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The Keller Family and Company

The Importance of Governance Structures Within the Three Circles

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ABSTRACT

This case presents a real account of the history of the Keller family and business. The case makes a parallel between the company's impressive transformation and development, and the progressive detachment between the fourth generation and the members of the fifth. At stake is the question of what to do, now that situation seems to have reached a point of no turning back, which is obviously hurting the family and the business.[1]

Keywords:

Family Business, Innovation, Ownership Conflict, Family Governance

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[1] In order to respect the will of some family members, their names, the names of the company's employees, references and some of the locations have been disguised.

THE KELLER FAMILY AND COMPANY

The Importance of Governance Structures Within the Three Circles

It was the 22nd of March, 2017, and Michael knew that it was time to make a decision about an old problem that was worrying him more than ever. Michael was Keller's CEO, having succeeded his father. Ever since he joined the company in 1987, he led it through a rampant growth, completely changing its business model from a Port wine reseller to one of the most famous and innovative wine-making businesses in Portugal.

Michael's relationship with his father was not easy when he first joined the family business, and since 2013, 8 years after his sister Julia had also joined the company, the two siblings were hardly speaking, thus limiting Keller's full potential, and damaging the family's cohesion. Additionally, Michael had grown more and more apart from his mother, Helga.

It had been nearly a month since his sister Julia had given him a proposal of an agreement to set-up the rules for a sealed envelope auction to buy each other's shares. Michael was about to leave for Brazil, and did not wish to go without making a decision on whether he should or should not accept it.

The Wine Industry in Portugal

The Portuguese wine industry had enjoyed a dramatic transformation at the end of the twentieth century and beginning of the twenty-first. Since its inception, the industry was much dependent on exports, and Port wine was its *ex-libris*. The Portuguese table wines were almost ignored mainly due to their lack of quality. In the Douro region, companies believed that it was only possible to add value by focusing on Port wine rather than table wine, but in the last decades of the twentieth century some producers, including Keller, started to challenge the *status quo*. In Michael's words, "table wine (in Douro) was something illogical, everyone laughed at me saying that I was crazy. It was a hard road". Thanks to the pioneering work made by Michael and a few others, the Douro wine industry began a new path that led to a major challenge, shifting the core business from Port wine to table wine.

History

Founded in the second half of the nineteenth century by Ernst Keller, a German immigrant who came to Portugal by mysterious reasons, Keller started as a Port wine reseller. The company would buy the grapes, vinify them, fortify the wine in its cellars, and sell it as Port wine. The second generation led by Hans inherited a prosperous business, but he did not have the opportunity to manage it for long and after his death in 1912, his son, Karl, was forced to take over Keller, being only 22 years old. Karl had two children, Günter, born in 1927, and Gertrud, born in 1930. Karl, who stayed in the company until 1980, only two years before passing away, is mostly remembered by his son "as a super intelligent man, but a very bad business man".

Günter Keller

Günter's interest to work for Keller only appeared when his father considered selling the company to one of his competitors, Ramos Pinto. Günter felt compelled to join what was, according to him, "a very small company, unleveraged and without a tip to pick up from. I had to open the doors, take a big breath and say 'Jesus, what am I going to do with this?'; and selling was not an option".

Günter's first years in the company were not easy, given the tense relationship with his father, who was always sanctioning him and did not trust him. Pedro Silva Reis, CEO of Real Companhia Velha, a wine-making company, realized Günter's potential and asked him to come work there part-time, whilst maintaining his position at Keller. Real

Companhia was, in Günter's words, a "sinking ship", yet a much bigger company than Keller and, while the latter competed for quality, the first focused on quantity.

In 1962, Günter married Helga, who gave birth to Michael Keller and Julia Keller. Helga mentions the impact that the period in Real Companhia Velha had in Günter's confidence: "(In Keller) there wasn't any letter written by him that his father wouldn't rectify and that, for a 35-year-old man, is a bit tough. After three years in Real Companhia Velha, Günter decided to become Keller's full-time manager, and from then on his father wouldn't send any letter without previously seeking Günter's opinion".

In the 60s and some years after, Günter was the one in charge of buying the shares belonging to his two aunts. Two decades later he also bought his sister Gertrud's shares, thus making him Keller's sole shareholder. In 2005, he decided to retire and pass on his shares, giving Michael 21%, Julia 19%, Helga 30%, and keeping the remaining 30% for himself. This was done at the same time that all the four members of the Keller family signed a shareholder's agreement which empowered both Helga and Julia as board members, and forbid the selling of any shares outside the family.

Helga Keller

Daughter of an English mother and a German father, Helga was born in Germany and came to live in Portugal at the age of nineteen, where she met Günter, who was 10 years older than her. Although she never worked in the company, Keller was a very important part of her life. "My job for Keller was always to receive clients, feed them and host them, even without Günter. If he was travelling and I was in Portugal, especially if the clients spoke German, it had to be me (to receive them) because there wasn't anyone else". As time went by and Günter progressively became less and less independent, Helga started to assume more and more power, not only in the family, but also in the business.

Michael Keller

Born in 1964, Michael was almost inevitably imbued in the wine-making business. As a young child, he remembered accompanying his father to Keller's offices and wine cellar in Gaia, where all the port wine was aged and stored. After attending Porto's German school, Michael went to Switzerland to study Business. When he finished his studies, at the age of 22, he chose to work at a local wine distributor which proved to be the start of a fruitful career in the wine making industry.

