PwC's 11th Global Family Business Survey

Transform to build trust

Family businesses need to adopt new priorities to secure their legacy

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Foreword

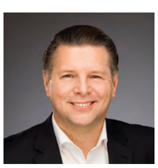
PwC's Family Business Survey 2023 comes at a time of great change. The optimism of a post-covid world has been sorely tested by the geopolitical turmoil caused by the war in Ukraine and its effect on economies around the globe. We live in a world of uncertainty. That's why we focused our survey on trust.

As family business owners, you understand that your success and your advantage over the competition is, first and foremost, built on trust. But today, the very nature of trust has changed. What you told us in our survey is that you need to be trusted not only by your customers but also by your employees, family members and the general public.Digging deeper, we also see that you are struggling to prioritise the things that are fundamental to building trust with all stakeholder groups—including the general public—and you may be missing the opportunity to explain your company's mission, values and impact.

There is a new formula for building trust, and the stakeholder groups you need to be trusted by have expanded.

The good news is that trust can be built systematically. In this first report, we present the results of the survey and describe what constitutes the new trust formula. In subsequent articles, we will look more closely at the three foundational groups that you need to have on your side—your customers, your employees and your family members—and explain how to bridge the trust gap that you have identified, by prioritising what matters most to all your stakeholders.

Our message: transform to build trust. Do that, and there's every reason to believe in a bright future.



Peter Englisch
Global Family Business and EMEA Entrepreneurial
and Private Business Leader, Partner, PwC Germany

A message from the chairman of the Family Business Network International

The Family Business Network (FBN) is thrilled to collaborate with PwC on the 11th annual Global Family Business Survey, which focuses on transparency, an essential ingredient to build trust within and around business families. This year's survey provides tips and tools for family businesses to strengthen that trust, which is one of their unique competitive advantages.

In an increasingly polarised world, family businesses need to adopt new strategies to reinforce the trust premium they have relied on for generations, and they need to play a proactive role in building bridges. At the heart of any family business's DNA is the ability to reconcile family with business, emotions with entrepreneurship. The study provides key insights on how to pursue this important journey:

- The survey findings show the need to work closely with new generations of future owners and establish family governance structures and practices to professionalise the family business. This includes conflict resolution mechanisms to deal with disputes.
- The survey also highlights the importance of reigniting trust with external stakeholders and employees by walking the talk on purpose and values, commitment to ESG, and accountability.

Transparency is key to this, as it has become an increasingly important tool for fighting unethical behaviours and fostering trust. Collectively, family businesses represent 70% of the global economy. They can play a unique role in restoring trust and promoting a more sustainable business model.

We invite you to share the key learnings from this survey widely—with family members, executives and customers—and hope you'll commit to engage in this vital transformation.

Farhad Forbes
Chairman, Family Business Network International

Transform to build trust

Family businesses need to adopt new priorities to secure their legacy.

The notion of how to build trust in business is changing—fundamentally and rapidly. For everyone—including customers and employees—issues like environmental, social and governance (ESG) and diversity, equity and inclusion (DEI) have become litmus tests for trustworthiness. Due to powerful demographic shifts, most of today's customers and employees hail from generations—millennials and gen Z—whose values differ from those of baby boomers. Family businesses, which for years have relied on a trust premium, built up over generations, have been slow to get the message.

At a basic level, the formula for building trust is expanding. Businesses will need to take into account new groups of stakeholders who have different expectations around what builds trust, and who consume information in entirely different ways. When it comes to these new measures for earning trust, family businesses will need to do a much better job of both showing and telling: increasing the visibility of their efforts and communicating them consistently to stakeholders.

These are among the key findings of PwC's Family Business Survey 2023.

Trust has been—and remains—a vital competitive advantage that sets family businesses apart from other companies. The Edelman Trust Barometer confirms that family businesses are trusted more than other businesses: their trust score is 12 percentage points higher than that of businesses in general. Higher levels of trust can result in better performance, as demonstrated by recent PwC research showing a strong correlation between trust and profitability.

