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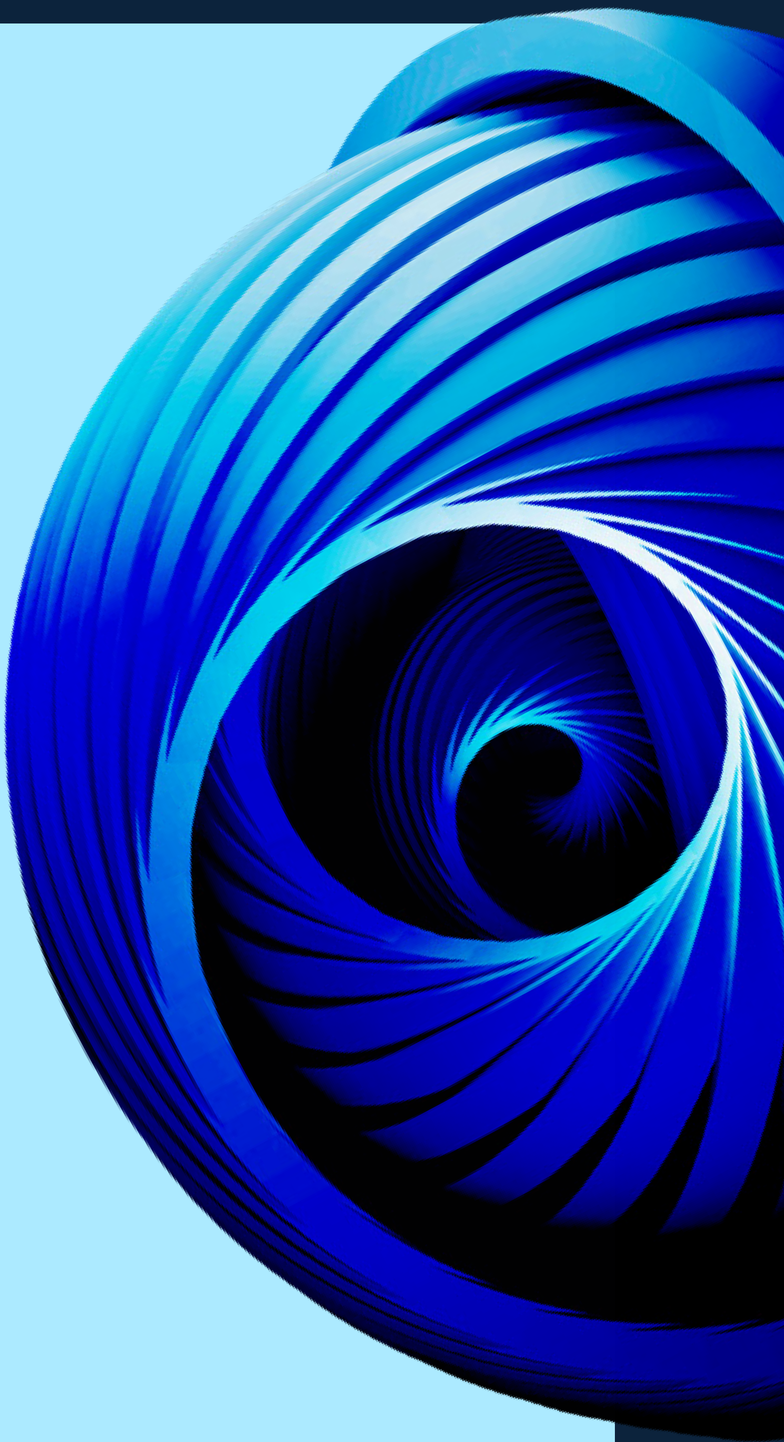

