

2006  
Family Business Honours



Case Study of 2006 winner  
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## The Family Business Honours Award for Overall Excellence

Wates Group Limited

**JPMorgan**   
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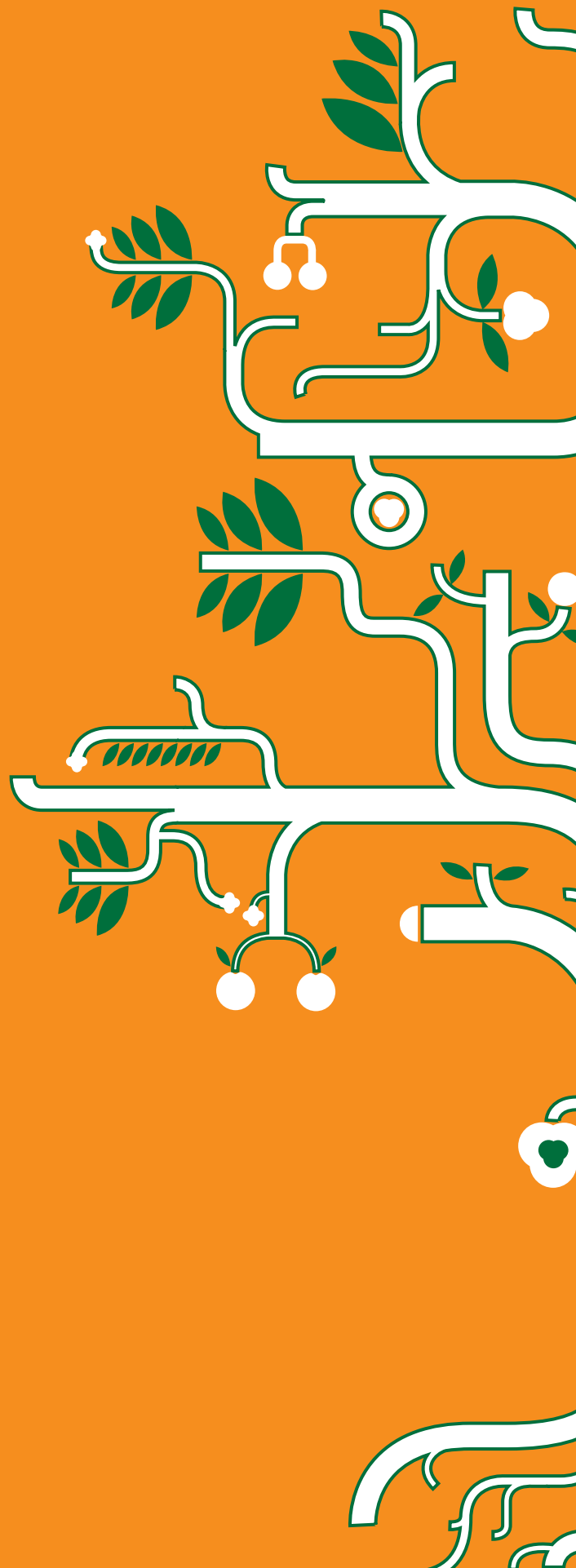
# The Family Business Honours Award for Overall Excellence 2006

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Wates Group Limited is a striking example of how the three pillars of success highlighted in the Family Business Honours Programme – business success, family governance and social responsibility – combine to support a family company that is both distinctive and highly successful.

Wates have put in place the essential building blocks to create a performance- and people-oriented culture that maintains balance in the all-important relationship between family and business, avoiding the dangers of excessive caution. These elements drive parallel strategies, formulated and implemented by family and non-family executives and owners at both Wates Family Enterprise level and at Wates Group level. Their approach is one that blends the “hard” and the “soft” elements of a performance-driven culture.



# First impressions

Two buildings, one old and one new, have been connected to create Wates' headquarters in Leatherhead. To form the connection, an atrium has been designed that symbolises the marriage between tradition and modernity. In our conversations, one employee described how "the family's interest in people, not only profitability" creates a humane ethos in the organisation.