Finding ways to protect and nurture that trust premium is essential to achieving the ambitious long-term goals that the survey's participants say they're pursuing:

- 77% expect to grow in the coming two years; 14% expect to grow 'quickly and aggressively.'
- 51% say expanding into new markets is their top priority.

This year's survey of 2,043 family business owners in 82 territories uses a model developed by Sandra J. Sucher, a Harvard Business School professor of management and the author, with Shalene Gupta, of *The Power of Trust*, to assess whether family businesses are doing the right things in today's world to build trust.

The model identifies four pillars of trust: **competence** (is the company good at what it does?), **motive** (whose interests is the company serving?), **means** (is the company using fair means to achieve its goals?) and **impact** (what is the tangible impact the company has, as opposed to the impact it claims to have?). The way the respondents answered questions based on these pillars reveal a disconnect between traditional views about trust and their impact on how family businesses operate today. They also highlight where and how family businesses will need to transform to ensure their legacy.

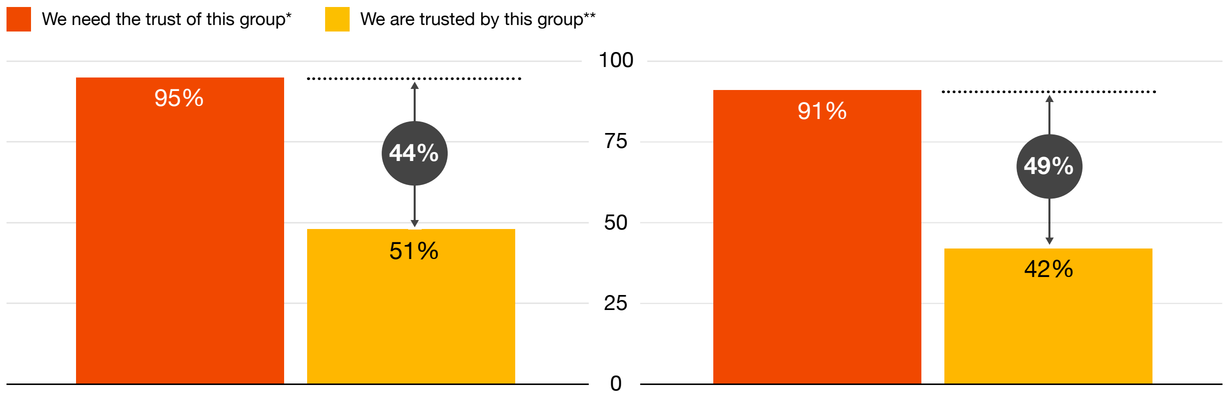
Family businesses know that the trust of customers and family members is essential, but those businesses need to be more proactive in building trust with their wider key stakeholder groups, especially employees and the general public.

> The expectation that business has societal and political responsibilities is now a consensus view.

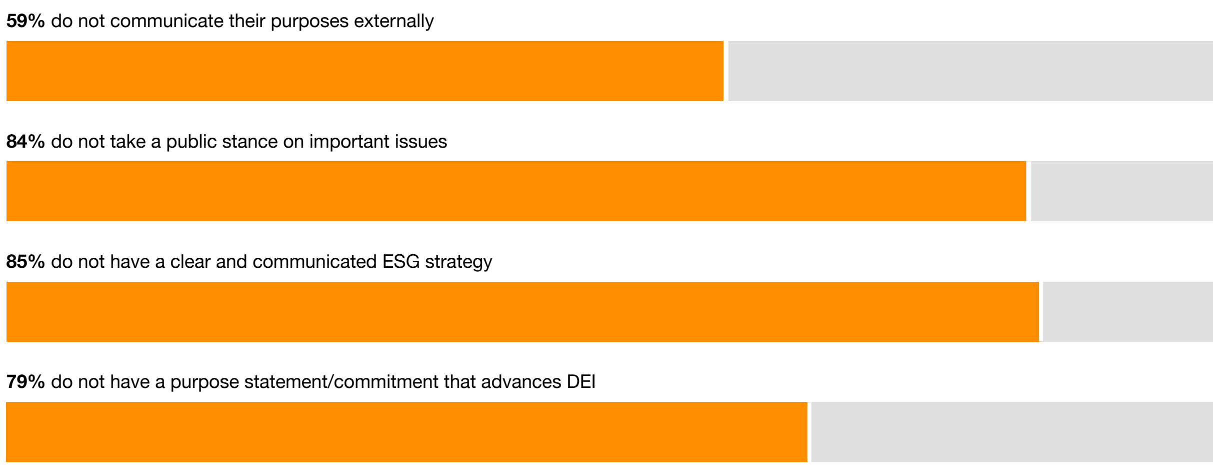
Sandra J. Sucher, professor of management practice at Harvard Business School

