The regenerative power of family businesses

Transgenerational entrepreneurship

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KPMG Private Enterprise

STEP PROJECT GLOBAL CONSORTIUM FOR FAMILY ENTERPRISING

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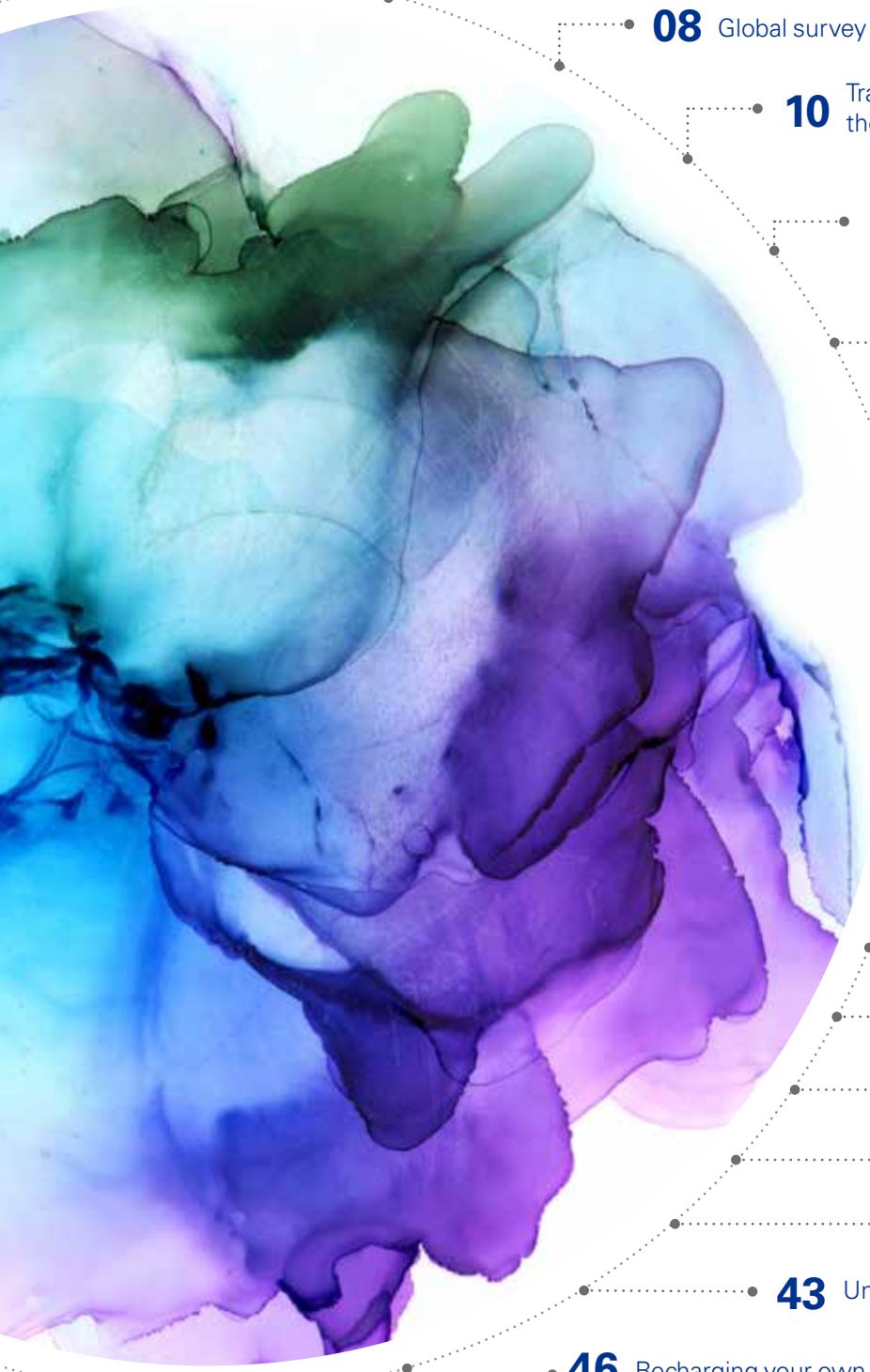

Foreword

What is it about family businesses that enables them to stay ahead of the competition?

What is the secret to their staying power and their capacity to grow successfully from decade to decade and from generation to generation?

And how do they continue to nurture and sustain their founders' entrepreneurial spirt?

The STEP Project Global Consortium and KPMG Private Enterprise set out to find the answers to these questions. We wanted to understand how family businesses continue to be such regenerative powerhouses that not only flourish in good times, but also manage to respond constructively during times of disruption.

Our exploration began with an in-depth survey of 2,439 family business leaders across the world between September and November 2021. After a detailed academic analysis of the survey data, we moderated a series of roundtable discussions in February 2022 with family business CEOs along with family business academics and professional advisers. The discussions focused on the factors and challenges that are influencing the continuous renewal and performance of family businesses.

We heard how their regenerative power begins simply enough — with the founders' entrepreneurial ambition to turn an inspiring vision into a practical reality. As the vision comes to life, the focus then shifts to growth and an operating philosophy that can sustain the original entrepreneurial spirit of the founder. This is what continues to guide the decision-making and strategic choices that are made across the generations in the face of further challenges and new opportunities.

A sustained spirit of entrepreneurship, transgenerational resilience and socioemotional wealth that families accumulate from their family businesses are the secrets behind their long-term regenerative power. We're pleased to have this opportunity to share with you their insights, experiences and ideas for sustaining the same powerful advantages in your family business.

Andrea Calabrò
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Director, IPAG Entrepreneurship & Family Business Center,
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Global Leader,
Family Business,
KPMG Private Enterprise,
KPMG International
Partner,
KPMG in the UK

Executive summary

Entrepreneurial ambition

It's widely accepted that the enduring entrepreneurialism of family businesses not only keeps their vibrant culture of innovation alive, but it can also make a major contribution to superior financial, social and non-financial performance. For this reason, the strength of a company's entrepreneurial orientation is one of the most important keys for unlocking the ability of family businesses to adapt, innovate and grow. The survey findings reinforce the importance of this capability.

However, the findings also show that an entrepreneurial spirit alone is not sufficient to support the continuous renewal and rejuvenation that is needed to sustain family businesses across multiple generations. The family's capabilities and their deep connections with the firm are also major sources of their regenerative capability.

The evidence is in plain sight. Amid uncertainty and disruption, family businesses continue to show their unrivaled resilience and ability to reinvent themselves in dynamic and unpredictable environments.

Sustaining a competitive advantage

The multi-generational entrepreneurship capability of family businesses has become well recognized as a source of significant competitive advantage. Sustaining it is key to their continued strong performance. We were not surprised to find that many of the survey respondents reported high levels of innovativeness, proactiveness and their families' ability to take action on well-considered risks throughout the pandemic.

This was especially true among companies that have Millennial leaders (those born between 1981 and 1996) who are less risk averse than many of their predecessors.

Next-generation family members are also playing an essential role in accelerating the adoption of new technologies to advance their businesses and respond quickly to changing market demands. Rather than reacting to circumstances that are outside their control (or hoping they will disappear), they're taking matters into their own hands and actively searching for new avenues to grow their businesses.

Many family businesses have recognized that to achieve high entrepreneurial performance, next-generation family members must be given opportunities to take risks and make judgments on their own — and not simply follow the lead of older generations forever.

Entrepreneurial risk-taking is not for the faint of heart, but it is recognized as an important factor in the sustained performance of family businesses — so much so that some family firms are educating their potential next-generation successors on how to take calculated and responsible risks and providing small amounts of family capital to enable them to apply the lessons learned in their own firsthand experiences.

How families are defining wealth

Beyond the independence of owning and managing a family business — and the financial benefits and prominence it can bestow — the emotional value that families derive from the connections they have with their business and other family members is unmistakable.

What is described as "socioemotional wealth" is an endowment that can't be underestimated, and it's carefully protected in most families. The family's control and influence and identification with the business are major contributors to its purpose, the drive for innovation and the impact that the business has on many different stakeholders.

Interestingly, the family business leaders we spoke with in February 2022 emphasized that many of their next-generation family members are voluntarily coming forward to be involved in the business, not because it's expected of them, but because they have a strong desire to be connected with the business and to carry its legacy forward.

Conducting the family business performance appraisal

There are many different types of performance that are important to family businesses, and a simple balance sheet approach to measuring results isn't possible. To truly appraise the performance of a family business *and* the family, multiple measures are meaningful, including (but not exclusively) financial metrics such as growth in market share, profitability and return on equity.

Equally important, however, is the entrepreneurial orientation exhibited in the firm's technological leadership, the advancement of innovations, its environmental progress and the impact it has on other pressing social issues.

The number of female CEOs promoting digital solutions and products in their businesses definitely goes against old stereotypes that women in family businesses are more oriented towards "soft" tasks and competencies.

There is evidence that next-generation leaders, particularly young women, are digitally savvy, with 39 percent of female CEOs in the survey recording high levels of digitalization in their companies, compared to 32 percent of their male counterparts.

A holistic view of both business and family outcomes is essential for success in family businesses, and the combined strengths of the business and the family contribute directly to their regenerative power.

Leading with style

Leadership style can't be overlooked as an additional and important factor in the performance of family businesses.

No leader has only one style of leading, and it often changes (as it should) with the economic and social circumstances of the time. When survey respondents were asked to identify their "preferred or most prevalent" leadership style, **transformational** was the overall preference of CEOs in every region, followed by **charismatic**.

Understandably, CEOs from the Silent Generation (those born between 1925–1945) generally showed low levels of transformational leadership and high authoritarian levels, which is often the case in first-generation businesses that are strongly influenced by the founder's vision and direction.

However, to sustain an entrepreneurial mindset and a culture of innovation across multiple decades, each generation has to act as a good steward to impart the purpose and values of the business and help each succeeding generation keep it revitalized.

How do family businesses rise to this challenge and keep the entrepreneurial spirit alive? What are the factors that drive family businesses to be bold, courageous and unstoppable from generation to generation? How do those factors impact the long-term performance of their businesses and their families?

Leadership styles are meant to be "fit for purpose," and they should change depending on the growth stage and performance of the company as well as the external circumstances. In a post-COVID-19 world and further unpredictable geopolitical and economic events, we believe that fueling the regenerative power of family businesses will require more charismatic and transformational styles of leadership to ensure that family businesses continue to evolve successfully as the needs of their business and the environment it operates in change.

We also believe, that as a family business matures and grows, a more progressive leadership style will be important to invite greater diversity in decision-making, increase the involvement of multiple generations of family members and include more women in leadership roles.

All of these factors help to enhance a company's entrepreneurial orientation, socioemotional wealth and long-term business and family performance. They also make a direct contribution to its continued regenerative power.