Working spaces are spread across open areas, occasionally separated by crisp glass partitions. Senior executives sit side by side with co-workers, sharing an ambience which is warm and welcoming, calmly focused and, above all, transparent.

In the white and shiny foyer, plasma screens display photographs and information of employees recently rewarded for excellence in their work. In the same space, yet modestly collected in a corner, a large number of awards plaques adorn two entire walls. While the company itself has received many awards, the emphasis at Wates is squarely on its employees, celebrating individual contributions to the success of the collective.

## Wates Group Limited at a glance

<b>Brief description:</b>	As the main component of the parent Wates Family Enterprise (described in following sections), Wates Group comprises a national construction company with five divisions – specialist construction, interiors, retail and affordable housing – plus a strategic land company
<b>Industry sector:</b>	Construction and land trading
<b>Founding year:</b>	1897
<b>Founders:</b>	Edward and Arthur Wates
<b>Number of employees in 2006:</b>	1,906
<b>Number of family shareholders:</b>	8
<b>Generation:</b>	3rd and 4th
<b>Sales in 2006:</b>	£860 million
<b>Profit before tax (PBT) in 2006:</b>	£30 million

## Overall Excellence

- In an industry with low margins and high risks, Wates Construction has produced impressive results. Turning over more than £800 million, Wates currently ranks number 12 in its market, and number five in terms of margin. This is achieved in a highly fragmented market where one or two competitors disappear every year.
- Thanks to astute recognition of entrepreneurial opportunities and business development, the company has renewed itself, evolving and diversifying into new areas of business. For example, Wates' land trading business evolved out of the company's traditional house building business. In addition to its own land holdings, Wates works with land owners, mainly in the south of England. Strategic thinking has been applied which explicitly includes both the family and the business.
- A clear connection exists between culture and leadership, based on family members' willingness to dedicate time and effort to difficult transitions. This has meant tackling all the key issues in organisational life: identifying clear roles, core tasks, key performance drivers, people development, strategy, values, communication and social responsibility.
- Wates' human resources strategy links directly into its corporate mission. The Group strives to improve its workforce along four metrics: training and development, leadership, culture and recruitment. An academy-style development process exists for every level of employee from "how to become a surveyor" to international business school training for senior executives. Each level is informed by both individual and overarching goals.
- There are numerous paths for employee recognition: Business Excellence awards, Customer Service awards, Community Benefit awards. In a recently developed programme, employees are nominated for outstanding service in any of several areas related to company values. One way of spotting talent in the company is by having employees nominate colleagues for excellence awards. The winner of these awards receives £5,000 to donate to a charity of their choosing.
- All of the above has been systematically delivered using sound management techniques, guided by a core strategic mission.



## A brief history of Wates

Ironically, the founder of Wates was not a builder. The family history tells how Edward, the great grandfather of the fourth generation, fell into a fire. Incurring deafness as a result of the accident, he could not follow his father into the building trade. Instead he started a furniture business, eventually in partnership with his brother Arthur (a business that is still trading). Apparently, he bought a plot of land, built a house, sold it for a profit and then bought the plot next to it – and so the new venture started, headed by Edward and Arthur.

In brief, the business has developed as follows:

### 1897

The first Wates company was created.

### 1920s and 1930s

Edward's sons, Norman, Sir Ronald and Allan, expanded the company, extending their activities into general contracting.

### Second World War

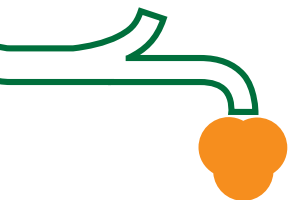
Wates built aerodromes, army camps, factories and, most notably, developed a speciality competence in constructing pre-cast and *in situ* reinforced concrete barges and floating docks. The company supplied major parts of the Mulberry harbours that were towed across the English Channel after D-Day.

