

# The courage to choose wisely

Why the succession decision  
may be a defining moment  
in your family business

November 2020

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# The courage to choose wisely

Why the succession process may be a defining moment in your family business

Through a strategic alliance between the STEP Project Global Consortium and KPMG Private Enterprise, we are privileged to have this opportunity to share with you the trends that we see affecting the practices of business families around the world and what a model for the future might look like in the new reality we are now confronting.

More than 1,800 family business leaders from all over the world have shared their views with us on the impact of increasing demographic and societal changes that were revealed in the STEP 2019 Global Family Business Survey. The survey was followed by 33 in-depth interviews with family business leaders from every major region prior to – and after – the onset of COVID-19. We asked them how changing demographics affect the ways in which they are addressing an array of issues ranging from family business governance and succession to societal impact, entrepreneurial orientation and performance.

We are grateful to these accomplished family business leaders who contributed to the study and openly shared their insights with us. While we have included direct quotes from some to illustrate this article, be assured each of these 33 family business leaders provided us with unique insights about their businesses and their families. We are pleased to have this opportunity to share their observations and our own through a series of four co-authored articles that span issues ranging from succession, to the societal impact of sustainability and diversity, governance and the entrepreneurial legacy. The first article in the series begins with succession planning and the courage to choose the right successor at this critical turning point in every family business.



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# About the 2019 Global Family Business Survey

The Successful Transgenerational Entrepreneurship Practices (STEP) Project Global Consortium and KPMG Private Enterprise entered into a strategic alliance to conduct research to develop a deeper understanding of the impact of changing demographics on succession and governance practices for business families.

The 2019 STEP Project Global Family Business report surveyed more than 1,800 family business leaders from 33 countries across Europe, Central Asia, North America, Latin America, the Caribbean, Asia, the Pacific, the Middle East and Africa. The survey provided an opportunity for the participants to provide their views on how changing demographics affect family business governance, succession, societal impact, entrepreneurial orientation and performance. A summary of the survey report can be found [here](#).

As a follow-up to the survey, more than 33 personal interviews were conducted with family business leaders prior to COVID-19 and following its onset beginning in March 2020 until the publication date. The insights gathered from these interviews helped to deepen our understanding of the context behind the survey results and allowed us to explore these insights further in this article, the first in our four-part series.

# The power behind the family business

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In the midst of the hyper-accelerated reality we now face, planning for succession may not be top of mind. However, as you consider all the options for sustaining your business today and in the future, the succession process itself may be instrumental in sustaining the family business model for generations to come. It could, in fact, be one of the defining moments in the history of your family business.

There is an indisputable power that lies within family businesses: an entrepreneurial mindset combined with the ability to master the speed of change. Rarely have these capabilities been more crucial than they are today, as the reality of COVID-19 makes it necessary to continue to expect the unexpected – to anticipate and prepare for the changes that undoubtedly lie ahead.



- Is your business fit for the future?
- Do you have a successor in mind and at the ready?
- Who could step in if needed?
- And do they have the capabilities and interest in leading the way forward?

# Choosing the right leader – at the right time

Previous research has shown that the transfer of ownership and management control from one generation to another is one of the most important factors in the continuity of the family business and for preserving its family identity.<sup>1</sup> The family business leaders we spoke with confirmed that conclusion. They told us that choosing the right leader at the right time will be one of the most critical decisions they can make to secure the continued success of their business.

Rarely has contingency and continuity planning been more important and family businesses have an enviable advantage based on a history of agility, invention and resilience. Given the uncertainty every business is facing today, we would suggest that this is precisely the *right* time to step back and consider all the options for the future leadership and ownership of your family business and how those questions can be embedded directly into your contingency plans.

Many family business leaders we spoke with echoed this view. As Mr. Alfonso Urrea Martin, General Director of the Tools Division of Mexico's Grupo Urrea told us, he was unable to manage his business at the most critical moment during the onset of COVID-19. Thanks to the company's well-established governance structure and continuity plan, the right people were already identified to step into his role, if it should become necessary, and the systems were in place to make it happen.

