



**STEP**

# **UNDERSTANDING TRANSGENERATIONAL ENTREPRENEURSHIP PRACTICES IN GERMAN FAMILY FIRMS**

**2017**

**Based on the Report of the  
European STEP Council based on  
the Quantitative STEP Survey**

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**B** Data Collection

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**D** Success Factors

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## Key drivers of German family firms' long-term success

- Scientific online survey in 11 country including Germany
- Conducted between September 2013 and February 2015
- Multiple responses per family (at least two)
- 493 completed surveys which represent (78 in Germany)

*What makes German business families entrepreneurial and successful across generations?*

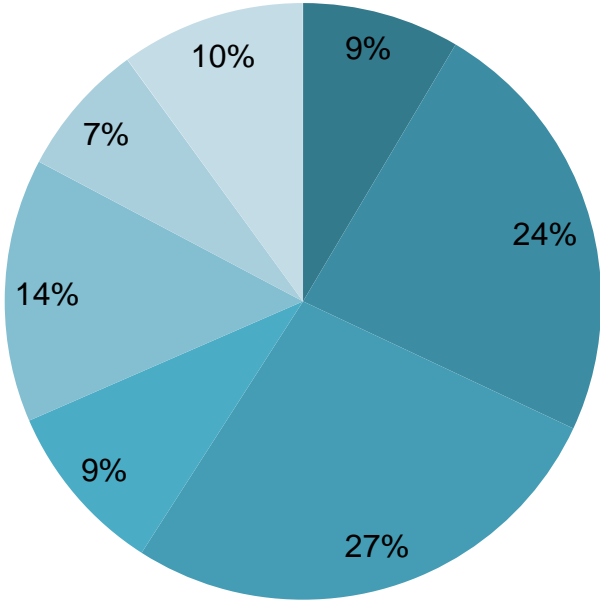
# DATA COLLECTION

## Survey Sample

### SAMPLE: Age and Turnover

- Sampled family businesses are on **average 62 years old** (oldest 271 years)
- 1/3 of all family businesses are between 50 and 100 years old → **between 2<sup>nd</sup> and 4<sup>th</sup> generation**
- Average annual sales in 2013 between **€40 and €44 Million Euros**

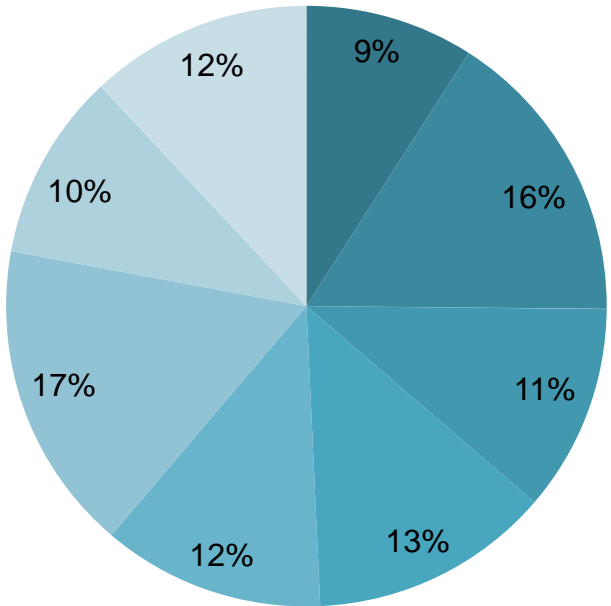
■ up to 880000    ■ >880000 to 8.8M    ■ >8.8M to 44M  
 ■ >44M to 88M    ■ >88M to 220M    ■ >220M to 440M  
 ■ >440M



# DATA COLLECTION

## Survey Sample

- Up to 10
- >10 up to 30
- >30 up to 50
- >50 up to 100
- >100 up to 200
- >200 up to 500
- >500 up to 1000
- >1000



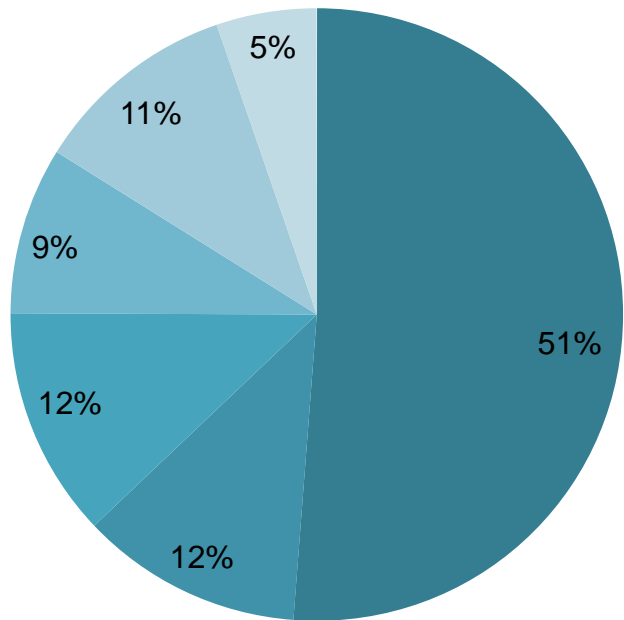
### SAMPLE: Workforce

- Average no. of **employees 918** (full-time equivalents)
- Median of 1100 employees → sample contains **few very large firms**
- The majority of German FFs in our sample **employ between 200 and 500** employees
- **Family members** that are employed full time in the firm **averages around 3** (2.94)