Global survey highlights

We surveyed and spoke to

2,439
Family business leaders
From the 'Silent Generation' to 'Millennials'

70
Countries and territories

18
Languages

In single and multi-generational businesses

We asked about

Entrepreneurial drive

- Innovativeness
- Proactiveness
- Risk-taking

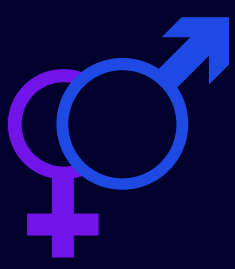
Family impact

- Control and influence
- Emotional attachment
- Identification with the business

Leadership styles

- Authoritarian
- Transformational
- Charismatic

CEOs' gender

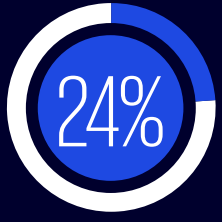


81% Male

19% Female

Business and family governance

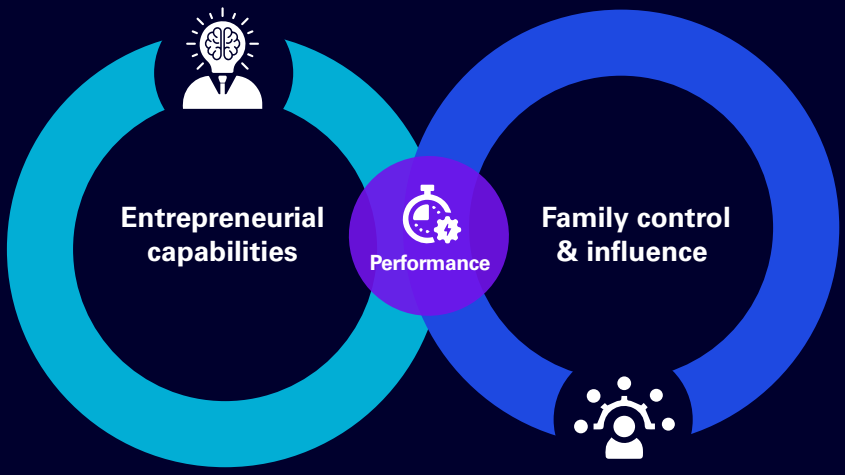
Board of directors



Family council

This is what we discovered

Strong entrepreneurial capabilities + the family's positive influence = strong business, social and family performance



The fuel igniting their regenerative power and performance

Keeping the founder's entrepreneurial spirit alive

Embracing a motivational style of leadership

Encouraging the next generation to be proactive, innovative and calculated risk takers

Reinforcing the emotional value of owning and managing the family business beyond financial wealth

Making business and family success equal priorities

Transgenerational entrepreneurship and the staying power of family businesses

Keeping the founder's dream alive

Amid the uncertainty of the past two years, family businesses were not only able to navigate the immediate challenges of the pandemic, but many also took their businesses in new directions. As we described in last year's report "**Mastering a comeback**", family businesses continued to introduce new products, services and delivery solutions to their customers. They expanded into previously untapped markets and digitalized their operations. Through their tenacity and regenerative capability, many turned adversity into opportunity.

The insights from this year's survey and the firsthand experiences of family business leaders show that the most important factor in the regenerative capability of family businesses lies in the strength of their entrepreneurial orientation. This is supported by the family's long-term commitment to their business and a leadership style that fits the economic and social environment at different points in time.

"Keeping our father's dream alive has been a very strong driver for our ownership. We are the second generation, and my siblings and I took over the ownership and responsibility of the business at relatively young age. We felt it was still our father's company. He built the company from nothing and he was much more of a risk taker and creative entrepreneur than us siblings in the second generation. We took on the role as strong stewards — to maintain and develop the core business rather than starting something new.

However, when the company celebrated its 50th anniversary some years back, we realized that our family firm had been under our care longer than it had been under the founder's. The current owners in the second and third generation have to create our own dreams of how to take the ownership and business further."

Simone Møkster
Simone Møkster, 2nd generation owner and Board Member,
Simon Møkster Shipping AS (Norway)

Comments such as these reflect the importance of the continuous renewal of family businesses and their ability to create new sources of value from generation to generation. Their goal is not to keep the original business intact, but to **keep the founder's entrepreneurial spirit and dream alive** by embracing new challenges and opportunities and by developing new capabilities that continue to create value and sustain their company's competitive advantage.

Maintaining a culture of transgenerational entrepreneurship is a key contributing factor to this regenerative capability. It takes the best of what each generation has contributed to the business and inspires each succeeding generation to build on and to reshape it in a way that contemporizes the business while retaining the founder's inspiration and vision.

To achieve continuous, transgenerational entrepreneurship, each generation has to act as a good steward to impart the purpose and values of the business and help each succeeding generation adopt an entrepreneurial mindset that keeps the business revitalized.

How do family businesses rise to this challenge and keep the entrepreneurial spirit alive? What are the factors that drive family businesses to be bold, courageous and unstoppable from generation to generation? How do those factors impact the long-term performance of their businesses and their families?

In addressing these questions, we began by considering the core principles of transgenerational entrepreneurship, which is based on two assumptions: 1) the family's involvement in the business is, in itself, a source of unique and incomparable resources and capabilities; and 2) the processes, practices and decision-making activities associated with managing the company's resources and capabilities are conducted in an entrepreneurial way.

Throughout the report, we have taken a detailed look at how the entrepreneurial orientation and behavior of a family business — as well as the family's capabilities and identification with it — are fundamental sources of their regenerative power and major contributors to the long-term performance of their business and family.

Entrepreneurial orientation

A blend of innovativeness, proactiveness and risk-taking

Previous family business research — and the collective experience of the STEP Project Global Consortium and KPMG Private Enterprise — suggests that the continuity of the entrepreneurial spirit in family businesses is a requirement for sustained business success and for achieving a competitive advantage over multiple generations.[1] The entrepreneurial mindset originated by the founder, combined with the family's resources and capabilities, is what leads to the "transgenerational entrepreneurship" capability of family businesses.

This capability is a source of sustained competitive advantage because it is built on two valuable and hard-to-imitate factors: the capabilities and resources of the family itself and the company's entrepreneurial heritage. This unique advantage can also impact every aspect of the business's performance.

"In a growing business such as ours, the entrepreneurial spirit is clearly still there. Now, as a fourth-generation business that has become more multinational, maintaining the entrepreneurial culture depends very much on the family's involvement in many different roles — as shareholders, board members and in managing the day-to-day business operations.

The key has always been to make sure we can make decisions quickly and stay focused on the long term. If a decision is right for the long-term success of the business, we will take it — even if members of the board might be retired by the time it pays off. We make those decisions for the continuity of the business, and we believe that this continuity has been a source of our family's sustained entrepreneurship."

Anonymous
CFO,
Horticulture industry (The Netherlands)

Changing demographics also have a significant impact on the family's roles as the business moves from being family owned and family run, for example, to potentially retaining its ownership but not its management. This not only changes the family's roles, but also the nature of the entrepreneurial spirit and how the roles and responsibilities are allocated to different groups.

We have also found there is a significant relationship between the level of entrepreneurial orientation and the scale of a business's operations. For example, the survey showed that families that operate multiple businesses have a higher level of entrepreneurial orientation than those operating a single business.

In taking a close examination of the entrepreneurial orientation of family businesses, we find three main dimensions: **innovativeness, proactiveness and risk-taking**, which we explore in more detail.

[1] Basco, R., Calabrò, A., & Campopiano, G. (2019). Transgenerational entrepreneurship around the world: Implications for family business research and practice. Journal of Family Business Strategy, 10(4), 100249.

The pursuit of innovation

Innovativeness is reflected in the interest of a family business to invest in research and development and create innovative products, services and processes. It's also seen when they find untapped markets for generating entirely new revenue streams.

"My grandfather was a plumber, and he started his business in 1923. He was an inventor with a love for simple, smart solutions. As a family, our goals have changed a great deal, but that sense of purpose has never wavered.

Today, we have approximately 1,400 employees all over the world, and I believe we are marking a turning point in the fourth generation. We have 25 family shareholders of all ages, and there is clearly a desire to sustain the family business. At this important turning point, we are very focused on making sure that our family members understand how to contribute to the business as responsible owners. We want to make sure that we continue to pursue the purpose, entrepreneurial spirit and persistent drive for innovation that has made the business a success for 10 decades."

Jan van Walraven
Co-founder,
Walraven (The Netherlands)

Investing in the research and development of new products and services is essential for the continuity of family businesses, and most leaders recognize that it's also a way to stay focused on their companies' long-term growth opportunities and competitive advantages. It wasn't surprising to see that survey respondents identified innovativeness as the dominant entrepreneurial orientation characteristic in their companies, with the highest levels reported in Asia & Oceania and the Middle East & Africa.

25%

of family businesses globally reported high levels of entrepreneurial orientation in their companies, with the highest levels found in the Americas and the Middle East & Africa — the two regional areas that also had the highest levels of proactiveness and risk-taking.

Key **takeaways** — On entrepreneurialism

Good governance creates accountability, transparency and clarity of decision-making and plays an important role in mitigating the risk of conflicts by including the right people in decision-making.

Family businesses need to maintain a process for continuously searching for opportunities.

The proactive search and exploitation of opportunities both inside and outside the family business is key to sustaining innovative practices and behaviors.

Proactiveness also means including the viewpoints of various family business members in the decision-making process to effectively seize and exploit new opportunities.

A continuous search for new opportunities

Proactiveness is the ability to continuously search for, identify and seize new opportunities. Often, family businesses are able to achieve this by anticipating future market demands, and they are also well known for taking pre-emptive actions that shape the competitive environment to which other companies are forced to react.

Proactiveness was the second most common characteristic that the survey respondents reported. Instead of reacting to events that are often outside their control, family business leaders are constantly searching for new opportunities at home and abroad, watching for clues that may indicate a change in market demands; and setting the competitive agenda that forces other companies to react.

The highest reported levels of proactiveness were in the Americas and the Middle East & Africa, where it appears there is a strong opportunity-seeking mindset among family businesses.

The case for continuous transformation at Ultra Liquors

"The difference between us and our competitors is our ability to make decisions and implement them quickly ... to look at the hard facts and accept whether they're actions worth taking. Being agile and taking quick decisions is not so much about change management, but about embracing changes and opportunities to get a competitive advantage.

You can be very negative, or you can look at what you see emerging and say, 'what can I do, and how can I use this better than my competitors to emerge one step ahead?' Our adoption of technology has sped up, and that's the result of change. We were adopting new technologies before, but relatively slowly. Then, suddenly e-commerce came on board — not just to connect us with consumers, but to link with our suppliers as well.

We talk about transformation every day, not just transforming the way we do things, but transforming our culture as well to make sure we embrace the ideas of everyone from different backgrounds."

Craig Robinson
Joint Managing Director,
Ultra Liquors (South Africa)

Risk-taking

The need for regenerative capabilities is particularly high when there are disruptive technology or industry changes, (such as those experienced in the retail, tourism and hospitality sectors throughout the pandemic), and changes, in the mission or needs of the family. **Entrepreneurial risk-taking** can change what a company does and how it operates a great deal, and the consequences can be quite broad.