*"The company functioned perfectly during my absence due to COVID-19, thanks to the structures and governing bodies we had already put in place at the board level and among the management committees. It is not clear that we would have been able to continue so smoothly otherwise."*  
Alfonso Urrea Martin, Grupo Urrea, Mexico.

“The company functioned perfectly during my absence due to COVID-19, thanks to the structures and governing bodies we had already put in place at the board level and among the management committees. It is not clear that we would have been able to continue so smoothly otherwise.”

**Alfonso Urrea Martin**  
General Director,  
Grupo Urrea,  
Mexico

<sup>1</sup> Kandade, K., Samara, G., Parada, M. J., & Dawson, A. (2020). From family successors to successful business leaders: A qualitative study of how high-quality relationships develop in family businesses. *Journal of Family Business*

# Preparing for the unexpected

“ I didn’t have a choice. I had to run the business. I mean Sunday was the funeral and literally Monday morning I was at work... we could have been out of business in a month if I wouldn’t have taken on the business. There was really nobody else to run it. ”

## Family Business CEO

Scrap metal processing business,  
United States

Whether it is created through contingency planning or other succession methods, a succession roadmap is an essential guide for dealing with the unexpected. One family CEO told us, for example, that a dormant trust foundation has been established in his family firm as an umbrella over all the operational entities. In the event that the family business leader becomes incapacitated or passes away, the foundation will be activated. The members of the foundation fully understand that they will be responsible for ensuring that a new Chairman is appointed immediately to lead the business forward.

Too often, however, family businesses don’t have detailed contingency plans, with specific guidance as to who will take control and keep the business running. In fact, only 47 percent of the family leaders who took part in our study had such plans. As a consequence, the next generation often feels morally obligated to take up the business reins, even if they don’t want to or don’t have the skills and experience they may need, they have no other choice but to be successful. One family business leader described his own unexpected succession situation poignantly. “ *I didn’t have a choice. I had to run the business. I mean Sunday was the funeral and literally Monday morning I was at work... we could have been out of business in a month if I wouldn’t have taken on the business. There was really nobody else to run it.* ” Family business CEO, United States.


There are certain situations in which the norms of national cultures can make continuity planning and considerations for an emergency succession difficult, however. In many Eastern societies, for example, it isn’t acceptable to talk about unexpected events that are related to the health of the elderly. Since those topics are taboo, it is very difficult for family businesses to consider what will happen should an emergency succession be necessary.

The insights we gained from family leaders we spoke with made it clear, however, that it only requires one case of an unexpected succession such as this for the family to make sure it is prepared to respond quickly in the future.

That is not to say, however, that the choices are always easy or obvious in Eastern or Western societies.

As Mr. George Vestey, CEO of the UK’s 125 year-old Vestey Holdings described it, “ *Regardless of our intent, succession to the next generation is not a given. They have many choices outside the family enterprise and if they choose to succeed us, they will have to be as interested and passionate about the business as the four generations that have preceded them. More than ever, however, we must make sure that we let our successors write their own generational chapter if we want the family business legacy to survive.* ”





“Regardless of our intent, succession to the next generation is not a given. They have many choices outside the family enterprise, and if they choose to succeed us, they will have to be as interested and passionate about the business as the four generations that have preceded them. More than ever, however, we must make sure that we let our successors write their own generational chapter if we want the family business legacy to survive.”

**George Vestey**  
CEO,  
Vestey Holdings,  
United Kingdom

# A new generational outlook for the road ahead

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Many family CEOs concurred with Mr. Vestey's comments, noting that Millennial generation leaders are having an increasingly important voice in the future direction of their family businesses and the choice of a successor. They are being given more space at the management table to address increasingly complex issues and opportunities, such as the accelerated digitization of business processes that are emerging globally. And when the intention is to keep the business in the family, in some cases next generation family members may be invited to join the business at an early age to begin grooming them for a future leadership role.

But many from the Millennial generation also come with a different outlook and business philosophy from their predecessors, as they seek greater personal freedom and a better balance between life and work.

