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JERÓNIMO MARTINS IN 2030
SUCCESSION AND STRATEGY PLANNING

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Abstract

The case outlines the history of Jerónimo Martins and the Dos Santos family in the context of a dialogue between the pater familias Alexandre and his successor Pedro.

The case idea analyses the problems associated with next generation entrance in the family business and the outcomes on the different stakeholders and environment, with a particular focus on the evolution of the relationship between family, family holding and the JM group. The case is designed to assess the sustainability of a traditional succession strategy in the context of the challenges of globalization and growth of the company and family, analysing the reciprocal influence in a long-term strategy.

Family business keywords

Succession, ownership, family holding, family foundation, family pact, continuity, stakeholders vs. shareholders, stewardship, values, mission, emotional attachment, corporate social responsibility

Disclaimer

The situation and dialogues contained in the following case study, are to be considered fictional, even though they are based on publicly available material such as interviews and books, and information collected via direct interaction with the Jerónimo Martins group and the family

Introduction

In December 2015, Alexandre Soares dos Santos was back into his villa in Alentejo, two years from the family reunion in 2013, when he announced his retirement from the Presidency of Jerónimo Martins (JM). After 45 years he had accomplished the dream of passing his 12 Billion yearly turnover family business to the hands of his sons, and he was now enjoying the view of the sun fading on top of the caves of Vila Viçosa white marble. That Friday, his successor, Pedro, came to talk about the future of JM 15 years from now, when the 5th generation would be leading the family holding and the group. Alexandre knew that his inheritance was not only the majority stake of a multinational, but also in vast array of values, which go beyond the love for family, company, country and Sporting Clube de Portugal¹. It was time to structure a succession plan for JM and the family holding. He realized that the question to be answered was not whether a successor was already among his many grandchildren, but whether it was in the interest of the company or the family to have a member as CEO of JM. For the first time he doubted that the person driving JM further expansion would be part of his family.

The family successions: from Francisco to Alexandre

“I can only talk for my own generation and that of my children. I doubt whether I can talk about that of my grandchildren. My children’s generation is not going to sell. They were born here, live here and love the business”(Alexandre Soares dos Santos, 2011)

Alexandre has been the head of the family and the family business right after the sudden death in 1968 of his father Elisio, while Alexandre was working for Unilever in Brazil. He was now talking to his second son on the patio of the historic villa in Alentejo. They were analysing some of the actual scenarios of the company, to better evaluate the development path of JM in 15 years. They started from the process, which took Pedro to be CEO and President of JM. Alexandre told Pedro *“I knew that you would have*

¹Sporting Clube de Portugal, football team of Lisbon, founded in 1906

become my successor because you have always shown curiosity and entrepreneurial spirit, and we have many similarities". "Then what took you so long?" replied Pedro.

"You know, I planned everything years in advance. But I had to wait for everyone within the family and the group to recognize that you were the best candidate. You are the leader of the 4th generation, while everything started with your grand-grandfather".

The successions at the top of JM tell a lot about the different environment in which the company has found itself during the almost 100 years of presence of the Dos Santos family. Elisio took control of the family after the death of his father-in-law Francisco in 1953. Alexandre took over from Elisio in 1968. After 40 years of Alexandre's presidency, Pedro was chosen among the seven siblings after a long process, which, among other relevant issues, has seen an external manager, Luis Palha, CFO from 2003, appointed as CEO for 7 years. At that time, Alexandre knew that the continuity within the family was not under discussion, it was only a matter of which of his sons was to be appointed. Pedro is CEO of JM from 2010, and President from 2013, thanks to his success in leading the approach to Polish market and successful repositioning of PingoDoce in Portugal in addition to the remarkable experiences at Olà and Unilever JM. At that time, his brother José, the current president of the family holding Sociedade Francisco Manuel Dos Santos (SFMS), was a candidate to CEO of the group in 2004, together with Luis Palha and Pedro. Luis Palha was the elected CEO and he has driven the company from 2004 to 2010, during a difficult transition process. *"The choice of Luis Palha in 2004 has shown that merit is the only criteria taken into consideration at JM"*, said Alexandre, and it has also given more time to his sons in order to gain more experience on the field. Alexandre held the presidency of JM and remained the most influent voice in the group until the end of the road to the Colombian market was defined. The choice of Pedro was taken after a Nomination Committee has been evaluating his profile for over 15 years, and his role in Biedronka development as the