Potentially for these reasons, only moderate levels of risk-taking characteristics were reported by the survey respondents, though the level was higher in companies led by CEOs from the Millennial generation. This suggests that the youngest group of CEOs who are currently leading family businesses may be less risk adverse than their predecessors.

Risk-taking is being encouraged among younger family members in some family businesses.

"One of the ways that we've promoted risk-taking is by providing capital to let the younger generations of the family try new things. This is supported by good governance practices through education and outside experience before any funds are made available to ensure that they fully understand what it means to have access to family capital. Our family history goes back more than 120 years, and five generations have successfully progressed the business from farming to gas and energy. We want younger generations to continue to branch out into new areas in the future.

"We have a deliberate plan to give them access to capital, and to educate them about the importance of entrepreneurialism combined with firsthand experiences in taking calculated and responsible risks."

Steve Elsberry,
CEO of Precision Benefits,
United States

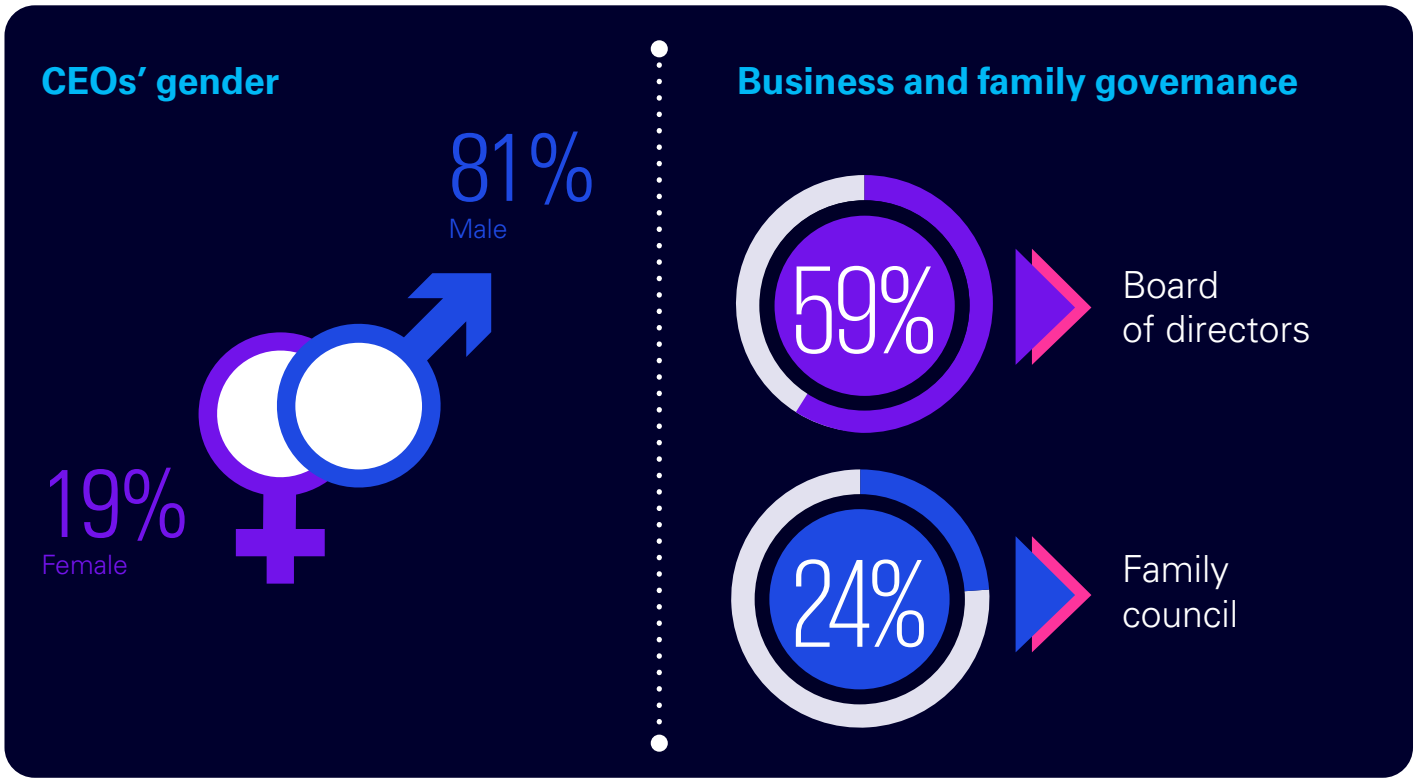
Non-family senior executives may be less risk averse and willing to take actions that are more aggressive than those of the family. It is important to make sure that management's actions are aligned with the interests of the business and not significantly more aggressive than the family's.

“

One of the surprises in the survey was the finding that only 59 percent of respondents have a formal board of directors in place, and only 24 percent have a family council.

Of those that do have formal boards, over 60 percent reported that their businesses performed better than their competitors over the past three years. This suggests that good governance mechanisms can provide some of the checks and balances that are needed to exploit new opportunities and develop bold innovations.”

Tom McGinness
Global Leader, Family Business,
KPMG Private Enterprise, KPMG International
Partner, KPMG in the UK



Managing change risk at Murphy Group

"The way a business sets its goals is very important. Ours is a well-established business that has been operating successfully for a long time. We went through a period from the mid-2000s to the mid-2010s where the appetite for making some of the required changes wasn't there, because everything was going well. But suddenly, you get to a point where a lot of changes are required quickly.

It can be quite risky when you are trying to make multiple large transformational changes in a short period. It puts a lot of strain on the business from an operational and cultural perspective, when you have to make that much change quickly, and you wonder how much of it will actually stick.

Our view is that we're far better off being a progressive business that constantly adapts, focusing on continuous and incremental progression, that is adapting and evolving all the time.

It's far easier and less risky to transform the business proactively and gauge the speed and impact by controlling the levers of how quickly the changes are implemented as opposed to waiting and having the change forced upon you."

John Murphy
CEO,
Murphy Group (United Kingdom)

Regionally, risk-taking was found to be more prevalent in the Middle East & Africa and the Americas than in other regions. Interestingly, these were also the two regions where family businesses reported the highest overall levels of entrepreneurial orientation.

Are the next generation reshaping the future?

The survey data suggests that there is a significant positive relationship between family businesses that are led by CEOs from the Silent Generation and the entrepreneurial orientation in their family businesses, compared to those led by Millennial-generation CEOs.

Companies led by Silent Generation CEOs reported the highest levels of entrepreneurial orientation overall, as well as the highest levels of innovativeness and proactiveness. Leaders from the Millennial generation, however, reported the highest levels of risk-taking. This suggests that younger generations of the family may be less risk averse and more aggressive in growing their businesses and ensuring they continue to outperform the competition.

There is a cautionary note, however, in the high-achievement and risk-taking culture of the Millennial generation, which could be detrimental in the family business context. It highlights the need for family businesses to balance the influence of various generations in order to complement the positive characteristics and mitigate the negatives that may be found in each.

There are innovative ways to achieve the best of both worlds.

"We have several nephews and nieces who graduated from university, many of whom joined the family business. Others went to work for unrelated international companies, and we discovered an interesting insight. Those who worked for the first eight years of their career in several unrelated companies had more innovative perspectives and higher levels of self-reliance, confidence, and performance than those who joined the family business right after university.

We have come to realize that to achieve high entrepreneurial performance, the next generation must be given opportunities to take risks and make judgments on their own — and not to simply follow the older generations' lead forever.

We found, for example, that many members of our family who are approaching age 40 want to start their own next-generation businesses in related industries, rather than being put in charge of a new division in the family's existing company. We are encouraging them to pursue their passions, and it is our hope that they will return some day with a related business that can be integrated with the original family business and introduce exciting innovations or new business models that will keep our entrepreneurial spirit alive."

John Mok
Co-founder & Chairman,
AML Holdings Limited (Hong Kong SAR, China)

There is also evidence that next-generation leaders, particularly young women, are **digitally savvy**, with 39 percent of female CEOs in the survey recording high levels of digitalization in their companies, compared to 32 percent of their male counterparts.

The number of female CEOs promoting digital solutions and products in their businesses definitely goes against old stereotypes that women in family businesses are more oriented towards "soft" tasks and competencies. We argued against this stereotyping in our previous report on **"The Power of Women in Family Business — A generational shift in power and influence"**, which included references to several studies showing that the superior governance and effectiveness of women in management and board positions can lead to better firm performance.[2]

Female CEOs from the Gen X and Millennial generations show a stronger digital orientation than those from other generations.

Who's leading the digital revolution?

- The level of digitalization is highest among family business respondents in Europe.
- Female family business CEOs are more likely than male leaders to promote digitalization strategies and solutions for their businesses.
- Digitalization is also higher in family businesses led by a non-family CEO. This may be because non-family CEOs who have experience outside the family business may have had more training and exposure to new technologies and may be more receptive to the adoption of advanced technology solutions.

[2] Torchia, M., Calabrò, A., & Huse, M. (2011). Women directors on corporate boards: From tokenism to critical mass. Journal of Business Ethics, 102(2), 299-317.

Beyond financial wealth

In addition to the importance of a family business's entrepreneurial orientation, a second critical component of transgenerational entrepreneurship is the family's socioemotional wealth — the emotional value they derive from owning and managing the business.

Socioemotional wealth is seen as an endowment in a family business. If the endowment is threatened, the family's decisions may be driven more by the importance of preserving that endowment and less on the potential economic value of their actions.

It reflects the unique ways in which families look at problems and how their actions might affect three important characteristics used to measure their socioemotional wealth: the **family's control and influence**, their **emotional attachment** and **identification with the family business**.[3]

The family's control and influence and identification with the business support the drive for innovation and positive outcomes. This is particularly important for maintaining family loyalty and support for the business, building the next generation's skills, creating development opportunities for family members, ensuring the family name and reputation is protected and respected in society, and tackling challenging environmental, social and governance (ESG) issues.

"There's a Chinese saying that "when things go to extremes, negative implications or responses are triggered." When we think about family influence, it's very positive in the beginning for creating a new venture, with good resources and concentrated efforts on a particular initiative — all of which combine to create a positive outcome.

But, when the family's influence goes to extremes (as I've seen in families that want to keep family control at the highest level), even if there are good external partners in the market who could provide additional areas of expertise, the family is not able or willing to dilute their ownership. Consequently, they lose the chance to collaborate with external partners that have the diverse expertise required in this disruptive era, which ultimately has a negative impact on their business."

Jeremy Cheng
Researcher,
Center for Family Business, The Chinese University of Hong Kong (Hong Kong, China)

[3] Gómez-Mejía, L. R., Haynes, K. T., Núñez-Nickel, M., Jacobson, K. J., & Moyano-Fuentes, J. (2007). Socioemotional wealth and business risks in family-controlled firms: Evidence from Spanish olive oil mills. Administrative Science Quarterly, 52(1), 106-137.