Mr. Khalid Abunayyan, Chairman of Abunayyan Holding Company in

Saudi Arabia described his view of the Millennial perspective in this way, *"The generations coming behind us have a different mindset – a different ecosystem – that isn't right or wrong, it's just different. They are inspired by different things, they are fast, machine orientated and deeply involved in social media. To engage their interest in the family business and subsequently in leadership succession, there has to be a psychological attachment. It's important for them to see that this is a business with a social impact and purpose and that's what will continue to motivate them."*

As well, it is beginning to be recognized that the emotional attachment to the business may not be as deep for next-generation successors as it is with first-generation entrepreneurs whose life and business have often been deeply intertwined.

In the view of Mr. Andy Wates, Director of Wates Group in the UK, the worst-case scenario would be for a family member to join the



business and resent the family for 'making them' be there. Instead, the Wates family is telling their potential fifth-generation successors that they can pursue a career outside the company and join the family business at a later date, if that is their choice. They don't have to come into the business and stay for life, as previous generations may have done.

As one Hong Kong (SAR), China, family business leader put it, the difference between the generations in terms of the environment in which they are growing up and their education, values, ways of thinking and understanding the world cannot be underestimated.

As an example, we heard from many first-generation entrepreneurs in China who created their companies as a means of survival and eventually for profit. As their second-generation successors begin to take over, however, they are focusing increasingly on a broader mission to create value through social responsibility and the sustainability of their enterprises.

“The generations coming behind us have a different mindset – a different ecosystem – that isn't right or wrong, it's just different. They are inspired by different things, they are fast, machine orientated and deeply involved in social media. To engage their interest in the family business and subsequently in leadership succession, there has to be a psychological attachment. It's important for them to see that this is a business with a social impact and purpose and that's what will continue to motivate them.”

**Khalid Abunayyan**

Chairman,  
Abunayyan Holding Company,  
Saudi Arabia

# What is the wise choice?

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These next generation successors can bring a fresh perspective that may transform some aspects of the family business and potentially uncover previously unexplored opportunities that may redefine the identity of family business down the road. It takes courage, then, to choose wisely and remain receptive to new ways of thinking about the business – innovative ideas that could be transformational and integrate the business mission with broader societal issues.

The policies and practices of different nations can also play a major role in the selection process and, again, it takes courage to consider non-traditional alternatives.

We were interested in hearing about some of the cultural differences described by our study participants in that regard. The use of the “primogeniture” rule for succession – choosing the first-born child to lead the family business – was one of particular interest. In non-Western collectivist cultures, such as that in Peru, family CEOs confirmed that the primogeniture rule still holds.

In Western and individualist cultures, meritocracy is typically the main criteria for choosing a successor. Where does nepotism end and protecting the family legacy begin when primogeniture is the guiding principle?

The survey results don’t conclude whether or not primogeniture is good practice and it continues to be adopted in many non-Western

cultures. However, previous research shows that family firms experience higher post-succession performance when they have the courage to disregard primogeniture and make their succession choices based on meritocracy. This is particularly true when the business grows beyond the second generation.<sup>2</sup> It takes courage to make a different choice and we would suggest that this is due primarily to second- or later-born family leaders being less conformist and less inclined to follow their parents’ business model of being more open to new experiences and tolerant of risk.

Even when family businesses break away from automatic primogeniture succession, it doesn’t necessarily mean that firstborn children aren’t able to compete for leadership positions. It does suggest, however, that family decision-makers may need to create a constructive competitive environment – a ‘horse race succession’ – among their potential successors on the path to identifying the best fit for the family business’ needs and the successors’ personal needs.

In the case of Chinese family businesses, many face a unique succession challenge with only a daughter or a son to inherit the business as a result of the one-child policy programs. As ZHU Xuehao, the founder of Hawk Filtration Technology (Shanghai) Co. Ltd. in China has stated, he is fortunate since his only child is both willing and able to take over the family business. If that had not been the case, he would have been faced with having to train a non-family member to succeed him or to sell the business outright.

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<sup>2</sup> Calabrò, A., Minichilli, A., Amore, M. D., & Brogi, M. (2018). The courage to choose! Primogeniture and leadership succession in family firms. *Strategic Management Journal*, 39(7), 2014-2035.

