

Center for Family Business



Universität St.Gallen

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Coming home or breaking free?

Succession intentions of students with family business background

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Who wants to become successor, and why?

- Intra-family succession is the key to long-term family firm survival and one of the most important challenges for family firm practitioners
- However, the rate of intra-family succession declines steadily
- There is a lack of knowledge about what drives students from business families to become successors or not

- The main question thus is: **What makes students with family business background intend to join their parents' firm?**
- We investigate this question by analyzing a data set from the GUESSS project (see next slide)
- We focus on influencing factors on the individual, family, company, and societal level
- Our findings are of importance to family firm practitioners, students with family business background, family firm advisors, and academics

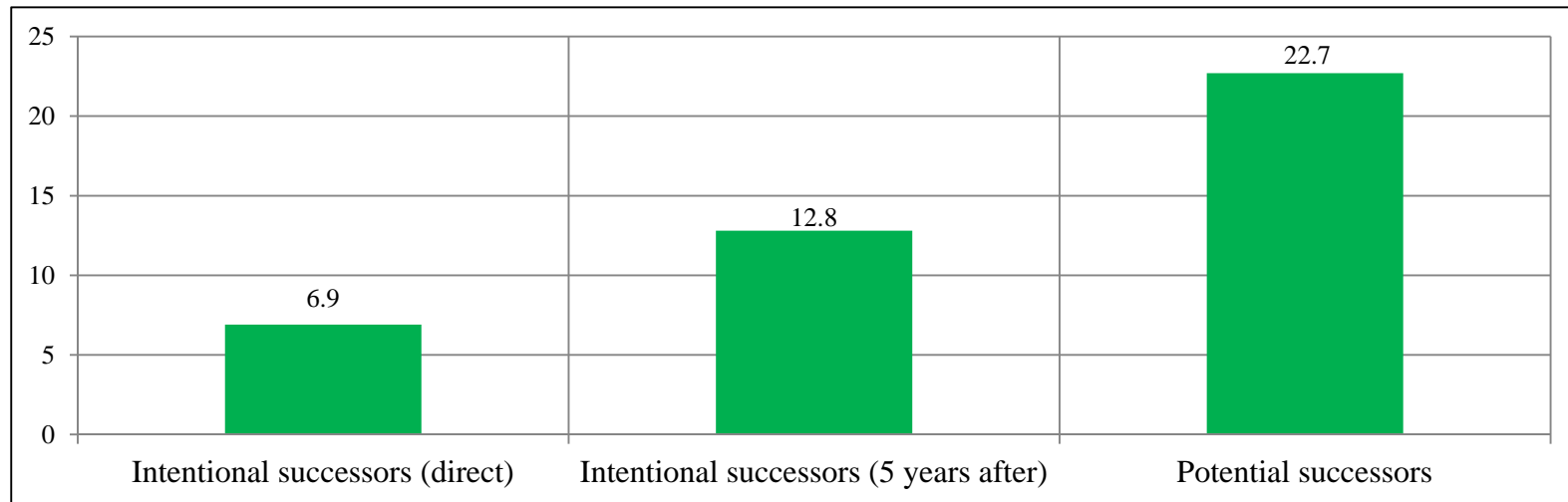
Overview – the GUESSS project

- The study is based on the GUESSS research project (Global University Entrepreneurial Spirit Students' Survey)
- GUESSS is managed centrally by the CFB-HSG
- Data collection among students in Spring 2011
 - 26 countries
 - Almost 500 Universities
 - 93'000 responses
 - Approx. 28'000 students with family business background
- Ernst & Young is the global project partner and supporter
- See www.guesssurvey.org



