

# Creating value through good governance

How to balance what is right for  
the business and for the family

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# Creating value through good governance

## How to balance what is right for the business and for the family

The STEP Project Global Consortium and KPMG Private Enterprise are pleased to have the opportunity to share the insights gathered from more than 1,800 family business leaders in every major region of the world. **The STEP 2019 Global Family Business Survey** examined the impact of changing demographics on the future of family businesses and was followed up with in-depth interviews among family business leaders across the globe, many of whom generously agreed to openly share their experiences in a series of four co-authored articles.

The first article in the series, **“The courage to choose wisely: Why the succession decision may be a defining moment in your family business,”** explores the ways in which changing demographics are influencing succession decisions and the succession planning process itself.

The second article, **“The power of women in family business: A generational shift in purpose and influence,”** takes an up-close look at the demographic shifts that are changing the role of women in family businesses and the unique competitive advantages they can deliver.

The third article, **“Creating value through good governance: How to balance what is right for the business and for the family,”** examines the many layers of family and business governance systems and mechanisms and the ways in which the evolving principles of good governance create value for both the business and the family.

Our insights are derived from the findings of the STEP 2019 Global Family Business Survey and the first-hand experiences of multi-generations of family business leaders globally.

Throughout this document ‘We/Us/Our’ means KPMG and the Successful Transgenerational Entrepreneurship Practices (STEP) Project Global Consortium.

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**Jeremy Chi-yeung Cheng**  
Researcher,  
Center for Family Business,  
The Chinese University of Hong Kong,  
Hong Kong (SAR), China



**Luis Díaz-Matajira**  
Assistant Professor,  
School of Management  
Universidad de los Andes,  
Bogota, Colombia



**Andrea Calabrò**  
STEP Global Academic Director,  
Director,  
IPAG Entrepreneurship & Family  
Business Center,  
IPAG Business School



**Jesus Luna**  
National Private Enterprise Leader,  
Partner,  
KPMG in Mexico



**Miguel Ángel Faura Borruy**  
National Private Enterprise Leader,  
Partner,  
KPMG in Spain



**Tom McGinness**  
Global Leader,  
Family Business,  
KPMG Private Enterprise,  
Partner,  
KPMG in the UK

# About the STEP 2019 Global Family Business Survey

The Successful Transgenerational Entrepreneurship Practices (STEP) Project Global Consortium and KPMG Private Enterprise entered into a strategic alliance to conduct research to develop a deeper understanding of the impact of changing demographics on succession and governance practices for business families.

The STEP 2019 Project Global Family Business report surveyed more than 1,800 family business leaders from 33 countries across Europe, Central Asia, North America, Latin America, the Caribbean, Asia, the Pacific, the Middle East and Africa. The survey provided an opportunity for the participants to provide their views on how changing demographics affect family business governance, succession, societal impact, entrepreneurial orientation and performance. A summary of the survey report can be found [here](#).

As a follow-up to the survey, more than 25 personal interviews were conducted with family business leaders (who represent some of the largest family businesses in the world) prior to COVID-19 and following its onset beginning in March 2020 until the publication date. The insights gathered from these interviews helped to deepen our understanding of the context behind the survey results and allowed us to explore these insights further in this article, the third in our four-part series. This article examines the value of good governance in family business and the family governance mechanisms that leading family businesses employ.

# The family governance value proposition

Choosing the right governance practices in a family business is a critical ingredient for its long-term sustainability. While business governance is essential for effective business processes and establishing control mechanisms, family governance processes and structures serve a different purpose. Not only do they help to support a strong communication environment among family members, but they also help to define who the family is as a group and what they want to achieve.

As revealed in the STEP 2019 Global Family Business Survey, 88 percent of family CEOs around the world reported having a medium-to-high level of family identification with their firms. Our findings have shown that the level of family governance development is linked to how strongly family members identify with their firm.<sup>1</sup>

What is the value of good governance in the family business environment?

We typically describe governance as a system of interconnected philosophies, mechanisms, structures and practices that support good decision-making and communication among individuals. In a family business, these individuals have shared interests and goals as well as multiple roles as shareholders, operators of the business and members of the family.

<sup>1</sup> STEP 2019 Global Family Business Survey — “The impact of changing demographics on family business succession planning and governance.”

A strong family governance system that might include tools such as family councils, assemblies and constitutions provides clear guidance as to how decisions will be made by the family (both for the family and for the business) and it helps to create a unified voice both inside and outside the family. All of this contributes to the professionalization of the business and cohesion within the family itself.

About 40 years ago, the “three-circle model of the family business system”<sup>2</sup> was introduced as an organizing framework for understanding family business systems. In simple terms, this model presents the three interdependent and overlapping groups that comprise a family business: family, business and ownership. While overlapping in some spheres, each group has its own goals, priorities and dynamics and the long-term success of family business systems depends on how well each group functions and supports the others.

The framework for family governance must support the decision-making processes, communications and cohesiveness of all of these groups as owners and operators of the business and as contributing members of the family itself.

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<sup>2</sup>Tagiuri R, & Davis J. (1996). Bivalent attributes of the family firm. *Family Business Review*, 9(2), 199-208.

# Governing with intent

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“The concept of a ‘best practice’ in family governance doesn’t exist. A good practice 10 years ago might be frowned upon today.”

**Family business CEO**  
Construction industry,  
United Kingdom

By its very definition, the controlling family in a family business is a driving force for deciding how the business chooses to operate and how it will define success. Often, these choices are based on the shared purpose of the family and the business: ‘Why are we here? What do we want to accomplish together? How do our choices reflect and support our family’s values?’

Several family business leaders told us that it was essential to have formal governance practices in place as their companies grew and matured. The time came when it was necessary to create appropriate frameworks and structures to make sure that checks and balances were in place for the business to scale up successfully. They told us that good family governance practices were a key factor in fulfilling their family’s purpose and creating value for customers, employees, shareholders and their communities.

