



Next generation family businesses

Leading a family business in a disruptive environment

May 2017

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Foreword



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At Deloitte we are proud to serve thousands of family businesses and offer them guidance through the challenges that lie ahead. Although family-owned companies vary widely in character, they also share something in common, which makes them special. This is the continuous effort they must make to find a suitable balance between the interests of the family and the business it owns.

In conversations we have had with both current and the next generation of family business leaders, and their family members, we have discussed topics such as the smooth transition of leadership from one generation to the next, a family charter, setting up a family office, tax planning and estate planning, as well as growth, strategy, and the speed of change in the market. Long-term trends, driven by public policy and exponential rates of change in digital infrastructure, are fundamentally altering the global business environment. We are breaking with the past faster than ever. This seems to be at odds with the ethos of many family businesses, which look for longevity, sustainability and, ultimately, the passing of the leadership baton to the next generation. Today, contemporary business is about agility, innovation and digitalisation. All our existing assumptions are being challenged. Family businesses need to challenge themselves – and this is an important responsibility for the next generation.

One particular topic we are discussing now with family businesses is the power of disruptive forces in their markets. But what is disruption? Why is it so hard to identify? And is disruption a threat or an opportunity – or both? Our analysis explores the differences between disruptive and sustainable innovation, and considers how families can anticipate disruption.

We have conducted in-depth interviews with 268 future leaders of family-owned companies across the EMEA region. We find that family businesses have a special ability to evolve and adapt to changing circumstances. Their willingness to innovate, their long-term focus, and their attitude to risk explain why they survive in times of fundamental change. The next generation is ready to innovate, adapt and not just survive, but prosper.

We are grateful to all the individuals who took the time to participate in our study and for their contributions to our discussions. We are looking forward to continuing this essential dialogue with you. Our aim is to help you navigate your family business through challenging times. ”



Key findings

The next generation of family business leaders interviewed for our survey claim to be well-equipped to anticipate disruption, have a clear view about the direction of their industry, market and business, and understand the nature of disruptive change. However, they face two important limitations.

- Leadership and governance structures are concentrated too much on the Board of Directors/family.
- There is a general lack of employee skills to thrive in a disruptive environment.



The next generation of family business leaders expect disruption in their markets to occur within the next 2-3 years. About a quarter of family companies do expect to lose market share to new entrants.



The biggest perceived challenges are internal rather than external, as they affect not only the business but also the family system: they are about internal organisation, such as changing family relationships and leadership succession, more than about the markets in which the company operates.



The next generation of family business leaders is more aware than the previous generation of the meaning and impact of disruption.



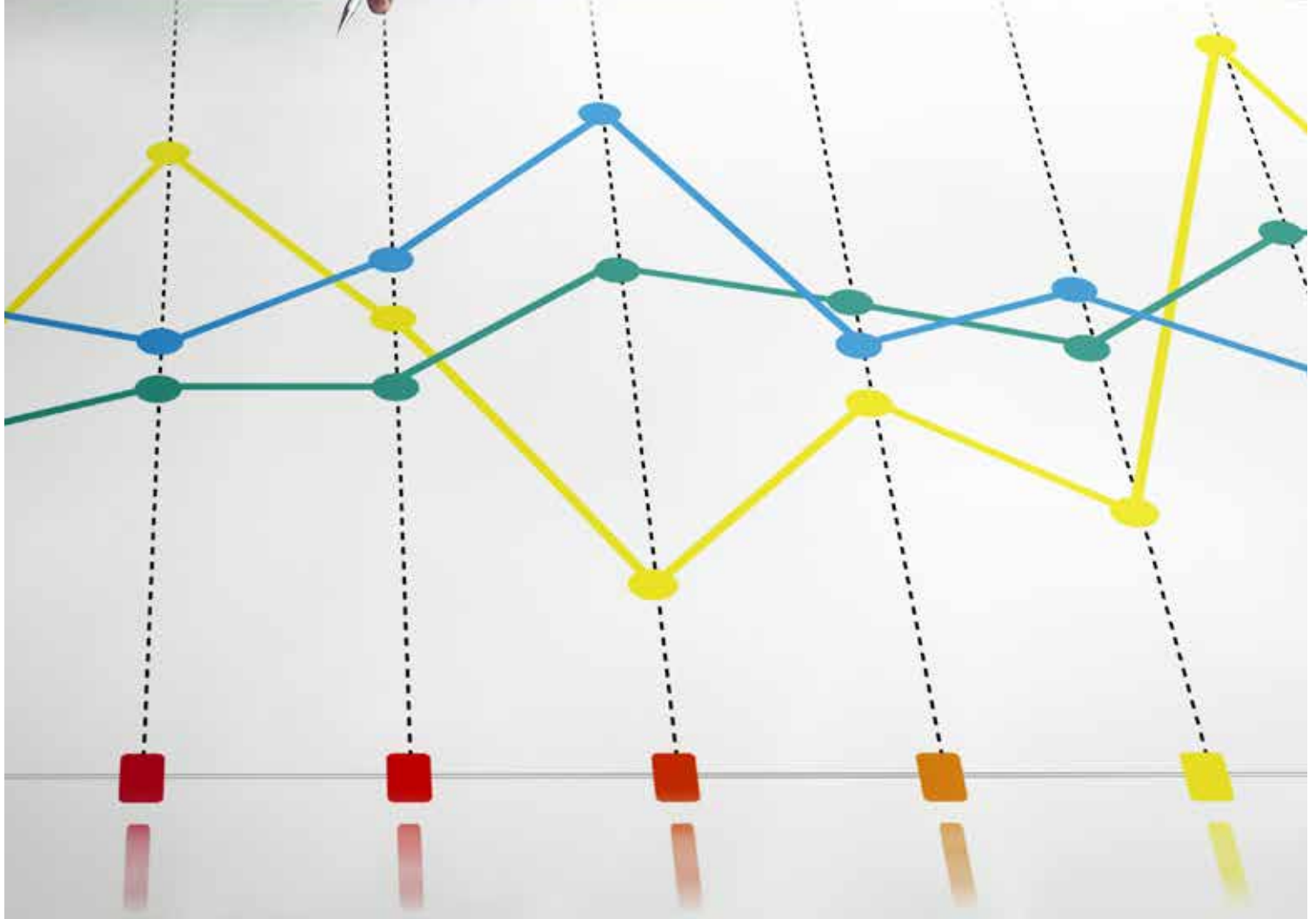
The biggest advantage for family companies, as perceived by respondents in our research, can be expressed by the words 'fast' or 'agile.'



The company's culture should back up its strategy and bolster risk-taking, agility and collaboration.



Family businesses have a long term horizon: they can respond to disruptive innovations without being affected by outside investors looking for short-term pay-offs.



The market

New approaches, enabled by an exponential rate of technological progress and liberalising public policies, are reducing barriers to market entry on a global scale. New entrants can quickly scale up businesses that previously took incumbents decades to build. As a result, competition in many markets is increasing, and product life cycles are getting shorter. The environment is ripe for disruptive entrants with new approaches to interrupt the best-laid plans and forecasts of established business organisations.

Disruption occurs when most of the leading incumbents in an industry are displaced by a new approach. Disruption therefore happens to market leaders, who risk losing their pre-eminent position and becoming 'just another company'. The new disruptive approach is not something that can be replicated easily. Disruption is a gradual process in which new entrants focus on a market that has been overlooked by market leaders. Once the new entrant's product or service has become mainstream, and significant numbers of the incumbent's former customers are buying it, disruption has occurred.

Innovation: sustaining or disruptive?

Disruption relates to innovation. There are two types of innovation. *Sustaining innovations* are aimed at making products or services better in the perception of an incumbent's customers. *Disruptive innovations* are products or services that are initially considered inferior, and take place in two types of markets that incumbents overlook. Disruptors can offer 'good enough' products or services to low-end customers or can create a market that did not exist before, and turn non-consumers into consumers¹.

Disruption is not something negative. It is a threat to incumbents who do not respond to it. Disruption means change: those that are not able to change are left behind. But it also is an opportunity, for both new entrants and for incumbents themselves. For smaller companies, disruptive innovation creates an opportunity to achieve rapid growth through technological advances.

Disruption of a market can also be difficult to perceive when, as one of our interviewees put it, it is hidden on an 'indirect level'. A director of one of the largest grass seed wholesaling companies in the world pointed out that his concerns about disruption were not so much about a (new) competitor creating an innovative type of seed by means of cross-breeding or DNA-manipulation, or even about a company that creates first-rate artificial grass for an highly affordable price. He was concerned by new production techniques for meat – such as laboratories instead of cows – that would obliterate the market for grass seeds almost entirely.

Next generation leaders expect biggest impact on their markets from macroeconomic forces and changing customer preferences

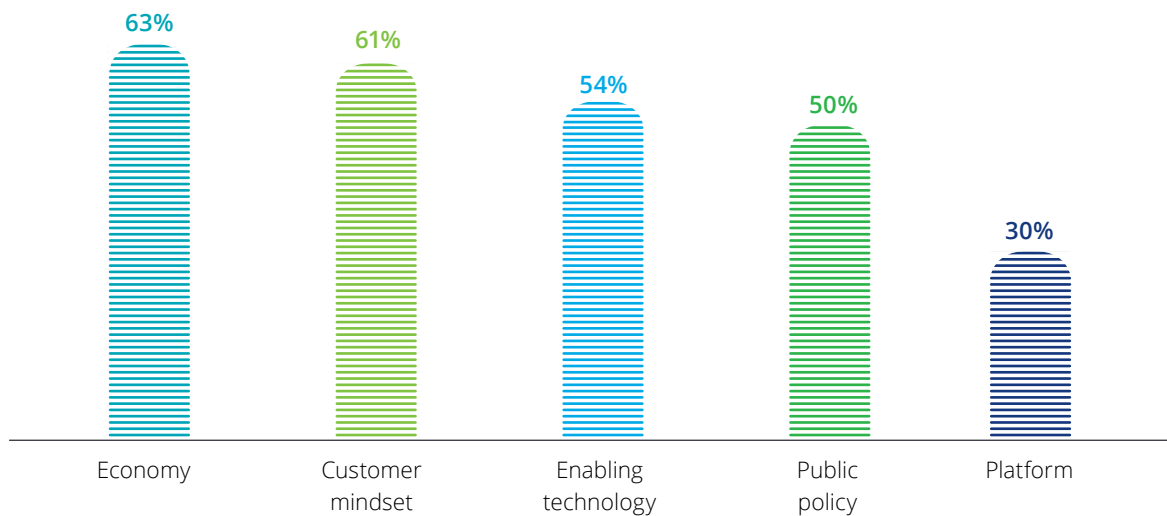
Catalysts of change

A catalyst is defined here as a change in the broader environment that serves as an early indicator of disruption². Catalysts of change consist of a shift outside a company's control, and precede any action by the company itself. The most relevant catalysts for disruption are::

- enabling technology – rapid advances in core enabling technologies are at the root of most of the disruptive potential we see
- customer expectations and preferences – a shift in customer mindset that affects demand
- platforms – which make resources and participants more accessible to each other
- macroeconomic shifts – which create challenges or opportunities for both incumbents and new entrants
- public policy shifts – when the government changes the degree to which it intervenes in a business environment, new opportunities open up.

