Sustaining a culture of continuous transformation in family business

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As the world continues to deal with the consequences of the pandemic, the need for business transformation seems to be on everyone’s mind. In the past, when business leaders talked about the need for change, it was usually seen as a special project in a well-defined area such as a fundamental restructuring of the sales organization or the implementation of a new performance management system.

In these cases, the change management plan was a set piece that generally had a beginning and an end in three stages: explore, design and implement. Often, the need for change was created by a crisis or the urgency of a ‘burning platform’. There is no question that the pandemic ignited those flames, and companies of all types had to react quickly.

"When we’re so sophisticated, who would have thought that something like a pandemic could come along in the twenty-first century and change everything for everyone in the entire world? It was a stark reminder that the only way to move forward is by being sensitive to what’s happening in all of our surroundings. In South Africa, for example, the societal changes are vast and dramatic, and no one can predict the future economic environment or political outcomes.

This requires a combination of proactive efforts and deciding where we want to go, while also being ready and agile enough to respond to the environments that exist and change around us."

Philip Krawitz
Executive Chairman
Cape Union Mart, South Africa
The pandemic response resulted in a multitude of targeted and essential operational changes — from the introduction of online sales channels for customers to the successful transition to remote working for employees. These were change management projects at their finest.

‘Business transformation,’ however, takes the concept of change to a very different and higher level. The goal is not to execute a defined change, but to reinvent the organization and adapt the business model based on a clearly focused vision for the future. This process of transformation is more unpredictable, iterative and experimental. And the ability to do it successfully is one of the secrets behind the resilience and longevity of many family businesses.

Change is not always an easy word to discuss, especially with the generation that has founded the business. However, the double knock-on effect of COVID-19 and Brexit made these conversations easier in our company.

It motivated us to put a new strategic plan in place to transform our business. Continued change is a reality in our industry, and transformation is no longer optional in our business. We’re being very transparent about our vision for the future so everyone in the company understands where we’re going and the steps we’re taking now to get there."

Sanjay Arora
Director, Arora Group, UK
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What sets business transformation apart in family businesses?

In the current environment, when people hear the words ‘business transformation,’ the context is often one of a corporate/technology, process/systems change. But business transformation and digital transformation are not synonymous, and that is particularly the case among family businesses. The adoption of new technologies and the transformation of a company’s digital capabilities enable broader transformation efforts, and they may be good places to start, but they are only one piece of a larger end game.

Among family businesses, for example, the transformation agenda typically includes issues and opportunities that are important to all their stakeholders — from customers to suppliers, employees and the communities where the family lives and operates. They have a very different mindset about ‘change’ and a unique concept of ‘transformation’ that sets them apart from other types of businesses.

For family businesses, transformative change is motivated by foresight. It’s proactive, not reactive, and it has a long-term view. It is driven by the family’s purpose and values and their ability to continuously recognize new opportunities — or the danger of potential threats. Continuous transformation also reflects the family’s resolve to keep finding new ways to adjust their business to the evolving needs of customers, suppliers, communities and the family itself.

Business families are the drivers of change, not the passengers. They create and sustain a culture of ‘continuous transformation,’ and it is a significant source of their well-recognized resilience. To learn more about what is behind this culture of continuous transformation, KPMG Private Enterprise recently hosted a roundtable among family business leaders in hospitality, retail, infrastructure and technologically-advanced construction industries across Europe, Africa and Asia to discuss the role of continuous transformation in a post-pandemic world.

KPMG Private Enterprise is pleased to have this opportunity to share the insights from these business leaders, their approach to business transformation and how it sustains their purpose, values and the long-term success of their businesses.
Beyond digital

While technology and digital transformation are enablers of many changes that may need to take place, they are inadequate if the goal is to achieve broad transformation of the business overall. Family business leaders in the roundtable discussion agreed that business transformation includes the purpose and culture of the family and the business; the human impact; environmental and social impact; governance and accountability — essentially, everything that is important to the family business and the business family including (but well beyond) its technology and operating systems.

For example, these leaders talked about sustainability and their environmental, social and corporate governance (ESG) agendas as driving forces behind the transformation of their businesses. They recognize that ESG links back to the shared purpose of the family and the culture of the business, and it can drive everything from the choice that a customer might make, to whether the supply chain is ethical, and if the company’s back-end systems are capable of producing the data necessary to gauge the impact of their actions.

