



# THE FIVE PRINCIPLES OF EFFECTIVE TALENT MANAGEMENT FOR FAMILY-OWNED BUSINESSES *by* ARNAUD DESPIERRE

Family businesses typically begin as small, local operations. Over time, and often through the early leadership of visionary and daring founders, some develop into powerful multinationals that successfully compete with the world's leading public companies. As family-owned businesses (FOBs) undergo this transformation, a process that can take generations, their focus shifts from short-term survival to bigger questions of diversification, professionalization and internationalization. These evolutions often are accompanied by profound changes in strategy, corporate governance and organization model.

Driving these changes is the company's senior leadership team, which may still be dominated by family members. But at defining moments, leading FOBs recognize the need to bring in executives from outside who have expertise in shepherding businesses through unfamiliar strategic and organizational changes. In a 2007-2008 global study by PricewaterhouseCoopers, 42 percent of family-controlled businesses considered recruiting to be one of their most important business issues. As FOBs evolve from small-scale family businesses to larger-scale operations that happen to be family-owned, they need an effective talent-management approach to ensure the highest likelihood of success.

An examination of select global family-controlled businesses shows that five guiding principles can help an FOB choose the right talent-management approach to support its long-term goals — one that enables it to attract and

retain top executive talent and keeps it on the path to becoming a successful, world-class business.

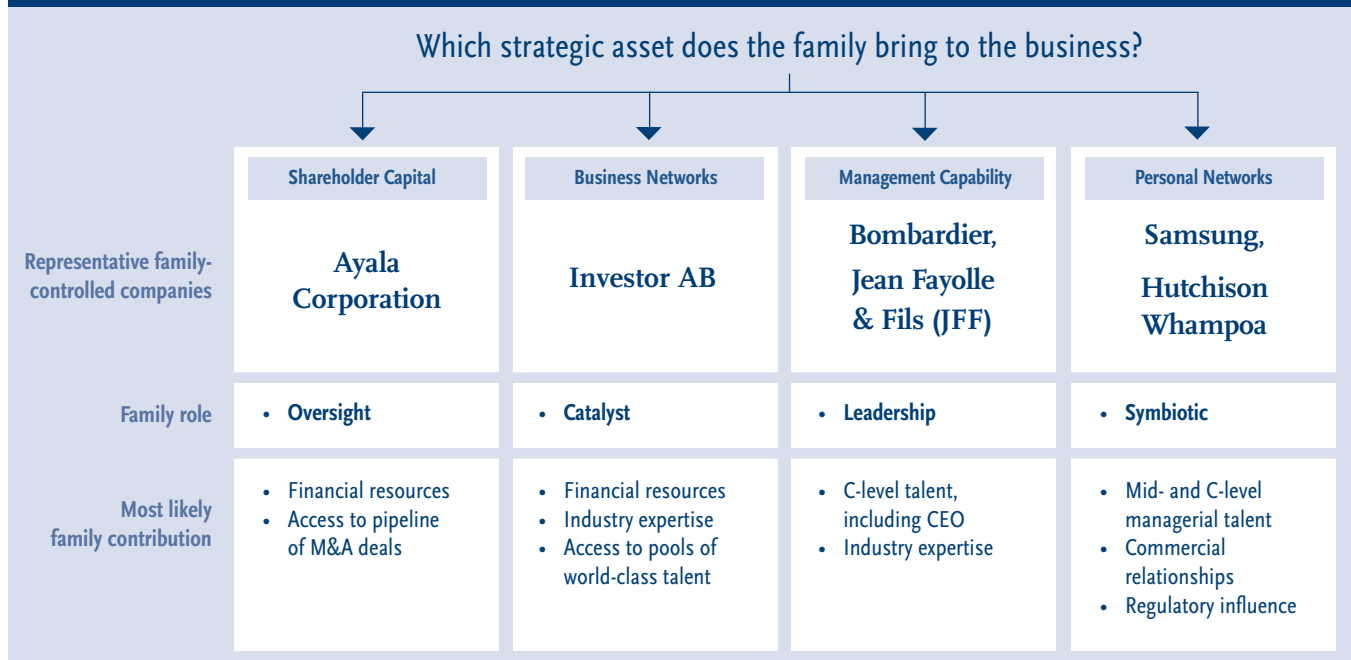
## **1** DEFINE THE FAMILY'S SOURCES OF VALUE TO THE BUSINESS

To determine how the company should be organized, the family should thoughtfully consider what value it brings to its own business and what contributions it is prepared to make, or not, moving forward.

