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Three challenges for Presidents of family-owned companies

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Family-owned companies are often held up as examples for their performance and success in combining short-term results with a long-term vision. This is generally true.

What is often overlooked, however, is, that family businesses must be managed considering three potentially conflicting issues in mind: corporate strategy, family wealth strategy, and governance.

Corporate Strategy

The president's role is to define and implement a relevant growth strategy. He must choose which segments to focus on, develop a competitive and differentiated model, achieve leadership positions, balance activities in terms of cash generation and investment, and manage risk levels.

Time spent managing existing businesses, even highly profitable ones, does not create value; it merely preserves it. Value creation requires fundamental and regular changes in the trajectory, profitability, or mix of businesses, or achieving and sustaining strong, long-term, and profitable growth trends.

Given the increasingly rapid evolution of markets, technologies, and customer access methods, a "good" strategy is only effective in a limited window of time. Timing—whether too late, too early, or sustained for too long—is as critical to resource allocation as issues of quantity, adequacy, and appropriateness. This requires establishing a clear and precise connection between vision, ambition, the desired positions to be achieved, and the actions required to get there.

Family Wealth Strategy

A family wealth strategy is fundamentally driven by 4 criteria:

- The desired level of profitability for the shareholder, including the value of the shares (listed or unlisted) and the dividend distribution;
- Volatility, i.e. the level of risk associated with holding an asset in the portfolio;
- Asset liquidity, i.e. the ability to sell the asset over different time horizons, or to benefit from value through the distribution of dividends;
- The role the family wishes to play in the management of the business, and the independence of management from the family holding company in implementing

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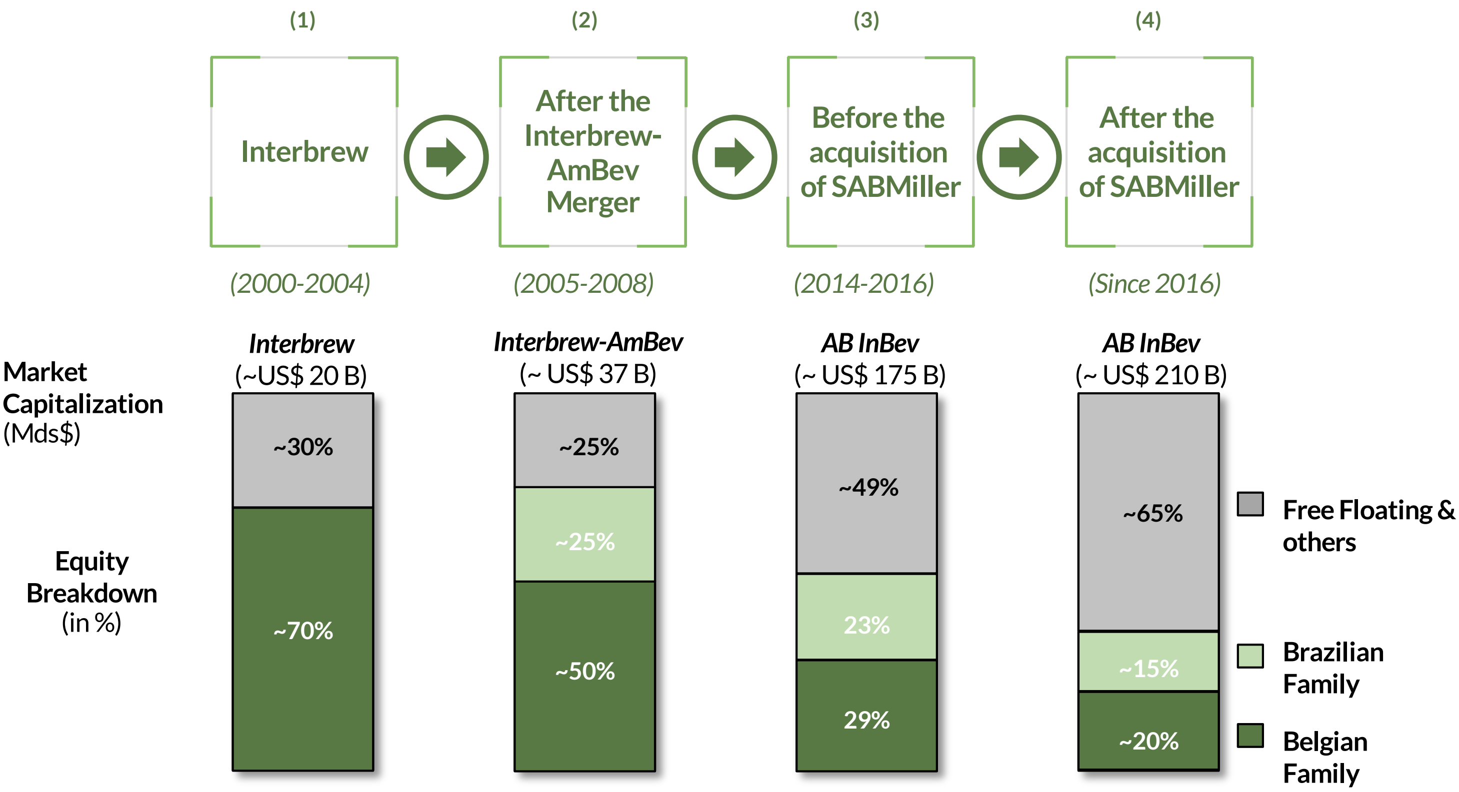
Interbrew's historical shareholders have agreed to be gradually diluted to form the world leader in the industry in 15 years, while retaining their status as reference shareholders in the new group.