Family leaders such as these are often looking for the ‘best structure’ and advice on governance ‘best practices.’ The concept of a ‘best practice’ in family governance doesn’t really exist and as one family business leader described, *“What was considered to be a good practice 10 years ago might be frowned upon today.”*

In reality, governance systems are a dynamic set of tools and it’s important to review them regularly to ensure that they continue to be appropriate and relevant at given points in time and, most particularly, during times of significant change. Better questions to be asking are: How does the enterprising family system define success? What does the family — as owners, executives and family members — and the business need in order to be successful at any given point in time?



# Making governance 'fit for purpose'

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Due to changing demographics, we are beginning to see an emerging theme. There is a gradual shift away from being 'family owned and run' — which is particularly common in first- and second-generation family firms — to being 'family owned and non-family managed', whereby family members are only involved at the ownership level (and occasionally on the board), but not in the day-to-day operations of the business. This makes it necessary for governance structures to adapt to a new scenario in which family members are primarily owners and are not involved in running the business.

Such is the case for J. Murphy & Sons Limited, a third-generation family business that develops and maintains large infrastructure projects in the UK, Ireland and Canada. For this family, there is a clear definition of decision-making authority that is embedded in the family's governance framework and captured in the shareholders' agreement. While no family members — with the exception of CEO John Murphy — currently participate in the day-to-day operations of the business, each branch of the family is represented on the operating company board to provide family oversight. This governance mechanism is designed in part to make

sure that the family's purpose and values are reflected in all the strategic decisions that are made by the business.

With appropriate governance structures and systems in place, both business decisions and family relationships can be enhanced. As J. Murphy & Sons CEO, John Murphy explained, *"Every responsible business needs a good governance framework to draw a clear line between where the family is and where the business is. I am very proud of the heritage of our family ownership and I see the benefit of the generational long-term thinking that comes with it. However, businesses need to have a professional edge and having a strong governance structure helps to define how one maintains that level of professionalism."*

In the case of Universal Cement Corporation in Taiwan, a different model has been adopted. The company was a founding member of the 'Tainan clan' in the 1960s, a collection of businesses that were jointly owned by several leading families and members of the community. Under the clan model, non-family, professional management was the governance choice for all of the companies that were members. Over time, however, Universal Cement's business began to decline due to

a lack of innovation and the highly conservative approach of the non-family management team. Consequently, Mr. B.-Y. Hou, Universal Cement's Chairman and CEO, assumed full ownership and management control in 2008 along with his two fourth-generation sons. When a family owns the equity but does not have adequate mechanisms for overseeing the company's performance, non-family management control may not be the best governance choice for the long-term development and sustainability of the business.

The evolution of informal governance systems to those that are more formalized is inextricably linked to the increasing complexity of the business and the family. It makes it necessary for the governance systems to evolve in parallel with the progression of the family and the business and continue to be fit for purpose at that time and stage of the family's evolution.

Therefore, family governance needs to be adaptable and reflect the generational composition, roles and responsibilities of family members as their ownership and management responsibilities evolve.

# Whose role is it to govern?

“ We have been creating, together with my children, the future governance rules for the family assets. It’s a process that we’re going through together so that they can define what they want, in terms of governance, for the assets of their own children and grandchildren. ”

**Filipe de Botton**  
Chairman,  
Logoplaste,  
Portugal

We have learned through research and direct experience with family businesses throughout the world that families who engage all generations of family members in planning and implementing their governance systems achieve two objectives. First, senior members of the family have the opportunity to reflect on what they have built and to pass on what they have learned through various changes in the family’s approach to governance. Second, next-generation members of the family bring a fresh perspective for addressing the challenges that the current generation is facing in the family and in the business. Perhaps most importantly, the next generation of the family has the opportunity to co-create the future systems that they will ultimately oversee.

As Filipe de Botton, Chairman of Logoplaste in Portugal described, *“We have been creating, together with my children, the future governance rules for the family assets. It’s a process that we’re going through together so that they can define what they want, in terms of governance, for the assets of their own children and grandchildren.”*

Family business leaders we spoke with also described how family governance practices and tools are helping to shape and reinforce a shared future for their families by continuing to open up opportunities to review and agree upon the fundamental purpose of the business, confirm the family’s core values and define the desired culture and vision of the business for the future as potential successors come to the forefront.

With potential succession events on the horizon and multi-generational perspectives emerging within the family business, there is additional pressure on understanding the impact that governance practices may be having on critical, and often long-term, decisions. This includes the criteria for the development of future successors and the criteria for making the right choice of a successor at the right time. These and other important considerations for succession planning are addressed in detail in the first article in our co-authored series, **“The courage to choose wisely: Why the succession decision may be a defining moment in your family business”**.





“Every responsible business needs a good governance framework to draw a clear line between where the family is and where the business is. I am very proud of the heritage of our family ownership and I see the benefit of the generational long-term thinking that comes with it. However, businesses need to have a professional edge and having a strong governance structure helps to define how one maintains that level of professionalism.”

**John Murphy**  
CEO,  
J. Murphy & Sons,  
United Kingdom

# The mechanisms of family governance

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Family dynamics often make conversations challenging and discussions in family business are no exception. It can be difficult to talk about how the business may need to change and to agree on how to support its evolution from one generation to the next — potentially from a business that has been based on a tradition of ‘trust, informality and implicit rules’ to a new tradition of ‘structure and explicit rules’. As the business matures and grows, the presence of family governance mechanisms becomes all the more essential.<sup>3</sup>

While evolution can be challenging, the value of good family governance systems at every stage of the business far outweighs the obstacles. Family business governance is about maintaining the equilibrium between what the business is trying to achieve and what the family wants to achieve. So, in addition to customary corporate governance systems, families in business have the opportunity to build their own unique family governance systems to balance their economic and family-centric goals and translate them into a shared vision for the family.

Family governance also may include the management of assets and wealth through family councils, assemblies and constitutions and the need to build cohesiveness throughout the family, especially when it begins to move to the cousin consortium stage and beyond.

Over the past 2 decades, the concept of the family office has gained momentum. While families — especially those in the West — primarily set up family offices as one-stop shops for investment, tax and estate planning, they have now progressed well beyond wealth management to also carry out important governance, education, philanthropic and social functions.

