Family governance in Europe: trends and insights



Long-term success of the family business depends on the effectiveness of governance structures and processes, both within the business and within the family. However, due to the complexity and the number of issues to tackle, many entrepreneurs are often stuck with the daunting task of shaping business and family governance. BNP Paribas Wealth Management commissioned the SDA Bocconi School of Management to produce this exclusive report, which was co-created with successful European families. The report analyses the structure and issues of family governance in Europe and looks at emerging trends.

Family businesses in Europe

Family firms in Europe total **more than 14 million** that account for **around 50%** of the European Union's GDP and employ **more than 60 million people**, representing around **40-50%** of all European private-sector jobs.(1) Family firms make up the vast majority of business organizations in European countries, ranging from **61%** of the business population in the Netherlands to **more than 80%** in Spain, Italy and France.(2)

Looking at the **top 1,000** enterprises by turnover(1) in France, Germany and Italy, a considerable number are family-owned:

TABLE 2: SHARE OF FAMILY FIRMS IN THE TOP 1,000 COMPANIES PER COUNTRY

	% of family firms among top 1,000	% of which exceeding more than €1 billion in revenues
FRANCE	28%	39%
GERMANY	40%	57%
ITALY	49%	35%

Source: Osservatorio AUB – XII edizione, AIDAF (2021).

* Annual revenues data for 2018.

** Data for Italy provided by the SDA Bocconi's Corporate Governance Lab.

(1) European Family Business (2023). Homepage (https://europeanfamilybusinesses.eu)

(2) Osservatorio AUB – X edizione, AIDAF (2018); Family Business International Monitor, FBN International (2008)

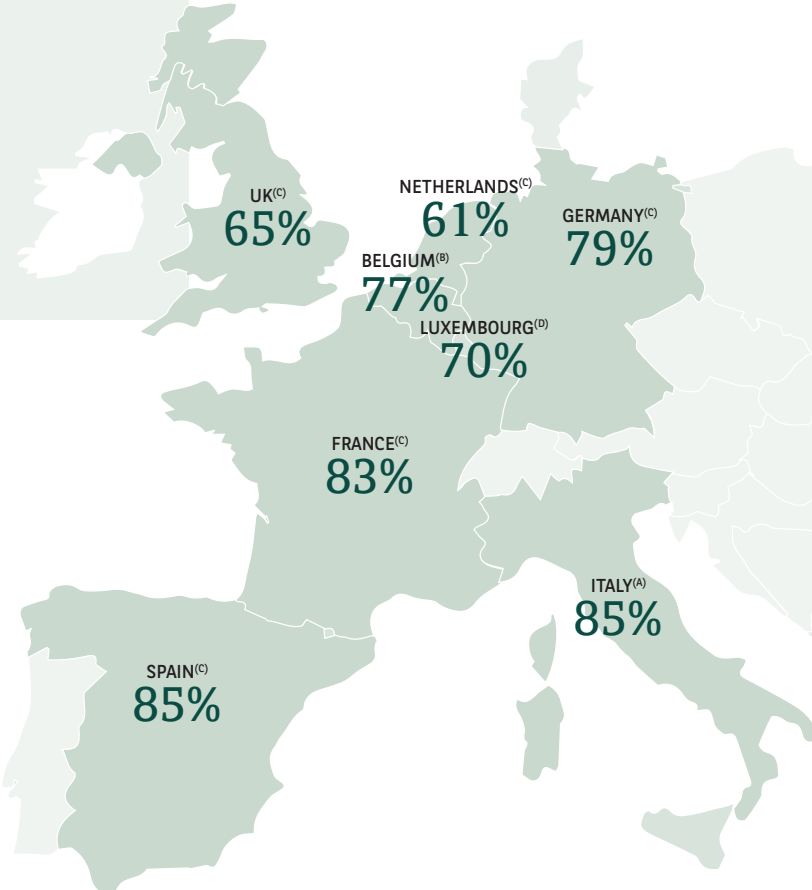


TABLE 1: SHARE OF FAMILY BUSINESSES WITH REGARD TO THE OVERALL POPULATION OF BUSINESSES PER COUNTRY

Sources*:

(A) Osservatorio AUB – X edizione, AIDAF (2018).

(B) Lambrecht and Molly, The Economic Importance of Family Business in Belgium (2011).

(C) Family Business International Monitor, FBN International (2008).

(D) Overview of Family Business Relevant Issues, Final Report, Austrian Institute for SME Research (2008).

* The defining criteria for family business differ according to studies and countries when they make use of a combined set of criteria. But the common ground among all sources is the significant ownership control by the family and/or relatives. In addition, the sources make use of other criteria, such as management representation, business longevity, intention to transfer to the next generation, and so on.

