Family governance in Europe: trends and insights

BNP PARIBAS
WEALTH MANAGEMENT

With the scientific contribution of
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Contents

Report structure

The report is divided into three sections, emerged from a systematic review of both academic and practitioner literature and knowledge.

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KEY TAKEAWAYS

Each of the sections is structured in order to consider three perspectives:

K

KNOWLEDGE

The state-of-the-art of scientific works on a specific topic

P

PRACTICE

The most up-to-date information and data from industry reports

E

***EXPERIENCE**

Real cases and insights from interviews with key members of successful entrepreneurial families and/or their family offices

* All entrepreneurial and family stories are true but anonymized for confidentiality reasons.

Executive summary

F

amily firms are the most ubiquitous form of business. As such, they are a major driver of economic growth, employment and social development in many countries. Far from being a relic of the past, family firms are lauded as altruistic businesses, contributing to the welfare of their local communities, deploying patient capital over the long run, and being resilient during times of crisis.

However, there are many challenges that a VUCA (Volatile, Uncertain, Complex, Ambiguous) world is posing to family firms. Financial markets are becoming more hectic, sustainability is no longer a "nice-to-have" but a strategic necessity for every business. The ability to adapt to these challenges and turn them into opportunities is essential for the long-term survival of family firms.

In this report, we will focus on a fundamental element for family firms to be successful and thrive in the long run: **governance**. If appropriately designed and implemented, governance can support the long-term survival of a business by nurturing competent owners, while curbing potential family conflicts over time. Governance is not limited to the "corporate" dimension, as it provides clear roles, transparent rules and participatory processes that are paramount for regulating the involvement of entrepreneurial family members in the ownership of the business. This is what is commonly called **"family governance", which represents the heartbeat of every family company**, capable of defining continuity and enabling the potential to solve, or instead, exacerbate problems between shareholders over time. It consists of tools, such as the family constitution, shareholder agreements, company bylaws and in general all the formal and informal agreements that regulate the relationship between the family and the business.

While entrepreneurial families have continuity at heart, they often fall short in **managing the succession process**, sometimes hampering change and limiting the potential of next-generation family members. Succession planning is often carried out as a formal transfer of power, and more often than not, takes place too late. Moreover, incumbents do not always "pass the baton" substantively, generating a founder shadow effect on the next generation.

Education and digital transformation are both central for entrepreneurial families to balance the relationship between incumbent and next-generation members. Therefore, governance is important for creating a formal process that nurtures competent and committed successors, who can later be involved as owners.

In an ever-changing world, where the nuclear, national family model is paving the way to extensive and international or even global families, **planning and managing the family wealth** is another governance issue in its own right. Mature and established forms of family wealth governance help to consider wealth not just as a stock of economic assets, but as a set of values and expectations that are closely aligned with the family's legacy and their expectations for the future.

Social impact and wealth responsibility are thus emerging as crucial aspirations in entrepreneurial families, and family offices can provide processes and rules to channel and implement these aspirations.

Moving on from these insights, we present a four-step roadmap to help entrepreneurs, or would-be entrepreneurs, to ignite change in their family governance, or to start reflecting on its implementation. These steps are:

1. **Assessing the family (and its governance)**
2. **Nurturing family dialogues**
3. **Professionalizing the family business and the business family**
4. **Supporting the next generation**

We hope that this roadmap will spur ideas and provide tools for entrepreneurs to structure effective formal and informal governance systems that enable them to flourish over multiple generations.

Alessandro Minichilli

Professor of Business Administration, Bocconi University and Director of the Corporate Governance Lab – SDA Bocconi School of Management

Methodological note

The present report is the outcome of a multi-step process, which involved different sources of data, and has been co-constructed with leading families and entrepreneurs across Europe. Even though the mix of academic knowledge, practitioners' reports and real-life cases might seem paradoxical, as each one has its own objectives and "communities of practice", it enables a full-cycle research, where one element informs the other. This is consistent with the idea of engaged scholarship, where reciprocal understanding and collaborative relationships between different communities are necessary for developing knowledge that is rigorous and relevant to the practice.

The "Knowledge" sections relied on academic, peer-reviewed papers as sources of data. We did a coarse review of the family business field from 2000 onwards, connecting it with its different sub-fields (family business strategy, family business entrepreneurship, family business psychology, financial management of family business, etc.). In order to search for academic articles, we used the bibliographic software "Scopus". After obtaining the list of articles, we proceeded to review 250 articles from the list, by analyzing the abstract and the core content. The rest of the list was analyzed through the bibliometric application "Bibliometrix", which performs a quantitative analysis of bibliometric data. We extracted the established themes (those which started many years ago and have reached a substantial body of knowledge), as well as emerging topics, *i.e.* that have gained traction in recent years in terms of the number of publications and the number of citations. Finally, we organized a panel of academics and consultants, respectively 7 and 3, who validated the established themes and the emerging topics.

The "Practice" sections relied on consulting reports by different organizations (financial institutions, consulting firms, government reports, etc.) related to family business topics. For this source of data, there are no established databases that cover consulting reports. Therefore, we started by assessing the type of organizations that produced such reports, and identifying five different categories: consulting firms (including those specifically catering to family business), family business associations, financial institutions, and international and governmental organizations.

Starting with these categories, we obtained reports, surveys and advisory notes written in English by the world's leading and reputable organizations and associations. This search resulted in 67 reports, published from 2015 onwards, which were analyzed and summarized for their key figures and arguments.

The "Experience" sections were drawn up through nine structured interviews conducted by the research team[(1)] with members of entrepreneurial families running large corporations in Europe, their trusted advisors or family offices. Each case was considered as "exemplary" for each of the themes discussed in the present report.

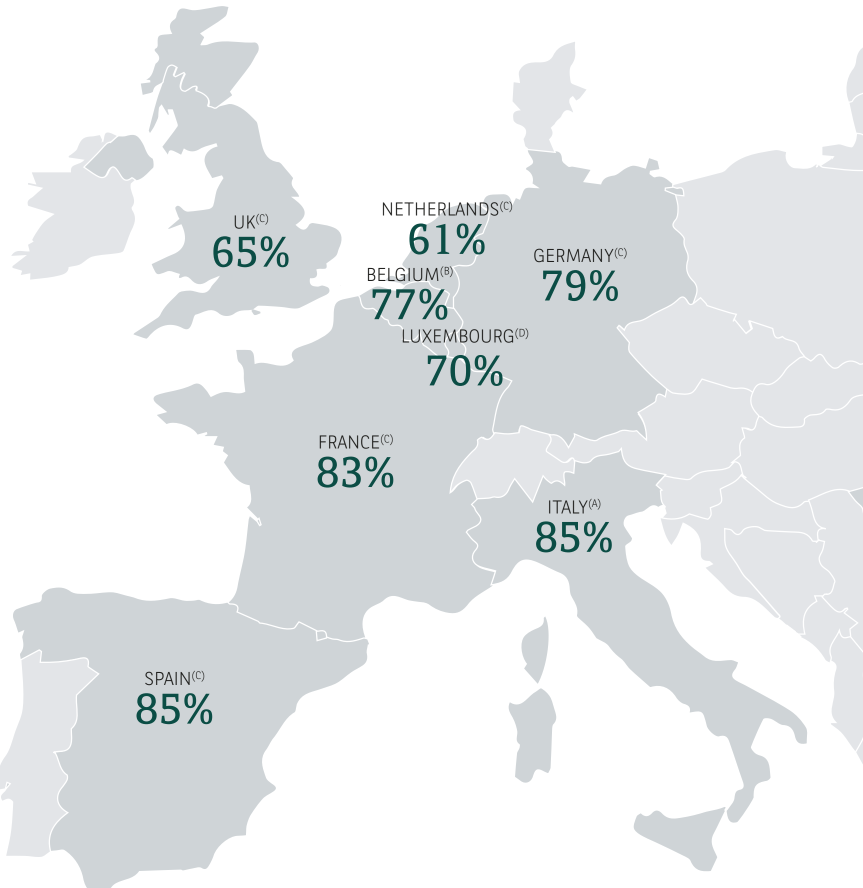
(1) The research team is coordinated by the professors Alessandro Minichilli (SDA Bocconi School of Management) and Josip Kotlar (Politecnico di Milano), with Joao Pedro Bastos Castilho, Giovanni Di Caprio (both from SDA Bocconi School of Management) and Luca Manelli (Politecnico di Milano) as research analysts.

1 Family business at a glance

Family businesses in Europe

Family firms in Europe total **more than 14 million** that account for **around 50%** of the European Union's GDP and employ **more than 60 million people**, representing around **40-50%** of all European private-sector jobs.[1] Family firms make up the vast majority of business organizations in European countries, ranging from **61%** of the business population in the Netherlands to **more than 80%** in Spain, Italy and France.[2]

TABLE 1:
SHARE OF FAMILY BUSINESSES WITH REGARD TO THE OVERALL POPULATION OF BUSINESSES PER COUNTRY



Sources*:

(A) Osservatorio AUB – X edizione, AIDAF (2018).

(B) Lambrecht and Molly, The Economic Importance of Family Business in Belgium (2011).

(C) Family Business International Monitor, FBN International (2008).

(D) Overview of Family Business Relevant Issues, Final Report, Austrian Institute for SME Research (2008).

*The defining criteria for family business differ according to studies and countries when they make use of a combined set of criteria. But the common ground among all sources is the significant ownership control by the family and/or relatives.
In addition, the sources make use of other criteria, such as management representation, business longevity, intention to transfer to the next generation, and so on.

