The Regenerative Power of American Family Businesses

STEP Project Global Consortium (SPGC)
Family Business Report, United States of America

2022

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KPMG Private Enterprise

STEP Project Global Consortium for Family Enterprising

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About the Authors

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Table of Contents

Introduction

Family firms responded in a very positive way during COVID-19, as reported by the 2021 STEP Project Global Consortium (SPGC). Exhibiting high levels of resilience, family businesses engaged in transforming their businesses, with social responsibility, while dealing with the pandemic. However, global challenges such as supply chain disruptions, labor shortages, climate change, war, inflation have been affecting everyone in the last couple of years and their effects on countries, businesses and family businesses have been quite different.

In the Fall of 2021, the STEP Project Global Consortium, fulfilling its mission to conduct collaborative research on transgenerational entrepreneurship, once again joined forces with its affiliates around the world, and KPMG, to conduct global survey to understand what family businesses have been doing post-pandemic and their regenerative power. Results from the survey at the global level with 2,440 family business surveyed, were released in April of 2022.

This report focuses on analyzing the regenerative power in the family businesses that answered our call in the United States of America. Though the number of companies is relatively low (55), most of them are from the Mid-West of the country, particularly Michigan. It is the goal of the Family Owned Business Institute at Grand Valley State University, as part of its mission to champion and serve family businesses through scholarship, education, and advocacy, to present the results that family businesses in our region had on four specific dimensions assessing regenerative power: leadership style, entrepreneurial orientation, family's interest, and commitment to its legacy and the business across time, and performance, at financial and social levels.

As follows, the first section describes the American family businesses that responded the survey, in comparison to others in the world, followed by the findings per dimension above, each one with a brief analysis, to end with a practice-oriented reflection on the results. Hopefully, this report sheds some light in understanding the regenerative power of family businesses and its challenges in the USA.

Ana González
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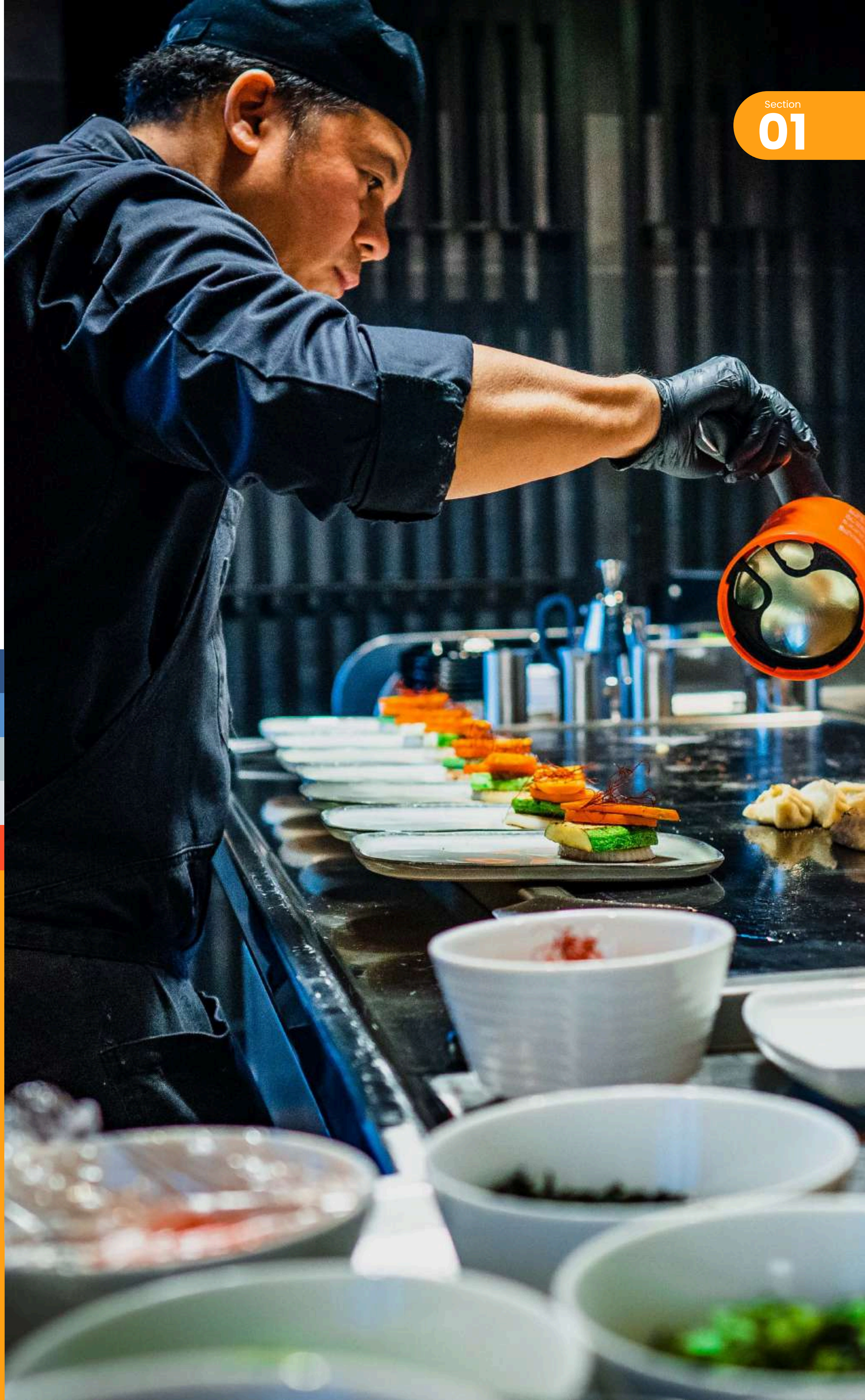
Seidman College of Business, Grand Valley State University.

