STEP PROJECT
FOR FAMILY ENTERPRISING

STEP

UNDERSTANDING TRANSGENERATIONAL ENTREPRENEURSHIP PRACTICES IN EUROPEAN FAMILY BUSINESSES

Report of the European STEP Council based on the Quantitative STEP Survey

2017

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FOR FAMILY ENTERPRISING

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UNDERSTANDING TRANSGENERATIONAL ENTREPRENEURSHIP PRACTICES IN EUROPEAN FAMILY BUSINESSES

Contents

1 About This Report

What makes business families entrepreneurial and successful across generations?

This is the main question that the global research project STEP (Successful Transgenerational Entrepreneurship Practices) intends to answer. Family businesses, meaning firms that are influenced by one or more families in a substantial way, are the backbone of modern economies; and knowing what makes them successful is essential for a high number of stakeholders.

To answer the above question, STEP particularly focuses on so-called transgenerational entrepreneurship, which stands for the processes through which business families use entrepreneurial mindsets and family-influenced resources to create financial and non-financial value across generations.
To shed light on those processes – and thus on the success factors of long-living family firms – the STEP project has developed around 120 case studies about successful family businesses, has held 16 Summits where academics and practitioners met, and now – as the next milestone – has conducted a quantitative survey among business families across the world.

This report presents intriguing insights from that survey from a European perspective, particularly focusing on key drivers of long-term success. Our findings are based on solid academic practices and targeted specifically to business families who want to know more about what can make them successful – not only today or tomorrow, but even across generations. We do hope that you find this study an interesting read and that it triggers relevant discussions both within your family and between family business practitioners and academics!

Yours sincerely,

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2 Key Facts

2.1 The Quantitative Survey

The online survey was conducted between September 2013 and February 2015, with every country affiliate sending survey invitations to representatives of business families in their respective country. The aim was to collect multiple responses per family (at least two). In Europe, this led to 493 completed surveys which represent 356 family businesses (137 with double respondents). Those responses stem from 11 different countries. The countries and the academic country affiliates as well as the respective responses are listed in the following table.

Country	Country Affiliate	Number of Responses	Share in sample (%)
Belgium	Antwerp Management School	12	2.4
England	Lancaster University Management School	40	8.1
France	EM Lyon Business School	23	4.7
Germany	University of Witten/Herdecke (WIFU)	78	15.8
Ireland	Dublin City University	68	13.8
Italy	Bocconi University / University of Bergamo	54	11.0
Netherlands	Windesheim University	5	1.0
Russia	RANEPA Institute of Business Studies	10	2.0
Spain	ESADE Business School	105	21.3
Sweden	Jönköping International Business School	51	10.3
Switzerland	University of St.Gallen /University of Lugano	47	9.5
		493	100.0

Table 1: Countries, country affiliates, and responses

493 Completed Surveys

356 Family Businesses

137 Double Respondants

11 Different Countries

2.2 The Family Businesses and Business Families

The family businesses in our sample are on average around 62 years old, with the oldest firm being 271 years old. Around one third of all family businesses is between 50 and 100 years old (which means between the second or fourth generation). More than 15 percent are older than 100 years.

The average annual sales of the three largest firms combined (if several firms are existing) in 2013 were between 40 and 44 million Euros (the median being the category between 22 and 26 million Euros). To facilitate interpretation, we grouped the firms into several sales volume categories, as shown below. The largest group is the one where firms generate sales between 44 and 88 million Euros. Around 25 percent of all firms generate more than 220 million Euros in sales.[1]

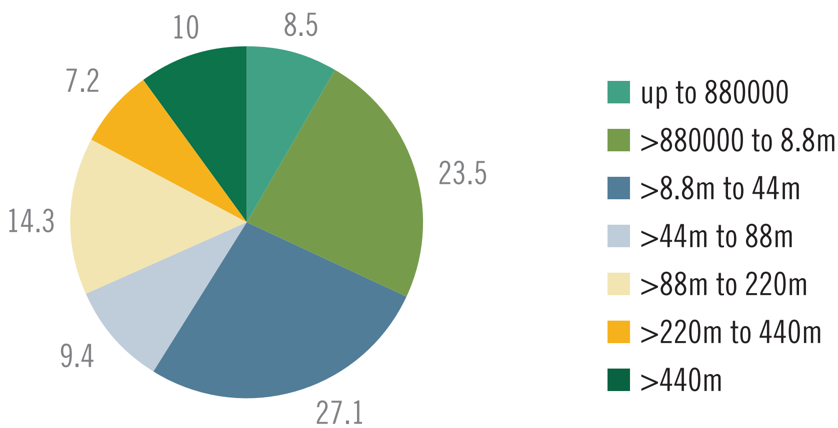


Figure 1: Shares of firms in percent according to sales volume categories in Euros (m=million)

On average, the firms employed 918 employees (full time equivalents). The median is 110 employees, which signals that our sample contains a few very large firms; in fact, the largest firm employs more than 50,000 employees. The largest size group in our sample contains firms that employ between 200 and 500 full time equivalents.

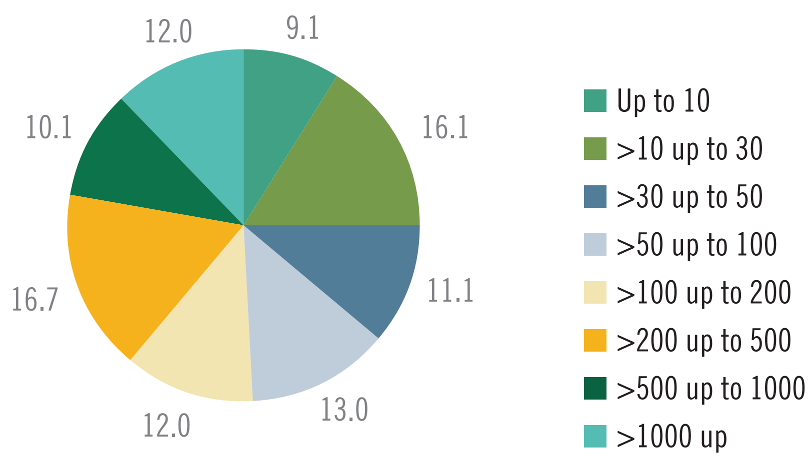


Figure 2: Firm size in terms of employees (full-time equivalents)

1 In the data set, the currency used is US Dollars (USD). For this report, we converted those numbers into Euros.

The average number of family members that are employed full time in the firm is around 3 (2.94). Referring to ownership, the average share of equity that is owned by the family (no matter if operationally involved in the business or not) is 91.33 percent.

