

# Preparing or procrastinating?

How the world's largest family businesses undertake successful successions

Special report based on a global survey of the world's largest family businesses



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To help you plan your growth journey, we channel our experiences with some of the world's most successful entrepreneurs and our work with global family businesses from the past three decades.

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## About Kennesaw State University

Kennesaw State University is the third-largest university in Georgia, offering more than 100 undergraduate, graduate and doctoral degrees. A member of the University System of Georgia, Kennesaw State is a comprehensive university with more than 32,000 students from 130 countries. In January 2015, Kennesaw State and Southern Polytechnic State University consolidated to create one of the 50 largest public universities in the country.

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# Succession turmoil – and how to tame it

Succession is a hot topic for family business leaders. Around the time of leadership succession, emotions often flare, relationships in family and work undergo stressful changes, and the success – or failure – of an effective transition can impact the family and the business for years.

With this report, we consider what some of the largest, longest-lasting family businesses in the world do to produce successful successions generation after generation.

Analyzing our survey data, we found that they lay the groundwork for new leadership long before succession occurs by:

1. Clearly defining who is responsible for succession
2. Focusing on next-generation preparation – but not necessarily on outside work experience
3. Nurturing an entrepreneurial culture
4. Working to attract top talent

As we explore their long-term preparations, we will illuminate the factors that help these family firms manage more effective successions while minimizing turmoil and disruption.

## Are you succession savvy?

Succession planning is not an easy, straightforward process. As we discuss here, it's vital to prepare the best possible environment for succession to succeed. But even as that groundwork is being laid, every important stakeholder – the owners, the family members, the business leaders – should begin thinking about their expectations for the day the succession actually occurs.

Start the process by asking questions that are aligned with the four dimensions of every successful succession: leadership, ownership, legacy and values, and wealth transition.

- ▶ **Leadership:** Have you identified who should lead the business going forward? Are you willing to transfer control?
- ▶ **Ownership:** Who is going to own the business after you retire? Should the owner(s) always be involved with the company?
- ▶ **Legacy and values:** What are the family values? Are you confident the next generation will carry these values forward?
- ▶ **Wealth transition:** Are there plans on how to share wealth with the family members? How will the owner(s) remain financially secure after transferring the business?

After reflecting on these four dimensions and discussing them with all key stakeholders, you might not have a plan, but you will have the right mindset: focus on the future. This is where your process begins.

# 1

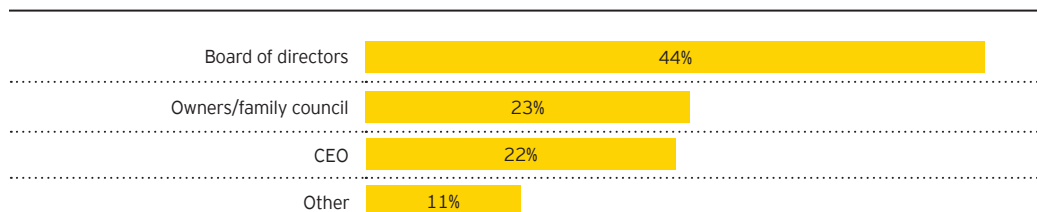
## Clearly define who is responsible for succession

There have been many reports written on what happens to family businesses that do not have an appropriate succession strategy – they end up on the statistical scrap heap, part of the 97% that don't make it past the third generation.<sup>1</sup> Given that fact, we'd expect to see succession as a regular topic at board meetings. And yet, for many family businesses, succession is barely on the radar.

Not so with our survey respondents. Nearly all (88%) of the family businesses in our sample have clearly identified who is responsible for succession. This implies that they also have clear processes in place to handle leadership transitions, and they set them up well in advance.

In Figure 1, we see that for most of the businesses in our sample, the board of directors has primary responsibility for succession (44%), followed by owners/family council (23%) and CEO (22%).

**Figure 1: Who has primary responsibility for succession planning?**



Interestingly, in emerging economies,<sup>2</sup> the board is even more likely to have responsibility for succession (51% emerging vs. 41% developed), while CEOs tend to be given the responsibility more often in developed economies than emerging (24% developed vs. 18% emerging).

