



Next-generation family businesses

Exploring business ecosystems

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Foreword

FAMILY businesses make up a major part of the global economy, creating an estimated 70 to 90 percent of the global GDP annually. They are important clients for Deloitte, and we are proud to maintain an ongoing commitment to the family business segment, with a special focus on the next generation of family business leaders.

We engage in continuous dialogue with family business leaders, both current and next generation, and we find that these leaders have considerable interest in “hot topics” such as digitization and disruption (the subject of last year’s *Next-generation family businesses report*). This year, we report on another topic of great interest: The ways that family enterprises are adapting to the continual changes that occur within and among today’s business ecosystems.

By “business ecosystems,” we mean interdependent networks of businesses and other organizations that interact to create value. Most family businesses have historically operated within closely knit, stable networks of trusted collaborators. But across geographies and sectors, business ecosystems as a whole are evolving to become broader, more fluid and more complex than family businesses may be accustomed to. Roles, relationships, and modes of interaction are changing in ways that threaten to make the traditional competitive advantages of family businesses, if not obsolete, then at least a less solid basis for success.

We find that family businesses recognize there are opportunities to benefit from the broader ecosystems within which they operate. At the same time, they do not necessarily know how or to what extent these opportunities should be pursued. They are aware of the need to maintain their family culture and traditions—not least the tradition of trust—but also understand the need to form new types of business relationships to thrive in a continually and rapidly changing environment.

We hope that you find the views set out in this report informative and valuable. To discuss any specific aspects of this report, please contact one of our Deloitte family business leaders, whose email addresses are given at the end of this document.



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The Central Europe Perspective

WE all inherit genes. Many of us inherit property. Some even inherit titles. Something else we all inherit is ideas – in other words, we take part in what is called “intergenerational transmission”, a set of more or less conscious family stories about the world and how to live in it.

So inheritance is a link between the past and the future.

Family businesses are an extraordinarily potent example of this generational “relay”. In some respects, they are a vestige of our society’s pre-industrial history, when low levels of social mobility and a multi-generational family model meant it made sense for families to work together.

Today, they are not without their stresses and challenges. Family businesses must seek to combine and integrate strong and often divergent sets of values, including those relating to sentiment and finances. They also cause family members to spend a great deal of time together, reinforcing the importance of family loyalty. This makes it very important that space is created to allow diverse opinions, and that special ways of reducing tensions and clearing up misunderstandings are accepted by everyone involved.

In short, family businesses face challenges connected with the past, present and future, always trying to make the best of every situation.

The science involved in studying the mechanisms of inheritance was initiated by Gregor Mendel and developed by T. H. Morgan (not to be confused with J. P. Morgan!). This is genetics. However, even sciences move on, and in recent years we have been witnessing the development of epigenetics.

This studies how the environment affects gene expression, the process by which specific genes are activated to produce a required protein (the structural components of our body tissues). Epigenetics therefore seeks to answer questions such as how the impact of environment causes monozygotic (“identical”) twins to differ.

This current edition of the Deloitte Central Europe NextGen survey is dedicated to the business environment and its impact on how businesses evolve.



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Key findings

Ecosystems offer opportunities for growth and innovation

- Generally, next-generation family business leaders believe that they are well-placed to adapt to a rapidly changing business landscape.
- Fifty-six percent see opportunities to leverage their business ecosystems to grow their enterprise.
- Fifty percent believe that their business ecosystems offer an opportunity to enhance their company's innovation capabilities.

Third-party interactions have increased, with innovation a key goal

- Sixty-five percent of next-generation family business leaders have increased their interactions with third parties over the past three years.
- Most are used to working in partnerships for innovation:
 - Six percent always partner with others on innovation, and 37 percent do so often.
 - Forty-nine percent will work with any organization that has a good idea.

Leaders value asset and intellectual property (IP) ownership, which may drive a preference for acquisitions

- Next-generation family business leaders are inclined to be possessive about IP.
- Acquisitions were the most frequent type of transaction for expansion.

Leaders may need to educate their families about the potential for digital transformation

- Twenty-six percent of respondents have a strategy for digital transformation solidly in place; another 35 percent said that their digital strategy is fairly recent.
- Digital awareness among next-generation family business leaders is high, but other family members may not be as cognizant of the opportunities that digital technologies can bring.

Next-generation family businesses in Central Europe

DURING the past 30 years businesses and entrepreneurs across the Central European region experienced a rate of evolution that was far more rapid than in other, more mature international markets. However, when we compared the responses to our NextGen questionnaire of family companies from the region with those from around the world, the only clear differences we could see were in the age of companies and the number of generations involved since launch.

Otherwise, companies in the region are struggling with the same problems and seeking to grasp the same opportunities as their global counterparts. They are all members of the same great human family.

Companies participating in the study

Our region's history influences many different aspects of its economic structure and performance. It also manifests itself in the fact that family businesses originating and operating here are young. Among the companies that took part in the survey, an overwhelming 93% are second-generation businesses; across the world, meanwhile, second-generation companies represent only just over half (53%) of the sample. In our region, one in every five companies (20%) is under 20 years old and only one in eight is older than 50. Across the world, meanwhile, just one in 10 is younger than 20 and half have been established for 50 years or longer.

Most of the companies taking part in this survey are from the manufacturing or consumer business sectors (33% each). The others operate in construction, energy/utilities and retail. The annual revenue

of most respondent companies (78%) is under EUR 50 million.

Growing contacts within the business environment

During the past three years, companies have increasingly come into contact with a range of different entities from across the business landscape: in a trend observed all over the world, 58% of our respondents told us that the number of these contacts has increased.

Given the business environment in which Central European family businesses tend to operate (excluding direct clients and suppliers), we can highlight the three main categories of organisation with which this interaction takes place. First, financial institutions. Most family businesses are in regular contact with these organisations, with 80% of our respondents being so at least once a month.

Second comes a group made up of government institutions, clients' clients and competitors: up to half (40-50%) of respondents contact them at least once a month.