The Sages family business story

Case study 19:
Governance with an external CEO
Part 1: The story

Written by Professor Christine Blondel from INSEAD

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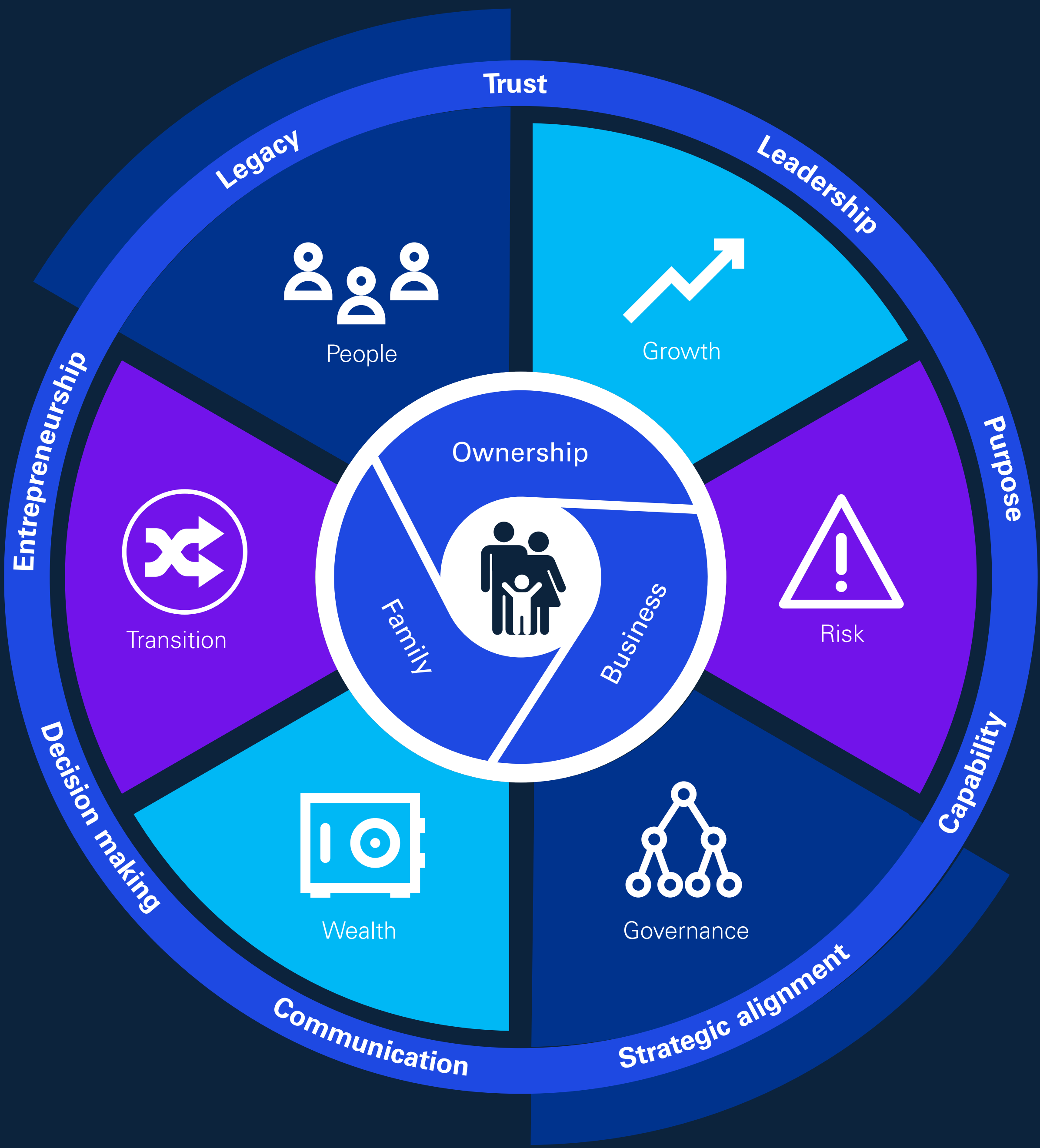
Family business dynamics — Governance I People



Source: KPMG Private Enterprise Family business dynamics, 2017

Part 1: The story

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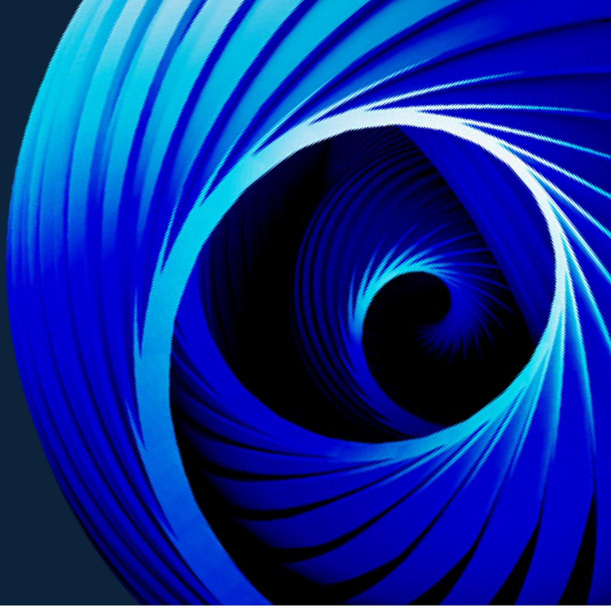
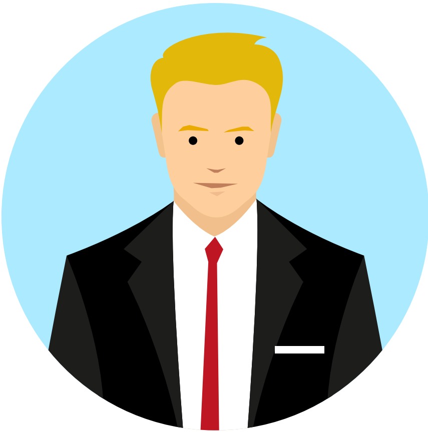