first distribution brand in Poland has been crucial in the decision process of the BoD. The approach to Colombia had been carefully designed in order to avoid the repetition of those mistakes, which have been made in the Brazilian entry of 2000s. His main goals in family management were the ones of transmitting his values, such as integrity and stewardship, and reinforcing the link between the family and the company. Alexandre stepped down from presidency in 2013, having supervised the group in its path to leadership in distribution in Portugal and Poland and right after the entry in Colombian market. The succession process took several years, since Alexandre was concerned about reinforcing continuity and unity within the family, but at the same time showing external stakeholders that the next CEO of JM was to be chosen on the basis of merit only. *“My main goal as an entrepreneur has always been the one of leading my father’s company to grow from a Portuguese retailer to a multinational group with activities in industry, distribution and services”*. The role of his family in assuring stability and continuity, as well as financing capabilities, has been crucial for the continuous expansion of JM group. Pedro was the man chosen by the board as his successor, and his plans for an expansion in Colombia have shown positive results. *“It was time for JM to tackle aggressively new markets, the leader had to change, and you were the best fit”*. *“The results have shown that you were right, I guess..”*. Alexandre has adopted an ambassador style of succession, carefully planned with years in advance. He was still acting as a counsellor for the group, and now he wanted to advise his successor, in structuring a long-term succession strategy. Alexandre was out of the company from two years and the group structure had already changed in order to adapt to a rapidly-changing environment.

Family holding and foundation

“Continuity within the family is crucial because the family culture and values are the competitive advantage of JM. You have to think 15 years in advance”, continued

Alexandre. The time has already come to think about the entrance of a new generation, with many disruptive challenges linked to the different environment, in which they will work. *"The main challenge is now to attract them within the company", said Pedro. "I have given my children the possibility to choose what to study and they have very different interests. Well, I insisted on them to be Sportinguistas, but that's it..". "About that, you did not have any choice..."* replied Alexandre. *"But they know what drives our family, our values and our mentality: integrity, a winning mind-set and creating a safe and challenging environment. But I also know that distribution is not for everyone. You have entrepreneurial spirit and a genuine passion for sales, but I don't know about them. They would probably prefer to develop one of our new business areas"*.

Alexandre had already started a diversification process, entering new business areas, mainly linked with retail distribution, such as restaurants and services, and the development of a family foundation. The Francisco Manuel Dos Santos Foundation (FMSF), of which Alexandre is still president, has the main goal of creating know-how and finance studies on Portuguese environment, by investing in Portuguese universities and research projects. The family holding and JM are now investing in new business areas with long-term projects, respectively in projects such as the reorganization of the Oceanario area in Lisbon and the newly created Jerónimo Martins Agricultura. The first project is linked with a strong diversification with the objective of creating a European maritime centre, thus creating value for both the family and the Lisbon territory, consequently increasing the reciprocal attachment between the Portuguese society and the family. The second project looks ahead at 2050, in the context of the challenges brought by a sensible growth of global population, with the main goal of studying the techniques of cultivation and protecting the peculiarities of Portuguese agricultural specialties.

Managing the family and education: pact and holding

“We are not a family who wants to get rich by selling. Being a member of our family gives rights to vote in the assembly and participation in the dividends distribution but it also implies the necessity of participating to a well-structured training program since adolescence. The family is the majority shareholder, nothing more. This is the basis to maintain unity”. “This will not change. Now I have to structure the company in a new way, in order to align it to the innovations we are bringing right now”. The family members have to participate in family business seminars and programmes, as well as they receive further formation within SFMS about rules and procedures of family and company management. The way the family holding is structured shows how much the family is anchored to its territory of origin and also helps explaining some of the family values. Social responsibility and development of know-how for the community are the main objectives of the FMSF foundation. Family members are encouraged to make experiences abroad in order to develop those competences, for instance the relationship with Belgian family-owned Delhaize has brought many family members to work there in order to gain experience. This strategic partnership has strongly contributed, particularly during the 80s, in providing the know-how necessary to Pingo Doce’s development. The unwritten rule within the family is about spending several years in another company before entering JM, in order to gain experience and show capabilities in a different environment, not influenced by the family presence. The family pact also clearly states the requirements, experience and motivation, compulsory to work within JM. The CVs and profiles of family members are examined by an independent committee because, especially since the group is a listed multinational, JM has to show its internal stakeholders transparency and impartiality in recruiting processes. The education of the family members also takes into account that conflicts and disputes often arise from the management of any family business, and the family pact explicitly foresees clauses to keep these discussions within the boundaries of SFMS and ad hoc

policies have been adopted primarily in order to maintain unity within the family. An example of these policies is the presence of special exit clauses, for family members who want to leave SFMS or cash out their own stake. These are designed in order not to dilute the majority stake held in JM, by stating that these shares cannot be sold on secondary markets, but only to other family members or to the same SFMS. The reasons behind the family pact and training are protecting the investment, avoiding familiar disputes and assuring continuity within the family. *“One family, one shareholder, one voice. This is a prerequisite to maintain unity. They will complain about you and your choices, but leading a family implies hard decisions. Do not forget it”* said Alexandre.

