Staying power: how do family businesses create lasting success?

Global survey of the world's largest family businesses

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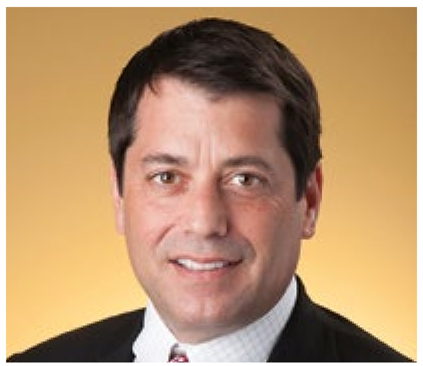
Carrie Hall is Assurance Partner and the EY Americas Family Business Leader. She oversees EY's services to family-owned business across the Americas. Carrie has worked with entrepreneurial family-owned businesses for over 28 years, providing audits and advising on matters such as growth strategies and sustainability.



Joe Astrachan, PhD

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Joe Astrachan is Wells Fargo Eminent Scholar Chair of Family Business, Professor of Management and Entrepreneurship, and former Executive Director of the Cox Family Enterprise Center at the Coles College of Business, Kennesaw State University near Atlanta, Georgia. He is widely known as a leading scientist in the family business field and has an uncanny ability to explain how research translates into highly effective action steps to achieve success.

"Family businesses and their leaders are the ultimate entrepreneurs. They must continually innovate to grow and pass on a thriving business from one generation to the next. Our survey demonstrates how this entrepreneurial thinking across generations results in business success and strong family ties."

Carrie Hall, EY Americas Family Business Leader

Introduction

Family businesses are an essential source of prosperity and stability in our global economy and our society. Many large, well-known companies are family-owned and proud of it.

These businesses create jobs, invest in their communities and give back to their societies. The characteristics and practices of large, long-standing family businesses serve not only as a model for other family businesses, but also for all companies that aspire to maintain an entrepreneurial spirit, innovate and grow consistently.

In order to underline the importance of the sector and to gauge the latest trends among family businesses, EY teamed up with Kennesaw State University's Cox Family Enterprise Center to survey the world's largest family businesses.

The focus of our study is on seven success factors: succession; women in leadership; governance; communication and collaboration; sustainability and corporate social responsibility; branding; and cybersecurity. Each one of these areas will be examined in more detail in future reports.

Size of sample

The analysis is based on survey data gathered from a database of 2,400 of the world's largest family businesses. This database comprises the largest family businesses from the top 21 global markets – Australia, Belgium, Brazil, Canada, China, France, Germany, the Gulf Cooperation Countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), India, Indonesia, Italy, Japan, Mexico, the Netherlands, Russia, South Korea, Spain, Switzerland, Turkey, the UK and the US. Valid Research, an independent research institute in Germany, used a questionnaire and conducted 1,000 phone interviews in the specific country language with senior ranking family business leaders. This report takes into account the responses of the 25 largest businesses in each of the markets.

Embracing succession

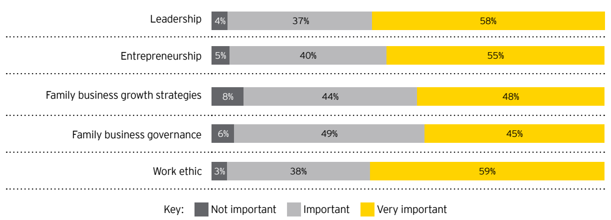
Succession is arguably the most critical issue a family business has to face. It's also one of the most difficult. Complicated family dynamics and the emotional connection that leaders and family members feel toward their companies can make addressing succession a minefield.

With all their complicating factors, most family businesses do not make it past the first generation, and even fewer past the second or beyond. Our survey participants are exceptional: 53% of their leaders are in the second generation or greater, with one notable company in its ninth generation of family ownership.

A perpetual process

"If a family intends the business to remain in family hands, succession must be considered a process, not an endpoint," says Peter Englisch, EY Global Family Business Leader. Though the vast majority of survey participants have a formal plan in place, succession planning is no guarantee of a smooth succession.

Figure 1. How important are the following in educating and preparing the younger generation to join your family business?



Note: numbers may not sum to 100% due to rounding.

Figure 2. Compared with the last three years, do you believe there has been an increase or decrease in the level of interest of female family members wanting to be involved in the business?