In 1987 and "for the first 10 years I learned more about the process of making wine and the business itself with the Keller's master blenders, which also taught to me to be patient and think 20 years in advance". As soon as he joined Keller, Michael started pressuring his father to buy an estate in Douro so that they could start producing their own grapes and in that same year, Keller bought Quinta da Roda with that intention. Even though Michael was against it because he thought that it would not be suitable to produce Port wine, Günter and Michael decided to bid it at an auction because it was easily accessible and closer to Régua, a local town. After an initial try, Michael realized that Quinta da Roda would produce "terrible" Port wine given its northern exposure but, on the other hand, it would be very good for red wine, which proved to be the right bet. In 1992, Keller launches its first table wine on the market, *Campânula 91*.

In 1997, the two of them had a big argument as Michael wanted to seriously invest in table wine, and Günter disagreed. Michael remembers that day clearly: "One day I went to the cellar and when I got there, people started to tell me that they had too many orders and that they were working non-stop. Afterwards, I headed to the office and ran into my father, who told me that Keller was broke, that we did not have enough orders, that I could not make wine as I was making it, and so on. I became very upset and said, 'listen dad, you will be the one in charge of the harvest this year. I'll leave and you can do it your own way. The company is the most important thing, and since I am that bad I don't want to ruin it'". Michael did not appear in Keller's premises for almost two months. One day, however, he met his father and they both agreed that Michael would come back and have things done his way, and that at the end of the year they would hire an accountant to see how the company had done. In Michael's words, "when we sat down and looked at the numbers, the company had grown 30% in revenues and profits were up by 3000%, comparing with the previous year (1997)".

Michael has three kids, Jan and Leon from his first marriage, and Hannah from his second marriage. He currently lives with his third wife, Mariana.

Julia Keller

Julia was born in 1966. She has very vivid memories of clients coming over when she was a child and the time that they would spend at the Keller summer house in Ofir. Like Michael, she went to German School in Oporto. After completing high school, she took a gap year before going to Germany, where she later studied computing. During her studies, she took two internships at Texas Instruments, in Portugal and Bavaria.

Throughout her youth and adulthood, Julia did not have much interest in Keller: "I wasn't much interested in the business and didn't have much information about it either." Despite this, Julia remembers that "there were big arguments between my brother and my father, so I was aware of the conflicts that were going on. I remember that the decision to buy Quinta da Roda was very much discussed". In 1991, after completing her internship in Germany, she decided to come back to Portugal, and started working at a local company. In 1999, she went to work for German multinational, where she headed a team responsible for producing telecommunications' software.

In March 2005, Julia attended a shareholding meeting that changed her life. In that meeting, Günter announced that he was stepping down and that Michael would be replacing him as CEO. Moreover, the manager, who also wanted to leave, would stay part-time in order to smoothen the transition. It was also decided that Helga and Julia would become members of the board. As Julia says, "I remember being seated next to Michael and thinking, 'Michael is always travelling, the manager is staying part-time, but when will he come to Keller? And how much is he going to earn?', my brother was always uncomfortable with my questions, but for me it was normal to ask these basic things. That [meeting] led to an awakening of my interest. Soon afterwards I began to try to understand things about Keller, yet I couldn't do it because of how Keller functioned. I talked to my parents and left Siemens on a Friday in the summer of 2005, and started at Keller on the following Monday".

In the meantime, Michael hired José Silva as full-time General-Director, who started working at Keller on the same day as Julia. Silva was Michael's former partner in a wine-distribution business and a long-time friend.

Julia has two children, Jorge and António.

The professionalization

In practical terms, both Julia and Silva did bring a certain degree of professionalism in terms of management, which Keller was lacking. Still, Michael would always be the CEO. Silva thinks that "for better or worse, this company was developed in Michael's image. There is a clear separation while Michael kept most of the marketing, together with Julia, and the wines. I have the commercial side, visiting markets, but with commercial responsibilities. Michael was always a sort of ambassador, but more on the representational side, with journalists, where he is very good at. I, on the other hand, deal more with those who are buying".

In practice, Michael and Silva shared most of the commercial responsibilities; Michael and Julia handled a great part of the marketing and communications; Michael defined the strategy with the help of Silva's numerical reasoning; and Julia was, more or less, the head of logistics and computing. Finally, Michael oversaw the entire workflow of the wine-making process. Julia and Silva would spend more time in Gaia, while Michael would be constantly travelling overseas, and between Porto and Douro.

When Julia and José Silva joined the company in 2005, Keller did not have a website, nor did it have technical files on the wines ready to be sent to clients. Furthermore, they did not have many employees who were fluent in English and German, which were the native languages of some of their biggest clients. According to Julia, "the mere fact that I could pick up the phone, speak German, use e-mail and answer requests was a big improvement. In 3 months, we created the website. There was a lot to be done and a very good environment". Given her experience in multinational companies and as a team leader, Julia was able to institutionalize certain procedures and processes that helped the workflow in Keller.

In the first years, the three of them talked more casually, mostly on the phone. As the company kept growing, and more and more issues needed to be dealt with, they started struggling and decided to have monthly executive committee meetings, which worked well until 2013. Michael had always travelled a lot, getting to know different regions worldwide, tasting new wines, finding producers all over the world, learning from and meeting with clients. According to Michael, what enabled the company to sustain itself during those years was the fact that it was very well assembled, like a Swiss watch. "I have always delegated a lot, which makes my intervention less needed. However, ever since my sister joined Keller, she started to undermine the company, given that some employees do not like to work with her and she is constantly questioning my decisions.

My role is much more important in the long-run. Keller is a well-oiled machine and it could survive without me in the short-term, but as soon as I leave it won't last for more than 5 months."