Timothy was about to enter the meeting room. He thought about how much had happened since his father passed away 18 months ago: the business started to expand abroad thanks to successful joint ventures, they purchased two of their franchisees in order to bring the stores up to the Sages Group's standards, they accepted an outside investor in the eastern region to support the purchase of the franchisee, and they were testing a new online ordering venture. They hired a new CEO (the one they hired when their father was still chairing the board left after six months), and they started to professionalize the board of directors. The family meetings their father initiated were being held on a regular basis. Timothy had good exchanges with his siblings, and the younger family members seemed very interested in learning more about the business. The latest event was his mother's retirement from the board and his own appointment as Chairperson of the Board.

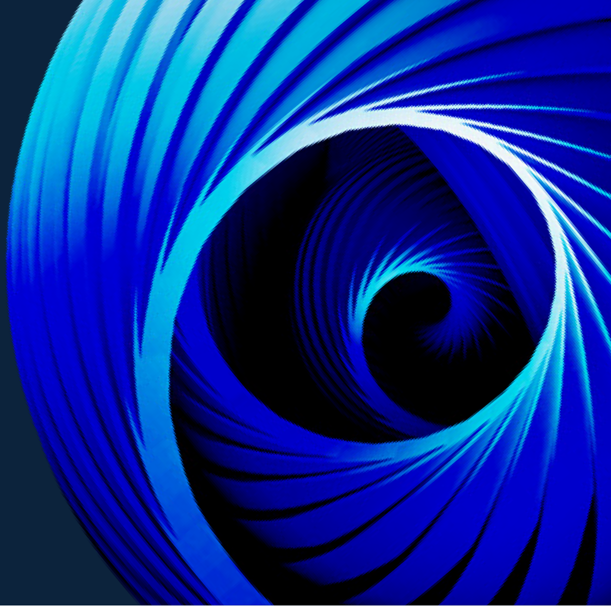
Today, Timothy was about to have his first meeting with the CEO, George, in his position as Chairperson. This made him a little tense as his relationship with the CEO was now totally different.

A family business

Thomas Sages started the Sages Group, now a leading supermarket chain in its country, as a small grocery store in 1954. His children Caroline and Timothy joined the business and contributed to its success, while their brother Charles left with some bitterness and worked as a consultant specializing in retail. The first external CEO of the Sages Group was hired a couple of years ago when Thomas was still Chairperson, and the experience was disastrous: the CEO had no latitude and left after six months.

When Thomas passed away, an external board member from another family business with extensive international experience accepted an invitation to join the board, and Charles was appointed to the board. A new CEO was hired and it appeared to be a good fit. Many new business initiatives were underway.

Part 1: The story



Case study 19

Difficult questions

When the CEO entered the room, Timothy noticed that he appeared to be preoccupied. What was going on? He would soon discover.

One of the items on the agenda was the organization of the leadership team with Timothy's departure from his operational job. The first thing that George said was that he did not feel at ease with Caroline both sitting on the board of directors and reporting to him operationally.

Another item was the update of the strategic plan, and George said that he did not understand the owners' expectations. Were they expecting the same dividend payments this year? What level of debt were they willing to accept? What kind of risks were they willing to take? George did not want to build his budget and three-year plan without more precise indicators.

Timothy was relieved not to hear any questioning of his new role as Chairperson of the Board. But he felt that the owners still had a lot of work to do to formalize their expectations. How should they proceed? He decided to hold a conversation with his trusted advisor before the board meeting.

Questions for discussion

- Have you ever encountered situations like Caroline's, where a family member is both an executive and a board member? Have you ever articulated the owners' expectations to management?
- What advice would you give to Timothy in order to answer George's questions?

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