### SAMPLE: Ownership Structure

- Average share of equity **owned by family is 91.33%**
- Around half respondents indicates the **family owning one firm**
- Around **16%** of all business families **own 6 or more** firms

■ 1 ■ 2 ■ 3 ■ 4 to 5 ■ 6 to 10 ■ More than 10



# DATA COLLECTION

## Survey Respondents

- Respondents 2<sup>nd</sup> generation of the business family: **37.8%**
- Respondents 3<sup>rd</sup> generation of the business family : **27.9%**
- Position in the business: **38.7%** are CEO, **40.8%** Board of Directors, and **36.7%** Top Management Team
  
- Gender: **77.7%** are male
- Age: **24.5%** between 41 and 50 years old

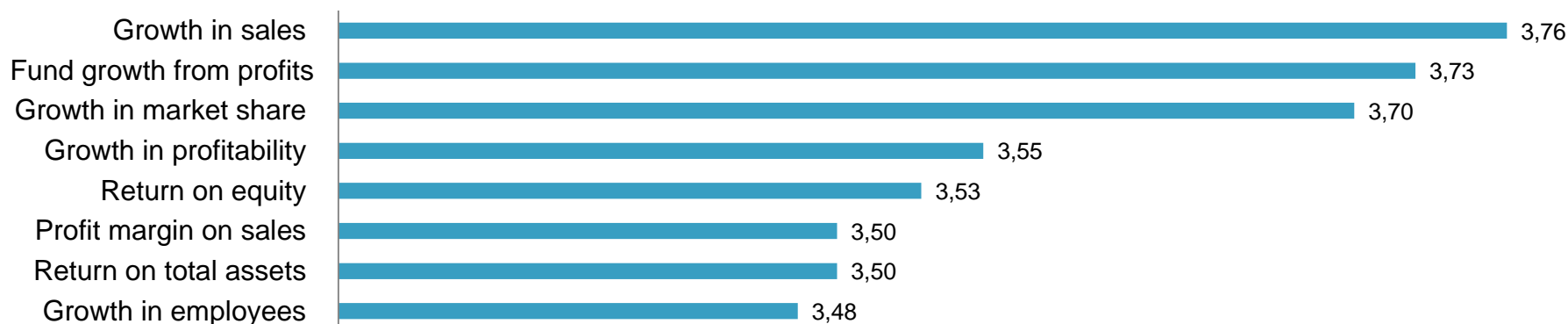
# KEY FINDINGS

## Family Business Performance

### Financial/Market Performance

- **> 50% indicate** equal to slightly **better performance than competitors**
- Firms with **strongest performance are between 150-200 years old**
- **Growth in Sales strongest dimension**, followed by ability to fund growth internally from profits

Performance Dimensions at a Glance





### Social Performance

- **External social performance** e.g. complying with environmental regulations are very high
- Average in sample is 3.53 → **medium to slightly better focus on external social performance** than competitors

**German family businesses are particularly strong when it comes to complying with environmental regulations**

- **Internal social performance** (family business relations with non-family employees)
- Family businesses rather **not share cash profits with employees, have strong union relations**, or offer **strong retirement benefits** compared to other firms in their industry

# KEY FINDINGS

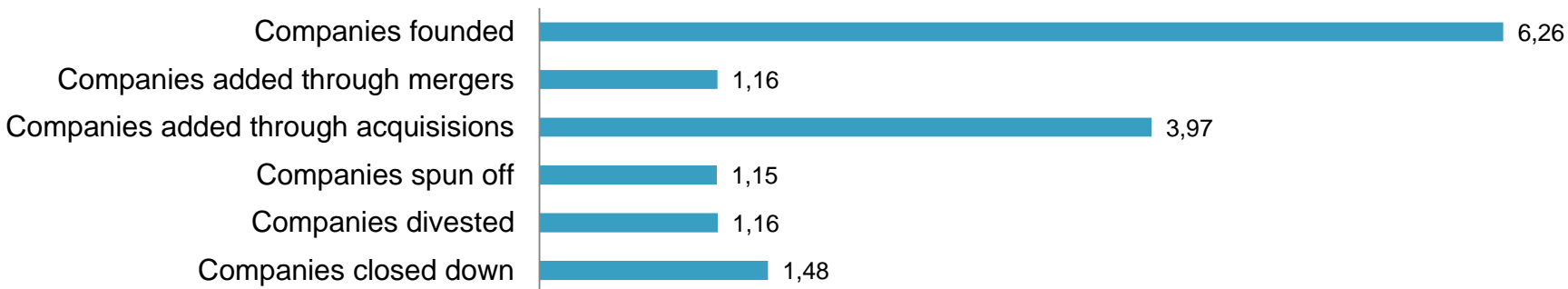
## Family Business Performance

Successful German business families do not solely focus on their primary (or “legacy”) business across time