In one case that we are familiar with, a family business in Venezuela set up a holding company — which could be seen as a form of the family office — to effectively manage the family’s business portfolio, which allowed them to create a shared vision on topics such as strategy, diversification, risk, profitability, taxation and control. The family is now in the process of institutionalizing the family office to advance the family governance functions and help the family establish its constitution.

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<sup>3</sup> “The Power of Governance in Family Business,” 21 February 2017, Dominic Pelligana, KPMG Private Enterprise, KPMG in Australia <https://home.kpmg/xx/en/home/insights/2017/01/power-of-governance-in-family-business.html>

# Key insights

When assessing the role of family governance in your business family, it is important to consider some key principles and characteristics of effective governance.



Family governance in the family business model focuses on supporting the shared purpose, principles and values of the family and its business and answers the questions: why are we doing this together and what do we want to achieve?



Good governance sets clear boundaries around who decides what: what is a business decision, what is a board decision, what is a shareholder decision, what is a family decision?



There are many family governance mechanisms, such as family councils, assemblies, constitutions and family offices, but they are only effective if they are cohesive and flexible so that the family can work together and adapt them as necessary.



Family governance is dynamic and must continue to be 'fit for purpose' as the business and the family evolve.



Family governance works hand-in-hand with corporate governance, but it has its own unique purpose and value.

## Jesus Luna

National Private Enterprise Leader,  
Partner,  
KPMG in Mexico

# Promoting cohesion, flexibility and communication

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Effective family governance systems promote cohesion, flexibility and communication. This echoes Olson’s model of marital and family systems, demonstrating that a functional family system requires a balance of cohesion and flexibility that is facilitated through good communication. Family *cohesion* is defined as the emotional bonding that family members have toward one another and the degree to which they are connected.<sup>4</sup> In environments that are often dynamic and unpredictable, *flexibility* is the key to finding the right balance between stability and change to maintain the health of the organization. While governance rules may impose restrictions on certain behaviors and actions, it can also be flexible enough for family members to undertake important actions within the governance framework. COVID-19 has provided a multitude of examples of the ways in which good governance systems have upheld the need to be flexible without diminishing the stability of the business and the family.

The key here is how a system balances stability versus change. A case in point is how effective governance systems can prepare the family and the business for unpredicted adversity. The goal of good family governance is to make sure that family members stay connected

and have opportunities to voice their concerns and share their emotions in a professional setting.<sup>5</sup> An effective governance framework that includes *communications protocol and conflict resolution* processes is often used to provide a neutral mechanism for recognizing and resolving conflicts and promoting family harmony whenever possible.

Forums such as family assemblies and family councils often provide a dedicated platform for family members to discuss specific issues. However, it is important to note that these structures may be ceremonially adopted<sup>6</sup> and do not necessarily diminish the need for family members to acquire good and respectful communication skills for speaking, listening, self-disclosure, clarity and staying on topic with each other.

The family business leaders we have spoken with are generally well aware of the critically important need to maintain an open and constructive dialogue within their families. As Balázs Lévai, Sales Director, BioTechUSA in Hungary, described, “*In the family, we discussed everything. Every contradiction became a compromise, never a suppressed contradiction that wasn’t heard and discussed.*”

<sup>4</sup> Olson, D.H. (2000). Circumplex model of marital and family systems. *Journal of Family Therapy*, 22(2), 144-167.

<sup>5</sup> Berent-Braun & Uhlaner, 2012; Umans, Lybaert, Steijvers, & Voordeckers, 2020.

<sup>6</sup> Parada, M. J., Gimeno, A., Samara, G., & Saris, W. (2020). The adoption of governance mechanisms in family businesses: an institutional lens. *Journal of Family Business Management*.



“ In the family, we discussed everything. Every contradiction became a compromise, never a suppressed contradiction that wasn't heard and discussed. ”

**Balázs Lévai**  
Sales Director,  
BioTechUSA,  
Hungary

# Learning to get along

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“ We went for 3 years without talking to each other. It still marks your life, even when some of those family members are no longer here. I’ve never forgotten it and I think that strong people shouldn’t try to impose themselves on others’ decisions. We must leave room for everyone to state their own intentions. ”

**Owner**

Housing sector family business,  
France

Despite the recognition of the importance of open and honest dialogue, there are often family boundaries that can undermine the goals that are necessary to drive meaningful discussions and resolve potential conflicts. Poor family relationships can add to the hazards, since they don’t represent a moment in time, but an entire history of personal and familial development. Childhood disagreements may perpetuate into the present and insert themselves into interpersonal dynamics in the business. Your mother, for example, might be your parent and your boss at the same time. Or, as the eldest daughter in the family, you may find yourself working for your youngest brother.

These situations are not unusual and conflict can be the norm for some families in business. Not only are these situations detrimental to family harmony, but they can often spill over and affect the long-term sustainability of the business itself. Avoidance isn’t usually considered to be an ideal conflict resolution strategy. Because conflicts can be detrimental to some families, however, it can lead them to practice partial avoidance by resorting to an ownership exit or the termination of a family relationship rather than reopening old family wounds.

*“We went for 3 years without talking to each other. It still marks your life, even*

*when some of those family members are no longer here. I’ve never forgotten it and I think that strong people shouldn’t try to impose themselves on others’ decisions. We must leave room for everyone to state their own intentions,”* said an owner of a housing sector family business in France.

Those families that have effective systems for managing conflicts are more successful in focusing on the goals of the business and the family rather than on personal views or old grievances. Without question, “open communication” is cited as the most effective strategy for preventing and resolving conflicts. Many family business leaders also subscribe to implementing a defined decision-making authority to help reduce potential role ambiguity that can ultimately lead to conflicts.

While literature suggests that family and corporate governance systems are effective means for managing conflict,<sup>7</sup> they were cited infrequently by family leaders during our conversations. However, we noted that families who establish family governance mechanisms, such as family constitutions, often use those as a basis for defining how conflicts will be resolved and how specific situations will be managed effectively.

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<sup>7</sup> Kubiček A, & Machek O. (2020). Intrafamily conflicts in family businesses: A systematic review of the literature and agenda for future research. *Family Business Review*, 33(2), 194-227.

# Key insights

A documented conflict resolution process is only a backstop. If the process has to be activated frequently, larger business and family issues likely need to be addressed.



