Up close and professional: the family factor

Global Family Business Survey

2,378

interviews conducted with family businesses with a sales turnover of over $5m

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40%

agreed that professionalising the business is a key challenge over the next five years

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16%

Only 16% of family business have a discussed and documented succession plan in place

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Definitions

For the purposes of this survey, a 'family business' is defined as a business where

1. The majority of votes are held by the person who established or acquired the firm (or their spouses, parents, child, or child's direct heirs);
2. At least one representative of the family is involved in the management or administration of the firm;
3. In the case of a listed company, the person who established or acquired the firm (or their families) possess 25% of the right to vote through their share capital and there is at least one family member on the board of the company.

Survey methodology

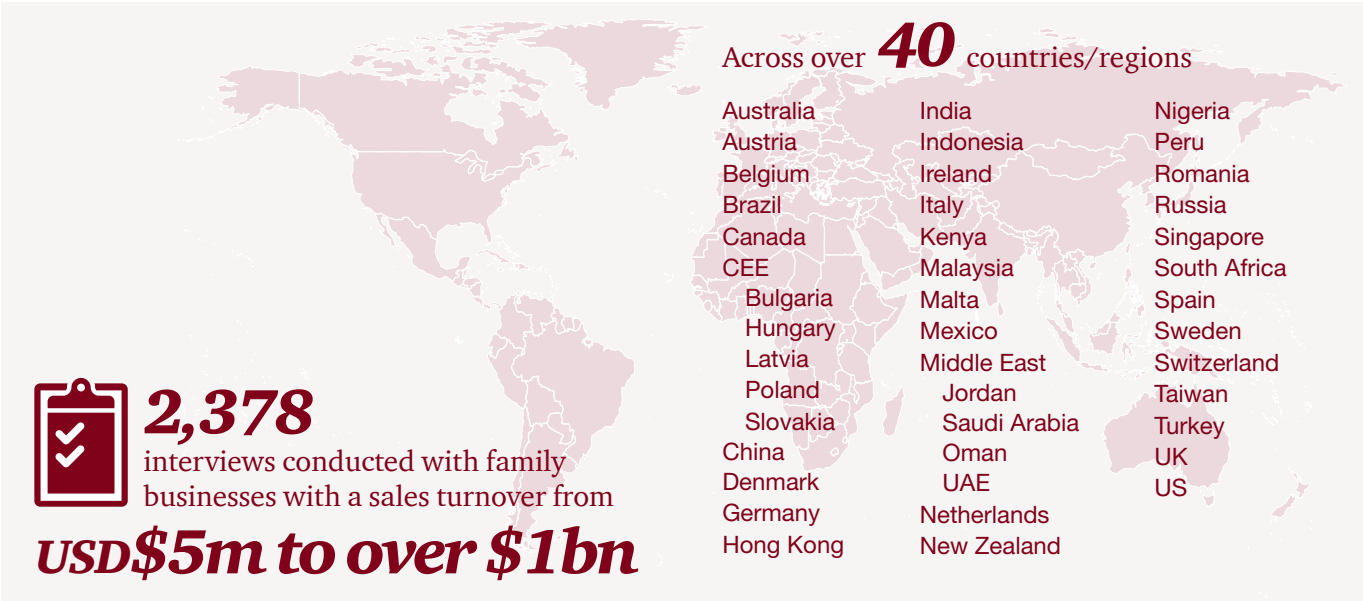
2,484 semi-structured telephone and online interviews were conducted via Kudos Research in London with key decision makers in family businesses in over 40 countries worldwide between 29th April 2014 and 29th August 2014. This report takes into account the responses of 2,378 respondents. The turnover of participating companies was from USD$5m to USD$1bn. The interviews were conducted in the local language by native speakers and tended to average between 20 and 35 minutes. The results were then analysed by Jigsaw Research.

Contents

A view from the global leader

This is our seventh survey of family businesses globally and covers more companies, and more markets, than ever before. We spoke to almost 2,400 family firms, from entrepreneurial start-ups to companies that have survived for five generations or more. We spoke to family members who manage their firms, and CEOs who had been brought in from outside. And we spoke to those who plan to pass the running of the firm to the next generation, and to those who see their family's future as owners but not managers of the business they have built.

Without question, family firms remain a dynamic and resilient sector, even though the post-recession economic environment is proving tough, and there are continuing pressures in relation to skills shortages, innovation, and governance. This is the big picture, but when you look more closely at the detail it's clear that **there are significant shifts underway in the family business sector**. There are also new challenges that these firms will need to seize and address if they are to remain as successful in the future as they have been in the past.



Competition is more intense, price pressure is growing, and the speed of change continues to accelerate.

So what are these new challenges, and what can family businesses do to address them? As these results show, the economy is a colder and harder place for the family firm now. **Competition is more intense, price pressure is growing, and the speed of change continues to accelerate.** This is tough for all businesses, and especially for a sector which is sometimes seen as being more risk averse than conventional public companies. It's a model some observers have called 'patient capital', and it has some significant advantages, including its ability to take a long view, and strong client relationships founded on trust. But in today's economic climate **family businesses acknowledge they will have to adapt faster, innovate earlier, and become far more professional in the way they run their operations**. This covers everything from basic systems and processes in areas like finance and HR, to risk management and corporate governance.

This is the message from family businesses in this year's survey, and it is noticeable how much more important these issues have become since our last survey in 2012, especially in comparison to softer concerns like the firm's contribution to the community. But what is implied in these results is, perhaps, even more significant than what is overtly stated: **there is a powerful 'family factor' in play which many of these firms have still not addressed, and some are reluctant even to acknowledge**.

The red flag here – as in 2012 – is the issue of succession. Only 16% of family firms have a succession plan that has been discussed and documented. The moment of transition has always had the potential to sink the family firm, and **a number of factors are now coming together to make the succession process more hazardous than it has ever been before**. There is a longer gap between generations, as people have children later, and in many cases there is a significant communications gap between those running the business now and those who expect – or are expected – to take over. Too many firms are either not planning for succession at all, or are managing it as a personal issue between two individuals, rather than as a process which requires the same rigour and objectivity as any other aspect of business decision-making. The result, all too often, is escalating tensions and a family conflict that can precipitate the demise of the whole company. As one of our interviewees said, **"Family businesses generally fail for family reasons"**.

Many of these issues were already raised in the 2012 survey; what's emerging this year is that succession is only the most obvious manifestation of a much more deep-seated issue: **family businesses need to professionalise the *family*, as well as the firm**. This is about accountabilities and responsibilities, about communications and constitutions; it's about learning to be good owners and shareholders as well as – or even instead of – good managers. It's about securing the future, and breaking the emotional ties to the past, even if that means, in some cases, selling businesses the firm was founded on. That's hard to do, and will require a willingness to make bold moves and take some new risks. This may take some families outside their comfort zone, but the sector as a whole was built on entrepreneurial energy and determination, and they wouldn't have survived in such a tough business environment if they did not have the qualities they will need to succeed now.

Henrik Steinbrecher
PwC Sweden
Network Middle Market Leader

The new economy
More competitive, more volatile

In general, the family business sector is in good shape. 65% report growth in the last 12 months, and 70% expect to grow steadily over the next five years. These numbers are very similar to the 2012 survey. 15% are aiming to grow aggressively over the next five years compared with 12% in 2012, and growth ambitions are particularly strong in China (57%), the Middle East (40%), India (40%), and – unsurprisingly – among those looking for a quick sale or flotation (22%).

However, the number of respondents apprehensive about their ability to recruit skilled staff in the next 12 months has gone up from 43% to almost half since the 2012 survey, and the proportion citing the general economic situation as their prime external challenge for the next year has also risen slightly from 60% in the 2012 survey to 63% in 2014. Market conditions clearly remain a real anxiety, and when you extend the time horizon from one year to five, price competition becomes a chief concern (58%).

So even if the worst of the downturn has passed in most economies, price pressures remain intense, customers are becoming more demanding, and margins are tight; in short, family businesses are having to accept that the conditions they enjoyed before the recession are now unlikely to return. This is partly a reflection of the new economic reality, but it's also symptomatic of the more profound shifts that are underway as a result of global megatrends like demographic change, globalisation, urbanisation, and the digital revolution. The business landscape is becoming more fluid and more disruptive than ever before. The winners will be those companies with the agility and flexibility to adapt, and which are able to make the often significant investments required to keep pace with new technology. Companies, in fact, which are able to anticipate change and are willing to be disrupters themselves, either in their approach to market, in their products and services, or in their willingness to change strategy and even sector, if that is where the opportunities lie.

This is hard enough for public companies, but harder still for family businesses. They typically don't have the same access to bank or capital market funding, it's often more difficult to attract the top talent, and family issues can absorb time and attention, or lead to the appointment of family members in senior positions who may not always be the best people for the job.

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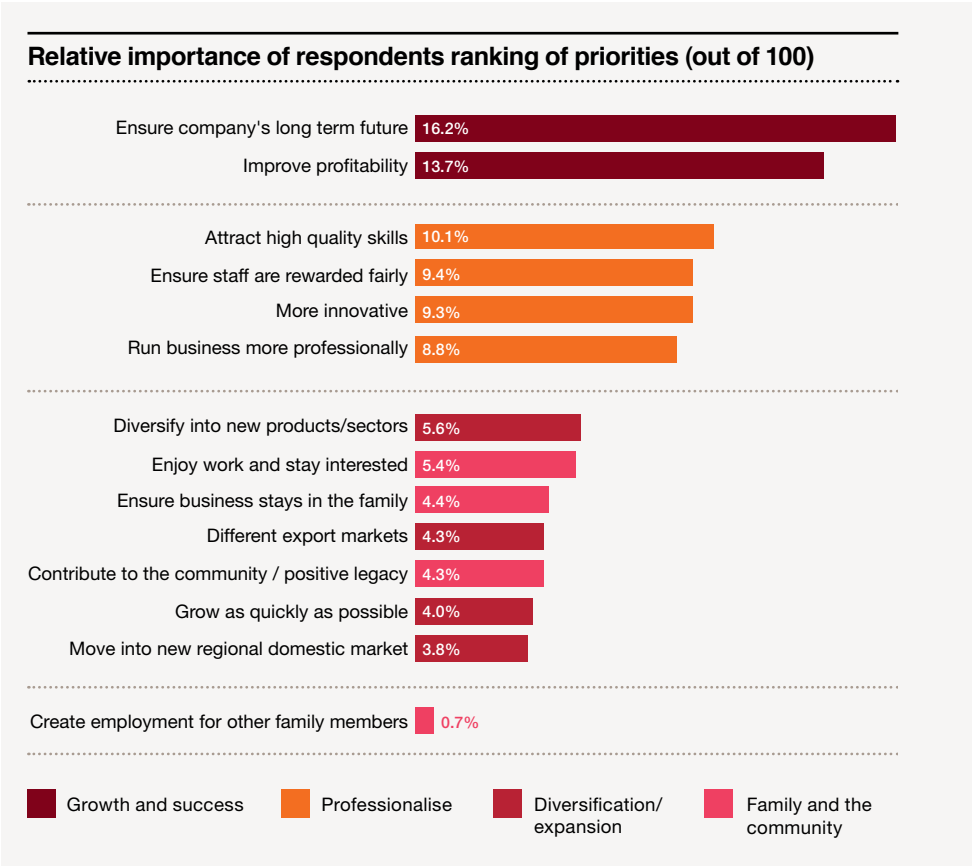
cite price competition as a chief concern

The emerging picture shows very clearly that the family business has become much more hard-headed since our last survey.