## Getting it done right: the process of succession

It's important to think of succession as a process – and the data emphasize that every process must have leaders who provide oversight, guidance and energy, and who hold others accountable for getting the job done. Regardless of who plays this role, someone must be responsible to:

- ▶ Begin the process of determining succession timing and successor selection
- ▶ Create an emergency succession plan, should something happen to the current CEO
- ▶ Prepare the ownership group for succession
- ▶ Ready the company and leadership for succession (for example, by reinvesting appropriately, seeking new opportunities and developing the top management team)
- ▶ Inspire loyalty and commitment among internal talent, preventing defections when succession occurs
- ▶ Discuss the exit strategy and timing for the current CEO
- ▶ Build support for the successor within the family, the business and among all other stakeholders (e.g., customers, suppliers, investors, community)

# 2

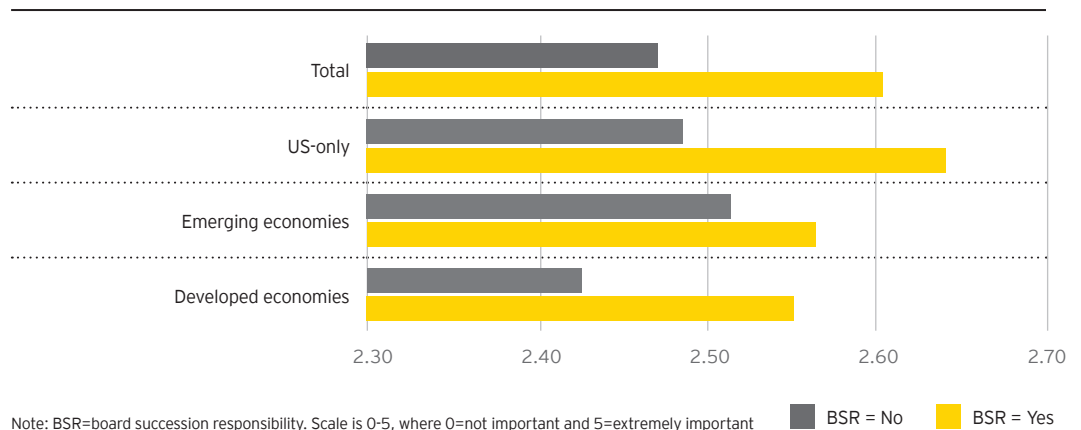
## Focus on next-generation preparation – but not necessarily outside work experience

It's been well-established that taking time to prepare the next generation is absolutely vital for a smooth succession. Younger generations need an understanding of the family business starting early by gaining education about business and developing a sense of stewardship and connection to the family business.

Our data show that family businesses with the most succession experience tend to place a greater emphasis on educating and preparing the next generation, implying that experience has shown them how overwhelmingly important this is.

We also found that when the board was responsible for succession, more importance was placed on educating and preparing the next generation (Figure 2). This effect was even stronger when the board had a committee devoted to succession.

**Figure 2: How important is the education and preparation of the next generation?**



However, it turns out that there is no relationship between board responsibility for succession and the number of years of outside experience required for leadership. This suggests that boards do not think outside work experience is a key to effective succession.<sup>3</sup>

Interestingly, among US companies, those that have a board with a succession committee are also more likely to have more family members in top management. This suggests that managerial experience within the business is considered an important component for preparing a successor. And with the complexities involved in succession, the more family members understand what happens inside the business, the better it is for succession, the family and the business.



## How to prepare the next generation for leadership

If outside experience isn't important, then what should family firms be doing internally to groom the next generation? Since it's often not clear which family members will become involved in the day-to-day operations of the business, will just be passive shareholders – or somewhere in between – all family members should be educated about the family and the business from an early age. This common understanding will provide a community of support during succession and other changes.