On a scale from 1-10, the respondents to our survey on average attribute the highest impact (7-10) on their market to the economy and changing customer preferences. Enabling technologies, often seen as the main driver behind disruption, was considered only the third-most important catalyst of change.

Figure 1. Which catalysts affect your market?



(Source: Deloitte analysis, 2017)

We found that the age of a family business affects its perception of catalysts of change. Companies that were established less than 20 years ago attribute a high impact to enabling technologies, while companies founded 50-99 years ago see enabling technologies as having less of an impact than changing customer expectations and preferences. Companies over one hundred years old consider that changing customer expectations and preferences are the catalyst with the highest impact.

Experienced disruption

Disruption is not something new. Markets change over time. There have always been new entrants displacing the leading incumbent, using new technologies or alternative business/ delivery models – or a business model enabled by new technology.

It is therefore no surprise that almost half of our respondents had experienced disruption in their markets (see Figure 2), where the incumbent was displaced. Although the majority of the family businesses in our survey are not incumbents in their market, this does not mean that they have been free from the power of disruptive forces. They are still there. This could mean that the sustainability and resilience of family businesses is the result of family success, business success, and also making appropriate responses to disruptive forces affecting both their market and family system.

Figure 2. Have you experienced market disruption?

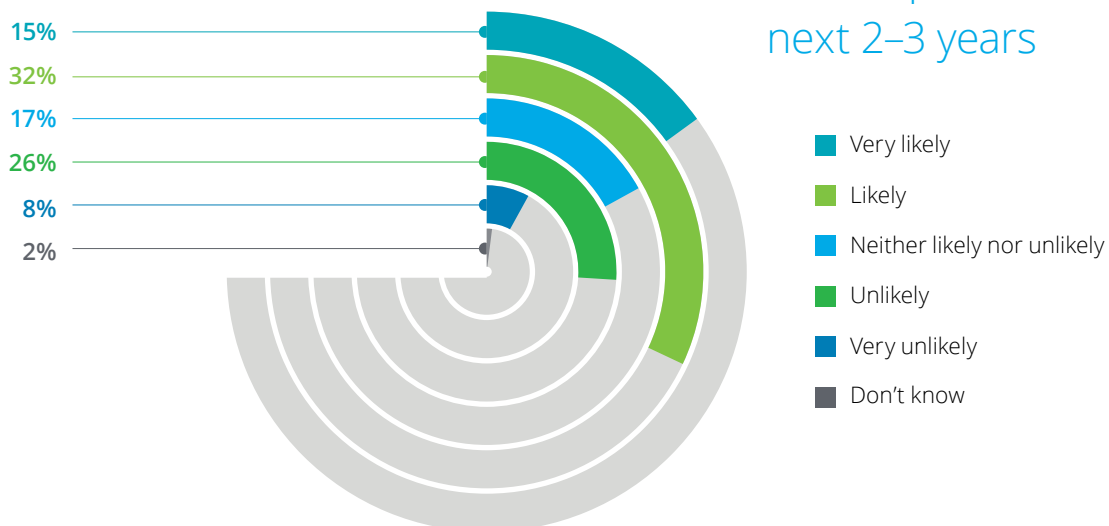


(Source: Deloitte analysis, 2017)

Expected disruption

Almost half of our respondents, some 47 per cent, expect disruption to occur in their markets within the next two to three years.

Figure 3. Likelihood of potential disruption in the next 2-3 years

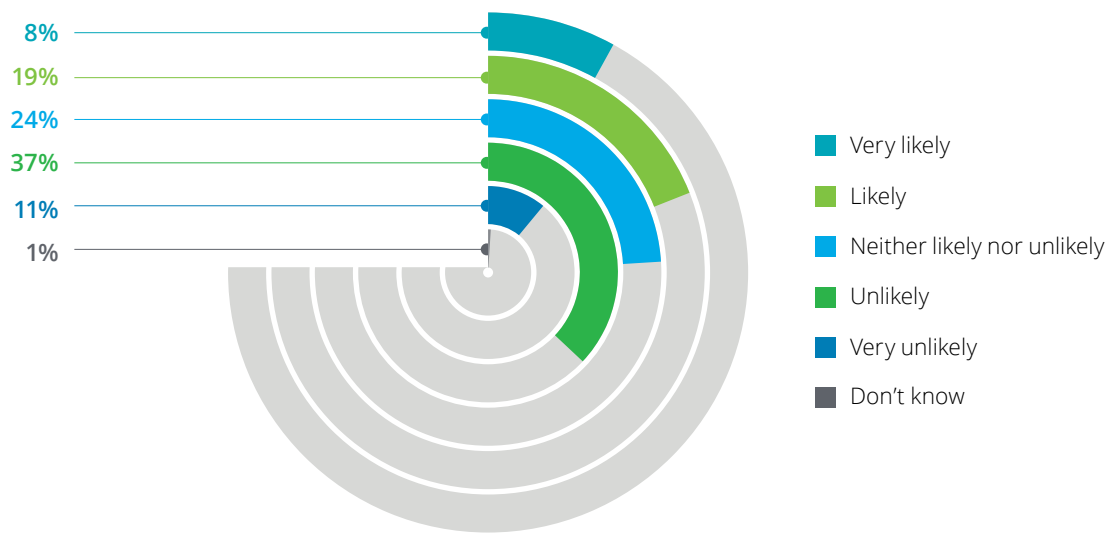


Some 47 per cent expect their markets to be subject to disruptive forces over the next 2-3 years

(Source: Deloitte analysis, 2017)

A quarter expect to lose market share to new entrants, although a new entrant on its own is not necessarily a disruption.

Figure 4. Likelihood of losing market share to new entrants



(Source: Deloitte analysis, 2017)

Deloitte view

A problem with disruption is that we tend not to recognise it until it is too late. Catalysts for disruptive change can be categorised into two types: external/exogenous (macroeconomics, customer expectations, public policy shifts) and internal/endogenous (enabling technology, platforms). External catalysts are less predictable, whereas internal catalysts can be foreseen and so controlled much more easily. Although it may seem straightforward, part of the problem is simply recognising that market leadership is being lost. This becomes very clear when incumbents lose customers, market share or revenue to a new entrant.

This is also the case when there are several small new entrants: a large company accustomed to one or two major rivals may underestimate or misunderstand the threat from (a group of) small players. It is even more of a challenge to recognise disruption that occurs when a new entrant expands the market and the incumbent remains restricted to its original market, which has now become a small part of the overall market. A company may also be caught unaware when a new approach shrinks the market for an entire existing product category, by creating a new product.

A fragmented market can be displaced when scale becomes the dominant competitive advantage and the fragmented players consolidate into a smaller number of concentrated players. Incumbents often fail to recognise this disruption because of market myopia – defining its market and competitors too narrowly.

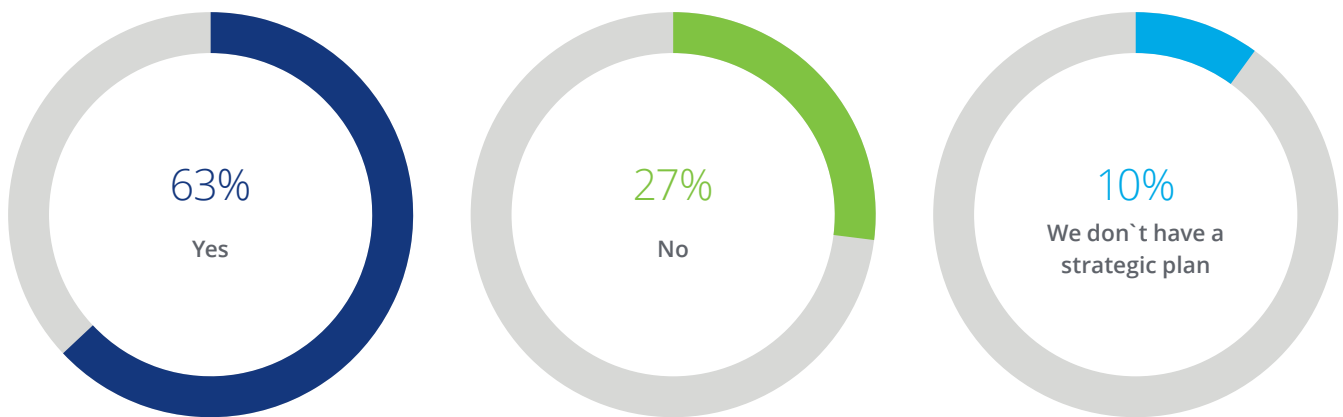
In recognising disruption, and threats or opportunities, much depends on identifying the potential ways in which the market might be re-defined. A unique characteristic of family businesses is that they are very flexible in adapting to changing circumstances: combined with their long-term orientation, this allows them to make investments that only pay off at a much later time. Even so, they are not immune to the impact of (potentially) disruptive forces on their markets. Family businesses rely on strong relationships that give them an added layer of reassurance. The next generation grow up learning that continuing relationships, values and traditions are a fundamental element of family business success. However, just as personal relationships in a family business can create added value, they can also damage the business, particularly when the boundaries between family and business matters are inadequately drawn.



