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# STEP Quantitative Survey Results 2015: Initial Report to the STEP Community

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# QUANTITATIVE SURVEY RESULTS 2015

**35**  
SCHOOLS

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**Belgium**

Antwerp Management School

**24**  
COUNTRIES

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Dalhousie University

**Chile**

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Instituto de Estudios

Superiores de

Administración (IESA)

**14**  
LANGUAGES

Brazilian

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Japanese

Portuguese

Russian

Spanish

Swedish

Thai

# Introduction

Welcome to the first report of results from the STEP Project survey of transgenerational entrepreneurial practices. When family businesses first became the subject of serious research, we would always open a report by explaining how prevalent and important they were to each country's economy. Nowadays, it is well known that family businesses constitute a majority of firms worldwide and that they are significant contributors to the global economy and to employment. It is thus fitting that STEP examines family businesses from a global perspective. The STEP Project operates in five regions of the world: Europe, Latin America, Asia, North America, and Africa, and currently consists of 43 affiliated research institutions.

Academics participating in the STEP Project have a strong interest in creating a practical nexus between entrepreneurship theory and family-influenced wealth creation, and their institutions have committed to exploring research and practice solutions for how families build their entrepreneurial legacies.

STEP research affiliates recognize that family businesses are the most enduring form of business organization and therefore it is important that we consider how they transfer entrepreneurial potential across generations. We refer to this practice as **transgenerational entrepreneurship**. Since we began the Project in 2005, we have completed 120 case studies of global family businesses, held 16 Summits (bringing together academics and families to learn from each other), published a five-book series with Edward Elgar Publishing on Transgenerational Entrepreneurship, and presented research results at leading research conferences and in international peer-reviewed journals.

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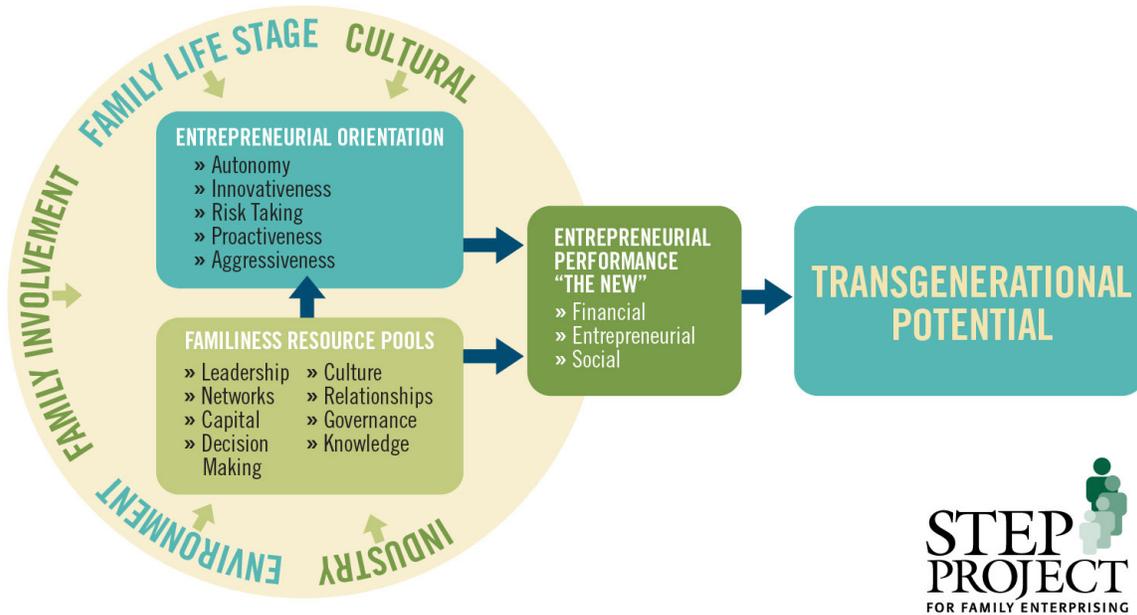
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Figure A



## The STEP Model

Our research has focused on developing and testing a model created by STEP scholars as a description of the process through which entrepreneurship can influence the transgenerational potential of a family business. The model (see Figure A above) describes how transgenerational potential is influenced by the entrepreneurial orientation of the family business combined with the resources that the family possesses via business performance. This process is further influenced by factors such as the industry in which the family business operates, the culture and community, the external environment, the level of involvement of the family, and the age/generation of the family.

## About the Survey

This report provides the results of a survey, the purpose of which was to explore transgenerational entrepreneurial practices of successful family businesses across the globe. Like the case studies, the survey was built around the STEP model discussed above. This quantitative data complements our case studies and will contribute to increased understanding of how family businesses successfully employ entrepreneurial practices.