SPGC Family Businesses in the USA

Section
01



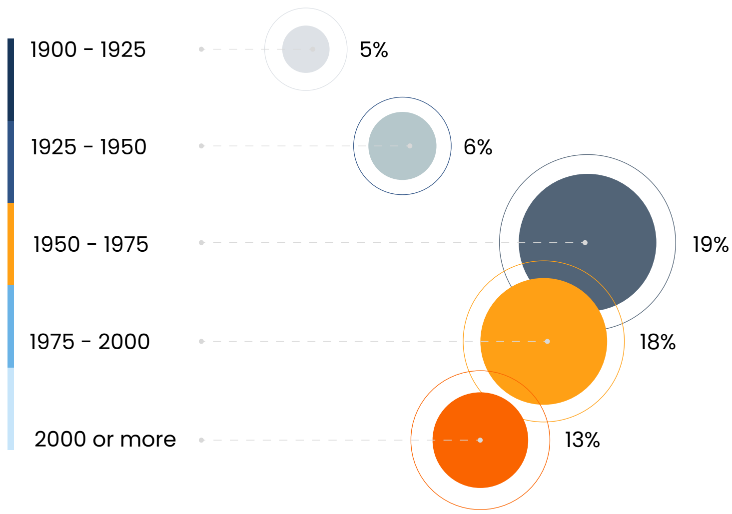
SPGC Family Businesses in the USA

Family businesses that participated in the survey, in the USA exhibit the following characteristics.

Majority of the family business are less than 50 years old.

Firm Age

Figure 1: Firm Founding Year



84%

of the firms that participated in the survey were founded after 1975.

Only 1

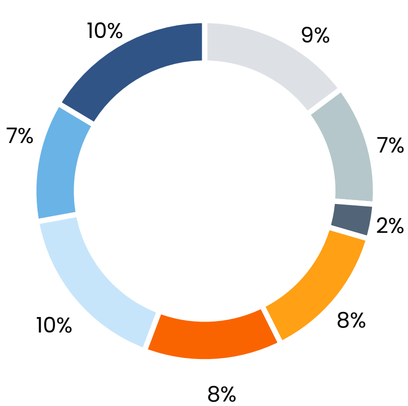
firm was founded prior to 1900.

16%

of the firms were founded between 1900 and 1975.

Firm Size

Figure 2: Number of Employees



Based on number of employees, very few family businesses are small sized (< 10 employees).

44%

of the firms had 200 or more employees

15%

of the firms had less than 10 employees

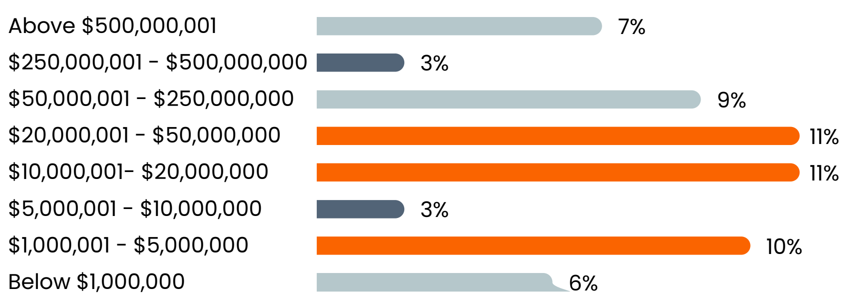
41%

of the firms had between 10 and 200

Very few family businesses are small sized, based on sales (< 1 million in Sales)

Sales

Figure 3: Annual Sales



12%

of the firms had sales in excess of 500M.