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(1) European Family Business (2023). Homepage (https://europeanfamilybusinesses.eu)

(2) Osservatorio AUB – X edizione, AIDAF (2018); Family Business International Monitor, FBN International (2008)

1

Family business at a glance

Looking at the **top 1,000** enterprises by turnover[1] in France, Germany and Italy, a considerable number are family-owned:

TABLE 2: SHARE OF FAMILY FIRMS IN THE TOP 1,000 COMPANIES PER COUNTRY

	% of family firms among top 1,000	% of which exceeding more than €1 billion in revenues
FRANCE	28%	39%
GERMANY	40%	57%
ITALY	49%	35%

Source: Osservatorio AUB – XII edizione, AIDAF (2021).

* Annual revenues data for 2018.

** Data for Italy provided by the SDA Bocconi's Corporate Governance Lab.

49% of the top 1,000 Italian companies are family-owned, while this percentage decreases to **40%** for the top 1,000 companies in Germany and to **28%** in France;

Among family firms, the **industrial/ manufacturing sector** is the **most represented** in the three countries (**43%** in Germany, **32%** in Italy and **29%** in France);

€1 billion

In Germany, there is a **high representation** of family firms generating **over €1 billion** in revenues **(57%)**. Such figures for France and Italy are at a lower albeit similar level (**39%** and **35%** respectively).

(1) Osservatorio AUB – XII edizione, AIDAF (2021).

TABLE 3: AVERAGE SHARE OF FAMILY DIRECTORS ON GOVERNANCE BOARDS

	Board of Directors	Executive Board	Supervisory Board
FRANCE		44%	36%
GERMANY		17%	16%
ITALY	47%		

Source: Osservatorio AUB – XII edizione, AIDAF (2021).

* Annual revenues data as of 2018.

** Data for Italy provided by the SDA Bocconi's Corporate Governance Lab.

Additionally, it is worth highlighting that for France and Italy, the boards of family-owned businesses have a fairly high proportion of family members sitting on them, especially compared with their German peers. This means a lower presence of external directors, who are known for their contribution of specialized skills and knowledge.

Looking at the 208 largest European family firms in 10 major EU countries – out of the top 500 global family firms – family businesses show a significant heterogeneity in their governance:(1)

TABLE 4: A LOOK AT THE TOP 500 FAMILY FIRMS' GOVERNANCE - A EUROPEAN FOCUS

	Number of family firms	% of public companies	% of family members in the BoD	% of non-family CEOs
GERMANY	79	16%	27%	67%
FRANCE	32	63%	25%	59%
ITALY	19	26%	39%	58%
SWITZERLAND	16	50%	31%	75%
NETHERLANDS	14	29%	10%	71%
SPAIN	13	69%	38%	54%
UNITED KINGDOM	12	0%	48%	33%
BELGIUM	10	100%	19%	60%
DENMARK	7	14%	33%	71%
SWEDEN	6	50%	18%	83%

Source: EY and St. Gallen Global Family Business Index (2021).

- Belgium, Spain and France have the **highest share** of large family companies that are **publicly traded**, whereas Germany and Denmark have the lowest;
- The UK, Italy and Spain have **the highest average representation of family members on the Board of Directors**, compared with **only 10%** in the Netherlands;
- The Nordic countries, Switzerland and Netherlands have **the highest share of non-family CEOs**, while in the UK **67%** of family companies have a **family CEO**.

(1) EY and University of St. Gallen Family Business Index (2021).

Family business: definition and distinctiveness

Family businesses can be very small, or very large, employing several thousand individuals. While some operate in one country, others are international; some are more professionalized and have a very limited role as a business-owning family, while others have family members who are heavily involved both in ownership and management; some are static and traditional, while others are entrepreneurial, innovative and dynamic. Thus, family businesses are intrinsically heterogeneous.[(1)] So, how is it possible to define a family business? Is there a threshold of shares that a family needs to own to consider its business as a "family business"? If a "family business" is managed by professional and external managers, is it still a "family business"?

For this report, we were inspired by a definition formulated in 1999 by Jess Chua, James Chrisman and Pramodita Sharma that directly points to the influence of family governance on the firm's goals, strategy and structure:

In short, a family firm is *"a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families."*[(2)]

Governance in business organizations is defined as "the reconciliation of conflicts of interest between various corporate claimholders"[(3)]. The objective of governance is to design and implement those processes and structures that avoid a divergence in the goals and interests between different constituencies in the business, first and foremost between principals (owners) and agents (managers), but also between controlling shareholders and minority shareholders. This is important because, by having effective governance structures and processes, family businesses can take better decisions and increase value creation. Among governance macro-activities, we can identify *monitoring*, where governance structures aim at controlling that the agent's behaviour does not diverge from the owner's goals, and *bonding*, where the convergence between managers and owners is ensured *via* contracts and incentives. Family firms are different to other forms of organization on account of concentrated ownership, which makes the family exert substantial control over strategic decisions. Research has shown that family ownership has a positive influence on strategic outcomes, due to the lower salience of conflicts between agents and principals, and this helps family firms outperform non-family firms, especially first-generation family firms, and where the founder is CEO. On the other hand, research

has shown that the thorniest governance issue in family firms is the relationship between controlling shareholders and minority shareholders, as the former have incentives to reap "private benefits of control" at the expense of minority shareholders.

Family firms are distinctively shaped by the pursuit of goals that are related to the long-term welfare of the family. These "family-centred goals" can be economic (*e.g.* increasing family wealth, maintaining family control over the business) or non-economic (*e.g.* maintaining harmony between family members, defending the social status and the reputation of the family).[5] As family owners pursue family-centred, non-economic goals, there is an appreciation of the "emotional" or "sentimental" value perceived by family owners regarding the family business.

The stock of sentimental value is called "socioemotional wealth" (SEW),[6] which encompasses five dimensions:

- **family control and influence;**
- **renewal of family bonds with the firm through dynastic succession**;
- **identification of family members with the firm;**
- **binding social ties;**
- **emotional attachment of family members.**

Research has shown that socioemotional wealth has a relevant impact on the strategic decisions of family firms, ranging from R&D investments to internationalization decisions and modes of entry, financing options and ultimately firm performance.

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(1) Chua, J. H., Chrisman, J. J., Steier, L. P., & Rau, S. B. (2012). Sources of heterogeneity in family firms: An introduction. *Entrepreneurship: Theory and Practice*, 36(6), 1103-1113; Nordqvist, M., Sharma, P., & Chirico, F. (2014). Family firm heterogeneity and governance: A configuration approach. *Journal of Small Business Management*, 52(2), 192-209.

(2) Chua, J. H., Chrisman, J. J., & Sharma, P. (1999). Defining the family business by behavior. *Entrepreneurship: Theory and Practice*, 23(4), 25.

(3) Becht, M., Bolton, P., & Röell, A. (2003). Corporate governance and control. In Constantinides, G. M., Harris, M., & Stulz, R. (eds.) *The Handbook of the Economics of Finance*, Vol. 1A, , pp. 1-109. Amsterdam: Elsevier.

(4) Villalonga, B., Amit, R., Trujillo, M.-A., & Guzmán, A. (2015). Governance of Family Firms. *Annual Review of Financial Economics*, 7(1), 635-654.

(5) Kotlar, J. & De Massis, A. (2013). Goal setting in family firms: Goal diversity, social interactions, and collective commitment to family-centered goals. *Entrepreneurship: Theory and Practice*, 37, 1263-1288.

(6) Berrone, P., Cruz, C., & Gomez-Mejia, L. (2012). Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. *Family Business Review*, 25(3), 258-279.

Family firms and competitive advantage: patient capital and social capital

The long-standing involvement of the family in the business leads to the creation of family business-specific resources, which enable family firms to have a sustained competitive advantage. This idea, rooted in the resource-based view of the firm,[(1)] is expressed in the idea of "familiness".[(2)] This perspective looks at the "bright" side of family firms, providing an explanation of why some of them outperform non-family firms over the long run.[(3)]

Patient capital is driven by the intergenerational intention to hand the company down to the next generation.[(4)] As many years are required to see the results of strategic investments, family firms can pursue innovative strategies that can grant long-term strategic health to the company, without worrying too much about the short term.[(5)]

Due to the "patient capital", family firms are more able to bounce back from a crisis or a technological setback, thus becoming more resilient.[(6)] Paying more attention to maintaining financial stability (thus with a lower debt burden and a better liquidity position), family firms can take more risk in investments over the long term.[(7)]

Allison Pearson and her colleagues identify social capital as the concept that characterizes "familiness".[(8)] Social capital in family firms can be:

- familial, resulting from the relationships and interactions between family members, helping them to become a cohesive and functional ownership group;[(9)]

- organizational, resulting from family firms' interactions, communications and relationships with diverse external stakeholders, and serving as a major relational capital that makes it possible to obtain resources from other companies.[10]

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(1) Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management,* 17, 99-120.

(2) Habbershon, T. G., & Williams, M. L. (1999). A resource-based framework for assessing the strategic advantages of family firms. *Family Business Review*, 12(1), 1-25; Carnes, C. M., & Ireland, R. D. (2013). Familiness and innovation: Resource bundling as the missing link. *Entrepreneurship: Theory and Practice*, 37(6), 1399-1419.

(3) Miller, D., & Le-Breton Miller, I. (2005). Managing for the long run: Lessons in competitive advantage from great family businesses. Boston, MA: Harvard Business School Press; Bennedsen, M., & Foss, N. J. (2015). Family assets and liabilities in the innovation process. *California Management Review*, 58(1), 65-81.

(4) Sirmon, D. G., & Hitt, M. A. (2003). Managing resources: Linking unique resources, management, and wealth creation in family firms. *Entrepreneurship: Theory and Practice*, 27(4), 339-359.

(5) Lumpkin, G. T., & Brigham, K. H. (2011). Long-term orientation and intertemporal choice in family firms. *Entrepreneurship: Theory and Practice*, 35(6), 1149-1169. Sharma, S., & Sharma, P. (2019). *Patient Capital: The role of family firms in sustainable business.* Cambridge University Press.