The third group comprises trades unions, research bodies, universities/colleges and suppliers' suppliers. Contact is least common with these organisations. It is worth inspecting the relative rates of "Do not know" between the three categories. This third category receives most of these answers, illustrating more than a straightforward correlation between the amount of contact respondents have and their knowledge of the category. It also shows that there is no culture of contact with organisations of this kind, as though family businesses are somehow detached from them.

It is also worth noting that 44% of companies have no contact with trades unions, a result that crosses regional borders and highlights both the organisational culture of family businesses and the role of unions in the modern world.

Mergers, acquisitions, joint ventures and separations

Nearly half the companies participating in the survey have been involved in mergers during the last three years, and one in four has entered into a joint venture (JV). Overall, therefore, well over half have joined up with other companies in one way or another. At the same time, almost 40% have undergone no sort of merger or JV.

Demergers are twice as common (11%) among companies from our region as in the rest of the world. Strategic alliances, meanwhile, are around half as common in Central Europe as elsewhere (18% vs 33%).

The main reason given for a merger was “expanding/diversifying products and/or services” (76%), followed by “efficiencies of scale” (40%). The next three reasons (all 28%) were “expanding/diversifying client base in the same geography”, “opportunity to enter new geographic markets” and “reducing the number of competitors”. There were no discernable differences between responses from Central Europe and the rest of the world.

Nearly two thirds of companies believe that some form of “fusion” with others is possible, while 9% recognise the possibility of some form of severance. The main forms of integration are through acquisition, strategic alliance (both 20%) and joint venture (13%). Companies that have linked up with others in recent years do not discount doing so again in future, while those that have not already made such a move are more cautious in their predictions. Overall, two-thirds of respondents believe there is a need to change their family’s attitude towards moves of this kind.

Attitudes

The “do not know” issue appears once more when companies are asked about their preparedness for change. Three questions – around family governance, operational structures and risk management – received nearly three times as many “don’t knows” as the other questions (around 14%). Family governance and risk management also received the smallest number of positive and the most negative answers, implying they are unknown territories for family businesses (across the world, not just in the region). It would be interesting to determine whether there is a correlation between family governance and risk management, as an individual’s risk appetite is related to age.

In areas such as capital/financing, family culture/values, strategy and technology, three-quarters of respondents believe their companies are ready for change. Overall, we cannot see any relationship between the answers to these questions and the age of the companies involved, either within the region or across the world. Still, M&A experience appears to help: companies that have been involved in an acquisition in recent years feel better prepared in virtually all of these areas.

It may be due to limited options for possible answers to question (agree, partially agree, fully agree, don’t know) that respondents’ answers to questions about their opinions of ecosystems give the impression of being cautious, correct and safe. There is a tendency to devalue the ecosystem as a whole and to overestimate the role of individual companies. For example, no one selected the answer “does not describe” to the question “ecosystems are an opportunity to grow my family business”. Some (13%) selected this answer to the statement “ecosystems enable my family business to innovate beyond its individual capabilities”.

Incidentally, those companies that have carried out some business combinations (M&A, JV etc.) in recent years more often agree with this statement. This correlates with the fact that a quarter of respondents told us they want to work as independently as possible when developing new projects. Nearly one in three told us they collaborate on new projects only with partner companies with whom they have already had a long relationship.

Innovation

Currently, nearly half (44%) of the companies we surveyed have no strategy for innovation. One in four has recently developed a strategy. These percentages are similar to those from around the world.

When it comes to innovation, few companies collaborate with other organisations: 20% of respondents reported they have not collaborated in the past three years, 38% collaborated rarely. When collaboration did take place, it was most often with clients, suppliers or advisors (selected by around a third of respondents). One company in four had collaborated with research bodies and universities in recent years. Approximately one in five had collaborated with competitors, and one in six with financial institutions or the government

However, the fact that companies have collaborated in the past does not mean that they will do so again: almost half of those that have worked with others during the last three years told us that new projects are “unlikely”. Perhaps this is connected with copyright matters: 62% of companies in the region see it as fairly or very important to hold copyright. Nonetheless, nearly half of respondents told us they are willing to work with anyone who has a good idea for new products or services.

Digital matters

Just over half of the surveyed companies told us their company has a digital strategy, consistent with the global results. There is a positive correlation between having an innovation strategy and a digital strategy.

New technologies are used primarily to reduce costs and streamline processes, secondly to introduce new business models, and lastly to create new sources of revenue or to engage with talent.

Although the markets for artificial intelligence and autonomous cars are growing, people still need to grasp new technologies. The survey asked about awareness of digital technologies among respondents and their family members (whether active in the business or non-participatory shareholders). Respondents value their own awareness more highly than that of other family members, and rate

shareholders’ digital awareness lowest of all. This result is not surprising, since the respondents were delegated by the family to complete an online survey.

It is once again worth paying attention to missing data, specifically the answer “not applicable”. In the question about inactive shareholders, 18% of Central European respondents selected this response. This is not much more than across the world (15%), but it does give us important information about how companies are structured: almost one in five does not have inactive shareholders.

Three main groups of factors are hindering the implementation of new technologies. The one least often chosen concerns the support and flexibility of the family system. (Any answers relevant to this area were picked by 33% of respondents, implying trust in the strength of families). The second group is more technical in nature, involving short-term market pressures and security concerns (49% selected answers in this area). The third group of factors hindering implementation of new technologies, and the one most often pointed out covers the lack of management, technical and strategic competences available to the business – 87% selected an answer from this group.

Family businesses

A time of transition

FOR many family-owned companies, business relationships other than those with suppliers and customers used to be limited to a handful of players within the same industry—and often also within the same geographical region. While this model may have proved successful in the past, today’s evolving business environment now calls it into question. Driven largely by digital technologies and greater connectivity, new ways have emerged to create value through networking, collaboration, and interdependence. These interdependent networks of businesses and other organizations—*business ecosystems*—are changing roles, relationships, and modes of interaction in ways that threaten to make the traditional competitive advantages of family businesses, if not obsolete, then at least a less solid basis for success.