Conflicts are a natural part of the family business system. It is important to seek to understand the nature and root cause of the conflicts in order to resolve them.



Well-defined decision-making authority in the family business can reduce role ambiguity and potential conflicts.



Families should consider using a combination of conflict management strategies, such as open communication, governance, mediation and family therapy to achieve the best results for individuals, the family and the business.

## Luis Díaz-Matajira

Assistant Professor,  
School of Management,  
Universidad de los Andes,  
Bogota, Colombia

In certain situations, there is value in being preemptive. In one case that we are aware of, a prenuptial agreement is included in the family protocol as a mandatory requirement prior to the marriage of any family member. These agreements are intended to ensure the continuation of family ownership in the event of a divorce and they define in advance that any division of property will be based exclusively on matrimonial assets that are not linked to the ownership of the family business.



# Investing in the family's most valuable asset

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The principal purpose of our research was to evaluate the impact of changing demographics on family business practices. We weren't surprised, of course, to learn that the pace of change is increasing rapidly with the growing multi-generational outlook and approaches of family business leaders.

In this environment, families have an immediate opportunity to secure the futures of their businesses by investing in their most valuable asset — the next-generation family members who will lead the businesses forward.

The development of this new breed of future leaders does not happen in a vacuum, but at the nexus of the family and the business. It also isn't confined to formal education alone, but includes the informal learning opportunities within the business that the family often provides from an early age. This implicit knowledge usually begins to develop in the early years through family experiences and working in the family business.<sup>8</sup>

By applying their family governance systems to create learning opportunities, families are also able

to provide coaching and mentoring options to next-generation members through their participation in philanthropic projects, internships and apprenticeships. Future family leaders are often also engaged in junior boards or as observers of the family council, owners' council or a business board.


Others have embraced the concept of the 'learning family', setting up education and career committees within the family governance system. In this way, they coordinate learning initiatives through a family-specific curriculum that educates the next generation about family values and traditions and provides an opportunity for their talent and creativity to be explored.

As a family business leader in Germany described, *"Everybody has to get a decent education. Even if they pursue a career that is not related to the family business, they still have to fulfill their role as a shareholder. That means, even if they become a physician, they still have to be committed to the family business and acquire the corresponding knowledge to make a meaningful contribution as an owner."* Supervisory Board Member, Mechanical engineering firm, Germany.

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<sup>8</sup> Chirico, F. & Salvato, C. (2008). Knowledge integration and dynamic organizational adaptation in family firms. *Family Business Review*, 21(2), 169-181.





“Everybody has to get a decent education. Even if they pursue a career that is not related to the family business, they still have to fulfill their role as a shareholder. That means, even if they become a physician, they still have to be committed to the family business and acquire the corresponding knowledge to make a meaningful contribution as an owner.”

**Supervisory Board Member**  
Mechanical engineering firm,  
Germany

# The role of governance in family career planning

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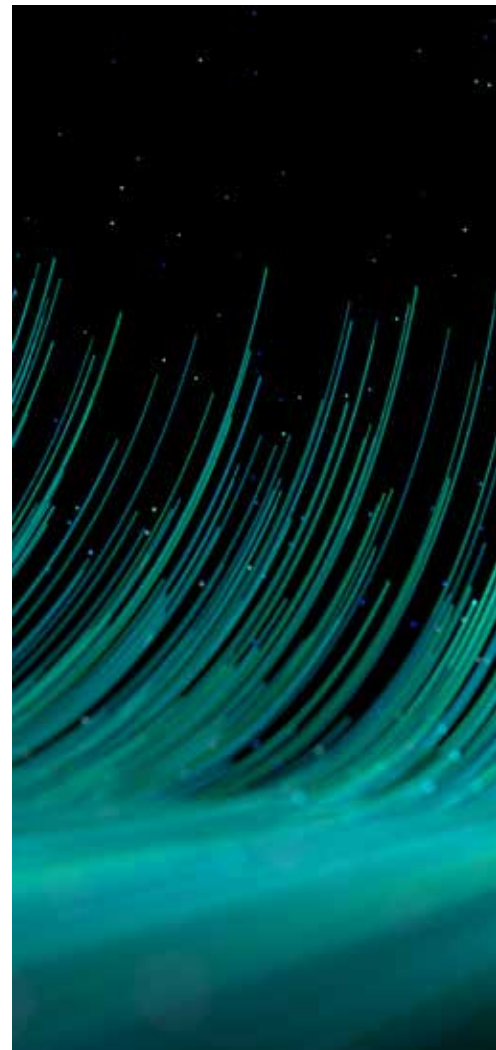
“When I had to choose a career, I was guided by my father and the passion I already had for the company because I had worked in the laboratory and distribution in my youth. When I studied industrial engineering, I was happy because I knew that it would ultimately help me do my job well in the company.”

**José Manuel Suso Dominguez**  
CEO,  
Arrocera la Esmeralda,  
Colombia

There is a strong association between family education and career planning. Successful families that have formal family governance systems typically establish a dedicated education and career committee to help identify the career aspirations of family members and bridge them to the development plans of the business and the family.

Even when next-generation family members do not see the family business as their preferred career choice, families tend to immerse them in the entrepreneurial environment of the family at a young age. *“When I had to choose a career, I was guided by my father and the passion I already had for the company because I had worked in the laboratory and distribution in my youth. When I studied industrial engineering, I was happy because I knew that it would ultimately help me do my job well in the company,”* said José Manuel Suso Dominguez, CEO, Arrocera la Esmeralda, Colombia.

The intention of next-generation family members to make the family business their career choice is reinforced when they see a clear development path ahead of them.



# Key insights

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Family education and effective mechanisms that support career planning contribute to the succession intent of next-generation members.



Families should seek to understand the individual aspirations of next-generation family members and the intended development plans of the family and the business as part of the career planning process.



A career development plan with clear rules and policies can help raise future generations' succession intentions.



There is no one-size-fits-all approach to career planning. Families should tailor their strategies to reflect the development trajectory of next-generation family members, the family and the business.