As the years went by, Keller kept adding more wines to its existing portfolio and selling more and more and so was the sector in general, which also favoured a greater focus on quality. (Exhibit 4)

The expansion

On the business side, 2013 also marks the year that Keller invested in the Bairrada region, with the acquisition of Quinta do Relógio. This would mark Keller's first acquisition outside the Douro region, which would be followed by the purchase of Quinta da Curva, in the Dão region. Two years later, Keller signed long-term leases for two estates in the Minho region (known for its green wine), as well as a cellar to vinify the grapes. Hence, in only three years, Keller went from being a company which only had production in Douro, to a company that had systematic production in 4 other regions. In 2016, Keller had over 70 different wine labels, and exported to more than 60 countries, which accounts for 75% of Keller's production.

In parallel, since 2012, Michael diversified his activities by starting, together with a local partner, Ttern Wines, a wine-making business in Germany, in the Mosel Valley. Jan, Michael's oldest son, joined Ttern as a full-time employee in April 2016.

Reflecting on the company's evolution and Michael's influence in it, a well-known worldwide wine critic commented: "I have the impression that he is a creature of enthusiasms rather than a steady business plan, and doubtlessly some of these enthusiasms have been more profitable than others. He very definitely does not go with the flow, and enjoys doing things differently from his peers. I admire the way he has ventured out into wine regions other than the Douro. He is definitely a force for good in the wine world".[2]

When asked to explain what made his wines so different, Michael stated that "I have never done anything thinking of journalists or consumers. I have always made what I thought the land would give, in that specific place, with its limitations, advantages and disadvantages, and I always knew how to explore that in a way that no one has ever known because everyone else is focused on making wines for journalists and customers, wines that are open-and-shut. Our way of doing things is more arduous because our principles are different".

The family detachment

As for the family side, Michael and Julia were growing more and more apart. "In the first years after Julia joined, we had a very peaceful relationship but by 2013 I was tired of my sister nosing into everything". On June 5th, 2013, Julia, Michael and José had a meeting, just as they often did in order to go over the main issues and make important decisions. On that day, Michael announced that he would build a small apartment for himself in Quinta da Roda without having previously consulted anyone.

A few months later, Michael went to the coast of Galicia to enjoy a summer vacation with his wife, where he took the time to write a letter to Julia and deliver it to her house. The content came in as a shock to her: "(Michael) described what he thought of me, which is basically that he sees me as a hindrance, a parasite and a blockade to Keller's development. The letter was completely unexpected; I had no idea that my brother thought that about myself. I had no clue that all those problems existed". As for Michael, he remembers that "for three days she didn't speak to me, but on the fourth day she sent me a text saying that my letter felt like the end of the world and that I had

[2] Statement sent by e-mail by one of the World's most reputed wine critics that asked for anonymity.

hurt her a lot". Looking back on 2005, Michael remembers that "Julia has said once that her sole purpose for joining Keller was to control me. She thought that I was no good, but after joining she quickly realized that I am good manager. Nonetheless, she has questioned every single decision that I have made. The situation worsened when I bought an apartment for my parents next to hers. Since then she has been trying to turn them against me".

Michael also addressed the importance of clearly separating the managerial and shareholder role and responsibilities, as he believed that at the heart of the family disputes there were some misconceptions of the difference between the two conditions and their implications. "The Keller problem is that neither my mother nor my sister understand the differences between being a shareholder and a manager. Shareholders are one thing, and they have proper assemblies to choose the managers, which have their own responsibilities. The fact that my sister is a shareholder does not give her the right to come in here and do as she pleases. Other employees and myself are constantly overruled and contradicted. I have been trying to set a clear organization chart but she refuses to let me, thus interfering in everything. If there would be a clear definition of who does what, things could get better, but they are already too bitter, which makes it harder since we react badly to everything the other has to say".

Julia, on the other hand, worried about the possible negative impact of the blurred boundaries between the company and its CEO. "There is little differentiation between Keller and Michael. The company is very much attached to his image and he is the one responsible for that by promoting a pop-star cult which presently isn't good for the company, mainly because he has many other side projects and uses that status against the company. It is a risk in which we all have incurred in and fed all these years. I think that he believes that the company is his. It is a different vision from mine and that is why we have all these problems".

Helga also shares her account of things: "I think that, in the beginning, when Julia joined Keller, things were really smooth. He was very happy and they complemented each other (and still do), and that is why this is all so ridiculous and stupid. Julia is not interested in making wines, which he is very good at, and she knows that very well. I don't know what happened to Michael to make him say that he cannot work with Julia. The only explanation that I can think of is that Julia may question some things and that upsets him because he does not want anyone to be nosing around. Sometimes I myself am very straightforward and make questions and he doesn't like it".

The situation kept getting worse until, in 2016, the family decides to hold its first family council in order to try to work things out. In that meeting, Julia drafted a scission proposal. According to Michael, "the proposal was unacceptable. She wanted to have all the estates, the brands and the stock, whilst I would be responsible for all the employees and the debt".

Simultaneously, the relationship between mother and son had also started to progressively deteriorate. Michael resented her questionnaires at shareholder meetings, and Helga asked Michael to give her the usufruct of the house where she and Günter were living. Michael argued that he would gladly do it but only when the four of them could agree on a solution to their problems. "I don't understand why she is in such a rush to have that signed and not work on everything else". Julia, on the other hand, states that her brother "wouldn't sign that document because he thinks that it's a Keller [company] problem, which doesn't make any sense. The usufruct is used as leverage". Michael blames his mother for aggravating the problem, given that until 2017 she had always refused to sell her shares to any of their siblings, thus forcing them to work on a provisional solution, which made her essential to any durable and meaningful resolution as a consequence.

