such entrepreneurial reflection and action enables everyone involved to enjoy their work. Because more and more family-run firms manage to make productive use of external management professionalism as an indispensable resource and give themselves the necessary freedom of movement. Because nepotism is no longer an issue in well-run family firms with highly-motivated employees. Because long-term growth is higher up the list of priorities than quarterly results. Because humanity is more important to many employees than elbowing others aside and careerist jostling. And because entrepreneurial responsibility also includes securing endangered jobs by innovatively sensing new opportunities on the market and thus enjoying loyalty from the workforce.
Successful family-run firms are not dinosaurs from a bygone era. They are modern companies with bright prospects and characterised by long-term visions, companies that have long faced up to the challenges of globalisation and the digital age. They exude independence, entrepreneurial passion and humanity. And as companies increasingly take over roles previously held by the state or the church by providing workers with a sense of purpose or identity employees are most likely to feel good and well looked after in family-run firms. Just like in a family.

However, let us not idealise family-run firms. There are, of course, disadvantages and risks. Here are ten classic ones:

1. The scattering of votes through inheritance from one generation to the next;
2. Conflicts between lineages or individual family members, which often become irrational and can be a great burden on the company;
3. Conflicts of interest within company on the one hand, which wants to amass and reinvest the generated profits, and family members on the other, who would like to use it to sustain their lifestyles and therefore want appropriate dividends;
4. Differences in language and mentality in terms of general business policies and in particular fiscal optimisation (balance sheet and profit policy, investment activity, attitudes to losses carried forward, depreciation and reserves);
5. Communication problems through different degrees of professionalism among shareholders;
6. Liquidity problems caused by payments and inheritance tax burdens;
7. A lack of capital in the face of challenges brought on by the increasing globalisation of markets;
8. A one-man-show run by a patriarch who can neither delegate nor relinquish power;
9. Relations and possible tensions between management and the family;
10. The corporate handover to the next generation in the sense of optimising the search for and familiarisation of a successor.

Solution strategies have been developed for all these issues. However, as so often, the problem lies in the insufficiently rigorous implementation thereof. Let us address the points again:
1. Vote scattering can be avoided through forced pooling, minority shareholder regulations or proxy voting by the most appropriate person or persons.
2. Conflicts between individual shareholders or shareholder groups are part of human nature and cannot be avoided by any form of association. However, they must not be allowed to bring the company to a standstill by either blocking decision-making or causing a stalemate. That is why advisory and supervisory boards have proved effective, especially if the jointly selected overseers are experienced outsiders empowered to arbitrate in conflicts, objectivise issues and, if the worse comes to the worst, force decisions through. Family charters can also be very useful.
3. Whether dividends are paid or not, the only question here is whether the arguments and situations of the various parties are known and an appropriate and fair compromise is agreed anew every year – if possible in the company's interests.
4. It is true that not all managers can explain complex managerial problems and fiscal issues in words that everyone can understand. However, he must do so in order to win over the various shareholders. And the time taken to give in-depth explanations is time well spent because understanding creates trust and at the same time increases the ability to comprehend future decisions. Management should never leave shareholders in the dark, but rather always take them seriously and remain open-minded for constructive criticism.
5. The complaint about a lack of professionalism is a very old one, and everyone can help to overcome it. Managers can express themselves clearly and leave their professional jargon behind at the office; shareholders can prepare well, ask precise questions, listen to answers and distinguish