The family's **control and influence** over strategic business decisions was noticeably **low** among respondents from Asia & Oceania, while family members' close **identification with the business** was **high** in Europe and the Middle East & Africa, as was the family's **emotional attachment** to the business in the Middle East & Africa and the Americas.

CEOs from the Silent Generation reported the highest levels of socioemotional wealth in their companies, where family control and influence and the family's close identification with the business were also high.

High levels of emotional attachment were seen in family businesses led by Millennial CEOs. This may be because they have grown up in a stewardship climate and have developed an emotional attachment over time that has motivated their voluntary decision to join the business versus a decision made by their parents (as has sometimes been the case in previous generations).

Not surprisingly, the overall level of socioemotional wealth in family businesses is generally low when the CEO is a not a member of the owning family.

Key **takeaway** — On socioemotional wealth

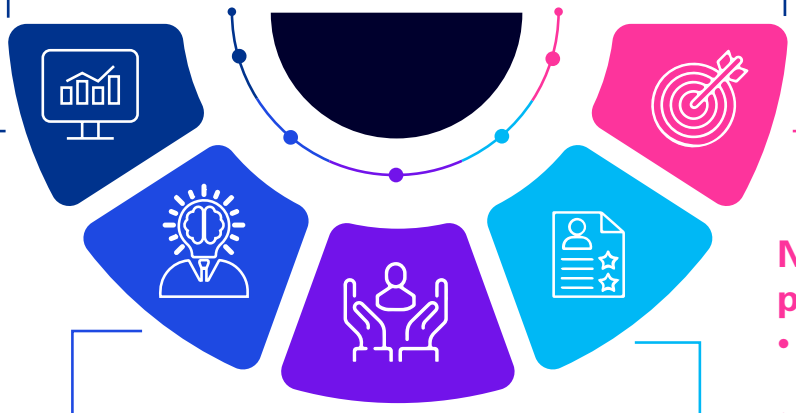
Maintaining family control is often a priority to help ensure the sustainability of the core business through slow and steady growth. Families are continuously reinvesting in their businesses, and when potential new partnerships are being evaluated, the family needs to make sure their partners have the same long-term views and values. For this reason, maintaining control is often a key driver for many family businesses.

The push for performance

Quantifying business performance can be challenging in any company. Gauging the performance of a family business is even more complex. For the sustainability of the business, financial results are clearly important. However, maintaining the founder's vision, a culture of entrepreneurialism and a reputation as responsible owners are equally important contributors to its regenerative power.

Striving for peak performance

These are the unique and important factors for measuring the performance of family businesses.



Financial performance

- Growth in sales and market share
- Growth in number of employees
- Growth in profitability and profit margins on sales
- Return on equity and total assets

External social performance

- Limiting environmental impact beyond compliance
- Educating stakeholders about environmental impact

Non-financial performance

- Family unity, loyalty and support for the business
- Development of next-generation skills and opportunities
- Customer loyalty to the family name
- Good reputation in the business community

Entrepreneurial orientation

- Emphasis on R&D, technological leadership and innovation
- Taking actions to which competitors are forced to respond
- Pursuit of high-risk projects with potential high returns
- Taking a bold, aggressive posture to maximize profitability

Internal social performance

- Adoption of innovative hiring practices (minority groups and persons with disabilities)
- Increases in women and minorities in senior management and boards

Measuring financial performance

The survey respondents reported business results that varied widely across the regions. At the extremes, noticeably high levels of financial performance (compared to their competitors) were reported by companies in the Americas and low levels were reported in the Middle East & Africa.

A deeper look into the overall business results suggests that the highest levels of financial performance were achieved in companies led by males and non-family CEOs, companies with high levels of innovativeness and proactiveness, and companies with high levels of family control and influence.

The age and stage of the businesses also appeared to have an impact on the companies' financial results, with the highest **growth in sales** reported by first-, second- and third-generation family businesses, and high **market share growth and profitability** reported in the second, third and fourth generations as the businesses grew and matured.

"Financial performance is paramount, and it cannot be ignored by the leader of the business, whether that's a family or non-family CEO.

Social performance is also important because it represents the beliefs, value systems and culture of the company and the family. Concern for employees, vendors and the family's socio-economic circle should be the role of a mature family member because the internal and external social performance of the company not only builds family loyalty, but employee loyalty as well. Operating responsibly reinforces the company's reputation with all its stakeholders."

Vivek Chinoy
Director,
Sigma CapSeal (India)

Because each performance factor is important in its own right, it's equally important to manage and measure them. The CEO doesn't have to be responsible for all of them, but it's important to identify who in the business is best suited to be accountable.

"With disruptive changes from the outside world, non-family members in management are much more inclined to align their ESG actions with strict regulations, whereas family owners see the long-term story and formulate their own positions on these issues. As a result, they don't just comply, but provide greater guidance to the business on disruptive elements that are coming from the outside."

Dr. Daniel Mitrenga
Memeber of the Management Board,
Die Familienunternehmer (Germany)

The impact of entrepreneurialism on performance

We weren't surprised that the survey responses demonstrated a significant relationship between the entrepreneurial orientation of family businesses and their level of performance compared to their competitors.

Specifically, the level of innovativeness and proactiveness of these businesses was related primarily to their financial and internal/external social performance as well as the family's non-financial priorities. In these cases, risk taking appeared to be related only to the internal social performance of the business, such as companies that were focused on hiring more women and minorities in senior management and board positions.

Key takeaways — On entrepreneurial performance

Sometimes there is too much emphasis on whether or not the family enterprise is focused on "family-first" or "business-first." It's important to be careful about the dichotomy of trying to classify things in terms of family or business and financial or non-financial performance. Families have goals, and if those are entrepreneurial goals, they should find ways to measure them.

One way to leverage the entrepreneurial orientation of a family business and improve performance is by encouraging next-generation family members to engage with diverse business groups (such as the YPO — a global leadership community of extraordinary chief executives) and partnerships that expose them to networks and sectors outside the existing business. This stimulates innovative thinking, which they can bring back to the business.

Socioemotional wealth creation and the impact on performance

"I believe that performance has to be viewed very holistically. It requires a good balance between financial performance and non-financial performance, which is the soul of the family and the business. We have many younger family members joining the business, and their focus is not on profits, but on their dedication and loyalty to building the business.

For our company, we have found that it's best to keep the concept of profits a little to the side and instill a sense of business ownership versus functional ownership with next-generation family members who can then help to evolve and grow our businesses over a period of time. It's accountability with agility."

Siddharth Bhimrajka
Partner,
Bhimrajka Exim LLP (India)

Much like the characteristics associated with entrepreneurial orientation, we have found that the characteristics of socioemotional wealth are seen in every aspect of family business performance.

For example, the family's control and influence and identification with the business are highly connected with every aspect of their financial, social and non-financial performance. Understandably, the family's emotional attachment to the business is also linked with its internal social performance (such as the inclusiveness of women, minorities and persons with disabilities in senior managerial roles) and non-financial performance (such as the family's loyalty and support for the business and the importance of maintaining a good family name and reputation).

Based on our survey, male CEOs generate higher levels of financial performance than females, but family businesses with female CEOs have higher social and non-financial performance, such as preserving the name and reputation of the family business.

"Family business performance is based on the original founder's vision and personal beliefs. For example, our founder wanted to create a family-oriented environment that would be meaningful to all levels of employees. That purpose has permeated to the current generation of leaders and influenced how we perform as a management and ownership team.

When the oil sector crashed in 2016/2017, management took a significant pay cut to reduce operating expenditure. No employee redundancies were made; instead, we created special events and sports days to keep everyone's morale high in the company. We know that's what the founding father would have done so himself. Financial performance was no doubt every firm's objective, but it is as important to recognize champions in the company. He made sure to always to share the fruits of his success with every employee.

That's why we evaluate our performance based on what he had in mind — not only to make the company thrive, but to create a rewarding experience at Oilfield Services & Supplies PTE Limited (OSS)."

Kenneth Loh
Business Development Manager,
Oilfield Services & Supplies PTE Limited (Singapore)

Prioritizing social outcomes

Financial performance was reported at noticeably high levels in the Americas, but significantly lower in regions such as the Middle East & Africa, where non-financial performance was higher.

Key **takeaways —** On family performance

Family businesses should develop next-generation family members in a stewardship climate. This helps to increase the identification and emotional attachment with the business.

It can be useful to write a list of values and share them among family members and employees.

Organizing regular experiential events with family members can help to focus on and reinforce the family's values, reputation and image.

Introducing governance mechanisms, such as family councils, helps to mitigate potential family conflicts and improve family unity.

Rosalia Santulli,
STEP Project Global Consortium Research Champion,
Assistant Professor,
University of Genova
Affiliated Researcher,
IPAG Business School

Leadership styles and their impact on performance

Leadership style can be another important contributing factor to performance, but we believe that no leader has only one style of leading. It changes depending on the circumstances, age and stage of the business as well as the economic, social and business environment it operates in.

We wanted to understand the impact of particular leadership styles in the regenerative capability of family businesses. We didn't evaluate the survey respondents' leadership styles, but we invited them to choose their **preferred** or most prevalent style from the three most common: transformational, charismatic and authoritarian.

Transformational leaders change the basic values, beliefs and attitudes of their "followers", making them willing to perform beyond the minimum levels that are required by the business. Transformational CEOs lift ordinary people to extraordinary heights and motivate their followers to do more and perform beyond expectations.

Companies led by transformational leaders typically deliver good financial results as well as social and environmental progress, while also building the family's loyalty and identification with the business.

The second-highest preference of the respondents was the **charismatic style**. A charismatic leader has the power of persuasion and the ability to motivate their followers who generally show great reverence for — and personal trust in — their leader. They have a heightened sense of collective identity, feelings of empowerment and believe in the importance of the performance of the group as a whole.

Family businesses with charismatic leaders typically show better financial, internal and external social results and are able to build strong bonds between the family and the business.

A charismatic leadership style was preferred more than others among CEOs in Latin America. However non-family CEOs generally had a low preference for this leadership style. This is likely because there is often great reverence and personal trust towards the family leader in family businesses — whether he or she is the founder, CEO, a major shareholder or holds a seat on the board.

Non-family CEOs who have a charismatic leadership style often find themselves "tilting at windmills" and competing with a family leader somewhere in the business.

A transformational leadership style was the overall preference of CEOs across all regions.

The **authoritarian** (or paternalistic) leadership style was the least prominent among the survey respondents. Authoritarian leaders exert powerful authority over their subordinates. Though it was the least preferred option overall, it did appear more often among CEOs from the Middle East & Africa and parts of Asia.

The primary impact of an authoritarian/patriarchal style of leadership is seen in the strength of family bonds and their emotional attachment to the business.

"I think that as generations change, the leadership style changes to meet the needs of the hour. For example, we've seen all three leadership styles in our business. When my grandfather started the business with four or five people working for him, his style was very paternalistic and authoritarian. The employees were working for him, not the company, and everyone did what he asked. He took care of them like a family until they retired, and even today, we have a policy that when employees retire, they can replace their position with another member of their own family.

