


Family Business
Center of Excellence



Coming home or breaking free?

Career choice intentions of the next
generation in family businesses



Preface

Family companies are characterized by their unique combination of dynastic will, family ownership and professional management: this connection produces a dynamic that offers competitive advantages, but it also harbors potential risks.

Generational change in family businesses is a highly complex process and often constitutes a balancing act for everyone involved – family, company and owner. Resolving issues is both emotionally led as well as practical; alongside fiscal, legal and financial questions are the very personal aims and values of the family members and, in particular, the views and ambitions of the next generation of family business owners.

This study attempts to provide insight on the succession intentions of students with a family business background. It draws from a large-scale dataset collected in 2011 as part of the Global University Entrepreneurial Spirit Students' Survey (GUESSS) project, which analyzes the entrepreneurial intentions of students around the world. Given that the founding intentions of students have been analyzed in great depth over recent years, the present study complements the picture by focusing on succession intentions. We believe that our study provides some fundamentally new insights into family firm succession.

We investigate in detail what motivates students to pursue a career in their parents' firm. To this end, we explore the individual, family, business and societal-level drivers of succession intentions and conclude with the implications for both senior generation family firm owners and students from family businesses.



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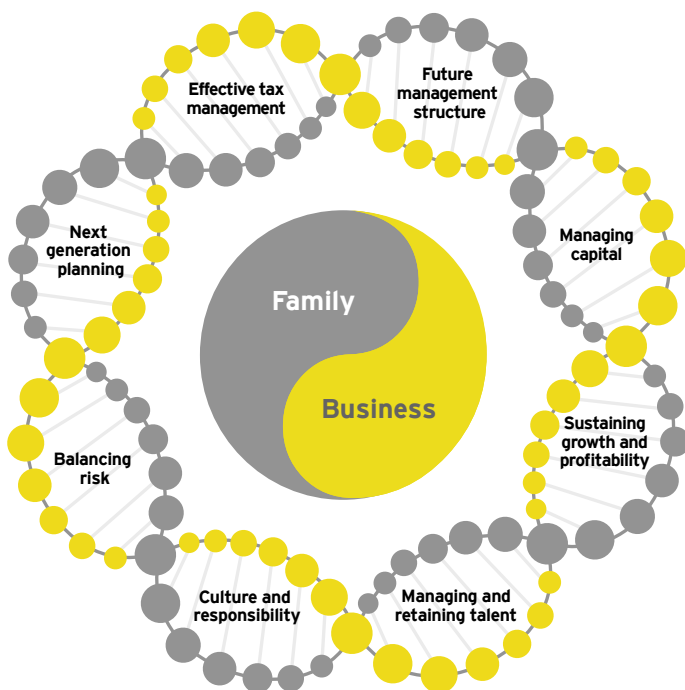
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About the Ernst & Young Family Business Center of Excellence



Running a family business successfully is a balancing act between the strategic issues related to your family and those connected with your business; it also means steering the company successfully between the forces at work in the marketplace and within the family.

As an organization focused on entrepreneurship, with a dynastic will to build a stronger business generation after generation, Ernst & Young relates to and understands the issues faced by family businesses.

We have recently established a global Family Business Center of Excellence, the first of its kind, designed to support family businesses and their owners wherever they operate in the world. The Center brings together advisors from across the Ernst & Young global network to share knowledge and insights that will address family business challenges and provide seamless service for internationally based family-led companies.

The Ernst & Young Family Business Center of Excellence builds on our history of working with private companies and family businesses. The Center also coordinates research investments, sharing leading practice insights with our clients. Ernst & Young is proud to be one of just three Global Alliance Sponsors of the Family Business Network International (FBN-I).

We know that each family business is unique, yet successful family businesses have much in common; understanding these success factors and taking advantage of that knowledge underpins what we call the "growth DNA of family business." Our bespoke family business services, based on this growth DNA model, support both the personal and company performance agenda of family business leaders, and aim to help you succeed for generations.

For more information, please visit www.ey.com/familybusiness

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Authors' short biographies

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Philipp Sieger is Assistant Professor of Family Business at the CFB-HSG; he is responsible for the GUESSS research project on which this study is based. He studied at the University of St. Gallen and completed his doctorate in 2011. His research interests are family firms, strategic entrepreneurship and succession.

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01 The GUESSS project and the questions of interest

The GUESSS project (Global University Entrepreneurial Spirit Students' Survey) was founded in 2003 at the University of St. Gallen, Switzerland, and is supported by the Ernst & Young family business initiative. GUESSS investigates the entrepreneurial intentions and activities of students across the world.

Taking our lead from the theory of planned behavior (Ajzen, 2002; Fishbein & Ajzen 1975), behavioral intentions are influenced by three main factors:

1. Attitude toward behavior.

Attitude toward behavior reflects perceptions of desirability of performing a certain behavior. It is determined by underlying beliefs about the likely outcomes of the behavior (for example, becoming a successor to the family firm) and voiced intentions reflect the positive or negative evaluation of these outcomes (Armitage & Conner, 2001).

2. Subjective norms: the opinion of others.

Subjective norms represent the expected reactions of others (e.g., family members) when a certain type of action is performed, weighted by the importance that is attributed to those reactions.

3. The perceived control over the behavior.

Perceived behavioral control refers to a person's "perception of the ease or difficulty of performing the behavior," (Ajzen, 1991). It comprises the concepts of entrepreneurial self-efficacy (self-confidence in entrepreneurial abilities) and locus of control (perception of having one's own fate under control), (Ajzen, 2002).

For the purpose of this study, we not only investigate these three main factors, but consider a number of additional antecedents to the succession intention. More specifically, we are interested in aspects related to the individual, family, business and institutional levels.

4. On the individual level our main objective is to investigate the students' personal motivations to get involved in their parents' firm. Do they intend to join because of the entrepreneurial challenge, or by pure convenience?
5. On the company level we delve deeper into the role of company size and performance. Are larger and more profitable firms more attractive to successors? And what kinds of successors are attracted depending on the performance of the firm?
6. On the family level we touch upon the family's involvement in the business and the cohesion within the family. Is it possible that cohesion puts off independent-minded successors?
7. On the institutional and hence the societal level we investigate the impact of individualism, uncertainty avoidance and GDP per capita.

Taken together, through these seven perspectives, we intend to shed new light on the drivers and also the obstacles to succession intentions.

02 Survey demographics

During 2011, data collection was conducted in 26 countries around the globe. In each country, one project representative administered the distribution of the survey. To collect the data, an email with a short introduction to the project and a link to the online survey was sent to more than 1.3 million students at the participating universities. Data was collected and prepared centrally at the CFB-HSG.

We reached a response rate of 6.3%, leading to a dataset with more than 93,000 responses. These respondents came from almost 500 universities over four continents, as illustrated in figure 1. For more information on the constitution of the sample, please see the Appendix.

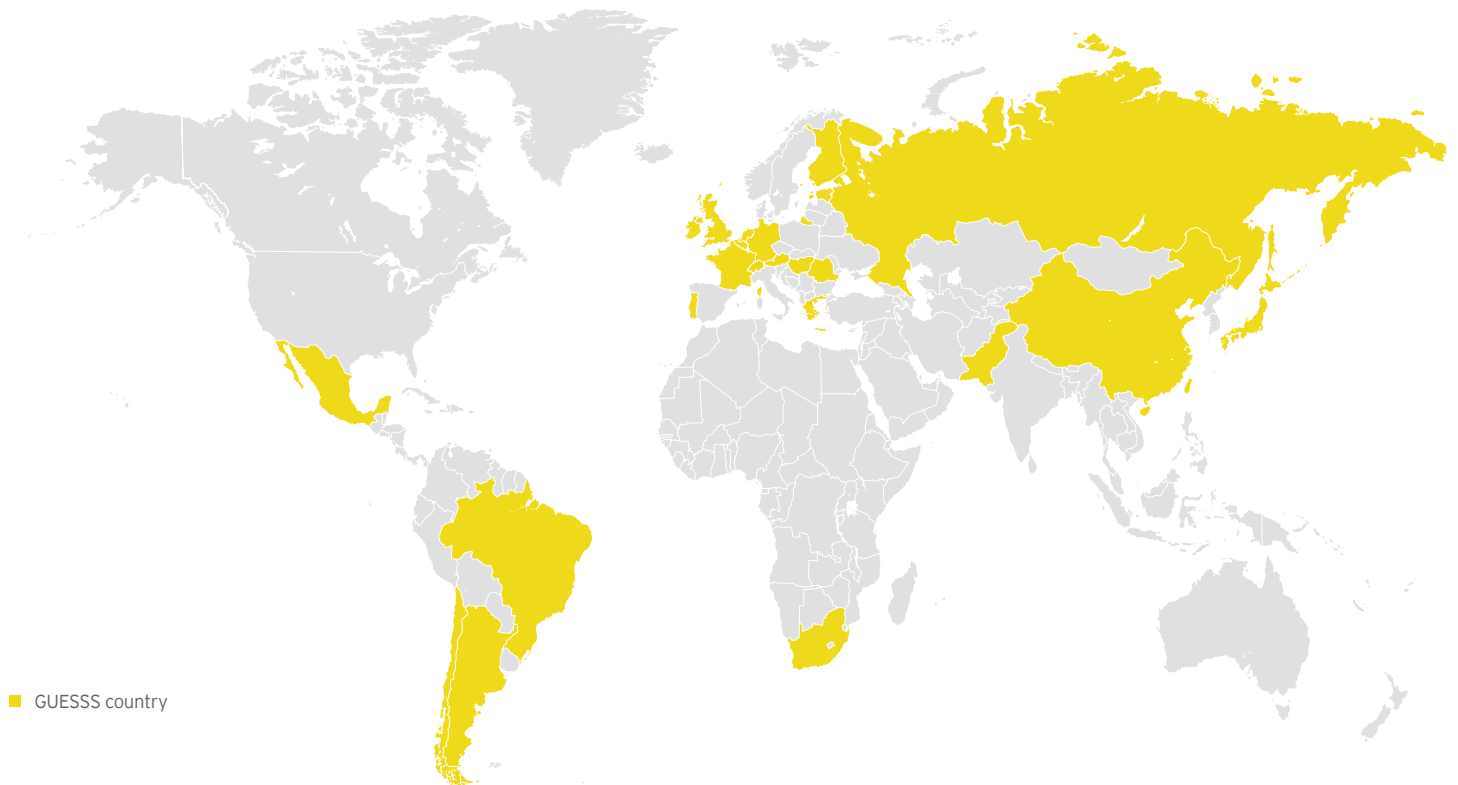
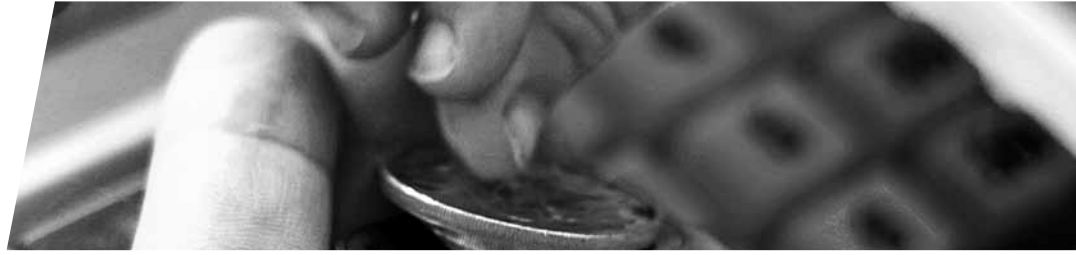


Figure 1: World map of GUESSSS countries for the data collection 2011



Relevance of a family business background

First of all, to investigate succession intentions of students with a family business background in detail, we need to establish if a family business actually exists. Figure 2 shows that approximately 70% of the students in our sample do not have self-employed parents, which reduces our sample to 28,105 students. When a family business exists, it is mostly owned and led by the father.

Even though these numbers depend on the type of universities included in our sample, we see certain differences across countries. For instance, the number of students with a family business background is especially high in emerging economies such as Mexico, Chile, South Africa and Argentina (higher than 50%). As expected, low shares can be found in China and former communist countries such as Russia and Romania (20% or less).

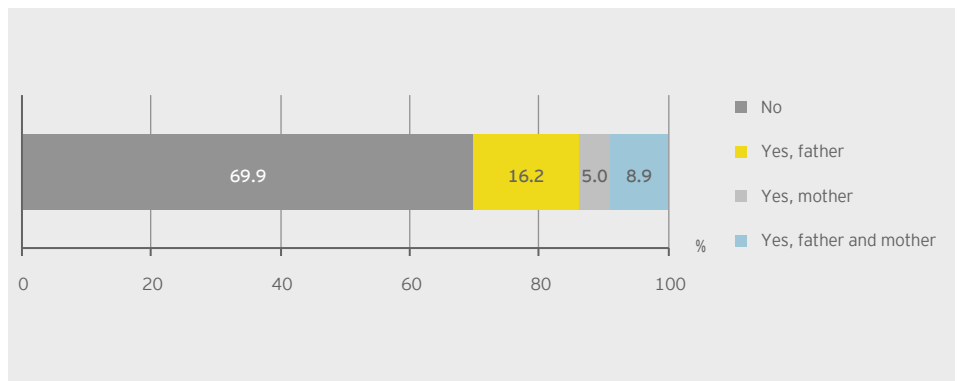


Figure 2: Existence of family business background

Student demographics

The average age of our respondents is 24.2 years with 54.4% of students being female. Eighty-two percent of the responding students are undergraduates. With regard to fields of study, business & economics as well as natural science students each account for approximately 30% of all students. The remaining 40% include social science students as well as students from other fields. More detail on the influence of these and other individual factors can be found in section 5.

