POSITIONING AN 11TH-GENERATION COUSIN CONSORTIUM FOR THE FUTURE:

in conversation with Renée de Kuyper

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WHAT COMES FIRST IN A FAMILY-OWNED COMPANY:

THE FAMILY OR THE BUSINESS?

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CONVENTIONAL WISDOM SAYS THAT THE TWO THINGS SHOULD BE KEPT SEPARATE (PARTICULARLY THE FINANCES). BUT THE BALANCING ACT INVOLVED IN WORKING WITH AND ASSESSING THE NEEDS OF THE TWO ENTITIES CAN BE COMPLEX.

Renée de Kuyper has a very clear answer: "Most people would probably say the company comes first. But I don't agree. I think if you are a strong and united family – not just financially strong, but able to deal with conflicts, be decisive and have fun working together, even when things get complex – then you will have a successful company. That's my belief."

De Kuyper should know.

She is part of the 10th generation of the family that owns De Kuyper Royal Distillers in the Netherlands. Although she has never worked in the company, she served on the board for 25 years. These days, she runs De Kuyper Concepts, which supports family enterprises in the fields of succession, family governance, and cultural change.

The family company has a two-tier board system, which is common in Europe, and a family constitution. There are 18 shareholders, but the structure makes provision for many more, anticipating a future in which there might be as many as 30.

De Kuyper's father was CEO of the company, having bought out almost all his siblings.

Currently, she and four siblings and their children own more than 90% of the shares, with 10% owned by other family members (all cousins).

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HIRING AN EXTERNAL CEO

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Her brother was chief executive officer of the company until 2010, when they appointed a non-family CEO. They are currently looking for a new external CEO – the third such appointment in 13 years.

The process of hiring an external executive has been fine-tuned over the years. "I think the first outside (non-family) CEO had a harder time. Our business is profitable, but it's also surrounded by much bigger players with very deep pockets. They buy and sell and buy some more. We really have to fight for the right to exist in this environment."

She identifies a common problem for many family businesses hiring their first non-family CEO: clear objectives. "He asked us: what do you want? And we were not very clear beyond knowing that we wanted to grow the company while remaining family-owned, undiluted by external funding or shareholders. And because we were thin on the 'how', he came up with a whole new strategy based on his brand-building corporate background. This really helped us as owners to focus more and feel more proud of our brands."

Inevitably, there were some culture clashes based on different values. "We've been in the same building for 100 years. We feel that the building is ours. If someone wants to change things, we suddenly act as housekeepers! We wanted to be consulted about small details like the choice of wallpaper. And that's not the corporate way."

Thirteen years on, and a lot has changed. "We've become more focused. We have a different team, far more professional and far more competitive. It wasn't always easy to strike the balance in the beginning, but focusing on good governance, giving management enough room to innovate and making a point of staying in touch with all stakeholders, has brought us much more than we expected."

This period of adaptation has been an absolutely necessary phase for the 327-year-old family-owned business, says De Kuyper. "Family companies are sometimes slow to change and find it unsettling to hand over the operational management. Change is difficult, and people resist it, so it's often easier to let a situation ride rather than doing what's needed.

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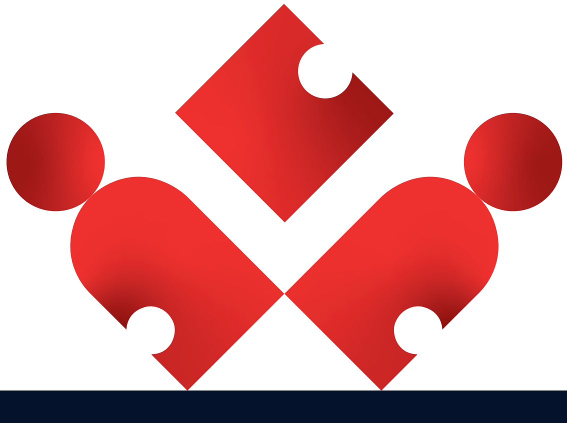
THE SUCCESSION CHALLENGE AT DE KUYPER:

MAINTAINING FAMILY UNITY AND AGILITY OF DECISION-MAKING



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De Kuyper says that when the company passes on the leadership from the 10th to the 11th generation, it will not pass to a group of siblings but to a consortium of cousins and second cousins.

She believes that the family council, a governance system that sits between the shareholders and the board, is critical to balancing the needs of the business with the interests and values of the family and to preserve the company's agility with respect to decision-making. The family is also contemplating a governance system, called a STAK (Stichting Administratiekantoor), which separates control from financial revenues.

"Right now, we have a very agile decision-making process in the company: As the former CEO, my oldest brother is very knowledgeable, my niece and nephew are on the board, I have sat on the board for years and with two family members we run the family council – there is a high level of trust in our operational knowledge and governance set-up. But it won't be quite so clear and easy for the next generation. For this reason, a family council will be crucial, which is why, as president of the council, I am fighting hard to carve out a space for it. And it's not always easy. We have no legal standing, and not all the shareholders believe it is even necessary. But I firmly believe it has a role to play in maintaining the cohesion and unity of the family, and to stay agile."

As much as she would love to see a family member at the helm again, De Kuyper is clear that, when it comes to succession, skills and credentials trump family ties. "We look for the best people. The rules of our family constitution state clearly that for a family member to be employed by the company, they must have the right education and the right experience."

