



The intricate puzzle of Merck's unique dual board system

Update 03: A deeper dive into the relationship between Merck's family governance structure and the role of non-family members.

BY JESSIKA MCQUEEN

At CMG, we have followed the fascinating story of the Merck family and their 350+ family business over a few years. In [our original profile on the family](#), we first looked more closely at the Merck [family governance structure](#). Next, we focused on the role of [non-family members](#) in Merck's sustained success.

Our third installment takes a deeper dive into the relationship between the two. Merck, one of the world's largest pharmaceutical companies, has a unique system to ensure the company's longevity and its family legacy. The multinational company based in Darmstadt, Germany operates with a dual board system consisting of the Merck Family Board and the Merck Management Board. Both boards work closely together to make decisions for the company's future to maintain the balance between family ownership and corporate management.

Developing a New System of Governance

For two and a half centuries, Merck was fully family-owned and operated. Leadership was passed down from generation to generation, run entirely by blood-related descendants of the company's founder, Friedrich Jacob Merck.

Fast-forward to 1920, a few years after the company's 250th birthday. So much had changed following World War I. The business was suffering from depleted resources and talent shortages in the family. The Mercks reevaluated their family-only approach, seeking the potential of fresh ideas and the input of proven industry leaders. The plan was for outside professionals to replace the Mercks in management roles and the family increasingly withdraw from operational management.

But the Merck family still wanted a presence and a voice in the company to continue their centuries-old legacy. If outsiders ran the business, where would that leave the family? There were two critical objectives: attract and retain industry-leading talent to manage the company; and uphold bonds between the family and the business.

It would require thoughtful balance. Family involvement would maintain stability and purpose at the company; however, non-family executives would need their independence and agency.



The Merck solution? To craft a **dual board system**, an innovative approach to governance keeping the family owners in control of the company while leaving operational management to the best people for the job – family or not. Did it work? As Jon Baumhauer (former Chairman of the Family Board and 11th-generation Merck family member) previously stated: *“We hired external professionals to run the company, and this went perfectly well. And it still goes well.”*

How did they do it?

“We [the Merck family] do want to have some influence but don’t want to have all the influence. The key to our success is the family knows exactly what its responsibilities are and where to stop.”

Johannes Baillou is a 12th-generation Merck family member, currently serving as, Chairman of the Board of Partners of E. Merck KG, Vice Chairman of the Executive Board of E. Merck KG and General Partner of E. Merck KG.

Mercks One-of-a-Kind Diarchy

Mercks bespoke system both divides *and* combines family ownership with corporate leadership with two governance systems running Merck:

- The **family governance system** manages the Merck family owners (204 family members).
- The **corporate governance system** oversees the operational business.

Each board system has its independent responsibilities that intersect on many levels. What are those levels?

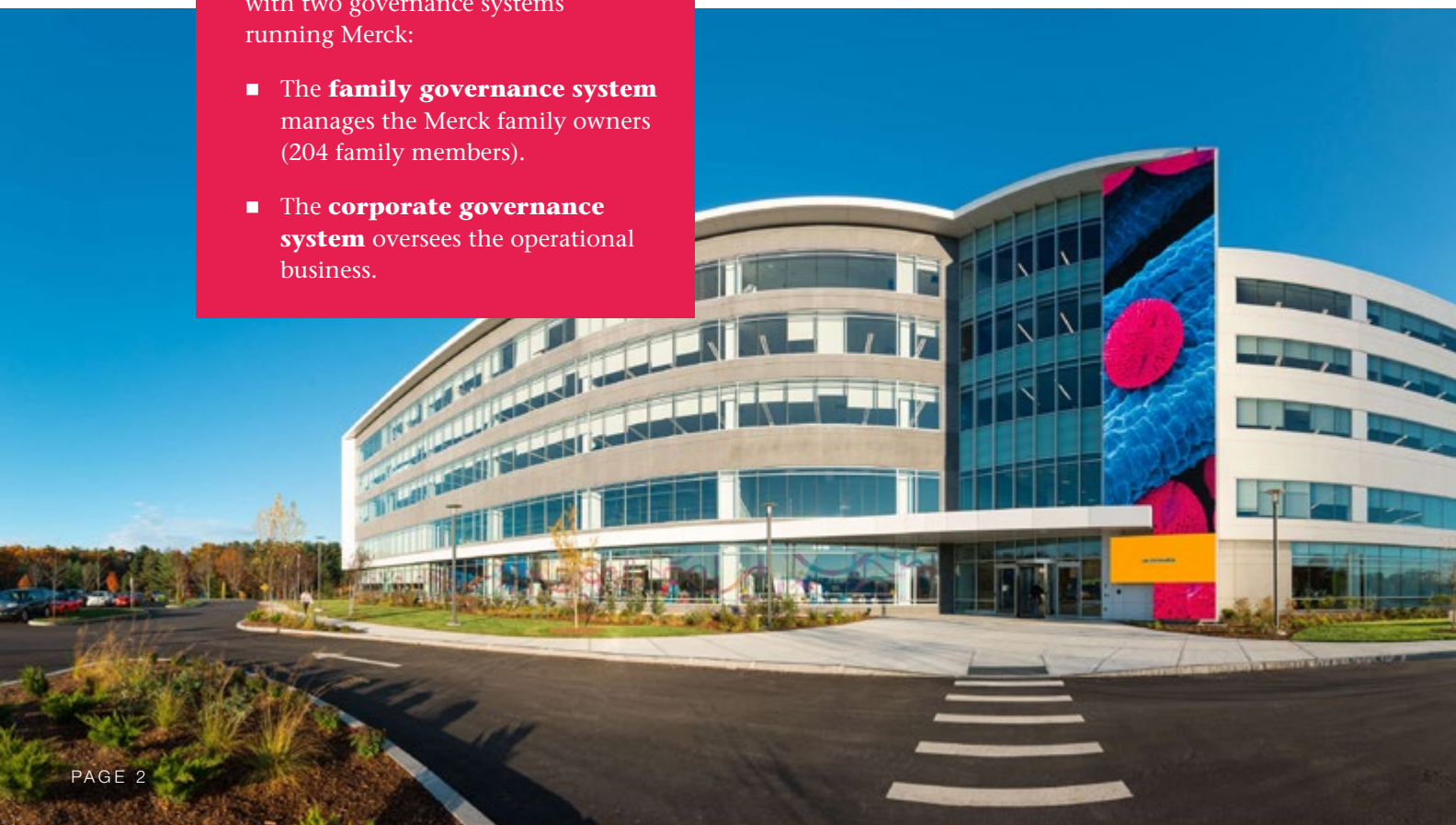
Merck KGaA (Kommanditgesellschaft auf Aktie, a partnership limited by shares under German law) is an operating company with a typical corporate governance structure:

1. The Executive Board of Merck KGaA
2. The Supervisory Board of Merck KGaA

The Merck family governance system controls E. Merck KG – the Merck family’s holding company. The family owners hold 70.3% of the total capital of Merck KGaA in equity interest but do not directly participate in company management and business activities.

The family governance system has four distinct bodies:

1. The Partner Assembly (all Merck family shareholders, currently 204 in total)
2. The Family Board
3. The Board of Partners
4. Executive Board of E. Merck KG





How the two systems work together

The primary responsibility of the Partner Assembly is to elect up to 13 of their members every five years to represent them on the Family Board. This includes Johannes Baillou as one of 204 Merck family General Partners. The Family Board keeps strategic (but not operational) oversight of Merck KGaA business operations. The Family Board also screens and selects the Board of Partners.

The Board of Partners is most directly involved with the business. It's a Family Governance body, but by design, it includes family and non-family representatives. Five members must be nominees from the Family Board – they are Merck descendants. The other four members must be non-family industry leaders in finance, chemicals, pharmaceuticals, or family business. This Board chooses the Executive Board of Merck KGaA, including Johannes Baillou as Chairman of the Board of Partners.

On the Supervisory Board of Merck KGaA, a shareholder representative is selected as Chairperson, while a Merck KGaA employee representative is Vice Chairperson. The 14 other members also represent either company

shareholders or Merck employees. Six members of the current Supervisory Board also serve on the Board of Partners. The Executive Board of E. Merck KG is where family leadership and the corporate executive team converge most directly. There are four members:

1. Chairman, who is also The Family Board Chairman
2. Vice Chairman, who is also The Board of Partners Chairman (**Johannes Baillou)
3. Executive Board Merck KGaA CEO
4. Executive Board Merck KGaA CFO

These four members meet regularly, keeping the company objectives aligned with the long-term vision of the family owners.

Why it works for the Merck family

It is a complex system, perfectly suiting the Mercks unique family business needs. It has not happened by chance – Merck puts considerable resources towards refining their governance system and has done so for centuries. We identified a few principles integral to the success of the dual board:



STABILITY

Every role and responsibility is systematized. Nothing is left to chance or interpretation, so there is no opportunity for feelings or relationships to get in the way. They are specific and deliberate regulations dictating how family and non-family are given a position in the system. The only decision-making tasks that all family owners are involved in are (1) the election of their Family Board every five years and (2) changes to the family constitution.



COMMUNICATION

The head of the Family Board is the link between the family, the business, and the public. That person is the official head of the Merck family and liaison to all family members. Correspondence with corporate management delegated to democratically elected family leaders. The clear structuring of the Boards helps unify E. Merck KG with the other shareholders of Merck KGaA.



BALANCE

Since 2000, the Executive Management team at Merck is made up entirely of non-family members. The family is still engaged and involved with the business as owners rather than managers. Not all family owners are equally active in the company, but they all have a voice and a vote for their family representatives. The governance systems operate democratically with objectivity and transparency.