We would like to note here that differences in gender, age, study level, study field and country level have to be taken into account when forming conclusions from the findings of this study. Thus, to interpret the relationship between some factors, and succession intentions free from these intervening effects, it is paramount to complement univariate results with multivariate analysis. Our study is thus complemented by a multivariate regression analysis (see Appendix).

03 How many students want to take over?

To investigate students' intentions to take over their parents' business one day, we asked them for their career path preferences directly after the completion of their studies and five years later. While we offered a wide variety of different career options, we grouped the answers into those of intentional employees, founders, successors and others.

Referring to the first job after completion of studies, we see that only 6.9% of our students with family business background intend to take over their parents' firm. Almost two-thirds of all students prefer organizational employment at that point in their careers. The highest proportion of "direct successors" can be found in Greece (17%), Russia (16%), Romania (13%) and Argentina (13%), whereas the lowest are in Pakistan (1%), Switzerland (3%), the Netherlands (3%), France (3%), Germany (4%) and Finland (4%).¹

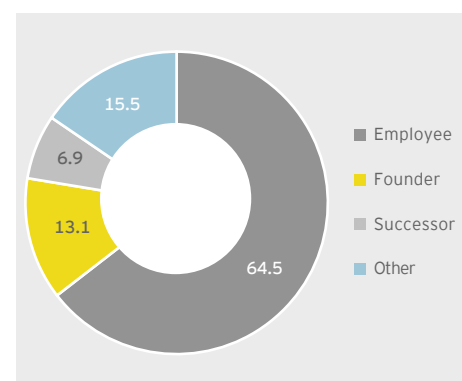


Figure 3: Career intentions directly after studies, in %

1. For more detailed information refer to Appendix.

Looking at career choice intentions five years after their studies have been completed, the picture is somewhat different and more positive for family firms. When considering options five years after leaving university, a significant number do still intend to found their own ventures (38.3%) but the percentage planning to join the family firm increases to 12.8% compared with the 6.9% in figure 3. The highest percentage rates of students intending to join the family firm can be found in Japan (22%), South Africa (20%) and Greece (17%).

We find that the share of intentional successors increases remarkably between the completion of studies and five years after studies in many countries. As seen in figure 5, the increase in the share of intentional successors is particularly high in Liechtenstein, Japan, South Africa and Germany.

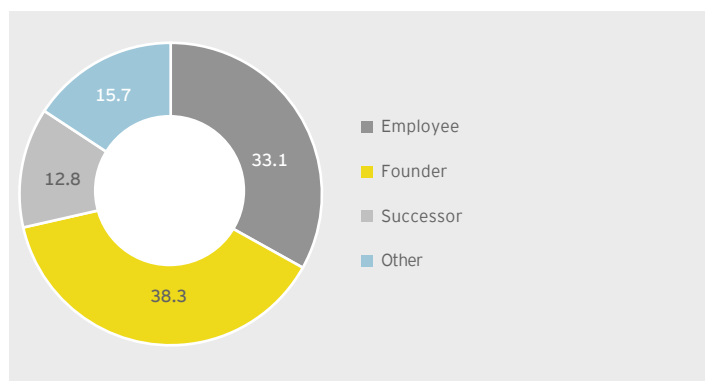


Figure 4: Career intentions five years after studies, in %

In developing countries, we can observe a phenomenon that we would coin “necessity succession,” while “opportunity succession” occurs in developed countries.

Interestingly, while the average student in China and Argentina sees themselves as successor directly after studies, they intend to work at a different place five years later. In these countries, becoming a successor does not seem to be a lifetime choice, but rather a temporary solution until a better career opportunity appears. On the opposite end of the scale, in countries such as Japan, South Africa and Germany, the intention to join the family firm five years after completion of studies is much more

attractive than taking this step right after graduation. This indicates that many students are keen to experience other options after university, while having the option to return to the family company at a later date.

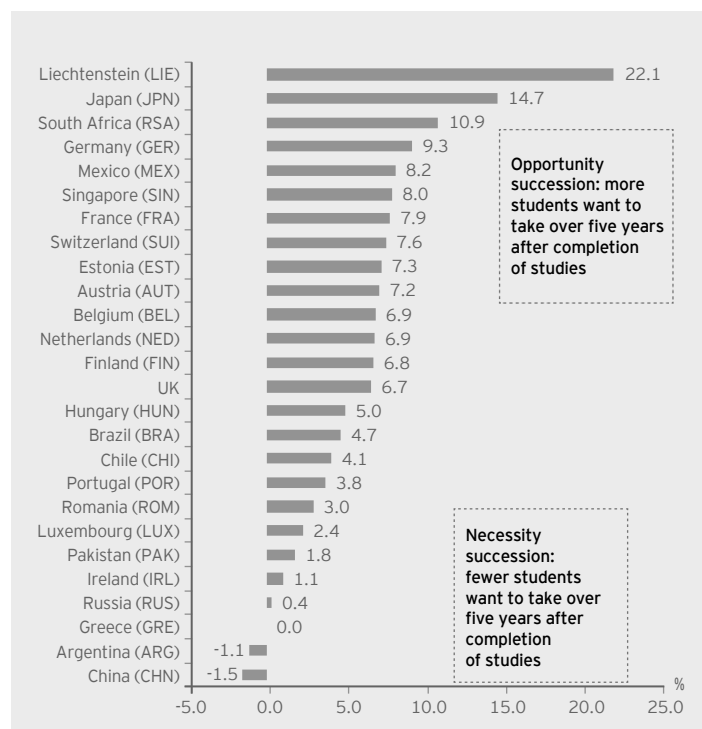


Figure 5: Changes in succession intention five years after studies compared with directly after studies

04 How strong is the succession intention?

People may display a more gradual inclination to join their parents' firm. Our next question asked our sample to what extent they had actually considered joining the family firm.

To allow a better interpretation, we grouped these students into non-successors,² potential successors³ and active successors.⁴ We see that, while around three-quarters of all students with family business backgrounds can be classified as non-successors, 22.7% can be regarded as potential successors that have at least repeatedly thought about taking over their parents' firm. This needs to be compared with the 6.9% of all students with family business background intending to take over their parents' firm directly after studies, and the 12.8% intending to do so five years after completion of studies. Consequently, the pool of potential successors that have seriously thought about taking over the family's firm is larger than suggested by the previous figures. These numbers are combined in figure 7.

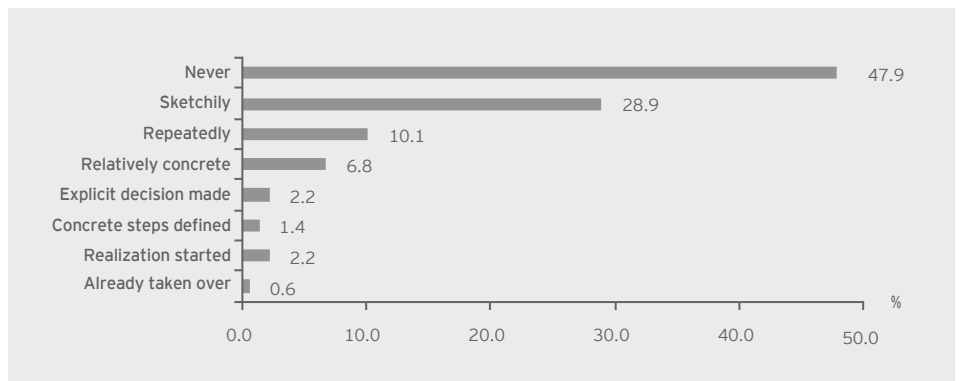


Figure 6: Intensity of succession intention in % of all students with family business background

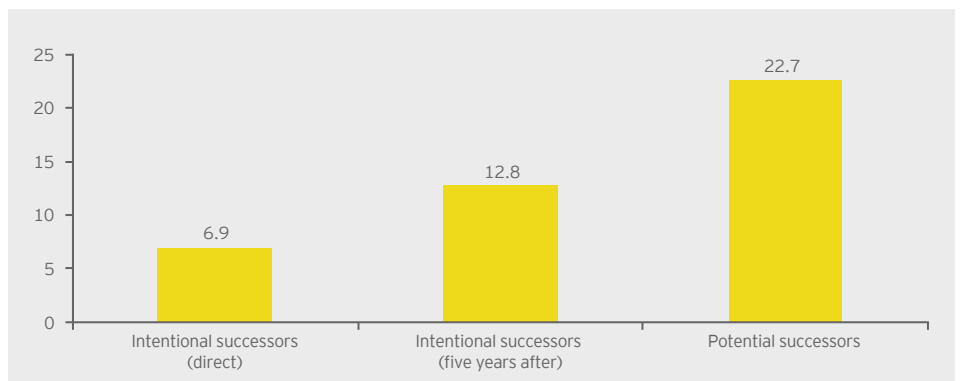


Figure 7: Successor categories, in % of all students with family business background

2. Includes: never and sketchily.
 3. Includes: repeatedly, relatively concrete, explicit decision made, concrete steps defined, realization started.
 4. Includes: already taken over.



To visualize the strength of succession intentions, we constructed an index as shown in Table 1. We assigned a numerical value to each option and ultimately to each student, allowing us to depict the average value by country.

Option ⁵	Value
Never	0
Vaguely considered	1
Repeatedly considered	2
Relatively concrete	3
I have made an explicit decision to be the successor in my parents'/family's business	4
We have defined concrete steps in how and when I will join the business	5
I have already started with the realization	6
I have already taken over my parents'/family's business (majority ownership)	7

Table 1: Strength of succession thoughts and corresponding factors

Figure 8 depicts the average succession indices across countries. The highest average values can be found in Liechtenstein, Argentina, Russia and Mexico, with the lowest in the Netherlands, Finland, France and Belgium.

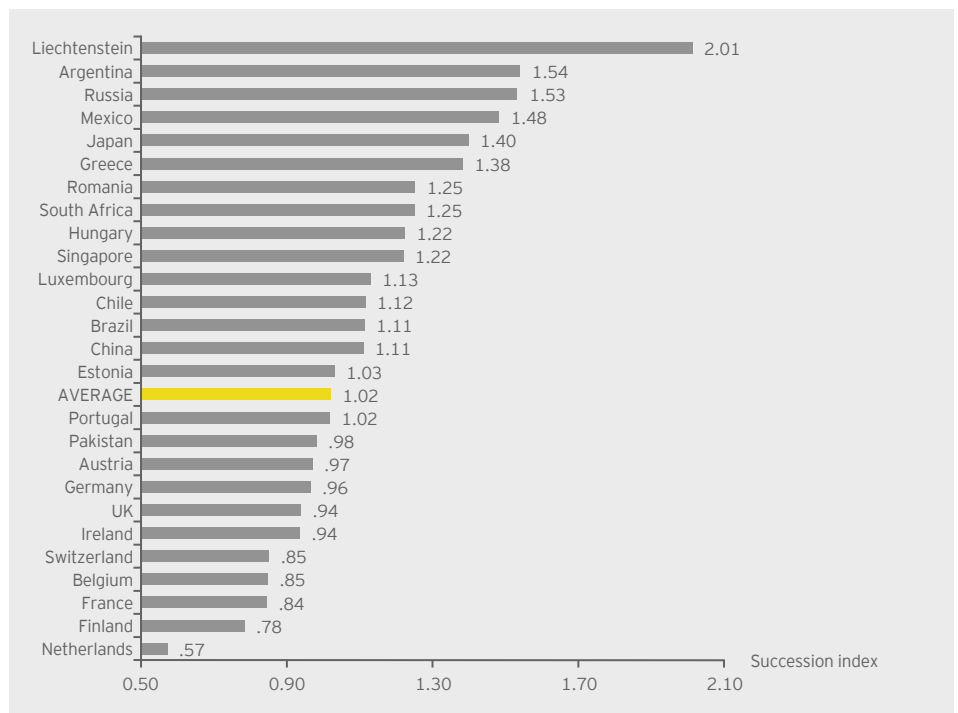


Figure 8: Mean succession indices across countries

5. We assume a hierarchical order of these categories, whereas the numbers from 0 to 7 indicate equidistance. This is an assumption that might not be true in all cases.



05 Individual-level drivers of succession intentions

Having established the career choice intentions of our sample student group, we now turn our attention to the individual factors that may influence the intention to join the family firm, including:

- ▶ Field of study (degree subject)
- ▶ Gender
- ▶ Personal ownership
- ▶ Work experience
- ▶ Commitment
- ▶ Motives
- ▶ Personal environment
- ▶ Perceived barriers

Field of study

We assume that the formation of succession intentions depends on the field of study. Figure 9 shows the percentage of those students in our sample intending to join the family firm (either immediately or five years after leaving university) broken down by their degree subject.

Business & economics students have the highest rate of intending to join the family firm.