Start their education early by:

- ▶ Helping them get to know the people and the business through informal meetings, company news emails, press releases, and family and company histories
- ▶ Encouraging them to learn about the company's industry(ies) by going to trade events, receiving industry magazines and e-alerts, and attending formal and informal meetings with similar businesses in noncompetitive geographies and others in the value chain
- ▶ Facilitating meetings with others in family businesses through university-based education, networking meetings and other events
- ▶ Helping them gain general business education, starting with simple financial statement understanding, then progressing to the DuPont model (a financial analysis that breaks down return on equity into three parts) and advanced cost-volume-profit relationships
- ▶ Inviting them to attend family meetings and family council meetings
- ▶ Having them attend all or parts of board meetings of the parent and/or subsidiary companies, when they're ready

# 3

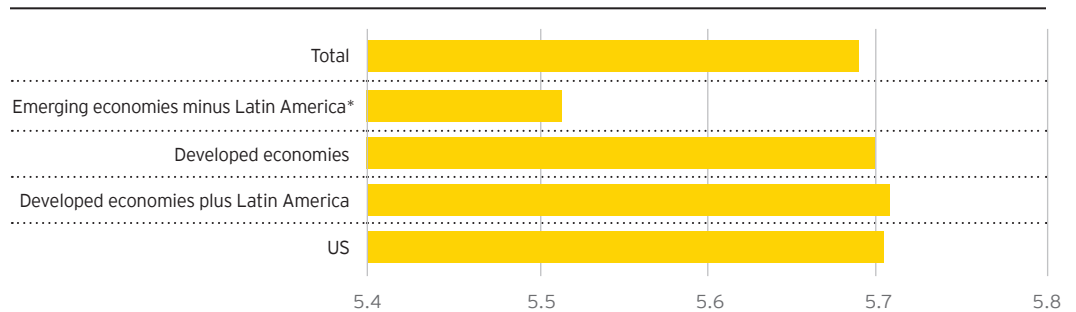
## Nurture an entrepreneurial culture

An entrepreneurial culture is a measure of how easy it is to take entrepreneurial action in a family business. In some ways, it defines the company's ability to change, grow and adapt to its environment – which is key to having a successful succession (and to attracting top talent). A culture of innovation that promotes informed risk taking, agile decision-making and rapid market response gives a family business an edge over publicly held competitors, which can be more bureaucratic and slower to respond.

Family businesses in all parts of the world report a fairly robust entrepreneurial climate in their organizations. However, the emerging economies (with the exceptions of China and India) report a less entrepreneurial culture than the US and other developed economies. In every country, growth targets and entrepreneurial culture are correlated with how easily companies can attract top talent (discussed further in section 4).

“Every business needs to be entrepreneurial to sustain growth, profitability and longevity, but it's even more critical for family businesses, where the focus isn't on the quarter or fiscal year, but on the decade and generation,” says Carrie Hall, EY Americas Family Business Leader. “Successful families recognize the importance of continued innovation.”

**Figure 3: Entrepreneurial climate**



Note: entrepreneurial climate is measured on a scale of 1 (least entrepreneurial) to 7 (most entrepreneurial).

\* We included Latin America in with developed economies because they are culturally more akin to European and American companies than their Asian, African, Middle Eastern, and Eastern European counterparts.



## Creating entrepreneurial spirit

Entrepreneurial spirit spreads fastest when it comes from the top – that is, the owning family. Here are some ways to begin nurturing a culture of innovation:

- ▶ Create an enterprising environment where people are not afraid of mistakes and failure. This freedom is necessary for innovation to flourish
- ▶ Praise family members and employees for taking action and learning from action, rather than merely trying to minimize the chance of mistakes
- ▶ Strive to create a culture of support, not a culture of blame. Don't point fingers; instead, support each other when mistakes are made and encourage communication and education
- ▶ Create cross-functional teams to study every aspect of the business and the market, including competitors, similar businesses in other industries, innovations, customer segments, current products and services, and so on
- ▶ Communicate stories and display symbols of successful entrepreneurial endeavors
- ▶ Encourage people to gain entrepreneurial education both internally and externally
- ▶ Invest in family members' entrepreneurial endeavors when aligned with the family's mission

# 4

## Work to attract top talent

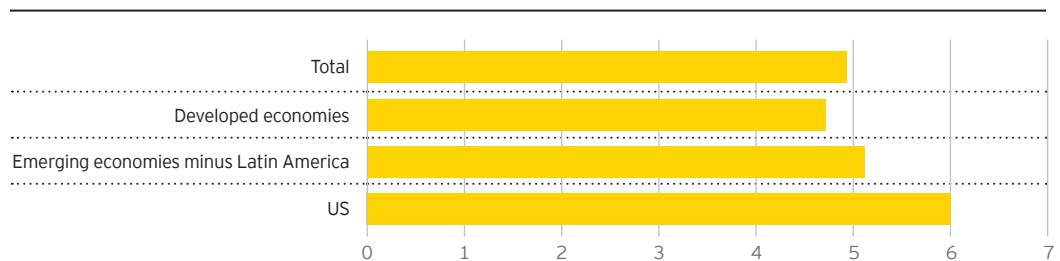
An element of succession that is often overlooked is the importance of great talent. It offers obvious advantages to the business and the succession process itself. In addition, successors in family businesses are not always family members. Attracting high performers and developing them into leaders can give family businesses additional options when it comes time to choose who will become the next CEO.