The STEP survey is unique in that it compares family businesses around the globe and employs a multi-respondent methodology (i.e. two family members from each participating family business were asked to complete the survey). The global research project launched this first-of-its-kind quantitative study in September 2013 after significant planning and theoretical development of the model and survey instrument. Family businesses across the globe completed the survey based on their affiliation with universities participating in the STEP project. The tables below summarize the process and basic statistics from the survey.

**The survey was created in English and subsequently translated into 13 additional languages: Brazilian, Chinese (Simplified), Chinese (Traditional), Dutch, French, German, Italian, Japanese, Portuguese, Russian, Spanish, Swedish, and Thai.**

## Survey Statistics (Table 1)

<b>Timeline</b> (September 2013-February 2015)	18 months
<b>University teams participating in the data collection process</b>	35
<b>Eligible respondents nominated for participation</b>	3,900
<b>Number of surveys completed</b>	1056
<b>Number of participating family businesses</b>	686
<b>Number of family businesses with 2 respondents</b>	370
<b>Overall response rate</b>	27%

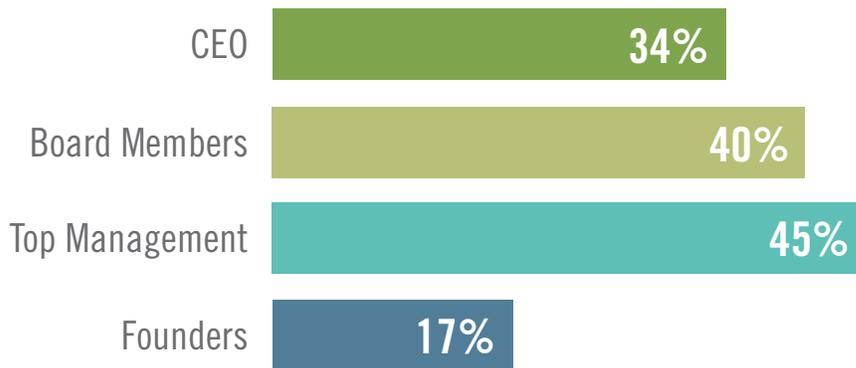
## Respondent Company Statistics (Table 2)

<b>Countries represented</b> (location of main base of operations)	32
<b>Sales</b> (US dollars)	500k to 500m
<b>Number of employees</b>	1-60,000
<b>Control more than one company</b>	53%
<b>Average number of companies controlled</b> (of those with more than 1)	5
<b>Oldest company founded in</b>	1745
<b>Publicly traded companies</b>	5%
<b>First generation involved</b>	50%
<b>9th generation or later involved in management</b> (Companies)	8

## Survey Respondents

Participants in the survey represent top leaders in their organizations and possess significant experience giving us confidence that they are qualified to answer the questions in the survey. For example: 34% are currently the CEO; 40% are members of the board; 45% are members of the top management team, and 17% are the founders of the business (items are not mutually exclusive). **Respondents average 18 years of experience within their family businesses at the level of manager or higher.** Respondents also average 6 years of experience outside the family business, also at the level of manager or higher.

### Survey Respondents (figures are not mutually exclusive)



The survey looked at several areas of interest to family businesses. In order to better understand key factors influencing the success of these firms, several different constructs or ideas were measured including: transgenerational entrepreneurship, entrepreneurial orientation, family resources, family involvement, family lifecycles, business environment, culture, and performance. **The purpose of this report is to provide preliminary information about the survey findings.** Findings regarding relationships within and between these constructs are not included here. This more in-depth analysis will be the subject of several further studies, the results of which will be made available as they are completed.

Following is a short summary of our preliminary findings.

## Ownership & Control

**One of the most important factors influencing transgenerational potential of family businesses is their ability to maintain control across generations.** Control can be measured as general ownership (percent of equity) as well as voting control (percent of voting rights). Families in our study maintained, on average, significant levels of both. The chart demonstrates that family businesses participating in the study controlled, on average, 91.7% of equity in their businesses and 91.3% of voting rights. It is interesting to note that 80% of shareholders in our study were considered to be actively involved in the business. The majority of non-family ownership was held by non-family members of the board (3.6%) and non-family members of the top management team (1.5%) with the remaining equity owned by institutional investors, employees and others.



- Family 92%
- Non-Family Board 4%
- Others (investors, employees) 3%
- Non-Family Management 1%

## Boards of Directors

Another area of great interest to transgenerational potential is that of family business governance.

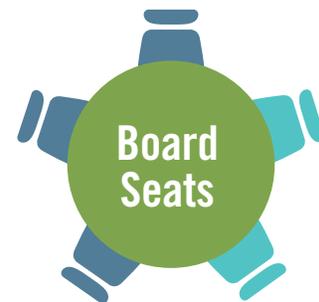
**Because of family involvement, governance within family businesses tends to be less formal and less structured.**

Studies have argued that a formalization of the governance processes in family businesses can be beneficial and contribute to transgenerational potential by bringing outside ideas and expertise into the decision making process and removing—or at least reducing—emotion from management decisions.