Different pressures, different priorities

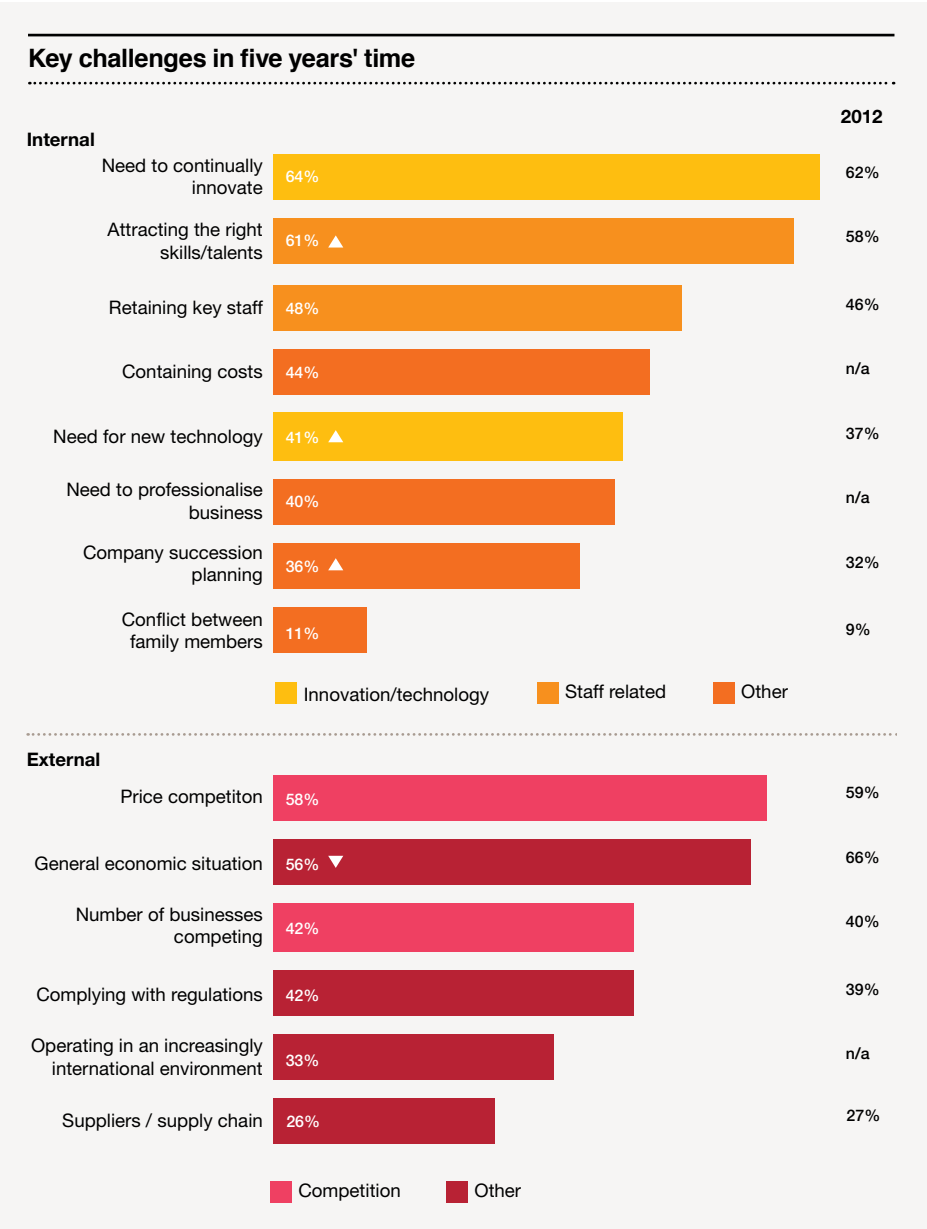
'Head' is winning over 'heart'

This year's survey suggests that the new economic pressures are forcing many family businesses to re-think their strategies and take some tough decisions. This is sharpening the tension already inherent in the family business model between family concerns on the one hand, and business objectives on the other: what you might call 'heart' and 'head'.



In 2012, 70% of those questioned said they felt a strong sense of responsibility to support community initiatives, but that number is down to 59% this year.

Family businesses have become much more hard-headed since our last survey: the most important priorities are to remain in business and improve profitability. After this are the factors that will help make this happen, and the 'heart' issues of family and community come out very much lower. In 2012, 70% of those questioned said they felt a strong sense of responsibility to support community initiatives, but that number is down to 59% this year. When we looked at the interviews in detail to explore the causes of this change, it was clear that many family businesses feel they have 'done their bit' to support the community during the recession by protecting jobs and feel it is now time to focus on profitability.



New products, new sectors, new markets
Diversify to survive?

This year's survey shows that 68% of family businesses are exporting, with overseas sales accounting for about a quarter of the turnover of all respondents. Around three quarters of those surveyed expect to be exporting by the end of the next five years, and predict this will account for over a third of all sales. Those businesses which are particularly keen to grow internationally are those pushing for aggressive growth, those with a turnover of more than $100m, and those in the manufacturing and agriculture sectors. From a geographical perspective, the most ambitious are those in Eastern Europe, the BRIC countries and the 'MINT' quartet – Mexico, Indonesia, Nigeria and Turkey.

68%
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75%
expect to be exporting within five years

However, some aspects of the detail behind the data are more ambivalent. Even if exports are likely to account for a larger proportion of sales, few businesses expect to be exporting to a significantly larger number of countries than they do now, and most tend to stick to neighbouring territories or those with the same language and a similar culture. This suggests that they lack either the skills or the confidence to break into entirely new regions – many would probably need to hire in outside talent to bridge that gap, and they may well be missing out on new sources of growth as a result. It can also be far more expensive to export to more distant markets, and in the case of the US in particular, the domestic economy is already extremely geographically diverse, and the same is true for China.

A taste for growth
Konfael

Name	Irina Eldarkhanova, Chairman
Sector	Confectionery
Market	Russia
Founded	1999

Konfael is a Russian confectionery business operating at the premium end of the market. There is proven demand for its products overseas, but there are significant practical challenges to overcome.

Only a few years ago, the Russian confectionery market was still dominated by western multinationals, but in the last decade businesses like Konfael have established their own brand names. The company is now a leading player at the premium end of the market, with four chocolate 'boutiques' in Moscow and one in St. Petersburg, which account for about 10% of its $35m annual sales. Their product range changes from season to season, with special chocolates developed for holidays and times of the year, as well as for individual client and corporate orders. As this suggests, it's highly labour-intensive, and its founder, Irina Eldarkhanova, is still involved in the detail of the manufacturing operation day to day. Her husband and three children are also involved in various aspects of the business, though they all have other commercial interests of their own. "My husband looks after property and facilities, and my oldest son runs one of the businesses and takes charge of our equipment. Thanks to the experience he's gained doing that he's now built his own specialist business repairing and reconditioning confectionery machinery and supplying parts." Another son looks after Konfael's online marketing and e-commerce operations, and the youngest is based in China, and oversees Konfael's interests there. But as Irina says, overseas expansion is a major challenge, not just for Konfael but for all Russian businesses.

The international dimension: Overcoming the obstacles

There are two issues facing Russian family firms like Konfael as they look to expand abroad. The first is finding people with not just the skills but the willingness to do it. When Irina first tried to send employees overseas to trade shows she could only persuade people to go by sending her own son along with them. "It wouldn't be possible to create a team who are prepared to emigrate for work purposes. And besides, they wouldn't know the traditions and business practices that prevail in overseas markets. You need that knowledge to be successful, and we simply don't have that."

But even if setting up overseas offices is a challenge, what about exporting – is that a viable alternative? "We know that there are opportunities for our products overseas but it's just not a realistic possibility for our business to export. For one thing, our individual orders are quite small, so you would be exporting small quantities rather than in bulk. That means each shipment going through customs separately, but Russian customs are so complex in terms of time and expense that it's virtually impossible to deliver the product on the day that you promise. With a fresh food product like ours any delay is a real problem. But we have tried – we had some research done and won a tender as part of an EU programme to foster trade with smaller Russian companies. At the beginning, the researchers were convinced that it was possible to grow our business that way, but by the end of six months trying to tackle our customs system, they concluded that the only option to develop our business abroad would be to build our own production and retail units in the relevant countries. And we did experiment with that, with an office in Germany, but it just didn't work out."

Aside from the international aspect, what other challenges does Irina see as her business grows? "We want to be a modern business, and we are constantly on the lookout for new things appearing on the market that would help us optimise our work and improve efficiency. Many of our processes are already formalised and dealt with via various software applications, but as you professionalise you need to ensure you preserve your traditions and values as new people come in. And when a company has been operating for a while you tend to find there is a risk of stagnation or complacency. Recovering the original drive and ambition is one of the owner's tasks. Personally, I believe an active owner will generate higher performance, and faster and better development than an external CEO. But if you split decision-making among a lot of different family members you end up with different views, which makes it harder to resolve issues and make decisions. And that can result in conflict. And if it's a case of priorities, I think a family business should attach primary importance to their family rather than their business."

Keeping pace with change
The innovation imperative

72% of respondents recognise that they will have to adapt externally and internally to exploit the full opportunities of digital and avoid being overtaken by competitors.

In our 17th Annual Global CEO survey, 81% of those questioned cited technological advances as one of the top three global trends most likely to transform their business over the next five years. Family businesses likewise recognise the growing impact of digital technologies, with 79% putting this in the top three.

72% of family business respondents recognise that they will have to adapt the way they operate externally, and organise themselves internally, to exploit the full opportunities of digital and avoid being overtaken by more advanced competitors. 43% accept that they will need to attract the right talent to do this, which raises a question about whether the remainder are fully aware of the extent of this challenge.

The regional differences are interesting here: the countries registering the highest scores on understanding the commercial potential of digital were emerging markets like Romania (80%), China (77%) and India (69%), with the lowest scores for Ireland (45%), the UK (45%), and Canada (38%). This may be a further example of how businesses and consumers in emerging markets are 'leapfrogging' old technology and moving immediately to new digital alternatives. Many African nations, for example, now have enormous mobile phone penetration but very little fixed-line telephony. Likewise social media can enable start-ups to cast a much wider marketing net at limited cost, which allows them to compete effectively and cost-effectively with much bigger players.