10%

of the firms had sales less than 1M.

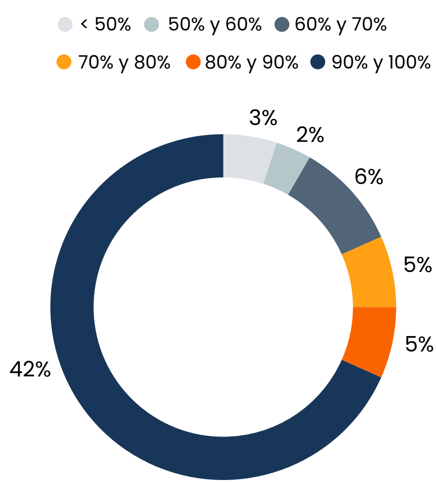
36%

of the firms had sales between 10M and 50M.

Ownership

Figure 4: Family Ownership

Family business have very high levels of family ownership and control.



68%

of the firms had 90% or more family ownership.

Only 5

of the firms had less than 50% of family ownership.

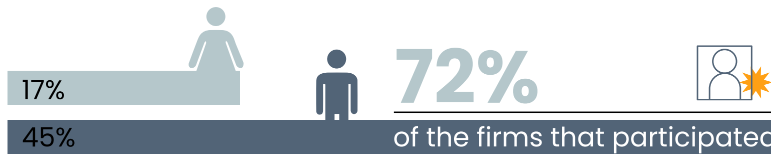
27

of the firms had between 50% to 90% of family ownership.

Few family businesses are led by female CEO

CEO Gender

Figure 5. CEO by Gender



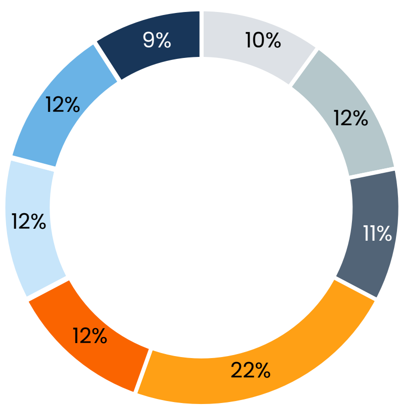
72%

of the firms that participated in survey are headed by male CEO.

Participation by industry

Figure 6: Industry Participation by Family Firms

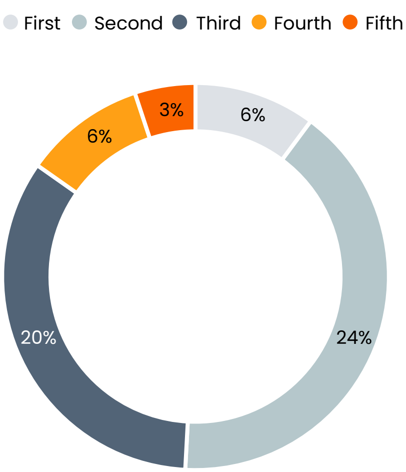
1 & 2 · 11 & 12 · 18 · 3 · 4, 5, 14, 15, 16 & 17 · 6 · 7 y8 · 9, 10 & 13



Manufacturing, followed by Construction were the top two industries of the participating family firms.

Generational Involvement

Figure 6: Generation of Family Firms



The majority of family businesses are 2nd or 3rd generation family businesses.

75%

of the family firms are 2nd or 3rd generation firms.

15%

of the family firms are 4th and 5th generation firms.

10%

of the family firms are 1st generation firms.

US family businesses exhibit high levels of heterogeneity in firm age, firm size, industry participation and generational involvement, but are still predominantly led by male CEOs.

Section
02

Leadership
in the Family Business

Leadership in the Family Business

The work of a leader is to influence and motivate its followers towards a set of goals. The survey asked respondents to assess the leadership style of the family business leaders and if the leader was the one responding the survey, it asked them to assess themselves.

Specifically, three leadership styles were assessed: Authoritarian, Transformational and Charismatic, all different styles, but not mutually exclusive or permanent across time or circumstances. Authoritarian leaders exert tight control and strong coordination over the affairs of the organization (Clark, Hartline & Jones, 2007) and exhibit dominant and paternalistic behaviors towards the followers, combining authority, benevolence, and morality (Mussolino and Calabro, 2014; Alblooshi et. al, 2020).

Transformational leaders understand their followers' individual needs, values, preferences, and aspirations, and influence them from their own interests to collective ones (Bass 1997; Sparks and Schenk 2001; Kark et al. 2003), by stimulating self-confidence, morale, and motivation (Liao et al., 2017). This is the ideal leadership style that correlates positively with performance, entrepreneurial orientation and in general, business regenerative power.