# Key insights

We heard interesting points of view from family leaders regarding the factors that influence their succession intention and their choice of a successor, such as:



The potential lack of trust of parents in the children's capacity to lead the family business may decrease their intention to pass the business to future generations.



The next generation's emotional attachment to the business and their own personal values and goals will likely determine their desire to be successors.



While primogeniture is not necessarily the best practice, it is still widely adopted in non-Western cultures and less so in Western cultures.

## Andrea Calabrò

STEP Global Academic Director,  
Director,  
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Business Center,  
IPAG Business School

In still other situations, there are family CEOs who are not confident that their next generation family members have the capabilities or passion to drive the business forward, despite the ideas and energy they can offer. For example, a family business leader in Canada who is currently preparing for his retirement told us he does not believe he will be succeeded by either of his sons. The youngest is actively pursuing a different career, while the eldest does not have, in his view, the ability to handle the pressures of a management role.

*"I think at the end of the day," he said, "the family succession will probably end with me."*



# The freedom to choose

“The company is bigger than us. We don't want to stifle the company, so there will probably be more outside people coming in.”

**Michael Hoey**  
Co-owner and Managing Director,  
Country Crest,  
Ireland

While transgenerational succession intention may be present within the older generation's plans, it might not necessarily coincide with the plans or abilities of the incoming generation. In that case, current leaders may choose a non-family successor to manage the business, while continuing to maintain the family's involvement through ownership.

As highlighted in a recent Wall Street Journal article, which cited the STEP Project research,<sup>3</sup> involving family members in the business from one generation to the next is not always a given. For any number of reasons, children may not be as interested as their predecessors in picking up the reins. Both family business leaders and their potential successors have important choices to make.

For Michael and Gabriel Hoey, the current fourth generation co-owners and leaders of Ireland's Country Crest, these choices lie ahead for them and for their successors. Country Crest is a leader in sustainable food production and the brothers would like to maintain ownership and management within the family, if that is the choice of their next-generation family members. While precise roles have not yet been defined, formal structures are already in place to ensure the continuity of the family's sustainable farming practices. Those practices, combined with the family's strong intergenerational values, are deeply embedded in the business and they will continue to be the foundation for Country Crest's success for those who choose to lead it forward.

<sup>3</sup> Wall Street Journal, <https://www.wsj.com/articles/how-to-get-children-interested-in-the-family-business-11588986481>



# Key insights

The family business leaders we met told us candidly about their own succession experiences and how the succession process can be improved for the next generation:



Next generation family members are learning from the past and are now setting up governance mechanisms to manage the succession process.



The use of trust funds is found to facilitate the succession process and to lead to more wealth accumulation.



Relying on an external party to manage the succession process is found to mitigate intra-family conflict in times of succession and to lead to a smooth succession process.

## Tom McGinness

Global Leader,  
Family Business,  
KPMG Private Enterprise,  
Partner,  
KPMG Private Enterprise in the UK

# The discipline of succession

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Handing the family business over to a new leader, new management or a new owner is all-encompassing. It isn't exclusively about the selection and development of successors. It is equally about protecting the business brand and reputation, and retaining knowledge to make sure that the business is sustainable for years to come. It is also one of the most challenging experiences facing any leader, and most particularly an entrepreneur who has built a family business from the ground up.

Family businesses with well-established contingency and succession plans take into account the readiness and developmental needs of family members who are the most likely successors. Often this includes an educational foundation, complemented by direct business experience gained at various ages and stages in the family members' lives.

To facilitate this process and minimize the intra-family conflicts that sometimes arise during succession planning deliberations, family businesses are turning increasingly to external parties to guide and manage the process and help to minimize potential intra-family conflicts. External parties provide an independent point of view to facilitate productive discussions among family members and guide them through well-tested frameworks and processes to produce a personalized succession solution.