Mind the trust gap

Many family businesses say they're not trusted by two crucial stakeholder groups



... and many businesses aren't taking the actions required to build that trust



*Q: How important is it that your company is trusted by these stakeholder groups? (Showing 'essential' and 'very important.')

**Q: Which of these statements do you believe best describes the level of trust the following stakeholder groups have in your company? (Showing 'fully trusted.')

Source: PwC's 2023 Family Business Survey/PwC analysis

The good news is that trust is tangible and can be systematically built. But if family businesses are to protect their trust advantage, it will require transformation—a reality that many business leaders are already acknowledging.

The new formula of trust

Whose trust do we need? The stakeholder groups have expanded:

- Customers
- Employees
- Family

- Public

What do these constituents require to earn trust? Expectations have grown:

- Excellent service/ product
- Brand recognition/ history

- Defined purpose
- Commitment to ESG and DEI
- Transparent and effective communication

What are we using to gain trust? The toolkit has changed:

- Owner's annual report letters
- Website

- Social media
- Speaking out on social issues
- Taking action on commitments

Source: PwC analysis

Of the 4,410 executives participating in PwC's 26th Annual Global CEO Survey, more than 40% believe their company will not be fit for purpose in ten years if it stays on its current course; a similar percentage of the cohort identifying as family business leaders say the same thing.

This means that they will need to change policies and practices, revisit their priorities, and communicate those changes to every stakeholder group and across generations. Our Global NextGen Survey 2022 of family business leaders-in-waiting showed that they are following their parents' lead and prioritising growth over ESG as a means to safeguard their legacy. This business focus will need to expand.

Let's look more closely at what needs to be done to build trust with the three most important stakeholder groups for family businesses: customers, employees and family members.

Research carried out as part of PwC's Global CEO Survey shows that after industry conditions, levels of consumer trust are the next biggest determinant of performance variance. And under the new trust formula, strong ESG credentials are essential. In PwC's 2023 Global Consumer Insights Pulse Survey of more than 9,000 consumers in 25 territories, 70% of respondents said they would be willing to pay more for food produced in an ethical way. In the 2022 edition of the survey, half of consumers said ESG considerations influenced their trust in a company and their decision to recommend it or its brands to others. Gen Z and millennials were substantially more likely to express this opinion.

Capitalising on that kind of trust requires a clear ESG narrative and two-way communication, including channels for customer feedback. And yet, the business owners participating in our 2023 Family Business Survey do not identify ESG issues as a top priority, a circumstance reflected starkly in their responses to key ESG-related questions:

- 15% consider themselves to be ‘very advanced’ on having a clear ESG strategy.
- 67% say they put little or no focus on ESG.
- 19% say minimising the company’s impact on the environment is a priority.
- 20% say reducing their company’s carbon footprint is a priority for the next two years.

A strong ESG strategy should include measurement of performance through non-financial as well as financial targets. Diversity matters to the largest cohort of customers—millennials and gen Z—particularly in countries like the US, where only about half of 18-year-olds identify as white. Family businesses routinely measure growth and customer satisfaction, but fewer than one in ten set targets for DEI, and only one in four do so for social impact.

Although there are global differences on issues like ESG and DEI, in no region do family businesses make them top priorities. In Europe, only 20% of family businesses say they have an ESG statement that is communicated to stakeholders. In North America, a mere 8% do. On DEI, the numbers are only slightly better: in Europe, 27% have a clear purpose statement on DEI; in the US, 18% report having one.