Interestingly, only roughly half of all respondents indicate that their business family owns one firm. The others own two or more firms, as shown in the figure below. More than 16 percent of all business families own 6 or more firms.

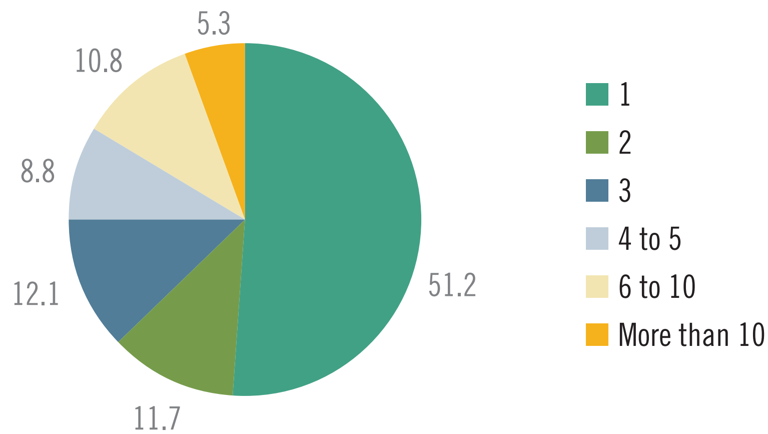


Figure 3: Number of companies owned

2.3 The Respondents

Most of our respondents belong to the second generation of the business family **(37.8 percent)**, followed by members of the third generation **(27.9 percent)**. The average is **2.55** generations. **77.7 percent** of the respondents are male. **24.5 percent** of them are between 41 and 50 years old.

Regarding their position in the business, **38.7 percent** are the CEO, **40.8 percent** are members of the Board of Directors, and **36.7 percent** belong to the Top Management Team.

These numbers indicate that our report is based on information retrieved from absolute key informants.

3 Family Business Performance

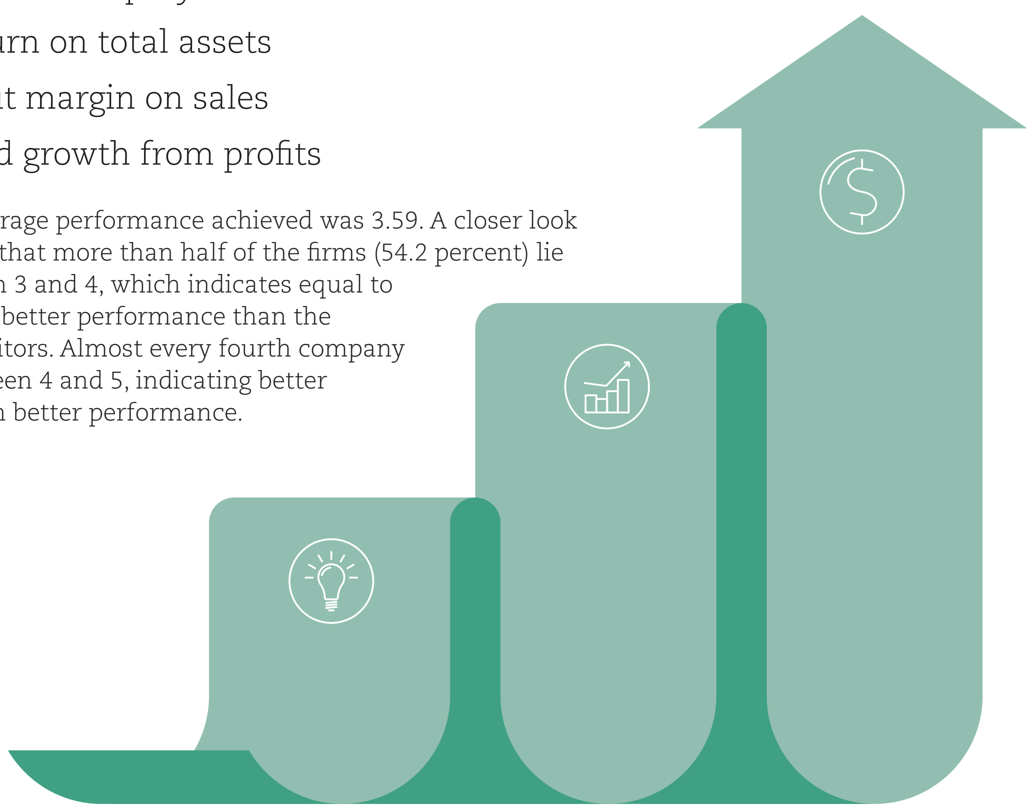
Business families do not care about financial performance alone but also about several non-financial performance dimensions. Thus, we took a look at different types of performance, including social and entrepreneurial performance.

3.1 Financial / Market Performance

The respondents were asked how they would rate the primary company's current performance as compared to that of the competitors in the last three years in terms of the following sub-dimensions of financial and market performance (1=much worse, 5=much better):

- Growth in sales
- Growth in market share
- Growth in employees
- Growth in profitability
- Return on equity
- Return on total assets
- Profit margin on sales
- Fund growth from profits

The average performance achieved was 3.59. A closer look reveals that more than half of the firms (54.2 percent) lie between 3 and 4, which indicates equal to slightly better performance than the competitors. Almost every fourth company is between 4 and 5, indicating better to much better performance.



Comparing firm age and performance by using the firm age categories from above, we see an interesting pattern. While the absolute differences in average financial performance are notably small (ranging between 3.3 and 3.66), the firms with the strongest performance are between 150 and 200 years old. The trend line, however, suggests a decreasing performance with age. This clearly deserves additional future research efforts to help family businesses switch this tendency.