For example, in order to keep up with the demands of the business as well as the family, Mr. John K. Paul, Managing Director of the Kuttukaran Group

in India, told us that his family adopted a family constitution in December 2015. The following March, the Kuttukaran Family Trust was registered as part of the succession plan to bring all the company shares under the trust. *"In that way," Mr. Paul said, "no individual family member holds shares that can be transferred at will. The intent is to help to bolster trust within the family and enable future generations to develop an affinity for the Group and maintain the Kuttukaran family legacy."*

Families generally understand the importance of starting the succession planning process early to get it right, and to view a good succession plan as the first step in maintaining the business' strength and the family's prosperity for generations to come.<sup>4</sup>

However, while this type of disciplined planning is generally accepted, we gained a surprising insight from our CEO conversations. It appears that, even when the selection of a successor is considered to be important, family businesses that are led by members of the silent generation (born between 1925-1945) or the baby boomer generation (born between 1946-1964) have *not* yet devised a succession plan.

This is concerning. It is not only a potential impediment to the smooth transition and continuity of the business; it is also a disservice to the successor who is ultimately required to assume the leadership role.

As the current CEO of a family business in the Netherlands explained to us, his grandfather had difficulty giving up control and preparing another

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<sup>4</sup> KPMG, Succession in family business: start early. <https://home.kpmg/au/en/home/insights/2017/02/succession-planning-family-business-start-early.html>



family member to assume the leadership of the business. This led to ongoing confusion throughout the family – as well as the business – as the structure of responsibility and decision-making remained unclear for several years. *“When my father and his brother succeeded by grandfather, he says, “they really went through a terrible time together. My grandfather could never completely let go of control. It really held back the growth of the firm, but also the personal development of the successors in that period. My father told me that he didn’t want me to have the same experience and that he needed to give me an opportunity to take a position as a senior business leader and make room for me to develop myself.”*

Many current-generation successors have learned important lessons from experiences such as this, and they are making every effort to make sure that proper succession processes are in place for the next generation in order to avoid repeating the mistakes of the past.

Mr. Andy Wates, Director of Wates Group in the UK, explained the succession process in his family business. The Group retained external family governance advisers to assist in planning the succession process from the third generation to the fourth. The plan was implemented 12 years ago, and third-generation family members continue to be active in the business. For future successors, Mr. Wates suggested that it will be important for his business to establish a firm end-date for the transition to his own successor.



## Getting succession right

To get succession right, we believe there are a few important considerations for transferring management, control, ownership and equity from one generation to the next, all of which are in the best interests of the business and the family.



## Know what the business needs

Many family business owners assume succession planning centres on who will run the business when they step down, but a broader perspective is necessary. The founder and the board or advisors need to consider where the business is in its lifecycle and what kind of leader or leaders it needs to progress.



## Protect the brand

Many family businesses are built around a personal brand and may even be named after the founder. It’s important to retain the brand’s essence and evaluate how well it fits with the current business model.



## Maintain financial confidence

When planning for the future, family enterprises must decide who will be in charge from a financial perspective, as many investors and banks consider the individual behind a family business to be a critical factor when making decisions on current and future funding. They need to have confidence that there continues to be strength in the business.



## Retain legacy knowledge

The continuation of knowledge is as important as leadership and financial succession. That knowledge is often one of the business’s key competitive advantages and should be documented and communicated throughout the business and the family.



## Document the plan

Finally, when a succession plan is developed and agreed, it must be explicitly articulated and formally documented among family.

# When is it time to pass the baton?

“Deciding when it is time for me to retire is a very difficult question. The family business has been my life, it's my passion and I have likely spent more hours in the office than in my house. I'm conscious of the fact that we all have to prepare for that day and the worst-case scenario would be to have that decision forced upon you. For me, it is important to understand that my role will change from the day-to-day running of the business to becoming a coach to the next generation of our family leaders who will keep alive the legacy that was built by my father and later by my generation.”

**Khalid Abunayyan**  
Chairman,  
Abunayyan Holding  
Company,  
Saudi Arabia

The succession plan is in place. How, then, do family leaders decide when it's the right time to retire fully – or partially – or to assume a new role in the family business?

