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Smarter Succession Series: Family Business Report

Trust and understanding in business owning families and the impact on business transfer.

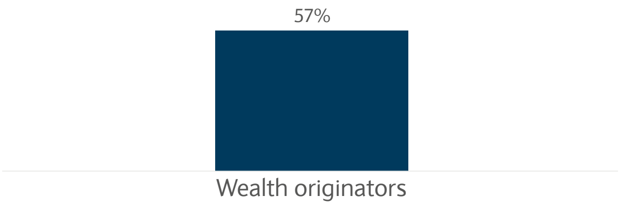
With a huge transfer of wealth between generations fast approaching globally, Barclays Private Bank commissioned research to investigate the relationships between generations of wealthy families, and the factors that influence the effective transfer of family businesses. Certain characteristics and experiences of each generation were found to cause friction, leading to concerns over succession from those looking to transfer their business, as well as those set to inherit.

Family businesses were found to often struggle to transfer between generations due to the very same factors that enabled their businesses to become such successes. The 'originators' of family wealth are generally very cautious about their business – in many cases, it becomes an integral part of their identity. They also have concerns about the next generations' ability to continue the business success, and the impact of COVID-19 has further strained succession planning, with many originators changing their business plans as a result of the pandemic.

Trust within families is often tested by different business aims and attitudes towards risk, as the younger generation brings new ideas back to the business from their extensive, often international, education. Despite this education, however, those next in line to take over tend to feel underprepared, and often have concerns about how they continue the family legacy. Transparency and preparation are considered the key to long term family business success.

Cautiousness amongst originators

I am concerned about trusting the next generation's ability to manage the business



Source: Q50_4. I am concerned about trusting the next generation's ability to manage the business – To what extent do you agree with the following statement? Base: All participants with a family business – Originators (47)

Those from the older generation who founded family businesses, known as the 'originators', are cautious about handing over the business to the next generation, often wanting reassurance, having built it from the ground up themselves. The originators typically feel a strong attachment to their business and, in many cases, identify their personal wellbeing with the company.

As a result, originators can underestimate the ability of the younger adults in the family. More than half (57 per cent) say that they are concerned about the next generation's ability to manage the business, and a similar proportion (53 per cent) say that they are concerned about trusting the next generation with the family's wealth and investments.

There is also a belief amongst almost two in three originators (63 per cent) that the next generation are not as committed to managing the family business as them. As a result, most originators (67 per cent) are highly cautious about relinquishing authority – and, with a natural tendency to stick to the methods that made them successful, originators often maintain a position of authority well into old age.

"There is a lot of families that want to start transition to the next generation, but they don't feel that that generation is ready to take full responsibility. The sort of autocracy within families say, 'I've grown most of this wealth. Can you be trusted to take control?'"

Barclays Private Banker

Despite this cautiousness, many families say that they have shared business ownership between the generations, with 41 per cent of under 40s acting as minority co-owners in a family business. But this ownership is not reflected in the share of decision-making, with 57 per cent of senior family members saying that they remain the only decision maker for the business strategy. This desire to maintain positions as controlling decision makers served their business well for many years but can become a barrier to successful transitions if not understood and managed.

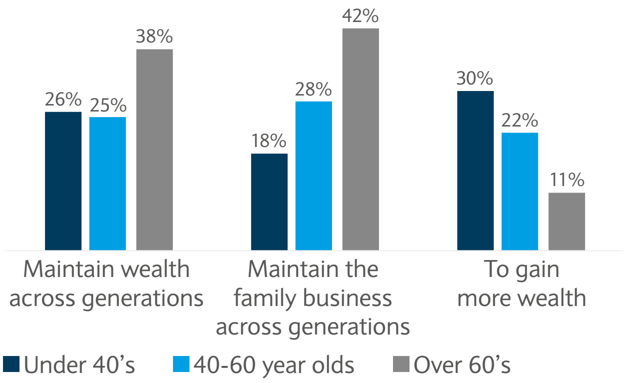
Different attitudes towards risk

This issue of cautiousness is compounded by differing attitudes to risk and aims for the family business.

Over one in three (35 per cent) of the older generations are concerned that their children will take greater risks when they become responsible for the family business.

This concern may be linked to the fact that more under 40s (30 per cent) want to grow family wealth and are less keen to maintain family businesses across generations.

Personal aims



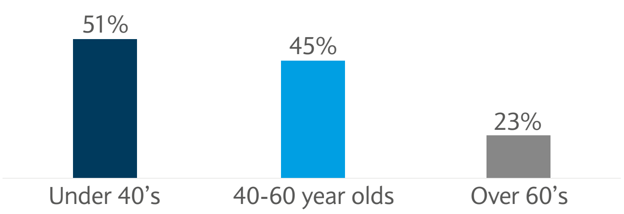
Source: Q10. What are your top three personal aims? Base: All participants, Under 40s (151), 40-60 year olds (158), Over 60s (93)

Different attitudes towards risk can emerge from competing perspectives, which may be partly due to the prevalence of international education paths amongst younger generations. Fifty-one per cent of under 40s in wealthy families have completed a master's degree or higher, compared to fewer than one in four (23 per cent) of over 60s.