It’s a topic they’re eager to keep exploring to better understand how these strategies can impact their business and their stakeholders and what they could be doing better or differently. Many business families are beginning to review and refresh their shared purpose, which is also leading them to consider how they might also need to transform their business and its culture to support their refined sense of purpose and looking back at their core values to help ensure they have been time-tested.

I think of business transformation as a spectrum. A lot of family businesses sorted out their back offices during the pandemic to save costs and manage their liquidity. As the pandemic wore on, it became evident that online trading was getting bigger and they had to respond to what customers were demanding. That is now evolving and influencing customer choice, including how customers respond to the companies they deal with, based on their ESG strategies and impact.

“I believe we’re seeing a shift toward the front office now because many family businesses would say that they took care of the back end to manage their liquidity during the crisis, and it’s the customer-facing strategies, their ESG agenda and the potential for revisiting their shared purpose that they need to come to grips with.”

Tom McGinness
Global Leader, Family Business, KPMG Private Enterprise, Partner KPMG in the UK
Sustaining a culture of continuous transformation in family business

Creating a culture of continuous transformation and accountability

Not surprisingly, there was overall agreement among the roundtable participants that their business challenges became more volatile, complex and ambiguous because of COVID-19. They also made it clear, however, that while they had to make quick, short-term tactical changes to protect their businesses from the immediate impact of the pandemic, it has not deterred them from maintaining a sharp focus on the future. Adapting and continuously evolving is a way of life. It’s simply how they do business, and the pandemic hasn’t changed that.

As Murphy Group CEO John Murphy described, “Urgent and dramatic changes put a lot of strain on any business from a cultural perspective and on their people. You wonder how much of that change actually sticks. Our view is that we’re far better off being a progressive business that constantly adapts, looks at incremental progression and is progressive in its views — continuously adapting, evolving and changing. It’s far easier to make changes stick longer term rather than having to turn the ship around in a very short period of time.”

Craig Robinson, Joint Managing Director of South Africa’s Ultra Liquors chain echoed that sentiment, saying, “Being agile and taking quick decisions is not so much about change management, but about uncovering new opportunities to gain a competitive advantage. We talk about transformation opportunities every day — to revolutionize the way we do things and to embrace ideas from people of different backgrounds who continue to revitalize our company’s culture.

“It’s a proactive mindset that is always looking for new opportunities. The motivation comes from within to make others want to rise to the occasion.”
In Japan, there are more than 30,000 companies that have been established for more than 100 years, which is more than half in the entire world. The main reason for this is a corporate philosophy in many of these companies to continuously adapt to changes in society.

“Our company has been in business for 120 years, and it is my mission to continue to look for new businesses and adapt to new circumstances.”

Hiroaki Ishii
Senior Managing Director
Ishii Iron Works Co., Ltd.
Japan

Another important factor in maintaining a culture of continuous transformation is the interconnection between the business and the family. For many, the business is basically the family’s wealth, and a passport to a certain lifestyle for both current and future generations. Some family businesses have described how the pandemic revealed that the margins in their business weren’t substantial enough to support the risk of the pandemic and support the family for the future.

If the family’s needs are expanding at a rate greater than the business, something needs to change, and this has driven some to look at the future in a different way; to consider how the business might need to be transformed by diversifying the business through an acquisition in a more margin-rich sector, for example, or by revolutionizing the operating model to improve profitability.

The family’s identification with the business and their shared values also leads to a great deal of personal accountability. As one family business leader has described, “The family is the business, and the business is the family. When things aren’t going well in a family, you can’t just throw up your hands and walk away. The same is true for the family business.”
Who is accountable for transforming the business?

The importance of a culture of continuous transformation combined with shared accountability is the bedrock of many family business discussions, and it evolves over time and across the generations.

In a typical corporate setting, roles and responsibilities are narrowly defined and who is accountable for what is more prescribed. As an employee, you have a title, a role description and you work within the scope of that role. Other team members do the same.

In family businesses that are more fluid, family members might take on multiple roles and they’ll often lend an extra helping hand wherever and whenever it’s needed. This family dynamic was evident in the recent STEP Project Global Consortium/KPMG Private Enterprise global report, “Mastering a comeback: How family businesses are triumphing over COVID-19”. The important historic memory of older generations of the family who had navigated earlier crises combined with the tech-savvy next-gen family members who were able to recognize and implement innovative solutions was recognized as one of the keys to the success of family businesses in tackling the pandemic.