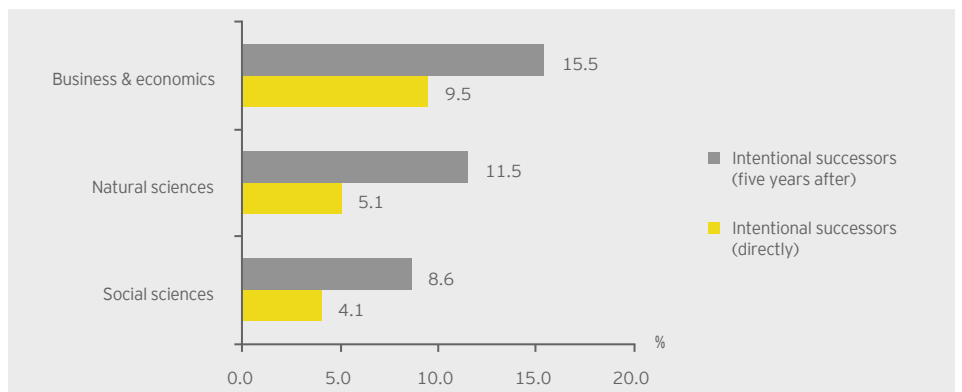


Figure 9: Share of intentional successors across study fields and time

Gender

Despite cultural discrepancies, continuing the family's entrepreneurial tradition often implies that the firm is passed down from "father to son." But do men and women differ in their development of succession intentions?

Our descriptive analysis based on career choice intentions five years after study shows that the shares of intentional successors among female and male students are rather similar. An obvious gender effect thus does not seem to exist.

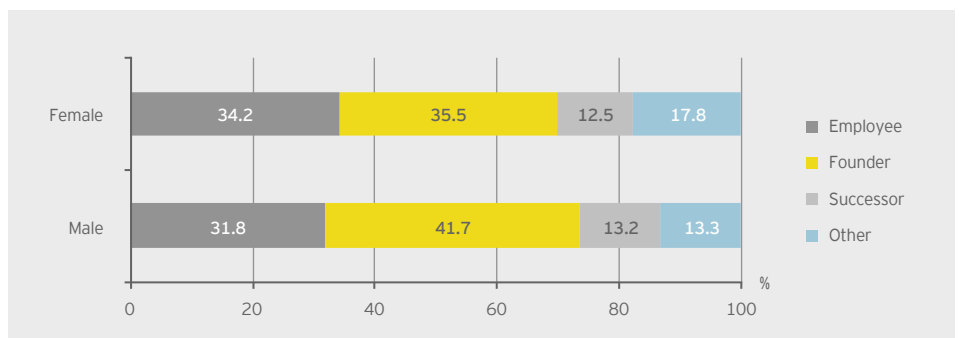


Figure 10: Career choice intentions five years after studies depending on gender



Ownership

Almost 80% of all students in our sample do not own any equity in the family firm at present. 18.7% responded that they had a minority share and a very small 2.7% claim a major ownership share. The average share of equity of those that already do own shares is 6.3%.

Work experience

Another aspect we explored was the work experience our sample students had gained in the family firm. More than one-third had already worked in their family business; among these, around half have more than two years of work experience. On average, our students have been working in the family firm for 3.9 years, with the average weekly workload reaching 18.2 hours.

Commitment and motivation

We anticipate that our sample students' level of emotional commitment to the family firm influences their willingness to join the business in the future. In figure 11 we depict how emotional commitment compares to career choice intentions, broken down into intentional successors, new venture founders and employees of other companies. As expected, those with stronger and positive feelings about their family firms were more likely to choose the family firm as a career choice.

As presented in other studies (Zellweger, Sieger and Halter, 2011), those that intend to join the family firm also have different motivations to those that choose alternative career paths, as depicted in figure 12. This graph shows the results of asking our sample students how important a number of motives are to them in relation to their future career path (1 = very unimportant, 7 = very important).

Our analysis shows that intentional successors differ most from their peers with regard to being driven by motives relating to family tradition, transgenerational orientation and following existing role models.

It is not surprising that our group of future venture founders rated entrepreneurial-based motives such as "being one's boss," "exploiting a business opportunity," "challenging myself" and "realizing my own dream" as higher than their peers.

This indicates that the succession career path is not seen as the way to satisfy purely

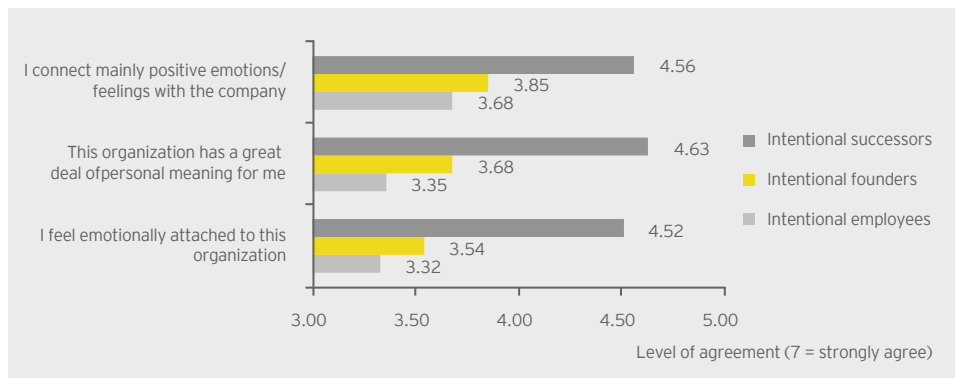


Figure 11: Emotional commitment of students toward the family firm

entrepreneurial motives. Students with very pronounced entrepreneurial motives tend to prefer founding their own firm to becoming a successor.

Finally, we found that the financial motivation in terms of income generation does not significantly differ between intentional founders and intentional successors.

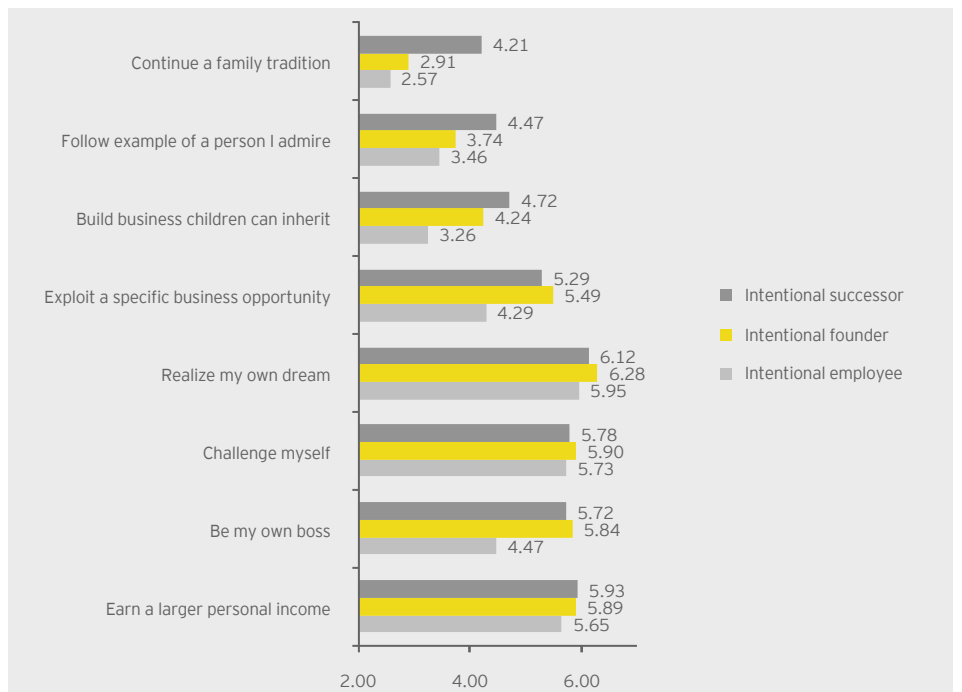


Figure 12: Motivational differences related to career choice intentions

Parents' opinion – and how much students care about it

Parents are likely to have an impact on the formation of career choice intentions. To capture this aspect, we asked students how their parents and other family members would react if they pursued a career as an entrepreneur (1 = very negative, 7 = very positive).

Across our sample, we see that more than 85% of parents would react positively (with a value higher than 4) if their children pursued an entrepreneurial career – 45.5% would even react very positively (value 7).

But how much do these students care about what their parents say regarding their future career path (1 = not important, 7 = important)? We see that, in 84.9% of cases, the parents' opinion is important. Here, 44.4% of the students indicate that this opinion is of very high importance (value 7), the overall mean being at 5.87.

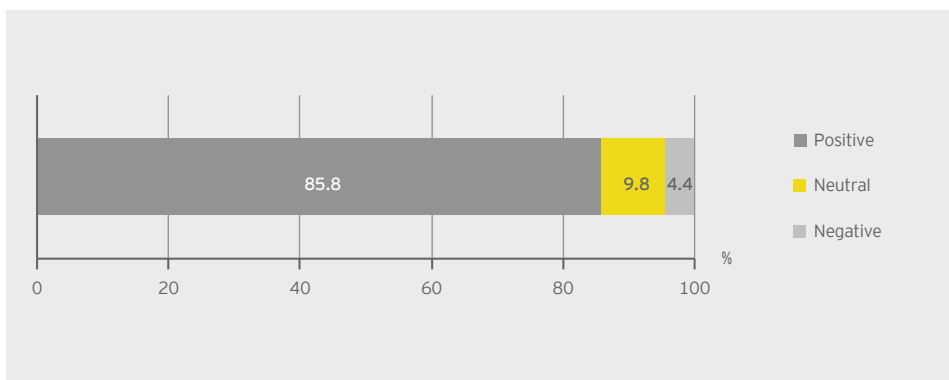


Figure 13: Parents' reaction to children pursuing an entrepreneurial career

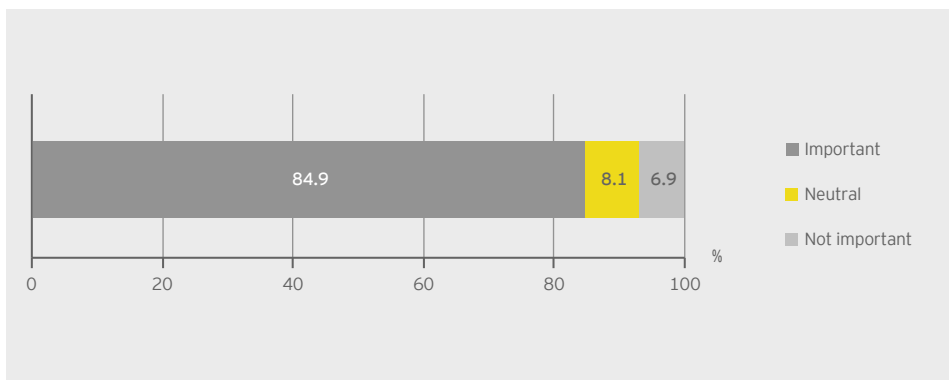


Figure 14: Importance of parents' opinion for students' career choice intentions



Parents' reaction to their children pursuing an entrepreneurial career is very positive on average, and this opinion is also very important to offspring. But are there international differences in both these dimensions (type of reaction by parents to an entrepreneurial career, and students' concern about opinion of parents)? The related findings are depicted in figure 15.

Even though the average values are rather high on both axes, we detect a few noteworthy country-level differences. Figure 15 includes four groups of countries, of which two are particularly noteworthy:

1. *Bottom left quadrant:* in this group, parents' reaction to an entrepreneurial career is below average, as is the students' concern about parents' opinions. In this group, we find developed countries such as Japan, Finland, Belgium, the Netherlands, Germany and Switzerland. These countries do not seem to provide a particularly fertile ground for familial successions.
2. *Top right quadrant:* here, the reaction to an entrepreneurial career is very positive, and the parents' opinion is very important to students. In this quadrant, we mainly find emerging countries such as South Africa, Romania, Chile, Mexico and Brazil. These countries provide a fertile context for family internal successions.

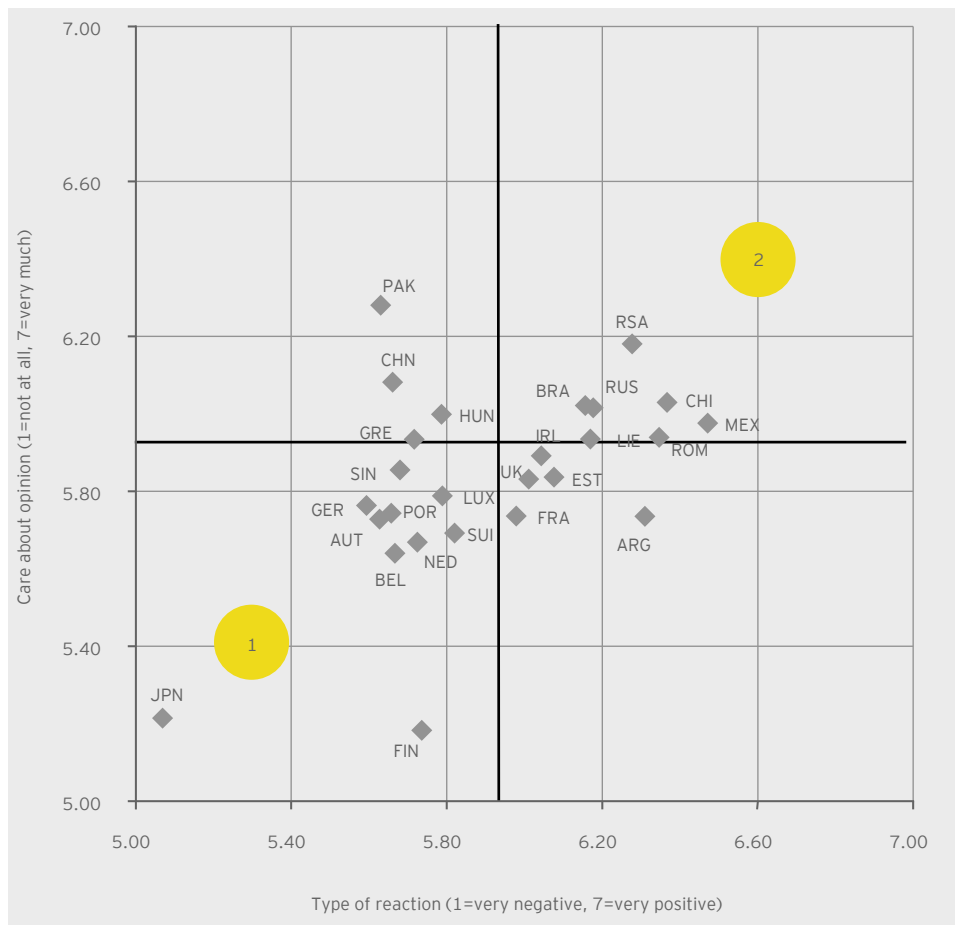


Figure 15: Parents' reaction versus corresponding importance across countries

Perceived barriers to succession

To explore factors that prevent students from becoming a successor in their parents' firm, we asked the students to what extent different issues represent a barrier to becoming a successor in their family firm (1 = not at all, 7 = very much).