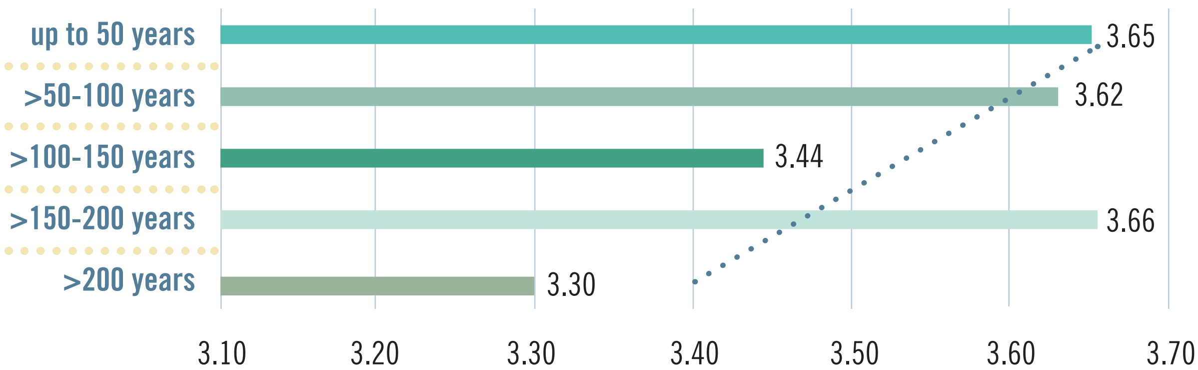


Figure 4: Financial and market performance across age groups

To gain a more in-depth picture, we looked at the performance dimensions separately on the European level. In general, we see no dimension where the family businesses in our sample strongly outperform or underperform in relation to their competitors. However, sales growth seems to be the strongest performance dimension, followed by the ability to fund growth internally from profits. Profitability measures, in turn, show weaker performance. Job creation is the weakest performance dimension, but in absolute terms still above the neutral value of 3 of our scale.

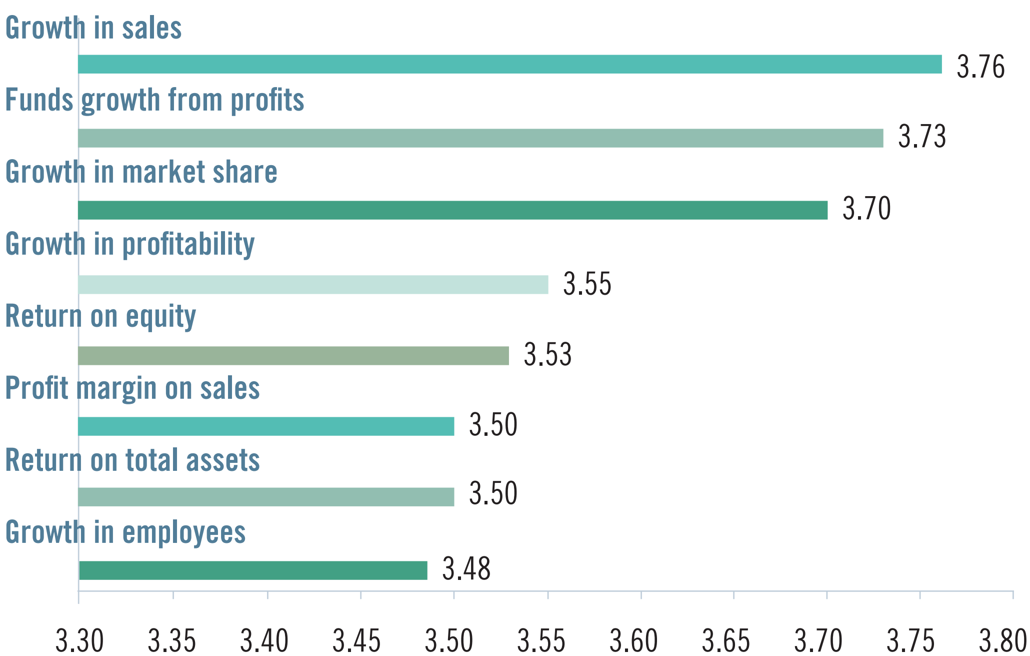


Figure 5: Performance dimensions at a glance

3.2 Social Performance

External social performance refers to what the business family gives back to different stakeholders (such as the environment). External social performance includes complying with environmental regulations, limiting environmental impact beyond compliance, preventing and mitigating environmental crisis, and educating employees and the public about the environment. Answers ranged from 1 (which represents "much worse") to 5 ("much better"). The average in our sample is 3.53, which indicates a medium to slightly better focus on external social performance than competitors.

Looking at the single dimensions, we see that European family businesses are particularly strong when it comes to complying with environmental regulations. This suggests that the business families owners try to avoid negative public reactions that would occur when environmental laws would be violated. This confirms the special importance that family firms give to reputation, as a loss in firm reputation might also negatively impact family reputation.

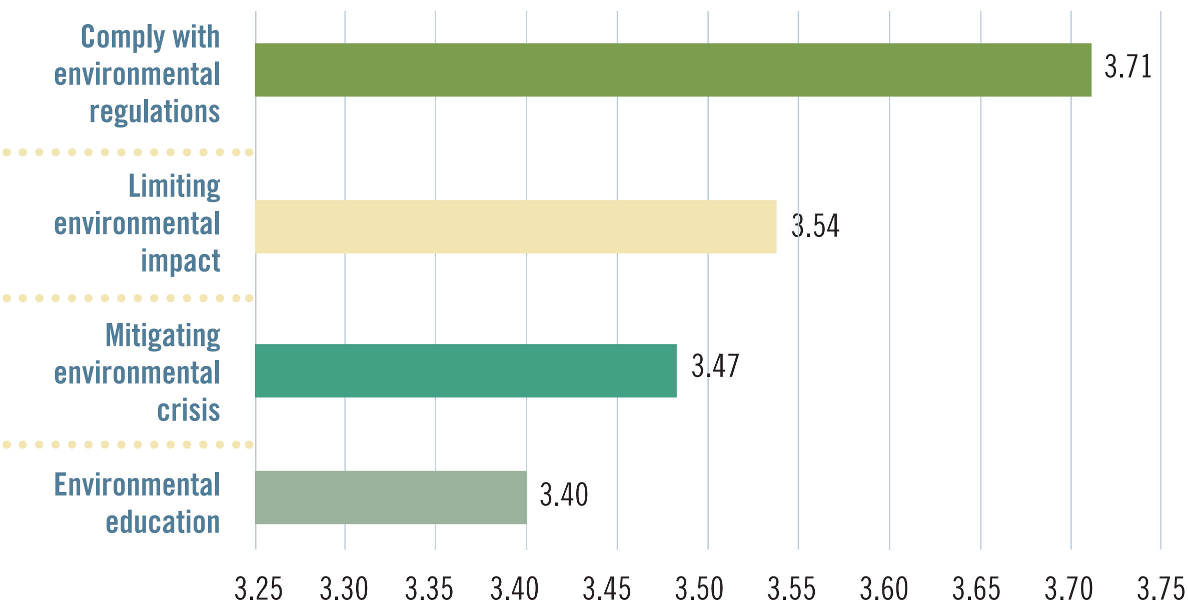


Figure 6: External social performance in detail

Internal social performance, in turn, refers to the extent to which the family business maintains strong and trustful relations with its non-family employees. One could expect family businesses to have particularly strong relations with their employees; quite surprisingly, this does not seem to be the case. Instead, it seems our family businesses do not share cash profits with employees, do not have strong union relations, nor do they offer strong retirement benefits compared to other firms in their industry. Taken together, the strength of employee relations is below the neutral point of 3 in our 1 to 5 scale. This result might also be due to the different employees' regulations across European countries with many countries delegating it to industry specific employees' associations.