## **Jeremy Chi-yeung Cheng**

Researcher,  
Center for Family Business,  
The Chinese University of Hong Kong,  
Hong Kong (SAR), China

# Family first or business first?

“We plan on having professionals in most senior management positions in the future so that the company’s operations are managed independently from family members, while the family continues to retain control through the board of directors.”

**Claudia Visani**  
Board member,  
Inversora Lockey,  
Venezuela

The importance of developing human capital is reflected in both corporate and family governance systems due to the need to engage and develop family and non-family members. As we heard from family leaders, there are various factors that affect decisions about engaging non-family members as managers — or even leaders — of the family business. When the family perceives advantages in engaging professional management for the sustainability of their business, it is typically based on a fundamental decision to put ‘business first’.<sup>11</sup>

As an example, Claudia Visani, former CEO and current board member of Venezuela’s Inversora Lockey explained, *“We plan on having professionals in most senior management positions in the future so that the company’s operations are managed independently from family members, while the family continues to retain control through the board of directors.”*

There are several factors that can influence such a decision. Some families choose to engage family members almost exclusively in leadership and managerial roles. In the case of Arrocería la Esmeralda, a family-run rice production and distribution business in Colombia, for example, the family protocol states that if there are two equally qualified candidates for a position in the business, the

family member is to be selected. The family acknowledges that there are pros and cons to this policy and clear family employment policies have been adopted in their governance structure that everyone must adhere to.

While some family firms may be accused of nepotism in their succession and recruitment practices, this is not universally true. The choices they make have to be right for that specific family and at that specific time in their life cycle and based on the history of the family, their current dynamics, future aspirations and overall attitudes and values.

In this context, the concept of ‘fairness’ relates to meeting the economic and non-economic goals of the family business simultaneously.<sup>12 13</sup> The privileged treatment of family employees, if based on merit, does not necessarily contradict the ‘business first’ mentality, but it relates to the family’s aim to maximize its performance, as measured by realizing both the economic and non-economic goals of the controlling owners.

With changing demographics and the gradual shift away from ‘family owned and run’ to ‘family owned and non-family managed’ that we noted earlier in this article, the concept of ‘business first’ may have increasing appeal in certain family business situations.

<sup>11</sup> Astrachan, J.H., & Kolenko, T.A. (1994). A neglected factor explaining family business success: Human resource practices. *Family Business Review*, 7(3), 251–262.

<sup>12</sup> Samara, G., & Paul, K. (2019). Justice versus fairness in the family business workplace: A socioemotional wealth approach. *Business Ethics: A European Review*, 28(2), 175–184.

<sup>13</sup> Samara, G., & Arenas, D. (2017). Practicing fairness in the family business workplace. *Business Horizons*, 60(5), 647–655.

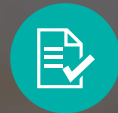
# Key insights

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While family firms may be criticized for nepotism, many have adopted professional norms and standards in their succession and recruitment practices.



Families can strike a balance between being 'family first' and 'business first' by implementing governance principles and practices that incorporate their choices in human resource planning.



Families that formulate family employment policies illustrate what it means to be 'family first' or 'business first'. Fairness and transparency are critical qualities of these policies, however, the consistent execution of the policies is the key to deriving true benefits for the family and the business.



Establishing a retirement age for management and governance roles is advantageous to the current generation and future successors.

## **Tom McGinness**

Global Leader,  
Family Business,  
KPMG Private Enterprise,  
Partner,  
KPMG in the UK

# Nurturing tomorrow's entrepreneurs

“The entrepreneurial spirit in succeeding generations is kindled through the freedom given to them to start their own ventures. It is prescribed in our family constitution that monetary support and mentorship will be provided to family members who want to undertake such activities upon the discretion of the family business board.”

**John K. Paul**

Managing Director,  
Kuttakaran Group,  
India

In addition to the importance of education and career development, nurturing transgenerational entrepreneurship is often a family priority. It is viewed as essential for the continued development of innovations that will bolster the competitiveness of the business while also sustaining the core purpose, principles and values of the family. Family governance structures have a role to play in this regard by formalizing the processes that provide family members with practical experience and opportunities to unleash their entrepreneurial spirit and create their own new ventures.

As described to us by Mr. John K. Paul, Managing Director of the Kuttakaran Group in India, his family's entrepreneurial ambition is actively supported in the following way: *“The entrepreneurial spirit in succeeding generations is kindled through the freedom given to them to start their own ventures. It is prescribed in our family constitution that monetary support and mentorship will be provided to family members who want to undertake such activities upon the discretion of the family business board.”*

More and more often, we find that families are turning their attention to the ‘founding intention’<sup>9</sup> of their

family business and encouraging family members to embark on an entrepreneurial career. This sometimes includes the creation of a next-generation venture inside the family business or a separate business that is independent of the original family endeavor. Family businesses that undertake initiatives such as these offer real opportunities to family members to pursue a boundaryless career by developing their skills inside the family business and beyond.<sup>10</sup>

As an example, when it was recognized that the entrepreneurial drive of the next generation of their family members was already well entrenched, one family in Guatemala developed a “young talent development program.” Its aim is twofold: to encourage the development of innovations and to introduce young family members to the company's culture. Next-generation members are invited to develop a project to improve the business in an area that's of greatest interest to them. In one case, the fresh perspective of a young, up-and-coming entrepreneur in the family gave senior management a rapid insight as to how a new generation of consumers perceives the company's products and markets and a plan for how the business could pivot as a result.

<sup>9</sup> Schroder, Schmitt-Rodemund, & Arnaud, 2011; Zellweger, Sieger, & Halter, 2011.

<sup>10</sup> Arthur, M.B., & Rousseau, D.M. (1996). The boundaryless career as a new employment principle. In M.B. Arthur and D.M. Rousseau (Eds.), *The boundaryless career* (pp. 3-20). New York, NY: Oxford University Press.

# Key insights

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Nurturing the passion for entrepreneurship across generations drives innovation, family energy and future competitiveness.



Embracing the concept of the learning family, families should rethink the education and development of the next generation, including formal and informal learning aimed at increasing their roles as both shareholders and business managers.



The family governance system can be an effective mechanism to coordinate and plan the learning initiatives of the next generation of family members and the family as a whole.