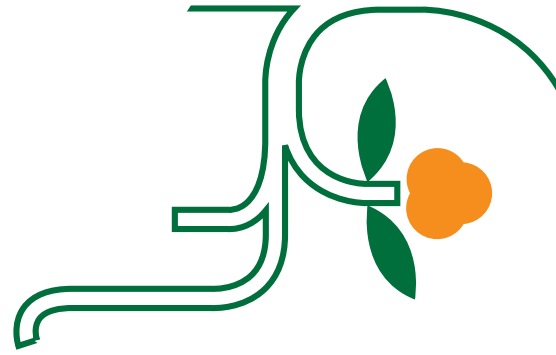
### After the War

Using its expertise in pre-cast concrete, Wates developed high-rise and low-rise industrialised housing systems and built over 60,000 houses and flats using these techniques. Property development was also added to the core housing, contracting and plant businesses.

### 21st Century

Presently, Wates operate as contractors in five core areas: Construction, Living Space, Retail, Interiors and Developments. The firm's employees have evolved from builders into highly skilled project managers and engineers. The company also has a land trading business.





## Family strategy and Wates Family Enterprise

The Wates family is simultaneously undergoing three major changes. First, it is in the process of buying back 40% of the shares in the business from two branches of the family. Second, it is in the midst of a transition from the third to the fourth generation of ownership. Finally, there are fundamental changes taking place in the family's relationship with its primary interest, Wates Group. Historically, the family has been the source of Wates Group leaders. Currently, the Group is led by a non-family member, Paul Drechsler, who is Chairman and Chief Executive. These changes have given the family cause to review the role it should play going forward. That has been captured in the Wates Family Enterprise strategy, which encompasses all of the family's collective interests.

The family strategy development process ran over three distinct phases over six months. It involved all family members and was professionally facilitated. The outcome, after consultation with senior executives and non-executives, sets out a clear long-term vision for the family enterprise, as well as providing clarity on structure and roles. The vision statement settled upon was:

“Wates will be a world-class,  
family-owned and  
professionally managed  
enterprise, generating long-  
term stakeholder value.”

To turn the vision into practice, the next step was to formulate strategic work programmes to enable the vision to be realised. These focused on the interface with Wates Group, finance, co-investment and family *modus operandi*. Each programme is led by a fourth-generation family member.

At the heart of the family strategy lies the principle of co-investment. Currently, Wates Group represents the overwhelming proportion of that investment. In the medium to long term, the strategy will focus on driving maximum value for shareholders through Wates Group at the same time as developing a separate, financially ring-fenced second pool. The second pool provides prudent diversification away from Wates Group, which currently represents a high proportion of the family's shared investment. It also provides a locus for the family, binding them together socially and also helping them to secure access to new investment opportunities and other services through the aggregation of funds.

## Governance

### Family governance

At the same time as developing the comprehensive enterprise strategy to guide the family into the next generation, the Wates family has systematically tackled the challenge of building effective family governance structures. These consist of a family council, a shareholder management committee and a charter that governs the family relationship with its trading activities. This combination of elements seeks to achieve a balance between the necessary “legalese” and giving true voice to the ethics and ethos to which the family aspires. The management committee, known as Wates Family Holdings, comprises seven of the eight shareholders (the eighth has passed the retirement age of 70) plus three non-family advisors, each of whom brings specific experience and skills to bear.

“The family... have grappled with their changing role from owner-managers to just owners – they have invested an enormous amount of time and effort into defining their roles and getting the transition just right. Through shunning the easy options they have developed a prescriptive governance model, which makes it easier for all parties to understand and execute their roles.”

Huw Davies, Chief Financial Officer, Wates Group





### Wates Group governance

Despite being very much a family company, the professional approach adopted by Wates is modelled on the public company:

“We behave as a plc. Our governance structure looks and feels like that of a plc, with independent non-executive directors, and established audit, remuneration, nominations and risk committees. Although there is no legal or regulatory reason for organising ourselves in this way, it underpins our focus on growing shareholder value.”

Huw Davies, Chief Financial Officer, Wates Group

### Next generation

The Wates family has adopted an innovative approach to management succession. Succession planning was designed via a sophisticated bottom-up approach, involving psychometrics, team building and coaching, supported by outside advisors. This process is conducted in a way that explicitly seeks to empower the next generation and has been in train for the last six years.

Personal development and coaching are key themes for the next generation. Finding space for dialogue in the counterpoint between individual and group, especially the younger generation, is an important dimension of the family strategy:

“We are very aware of the need to achieve a balance between family business goals, individual career aspirations and individual life goals. Failure to achieve such a balance can cause conflict and unhappiness.”