With a more flexible structure compared to corporate enterprises, family businesses are also often known to change and evolve with the entry of next-gen family members who bring new skills and expertise to the table.

However, some family business leaders are concerned that if a family is running the business and owning it, they are essentially reporting to themselves, which could lead to potential problems if they aren’t answerable to someone who has an objective perspective and holds them to account by asking the right questions.

“Businesses that are early in their life cycle, such as first-generation businesses, are more likely to be intuitively transformational and flexible. The first generation is not yet accountable to other members of the family. And ‘who is accountable’ continues to ebb and flow over the years depending on the number of generations that are actively involved in the business.”

Camilla Cullinane
Tax Partner, 
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In a culture of continuous transformation, someone should be accountable for making sure that there’s the drive, pressure, energy and dedication to understanding what’s really happening in the business, what the future prospects look like and in taking action. The roundtable participants expressed an interest in more formal accountability for business results — through external independent directors on the company board or on advisory boards that often don’t have voting authority or control, but do have the ability to hold management to account. They also indicated that they’re exploring new governance mechanisms, such as establishing family councils that include a trusted external advisor as a chair to challenge the objectives, strategies and actions the family is planning to take. Taking it a step further, Marian O’Gorman, Group Executive Chairperson of Kilkenny Group, made the case for a non-family CEO to lead the business: “I would recommend that every family business consider bringing in an external CEO if they’re looking to grow in a different way and recognize they may not have the right skills within the family.” “There’s a question of timing as to when this is the right thing to do and how the transition will need to be managed based on the dynamics of the family and the age and stage of the business. There aren’t any one-size-fits-all solutions, but when it becomes important, family business owners will recognize that the time has come to turn over the leadership to a non-family member who will be accountable for transforming the business.”

In the first generation of a family business the family/CEO/management are essentially the same person. That doesn’t require a lot of structure and the focus is first on business survival and then growth. With success, that changes over time as the business grows and, eventually, it becomes necessary to bring in professional management and put in a true corporate structure for performance management, accountability and compensation so that roles are clearly defined and performance measures are in place. That’s a big challenge for family businesses to remain sustainable.”

Jonathan Mayer
Managing Director, KPMG Private Enterprise KPMG in the US

I’m familiar with some businesses where everyone wants to keep the peace in the family so no one takes accountability for the actions or decisions that are taken in the business. In others, if someone makes a decision that could damage the business, there are no consequences. The socio-economic impact of not driving accountability is potentially destructive. In these situations, I believe there is a need to formalize the roles, responsibilities and performance expectations for everyone in the business — family and non-family employees. That way, not only are there consequences to peoples’ actions and decisions, but it can help ensure that the most appropriate people are making the decisions for the long-term sustainability of the business.”

Alan Barr
National KPMG Private Enterprise Leader, Partner, KPMG in South Africa
In the early days of the pandemic, many family businesses had to undertake quick fixes to make sure they could continue to operate in a hybrid or remote working environment. The focus leaned toward digital transformation of back-office operations.

The focus then turned to the front office — the route to market and channel to the customer — where massive changes were often necessary for companies to be able to continue to meet their customers’ needs. Competitors that already had a good online presence were a step ahead. They gained market share, and suddenly online became the way to trade.

Competitive threats drove family businesses to consider how to digitize their front-end strategy as one aspect of the transformation of their business, and digital transformation took the spotlight again. In what is now considered to be the pandemic recovery phase, it appears that back-office operations are becoming a priority again.

In recent months, I’ve seen attention returning to the back office to help reduce operating costs. Family businesses are considering shared service environments and exploring how the back office can facilitate that environment to help bring down operating costs, improve efficiency and leverage the data that was collected in the past, but never really used. This is all about transforming the business to keep it moving forward.”

Anurag Bajpai, KPMG Private Enterprise leader, KPMG in the United Arab Emirates
There isn’t really a blueprint for creating the spirit of evolution that’s embedded in the culture of many family businesses.

While there are no best practice outputs or one-size-fits-all solutions to continuous transformation, there are best practices in terms of the process. It begins with a shared mission to continuously create value for the family, the business and its many stakeholders. There should be a focus on deliberate actions — establishing a framework where decisions are taken proactively and with a degree of accountability."