A multinational in distribution

JM is a listed multinational, whose majority is controlled by SFMS, the family holding, with a 56% stake. The group has been listed at the Lisbon Exchange market since 1989, in the top 20 stock listed in Portugal with a total floating shares around 25% of company's capital. The expansion of the company during the 80s and 90s is partly due to the financial capabilities raised through equity and bonds emission, and the maximized exposure to media and investors. The exposure to institutional and private investors has increased transparency, visibility and connection to Portuguese market and territory for both JM and the family. The advantages of being listed on the stock exchange are also to be found in the financial and corporate governance aspects. The increased capacity of raising capitals at a lower cost than through banking channels, together with greater media exposure of the group, has favoured the expansion of JM. The contribution in the design of investment strategies by institutional investors has helped in improving the entry in Polish and Colombian markets, and it has also facilitated a closer connection with local investors and authorities. The expertise brought by external members of the BoD has been crucial in order to evaluate and restructure the projects of the Dos Santos family. On the corporate governance side, the

presence of BoD members, representing minority shareholders, has helped the company in generating genuine discussions over future plans with the apportion of know-how from experienced managers. *“We have the responsibility of many shareholders, and we have to show transparency and openness to their contribute”*, said Alexandre. *“We have always shown transparency, we have been the first Portuguese corporate to issue a profit warning”*. *“Transparency will always be among our values, but there is a boundary between contribution and letting them manage the group”*, replied Pedro. The government of the group is indeed organized with 3 different committees with mixed composition of family and non-family members, who supervise audit, ethics, corporate governance and responsibility. Having independent members decreases the risk of moral hazard and adverse selection by the family, as well as it increases transparency towards the financial markets and investors. The agency costs linked to external board and surveillance board are more than compensated by specific know-how brought by independent members and the decrease in asymmetric information towards stakeholders, participating in the creation of a transparent and close organization. Alexandre: *“JM has now overcome the boundaries of a family distribution business for a global group, where the contribute of foreign managers is everyday more consistent. And you successor will probably be among them..”*

Diversification in business areas and countries: history and challenges

“When you believe you are good, you start spending more money and getting fatter; it is then that you can lose market share without noticing. We always have to put pressure on the company in order to keep it going. Never lose focus of what we do as a core business”, said Alexandre. *“But pressure by investors on JM has never been so strong, we have to choose between diversification or expansion of our distribution business”*, replied Pedro. The company is now innovating its structure and culture, and the diversification of business areas and countries seems to be the best way to attract the

new generation within the company and minimize the risks connected to ownership management. During its history, JM has been successful in diversifying its operations by approaching Polish and Colombian markets, as well as in the industrial and restaurants locally or in the distribution of pharmaceutical products in Poland. The history of the group is also made of failures though, like the approach to Brazilian distribution market or the acquisition of the brand Lilywhites in clothing industry. The company lost its focus on the local market, by adding too many activities to its portfolio without the desired know-how, like in the case of Lilywhites, or approaching a market by not taking into consideration cultural and social differences, like in the case of Brazil. Alexandre has always shown entrepreneurial spirit all over the history of the group and he has stepped down in order to let the son start a new cycle, which will probably include the approach to another Latin American or European country. The strategy of the family is now about reinvesting the dividends in four different ways: as remuneration for the equity risk, as reinvestment in JM, traditionally the biggest portion, or investment in SFMS directly controlled joint activities and as funds in the FMSF foundation. The corporate social responsibility function is becoming everyday more strategic for corporates, because it creates value on the territory and also increases engagement with the local population. The family foundation seems then to have greater opportunities to attract the family members, since some members of the 5th generation are already active in some of the projects of the foundation, and the foundation is designed in order to increase its influence on the Portuguese environment together with the expansion of the family holding activities. The dilemma in this case is whether to keep investing strongly in JM group, with the objective of expanding retail activities in new countries, or increase the budget and portfolio of activities of SFMS, in order to link all those joint ventures and entrepreneurial initiatives to the family name and tradition, thus creating strong attachment with the Portuguese community.

The family business competitive advantage: culture and environment in JM

The culture of a multinational is to be driven by entrepreneurial spirit and orientation to stakeholders, both internal and external. JM makes no exception, and a particular focus is put on creating a familiar and safe environment inside the company, the low turnover, particularly at a management level, confirms that Alexandre has been successful in creating a proactive climate, where the employees are willing to go a step further for the wealth of the company, and consequently the whole environment. Families are at the centre of JM, although they are not only seen as final consumers of JM products and services, but they are also the main driver in both participating quality improvements of the processes and the whole Portugal, which is culturally anchored to family values and culture. The Dos Santos family leads by example, meaning that the conduct of the family has always been inconspicuous and the example of a family, which is at work everyday like the over 80 thousand employees of the group, drives the company and the employees to walk the extra mile for JM. The company values are integrity, responsibility a winning mind-set and a strong customer focus. The culture of the company is surely driven by results, but also by social responsibility and a genuine attention to families and providing high quality for reasonable prices. The key driver in production processes is on the content of the offer, and not the form, the private brand Pingo Doce, leader in Portugal, is now perceived as good quality, high value and reasonable price. The focus on the territory is confirmed by private brand products of Polish Biedronka and Colombian Ara, which have launched on the market almost 100% locally produced goods, and a fully local supplying process implemented in recent years. The public has then the perception of a company that cares for corporate social responsibility, creating value locally for the territory and its employees. Loyalty and group skills are the most appreciated qualities in the recruiting process of the

management, and its collaborating environment strongly favours entrepreneurial initiative and talent development.

