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2006 STEP European Observations Booklet

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2006 European STEP Project Pilot: Observations & Opportunities

The Babson Global STEP Project
The prosperity of our communities and countries are related to the strength of family businesses. In many of our most productive countries families control up to 90 percent of the businesses and contribute more than 50 percent of the gross domestic product. They also represent an often overlooked pool of resources for entrepreneurial activity. Family controlled firms are a vital link to the health of our world economy today and into the future.

Until now, the focus on ensuring prosperity through family businesses was primarily to help them preserve wealth and survive from one generation to the next. Through the STEP Project, families will come to understand the entrepreneurial requirements for long-run growth and productivity that can generate prosperity for many generations to come. We refer to this as Transgenerational Entrepreneurship. We believe that the real power and opportunity exists in unleashing the entrepreneurial potential of the family across the generations.

The STEP Project is a unique, applied research study that examines the successful transgenerational entrepreneurship practices of business families worldwide. It conducts in-depth cases and surveys of family members and business leaders focusing on how they create social and economic wealth across many generations. By better understanding the entrepreneurial mindset and methods of families, the STEP Project will provide families with benchmarks for success and continuity.
Q1 How do business families generate and sustain entrepreneurial performance across generations?

Q2 How does entrepreneurial performance relate to continuity and the transgenerational potential of family groups?

The above two overarching questions drive the STEP Project as we explore Transgenerational Entrepreneurship. These questions get at the critical issues of business competitiveness, productivity, growth and continuity in business families. We address these questions through in-depth interviews, family and company surveys and then test our findings with families at the annual Summits.

their Entrepreneurial Legacy

opportunity prosperity innovation

Summit

Each year families who participate in the STEP Project are invited to join with academics for a European STEP Summit. The Summit is a distinctive part of the STEP Project’s applied research design, allowing the families to receive immediate value from the findings and the academics to better understand the needs of the families.

The Summit is not a seminar. It is a unique learning dialogue between academics and an elite group of family members that brings the research alive. During the Summits, families interact with the findings for that year, benchmark themselves against other families, apply the findings to their particular situations, and discuss what future research should be conducted. Since the STEP Project is a global study, findings from other regions of the world are brought into the Summit dialogue.

Even in its first year at HEC in Paris, France, the STEP Project has demonstrated the power and impact of the Summit model. Academics from 6 institutions joined members from 10 families to assist them in further developing their entrepreneurial legacies.

Ramon Carbonell – COPCISA, Spain

“During the Summit we were able to discuss with our family, academics and other family businesses topics that we can never talk about at the office or home because of the distraction of telephones, secretaries and daily operations. It has been very important for me to get the members of my family involved in shareholder discussions about entrepreneurship and future growth.”

Some of our observations include ● ● ●
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*Co-chairs of the 2006 European STEP Project*
2006 Participating Families

Italy:

Falck: The Falck Group was established in 1906 as a steel company, soon becoming one of the largest and most prominent industrial businesses in Italy. The original business has adapted to industry changes and the main focus of the group at present is on the production of renewable energy.

Althea: Bought and revitalized in 1997 by the long entrepreneurial Ricciulli and Carotenuto families, Althea S.p.A. partners with large scale retailers and brand name food companies to develop, industrialize, and produce pasta sauces, other sauces, and dressing for private labels and third-party brands.

Spain:

Carbonell: Benet Carbonell began an earth-removal business in the 1950s and has seen it grow into COPCISA, a large and diversified construction company which has growing branches in energy and real estate under the leadership of the second generation.

Uriach: Juan Uriach Feliu founded Grupo Uriach in 1838. He acquired the drugstore that he had been working in for over 20 years as an employee. Today, Grupo Uriach is the second oldest pharmaceutical company in Europe.

France:

Dick: In 1968 Mr. Pierre-Richard Dick founded VIRBAC (stands for VIRology and BACteriology) with one veterinarian office. From this humble beginning, VIRBAC has grown into the first independent and 9th largest in the world pharmaceutical company exclusively dedicated to animal health.

Rousselet: The story of the G7 Enterprises began with André Rousselet in 1960 when he purchased a company of 150 taxis and one garage. The G7 taxi business has grown to a fleet of over 4,300 taxis and has expanded to G7 Enterprises with several diversified subsidiaries.

Sweden:

Geisler: The history of Arbesko dates back to 1839 when a man named Anders Andersson started to manufacture boots for the market without having any orders. The Arbesko Group has evolved to producing and selling safety and occupational footwear, and Peter Geisler, the nephew of the wife to the grandson of the founder, is the CEO and majority owner.

Wållberg: BIM Kemi was founded in 1973 by Peter Wållberg. As the children have grown up, the whole Wållberg family has become increasingly involved in the business. The company has grown as a chemical company that develops, produces and markets specialty chemicals with focus on the world-wide pulp and paper industry.