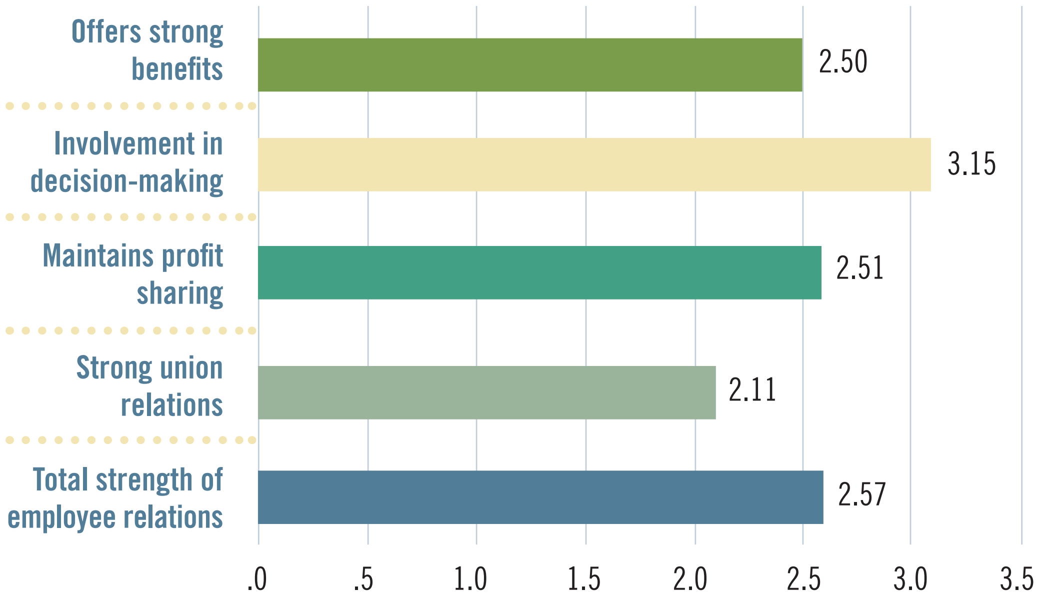


Figure 7: Strength of employee relations

European family businesses are particularly strong when it comes to complying with environmental regulations.

3.3 Entrepreneurial Performance

As shown above, many of the business families in our sample own more than one firm. The STEP project is particularly interested in the entrepreneurial dynamics in those family business portfolios. This is because those dynamics are an indicator of entrepreneurial spirit and entrepreneurial processes within the business families. In addition, founding and acquiring but also selling and closing down businesses may increase the likelihood that the family business portfolio as a whole is more successful in the long run.

We see that, on average, the business families have founded more than 6 firms across their history; 1 company has been added through mergers and 4 through acquisitions. On the opposite, on average 1 company has been spun off, 1 has been divested, and 1 been closed down (see the below figure). Taken together, around 11 companies have been added to the business portfolio over time on average, while almost 4 have been divested.

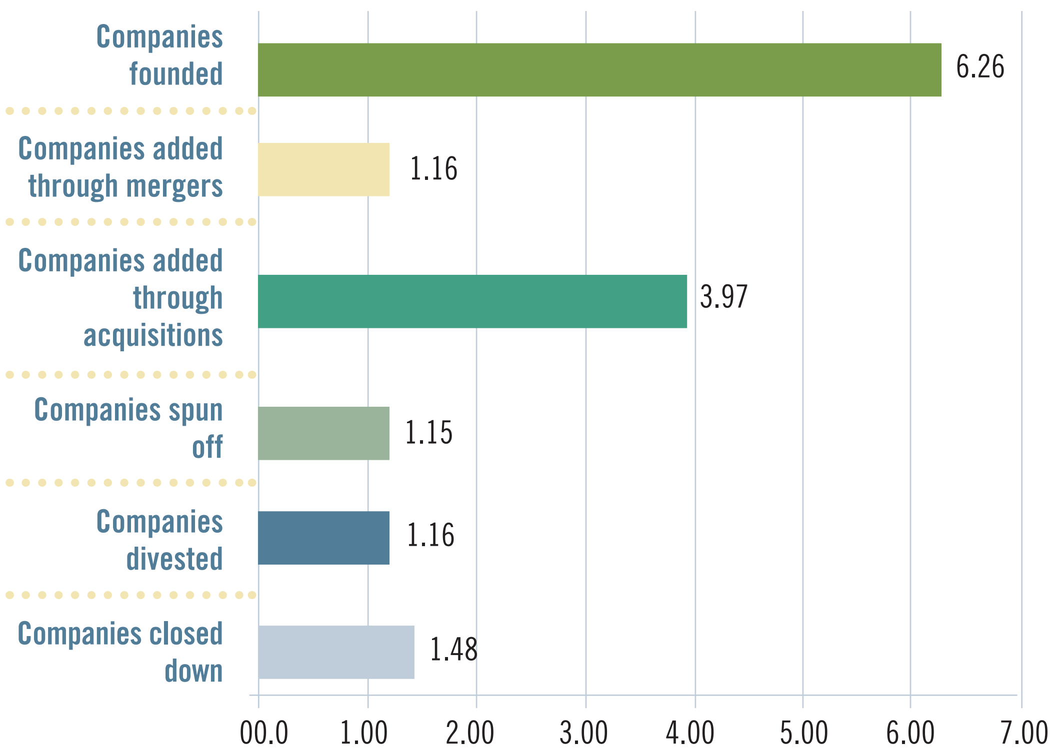


Figure 8: Entrepreneurial dynamics in business families (number of businesses)

The key insight is successful European business families mostly do not focus solely on their primary (or "legacy") business across time. Rather, they build up a business portfolio in a very dynamic and entrepreneurial manner.

4 Drivers of Transgenerational Success

After taking a look at various aspects of family business performance, we now turn to the main drivers of performance. This ties to the more overarching question how business families can actually become and remain entrepreneurial and successful across generations.