The challenges of a stock-market orientation

If the group chooses to exploit the opportunities offered by a stock-market oriented view, consequently leveraging on equity or debt emission in order to finance a massive expansion towards new markets and business area, JM and the family will have to change radically their culture and vision. It would mean a large discontinuity with the past, but in order to expand and defend the actual positioning, the company will certainly need to attract capitals and human resources, which will then change the values and the mission of the group. Increasing the communication towards investors and stakeholders would also mean changing the way the company is organized, as well as having a more fragmented property, where the non-family members will increase their power day by day. It would also mean that the company will increase its willingness to risk, by directly competing with the biggest distribution groups worldwide, or by entering in new business areas in order to diversify the activities. At any case, the family will surely see its power decreased, because of the fragmentation of shares among the many descendants and having external managers will probably be the only way to avoid disputes over the successor choice.

On the other side, the family will have to prove its integrity and unity, by structuring a long-term for an internal succession and, moreover, reinforcing those pacts, which actually regulate the governance of SFMS, by agreeing to keep a unique voice in the BoD. In order to keep the controlling majority in JM, the family will also have to agree on clauses of shares pre-emption for family members or SFMS as a unique investor, in the case of sale by family members. The most difficult choice on the family side, would be the one of the successor, but also the distinction between the different styles of ownership to be adopted by each member, and who will be working within the

boundaries of the group. The disadvantage of having a strong control exercised by the family, is about finding financial resources to expand the group activities and establishing a balanced relationship with minority shareholders.

The trade-off between traditional succession and ownership focus

Families in distribution have always played a strategic role, for example with the Waltons (Walmart) in the US, the Cohens (Tesco) in the UK and the Caprotti (Esselunga) in Italy. JM is a listed group since 1989, and it has to respond to many shareholders, who constantly ask for strong dividends and power as a partial remuneration for their investments in the group. The family still holds a strong majority in the BoD and it has proven its reliability and focus on results to shareholders since the IPO under the years of Alexandre's presidency. The family has now to expand its operations in order to defend itself from the assaults of bigger distribution groups. The dilemma is whether to insist on the continuity within the family or to adopt a different type of ownership model for the generation to come. Father and son spent the whole evening talking about the trade –off between succession and ownership focus, but they couldn't come up with any decision. After a short dinner, they came back to the patio, enjoying a glass of Porto, and Alexandre said; *“I am father of 7, grandfather of 18. I love my family, I love having a large family. Although I know that continuity is a trigger to family and group, I also know that we have been successful, when we had carefully planned with a long-term view. Now we have to look at what other listed family business have done to manage these challenge. Look how Walmart and Hermes have managed continuity, for example.”*. The example of the two family-controlled and listed corporations of the US and France, suggests that there is more than just one possibility to structure the succession. Walmart is the leading distribution group in the US, and it is listed on the stock market, like JM. The company was founded by Bud and Sam Walton, who has kept the chairmanship until his sudden death in 1992, when his

son Rob succeeded him as chairman of the board, while the role of CEO was already covered by non-family member David Glass, who stayed on board until 2000. The split between CEO and Chairman of the BoD has been implemented under the pressure of shareholders, although the family detained, and still detains, the majority stake.

Walmart has nowadays an external CEO, C. Douglas McMillon, while presidency is held by Sam's grandson in-law Greg Penner. The family has chosen a subsidiary type of ownership, and the governance structure, the Waltons focus on ownership with members actively participating in the BoD activities, has shown great results and it has participated in sustaining its leadership in various countries. On the other side, Hermes, a renowned brand in fashion is also a family business, is also a listed corporate, whose majority is held by the Dumas/Guerrand/Puech family. Founded by Thierry Hermes in 1837, it has seen family members succeeding at the top of the company, until Patrick Thomas, a non-family member, was appointed CEO in 2006 and drove the company in a transition process until 2014, when Axel Dumas, nephew of former CEO Jean-Louis, replaced him. The case presents strong similarities with the appointment of Luis Palha as CEO of JM, before Pedro, because the Dumas family held, and still holds, a large majority stake in Hermes, and the presence of a family member in the day-to-day operations has always been consistent. The succession model may have changed slightly, but the presence of the family is not under discussion, while the business model and corporate governance implemented by the French company has shown great performances. The family strongly believes in the continuity and, beside Axel Dumas, other family members are actively involved in the day-to-day activities at the top of management. These companies have different track records and stakeholders, but they seem to suggest two different paths for the future of JM: on one hand, the focus is on ownership and on commitment and active contribution by minority shareholders and external management; on the other hand, focus on succession within the family, and