Lastly, Charismatic leaders are perceived by the followers as individuals completely out of the ordinary and admired for their exceptional talents and qualities, capable of articulating an inspiring vision and persuading their followers towards a goal (Conger and Kanungo, 1994; Conger et al., 1997; Bass, 1985; Waldman et al., 1990).

When it comes to family businesses, transformational leaders' features have correlated positively with attributes assigned to family leaders, therefore this leadership style has gotten a lot of attention in family business research (Fries et al, 2017; Vallejo, 2009; 2011). Check what results show in the USA.

Transformational leadership

Strongly disagree — Strongly agree

Figure 7: Provide an interesting outlook for the future of the family business

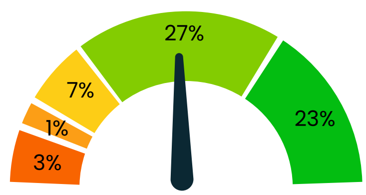


Figure 8: Provide a good model for other to follow

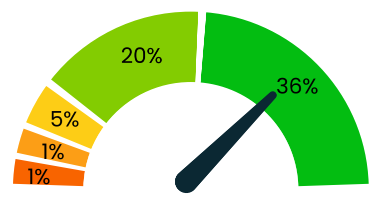
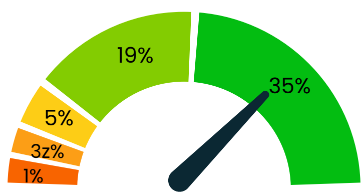


Figure 9: Foster collaboration among work groups



Family business leaders exhibit high levels of transformational leadership.

90%

of the respondents agree or strongly agree that their leadership provides a good model for others to follow.

87%

of the respondents agree or strongly agree that their leadership fosters collaboration among workgroups.

82%

Of the respondents agree or strongly agree that their leadership provides interesting outlook for the future of the family business.

Charismatic Leadership

Strongly disagree Strongly agree

Figure 10: Provide inspiring strategic and organizational goals

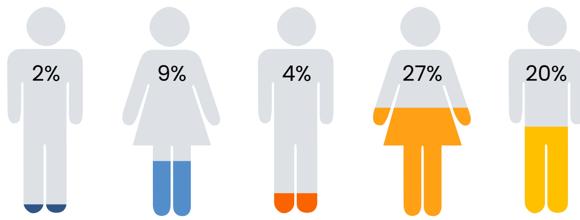


Figure 11: Seize new opportunities in order to achieve the business goals

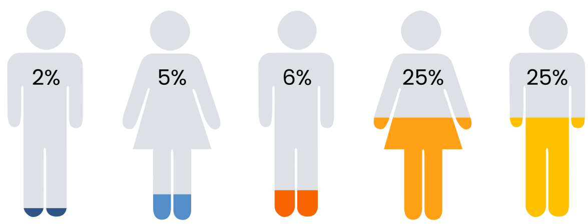
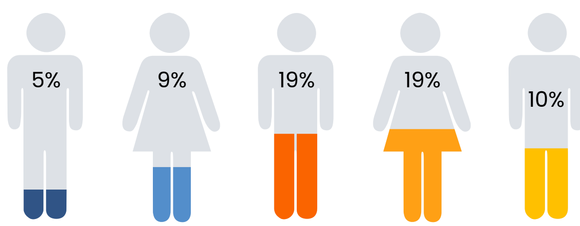


Figure 12: Engage in unconventional behavior in order to achieve organizational goals



77%

of the respondents agree or strongly agree that their leadership provides inspiring strategic and organizational goals.

82%

of the respondents agree or strongly agree that their leadership seizes new opportunities in order to achieve the business goals.

62%

of the respondents agree or strongly agree that their leadership engages in unconventional behavior in order to achieve organizational goals.

Family business leaders exhibit some levels of Charismatic leadership

Authoritarian leadership

Strongly disagree — Strongly agree

Figure 13: Give instructions on how things should get done

Figure 14: Exercise strict discipline over subordinates

Figure 15: Believe in exhibiting hierarchical behavior among employees

Family business leaders do not exhibit Authoritarian leadership

72%

of the respondents agree or strongly agree that their leadership gives instructions on how things should get done.

34%

of the respondents agree or strongly agree that their leadership exercises strict discipline over subordinates.

28%

of the respondents agree or strongly agree that their leadership believes in exhibiting hierarchical behavior among employees.

US family businesses leaders exert characteristics of transformational leadership. They tend to be paternalistic, but not authoritative.