And while it would be reassuring to hire someone from within the ranks of the family to fill critical leadership positions, she voices a problem experienced by many tight-knit companies: if the potential candidate has worked for a long time and grew up in the company, how do you benchmark their performance?

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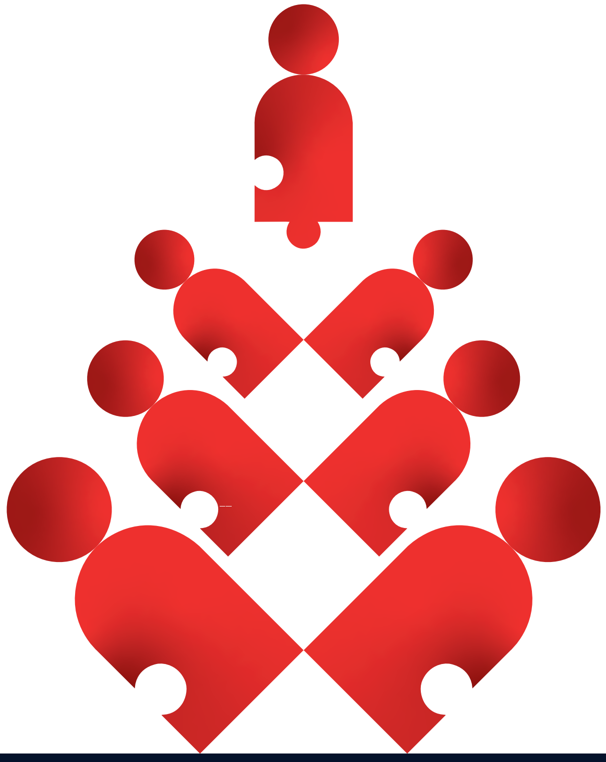
BUILDING A TALENT PIPELINE



There's also ongoing discussion about how to accommodate the wider family, which numbers in the hundreds. "We really have a large family!"

Successful family businesses operate on long timeframes. At De Kuyper, this is something they are planning for the next 10 to 20 years. They are hoping that the new CEO they appoint will be in place for at least 5 to 8 years, and they've just appointed a new board president (not a family member – De Kuyper says board presidents have never been family members).

Along with the leadership team and the board, they are looking at setting up a system for the family to stay involved and united, plus adding value as owners. They've established different committees that an 11th-generation family member can join, for example, looking at sustainability (what does it mean to us as a family?) or ambassadorship (how can we represent our brand?)

"You don't get paid, but you can learn a lot which might also help you in your career in or outside of the company."

Right now, De Kuyper's focus is how to answer what she knows a new CEO is going to ask: what is my mandate? "Ten years ago, the CEO came up with a plan, and we said yes, go for it. But this time, we need to be more clear about our objectives, our mission and our purpose and establish the boundaries up front." This is not out of distrust, but to avoid discussions later.

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TOP SUCCESSION PLANNING TIPS FOR FAMILY-OWNED BUSINESSES FROM DE KUYPER

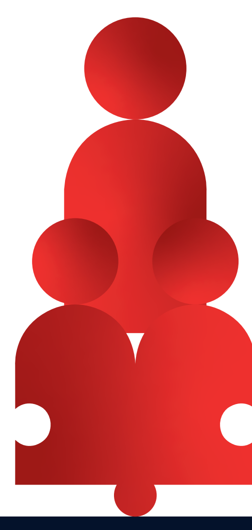
1. Start yesterday. It's never too early.

2. Involve the younger generation in the process and create a family manifesto together.

3. Be clear and transparent about shareholding structures; get external advice to create a shareholding structure that is sustainable and fits the family.

4. Ensure a flexible mechanism, such as a family council, to maintain open and clear dialogue within the family and board: transparency is key.

5. Tweak policies and procedures frequently to adapt to the changing social, business and geopolitical environment.



6. Talk about money, especially if families live off the assets (unlike De Kuyper where the family who are not formally employed in the business have their own careers and earn their own money).

7. Deal with family conflict, or it will spill over into operational conflict.

8. Appoint neutral non-family non-executive board members to help the family council and the board navigate conflict and provide perspective on how other companies tackle interpersonal challenges. "One company director said to me I can manage 2,000 people in the business, but I can't manage my four children. It is really difficult. How do you manage being both a company director and a parent? How do you reward your children? How do you judge your children - especially about whether they're capable of doing a job? This is where the right advisors can help."

9. Invest in the right advisors to lay the foundation for the next growth phase: "The right accountant, the right fiscal advisors, the right tax people, the right people to help you think about philanthropy or sustainability. It's key to success."

10. Think of the family as a board: it needs policies and procedures, and it needs to stay in contact and have sight of the big picture. "Companies are happy to work with advisors to boards, but because it's a family, people think you don't need professional help. Everyone must know: what's our goal? What's our joint goal? Does it fit in your individual plan? And if it doesn't, maybe you should sell your shares. "

11. Be clear about what success looks like. Define the scope of your ambition. "Success comes down to the owner's strategy. You need to ask each other what's our ambition? If you look at sustainability, what's our scope? How big do we want to grow? How much pressure will we place on the earth's resources? For example, we are happy not to be one of the biggest distillery companies in the world. We don't have to. There is a space for us and we found our own niche."

This interview was conducted as part of AltoPartners' research into succession planning in family-owned businesses. Read the full report here.

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