(6) Salvato, C., Sargiacomo, M., Amore, M. D., & Minichilli, A. (2020). Natural disasters as a source of entrepreneurial opportunity: Family business resilience after an earthquake. *Strategic Entrepreneurship Journal*, 14(4), 594–615.

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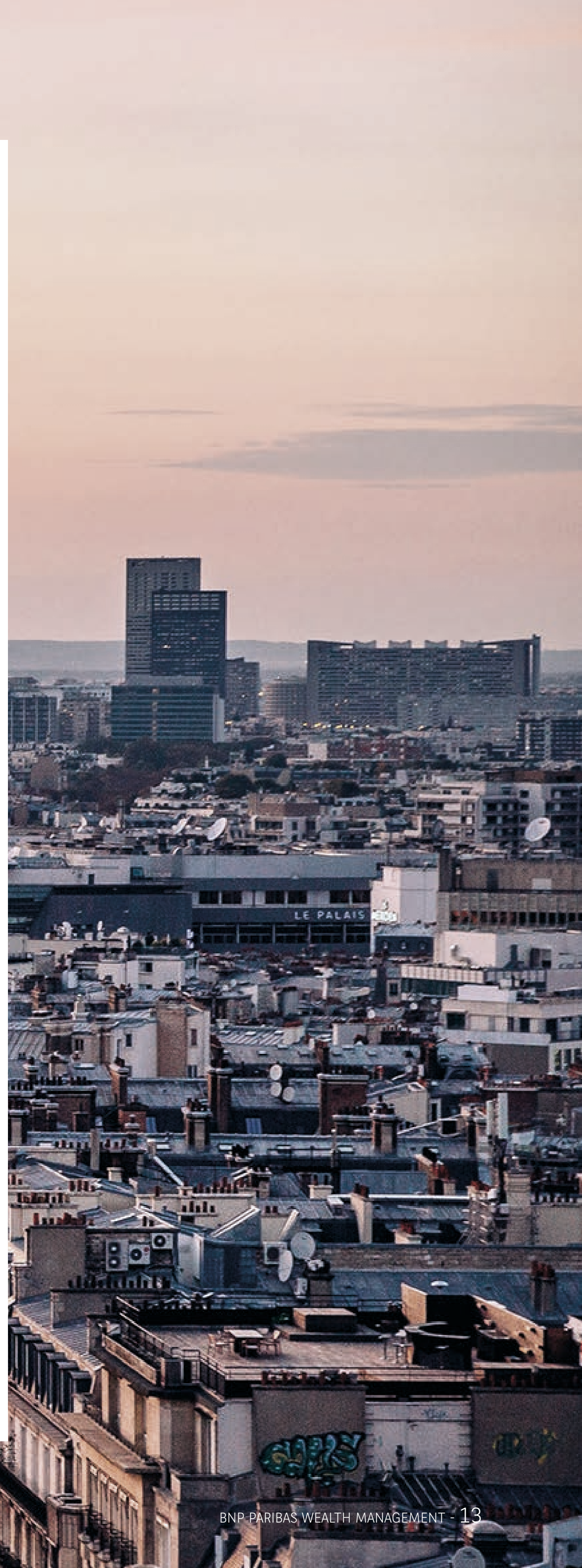
(8) Pearson, A. W., Carr, J. C., & Shaw, J. C. (2008). Toward a theory of familiness: A social capital perspective. *Entrepreneurship: Theory and Practice*, 32(6 SPEC. ISS.), 949-969.

(9) De Groot, M. B. T., Mihalache, O. R., & Elfring, T. (2022). Toward a theory of family social capital in wealthy transgenerational enterprise families. *Entrepreneurship: Theory and Practice*, 46(1), 159-192. De Groot, M. B. T., Mihalache, O., & Elfring, T. (2022). Enhancing enterprise family social capital through family governance: An identity perspective. *Family Business Review*, 35(3), 306-328.

(10) Arregle, J.-L., Hitt, M. A., Sirmon, D. G., & Very, P. (2007). The development of organizational social capital: Attributes of family firms. *Journal of Management Studies*, 44(1), 73-95.



2
Foundational topics

2
Foundational topics

The importance of family governance

K KNOWLEDGE

Family governance refers to a set of ***"voluntary processes established by the entrepreneurial family with the primary aim of governing and strengthening relations between the family and the business, as well as the relationships between the members of the entrepreneurial family itself"***.(1)

There is no standard approach for family governance that fits all family firms: successful entrepreneurial families usually create a very distinctive set of family governance mechanisms that are influenced by family values, firm type, and the stage of development.(2) The primary purpose of family governance is to **establish a close and healthy relationship between the family and the business,** as well as to ensure a **functioning business-owning family – one that works together to guarantee the long-term existence and well-being of the business, rather than putting it at risk through wrongheaded conflicts**.(3)

Family governance has the potential to:(4)

- outline the **advantages and drawbacks of family involvement** in business;
- **communicate** opportunities for family engagement;
- promote **information** flows;
- foster **trust** and reduce family members' **ability to manipulate others**; and
- most importantly, help the extensive family to feel a **sense of belonging** to the company.

In essence, family governance is carried out through formal institutions and processes with the aim of assisting the relationship of the family between their wealth and the firm(5). Its purpose is to **gather safer and high-quality information for joint decision-making, to assist in reducing and/or removing conflicts of interest, to overcome obstacles, and to support corporate longevity**.

Especially in multi-generational families, family governance is essential to nurture family members in different roles as owners, whether more active or passive, whether involved in the family business or not.(6) De Groot et al. showed that family governance is particularly important for families that no longer have a family business, or hold a portfolio of investments and assets that has evolved over time. While for families-in-business, the family firm is frequently the main source of family unity and identity, as family members see the family firm as an extension of themselves, family governance can be an effective substitute for it.(7)

P PRACTICE

The backbone of the family business governance is supported by two pillars:

- **Family values**, which are the ideas and beliefs that shape individual conduct and social interaction;
- **Family objectives** and the forms of family engagement in the business.

By providing a clear definition through these two pillars, family firms have the potential to arrange their governance in a way that is tailored to the values and goals of the family, hence, promoting a governance structure that can help them to pursue their mission both as a family and as a business.

(1) Suess, J. (2014). Family governance - Literature review and the development of a conceptual model. *Journal of Family Business Strategy*, 5(2), p. 139.

(2) Jaffe, D. T., & Lane, S. H. (2004). Sustaining a Family Dynasty: Key Issues Facing Complex Multigenerational Business- and Investment-Owning Families. *Family Business Review*, 17(1), 81-98.

(3) Suess-Reyes, J. (2017). Understanding the transgenerational orientation of family businesses: the role of family governance and business family identity. *Journal of Business Economics*, 87(6), 749-777.

(4) Berent-Braun, M. M., & Uhlaner, L. M. (2012). Family governance practices and teambuilding: Paradox of the enterprising family. *Small Business Economics*, 38(1), 103-119; De Groot, M. B. T., Mihalache, O., & Elfring, T. (2022). Enhancing enterprise family social capital through family governance: An identity perspective. *Family Business Review*, 35(3), 306-328.

(5) Family Governance: how leading families manage the challenge of wealth, Credit Suisse (2017).

(6) Zellweger, T., Chrisman, J. J., Chua, J. H., & Steier, L. P. (2019). Social structures, social relationships, and family firms. *Entrepreneurship: Theory and Practice*, 43(2), 207-223. Berent-Braun, M. M., & Uhlaner, L. M. (2012). Responsible ownership behaviors and financial performance in family owned businesses. *Journal of Small Business and Enterprise Development*, 19(1), 20-38.

(7) De Groot, M. B. T., Mihalache, O., & Elfring, T. (2022). Enhancing enterprise family social capital through family governance: An identity perspective. *Family Business Review*, 35(3), 306-328.

The practice identifies different family governance mechanisms:

- **Family constitution:** an agreement between family members on family values and purpose, on the transgenerational aspiration of the family, and on how it is related and implemented in the enterprise family. **In this regard, a clear family constitution is crucial for family governance when it implies transparency of rules and processes;**
- **Family council:** a formal forum gathering family owners, and having the function of communicating, and deliberating on, decisions around the strategy of the family, as well as on every matter that has a primary relevance for the family or implications for the business;
- **Company bylaws:** legal documents that establish the core rules around how a business organization is governed and managed. They include rules around topics of fundamental importance for the ownership stability and regeneration over time, such as, albeit subject to specific national legislation: limits on the numbers of shares in circulation; pre-emption rules, approval and withdrawal of shareholders; protection of minority shareholders in the event of the sale of the business; composition of governing bodies and delegations; conduct of shareholder meetings; dividend policy;
- **Shareholder agreements:** contracts governing the relations among shareholders on several aspects parallel to those regulated by company bylaws, with the fundamental difference being that they are relevant within the family coalition only – with limited external relevance unless the firm is publicly listed on a stock market;
- **Family code of behaviour:** a stated set of rules and expectations around the behaviour and communication of family members when they interact as a family;
- **Advisory boards with outside experts:** an informal governance body that oversees the management of the family business and provides fiduciary suggestions to the family owners. They can have a progressively formal rule in the governance architecture and parallel legal bodies (*i.e.* the board of directors) as the complexity of the family increases.

All these elements together regulate family decision-making over family business issues,[(1)] and represent essential processes that will assist in the event of challenges, conflicts and turning points.

TABLE 5: PRESENCE OF A FAMILY CONSTITUTION WITHIN FAMILY FIRMS

	% family firms which have a family constitution
EUROPE	12%
WORLD	49%

Source: European Family Business Barometer 8th edition, European Family Business – EFB and KPMG (2019).

Source: PwC Global Family Business Survey (2018).