Reflecting on what the future would bring, Julia expressed her uncertainties and concerns: “I don’t know how my future will be, whether or not I am staying in Keller. At this moment, I continue to work for that and I think that the most important thing will be the transition to the 6^{th} generation, which includes my own children, but this is not clear at present”.

In Michael’s view, “it would be important to reach a compromise. If I left, I believe that I would focus on my other projects and I would be alright, but it is sad to start from scratch when you are 50 years old”.

The Sixth Generation

The oldest elements of Keller’s 6^{th} generation, Jan, Leon and Jorge, are already in some way involved in the wine-making industry. Jan works in Germany in Fio Wines, Leon did several different internships all over the world, and Jorge worked for the British Keller importer. António is still in high school and Hannah lives in Austria with her mother. Given that Jan and Leon lived most of their lives in Switzerland with their mother and would only come to Portugal during their holidays, the four boys did not spend much time together but did build a good relationship. Throughout the family detachment they have always managed to separate their relationship from the problems of their parents. In spite of this, the family hindrance did affect their willingness to work for Keller.

Conclusion

Reflecting on what he should do while he admired the vineyards, Michael started to remember his first years at Keller, the process that led the company to acquire Quinta da

Roda, and how that was the first step in a path that completely transformed Keller. Most inevitably, Michael questioned himself whether the damage that was made to the family was a consequence of the company's success. Michael knew that he had to make the decision. Even though he didn't accept the sealed envelope auction, he knew that neither he nor the company could endure much more.

TEACHING NOTE

Overview

(In the abstract section)

The objective of this case and the proposed questions is to lead students to apply the family business concepts and to reflect on the challenges associated with owning a family firm. Students are required to identify how Keller was able to innovate and transform itself; why the inexistence of governance structures played an important part in the current situation; and what would be the most likely outcomes to either solve or mitigate the problem.

Target Audience

This case was developed as a learning tool for family business courses of undergraduate and graduate levels, with helpful examples and real-life accounts of some of the most important concepts in this field, such as: innovation in a family firml; family governance structures and mechanisms; succession planning and exit strategies. In order to better understand the case and relate it with the theoretical concepts, students should be familiarized those concepts.

Learning objectives

After reading the case, students should be able to analyse, diagnose and explain the family's current relationship and problems, their causes and the impact on the business:

- Understand the advantages of innovating in a family business;

- Understand the importance of developing governance structures, and how they should adapt as the family evolves, and the importance of ownership education;
- Discuss the broad concept of succession and its implications that stretch far from simply transmitting the management position;
- Reflect on a possible exit solution in a family firm.

Discussion Questions

1- Which condition made Keller such an innovative company?

This question intends to lead students to highlight Michael's intrinsic characteristics, Keller's specific traits, and aspects of the family business that, together, have helped Keller to innovate, completely change its business model and to position itself as one of the top players in Portugal, and one of the most recognizable one overseas. Students can start by highlighting Michael's innovative and entrepreneurial spirit, aligned with his strategic thinking as the main factors that enabled him to successfully transform Keller.

The conditions that allow a company to innovate are particularly important. Students should point out that, being a family business, Keller is able to capitalize on its inimitable nature, allowing it to engage in innovation more easily. At the same time, it also benefits from a family-driven dynamism that increases their agility, which is atypical for its non-family firm competitors (Shalev, 2016), and hence gives them a competitive advantage. This relationship between innovation and agility seems to be quite special in Keller's case since Michael controls the technical process from the beginning and, as CEO, he is also the top manager, which reduces agency costs. One can almost say that the management is structured to support the vision of the technical team, which is led by Michael. This was highlighted by the fact that, after Günter's retirement, and at least until 2013, Michael enjoyed a great degree of freedom as CEO, practically without questioning, not only because he was the most obvious successor, but also because he was able to deliver results and set the company on a growth path that only augmented that power.

Additionally, and according to Michael, he was able to benefit from knowledge already pertained within the business, which proved crucial in its ability to innovate. The concept of Innovation Through Tradition – which represents a productive innovation strategy that firms can apply to leverage temporarily distant knowledge for product development (De Massis, Frattini, Kotlar, Petruzzelli & Wright, 2015) – is helpful to understand how the ten years that Michael spent tasting old wines with the master blenders enabled him to use knowledge from the past and apply them on product innovation. By maintaining a link to the past, they are able to capitalize on that knowledge and use it for successful innovation (De Massis, Frattini, Kotlar, Petruzzelli & Wright, 2015). This is also strongly related to one of the most common paradoxes within Family Firms: Modern Tradition (Cunha, Cunha, Rego, & Fernandes, 2017). The fact that Michael was able to learn with those that are older and wiser, has taught him to be patient and adapt a long-term vision made him respect and protect values that were at the heart of Keller's way of doing things, while, at the same time, innovate and tread his own way.

Furthermore, his interest in travelling, discovering and tasting new wines acquainted him with the best practices abroad, and made him aware of the different tastes that vary from country to country. Also, and perhaps even more importantly, this helped him to create and sustain significant contacts for the company.

Another key element was the fact that Michael was able to surround himself with competent professionals whom he could trust, which allowed him to focus on other duties. As he puts it, "I am only important for the long-term strategy", or "Keller is like a Swiss watch", which could also be pointed out as a reason why Keller functions so well despite the siblings' detachment and Michael's absence from the company's offices in Gaia – he simply is not needed there.