The family businesses that are building trust in these new ways—addressing ESG, DEI and broader public concerns—express more optimism about their prospects. For example, 49% of survey respondents who have a strong focus on attracting and retaining talent (a characteristic suggestive of heightened awareness of DEI, among other factors) predict strong future growth, compared to 40% who were not prioritising these areas.

> Trust is about being clear about what you stand for. Do the right thing first. Deliver on what you say. Family businesses have an enormous differential capacity because people do trust them, and they are not about short-term gain.

Marike Westra, Chief Communications and Sustainability Impact Officer, COFRA Holding AG

Transform to build trust: Employees

Trust is built from the inside out; a company won't be trusted by its customers if it's not trusted by its employees. According to PwC research, companies that actively create opportunities for their employees to build skills have greater earnings resilience and demonstrate a superior ability to attract and retain talent.

Family businesses understand the importance of employee trust. Two-thirds say it is essential. But when looked at more closely, this conviction is not matched by action: 36% say they have little focus on attracting and retaining talent. Ultimately, employee trust depends on three factors:

- **Purpose and values.** This is traditionally where family businesses have excelled—79% say they have a clear purpose, up slightly from when we asked a similar question in the 2018 survey—but the message has not been widely disseminated to stakeholders: only 41% say it's regularly communicated externally.

- **Commitment to ESG.** In PwC's 2022 Global Workforce Hopes and Fears Survey of more than 52,000 workers worldwide, 53% of respondents said it's important that their employer is transparent about the company's impact on the environment, and 54% said it's very important that their employer is transparent about its record on DEI. Yet only 37% of family businesses regularly communicate how they are performing against such non-financial indicators.
- **Accountability.** Creating a structure for accountability that allows employees to speak up about their concerns is a good way to help build trust. Of the family business owners surveyed, 57% said they allow employees to appeal or question management decisions. That means 43% do not. So here, too, there is significant room for improvement.

> If you can't attract and retain talent, you will have no business in the future. So, putting effort and resources now into your employees should be top of mind.

Sir James Wates CBE, Chairman of Wates Group, a UK construction, residential development and property services business

Family business leaders understand the need to have trust between their family members, and 74% believe they have built that trust. But they also say that conflict within the family has a spillover effect on building trust across the wider business. More than one in five respondents say family disagreements are the biggest challenge when building trust with all stakeholders.

Dealing with conflict has never been easy for family businesses. It’s part of an ongoing struggle many have with establishing strong family governance structures. In the 2021 edition of the Family Business Survey, only 15% of respondents said they had conflict resolution mechanisms to deal with family disputes. In this year’s survey, that share is only marginally higher, at 19%. And only 65% of family business leaders say they have formal governance structures in place. This includes shareholder agreements, family constitutions and protocols, and even wills.

Values and ESG are important. Customers are interested in ESG, too, because the generations are changing. Companies should be purpose-driven, and employees and customers should be aware of it.

Günseli Ünlütürk, board member, Sun Tekstil, a textile company in Turkey

This lack of formal governance has an effect on how the business is run and perceived: strong governance reflects a business’s purpose and values. One outward expression of the way family businesses are falling behind on demonstrating their values is the composition of their boards. Only 9% of those surveyed reported having diverse boards, defined as ones that include two or more women, one board member under the age of 40, one non–family member and one from a different sector background.

In fact, 31% of the respondents have no women on the board at all, and 57% have no one under 40. More than a third of the businesses (36%) have boards consisting solely of family members. This is a reflection of the finding that ESG and DEI are low priorities for family businesses. The board composition of many family businesses represents the past, rather than the present, and certainly not the future.

New ways family businesses can transform to build trust

Today's formula for building trust requires a transformative approach, one that may seem unfamiliar to many. The long-held commitment to "giving back" to society through philanthropy will need to be refashioned into well-articulated, observable actions centred around the things that matter most to a broader stakeholder group. First and foremost among those actions:

Establish two-way communication with stakeholders. It's not enough for family businesses to say they have strong ideals. They must model those ideals in their relationships with internal and external stakeholders, starting with a fair internal system for reporting misbehaviour and a clear feedback mechanism for customers. These are visible solutions that will help to build trust.

