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In this issue

The best family businesses

*By: **Steve Woodward,** Managing Director, KPMG Enterprise*

Successful family businesses have experienced the challenge of balancing family life with the needs of the business, and have made it work, which is a significant achievement.

The next challenge is what needs to be done in order to cope with the changes that will inevitably happen in both the business and the family. To make the best decisions, you need to know the alternatives to doing what you have done in the past.

Our team of specially trained consultants provide practical ideas and information that will help you to decide how to continue being a successful family business.

The best family businesses… are clear why they want to be in business together

The greatest strength in a successful family business is a clear Shared Purpose among the family that is understood by the other key stakeholders.

The Shared Purpose describes what the family is striving to achieve by being in business together. While the best family businesses prioritise overall financial success of some sort, they often also seek other types of return on investment:

- A desire for the business to continue into the next generation as a family legacy.
- Attachment to the type of business or the place where it is based.
- Attachment to the business brand or logo, especially when this includes the family name.
- A sense of personal identity, pride and self-esteem through involvement in the business.
- Remaining connected as a family through the business as individuals follow their own careers and lifestyles.
- Putting something back into society by creating jobs or through philanthropy.

How KPMG Enterprise can help

Our consulting process will help your family agree if there is a good enough Shared Purpose for them to continue being in business together.

As a result, everyone – owners, leaders, managers and other family members – will know what is expected of them in the future and what they can expect of each other.

The best family businesses… are clear about the roles of family members in the business:

- Do you want family members to create new ventures that will be supported by the business?

- Do you want family owners to be hands-on, in control of managing the business?
- Can you imagine a future where family owners oversee others who run the business for them?
- Are family primarily investors who should seek the best financial return from the business?

These are all potential roles for family members in the business. The best outcome will depend on your Shared Purpose, the talent in your family for these different roles and how you feel about involving non-family in the business. Your decision on these roles will ultimately affect how the business and the family need to be organised in order to continue being successful.

How KPMG Enterprise can help

- We can help you agree on the roles for family that balance the needs of your business and the ability in your family members.
- We can help you decide who can be an owner and what their responsibilities and compensation maybe.
- We can help you decide how family members can get a job in the business or support for new ventures.
- We can help all generations involved in these discussions to decide if the changes that need to happen are good enough for them to move forward as a family in business together.

The best family businesses... are well organised

Successful family businesses are different in many ways, but they have one thing in common. They are all well organised.

There are no best practices that apply to every family business. Some introduce new structures like an owners assembly where the owners meet to make key decisions. They might have a separate family assembly for the family who are not owners to learn about the business and work at maintaining the family glue.

These families could have written policies to cover sensitive areas like ownership, employing family members, paying dividends or family philanthropy.

Other families prefer a more informal approach, where people are trusted to know what to do based on a clear Shared Purpose. These families meet whenever they need to without having a formal gathering. They feel that too much formal governance might weigh them down and make the family business over complicated.

How KPMG Enterprise can help

Deciding how to balance the interests of the future owners, the business and the family is a lot easier after you have agreed why you are in business together (the Shared Purpose) and what roles family will have in the future of the business.

As well as navigating you through the discussions that need to take place, we have the advantage of having worked with a lot of family businesses. They have come from many sectors, been at different generational stages and range from small businesses to large international enterprises.

Combining this experience with the latest research about family businesses makes us confident that we can help you decide how the relationship between your family and the business needs to be governed in the future.

The best family businesses… sometimes sell and move on

There is a lot of positive comment about how long some families continue in business together, which we celebrate as much as anyone. However, sometimes selling the family business can be the right decision.

The family could have lost their passion for the business and concluded that they do not have a Shared Purpose that motivates them to remain in business together. They might have received a great offer to sell the business or concluded that this is the best way to resolve family discord in relation to the business.

Selling a family business is always a commercial and technical matter and sometimes it can be emotionally challenging. Having the right help will be key to getting the best deal, overall.