Businesses have always participated in partnerships, networks, alliances and other relationships as part of day-to-day operations. But the need to engage more widely, to take part in the broader ecosystems that now make up today’s business landscape, is becoming more urgent: Those who fail to engage are risking being left behind. Yet for a family enterprise, the reality of fully engaging with business ecosystems can have a profound impact, not only on its economic and financial objectives, but also on nonfinancial goals, such as autonomy and control, status within the community, and customer loyalty.¹

The challenge for family businesses today, then, is to learn how to thrive in the fluid and rapidly changing business ecosystems in which they participate, while preserving their identity as a business as well as their cohesion and values as a family.

DEFINING BUSINESS ECOSYSTEMS

The term “business ecosystem” was introduced by James F. Moore in the 1990s as a metaphor for competition drawn from the study of biology and social systems.² Moore proposed that a company be viewed not as a member of a single industry, but as a part of an ecosystem crossing a variety of industries. In a business ecosystem, companies “coevolve” capabilities around innovation, working both cooperatively and competitively to develop new products and satisfy customer needs. The opportunities for innovation that arise from operating in a business ecosystem exceed those available to organizations that choose to operate independently.³

For the purpose of our survey and questionnaire, we defined a business ecosystem as organizations working together to develop new products, satisfy customer needs and pursue innovations, and whose capabilities as an ecosystem exceed those of any single participating organization.

Threat, opportunity, or both?

We asked our respondents whether they saw emerging ecosystems as an opportunity to grow their business, or whether they thought ecosystems threatened the business’s sustainability. The overwhelming majority saw business ecosystems as an opportunity for growth. When asked to comment on the statement, “Business ecosystems are an opportunity to

grow my family business,” 56 percent fully agreed and another 39 percent partially agreed (figure 1).

Conversely, relatively few respondents saw ecosystems as a threat. Only 32 percent fully or partially agreed with the statement “Business ecosystems may harm the sustainability or longevity of my family business”; 61 percent disagreed with this sentiment outright (figure 2).

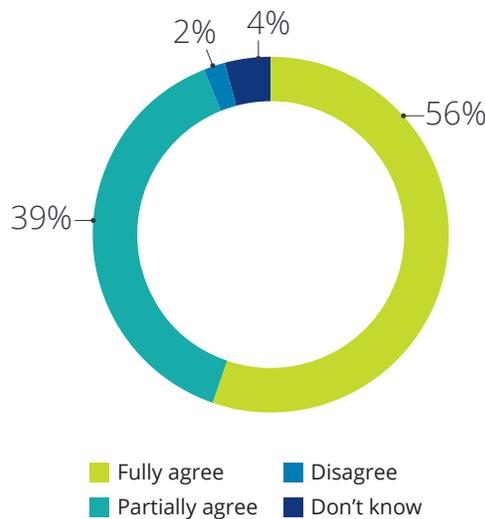
While most next-generation family business leaders see opportunities for growth in their business ecosystems, the challenge will be to exploit them. For family businesses, no less than for other businesses, ecosystems are evolving continually, with digital innovations, new and agile participants, and shifting competition. Business leaders cannot afford to ignore the changes that are taking place. Taking full advantage of their ecosystems could mean investing in the right technology; forming new relationships, partnerships and alliances to

grow the business; developing new services or products to maintain market leadership; or incorporating innovations to fend off the risk of obsolescence.

While most next-generation family business leaders see opportunities for growth in their business ecosystems, the challenge will be to exploit them.

Figure 1. Business ecosystems are seen as an opportunity to grow

To what extent do you agree with the statement “Business ecosystems are an opportunity to grow my family business?”

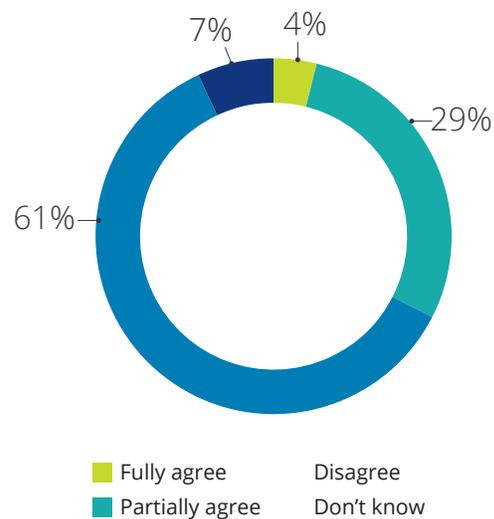


N = 575
Source: Deloitte analysis.

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Figure 2. Ecosystems are not generally viewed as a threat

To what extent do you agree with the statement “Business ecosystems may harm the sustainability of my family business?”



N = 575
Source: Deloitte analysis.

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The way forward

The next generation of family business leaders might need a shift in perspective to recognize how business ecosystems are changing. The way that most families have done business, depending mainly on long-standing relationships based on trust, is becoming outdated, with new relationships, interconnectedness and interdependence opening up new possibilities for growth. Companies that fail to proactively capitalize on these new forms of interaction risk falling back into a participatory role only, allowing competitors or other ecosystem participants to take the lead in defining the rules of engagement and the direction of change.

Understanding the dynamics and possibilities of their business ecosystems can give family businesses an opportunity to act in meaningful ways to strengthen their position, and to shape strategies for dealing with the disruptive changes they will face. In doing this, however, family business leaders need to be aware of the impact of the evolving business ecosystems on the family and its members. The ways in which their business will need to develop may have implications for the family—for example,

The next generation of family business leaders might need a shift in perspective to recognize how business ecosystems are changing, with new relationships, interconnectedness, and interdependence opening up new possibilities for growth.

in matters such as autonomy and control—and family business leaders will need to consider these carefully to avoid unintended consequences.