Innovation in its widest sense remains a key concern for family firms in 2014, as it was in 2012, with 64% citing this, compared with 62% in 2012. Those pressing for aggressive growth are more likely to see this as a key ongoing challenge. And yet even though innovation is listed as a high priority, anecdotal evidence, and the experience of our own teams around the world, suggests that family firms are still reluctant to change. Even though family businesses continually claim that one of their strengths is their ability to reinvent themselves – 56% of respondents said so this year, up from 47% in 2012 – there are not very many examples of firms that have actually done so. As one of our interviewees said, "Family firms either don't want to reinvent themselves, or can't. In practice they find it hard to divest legacy businesses, and only expand or diversify within a narrow range."

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There is also evidence that both growth and innovation are a lower priority for businesses in their third or later generations, who place more emphasis on ensuring that the business remains in the family. This could suggest that these firms risk becoming complacent and uncompetitive. However, it's easy to see how the psychological factors that come into play as the business matures could make those running them more risk-averse and less entrepreneurial: later generations don't want to be the ones who 'lose the farm', and the number of family members dependent on dividends can be very large for a business that has been in existence for 50 or 60 years.

Sector spotlight Retail

Firms in the retail sector are consistently more aware of the issues around digital than the overall average – 79% say they will need to adapt their way of working to address this issue. This is perhaps not surprising, given that the retail sector was one of the first and fastest to feel the impact of electronic commerce, and these findings are borne out by much of our own work in the sector.

How to win on the web: Appliances Online Australia

The Winning Group was set up in 1906, selling parts and accessories for horse-drawn carriages. In the century since then the company has kept pace with technological change and it's now a major retailer of home appliances. There are 12 stores across Australia and a booming e-commerce business, Appliances Online, which was founded by John Winning, the founder's grandson, nine years ago.

Appliances Online is now Australia's largest online appliance retailer, has won multiple awards for its customer service and use of technology, and can boast over 340,000 likes on Facebook. It's a classic 'digital disruptor', and has made a spectacular success of the tricky transition from bricks to clicks. So how does Winning keep winning?

"It's about culture, and it's about the customer," says John Winning. "In fact the two go hand in hand. The customer always comes first in everything that we do, and our people know they are absolutely being empowered to make decisions to the benefit of the customer. We spend a huge amount of time listening to our customers and adapting our business to their needs - that's how we got the idea of the 'Handy Crew' teams we have today, who can connect appliances in customers' homes, if they want that. We call our strategy 'where, what, wow'. That means being where our customers want to shop with us, whether that's in-store, online or mobile; it's about offering what our customers want to buy from us, and it's about wowing them with the quality of our service."

As for technology, Appliances Online may sell leading-edge products, but it has no interest in being at the leading edge of the digital revolution: "We tend to let the early adopter businesses get into a technology first – a lot of the time they do it for its own sake, just to have a mobile site or just have a particular app. What we'll then do is analyse what those businesses are doing and how it's working, and see how we can adapt that and make it into something that really works for our customers. I call it a leap frog approach: we let them make the first move, and then we try to overtake them with something much better."

Fit for the future
Les Mills International

Name	Phillip Mills, CEO
Sector	Gyms and fitness
Market	New Zealand
Founded	1968

Les Mills is an internationally successful gym and fitness business. It was started in New Zealand in 1968 by Olympic athlete Les Mills and his wife Colleen (also a national sports champion). Their son Phillip is now the CEO, and has inherited his parents' entrepreneurial flair, as well as their sporting talent (he was twice a Commonwealth Games hurdles finalist in the 70s). Les and Colleen may have grown the business into a chain of gyms across New Zealand, but it was Phillip who developed the trademark Les Mills brand of group exercise class, which is now taught by over 100,000 licensed instructors, in over 15,500 gyms and studios across 80 countries.

Les Mills International is a good example of a family business that has innovation in its DNA, and a Chief Creative Officer to drive that agenda throughout the firm.

That part of the business is now a consumer brand which makes over $100m a year. Though as Phillip admits, it could be making more if they had structured the business model differently at the outset: "When we launch a new product we take all the risk and the independent distributors just take profit, which is one reason why we've started buying back distributors in recent years. We're also looking at other strategic ways to share the risk more equitably. But in the meantime we have to take an initial dent in our profits whenever we launch a new product, but that's OK because we're in this for the long term – we're not just looking for a quick return, we want to make this business sustainably great."

'Sustainability' is a key idea, in fact, because Phillip is motivated not just by professional ambition but a powerful social conscience: "We have a company that is now worth something approaching $100m, and we think we can make it a $1bn company. I want us to be in 25,000 gyms by 2020, and I want to move from the B2B model we mostly operate now, to more of a B2C focus, selling workouts direct to the consumer to do at home. That's a huge opportunity for us, and a great challenge and source of excitement for me. But it's not just about building a big international brand - it's about making the world a better place. That's the important part." That personal motivation started young, when Phillip studied philosophy as well as economics at university: "I have always been concerned about social issues. In 2007 I wrote a book about tackling global obesity with my wife Jackie, the company's Chief Creative Officer. I lobby for taxes on sugar just as we have taxes on tobacco, and I've set up a not-for-profit called Pure Advantage, which aims to encourage a greener and cleaner approach to business and industry, and help New Zealand exploit the opportunities that are opening up to do that."

So, for Les Mills and for Phillip, sustainability is definitely not just economic but environmental and social. In fact, the two cannot be disentangled: as the company grows, so does Phillip's public profile, and this in turn helps him campaign more effectively for positive change. "If you want to make the world a better place, then yes, it helps to have 100 million customers and a huge presence on social media. That gives you political influence."

Going digital: From DVDs to downloads

The company is an adept user of social media, and Phillip is actively exploiting the opportunities to digitise the business, moving from hard-copy instructor DVDs to digital downloads, which eliminate warehousing and distribution costs, as well as being greener: "That part of the business is all going digital. We are about 40%, maybe even approaching 50%, digital already." He also understands that in the new digital age, the winners will be those businesses who understand that it's no longer just about selling people products and services, it's about helping them achieve something important to them, whether an experience, a goal or a personal change. Nike is doing that with its Nike+ fitness apps, and Les Mills is doing that in group classes: as Phillip says, "what we are selling here is motivation."

Innovation has been the bedrock of the Les Mills success from the start, and Phillip's children Diana and Les are actively involved in the new product development side of the company. Indeed Les was a leader of the new 'Immersive' approach which makes full use of video technology.

As this suggests, Les Mills is very much a family business, but hardly a conventional one. For a start, Phillip is the only family member among the six directors on the Board, and he is quite comfortable that the role of CEO may skip a generation, or possibly never revert to the family at all: "I am personally determined to run this business as a meritocracy, so my kids won't automatically become either CEO or the Chief Creative Officer. They will have a role here if they want one, but it won't necessarily be running the company. We'll give them every chance to achieve that, and we already give them much more personal coaching than any other members of the team. But after I'm gone there will be another CEO because neither of them will be ready by then, and who knows what will happen after that."

Professionalising the business
Moving to the next level

As we have already seen, the need to professionalise the business is gaining ground as a key concern for family firms, driven by an almost perfect storm of competitive pressure, rising costs, and global megatrends. As a theme, it scarcely registered in 2012, but emerged very strongly in PwC's Next Gen survey[1] earlier this year, when a number of the upcoming generation told us they want to formalise and modernise the business when they take over. In the 2014 Family Business Survey, 40% of respondents agreed that this is a key challenge over the next five years, and a fascinating picture emerges when that figure is broken down.

It's the younger and more ambitious businesses which are more likely to cite professionalising the business as a goal, and are more aware of the risks and opportunities of the move to digital technology. They are also more likely to think of the family business model as slow to accept new ideas. They are more likely to be looking at a possible Private Equity exit strategy, and will know that these investors will look for a well-managed and disciplined operation. This applies equally to those looking to undertake an IPO.

40%

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younger

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Looking geographically, it's businesses in emerging markets which are keenest to professionalise, with over 50% scores in China, Taiwan, Peru, Turkey, Russia and Eastern Europe. Only two Western European markets scored over 50% (Belgium and Italy), with lower than average scores for mature markets like the UK (30%), Germany (28%), Spain (27%), and the US and Canada scoring lowest at 20% and 19%. It may be that family firms in these countries have indeed made more progress in this area; it could also be that the responses conceal (or reveal) either a degree of denial, or a resistance to any change that might appear to threaten family control.

So what does 'professionalising the business' mean for the family firm? What areas does it cover, and what are family businesses doing to address it? The first thing to say is that it's not about process for its own sake, or about weighing down the entrepreneurial flair that launched the family firm in the first place. It's about giving structure and discipline to that vision and energy, so that family firms will be able to innovate better, diversify more effectively, export more, and grow faster. In short, achieve their twin goals of ensuring the company's long-term future and improving profitability.

1 *Bridging the Gap: Handing over the Family Business to the Next Generation, PwC, April 2014*

Professionalism in practice
Processes, governance, skills

There are three distinct areas where family firms are feeling the need to professionalise their operations. Some of this is fairly basic work around systems and processes, but progress is also being made on corporate governance, and on people management.

Processes

Though there are some family firms that manage without formal business processes – especially first-generation entrepreneurial start-ups – most larger firms now have documented procedures and policies, if only to comply with external regulation in areas like Health & Safety and employment law. There are still family businesses with thousands of employees and no HR manager, but these are now the exception, not the rule. Likewise many are automating their operations and increasing their use of IT as a way to improve productivity and efficiency, and to counter the cost pressures we have already discussed. They are also being more systematic and structured in their approach to sourcing, again as a result of rising costs.

"There is always much more you want to do on IT, and it is expensive and time-consuming"

Malta, 4th generation

"We need to upgrade and formalise our processes. As the business grows we need to be sure that the right structures are in place"

South Africa, 2nd generation

"We need to improve processes, systems and controls to achieve seamless growth"

India, 2nd generation

"The business was founded by my father and it was set up by just one man. He is now retiring and there is a whole level of bureaucracy and formalisation of processes that we have to put in place to formalise what he has done with the business"

UK, 2nd generation

"We are improving the company's structure, processes and internal control management"

China, 2nd generation

"It can be incredibly difficult to make any changes within the company or control expenditure. With multi-national corporations they have a set approach which we need to adopt – our profits will increase with better governance"

Kenya, 2nd generation

"We need to rationalise the business. It is easy to get stuck in old patterns. It is important that we streamline how we work"

Sweden, 2nd generation

"The challenge is professionalisation"

Peru, 2nd generation

"If we professionalise the business in terms of financial performance the rest will follow"

UK, 1st generation

The family factor: Leaving a legacy

The case studies in this report all illustrate, in different ways, how important it is for those running family businesses to leave something worthwhile behind, or as several interviewees put it, "to be remembered."

This is borne out in the survey results: family firms may be putting business issues first this year, but the pull of the personal legacy remains very strong. Many talk about 'longevity', 'integrity', and 'making a difference', and say they want to pass on a business that is stable, sustainable, and profitable. They also talk about creating employment, sustaining the family's values, and supporting the community – all issues that have slipped down their overall list of priorities but come sharply into focus when the emphasis shifts from the professional to the personal. This is clearly a highly emotive issue and is no doubt related to the fact that most family businesses bear the family name.