How KPMG Enterprise can help

- We can help you to decide the best time to sell.
- We can value the business and market it for sale.
- We can help you identify the other non-negotiables about sale that matter to your family.
- We can carry out diligence on the purchaser to make sure that you can trust them.
- We can advise on forming a working party to negotiate on behalf of all the family owners.
- We can discuss with you what the family will do after the sale and help you avoid the risk of seller's remorse.

This service combines our deep appreciation of family businesses with the range of financial, commercial and tax services that are needed to achieve the best deal and the type of successful future for your family that lies beyond the deal.

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Fear of the family office

By: **Catherine Grum**, *Head of Family Office*, *KPMG Enterprise, UK*

Many families stumble into family office setups or avoid them altogether.

A family office is a concept rather than a specific structure. It can therefore take many forms:

- The FD or another employee of the family business helping with personal investments.
- A member of the family taking full-time responsibility for the family's assets.
- A trusted adviser becoming directly employed by the family to help manage things.
- Hiring a team of specialistic organised through a complex legal structure.

Since the financial crisis, many commentators have reported that family offices of both the single and multiple variety are on the increase. A quick comparison of the Sunday Times Rich List 2015 and the FTSE 250 reveals that there is wealth in private hands that exceeds all but the top 35 companies. In December 2015, Glencore sat in 36th in the FTSE 250 with a market capitalisation of £12.35 billion, while Len Blavatnik topped the 2015 Rich List with a personal fortune estimated at £13.17 billion.

The companies making up the FTSE 250 employ tens of thousands and have sophisticated in-house teams managing their finances. Many families, despite the relative size of their wealth, do not. It is not uncommon to come across a family where the FD of the family business has become a quasi-investment adviser for the family's personal investments and the CEO's personal assistant is an expert on completing personal tax returns.

While some of the personal wealth of those occupying the top spots on the Rich List derives from share holdings in listed companies, there is still a huge amount of wealth sitting outside of this. The question is, why isn't this structured inside of a family office? What exactly are they afraid of?

In many cases the answer is costs, and it seems they have plenty to fear in this regard. It does not take much for family office costs to start to spiral, and even a relatively small team of in-house experts can cost a family over £1 million a year. Recent surveys accord

with our own experience here. In some cases, larger family offices (ones with complex structures that employ teams of investment professionals in multiple locations), seemingly replicating a small private bank, can cost tens of millions more.

There are also the operational risks to bear in mind. When you take on everything in-house, the buck stops with you. How do you ensure that the family office is properly run and appropriate governance put in place? How do you measure its performance? What about employment and regulatory responsibilities? It is perhaps no wonder that cyber-security often gets put on the too-difficult list.

Regulatory requirements in particular are sometimes missed by family offices, mostly in the investment area. Family office staff should, as a general rule, be FCA-qualified and regulated if they are doing any of the following 'by way of a business':

- Managing investment assets belonging to another person where the management involves the exercise of discretion;
- Providing advice to an investor (or potential investor) on the merits of buying or selling investments;
- Arranging for investments to be bought and sold;
- Managing (or operating) an investment fund;
- Dealing in investments as principal or agent.

The penalties for breaking the rules can be very severe. There are certain exemptions, but if a family office has any doubts it should of course seek advice.

So, is there an alternative approach? The answer is yes. When you start to strip it back, a family office is not a specific structure but the concept of professionalising a family's personal affairs. It doesn't necessarily require a complex series of legal structures and a significant team in-house. It doesn't need to employ an expert on every topic to be of assistance. A poster on the kitchen wall of one family office sums this up neatly: a good family office is an addition of value – not an addition of cost.

One reason cost is hard to control is that many family offices come into being almost by accident, without a great degree of conscious thought. First you might ask the family's lawyer or accountant to take on a more formal role, then bring in someone to help with the investments, then assistants to help with admin. It can be like going to sleep dreaming of a little help around the house, only to wake up and find you have employed the entire cast of *Downton Abbey*!