Moreover, the story of the Merck family is a reminder that a creative and novel approach to governance structures is possible. Every family – and every family business – is unique. Merck invests time and resources into creating a bespoke solution that fits their specific needs and circumstances. They know that their long-term success depends heavily on the cohesion between the family owners and corporate management.

Having a system and sticking to it keeps everyone at Merck on the same page. Formalizing the mechanisms that determine roles and responsibilities prevents a lack of clarity, misconceptions, or emotions from playing a role in their governance.

Merck’s dual board system is a testament to the company’s commitment to the future and its family legacy. The close relationship between the two boards is a key factor in the company’s success and ensures that the values and traditions of the Merck family are passed down from generation to generation.

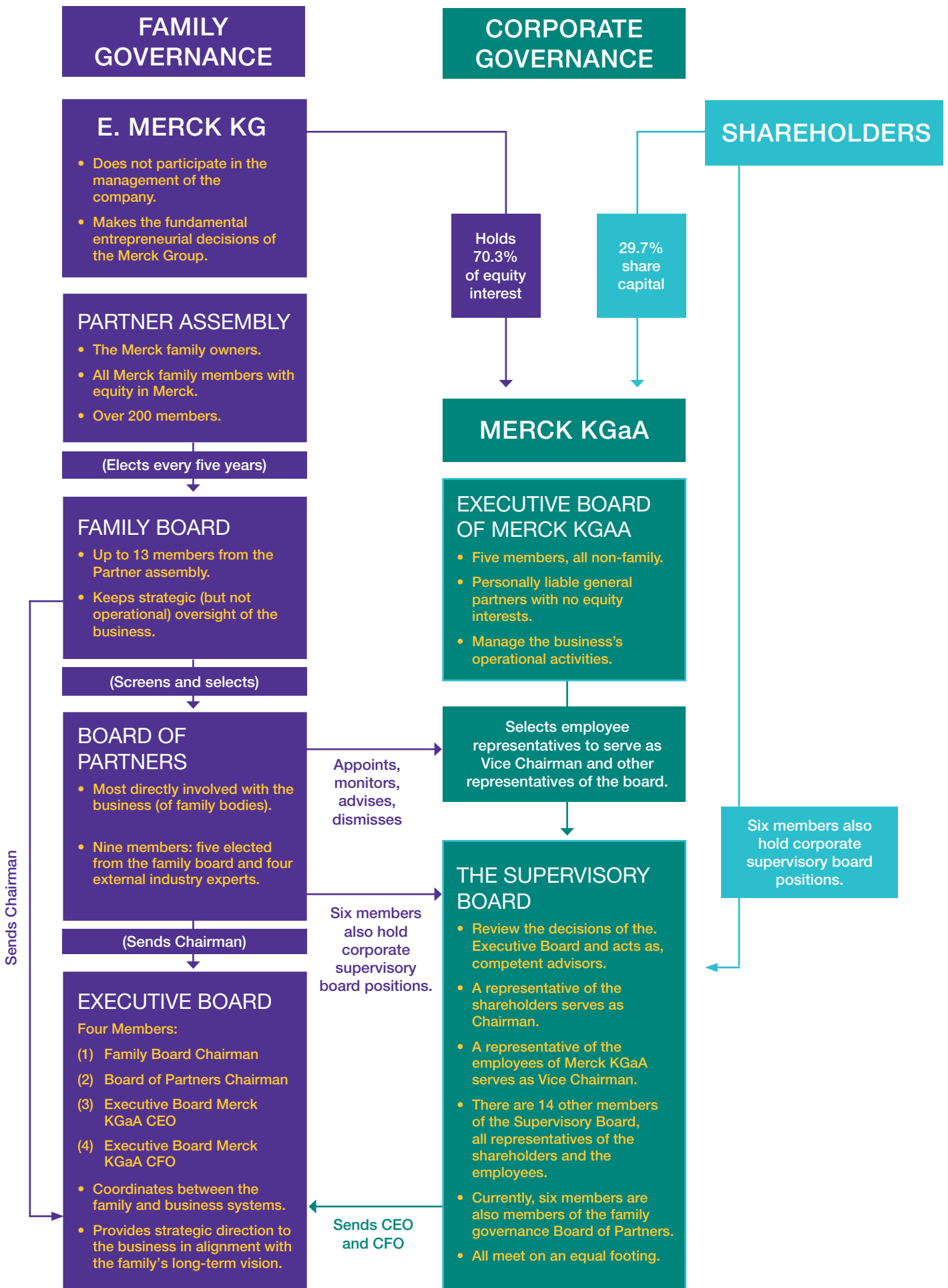
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See Merck’s innovative dual board system next page



Our future update on the Merck family will focus on:

Family members are most welcome to join the company – if they’re talented enough. How does an interested Merck family member pursue a career in the family business? What are the criteria they must meet?



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