At the European level, **only 12% of family firms have reported the existence of a formal family constitution in place**,[(2)] compared with an overall global figure of 49%.[(3)] Furthermore, only 10% of family firms have established a formal advisory board.[(4),(5)] Working with external advisors is crucial to have a balanced, third-party view on complex issues that might affect the family. Even though more than half of families would potentially obtain better results with outside experts, more than **75%** of respondents rely on referrals from the family's professional network and/or friends when selecting external advisors, thus avoiding a more structured search mainly due to integrity and a perception of a time-consuming process.[(6)]

(1) Binz Astrachan, C., Astrachan, J. H., Kotlar, J., & Michiels, A. (2021). Addressing the theory-practice divide in family business research: The case of shareholder agreements. *Journal of Family Business Strategy*, 12(1), 100395.

(2) European Family Business Barometer 8th edition, European Family Business – EFB and KPMG (2019).

(3) PwC Global Family Business Survey (2018).

(4) European Family Business Barometer 8th edition, European Family Business – EFB and KPMG (2019).

(5) An advisory board is an informal group of outside experts that a business owner might employ as a sounding board or to cover gaps in experience and relationships. Unlike a board of directors, advisory boards have no legal responsibility for the company's governance.

(6) Family Barometer, Julius Baer (2022).

E

*EXPERIENCE

The Sequoia family followed a typical path of successful family firms. The first generation was responsible for implementing the entrepreneurial vision; the second generation grew the business by expanding operations in the global arena. Today the third generation is seeking to refocus on the strategic business of the global group, by trimming unprofitable activities and acquiring emerging activities which hold promise for the future.

The need for established forms of governance is particularly being felt by the only member of the next (third) generation of the family, who has inherited routines and methods of deciding from the second generation. These routines now need to be adapted to future challenges. At the moment the members of the business-owning family who are involved in the business are working on a more formalized structure for establishing clear rules.

Members of the next generation can voice their own perspective and actively shape the decisions of the family for the business as they are substantially involved as active shareholders in the company, and they oversee the strategic decisions of the family business. The next generation are aware of the need to be proactive in foreseeing future challenges for the sustainability and stability of the family ownership group. Consequently this is prompting them to plan the tax and strategic implications of the succession process, possible contingencies that might disrupt the family's business continuity, and understand the importance of a professionalized management team that executes the family vision in the business. As the family is not large (less than five people) and there are different risk preferences, wealth is managed through personal investment vehicles by each family member.

According to the next-generation member, the fatal mistake that incumbent generations can make is "being the last captain of the ship", *i.e.* being unable to let go of the power position in the business, thus making succession more complicated. Gradual involvement and socialization of family members in their role as shareholders or managers becomes successful only when it is starts early on. This snapshot of an entrepreneurial family in the process of structuring its governance for the long run provides an extremely important message: no family is alike, and effective governance systems must be based on the cognitive, affective, historical, relational, financial, and business dimensions of the entrepreneurial family.

* All entrepreneurial and family stories are true but anonymized for confidentiality reasons.

2
Foundational topics

Creating a cohesive family setting

K KNOWLEDGE

Developing a cohesive and functional group of owners is arguably one of the elements that help to "crack the code" to guarantee long-term survival, and make family firms thrive. However, this is easier said than done. Due to the combination of business and family systems, family firms are arguably more prone to conflicts than non-family counterparts. Examples of such conflicts are: *"sibling rivalry, children's desire to differentiate themselves from their parents, marital discord, identity conflict, and ownership dispersion among family members"*.(1) There are at least two categories of mechanisms that help curb intra-family conflicts.

The first order of mechanisms refers to **formal family governance practices** that are objectively defined and hopefully shared, which regulate the decisions regarding family leadership and continuity. The problem with family governance practices is that, in conflict-ridden families, governance practices are at risk of being bypassed or not respected by family members, or even used as political instruments for establishing the power of one coalition within the family over other family members.

Governance practices are not useful if they are not complemented with the second order of mechanisms, that is, psychological **mechanisms of sharing and unity**. Both orders of mechanisms support associability, a fundamental mechanism that favours cooperation in collective action between individuals in a group and it is the willingness and ability of "participants in an organization to subordinate individual goals and associated actions to *[legitimate]* collective goals and actions".(2) Research has shown that one of the psychological mechanisms that can decrease conflicts between family members and increase associability in family firms is **psychological ownership**,(3) *i.e.* the feeling of possession over a target – an object, concept, organization, or other person – that may or may not be supported by formal ownership. Psychological ownership can have three routes or drivers: control, knowledge and self-investment. By leveraging on these three routes, it is possible to develop a shared purpose, vision and goal commitment by the family members involved in the family business.

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(1) Kellermanns, F. W., & Eddleston, K. A. (2004). Feuding families: When conflict does a family firm good. *Entrepreneurship: Theory and Practice*, 28(3), 209; see also Bettinelli, C., Mismetti, M., De Massis, A., & Del Bosco, B. (2022). A Review of Conflict and Cohesion in Social Relationships in Family Firms. *Entrepreneurship: Theory and Practice*, 46(3), 539-577.

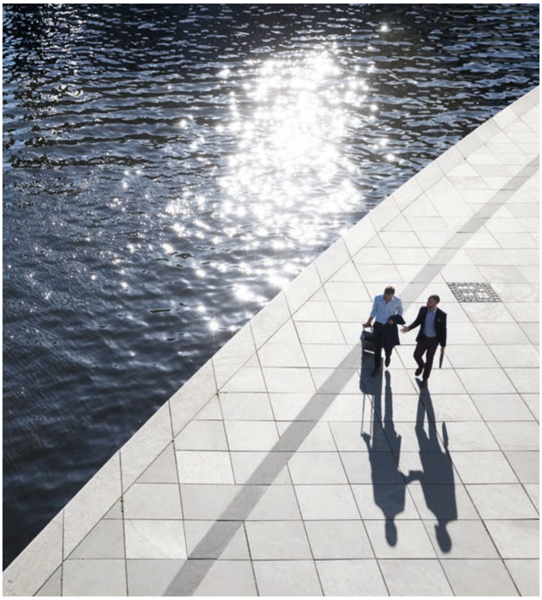
(2) Leana, C. R., & van Buren, H. J. (1999). Organizational social capital and employment practices. *Academy of Management Review*, 24(3), 541; see also Uhlaner, L. M., Floren, R. H., & Geerlings, J. R. (2007). Owner Commitment and Relational Governance in the Privately-Held Firm: An Empirical Study. *Small Business Economics*, 29, 275-293; Berent-Braun, M. M., & Uhlaner, L. M. (2012). Family governance practices and teambuilding: Paradox of the enterprising family. *Small Business Economics*, 38(1), 103-119; Pearson, A. W., Carr, J. C., & Shaw, J. C. (2008). Toward a theory of familiness: A social capital perspective. *Entrepreneurship: Theory and Practice*, 32(6), 949-969.

(3) Pierce, J. L., Kostova, T., & Dirks, K. T. (2001). Toward a theory of psychological ownership in organizations. *Academy of Management Review*, 26(2), 298-310.

P PRACTICE

Family governance may help foresee and respond to crises by **encouraging** more **discipline**, **transparency** and **accountability** for the issues that matter.

- **Engagement** among family members **is necessary for it to work** since it allows them **to create and express their beliefs together**. And that is mostly promoted through **communication**;
- **Family gatherings constitute essential bonding and promotion of decisions in a collective way**, and as such, must be carefully structured and prepared with the goal of **informing**, but also **inspiring** and **engaging**.



In other words, family governance comprises a number of areas where talks take place and choices are made, each requiring a unique set of skills and concerns.

Nonetheless, practitioner reports indicate that such family governance structures and efforts are being adopted at a **very low rate**, particularly at the European level:

59% of global family firms have a board of directors[(1)] and **26%** have shareholder agreements, while in Europe only **24% of family firms** have a formal board of directors;[(2)]

35% of global respondents conduct formal family meetings[(3)] and **44%** hold informal family meetings, while in Europe just **17%** promote organized family gatherings.[(4)]

In general, there are few **family-conflict resolution tools**.

(1) The regenerative power of family businesses, KPMG (2022).

(2) European Family Business Barometer 8th edition, European Family Business – EFB and KPMG (2019).

(3) Deloitte Global Family Business Survey (2019).

(4) The regenerative power of family businesses, KPMG (2022).

E

*EXPERIENCE

The Oak family is the owner of a family business, now in the third generation, and they are currently planning succession to the fourth. Their family governance system has evolved over time, and today it needs to adapt to the family's complex structure, consisting of multiple branches and dozens of shareholders, as is commonplace in multi-generational families.

First, the family created a family charter that sets out values, clear roles and responsibilities of family involvement in the business and in ownership systems. This statement sets clear boundaries and rules for the involvement of family members in the company.

"The creation of a family charter was triggered during the shift from the second to the third generation. In the charter we agreed as a family on the definition of our values, our vision for the future and our rights and responsibilities towards the family business. We activate that through organizing family days at least twice per year when we especially engage the next generation".

The board of directors is the place where business decisions by relevant family members are made; conflicts derived from divergent priorities around what the business should be are confined to the business systems, in order to avoid dysfunctional emotional spillovers towards other family members.

The entry of the next generation is professionalized and relegated to the HR managers of the family business, counting on the support of independent directors. Nonfamily managers have "… some important responsibility in screening competencies and creating objectivity when selecting family members to join the company."

In order to regulate the decision-making process and the quality of relationships in the family system, the family also established a Family Council, which streamlines communication between family members, organizes family gatherings, and supports family learning and development. The Family Council does not have any say in the family business decisions, however it can trigger initiatives that can be taken up by family owners. For example, the sustainability projects that are currently being developed inside the family business were born in the Family Council, and afterwards they were discussed by the board of directors and the business.

* All entrepreneurial and family stories are true but anonymized for confidentiality reasons.