4.1 Entrepreneurial Orientation (EO)

The second main building block and key antecedent to transgenerational entrepreneurship, according to the STEP research model, is the so-called "entrepreneurial orientation" (EO) with its five key dimensions furthering entrepreneurship: autonomy, pro-activeness, risk-taking, innovativeness and competitive aggressiveness.

As shown below, the average value of EO is rather medium (3.27 on a 1 to 5 scale). The strongest dimensions are innovativeness and proactiveness, with risk-taking having the lowest value. Interestingly, the average value of EO does not depend on the age of the family business, which means that older firms are not necessarily less entrepreneurial than younger firms, which one might intuitively expect.

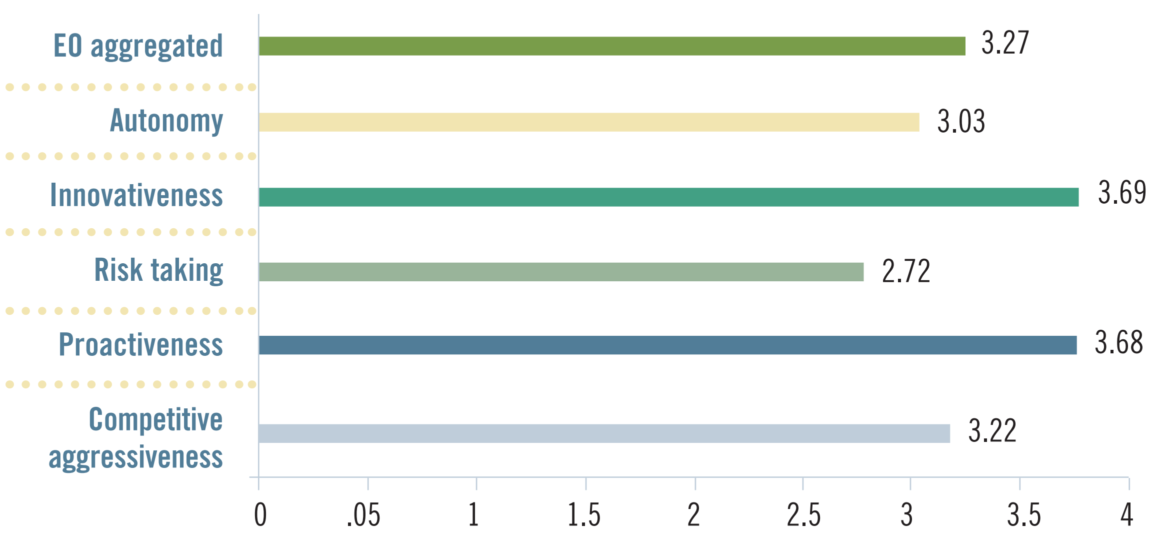


Figure 9: EO and its sub-dimensions

Which are the distinctive features of European family businesses in terms of Entrepreneurial Orientation? They are quite innovative and proactive, but they try to avoid taking too high risks; in addition, the autonomy of individuals and teams within the firm is rather medium, and competitive aggressiveness is medium as well. This seems to be a viable pattern to long-term success.

Regarding competitive aggressiveness, we note that the low level could be due to the fact that identity overlaps between the business family and the family business exist. In the European context, being aggressive is mostly seen as something negative. Business families themselves, in turn, mostly do not want to be associated with aggressiveness; thus, they manage their businesses in a rather non-aggressive way and rather focus on innovation.

4.2 Resources

The resources that a family business can use are important to the development of its competitive advantage and a main pillar of the STEP research model. Hence, we first evaluate which type of resources the business families deem most important. Specifically, respondents were asked to rank different types of resources based on how important they are to the competitive advantage of the family business.

The different resource categories can be grouped into four main dimensions: financial capital, human capital, physical capital, and social capital (see table below).

Resource	Resource Category
Access to financial capital	Financial capital
Low cost of capital	
Patient financial capital	
Profits to reinvest	
Experienced employees	Human capital
Knowledgeable employees	
Technical ability of employees	
Access to managerial talent	
Unique location	Physical capital
Unique real estate	
Unique machinery	
Unique technology	
Access to wide network	Social capital
Positive reputation	
Relationships within organization	
Relationships with customers	

Table 2: Resources and resource categories

As the figure below shows, more than 60 percent of the respondents ranked “human capital” on position 1, followed by financial capital. Physical assets and social capital, in turn, do not seem to matter significantly.

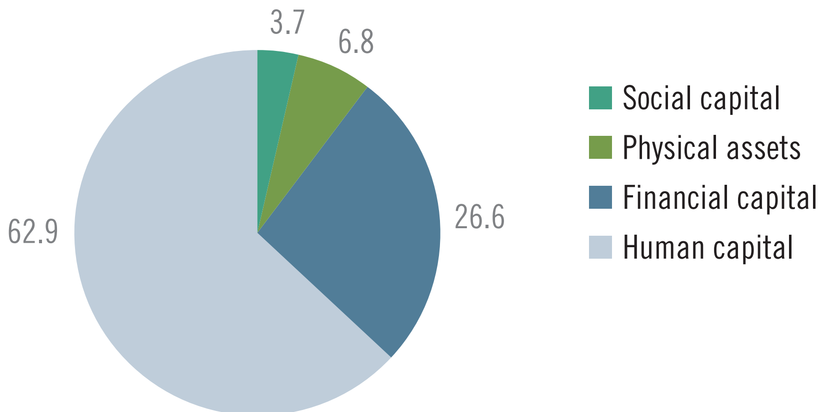


Figure 10: Most important resources for competitive advantage

Relatedly, it is interesting to analyze how the family affects the access to those different types of resources. Respondents have thus been asked to indicate the extent of the influence of the business family in attracting or securing different types of resources (from 1=not at all to 5=a great deal).

The family’s influence on attracting financial and human resources is the strongest one compared to the other dimensions; in absolute terms, however it is medium to high. This seems reasonable, for instance, regarding financial resources, the family certainly plays a role. This is because business families are often considered trustful for paying back, as they care about their reputation and maintaining control. They are also reluctant to have a high share of debt capital or to attract external investors. Similarly, the family is also a key factor regarding human capital, because business families tend to have attractive projects where people can develop ideas, and are usually closer to decision-makers. On the other hand, because top positions in the firm might sometimes be reserved for family members, this sometimes hinders the possibility to attract more talented people to the family business. In addition, family businesses often exhibit a strong culture where non-family employees often feel like “part of the family”.