Interaction

New ways of engaging

COLLABORATION is not a new concept in business. Family businesses often build long-term relationships with external parties—customers, suppliers, and partners—through which they operate. These trusted relationships and a strong family culture are a competitive advantage for many.

Collaboration continues to play an important part in today's broader and evolving business ecosystems. But the number of participants is larger and the nature of the relationships can vary. The spectrum of relationships in a modern business ecosystem ranges from competitive to cooperative, and the roles of participants can shift, sometimes rapidly, as their interests and objectives change. This could stand in sharp contrast to the long-term stable and collaborative relationships characteristic of many family businesses, which may last for generations.

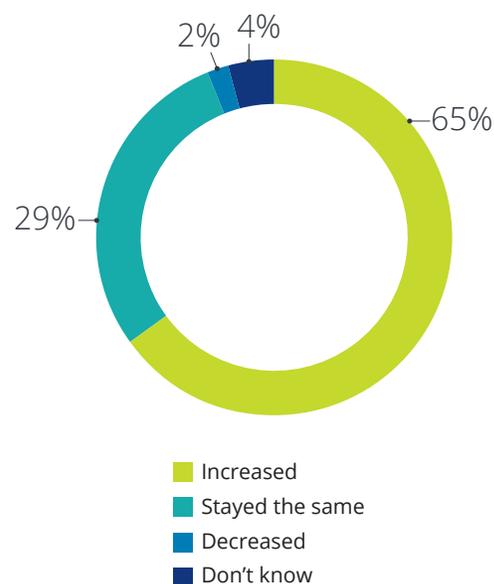
Interactions are on the rise

The evolution of business ecosystems has reduced the barrier to entry for new participants in and across many industries, resulting in more and smaller players, many of them specializing in particular areas, with whom interaction is possible. Agility and speed of response are now key dynamics. Reflecting this phenomenon, the majority of our respondents reported that the number of other organizations with which they interact regularly (excluding customers and direct suppliers) has increased over the past three years (figures 3 and 4).

Excluding direct customers and suppliers, family businesses interact most frequently with customers

Figure 3. Interactions with third parties have increased over the past three years

Has the number of third parties your family business interacts with increased, decreased, or stayed the same over the past three years?



N = 575

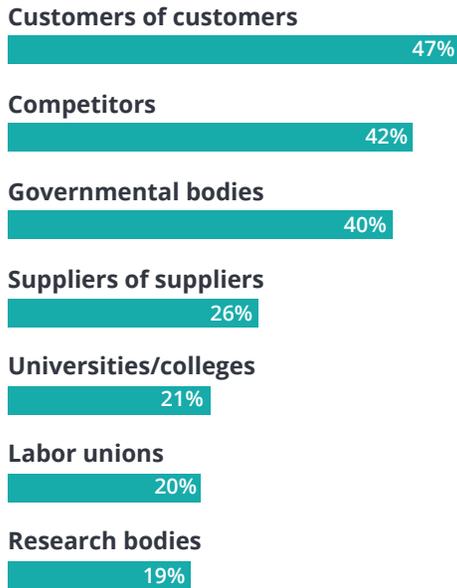
Source: Deloitte analysis.

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of their customers, with 47 percent of respondents saying that they do so on a weekly or monthly basis. Interestingly, 42 percent of respondents say that they also interact with competitors on a weekly or monthly basis. This could be an indication that family businesses are participating—intentionally or

Figure 4. Respondents interact most often with customers of customers—and with competitors

Percentage of respondents whose business interacts with each type of third party on a weekly or monthly basis



N = 575

Source: Deloitte analysis.

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not—in broader business ecosystems than they have traditionally been used to.

For a family business, relationships with other parties are often built on trust, which is established over time. However, building and maintaining trust in today’s business ecosystems can be a real challenge. Rapidly evolving ecosystems often entail shorter-term relationships. Business ecosystems are dynamic, barriers to entry are generally low, the number of participants can change over time, and roles and relationships change. Family business leaders should recognize that they may not be able to deal with others on the same basis of trust and long-term relationships as they did in the past. Moreover, they may need to have a shorter-term perspective on relationships and interactions. In addition, increasing interdependence may lead to greater instability and unpredictability, which can threaten the autonomy and control that family businesses have often

historically enjoyed. This threat could be especially acute during times of leadership transition from one generation to the next.

Acquisitions and alliances top the list of business combinations

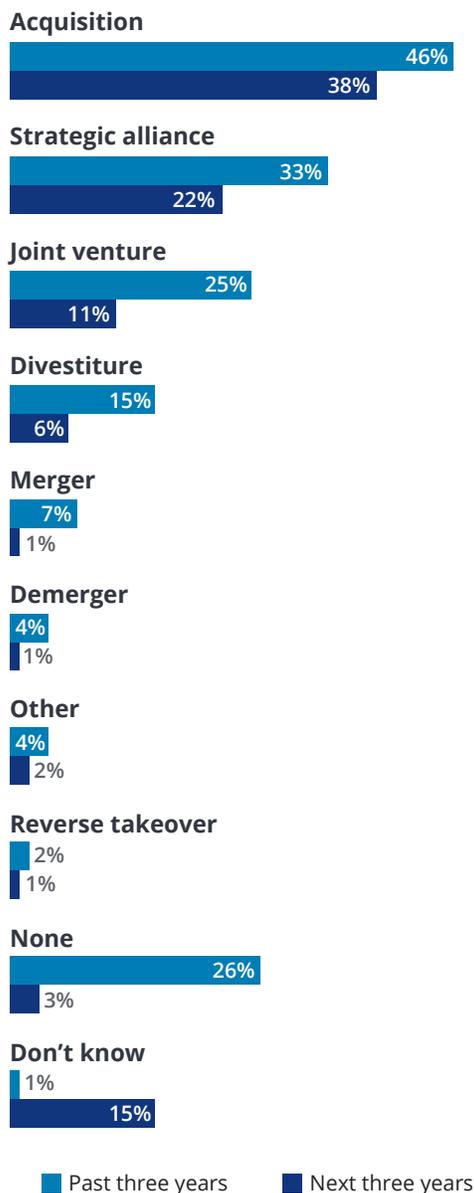
Among the family businesses in our survey, acquisitions were the most common type of business combination for achieving growth during the three years prior to the survey, but strategic alliances and joint ventures were also widely used. Asked about their intentions to engage in business combinations over the next three years, respondents’ answers were (not surprisingly) less certain, but our results suggest that acquisitions are likely to remain the main method of business combination among family businesses, with the use of strategic alliances and joint ventures expected to a lesser degree (figure 5).