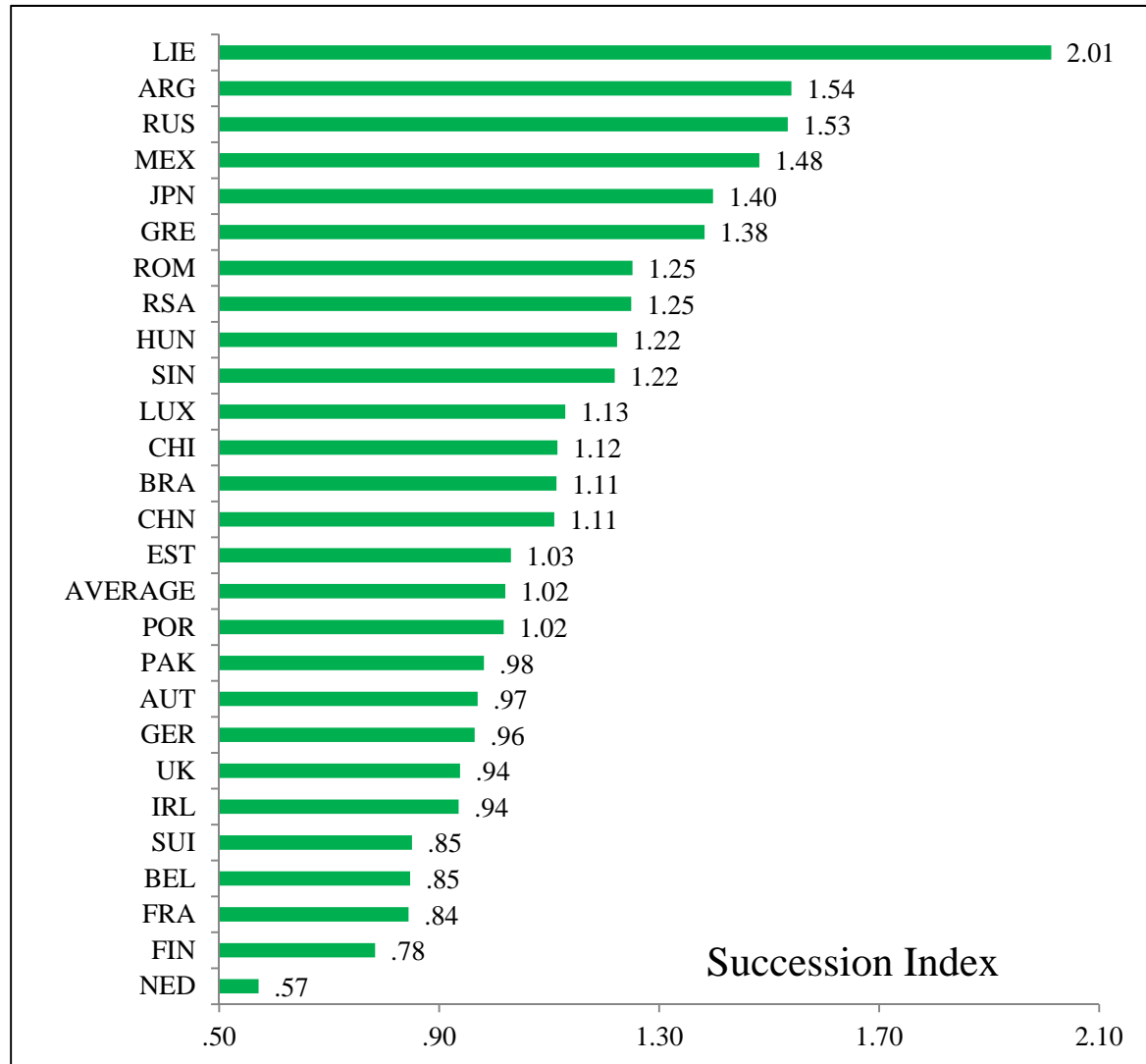
How many students want to join?

- Only 6.9% of all students with family business background intend to become successors directly after studies
- This rate increases to 12.8% five years after completion of studies
- 22.7% of students can be classified as potential successors who have at least thought about it



- Surprisingly low succession intentions
- Alarming signal for family firms seeking traditional succession path

