Coming home or breaking free: reloaded
A closer look at the succession intentions of next-generation family business members

Introduction

Family business owners often have a strong desire to keep their company under family control across generations. But who is best suited to take over? And which factors encourage succession intentions within the next generation? Earlier this year, the University of St. Gallen produced a major study on the succession intentions of students with a family business background. Thomas Zellweger holds the Family Business Chair at the University of St. Gallen, Switzerland, where he also directs the school’s Center for Family Business. He was a research fellow at Babson College, USA, Visiting Professor at the University of British Columbia, Sauder School of Business, Canada, and is a Visiting Professor at the University of Witten/Herdecke, Germany. Thomas is a member of three supervisory boards of family firms in Switzerland, and advises family firm owners on governance and strategic issues.

Some of the key findings include:

• Only 3.5% of the next-generation members surveyed want to be a successor in their parents’ firm directly after college graduation; 4.9% want to pursue this career path five years after graduation.

• The pool of potential successors who are generally open to the idea of becoming a successor is much larger – 19.8% of all students with a family business background.

• Since 2011, succession intentions have been decreasing. The research estimates a decrease of around 30%.

• Probable causes of the fall in succession intentions include a more attractive job market and the fact that potential successors are developing greater insight into what it takes to assume control of the family business. Consequently, although fewer next-generation members intend to become successors, those who do may be more motivated and better prepared.

• Female potential successors have weaker succession intentions than their male counterparts.

The study’s basis: the GUESSS project

The University of St. Gallen study was based on data collected by the Global University Entrepreneurial Spirit Students’ Survey (GUESS) project, which is supported by EY’s family business initiative. GUESS investigates the entrepreneurial intentions and activities of students across the world, and also explores succession intentions in family firms.

Between October 2013 and April 2014, GUESS collected data from 34 countries. More than 750 universities were involved, and 109,000 surveys were completed. The University of St. Gallen study is based on responses from 34,113 students with a family business background (representing 31.3% of the total number of students surveyed).

Talking about the next generation

The study found that only 3.5% of students whose parents have a family firm plan to become a successor immediately after graduating. A slightly larger group, 4.9%, intends to become a successor in the firm five years after graduation. Students are much more likely to see themselves working as employees at a different company: nearly 60% plan to do so right after graduation. But fewer expect to be working for someone else five years after graduation. Referring to the same time frame, more than one-third of all the respondents would like to found their own company. This shows that it is not a lack of entrepreneurial spirit or motivation that prevents the next generation from joining the family business (see Figure 1).

The level of succession intentions varies between countries. Survey participants in Mexico, Belgium and Slovenia tend to have the strongest succession intention five years after their studies. Those in the US, Israel and Denmark are the least likely to follow in their parents’ footsteps.

In most countries, the share of intentional successors five years after graduation is higher than the respective share directly after graduation. This shows that many next-generation members plan to gain professional experiences at other companies before joining the family business.

Succession intentions over time

The pool of potential successors, meaning students who exhibit a general willingness to become a successor one day, is a good size, standing at 19.7% of all those students with a family business background. However, it has shrunk since the last study was carried out in 2011, when it stood at 22.7%. This represents a decrease of approximately 13%.

The decrease is even more dramatic when we look only at the data from the 29 universities that participated in both
The next generation’s desire to be a family business successor can be affected by a number of external factors. How wealthy the country is in which the business is based, the level of taxes on succession and a variety of cultural forces can draw people into the family business or push them away.

Within the family itself, gender and birth order have an impact. And the family firm’s size and success — or lack thereof — can also make a difference.

### The institutional and cultural context

A country’s gross domestic product per capita has an interesting effect on the strength of succession intentions. In poorer countries, succession intentions are strong as a result of necessity — attractive alternatives in the job market are rare. In wealthier countries, succession intentions are weaker because well-established family firms offer job security and financial stability.

When people rely on social norms to reduce risk and uncertainty, succession intentions are stronger. Going into the family business is seen as a safe choice, because well-established family firms offer job security and financial stability.

Taxes, especially inheritance or gift tax, can also influence the attractiveness of the family firm. To explore the effect of these taxes, the researchers examined the average tax burden in European countries that is imposed when a typical family business owner hands over the firm to one child. It was found that a heavy tax burden makes succession less appealing.

### Gender

Although the role of women in society and in professional life has changed greatly in recent decades, passing the family firm down from father to son still seems to be a widespread practice. But are daughters still less likely to become successors than sons?

The percentage of next-generation members who intend to become a successor five years after graduation differs considerably between men and women. Among men, 5.73% want to take over the family business; women, at 4.34%, trail by almost 25%.

This gender gap prevails regardless of the subjects the next-generation member was studying, whether business, economics and law; science and medicine; or the social sciences (see Figure 2).

### Birth order

When next-generation members are wondering if there is a place for them in the family business, siblings are an important factor. For next-generation members, it matters how many siblings they have and how many are older than them.