We were somewhat surprised to learn that 53 percent of the family business leaders in our study do not have a formal retirement plan, making the path uncertain for their potential successors and for the future of the family business.

For those who do have a retirement plan, the research tells us that family business leaders whose primary objective is to enjoy life and achieve financial security for the family plan to retire fully from business management. Some even consider selling their businesses outright.<sup>5</sup> This insight is surprising, because it is in stark contrast to the traditional thinking that family business founders rarely leave their businesses because they derive so much fulfillment and personal identity from it.

From the same research, we find that leaders who continue to be passionate about their work rarely think of retirement and look for alternative ways to stay involved in the family business. Some don't have a planned retirement age at all or they remain partially involved in the business through board membership or an advisory role.

As Mr. Khalid Abunayyan, Chairman of Abunayyan Holding Company says “Deciding when it is time for me to retire is a very difficult question. The family business has been my life, it's my passion and I have likely spent

*more hours in the office than in my house. I'm conscious of the fact that we all have to prepare for that day and the worst-case scenario would be to have that decision forced upon you. For me, it is important to understand that my role will change from the day-to-day running of the business to becoming a coach to the next generation of our family leaders who will keep alive the legacy that was built by my father and later by my generation.”*

One cautionary note with regarding advisory roles, however. In some cases, although parents claim to have advisory roles and consider themselves to be only marginally involved in the business, next generation successors may not see it that way. They might perceive their parents' involvement as controlling behavior and a lack of trust in their ability to run the business. The previous generation's unwillingness to retire without leaving the company business completely often makes it difficult to truly delegate authority to the next leader and for new leaders to escape from their predecessor's shadow.

As a family CEO in France pointed out, “I am starting to realize that my presence in the company can be detrimental to my sons' ability to make their own names. They surely must think that, given that father is in place, we should not contradict him.”

Indeed, having little or no autonomy to make strategic decisions for the company, they may be concerned about not being able to escape their father's shadow.

<sup>5</sup> Akhter, N., Sieger, P., & Chirico, F. (2016). If we can't have it, then no one should: Shutting down versus selling in family business portfolios. *Strategic Entrepreneurship Journal*, 10(4), 371-394.

As we look down the road and consider the retirement plans of millennial leaders, we may uncover a different picture of retirement altogether. NextGen business leaders are highly educated and they're motivated to deliver, however, they are not likely going to lead in the same way as their predecessors. They are more focused on achieving work/life balance, for one thing, and they plan to retire prior to their 50<sup>th</sup> birthday – not their 70<sup>th</sup>, 80<sup>th</sup> or 90<sup>th</sup>.

One of our family business leaders explained this well: *"I am not going to work until I am 90 years old just as my father did. I think about taking a Sabbatical year, in opening my mind towards other things, other investments, because being all day in the company does not let you see the world. One has to go out and see what is happening with other companies. I want to let the new generation do the day-to-day work here. They are very good at it."* Mr. José Manuel Suso Dominguez, CEO, Arrocería la Esmeralda, Colombia.

We even encountered a 33-year old family business owner who is already contemplating his retirement. It has nothing to do with his age, but by the amount of stress he experiences in his work and a desire to pursue a personal dream away from the business.

When considering the future leadership of the family business, understanding the likely timespan for this next generation of leaders will be as important as their needs and expectations. If millennial leaders are planning to retire much earlier than those before them, early succession planning will become even more critical.

## Key insights

Family business leaders discussed their retirement plans and told us their decision would be influenced by several personal and family factors. These are some of the themes that are behind their decisions:



Leaders who continue to be passionate about their work in the family business often aren't actively making retirement plans.



Family business leaders whose primary objective is to enjoy life and achieve financial security for the family are more likely to retire from their business completely and may even consider selling the business outright if it provides the family with the financial support they may need.



Millennials may plan to retire much earlier than previous generations if they perceive that their work in the family business is stressful or is making them miss out on life.

### Andrea Calabrò

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# Knowing when to exit

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The research literature defines an exit as the process by which the founders of family firms leave the business that they have established by giving up some or all of their ownership and decision-making power.<sup>6</sup>

The theory of self-determination<sup>7</sup> suggests that a leader's underlying motivation will affect their willingness to continue working and remain committed to the business. According to this theory, the level of trust in the next generation's capacity to lead the business is essential for their leadership development<sup>8</sup> and whether or not they are motivated to assume control.