Governance

The corporate governance of the family firm has improved since 2012, and our own experience of working with family businesses also suggests that this is the case. More family businesses are seeing the value of appointing experienced non-executive directors, though it can be hard to find and recruit people with the right expertise, as family boards are often perceived to be more problematic than those of conventional companies.

"We have to make the transition from a family organisational structure to a professional corporate management structure"

Taiwan, 3rd generation

"We need to implement corporate governance structures"

Brazil, 2nd generation

"We need to convert the organisation and communications structure from informal to formal"

Austria, 1st generation

"The board at different levels has to find a balance between autonomy while keeping its responsibilities: finding the right balance between running the business more formally and sustaining entrepreneurship"

Belgium, 3rd generation

The quote from Belgium captures a key theme that emerges in different ways throughout this year's survey: how does a family firm keep the entrepreneurial energy and flair of its early years with each succeeding generation?

"When I was younger the family was the company's strength; when the second and third generations come in they are being fed with a silver spoon"

UK, 3rd generation

"One concern I have more than anything else is complacency"

US, 2nd generation

Skills

Attracting and retaining skills and talent continues to be both a concern and a challenge, as family firms can struggle to compete with the share options and structured career paths offered by major multinationals. As one interviewee put it, "recruiting senior staff is difficult because they don't see a career with a family business." As we saw in the earlier chart (p. 7), skills ranks third in family firms' list of priorities, and 61% list it as a key issue over the next five years (up from 58% in 2012).

The issue of skills is also fundamental to other key areas of concern: if family firms are to expand internationally, diversify into new markets, manage risk better, or innovate more effectively, many of them will need to buy in the people to do it. And there's no point in hiring those people unless you have professionalised the systems and processes that will make it possible for them to do their job.

"We are having a hard time keeping staff in one of our divisions. Particularly advertising and sales people"

US, 3rd generation

"We need to get in the right leadership talent, and we need to have a well-trained workforce"

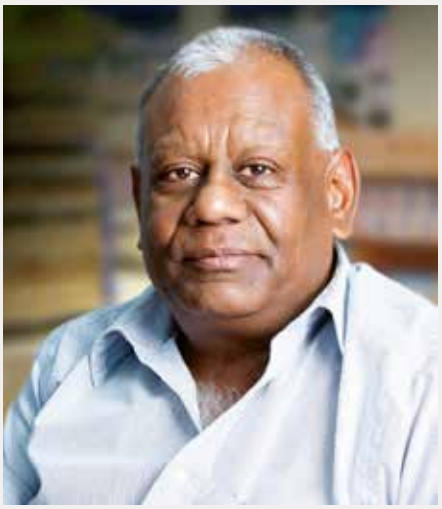
Singapore, 2nd generation

"Retaining people is a challenge. We have to restructure our reward packages to keep employees interested in our next phase of growth"

Ireland, 1st generation

Professionalise to optimise **Nakumatt Holdings Limited**

Name	Atul Shah, Managing Director
Sector	Retail
Market	Kenya
Founded	1987



Nakumatt is a leading retail business in East Africa, with over 7,000 employees and a turnover of more than $600m. It aspires to offer the same quality, convenience and choice as Western supermarkets. As Atul Shah says, "People don't expect to find outlets like this in Kenya – in the past they used to take empty suitcases to places like London and Dubai to shop. Now they don't have to."

Atul began working in the retail business with his father at the age of ten, and now his own sons and one of his nephews are part of the team. "We are allowing the next generation to bring in their own ideas. They want to do things a little differently – some of it may succeed, some may fail. But that is the beauty of it." Aside from the next generation, Nakumatt now has a full team of professional managers, some recruited from outside and many more promoted from within: "For many years I made all the decisions, but in the last five years we have changed the way we do things – now it's the whole team. We're also more professional now, to support our third phase of growth, which should see us achieve a billion dollars in turnover by 2018. Our plans are ambitious and to achieve them we need the same management and systems you would expect at any other company."

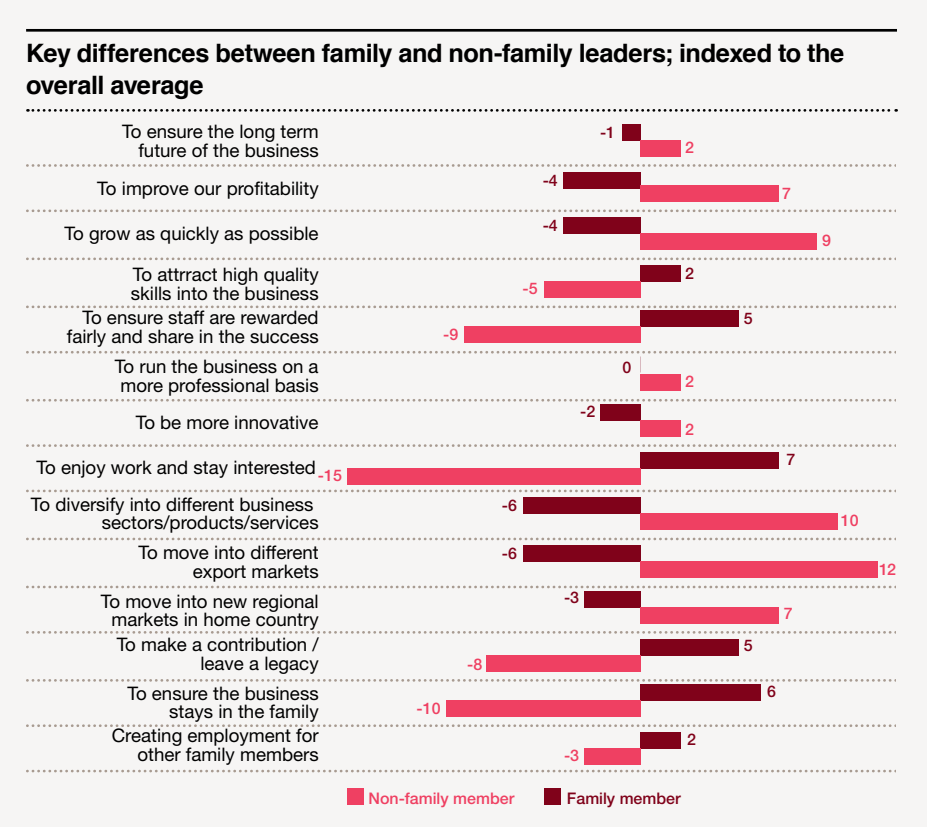
"We operate like any other corporate": Systems, metrics, governance

Kenya may be a developing economy, but Nakumatt's use of systems and technology is as well developed as that of any Western multinational. "Everything we do is systems based. We have already adopted Oracle and we're testing an electronic invoicing system with our suppliers. Basically, whatever the most advanced companies are doing in this area, we're doing it too. We operate like any other corporate. For example, we recently brought in someone to help us improve our online operation who had previously done the same thing for Tesco. We didn't have this capacity in-house so we went out and brought them in from outside. One of our challenges going forward will be getting good people like this. We are growing from within but as we expand regionally, we need regional heads and management at regional offices. It's a challenge to get the right candidates."

Nakumatt also uses international metrics to monitor and manage performance, with KPIs such as turnover per square foot and basket values, and they assess their results against global retail benchmarks.

Nakumatt is one of the largest private companies in East Africa, with ambitious growth plans that include Private Equity investment and an IPO. The company sees the professionalisation of its operations as a key element of that plan.

There's another factor driving the push to professionalise: Atul has his sights set on Private Equity money and an IPO sometime in the next five years, and recognises that the business must be in the right shape to attract the right strategic investment. With this in mind, the next challenge will be to improve Nakumatt's governance by establishing an independent Board. "My advice to any family firm is to maintain a professional focus on their business. Systems and processes are a key part of that."



When it comes to skills, 'professionalising the business' frequently translates to 'bringing in outside talent to run it'. This is often the right decision, especially when the business reaches a certain critical scale, but it can still be a challenging moment for the family firm. When you bring in outside managers – especially at executive level – the dynamics of the family firm inevitably change. A different set of stakeholder interests comes into play and the business becomes less like a private entrepreneurial venture, and more like a public company. The challenge for the family is managing that transition, and recognising that they themselves have to change if it is to be a success. They have to accept a loss of control and an increase of discipline, both of which can be difficult, especially when there are strong personalities involved, as is so often the case.

"Key positions in the organisation are held by professionals but top positions are held by family members. Family members are giving up their roles to professionals. This transition needs to happen properly"

India, 2nd generation

"We need to make the transition from family management to a multinational"

Romania, 2nd generation

"A key challenge is transitioning from being a business with lots of family input to one appointing outside management in key positions and functions"

UK, 2nd generation

The survey results show that non-family respondents are much more likely to be pushing for aggressive growth. Innovation, international expansion, diversification, and professionalising the business are likewise higher priorities for them than for family members, who tend to be more focused on family and community, and more concerned about a personal legacy (see the side bar, p.18). There are important questions here for family firms, because one interpretation of these figures is that family businesses can either under-perform or lack ambition if they are run by family members, and that this wouldn't be the case with an outsider in charge. A recent PwC study on family businesses in Germany found that more of them are now hiring outsiders at a senior level, and – crucially – those who have done so are growing faster than those who have not.[1]

But recruiting a top-quality CEO is no easy task; as one of our interviewees put it: "if you bring in senior talent you have to be able to keep it."

On the one hand, the long-term perspective of the family firm should be attractive to talented candidates, giving them scope and time to prove themselves, especially given that the average tenure of a CEO in a Fortune 500 company is now down to as little as five years. But on the other hand, a study in the Harvard Business Review in 2013 found that the optimum tenure for a CEO is actually not much different from this, at 4.8 years, and after that performance begins to tail off – something family firms might want to bear in mind.[2] In any case, many potential applicants will be wary of taking a senior role in a family business, given the difficult and sensitive issues involved, and the potential for in-fighting among family members, both on the board and off it.

Deterring the best talent is only one example – albeit an obvious and critical one – of how family issues can hinder business success. As this year's results make clear, professionalising the business is necessary, but not sufficient alone, for long-term survival. The most pressing priority is the need to professionalise not just the firm, but the family.

1 Growth patterns and internationalisation of German family-owned businesses and family business owners. PwC Deutschland, February 2014

2 Long CEO Tenure Can Hurt Performance, by Xueming Luo, Vamsi K. Kanuri, and Michelle Andrews, Harvard Business Review, March 2013

Formalising the family firm
Al Majdouie Group

Name	Abdullah Al Majdouie, President
Sector	Conglomerate
Market	Saudi Arabia
Founded	1965

Al Majdouie is one of the biggest transport and logistics firms in the Middle East, with 7,000 employees working not just in Saudi Arabia but all across the Gulf. The company was founded in 1965 by Shaikh Ali Ibrahim Al Majdouie, and all his five sons now work in the business, and sit on its board. And as the family has grown, so has the firm, expanding into automotive, manufacturing, food, steel, real estate, and training and education.