2
Foundational topics

Family succession and continuity

K KNOWLEDGE

There is a **mismatch between expectations and empirical facts surrounding the development and execution of succession planning**.[1] About one-third of family firms appear to succeed in managing an efficient succession process and achieving an intergenerational transfer, making succession one of the most crucial difficulties for family businesses. Scholars have investigated which **demographic**,[2] **attitudinal**,[3] **behavioural**,[4] and **cultural**[5] aspects inhibit or encourage succession planning. Furthermore, recent studies have highlighted the

centrality of family governance systems playing a leading and enabling role in succession support systems.(6)

While succession planning is a best practice, emerging research has shown that planning *per se* is not sufficient to guarantee that succession bears the promise of a sustained high performance of the family firm in the long run. Research has tested that generations matter when it comes to succession planning. Planning is strictly related to higher performance when it is the first generation that starts planning. But the connection between succession planning and performance becomes weaker in later-generation family businesses.(7)

Considering succession as a process that spans multiple years, if not decades,(8) it is important to stress that its formalization is not necessary *per se* or sufficient for a thriving family business. The ability to nurture competent and committed successors is another important factor that entrepreneurial families need to consider when approaching the topic of succession.

Recent research hypothesized and tested that both parents and their children matter in the process of succession. Intrinsic motivation to continue and to be involved in the family business is crucial for a thriving succession. The incumbent generation's trust of the next generation is important to grant the successor decisional autonomy.(9) The nurturing of commitment by the incumbent generation is found to have long-lasting effects on the performance of the successor.(10)

Furthermore, having **the ability to carefully select the successor** is of fundamental importance: a study of about 1,000 successions in Italy found stronger results for firms that choose the second or later-born, instead of the firstborn. In addition, the performance was higher even compared with firms that chose an outside CEO.(11) In other words, breaking the cultural norm of primogeniture, and showing the **"courage to choose"** within the family pool of candidates, reaps a strong payoff.

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(1) Umans, I., Lybaert, N., Steijvers, T., & Voordeckers, W. (2020). Succession planning in family firms: family governance practices, board of directors, and emotions. *Small Business Economics*, 54(1), 189-207.

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(3) Sharma, P., Chrisman, J. J., & Chua, J. H. (2003). Predictors of satisfaction with the succession process in family firms. *Journal of Business Venturing*, 18(5), 667-687.

(4) Venter, E., Boshoff, C., & Maas, G. (2005). The influence of successor-related factors on the succession process in small and medium-sized family businesses. *Family Business Review*, 18(4), 283-303.

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(6) Arteaga, R., & Menéndez-Requejo, S. (2017). Family Constitution and Business Performance: Moderating Factors. *Family Business Review*, 30(4), 320-338.

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(8) Miller, D., Steier, L. P., & Le Breton-Miller, I. (2003). Lost in time: Intergenerational succession, change, and failure in family business. *Journal of Business Venturing*, 18(4), 513–531. Meier, O., & Schier, G. (2016). The Early Succession Stage of a Family Firm: Exploring the Role of Agency Rationales and Stewardship Attitudes. *Family Business Review*, 29(3), 256-277.

(9) Gagné, M., Marwick, C., Brun de Pontet, S., & Wrosch, C. (2021). Family Business Succession: What's Motivation Got to Do With It? *Family Business Review*, 34(2), 154-167. Dawson, A., Sharma, P., Irving, P. G., Marcus, J., & Chirico, F. (2015). Predictors of later-generation family members' commitment to family enterprises. *Entrepreneurship: Theory and Practic*e, 39(3), 545-569. Garcia, P. R. J. M., Sharma, P., Massis, A. De, Wright, M., & Scholes, L. (2019). Perceived parental behaviors and next-generation engagement in family firms: A social cognitive perspective. *Entrepreneurship: Theory and Practice*, 43(2 Special Issue), 224-243.

(10) Shanine, K. K., Madison, K., Combs, J. G., & Eddleston, K. A. (in press). Parenting the Successor: It Starts at Home and Leaves an Enduring Impact on the Family Business. *Entrepreneurship: Theory and Practice*.

(11) Calabrò, Andrea & Minichilli, Alessandro & Amore, Mario & Brogi, Marina. (2017). The Courage to Choose! Primogeniture and Leadership Succession in Family Firms. Strategic Management Journal.

P

PRACTICE

As founders plan for succession, family governance emerges as an important mechanism for sharing succession information and planning, as well as nurturing the next generation. Actually, a survey highlighted that the absence of a common vision for the family business and a fragile next-generation leadership were among the top three threats for the long-term success of a family firm. In other words, a shared and well-established vision of the family business can produce strong and effective next-generation family leaders.[1]

It is vital, however, to assess whether **family continuity** is a common aim among family members, or whether it is more convenient to split assets among family branches or individuals. Furthermore, the *"peace at all costs"* mentality may prevent essential issues from being freely discussed, potentially leading to the disintegration of financial continuity plans and family relationships.

In Europe, **37%** of respondents claim to have a solid, documented and well-communicated succession plan in place, compared with **30%** globally. Several major performance discrepancies are emphasized overall:[2]

28+ **percentage point** difference in market capitalization in favour of those who planned succession;

14+ **percentage point** difference in revenue growth over two years for those who planned succession; and

0.5% vs. -3.9%
Higher EBITDA margins for family firms with succession plans.

(1) Miller, S. (2022). Shared Vision and Next Generation Leaders: two sides of the same coin. The Family Business Consulting Group.

(2) PwC Global Family Business Survey (2021).

E

*EXPERIENCE

The Birch family has a second-generation company, whose founder is still alive and involved in overseeing the business. The company was founded in the Netherlands in the second part of the 21st century.

As a matter of family governance, the success of the business has led, over the years, to establish a single-family office as well, which is completely independent from the family business, but whose ultimate beneficiaries are the same – the Birch family members. The Birch family started to set up a system of family governance to manage the succession process and the involvement of next-generation members in the business and the family office. This was explicitly formalized in the family constitution, a written document that "establishes the rules, the principles, the values of the Birch family, the rules of engagement of the Birch family for the future, even when the founder is no longer around". In the family constitution, there is a distinct clause for engagement of family members who would like to be involved as board members. This must be signed by them, confirming their will to stick to the original values of the founder.

Within the Birch family, the succession process is not just limited to the transfer of power from one generation to the next, but it is a lifelong process of next-generation involvement in the family business. The Birch family established a "family report", which is published yearly and provides an overview of the business to which all family members are invited to participate. There are family meetings, where the family members involved as owners and managers in the business discuss short-, medium-, and long-term goals as well as the performance of the company. The involvement of next-generation family members in the company was also formalized through rules that make the process transparent and promote competencies over simply having the business-owning family name.

* All entrepreneurial and family stories are true but anonymized for confidentiality reasons.

3 Emerging topics

3

Emerging topics

Social impact in business families

K

KNOWLEDGE

Family firms and their respective families are uniquely positioned to catalyze positive impact on stakeholders and society. The existence of family-centred goals, such as the protection of family reputation and connections between the family and the local community, allows them to consider corporate social performance, stakeholder engagement and social impact as being inherently connected to family values and history. There are different practices that can be leveraged by business families to pursue social impact.(1) One of them is philanthropy. Indeed, philanthropy in family businesses is a phenomenon that exists at the crossroads of family, business and society.(2) Philanthropic activities in family businesses can be driven by:

- **family-oriented motives,** which reflect on the potential benefit of philanthropy to the family's identity, legacy and wealth benefits;
- **business-oriented motives** that range from strategic, political and financial expectations;
- **dual motives** which are linked to reputational, moral and educational opportunities for the next generation relating to important issues for the family and the business.(3)

Research has found that practising **philanthropy** results in **overall enhanced family dynamics**,(4) improved **performance**,(5) enhanced **reputation**,(6) and creates **opportunities to educate and involve family members who are not engaged in the business**.(7)

The **cultural context** must not be overlooked when evaluating philanthropy in family businesses. Factors that influence the effectiveness of philanthropic behaviour include which **generation of the family is in charge of the business**,(8) the **industry** in which the firm operates(9) and the **country**.(10)

However, philanthropy is not the only practice for social impact. Impact investing is gaining traction among next-generation members of affluent families. Often, the transition towards impact investing needs a radical shift on how the family has been managing its wealth, with a substantial re-think of governance structures, asset allocation and wealth responsibilities.(11)

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(1) van Gils, A., Dibrell, C., Neubaum, D. O., & Craig, J. B. (2014). Social issues in the family enterprise. *Family Business Review*, 27(3), 193-205.

(2) Feliu, N., & Botero, I. C. (2016). Philanthropy in family enterprises: A review of literature. *Family Business Review*, 29(1), 121-141.

(3) Hoy, F., & Rosplock, K. (2014). Issues in multigeneration family companies. In M. L. Taylor, R. J. Strom, & D. O. Renz (Eds.), *Handbook of research on entrepreneurs' engagement in philanthropy* (pp. 115-147). Cheltenham, UK: Edward Elgar Publishing.

(4) Feliu, N., & Botero, I. C. (2016). Philanthropy in family enterprises: A review of literature. *Family Business Review*, 29(1), 121-141.

(5) Niehm, L. S., Swinney, J., & Miller, N. J. (2008). Community Social Responsibility and Its Consequences for Family Business Performance. *Journal of Small Business Management*, 46(3), 331-350.

(6) Fernando, M., & Almeida, S. (2012). The organizational virtuousness of strategic corporate social responsibility: A case study of the Sri Lankan family-owned enterprise MAS Holdings. *European Management Journal*, 30(6), 564-576.

(7) Pharoah, C., Bolognesi, D., Ebermann, T., Gemelli, G., Keidan, C., & Neuke, H. (2009). Family Foundation Philanthropy 2009. London. Schillaci, C. E., Romano, M., & Nicotra, M. (2013). Family business foundations: Theoretical and empirical investigation. *Journal of Innovation and Entrepreneurship*, 2(22). De Massis, A., Kotlar, J., & Manelli, L. (2021). Family firms, family boundary organizations and the family-related organizational ecosystem. *Family Business Review*, 34(4), 250-264.