Daniel Trimarchi, Director, Family Business Global Network, KPMG Private Enterprise
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There are many practical insights from family business leaders and KPMG Private Enterprise professionals across the world that can be your guide in this process. To create value and support the continuous transformation of your business, you are encouraged to consider these ideas and observations from this collective experience:

Who is accountable? This raises important questions about the difference between a family business and a business family. The family business is an asset that the family holds, and it’s one aspect of the family’s wealth. However, to be a family business, is it necessary to be family owned and run? What relationship does the family want to have with the business and how dependent or independent will the family be in relation to the business? There is no right or wrong answer to this question, but it’s a great one to discuss within your business family.

Continuous transformation doesn’t come without risk. Top management must have clear visibility of the relevant internal and external risks that can affect the family business, the strategy or the business transformation model. Therefore, an Enterprise Risk Management (ERM) assessment of the family business can be a key exercise that provides management with a view of the risks in order to develop action plans that can help address, accept, transfer or eliminate them as necessary.
With continuous transformation, there is the potential for “change fatigue” to set in. The amount of churn in the workforce is one indicator of waning energy, and the key is to have good policies and procedures in place so when turnover does occur, it isn’t too disruptive. Transparent communications across the family and the business help to reduce stress, and bi-weekly or monthly company and team calls are good practices.

To have a sustainable ownership and management model, it is important to keep family members excited about the business. To keep the business strong, it’s important not to lose sight of the need to continue to re-recruit family members, tying in the family’s shared purpose, vision and values and striving to ensure that the family continues to buy into them.

In KPMG professionals’ experience, there is often a correlation between the financial performance of a family business and the involvement of an independent director. Also, where there are formal board evaluations to assess the performance of the board as a whole, significant improvements have been seen in the performance of the business.

Sometimes it is necessary to formalize the roles and responsibilities in the business to help ensure there are consequences for business performance. The potential financial consequences of business decisions without appropriate accountability are underestimated and should be addressed in many business families.

Large family businesses generally have the mechanisms in place for setting and measuring performance targets. In others, family members’ roles and accountabilities may be blurred for both the family as well as non-family employees. It is important to have everyone’s roles and responsibilities clearly defined and to have mechanisms in place for how they will be measured.

It wasn’t surprising to find family businesses on the front lines once again — battling the impact of a global pandemic while simultaneously pushing the boundaries of innovation. Hopefully, their insights and observations are helpful in providing some additional guideposts for you, your family and leadership team as your growth strategy continues to evolve.

Family businesses are the drivers of change in business and society and KPMG Private Enterprise is pleased to be able to put their experiences in the spotlight. “Sustaining a culture of continuous transformation in family business” is the first of a four-part article series on “Pushing Boundaries: Why family businesses are the drivers of change.”

Be sure to watch for the second article in the series to take a close look at social responsibility — the strategies behind social responsibility in family businesses, the impact it has on the financial performance of the business and their ability to secure a competitive edge.

If you would like to receive future articles directly to your inbox, please contact familybusiness@kpmg.com and a copy will be forwarded to you as soon as each one is released.

As always, your feedback is welcome and you are invited to share your own perspectives and experiences on business transformation, social responsibility and other important family business topics to help family business leaders across the globe.

You are encouraged to contact familybusiness@kpmg.com at any time.

Interested in learning more about how KPMG Private Enterprise can help your family business? Contact your KPMG Private Enterprise advisor or find a KPMG Private Enterprise Family Business advisor.
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About the KPMG Private Enterprise Global Center of Excellence for Family Business

As with your family, your business doesn’t stand still — it evolves. Family businesses are unique and KPMG Private Enterprise Family Business advisors 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 organization of member firms dedicated to offering relevant information and advice to family-owned companies. KPMG professionals 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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Passion, it’s what drives entrepreneurs. It’s also what inspires KPMG Private Enterprise advisors to help you maximize success. While you know KPMG, you might not know KPMG Private Enterprise. KPMG Private Enterprise advisors in member firms around the world are dedicated to working with you and your business, no matter where you are in your growth journey — whether you’re looking to reach new heights, embrace technology, plan for an exit or manage the transition of wealth or your business to the next generation. Working with KPMG Private Enterprise, you’ll gain access to a trusted advisor — a single point of contact who shares your entrepreneurial mindset. With access to KPMG’s global resources and alliance network, KPMG Private Enterprise can help you drive your business forward and meet your goals. Your success is our legacy.

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