Switzerland:

Bloch: Chocolat Camille Bloch SA has grown from its beginnings in 1929 when Camille Bloch first started producing his own chocolate, to now a leading premium chocolate manufacturer, based in the village of Courtelary, Switzerland.

Sefar: From its foundations in 1830, Sefar and its ownership group representing seven different families, has become one of the world leading producers of screens and filter media for screen printing and filtration applications.

Germany:

Pohlmann: Peter Pohlmann launched POCO in 1989 and has turned it into a rapidly expanding discount chain for furniture, carpets and other goods with over 21 stores. They are second only to IKEA for most turnover per sqm. in the industry.

Rethmann: Josef Rethmann started a haulage transportation service in 1934 with a small group of horses and wagons. A few small tasks grew to more and eventually into the major holding group Rethmann AG & Co. KG, which has diversified subsidiaries ranging from recycling to transport logistics.
<table>
<thead>
<tr>
<th>Values</th>
<th>Strategy</th>
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<tbody>
<tr>
<td>Social goals and family vision are key driving forces in the business</td>
<td>Family strategy is even more founder-centric than other forms of entrepreneurship</td>
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<td>Family vision for survival and continuity are equated with success</td>
<td>Entrepreneurial renewal is highly path dependent in family firms</td>
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<td>Personal wealth creation is not the prime driver for entrepreneurship</td>
<td>Family leaders are very intuitive and opportunity driven for growth</td>
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<td>Families have a high self-awareness of the need to be entrepreneurial</td>
<td>Families depend on niche strategies and unique family resources to compete in the face of scale</td>
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<td>Families have entrepreneurship as a value but do not always define success by entrepreneurial performance outcomes</td>
<td>Next generation entrepreneurship was a key driver in growing family firms</td>
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<th>Governance</th>
<th>Culture</th>
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<td>Family life stage and relationships were drivers for governance structures</td>
<td>Organizational culture was highly personalized by the family’s values</td>
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<td>Families evolved into a portfolio of different companies through their entrepreneurial actions</td>
<td>Founder-centric cultures continued to drive strategy for generations</td>
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<td>Senior generation influence and control was strong and drove most of the governance models</td>
<td>Customer driven culture with a personal connection was a key driver for entrepreneurship</td>
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<td>Families were very aware of their need for non-family managers</td>
<td>There was a strong sense of “I can compete however I want” in their cultures</td>
</tr>
<tr>
<td>Entrepreneurial firms had structures that stimulated independent actions</td>
<td>Family relationships were a factor in determining how independent family entrepreneurs were</td>
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STEP Findings Explored

Propelled into the Future: Family life-stage and entrepreneurial growth

The development of family businesses tend to be evolutionary, following the normal life stage of the family from founder to siblings to cousins. This evolutionary pattern may create a path dependency for the business that constrains entrepreneurial growth and change. The DICK family of Virbac is a case where they could not follow the normal path of events and it radically redefined their future.

Case Example: Case Example: Virbac, animal health laboratory, France.
The Dick family experienced the untimely death of the founder, Dr Pierre-Richard Dick at the age of 56 which propelled the family business into the future in unexpected ways. This tragic event forced the family to have important family and business discussions that normally take years to develop when a family patriarch is in place. Because the children were not ready to run the business, they established advanced governance structures to lead the company, formal business processes to clarify the strategic direction, and very intentionally defined their roles and interests. Though it took around 10 years for the process to be achieved, the outcome is a highly professional family-controlled company that institutionalized the founders entrepreneurial vision in its strategies, structures and people.

Driving Question: Does the family life-stage evolution of a business constrain more entrepreneurial growth and change through time?

Amazing Continuity: Family legacy and wealth creation

Establishing a family legacy across many generations is a driving goal for many business families. The concern is how do you define success? Is success the legacy of continuity, or does it need to include entrepreneurial performance outcomes such as growth and above average returns?

Case Example: SEFAR technical fabrics, Switzerland.
This 175 year old company, world leader in technical fabrics for the screen printing and filtration markets, has clearly demonstrated that it can maintain continuity over a long period, far outlasting the 3 generation stigma generally associated with family businesses. However the family CEO would not describe the company as extraordinarily entrepreneurial, even though they generate consistent returns. They are in a modest growth mode, safeguarding sound financial ratios at all times. A steady annual dividend is a key requirement, as a number of family shareholders have a bulk investment in the company and count on this annual pay-out. The attractive dividend also keeps the more distant family shareholders happy and loyal, helping to keep this family ownership structure in place. This financial constraint limits to a certain degree the entrepreneurial freedom, yet by family business standards they have a continuity of success that most would envy.

Driving Question: Is the long-term continuity of a family legacy the same as transgenerational wealth creation?
A New Business Model: Family businesses and renewal

Family businesses often find their historical business model out of sync with the competitive demands of their industry and larger marketplace. In these situations the challenge is to balance the need for entrepreneurial renewal and new business models with the family’s commitment to their legacy businesses.