active role and exposure in daily operations, in order to create direct engagement between family and the territory through a family foundation and reinforcement of the family brand. JM finds itself in the middle of a dilemma: fully exploiting the potential of the stock market, putting in jeopardy the continuity within the family, or redefining the group boundaries in order to attract the next generation, and fully exploiting the connexion of family, JM and the internal stakeholders. Pedro: *“JM is a listed company and we have to bring strong dividends to shareholder. Then we should delegate to them more power and key roles. But we also have many stakeholders, internal and external, and our family has always been a warranty of quality of products and processes for them. It is hard to choose. Do I need to choose between the two of them?”*.

The 5th generation: the continuity risks

The choice of the next head of the company will be made without distinction between men and women, who are equally entitled to ownership, because of the fair distribution of shares among family members. This is the first deal about the next succession process: a highly fragmented ownership of the company among numerous members. The second dilemma regards the attraction of the potential heirs within the company, as many of them appear not to be attracted by retail. The risk here would be the one of an adverse selection of the best candidates for the succession, since the best candidates for SFMS and JM might decide to work outside the group or elsewhere because of the internal rivalry or different interests, and in the worst scenario, they might be engaged by corporate or, worse, competitors, generating a conflict of interest and loss of human capital. Several members of the family would also like to have their own company in Portugal or abroad, outside family holding boundaries, as entrepreneurship is a inborn value in the culture of the Dos Santos members. Another problem the family will have to face is the disunity and conflict, which will possibly arise right with the departure of Alexandre, who still acts as the leader of the family, by supervising on SFMS and JM.

He said :*“We don’t have to choose now, but remember one thing: consumers are though becoming more brand-oriented, and by showing a familiar face behind a brand, such as Our Portuguese distribution brand Pingo Doce, they are driven to place more trust and confidence in the company. The CEO of JM is the face they put their faith in”*. The presence of the family brings a competitive advantage to JM, in terms of culture, values and internal environment. The specific know-how and experience transmitted by Alexandre to his sons and next generation are source of a competitive advantage, which can be difficultly brought by an external manager. The stewardship and motivation of family members is by nature higher than the one of non-family members, even though JM shows low turnover rates especially in management positions. Having an external CEO would increase agency costs, moral hazard risk and misalignment with SFMS. The candidates within the family Dos Santos are many and the next generation has shown resourcefulness and capabilities, in 15 years time, some of the nephews will likely be having an experience in JM or outside the company. The difference of ages between members of the next generation will favour a progressive entrance of members within the group and most of them will be willing to enter in JM or any of the group joint ventures, like Gallo or Unilever Jerónimo Martins. Pedro: *"What can I do to attract them within JM? I cannot stress the organization to fit them, but now or then I have to something to introduce them into the group? Do I need to attract them?"*

JM in 2030

The global population is expected to grow over 8 billion before 2030, consequently increasing the demand of alimentary goods, while globalization participates in making the type of demand more and more uniform. Several distribution multinationals, such as Tesco and Walmart, have started buying massive agricultural properties in African countries, spreading the most advanced agricultural technologies, in order to increase global production and the control on the supplying processes of fresh goods. JM has

launched JMA with a focus on 2050 and is constantly investing in its three major markets in order to defend and reinforce the actual positioning, while the intense M&A process among major groups suggests a strong concentration of distributing groups. JM will need to expand its boundaries over new business areas and/or new countries, in order to compete against the biggest distribution groups, who will probably enter the Portuguese, Polish and Colombian markets with stronger commitment than in the past. JM is innovating its culture and finds itself at a crossroad: diversify or defend the actual positioning? Diversify business areas or approach new countries?

Know your family

Alexandre is a man with a long experience in leading both the group and the family, and he knows that the succession challenges will be stronger, as the family keeps growing. When Pedro was elected CEO by the BoD, he had already gained several experiences within the group, of which he was at that time COO, and the choice was restricted to him and his brother José. The sisters haven't been considered for succession because they have been kept out of the group for family historical and traditional reasons, and the choice of the successor was based on the experiences gained on the field by the three brothers. Alexandre has been successful in transmitting to his sons the emotional attachment and the stewardship feeling of expanding the company with a genuine entrepreneurial motivation. Also, the financial capabilities of the family have enabled the expansion of the company in Colombia, without relying on the arrear Portuguese banking system, and Alexandre has made financial independence a core value for the company and the family. The different business areas and activities of the group have turned into a comprehensive multinational with a strong unitary culture, but which allows a broad grade of independence among the different subsidiaries. The group has tried to differentiate in more markets and businesses, but distribution remains the strongest contributor to revenues, and it is a business with strong attachment to tradition