Continuing investment in the entrepreneurial spirit of all generations can better utilize their energy and drive innovations forward.

**Miguel Ángel Faura Borruey**  
National Private Enterprise Leader,  
Partner,  
KPMG in Spain

# A blueprint for family governance

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It is important for every family business to ensure its governance practices and mechanisms are aligned with the realities of the day. The key is to determine how well each family's governance system is able to balance the need for stability while retaining its agility and resilience. While governance rules may impose certain restrictions on the behavior or actions taken by the business and the family, they also need to be flexible enough to allow managers and family members to pursue new activities within that framework.

The responses to COVID-19 have revealed excellent examples of how family governance systems have achieved this balance through decision-making frameworks that are flexible enough to allow quick action to protect the family business without losing sight of its core purpose and values.

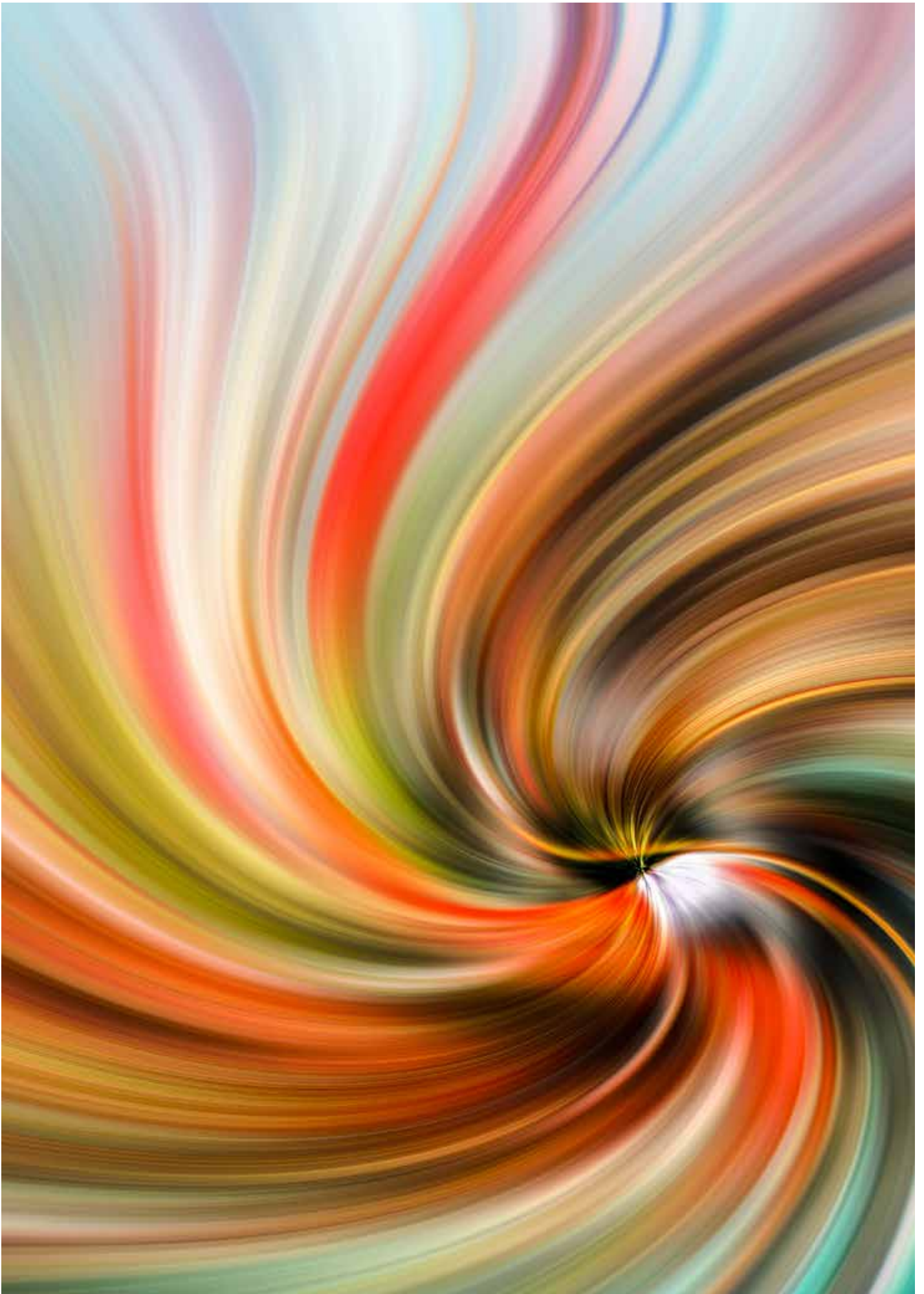
The evolution of informal governance systems to those that are more formalized is inextricably linked to the increasing complexity of the business and the family. It makes it necessary for governance systems to evolve in parallel with the progression of the family and the business. This requires them to be flexible enough to achieve their intended objectives — even during periods of unpredictable change — so that they can continue to be fit for purpose.

We encourage you to learn more about the families who contributed to our conversations and brought to life their insights on the impact of changing demographics on family governance practices. You will find the profiles of these prominent family business leaders and their businesses on the KPMG Private Enterprise **website**.

Be sure to watch for the fourth article in our four-part series as we explore the impact of changing demographics on the unbreakable bond between business and family legacies. If you missed the first two articles in the series, you will find them here: **“The courage to choose wisely: Why the succession decision may be a defining moment in your family business”** and **“The power of women in family business: A generational shift in purpose and influence”**.

We invite you to contact us at **familybusiness@kpmg.com** to receive the next article in the series as soon as it's available. And, as always, we welcome your feedback and invite you to share your own perspectives and experiences with us and for the benefit of family businesses across the globe.