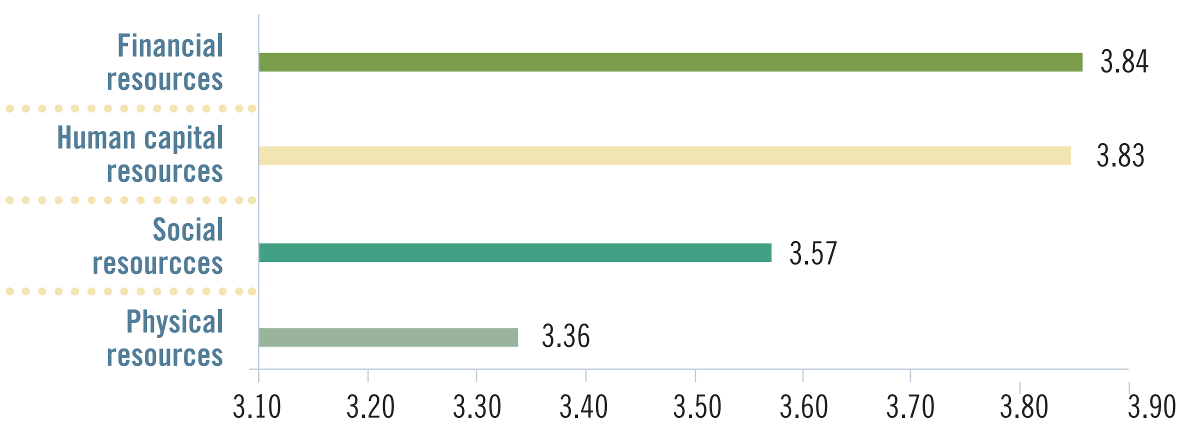


Figure 11: The family’s influence on attracting different types of resources

In the next step, respondents were asked to rate the extent to which the family business possesses different types of resources (from 1=not at all to 5=a great deal).

The resource that European family businesses possess most is a positive reputation, followed by good relationships with customers (both part of social capital) and experienced employees. Similarly, on the aggregated level, the resources available the most are social and human capital (with an average of 4.09 and 4.04, respectively). Our family businesses seem to be weakest when it comes to physical capital; access to financial capital is slightly above the neutral point in our scale.

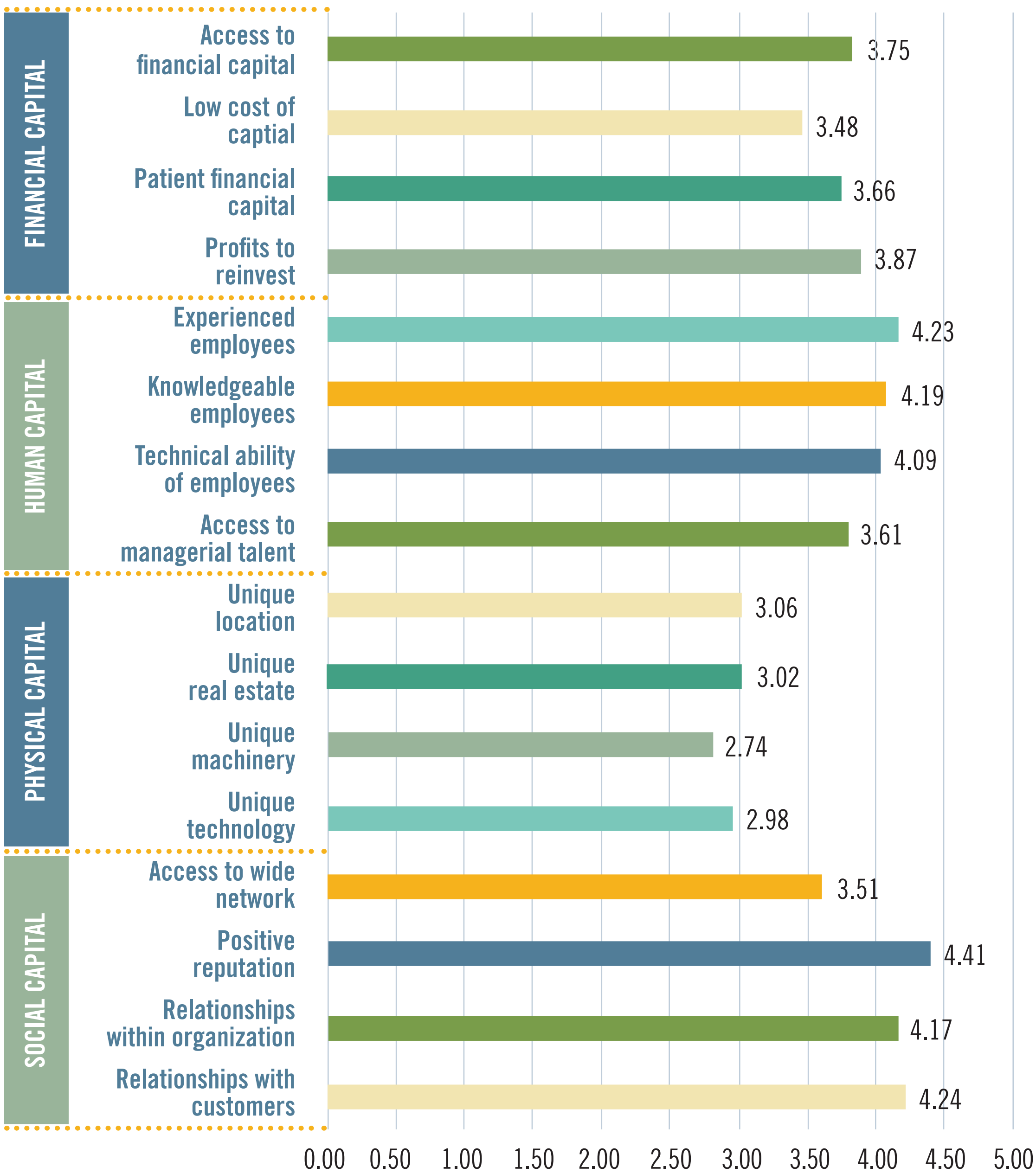


Figure 12: Resources of the family businesses

When explaining long-term success of family firms we thus find interesting results: human capital is clearly believed to be the most important resource for success (see page 16); at the same time, the family businesses have quite good access to it (whereby the access to that resource is strongly depending on the family itself). Also, we find the family businesses to be strong in terms of social capital; however, less than 4 percent of our respondents believe that this is the most important resource for success.