The starting point for anyone thinking about establishing a family office should be to ask what they are trying to achieve. Having a clear set of objectives goes a long way when it then comes to deciding what is required in terms of staff and structure, if indeed a family office is required at all. For many, a multi-family office or even simply a strong team of professional advisors can be just as good.

Some common objectives for creating a family office include keeping control of the family's information and retaining as much privacy as possible. Others are additional expertise to manage an increasingly complex set of assets, creating an enterprise that will give the family some focus and preserve the wealth for generations to come (often following the sale of a family business), relieving the administration burden on family members, supporting the family's philanthropic endeavors, combining the family's capital and enabling further wealth creation using greater scale and purchasing power. However, many family offices (and therefore the costs) seem to grow as much out of a desire to 'keep up with the Joneses' as anything else, thereby losing sight of the original rationale along the way.

Once you have an understanding of the key objectives, you can identify those elements that are really needed in-house. For those selected as in-house functions, the question is then whether active management is required or whether the objectives could be met by someone performing more of a supervisory role. Consider outsourcing the rest. This gives you greater flexibility and, by identifying a few key relationships to work with, you can then leverage these and draw on their experience with other clients.

Family offices can also use technology to their advantage here, too. In the past few years we have seen the implementation of cloud-based software for accounting and bookkeeping as well as reporting tools and asset management systems.

It's not too late if you already have something up and running. We are increasingly seeing requests from families to conduct what are effectively non-statutory audits of their family office setups, covering processes, systems and controls. Another common question is whether their old 'special purpose vehicles', set up every time they made an acquisition, are still fit for purpose.

Ultimately, it seems that there may not be as much to fear from family offices as first thought. If you are thinking about this as something that might help your family, identify what the essentials are and what the nice-to-haves are before you start to build. If you already have something up and running but have some nagging questions as to whether it is adding value and not simply costs, it is never too late to take a step back and have it reviewed. Unless you live somewhere like *Downton Abbey*, you may not need butlers and foot men, cooks and maids, but that does not mean you cannot employ any help at all.

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KPMG Enterprise

Your Business Matters

KPMG Enterprise is devoted to your business. We will even help you with public relations.

KPMG Enterprise believes that performance is not only measured by the service provided, but also by how well we understand our clients' business and their needs. We go to great lengths to engage with your business in order to deliver clear customised solutions to our broad spectrum of Bermuda clients.

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Enduring across generations

How Boards Drive Value in Family-Owned Businesses

*By: **Stephen Warren,** Manager, KPMG Enterprise*

Vision. Passion. Single-minded focus and dedication.

There is nothing quite like the entrepreneurial spirit that sparks the launch—and spurs the growth—of a family business. The combination of performance, profit, and family pride can be a powerful force in driving founders and owners to build great businesses and valued brands. But family businesses that endure across generations tend to have an added edge: a great board.

Strong governance plays a critical role in positioning a family business for the future. From helping to define and calibrate the strategy, grooming future leaders, and navigating (often thorny) family dynamics, to bringing independent perspectives into the boardroom dialogue, an effective board can be an invaluable asset to the business—(i.e., the family/owners, investors, employees, and customers).

Much of what has been written about family businesses is based on survey findings (and related analyses) and formal recommendations for governance practices and structures; and while those resources are helpful, as one director told us, "a real-life story is worth a thousand data points." To that end, this article goes beyond the "what," and delves into the "why and how" of family-business governance.

Drawing on our experiences working with hundreds of family businesses around the world—as owners, board members, executives, and advisors—we bring together a body of practical suggestions and insights into building and leveraging a high-performance board—from board composition, information flow, and independence, to cultivating and motivating talent, and focusing on strategy and risk.

Of course, every family business is unique; but the insights shared here can go a long way toward helping any family business tap into the full value of the board, and position the company to thrive and endure across generations.