Strategy and leadership

Disruption is a reality...but one that is hard to identify. Disruption happens when a new approach finds the right conditions – and conditions in the market are always changing, creating scope for further disruption. The problem for incumbents is that they tend not to recognise disruption until it is too late. Although business leaders need to run the current business and satisfy stakeholders, they must also focus on the future.

Figures 5. Is disruption included in your strategic plan?



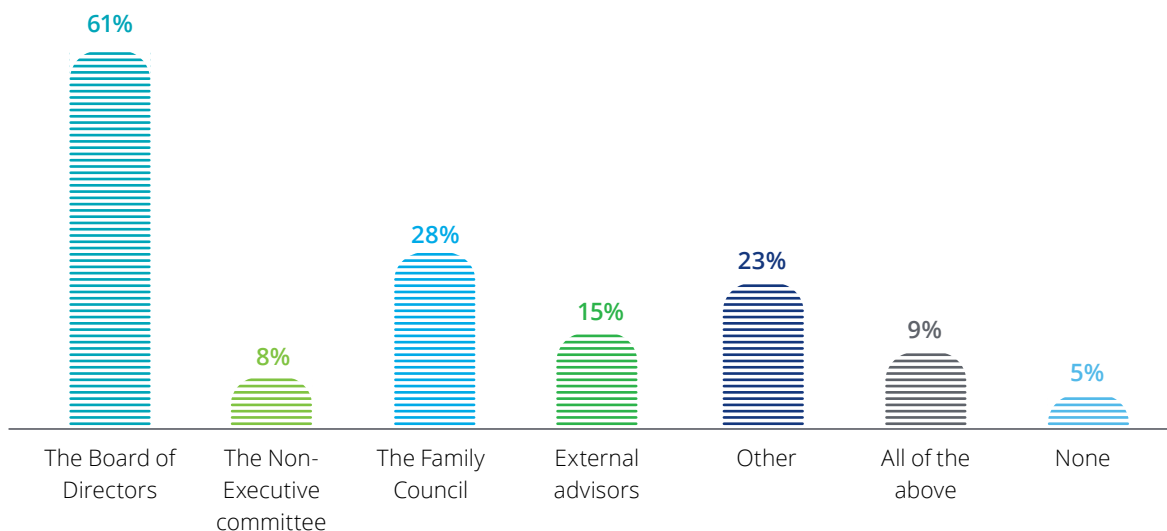
(Source: Deloitte analysis, 2017)

Our survey shows that a majority of family businesses are planning for disruption. 63 per cent of respondents said they include disruption in their strategic plans, but 27 per cent do not and 10 per cent do not even have a strategic plan.

In part this is a generational issue. Older generation leaders in general are less likely to include disruption in their strategic plan. They are often the founders who risked all to get to where they are; and although it is not true to say that strategic planning did not feature in the building of their business, it was something conducted 'ad hoc', as opportunities arose. For these older-generation leaders, the need to plan formally in advance is often considered unnecessary.

Where disruption is part of the family businesses' strategic planning, it is mostly the responsibility of the Board. Some families also address disruption at the level of the Family Council. Our survey also found that in some instances family entrepreneurs rely on external advisors to address areas of disruption, thereby separating this issue completely from the remit of the family and Board of Directors.

Figures 6. Which part of your company focuses on disruptive transformation in the market and in the industry?
(multiple answers to this question possible, % below on responses per item)



(Source: Deloitte analysis, 2017)

According to our respondents, the youngest companies (in particular those set up less than 20 years ago) are the least likely to use an external advisor or to consider disruption in their strategic plans. This is probably because young companies are opportunistic and focused on growing and building, rather than addressing challenges in a strategic manner.

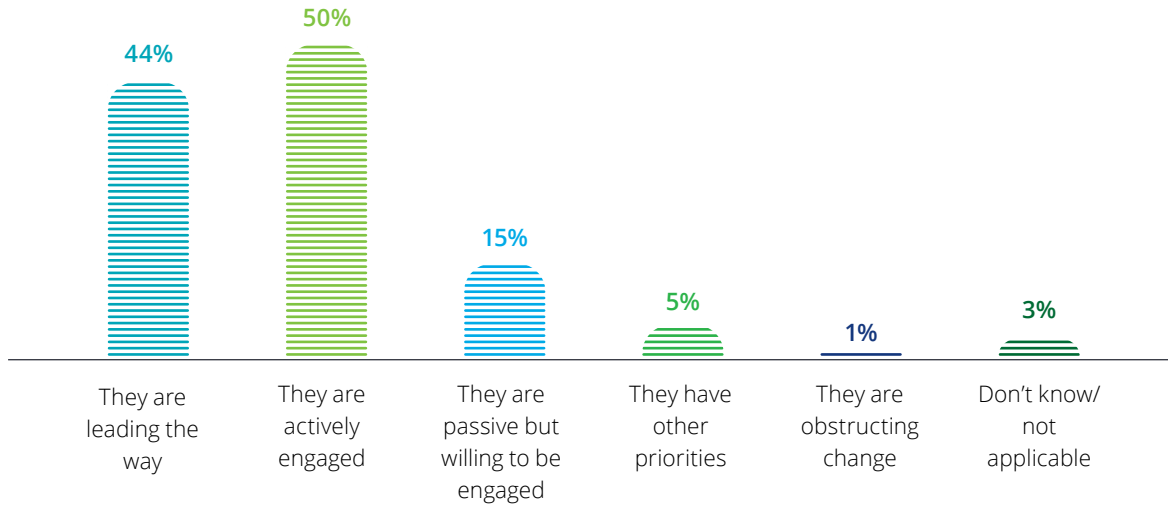
Importance of the leadership

Running any business is difficult, and the complexity of overlapping systems in a family business makes challenge even greater. The response of a family business leader to any challenge will be influenced by all the different roles that he or she plays, be it as CEO, owner, parent or spouse. The many different 'hats' worn by these individuals often make it difficult to prioritise (and remain focused on) disruptive changes and threats to the business.

However, the next generation leaders of family businesses in our survey are in general actively engaged on the issue of disruption and so are leading the way. Even if older generations seem a little passive, they are willing to be engaged.

Figure 7. What is the role of executive leadership in innovation and disruption?

(multiple answers to this question possible, % below on responses per item)



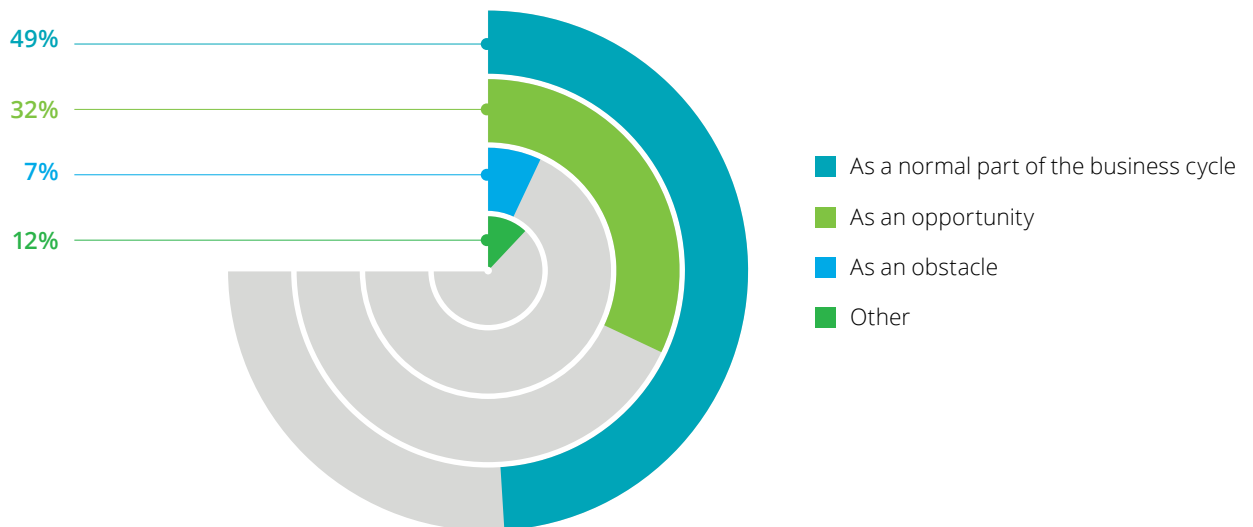
(Source: Deloitte analysis, 2017)

Disruption: opportunity or threat?

When a new entrant starts to gain market share and shakes up the competition, it is time to react. This raises the question of whether family businesses engage in reactive or proactive strategic planning.

Family business leaders perceive disruption either proactively or reactively. Younger generations tend to see it more as a 'normal part of their business life cycle' and are therefore reactive, or 'as an opportunity', in which case they are proactive. Older generations see disruption predominantly as a normal feature of business, probably because of their previous experiences and the numerous disruptions they have already faced in the past.

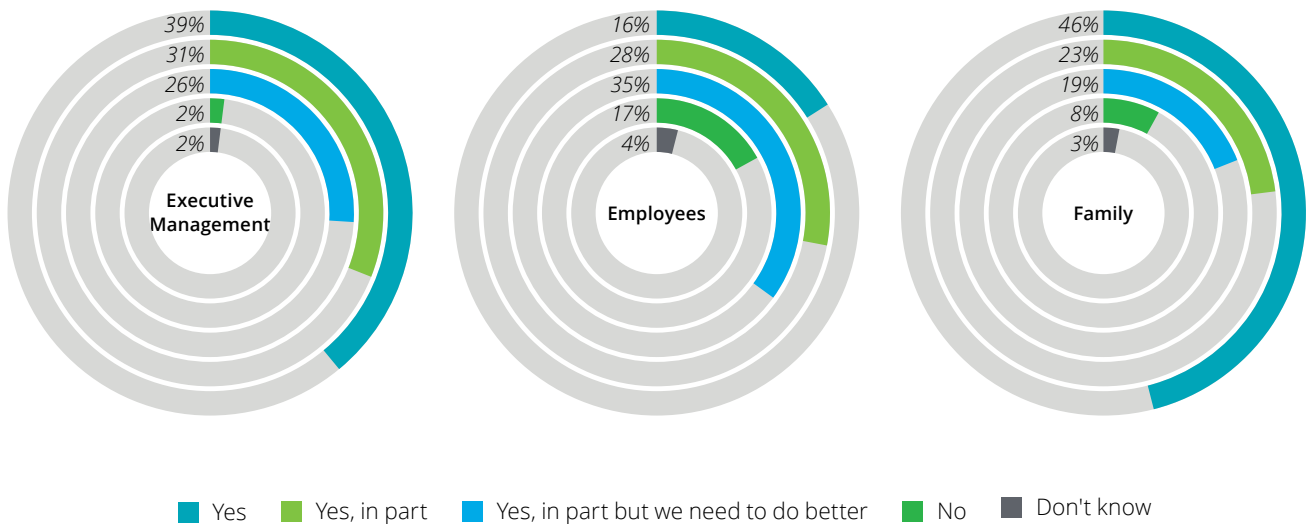
Figure 8. Family's perception of disruption



(Source: Deloitte analysis, 2017)

Family companies seem able to understand the nature of disruptive change: they can perceive trends that are reshaping the business landscape, identify vulnerabilities and opportunities, encourage innovation and foster the generation of ideas for responding to disruption. However, do they really have the right skills to thrive in a disruptive environment?