and difficult to have disruptive innovations. JM is a very traditional company by values and mission, but it has started to innovate its organization and its culture, as external human resources are now bringing more and more diversity to the group. Although the group has introduced several innovations, it seems to fail in attracting the next generation, as this appears to be, by analysing the track records, a very exogenous generation, with many different interests and less interested in working within the boundaries of a group, which actually operates mostly in distribution. *“Our family has always been a competitive advantage for Jerónimo Martins, by bringing experience, motivation, direction, financial capabilities and consequently creating a safe and familiar work environment. We, as a family, are the expression of the company, and the company is the expression of our family, the link between us will always be imperishable”.* *“I know, it is my turn to better understand the motivation and commitment to the family and group of its grandchildren. First of all, I have to understand which strategy is worth implementing for the company”,* replied Pedro. *“JM has already started to think about future plans of expansion and diversification, it is time to structure a plan for the entrance of the new generations. Don’t take too much time, but only ask yourself two things: Is the family interested in retaining the company? If so, what is the best thing for the future of JM and the family? Choosing the right man is the key. I know that, because I chose you long time before the BoD. And I know I did the best thing for the family and JM. I couldn’t be more proud of what we have achieved”.*

Teaching note

Overview

The case introduces a multinational family business, Jerónimo Martins, managed by the 4th generation of the Dos Santos family. A meeting between actual and former CEO of Jerónimo Martins is the occasion to discuss the entrance of the 5th generation in Jerónimo Martins and the challenges presented by a highly competitive and rapidly changing environment. The company finds itself at a crossroads between tradition and innovation, which is then reflected by the dilemma succession versus ownership focus in a listed multinational business settled in 3 different countries. The case presents some of the challenges connected to long-term planning strategies in family business, family holding and the interconnection between family, stakeholders and environment, by fictionalizing the dialogue between two different generations of the Dos Santos family.

Audience

The case is intended for students of Family Business and Corporate Strategy courses. The case is designed for students with a background in Strategy and International Business, given the difficulty of structuring a comprehensive strategy for several different stakeholders, it is intended for Graduate students.

Learning objectives and teaching plan

The case is designed in order to engage a genuine discussion about succession planning and the outcomes on the long-term strategy of a large enterprise. The case is divided in chapters to underline the interconnection between theory and real-life decisions in family business. While the first part of the case introduces the family and Jerónimo Martins group, together with the as-is situation, the second part, starting from “the trade-off between traditional succession and ownership focus”, underlines the challenges and problems of succession and strategy planning. The questions at the end of each chapter are to be briefly discussed in class, to be used by the students as hints in

order to answer the case questions. On the basis of as-is situation and context, groups of 5 students have to design a long-term succession strategy for JM, family holding and foundation in 2030 divided in two parts:

- 1) Comprehend the complexity of succession planning in multinationals
- 2) Evaluate the advantages of succession vs. ownership focus for the group JM and its outcomes on environment.
- 3) Design a strategy for family holding and foundation to support JM in expansion process and create more diversification
- 4) Discuss the reciprocal influence of family business and owning families and the outcomes in the industry and environment.

Questions

1. 1. JM in 2030: given the challenges related to the attraction of the next generation, would you choose succession or ownership focus? According to these findings, which path would you choose, Walmart or Hermes?

The attraction of the 5th generation is endangered by the endogenous and environmental factors: on one hand, the track record and experience of the patriarchs puts pressure on the succeeding generation, the reputation of driving the company not on the basis of merit, but only by the fact of being a family member (Woolridge, 2015); on the other hand, the discontinuity brought into the company hurdle by the successors endangers the environment equilibrium created in the years by internal stakeholders. In order to boost family successions, the family should implement two concepts: firstly, understand that “inheritance is a process, not an event” (Woolridge, 2015), which is to be designed with years in advance, by stating transparent rules, policies and requirements to participate as owners or managers; secondly, families have to remember that “behind a successful family business, lies a successful family” (Woolridge, 2015). Creating a transparent, cohesive and open-minded environment is the precondition to avoid

conflict and assure stability and continuity within the family, which will be then reflected within the family holding and the family business.