The reasons given by respondents for undertaking business combinations were varied, but most were linked to achieving growth or efficiencies of scale (figure 6).

It is interesting to note that 30 percent of the family businesses in our sample that undertook business combinations cited “access to innovation” as a driver, making it the third-most frequently cited reason for undertaking this activity. This finding, combined with their apparent preference for acquisitions as a deal type, suggests the possibility that many family businesses feel the need to own innovations outright to derive value from them. This would be consistent with their traditional emphasis on owning a strong asset base. But in today’s business ecosystems, acquiring another company outright is just one of several ways to gain access to innovation. Joint ventures and alliances, in particular, offer avenues to benefit from innovations without actually owning them. Alliances and joint ventures generally are also more cooperative, more negotiated, and less risky than acquisitions, which tend to be more confrontational, can be expensive, and are generally riskier. In the future, family businesses may wish to explore these alternative approaches to innovation more extensively.

Figure 5. Acquisitions are the most common type of business combination

In which forms of business combination or other arrangement, if any, has your family business been involved during the past three years? Which does it consider most likely to occur during the next three years?

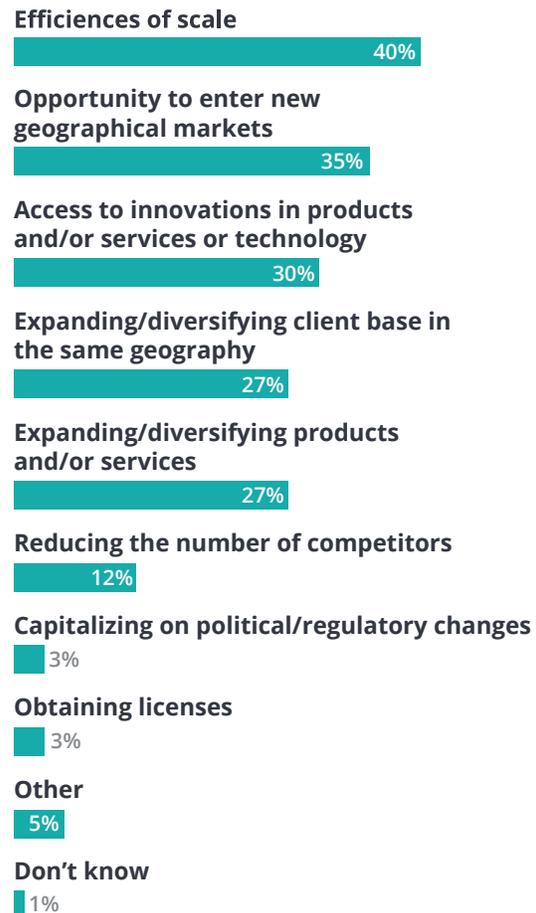


N = 575
Source: Deloitte analysis.

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Figure 6. Efficiency, growth, and innovation drive business combinations

Which factors drove your decision to undertake an acquisition, merger, strategic alliance, or joint venture in the past three years?



N = 385
Source: Deloitte analysis.

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Innovation

A collaborative effort

In the past, family businesses have sometimes been viewed as risk averse and “traditional,” not as innovators. But the real picture is very different. Recent studies show that family businesses are among the most innovative organizations in their markets, and that they may even innovate at a faster pace than other types of businesses.⁴

Most family businesses’ innovation processes were traditionally organized primarily around internal research and development activities, with the occasional “open innovation” initiative to pull in ideas from outside. The current rate of technological change, however, is making it harder for a single organization to have all the required resources, capabilities, and technologies to keep up with the pace of innovation. This is driving organizations to work collaboratively to develop new products or services, contributing to the further evolution of business ecosystems.

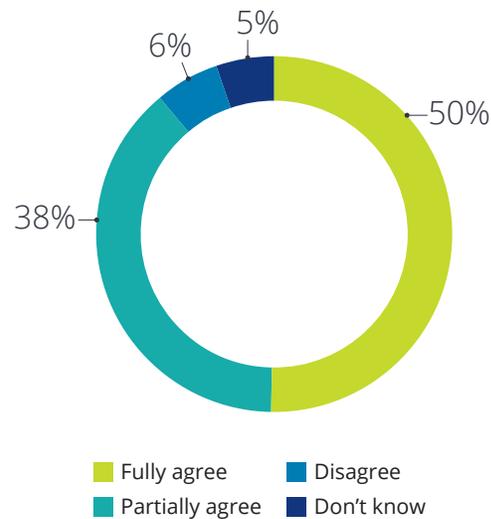
Ecosystems present opportunities for innovation, but qualms remain

The opportunity to form relationships for innovation with other organizations in business ecosystems is not lost on the next generation of family business leaders. Half of our respondents fully agreed that their business ecosystems present an opportunity to enhance their company’s innovation capabilities, while another 38 percent partially agreed (figure 7).

In the broader global economy, “cocreation” has become common through open innovation, alliances,

Figure 7. Business ecosystems are seen as an opportunity to innovate

To what extent do you agree with the statement “Business ecosystems enable my family business to innovate beyond its individual capabilities”?



N = 575

Source: Deloitte analysis.