Figure 9. Do family businesses have the skill set to thrive in a disruptive environment?



(Source: Deloitte analysis, 2017)

Our survey indicates that there is a commonly-shared view that, while the family and executive management are well prepared to face disruption, there is a general lack of skills among employees. 17 per cent of next generation family business leaders responded that their employees are not ready to face disruption, while 35 per cent recognised that there is room for improvement and they need to do better.

This may not seem detrimental to family businesses. However a threat arises when family business owners are reluctant to involve outsiders in their strategic decision-making. New technology often originates outside the industry's boundaries, and family businesses run the risk of overlooking or misinterpreting changes when they occur.

Furthermore, the successful adoption of a new technology often requires a significant investment of resources. Family businesses therefore face a dilemma over whether to seek external funding (and thereby dilute their control) or re-invest existing funds, which may risk harming long-standing relationships with suppliers, employees, customers and other important stakeholders.

There is a positive correlation between the skill set of employees, company turnover and the length of time since the company was established. It seems that larger, longer-established companies are better equipped to thrive in disruptive environments.

Family business leaders usually excel at building personal relationships with a core group of employees. These relationships are often based on the loyalty of employees as much as on their capabilities. Typically leaders have had a hand in hiring them, know them and their families personally, understand their priorities, and help them develop professionally.

While strong personal relationships are beneficial, leaders should build on them to establish structures, systems and processes, to develop talent within the broader organisation, including among family members.

Long tenures for executives and employees can often impede the flexible implementation of any new technology. While knowledge, experience and loyalty that come with long tenures can be a real asset, they can also be a liability when radical change is taking place. Most disruptive technologies require the adoption of a fundamentally different set of routines and capabilities, and employees embedded in their usual routines might not be amenable to such change.

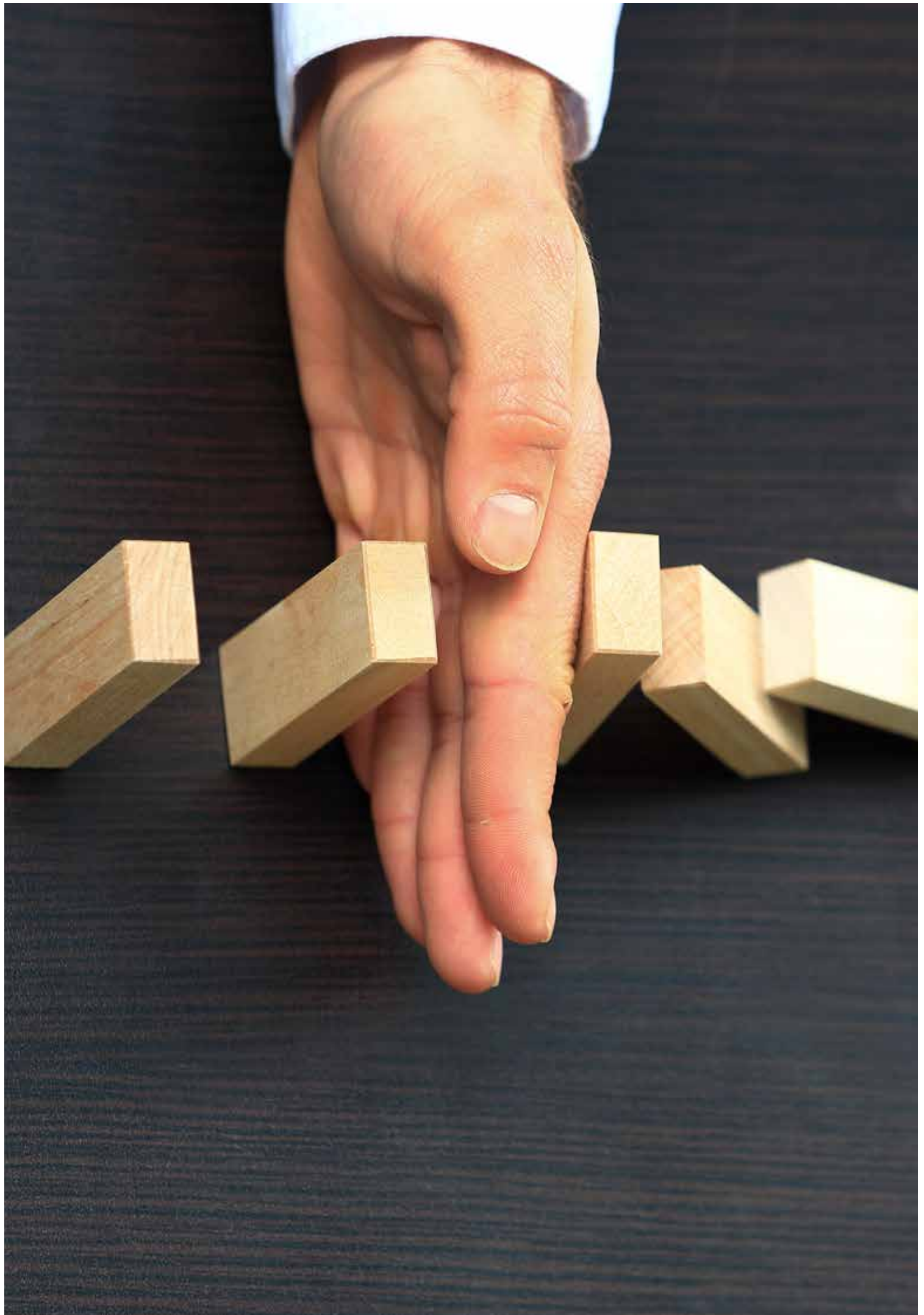
Deloitte view

It is interesting to see that many family companies claim to be well equipped to face disruption by including it in their strategic plans or having cultures that foster innovation. In reality however there are two important restrictions on their ability to thrive in a disruptive environment: a governance structure focused mainly on the Board of Directors, and a general lack of employee skills.

This is perhaps due to the fact that while family members may not hold executive level positions within the business, they play a role on the Board of Directors and other committees, and therefore contribute to the leadership of the company. While family members are often capable and well equipped for business leadership, it is important that their roles, responsibilities and authority should be defined within a wider governance framework, in which ownership and management are separated.

To thrive in a disruptive environment, family companies should also take a proactive approach to managing talent and recognise that the workforce of tomorrow will require different skills.

An important part of running a family business is seeking and obtaining valuable input from non-family employees and executive management. Doing so helps to keep the company flexible, dynamic and open to new ideas.



Approaching disruption

To respond to disruption by anticipating it, and with a bias towards longer-term opportunities, several challenges must be overcome. The appearance of disruptive forces can be used to mobilise the transformation in a family business, while minimising risk in an environment of rapid change.

Addressing and embracing the opportunities from disruption requires a new approach. The key is to act with a sense of urgency, avoiding both complacency and a defensive reaction. Although there is no single approach, a change of perspective – such as ‘looking outside-in’ the company or thinking back from the desired future situation to now - may help business leaders to consider emerging opportunities through a new lens.

More than 80 per cent of our respondents believe that the family company culture encourages innovation and the generation of new ideas. Some 86 per cent consider disruption to be an opportunity and an important part of their strategic plans.

Figure 10. The culture of family companies encourages innovation and generation of ideas



(Source: Deloitte analysis, 2017)

Road map



Disruptive forces in a market can be anticipated by adopting a pragmatic approach that consists of four pillars³:

- build awareness – understand the nature of disruptive change
- focus efforts – establish a consistent point of view about the long-term direction of the industry, market and business
- act for impact – identify initiatives that deliver near-term impact and accelerate transformation
- learn, refine, monitor – amplify the impact and accelerate learning through rapid iteration.



In a continuously changing environment, learning is essential to success. Family companies can stay ahead of disruption by being in a constant state of learning, refining both strategy and execution. Yet this works only if there is a destination in mind. If leadership has an idea of where the company needs to be positioned in the future, it is ready for change. It may then be able to benefit much more from its near-term initiatives and assess how effective it has been in achieving rapid progress.



84 per cent of respondents agreed (fully or somewhat) with the view that family companies seem to be able to understand the nature of disruptive change, identifying trends, vulnerabilities and opportunities.



84 per cent said they had a clear view of the direction of their industries, markets and businesses over the next 5-10 years. This percentage is even higher for those who include disruption in their strategic plans.