New ideas that younger generations present for family businesses can come from the fresh cultural perspectives their multi-country education provides them, fuelling friction within families, according to almost six in ten of all generations (from 59 per cent amongst under 40s to 63 per cent amongst 40-60 year olds).

> "[Under 40s] are benefiting from world class education, they're going to the best schools, they're going to feeder schools for Oxbridge and the other top universities and they're getting empowered with great knowledge."
>
> **UHNW Intermediary**

Completed Master Diploma or higher

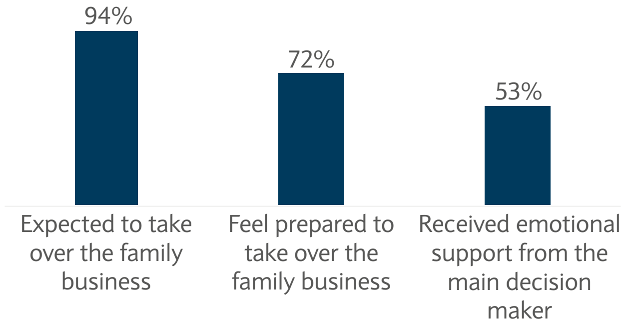


Source: Q58. Please select the highest degree or level of school you have completed. Base: All participants, Under 40s (151), 40-60 year olds (158), Over 60s (93)

Sense of duty but unprepared

In this pressured environment, the next generation is anxious about the succession of family businesses and many do not feel fully prepared to take over. Nearly all managers surveyed (94 per cent) expect(ed) to take over the family business, but more than one in four (28 per cent) feel that they are or were not prepared to do so.

Many wealthy family business 'managers' did not feel prepared or supported to take over the business



Sources: Q38. To what extent would you say you were/are expected to take over the family business or assume a senior role? Q40. How prepared do/did you feel to take over the family business? Q39. Thinking specifically about preparing to take over the family business, did you receive any relevant. Base: All participants with a family business – 2nd generation family business 'Managers' (102)

A strong sense of duty tends to exist amongst second generation managers when it comes to their inheritance, with 69 per cent saying that they feel this way. Yet, only just over half of the second generation managers (53 per cent) say that they received emotional support from the decision maker when it came to taking over the family business, a key means of coping with the pressure running a family business can put on succeeding generations.

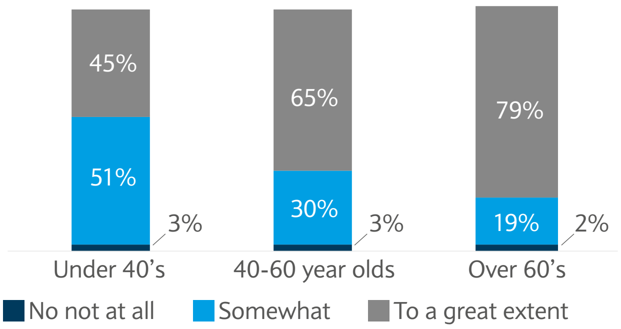
> "There is a need for those discussions with next generations, around, 'This is what is anticipated and expected', rather than springing it upon them, because then it gives you a bit of leeway and time to plan."
>
> **Barclays Private Banker**

Preparations, however, require time, and under 40s feel least prepared to take over the family business. This is likely due to fewer years running or contributing to businesses. This feeling exists despite those more extensive levels of education, highlighting the need for experience not just education.

Furthermore, under 40s do not feel that the family business is discussed with them to the same extent as the older generations (54 per cent compared to 69 per cent for over 60s), likely further hindering how prepared they feel.

Still, they can expect to be the recipients of at least a significant share of the coming wealth transfer, creating a pressure to achieve when their experience or business planning might not have provided the right tools and support to fulfil this duty.

How prepared do you feel to take over the family business?