Results from our study indicate that 35% of participating family businesses do not have a board of directors as part of their governance process. Of the 65% of participating businesses that do have a board of directors, the following was discovered: Average number of seats on existing boards is 5. Of the 5 average board seats, 3 are occupied by members of the family. 70% of the participating family businesses with a board of directors have more than one generation represented on the board. Existing boards average 5 meetings each year.



- Have Board 65%
- No Board 35%



- 5 Board Seats (average)
- 3 Family Members
- 2 Non-Family Members

## Leadership

### **Family businesses often struggle with leadership**

**decisions.** This is especially true at the CEO level.

Families must balance the benefits of maintaining control by having a family member as the CEO with the benefits of installing the most qualified leader for the business, even if that person is a non-family member. 51% of participating families indicated that they plan on their next CEO being a member of the family. 9% indicate that they plan to have a non-family CEO and the remaining 40% of businesses have not decided on a family or non-family CEO as their successor. It is interesting to note that 16% of family businesses currently have more than one CEO operating in co-leadership positions.

**With a focus on diversity and equality increasing, more emphasis is being placed on the gender of the CEO in family businesses.**

CEO gender is particularly interesting in this context because leadership in family businesses has been historically reserved for male family members only. 76% of participating businesses expect to have a male CEO succeed their current leader and 24% look to appoint a women.



- CEO Family 51%
- Not Decided 40%
- CEO Non-Family 9%



- Male CEO 76%
- Female CEO 24%

## External Leadership

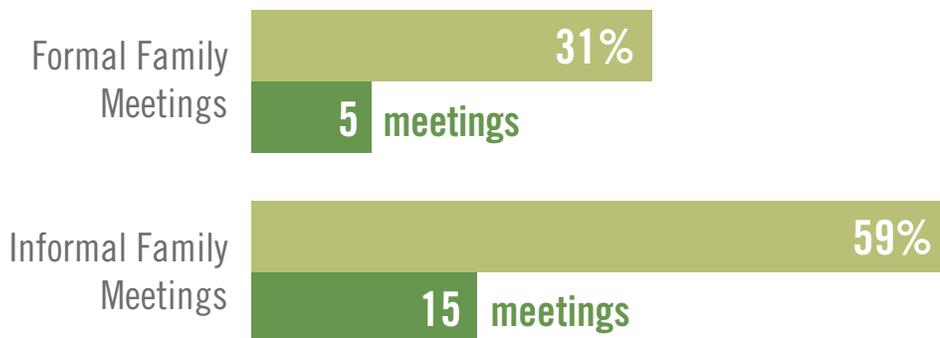
In addition to a formal board of directors, **outside (non-family) leaders at an executive level can also support transgenerational potential of a family business.** Here again, these non-family members can bring new and innovative ideas and are much less likely to get caught up in emotional family-related issues. For participating family businesses, the average size of the top management team was between 5 and 6 individuals of which 3-4 are not family members.

## Family Meetings

Another tool that can be used by business families is family meetings. **Family meetings provide a venue for the family to get together, educate family members about the direction and performance of the business and deal with family related issues and decisions that are not directly related to the business, but could potentially influence transgenerational performance.** Examples of decisions or discussions that might take place in a family meeting are: Share ownership among family members, family member employment in the family business, and the participation of in-laws in ownership and/or employment in the family business. 31% of family businesses in our study consistently utilized formal family meetings as part of their governance process. 59% chose to rely on more informal family meetings in order to deal with family issues. Formal family meetings take place about 5 times per year and informal family meetings take place more often at about 15 times per year. Both informal and formal meetings generally involve family members from multiple generations.

Another governance tool that can be utilized by business families and often developed through family meetings is **a set of rules referred to as a family protocol or even more formally as a family constitution.** These documents outline specific policies regarding family governance as well as interactions between family members and family member interaction with the business. Participants in our survey indicated that 19% consistently utilized a family constitution and 21% consistently used family protocols.

### Family Meetings as Part of Governance



## Entrepreneurship/New Products

Because family businesses are looking to continue ownership and control of the business into future generations, it is often argued that family businesses are less entrepreneurial in nature compared to non-family businesses. Entrepreneurial orientation was one of the constructs measured in this survey. Full analysis of this construct will be addressed in future research efforts, but **preliminary results indicated that less than half of participating businesses have what could be considered a strong orientation toward entrepreneurship. That being said, this orientation does not seem to deter participating businesses from taking aggressive actions in order to compete.** 71% of participating businesses indicate a focus on the introduction of many new product lines in the last year. In addition, 62% indicated having made dramatic changes in products or services in the last year.