The outputs on that ability to innovate are quite clear, given that in just 25 years Keller created over 70 different labels and increased its foreign markets, proving that product innovation is a vital source of competitive advantage, allowing firms to enlarge existing markets and create new ones (Banbury & Mitchel, 1995).

It is also clear from Michael's own words about his particular style when it comes to wine-making, but also from the international critic's statement, that Keller is, in fact, very different from its peers, which contributes to making it unique. The fact Michael will not compromise the production in any way, and focuses on making wines that are different from the rest and consistent with the place in which they are produced, seems to be a reason that explains why the company is able to stand out from the rest, and also charge higher prices for its wines, compared to the industry (Exhibits 4, 5 and 7).

2- In light of the three circles theory, what could possibly have contributed to the current situation? What were some of the things the Kellers could have done better? What could be done in terms of Governance to mitigate de situation?

This question aims to lead students to address two main topics: 1) to reflect on the importance of governance structures and to list some examples that could help the family and the company; and 2) the mistakes, pitfalls and misjudgements that were made by the Keller family in the last decades which created the current situation.

According to Neubauer & Lank (1998), based on the Cadbury Report (Committee on the Financial Aspects of Corporate Governance, 1992), Corporate Governance is "a system of structures and processes to direct and control corporations and to account for them". Dissecting the terms, the authors define *directing* as the involvement in the decisions which are strategic in nature; *controlling* as the oversight of management performance and monitoring the process towards objectives; and *accounting for* as the responsibility towards legitimately demanding accountability on the part of the firm. In short, Corporate Governance is a set of institutions and mechanisms that govern the relationships between firms and their stakeholders.

In the case of family firms, Governance is also crucial because many business-owning families unconsciously drift into haphazard or destructive patterns of decision making and communication that can threaten and even destroy their shared interests (Aronoff & Ward, 2011). By creating and committing to structures and processes, families will be protecting themselves and their firms.

When Michael joined the company, Corporate Governance was a new topic in the field of management theory and practice (Neubauer & Lank, 1998). However, 30 years later, it is one of the most discussed and addressed, and something that family firms should definitely not ignore, but often do. A recent study assessed that 74% of family companies did not adopt any procedures to resolve conflicts between family members (Pwc, 2014). It is almost inevitable that, in a 5th generation family business, conflict should arise. The difference in Keller's case is that, while in the previous conflicts things were less extreme, and Günter and Michael succeeded their fathers, the current conflict involves a new situation between two siblings and a mother, which has never happened in the company. Avoiding and resolving conflicts are perhaps the most important reasons why family businesses should create governance structures, besides legal requirements.

In Keller's case, we see that, besides the Board of Directors Meetings and the Annual Shareholder Meetings, Keller did not have any other Corporate and Family Governance structures. Family businesses often ignore the importance of governance, which is deeply connected with the settlement of clear borders between the three circles, and this seems to be a serious problem between the Keller family and firm.

Governance requirements vary from family to family, and depend on several factors. Age and size are among the main ones (Jennifer Prenderast, 2014), but students should be able to list many more. What is interesting in the Keller family's case is that, although it is an old family business, it is also a small one in terms of shareholders, having just four. Even though it is a small family, Keller does not have a strong family bond, which should be the basis for a strong commitment towards the firm. Stinett and De Frain (1986) enlist the following principles as those that compose a strong a family: commitment to each other (the foundation where all the others rest), mutual appreciation, open communication, spending time together, spiritual wellness and ability to cope. It is not hard to see that, at the moment, Keller is failing in the majority of these due to their differences.

Students should be able to point out that although Keller is presently a 5th generation family business, it is only now on the verge of entering, for the first time, a *sibling partnership* phase (Poza & Daugherty, 2007, 4th Edition), either for natural reasons, or because of Günter's buy-outs, first from his aunts, and later from his sister. Additionally, either through natural reasons or for a lack of interest from the female elements of the 3rd and 4th generations, but also because the existing mentality at the time favoured men as managers, Keller was, for 162 years, controlled and managed exclusively by men. Looking at the management since 2005, Keller is experiencing, for the first time in its lifetime, having a brother and a sister working together in the company, which can also help to explain the difficult relationship between them. Given that both in the shareholder's perspective and the management's perspective, succession was always done from father to son, there was no transmission of knowledge on how to deal with it and what are the requirements of a sibling partnership. Students should also be able to point out a repetition of pattern regarding the conflict relationships between family members working together for Keller: Eduard Marius vs Günter, later Günter vs Michael, and now Michael vs Julia. One could assume that there is a natural prejudice within the Keller family to cope with fresh thinking and a certain degree of challenge from other family members.

This takes us to another factor that played a crucial role in the current situation: the lack of coherence in the succession from the 4th generation to the 5th. Michael had already been working in Keller for several years when Günter decided to step out, feeling peaceful with Keller's strategy and success, and happy that Julia was also joining the company. In that same year, Günter decided to give 21% of Keller to Michael and 19% to Julia, while keeping 30% to him, leaving the remaining 30% to Helga. Students should note that the fact that the 4th generation still holds the majority of Keller is making it harder for the 5th generation, who has been running the company alone for 12 years now, to agree on a definitive solution. Additionally, Keller's CEO's succession should have been accompanied by either a total or a progressive succession (or at least an agreement on what to do in the near future) in terms of shares with voting rights. It seems only logical that, if a company is transitioning to the next generation, that transition, in family business companies, should be done taking into account the necessity of empowering the next generation, which, according to Michael's statements, is not as advanced as it should be.