Such 'horizontal' expansion is a typical business pattern in the region, with many private companies growing by diversification into successful conglomerates. Family firms often find it particularly useful as a model, as it opens up more opportunities for individual family members to run their own divisions. Though the conglomerate approach can have challenges as well as advantages: as Abdullah Al Majdouie, the group's president, says, "it's good in that it spreads your risk when times are tough, but it brings its own risk in that you can lose focus if you try to be equally proficient across a whole range of different sectors."

But so far, the strategy has been very successful: "We are looking at the energy industry, and our training and education business is opening up a whole new sector for us." Abdullah believes that the only way to survive is to grow, and that includes exploiting the full potential of digital: "That's not an option any more, it's necessary to keep the business alive. We have a dedicated communications unit for social media, interacting with customers and managing our online reputation."

Focus on good governance

In the last ten years the company has been through a significant restructuring, and adopted a far more rigorous approach to both corporate and family governance. For example, the third generation, who are now taking up their own roles in the firm, have to work outside the business for at least three years first. As Abdullah Al Majdouie says, "In the early days, we needed everybody in the family to be part of the company. But now we think they have to earn it. They have to go through the stages of career development."

The company also has two independent external directors on the Board, and very much not as 'window-dressing': "They are there to support and advise us but not necessarily to agree with us," says Abdullah. "We have agreed with the family that we have to have a mix of family members and non-family members throughout the business, because this will ensure we benefit from new ideas and don't fall into one way of thinking. One thing we've learned is that, whatever the cost, you have to bring in talent to grow. It's our number one challenge – getting the right people."

Succession planning is a key part of that. As Abdullah acknowledges, it is usual practice in the region for the eldest son to take over (and he is also the eldest in his family), "But that doesn't always mean that the eldest is the best candidate. A conventional company can advertise and hire the best, but when it comes to family businesses, a lot of emotional issues come into play. That is why the transition should be planned well, and that takes at least three, four, five years, if you do it the right way. I have already told my brother Yousef that he should prepare himself to take over in the next couple of years, and I am now involving him in elements of my role that are not part of his current job, just as my father gave me the chance to learn and make mistakes, but under his supervision and guidance. It's all about cycles – the business has to go through cycles, and the family has to go through cycles. We're all realistic about that."

Al Majdouie is a successful Middle Eastern conglomerate which has recently strengthened its corporate governance processes. It has two independent directors on the Board.

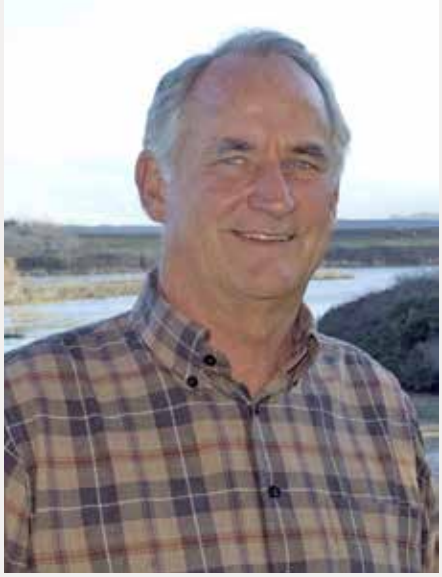
Abdullah is also realistic about the potential for conflict, especially as the family grows: "When you're a family business it's not an employer and employee relationship. It is partner to partner, regardless of the age differences – regardless of whether you have been in the business for 30 years and your younger brother just came in yesterday." But he is confident that a combination of robust governance, strong values and open dialogue is the best way to prevent conflict before it arises, and ensure the long-term survival of the business: "In some ways the soft part is even more important than the hard part. The hard part is governance, and the soft part is the values – the values that are embedded in the family members right from their childhood, and which they all share." Abdullah believes this has been the foundation for Al Majdouie's success, and if you ask him what he is most proud of, the answer is immediate: "Our family cohesiveness."

Coming to fruition
Driscoll Strawberry Associates Inc

Name	J Miles Reiter, CEO
Sector	Food and agriculture
Market	US
Founded	1890s

Driscoll's is a fourth-generation Californian berry producer that's growing its business through a combination of savvy digital marketing and overseas expansion.

Miles Reiter's great-grandfather was part of the 19th-century Gold Rush, emigrating from Alsace and swapping a butchery business for strawberry growing. In the century since then the company has grown substantially, and is now one of the country's largest producers of berries. In the US, as elsewhere in the world, family businesses are particularly prominent in the food production sector, with many firms still in family hands, even the large-scale operations like Driscoll's. Driscoll's also buys much of its fruit from other family businesses, which means there's a powerful network of relationships that go back more than two generations in some cases. As Miles says, "Most of the growers are multigenerational companies, so they have some of the same aspirations that we do. There are bonds beyond financial that hold you together."



Miles believes that his own family benefits from those same emotional bonds. He and his brother both work in the firm, and there could soon be seven members of the next generation coming through, "I'd be surprised if all seven went into the business. That would be exciting but maybe a little challenging." With that in mind, Driscoll's has recently set up its first family council, in which the next generation is already playing a central part. The next generation have also been entrusted with formulating the mission statements for both the family and the business – two visions which are connected but different, which is a vital distinction for the family business to make.

So with so few family firms surviving beyond a third generation, what's the secret of the Driscoll's success? One answer would seem to be the new thinking that each generation has brought to the venture. In the century or so since the firm was founded, each generation has contributed something new, whether in terms of improved agricultural techniques, greater commercialisation, or brand development. For example, Miles led the business in making the shift from primary grower to branded producer over 25 years ago, when the company developed innovative packaging to protect its fruit and realised that these 'clamshell' baskets could also be used to carry a brand name. And now, almost a generation later, Driscoll's is using digital technology to build that brand even further: "What digital has allowed us to do is connectivity with consumers at a lower cost. We're working with our retail partners on that – it's not so much about how much we spend but how we share the knowledge, the data. We can now track specific consignments at hundreds of points in the supply chain, and use digital to get customer feedback on the quality of each basket they buy. That allows us to evaluate how well each grower is doing, and track which varieties are more popular, or what tastes consumers have that we could supply."

Driscoll's also has global ambitions for its brand, and is professionalising its operations to help make those ambitions happen.

Going global: Professionalism and proposition

Driscoll's has been exporting for over ten years, and is already a leading brand in Australia, with a new operation in China and expanding in Europe, though the latter is a complex and diverse market. For Miles, this proves that you need two things to be successful overseas: a simple proposition, and a professional operation: "My advice to any family business looking to export overseas is to keep it simple – have a proposition that's clear and can work across cultures. Our company mission is to continually delight consumers and I think that can apply anywhere in the world."

And on the business side? "To expand globally you've got to invest in people and processes, especially digital and in areas like management development. In the past we did some of this stuff by the seat of our pants, and sometimes when we went into joint ventures, we didn't bring enough discipline to the financial side, or set out our expectations fully enough. We've made a lot of progress since then, though there are still areas where we need to improve. There's a big role for non family management here, with a business of this size and complexity, and I'm a big believer in outside Board members. In general, it's about making the way we operate more professional because we're a global company now. The challenge is to keep alive the spirit of experimentation, innovation, and adventure."

Working with your relations can generate much higher levels of trust and commitment, but it can also lead to tensions, festering resentments, and open conflict.

The heart of the matter
Professionalising the family

The strength and weakness of the family business model is right there in the name: the family. Working with your relations can generate much higher levels of trust and commitment, but it can also lead to tensions, festering resentments, and open conflict, as the individuals concerned struggle to keep 'head' and 'heart' separate, and make a success of both their work and family lives.

Because it involves 'heart' as well as 'head', professionalising the family is much harder than professionalising the business, and often gets postponed simply because it raises too many intractable issues. But it cannot be put off forever, and the risks of not facing up to this challenge will increase with time. As we hear from Ghassan Nuqul, in the case study, "It's only a matter of time – it may not happen in the second generation, or the third generation, but conflict will eventually arise at some point." This potential for conflict is one of the main reasons why so few family firms survive beyond two or three generations: as Dr Eric Clinton of Dublin City University puts it, "in a family business the hard issues are the soft issues."

"It's very difficult to get the business moving in one direction when so much family politics is involved"

Canada, 2nd generation

"There are internal disagreements among the Board and the family about the growth of the company"

Spain, 2nd generation

"Family politics is an issue: everyone in the business management team has a different idea about how it should be run"

Nigeria, 1st generation

In PwC's recent Next Gen survey we identified three 'gaps' which can undermine a successful transition between generations: the generation gap, the credibility gap, and the communications gap. The communications gap is particularly relevant here, as the Smorgon Consolidated Industries side panel (p.22) proves. That story also shows that even in a large and successful business, there is a very real risk that family issues will eventually precipitate a crisis for the firm as well as the family, and both may fail as a result. As with so much else, these issues need to be addressed in the good times, because kneejerk decisions made during a crisis rarely result in the ideal outcome.

Only 16% have something that would qualify as a robust succession process, and that number is still as low as 25% even for respondents aged 65 or over.

Professionalising the family means putting processes in place to govern how the family interacts with the business. This includes establishing an infrastructure for decision-making, and formal channels for communications that can supplement the informal ones, and will come into their own during times of tension or difficulty. It's about protecting the family's interests, and safeguarding the firm's survival. In other words, it's the vital family governance piece which must sit alongside the equally important corporate governance structure.

This year's survey shows that an increasing number of family businesses have mechanisms in place to deal with potential conflict, and the survey results show that there has been further progress in this area since 2012. 83% have at least one procedure in place, up from 79% two years ago, and larger firms with sales of over $100m are more likely to have done this (85%). The procedures in question include shareholder agreements, family councils, provision for third-party mediation, and family constitutions. All of these scores have risen since 2012, and only 17% now have nothing at all.

"Family businesses generally fail for family reasons": Learning from Smorgon Consolidated Industries

David Smorgon is a former director and Senior Executive of one of Australia's largest family businesses, Smorgon Consolidated Industries. The family business survived for 65 years and was into the fourth generation when it surprised the market in 1995 by announcing a staged divestment and sold off every single asset over the next couple of years.

David became the inaugural Chairman of Family Business Australia and is now Senior Advisor - Family, Business and Wealth as part of PwC's Private Clients team. We asked him what others can learn from his experience.

"We were a complex family with seven different shareholder groups and we had three generations working in the business at the same time, numbering around 20 people aged from 20 to 80 years old.

We were excellent communicators on business issues. However, we did not spend enough time discussing family issues. We should have allowed time for family to air their grievances through regular family meetings, which were specifically focused on family, not business issues. Similarly, we continued to defer discussions on succession because it's such a secretive, difficult and confronting issue. We didn't understand that succession is a process not just an event."

So what advice would he give other family firms? "You need to assess the health of the family with the same depth and rigour as you assess the health of the business – look at what's working and what isn't. Some of it is about family governance, but it's also about softer issues like the way people behave with each other, and the respect – or lack of it – between family members. You do also need the processes in place to head problems off before they get engrained. But if you can fix the family issues the business issues are much easier to solve. That's the good news."

