A New Perspective on the Longevity and Success of Family Firms

By Filipe Santos

A common statistic presented by many researchers and consultants on family business suggests that only 30% of family firms are able to succeed to the second generation of the family, with the number decreasing to 13% for the third generation and a mere 3% for the fourth generation. This last number suggests that fewer than 1 in 30 entrepreneurs could aspire to keep their firms healthy and family controlled by the 4th generation, 60-80 years later. This somewhat depressing number is used as evidence of the challenges in managing family firms and the difficulty of passing the leadership to the next generation.

Yet, these numbers should be taken with caution and placed in perspective. First, the data about survival of new ventures is not much better. For example, several studies of entrepreneurial failures (using for example the US Bureau of Labor Statistics) suggest that 60% of all young firms will disappear five years after their founding. Second, in a plethora of performance studies, the long-term performance of family-controlled firms has been shown to be superior to comparable samples of publicly-owned firms. Finally, this often cited statistic on family firms longevity is usually linked to a single source – a study published in 1987 by John Ward based on the detailed historical analysis of 200 manufacturing firms in Illinois. The author analyzed how many of these firms were able to survive and keep the family control across generations.

And this is, perhaps, where new thinking is necessary. Do family business owners care more about the survival of the family-controlled firm across generations or about the health and wealth of their family? If a business owner decides to sell the firm and use the proceedings to create a family trust that preserves the well-being of the family across generations, should this be considered a failure in succession of the family business or a clear success for the family? If a family uses a family-controlled business as a springboard to launch a portfolio of entrepreneurial business and then close or sell the original business to focus on the novel areas, should this be considered a failure or actually a great success for the family?

In others words, we may have been be looking at the wrong unit of analysis in assessing the longevity and success of the family business. Although from the point of view of a shareholder of a publicly owned firm what matters is the performance of the focal business, from the point of view of a family business owner, what really matters is the well-being and wealth of the family.

A paper published in May 2012 in the Family Business Review[1] makes this exact point. It may be time to move our focus away from a single family firm to explore how families can become drivers of entrepreneurial activity and growth over time. In this exploratory study, the authors find that close to 90% of the firms in their sample engaged in a portfolio of business activities beyond controlling a single firm. While the core business made on average 75% of the revenues, each family controlled an average of 3.4 firms. In addition, these families exhibited a high level of entrepreneurial activity over time.

Overall, the authors call for shifting the family's self-understanding from controlling a "family business" to being an "entrepreneurial family". One that is capable of identifying new business opportunities over time and creating multiple options for the involvement of the next generation, from launching new businesses, to setting up new subsidiaries of existing businesses, creating internal venture funds, or developing a philanthropic arm for impact investments. This promising approach offers a more optimistic view of the potential of families for creating value in society across generations.

[1] Thomas M. Zellweger, Robert S. Nason and Mattias Nordqvist: "From Longevity of Firms to Transgenerational Entrepreneurship of Families: Introducing Family Entrepreneurial Orientation", *Family Business Review*

2012, 25: p. 136.

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