Students should highlight that, in terms of fair process, it seems odd that Helga became a Keller's shareholder when Günter left the company. If, on the one hand, she has closely accompanied Keller in the last decades, and even made personal sacrifices for it, on the other hand, as intelligent and reasonable as she can be, she had not been trained or educated to be a shareholder, which is a responsibility that requires certain sensible qualifications (Davis, 2007).

The fact that, generation after generation, Keller remained in a *controlling owner* phase (Poza & Daugherty, 2007, 4th Edition) was crucial in ensuring that there was little to no incentives to develop robust governance structures for both the family and the company, which allowed, to a certain extent, situations similar to this one to happen. While the company had a Board of Directors that functioned relatively well until 2013, nowadays it is undermined by the existing antagonism between three of the four shareholders which, according to Michael, is damaging the CEO's ability to lead the business.

The enlargement of the Board to include at least two independent non-executive managers could help the company by creating a more robust Board that, in the eyes of the shareholders, could serve as the necessary check for the management, and help to ease their minds, as research shows that boards of directors play a significant role in providing effective family governance (Poza & Daugherty, 2007, 4th Edition).

Keller is nowadays a much different and bigger company than it was when the 5^{th} generation first joined the business. The 6^{th} generation is nearly ready to step in, if they want to, after completing their education and training outside the firm. This only reinforces the need of adapting and evolving in terms of Governance. In fact, future generations are often worried about the idea of having to deal with "politics in the family" (PwC, 2016), which is actually happening in Keller, as we can see from the 6^{th} generation's reluctance to join the company.

To develop a set of values and ideals common to the family should be a task for the 5^{th} generation. It hasn't been done so far, and would not only prove to be a strength and a new energy for the business, but it would also free the 6^{th} generation and enable it to focus on the core business. A healthy-owning family with strong values is the greatest resource a business can have (Aronoff & Ward, 2011), which is currently not Keller's case.

Students should be able to suggest the development of a set of values and ideals that could help form a family constitution that would describe the business organs, their duties, responsibilities and limits of power, besides how they interact with one another, the members that compose them, and the entering and exit mechanisms (Neubauer & Lank, 1998). It could also be helpful to invite a consultant / mediator to first aid the family in defining their core values and, second, chair and guide the family councils, create its charter and help to set its own boundaries. It is clear that the Keller family has brought their problems to the firm's sphere, thus affecting it. Family councils are the right forums to govern the family, hence sparing the company from personal problems. The advantage of an independent chair would be that, given the current situation, an external party to the family would be better-suited to act impartially (Eckrich, C., & Mcclure, S., 2013). The Keller family should also consider including Julia and Michael's oldest sons in their councils. The four boys of the 6th generation have been accompanying the deterioration of their family's relationships, and are more or less familiarized with the firm's broader problems and assuming that neither Michael nor Julia will sell their shares, their children will become shareholders. Additionally, it should be the Family Council's responsibility to work on the 6th generation education on how to be a shareholder, and the rights and responsibilities that come with it, and also to draft an employment policy for family members.

As for the company's Governance structures, it would be in everyone's interest if the siblings were able to work out their issues and have more frequent and better executive committee meetings, where at least two independent board members, ideally already familiarized with the wine-making industry, would have a seat. It is also worth mentioning that, to be a shareholder, it does not necessarily mean that one should also be a board member, especially if he or she has not been prepared for it, or does not have the necessary set of skills. In addition, to set-up an organization chart would greatly benefit the company. Michael complains that, so far, he has not been able to create one because of Julia's reluctance. Regardless of the truth of this statement, the fact is that the executive board members have shared responsibilities in several areas which might create entropies and hurt the company's growth and development. Moreover, it is quite uncommon for a company to have a CEO and a General-Director. In Keller's case, it seems that Michael is more focused on the long-term strategy and in wine-making, while Silva takes the responsibilities that typically belong to a COO and CFO.

Lastly and maybe most importantly, all these formal structures would have to rest on better and more frequent communication between the company and its shareholders, and also between the shareholders themselves. Shareholders are by nature entitled to ask questions, understand and approve the company's strategy. Michael recognizes that he has a hard time dealing with questions, and it seems that sometimes he confuses it with sabotaging. Still, the fact that his mother, despite being married to Günter, never worked for Keller, and that Julia did not show any interest in the business for most of her life before joining the company, might play a part in Michael's general tendency to discredit their questions and opposition, and to downplay or ignore their status as Keller's shareholders. On the other hand, he complains about his mother not understanding the rights and responsibilities of a shareholder, and the fact that his sister often mistakes and confuses her roles has shareholder and manager.

The creation of a better and more robust governance structures would also result in a better understanding of the different responsibilities and accountability that come with being a shareholder and of being a manager.

3- **Given the current situation, what should Günter, Helga, Julia and Michael do?**

For the purpose of simplification, we will only list four possible outcomes that might not solve all the problems that the family is facing, but which can prevent that more damage is done to the family, and enable the business to thrive without having three board members and shareholders in confrontation. We decided to analyse them according to three variables: value creation (from a financial point of view), contribution to the family harmony, and easiness of implementation.

The departure of one of the siblings is probably one of the first to come to mind. Although at first sight it might seem easy to analyse this solution, it is actually quite difficult. If it were Michael leaving the company, it would most definitely have an impact on the type of wines that Keller produces, on the relationships with importers, and also on the employees' morale, which would all contribute to the destruction of value for Keller. If it were Julia, the fact that she has a good relationship with importers could also affect the company, but mostly on the short term, as it does not seem plausible that her absence would have as much influence as Michael's. If one of them left, it seems reasonable to assume that family harmony would improve, although that would also depend on whether the exiting sibling remains a shareholder or not. Family members are forbidden to sell their shares to persons outside the family, and the simple fact that Michael or Julia decided to leave the company does not necessarily implicate the selling of their shares. Nevertheless, with the proper governance structures mentioned before, it is possible that the family is able to work together as shareholders. Still, although it is feasible, this solution does not seem very easy to implement.