between annual general meetings and family get-togethers; and both can bring experienced, level-headed consultants into negotiations. As in many other possible areas of conflict, a clearly-defined corporate governance codex is extremely useful.
6. Prudent planning can prevent payments and inheritance taxes causing liquidity shortfalls. Corporate optimisation, the potential for depreciation, and anticipatory succession through gifts or the use of fiscally attractive assessed and book values are all issues that a good consultant will check. However, parent entrepreneurs must be aware of their mortality in order to decide to discuss the matter with their lawyer or tax advisor – and understandably not everyone feels easy about this. This is a deeply emotive issue revolving around life cycles and the ability to let go, something that not even the cleverest usufruct regulations and voting transfers can always mitigate.
7. Insufficient capital in the face of increasingly globalised markets is surely one of the trickiest issues dogging major corporations that are forced to enter the global market aggressively because of international competition and economies of scale, a strategy that is often only possible with fresh capital. Private equity funds, joint ventures and innovative funding tools can help here. However, most family-run firms already operate in niche markets and needn't fear global competition.
8. No matter how powerful he may be, no patriarch should think he can do everything – let alone forever. In view of the complex challenges markets set companies, entrepreneurs would do well to build up a strong second managerial level.
9. Broadly speaking, as family companies grow and move away from their founding generation, the number of shareholders and/or shareholder lineages tends to increase, third-party management becomes ever stronger, advisory and supervisory bodies become more and more important and therefore clear corporate regulations, responsibilities and catalogues of actions requiring approval are increasingly necessary. This is a normal and vital process for companies, even if "pioneers" of the company's early days sometimes fondly look back to the times when everything was still so simple and the founding entrepreneur could still wield his patriarchal authority to make snap decisions on his own.
10. (More extensive because of its significance): In view of all the research that has been carried out and all that is common knowledge, how then can you increase the likelihood that the handover from one generation to the next will be successful?
- Although this needn't start when a potential successor still wants to be a fireman, it is certainly useful for both generations if the subject of succession in one's own company is discussed now and again and from early on. However, sons and daughters should not under any circumstance be put under psychological pressure, because pronounced "dauphinism" often has negative effects.
- A suitability assessment of the individual members of the next generation should be developed based on numerous discussions within the family, with advisory boards, confidantes and even external experts in order to develop an idea about potential candidates.
- Alternatives should be discussed openly with those who are out of the question or simply not interested. Other careers should not be derided or even seen as second-best within the framework of the familial value system.
- The potential successor should be honest about his true motives in order to create a clearly defined, long-term basis for his career development. He should also know which qualities and strengths he could put at the company's disposal.
- In agreement with his parents and perhaps also the managerial team, he should clearly define which qualifications he needs and how he can acquire these through his education.
- He should go abroad in order to learn foreign languages, expand his horizons and later be able to meet all the new challenges presented by the globalisation of the world's markets. And he should spend time working in other companies (maybe also foreign subsidiaries) to learn their daily work patterns, absorb new ideas and take the time to make beginners' mistakes.
- During his education, the designated successor should ideally develop other professional interests and skills which free him inwardly from success or failure in his family's company. In order to have the necessary freedom and strength to want to take over the reins of the family firm, he should always have a fallback plan.
- Throughout the succession process, the departing parent and his designated successor should meet regularly to discuss in a calm and factual way the status quo of the succession in order to prevent any disappointment building up.
- For the benefit of his life's work, the outgoing parent should decide as early as possible and on his own when he wants to leave the company. The "how" aspect of his gradual departure should also be laid down as early as possible (and again wisely planned in advance) to prevent possible disappointment on either side (i.e. "You just want to shunt me off onto the advisory board!" and/or "You never let me have complete responsibility!").
- Clear areas of responsibility and decision-making powers should be set out for the period in which the two are working side-by-side. The son or daughter must be given an opportunity to find his/her feet

and start notching up successes (as well as failures), and nothing is worse or more unproductive for this process than a parent casting doubt over his successor's decisions in the presence of senior staff, or worse still, reversing such decisions. Of course these must be discussed – but only on a one-to-one basis, please!
- The successor should enter the company as neither a warehouse assistant nor the boss. There are nearly always job opportunities somewhere in the middle where he can bring his knowledge and strengths to bear, soon perhaps better than his father.
- The transition period should not last too long. After all, no 48-year-old likes to feel as if he is still in nappies. Handover years can also be difficult and filled with uncertainty for the workforce.
- Of course the length of the transition is inseparably linked to the perspectives for the departing parent after the handover. In post-war years, company bosses fought hard for their company, often devoting themselves entirely to their work and thus perforce neglecting other aspects of their lives. And no-one wants to condemn a former boss to sudden idleness and possible depression. For this reason, many a succession is sped up if the departing parent is looking forward to travelling, playing tennis or golf, spending time with his grandchildren, in the garden, in church or in an association, or anything else for which he never had time during his stressful working life. Incidentally, I believe it would be logical and desirable if more experienced and outstanding entrepreneurs offered their enormous expertise to public bodies and took up positions of responsibility in associations as a way of finding a new and stimulating activity. The state, politicians and many major organisations would be thankful and gain much in terms of quality and efficiency.
- The departing parent hasn't truly let go of the reins of power until he no longer chairs important meetings and has cleared out his office. Then a critical phase begins: although the successor carries complete responsibility, he should be given an opportunity to consult and lean on the experience of his predecessor. If the father and son/daughter have grown to trust one another, there are many ways that the former can prevent the latter making unnecessary mistakes, be it through regular meetings, brief enquiries or possibly even by appointing the parent as chairman of the advisory board. That's why I have great faith in mixed-age teams. Older members tend to contribute more experience and caution, younger ones innovativeness and a greater willingness to take risks. And each side needs the other.
- Transitional periods are undoubtedly difficult for the departing parent. Suddenly the competitive environment looks different, values change, design suddenly becomes just as important as function, environmental compatibility often means more to some people than absolute cost minimisation, ascetic fulfilment of one's duties is complemented by values such as self-fulfilment and casualness. There is much that the former boss doesn't understand or at least cannot fathom. It is therefore a sign of his self-confidence if he can let the next generation do as it pleases, and if he can see this vivacity and flexibility as one of the strengths of his life's work. Without a doubt, he too will have broken the occasional taboo during his career, and it was this alone that moved the company forward!
- If necessary, the management style may also change, for instance if a patriarchal style of leadership only worked for the outgoing boss, while his successor believes in cooperation and teamwork. Control and micromanagement can be replaced by trust and delegation. The company changes from the bottom up – and it has to in order to survive. A new type of employee is needed, and many an "old hand" has to go. New strategies are developed, new target groups are addressed with new products across new sales channels. A difficult situation indeed for the outgoing boss, even though he knows in his heart of hearts that it was continuous innovation that brought him successes.