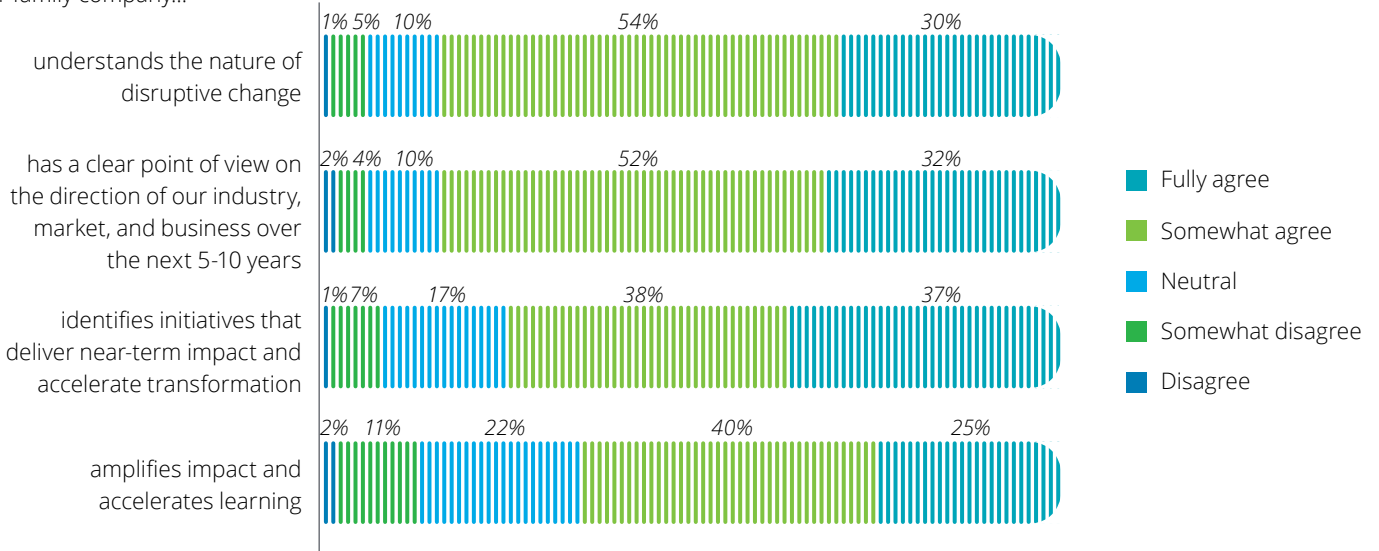
The next generation of family entrepreneurs said they could identify new initiatives that deliver near-term impact and accelerate transformation of their family business.



90 per cent of those who include disruption in their strategic plan have a clear view about how their relevant markets are likely to evolve, and are able to prioritise near-term initiatives to obtain maximum impact from them.

Figure 11. Approaching disruption

Our family company...

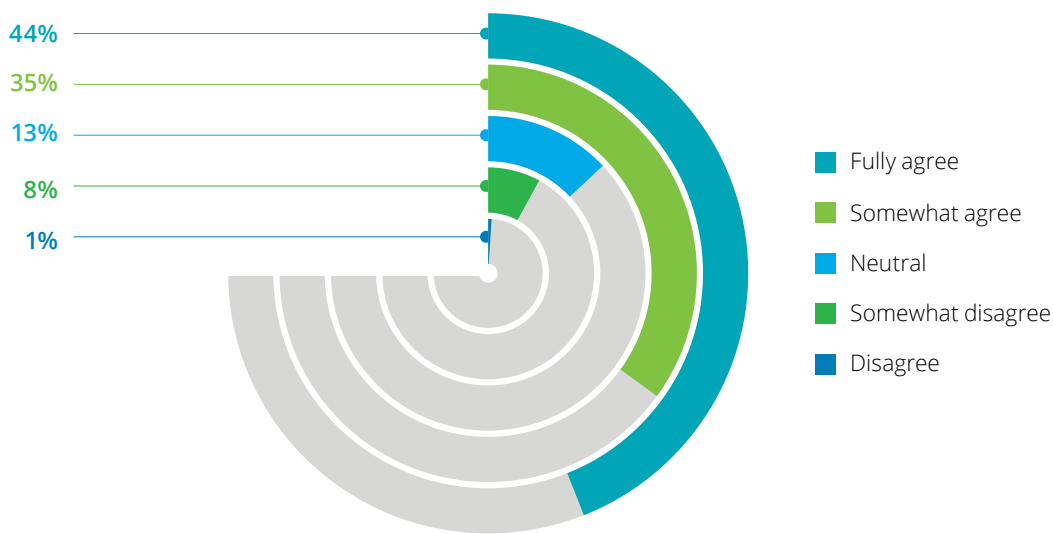


(Source: Deloitte analysis, 2017)

Risk-innovation paradox

Acton should follow on after disruption is anticipated. Broadly speaking, a family business has the option to become the disruption, to undermine the disruption, to contain the disruption or to exit altogether. Given the special characteristics of family-owned companies, exit is the least likely option. The first two options require either sustainable or disruptive innovation. There is a common view that family businesses are inclined to be risk-averse and unwilling to innovate, due to concerns about the possibility of a negative outcome and a reduction in the family’s wealth. But numerous studies refute this view⁴. The majority of next generation of family business leaders that we interviewed (79 per cent) say that there is a good balance between their innovation strategies and the level of risk the Board is willing to take.

Figure 12. There is a good balance between innovation strategy and the level of risk the board is willing to take



(Source: Deloitte analysis, 2017)

Long-term thinking

Family company owners can have a positive impact when they participate actively in the innovation process. They are able to make sure that money is invested in the right projects and that resources are employed in an effective way. Many family firms profit from their 'family-like culture' and their close relationships with a handful of partners, from suppliers to customers, who can help them develop their creative ideas, products and processes. This is likely to be the case for firms that include disruption in their strategic plan and for those that see disruption as a business opportunity.

Disruptive innovations are often radical and require significant investment over time. The long-term orientation of the family firm is a positive enabler for disruptive innovation. Family businesses are often independent of outside investors⁵, and because of their long-term horizon, they are well-positioned to make long-term investments as they do not place as much focus on immediate or short-term returns on investment.

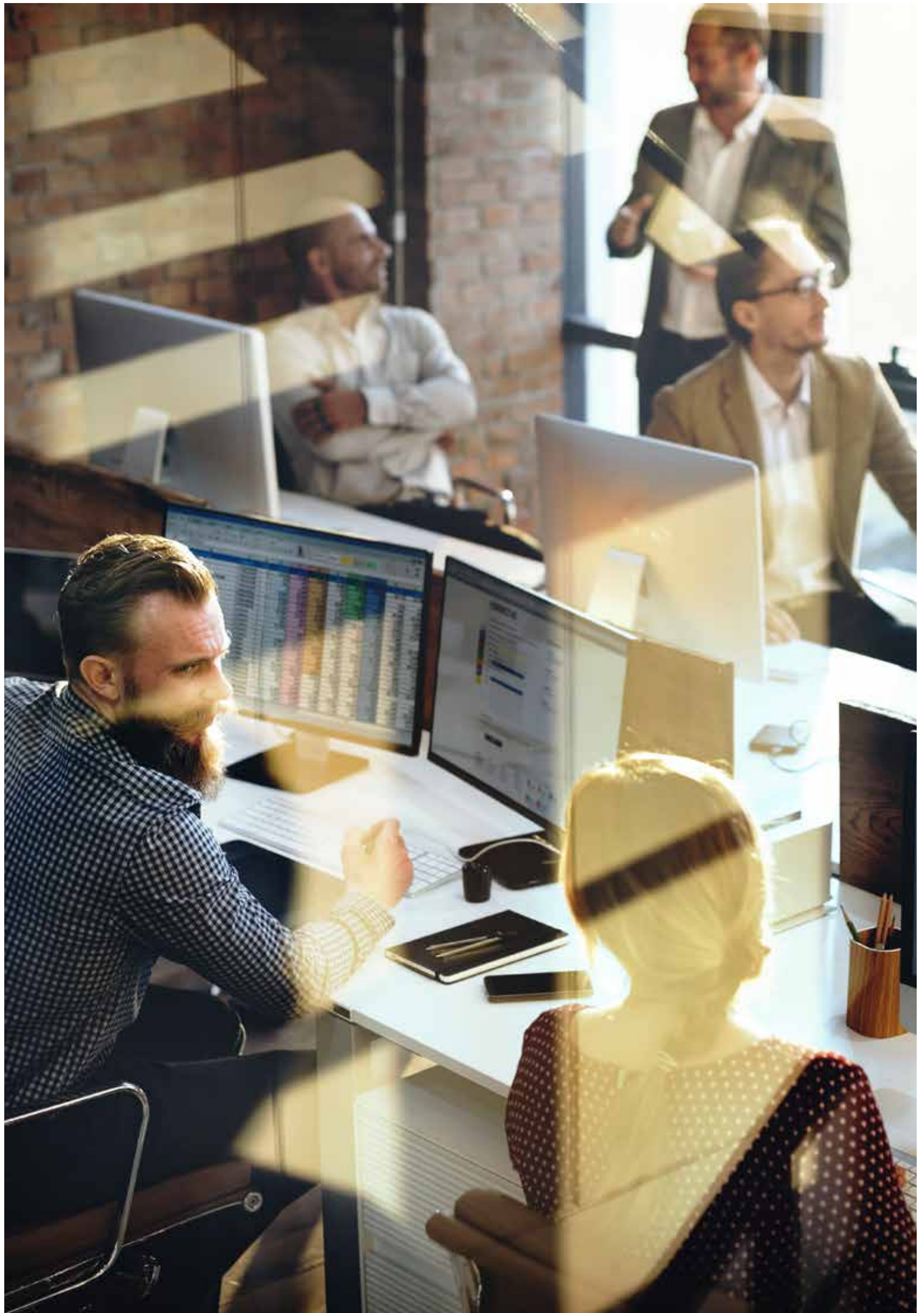
Deloitte view

Companies need to explore new approaches and strategies in which innovation and learning are essential for success. However even with the right strategy, it can be very difficult to bring everyone to the same way of thinking. It is fundamentally important that the company culture should back up its strategy and bolster risk-taking, agility and collaboration.

When it comes to disruption, the biggest danger is not necessarily external. It is often the destructive ways in which an organisation responds. Leadership wanting to respond to disruption will often face many obstacles, such as a lack of urgency and internal resistance to change, as the perception of risk is magnified and the potential for reward is discounted.

At Deloitte we think that risk management strategies should not be developed in an isolated process, but should be an integral part of strategic planning. To integrate the risk dimension adequately, the family business needs to know how much risk it is willing to take and how it wishes to strike a balance between risks and opportunities. This is where the difference comes to play between the first generation entrepreneur founder, who depends on gut instinct for risk positioning, and the approach of successive generations.