Being limited in their own career paths, doubts about the necessary skills and a lack of interest in the firm's activity appear as the strongest barriers. Family-related aspects, such as working together with relatives on a daily basis, or the responsibility of continuing the family tradition, do not seem to have a discouraging effect on students.



Perceptions of control over one's life

Another interesting aspect to study in the succession context is the students' level of internal locus of control. Individuals with a high internal locus of control perceive that they can influence relevant outcomes in their environment, meaning that their destiny is in their own hands. Opposing the initial theory of planned behavior research, but supporting most recent findings (Zellweger et al. 2011), locus of control is negatively related to the succession intention in our data: this means that students who believe that they can control their own life, often refrain from becoming successors.

A possible explanation could be that students raised in business families experience the burdens and responsibilities imposed on their parents. They see how their parents are under pressure and hounded by competitors, banks, employees and even family members involved in the firm. They might get the impression that their parents do not have much control about their professional life. Consequently, self-directed students may want to avoid such circumstances and, in order to keep control of their fate, do not opt for a career as a successor.

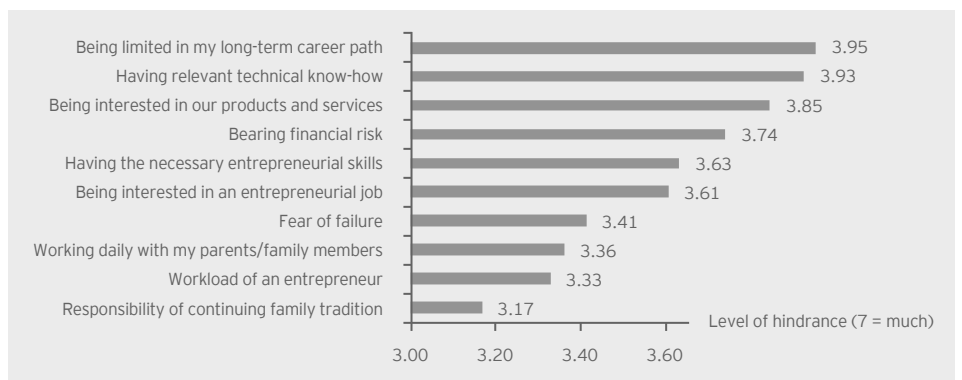


Figure 16: Extent to which different aspects represent barriers to succession

Entrepreneurial self-efficacy

Entrepreneurial self-efficacy is an important driver of an entrepreneurial career. It investigates students' self-confidence and optimism in successfully accomplishing entrepreneurial tasks, such as leading their own firm to success, making decisions under uncertainty and risk and willingness to take calculated risks, and generating new ideas.

Interestingly, we find in our regression model that entrepreneurial self-efficacy is negatively related to succession intention. The more students with a family business background perceive that they are capable and skilled entrepreneurs, the less they consider the succession path. Rather, they might choose to found their own firm where these motives are more likely to be fulfilled. This is in line with our previous finding that entrepreneurship-related motives are more important among intentional founders than among intentional successors.

06 Company-level drivers of succession intentions

Having looked at the individual-level factors that may influence the students' career choice, we now turn our attention to company-related factors.

Firm size and the family portfolio of firms

As shown in figure 17, we can see a positive correlation between the family firm size in terms of number of employees and the intention of our students to join the firm. In other words, the larger the firm, the more likely it is for the student to indicate their intention to join.

Regarding size, we observe that almost 70% of our family firms have less than five employees and around 10% more than 20 employees (family firms in our sample have 16.6 employees on average). The average size of firm, however, differs significantly across countries, for instance with more than 40 employees on average in China, the UK and Russia; as family firm size may be an indicator of performance and attractiveness, we expect a positive relationship between firm size and succession intention, which is confirmed in our analysis.

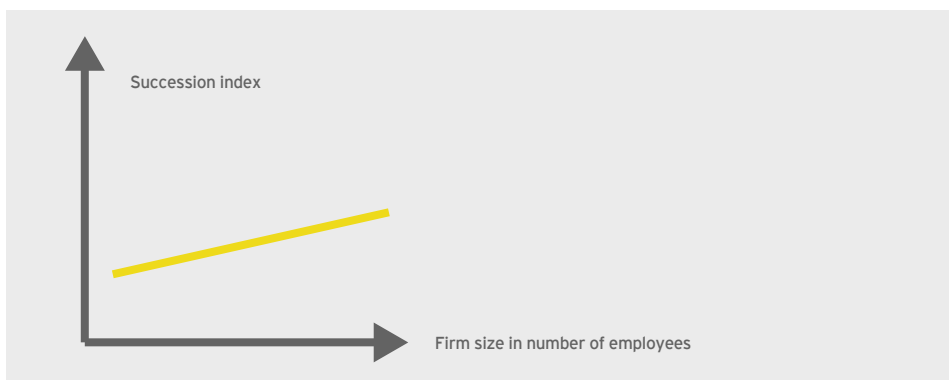


Figure 17: Firm size and succession index

An additional phenomenon worth investigating is the notion that business families often own more than just one firm. Even though the average size of the family firms in our sample is quite small, the average number of owned firms is 1.38 and the largest firm out of the family portfolio of firms contributes 70% of sales on average. Around 85% of students indicate that their family owns just one firm. Around 5% state that their family owns three or more firms.

One reason for family firms to acquire and found other organizational entities is to provide job opportunities for family members. Therefore, we would expect a positive relationship between the number of companies owned by the family and the strength of succession considerations.

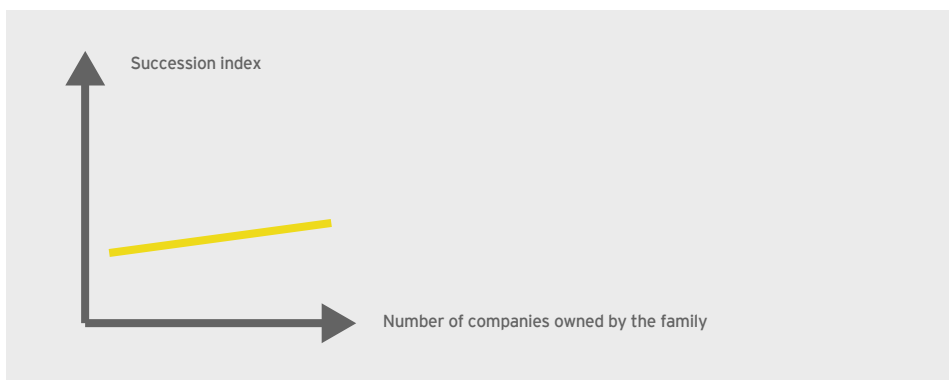


Figure 18: Size of family firm portfolio and succession index

Firm age

The majority of our students in our sample indicated that their family firm was in the hands of the founding generation (average age of the family firm was 24.3 years). However, we were not able to find any significant relationship between firm age and career intentions.

Company performance

We expect that the performance of the family firm might have an effect on respondents' intention to become the successor. We asked students how they rate the performance of their parents' firm compared to its competitors over the last three years, in terms of sales, market share, profit and creation of jobs (1 = much worse, 4 = equal, and 7 = much better). The average across all four categories and countries is 4.26, which is slightly above the neutral statement.

To gain further insight, we created two groups: the first group contains students from family firms with poor performance (average performance values from 1 to 2); the second group contains students from high-performing firms (values from 6 to 7).

The career choice intentions of these two student groups five years after completion of studies are illustrated in figure 19. We see that the share of intentional successors is more than twice as large in high-performing businesses. Most of the intentional successors who are discouraged by poor family firm performance prefer an employment instead.

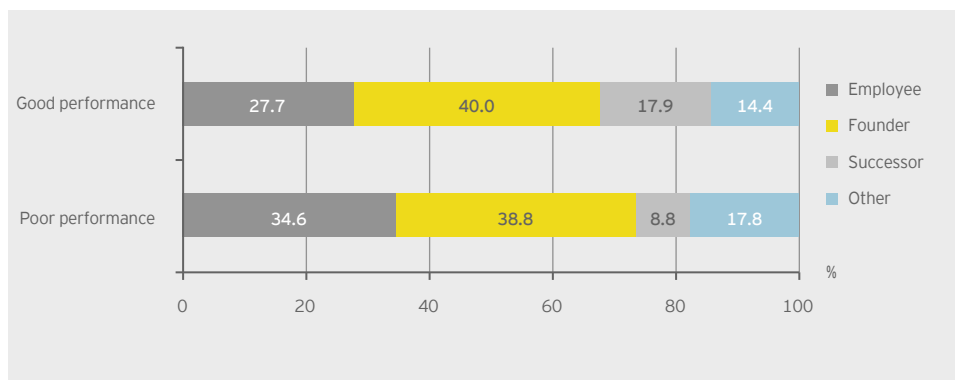


Figure 19: Performance groups and career choice intentions five years after studies

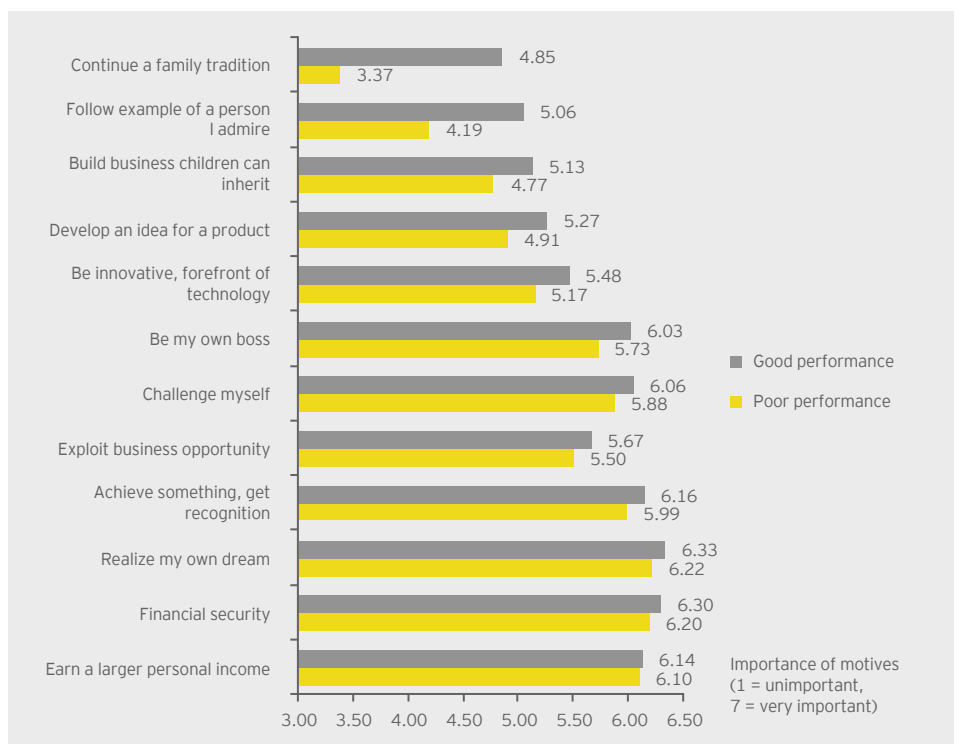


Figure 20: Motivational differences of intentional successors depending on company performance



Even though we were unable to confirm a positive relationship between company performance and succession intention in our regression analysis (see Appendix), we explored further differences between these two groups of students. Figure 20 displays the differences in the importance of motives, depending on whether the students stem from a poor- or well-performing family business.

We find that intentional successors in well-performing family firms:

- ▶ Give more value to aspects related to family and tradition, such as building the business for future generations and following a role model
- ▶ Attribute a higher importance to new product development, being innovative, being their own boss, and having flexibility in their private life⁶

High performance seems to attract students who pursue a dual set of motives – the pursuit of family traditions and role models, and the realization of their own innovative idea in a self-determined work environment. This points at a unique goal set of successors, which is distinct from the founding context where the second set of motives seems to prevail.