Section 03

Socioemotional Wealth

Socioemotional Wealth

the affective endowments the owning family has vested in the business. Socioemotional wealth was assessed on three levels on the survey: the family's control and influence over the business, family members' identification with the family business and their emotional attachment to the family business. Research has found that the family's socioemotional wealth influences decision making on the business, in both the long and the short term, with positive and negative outcomes to the business. For instance, the family's desire to avoid losing control of the business can prevent it from making investments that entail risk, but might be benefitial in the long term. As well, the long-term vision that the family has on the business can influence it to make a decision and increase its level of risk in the short term. As follows, the results.

95%

of the respondents agree or strongly agree that the majority of the shares in the family business are owned by family members.

79%

of the respondents agree or strongly agree that family members exert control over the company´s strategic decisions.

56%

of the respondents agree or strongly agree that most executive positions are occupied by family members.

Family control and influence

Strongly disagree — Strongly agree

Figure 16: The majority of the shares in my family business are owned by family members

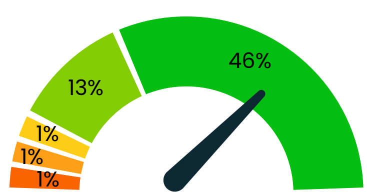


Figure 17: In my family business, family members exert control over the company´s strategic decisions

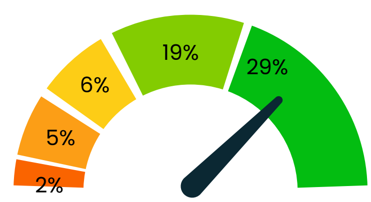
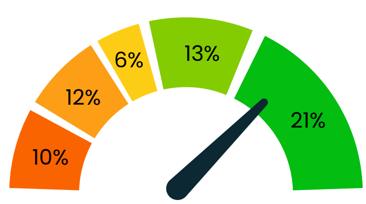


Figure 18: In my family businesses, most executive positions are occupied by family members



Business families maintain high level of ownership & strategic control over their firms, but have medium level of operational control in their firms.

Family members strongly identify themselves with their family business.

Identification of family members with the firm

Strongly disagree — Strongly agree

Figure 19: Family members have a strong sense of belonging to the family business

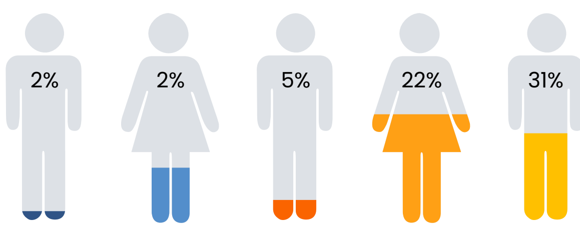


Figure 20: Family members feel that the family business's success is their own success

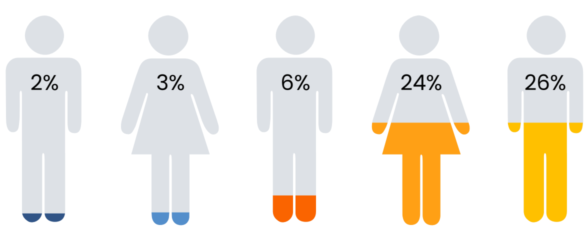
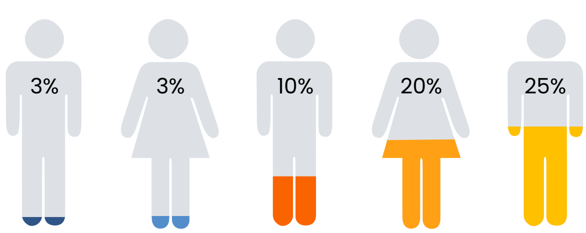


Figure 21: Being a member of the family business helps define who we are



87%

of the respondents agree or strongly agree that family members have a strong sense of belonging to their family business.

82%

of the respondents agree or strongly agree that family members feel that the family business' success is their own success.

74%

of the respondents agree or strongly agree that family members believe that being a member of the family business helps them define who they are.

Emotional attachment of family members

Figure 22: Emotions and sentiments often affect decision-making processes in the family business

Figure 23: In my family business, affective considerations are often as important as economic ones

Figure 24: In my family business, family members care for each other

58%

of the respondents agree or strongly agree that emotions and sentiments often affect decision-making processes in my family business.

91%

of the respondents agree or strongly agree that family members care for each other.

69%

of the respondents agree or strongly agree that affective considerations are often as important as economic ones.

Though family members care a great deal for each other, their emotions, and sentiments towards the family business, though important, do not affect their decisions at high levels in the family business.

US family business families maintain high levels of socioemotional wealth. They identify themselves with their family business and maintain high levels of ownership and strategic controls in their business.