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and similar arrangements. Many family businesses appear to be following this trend, but not all. When asked to describe their attitude toward collaborating with other organizations on innovation, almost half of our respondents (49 percent) said that they would work with any organization that has a good idea, but around one-third (32 percent) said that they would work only with organizations with which

Figure 8. Attitudes toward collaboration run the gamut from open to insular

Which one of the following statements best describes the attitude of your family business toward joint development of new products and/or services with other organizations?



N = 575
Source: Deloitte analysis.

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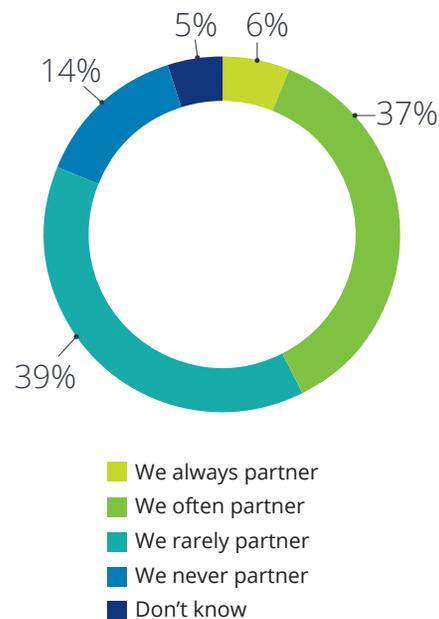
they have a long-standing relationship. Almost one-fifth (19 percent) said that they prefer to innovate independently as much as possible (figure 8).

A review of their innovation-focused partnerships over the past three years confirms the reluctance of at least some family businesses to form relationships with others to innovate. Fifty-three percent of respondents said that they had rarely or never partnered with other organizations on innovation projects (figure 9).

It is perhaps curious that, although nearly all our respondents viewed business ecosystems as an opportunity for innovation, so many seem to act in a way that is contrary to this view. In our experience, many family business leaders tend to have a conservative or cautious approach to partnering. The idea of ceding control of data and intellectual property can be a daunting prospect.

Figure 9. More than half of the respondents rarely or never partner for innovation

How would you define the approach of your family business to partnership arrangements with other organizations for innovation projects over the past three years?



N = 575
Source: Deloitte analysis.

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Such attitudes may need to change. The relationship orientation of many family businesses can be important for realizing innovations within their business ecosystems—but only if they are willing to form those relationships in the first place. In doing so, family business leaders should recognize that collaborating with “outsiders” could be the best way of adapting swiftly to meet current challenges.

Family businesses tend to be possessive about intellectual property

Earlier, we commented that family businesses may feel that they need to own innovations to benefit from them. The attitude of our respondents toward

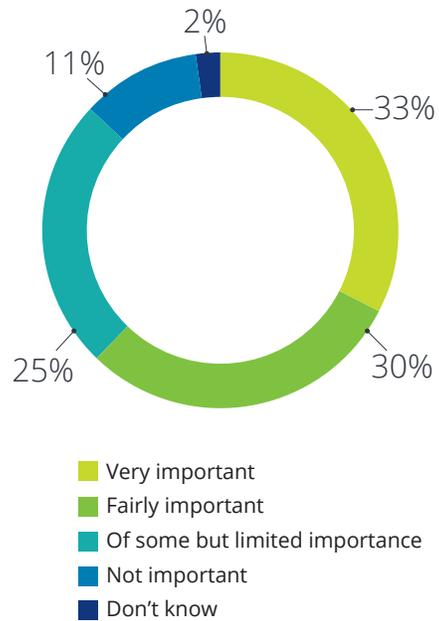
intellectual property reinforces that supposition. Sixty-three percent said that it was “very important” or “fairly important” for the family business to own intellectual property (figure 10).

These findings suggest that there is an opportunity to reconsider ways of making the most of the innovation opportunities that business ecosystems can offer. Businesses do not necessarily need to own intellectual property to benefit from it. And given the highly technical digital nature of IP, creating and owning it may be beyond the capabilities of many businesses.

Businesses do not necessarily need to own intellectual property to benefit from it.

Figure 10. Family businesses value ownership of intellectual property

How important is it for your family business to own intellectual property?



N = 575

Source: Deloitte analysis.

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Digitization

An accelerating opportunity

DIGITAL technologies have underpinned and accelerated the development of business ecosystems in recent years. They underpin the creation of new business models by integrating people, businesses, and things. They also drive a rapid pace of change, which seems inconsistent with a very specific characteristic of many family businesses: long-term stewardship of the company over a span of generations. However, many family businesses are adapting to the digital world in a very short time. Continuing this adaptation is an important responsibility of the next generation of family business leaders.

Many family businesses lack a fully developed digital strategy

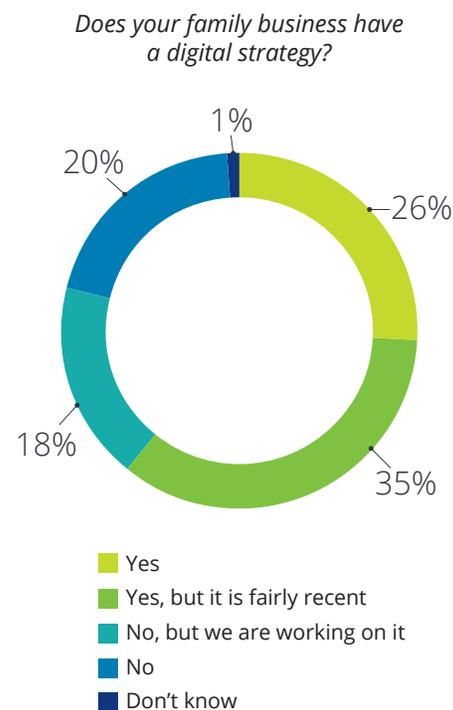
A misconception about digital transformation is that it simply means digitizing the current way the business is run and how it interacts with others.⁵ But the opportunity for innovation is much greater. Take, for instance, the opportunities for digital customer engagement: It is not simply a matter of digitizing the existing touchpoints, but about reimagining new levels and methods of engagement to get closer to the customer. In the same way, digital transformation is about moving from being a traditional organization that initiates digital projects to being a digital organization with an integrated strategy that puts digital at its core.