Interestingly, however, intentional successors in poorly and well-performing family firms do not differ with regard to the importance they place on challenge and opportunity-driven motives, such as exploiting a business opportunity, achieving something or realizing their own dream.

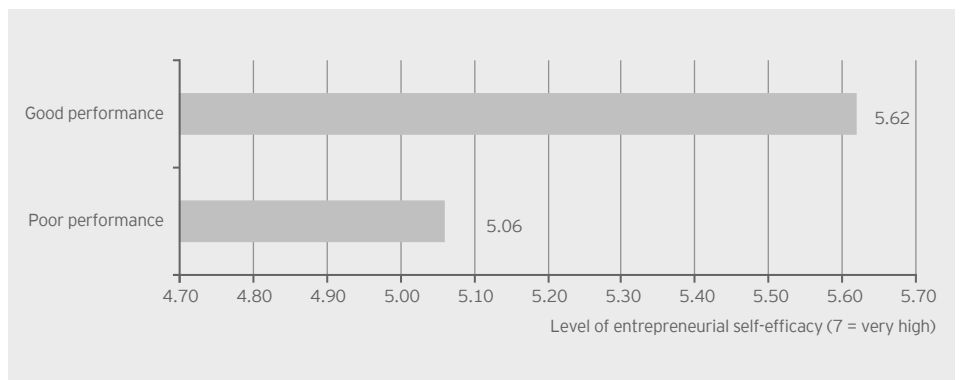


Figure 21: Successors' entrepreneurial self-efficacy in poorly and well-performing family firms

Adverse selection in the context of family-internal succession?

Based on our findings, one may ask whether well-performing companies attract inappropriate successors, hence successors who mainly seek immediate financial gains for themselves, or exhibit insufficient levels of entrepreneurial attributes. They may intend joining the firm out of convenience related to the positive performance of the firm.

However, intentional successors in successful family firms do not attribute a higher importance to financial matters than intentional successors in poorly performing firms (see figure 20).

We also investigated levels of entrepreneurial self-efficacy in poorly and well-performing family firms. As this attribute has been found to increase entrepreneurial intentions and actions, it is a desirable attribute for entrepreneurial careers. Figure 21 shows entrepreneurial self-efficacy for intentional successors in poorly and well-performing family firms.⁷

We see that intentional successors in well-performing family firms have significantly higher entrepreneurial self-efficacy. Students intending to become successors in well-performing family firms are more convinced and optimistic that they have the necessary entrepreneurial skills than intentional successors in poorly performing family firms.

Taken together, we do not find evidence for adverse selection. Good performance thus does not seem to attract successors who mainly seek personal financial advantages. Also, a high-performing family firm attracts students with high levels of entrepreneurial self-efficacy.

6. For all these aspects, the mean differences of the motives are significant at the 0.05 level.

7. Mean difference of the overall average is significant at the 0.05 level. In addition, intentional successors in well-performing family firms report significantly higher values for all dimensions of entrepreneurial self-efficacy.



07 Family-level drivers of succession intentions

We assume that the formation of succession intentions of students with a family business background is also affected by family-related factors. We therefore explored the family structure, the number of elder siblings and levels of family cohesion.

Our data shows that the students' families own an average of 74.92% of equity in the family firm, with 1.93 family members operationally involved. We also find that management and supervision of the companies are also dominated by the business families in the majority of cases.

Birth order

A potentially interesting factor regarding family structure is the number of older siblings that students have. In some countries, birth order in general, and primogeniture in particular, still plays an important role when it comes to family firm succession. On average, we found that our students with a family business background have 1.04 older siblings, which indicates that the average respondent is the second-born child.

Our analysis shows that the number of older siblings is indeed negatively related to succession intentions. Thus, birth order and primogeniture still seem to have an impact on intra-family succession.

Family cohesion

We are also interested in the extent to which family cohesion – defined by closeness, togetherness, reliance and support among family members – has an impact on the formation of succession intentions.

We see that family cohesion within the business families of our sample is very high (in around 75% of all cases). Family cohesion is normally something that families desire. However, we are surprised to find a negative relationship between family cohesion and succession intention in our regression analysis. In other words, the closer family members are with each other, the lower the probability that offspring intend to join. This could be related to discomfort and feelings of “lock-in”; younger family members may feel suffocated by the omnipresent role of their family. It may also make them feel that they stand in the shadow of the family; reducing the individual to being “one of the family” or “just the father’s son or daughter”

who is obliged to stay with the firm. This subordination of the individual to the family group may oppose perceptions and desires of control over one’s own fate. As a result, to achieve a higher level of control, students may choose to break free from the family by not becoming a successor.

This is in line with our finding that a high level of internal locus of control leads to a lower succession intention. Control perceptions are thus a main factor in the context of succession intentions.

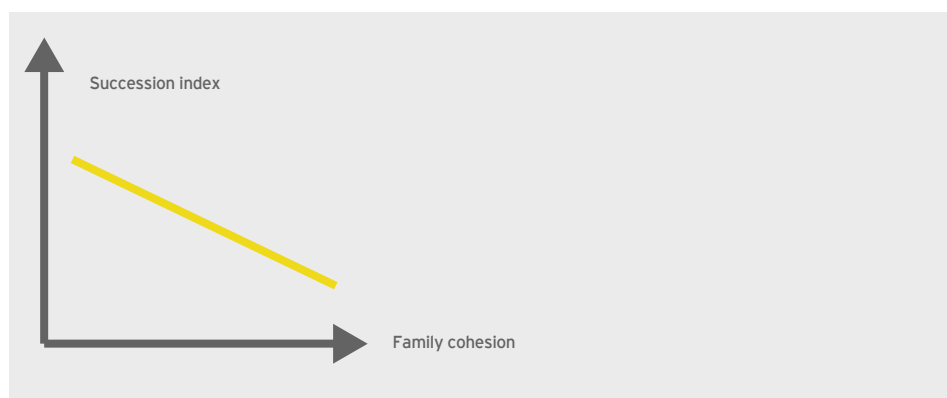


Figure 22: Family cohesion and succession index



As the GUESSS project was conducted in 26 countries across the world, we face the unique opportunity to investigate factors related to the institutional and cultural context.

Individualism

In individualist societies, the ties between individuals are loose: everyone is expected to look after themselves. In contrast, in collectivist societies, people are integrated into strong, cohesive groups, such as extended families where members are protected in exchange for unquestioning loyalty (Hofstede, 2011).

To analyze our survey respondents, we used Hofstede's individualism indicators for all included countries and contrasted them with the respective country's succession indices.

Figure 23 indicates that the higher the individualism in a country, the lower the succession index. Thus, when students grow up in a society with loose family ties and a high importance of being independent, it seems to be less likely that they will choose the succession option. Here, respondents show that they often prefer to found their own business.

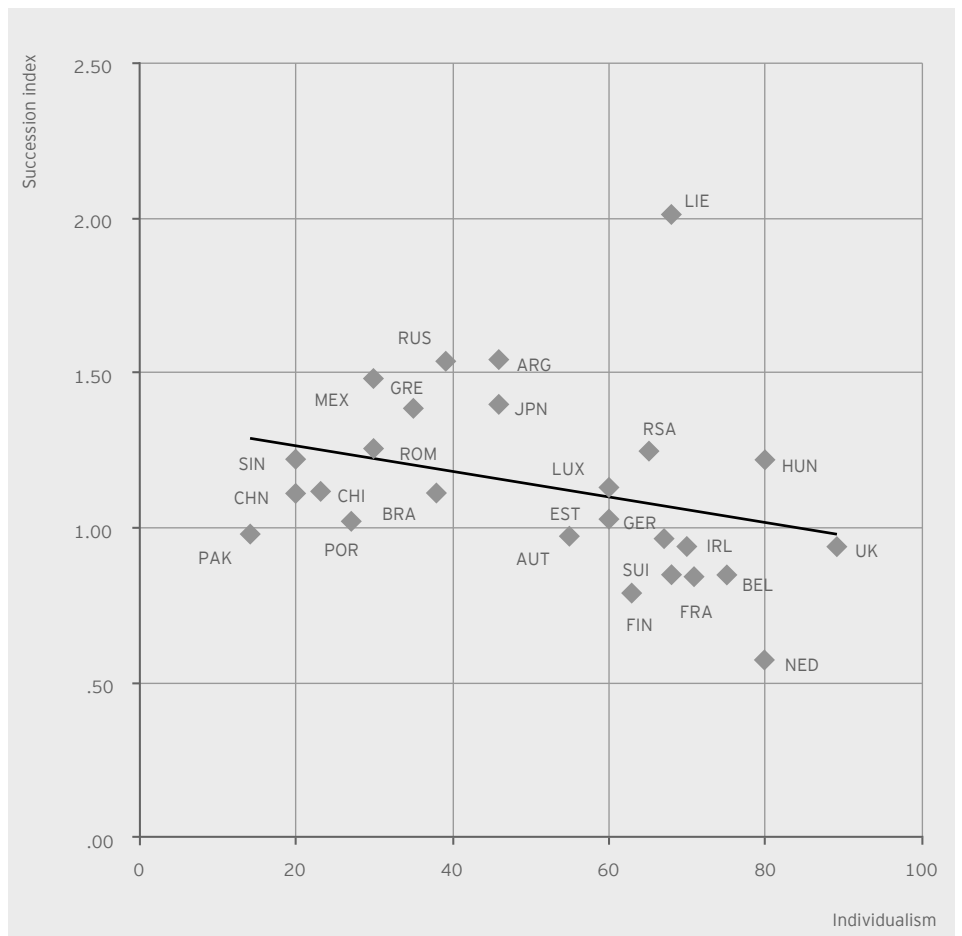


Figure 23: Individualism vs. succession index



Uncertainty avoidance

Another dimension that might affect students' succession considerations is uncertainty avoidance, which deals with a society's tolerance for uncertainty and ambiguity. It indicates to what extent a culture "programs" its people to feel either uncomfortable or comfortable in unstructured situations. Unstructured situations are characterized as unknown, surprisingly and generally different from usual.

We suggest that joining the family firm engenders low levels of uncertainty in comparison to other career paths, which should be appealing in contexts where people tend to avoid uncertainty. Indeed, our data shows a positive relationship between uncertainty avoidance and the succession index (figure 24).

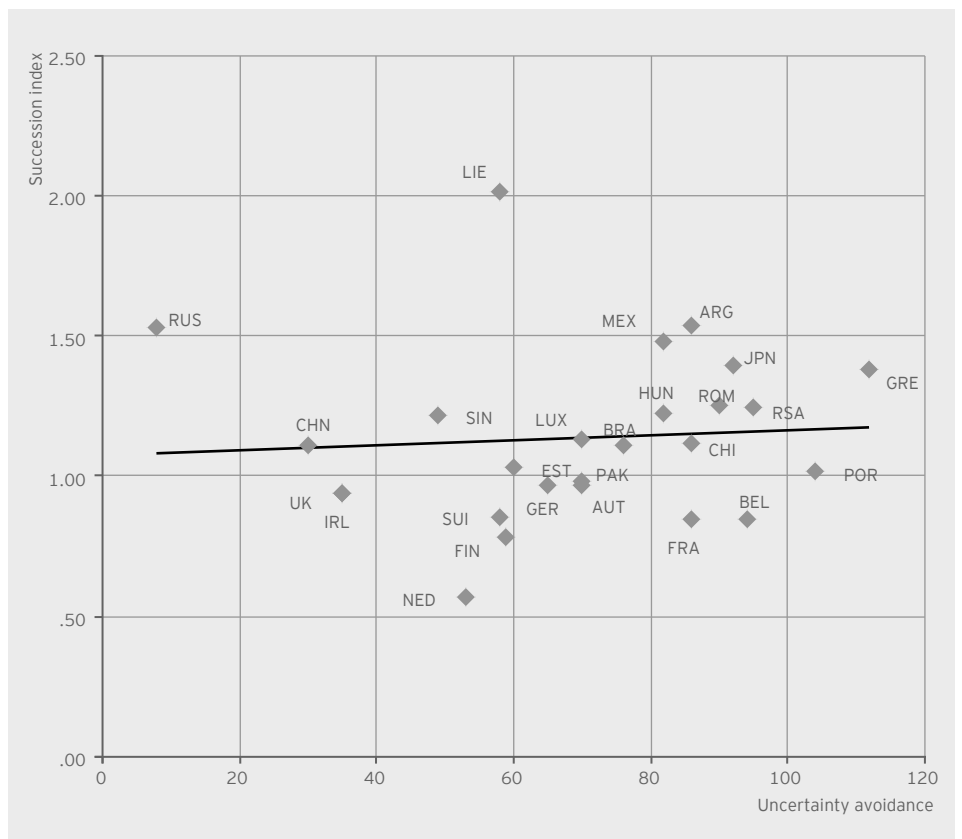


Figure 24: Uncertainty avoidance index vs. succession index

Wealth across nations

Building on our considerations on necessity and opportunity succession, we considered how a country's gross domestic product (GDP) per capita might affect the succession intentions of students with a family business background. GDP per capita shows the value of all final goods and services produced within a country in a given year divided by the average population for the same year.⁸ Our findings (figure 25) support our distinction between necessity and opportunity succession.

In poor countries, the succession index is high because students do not have reasonable alternatives on the regular job market. They often join their parents' firm out of necessity.

In medium-rich countries, the succession index drops. Education systems and labor markets are further developed, offering an increasing number of job alternatives.