Keys to an effective family business board

A family business board's effectiveness depends on getting "the basics" of good governance right (i.e., good process, clear roles and responsibilities, information flow); but these identified other factors that distinguish highly effective boards and individual directors from others.

A family business board is only as strong as its weakest link. For this reason, every member of the board—family member or independent director—should be sharply focused on his or her effectiveness. This goes well beyond "good governance" on paper – following procedure, adhering to bylaws, and "box checking." Board effectiveness is about directors being committed, prepared, and engaged, not only during board meetings, but throughout the year. What are board members seeing or hearing that could significantly enhance management's view of the business environment? How is the business perceived externally? Are there areas of focus that have slipped over the years? Has there been a management or ownership

transition? For family businesses in particular, directors may want to be mindful of nuanced shifts in the company's reputation or standing in the community. Is enough time spent listening outside of the boardroom, getting out in the field, meeting with key customers, and evaluating reputational issues to help the company understand the many lenses through which it is viewed?

Boards are most effective when they focus on the hard issues. As a board member, sometimes you have to be the instigator, and then the chief architect, and then the monitor. This is where understanding the family dynamics can be critical.

Of course, family members on the board also need to be prepared to confront the hard issues. Family members sometimes meet prior to the board meeting to discuss the items on the agenda so that, united or divided, the board discussion considers the agenda item in a way that's businesslike and not emotional. By airing opinions and differences within the family council first, the discussions can be rounded a little bit, and then in the boardroom, points of view including differences of opinion, can be discussed neutrally and objectively.

Beyond effectiveness—sightlines

Family boards—public or private—have to deal with an element of deep personal relationships, within the board, among shareholders, in management, and even rank-and-file, that non-family boards don't often have to handle. Working within, through, and around that family dynamic can make several core trappings of board effectiveness that much more difficult in a family setting.

While the law of the land (whichever land that may be) usually establishes the core expectations of the board including the duties of care and loyalty, boards are most effective when they go beyond the core and provide the company with oversight, insight, and foresight to move the company forward.

Oversight – Assurance that the company is operating with acceptable levels of strategic, financial, operational, and legal risk.

Insight – Asking probing questions, challenging assumptions, and bringing in an outside perspective.

Foresight – Focusing on the future, both risks and opportunities.

Translating these three "sights" to governance is critical for maintaining and enhancing the value of family businesses, keeping them nimble in competitive markets.

Moving the company forward: collaboration on strategy

The complex, volatile, and uncertain business environment of today, characterised by globalisation, new technologies, and upstart competitors, makes the board's role in strategy more critical than ever. As executives and directors of successful companies know, factors to be considered in developing a robust strategy include the business's goals, the current business environment, and the rate at which it may change, potential disruptors including technology, competition, socioeconomic and geopolitical forces, financial considerations, customer needs, and the broad range of other factors that may impact the business over the next five to ten years. Management, with the oversight and guidance of the board, weighs the proposed strategy against potential alternatives, tests underlying assumptions, and considers whether the business's financial resources, capabilities, and culture will enable successful implementation.

And because strategies are not fine wines, there is little benefit in keeping them stored untouched for long periods of time. Strategic planning and implementation benefit from a vigilant board that brings an external lens on an ongoing basis. The report of the NACD Blue Ribbon Commission on Strategy, released October 2014, proposes a framework for deep board engagement in strategy—from formulation, monitoring execution, testing the continuing validity of assumptions to recalibrating strategy throughout the year—and serves as a good benchmark against which to measure the board.

In family businesses, not only the business environment but the family situation should be top of mind. Generational shifts may spur changes in company strategy; for example, the next generation may look to pursue a path that is more socially responsible or makes better use of technology, and experienced directors can help the new generation anticipate and prepare to address the full range of changes—touching the supply chain, customers, organisation, and possibly the community—needed to successfully transition to a new strategy.