There seems to be no evidence that the choice of implementing a succession plan for a family member to become CEO, would bring JM a competitive advantage. There is evidence though that having a family behind a group, or showing a familiar face to market and stakeholders, creates a competitive advantage for a distribution group, especially in Portugal. This is a consequence of cultural and environmental characteristics, as well as of the increasing brand-orientation of clients towards fast consumer moving goods. The Pingo Doce brand, for example, has evolved during last decades, becoming one of Portuguese most trusted brand, reinforced by loyalty and brand associations linked to the private label of the group. The road in Poland and Colombia is following the same driver, by adapting to each market cultural differences and producing locally, but the family effect cannot be replicated in those market, as the consumers are hardly associating local brands with the family Dos Santos and the competition there is brand-driven. The Portuguese economic backbone is made of family businesses and the tradition, together with experience and specific know-how brought by families, has always driven the entrepreneurial initiatives and the consumers' brand associations. The development path of JM suggests that the company has evolved in something different than the traditional Portuguese enterprise, creating a multinational in many aspects similar to groups such as Tesco and Walmart, driving expansion in different countries. The apportion of external managers will increase together with the expansion of the core business of JM, distribution, which constantly needs to be reinforced with investments and acquisitions in order to, at least, defend actual positioning. The competitive landscape of 2030 triggers the sustainability of the group linked to the actual policy implemented by the group, which sees the family overexposed financially and managerially. Given the characteristics of the group and

the difficulties linked to the attraction of heirs with a traditional succession, the development path for JM should possibly follow the example of Walmart, indeed an ownership focus. The path drawn in the case is similar to the one of the Walton family, since the Walmart group has been successful in reinventing its positioning and strategy, thanks to the knowledge brought by external management and the advices of non-managing owners. The Hermes case has proven to be successful, but the core business of the French group requires management skills, which are consistently different from the ones required in the distribution. The presence of the Dumas family brings an enormous competitive advantage to Hermes, by exploiting the family name and brand identity built through countless years of ownership, in a business, fashion, where the brand is usually the main driver behind the consumers decision making process. The path of Walmart suggests that family presence is important for the brand, but the management has to be selected on merit, as the business is capital intensive and it requires strong leadership and entrepreneurial skills. The presence of the Dos Santos would be assured by the control of the chairmanship in the board of JM, and the appointment of a non-family member as the CEO, possibly a manager with a long experience in JM, responsible for day-to-day activities of the group. The family chosen president would be the head of BoD with surveillance and political responsibilities, being the face of the company and the family towards its stakeholders. Introducing a separation between CEO and Chairperson would create the opportunity and motivation for managers in order to get to the top management position. The Presidency would be seen as a more institutional role, leaving daily activities to the CEO. The family will prove to have a natural candidate to CEO when the BoD will recognize it as the natural fit for the chair, but no ex ante succession plan should be pursued by the family, which should instead concentrate on developing a successful program for ownership education. This would be the best way to assure the family a long-term control and

influence over the group and at the same time not forcing the members to succeed at top of management and showing a transparency to the group. Even though some cases of family business, such as Hermes, have been successful in assuring continuity within the group by a consistent presence of family members in management roles, the case of JM suggests that, because of the different business area and geographical evolution, the best way would be focusing on ownership, not succession. The key in JM development would be educating the 5th generation to be responsible owners and possibly participate in day-to day activities, but not insisting in attracting them to the group, while diversifying the activities directly controlled by the family holding. The family has to start thinking to JM, not as the sum of companies distributed in 3 nations, but as a multinational group, which has strong influence on the environments it is developed in. Poland and Colombia will demand more power and access to leadership, as long as they will continue growing, meaning a huge stress for the company in terms of strategy and continuous innovation. The answer should not be who of the family will drive the growth, but who is the best man on the market to drive continuous growth for JM.

2. Develop a strategic plan for the family holding and for JM, in order to both push further expansion in JM and attract the 5th generation, while diversifying the risk and family activities

The main objectives of the strategic plan to be designed by the Dos Santos family are the attraction of the heirs, the expansion of the core business activities and the diversification of the risk connected to ownership. The family should design a comprehensive plan, following the path of the Walton family (Walmart), ownership focus, by carefully assessing the outcomes of the different strategies on the stakeholders, the family and the environment. The reorganization will surely introduce a strong discontinuity with past managerial decision and possibly endanger the connections and the environment created in decades of operations. “Successors need to

be able to manage the company with agility, flexibility, and speed” (Poza, 2015) and adapt the organization to the new objectives. The structural reorganization strategy would have to start by defining a clear distinction between the ownership of JM and the activities pursued by SFMS and FMSF, by structuring two different strategies. On one hand, the JM group needs to expand its boundaries, by concentrating on core business expansion and cashing out or, better, creating a separated vehicle, even a listed one, to manage all those partnerships and joint ventures, such as Unilever Jerónimo Martins, Gallo and Olà, in Portugal only. Distinguishing core business and side activities, possibly in two separated listed groups, would help defining a slim structure with different targets for two realities, which could difficultly collide in the future. On the other hand, developing 100% family-owned activities, through family holding and foundation would enable the Dos Santos family to diversify activities, decreasing dependence from core business dividends, and more likely engage the next generation, by offering different activities or encouraging entrepreneurial initiatives by family members within the safety and experience offered by the family holding and its management. “Investing sweat equity in disseminating information to family members and encouraging multiple avenues of participation gives rise to trust” (Poza, 2015) and trust creates the proper environment within the SFMS to create harmony and unity, then positively affecting the JM group and family activities, given the strong correlation between family, family holding and family business.