Our suggested approach to anticipating disruptive forces in the market is to take an 'outside-in', or 'future-back' perspective, to help consider opportunities through a new lens. A shared vision of the future frees up the family business to challenge underlying assumptions. But it should not end here. A key requirement is to work out the implications for action in the near term. This will require some restructuring of the organisation to free up resources, strengthening the core business, and aggressively pursuing new opportunities at the edge of the organisation that disruptive forces inevitably generate.

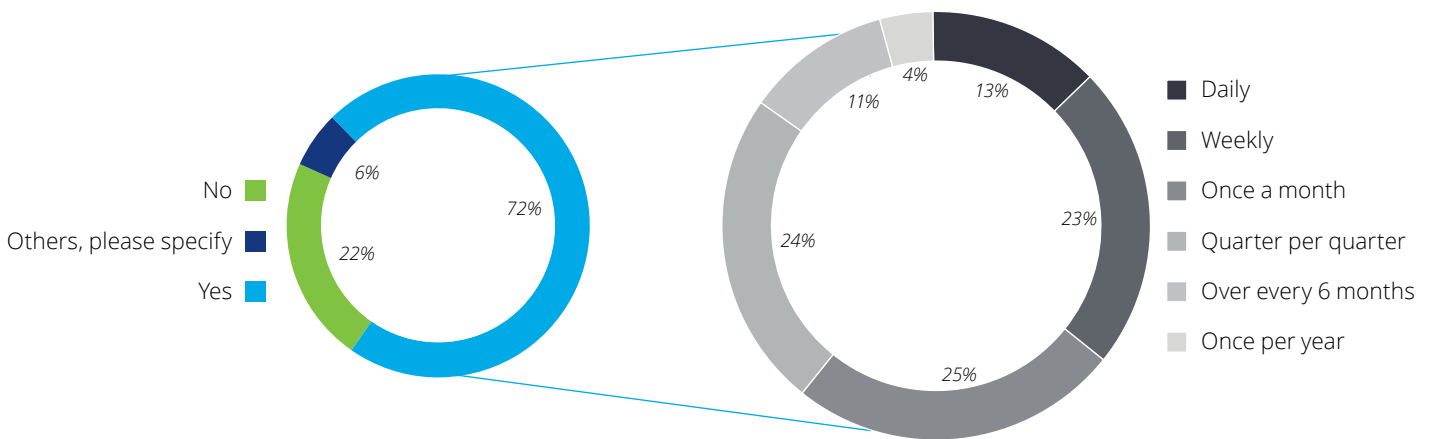


Family

Family-owned companies have distinctive characteristics. They tend to have a more long-term view, focused on passing the company successfully from one generation to the next. They have the ability and willingness to innovate and adapt to changing circumstances. However, there are also inherent dilemmas and paradoxes. Conflicts of interest may surface that need to be managed carefully. It is at times of transition or transformation that a family business is at its most vulnerable.

In most family companies, potential disruption is reviewed regularly. More than 70 per cent say they discuss disruption with family members. But there are significant differences in the frequency with which these discussions take place.

Figure 13. Do you discuss the potential for disruption with your family?



(Source: Deloitte analysis, 2017)

In our research, we found that just under a quarter of respondents discuss the potential for disruption at least every week, a quarter do so once a month, and 11 per cent discuss the topic only every six months.

22%

A sizeable percentage (22 per cent) do not discuss the potential threats of disruption at all.

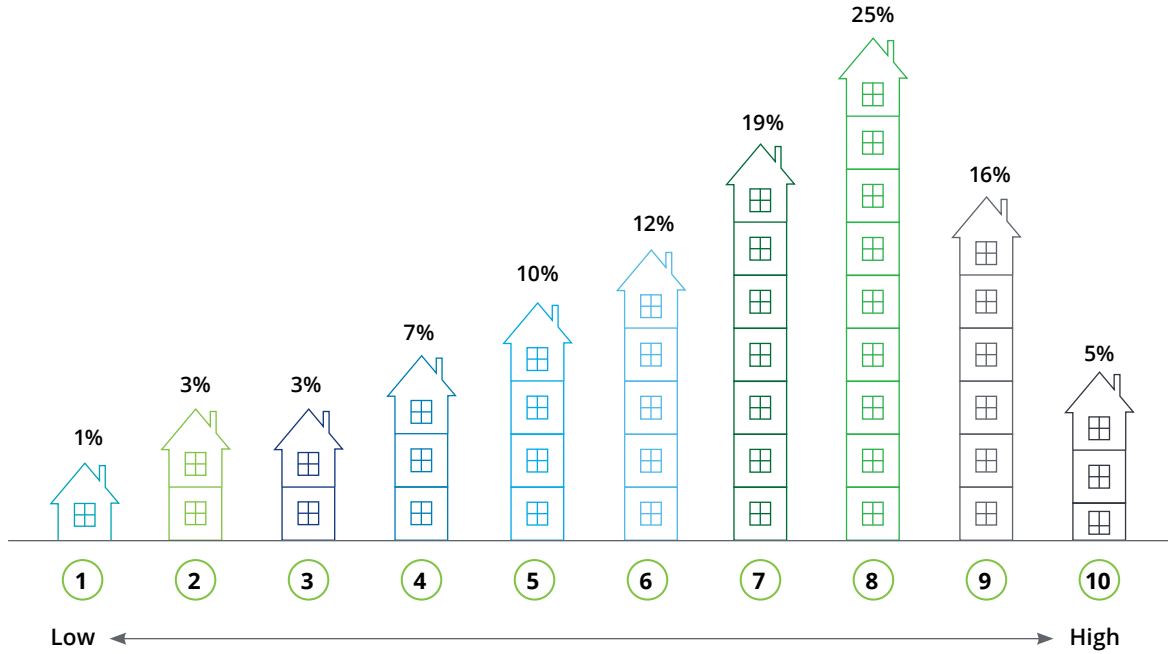
42%

42 per cent of companies that consider disruption to be an obstacle claim not to discuss it regularly with family members.

Most family companies review the potential for disruption regularly

Discussing disruption with the family is essential to ensure all are informed and that the Board and the business are empowered to address it.

Figure 14. Family's level of awareness about disruption (1-low; 10-high)



(Source: Deloitte analysis, 2017)

Awareness

Family companies seem to be aware of the disruptive changes that occur in their markets, in particular as a result of periodic discussions with other family members. 65 per cent of respondents claimed that their family has high level of awareness about disruption. This percentage is even higher for those who claim to discuss it regularly within their families and those who include disruption in their planning.

In general, family members differ widely in their level of awareness of the concept of disruption. On a scale of 1 to 10, 24 per cent show relatively low awareness, scoring 5 or lower; 31 per cent show significant awareness, scoring 6 or 7; and 46 per cent a high level of awareness, scoring 8 or more.

Deloitte view

It is not uncommon for the family to be left out of the loop when it comes to business matters. While this is always detrimental to some degree, it becomes a much bigger threat when family matters are also not addressed.

Succession planning, family disputes and family employment are areas that can potentially cause conflict. They need to be addressed by the family. The health of the business is also something about which the family needs to be kept informed.

Communication and decision-making platforms at both the level of the family and the level of the business are a key to the success and longevity of the business.

A fine balance must be reached between the needs of the business and the family: this balance is what makes or breaks a family business.



The (dis)advantages of family companies in a disruptive environment

Family companies have an extra dimension compared to non-family owned companies. The question is whether being a family company is an advantage or disadvantage in a disruptive environment.

The fast family

Our research found that by far the most-recognised advantage of family companies can be captured in the word 'fast'. Family businesses can make decisions and execute their plans quickly. They tend to be less bureaucratic, share a more common vision in the Board and can rely on employees who are more dedicated to the company.

These are not the only advantages of family companies. Their focus on the long-term horizon helps them avoid business fads and short-term measures for personal gain.

Family culture, history and values are positive aspects that can help a family business survive for a long time, outliving many periods of disruption.

Financial conservatism: good and bad

Finance is seen as both an advantage and a disadvantage. Many family companies are financed in a conservative way, largely with the family's own funds. This mitigates risk. Especially in times of economic crisis, it makes them less dependent on expensive and sometimes hard-to-find external funding. In addition, the absence of stock exchange pressures gives them greater freedom to operate. But a conservative approach can also translate into missing out on opportunities and insufficient utilisation of financial leverage. Limited access to stock markets when funds are needed can turn the blessing of independence from the market into a curse.

Family ties

The emotional dimension of a family company is also seen by respondents as both an asset and a liability. The deep relationships that are of paramount importance for the long-term success of the family business risk being the source of endless debates, illogical decisions, and tears in the boardroom. Intertwined family emotions can also add disturbing complexity to the business, on a daily basis.

Another disadvantage that we identified from our interviews is that risk for a family business is equivalent to risk for the entire family's finances. Just like other companies, family businesses are exposed to various strategic, financial and operational risks. The link between risk-taking and family wealth can be problematic. It may lead to risk-averse behaviour in order to preserve the family's wealth, and this could be harmful in a fast-changing, disruptive environment.