European families seeking a clear family governance structure and succession plan need guidelines to anticipate and integrate these issues



The importance of family governance

Family governance helps foresee and respond to crises by encouraging more discipline, transparency and accountability for the issues that matter. Nonetheless, practitioner reports indicate that such family governance structures and efforts are being adopted at a very low rate, particularly at the European level:

- **Only 12% of family firms have reported to have a formal family constitution in place,** compared with an overall global figure of **49%;**
- **59%** of global family firms have a board of directors, while **in Europe the number is half this figure;**
- **Family gatherings constitute essential bonding** and the promotion of decisions in a collective way and must be carefully structured: **35%** of global respondents conduct formal family meetings and **44%** informal family meetings, while in Europe just **17%** promote organized family gatherings.



There is no standard approach for family governance that fits all family firms

Successful entrepreneurial families usually create a very distinctive set of family governance mechanisms that are influenced by family values, firm type, and the stage of development.

Working with external advisors is crucial

to have a balanced, third-party view on complex issues that might affect the family.

More than 75%

of respondents rely on referrals from the family's professional network and/or friends **when selecting external advisors.**

Family succession and continuity

37% **of respondents in Europe claim to have a solid, documented, and well-communicated succession plan in place,** compared with 30% globally.

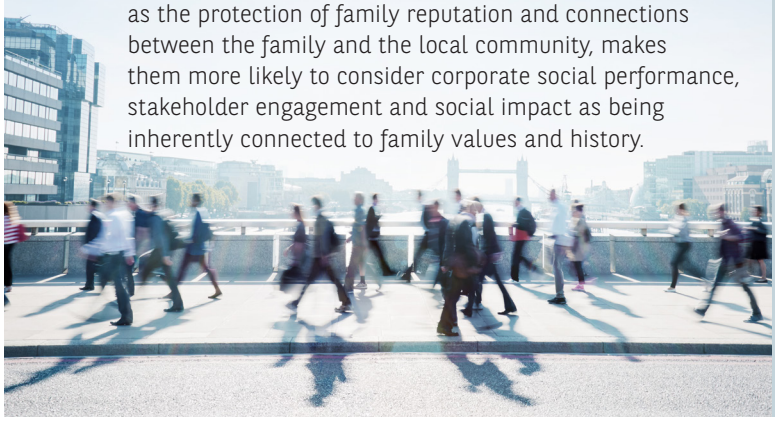


Emerging trends: new paradigms influencing family business models

Social impact & wealth responsibility

are crucial inspirations in entrepreneurial families

Family firms and their respective families are uniquely positioned to catalyze positive impact on stakeholders and society. The existence of family-centred goals, such as the protection of family reputation and connections between the family and the local community, makes them more likely to consider corporate social performance, stakeholder engagement and social impact as being inherently connected to family values and history.



Research has found that different practices can be leveraged to pursue social impact:



Practising philanthropy results in overall enhanced family dynamics, improved performance, enhanced reputation and creates opportunities to educate and involve family members who are not engaged in the business.

A major challenge often faced by large and multigenerational family groups is engaging younger members in philanthropy. The most straightforward way to achieve this is to onboard young members as early as possible as a way to raise their interest in the family business itself.





Impact investing is gaining traction among next-generation members of affluent families. Often, the transition towards impact investing needs a radical shift on how the family has been managing its wealth, with a substantial re-think of governance structures, asset allocation and wealth responsibilities.

Digital transformation & family firms



While technological adoption may result in capturing opportunities, it can also lead to unexpected issues. Intergenerational conflicts, for instance, may reach a critical threshold as older generations are reluctant to adopt digital technology quickly, while younger generations expect instant acceptance of them. Research has shown that family owners are likely to bear more resistance when digital transformation is an organization-wide transformation. However, they are less likely to resist when digital technologies are implemented as part of product or process innovations.

On average, family firms are more effective than non-family firms in innovating their business model digitally.

WORLDWIDE	EUROPE
38%	43%

Respondents reported to have a good level of digital skills.

For 72%
of European family firms, being more innovative is the top goal in the short to medium term.

Education for responsible ownership



The level of education has a significant influence on the next generation's performance. Formal education provides the underlying principles and comprehensive competencies that can be used in most business settings, as well as the analytical skills and traits required for decision-making. Education also exposes successors to new management and technological initiatives and trends.

For 42%
of respondents, the next generation represents a future source of influence for the business strategy and its direction.



Roadmap to implement a family governance



1 ASSESSING THE FAMILY (AND ITS GOVERNANCE)

- What is our family purpose?
- What are our family values?
- Where would we like our family to be in 300 years?

2 NURTURING FAMILY DIALOGUES

- Do we share the same purpose and values?
- What are the key sources of family discord?
- How can we resolve the emotional and generational chasms in our family?

3 PROFESSIONALIZING THE FAMILY BUSINESS AND THE BUSINESS FAMILY

- How do we enforce shared decision-making?
- How can we balance family members and necessary non-family competences?
- How can we use digital technologies to support the quality of decision-making?

4 SUPPORTING THE NEXT GENERATION

- How can we balance flexibility and structure in our planning for family continuity?
- How can we be inclusive as a family and support the development of family talent?
- How can we develop transgenerational ownership competences in our family?

Read the full report
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