4.3 Governance

4.3.1 Family Business Governance

A very important aspect is how the family manages the interface between the family and the business, meaning how the family is involved in the business and how the corresponding influence is managed.

Seventy percent of all respondents indicated that their primary business has a Board of Directors (BoD). In these boards, the owning family occupies 66 percent of all seats on average; in 31 percent of all cases, the family even occupies all seats, and more than 60 percent of all families occupy the majority of seats (see below).

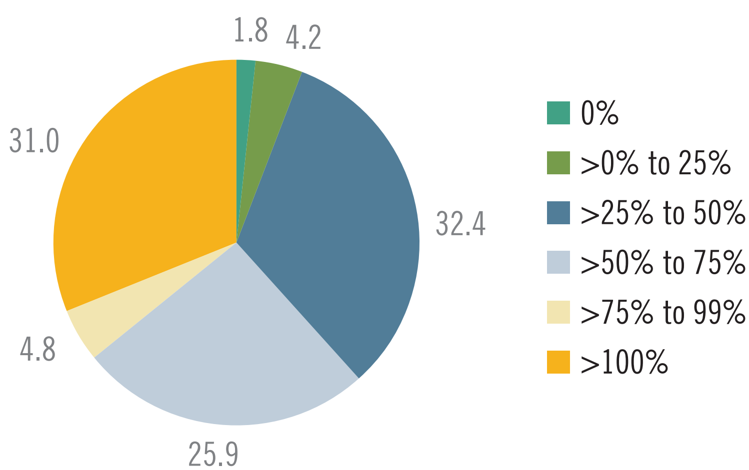


Figure 13: Family involvement in Board of Directors (BoD)

In the Top Management Team (TMT) the situation looks similar: on average, 54 percent of all seats are occupied by members of the family; in 27 percent of all cases, the TMT consists of family members only. In 40.6 percent of all firms, the majority of TMT members are family members.

These descriptive findings suggest that European family firms prefer to maintain a certain degree of family influence directly in the governance and management of the firm.

4.3.2 Family Governance

Next to the family-business interface, it is also essential to understand how the family manages itself because this determines how the family ultimately influences the business(es). Respondents were asked to what extent they use different types of family governance mechanisms (from 1=not at all to 5=very much).

As shown below, more than one third of all European business families do not use formal family meetings at all. The others use them at least sometimes. Informal family meetings, in turn, are used much more frequently; almost one third of all business families use this tool very frequently.

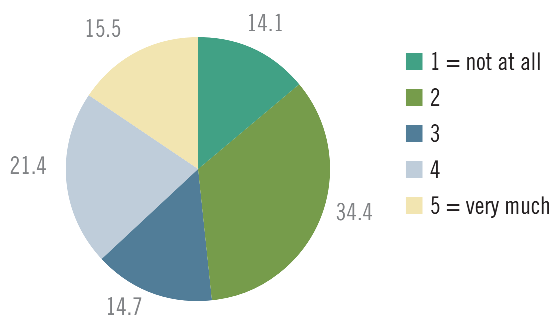


Figure 14: Usage of formal family meetings

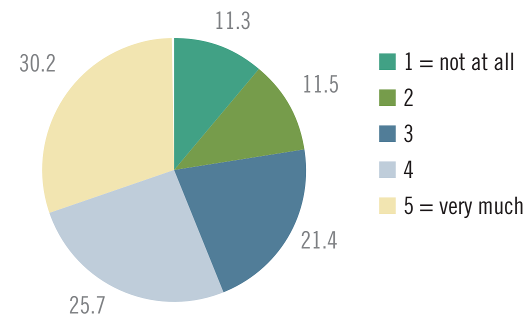


Figure 15: Usage of informal family meetings

When it comes to more specific and elaborated governance mechanisms, we find that half of the business families do not use a family constitution; also explicit family protocols are not used by around half of the business families. This indicates that European families use other means to sustain and disseminate their values and decision-making processes styles.

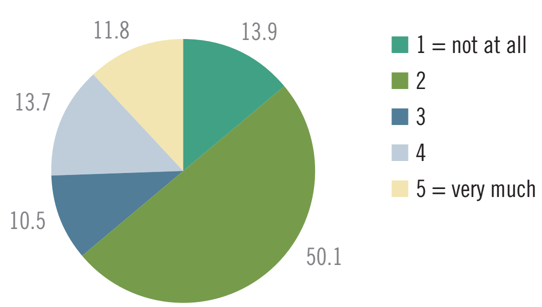


Figure 16: Usage of family constitutions

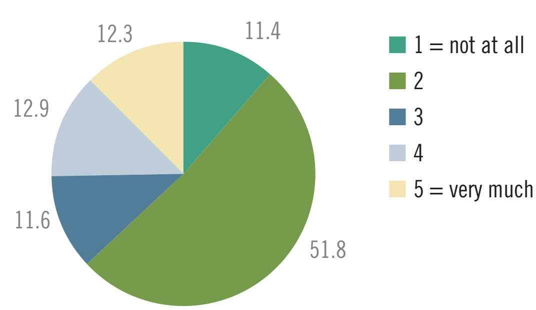


Figure 17: Usage of family protocols

4.4 Family Cohesiveness

Related to the issue of family governance is the internal functioning of the business family itself. The usage of different governance mechanisms may also strongly depend on how well the family is working per se.

To elaborate this in more detail, several statements about the business family were posed to the respondents. They had to indicate how often they were satisfied with specific aspects of family life (from 1=never to 5=always).

The aspects were:

- that you can rely or depend on your family for help when something is troubling you
- with the way your family discusses things with you and shares problems with you
- that your family accepts and supports your wishes to take on new activities or directions
- with the way your family expresses affection and responds to your emotions, such as anger, sorrow, or love
- with the way your family and you spend time together

Afterwards, the scores were added. Families that achieved less than 11 points are classified as dysfunctional, those with 11 to 17 points as indeterminate, and those with more than 17 points as clearly functional. The families in our sample seem to work very well: more than 3 out of 4 are classified as clearly functional, and only 1.2 percent as less cohesive.

5 Summary and Recommendations

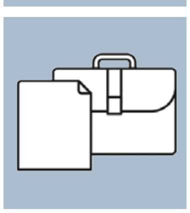
What makes business families entrepreneurial and successful across generations? Based on our analysis of the data generated in the quantitative STEP survey we identified the following key factors that drive financial, social, and entrepreneurial performance:

Entrepreneurial Orientation (EO): we find that being as entrepreneurial as possible does not seem to be the key to success; rather, successful family businesses are characterized by a rather medium average value of EO. Specifically, they are quite innovative and proactive but avoid taking too high risks.