Succession intentions across countries

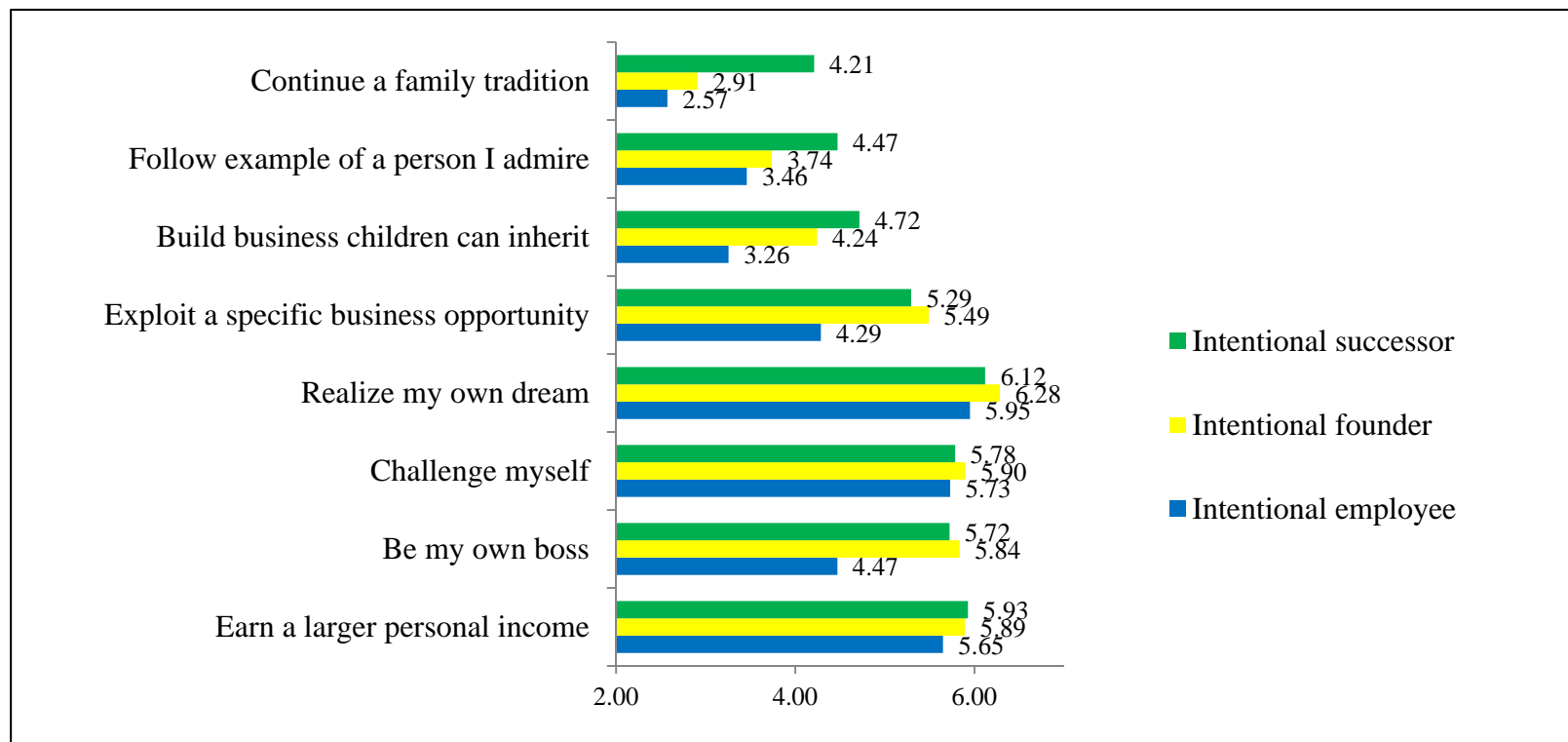


Succession index based on the question how intensively students have thought about succession (8 different answer options) shows significant differences across countries

Not only emerging countries display high succession indices, also some developed countries (for a rationale see institutional factors)

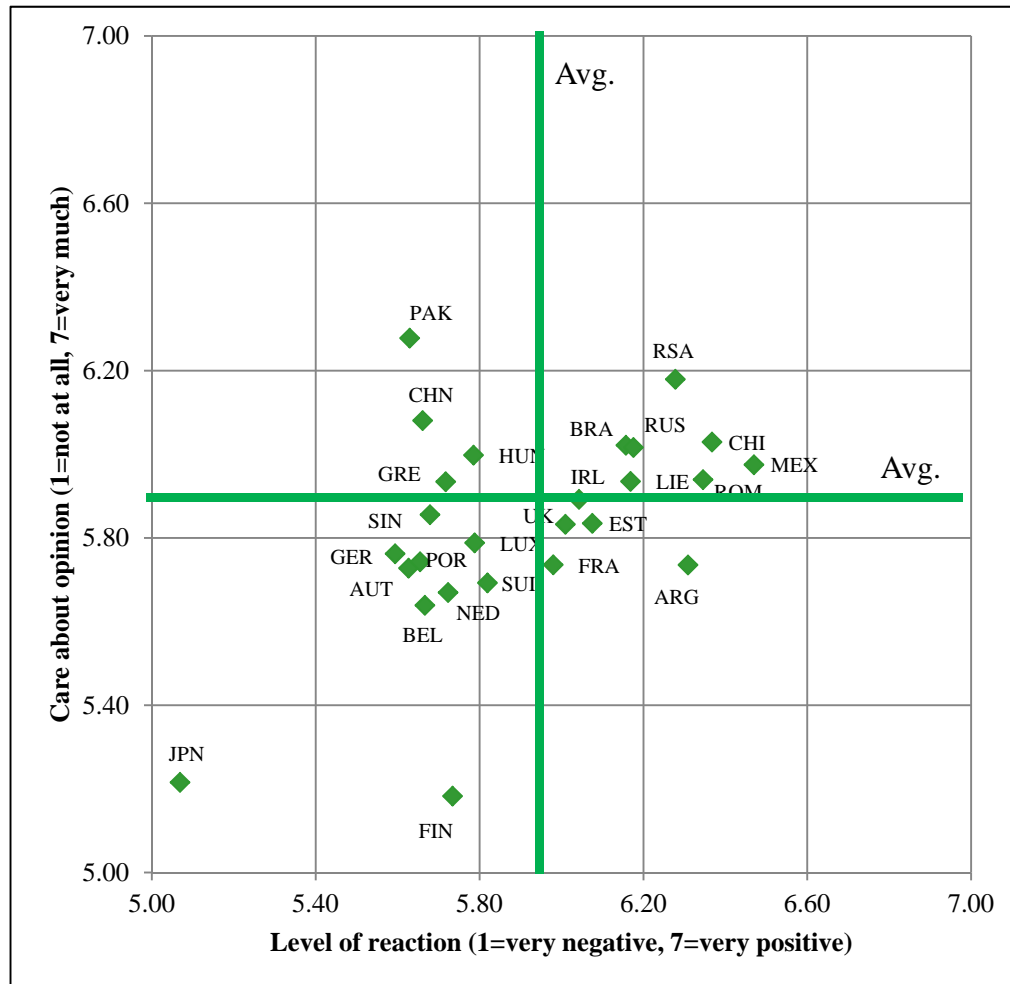
Motives matter

- Intentional successors differ from founders and employees with regard to their motives (1=very unimportant, 7=very important)
- They are mainly driven by motives related to family tradition, transgenerational orientation, and following a role model
- Students very high on entrepreneurial motives intend to become founders instead