(8) Lahdesmaki, M., & Takala, T. (2012). Altruism in business – an empirical study of philanthropy in the small business context. *Social Responsibility Journal*, 8(3), 373-388.

(9) Feliu, N., & Botero, I. C. (2016). Philanthropy in family enterprises: A review of literature. *Family Business Review*, 29(1), 121-141.

(10) Rey-Garcia, M., & Puig-Raposo, N. (2013). Globalisation and the organisation of family philanthropy: A case of isomorphism? *Business History*, 55(6), 1019-1046.

(11) Cruz, C., Justo, R., & Roche, J. (2021). Engaging in a new field: Business Owning Families' Differential Approach to Impact Investing. *European Journal of Family Business*, 11(1), 21-32; Paetzold, F., & Busch, T. (2014). Unleashing the Powerful Few: Sustainable Investing Behaviour of Wealthy Private Investors. *Organization and Environment*, 27(4), 347-367.

P PRACTICE

Even if family members do not share the same goals or methods, charity can help them stay connected while leaving a legacy to society. To put it another way, **engagement happens via giving and sharing**.

In fact, a major challenge often faced by large and multigenerational family groups is engaging younger members in philanthropy. The most straightforward way to achieve this is to onboard young members as early as possible as a way to raise their interest in the family business itself.(1)

- Engagement in philanthropy is promoted through the sharing and discussion of values and privileges;(2)
- An effective way to achieve that goal and especially create a sense of connection at any age is the tool of storytelling for inspiring and motivating the younger generation about family goals and giving.(3)

Hence, a well-structured family governance can only help in this task. A clear family constitution and definition of values together with the promotion of family gatherings and councils in order to share and discuss them is a starting point for involving the next generation in philanthropic activities.

However, **practitioners' reports reveal some lack of interest in philanthropy** among family business members. More specifically, from an international perspective, younger generations, particularly young men, are less concerned about environmental and charitable initiatives.(4)

Furthermore, in Europe, 32% of respondents said they plan to donate their fortune to charity, a figure pretty much in line with the global average. By comparison, in the United States, this percentage is 49%.(5) Admittedly, in the US the majority of philanthropic giving comes from family foundations, whereas in Europe this is much less the case, particularly in Latin countries.(6)

(1) Vogel, P. and Kurak, M. (2020). How family businesses can inspire the next generation of philanthropists. IMD – International Institute for Management Development.

(2) Vogel, P. and Kurak, M. (2020). How family businesses can inspire the next generation of philanthropists. IMD – International Institute for Management Development.

(3) Vogel, P. and Kurak, M. (2020). How family businesses can inspire the next generation of philanthropists. IMD – International Institute for Management Development.

(4) Family enterprise global survey on generational perspectives, Julius Baer (2021).

(5) Global Entrepreneur and Family Report, BNP Paribas Wealth Management (2021).

(6) Considering European context as in European Family Business Barometer 8th edition, European Family Business – EFB and KPMG (2019).

E

*EXPERIENCE

The Buckeye family business is in its first generation, operating in the engineering industry. The governance of the business and the wealth is decoupled, with a holding company overseeing the business operations and a family office managing the family wealth.

The Buckeye case is interesting because it demonstrates unique ways through which a family can use its wealth to foster social impact. First of all, the family office's investment strategy includes entrepreneurial investments in high-tech and digital start-ups, thus supporting technological innovation. Second, the Buckeye family is involved in a number of philanthropic grant-making activities, especially in the area of higher education, to support equal access to educational opportunities for youth, and in the Arts. The Buckeye family is planning to establish its own family foundation to internalize these grant-making activities. Indeed, these activities are especially important for society and local community, as they support economic development and employment, by financing innovative products and services, and provide opportunities for groups which are underprivileged and marginalized by society.

The reasons behind philanthropy in the Buckeye family are not only humanistic altruism. The generation of social impact beyond business activities is a connection between the aspiration of the incumbent generation and the next generation, who are in their late 20s. Philanthropy is a way to catalyze family values and to provide a role in the family enterprise that is deeply coherent and connected to the individual and the local aspirations of the next-generation members: "We sit down with our children and brainstorm a hundred ideas for philanthropic activities. They are very engaged in this. I believe this is extremely positive because in these activities our children can experience a higher meaning for family wealth".

* All entrepreneurial and family stories are true but anonymized for confidentiality reasons.

Digital transformation and family firms

K **KNOWLEDGE**

Given their peculiarities,(1) it is realistic to expect family firms to demonstrate specific digitalization paths. While technological adoption may result in capturing opportunities, it can also lead to unexpected issues. **Intergenerational conflicts**, for instance, may reach a critical threshold as older generations are reluctant to adopt digital technology quickly, while younger generations expect instant acceptance of them.(2)

The implementation of digital technologies in the business context leads to changes not only in the product offering and cost efficiency, but also in how the organization works internally. Family firms are no exception. Research has shown that family owners are likely to bear more resistance when digital transformation is an organization-wide transformation. However, they are less likely to resist when digital technologies are implemented as part of product or process innovations.(3)

Research has demonstrated that **family firms are, on average, more effective** than non-family firms in **innovating their business model digitally**, for example by servicing it or by rolling out a digital platform to convey the value proposition. Therefore, family firms are generally more capable to embrace the digitalization of their capabilities and operations. However, this **effect is weaker when the strategic context is more subject to rapid change**.(4)

(1) Sirmon, D. G., & Hitt, M. A. (2003). Managing resources: Linking unique resources, management, and wealth creation in family firms. *Entrepreneurship: Theory and Practice*, 27(4), 339-359.

(2) De Clercq, D., & Belausteguigoitia, I. (2015). Intergenerational strategy involvement and family firms' innovation pursuits: The critical roles of conflict management and social capital. *Journal fo Family Business Strategy*, 6(3),178-189.

(3) Heider, A. K., Clauss, T., Hulsbeck, M., Gerken, M., & Rusen, T. A. (2022). Blood is thicker than water: The role of family willingness and family ability in achieving holistic digitalisation in family businesses. *International Journal of Innovation Management*, 26(3), 2240009.

(4) Soluk, J., & Kammerlander, N. (2021). Digital transformation in family-owned Mittelstand firms: A dynamic capabilities perspective. *European Journal of Information Systems*, 30(6), 676-711; Soluk, J., Miroshnychenko, I., Kammerlander, N., & De Massis, A. (2021). Family influence and digital business model innovation: the enabling role of dynamic capabilities. *Entrepreneurship Theory & Practice*, 45(4), 867-905.

P PRACTICE

In this topic, for **72%** of European family firms, being more innovative is the top goal in the short to medium term, exceeding those for personnel training, product diversification and geographic expansion.[(1)]

At the international level, next-generation family business executives have a high level of digital awareness, while other family members may be unaware of the possibilities that digital technology can bring (**55%** are *"somewhat aware"*). Moreover, about 40% of family firms do not have a digital strategy or are in the process of creating one, compared with 26% who have a robust one in place.[(2)]

European respondents from family firms reported a greater level of digitization readiness, with 43% indicating a good level of digital skills compared with 38% in the international context.[(3)] On that note, **female** and/or **non-family** CEOs are more eager to advocate it.

Overall, there is a growing willingness to cooperate with third parties, with 65% of next-generation family business executives expressing an interest in doing so.[(4)] Indeed, 46% of family businesses have made acquisitions, 33% have formed strategic partnerships, and 30% would like to gain access to new goods, services or technology. On the other hand, partnerships for innovation are uncommon; in fact, 53% of respondents said they had seldom (or never) cooperated with other organizations on innovation efforts.[(5)]

(1) European Family Business Barometer 8th edition, European Family Business – EFB and KPMG (2019).

(2) Next-generation family businesses, Deloitte (2018).

(3) PwC Global Family Business Survey (2021).

(4) The regenerative power of family businesses, KPMG (2022).

(5) Next-generation family businesses, Deloitte (2018).

E *EXPERIENCE

The Cedar family has its seventh generation still involved in the business. It is an example of a multi-generational family that has been willing to consistently digitalize the family business.

The Cedar family has shifted much of its brick-and-mortar business to a digital business model. This has entailed the digitalization of relationships between suppliers and points of sale: "digital technologies bring new knowledge, it is the best way to improve the quality of the business and capture new opportunities". The digitalization of the family business is also reflected in the investment in information technology (IT) skills and human capital, resulting in 4,000 professionals involved in the IT function of the business.

Top managers in the family business are trained in digital technologies and digitalization. Furthermore, they participate in formal training pathways in these areas, for example by attending the Singularity University to improve their knowledge of how digitalization will affect the future of the business. Interestingly, family owners also receive the same training. As digitalization deeply affects the trajectory of future development of society and technology, the understanding by family owners of trends that will have an impact on the long-term viability of business is paramount, and is also supported by a well-suited governance once they recognize that "…independent directors are a source of competencies that the family does not possess, especially in topics that require an external view."

The proactivity in seeking opportunities for change and for understanding change makes the Cedar family's business a model for other families that seek to keep an entrepreneurial mindset, even after several centuries.

* All entrepreneurial and family stories are true but anonymized for confidentiality reasons.

Education for responsible ownership

K

KNOWLEDGE

The **level of education** has a significant influence on the next generation's performance.[(1)] Formal education provides the underlying principles and comprehensive competencies that can be used in most business settings, as well as the analytical skills and traits required for decision-making.[(2)] **Education also exposes successors to new management and new technological initiatives and trends**.[(3)]

Experiential learning has emerged as a vital component in supporting next-generation family members to pursue entrepreneurial endeavours and to take on the role of entrepreneur.[(4)] Interestingly, the education of the next generation has not taken place in the context of a **"master-disciple relationship"**, but has been a **proactive, experiential learning process**.