Resources: human capital residing within and beyond the family is a key success factor, whereby the family plays a very important role in accessing it. Successful family business also exhibit strong social capital (in particular, a positive reputation and good customer relationships).

Family Business Governance: in general, strong family influence seems a viable way to ensure long-term performance and entrepreneurship. Both in the Board of Directors and the Top Management Team, strong family influence is clearly visible.

Family Governance: at least as important as managing the family-business interface is managing the family itself. Here, we find that business families often rely on rather informal mechanisms; however, formal mechanisms certainly gain in importance the more complex the family structure is.



Portfolio Entrepreneurship: successful business families mostly own more than one firm. Just focusing and sticking to the original business might not be the best solution; identifying and exploiting entrepreneurial opportunities also beyond the core business while managing the business portfolio in a dynamic and strategic way seems very promising.

This leads us to derive a few key recommendations for business families:

They Should be aware of their business' EO profile and manage this profile in a strategic way. Other STEP research has found that successful business families dynamically adapt their EO profile over time, being more or less entrepreneurial depending on internal or external circumstances. The main challenge is to be "entrepreneurial when the time is right".

They Should ensure that access to critical resources is not inhibited by family issues. In particular, to ensure that they can rely on strong human capital, it would be wise to signal non-family employees that they could occupy any position in the firm. When top positions are reserved for family members, high potentials will not want to work in such a firm, which will reduce the likelihood of long-term success.

They Should be sensitive to potential brand- and reputation-related advantages (and disadvantages) of being a family firm. The related social capital should be managed in a strategic manner as well.

They Should aim for securing a controlling influence of the family on the business. However, some flexibility related to for instance top management involvement might be wise. When the best managers are non-family members, why not securing family control in the Board of Directors and give these family-external experts the autonomy and decision-making latitude they need in the operative daily business?

They Should not underestimate the importance of "managing the family". This is particularly true when the family itself is growing and its complexity is increasing over generations. Here, the family cannot only rely on informal mechanisms to structure family-internal decision making. Using more formal mechanisms is strongly recommended there.

They Should look beyond the core business and organize and manage the different entrepreneurial activities of family members in a wise way. There might be unique potential for collaborations, resource sharing, risk diversification, and wealth accumulation within family business portfolios.

To conclude:

We believe that business families can indeed achieve transgenerational entrepreneurship when they are aware of the related success factors and potential pitfalls. A conscious and strategic management of these factors, making use of the potential advantages and avoiding the potential disadvantages of being a family firm, seems to be a suitable means to success.

6 Background

6.1 What is the STEP Project?

The STEP Project (Successful Transgenerational Entrepreneurship Practices) is a global applied research initiative that explores the entrepreneurial process within business families and generates solutions that have immediate application for family leaders. It was launched in 2005 by a group of 6 academic institutions together with Babson College (USA).

The small group of 7 initial partners gradually grew to 35 universities in five world regions (Europe, Latin America, Asia Pacific, North America, and Africa). Ten out of these 35 partnering institutions are European universities. These European universities (see the list below) committed their teams of specialists to advance knowledge on entrepreneurship in family businesses.

A key element of STEP are regular Summits where family business practitioners and academics meet to engage in an intensive exchange and mutual learning.

Audencia Business School (France)

Dublin City University (Ireland)

ESADE Business School (Spain)

Lappeenranta University of Technology (Finland)

Nelson Mandela University (South Africa)

Università della Svizzera italiana (Switzerland)

University of Witten/Herdecke (Germany)

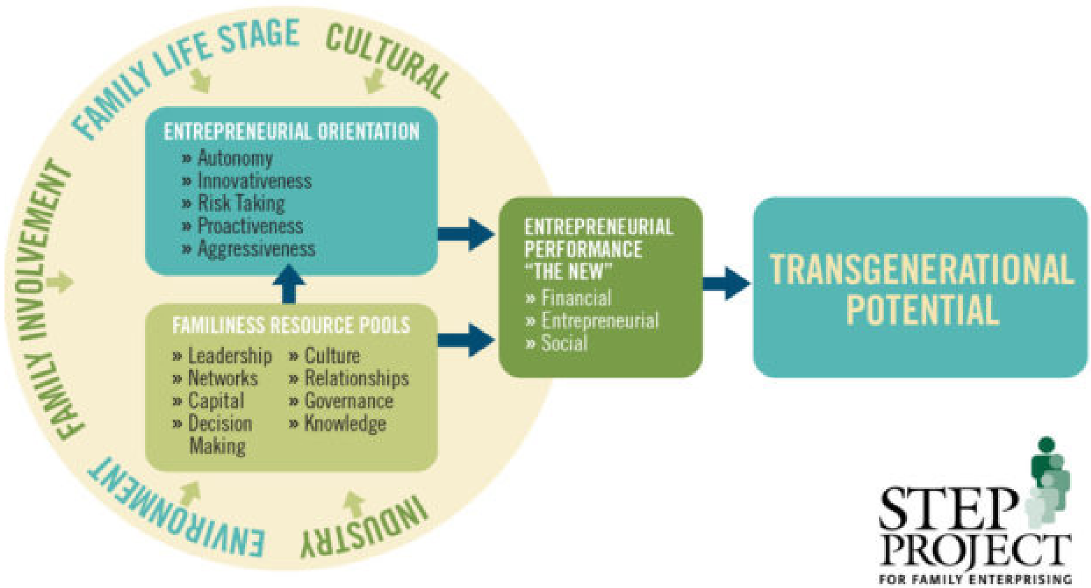
University of Bergamo (Italy)

American University of Sharjah (United Arab Emirates)

Windesheim University of Applied Sciences (Netherlands)

6.2 The STEP Research Model

STEP research around the globe follows a common research model that is shown below. The core of the model are the entrepreneurial orientation of the family business combined with the resources that the family possesses, which then lead to different types of performance and, ultimately, to transgenerational potential. The core of the model, in turn, is embedded in various external factors.



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Contacts and Further Information

Further information about STEP (including further materials and reports) can be found on the STEP project website: stepresearch.org.

Business families are also encouraged to contact the STEP teams in their respective countries.

STEP PROJECT
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Founded in 2005 by Babson College in collaboration with six academic affiliates in Europe, the STEP Project is a global applied research initiative that explores the entrepreneurial process within business families and generates solutions that have immediate application for family leaders.

For more information about the STEP Project, please contact **STEP@BABSON.EDU**