My father is the eldest of the second generation, and he is definitely a charismatic leader. As the second-generation CEO, his thinking processes and the way he has run the business has been very good. But the question now is, will this continue to be good enough in today's day and age?

With the third generation starting to come into the business, we're looking at the business as it is today and how we see ourselves in 2030. I'm playing the transformational leadership role with a third-generation committee of brothers and cousins, and I can see how every generation works through different leadership styles depending on the needs of the business and the business environment at different points in time."

Abdulla Ajmal
COO,
Ajmal Perfumes (United Arab Emirates)

CEOs from the Silent Generation generally show low levels of transformational leadership and high levels of authoritarian leadership, while younger family business leaders typically adopt a more transformational or charismatic leadership style.

Those family businesses with a high level of entrepreneurial orientation, diversity and a charismatic leadership style typically show higher financial and non-financial performance.

The way forward

Is it time to revitalize the leadership of family businesses?

The majority of family CEOs who contributed to our survey and roundtable discussions belong to either Gen X (born between 1965 and 1980) — representing 44 percent of the survey respondents — or Baby Boomers (born between 1946 and 1964) — representing slightly more than 35 percent of the respondents.

In Europe, where the oldest firms were represented, the majority of CEOs come from Gen X, born in the five-year period between 1965 and 1970.

"Research shows that the family business model is the best performing model across the globe. However, the challenge for family businesses. and especially their next-generation leaders is to find a way to manage the paradox of tradition and change, how can we continue differently into the future."

Eric Clinton
Associate Professor,
DCU Business School & Director, DCU National Centre for Family Business (Ireland)

While the purpose-driven, values-based culture that Eric Clinton describes is already embedded in family businesses and one of their many competitive advantages, we believe that the regenerative power of these companies could be enhanced further by adopting a renewed perspective on leadership.

Over the course of the last two years, for example, we've been able to observe the input and influence of next-generation family members who have taken a seat at the leadership table and are helping to create a new outlook for the future of their businesses. They've challenged the status quo and are demanding progress in digitalizing their operations and achieving ESG targets to sustain the success of their businesses.

"For next-generation leaders, the question is 'How do you protect the culture and values of the family that the business has been built on, while also taking it forward in new directions to continue to grow and prosper?' Often, this creates the need for a new leadership style that is more focused on the family's role as owners and stewards compared to the family's role in management.

As social and economic environments evolve and change, it's necessary for the leadership styles of family businesses to adapt — not only because the business is changing, but because the family's relationship with wealth is also changing as a result of the exponential growth of families over several decades and how they might need to diversify and protect the family's wealth."

Daniel Trimarchi
Director, Family Business Global Network,
KPMG Private Enterprise & Director,
Family Enterprise Advisory,
KPMG in Canada

It's becoming clear that there is fresh leadership potential among young Millennials who are stepping forward — including a higher proportion of female family members. And so, we were surprised to find that only 19 percent of the CEOs who responded to the survey are women.

Beyond the CEO role, the data also shows there are fewer than two women, on average, who have seats on the board of their family businesses. This surprised us as well, since more than half of the companies represented in the survey operate in service industries, where more women are typically found in leadership roles. Also, there is an emerging global trend that is opening up more leadership doors to women, especially as members of the Millennial and even Gen Z generations are beginning to step in as successors.

In fact, the highest percentage of female respondents in our survey (29 percent) were found among Millennials, suggesting that societal issues, such as the impetus for companies to achieve greater diversity, are being taken into account in family businesses as younger members of the family begin to take on larger roles.

"Female and male leaders have a different leadership approach. They see how to manage the enterprise in a different way, even when there is no cross-generational influence. Leaders from older generations have a more authoritarian approach, though that is less the case among female leaders.

In younger generations, female leaders generally tend to have more transformational and charismatic leadership styles than males, and they are higher risk-takers in leading transformation efforts. The risk and transformation elements can lead to higher levels of entrepreneurship overall among women in family businesses."

Alfredo Valentino
Associate Professor of International Business, ESCE Paris

In a post-COVID-19 world, we believe that continuing to fuel the regenerative power of family businesses will require charismatic and transformational styles of leadership to help ensure that family businesses continue to evolve successfully as the needs of their businesses and the environment they operate in continue to evolve as well. We also strongly believe that greater diversity of views and experiences and inclusivity in the C-suite can add even further to that power.

Key **takeaways —** On leadership

Leadership in family businesses operates on many different levels: as the family leader, as an owner, in the board room and as an employee. Sometimes it's necessary to show direction without having a formal leadership role.

For many family businesses, having a family member in the CEO position can be very important for customers, the banks they work with and their employees. However, while it's important to have active owners, many family businesses believe that the family member in the leadership role should not have a seat on the board as well, and some put policies in place to help ensure that the same person does not have both an operating and governing role.

A diversity of views , talents and experiences — including those of women in family businesses — has tremendous power in helping to lead their companies forward in new and interesting directions.

Families that actively socialize both their male and female family members from an early age can gain a competitive advantage by providing the next generation of their leaders with the know-how they need to pursue a successful career in the family business.

With improved access to higher levels of education, coupled with shrinking family-size, the role of women will likely continue to progress. Now, more than ever, it may be time to invest in your daughters.

Performance profiling

Identifying the qualities required for success

Sixty-two percent of the survey respondents represent family businesses in the service industry. Given their predominance, we have created four performance profiles of different family businesses in the service industry. While they share common characteristics, they show significant differences in their levels of entrepreneurial orientation, socioemotional wealth and performance.

In our previous research,[4] we have shown that the entrepreneurial orientation of family businesses is strongly related to their financial, social and non-financial performance. This is also true of the family's level of socioemotional wealth as a contributing factor in the family's non-financial performance.

Exploring this further, we have been able to determine that when both the level of entrepreneurial orientation and socioemotional wealth are high, the company's performance is also high in every aspect of the business and the family.

Overall performance is also high (with the exception of non-financial performance, such as family unity and loyalty to the business) among family businesses that exhibit a high level of entrepreneurial orientation but lower levels of socioemotional wealth. And, as might be expected, when the levels of entrepreneurial orientation and socioemotional wealth are low, performance is also low across every measurement.

Recognizing that there are many variations in performance between the highest and lowest levels of entrepreneurial orientation and socioemotional wealth, we have created four family business profiles: **"Entrepreneurial families", "Business-first families", "Family-first businesses" and "Underperforming businesses".** Each profile illustrates the contributing factors to the performance of family businesses and the actions that can be taken to sustain and improve it.

[4] STEP 2019 Global Family Business Survey https://thestepproject.org/wp-content/uploads/2020/09/STEP2019GlobalFamBizSurvey-Report1.pdf

Four family business profiles

1 Entrepreneurial families

- ^ High entrepreneurial orientation
- ^ High socioemotional wealth

- Average business age: 48 years
- Europe & the Americas
- Primarily first-generation businesses
- Small with fewer than 50 employees
- Family CEO

2 Business-first families

- ^ High entrepreneurial orientation
- v Low socioemotional wealth

- Average business age: 41 years
- Europe, Latin America, Asia & Oceania
- Primarily first- and second-generation businesses
- Large with more than 250 employees
- Family CEO

3 Family-first businesses

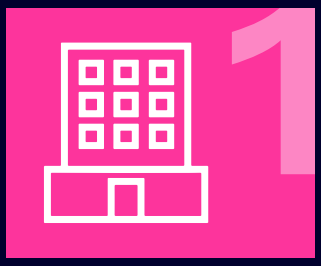
- v Low entrepreneurial orientation
- ^ High socioemotional wealth

- Average business age: 48 years
- Europe
- Primarily second-generation businesses
- Small with fewer than 50 employees
- Family CEO

4 Underperforming businesses

- v Low entrepreneurial orientation
- v Low socioemotional wealth

- Average business age: 46 years
- Europe, Latin America, Asia & Oceania
- Primarily first- and second-generation businesses
- Mix of small, medium and large companies
- Family CEO



Entrepreneurial families

High entrepreneurial orientation
High socioemotional wealth

These are companies that appear to "fire on all cylinders." They are regenerative powerhouses with high levels of entrepreneurial orientation, socioemotional wealth and performance.

In this profile, they are represented by 420 predominantly small (fewer than 50 employees), but well-established first- and second-generation family businesses. With an average age of 48 years, the majority are located in Europe and Latin America, and approximately one-third operate more than one family business.

These are companies that share a number of characteristics that we believe reflect the optimal family business model.

Leadership

By far the majority (96 percent) are led by a **family CEO** belonging to the first generation, with 76 percent having a male leader, though **24 percent have female leaders** — the highest percentage compared to all the businesses represented in the other family business profiles.

These CEOs are predominantly members of Gen X and the Baby Boomers, though 20 percent of the companies have Millennial leaders and 5 percent represent the Silent Generation, the highest among all the groups in both cases.

The leaders of these companies reflect the entire spectrum of authoritarian, charismatic and transformational leadership styles.

Governance

They also have **strong governance** mechanisms in place, with approximately 60 percent having a board of directors — with the highest number of seats held by family members, compared to the other groups and one-third having a family council.

On average, 89 percent of the shares are owned by the family.

Entrepreneurial orientation

These companies have a v**ery strong entrepreneurial orientation** with very high levels of innovativeness, proactiveness and risk-taking.

Socioemotional wealth

They also demonstrate very high levels of socioemotional wealth, particularly in terms of the family's identification and emotional attachment to the business. Family control is at a slightly lower level by comparison, but it is still high.

Performance

The companies in this group have high levels of performance across all measures, with particularly high financial outcomes as well as non-financial/family performance (the factors related to socioemotional wealth) and high levels of internal and external social performance.

This is often a reflection of the virtuous circle of entrepreneurialism creating social value, which in turn can help drive business value and vice versa.

These companies also have the highest levels of digitalization, with strong alignment between their digital and overall business strategies.

How to reinforce and build on your strengths

If the characteristics of the "entrepreneurial families" profile are reflected in your business, there are important steps that you can take to help you sustain the regenerative power of your business and continue to build on the entrepreneurial strength of your business and your family's socioemotional wealth? We invited family business academics and professional advisers who work closely with family businesses across the world to share their observations and suggestions for sustaining your top business performance. Here's what they had to say.

"In my experience, family businesses that consistently 'fire on all cylinders' are setting the performance benchmark for generations to come. And that means that it's important to create opportunities for next-generation family members to make their own unique contributions.

One way that I've seen family business leaders accomplish this is by empowering entry-level professionals to contribute to the business strategy, especially in areas where they are the potential consumers of some of the company's products or services. They are likely to think about and consume these products differently from older generations, and they can provide an important strategic insight that's of value to the business."