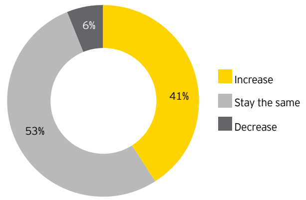
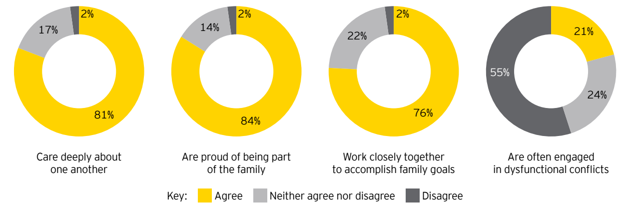


Figure 3. Please rate the extent to which you agree or disagree with each of the following statements. Members of this family ...



Succession is a critical responsibility – put it in good hands

87%

have clearly identified who is responsible for succession

More than 87% of the businesses we surveyed have clearly identified who is responsible for succession, implying that processes to handle traditional transitions as well as potential emergencies are well in place. Across all regions and countries, the board of directors is most often responsible for succession (44%), with the next tier of responsibility shared about equally between owners or family council and the CEO.

Lifelong training for a long-lived business

Training and educating the next generation are critical elements of preparing successors for both ownership and leadership succession. And the process starts early – sometimes in childhood. Leaders report that work ethic, leadership and entrepreneurship are the most important attributes to nurture in the younger generation. These preparations generate a deep pool of well-trained potential leaders. Survey participants average five family members on the top management team and seven in the business. That's a large group of potential successors from which to draw when planning succession (see Figure 1).

Women leaders welcome

70%

are considering a woman for their next CEO

Our survey participants are far ahead of the curve when it comes to gender parity in leadership. Globally, 70% of the world's largest family businesses are considering a woman for their next CEO. They average five women in the C-suite and four being groomed for top leadership positions. And more than half (55%) have at least one woman on their board. Research shows that companies with women on the board outperform those without in return on equity, net income growth and price-to-book value – and they tend to focus more sharply on governance and reducing risk, which underpin superior financial results.

With women filling family business leadership ranks faster and more often than their non-family enterprise counterparts, companies in our survey appear poised to reap performance benefits.

Interested women plus cohesion equals gender parity

What accounts for the strong presence of women among family business leaders? At first glance, the answer seems to be simply interest. Forty-one percent of survey participants report that women family members have shown increased interest in joining the business over the last three years. The increased interest implies that inclusive leadership and the concern for others and their opinions displayed by the gender balance of these businesses tends to create a sense of belonging that, in turn, builds trust and engagement. The possible connection between women leaders, their intentions to enter the business and family cohesion may tell us more about how to advance women's leadership in the workplace overall. With further analysis, we intend to find out (see Figure 2).

In governance, family is first

90%

have a board of directors

Nearly all (90%) of the world's largest family businesses have a functioning board of directors and, on most of those boards, family members make up the majority. Nearly half are exclusively family members, and only 28% have an equal number or greater of non-family voting members on their boards. Companies in emerging economies are particularly devoted to family board members, with family making up 95% of emerging market boards compared with 78% of developed economy boards. And in all markets, they are happy with the board's performance (87% rate it as outstanding or good). This devotion dovetails with another survey finding: family members are considered by far the most trusted advisors for the world's largest family businesses, with parents heading the list, followed by spouses. After family members, survey participants trusted their accountants most.

A strong board, along with a family that is continuously focused on family governance documents and practices, reduces the risks of nepotism, internal conflict, inequitable allocation of ownership shares and succession woes. "Directors of family-owned companies are expected to provide more than business intelligence," says EY Americas Family Business Leader Carrie Hall. "They serve as coach, counselor and peer advisor, and they must consider how strategic and operational recommendations, such as succession planning and dividend policy, will affect family dynamics."

Healthy communication, healthy conflict, healthy business

The family owners of the world's largest family businesses report that they care deeply about one another (81%). They spend time and effort developing cohesiveness and shoring up relationships between and among family members, most effectively through family business branding and corporate social responsibility activities. A vast majority (84%) of participants say their family members are very proud of being part of the family. This is positive news for the future of family business, as cohesion and pride are also important attributes of multigenerational success (see Figure 3).

But even with such a focus on family unity and pride, conflict is inevitable in business and family. This is particularly true for family business, where complicated relationship dynamics may be in play. However, a degree of conflict can be a good sign if families are addressing and resolving the issues behind those conflicts. And those that do so are considered healthier than those that either ignore or simply do not recognize their conflicts.

Communicate to stay connected

90%

have regular family or shareholder meetings to discuss business issues

Effective communication with family members is very important for family unity. It is common practice among the world's largest family businesses. Participants in our survey report that 90% have regular family or shareholder meetings to discuss business issues, 70% have regular family meetings to discuss family issues and 64% have a family council that meets regularly.

Figure 4. Why do you promote your family as part of your branding efforts?