Section

04

Entrepreneurial Orientation

Entrepreneurial Orientation

Entrepreneurial Orientation has been considered a firm-level strategic capability and a source of competitive advantage (Lumpkin and Dess, 1996). It explains the way companies face challenging and volatile environments (Covin and Slevin, 1989; Miller, 1983), such as recessions, hectic political crises, the pandemic, etc. When compared to non-family businesses, family businesses seem less entrepreneurially oriented. Although Entrepreneurial Orientation can be understood as one concept, it can also be assessed through three dimensions: how the firm innovates its products, services, and markets (innovativeness), how it takes on some risky business endeavors (risk propensity/aversion), and how it develops proactive behaviors (proactiveness). Results on the three are presented as follows.

74%

of the respondents agree or strongly agree that the top managers favor a strong emphasis on R&D, technological leadership, and innovation.

67%

of the respondents agree or strongly agree that the top management team has introduced many new lines of products or services.

42%

of the respondents agree or strongly agree that changes in products or service lines have usually been quite dramatic.

Innovativeness

Strongly disagree — Strongly agree

Figure 25: The top managers favor a strong emphasis on R&D, technological leadership, and innovation

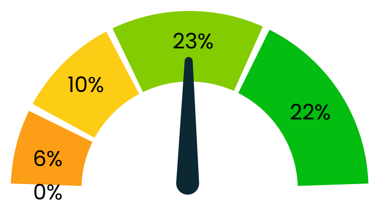


Figure 26: The top management team has introduced many new lines of products or services

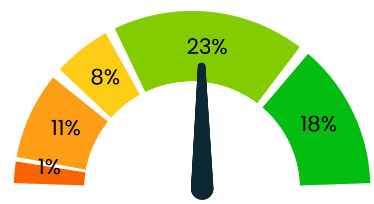
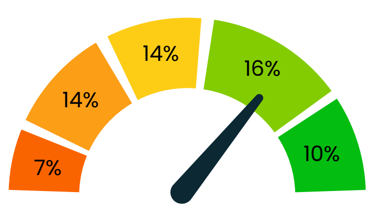


Figure 27: Changes in products or service lines have usually been quite dramatic



Family business exhibit moderate levels of innovativeness.

Proactiveness

Strongly disagree   Strongly agree

Figure 28: The top management team tends to initiate actions to which competitors then respond

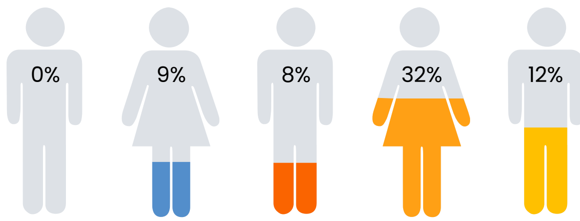


Figure 29: The firm is often the first to introduce new products/ services, administrative techniques, or operative technologies

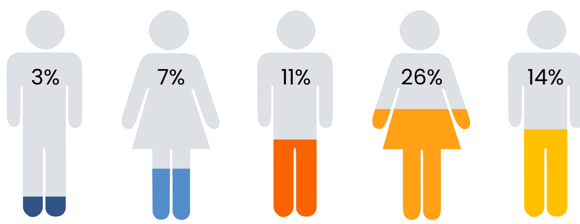
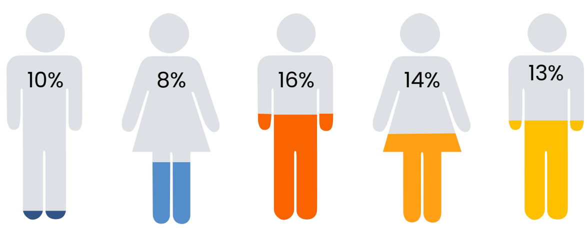


Figure 30: The top management team typically adopts a very competitive, “undo-the-competitor” posture



72%

of the respondents agree or strongly agree that the top management team tends to initiate actions to which competitors then respond.

66%

of the respondents agree or strongly agree that the firm is often the first to introduce new products/services, administrative techniques, or operative technologies.

44%

of the respondents agree or strongly agree that top management team typically adopts a very competitive, “undo-the-competitor” posture.