In very rich countries, however, the succession index rises again; this could be due to a rising importance of values such as family tradition, or the stronger wish to pursue an entrepreneurial opportunity without immediate financial pressure. This pattern is supported in our multivariate regression analysis.⁹

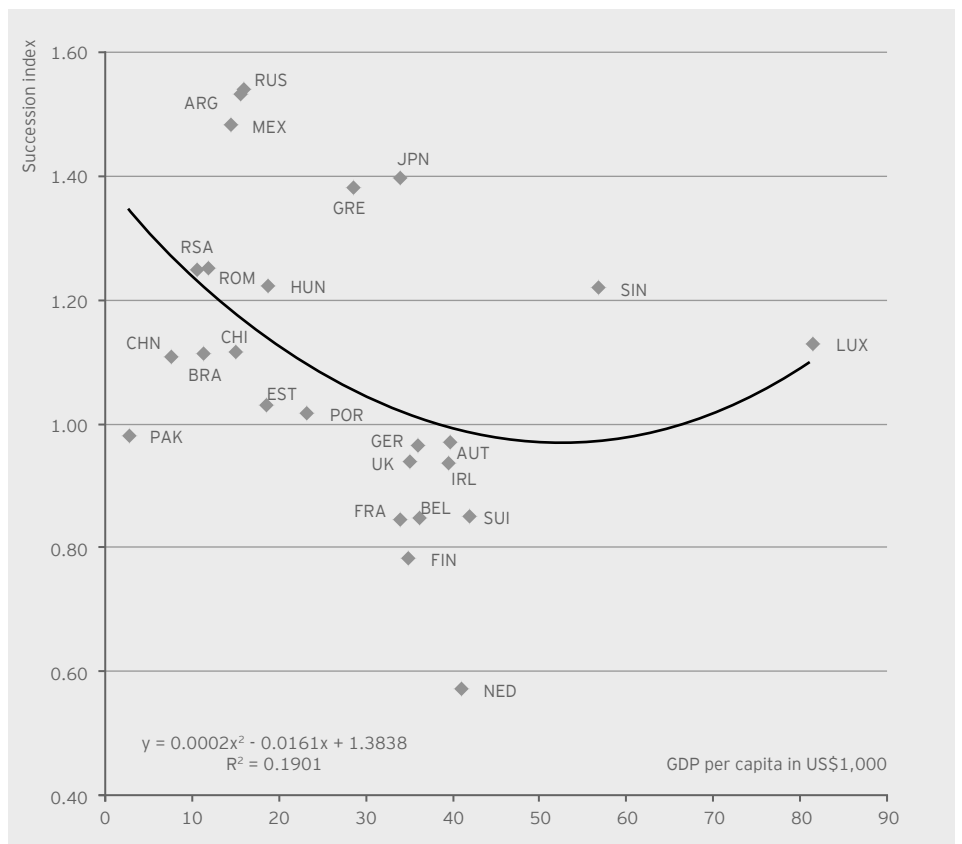


Figure 25: GDP per capita vs. succession index

8. GDP per capita numbers for each country in our sample taken from the International Monetary Fund (IMF).

9. This is supported in our regression analysis, as we find a significant and negative effect of GDP on succession intention, and a significant and positive effect of GDP's squared term.

09 The combined perspective: what drives and what hinders succession intentions?

To combine the view on drivers and barriers to succession intentions, we analyze the interplay of all single effects outlined above in a multiple regression, and report the findings on figure 26. (For the full regression model, see Appendix.)¹⁰

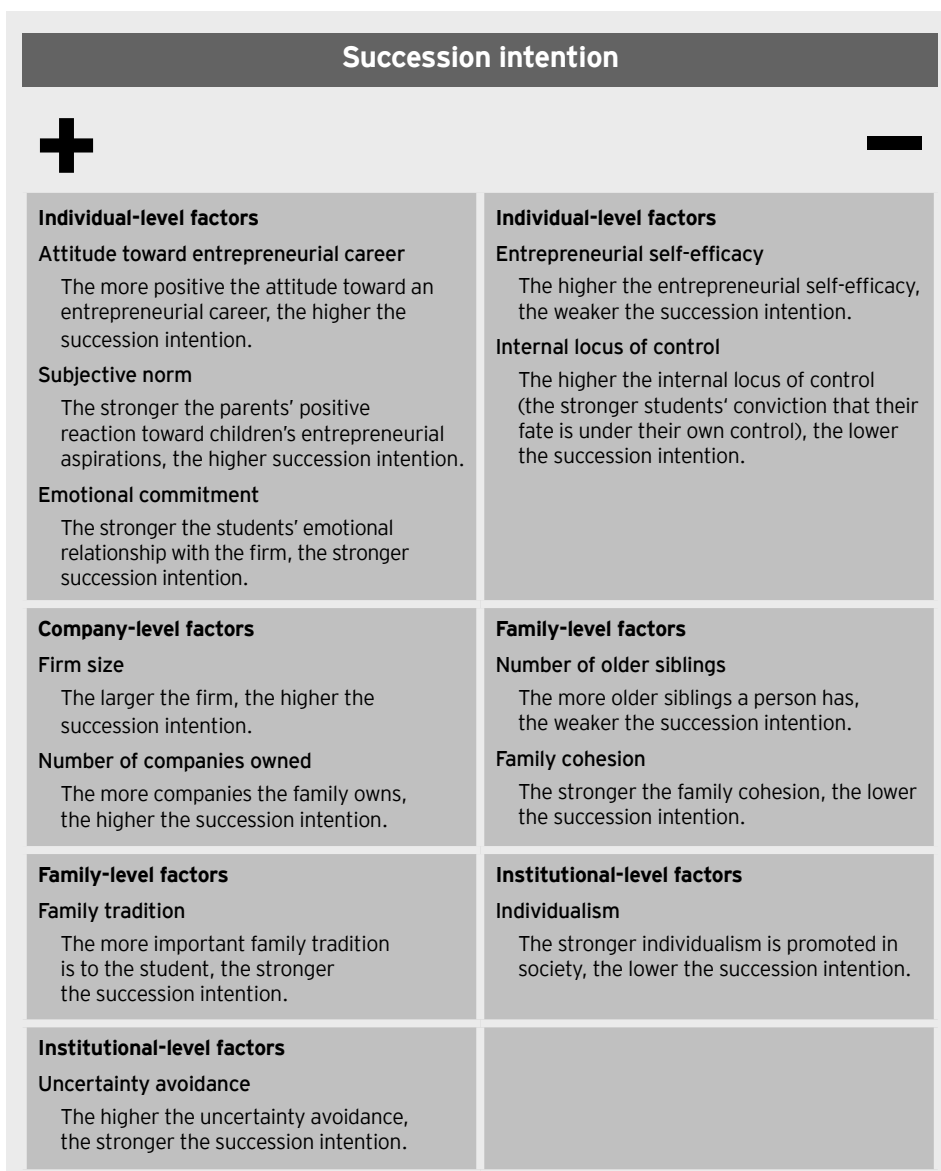


Figure 26: Drivers and barriers to succession intentions

10. Such a multivariate data analysis is more appropriate than a univariate analysis, because the latter disregards distorting effects of variables not included in univariate analysis.

10 Specific aspects of family firm succession

Structure of successions

To learn more about how concrete succession intentions are, we asked the intentional successors which steps they have already undertaken in order to join their parents' firm.

We found that approximately 30% of the intentional successors have done nothing so far. Concrete steps such as formulating a master plan of financial issues have been dealt with in only around 15% of all cases.

With reference to the financial structure and processes of the planned successions, we found that, in 67.5% of cases, the parents will retain a certain amount of equity. If they do so, their equity share is around 72%, which indicates majority ownership and a long-term oriented transfer of shares, for instance by a step-wise sale, and continuous family ownership and influence.

In our sample, we found 128 students who have already taken over their parents' family firm through acquisition of majority of shares. Interestingly, the parents kept a certain amount of equity in 55.2% of all of these cases.

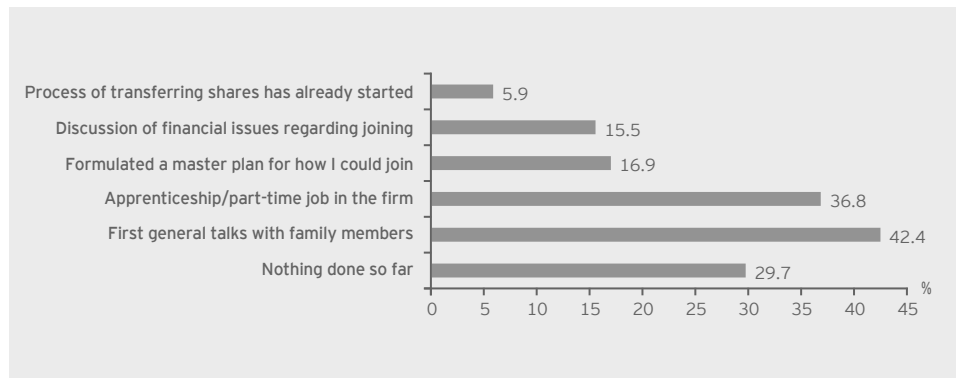


Figure 27: Steps undertaken to become a successor

At what price are shares passed on within the family?

We asked all intentional successors: “Assuming that a non-family buyer would have to pay an amount of 100 for the family firm’s total equity, how much would you have to pay?” On average, the intentional successors in our sample expect that they would have to pay an amount of 42.94, which means a 57.06% discount for an intra-family sale.

We calculated the discounts for all countries and found interesting differences. While students in Brazil, Finland, Pakistan and Greece expect a discount of less than the 57.06% average, students in Japan, Belgium and the UK expect a discount of more than 80% compared to a non-family buyer.

Is this wishful thinking? For the students who have already taken over their parent’s firm, we asked about the effective discount they had received from their parents. On average, these students received a discount of 55%, which is consistent with the estimate of 57.06% of intentional successors (see above).

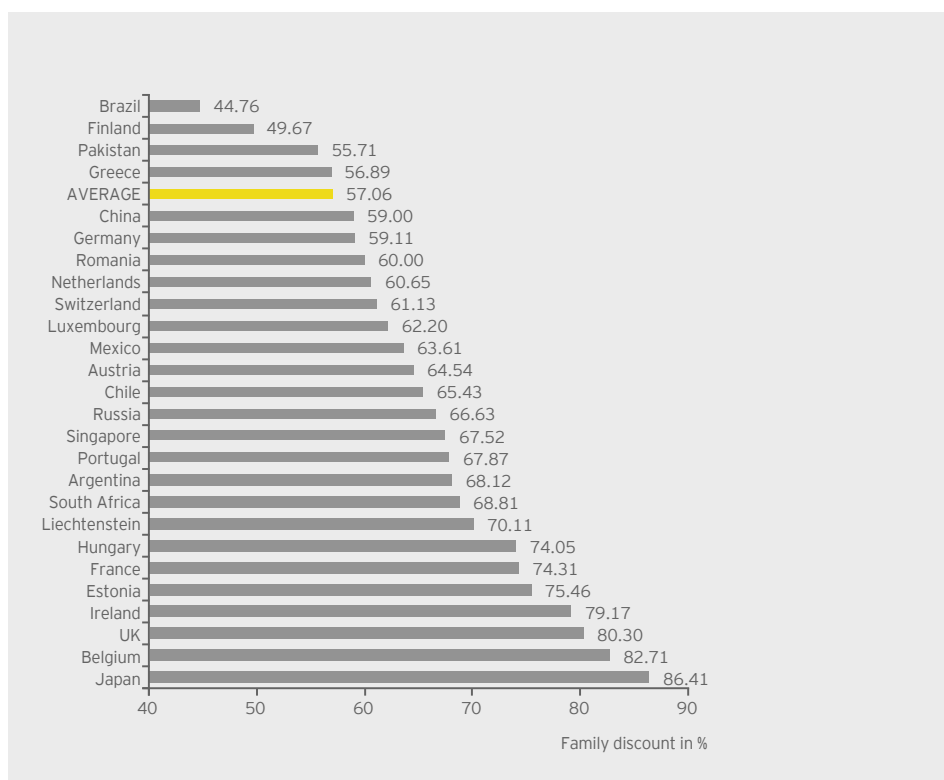
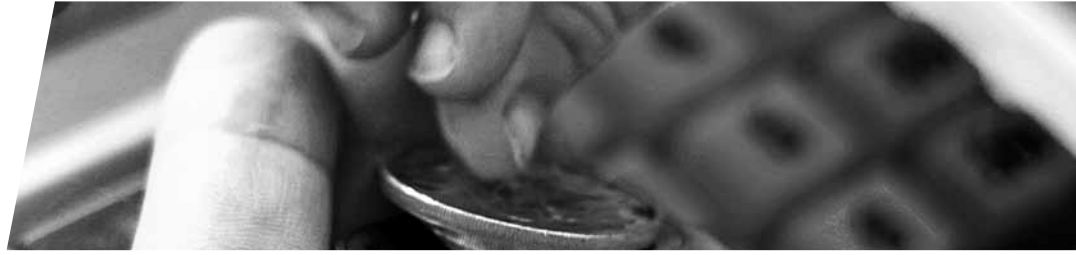


Figure 28: Family discount for acquiring equity in the family business



How does the institutional context affect the family discount?

