GENERATION GAME

Keeping the family silverware in the business

By Matt Allen

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Father and son in the garage business: Emil Frey with son Walter, Zurich 1976 (RDB)

The thorny issue of how to pass on ownership of a family firm to the next generation is a conundrum shared by many businesses – and one that can be tackled in a multitude of ways.

Last year, two of Switzerland's most enduring corporate family dynasties – Diethelm and Keller – diluted their control of multinational outsourcing group DKSH by floating the company on the stock market.

At a stroke, Switzerland's largest privately held company entered a new phase of public ownership.

Almost nine out of ten Swiss companies are classified as family enterprises – almost all of them small and medium-sized enterprises (SMEs) with less than 250 employees. Each year, some 20 per cent have to face up to the issue of succession as the owner, or owners, near retirement age.

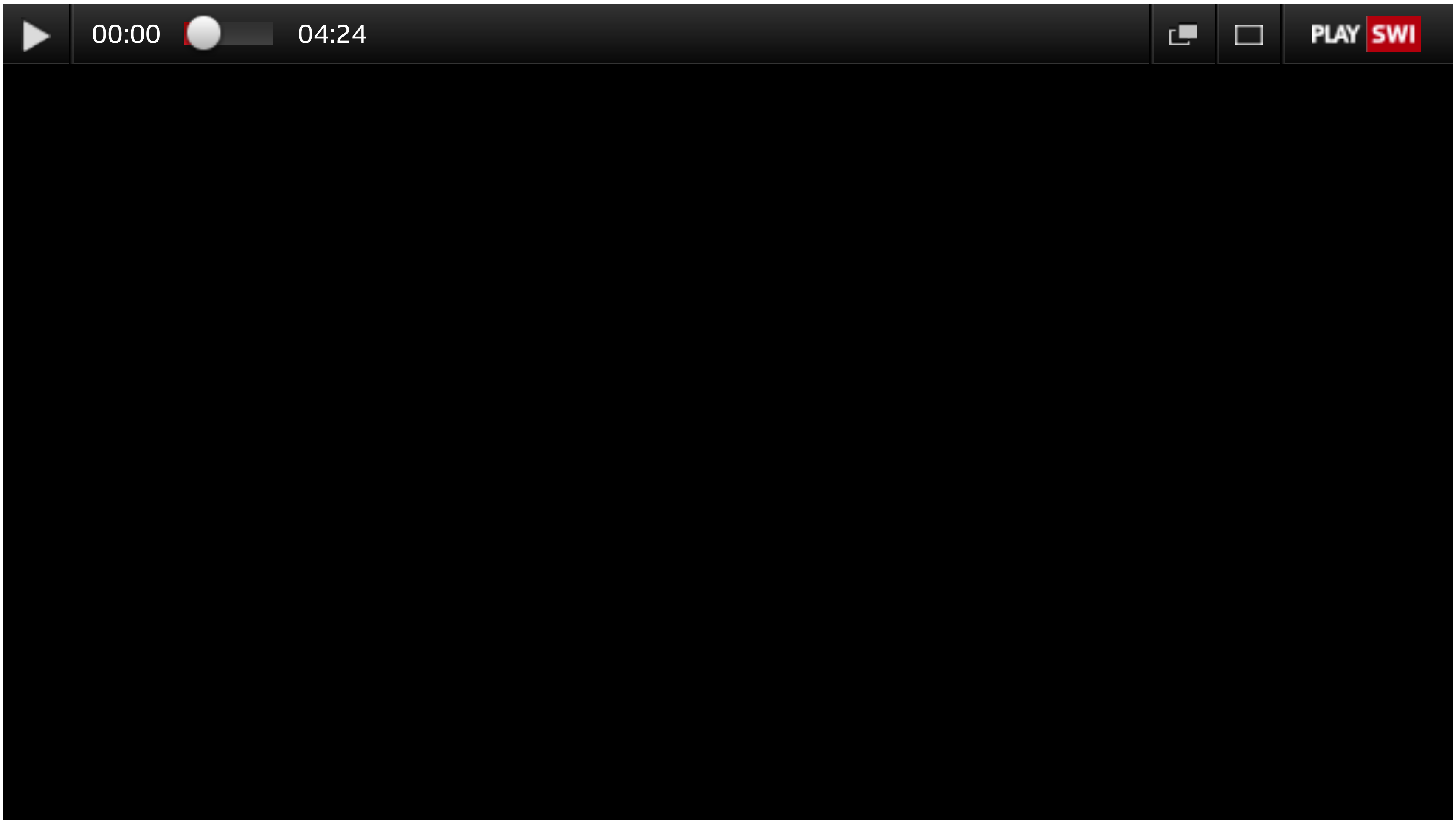
Some firms manage to remain under family control for many generations, most notably the private banking dynasties, such as Pictet, Lombard, Odier and Hentsch. But most Swiss companies stay in family hands for a generation or two before selling out or simply folding.