Jubran Coelho
KPMG Private Enterprise Leader for the South Americas Region and Brazil,
KPMG in Brazil

"I agree. A culture of innovation is best fostered throughout the entire organization, rather than relying on 'pockets of innovative excellence', such as an R&D department. Engaging multiple generations and actively seeking out diverse perspectives are key contributors to organization-wide innovation.

I've witnessed the positive impact of this kind of environment where employees are hungry to get customers to share their complaints and 'pain points' (using digital or other means), for example, and then use that customer feedback to continuously innovate and stay ahead of the competition."

Tulsi Jayakumar
Professor, Economics and Executive Director, Center for Family Business & Entrepreneurship,
S.P. Jain Institute of Management & Research (SPJIMR)
E: tulsi.jayakumar@spjimr.org

"Building on Professor Jayakumar's observations on the importance of diverse perspectives and experiences, I think that including non-family members on the company board can be an important contributor as well. They can add different points of view and challenge decisions or strategies that may have been defined by a family CEO who has been in the leadership role for years — or even decades. Likewise, I've often seen that increasing the number of women on the board also introduces a variety of experiences, encourages very different perspectives and helps to challenge homogenous thinking."

Jesus Luna
National KPMG Private Enterprise Leader,
Partner,
KPMG in Mexico

"Keeping and accumulating socioemotional wealth is an important part of the success of family firms in this group. As such, it is very important to nurture and evolve socioemotional wealth across business lines and industries, geographical scope, and generations. Shifts in the level and composition of socioemotional wealth can indeed happen, especially when family businesses move from one generation to the other and it is exactly at that time that it is important to make sure that the best of it in terms of family control and influence, identification and emotional attachment is transferred."

Andrea Calabrò
STEP Project Global Academic Director,
Director, IPAG Entrepreneurship & Family Business Center,
IPAG Business School

Based on their experiences with multiple family businesses, these are some of our contributors' specific ideas and suggestions for continuing to build on your high-performance culture.

It's important for entrepreneurial families to sustain their high levels of entrepreneurialism and socioemotional wealth by clearly setting out what "innovation" means to the family and to the family business.

- Encourage next-generation family members to share responsibility and lead the innovation journey and, where necessary, expose them to innovation tools through structured training programs.
- Create an employee forum that specifically encourages and rewards innovative thinking in areas such as ESG and product innovation.
- Establish a "shadow board" to complement the existing board strategy and ensure that it invites a diversity of views and experiences beyond those of the formal board. This might be reached by promoting different types of diversity within boards, such as gender, nationality, generational and functional background.
- Define clear financial and non-financial performance metrics for each innovation to help mitigate the risk of accelerating innovations that are well beyond the needs of your market.
- Create a healthy balance between speed and control. The potential for burnout is a reality given the pace of companies that consistently operate at peak performance. Pay attention to the mental health of family and non-family members.
- Organize regular retreats with members of the extended family to allow them to exercise their "innovative muscles" and strengthen their connections to each other and the business. Often, next-generation family members learn about the entrepreneurial journey of the senior generation through storytelling during these retreats, and they're given opportunities work with other family members from their generation to come up with product, process, service, price or distribution improvements.
- Make sure that the core family visions, values and principles are successfully shared and transferred from one generation to the other.

Achieving strategic alignment and rigorous risk management

In addition to ensuring that the company culture and its performance remain well-balanced, it's also important to make sure that the company´s purpose is not only aligned to its financial performance, but also to the relevant risks related to the ESG matters in your company and industry. These are matters that are getting more attention from several stakeholders.

- When your business is operating at peak speed, controls and governance mechanisms need to be fully activated. But that isn't necessary all the time, and some family businesses have successfully created modular governance environments, with controls that are adapted and activated to fit the pace of the business at different points in time.
- Ensure that your top management team and board are clear as to the potential risks that might impact your company's immediate and longer-term strategy, including the relevant actions that need to be taken to address current and emerging ESG issues.
- Conduct regular enterprise risk assessments and create a top-down, enterprise view of all the significant risks that might impact the strategic objectives of your business.

2 Business-first families

High entrepreneurial orientation
Low socioemotional wealth

The "business-first families" in our survey represent 552 family businesses of all sizes and an average age of 41 years — the youngest average age compared to all of the other groups. More than one-third are located in Europe, with approximately one-quarter in Latin America and in Asia & Oceania.

We have described them as being "business-first" because a distinguishing feature is their very high entrepreneurial orientation but lower levels of socioemotional wealth.

Leadership

The majority (94 percent) are led by a **family CEO**, with 85 percent being male leaders.

The CEOs in this group are predominantly members of Gen X and the Baby Boomers, and there is no prevalent leadership style.

Governance

These companies have a moderate level of governance mechanisms in place, with 54 percent having a board of directors and approximately one-quarter with a family council.

On average, 86 percent of the shares are owned by the family — the highest level of family ownership among all the groups.

Entrepreneurial orientation

These companies have a **high entrepreneurial orientation** with very high levels of innovativeness and risk-taking.

Socioemotional wealth

However, they demonstrate relatively low levels of socioemotional wealth in terms of family control and the family's identification with the business, followed by medium levels in terms of the family's emotional attachment to the business.

Performance

The companies in this group generate high levels of financial, internal and external social performance and digitalization, but lower levels of non-financial/family performance.

Need to strengthen your family's connection to the business? Here are some potential actions to consider.

If the characteristics of the "business-first families" type are reflected in your business, there are actions you can take to help reinforce its strong entrepreneurial orientation, while also increasing the level of socioemotional wealth, strengthen the connections between your business and your family, and enhance the performance of both.

We invited family business academics and professional advisers who work closely with family businesses across the world to share their observations and suggestions. Here's what they had to say.

"It's interesting that there are two types of family firms that achieve a comparably high level of financial performance. In 'entrepreneurial families' and 'business-first families', entrepreneurial orientation is typically embedded in the family structure and it's part of the firm's DNA.

But there is one distinction in the case of business-first families. Their entrepreneurial orientation stands on its own without the substantial socioemotional wealth that is seen in the entrepreneurial-family type. In these cases, entrepreneurship is driven primarily by rational decisions and the aim to maintain economic sustainability."

Thomas Clauß
Full Professor and Head of Chair in Corporate Entrepreneurship and Digitalization in Family Business, Witten/Herdecke University
E: thomas.clauss@uni-wh.de

"As the name implies, 'business-first families' do have a tendency to place more emphasis on the profitability and growth of the business than the socioemotional wealth of family members. To address this, many family businesses have retained a qualified human resources practitioner to develop and manage a proper performance appraisal system that identifies opportunities for upskilling family members and employees, exposes working family members to leadership training and pegs the salaries of working family members to market rates."

Jonathan Ho
Partner,
Head of KPMG Private Enterprise, KPMG in Singapore

"As Professor Clauß has described, the level of entrepreneurship is the primary contributing factor in the performance of 'business-first families'. To maintain this top-level performance, the leadership and governance of the business must continuously evolve to maintain a strong entrepreneurial mindset.

Family businesses continuously draw on their strengths, and they rely on each generation to support the professionalization of the business and accelerate the adoption of new technologies. It's important, then, to ensure that each generation has the permission and the delegated authority to implement these changes."

Robyn Langsford
Partner,
Private Clients & Family Business, KPMG Australia

"I am in complete agreement with the need for open communication to build family connectedness and attachment to the business. I've seen many family businesses set up a family intranet, for example, that enables all family members to access company presentations, the strategic plan and encourages them to discuss their ideas and initiatives together on a 'family forum.' It's a way to capture and take into account the family's priorities on decisions that will impact the future of the firm by those who might ultimately lead it."

Professor Miruna Radu-Lefebvre
Head of the Chair Family Entrepreneurship and Society and Professor in Entrepreneurship, Audencia Business School

"I agree that leadership and governance structures are important in 'business-first families.' Not only do they support and strengthen the entrepreneurial mindset, they could also increase the family's socioemotional wealth by developing and supporting their future shareholders. This is what sets the stage for the inevitable leadership and ownership transitions and risks ahead.

Open communication is also important in formal and informal family meetings where current generations share their beliefs, entrepreneurial mindset and future vision for the business. This is where next-generation members can increase their identification with the business. And it's also very effective to identify a 'family connector' who understands the business, generates empathy and respect from family members, and facilitates communication among family members who have different opinions, passions and ideas."

Ana Gonzalez
Assistant Professor of Management, Director,
Family Owned Business Institute, Seidman College of Business, Grand Valley State University

"I would add that team spirit can be strengthened by forming sport or performance teams within the company or its subsidiaries. And organizing corporate family days for employees to bring their children and celebrate festivals together goes a long way in improving work/life balance and lowering work stress while simultaneously building stronger connections with the business."

Karmen Yeung
National KPMG Private Enterprise Leader, Partner, KPMG China

Based on their experiences with multiple family businesses, these are some of our contributors' specific ideas and suggestions for helping to sustain your strong entrepreneurial culture and business performance, while also strengthening the connections between your business and your family.

Supporting entrepreneurialism

- Appointing a non-family member in a leadership role can help elevate the growth of the family business by providing a diverse perspective as well as a proven track record for driving innovation.
- Draw upon next-generation family members to support the professionalization of the business and accelerate the adoption of innovative technologies.

Strengthening family connections

- This positive public image and branding built by the founders and their succeeding generations is often pivotal in engaging family members in their businesses. Continue to build on and communicate the positive public image of your business to help preserve — and ideally increase — the socioemotional wealth of your family members.
- Having a proper family constitution helps to define roles and responsibilities with a common purpose and a set of objectives that the family members want to achieve by being in business together. With the shared purpose agreed to, a set of purposeful values can then be developed and adopted to drive the expected behavior of all employees, including family members, and create the right culture.
- Establish a family charter that sets out the precise selection mechanisms for choosing successors alongside transparent rules regarding family members' participation in the family business.
- To help minimize destructive conflicts, leaders should take concrete steps to implement a clear organizational structure, reporting lines and formalized standing operating procedures and policies. This can be hugely beneficial for the family business in establishing transparency, accountability, clearly defined KPIs, remuneration structures, authorities, roles and responsibilities.
- Structures such as external board members, family councils, rules of entry and exit, and a well-rounded and comprehensive family constitution set the foundations to help grow the business and keep the family committed to those growth targets.
- Implement an annual family gathering to bring family shareholders together with other family members. This is an opportunity for them to tell the story of your family business, discuss family priorities and sensitize younger generations to the development of the company. Ask them to imagine the future of the family firm and provide informal feedback on the current strategic choices. This can enhance the family members' attachment to the company and their ability to influence its strategic direction.
- Set up a family intranet that enables all family members to access company presentations and the strategic plan, and use a 'family forum' to put forward and discuss ideas and initiatives that reflect family priorities and the decisions that will need to be made regarding the future of the family firm.
- Identify 'family connectors' — potentially one for each branch of the family. They are not necessarily the CEO or someone who works in the business, but someone the family can approach to open up the communication channels and their relationships with each other.