Andrew Wates, Chairman, Wates Family Holdings

Additional ways of involving young family members, with their diverse interests, are made possible via the second pool of the family enterprise, which is open to receive business plans that eventually could become contributions to the family portfolio. Participation in philanthropic activity also serves to engage the next generation. Having concluded the share buyout of the third-generation cousins, the first direct philanthropic funds have been allocated to extending the corporate responsibility activities of the Wates Group. This initiative is headed by James Wates, who is seeking ways to find synergies with the Wates Foundation.

# Values and ethos

## Family values

The family enterprise strategy has been reinforced by the development of a set of defining family values that inform those espoused by Wates Group. They are: unity, leadership, sustainability and enterprise. Family ethics place emphasis on values and a strong commitment to the community. Family members see themselves as “stewards for a lifetime”. Although not overly religious, the family adheres to basic Christian values, and puts great store in openness and transparency.

The family’s motto, *Ex Unitate Vis* – from unity, strength – is a declaration of interdependence that guides the family. Family cohesion is made evident in its longstanding annual Christmas get-togethers. Recently, it brought together 72 family members for lunch. A family survey revealed an overwhelming desire to continue its traditions, which is not easy when there are 41 children in the fifth generation alone!

## Wates Group values and culture

There are five Wates Group values:

- Respect for communities and people
- Integrity
- Teamwork
- Intelligence
- Performance

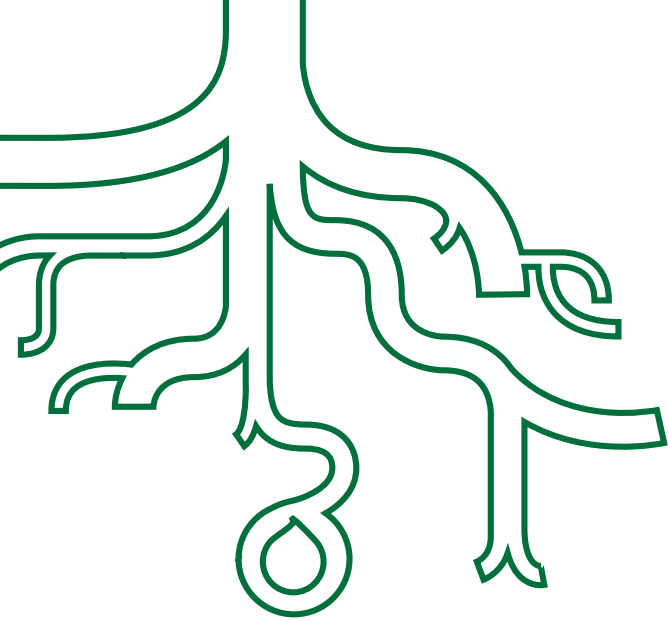
Many companies have publicly espoused vision and values. It matters less how they are articulated than what really guides people’s behaviour. Most important is the meaning people attach to vision and values, and whether they guide daily management practices and front-line operations. The values may evolve gently over time but by and large they represent a valuable source of consistency and stability in an ever-changing world.

Equally important is the process by which they emerge. Wates has not taken the easy route in this. The contribution of family members in defining these values has paid off in terms of how their business is conducted and the employees’ understanding of the company ethos.

“Vision and values – we own them, they are recognised as us. There are only five and they have been tested.”

Dave Smith, Chief Operating Officer, Wates Group





Inherent in this culture is recognition of individuality. An example of this comes from one of the employees we interviewed. At one point, feeling disillusioned with her working life, she handed in her resignation. As a response, her manager gave her the weekend to rewrite her job description, and on Monday a new job role was created for her that would motivate her to stay with the company.

Handling complex customer demands is the challenge management and staff thrive on, which links in with their inquisitive and thoughtful approach. This means that Wates tends to work with customers whose values they share. Creating deep relationships is integral to how people work in this company. In building projects “you throw a bunch of people together and you need to be able to build a team very fast”. Therefore trust and clarity are fundamental to the task.