On one end of the spectrum, families may be quite hands-off, contributing mostly shareholder capital and oversight. This is the case for the Ayala family, which operates Ayala Corporation, the Philippines' oldest and largest conglomerate, as a balanced portfolio of diversified and largely independent businesses. The family adds value to its holding portfolio through its access to capital and professional management practices.

At the other end of the spectrum, the family and company have a symbiotic business relationship, where the family is intimately involved in day-to-day decision-making across the organization. Korean chaebols such as Samsung typify this approach. In this case, the family adds value by bringing hands-on management talent to the business and developing favorable government and business relationships through personal family connections.

## DEFINE THE FAMILY'S SOURCES OF VALUE TO THE BUSINESS



Either model, as well as hybrids of the two, can be successful, as long as the family's role in the business is explicitly defined, from relatively hands-off board participation to control over key executive positions. The right model is one that all the key stakeholders are willing to accept and that the rest of the business can be organized around.

### 2 PUT THE FAMILY'S LONG-TERM INTERESTS FIRST

Once the family agrees upon its overall value to the organization, the specific roles of individual family members should be clearly defined. This helps to ensure that the long-term interests of the family and the business are not compromised by the short-term self-interest of influential family members. These temptations can include excessive dividends, unjustified mergers and acquisitions, or appointments by birthright.

To avoid these mistakes, it is important for family-owned businesses to prevent direct conflicts of interest such as

giving both significant shareholder rights and excessive executive decision-making power to the same individuals.

As an added safeguard, it is wise to put a clear governance structure in place, as Sweden's Wallenberg family has done for its diversified investments in Investor AB, one of Northern Europe's largest industrial players. Using analytical value-creation agendas, the company makes fact-based investment and management decisions on its Investor core holdings. Clear criteria have been set upfront on issues such as M&A potential based on value-creating business principles, allowing no room for interference. This value-based approach ensures that the long-term health of the Investor business is prioritized over any short-term harvesting incentive by any individual family member.

### 3 ACTIVELY EMBRACE OPPORTUNITIES TO BRING IN FRESH TALENT

Once the family's role has been defined and adequate controls are in place, an FOB is ready to consider if, and

when, specific skills should be brought in from outside to support the corporate strategy. This can feel like a major risk to family businesses accustomed to closely controlling all aspects of their operations. But it is often what the business needs as it goes international, diversifies into new markets or establishes a more professional organization. These unfamiliar transitions require a fresh look at how the company is operated — and expertise and capabilities that the family may not possess.

As an example, a leading Chinese tire manufacturer owned by a Singapore-based family has an ambitious global growth strategy that already has allowed its business to reach the four corners of the globe. To realize it, the company has laid out recruiting plans in key areas to bring in world-class executives from within and beyond the tire industry. In another example, the Wallenberg family so clearly recognizes the importance of identifying and recruiting fresh talent that it acquired a controlling stake in a professional recruiting firm, Novare, as part of its investment portfolio. In addition to being a standalone profit-making business, the firm serves the talent needs of the rest of the family's diverse business investments.

Embracing fresh talent can go as far as bringing in a CEO from outside the family to run the business, a move that can sometimes prove beneficial. Research by McKinsey & Company of 700 Western manufacturing FOBs found that family-controlled businesses run by outsiders have, on average, better management practices than those run by a family member.

#### **4** TAILOR THE TALENT-DEVELOPMENT APPROACH TO THE CULTURE

Once the company begins to bring executive talent on board, processes for managing their development should be aligned with the family's culture.

One option is the 'chessboard' approach, where executive development is monitored carefully and career decisions are centralized. This approach is most suited to medium-size FOBs in which the CEO can personally manage the development of his executive team. Such is the case at Jean Fayolle & Fils (JFF), a 2,500-employee French civil engineering FOB that is growing aggressively through acquisitions in France and Canada. JFF CEO Bruno Fayolle, the great-grandson of the founder, views managing the careers of his top 100 executives as his personal mission and as a key pillar of how his family adds value to the business. He makes personal decisions on appointments, promotions and bonuses and carefully assigns stretch opportunities to groom executives "who have a passion for our business and think like CEOs".