The interconnection between SFMS, JM and the Dos Santos family is to be reinforced by stronger participation of the heirs to decision making, starting from the reorganization of the family holding, in order to maintain within the family the wealth of know-how, education, entrepreneurial spirit and experience, which is to be developed during years of continuous research and education of the next generation. The probability of attracting the 5th generation within the family holding and JM would

surely increase, thanks to the diversification of activities created within the SFMS and the reinvestments in new entrepreneurial initiatives, while renovating and adapting the environment to the new family governance. The implementation of this strategy would increase motivation, as well as diversification, and create a strong incentive to participation in family activities and define clear boundaries between different businesses, as well as offering new managerial roles for the heirs, while exploiting the entrepreneurial capabilities of a well-educated generation and know-how transmitted by previous generations. The well-planned entrance of the new generation and the reorganization of the structure to better fit their characteristics, will surely generate virtuous cycle and introduce a discontinuity with the past, necessary to reshape the whole organization, by reinforcing values and mission played by the family and introducing a new corporate culture in the group, as well as a new strategy, designed to best fit the challenges of globalization.

A specialization on the Portuguese territory, through CSR policies within SFMS, combined together with the activities of FMSF, would generate positive brand associations, which can be exploited by the JM group and the SFMS activities, generating continuous virtuous cycles. Investing in Portugal via the family foundation and holding would also allow the Dos Santos to gain more credibility and stronger and positive associations by stakeholders and environment. Alexandre has often shared his views on politics and the exposure of the family to political environment will grow together with the foundation. The CSR investments of the family will increase the brand knowledge and associations in Portugal, while PingoDoce will have its marketing investments reinforced by the visible presence of the family in the Portuguese context. This will possibly translate in a cannibalization of the joint ventures with Unilever, a paradox, which should be solved in order to design strategic priorities of the family. The family holds minority stakes in some joint ventures, such as Unilever Jerónimo Martins,

which generate strong dividends, but whose contribution to global revenues is decreasing every year and it would also have a high grade of liquidity, if listed on the stock market. The sale of these participations might be used to finance diversification in SFMS and CSR policies in Portugal, through FMSF. On the other hand the Polish and Colombian markets will increase their weight and strategic importance. The expansion is to be driven by strong investments and the company has to be ready to face war on prices in those countries where global groups, such as Tesco or Carrefour, are planning to enter the market. The brand associations and awareness in Colombia and Poland are totally different from the ones of Portugal, for instance the Dos Santos family is not well known outside its domestic market. The reinforcement of operations in foreign countries is to be driven through long-term strategies and strong entrepreneurial initiative, and the family would contribute by creating the proper environment within the group. The expansion would be financed by the sale of minority stakes, which would not be seen as strategic as they are actually seen in JM, and at the same time it would enable the attraction of the 5th generation, stronger diversification of activities in Portugal, consequently lowering the risks, and stronger commitment to territory and stakeholders, through CSR activities and SFMS entirely owned entrepreneurial initiatives.

Conclusion

The case is designed not to have an epilogue, since the actions and dialogues described in the case are set contemporarily to the case writing. Though it is impossible to foresee what will happen in 15 years time, the idea is to draw a solution, which can embrace at the same time the logic evolution of environment, company and family relationships, and which can also find its roots in the managerial experience of the protagonist. Using the words of the case protagonist, Alexandre Soares Dos Santos, when writing about family businesses, it seems probable that the path to be followed by his successor and

heirs is an ownership focus and the definition of a long-term plan to prepare the entrance of the 5th generation:

“In Portugal, there is not enough attention to succession and we often see companies disappear because they didn’t prepare carefully the future of the business. The experience suggests that families should constitute investment structures, such as holdings, and leave the responsibilities of companies to competent professionals, lovers of private enterprise initiatives, whether part of the family or not. It is very important to prevent emotional aspects. They interfere with the management of companies and they don’t allow holding companies to focus on important and fundamental aspects in order to success in the medium and long term of the company and the family. The training of family members as managers or as responsible shareholders should not be made case by case, but rather planned and integrated in the objectives and mission of the family”

Alexandre Soares Dos Santos, 2015, taken from the preface of the book: Liderar o negócio da família: “Potencialidades, desafios e pistas para a ação”, by Miguel Pina e Cunha, Arménio Rego, Alexandre Dias da Cunha, 2015

Recommended readings

“Alexandre Soares Dos Santos: um empresario de sucesso num pais em crise”, by Filipe Fernandes, 2014

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