The next generation's interest and capability also has a direct effect on the current leader's decision to keep or sell the business. Family business leaders recognize the significance and importance of the next generation's willingness to take the business forward and to be committed to its success. Many have stood in those same shoes earlier in life. They also recognize that an exit strategy may be the best option if willingness and commitment are missing.

Our research suggests that the desire to keep the business within the family is highest when the current leader has offspring. Without children, family CEOs are more inclined to sell

the business and enjoy the financial rewards of their exit. This may be a reflection of the principle that having children can increase a leader's desire to pursue 'socioemotional wealth' for the family – the emotional value that the family derives from owning and managing a business.<sup>9</sup>

A decision to sell the business is also affected by the expectation of the potential conflicts that might occur among family members when the business moves to the cousin consortium stage. In cases when the business reins could be handed to a third generation that includes several cousins who are responsible for the management and operations of the business, a "pruning of the family tree" might be necessary. In cases such as this, the business is often bought out and owned by a single nuclear family – as opposed to the extended family of cousins – or it's sold to an external party.

Without children, the desire for socioemotional wealth is diminished and the current leader is generally less committed and attached to maintaining the family ownership of the business.

Whether forced or planned, family businesses are not always able to pass the leadership or ownership of their business from one generation to the next or to other members of the family. Succession planning presents

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<sup>6</sup> DeTienne, D. R. (2010). Entrepreneurial exit as a critical component of the entrepreneurial process: Theoretical development. *Journal of Business Venturing*, 25(2), 203-215.

<sup>7</sup> Deci, E. L., Olafsen, A. H., & Ryan, R. M. (2017). Self-determination theory in work organizations: The state of a science. *Annual Review of Organizational Psychology and Organizational Behavior*, 4, 19-43.

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# Key insights

The business leaders we met told us that it is not always possible to achieve a transgenerational succession and other options – even exit strategies in some cases – have to be explored. Here are some of the reasons why:



The desire to exit the business tends to increase when current family business leaders do not have children.



Lack of trust in the capacity of the offspring to lead the family business or the willingness and motivation of the next generation to continue to take it forward.



The anticipated conflict between family members at the time of succession when the family business reaches the cousin consortium stage will be positively associated with the decision to exit the business.

## Tom McGinness

Global Leader,  
Family Business,  
KPMG Private Enterprise,  
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a different array of choices for the transition in these cases, including:

- Remaining as the owner but giving leadership and management roles to a non-family member.
- Relinquishing ownership through a third-party trade sale or private equity investment or buyout.
- Raising capital through an IPO.
- Relinquishing all or partial ownership through a management buyout.

Family business CEOs who choose any of these exit strategies do not do so lightly.

“ In the ‘old days’, the successor got a tap on the shoulder. Today’s generation, and the next, won’t buy into that. If upcoming generations are impressed by our family businesses, if they see a role where they can have an impact and get personal satisfaction and enjoyment from the work we do, THEN they will be able to see themselves playing a role in its future. The approach for getting them to that destination won’t be a tap on the shoulder.”

**George Vestey**  
CEO,  
Vestey Holdings,  
United Kingdom

## Looking beyond the family

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When a family business leader fails to engage successfully with the next generation, or if the right successor cannot be found, or if the family council is unable to be organized effectively, a pragmatic decision is often made to recruit the best non-family executive possible, while maintaining the interactive connections between the business and the family. This might require strengthening the capability and participation of the ownership group to reflect the ‘familiness’ of the business alongside a non-family executive who shares the family’s values.

## Who will succeed you?

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The family business leaders in our study told us that choosing the right successor will, indeed, be their most important legacy and a moment of personal pride. It will be built upon an important historical foundation, deep family values, a passion for what the business does and what it stands for and the impact it has on people and society.

The continuity of the family business and preserving its family identity depends on it.