To win the talent wars, most businesses focus on factors such as pay, working conditions, bonuses, retirement plans and so on. However, family businesses have an advantage here - in many markets, merely being a family business appears to be attractive to high performers. The leaders of our participant companies certainly think so (Figure 4), indicating that it is easier to attract the best employees to family businesses.

Rather than downplaying their family business nature when looking to attract talent, firms should advertise it widely, particularly emphasizing the attributes that make family businesses unique and desirable (as we explored in *Women in leadership: the family business advantage*): flexibility, adaptability, speed of change, a human approach, emphasis on long-term relationships, and desire to take a very long-term view of people and investments.

"Family businesses clearly have a recruiting advantage," says Joe Astrachan, Wells Fargo Eminent Scholar Chair of Family Business at Kennesaw State University, "for top managerial and technical talent who strongly value community and unselfishness. To attract those candidates, stressing the family nature of the business in a public way is a very valuable activity."

**Figure 4: Is it easier or harder for a family firm to attract qualified top employees than a non-family firm?**



Note: measured on a 1-7 scale where 1=much harder, 4=same, 7=much easier



## How to appeal to high performers

As we reported in *In harmony: family business cohesion and profitability*, when family businesses exhibit a strong entrepreneurial culture, higher growth ambitions and a practice of philanthropy – while emphasizing the family in branding – they tend to be more attractive to quality employees. In fact, 26% of the variance in the ability of family businesses to attract top talent can be predicted by a combination of these factors.

That makes the course of action clear. To attract great talent:

- ▶ Brand yourself as a family business<sup>4</sup>
- ▶ Engage in philanthropy
- ▶ Develop and display your entrepreneurial culture
- ▶ Aim for higher growth

### Conclusion

## There's no avoiding succession; embrace it instead

A good succession is one that sets business and the family on a productive course for the long term. We believe the family businesses we researched shine a light on how to lay the groundwork for a successful succession. They clearly define who is responsible for succession, focus on preparing the next generation, nurture an entrepreneurial culture and work to attract top talent.

Through the day-to-day activities associated with these factors, they demonstrate the characteristics that make family businesses so successful. Flexible decision-making, defined processes, family cohesion, strong values and an ethos of continuous improvement are the key ingredients in achieving a successful succession, in building long-term succession competence, and, of course, in being a successful family business.

# Notes

1. John L. Ward, *Keeping the Family Business Healthy: How to Plan for Continuing Growth, Profitability, and Family Leadership* (Palgrave Macmillan, 1987).
2. To more deeply examine succession, we segmented our respondents by market classification: developed economies (Australia, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Spain, Switzerland, the UK and the US) and emerging economies (Brazil, China, GCC, India, Indonesia, Mexico, Russia, South Korea and Turkey).
3. There has never been a study that linked the requirement of outside work experience with business, family or personal success in family business.
4. The brand message should show how being a family business contributes to what the business offers. For example, "Our family makes sure all in the business are treated with respect," or "Our family has been ensuring the quality of our products for over three generations."

## About our survey

This report is based on survey results gathered from 525 of the world's largest family businesses. The responses represent 25 of the largest family businesses in each of 21 top global markets – Australia, Belgium, Brazil, Canada, China, France, Germany, the Gulf Cooperation Council (GCC) 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 phone interviews in the specific country language with senior ranking family business leaders. Based on the number of companies contacted to achieve our desired sample size, we achieved a 42% response rate.

## Additional insights

Read additional insightful reports based on this survey at [ey.com/stayingpower](http://ey.com/stayingpower)



**Staying power: how do family businesses create lasting success?**



**Women in leadership: the family business advantage**



**In harmony: family business cohesion and profitability**

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