We expected that the size of the family discount would depend on the prevalence of the rule of law in a country. Rule of law captures perceptions of confidence in the rules of society and the quality of contract enforcement, property rights, police and courts. To study this relationship, we use data from the Worldwide Governance Indicators (WGI) project, which indicates the degree to which a country respects the rule of law.¹¹ We then compare this index with the family discount that intentional successors expect to get.

Interestingly, we found that the stronger the rule of law, the higher the family discount, i.e., the lower the family internal transaction price. A possible explanation from the sellers' perspective could be that family business owners in an unsafe legal environment have to care for their own wealth and financial security first and can hardly rely on institutional rules. When they sell their business, they cannot afford to give too much of a discount, as they have to generate sufficient revenue to fulfill their own financial needs, i.e., pension income. In a safe environment, however, wealth is comparably stable and senior owners can afford to give their children a large discount.

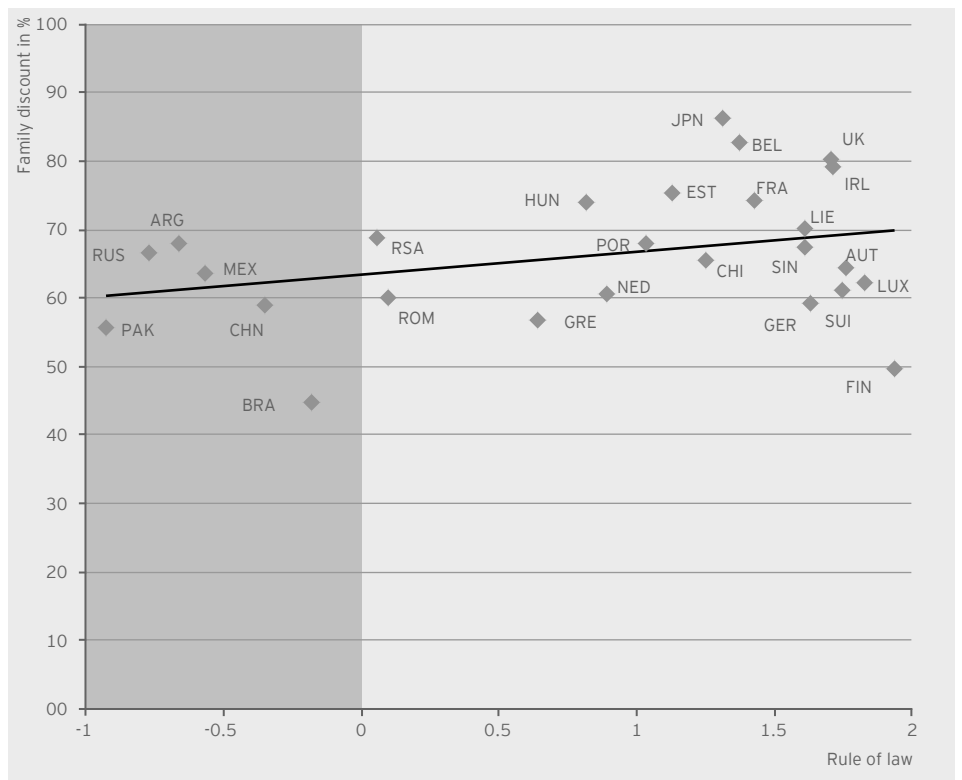


Figure 29: Rule of law and family discount

11. See <http://info.worldbank.org/governance/wgi/index.asp>



To investigate this further, we collected data on corruption across countries.¹² We found a negative relationship between level of corruption and the family discount.¹³ Our explanation is similar to the arguments presented previously: in countries with high corruption, people cannot rely on predictable rules and their corresponding enforcement; thus, wealth is put at risk to a higher extent than in countries with low corruption. Hence, they have to secure their own wealth and cannot afford a high discount.

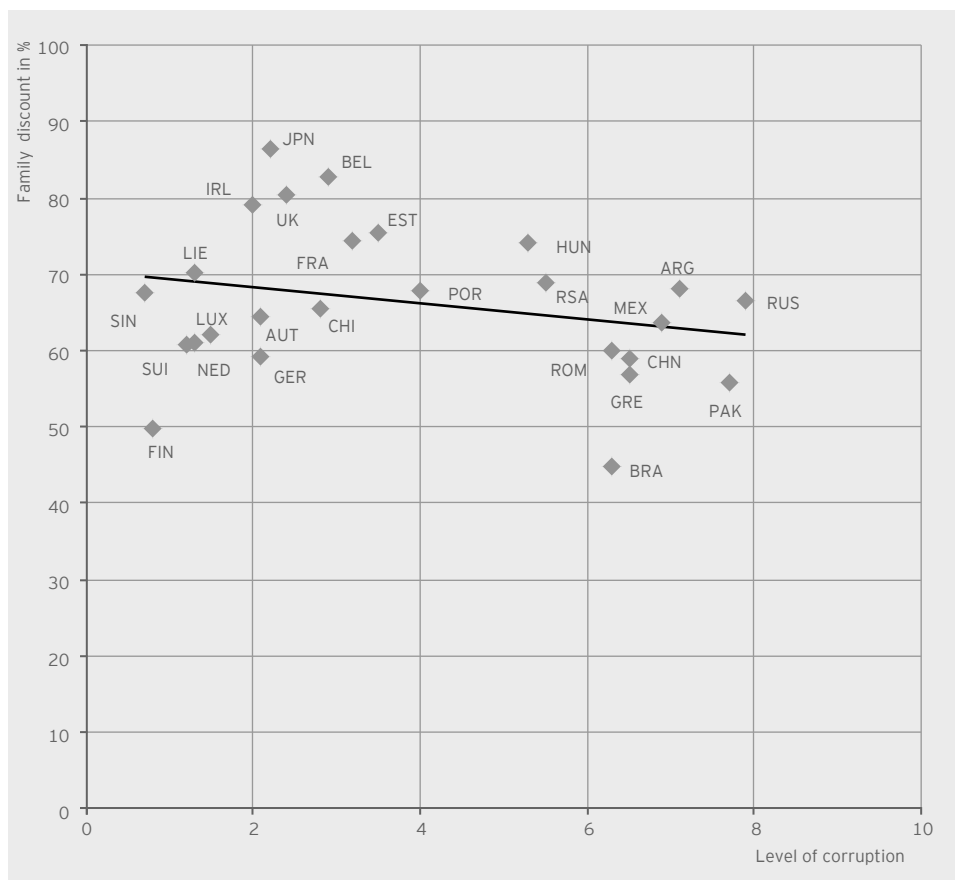


Figure 30: Level of corruption vs. family discount

12. Here we used the corruption index of Transparency International (2011), see http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results.
 13. According to Transparency International, a higher corruption index indicates a lower amount of actual corruption (e.g., a country with an index of 8 is less corrupt than a country with an index of 2). To improve readability and interpretability, we calculated inverse numbers of the corruption index by deducting the respective values from 10. Consequently, a higher absolute number in our study indicates a higher level of actual corruption.

Families as start-up business supporters?

As shown above, many of the students who intend to take over their parents' firm five years after completion of studies plan to found their own company first. These entrepreneurial activities outside the family firm are of particular interest, because the family may support start-up activity in various ways. We focus on two types of support: entrepreneurial idea generation and the provision of resources.

First, we asked all intentional founders in our sample where the idea for their planned venture came from and compared the answers from students with and without a family business background. We found that the share of ideas coming from family members is significantly higher among students with a family business background. Business families thus seem to provide an entrepreneurially inspiring context.

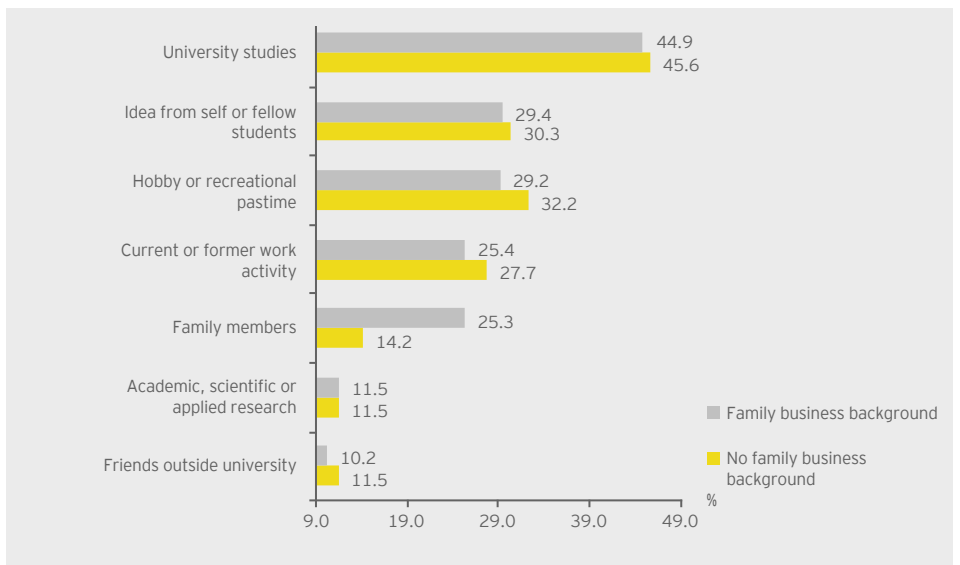


Figure 31: Sources of business ideas

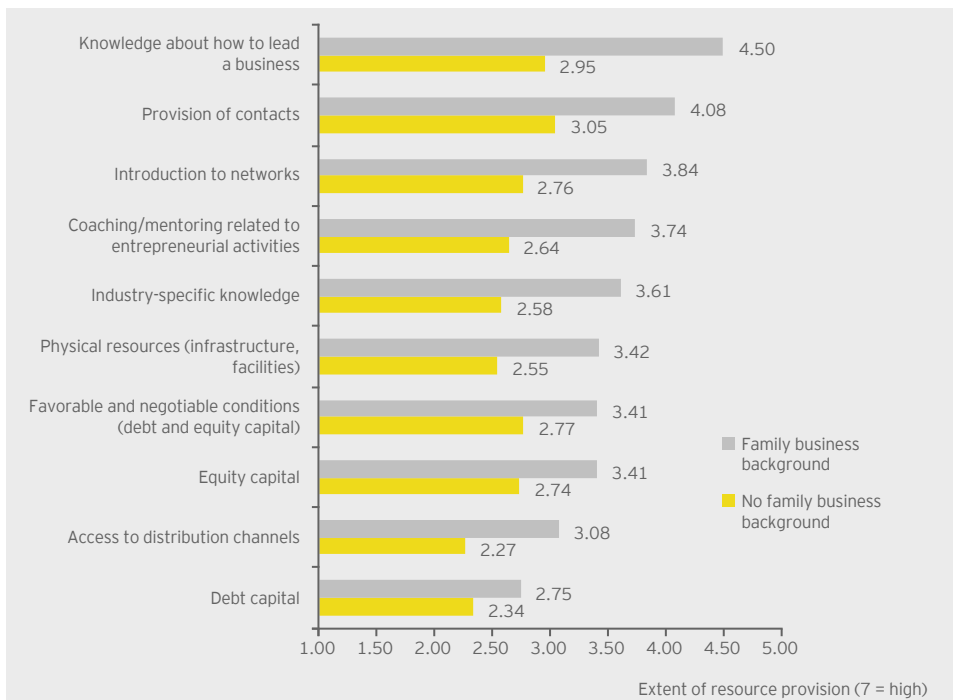
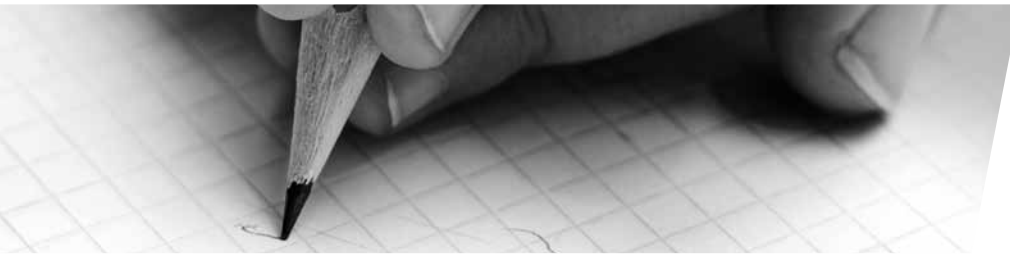


Figure 32: Resource provision for new ventures by the family



We also investigated to what extent the family provides children with the resources needed to found their own venture (figure 32). We discovered that students from business families are in a more favorable position compared to their fellow students from non-business families, as they receive stronger support in all resource dimensions. The resources that are most strongly provided are human capital in terms of business knowledge and social capital in terms of contacts and networks. Surprisingly, the provision of financial support is less important. In other words, business families rather act as coaches or mentors when offspring intend to found an own firm, and not as simple providers of capital at favorable conditions.

The strength of family support, however, depends on the institutional context. We find that the higher the corruption in society as a whole, the stronger the family's support. This indicates that, in the presence of corruption, families rely on the stability of family networks and support intentional founders themselves.