Sector spotlight: Manufacturing

Manufacturing firms make up around a third of the family businesses covered in the survey. They tend to be slightly more ambitious in terms of both growth and exports, but they also face particular challenges, especially in relation to new technology, because the capital expenditure required to upgrade production facilities is much higher than for other sectors, and family firms in general can struggle to access funding for major projects.

Unzipping the data: Corporación Rey, Peru

Corporación Rey has been making zips, labels and fastenings for the clothing industry since 1949. John Gleiser's family has been involved since 1973, when his father, Samuel Gleiser, was brought in to help turn the business around, and now the Gleiser family own 100% of the company and Samuel's two sons and son-in-law sit on the Board with him, along with four independent directors.

The Peruvian clothing industry is going through a period of rapid growth, as it competes with Chinese suppliers on price, service, quality and on-time delivery. For US clothing manufacturers in particular, Peru is often a closer and more convenient choice than China. Corporación Rey has built its own competitive advantage on a highly professional operation and the smart use of new technology. As John Gleiser says, "The basis for any success is to be professional." The firm is ISO 9000 certified, and installed SAP in 2009. By mining that data it can operate at maximum efficiency, and still offer clients up to three million different combinations of colour, length and type of zip. For example, the most popular combinations are carried in stock for immediate delivery, and other variants can be ordered with slightly longer lead time, or made specially in small consignments for haute couture clients.

But that's just the beginning. Data analysis is allowing Corporación Rey to be far more proactive, and anticipate what clients want: "We have thousands of pieces of data and many years of experience, so I don't have to wait until the client places the order – I constantly research fashion trends, so that when they come in I already have certain colours ready to show them. We've also developed an app for the iPad that allows clients to place their orders directly, and browse products we've made in the past, such as small specialist orders. In some cases it's allowed us to sell old stock that we might previously have thought was obsolete. Our sales people use the iPad app too – they can show clients samples and place orders there and then. And all that is linked to the SAP system too."

More family business are setting up family offices as well, either dedicated or shared. These offices, in their turn, are also becoming more professional, moving beyond 'concierge' services to relationship advice, family counselling and, where necessary, mediation (see the side bar, p.30).

But – and it's a big but – the all-important issue of succession has still not been fully grasped or effectively addressed by far too many. 53% say they have a succession plan in place for some if not all senior roles, but when questioned further, only 30% of those 'plans' are properly documented.

Only 16% have something that would qualify as a robust succession process, and that number is still as low as 25% even for respondents aged 65 or over.

A plan that is not written down is not a plan, it's just an idea, and this is an issue family firms must address with the same commitment and energy as they are devoting to professionalising other aspects of the business. Because without it, the entire enterprise is at stake.

Playing different roles
Man Yue Technology Holdings Limited

Name	Eugene Chan, Managing Director
Sector	Electronics
Market	Hong Kong
Founded	1979

Man Yue Technology Holdings Limited engages in manufacturing of advanced electronic components. It was founded by the Chairman Ms. Chor Lin KEE and her late husband Mr. Ho Sing CHAN in 1979, and listed on the Hong Kong Stock Exchange in 1997. Their son, Eugene is now Managing Director of the Group, after joining the company in 1998 and becoming a director ten years later.

Man Yue operates in a high-tech industry, where the pace of change is accelerating and constant innovation is vital. As Eugene says, "It's a very different world from 50 years ago." He believes that the long time horizon of a family business can help to ensure that the right investments are made for the future: "Seven or eight years ago, we looked at the market trends in our industry and did some scenario planning about what sort of products might be needed in the future. In particular, we identified a growing demand for energy saving and energy efficiency, whether in industry, in homes, or in transport. So we invested a lot of time and money exploring new possibilities in energy saving and renewable like solar and wind. And now we have a whole range of products in that area, which sit alongside other new electronic components that target for different sectors and different products."

Electronics business Man Yue Technology recognises the contribution that outside talent can make, and while they are realistic about the potential for conflict in a family business, they believe keeping family and business separate is the key to success.

So a long-term perspective can be valuable, but it must always be coupled with agility, effective decision-making, and openness to new ideas: "You always have to think like an entrepreneur." Eugene also recognises the importance of bringing in new blood, whether that's from the family, or outside: "Every company has to continuously recruit new and better talent at every level, whether it's a family business or not. What's important is the team spirit you create – the values you share and the trust you develop in one another. That's what kept our business together in the last decade, as we made our investments and waited for them to come to fruition. I think a family business has definite advantages in this respect, especially in the times of crisis and when you need to change your strategy or transform your business model."

A healthy separation of roles

Man Yue clearly has a strong and cohesive corporate culture, but Eugene knows that this has to be worked at, especially in a family business: "When you have a business that involves family members, you are going to have conflicts. Sometimes within the family, but also with other colleagues. But disputes with colleagues are easier to resolve because your relationship is purely professional. But disputes between relations involve many different roles - you may be father and son, you may be mother and son, you may be sisters and brothers, and on top of that you are also colleagues, and possibly manager and employee. The key to resolving situations like that is to not to mix up those roles. Keep work conflicts at work, and when you're at home, don't discuss business. You have to separate each role according to where you are at different times of the day. That makes the inevitable tensions easier to handle. Personally, I think the ultimate challenge is how to play all these different roles better – a better son or brother, and a better professional."

Bridging the gap
Making a success of succession

In many cases the word 'succession' itself can provoke an extreme emotional reaction, especially in the founder or current CEO.

The passing of the baton has always been a hazardous moment for the family firm, and never more so than now. The world has changed out of all recognition since the current generation first went into business 30 or 40 years ago. Thanks to the post-war baby boom there are a lot of businesses which were set up in Europe and North America in the second half of the last century which are now facing their first significant transition. Likewise many firms in markets like Russia, China and Singapore will soon have to deal with their first handover between the generations. The 'generation gap' is widening literally as well, as people have children later. This means that the periods between each transition are lengthening, which puts even more strain on a rite of passage which is already fraught with potential problems.

As the business gets older, more potential successors come into play, the numbers in the wider family grow, and the potential for conflict rises. As one of our interviewees pointed out, "The transition from the first to the second generation is the easiest. After that it gets progressively harder. The bigger the family gets, the more likely it is that there will be people who have never worked in the business and don't understand it or its issues, but are still expecting to receive their dividends. That's bound to cause tension, especially when people react emotionally rather than rationally."

Market spotlight: Germany

Germany has a long and proud tradition of family business – 96% of private sector firms are in family hands, one of the highest proportions anywhere in the world – and many firms are in their seventh or more generation. This means that many German 'Mittelstand' firms have strong ties to their communities, and these concerns rank higher in Germany than they usually do in emerging markets, where more businesses are still in their first or second generation.

German firms have been ahead of the curve when it comes to professionalising the business, but professionalising the family has not been on the agenda in many cases until fairly recently. As Peter Bartels, Member of the Executive Board, Family Businesses, PwC Germany, says, "German family firms have been focused on business stability, profitability and – eventually – growth but they're now turning their attention to the way governance issues are managed. The main impetus behind this is reputational risk. German firms really value their reputation, especially when the business bears the family name. They're starting to appreciate that they could put that reputation at risk, and damage the family name, if they don't have strong governance - both corporate and family governance. When it comes to professionalising the family, and on a scale of 1 to 10, I would say Germany is at about number 6."

Family education and professionalisation: Insights from an expert

Peter May is a specialist in family businesses, and the founder of INTES, the first training and consultancy company in Germany focused on family firms, and he also collaborates regularly with PwC. He's written many books and articles on the issues these firms face, and has been instrumental in creating the German Family Entrepreneur of the Year Award.

We talked to him about the results of this year's global survey, and what insights he can share on the challenge of professionalising the firm, and the family.

What do you believe professionalisation means for the family business, and what are the risks and opportunities for families?

What distinguishes family businesses is their ownership structure, and a corporate culture which crosses generations. They require different strategies, different financing concepts, and different governance regulations from other types of companies. These special qualities give rise not only to certain benefits but also to disadvantages and challenges. When the family can exploit the advantages and meet the challenges, the family business can look forward to long-term success – economically successful, socially responsible and locally anchored.

But those who can't meet the challenges which running a family business entail are destined to fail, I cannot put it more plainly than that.

In your experience, how are family firms rising to the challenge of professionalising their operations?

There's been a huge increase in the professionalisation of family businesses in the last 20 years. Those who have done this successfully have understood that managing a family business well requires not just one but two different governance systems. It isn't enough to solely concentrate on the business – the family needs managing as well. In the last few years we've come to appreciate the hugely important role which ownership plays in a family business, and that a family doesn't necessarily have to run its business itself; its principal duty is to ensure professional leadership for the business.

As more families look to pass on ownership but not management of the family business to the next generation, how do they best equip themselves to be responsible and effective owners?

The more we understand about the important role played by the owners in their family businesses, the more we also understand how important it is to prepare and train the family for this task: an informed shareholder is an effective shareholder.

Well-managed family businesses offer their shareholders special training programmes which enhance their ownership capabilities, and provide insights into the issues relating to company management as well as an understanding of family dynamics. They explore the theory and the practice, not just in general terms but also with a specific focus on the family business itself. Hands-on work experience is a fantastic way of getting to know your own company and for developing pride in it. And the opportunity to network with the members of other owner families and exchange experiences with them provides benefits which can be incorporated into the 'family education' programme.

The first place to look for the best people for the job is within the family, so it really does pay to invest in the future of your owners.

How can families keep the spirit of entrepreneurship alive as the business passes from one generation to the next?

Possibly the greatest challenge facing family companies and their owners is keeping the entrepreneurial spirit alive. This applies today more than ever. Globalisation has greatly accelerated the rate at which things change and life cycles are getting shorter. The old saying, 'It takes three generations to build a business' might soon be outdated, replaced by 'One generation can build three businesses'.

In this digital age it's less important to hand on trademarks and machines than entrepreneurial spirit. That's not as easy as it sounds, since a family's increasing prosperity leads inevitably to a degree of complacency and inertia among its members. They prefer to enjoy the wealth they have rather than strive for more. That's why it's so important that we drill into our children to 'stay hungry'! There is another old saying that 'the first generation builds the business, the second makes it a success and the third wrecks it'. Now more than ever, we have to remember the truth of that.