### Entrepreneurial Performance

- Focus on **entrepreneurial dynamics of family business portfolios** → indicator of entrepreneurial spirit and entrepreneurial processes
- **A dynamic portfolio** leads to long-term success
- Families founded more than 6 firms across their history

Entrepreneurial dynamics in business families (number of businesses)



# KEY FINDINGS

## Drivers of Transgenerational Success

# 1

## Entrepreneurial Orientation

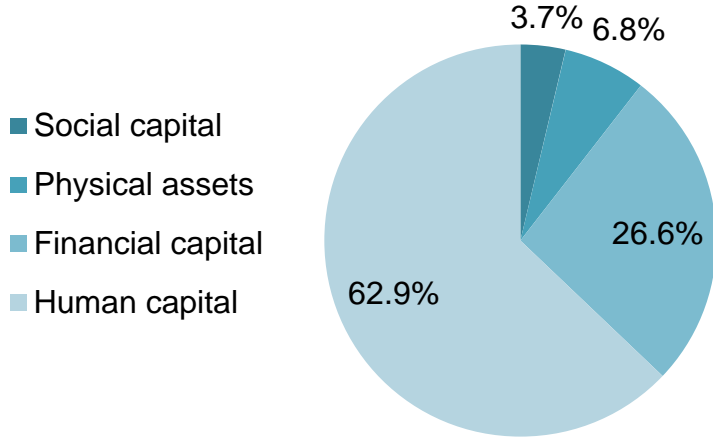


- Innovative and proactive, but **try to avoid taking highly risk-taking activities**
- Medium competitive aggressiveness due to identity overlaps between the business family and the family business → **aggressive management has a negative connotation**

# KEY FINDINGS

## Drivers of Transgenerational Success

### 2 Resources



**Human capital is clearly believed to be the most important resource for German business families' success**

- Family firms **use conservative financial resources** (e.g., bank loans) → growth is financed internally
- Being a family firm **attracts human capital** but key positions are still held by family members
- Employees feel like part of the family thus favoring the development of a **strong sense of belonging**

# KEY FINDINGS

## Drivers of Transgenerational Success

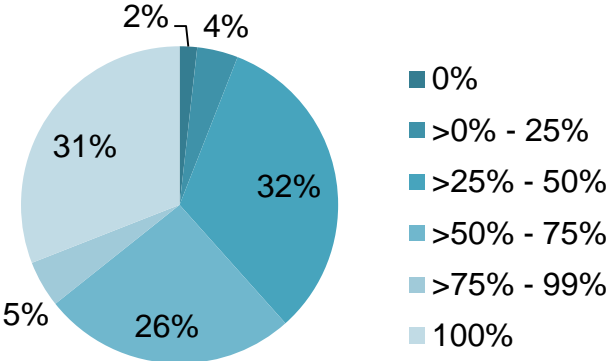
# 3

## Governance

### Family Business Governance

- TMT: **54%** seats occupied by family  
**27%** TMT only family (40% majority)
- **70%** family firms have a BoD

Family Involvement in Board of Directors



## Family Governance

- Many German **family firms use formal** family meetings, family constitution and family councils
- Informal family meetings used **also frequently**
- < 50% have family constitutions

**German families largely use family governance tools to sustain and disseminate their values and decision-making**

# KEY FINDINGS

## Drivers of Transgenerational Success

# 4

## Family Cohesiveness

- How the **family manages itself** directly reflects on the family business
- Dimensions of cohesiveness include:
  - Reliability
  - Openness and Acceptability
  - Communication and Conflict Management
  - Emotional Support System
  - Joint Activities

**The German families in the sample seem to work very well: more than 3 out of 4 are classified as clearly functional**

### 5 Portfolio Entrepreneurship

- Focus on **entrepreneurial dynamics of family business portfolios** is an indicator of entrepreneurial spirit and entrepreneurial processes
- A **dynamic portfolio** leads to long-term success
- Families founded more than 6 firms across their history

**Successful German business families mostly own more than one firm**

# SUCCESS FACTORS

## Transgenerational Entrepreneurship in Family Firms

*What makes German business families entrepreneurial and successful across generations?*

1. Entrepreneurial Orientation
2. Resources (Human Capital)
3. Family Business Governance
4. Family Governance
5. Portfolio Entrepreneurship

German Business families can indeed achieve transgenerational entrepreneurship when they are aware of the related success factors and potential pitfalls.



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**Thank You for Your Attention!**

*Further information about STEP (including further materials and reports) can be found on the STEP project website: <http://www.stepproject.org>.*