The role of the parents

- Parents' reaction to an entrepreneurial career is key, as well as the importance of their opinion to students



Bottom left quadrant: Parents' reaction to an entrepreneurial career is below average, as is the students' care about parents' opinions. In this group we find developed countries such as Japan and Finland, just as Belgium, the Netherlands, Germany, and Switzerland. These countries do not seem to provide a particularly fertile ground for familial successions

Top right quadrant: The reaction to an entrepreneurial career is very positive, and the parents' opinion is very important to students. In this quadrant we mainly find emerging countries such as South Africa, Romania, Chile, Mexico, and Brazil. These countries provide a fertile context for family internal successions

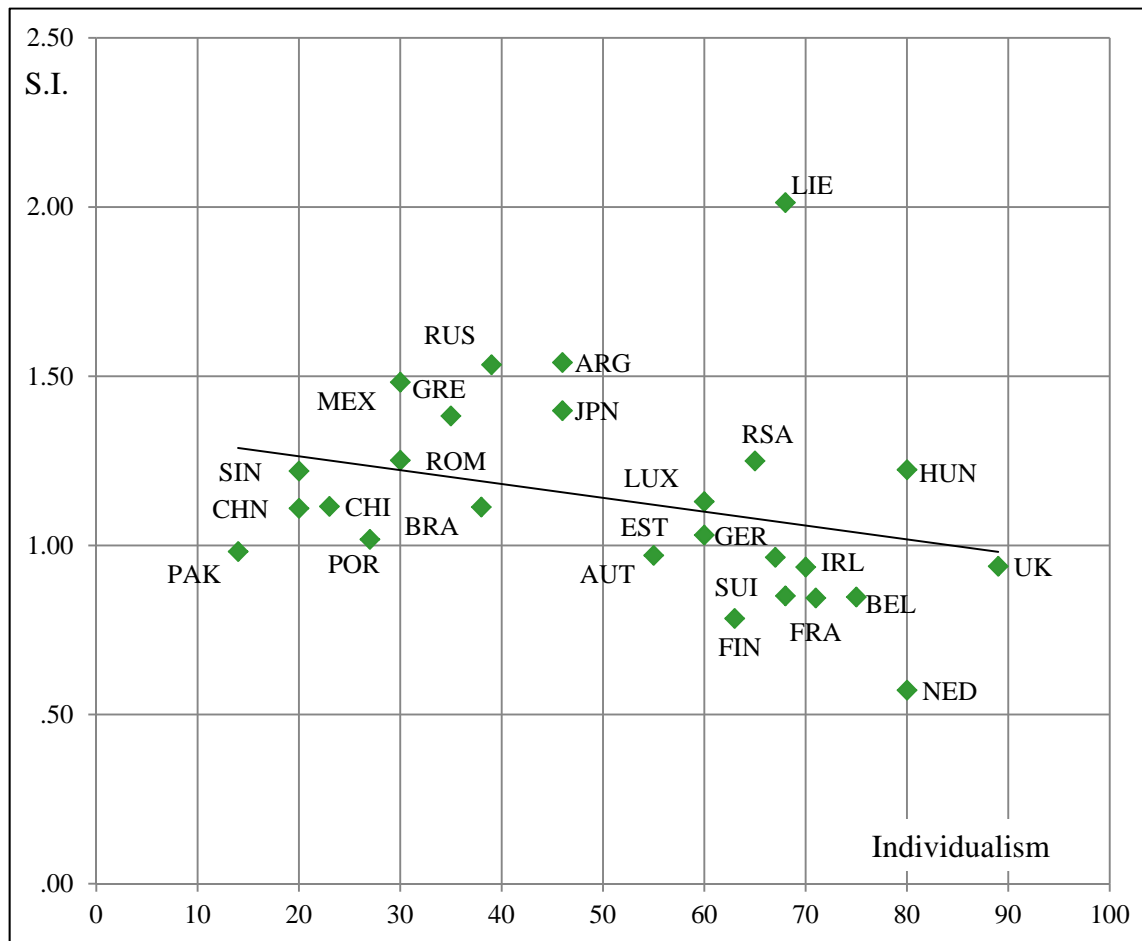
Performance and adverse selection

- We compare intentional successors in poorly and well-performing family firms
- Intentional successors in well-performing family firms:
 - attribute a higher importance to aspects related to family and tradition, such as building a firm for generations and following a role model.
 - attribute a higher importance to developing an idea for a product, being innovative, being their own boss, and flexibility in their private life.
 - However, intentional successors in poorly and well performing family firms do not differ with regard to challenge and opportunity-driven motives, such as exploiting a business opportunity, achieving something, or realizing a business opportunity.