We found that roughly a quarter of our next-generation family business leaders had a strategy for the use of digital technologies in place, while another 35

percent said that they had one but that it was relatively recent. Almost 40 percent did not have a digital strategy or said that they were still working on it (figure 11).

The ways in which our respondents are using digital technology, with a high focus on process

Figure 11. Family businesses' digital strategies vary in age



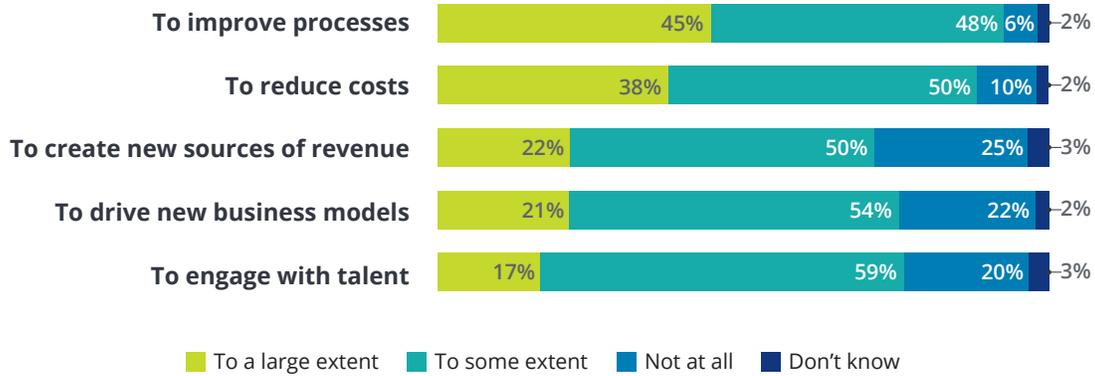
N = 575

Source: Deloitte analysis.

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Figure 12. Digital technology is still viewed mainly as an operational improvement tool

In what ways and to what extent does your family business apply digital technology?



N = 575
Source: Deloitte analysis.

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improvement (figure 12), suggest that many business leaders see digitization mainly as an operational improvement play without fully considering its other potential applications. If they are to see benefits from participating in broader ecosystems, family businesses would be well-advised to explore extending their use of digital technologies to other areas, such as innovation, the development of new business models and talent—for example, using digital platforms.

Leaders should spread digital awareness to the rest of the family

The next generation of leaders believe that they are more aware of the impact of digitization than the other family members active in their business, and these, in turn, are perceived as being more aware than family members who are not active. It would appear that family business leaders have some work to do in educating other family members about the value of digital technology (figure 13). Indeed, since a majority of respondents said that they were only “somewhat aware” of digital technology, they may also wish to invest more time and effort in exploring the uses and implications of digital technologies themselves.

Figure 13. Awareness of digital technology drops off among family members

How would you rate the awareness of you and your family about digital technology?



N = 575
Source: Deloitte analysis.

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A conclusion that may be drawn from these responses is that family business leaders would be well-advised to think carefully about how to integrate diverse technologies and information systems

into their business. What should be the purpose and role of the family business in a digital age? What changes could digitization mean for the company's business model, and how should current strategies and operations shift to effect those changes? Family businesses can leverage their traditional focus on long-term planning to "future-proof" the business for digital transformation, and to align the entire organization—not just the business, but the family members, as well—toward a digital future.

What should be the purpose and role of the family business in a digital age?

Going forward

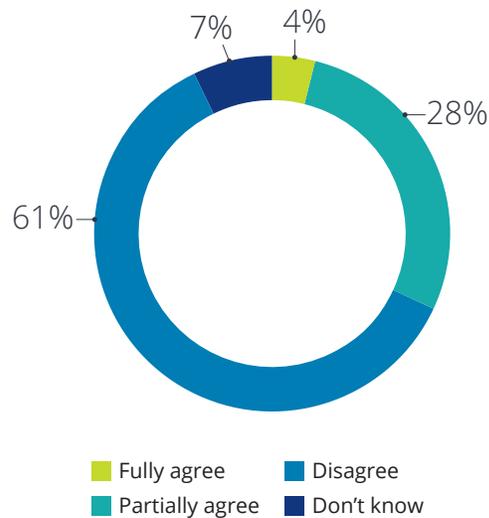
In general, family business leaders are not keen on relinquishing control, wanting to keep the family in charge of the business. Most respondents to our survey do not believe that they will lose control over their business, even within their evolving ecosystems. However, about one-third of respondents do think that business ecosystems pose at least some threat to family control of the business (figure 14). Among the possible reasons for this view are a fear of being taken over and a reluctance to engage in interdependent relationships with an extended network of other entities. Emotional aspects may also come into play. Family enterprises are complex organizations, and there may be times when motivating business factors and family members' views are out of alignment, which can have an impact on everything from perceptions of threats to loss of control.

One-third of respondents do think that business ecosystems pose at least some threat to family control of the business.

To fully exploit the opportunities presented by modern business ecosystems, family business

Figure 14. Business ecosystems: A threat to family control?

To what extent do you agree with the statement "Business ecosystems are a threat to the control that my family has over the business"?



N = 575

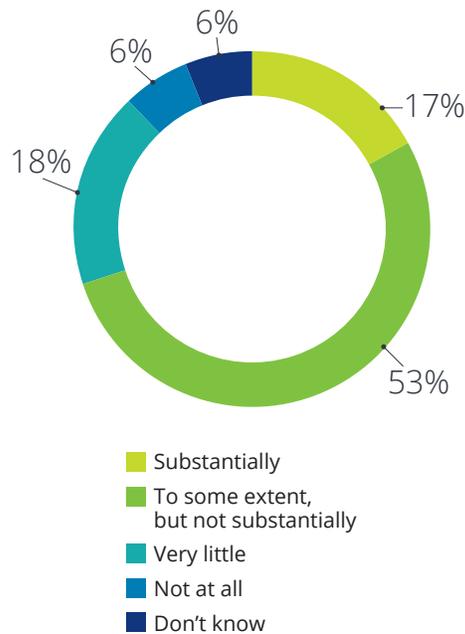
Source: Deloitte analysis.

