

Family-Owned Businesses and Succession Planning

MARCH 30, 2023 | ARTICLES



According to the 2023 EY and University of St. Gallen Family Business Index, the largest family enterprises are growing faster than the global economy. Generating \$8 trillion in revenue, and employing over 24.5 million people worldwide, the 500 largest family businesses have a significant impact on the global economy.

Largest Family-Owned Businesses Around the Globe Still Led by Family Members

While 7/10 of the largest family-owned businesses are based in the US, more than 50% of the total number of companies in the Business Index are based in Europe, the Middle East, India, and Africa (EMEIA). The largest family-owned businesses tend to be consumer-based (approximately 40%) or advanced manufacturing and mobility (approximately 27%). And today these established family-run enterprises are still led and managed by family members. In 45% of the companies in the Index, a family member serves as the CEO.

Agile and Purposeful, Yet Often Challenged by Digitization

Successful family businesses are often admired for being entrepreneurial and purposeful, yet they can also be slow to modernize and digitize. According to Felipe Lara, Managing Partner at IMSA Search Global Partners Brazil and Boutique Executive Search, “We work with many family-owned businesses, and it is incredible to see how resilient and creative these companies can be in the face of stronger and often global world class competitors. Typically, family-run businesses know their market extremely well and are aware of the risks and trends. We support these organizations by bringing a new perspective, sharing relevant insights and current learnings from other industries. These companies also stand apart from their competitors because of their strong, enduring relationships built over time with providers and clients. The greatest weaknesses tend to be in the areas of technology, communications, and especially, fragile governance and lack of succession planning.”

Succession is Critical and Complicated

According to PwC’s 10th Family Business Survey, only about one third of North American family businesses have a documented succession plan, and globally only 24% of family businesses are focused on next-gen involvement. The reasons next-gen is uninvolved run the gamut. Strong parent CEOs who feel invincible avoid confronting their own mortality. Other times, parent CEOs welcome next-gen into the business, but maintain control over information and decision-making.

In succession planning, the first step is often the most difficult – confronting the need for the plan with the family leader who built the enterprise. Selecting an expert search consultant to identify the new leader is critical. An unbiased expert can be extremely helpful in facilitating emotional conversations around specific issues: Is continued family leadership a priority? Will all other family members continue to work at the company? How will the transition affect family relationships? What are the skills and experience required of the next CEO to take the organization to the next stage in its growth plan? Are there internal candidates that have the skills and experience and if not, what type of outside leader will integrate smoothly and lead most effectively? Beginning the process early ensures time for key company leaders to buy in to the process, allowing internal candidates to put themselves forward for the position and ultimately remaining motivated and supporting the successor.

Finding the Right Talent to Thrive, Mergers As Part of the Solution

Felipe Lara shares, “Our family-owned business clients call on us as trusted advisors, to understand and identify the right leaders to help their organizations thrive. That leadership could be the right C-Suite leadership team and it could be the right external expert resources – lawyers, auditors, accountants, and more. These advisors, can be extremely helpful in strengthening family governance, which subsequently makes it easier to make important company decisions.”

Felipe Lara continues, “Recently, we were hired to find a COO for a leading family-owned FMCG (fast-moving consumer goods) company that had a minority stake acquired by a private equity firm. The new partners’ vision included vertical integration to drive growth. During our search, we identified a potential CEO candidate from a related company who we felt had the ability to become the owner’s successor and simultaneously please both the family and the private equity firm. We not only facilitated the new hire, but the company where he was then CEO ended up being acquired, in record time, an immediate win-win-win situation.”

Leadership transitions at most companies are complicated and sensitive. Yet for family businesses, the issues can be extremely emotional and nuanced. Finding the right firm with the right expertise to serve as a true partner makes all the difference in the long term success of the enterprise.

About IMSA Search Global Partners

With 50+ offices in 25+ countries on 6 continents, our 300+ Executive Search experts span the globe to identify the right candidates to successfully lead teams and organizations locally, regionally, and globally. <https://www.imsa-search.com/>