“There must be plcs out there with the same values, but here they are manifested in the family itself. [Other companies] may develop similar words, but the family provides continuity in this company. The values are not chopped and changed with [changing] leadership.”

Julia Tyson, HR Director, Wates Group

The following story tells of the robustness inherent in the company culture. Several years back, when Sir Christopher Wates was CEO, two employees were charged with refurbishing a youth centre in central London. While meeting Sir Christopher in his office, they set their eyes on a magnificent pin board that would be perfect for their project. They waited for him to leave, then promptly carried out the pin board and placed it in the youth centre. Later, he visited the centre, and commented: “I do like that pin board” to which the employee replied – “Do you know it’s yours?”

Employees place high value on the presence of the family, and appreciate it when they are visible. In fact, we found that employees were keen to see increased levels of family visibility. Events such as the annual road-shows, where employees saw and heard James Wates and family members as part of a company information tour, and Jonny Wates’ fundraising Tour de France cycling, are fond recent memories among staff members.

## Social responsibility

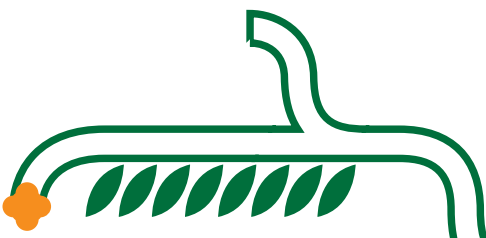
A strong sense of social responsibility is characteristic of the Wates Group. The second generation set up the Wates Foundation as the independent charitable arm of their time. Although it is independent, it will work closely with the Wates Group when appropriate, to maximise the impact of its charitable giving.

Various initiatives within the Group have been brought together into a corporate responsibility (CR) strategy. This journey began in 2004 by mapping current activities, linking them to CR initiatives, identifying the areas for improvement and putting in place processes to address them. Their approach to corporate responsibility is not something imported, but “builds on our people, our skills, our heritage and our values”.

A large amount of work, particularly in the public sector, involves urban restoration in deprived areas. By these means, the company is woven into the community fabric. For example, in 2006 one site manager met with local school children almost every other day to teach them about construction. (This was at Murray’s Mill, the oldest mill in Europe. During the project, which lasted 14 months, children from different schools were taught about the construction industry and the mill.) Other initiatives include:

- a “Community Matters” day, involving all Wates employees, contributing a minimum of an hour each, amounting to 3,000 man hours to local charitable causes;
- support for a range of charities and local charities identified by employees, followed up by charitable activities;
- partnering with local schools to implement youth development programmes, featuring mentoring, career counselling and teaching;
- lobbying for sustainable communities and waste management. Wates aims to reduce its landfill waste to zero over the next four years.

Wates is fully committed to the environment and best practice in health and safety, setting itself tough targets to stay at the forefront of development in these areas. It invests money in research that is mutually beneficial for the industry, the company and the community, sharing best practice with its clients.



## Family and non-family leadership

The recruitment of a non-family CEO tells an interesting story about both the family and the non-family, and how the external inputs are woven into the family legacy. There was a very methodical recruitment process, involving several meetings with family members. Paul Drechsler describes how in the recruitment process he had three alternative offers, but in the end it was the family who persuaded him to join. There was one moment over dinner when he suddenly found himself sitting opposite a whole array of Wates cousins, marvelling over the situation and the unique challenge it entailed.

“I had 25 years’ [experience in] solving business problems, but I found the idea of sustaining a family business over the next 100 years very interesting... and more adventurous than the plc world.”

Paul Drechsler, CEO/Chairman, Wates Group

Paul’s experience with family businesses went back to his roots, since his father had a family business in Czechoslovakia. Armed with a clear concept of family businesses and an affinity for them, Paul set out on his business challenge with the Wates family.

“I asked what would be delivery improvement in terms of margin – and the response was “up to 2.3%”. I’d come from the perfume industry with sometimes a 90% gross margin! I thought I’d misheard – it must be possible to do better!”