### Focus on Company Innovation



## Operating Environment

Sometimes the approach family businesses take toward entrepreneurship (as well as their transgenerational potential) is driven in part by the competitive environment in which they operate. **Competitive or fast moving industries might require a more proactive approach whereas less competitive or slower moving environments might allow for a slower approach.** 52% of participants felt that they were operating in an environment where market changes could be described as intense. 53% felt that their clients/customers regularly demanded new products and services. A full 64% of participants indicated that change in their external environment is continuous. Finally 77% describe competition as intense.

## Key Resources

Another key success driver for family businesses is access to key resources. **Family businesses differ from non-family businesses in that they can often access resources from the family as well as the business. This access to resources can play a critical role in transgenerational potential.** In the survey, family members were asked about the importance of different resource sets to the success of the business.

## STEP QUANTITATIVE SURVEY RESULTS AUGUST 2015

Respondents were asked to rank the following resources in order from most to least importance: Financial capital, social capital, physical assets, and human capital. By an overwhelming majority, respondents ranked human capital as their most important resource (60% of respondents). The next in line was financial capital at 26%, followed by physical assets at 9%, and social capital at 5%. Clearly, family businesses view their human resources as extremely important.

Another aspect of research is how easily businesses (or business models) can be copied by competitors. **The more a resource is unique to any given organization, the greater its competitive value.** Most (61%) indicate that they believe it would be difficult for competitors to copy their most important resource. Similarly, 59% indicate that they believe it would take competitors a long period of time to replicate their most important resource. 50% felt that in addition to taking a long period of time, it would also be very costly for competitors to replicate their key resource.



## Family Relationships

Not everything in family businesses is about profits or financial success. Indeed, recent studies indicate that family businesses are unique in that families receive significant non-financial benefits as a result of owning a business. These non-financial benefits can be as important as or even more important to family members than financial benefits. For example, 79% of respondents indicate that they are satisfied that they can depend on help from their family when something is troubling them. 59% are satisfied with the way in which their family discusses and shares problems with them. 74% are satisfied with the way in which their family supports them in decisions to take on new activities or directions. 69% are satisfied with the way in which their family expresses affection and response to emotions. Finally, 72% of respondents are satisfied with the way in which their family spends time together.

Clearly, the successful family businesses in this study are not encountering success at the expense of family relationships.

**Clearly, the successful family businesses in this study are not encountering success at the expense of family relationships.** Indeed, 92% of the respondents indicate that members of their family are proud to be part of the business and 94% indicate that family members feel great loyalty to it. This satisfaction with the non-financial benefits of participation can prove beneficial to business performance as well. 88% of respondents indicate that family members are willing to put in extra effort to make sure that the family business is successful.

## Conclusion

***The initial results of our survey indicate that families in business, on average, maintain high levels of ownership and control of their businesses.*** The respondent families held over 90% of the equity in their firms and tended to retain the majority of the seats on the board for family members, usually with representation from more than one generation. The family businesses were not however averse to non-family involvement and, on average, at least 50% of the top management team were non-family members. This provides family businesses with a balanced view between family and business objectives. In terms of the ultimate leadership of the organization, just over half of the respondents indicated that they intended to retain that role within the family and a small minority would seek a non-family CEO. ***These findings suggest that families appear to recognize the value that an external non-family perspective can bring (but are very conscious of retaining control over their companies).***

The respondent firms were divided in the extent to which they formalized family decision making. A minority held formal family meetings, with the majority preferring informal meetings to discuss business-related family issues. A fifth of firms employed a family constitution and a similar percentage had formalized family protocols. Researchers do not yet have a full understanding of how formalization of family decision making is associated with transgenerational entrepreneurial potential. ***Entrepreneurial learning studies indicate that formal and informal learning both have a part to play in developing the entrepreneurial potential of younger family members.*** Further analysis of the STEP data will examine whether the formalization of family decision-making is related to the performance of the firm in relation to entrepreneurship and other factors.

Finally, ***our survey findings indicate that the families in our study are not achieving success at the expense of family relationships.*** There were high levels of satisfaction with family relationships, in contrast to the family conflict stories that bedevil the popular media. Nearly all the respondents indicated that members of their family are proud to be members of the business and are loyal to the family business. A very significant majority also indicated that their loyalty translated into action and extra effort to ensure the success of the business. Further research will examine what appears to be a strong stewardship perspective towards the family business and will tease out what drives different perspectives and how such approaches are associated with transgenerational entrepreneurship.



**SUCCESSFUL TRANSGENERATIONAL ENTREPRENEURSHIP PRACTICES (STEP)**

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. There are now 43 institutions involved in this project collaborating worldwide from 5 regions: Europe (2005), Latin America (2006), Asia-Pacific (2007), North America (2011) and Africa (2015).

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