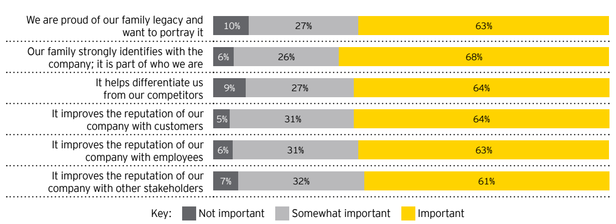
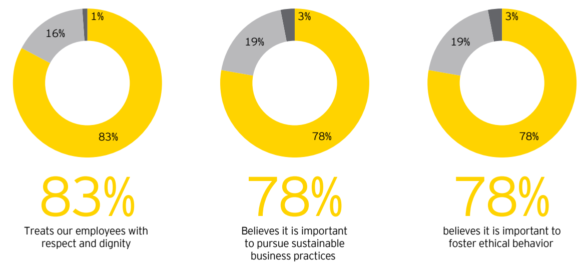


Figure 5. Please rate the extent to which you agree (or disagree) with each of the following statements. Our family firm ...



From our family to yours: family-business branding builds trust

The world's largest family businesses are proud of their companies and their families. Seventy-six percent report that they refer to themselves as a family business in their advertising, websites, social media, press releases and other promotional materials (what we call "family business branding"). But it's not simply family pride that influences this strategy.

Pride, unity, trust

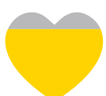
Family businesses are often seen as more trustworthy than other types of businesses. There is a great deal of research showing that this positive and trusting view extends beyond just consumers to include other businesses, employees and stakeholders. This corresponds with the top three reasons survey participants cited for using family business branding:

- Our family strongly identifies with the company – it is part of who we are (68%).
- It helps differentiate us from our competitors (64%).
- It improves the reputation of the company with customers (64%) (see Figure 4).

"Vibrant family businesses around the world know the limitless value of connecting their families to their stakeholders in messaging and all elements of image," says Joe Astrachan, Professor of Management and Entrepreneurship at Kennesaw State University. "It's even better for business success and family health when the family gets engaged in shaping the message and delivering it personally."

Sustainability: leveraging family legacy to build a better future

Studies have found that family businesses are more likely to value and implement corporate social responsibility (CSR) and sustainability practices, and the participants in our survey are no exception. More than half report a high commitment to CSR practices, and an impressive 81% say they are engaging in philanthropy (nearly equally split between monetary contributions and community service). In addition, 85% have a code of ethics, compared with only 57% of the world's largest companies overall.



81%
engage in philanthropic activities

CSR leads to family pride, cohesiveness and better performance

Sustainability and CSR practices are well established as being good for business – they're not just a public relations exercise. They tend to result in increased operational efficiency, reduced waste and increased product differentiation, which help improve business processes and profitability. Family businesses stand to gain even more, as these practices lead to more family pride, family unity and cohesiveness, which in turn have positive effects on business growth and profitability. In fact, 20% of family cohesiveness in participant companies is directly attributable to sustainability practices and family business branding (see Figure 5).

The specter of cyber risk

Even with the near-constant news of breaches, leaks and billions of dollars in lost revenue due to cybersecurity lapses, the family businesses we surveyed appear to be very self-assured in their ability to identify and respond to ever-evolving cyber threats. The majority (75%) say they are confident or very confident that their business is effectively addressing these risks. This is a marked difference from a recent survey of all types of businesses, where only 8% indicate that they are highly likely to detect a sophisticated attack. Most of the participants (83%) report that they expect spending on cybersecurity to increase – an indication, perhaps, that this issue is rising on their agendas as news coverage grows.

83%
expect spending on cybersecurity to increase

Urgent! More awareness needed

Yet, even with this recognition, some family business leaders (25%) don't know how cyber risks affect their businesses. Among those that are enlightened about cyber risk, 55% believe the risk is moderate to high. Given the potential for devastating financial loss, tarnished brand (and resulting losses in family cohesion) and decreased personal safety, family businesses need to be certain that they are optimizing their security in a connected, digital world. Due to concentrated ownership, family businesses have the advantage of being able to make and implement decisions quickly. Their biggest hurdle is to understand the most critical threats and learn how to implement effective plans to address them.

Conclusion

A healthy business with long-term growth potential, a cohesive family and proud legacy – that's the ideal for nearly every family business. And it's one that many of our survey participants have managed to achieve. By studying this group of exceptional businesses, others can better understand how to manage the challenges of succession and governance, how to navigate conflict with good communication, and how to improve family unity through inclusiveness and a proud brand. These insights are not just helpful to other family businesses.

The importance of family businesses to our global economy cannot be overstated. Information about how these businesses balance stability and growth through good times and bad can help shape business-friendly public policy and regulation. This, in turn, helps more businesses, with varied ownership structures, to flourish.