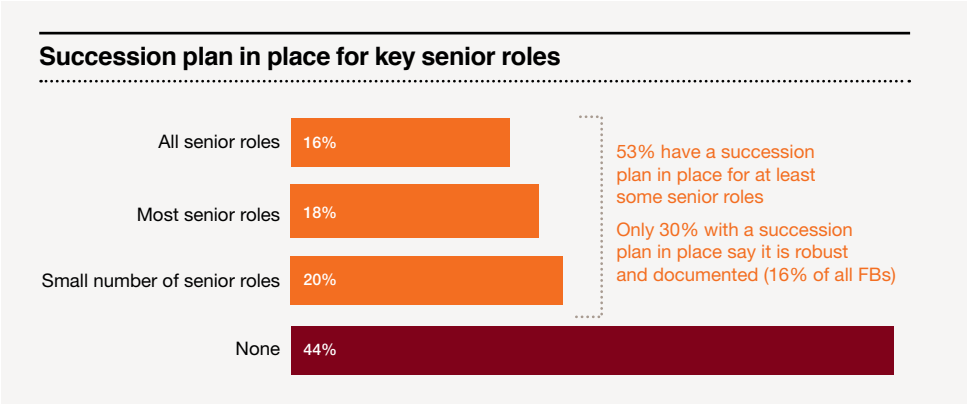
Family businesses tell us that two of their biggest challenges are innovation and skills – how do you see family businesses 'staying ahead of the curve' and what issues does this raise?

Innovation, diversification, entrepreneurial spirit and the skills connected with them are becoming increasingly important in the new and dynamic business environment. They have to be instilled in the family, and anchored in the corporate culture of the business.

No family can perform every role within the family business, so in order to attract the best people, family businesses have to work harder than ever before to make themselves attractive places to work. In particular, they have to create space for innovators, both from within and outside the family. This means they have to make changes, becoming more open and inclusive, rather than exclusive and inwardly-focused. They need to offer exciting compensation and participation models, and play to their greatest strengths: owner families can provide a human touch and a sense of belonging – an invaluable advantage in a world where it's getting harder and harder to make a personal connection.

Six ways to address the 'family factor'
So to sum up, here is Peter's advice to family firms:

1. It's not enough to manage the business – you need to manage the family too.
2. As a family, your role is to ensure the best professional leadership of the firm, and a family CEO might not always be the right choice.
3. Prepare and train the family for the task of ownership – in other words, invest in your future shareholders.
4. Network with other family businesses and share your learning and experience with them.
5. Keep the entrepreneurial spirit alive. One way to do this is by creating space for innovators, both inside and outside the family.
6. Play to your strengths in attracting talent: a family business can be a special place to work, offering a human touch and a sense of belonging which is becoming increasingly rare in other types of company.



In many cases the word 'succession' itself can provoke an extreme emotional reaction, especially in the founder or current CEO. It's an unwelcome reminder of age and mortality, and threatens loss of influence and redundancy, in the widest sense of the word.

No surprise, then, that so many family firms exhibit 'sticky baton' syndrome, where the older generation hands over management of the firm in theory, but in practice retains complete control over everything that really matters. No surprise, either, that so many incumbent CEOs either evade or block any discussion about succession with those who expect to take over. This creates uncertainty, which is unhelpful for the individuals and the firm, and in extreme cases can lead to a complete disconnect between what the incumbent is privately planning, and what the next generation is expecting.

"There has been no discussion of succession, it's not something that gets talked about with my father"

Next Gen survey interviewee

"I wasn't sure how the whole succession thing would work out, because at that stage my uncle and my father owned the business and there was no agreement tabled or even discussed in the early years"

Next Gen survey interviewee

"My biggest challenge is to find a successor – someone to take my role in the business"

Germany, 3rd generation

"It's still my father's business and everything is absolutely his decision. He will judge when the time [for succession] is right and no one else will say when that will be. It is not up for discussion so that will be a challenge"

Next Gen survey interviewee

In our Next Gen survey, 73% said they were looking forward to running the business one day, but only 35% thought that was definite, and as many as 29% thought it, at best, only fairly likely. And in the main 2014 survey, 41% of those currently in charge agreed that it will be difficult to let go, but that number rose sharply to 64% when we questioned those who will be succeeding them. This is another example of the communications gap that can bedevil the family firm – as Roy Williams and Vic Preisser say in their 2010 book, *Preparing Heirs*, 70% of intergenerational wealth transitions fail, and many of those failures are due to a lack of openness and transparency.

Succession will always be an emotive issue, which is all the more reason why it needs to be managed on a professional rather than a personal basis. Too many family firms are still approaching it as a one-off event rather than a long-term process. As the Al Majdouie case study shows, a well-managed succession process can, and should, take several years.

The Al Majdouie case study also illustrates another growing trend: an increasing number of family firms ensure – or even insist – that younger family members go through a proper development programme before entering the firm, and in many cases this includes a spell working outside the business.

This 'professionalising' of the next generation is helping to close the third of the three gaps – the credibility gap. 59% of participants in the PwC Next Gen survey said that winning the respect of their co-workers was one of their biggest challenges, and many of the other issues they cited are closely related to this, including understanding the complexity of the business (44%), being asked to take on a job they feel unable to do (18%), or taking on responsibility too early (9%). In the same survey 88% of the next generation said they have to work even harder than others in the firm to 'prove themselves', not only with their colleagues and employees, but also with customers.

Of our Next Gen interviewees, only 7% had gone into the family business straight from school, as their parents and grandparents typically did. 55% had gone through a professional development programme, 14% had taken business degrees, 34% had been on management and training courses, and 46% had worked for another company before joining the family business. The latter, in particular, can provide an invaluable insight into the crucial difference between owning and managing a business.

There are some forward-thinking family firm CEOs who are open-minded about the next generation's involvement, because they see the family business as meritocratic, not dynastic.

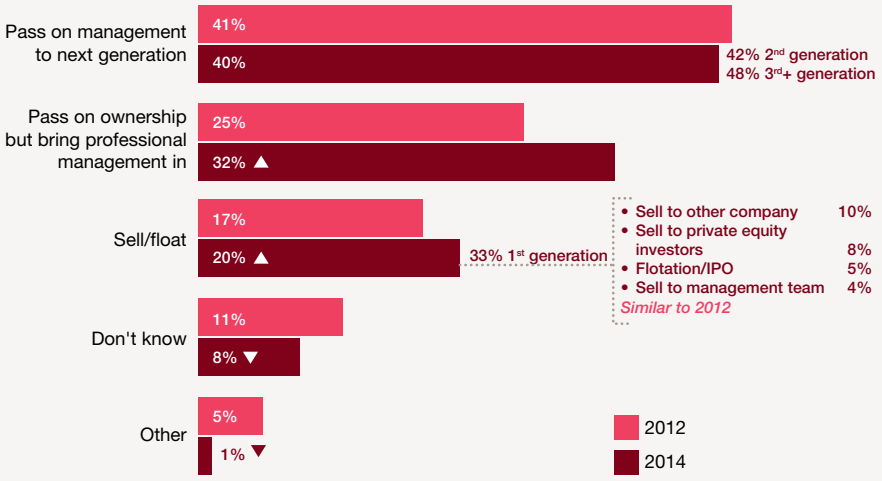
From managers to owners
The new model for the family firm?

Understanding the difference between ownership and management is becoming more important, because owning-only is a trend that appears to be gaining momentum: the number of family firms looking to pass on ownership, but not management, to the next generation is up to 32% this year, from 25% in 2012. And as the moment of succession approaches, more companies are actively looking at this as an option.

"I would like my lasting legacy to be that each of our businesses are in a good place and in a good strong position to be sold or bought out. I don't see it continuing within the family"

UK, 3rd generation

Future plans for management and ownership of family businesses



There are also some forward-thinking family firm CEOs who are open-minded about the next generation's involvement, because they see the family business as meritocratic, not dynastic. They would be happy to see the next generation take over, but they accept that management may skip one or even two generations, and that the firm may not revert to family management at all. At Les Mills, for example, the CEO role definitely won't pass directly to Phillip Mills' children because they won't be old enough at that stage, even if they may be able to take over at some future point, and he is relaxed about that prospect: "after I'm gone there will be another CEO because neither of them will be ready by then, and who knows what will happen after that."

However, there are others working in family firms who clearly believe they are entitled to manage the firm if they choose to do so. But if there is a birthright in the family business, it's the right to ownership alone; some firms might benefit from a culture change that would endow the role of owner with the same status and value as that of CEO.

Ownership is not an easy option, however: it has to be undertaken as an active choice, in the knowledge that it will require new skills and may even entail specific training.

Separating ownership and management
The Nuqul Group

Name	Ghassan Nuqul, Vice Chairman
Sector	Conglomerate
Market	Jordan
Founded	1952

The Nuqul Group is the largest privately owned company in Jordan, with 5,500 employees and a portfolio of 31 businesses ranging from paper products to processed meat, packaging to plastic pipes. The group was founded by Elia Costandi Nuqul in 1952, and the fact that he named his company 'Nuqul Brothers' was clear proof that he always intended it to be a family concern. Today, Elia remains Chairman of the company, and now works alongside his son Ghassan, as Vice-Chairman. Nuqul has always been committed to the highest standards of corporate governance, and ten years ago took the further step of separating ownership from management, by appointing two external CEOs.

Managing investments, not managing the business

Ghassan Nuqul has worked in the business since 1985 and shared his father's vision, helping Nuqul grow from four companies to 26 in 1996. He and his father were then joined by his brother Marwan. Now, if the coming generations want to join the firm they have to demonstrate that they can be good managers, as well as good owners: "They have to bring a feeling of ownership, strong discipline, and the right attitude and qualifications. And the business must be able to give them a clear mandate, clear responsibilities, and a clear career path that starts with at least two years' experience outside the firm – our family constitution requires that."

The Nuqul Group made the decision to become owners, not managers, relatively early in the life of the business. As a result they have extensive experience of the issues involved, both for the family and for the firm.

Ghassan is a realist about the challenges of reconciling the expectations of his relations and the needs of the business: "There is a particular challenge when the family members are not business people or actively involved - they don't understand the issues or the pressures that running a company brings. I try to encourage our family members to attend seminars on business and investments, but you can only suggest, you can't compel. It can make decision-making harder than it should be, especially when that involves bringing in new ideas. We do have a family constitution, with a section on conflict resolution which includes bringing in a third-party mediator, but I think the best way to solve conflict is to prevent it. And the best way to prevent it is to have family members sit on the board only – running their investments, not running the business. Because it's only a matter of time - it may not happen in the second generation, or the third generation, but conflict will eventually arise at some point."

This is one reason why Ghassan has reservations about encouraging younger family members to join the firm – for him, it's crucial to avoid any dispute that might result in a damaging rift: "I think the family is more important than the business. In a recent seminar, alongside two other prominent family businesses, I was asked which was more important, the family or the business. The other two said the business, I said the family."

With such strong views, it's no surprise that Ghassan takes his role as steward of the family's interests extremely seriously: "I feel I am the protector of the reputation and image of the business, the upholder of its values and ethics, and the guardian of the family's wealth. There are 5,500 families that depend on us for their livelihoods – that matters to me. So if I am to leave a lasting legacy I want that to be that I made a difference in my family, my business, and my country."

The family factor: Balancing influence and control

Our experience suggests that one critical factor in a successful succession is whether the firm can find a way for the older generation to retain a positive influence, even after they have ceded control. As one of our Next Gen interviewees put it, "What we want is the right balance between influence and control, so that my parents still have a say about what type of company we are, without getting into the day-to-day detail on every issue, especially as they get older and aren't so close to what's happening on the ground. It's a hard mix, in a family business, but it's worth working at it to get that balance right."