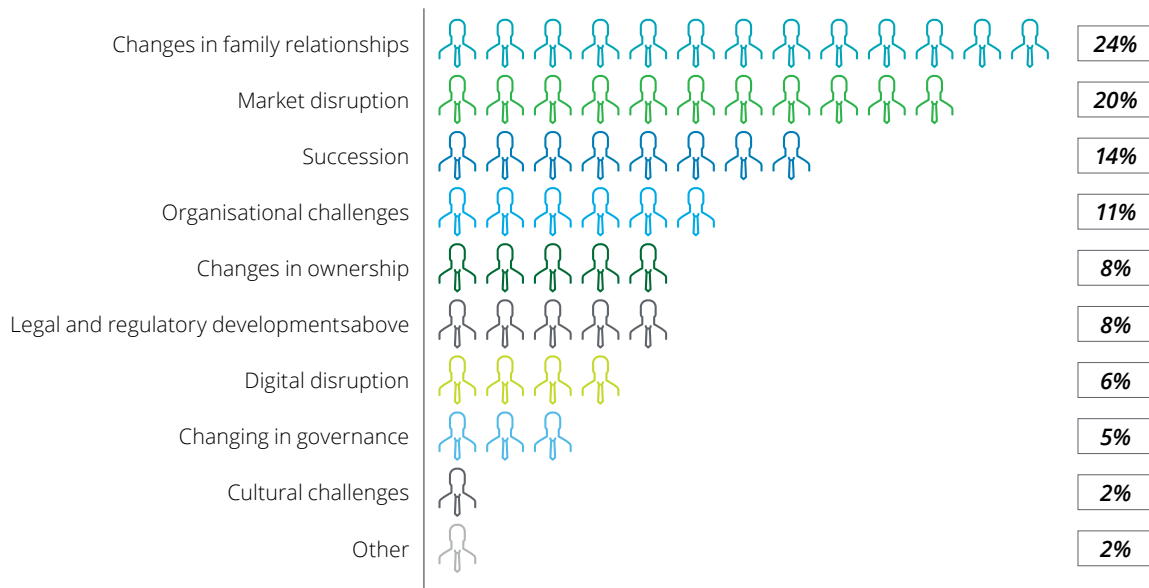
Most disruptive issues for family companies

We asked respondents to identify the top three issues that are most likely to cause potential disruption to their family business or systems. Changing family relationships was seen as the most important and succession issues the third most important; both of these are internal factors. An external factor, disruption in the markets, was in second place.

Family relationships necessarily imply strong emotions and bonds, which in many respects are positive. But if emotions in play within the family become negative and the problem is not addressed, in-fighting and conflict can persist, creating a toxic and potentially unstable environment. The wealth of the family may be eroded. Family members and non-family employees may decide to leave. The family business itself may fail, and disrupt itself from within.

To prevent this negative sequence of events, it is vital that differences in opinions and disagreements on roles and strategies should be fully understood and addressed. Sibling rivalries, nepotism, entitlements, and a lack of clarity about roles and authority should not be allowed to destabilise the family business.

Figure 15. Most disruptive factors in family companies

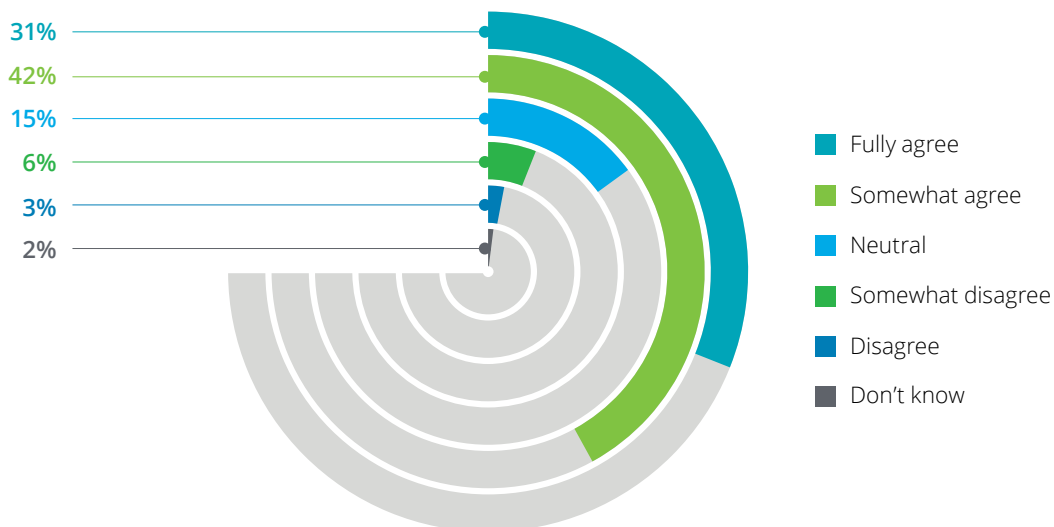


(Source: Deloitte analysis, 2017)

The succession

Nearly three-quarters of family companies claim that succession is a natural point of disruption. During a period of leadership stability, the strategic objectives of the family company are clear, and it is not easy to change direction. However, during the process of leadership transfer the new generation brings fresh ideas. Although this could result in inter-generational clashes, succession should be seen as an opportunity for disruptive innovation in the family business⁶.

Figure 16. Succession in a family business is a natural point of disruption



(Source: Deloitte analysis, 2017)

Deloitte view

In our view, lack of communication and non-alignment of vision, goals and authorities are the fundamental causes of disruption in the family.

Good governance promotes effective communication, and a long-term solution is to develop a strategy that will reduce the risk of any differences arising.

There should be a vision and strategy to ensure that the views of key stakeholders are in alignment and they all know where they are heading.

For example, a well-defined succession plan and process that is fully communicated will ensure that everyone knows where they stand and allow the relevant training and systems to be put in place. While a transition in ownership or management is a disruption, involving a change to the ordinary course of business, its negative impact can be controlled and restricted.

There should be an organisation structure that clarifies the relationships between family members, shareholders and the business. Another key requirement is a governance framework that addresses any emotional issues that have become impediments to family harmony.

Paying attention to family dynamics is an insurance policy that protects both harmony and well-being within the business.



Final remarks

When radical changes and disruption emerge, family businesses face different challenges compared to non-family businesses, but they can also play to their strengths, build on them, and achieve competitive advantage.

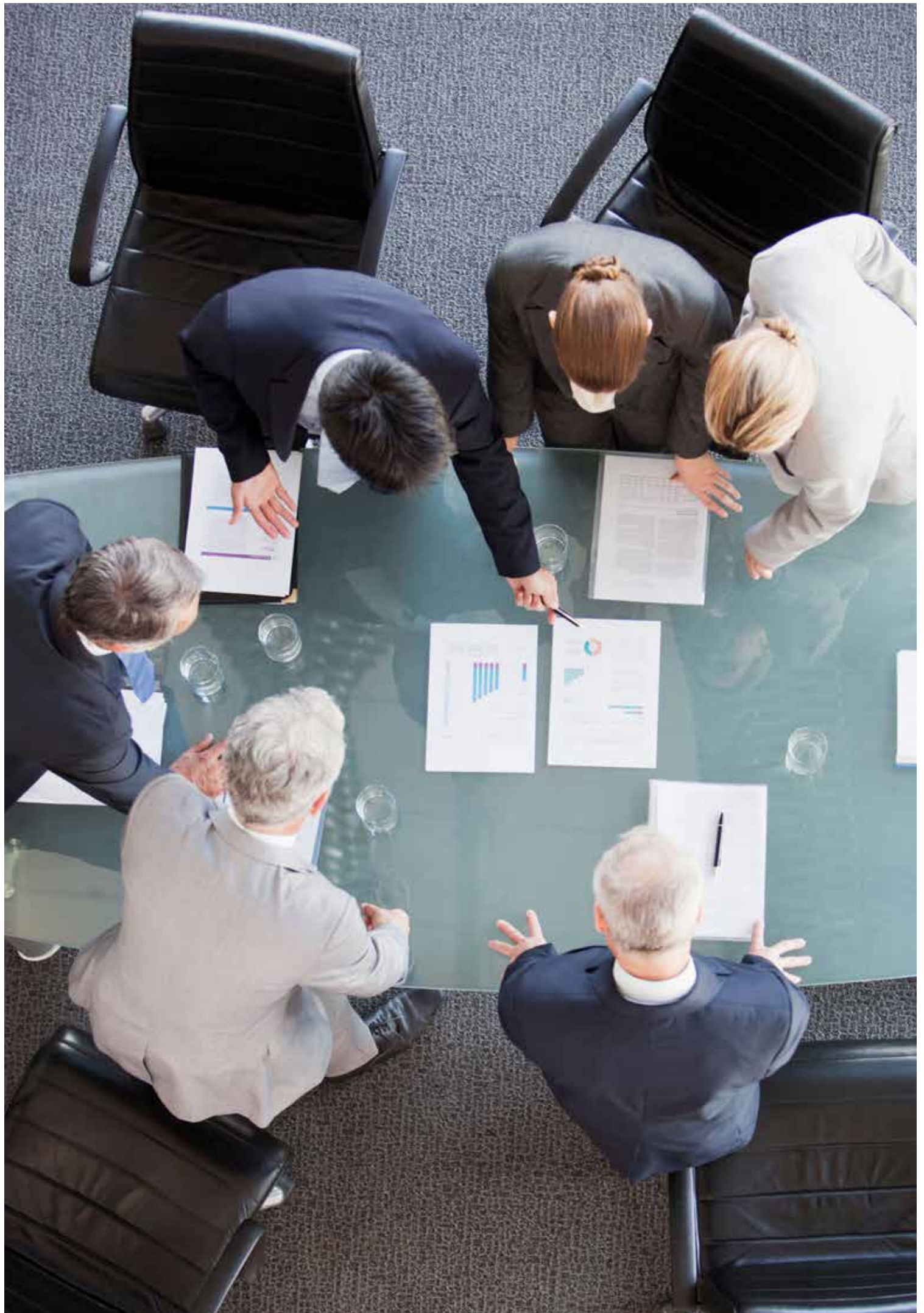
In particular family businesses benefit from independence and leeway. Their fast structures – including their autonomy based on the way most of them are financed – allow them to react quickly as conditions on the ground change. This is an immensely valuable asset in times of disruption.

On the other hand, family businesses also need to find methods to alleviate their weaknesses in a time of disruption, such as limited funding and resources.

Companies need to explore new approaches and strategies, in which innovation and learning are essential for success. However, even with the right strategy, it can be difficult to bring everyone into agreement about what should be done. An important part of running a family business is seeking and obtaining valuable input from non-family employees and executive management. Doing so helps to keep the company flexible, dynamic and open to new ideas.

It is fundamentally important that the company culture should back up its strategy, and bolster risk-taking, agility and collaboration.

Finally, to thrive in a disruptive environment, family companies should also take a proactive approach to their talent model and recognise that the workforce of tomorrow will require different skills than those today.