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## Family Business leaders

**Khalid Abunayyan**  
**Abunayyan Holding Company,**  
Saudi Arabia

**José Manuel Suso Dominguez**  
**Arrocera la Esmeralda,**  
Colombia

**Petter Wagner**  
**Avila Wagner,**  
Colombia

**Ferenc Lévai**  
**BioTechUSA,**  
Hungary

**Jodi Bloomer**  
**Canadian Fiber Optics Corp.,**  
Canada

**Gabriel Hoey and Michael Hoey**  
**Country Crest,**  
Ireland

**Alfonso Urrea Martin**  
**Grupo Urrea,**  
Mexico

**ZHU Xuehao**  
**Hawk Filtration Technology (Shanghai) Co. Ltd.,**  
China

**Margaret Hirsch**  
**Hirsch's,**  
South Africa

**Claudia Visani**  
**Inversora Lockey C.A.,**  
Venezuela

**John Murphy**  
**J. Murphy & Sons Limited,**  
United Kingdom

**John K. Paul**  
**Kuttakaran Group,**  
India

**Kim Schoepflin**  
**Kwatani,**  
South Africa

**Filipe de Botton**  
**Logoplaste,**  
Portugal

**Ramia El Agamy**  
**Orbis Terra Media,**  
Switzerland

**Chaiwat Luangamomlert**  
**Siam Amazing Park,**  
Thailand

**Jack Hou**  
**Universal Cement,**  
Taiwan (jurisdiction)

**George Vestey**  
**Vestey Holdings,**  
United Kingdom

**Andy Wates**  
**Wates Group,**  
United Kingdom

## STEP Project Global Consortium

**Asian Institute of Management**  
Philippines

**Audencia Business School**  
France

**Babson College**  
United States

**Bangkok University**  
Thailand

**Bogazici University**  
Turkey

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United States

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**Instituto de Estudios Superiores de Administración**  
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Higher School of Economics  
Russia

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Mexico

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Hong Kong (SAR), China

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Guatemala

**Universidad Icesi**  
Colombia

**University of Bergamo**  
Italy

**Windesheim University of Applied Sciences**  
Netherlands

# Case study authors

**Dr. Hanoof Abohodair**

Saudi Arabia

**Daniël Agterhuis**

Netherlands

**Dalal Alrubaishi**

Saudi Arabia

**Kevin Au**

Hong Kong (SAR), China

**Nunzia Auletta**

Venezuela

**Alan Barr**

South Africa

**Ameline Bordas**

France

**Mara Brumana**

Italy

**César Cáceres Dagnino**

Peru

**Myriam Cano-Rubio**

Spain

**Fuad Chapra**

Saudi Arabia

**Helmuth Chávez Asturias**

Guatemala

**Jeremy Cheng**

Hong Kong (SAR), China

**Hsi-Mei Chung**

Taiwan (jurisdiction)

**Alexandre Dias da Cunha**

Portugal

**Luis Díaz-Matajira**

Colombia

**Irmak Erdogan**

Turkey

**Keeva Farrelly**

Ireland

**Steve Gaklis**

United States

**Ana C. Gonzalez L**

United States

**Mario A. Gonzalez**

Mexico

**María Hernández**

Spain

**Remedios Hernández-Linares**

Spain

**Albert James**

Canada

**Marshall Jen**

Hong Kong (SAR), China

**Brittany Kraus**

Canada

**Nyeste László**

Hungary

**Kg Lobo**

Philippines

**Louise Lu**

Taiwan (jurisdiction)

**Bharagavi Mantravadi**

India

**Antonio Martinez Valdez**

Peru

**Tom McGinness**

United Kingdom

**Kenneth Metrado**

Philippines

**Tommaso Minola**

Italy

**Patricia Monteferrante**

Venezuela

**Ágnes Mosolygó-Kiss**

Hungary

**Carmen Pachas Orihuela**

Peru

**Francisca Panades**

Spain

**Nupur Pavan Bang**

India

**Luckxawan Pimsawadi**

Thailand

**Stefan Prigge**

Germany

**Miruna Radu-Lefebvre**

France

**Kavil Ramachandran**

India

**Yeny Rodríguez**

Colombia

**Elena Rozhdestvenskaya**

Russia

**Fernando Sandoval-Arzaga**

Mexico

**Allanne Mae Tiongco**

Philippines

**Daniel Trimarchi**

Canada

**Suchart Tripopsakul**

Thailand

**Manuel Carlos Vallejo**

Spain

**Julian van den Akker**

Netherlands

**Diego Vélez Montes**

Colombia

**Jaly Vibeth Chea**

Guatemala

**You-fong Wu**

Taiwan (jurisdiction)

**Özlem Yildirim Öktem**

Turkey

**Hua Zhao**

China

# KPMG Private Enterprise member firms

We would like to thank all of the KPMG Private Enterprise member firms that participated in the development of this report, in particular, those that contributed to the interviews and case studies.

## Australia

### Robyn Langsford

**Partner,**  
**Private Clients & Family Business,**  
KPMG Australia  
**T:** +61 2 9455 9760  
**E:** rlangsford@kpmg.com.au

## Brazil

### Jubran P P Coelho

**Private Enterprise Leader for the South Americas Region and Brazil,**  
KPMG in Brazil  
**T:** +55 1139403221  
**E:** jpcoelho@kpmg.com.br

## Canada

### Mary Jo Fedy

**National Private Enterprise Leader,**  
**Partner,**  
KPMG in Canada  
**T:** +1 519 747 8875  
**E:** mfedy@kpmg.ca

## Daniel Trimarchi

**Director,**  
**Family Business Global Network,**  
**KPMG Private Enterprise,**  
KPMG  
**T:** +1 416 777 3816  
**E:** danieltrimarchi@kpmg.ca

## China

### Karmen Yeung

**National Private Enterprise Leader,**  
**Partner,**  
KPMG China  
**T:** +86 755 2547 1038  
**E:** karmen.yeung@kpmg.com

## France

### Alpha Niang

**Senior Manager,**  
**KPMG Private Enterprise**  
KPMG in France  
**T:** +33 155686189  
**E:** aniang@kpmg.fr

## Germany

### Vera-Carina Elter

**Head of People and KPMG Private Enterprise in Germany,**  
KPMG in Germany  
**T:** +49 211 475 7505  
**E:** veraelter@kpmg.com