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leaders should adopt a flexible, outward-facing mindset that allows for variation in the types of relationships they pursue. Recognizing this, more than half of our respondents said that they need to change the approach of their business to collaboration, mergers, acquisitions and alliances, either to some extent or substantially (figure 15).

Figure 15. Attitudes to business combinations need to change

To what extent do you think the approach of your family business toward business combinations needs to change over the next three years?



N = 575

Source: Deloitte analysis.

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Around a quarter of respondents believe that their current approach to business combinations is the right one. Some of them may be denying or underestimating the “new reality.” However, family businesses are known to be flexible under changing circumstances, because of their long-term view and their desire to pass on the business to the next generation. They are capable of reacting quickly and decisively to changing market forces, which should stand them in good stead when adapting to an ecosystem environment.

Along the same lines, most next-generation family business leaders are convinced that their businesses are well-equipped to adapt to their changing

ecosystems. Seventy-six percent said that their family businesses are well-financed and not particularly dependent on external financing. And some 74 percent said that nothing has to change in terms of their family’s values and culture (figure 16).

Importantly, risk management procedures were the area where the greatest proportion of respondents felt that their business was *not* well-prepared for future changes. This is perhaps consistent with the reputation of family businesses for being risk averse: Respondents may have based their answers on their own (possibly inflated) perceptions of the extent of the risks to be dealt with, rather than on perceived or real weaknesses in their risk management systems.

Family businesses are making a prudent but steady transition

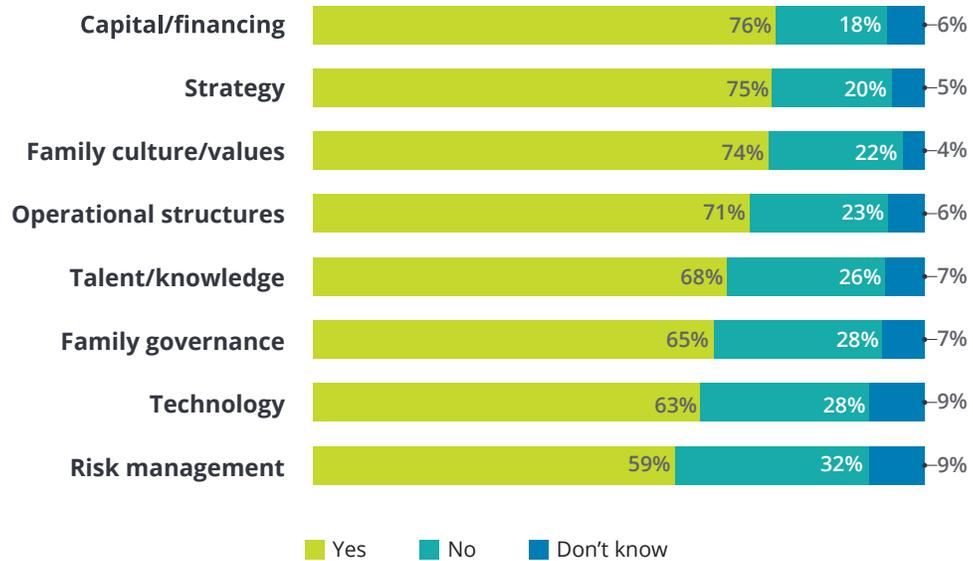
The overall picture emerging from our survey is one of a slow transition to fuller participation in broader business ecosystems—typical of the “prudent and steady” approach of many family businesses. But while a cautious approach may fit in well with their culture, family businesses need to balance caution and conservatism with the need not to be left behind.

For success in the future, businesses need to have a digital agenda: Ownership of digital assets may not be necessary, but the ability to exploit opportunities that arise from digital assets owned by others will be. Businesses will also have to develop new ways of forming relationships and interacting with others.

New entrants and startups, as well as established competitors, are capitalizing on a wave of opportunities that the evolving environment offers them. Family businesses that can evolve their culture and business practices to take advantage of the same opportunities can gain a competitive edge.

Figure 16. Confidence in the readiness to make changes is generally high

If you consider that your business needs to change its approach toward business combinations, do you think that it is well equipped to make the necessary changes in the following areas?



N = 504
Source: Deloitte analysis.

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Conclusion

THE changes in business ecosystems are altering the key factors for success in business, forcing organizations to think and act very differently regarding their strategies, business and organizational models, leadership, core capabilities, and value creation and value capture systems. Next-generation family business leaders generally feel confident that these changes do not pose a threat to the sustainability of their businesses or their control over it, and many see opportunities for growth.

That said, it is clear that many may not recognize the full benefits of participating more actively in their business ecosystems—at least to the extent that they should. In some areas, such as their attitudes to innovation and ownership of intellectual property, many family business leaders may need to consider becoming comfortable with a lesser degree of control. They may also need

to place less emphasis on asset ownership generally: In today's business ecosystems, businesses can reap the benefits of assets without actually owning them.

Perhaps most important of all, family members (and their leaders, in particular) would do well to consider how their business model can work effectively in evolving business ecosystems—without neglecting the history, culture, and traditions embedded within the family.

Next-generation family business leaders are aware of the need for change, even though some may not yet realize the extent to which changes might be needed. Working in their favor is the fact that they tend to be resilient and have a long-term planning horizon. These strengths, along with astute leadership and an understanding of the current environment, will help family businesses navigate their way to success and continuity through turbulent times.

It is clear that many may not recognize the full benefits of participating more actively in their business ecosystems—at least to the extent that they should.

END NOTES

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ACKNOWLEDGMENTS

We would like to thank all survey respondents for their time and the insights they shared for this report.

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