Family businesses though moderately proactive in the market, refrain from engaging in competitive wars

Risk-taking

Strongly disagree | Strongly agree

Figure 31: Top managers have a strong tendency to pursue high -risk projects (with chances of very high returns)

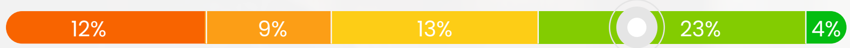


Figure 32: Top managers believe that owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives

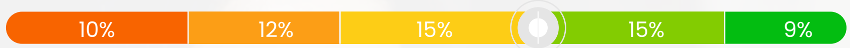
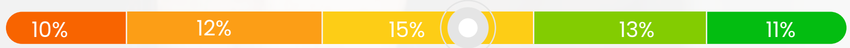


Figure 33: The top management team typically adopts a bold, aggressive posture in order to maximize the probability of exploiting potential opportunities



Family businesses exhibit risk averse behavior in going after high risk potential opportunities.

59%

of the respondents agree or strongly agree that the top managers have a strong tendency to pursue high-risk projects (with chances of very high returns).

40%

of the respondents agree or strongly agree that the top managers believe that owing to the nature of the environment, bold, wide-ranging acts are necessary to achieve the firm's objectives.

39%

of the respondents agree or strongly agree that the top management team typically adopts a bold, aggressive posture in order to maximize the probability of exploiting potential opportunities.

US family businesses exhibit moderate levels of innovativeness and proactiveness, however they are still risk-averse in going after potential opportunities.

Section
05

Performance of Family Businesses

Performance of Family Businesses

Family firms are characterized for making decisions not only based on financial goals or expectations of them, but also on non-economic goals. Though they are for-profit companies and are looking for healthy financial performance and sustainability across generations, family business owners very frequently stated "it's not all about the money." Regarding financial performance, research has had contradictory results when comparing family and non-family firms, but on social performance, family firms are perceived to be stronger than non-family firms. As follows, results on performance on different dimensions are presented: financial and social, and among social performance, environmental, diversity and inclusion and family.

Financial Performance

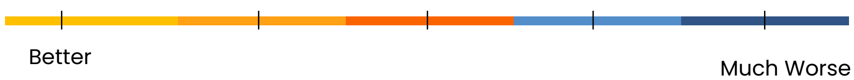


Figure 34: Growth in market share

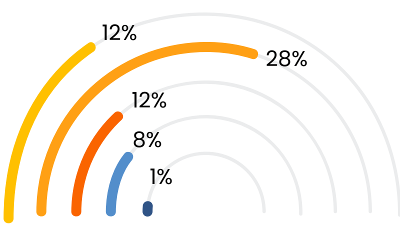


Figure 35: Growth in number of employees

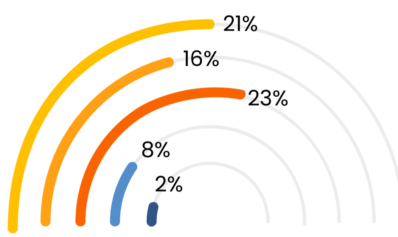
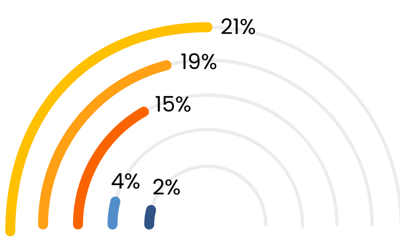


Figure 36: Growth in profitability



Family businesses have performed well financially.

66%

respondents believe that their business has performance better or much better as compared to that of their competitors in generating growth in market share.

46%

respondents believe that their business has performance better or much better as compared to that of their competitors in generating growth in number of employees.

65%

respondents believe that their business has performance better or much better as compared to that of their competitors in generating growth in profit.

Social Performance

Environmental impact

Better

Much Worse

Figure 37: Complying with environmental regulations

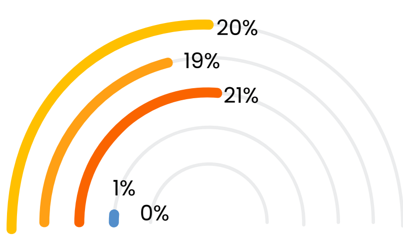


Figure 38: Preventing and itigating environmental crises

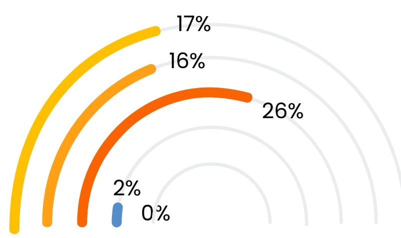
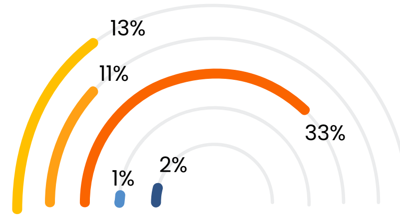


Figure 39: Educating employees and public about environmental impact



64%

of the respondents believe that their business has performed better or much better as compared to that of their competitors in complying with environmental regulations.