"In Switzerland, there are fewer internal family handovers compared to neighbouring countries such as Germany or Italy, where there is a greater dynastic tradition," Marcel Widrig, a specialist in family firms at PricewaterhouseCoopers, told swissinfo.ch.

One reason is that the comparatively small Swiss domestic market limits the size of SMEs.

"Switzerland does not have many companies with the necessary turnover or profitability to retain legal counsel or tax advisors who could help smooth transition between generations," said Widrig. "Size matters in this respect."

Swiss company owners can also sell their shares tax free as a capital gain, making it more attractive to offload the business than in some other European countries.



TALKING SHOP

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Business

Influence retained

However, this does not mean that the family firm is going out of business in Switzerland. The proportion remains roughly constant as start-ups arrive to take the place of those that disappear.

Last year saw a net increase of more than 10,000 firms on the Swiss company register, according to market research group Dunn & Bradstreet.

Even when a company changes its ownership status with stock market listing, the founding families can retain influence with a majority stake or by keeping management roles.

The Hoffman La Roche and Oeri families have a controlling stake in the pharmaceutical giant Roche, while Schindler chairman Alfred is the fourth generation of the family to dominate the publicly listed lift maker.

The famous Swiss chocolate brand Lindt & Sprüngli listed in 1986, but Rudolph R Sprüngli – the fifth generation of one of the founding families – continued to exert control as chief executive and chairman until 1994. His son, Rudolf, currently sits on the company board.

Swiss family firms

Some 88% of all companies in Switzerland are owned by families, according to St Gallen University's Center for Family Business.

A recent report from the same source claims to have identified the blueprint for a sustainable and successful family enterprise in Switzerland.

The key points are: an innovative passion that transfers down the generations, a strong emotional attachment to the company from owners, diversification of business activities and sound management of the family wealth.

According to market research firm Credita, some 15.7% of privately-owned companies in Switzerland are currently facing urgent succession issues because the owner is nearing retirement age.

Among family enterprises this figure has reached as high as a quarter in various surveys over the last few years.

A 2012 survey by PricewaterhouseCoopers found that 43% of family firms would find it difficult to keep the business within the family as the next generation showed little interest in taking over.

Economic backbone

A strong family influence can protect companies during volatile times – which has a beneficial stabilising effect on the whole economy, according to Philipp Sieger of St Gallen University's Center for Family Business.

“Family firms are regarded as being highly sustainable business models,” he told swissinfo.ch. “They usually have high levels of capital reserves that act as a shield against adversity and are very reluctant to fire workers when the going gets tough.”

The economic bonus of maintaining a robust and sustainable family firm environment has spawned organisations such as the Lausanne-based International Family Business Network and the KMU Next foundation, which helps enterprises solve succession issues.

However, succession remains one of the most common banana skins for family firms, according to PwC's Widrig. "The biggest problems are soft factors, such as communication breakdowns between generations and family members not singing from the same hymn sheet," he told swissinfo.ch.

"The same complex relationships that are evident in most families could either make a company stronger or break it."

Philosophical approach

Victorinox, the firm that produces the iconic Swiss army knives, tackled the problem by transferring direct control from the Elsener family to a foundation in 2000. By surrendering their shares, no individual family member (now in the fourth generation of leading the firm) can destabilise the company in the event of an internecine dispute.

Patrick Fonjallaz, head of one of Switzerland's oldest family-run businesses, has another answer to the issue of succession. He's the 13th generation of the same family to run the Fonjallaz winery in canton Vaud. Having already reached pensionable age, and with some years to go before either of his children could – if they wanted – inherit the business, Fonjallaz is decidedly philosophical about standing down.

"I hope that is still at least 120 years away," he told

the NZZ am Sonntag newspaper last year. "Joking aside, retirement is in any case just not an issue for me at the moment."

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Links

- Center for Family Business – University of St Gallen
- Family Business Network
- KMU Next (German)