But: we find no evidence for an adverse selection problem. Intentional successors in successful firms do not attribute a higher importance of financial motives; and they have a higher level of entrepreneurial self-confidence than their counterparts in poorly performing firms.

Individualism in societies

- Individualism: loose ties between individuals, everyone looks after him/herself.

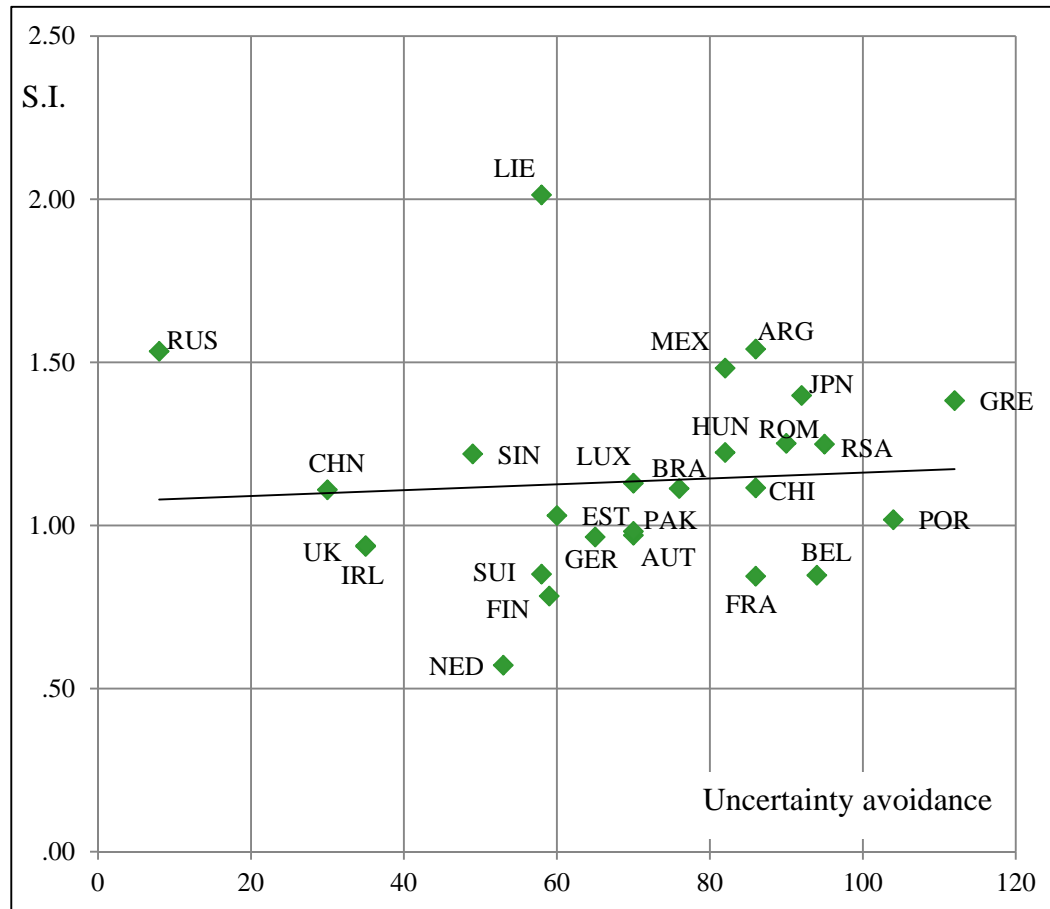


The more individualistic a society, the less students with family business background prefer the succession path

Rather, they seem to choose more individualistic career paths such as founding an own business

Uncertainty avoidance in societies

- The lower a society's tolerance for uncertainty, and the more uncomfortable individuals feel in unstructured situations, the higher succession intention.



To avoid uncertainty, students with family business background may prefer the «safe harbour» of the family firm