Family-first businesses

Low entrepreneurial orientation
High socioemotional wealth

The "family-first businesses" in the survey represent 1,022 small-sized family businesses (fewer than 50 employees) and the highest proportion of second-, third- and fourth-generation companies. They represent the oldest family businesses, with an average of 48 years. More than one-half are located in Europe, with approximately one-quarter in Latin America.

We describe them as being "family-first" because of their high levels of socioemotional wealth and the impact it has on their overall financial and social performance.

Leadership

The majority (97 percent) are led by a f**amily CEO**, with 80 percent being male leaders.

The CEOs in this group are predominantly members of Gen X and the Baby Boomers, and there is no prevalent leadership style among this group.

Governance

They have strong governance mechanisms in place, with 63 percent having a board of directors — the highest number among all the groups — and approximately one-quarter with a family council.

On average, 95 percent of the shares are owned by the family — the highest among all the groups as well.

Entrepreneurial orientation

These companies have a low overall entrepreneurial orientation, including low levels in each of the three factors that contribute to entrepreneurialism: innovativeness, proactiveness and risk-taking.

Socioemotional wealth

They do, however, demonstrate medium-to-high levels of socioemotional wealth, particularly in areas such as the family's control.

Performance

In terms of performance, the companies in this group show relatively high levels of non-financial performance — especially in terms of the family's control and influence — and lower levels of financial and social performance.

How can you raise the entrepreneurial bar in your family business?

"Family-first businesses" enjoy strong bonds between the family and the business. However, sometimes the founder's original entrepreneurial spirit begins to decline over time. Entrepreneurialism is one of the key factors that contributes to strong business performance. If the characteristics of the family type are reflected in your business, there are many actions that you can take to begin elevating your company's entrepreneurial orientation, help boost your level of entrepreneurialism and enhance your company's overall performance. We invited family business academics and professional advisers who work closely with family businesses across the world to share their observations and suggestions. Here's what they had to say.

"Often, in the face of continuous transformation, the long-term goal of multi-generational businesses is to protect the family's wealth, while also continuing to demonstrate a strong sense of social responsibility — especially for their employees and local communities.

In fact, we quite often see that 'family-first businesses' feel a huge responsibility for the impact they have on local infrastructure, jobs, and charitable organizations as well as on their own business success."

Dr. Jan-Hendrik Gnändiger
Associate Professor,
ESCP Business School

"I've experienced the prevalence of 'social responsibility' priorities among many family businesses. But, given the impact that entrepreneurialism has on business performance, many are also beginning to encourage and expose the family — especially next-generation family members — to new entrepreneurial thinking in forums such as executive MBA programs. Some are also supporting family members in starting new ventures outside the core family business or developing new products inside the existing business. For these actions to be successful, it's necessary to promote the individuality and independence of next-generation family members and allow them to make mistakes."

Chiara Succi
Associate Professor,
ESCP Business School

"When companies stop growing, they eventually erode, and the business family becomes less relevant over time as they become less inclined to pursue ambitious objectives or tackle new challenges. For successful leadership successions, however, the company needs to keep growing. And this makes the level of entrepreneurialism and growth potential of family businesses even more important if long-term sustainability is the family's goal for their business."

Miguel Ángel Faura Borruey
National KPMG Private Enterprise Leader,
Partner,
KPMG in Spain

"This reflects my experience as well, where fostering a culture of explorative innovation is being encouraged by more family businesses through idea generation and increasing the risk appetite of next-generation family members to explore their own innovative ideas.

Sometimes this includes developing strategic win-win alliances with third parties. Often, I've seen this achieved by creating a forum for employees and next-generation family members to develop and reward innovative ideas related to product and process innovations that are embedded in their firms' social and environmental responsibilities."

Pramodita Sharma
Professor & Schlesinger Grossman
Chair of Family Business,
The University of Vermont,
Grossman School of Business

"I agree that increasing the involvement of next-generation family members — particularly Millennials and Gen Z who are more technology savvy — can not only continue to strengthen the family's socioemotional wealth, but also bring new skills to lead the digital transformation of the business, including the introduction of technology innovations that can deliver increased value to customers.

I'm also very familiar with 'family-first businesses' that are beginning to go beyond their focus on social responsibility to encourage (and even mandate in some cases) that next-generation family members work outside the family business to gain exposure to other business cultures and new markets and learn new skills in businesses and industries that are complementary to the family business."

Vangelis Apostolakis
Deputy Senior Partner,
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Based on their experiences with multiple family businesses, these are some of our contributors' specific ideas and suggestions for helping to increase the level of entrepreneurialism and long-term sustainability of your family business.

Amplifying the drive for innovation

- Clarify the aspirational goals for your family business, looking out 10–20 years from now.
- Consider appointing a non-family member in a leadership role who can bring proven entrepreneurial skills to the business and a track record for driving innovation.
- Establish or revamp your board by selecting a mix of talented family and non-family members and carefully matching their skill sets with your aspirations.
- Enhance your governance practices by including carefully selected independent directors with expertise in areas where the family may lack knowledge and strategic thinking.
- Value diversity and a variety of talents within the family as a source of innovation.
- Foster a culture of explorative innovation.
- Invest time, effort and funds to nurture transgenerational entrepreneurship by encouraging family members to create new business ideas and setup of their own ventures.
- Observe "disruptive innovations" in other sectors and think about how to integrate them in your business without changing the company's values.

Underperforming businesses

Low entrepreneurial orientation
Low socioemotional wealth

The 424 family businesses in the survey that are represented in this group include family businesses of all sizes, with an average age of 46 years. This group has the highest percentage of first-generation firms and non-family CEOs. The majority of the businesses are located in Europe, with slightly more than one-quarter in each of Latin America and Asia & Oceania.

Of all the groups, family businesses with low levels of both entrepreneurialism and socioemotional wealth have the most significant opportunities for improvement. The companies in this category exhibit a wide diversity in the size of the business and the number of businesses they operate, with close to one-third reporting that they operate multiple businesses.

More than other groups, they also appear to have a greater tendency to bring together groups of individuals from multiple generations, as well as family and non-family members, in management and board positions.

Leadership

The majority (91 percent) are led by a **family CEO**, with 80 percent being male members of the family. These CEOs are predominantly members of Gen X and the Baby Boomers, though companies in this group also have the second-highest representation from the Silent Generation.

There is no predominant leadership style among these company leaders.

Governance

Sixty percent have a board of directors and 18 percent have a family council. However, compared to the other groups, these companies have the lowest number of board seats held by family members, which potentially reflects the higher level of non-family members' involvement in the business compared to the other family businesses in the survey.

On average, 82 percent of the shares are owned by the family — the lowest number compared to all other groups.

Entrepreneurial orientation

These companies have a **low overall entrepreneurial orientation** in each of the individual factors of innovativeness, proactiveness and risk-taking.

Socioemotional wealth

They also demonstrate **low levels of socioemotional wealth** in terms of family control and the family's emotional attachment and identification with the business.

Performance

The companies in this group show low levels of digitalization, financial, non-financial/family and external social performance, with a medium level of internal social performance.

How to rebuild the entrepreneurial strength of your company and your family's socioemotional wealth

We invited family business academics and professional advisers who work closely with family businesses across the world to share their observations and suggestions for building back a vibrant and sustainable family enterprise. Here's what they had to say.

"I believe a good starting point is to begin improving the entrepreneurial mindset across the business by helping both family and non-family members acquire important skills, such as problem-solving, the ability to anticipate future circumstances, developing creative solutions, evaluating projects and ideas — all of which are critical to improving all levels of performance."

Jaly Chea
Associate Dean,
School of Business,
Universidad Francisco Marroquín

"One approach that I've also seen used very effectively is the use of gamification to promote intrapreneurship and innovation. Games have a universal language that facilitates teamwork among members who have very different profiles. And it helps in the key phases of the creative thinking process by generating novel solutions to any type of challenge.

I've also seen that incorporating corporate sustainability in management practices enhances the company's and the family's value and improves both internal and external performance levels."

Manuel Carlos Vallejo Martos
Head of the Cátedra of Family Firm,
Universidad de Jaén

"I would add to that by suggesting that to enhance the level of the family's socioemotional wealth, it's important to ensure that family members have an opportunity to define a shared dream, values and philosophy that can permeate the company and the family.

Creating a high-performance company begins with a culture of innovation, and, as an example, it's possible to build that culture through competitions for a wide range of great ideas from all employees — family and non-family — and empowering them to implement them.

I'm also familiar with many family businesses that have established an investment vehicle for new ventures or opportunities that are presented either by next-generation family members or employees. These investments can range from equity stakes, debt or mezzanine debt funding and they not only inspire innovation, but a deep connection with the business as well."

Alan Barr
National KPMG Private Enterprise Leader,
Partner,
KPMG in South Africa

Based on their experiences with multiple family businesses, these are some of our contributors' specific ideas and suggestions for helping to increase the level of entrepreneurialism and socioemotional wealth of your family business.

- Keep reinforcing the importance of sustaining a culture of innovation through competitions for great ideas from employees, then empowering them to implement them. Ideas could cover a range from cost savings to major growth opportunities.
- Create an investment vehicle focused on new ventures or opportunities presented by either next-generation family members or employees. Investments could range from equity stakes, debt or mezzanine debt funding.
- The digitalization of business operations is more crucial than ever. The importance of appointing a CIO or head of IT is becoming vital. Their experience and purpose are to bring the power of data and technology to help increase entrepreneurial thinking and apply it throughout your business.
- Promote cross-functional teamwork and, whenever possible, use project-based organizational structures in which family members actively participate and help to redefine the company's leadership style.
- To help reinforce the family's purpose, ensure that at least one family member sits on the board of each operating company. Often, families hand control over to non-family executives, and the family's connection with the business becomes lost in the process.
- Keep in mind that the role of the board is to help ensure that the top management team creates a strategy that is achievable and aligned with the family values, mission and vision. Hold your top management team accountable for both aligning and achieving those goals.
- Help ensure that the management team is focused on generating the required returns for the family as well as the level of reinvestment needed for future growth opportunities in the business. This can, in turn, help drive a high-performance culture.
- Enhance family members' connections with the business with an annual family assembly that not only connects the family members, but also gives them an opportunity to engage with the non-family management team.

Recharging your own regenerative power

Every family business — just like every family — is unique and performs in its own special way.

Individuality in business is inspiring and exciting, but it also means that there are few (if any) best practices that can be applied. However, that doesn't mean there aren't lessons and experiences to learn from. In fact, we know there is a veritable treasure trove of creative ideas and experiences that have worked well for different purposes in different family businesses and in different situations.

It's for this reason that one of our primary goals in developing this report was to provide leaders of family businesses — and their families — with an array of examples and actions that others around the globe have taken under similar circumstances to make sure they're continuously reinvigorated and growing.

We believe this regenerative capability is the superpower of family businesses.

The global survey data painted a clear picture of the factors that have a major impact on the performance of family businesses, particularly their ability to maintain a culture of entrepreneurialism and innovation, matched with strong connections between the family and the business and the emotional value they receive from owning and managing it successfully.