Build trust through transparency. Family businesses have become used to keeping a low profile and are often reluctant to share details about their business publicly. But transparency is essential to trust. This means regular public reporting of the company's ESG and DEI targets, and its performance against those targets. Chocolate maker Barry Callebaut, for example, is transforming its operating model in an industry that has faced intensive scrutiny over working practices in cocoa-harvesting countries. Its Forever Chocolate sustainability strategy lays out four specific targets for improving the company's social and environmental impact in those countries.

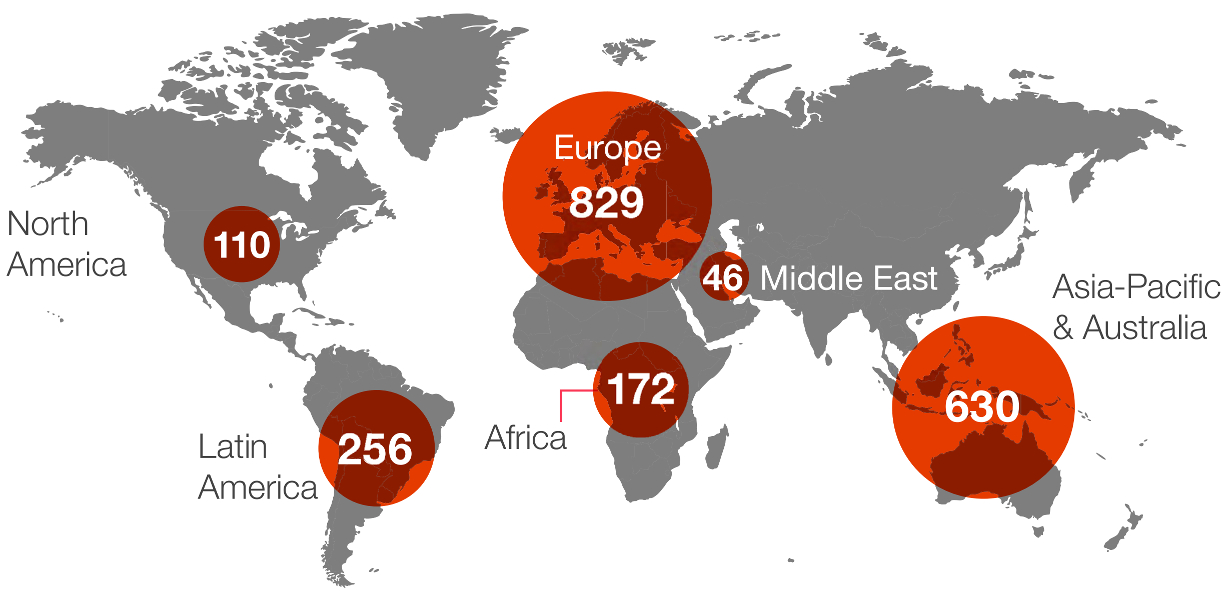
Speak out on social issues. Family businesses are expected to be more vocal, visible and active than before. Public trust matters, and that means showing that you care about what's going on in the world. The materials manufacturer W.L. Gore & Associates, which employs more than 11,000 people, has been especially vocal about its commitment to diversity, touting its achievements on social media and in public announcements—like a 2022 press release announcing the company's inclusion in the Corporate Equality Index, a ranking focusing on LGBTQ+ diversity and inclusion policies and practices.

The message from this year's survey is clear: family businesses not only need to make transformative changes to build trust, they've also got to show and tell—by making their efforts visible and communicating them clearly to their stakeholders. In today's world, that means not just their customers, employees and family members, but also the public at large.

About the Family Business Survey

PwC's Family Business Survey 2023 is an international market survey of family businesses. The goal of the survey is to get an understanding of how family business leaders perceive their companies and the business environment. The survey was conducted online in collaboration with the Family Business Network International (FBN). The survey conducted 2,043 interviews in 82 territories between 20 October 2022 and 22 January 2023.

2,032 interviews conducted globally



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