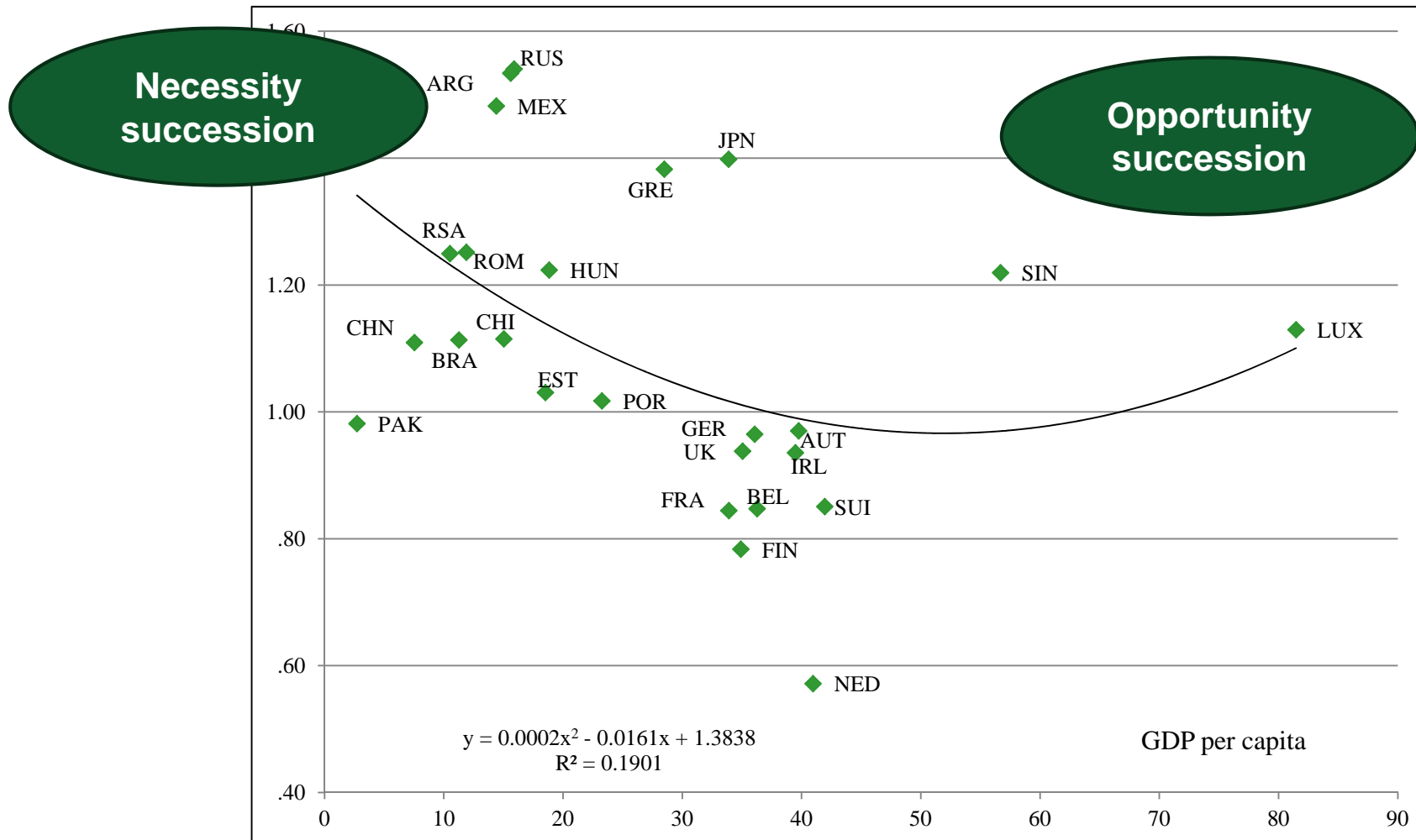
Wealth across nations: *necessity* and *opportunity* succession

- In poorer countries, the succession index is high because students do not have reasonable alternatives on the regular job market. They then join their parents' firm out of necessity to earn a living (necessity succession)
- In medium rich countries, succession index drops. Education systems and labor markets are further developed, offering a higher number of job alternatives to students with family business background
- In very rich countries, however, the succession index rises again. Here, other motives might come into play, such as family tradition or pursuing an entrepreneurial opportunity without immediate financial pressure (opportunity succession)