There are many lessons that can be taken away from the experiences of the family business leaders, academic researchers and family business advisers who have generously shared their insights and ideas in this report.

It is our hope that it will be a guide to support you in continuing to build on the strengths that already exist in your family business along with pragmatic actions that you might consider to fill some potential gaps.

As a starting point, we encourage you to consider the factors that are influencing the regenerative power and future performance of your family business:

- The **strength of your firm's entrepreneurial orientation** is one of the most important keys for unlocking the ability of your family business to continuously adapt, innovate and grow. How would you score your company's current level of entrepreneurialism? Is your company investing in research and development? Are you looking for opportunities to create innovative products, services and processes? Are you exploring untapped markets to develop new revenue streams?
- What impact are **next-gen family members** having on the direction of your business? Are they given opportunities to take risks and make judgments on their own?
- There is evidence that next-gen leaders, particularly young women, are **digitally savvy**. Have you recognized that capability in your company, and are you actively leveraging it to help drive technological innovations in your operations?
- A second critical component of transgenerational entrepreneurship and the regenerative power of family businesses is the family's **socioemotional wealth** — the emotional value they derive from owning and managing the business and maintaining the family's control and influence. Are family members well connected with the business? Are there new ways to keep them engaged in the business, through formal or informal roles or activities such as family events?
- Are your family members growing up in a **stewardship climate** to impart the purpose and values of the business and help each succeeding generation keep the business revitalized? How strong is their identification and emotional attachment with the legacy of the business and is its value as a family asset being encouraged? Are they motivated to contribute?
- Is it time to revitalize the **leadership approach** in your business? New leadership capabilities are emerging among Millennials and increasing numbers of female family members. Has their potential been recognized in your business? Are you taking steps to prepare them for future leadership roles? Is the value of increased diversity a factor in the long-term outlook for your company?

We would welcome your comments on the report and your personal experiences and insights on the actions you have taken to sustain a culture of entrepreneurship and strong family connections within your family business. We're particularly interested in hearing how these factors are affecting the performance of your company and its sustained regenerative power, particularly in environments that continue to be unpredictable. Please contact us at **familybusiness@kpmg.com** or **andrea@thestepproject.org** to share your insights and experiences.

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Methodology

About the 2021 Global Family Business Survey

The 2021 Global Family Business Survey relied on a convenient sampling strategy replicated across multiple countries. Each affiliated team identified potential respondents eligible for the project considering the industry characteristics and the business structure of their own country. The survey was designed by a research team with more than 15 years of experience in conducting qualitative and quantitative research from the STEP Project Global Consortium and KPMG Private Enterprise. Previously validated scales have been used in the questionnaire to define each question. The questionnaire was firstly generated in English in September 2021. A total of 2,439 family businesses completed the questionnaire from 70 countries and territories in Europe, the Americas, the Middle East & Africa and Asia Pacific.

Data collection

September 13, 2021 to
November 15, 2021

Number of respondents

2,439
Family business leaders

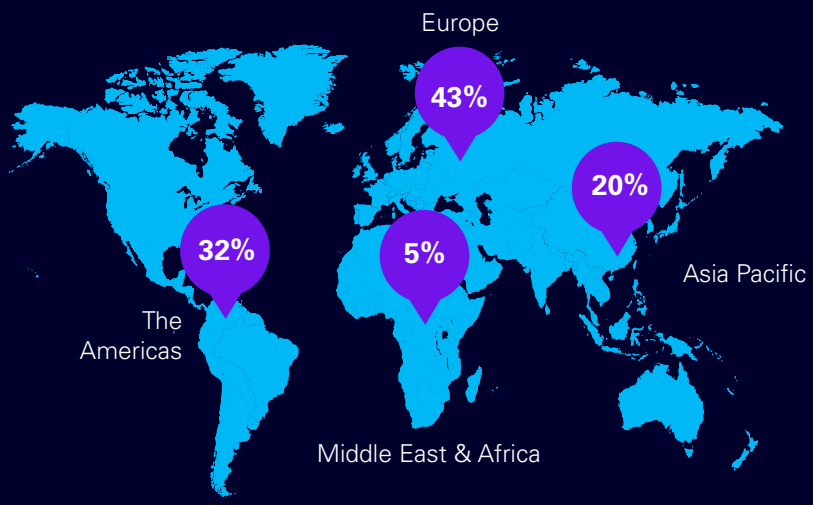
70
Countries and territories

18
Languages

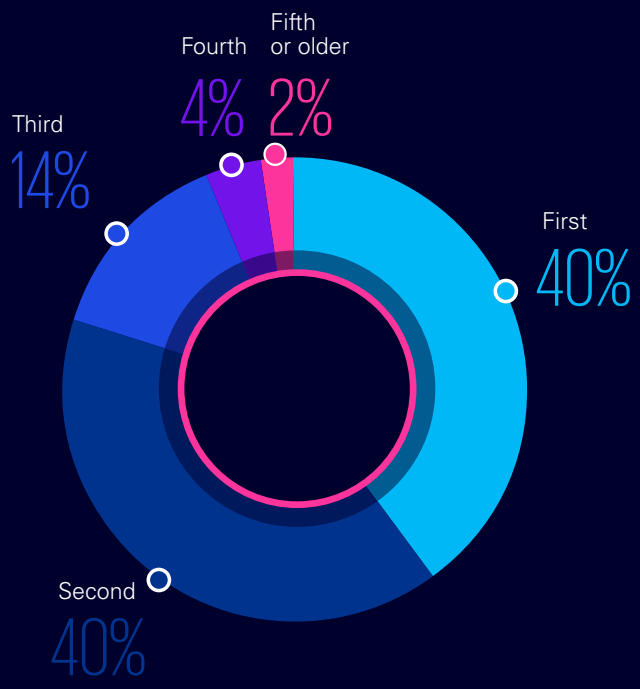
Average age of firms

44 years

Regions represented



Family business generations represented



Industries represented

53%
Service

33%
Manufacturing

8%
Construction

6%
Agriculture

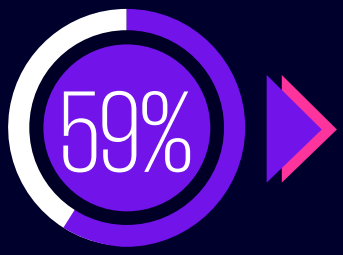
Business size (based on # of employees)

42%
Small (less than 50)

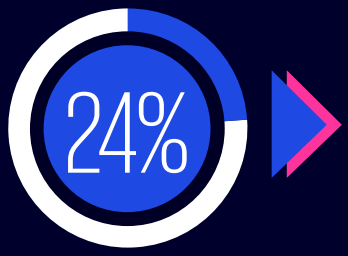
32%
Medium (50–250)

26%
Large (more than 250)

Business and family governance

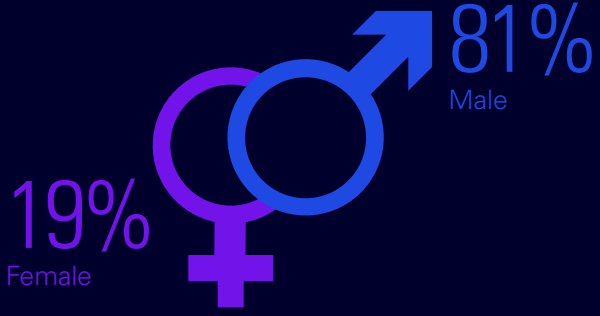


Board of directors



Family council

CEOs' gender



81%
Male

19%
Female

Respondents' role

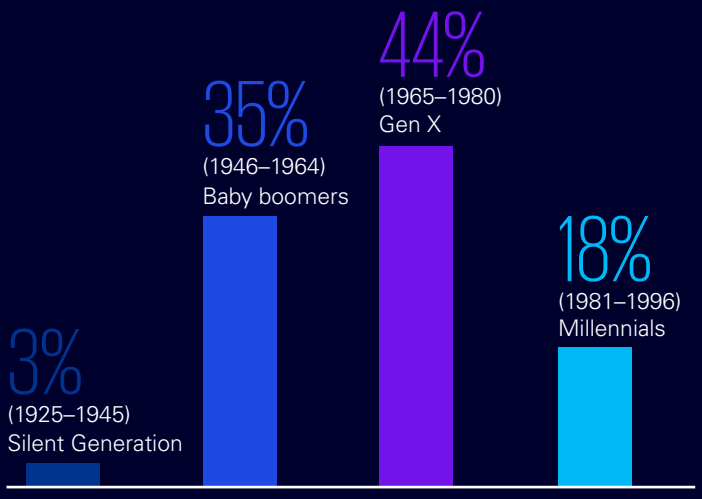
84%
CEOs

8%
Members of top management team

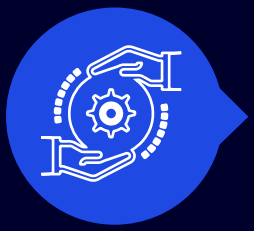
5%
Board members

3%
Shareholders

CEOs' generation



Scale of operations



30%
Operate more than one business

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About the STEP Project Global Consortium

The STEP Project Global Consortium is a global applied research initiative that explores family and business practices within business families and generates solutions that have immediate application for family business leaders. The STEP Project Global Consortium aims to be a leading global family business research project with an international reputation. The research insights are specifically drawn to be of relevance to developing new theoretical insights that can offer novel and valuable best practices recommendations to the business stakeholders and the practice community at large. Having a global worldwide orientation, the STEP Project Global Consortium offers networking opportunities for researchers, family business owners and consultants coming from five continents.

Visit: **thestepproject.org**

About the KPMG Private Enterprise Global Center of Excellence for Family Business

As with your family, your business doesn't stand still — it evolves. Family businesses are unique and KPMG Private Enterprise family business advisers understand the dynamics of a successful family business and work with you to provide tailored advice and experienced guidance to help you succeed.

To support the unique needs of family businesses, KPMG Private Enterprise coordinates with KPMG firms from around the world that are dedicated to offering relevant information and advice to family-owned companies. KPMG Private Enterprise understands that the nature of a family business is inherently different from a non-family business and requires an approach that considers the family component.

Visit: **home.kpmg/familybusiness**

About KPMG Private Enterprise

Passion, it's what drives entrepreneurs, it's also what inspires KPMG Private Enterprise advisers to help you maximize success. You know KPMG, but you might not know KPMG Private Enterprise. KPMG Private Enterprise advisers in KPMG firms around the world are dedicated to working with you and your business, no matter where you are in your growth journey — whether you're looking to reach new heights, embrace technology, plan for an exit, or manage the transition of wealth or your business to the next generation. Working with KPMG Private Enterprise, you'll gain access to a trusted adviser — a single point of contact who shares your entrepreneurial mindset. Access to KPMG's global resources and alliance network, can help you drive your business forward and meet your goals. Your success is KPMG Private Enterprise's legacy.

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