## India

### Kalpesh Desai

**Partner,**  
KPMG Private Enterprise in India  
**T:** +91 98193 73637  
**E:** kalpeshdesai@kpmg.com

## Ireland

### Olivia Lynch

**Partner,**  
KPMG Private Enterprise in Ireland  
**T:** +353 1 410 1735  
**E:** olivia.lynch@kpmg.ie

## Israel

### Jonathan Lavender

**Global Head,**  
**KPMG Private Enterprise,**  
**KPMG,**  
**Partner,**  
KPMG in Israel  
**T:** +972 3 684 8716  
**E:** jonathanlavender@kpmg.com

## Italy

### Silvia Rimoldi

**National Private Enterprise Leader,**  
**Partner,**  
KPMG in Italy  
**T:** +39 011 8395144  
**E:** srimoldi@kpmg.it

## Mexico

### Jesus Luna

**National Private Enterprise Leader,**  
**Partner,**  
KPMG in Mexico  
**T:** +52 55 5246 8899  
**E:** jjluna@kpmg.com.mx

## Netherlands

### Olaf Leurs

**Head of Private Enterprise, Tax**  
**Tax Partner,**  
KPMG Meijburg & Co,  
KPMG in the Netherlands  
**T:** +31 88 909 3414  
**E:** leurs.olaf@kpmg.com

## Portugal

### Luis Silva

**National Private Enterprise Leader**  
**Partner,**  
KPMG in Portugal  
**T:** +351 220102329  
**E:** luissilva@kpmg.com

## Saudi Arabia

### Fuad Chapra

**National Private Enterprise Leader**  
**Partner,**  
KPMG in Saudi Arabia  
**T:** +966 503660370  
**E:** fchapra@kpmg.com

## Dr. Hanoof Abokhodair

**Associate Director,**  
**KPMG Private Enterprise & Family Business,**  
KPMG in Saudi Arabia  
**T:** +966 504684064  
**E:** habokhodair@kpmg.com

## Singapore

### Jonathan Ho

**Partner,**  
**Head of Private Enterprise Market,**  
**Head of Internal Audit,**  
**Risk & Compliance Services,**  
KPMG in Singapore  
**T:** +65 6411 8336  
**E:** jho1@kpmg.com.sg

## South Africa

### Alan Barr

**National Private Enterprise Leader,**  
**Partner,**  
KPMG in South Africa  
**T:** +27 833886404  
**E:** alan.barr@kpmg.co.za

## Spain

### Miguel Angel Faura Borruey

**National Private Enterprise Leader,**  
**Partner,**  
KPMG in Spain  
**T:** +34 914563868  
**E:** mfaura@kpmg.es

## Switzerland

### Hugues Salome

**Partner,**  
KPMG in Switzerland  
**T:** +41 58 249 37 75  
**E:** hsalome@kpmg.com

## United Kingdom

### Tom McGinness

**Global Leader,**  
**Family Business,**  
**KPMG Private Enterprise,**  
**Partner,**  
KPMG in the UK  
**T:** +44 207 694 5453  
**E:** tom.mcginness@kpmg.co.uk

## United States

### Conor Moore

**National Private Enterprise Leader,**  
**Partner,**  
KPMG in the US  
**T:** +1 415 963 7559  
**E:** conormoore@kpmg.com

## Bradley Sprong

**Partner,**  
**KPMG Private Enterprise**  
KPMG in the US  
**T:** +1 816 802 5270  
**E:** bsprong@kpmg.com

# About the Successful Transgenerational Entrepreneurship Practices (STEP) Project Global Consortium

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The STEP Project Global Consortium is a global applied research initiative that explores family and business practices within business families and generates solutions that have immediate application for family business leaders. STEP aims to be a leading global family business research project with an international reputation. The research insights are specifically drawn to be of relevance to developing new theoretical insights that can offer novel and valuable best practices recommendations to the business stakeholders and the practice community at large. Having a global worldwide orientation, STEP offers networking opportunities for researchers, family business owners and consultants coming from five continents.

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As with your family, your business doesn't stand still — it evolves. Family businesses are unique and KPMG Private Enterprise Family Business advisers understand the dynamics of a successful family business and work with you to provide tailored advice and experienced guidance to help you succeed.

To support the unique needs of family businesses, KPMG Private Enterprise coordinates with a global network of member firms dedicated to offering relevant information and advice to family-owned companies. We understand that the nature of a family business is inherently different from a non-family business and requires an approach that considers the family component.

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---

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IPAG Entrepreneurship & Family  
Business Center,  
IPAG Business School

### Georges Samara

Global Research Champion,  
STEP Project,  
Editor in Chief for Business Ethics:  
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### Luis Díaz-Matajira

Assistant Professor,  
School of Management  
Universidad de los Andes,  
Bogota, Colombia

### Rodrigo Basco

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Al-Qassimi Chair in Family Business,  
American University of Sharjah

### Jeremy Chi-yeung Cheng

Researcher,  
Center for Family Business,  
The Chinese University  
of Hong Kong,  
Hong Kong (SAR), China

## KPMG Private Enterprise Center of Excellence for Family Business

### Jonathan Lavender

Global Head,  
KPMG Private Enterprise,  
KPMG,  
Partner,  
KPMG in Israel

### Daniel Trimarchi

Director,  
Family Business Global Network,  
KPMG Private Enterprise,  
KPMG

### Jesus Luna

National Private Enterprise Leader,  
Partner,  
KPMG in Mexico

### Tom McGinness

Global Leader,  
Family Business,  
KPMG Private Enterprise  
Partner,  
KPMG in the UK

### Melany Eli

Managing Director,  
Strategy,  
Marketing and Communications,  
KPMG Private Enterprise,  
KPMG

### Miguel Ángel Faura Borruey

National Private Enterprise Leader,  
Partner,  
KPMG in Spain

# Contact us

---



### Andrea Calabrò

---

STEP Global Academic Director,  
Director,  
IPAG Entrepreneurship &  
Family Business Center,  
IPAG Business School  
E: a.calabro@ipag.fr



### Tom McGinness

---

Global Leader,  
Family Business,  
KPMG Private Enterprise,  
Partner,  
KPMG in the UK  
E: tom.mcginness@kpmg.co.uk

[home.kpmg/privateenterprise](https://home.kpmg/privateenterprise)

[home.kpmg/familybusiness](https://home.kpmg/familybusiness)

[thestepproject.org](https://thestepproject.org)

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