The example of Gelpeixe (Silva, 2014) can serve as an exit benchmark that was well-executed. It was done in order to prevent the destruction of value since, according to the sibling that managed the company and also worked there, "it would be a tremendous heartbreak to have to sell it to others or to leave Gelpeixe because it is insolvent, or to have to lay-off. It would be an even bigger regret" (Silva, 2014).

The second possible outcome is something that has already been proposed: a separation of the company in two. This can be the most complicated and difficult solution given that the family would have to agree on several different topics, such as production, old port stock, real estate, debt, workers and so on. If it seems natural that Michael would keep the non-fortified wine production and the estates, it would be almost impossible for Julia to succeed in a company that would be too small to compete in a highly competitive and concentrated market such as the port-wine market. This could prove quite difficult to achieve, since there are a lot of aspects to negotiate and it is hard to believe that a family who is now unable to agree on managerial decisions in a company that could really be manageable at the moment (but is not), could do so if they were to break it in two. Regardless of how the separation was done, it would definitely lead to significant value destruction. Lastly, if the family could successfully go through the separation without doing more harm, it could prove to be useful to the creation of family harmony, as this solution could also open the door for a possible reconciliation, or at least a situation where relationships were not so damaged since there would not be a company to disagree about.

The third would be the now unlikely natural and progressive reconciliation between Michael, Helga and Julia, accompanied by the creation of governance structures that would not only help to prevent situations like this from happening again, but also to develop the necessary mechanisms to prepare the family and the company for a cousin consortium. This scenario that is in itself an outcome of family harmony would most definitely lead to the creation of value, since the two siblings would not be wasting energy fighting each other, and the company would not suffer from their strained relationship. In the long term, the ability to prepare the succession to the 6^{th}generation seems more plausible if the family is able to set their differences aside and focuses on what unites them. The fact that, for the first time, the ownership of Keller could prepare a succession to a cousin consortium would bring significant benefits for both the family and the company. Unfortunately, this is probably the most unlikely scenario.

Lastly, the selling option. Like the previous one, this idea is very unlikely as the family would have to agree on a very sensitive topic. Additionally, it also seems logical that one of the siblings, or at least Michael, would leave the company to focus on other projects. Given Keller's current financial situation, the family would definitely be able to sell it for a very good price, although the acquisition would most certainly affect it, at least in the short term. Lastly, if the selling of Keller is a natural consequence of the family's disagreements, it seems strange that it could ever benefit from it and improve family harmony. Thus, the selling outcome would not benefit the family.

Exhibits

Exhibit 1: Keller Family Genogram

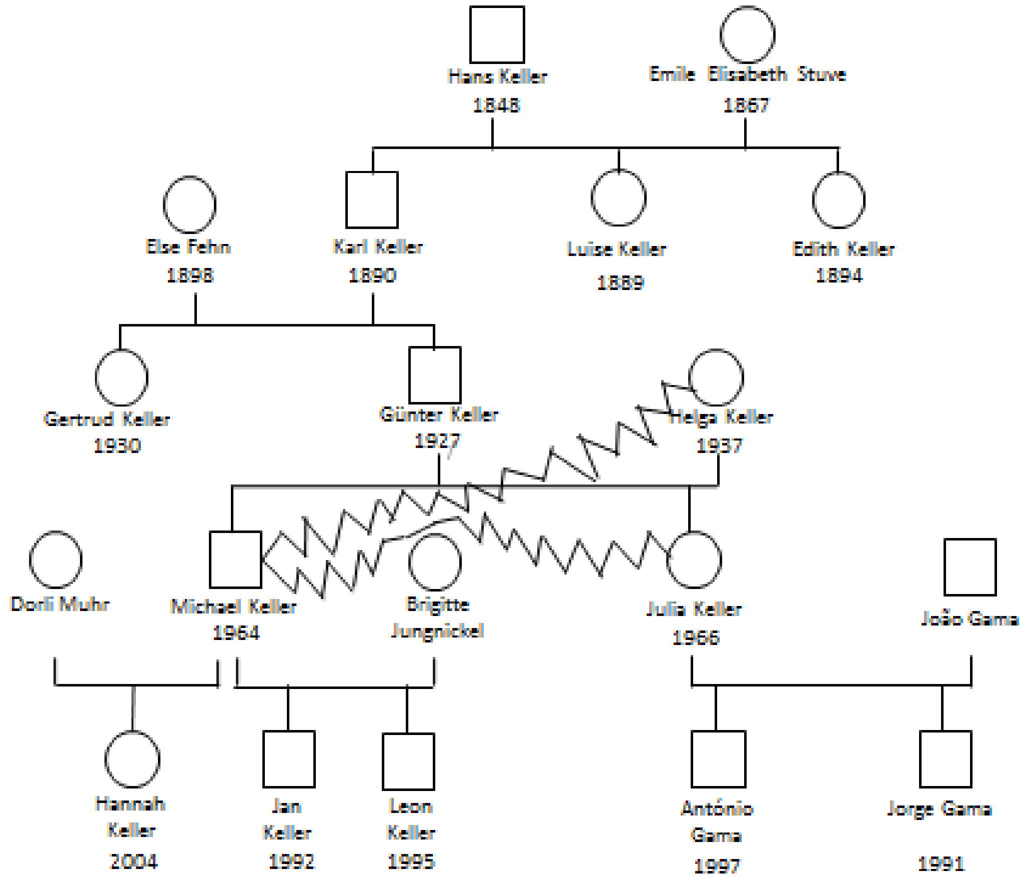
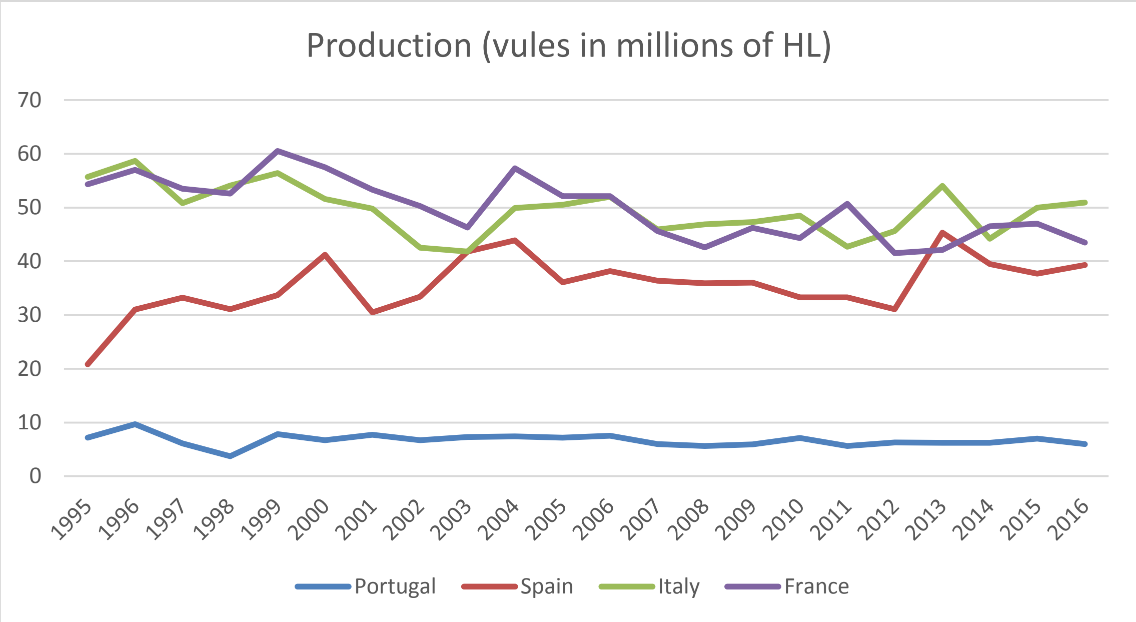