the defined strategy, managing day-to-day operations and making investment decisions.

For the President of a family group, the challenge is to define both the type of holding company and the role it will play in relation to investments. There are two types of family holding company:

- A patrimonial holding company, where the business portfolio is diversified from one original business; this diversification can take various forms: real estate, investment funds, minority stakes in listed or unlisted companies, liquid securities...
- An industrial holding company, in which all (or at least the vast majority) of investments are made in well-managed, potentially value-creating industrial activities.

The role of the holding company must be defined. What is the fundamental nature of the group and its capacity to develop its scope? Is it a group specializing in a particular business (broadly defined) benefiting from long-term growth with geographical scalability? Is it a diversified group that regularly adjusts its portfolio based on value waves? Or is it a holding company that does not actively manage its business portfolio or the synergies between its various businesses?

Governance

The role of each party (shareholders, board of directors, management) must be clearly defined so that all family shareholders are aligned:

- The company's ambitions
- The level of risk taken;
- The decision-making process and its impact on the business.

For first generation entrepreneurs, governance is not an issue insofar as there is a strong link between strategy, asset issues and governance.

For the third generation shareholders and beyond, perceptions may be different. The attachment to the business and its activities may vary. Interest in reinvesting cash flows (and thus in a low dividend payout) can vary. Maintaining cohesion is critical for a strategy. Only a clear strategy and good governance can make this possible.

This is the strategy of the Belgian shareholders of Stella Artois (Interbrew). In 2008, the company had a revenue of 5 Bn$ and was worth 20 Bn$. They decided to consolidate the industry and accept dilution of their shareholding to successfully implement this strategy. Today, AB InBev generates 80 Bn$ in revenue and is valued at 210 Bn$. The original Belgian shareholders hold 20% of the capital and occupy 4 of the15 seats on the board of directors. They have succeeded in creating the world's largest brewer and maintaining cohesion in this project.

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KEY TAKE-AWAYS

- Growth is the only way to create value in the long term.
- A company that does not grow by more than 7.5% per year (i.e., a doubling of revenue every 10 years) loses its attractiveness and independence in the long term.
- This requires profoundly and regularly modifying the trajectory, profitability, or activity mix, or successfully getting on and staying on strong, long-term, and profitable growth tracks.
- The President must define the company's strategy, the asset management strategy, and implement active governance.
- Alignment is necessary between these three components to deploy the strategy at the right pace and magnitude and meet shareholders' expectations.

What to conclude?

The origin of any group is a brilliant vision, brilliantly executed. This vision, if not regularly renewed, leads to the dilution of resources and energies. Investments and efforts remain the same, but progress stalls.

This is where the role of the President comes in.

Naturally, the entrepreneur manages to maintain coherence between strategic, asset-related, and governance issues. Over the years, there is a risk of seeing a lack of alignment between the 3 dimensions.

These 3 dimensions cannot be separated:

- Corporate strategy defines a direction and an ambition. It requires financial resources;
- Family wealth vision enables or constrains the strategy. It "constrains" and sets the possible framework. If it is too "restrictive", it will not create much value for the shareholder from the investment. If it is too "imprecise", it risks frustrating certain shareholders;
- To remain the controlling shareholder, governance must enable the implementation of the right strategy. If a leadership strategy requires dilution of ownership, a decision must be made: either relinquish leadership with the risk of losing competitiveness and creating little value or pursue leadership by reducing the family shareholder's stake to finance the strategy.

Value creation results from the allocation of management time and the choices made in this area. It requires the alignment of corporate strategies, family wealth strategies and governance to enable the strategy to be deployed at the right pace. Time is accelerating. Alignment is critical. It is the President’s role.

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