# The evolution of the family enterprise

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**W**e learned a great deal from our CEO conversations. We believe there is an evolution taking place in the world of succession that is aligning the overall purpose of the family business with the motivation and beliefs of NextGen leaders.

Wates Group Director, Mr. Andy Wates, described it this way: *“Our business is a process-driven machine. For the next generation, different platforms will be required to give them as many options as possible, especially for those who have a strong entrepreneurial orientation. Next generation family members are being encouraged to be involved in the activities of the Wates Family Enterprise Trust, for example, which provides an opportunity for them to get their feet under the family business table and become directly involved in deciding how, as “good owners,” the money from the Trust is allocated for societal impact.”*

A similar view was echoed by Mr. Filipe de Botton, Chairman of Logoplaste in Portugal, who described the family’s progression from a family enterprise to a high-functioning enterprising family. He described family members who are engaged in the firm’s philanthropic projects, running the Family Office, board membership and diversification in business endeavors that are well outside the parameters of the company’s original core business.

This suggests that efforts to engage next-generation family members in

the family business are becoming increasingly diverse. From the family’s role in managing the core business, to ownership of company shares, membership on the board and active roles in the philanthropic activities of a family foundation – all are meaningful considerations for succession planning. Perhaps this the beginning of a newly defined reality of what “family business succession” looks like?

We hope you have enjoyed this first article in our series, focusing on family business succession. In what could become a defining moment for your family business, we hope we have reinforced and provoked your thinking regarding succession questions you may be contemplating:

- Being prepared to expect the unexpected by weaving succession plans into the fabric of your business contingency planning.
- Understanding that the next generation’s outlook may not be the same as yours – not good, or bad, just different.
- Recognizing that future generations may be looking for an enhanced of purpose in the work of the family and of the business.
- Having the courage to choose wisely by selecting the right successor at the right time.



“Our business is a process-driven machine. For the next generation, different platforms will be required to give them as many options as possible, especially for those who have a strong entrepreneurial orientation. Next generation family members are being encouraged to be involved in the activities of the Wates Family Enterprise Trust, for example, which provides an opportunity for them to get their feet under the family business table and become directly involved in deciding how, as “good owners,” the money from the Trust is allocated for societal impact.”

**Andy Wates**  
Director,  
Wates Group,  
United Kingdom

- Considering succession options beyond the family.
- Applying the same discipline to succession planning as you do in your business planning.
- Knowing when it's time to pass the baton to a new leader.

Family businesses have a wealth of experience and unique insights to share and we encourage you to learn more about some of the families who contributed to our study and helped to bring these insights to life. You can explore the stories behind the families on the **KPMG Private Enterprise website**.

The next three articles in our series will take a close-up look at the impact of changing demographics on societal impact, professionalization of the business, including entrepreneurial orientation and finally, legacy. We invite you to contact us at **familybusiness@kpmg.com** to receive the next article in the series as soon as it's available. And, as always, we welcome your feedback on this information and invite you to share your own perspectives and experiences with us and for the benefit of family businesses across the globe.

# Acknowledgments

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# About the Successful Transgenerational Entrepreneurship Practices (STEP) Project Global Consortium

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The STEP Project Global Consortium is a global applied research initiative that explores family and business practices within business families and generates solutions that have immediate application for family business leaders. STEP aims to be a leading global family business research project with an international reputation. The research insights are specifically drawn to be of relevance to developing new theoretical insights that can offer novel and valuable best practices recommendations to the business stakeholders and the practice community at large. Having a global worldwide orientation, STEP offers networking opportunities for researchers, family business owners and consultants coming from five continents.

Visit: [thestepproject.org](http://thestepproject.org)

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As with your family, your business doesn't stand still — it evolves. Family businesses are unique and KPMG Private Enterprise Family Business advisers understand the dynamics of a successful family business and work with you to provide tailored advice and experienced guidance to help you succeed.

To support the unique needs of family businesses, KPMG Private Enterprise coordinates with a global organization dedicated to offering relevant information and advice to family-owned companies. We understand that the nature of a family business is inherently different from a non-family business and requires an approach that considers the family component.

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