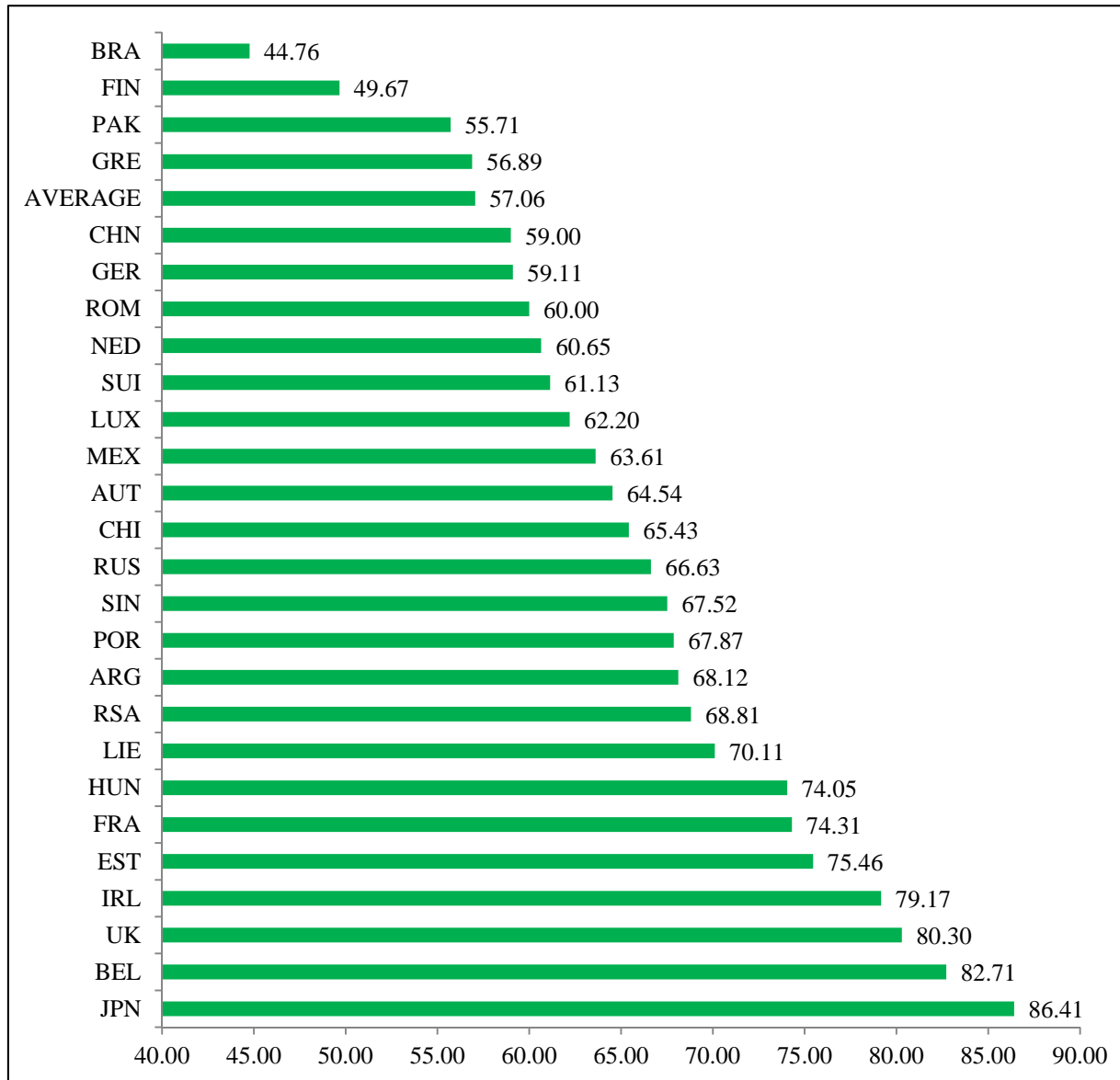
See illustration on next slide.