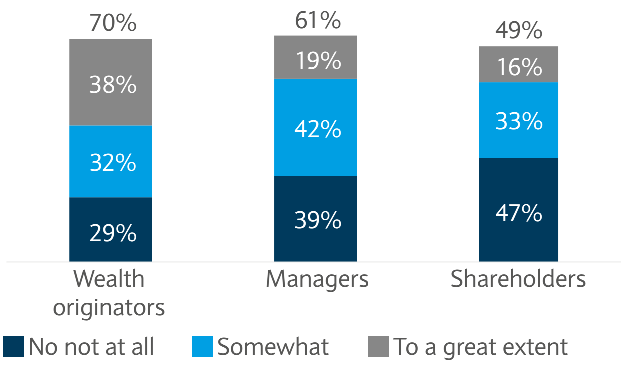
Source: Q40. How prepared do/did you feel to take over the family business? Base: All expecting/expected to take over the family business. Under 40s (101), 40-60 year olds (100), Over 60s (53)

Impact of COVID-19

The health risks of the COVID-19 pandemic have brought succession planning into greater focus, as well as creating pressure to adapt ongoing business practices, with 70 per cent of originators saying that the pandemic has affected their business aims, and around two in five (38 per cent) confirming that they are significantly reassessing their financial strategies. As a result, long-established wealth transfer plans will likely need to be reconsidered to an extent.

Much of the effect of COVID-19 on family businesses has been left to be dealt with by those currently managing the ongoing day-to-day activity, who often come from the second generation. Amongst this group, one in four (27%) say that their aims have changed to primarily manage the negative effect of COVID-19 on their businesses.

How much have your aims changed due to COVID-19 and current economic situations?



Source: Q14. How much have your aims changed due to COVID-19 and current economic situations. Base: Originators (78) Managers – non-originators but decision makers (121) Shareholders – non-originators and not main decision makers (203)

"Some aspects of the business have slowed or even come to a halt, so adjustments have been made. We've also made funding available to help the local community during lock down."

Second Generation Family Business Manager

Competing aims and pressures are likely to have an impact on family businesses for some time. Taking time to understand how they impact transfer strategies will make the process of transferring businesses smoother.

Overcoming differences

The cautious approach of the originators, together with the concern that they feel towards the younger generations' aims, makes the transfer of family business challenging. Ultimately, this environment could lead to succeeding generations being underprepared and the legacy not being maintained.

Recognising these differences through acknowledging and supporting the sense of duty the next generation feels about taking over, and being aware of the impact of the current climate, will help families move forward with successful business transfers – as many before them have done.

One way these issues can be managed is through a clear understanding of family members' roles and their aims. Family offices can help by establishing governance around the transfer of businesses and encouraging or formalising greater transparency over what is expected from each family member when it comes to the business.

"I think [a family constitution] can lead to better trust being established, because everyone's agreed the principles around how they're going to own and manage that wealth as a group."

Private Client Legal Services Leader

Through understanding motivations, cultural and generational differences, and the pressure being exerted on families by the current climate, family businesses will be able to avoid the pitfalls into which many before them have fallen, as the transfer looms. By learning from other sectors and each other, the transfer of wealth can be a successful one.

"I think that the private client industry as a whole has got better at encouraging families to be more open, speaking to other families about the challenges of transferring wealth. So, I think then there is a growing amount of transparency and discussions between families around how do you manage this wealth transfer process."

Private Client Legal Services Leader

Increased communication and building trust and understanding between generations is vital to achieving positive and successful transfers of family businesses. There are also examples of wealth transfers being done differently, for example, by those in different business sectors, that can help traditional family businesses gain fresh perspectives on how to proceed with their business transfer.

Final thoughts

The scale of the upcoming intergenerational wealth transfer means the issue is high on the agenda for numerous families and family businesses. It is a highly emotional time for the families involved and the current pandemic has shifted the aims of many to make it even more challenging.

The differences between the generations mean the process can cause tension and friction. The particularly cautious approach of originators, together with the lack of readiness amongst the next generations, needs to be managed effectively to ensure all involved understand how they are contributing to business success and the perpetuation of legacy.

By recognising these issues, looking to examples for guidance, and working together to build trust and transparency within families, the transfer of wealth can be a positive and successful experience.

Research summary

This research, 'Smarter Succession: The Challenges and Opportunities of Intergenerational Wealth Transfer', was conducted by Savanta on behalf of Barclays Private Bank and included both qualitative interviewing and a quantitative survey.

Qualitative in-depth interviews were conducted with Barclays Private Bank bankers, intermediaries to ultra-high net worth families and Barclays Private Bank clients themselves. In total, 20 interviews were conducted: banker and intermediary interviews taking place in March 2020, and client interviews in June 2020.

In addition, a quantitative survey was conducted with individuals from very-high net worth families (total net worth of more than £5 million). A total of 402 interviews took place across three generations of wealthy family members including under 40s (151), 41 – 60 year olds (158) and over 60s (93). 290 were male and 112 female. Participants are primarily living in France, Germany, Hong Kong, India, Italy, Qatar, Saudi Arabia, Switzerland, Singapore, the UAE and the UK.

Family business owners totalled 290 within the sample. And across the whole sample 78 identified themselves as wealth originators, 121 as non-originators but main decision makers (managers) and 203 as non-originators and not main decision makers (shareholders).

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