If we balance out the advantages and disadvantages, opportunities and risks, strengths and weaknesses, Prof. Dr. Peter May (the founder of the INTES Academy for Family-Owned Companies), the author of the third essay in my latest book, had every reason for entitling his article "The successful family capitalism model: Why family-run firms are successful". The core of our economy consists of companies that uphold and practice the values of the "social market economy" even in these times of rapid economic change and growing globalisation.

Our best-selling business book "Marken des Jahrhunderts" (Brands of the Century), published by Deutsche Standards Editions, has breathed new life into the expression "Made in Germany" and catapulted it into the 21st Century across the globe. Our standard textbook "Weltmarktführer" (Global Market Leaders) surprised a German public quick to complain, showing that companies from Germany are global leaders in more than a hundred areas. Our more general introductory book "Unternehmerische Verantwortung" (Corporate Responsibility) shows the critics of capitalism the extent to which German companies are doing good and working for a better, more just world.

We hope that the present book will generate similarly positive interest in the unique qualities of family-run companies, which our country has to thank for creating wealth, jobs and favourable prospects for the future. To illustrate our point, we portray 100 exemplary companies currently led very successfully by families, look back on their history, reveal the secrets of their success, and present major personalities and trailblazing innovations. We were amazed by the in part superbly maintained archives of these companies (although in some we would have wished that a little more attention had been paid to the historical side of the company's activities).
Just like the other works mentioned, the book's launch will be embedded in a flurry of journalistic events, symposia, conferences, talks and publications. Deutsche Welle, Germany's window on the world, will film the book, which will be made available to all German embassies and Goethe Institutes in order to spread its message around the world. It will also be sent to all those in Germany who study the topic.
In so doing, we will cooperate closely with all institutions that actively research family-run companies and further their interests: the ASU, which recently renamed itself "Die Familienunternehmer" (The Family Entrepreneurs) for similar reasons; the INTES Academy for Family-Owned Companies; the Family Business Network; the Confederation of German Industry (BDI), the Confederation of German Employers' Associations (BDA) and the German Chamber of Industry and Commerce (DIHT), representing special interests; and the IMD, INSEAD, EBS, WHU und UWH university services.

How did we select 100 exemplary, family-run companies? The publisher appointed a highly-skilled and experienced panel that knows the topic from a variety of different perspectives. This panel set about its task with commendable intensity and discussed its selection with the editorial board under the tried-and-tested stewardship of Olaf Salié. It goes without saying that the panel acted without inhibitions. Its discussions yielded the following selection criteria:

- One family or a handful of families has to have a dominant or determining influence on the company and be willing or in a position to bring its/their ideas about values and the objectives thereof to bear.
- The form of association has no bearing on the selection procedure. Even if its shares are transformed into a foundation, a company remains family-run if the aforementioned influence exists and can be utilised.
- The family can influence both the managerial and executive level as well as the control, supervisory and advisory board level.
- There has to be a conclusive strategy for maintaining the family's long term influence over the company.
- If a company is still run by its founder, it is owner-operated. It becomes a family-run company if a dynastic will is at least perceptible in the sense of clear plans for succession within the family or if two or more generations have run it in direct succession.
- The size of the company is not decisive for the selection because smaller firms can also have very exciting stories to tell. However, there should be a kind of best-practices presentation reserved for all family-run companies which can be called major in terms of name recognition, value creation and job creation.
- In order to take account of the differences between the various family-run firms in Germany, four groups were defined that were to have a bearing on the selection of the companies: large (e.g. Henkel), old (e.g. Prym), brand-oriented (e.g. Jägermeister) and exciting companies (e.g. Sarrasani). Another equally important aim is that of greatest market diversity.
- In the case of holding structures, the parent companies should be portrayed, where possible.
- The selection is also influenced by the company's attractiveness, fame, image, brand, uniqueness, stability, profitability and whether it has a history that's worth telling.
- We cannot paint a complete picture of the multifaceted blend of family-run companies in Germany. Some companies represent them all, and each selection is to some extent subjective, as the publisher and panel readily admit.

The book presents the selected companies according to their age, i.e. the "oldest" companies are right at the front, the most recently founded at the back. As such, the book reads like a journey through the history of the German economy. I hope that you enjoy this book and discover something new, whether flicking through or reading it from cover to cover. Either way, you will be amazed at the quality of the companies presented and the exemplary nature of the people behind these companies. After all, they come from the best families.