55%

of the respondents believe that their business has performed better or much better as compared to that of their competitors in preventing and mitigating environmental crises.

40%

of the respondents believe that their business has performed better or much better as compared to that of their competitors in educating employees and public about environmental impact.

Diversity and Inclusion

Much Lower

Higher

Figure 40: Has non-family women or minorities in senior manager positions

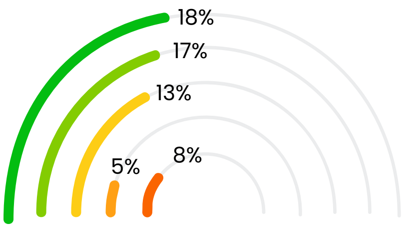


Figure 41: Has non-family women or minorities as members of the Board

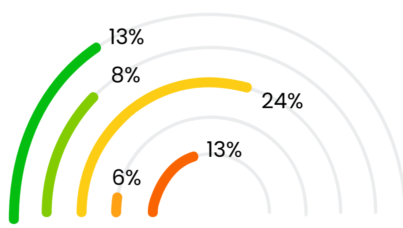
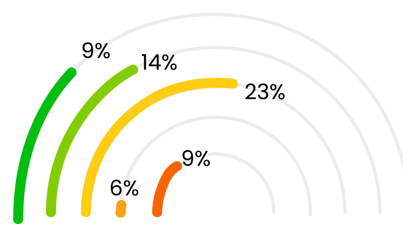


Figure 42: Has taken innovative hiring initiatives for the employment of people with disabilities



58%

of the respondents believe that their business has higher or much higher ratio of non-family women or minorities in senior manager positions as compared to that of their competitors.

30%

of the respondents believe that their business has higher or much higher ratio of non-family women or minorities as members of the Board as compared to that of their competitors.

38%

of the respondents believe that their business has taken innovative higher or much higher hiring initiatives for the employment of people with disabilities as compared to that of their competitors.

There are opportunities for diversity in the workforce, the leadership team and the board of directors in the family businesses surveyed.

Family outcomes

Strongly disagree — Strongly agree

Figure 43: Family loyalty and support to our family business

1% | 1% | 6% | 22% | 31%

Figure 44: Development of the next generation's skills

1% | 5% | 9% | 29% | 17%

Figure 45: Develop opportunities for next generation

1% | 5% | 11% | 27% | 17%

Family businesses have done well in developing skills and generating opportunities for next generation family members.

87%

of the respondents agree or strongly agree that their business deliver family loyalty and support to our family business.

75%

of the respondents agree or strongly agree that their business deliver development of the next generation's skills.

72%

of the respondents agree or strongly agree that their business develop opportunities for next generation.

US family businesses have done well in terms of generating financial wealth and developing opportunities for family members, but there are opportunities to do more towards their societal impact.

Section
06

Insights for the future

Insights for the future

The regenerative power of the American family businesses that responded the survey is evidenced by the transformational leadership style exerted, the strong identification and commitment of the owning family towards the family business and their entrepreneurial orientation driven by their higher levels of proactiveness and innovativeness. Also, the good financial situation of the family businesses surveyed reflects that the resilience they had during the pandemic has them now thriving.

Notwithstanding, there are some blind spots that need to be considered by the respondents to continue having these positive results. First, even though transformational leadership was the preferred style of the family businesses surveyed, they also evidenced paternalistic behaviors. These are not necessarily wrong, and during crises, they come in handy, but in extreme cases, they prevent employees to share ideas, the business from innovating, and in general, change from happening.

Second, the levels of innovativeness reflected signal that family firms are more oriented towards incremental innovation, not radical. By itself this is not a bad result, but since business families tend to be risk averse, and results here confirm that, both factors can lead to stagnation in the long run, so paying attention to them is worth considering.

Lastly, family firms tend to be more prone towards social responsibility and they are perceived to be more opening to women as they work to move up in the corporate ladder. Results from this survey do not show these two features, though. These can be particularly challenging today, with ESG results being demanded by stakeholders across markets. The interesting fact about ESG in family firms is that by targeting one, two can be strengthened, or achieved. Research has shown that including more women in leadership or in boards, increases family firms' social performance (Cruz et al., 2019). Therefore, targeting DEI initiatives across the family firm, can lead to better social performance on the governance and the environmental dimensions too.

1.Balancing and managing risk-aversion and risk-taking behaviors in going after potential opportunities, particularly in this fast changing environment.

2. Taking steps to prevent and mitigate family businesses environmental impact, including educating stakeholders about it.

3. Managing the paternalistic feature of leadership that is not positive in all contexts.

4. Working on focused programs to improve diversity at all levels in the workforce, including the c-suite and the board

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