Exhibit 2: History of Keller development

1987	Michael joins the company
1987	Keller buys Quinta da Roda
1992	Keller launches its first table wine
1997	Keller grew 30% in revenues and profits were up to 3000%
2002	Keller launches "Rohirin", the first wine of the "Rohin" collection, targeted at the foreign markets
2005	Keller reports €3.3M in gross revenues
2016	Keller gross revenues are €12 M and profits are €1.3M;
2017	Keller has over 70 labels of table wine

Exhibit 3: Wine production in Portugal, Spain, France and Italy



Source: Production - Wine © OIV

Last update: 15/03/2016

Extraction date: 05/27/2017

Exhibit 4– Douro table wine sales in 2006 and 2016

Period	**2006**			**2016**		
Wine	**Douro table wine**			**Douro table wine**		
	Liters	**€**	**€/l**	**Liters**	**€**	**€/l**
Portugal	11.857.992	37.787.090	3,19	22.750.860	87.069.494	3,83
TOTAL	**11.857.992**	**37.787.090**	**3,19**	**22.750.860**	**87.069.494**	**3,83**

Source: Instituto de vinho do Douro e do Porto

Extraction date: 05/29/2017

Exhibit 5– Average price per liter of wine produced in Portugal

Period	2012	2015
Average price (€/l)	2,09	2,63

Source: (Jorge, 2016)

Exhibit 6– Portuguese wine exports by type in 2015

Type	**% of overall exports**
Port	42,6%
Red	10,3%
Green	7,4%
Others	39,7%

Source: (Jorge, 2016)

Exhibit 7- Keller sales in 2006 and 2016

	2006			**2016**		
	Liters	**€**	**€/l**	**Liters**	**€**	**€/l**
Doc Douro	269.759	2.072.221	7,68	1.153.025	6.997.129	6,07
Port	329.470	2.668.157	8,10	369.589	3.242.389	8,77
Bairrada				9.589	156.817	16,35
Dão				135.565	399.171	2,94
Green				1.756	17.122	9,75
Wines Bought				29.434	497.353	16,90
Others		5.316			14.313	
Total	599.229	4.745.694		1.698.958	11.324.294	

Source: Keller

Exhibit 8: Interview Informants

Informant	Number of Interviews	Family vs. Non-Family	Position at the time of the interview
Michael Keller	2	Family	Keller's CEO / President, shareholder
Julia Keller	1	Family	Keller's executive Board member, shareholder
Helga Keller	1	Family	Shareholder
Günter Keller	1	Family	Former CEO / President, shareholder
Jorge Gama	1	Family	Julia's oldest son
Daniel Keller	1	Family	Michael's oldest son
José Silva	1	Non-family	Keller's General-Director, Board member
Antonieta Palmeira	1	Non-family	Keller's oldest employee
António Teles	1	Non-family	Winemaker / Oenologist
Bento Amaral	1	Non-family	Director of Technical and Certification Services at Instituto do Vinho do Douro e do Porto

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