Therefore, the education of family business members is not only a formal, certified instruction provided by accredited institutions, but it is a lifelong process that mixes formal education with hands-on and reflective learning processes.[(5)] In each stage of an incumbent family member's life, hard, soft and relational competencies and skills should be passed on to next-generation members. Research has shown that, while intellectually challenging, MBA-like managerial competencies are important for running a business organization. In addition, members of family firms need additional skills when they become involved in the business, and these are not easy to learn from generalist management courses. For example, how can family members become responsible owners and stewards of the family enterprise and family wealth?[(6)] How should board directors relate to family shareholders and managers? How can a family business succession plan be structured to make the family and the business flourish?[(7)]

(1) Cabrera-Suárez, K., De Saá-Pérez, P., & García-Almeida, D. (2001). The Succession Process from a Resource- and Knowledge-Based View of the Family Firm. *Family Business Review*, 14(1), 37-48.

(2) Duh, M. (2014). Family business succession as knowledge creation process. *Kybernetes*, 43(5), 699-714.

(3) Sardeshmukh, S. R., & Corbett, A. C. (2011). The Duality of Internal and External Development of Successors: Opportunity Recognition in Family Firms. *Family Business Review*, 24(2), 111-125.

(4) Sorenson, R. L., & Milbrandt, J. M. (2015). A family affair-Teaching families versus individuals: Insights gained from 24 years of family business education. Academy of Management Learning & Education, 14(3), 366-384.

(5) Salvato, C., Sharma, P., & Wright, M. (2015). From the Guest Editors: Learning Patterns and Approaches to Family Business Education Around the World – Issues, Insights, and Research Agenda. *Academy of Management Learning & Education*, 14(3), 307-320.

(6) Le Breton-Miller, I., & Miller, D. (2015). Learning Stewardship in Family Firms: For Family, by Family, Across the Life Cycle. *Academy of Management Learning & Education*, 14(3), 386–399. Konopaski, M., Jack, S., & Hamilton, E. (2015). How family business members learn about continuity. *Academy of Management Learning & Education*, 14(3), 347-364.

(7) Lansberg, I., & Gersick, K. E. (2015). Educating Family Business Owners: The Fundamental Intervention. *Academy of Management Learning & Education*, 14(3), 400-413.

P

PRACTICE

Next-generation members are not only important for business continuity, but also for the long-term strategy and transformative adaptation:

46% of respondents affirmed that the next generation is **already involved** in **marketing** and **social media campaign initiatives** within the business;

In 41% of cases, the next generation is **already participating** in the **development of new product lines** for the business;

In 35% of cases, the next generation is **already responsible** for **integrating sustainable practices** into the business;

For 42% of respondents, the next-generation represents a **future source of influence** for the **business strategy** and its **direction**.

In this never-ending learning process, entrepreneurs must spend time and energy educating and developing the future leaders of their companies. The awareness and knowledge of managerial and wealth management issues are already reasonably strong, with more than 40% of respondents recognizing the necessity for assistance in such matters when onboarding the next generation in the firm. Yet, less than 30% of respondents mentioned governance-related subjects, such as dispute resolution and the establishment of a family governance code.(1)

The findings are also somewhat mixed, suggesting that not every next-generation family member is predisposed to risk-taking. It is particularly key to build long-term perspectives and risk appraisal skills among young-generation family members, since just 18% of young entrepreneurs are open to changing their risk and return profiles to reach more sustainable outcomes, compared with 37% of older entrepreneurs.(2)

(1) Global Entrepreneur and Family Report, BNP Paribas Wealth Management (2021).

(2) Global Entrepreneur and Family Report, BNP Paribas Wealth Management (2021).

E

*EXPERIENCE

The Aspen family has a second-generation business that operates in the packaging industry.

The Aspen family is explicitly confined to the controlling position as shareholder, with substantial power in the board of directors, and without any formal role in management positions in the family business. Moreover, they deliberated in the 1970s that the family firm's CEO must be external, *i.e.* a non-family member. In this configuration, the education of next-generation family members is necessary for guaranteeing the long-term survival of the family business.

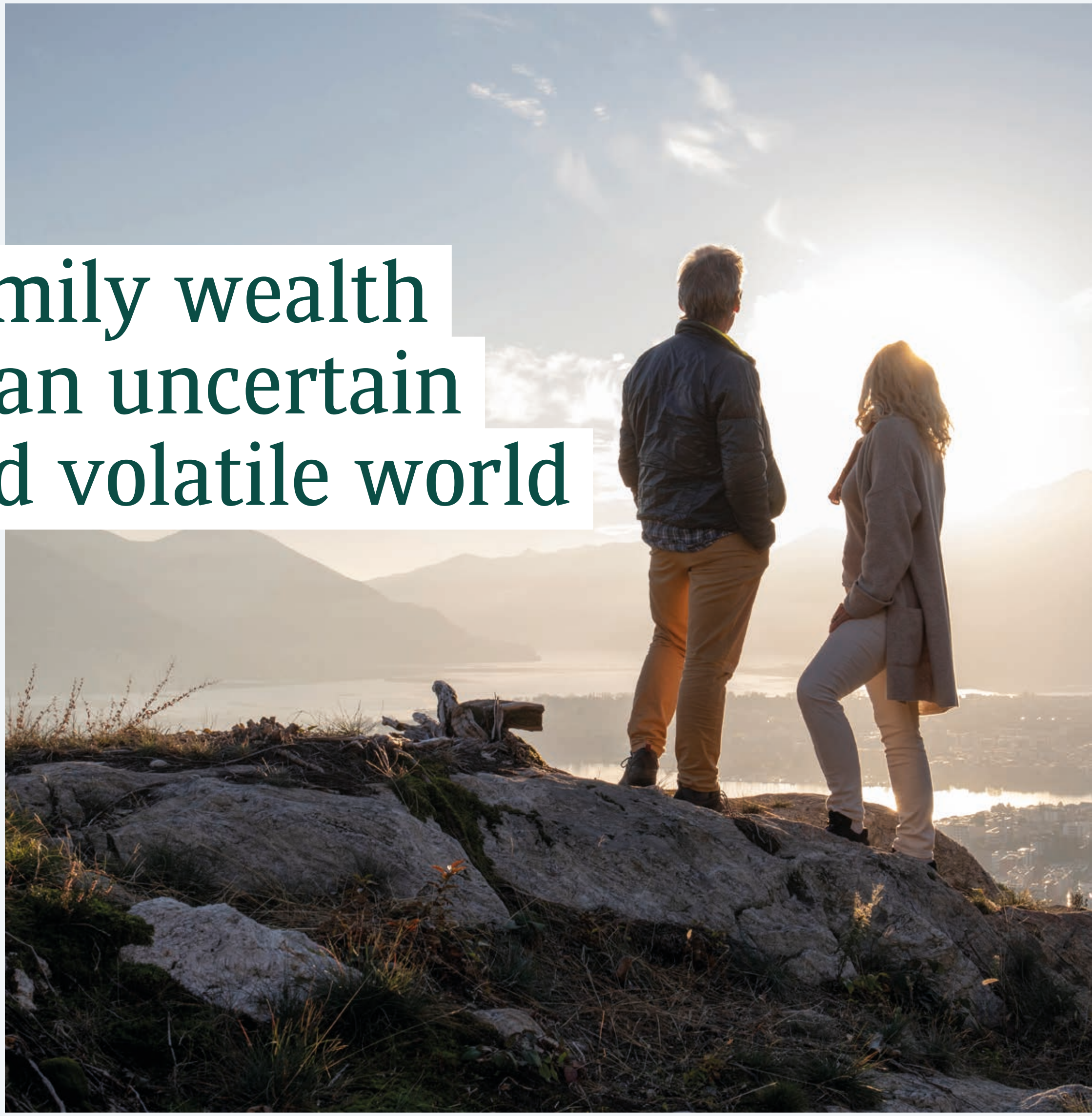
First, the Aspen family started to get the next generation to mix with members of the board of directors, inviting them to meet directors at informal occasions, to learn about the products and to understand the business. Moreover, they are convened to annual general meetings of the company during which next-generation members are asked to participate actively, make presentations and bring their own viewpoints in order to develop competencies in active ownership. The next generation is kept informed of developments so that they can understand and be enthusiastic about the company.

At the same time, the next-generation members are not appointed to the board or other positions simply on account of their bloodline. Instead, there are multiple assessments of competencies, willingness and fit of family members in relation to the family firm, and they can only apply for job vacancies open to non-family members.

* All entrepreneurial and family stories are true but anonymized for confidentiality reasons.

3

Emerging topics



Family wealth in an uncertain and volatile world

K KNOWLEDGE

Successful entrepreneurial families are "families of affinity",[1] where belonging to the family is not defined by bloodline or by reaching an agreement over a shared unifying family purpose. Family Offices can represent tools for expressing entrepreneurial intentions by family members even after a family firm is sold[2]. Entrepreneurship can be a powerful motivational element for a family member to "stay" in the family, and the Family Office can provide the resources and opportunities for family members to express their entrepreneurial intentions.[3]

Family Offices are often described as the **"strategic control room"** of an entrepreneurial family.[4] Although fiduciary structures for managing family wealth have existed in different forms since the Roman Empire, the emergence of Family Offices as we know them today is usually traced back to the late 19th century at the time of the industrial dynasties of Morgan, Rockefeller, DuPont, and Phipps. Usually, they are the natural evolution of the role that accountants and advisors in the family business had in managing the family wealth, even though part-time. As Family Offices are entrusted with managing a complex mix of wealth and assets, they create an **additional layer of separation** from the discretion of sole family members who may want to use the family wealth for individualistic and selfish purposes.[5]

While Family Offices were born as "Single" Family Offices, where the wealthy family who created the office was also the only one to receive and benefit from its services, there can be "Multi"-Family Offices as well, when they may work for more than one family at a time[6]. Within Multi-Family Offices, there is a common distinction between "closed" Multi-Family Offices, emerging from a gradual aggregation of more wealthy families who are friends or acquaintances of the focal family in the initial Single Family Office, and "open" Multi-Family Offices, which are by all means commercial organizations. Often, wealthy entrepreneurs and families follow a rather standard path over time. They typically start by entrusting an accountant – who may be already working in the family business – with the duty of managing and overseeing the family wealth. Later, they provide more structure and formalization to the (still embryonal) wealth management activity, creating a Single Family Office; at this point, they start exploiting advantages of scale by adding more families within the Family Office, and then ultimately evolving into a full-fledged professional wealth management and advisory firm.