Paul Drechsler, CEO/Chairman, Wates Group





### Integration

Recognising that for a family to recruit a leader from the outside is a major step, Paul thought a lot about his new role and read books on it in order to prepare himself. Fortunately, he had a very experienced family member (Andrew Wates) to guide him, “who you could talk to about anything. This relationship was particularly important in the early stages as my understanding of the construction industry grew”. Paul comments further:

Thanks to the straightforward approach of family members – “they say what they think” – there were few flashpoints but some “heated agreements”. Points of contention focused mostly around soft issues, but were mitigated by fundamentally shared goals and a mutual understanding at the heart of this close relationship.

“Having a family member to support a non-family CEO is very important – a close and experienced family member/leader who can guide and teach you about the family, but also challenge you and who you can challenge.”

Paul Drechsler, CEO/Chairman, Wates Group

“They’re such decent people you just want to do well for them. If, at some [time in the] future, the family says ‘thanks to Paul Drechsler we have a professionally managed, high-performing business, with our core family values actually enhanced’, I’d be delighted.”

Paul Drechsler, CEO/Chairman, Wates Group

## Transitions and organisational change

### Transitions of ownership

In the past, ownership has been passed both consciously and “by accident” in the family, resulting in ownership being passed down only one branch in the third generation. In this branch, ownership was split three ways, divided among three brothers. Historically, ownership has been given only to family members working in the business, who hitherto have all been male, a practice which has since been abandoned. Ownership succession from the third to the fourth generation is proving different from previous occasions, since the focus is now on ownership rather than management. Consequently, it presents a new challenge in terms of communication and roles in the business and among family investors.

A culture of learning suffuses this company. In the 1990s the building industry went through its greatest recession since before the Second World War. Despite this, Sir Christopher Wates, CEO at the time, initiated a £1 million culture change programme in 1994 – in the middle of a recession. It was a visionary exercise and laid a solid foundation for the company in years to come, not least by communicating a sense of courage and appetite for change, but within the context of commitment to the long-term survival of the business.

This culture of learning also characterised the company’s recent strategy development exercise, spearheaded by Paul Drechsler, the non-family CEO and Chairman. Involving family members at the core, this process was based on deep-reaching questioning, including: What industry are we in? What markets are we in, and which are we not going to be in? How are we performing in those markets? What is our competitive edge? Which customers are we going to focus on? What organisational structure will underpin this strategy?

“We put in place a systematic and very rigorous strategic management process, a clear structure, [one] that educated the people in the business. It was really natural to take the family along... they were incredibly supportive... 100% aligned on priorities regarding, for example, segmentation, customers, vision and values.”

Paul Drechsler, CEO/Chairman, Wates Group

A company vision was formulated: “on budget, on time, every time”. In essence, a performance culture was introduced without diluting the long-term vision. Since this motto was adopted, the percentage of contracts living up to the motto has increased rapidly over the past years, with Wates Retail at 100% and Wates Living Space at 90%. Strategy does not belong to a select group of insiders at the top – it is owned by every person in the business, starting with the top management team. The company values constitute the building blocks of the strategy, and management structures ensure that these are directly infused into the business.