This is a good example of the last of the 'four Ls' identified by Mary Barrett and Ken Moores, who was founding director of the Australian Centre for Family Business. They believe you need to learn four key skills to run a family firm: learn business, learn your own business, learn to lead, and learn to let go.[1] The last of these is definitely not the least, and can often be the hardest of all.

1 Learning Family Business: Paradoxes and Pathways, Ken Moores and Mary Barrett (2002)

When family members are owners not managers it's even more vital to formalise and professionalise the relationship between the family and the firm. This is about accountabilities and responsibilities, but families must understand that these work both ways. On the one hand the family must hold management to account for the performance of the business; but they must also be accountable and responsible as shareholders, and clear about their expectations. Holding management properly to account requires robust and objective assessment criteria such as KPIs; being a good shareholder demands a full understanding of the firm's strategy, operations, and objectives, and – crucially – an appreciation of the difference between involvement, which is helpful, and interference, which isn't.

"The family are continuously interfering when they need to let the professional management team get on with it"

Kenya, 2nd generation

Being an effective owner also means being an effective custodian of the family's values – the principles and priorities that give the firm its character and its continuity. The family office can often play a useful role here (see side bar below).

But in some family firms continuity derives not just from consistent values but a consistent approach to business, regardless of the specific nature of that business. These firms do not care where they operate or what they sell, as long as they are profitable. They have freed themselves from the emotional ties that can leave family firms shackled to outdated ways of working or under-performing divisions which were either set up by previous generations, or are run by a family member and therefore 'unsellable'.

Head and heart: The changing role of the family office

Family offices come in many different shapes and sizes: anything from a finance director or legal counsel who spends some of their time dealing with the family's personal affairs, right through to teams of advisors managing all the family's investment and personal affairs, as well as concierge services. For many families, the use of an office will be driven by a lack of time, for others it will be about actively managing their affairs, and dealing with investments in new ventures outside their core business.

In recent years there has been a lot more awareness of the value of family offices, and as family businesses have become more complex, the traditional family office is evolving to meet their needs. In many cases this means operating not just in traditional 'head' areas like tax planning and asset protection, but in softer 'heart' areas too, including advising parents and children on the psychological aspects of bequeathing and receiving wealth, and supporting younger members of the family to gain the professional and personal development they will need to be effective owners or managers. And many family offices are also now taking an active role in helping the family to define and codify its values and ethos, to ensure these principles continue to inform the way the business operates, whether or not a family member is CEO.

The changing role of the family office reflects the increasingly global footprint of many families and also the drive for greater professionalisation. For large multi-generational families transparency and communication are key, and family offices continue to look for effective and safe ways to communicate with multiple stakeholders. We see digital technology and social media becoming a key part of these programmes.

'Our business is to stay in business'
The International Group

Name	Hertford King, CEO
Sector	Conglomerate
Market	UK
Founded	1964

Hertford King is CEO of the International Group, a highly successful family business first set up by his father in 1964. Today, the company brings together businesses as diverse as hotels, healthcare, property and packaging, and reflects the equally diverse business career of Hertford's father Roger, who founded the business. Roger King started out as a jeweller, then expanded over the years into property development, advertising, and packaging, among others.

The International Group is a good example of a successful family firm that defines itself in terms of its expertise, rather than the specific portfolio of businesses it happens to own at any one time.

Many of his investments were the result of astute deal-making, and in some cases a smart acquisition opened up a completely new area of opportunity, which his sons have been able to exploit. The most obvious example is Stoke Park golf club, which Roger bought as an office investment, but which his sons thought would have more potential if redeveloped into the country club it had been once before. And how right they were: Stoke Park is now a world-famous luxury venue and the flagship of IG's hotel and club division. Better still, the expertise gained through running and re-launching Stoke Park is now marketed as a service for other companies looking to invest in high-end sports venues or clubs.

Turning deals into businesses

It's a perfect example of how the company works: as Hertford says, "My dad is a creative person and he likes doing deals, but he's not someone who will sit down for hours talking about management process or systems. But that's what my brothers and I do – we are managers rather than deal-makers, and our skill is turning deals into businesses. And that works very well." And it's still working well, as shown in IG's successful launch in China, which is the latest addition to an international operation that now covers over 50 countries.

China is a huge growth opportunity for both the healthcare and leisure businesses; as Hertford says, "There are two industries which are seeing massive growth right now and they are leisure and healthcare. The latter's being driven by ageing populations, as well as by rising incomes, which is seeing people and governments across Asia willing to pay more for healthcare. The same affluence is opening up huge opportunities in leisure too. In China we're positioning ourselves as a company that can connect health, wellness and leisure together for whole communities. That's very exciting."

Hertford is the eldest of Roger's three sons, and worked first for a major firm of accountants before going into the family firm, where he was later followed by his two brothers. Their roles have evolved over time, but each contributes a particular skill set, as well as running part of the group. Hertford's youngest brother Chester studied marketing, and runs the leisure business; Whitney King focuses on risk management and procurement, and runs the healthcare division, and Hertford oversees core functions like IT, finance, and legal, which span the whole portfolio.

This level of responsibility came early. Even when the brothers were comparatively young, their father wanted then to have a stake in the firm's success, so he made them directors and gave them 10% of the company each, retaining 70% himself. The company has no outside shareholders, and takes a flexible approach to management and governance in which the family is supported by an informal group of business advisers with expertise in specific sectors. It also has an active Corporate Responsibility programme, with projects that include working with Moorfields Eye Hospital in Ghana.

In the last twelve months there has been one significant change at IG – perhaps the biggest since the company was founded. Though still very active in the day-to-day running of the group, Roger has taken his stake down to 25%, with each of the sons now owning 25%. But he retains a casting vote at Board meetings, in the event of a three-way split. The change in shareholdings is part of a long-term plan to ensure a smooth succession, which will also include a formal shareholders' agreement.

The family is very mindful that its own success is not necessarily typical of other similar firms, and family unity has to be worked at: "Most family businesses don't last very long unless you're very fortunate, or smart, or both. The problem is that the family starts by creating a business and then ends up being controlled by the business and not the other way around. Everything in a family firm is a double-edged sword – you have more flexibility which is good, but less discipline which might not be. And I think it's harder for people in the third, fourth or fifth generation, as all you can do is lose something other people have built. The other thing is I think our concept, which is different to a lot of founders, is that they only have one business and they're committed to that because they've been in it for many generations, whereas our business is to stay in business and we don't necessarily care what the business is."

By professionalising the family, the sector as a whole could reinvent itself, and evolve from a model based on a family business to one driven by a new vision of the 'business family'.

Conclusion

Professionalising the family will ensure that family members become effective owners, whether or not they are actively involved in managing the firm.

Professionalising the business will allow family firms to innovate better, diversify more effectively, export more, grow faster, and be more profitable. It will open up new commercial opportunities, and new options for a possible sale in the long term, by making them more attractive prospects for both PE buyers and multinational buyers.

But these benefits will only be realised if family businesses have the courage to professionalise the family, as well as the firm. Doing one and not the other will only create tension and possible conflict, especially if outside managers are brought in at executive level. Professionalising the family is much harder, and will take longer, and it's understandable that many family firms are shying away from tackling an issue so fraught with potential conflict. But it cannot be postponed indefinitely. The choice is to do it slowly and painfully, or quickly and painfully. But the rewards will be significant for those who do seize this challenge, while the risks of not doing so will increase with time, especially as it's likely that the failure rate of the family business sector will rise as the pace of change in the wider economy accelerates.

Professionalising the family will ensure that family members become effective owners, whether or not they are actively involved in managing the firm. It will make it possible to reinvent the business, by taking the objective perspective of the informed investor, rather than falling prey to decisions dictated by emotion or history. We have already seen, in the International Group case study, how liberating this approach can be. By professionalising the family, the sector as a whole could reinvent itself, and evolve from a model based on a 'family business' to one driven by a new vision of the 'business family'.

The PwC Family Business Survey: Looking back to 2002, looking forward to 2020

The PwC Family Business Survey: Looking back to 2002, looking forward to 2020

Paul Hennessy is a partner in PwC Ireland, and set up the very first PwC Family Business Survey, in Ireland in 2002. Since then it's grown tenfold from 227 Irish firms, to the nearly 2,400 businesses across the world we surveyed this year. We asked him to reflect on how the survey has evolved in the last twelve years, what conclusions he draws from this year's results, and what the future holds for the family firm worldwide.

You've been involved with the survey since the very beginning, and you've worked with family businesses for even longer than that – how do you see the sector now?

When I look at this year's results, I can see evidence that the sector has really 'grown up' – there's a much greater recognition now that family businesses have to manage the family, as well as the business, if they're to achieve long-term stability and sustainability. There's still work to be done to formalise family governance, in addition to corporate governance, but far more family businesses understand that now, and are starting to do something about it. That's an enormous and positive change in the last ten years.

What was the motivation for the very first survey – how did it all start?

When the team in PwC Ireland first came up with the idea for a Family Business Survey the motivation behind it was simple: we wanted to underline PwC's commitment to family firms, and improve the services we were offering them by gaining a better understanding of their needs. We also wanted to collect better data about a sector that hadn't been studied in a systematic way up till then, and looking back, that's probably why the survey attracted so much interest when the results were published. We were inundated by enquires from the media, academics and family firms themselves, all asking for more detail about what the survey had revealed. We knew straightaway that this had to be a regular event, and that we'd be able to offer even more value by tracking trends over time. By 2006 we were running the survey across Europe, with over 500 family firms taking part in 12 countries. No-one had ever surveyed family firms on the range of issues we were exploring on a Europe-wide basis before, so again this was ground-breaking. And the rest, as they say, is history. By 2008 the survey was international, covering 28 countries worldwide, and now it's genuinely global, with around 40 countries involved this year.

What have we learned about the sector in that time?

As the survey has grown, our understanding of family firms has also grown. We've seen how economic and social change is affecting family firms, from the impact of the recession to the digital revolution and globalisation, and we've explored the specific issues unique to the family business model, like succession planning and resolving conflict. These are issues that affect all family firms, though the survey has brought out some significant and instructive distinctions between markets and cultures across the world. The way family firms operate in the Middle East, for example, is quite different from most other regions. But as well as the big picture, we've also been able to talk in depth to individual businesses. I always find these stories fascinating – for example, the Nuqul Group case study in this year's report has some important points to make about the difference between owning and managing a business, and the International Group story shows what value there can be in defining the family firm in terms of the skills in deploys, not the businesses it owns.

And finally, what does the future hold?

Looking towards 2020, I think the family business sector has a great opportunity to move ahead more decisively. It's much more sophisticated now, and if family firms can earnestly tackle the 'family factors', they will be better placed than ever before to make tough decisions and take full control of the issues they face. Being able to learn from each other is really important here, and the Family Business Survey is one way they can do that – family firms all across the world tell us how much they value the richness of the information the survey is now providing, so it's making a real contribution towards the development of the sector. It's tremendously satisfying, for me, to have helped make that possible.

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