At the other end of the spectrum is the 'free market' approach, where executives are expected to drive their own career path. This style is best suited to larger FOBs in which the HR department's main role is to create visibility of available opportunities and ensure that policies and the culture are supportive of a free flow of talent within the organization. One FOB that has traditionally favored this more flexible talent management approach is Bombardier. According to CEO Pierre Beaudoin, the company's entrepreneurial spirit means that working for Bombardier "is like having your own company, but with the resources of a large corporation".

FOBs should consider their own culture as they choose their talent-development approach and as they recruit candidates, who should be screened for the right cultural 'fit' along with traditional competency-based assessment. Most importantly, when a senior executive is hired into an FOB, both parties should be clear about what they are getting into. The family needs to understand that senior executives will expect some leeway for action to achieve the results expected of them. And executives should realize that they will need to work carefully within the boundaries of the family culture in order to succeed.

## 5 GIVE PRIVILEGED OPPORTUNITIES TO OUTSTANDING TALENT

Attracting top talent can be a challenge for family-controlled businesses, since executives may worry that their status as outsiders will limit their career potential. To counter this concern, family-led businesses need to make outstanding talent ‘feel like family’.

One family-controlled business that has been particularly successful in this regard is Samsung. Its Global Strategy Group (GSG) targets top talent and hires young, foreign MBA graduates from top schools. The group, located next to headquarters, is given exposure and direct access to Samsung’s Chairman Lee and work for him on his special projects and new personal business ideas. This inclusiveness fosters a strong sense of loyalty and personal attachment in these young executives, as well as pride from working on the company’s top business issues. These executives often exit from the GSG into operational leadership roles with Samsung’s affiliates and typically develop a strong emotional attachment to the company.

Making efforts to instill this kind of dedication in top talent may seem foreign to early-growth FOBs accustomed to the natural loyalty that comes from closeness with the family. But as these companies grow in size and start bringing in external managers, they must also professionalize the way they manage talent to compete with large corporations.

In conclusion, as the diversity of real-world examples shows, there is no talent-management ‘silver bullet’ solution for FOBs. The successful blueprint will come from a thoughtful look at the intrinsic heritage, culture and value that the family brings to the business. By crafting a specific talent-management approach that complements the assets that make their companies distinctive, families can preserve the longstanding advantages and character of their businesses while attracting and retaining the executive talent they need to succeed on a global scale.

## ABOUT THE AUTHOR



Arnaud Despierre, based in Singapore, is a member of Spencer Stuart’s Industrial and Human Resources practices and brings eight years of consulting and engineering experience to his role. Prior to joining Spencer Stuart, he worked with

McKinsey & Company as a strategic management consultant. While there, he served a wide variety of clients, including national and multinational family-owned businesses, on organizational issues such as restructuring, human resources management, leadership development and cultural change.

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## SPENCER STUART SINGAPORE OFFICE CONSULTANTS

### Anne Benbow

abenbow@spencerstuart.com

### Arnaud Despierre

adespierre@spencerstuart.com

### Jason Wagner

jwagner@spencerstuart.com

### Wai Leong Chan

wchan@spencerstuart.com

### Dianne Jones

djones@spencerstuart.com

### Fabrice Desmarescaux

fdesmarescaux@spencerstuart.com

### Malini Vaidya

m vaidya@spencerstuart.com

## SPENCER STUART ASIA PACIFIC OFFICES

### Beijing

Room 2709  
Tower 1, China World Trade Center  
#1, Jianguomenwai Avenue  
Beijing 100004  
China (People's Republic)  
T 86 10.6505.1031

### Mumbai

Nirmal, 21st floor  
Nariman Point  
Mumbai 400 021  
India  
T 91 22.6616.1414

### Sydney

Level 24, Gold Fields House  
1 Alfred Street  
Sydney, New South Wales 2000  
Australia  
T 61 2.9240.0100

### Hong Kong

Room 3318, Jardine House  
1 Connaught Place, Central  
Hong Kong SAR  
T 852 2521.8373

### Shanghai

Room 501  
One Corporate Avenue  
222 Hu Bin Lu  
Shanghai 200021  
China (People's Republic)  
T 86 21.2326.2828

### Tokyo

Kawakita Memorial Building, 8F  
18 Ichibancho  
Chiyoda-ku, Tokyo 102-0082  
Japan  
T 81 3.3238.8901

### Melbourne

Level 35, 101 Collins Street  
Melbourne, Victoria 3000  
Australia  
T 61 3.8661.0100

### Singapore

One Raffles Place #52-00  
OUB Centre  
Singapore 048616  
T 65 6586.1186

[www.spencerstuart.com](http://www.spencerstuart.com)