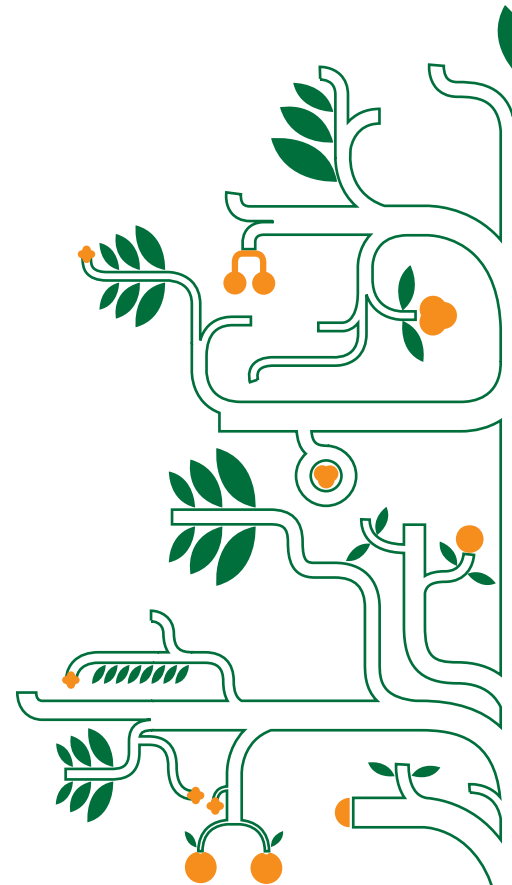
## Challenges going forward

In line with the construction market, the company has enjoyed strong growth for several years. It has not always been so. Among the darkest moments in the company's history was the recession of the early 1990s. Both staff numbers and turnover were hard hit. Family leaders mortgaged their houses to see the business through this period, since they believed in the company's future. The family see three great challenges going forward:

- maintaining the family values and ethos in a fast-growing and successful construction business;
- finding the right “mortar” to hold the family together without the discipline of managing a large enterprise;
- defining and holding fast to a vision of becoming a world-class family enterprise.

Wates Group leaders see further challenges:

- recruitment, training and development of management professionals to lead and deliver the company's ambitious growth plans;
- to inspire all employees to live by the Wates values, especially in relation to respect for people and communities; to deliver a lasting positive impact on society;
- to exceed the ever-increasing demands and expectations of customers and shareholders.







Nigel Nicholson is Professor of Organisational Behaviour at London Business School, where he is directing a major initiative on leadership in family firms. He has published twelve monographs and over 200 articles on many aspects of business psychology, leadership and organisation. He is a much sought-after executive speaker and directs two major leadership programmes at London Business School: High Performance People Skills and Proteus, one of the world's most innovative executive programmes.



Chris Hancock is a Director of JPMorgan Cazenove, JPMorgan's investment banking business in the UK. He is responsible for the delivery of investment banking services to private individuals and families resident in the UK and has led JPMorgan's Family Business Honours Programme in the UK since 2004. Chris studied classics at Oxford University and qualified as a Chartered Accountant before entering investment banking. He joined JPMorgan in 1999, moving to work exclusively with privately held businesses in 2002.



Åsa Björnberg is the IFB Research Fellow at London Business School. Her research focuses on psychology, leadership, culture and the next generation of family businesses. Åsa helps family firms develop effective top management teams, and creates education programmes for their next generation members. Her consultancy experience includes international blue-chip corporations, primary schools, NGOs and hospital clinics. For example, she consulted to the organisations that provided psychosocial support to children in Sarajevo in the aftermath of the Balkan war. At London Business School, Åsa coaches teams in MBA and executive education programmes. She also runs a private bilingual coaching practice in London.

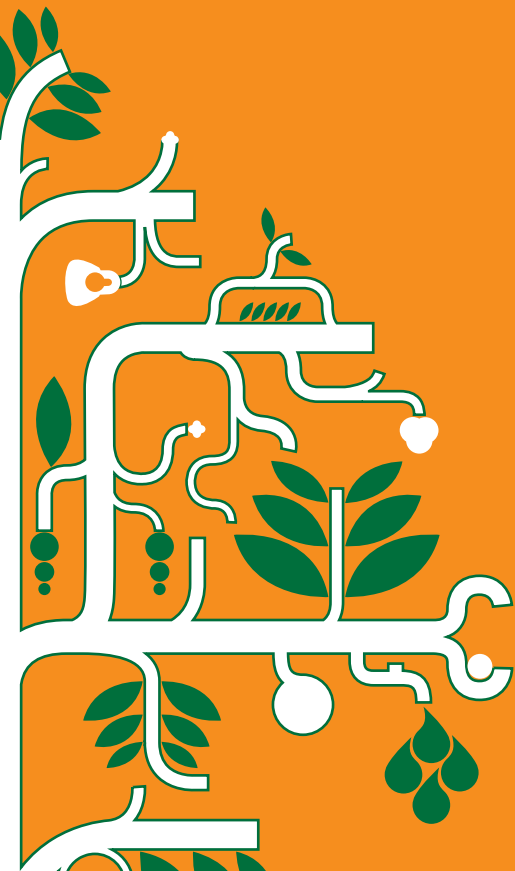
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