Wealth across nations

- U-shaped relationship between GDP per capita and succession intention



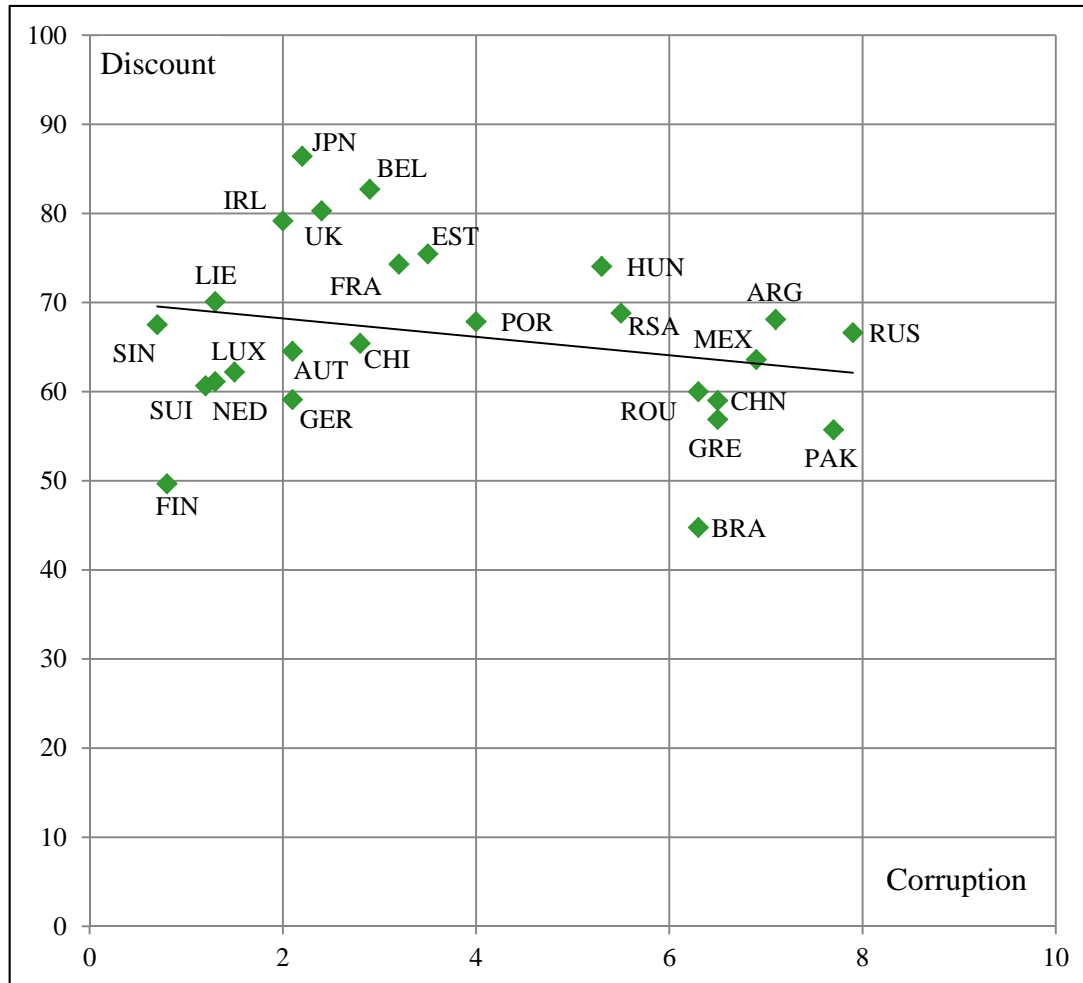
Transaction prices within the family



- Family firms are passed on at a significant discount within the family in comparison to the price to be paid by outsiders
- On average, students expect a family discount of 57%
- The analysis of successions that already took place shows that these discounts are very realistic

Expected discount in comparison to a sale outside the family

Corruption and family discount



The higher corruption, the lower the family discount

Possible explanation: in corrupt societies wealth is generally at higher risk than in countries with low corruption

Consequently, family business owners in corrupt countries need to secure their own wealth and financial security (e.g. pension), and cannot afford giving a large discount

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Taken together: what drives and what hinders succession intentions

Result of multivariate regression for succession intention

Positive impact on succession intention (S.I.)	Negative impact on succession intention (S.I.)
<p>Attitude toward entrepreneurial career The more positive the attitude toward an entrepreneurial career, the higher S.I.</p>	<p>Number of older siblings The more older siblings a person has, the lower S.I.</p>
<p>Subjective norm (parents' reaction) The more positive the parents' positive reaction toward children's entrepreneurial aspirations, the higher S.I.</p>	<p>Entrepreneurial self-efficacy The higher entrepreneurial self-efficacy, the lower S.I.</p>
<p>Affective commitment The more positive students' emotional relationship with the firm, the higher S.I.</p>	<p>Internal locus of control The higher internal locus of control, meaning the stronger students' conviction that their fate is under their own control, the lower S.I.</p>
<p>Firm size and portfolio of firms The larger the firm, the higher S.I. The more firms are part of the family portfolio, the higher S.I.</p>	<p>Family cohesion The stronger family cohesion, the lower S.I.</p>
<p>Family tradition The more important family tradition to the students, the higher S.I.</p>	<p>Individualism The stronger individualism in society, the lower S.I.</p>
<p>Uncertainty avoidance The higher uncertainty avoidance in a society, the higher S.I.</p>	

Some surprising results interpreted

- **Negative effect of locus of control on succession intention**
 - Students that perceive they have and want to keep control over their own fate, do not want to become successors
 - Possible explanation: they experience their parents' burden as entrepreneurs, how they are haunted by numerous stakeholders
- **Negative effect of family cohesion on succession intention**
 - Cohesion an often desired attribute of family relationships
 - But: (strong) cohesion leads to discomfort and lock-in among possible successors
 - Students suffocated by the omnipresent role of the family; they want to literally break free
- **Negative effect of entrepreneurial self-efficacy on succession intention**
 - Very high levels of entrepreneurial self-confidence lead to a decrease in succession intentions
 - These students might prefer a career as a founder, where they find more entrepreneurial freedom and challenges

Some pieces of advise for family firm owners

- It is not a given that children will want to take over the firm one day. Family internal succession is losing in relevance, especially in developed countries
- It is not advisable to force children into succession: children with high needs for self-control will not want to work in the parents firm
- Business families have to be aware that self-confident children with strong entrepreneurial abilities and skills tend to prefer the founding over the succession career path.
- Forcing such entrepreneurial children into the family firm without handing over the necessary control creates strong frustration among successors

Some pieces of advise for family firm owners

- Parents are important role models to their children. A negative role model drives potential successors out of the family business
- Family firms with good performance attract successors with higher entrepreneurial self-efficacy than poorly performing firms. Firm performance thus attracts successors with desired attributes
- Parents should consider the advantages and disadvantages related to a discount when passing on shares. On the positive side, a family discount may serve as a source of competitive advantage. On the downside, handing over at a very high discount or even for free may reduce profit discipline

Some pieces of advise for family firm owners

- Challenging the desires by many controlling families, being a cohesive family drives out succession intentions among the next generation
- It will be easier for parents to motivate their children to join if they:
 - foster a level of affective commitment and emotional attachment of the next generation to the firm
 - establish a positive and future-oriented sense of entrepreneurial tradition
 - are positive entrepreneurial role models
 - do not over-emphasize family togetherness and cohesion
 - assure their firm has reached an attractive size
 - assure their firm is performing
 - establish a portfolio of firms

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