Case Example: Gruppo FALCK, diversified infrastructure business, Italy.
The Falck family was a leading steel producer founded in 1906. When the steel market changed, the company was slow to change with it. The conversation between family members committed to the steel industry and those looking for more futuristic opportunity delayed a much needed diversification into other sectors. Once the decision was made they expanded into the growing renewable energy sector and today are a leading family business that demonstrates the need for renewal as an important entrepreneurship strategy.

Driving Question: Does the commitment to their historical family legacy business constrain timely renewal and transformation?

Portfolio Entrepreneurship: Family and new venture creation

Families have a unique pool of resources for sustainable new venture creation. Both family and business reasons drive them to start businesses which end up creating a portfolio for entrepreneurial wealth creation through time.

Case Example: RETHMANN AG & Co. KG, diversified holding company, Germany.
The roots of Rethmann AG & Co. KG go back to 1934 when Josef Rethmann took over a small haulage company. His son Norbert grew it to a large transportation business since the 1960s. As Norbert Rethmann and the next generation leveraged their family and entrepreneurial resources, they built a substantial portfolio of companies. The original transportation industry has become a much smaller segment of the now large divisions in water and environmental services, logistics and bio-industries. The successor generation are now the entrepreneurs, but the senior generation continues to be a valuable entrepreneurial resource for continuing their legacy of portfolio entrepreneurship.

Driving Question: How do families leverage their unique pool of resources to develop a portfolio of successful companies.
Niche Strategy: Family firms competing with giants

The personal connection with products and subsequent dedication to quality leads many family firms to specialize in a market niche rather than try to take on the giant leaders of their industry, often with great success.

Case Example: BIM Kemi, specialty chemical company with a focus on the pulp and paper industry, Sweden. In 1973 Peter Wållberg was working for a large chemical company but grew frustrated at the lack of implementation with his new ideas. He quit and started his own speciality chemicals firm with a focus on the pulp and paper industry. Recognizing the power and volume of the large chemical firms, BIM Kemi has focused instead on niche products with high profit margins. Through this strategy of staying specialized and growing by opening up new markets rather than through diversification they have seen steady growth. They are niche within their industry, but have grown into new markets, firmly establishing themselves a global niche player in the chemical pulp and paper industry.

Driving Question: Is a niche strategy sustainable over many generations?

Intuitive Business Growth: Families and opportunity driven strategy

The intuitive nature and unique vision of founders in family firms often leads to a multigenerational pattern of opportunity driven strategy. Rather than following a clear plan for growth, families are often suited to an emergent entrepreneurial strategy approach in which they respond to and capture opportunities as they arise.

Case Example: COPCISA, construction company, Spain. COPCISA was founded in 1965 in southern Spain and quickly grew into a dominate construction company. When it was announced that the Olympics were coming Barcelona in 1992, COPCISA saw the opportunity for state sponsored contracts and reoriented the company to capture the large public works projects. This provided great success, but also became a threat once the games were over. New opportunities arrived shortly thereafter as the founder's two eldest sons rejoined the business. Their leadership has led to a new diversification strategy with each son personally taking on the new divisions of real estate and energy. They intentionally describe their strategy as opportunistic and look forward to their future growth.

Driving Question: Is the intuitive and opportunistic entrepreneurial strategy of families sustainable over time?
2006: The pilot year for the STEP Project in Europe has been a fantastic learning opportunity. We have solidified our research model and methodology and proven the benefits of our innovative Summit. We have conducted some very interesting cases that address key issues in entrepreneurship and open exciting new avenues for further exploration.

In 2007 we will expand our STEP Project by inviting additional families to participate in the research and attend the benchmarking Summit to be held in Barcelona, Spain. In addition to conducting case studies, we will introduce an in-depth survey that assesses the entrepreneurial mindset and practices of families and their businesses. This addition ensures that the upcoming year will bring an even richer understanding of the issues that entrepreneurial families face.

The STEP Project is a global research study, and in 2006 we also began the pilot study in Latin America. We will continue our expansion in 2007 by launching into Asia. The new families and cases in these regions will provide valuable cross-cultural insights. The resulting data will allow for fruitful international analysis and global dialogue.

Transgenerational entrepreneurship is an extremely complex subject matter, but one that is critical to the enduring success of business families, local communities and the global economy. The STEP Project is committed to providing deeper understanding and high impact solutions for the business families of the world.

Michel Santi – HEC, Strategy and Business Policy Professor, co-chair European STEP Project

“HEC considers it a duty to be a part of this important European and worldwide project because families represent the basis of the economic fabric in our country. Explaining the sustainability of the entrepreneurial spirit through successive generations will contribute to the overall wealth creation capabilities of family companies.”

For more information on being a part of the STEP Project research please contact our Coordinator, Robert Nason at rnason@babson.edu

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