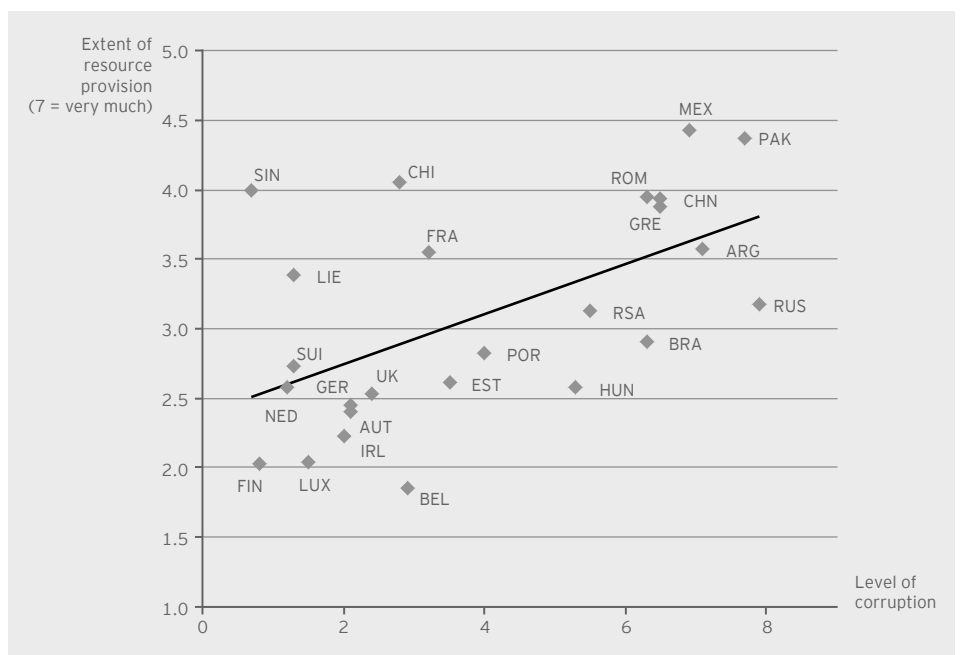


Figure 33: Corruption vs. provision of resources for own ventures by the family

11 Summary and implications

In our study, we have established a number of new insights on the drivers and barriers to family internal succession intentions. The most important findings are summarized in the following:

Who wants to become a successor?

- ▶ Out of all students with a family business background only 7% intend to take over their parents' business directly after completion of studies, and 13% five years after they finish studying. However, 22.7% see themselves as potential successors.
- ▶ Strongest succession intentions can be found in countries such as Liechtenstein, Greece, Russia, Romania, Argentina and Mexico. Lowest succession intentions can be found in Finland, France, UK, Belgium and Pakistan.
- ▶ While in emerging countries, succession often happens out of necessity, in very rich countries succession represents an attractive career opportunity. This is reflected in the varying attractiveness of the succession career over a students' life, and by the U-shaped relationship between strength of succession intention and GDP per capita.

What drives and what hinders succession intention?

- ▶ Continuing a family tradition, building a legacy and following a role model are important motives for successors.
- ▶ The responsibility of continuing family tradition, high workload and working daily with family members does not prevent students from choosing the successor career path.
- ▶ Intentional successors in well-performing firms display a higher entrepreneurial self-efficacy than intentional successors in poorly performing firms. There does not seem to be an adverse selection issue in the family internal succession context.

- ▶ Firm size, attitude toward an entrepreneurial career, a positive reaction by parents to an entrepreneurial career, emotional commitment to the firm and the importance of family tradition all have a positive impact on succession intention.
- ▶ High levels of entrepreneurial self-efficacy reduce succession intentions. That is, students who believe they have the necessary skills and capabilities to be an entrepreneur often prefer the founding of their own business to the succession intention.
- ▶ Control perceptions have a pervasive impact on succession intentions: we find students wanting to keep control over their fate (high levels of internal locus of control) are less inclined to become successors. Also, the more cohesive a family, the less pronounced is the succession intention. On a societal level, the higher the level of individualism in a country, the less attractive is the succession option.
- ▶ The family internal transfer of shares on average happens at prices approximately 50% below the price that would have to be paid by non-family members. This family discount is negatively related to the level of corruption and positively related to the rule of law in the country.
- ▶ Controlling families help their offspring to found a new venture, in particular via the sharing of knowledge about how to run a business, and through access to networks. Access to capital is of lesser relevance and does not significantly differ between students with and without a family business background. Family start-up support is most pronounced in corrupt environments.

These findings have important implications for different stakeholder groups.



Implications for senior generation family business owners

- ▶ It is not a given that children will want to take over the business one day. Family internal succession is losing relevance, especially in developed countries.
- ▶ It is not advisable to try to force children to become successors: children with high needs for self-control will not want to work in their parents' firm.
- ▶ Business families have to be aware that very self-confident children with strong entrepreneurial abilities and skills tend to prefer the founding of their own business over the succession career path. Forcing such entrepreneurial children into the family firm without handing over the necessary control creates strong frustration among successors.
- ▶ Being a cohesive family, where members are close and supportive, reduces succession intentions among the next generation. Cohesiveness drives out students from the family business context and is anathema to students' desire for independence.

- ▶ It will be easier for parents to motivate their children to join the family business if they:
 - ▶ Foster a level of effective engagement and emotional attachment of the next generation to the firm
 - ▶ Establish a positive and future-oriented sense of entrepreneurial tradition
 - ▶ Are positive entrepreneurial role models
 - ▶ Assure their firm has reached an attractive size
 - ▶ Establish a portfolio of firms
- ▶ Parents need to be aware of the fact that they are important role models to their children. The impression of what it means to control a firm that parents project on to their children is decisive. A negative role model drives intentional successors out of the family business.
- ▶ Family firms with good performance attract successors with higher entrepreneurial self-efficacy than poorly performing firms, which can scare away students with strong entrepreneurial skills. Therefore, it is essential to understand the reasons why students want to join the firm.
- ▶ Parents should carefully consider the advantages and disadvantages related to a discount they give their children when acquiring shares. On the positive side, a family discount may serve as a source of competitive advantage. On the downside, handing over at a very high discount (or even for free) may be counterproductive because it reduces profit discipline.

Implications for students with a family business background

- ▶ Taking over the parents' family firm can be a rewarding career path, both emotionally and financially; however, for students with a family business background succession is only one possible career path.
- ▶ For their own sake, students with a family business background should only consider the succession option when they are convinced that they are willing and able to do the job.
- ▶ Different routes can lead into the family firm: students can gain experience as employees outside the family firm first, they can create their own venture to gain entrepreneurial experience or a combination of both.
- ▶ Given the significant family discount that is offered when acquiring shares, becoming a successor seems to be the least expensive way to start an entrepreneurial career.
- ▶ Intentional successors need to be aware that becoming a successor and following in the parents' footsteps is not necessarily a safe or convenient option. The burden of responsibility for the long-term prosperity of the business can be considerable.

12

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13

Appendix

Country	Number of universities	Number of students contacted	Number of responses	Response rate
Argentina	23	n/a	1,660	n/a
Austria	17	144,700	4,553	3.1
Belgium	11	n/a	188	n/a
Brazil	43	250,000	29,186	11.7
Chile	5	15,544	1,244	8.0
China	22	26,950	868	3.2
Estonia	21	34,070	1,874	5.5
Finland	12	29,313	1,437	4.9
France	17	15,930	1,498	9.4
Germany	46	297,373	12,469	4.2
Greece	7	14,000	454	3.2
Hungary	23	70,717	5,677	8.0
Ireland	8	9,705	332	3.4
Japan	4	4,200	561	13.4
Liechtenstein	1	580	220	37.9
Luxembourg	2	4,948	444	9.0
Mexico	3	2,400	556	23.2
Netherlands	56	227,568	13,121	5.8
Pakistan	12	n/a	321	n/a
Portugal	14	n/a	1,020	n/a
Romania	33	n/a	849	n/a
Russia	23	7,840	2,882	36.8
Singapore	8	66,000	2,391	3.6
South Africa	15	16,670	697	4.2
Switzerland	44	92,738	8,115	8.8
UK	19	43,432	648	1.5
Total	489	1,374,678	93,265	6.3

Table 2 – Appendix: Countries, universities and respondents

Appendix (contd.)

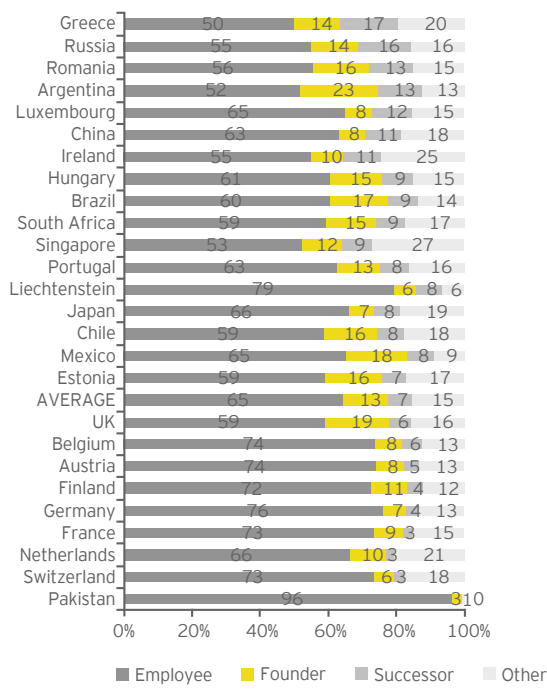


Figure 34 – Appendix: career choice intentions directly after studies across countries

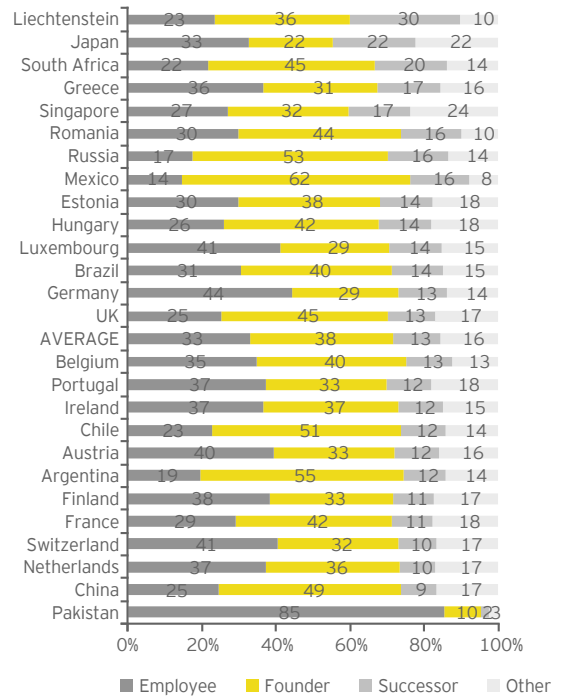


Figure 35 – Appendix: career choice intentions five years after studies across countries

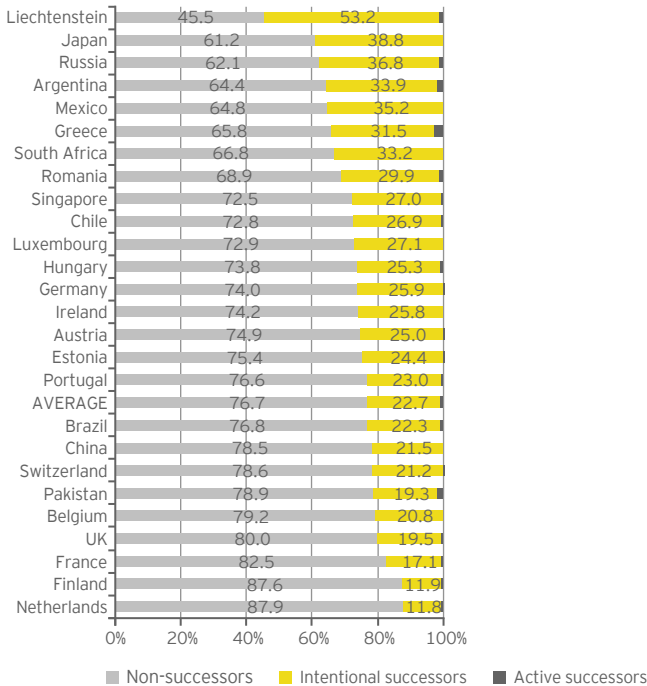


Figure 36 – Appendix: Different types of successors across countries

Appendix (contd.)

	Control model	Full model
Control variables		
Gender	-0.042**	-0.02
Student age	0.024	0.028*
Level of study	-0.075***	-0.022
Field of study	-0.145***	-0.042***
Industry of family firm	-0.011	0.037**
Independent variables		
Individual level		
Attitude toward behavior		0.076***
Subjective norm (parents)		0.039***
Entrepreneurial self-efficacy		-0.033*
Locus of control		-0.058***
Affective commitment		0.183***
Work experience		0.023
Company level		
Amount of family equity		0.013
Number of employees		0.048***
Years of family ownership		-0.015
Company performance		0.016
Number of companies owned		0.025*
Family level		
Number of older siblings		-0.029*
Importance of family tradition		0.336***
Family cohesion		-0.065***
Institutional level		
Individualism		-0.059***
Uncertainty avoidance		0.033*
GDP per capita		-0.181**
GDP per capita squared		0.1*
Adjusted R2	0.028	0.316
F-Statistics	31.991***	110.363***
Delta R2		0.276***

Table 3 – Appendix: Regression table

*= $p < 0.05$

**= $p < 0.01$

***= $p < 0.001$

$N = 5,448$

Dependent variable: succession index (please indicate how seriously you have been thinking about taking over your parents' business), 8 answer options ranging from 0 to 7, indicating increasing intensity of succession intention.

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