Family Offices often organize family retreats, family councils, family assemblies, and oversee the family charter. In this way, Family Offices can function as **custodians and enhancers of family social capital**,[7] representing a formal factor that keeps family members together as a family.

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(5) Zellweger, T., & Kammerlander, N. H. (2015). Family, wealth, and governance: An agency account. *Entrepreneurship: Theory and Practice*, 39(6), 1281-1303.

(6) Wessel, S., Decker, C., Lange, K. S. G., & Hack, A. (2014). One size does not fit all: Entrepreneurial families' reliance on family offices. *European Management Journa*l, 32(1), 37-45.

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P

PRACTICE

Family Offices are becoming more and more important financial investors. According to Campden Wealth, Family Offices worldwide account for **$6 trillion of total assets under management/ advisory** – and this figure is likely to grow, as many entrepreneurial families are selling their family firms. While the financial weight of these organizations calls for focused attention, the majority of Family Offices have been operating silently, without scrutiny from the public eye.

While the modern Family Office was born in the late 19th century in the United States (although in Europe there were already institutionalized organizations for the management of family wealth), today there is a **surge in Family Offices established in South-East Asia**,[(1)] which are characterized by **high risk appetite** and **an apparent curiosity about emerging asset classes**, such as cryptocurrencies, and **digital assets**.[(2)]

Interest in alternative asset classes, such as cryptocurrencies, private equity and venture capital, is not just apparent in South-East Asia, but **cuts across geographical boundaries**. The reason for this is the **volatility of market trends** which are pushing family offices to shift their asset allocation further away from public equities and bonds.[(3)] Family Offices are becoming increasingly prominent in the world economy as providers of patient capital[(4)] as well as risky capital for start-ups and entrepreneurial ventures.

(1) https://www.ft.com/content/9cde054a-1c9a-4c21-ba3e-3a06e5ce41b3
(2) https://www.ft.com/content/5646ce04-ff09-4230-a35b-e46529545a4f
(3) 2022 Osservatorio Family Office – Politecnico di Milano.
(4) Sharma, S., & Sharma, P. (2019). *Patient Capital: The role of family firms in sustainable business*. Cambridge University Press.

E

*EXPERIENCE

The Pine family, a dynasty still involved in the family firm, established its own Single Family Office around 50 years ago. The ownership and thus control over decision-making is shared between two siblings that gives them independence to take decisions about their shares/ownership. To reduce the risk of conflicts of interests, the decision-making of the Family Office is extremely formalized.

This Family Office is a typical example of a "holistic" Family Office, similar to those born in Anglo-Saxon countries in the late 19th century. It is professionalized, employs dozens of people, and provides services to the family in every aspect, covering account aggregation, wealth planning, investment/asset management as well as lifestyle management.

As the next generation is climbing up the ladder within the owning family, the top managers of the Family Office are working to clarify their role and to implement sustainability into the operations of the Family Office and the family business. Next-generation engagement requires a clear and consistent communication between them and the Family Office: "Even if the family members do not engage in the business, it is essential to engage in communication with all and keep everyone up-to-date when important strategic decisions must be taken. The leadership both inside the family and within its Family Office is then considered key for supporting continuous learning as a family and so to keep the entrepreneurial spirit alive across generations."

* All entrepreneurial and family stories are true but anonymized for confidentiality reasons.

Key takeaways

Family firms form the backbone of most world economies. Whether large or small, professionalized or not, they offer an array of opportunities and challenges at the same time.

Governance in the business and in the family are arguably the two most important areas where the long-term success of both is decided. However, due to the complexity and the number of issues to tackle, many entrepreneurs are often stuck with the daunting task of shaping business and family governance, and fail to understand the utmost importance of it.

The saying "shirtsleeves to shirtsleeves in three generations" reminds us that in the case of family businesses, conflicts and disintegration of the ownership group are the most common outcomes in the long term. A well-thought and crafted governance system can help to prevent this seemingly inescapable fate.

The following roadmap summarizes the key findings of this research, providing a guide for entrepreneurial families, their managers and advisors to systematically address the sustainability of the family and the family business. The roadmap is made up of four blocks:

1. **ASSESSING THE FAMILY (AND ITS GOVERNANCE)**
2. **NURTURING FAMILY DIALOGUES**
3. **PROFESSIONALIZING THE FAMILY BUSINESS AND THE BUSINESS FAMILY**
4. **SUPPORTING THE NEXT GENERATION**

FIGURE 1: A ROADMAP FOR A FUTURE-PROOF FAMILY BUSINESS

1

ASSESSING THE FAMILY (AND ITS GOVERNANCE)

- What is our family purpose?
- What are our family values?
- Where would we like our family to be in 300 years?

2

NURTURING FAMILY DIALOGUES

- Do we share the same purpose and values?
- What are the key sources of family discord?
- How can we resolve the emotional and generational chasms in our family?

3

PROFESSIONALIZING THE FAMILY BUSINESS AND THE BUSINESS FAMILY

- How do we enforce shared decision-making?
- How can we balance family members and necessary non-family competences?
- How can we use digital technologies to support the quality of decision-making?

4

SUPPORTING THE NEXT GENERATION

- How can we balance flexibility and structure in our planning for family continuity?
- How can we be inclusive as a family and support the development of family talent?
- How can we develop transgenerational ownership competences in our family?

1.
ASSESSING THE FAMILY (AND ITS GOVERNANCE)

"What is our family purpose? What are our family values? Where would we like our family to be in 300 years?" Such questions are worth asking because they create the foundations for continuity of a family firm. Reflecting on the family's purpose generates a sense of identity with the actions of the family as a whole and clarifies the relationship between family members and their business. In addition, they spur a reflection on the legacy that they want to leave to the next generations, customers, and the local community. This reflection should be appropriately translated into the increasingly formal aspects of family governance that progressively secure ownership stability over time. To this end, an important element in a cohesive family ownership group is the shared commitment to family goals. A clear perception of the superordinate goals that the family is pursuing as a unique entity supports the creation of governance structures and strategies that are aligned with such goals.

2.
NURTURING FAMILY DIALOGUES

Emotional competence is needed within the family to curb destructive conflicts and transform them into productive dialogues. While family dialogues do not ensure collective commitment and an alignment to family business goals *per se,* they are necessary for establishing a governance system that has the buy-in and support from every family member. Establishing governance structures top-down might create a sense of obligation, which can lead to the "Fredo effect" described above. Governance systems that are not aligned with shared beliefs and expectations of the entrepreneurial family can be "boycotted" by family members who may use their position of power to support their own self-interests, at the expense of the family's shared interests. **Family dialogues can support the alignment between family members, besides facilitating the commitment to family and family business governance structures**. Family dialogues are also important for staving off intergenerational conflicts. Dialogues around the meaning of family wealth between family members of different generations can overcome the barriers to change. For example, family dialogues can centre the family firm's purpose around the meaning of social impact that the family wishes to pursue, and in this way, ensures alignment between generations, even in the hypothetical case of selling the family business.

3.

PROFESSIONALIZING THE FAMILY BUSINESS AND THE BUSINESS FAMILY

Governance essentially means professionalization. It is a shared set of rules and processes needed for ensuring a cooperation between family members. Governance also entails transparent and participatory decision-making. The involvement of independent directors in decision-making enhances the quality of the decision-making itself, thereby avoiding excessive discretion in decision-making. Involvement of non-family members in the management and oversight of the company is crucial to enable the company to evolve and grow. Responsible entrepreneurs who have a transgenerational vision for the family business should institutionalize rules and processes for decision-making. **Such rules and processes are formalized in the family system, through family councils and meetings; in the ownership system, through family foundations and Family Offices; and in the business system, through a strong and independent board of directors.**

4.

SUPPORTING THE NEXT GENERATION

Long-term planning is extremely helpful for building competencies and commitment in the successor. So, plans for the education of the next generation of managers and owners need to be made to build competencies that are vital for the family business. Succession is a long process that can take decades before the positive effects are seen. It is a fatal mistake to consider this aspect only at the time of transfer of ownership and/or management responsibilities. Entrepreneurial families who have defied the "shirtsleeves to shirtsleeves in three generations" rule have considered succession and continuity as a constant process of learning, education and empowerment, rather than the specific moment of "passing on the baton". Succession entails the substantive transfer of power and responsibilities. **Entrepreneurs should be aware of the presence of the "founder's shadow"**, a situation in which the founder has formally transferred the managerial and ownership prerogatives to next-generation family members, but still remains the ultimate decision-maker in the business. Such situation can have extremely detrimental effects on the future of the company. **Governance, in the form of written rules, overseeing bodies (board of directors in the business system and family council in the family system) and informal communications, can resolve this problem.** Therefore, while educating the next generation of entrepreneurs lays the foundations for competent family owners and managers, it is important to stress that the threats to the long-term viability of the family in the business may stem from the incumbent generation, especially when they are unwilling to pass on the baton.

About us

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