Interestingly, the strength of succession intentions is lowest for those who have three siblings and increases when there are more siblings. The same is true when only the number of older siblings is considered to explicitly account for birth order.

An only child — the “crown prince” or “crown princess” — is often considered the natural successor in the parents’ business. This type of succession has been called “relax succession.”

### Firm size and performance

The next generation prefers to become a successor in larger, more successful firms. Referring to five years after graduation, the share of intentional successors (those with intentions to become a successor) is 5.2% at firms with more than two and up to five full-time equivalents (FTEs), but it reaches 16.3% for family firms with more than 100 FTEs.

Students also were asked to rate the performance of their family firm relative to its competitors over the past three years in terms of sales growth, market share growth, profit growth, job creation and innovation. The scale ranged from 1 (much worse) to 7 (much better). The highest share of intentional successors went to high-performing firms, and that share grew with firm size.

Although larger firms are more attractive to the next generation, the study suggests that intentional successors need to ask themselves whether they have the necessary skills and motivation to run the company — be it a “mom and pop” store or a large, complex business.

Both these types of firm seem to satisfy general entrepreneurial motives. The study found intentional successors in very small firms (0–1 FTE) and in larger firms (>50 FTE) do not differ with regard to the importance placed on entrepreneurial career motivations such as being independent, being one’s own boss and realizing one’s dream. Those intentional successors differ in several other aspects, however (see Figure 3).
Specific aspects of succession intentions
The study explored three succession issues that face next-generation family members.

Issue 1: the wish to control one's life versus societal hierarchy
The desire to live a self-determined life may be undermined in societies where hierarchy, authority and the power of others are very important. In such cultures, parents may be able to exercise power and authority over children.

The researchers found that, when a potential successor desires control and self-determination, strong social pressure may be undermined in societies where avoiding risk, the stronger the succession intentions, even more when becoming an entrepreneur is perceived as risky. Then it seems to be a particularly safe bet to take over the family firm, at least in comparison to creating a start-up.

Dilemma 3: the independence motive versus collectivism
What if individuals have a strong desire for independence and autonomy but live in a society where group loyalty and cohesiveness, such as that found in families, is highly valued? What happens when potential successors want to “break free,” but society expects that they “come home” and maintain strong bonds with their family?

The study found that this scenario also strengthens succession intentions. Apparently, successors adhere to collectivism by joining the family firm. But at the same time, they are able to satisfy their desire for independence by becoming a future (family) entrepreneur.

Ways to bring children into the family firm
How should business families introduce their children to the firm so that they might want to become a successor one day? The strength of succession intentions for students with work experience in the family firm is 3.04 (on our 1 to 7 scale), compared with only 2.19 for students without work experience. This shows that gaining work experience in the family firm is conducive to succession intentions, according to the research.

The study did not find a relationship between age when first working in the family firm and strength of succession intentions. Bringing children in early or late does not seem to play a crucial role.

The study also asked the students who have been working in the family firm (but who have not yet joined full-time): “Adding up, how many months have you been working there in total?”

Up to 65 to 70 months, more work experience leads to stronger succession intentions. But beyond this point, more work experience actually leads to a decrease in succession intentions.

Implications and conclusion
The study suggests that family business owners should not assume that their children want to become successors. Next generation members will often have numerous other attractive options. Beyond the concerns of the individual and their family, succession intentions depend on societal context: for instance, in terms of cultural norms or of how wealthy the nation is in which the business is based.

Business families should be sensitive to gender issues. Are there societal and familial influences that may prevent daughters from becoming successors?

The number of children in the family and the successor’s position in the birth order also need to be considered. Is there a willing and capable successor whose succession intentions are hampered by the family structure; in particular, by the birth order?

Letting children work in the business is strongly recommended, regardless of their age. However, as a next-generation family member accumulates greater experience, there comes a point at which a succession decision has to be made because, afterward, succession intentions will fall again.

Parents and children should engage in an open and constructive dialogue about all aspects of succession. This can help find the best solution for the individual, the family and the firm. A succession route outside the family should not be regarded as a failure; it could be a reasonable alternative that should not be excluded.

Implications for next-generation members
Next-generation family members should keep in mind that becoming a successor is a viable career option, that has many advantages, but also some disadvantages. They should carefully assess their own motivations and preferences.

Societal, financial and familial forces might push them toward succession, but to be successful and happy in the long run, it has to be their own conscious decision. Gaining work experience in the family firm is strongly recommended. However, there should be a clear time line and process for taking over the leadership one day.

Conclusion
The prominent wish of business families to maintain family control over the business across generations is perhaps the most intriguing aspect of family businesses. However, the proportion of next-generation members with succession intentions is low and in decline. There are a variety of factors that influence whether next-generation members come home or break free.

We hope that this study will inspire and enrich the efforts of business families, next-generation members and family business advisors in their pursuit of the long-lasting success of their firm.