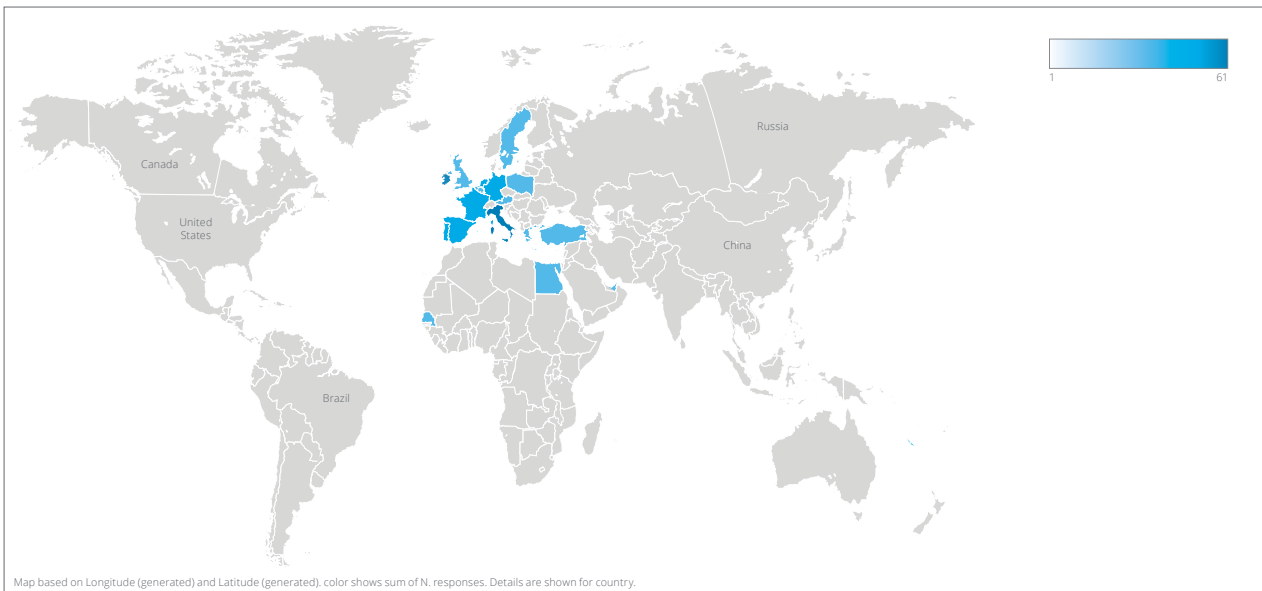


Methodology

The NextGen Survey 2017 is based on the answers, opinions and views of 268 next generation leaders of family companies throughout the EMEA region, recorded via either extensive personal interviews or web-based questionnaires. This hybrid research combines a fast and non-intrusive data collection method with the depth (and breadth) of personal interviews.

The data collection period ran from 9 January to 30 March 2017.

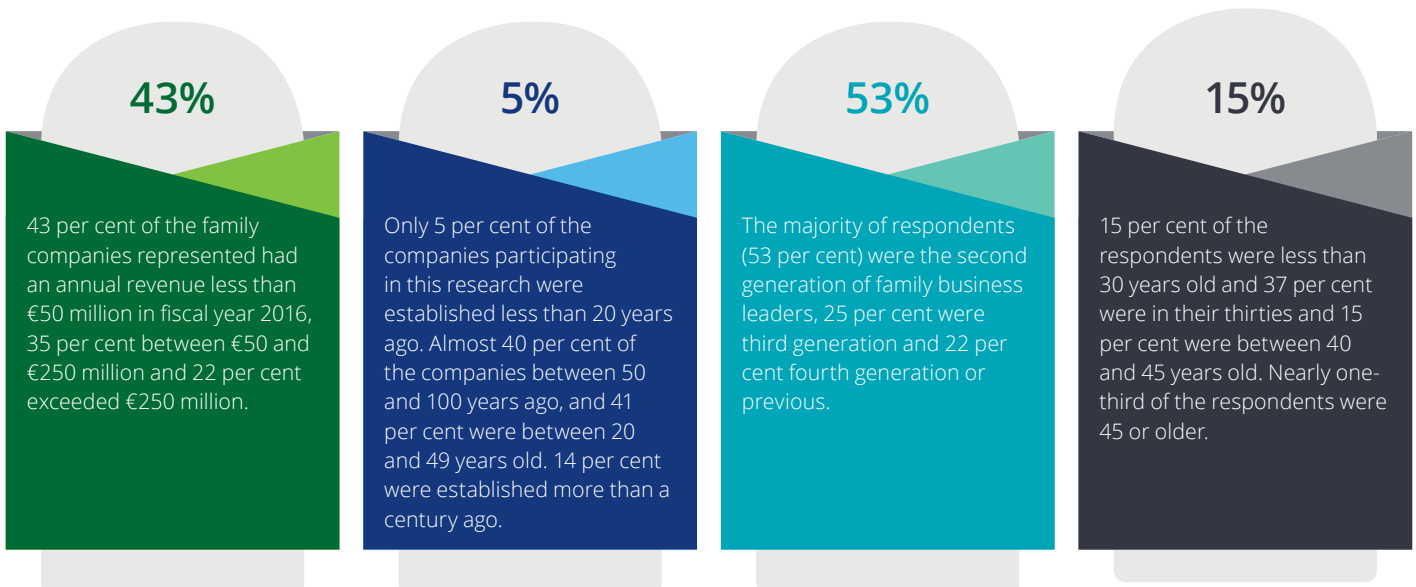
The following countries participated in this research:

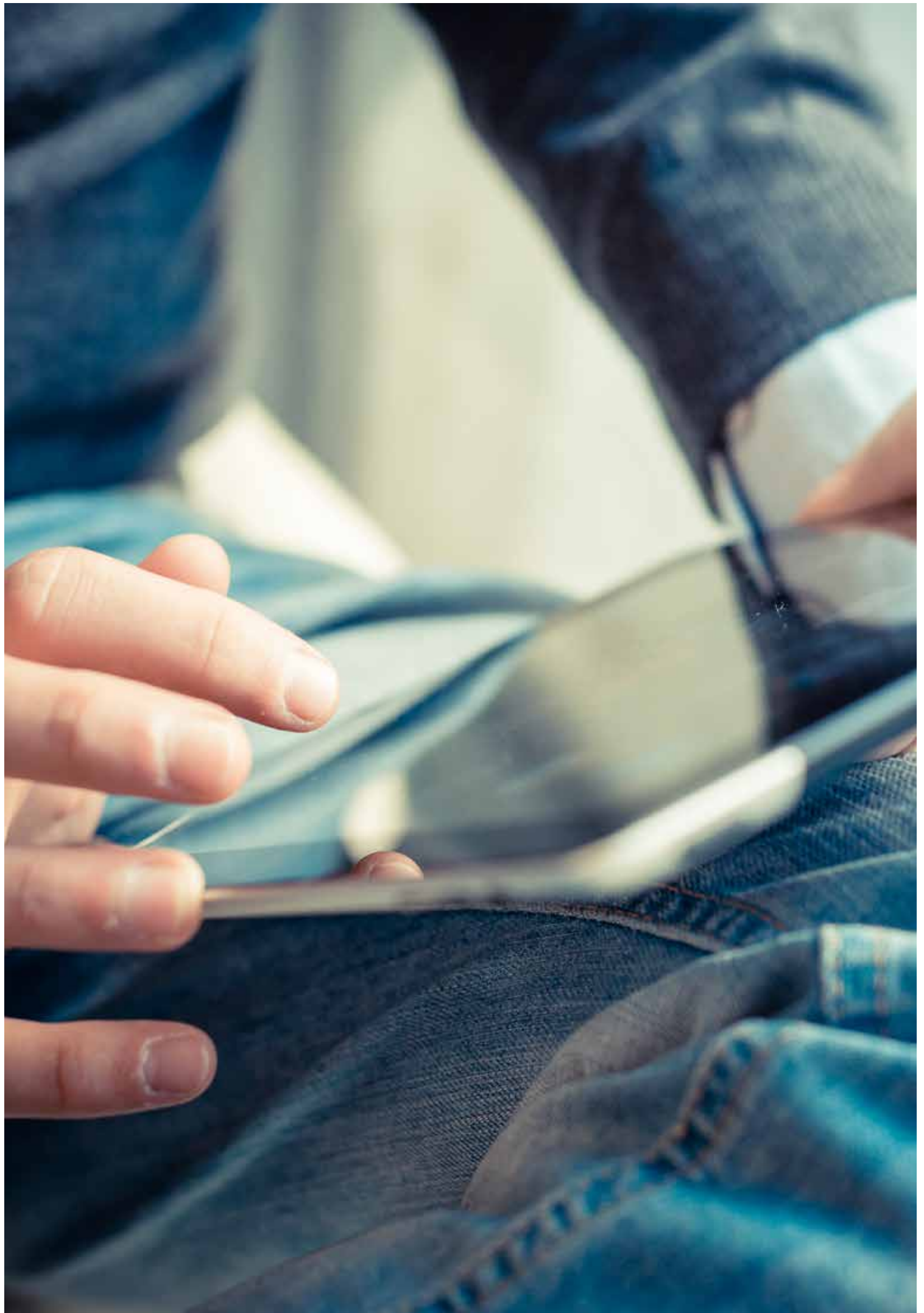


The data collected and presented in this report is weighted to give every country the same value and to avoid consequent discrepancies in the final results.

Because of rounding, percentages may not add up to 100 per cent.

Demographics





Further reading

Deloitte offers a wealth of articles and blogs on the subjects of disruption and family business. A selection of interesting items is given below.

Deloitte University Press series about disruption:

<https://dupress.deloitte.com/dup-us-en/focus/disruptive-strategy-patterns-case-studies.html>

Family Enterprise Consulting blog:

<http://blogs.deloitte.co.uk/family-enterprise/>

For other research in our NextGen series:

<https://www2.deloitte.com/global/en/pages/strategy/articles/emea-family-business-initiative.html>

Deloitte US: Private companies issues and opportunities report:

<https://www2.deloitte.com/us/en/pages/deloitte-growth-enterprise-services/articles/private-company-issues-and-opportunities.html>

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Endnotes

1. What is disruptive information? Harvard Business Review, 2015
2. Patterns of disruption. Deloitte University Press, 2015.
3. Approaching disruption. Deloitte University Press, 2016.
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5. Family firms and disruptive technological change. Nadine Kammerlander. 2014.
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