Keeping the company healthy: oversight of risk

An overly aggressive company can overshoot, over leverage, and overpromise. An overly conservative company can become captured by the status quo and drift slowly toward irrelevance. The key is to appropriately balance risk with potential reward. These discussions are woven into the fabric of the board's review of strategy and significant decisions, e.g., how much debt to incur, whether to make an acquisition, the extent to which to hedge against currency exchange fluctuation, etc. The board can help the business strike the right balance, as well as define the risks that the company will not take (such as legal compliance); and also oversee establishment and implementation of processes that enable management to identify, prevent, detect, and manage risk.

As businesses grow and mature, they move by necessity from informal practices to more formal processes. Are there appropriate controls over financial reporting? How does the company ensure legal compliance? How does management prevent, identify, and respond to inappropriate conduct such as fraud or corruption? Does the executive team, including the CEO, set a strong tone that the company will operate with integrity? Do employees feel comfortable raising concerns? Does the board have visibility to the risks and access to information that will enable it to provide strong oversight?

Be alert for conflicts of interest

A director's role on a board is to use his or her best judgment to act in the long-term interests of the company and its owners. In this regard, family boards should not be run any differently than non-family boards. In many countries this is a legal obligation, often known as the duties of care and loyalty. Even directors elected to represent a specific set of shareholders undertake a fiduciary obligation to act in the interests of the whole, whether the company is public or private, whether the shareholders represent different family branches, different families engaged in business together, or a mix of family and non-family investors.

Potential conflicts of interest not only occur frequently but often the potential for conflict is not obvious: You have to have your antennae out constantly because conflicts of interest can occur without those involved even being aware of the issue. There may be decisions that will benefit one owner at the expense of another. Family owners may prefer to do business with people they know, such as an in-law, a close friend, or even the family member's own side business, even if they charge more than others. A family member may have a personal interest in receiving payment of dividends at a certain level – and this may not be in the best long-term interest of the business.

Directors must be alert for potential conflicts of interest and be prepared to navigate them. Local groups that counsel family businesses may be able to help directors identify and watch out for any specific conflict concerns that may be common in their region or industry.

Family businesses in particular may be at risk of 'boiling frog syndrome'—while a frog placed in boiling water will immediately jump out, a frog placed in water that is heated gradually will not notice the temperature change until it is too late. As a business grows, it may not be obvious that the risk profile has changed, until something happens. This is particularly relevant to family-owned businesses that are rooted in a community. Not only does the family grow up with the business, but the organisation may be built on employees who have only worked for the company, along with their parents and grandparents. Clearly, there can be strong advantages, but there is also risk—whether it is that these employees can't help management identify a risk because they are also too close or that an untrustworthy employee is given too much benefit of the doubt, either instance can lead to problems.

Whatever the risk—strategic, financial, operational, compliance—independent-minded directors who see the risks through an external lens can push the conversation, even to uncomfortable levels, as needed. Have the right risks been contemplated? Is there a realistic view of the company's ability to manage the relevant risk? Are the right controls in place? Here, a true outsider—strong and resolute—can make all the difference. You need someone on the board who will say 'Wait a minute, have you thought about this? Hold on—hang on. Here are all the risks.' It just gives balance.

Checklist: keys to board effectiveness

- Understand directors' duties of loyalty and care and the best practices that have been established for boards of public companies, and regardless of whether the company is public or private, apply them where they make sense.
- Recognise that every director must act in the interests of the company and owners as a whole, even if he or she was elected by a subset of the owners.
- Dig deep when it comes to oversight of strategic planning. Work collaboratively with management to understand the drivers of long-term value, challenge assumptions, stay ahead of disruptive forces, and strike the right balance between risk and potential reward.
- Don't limit strategy oversight to the planning phase. Ensure talent and resources are aligned to the strategy, monitor implementation, look for changes that impact key assumptions, and be ready to provide guidance that will help management make adjustments in real time when changes in the business environment dictate.
- Hold management accountable for performance and serve as a mentor as needed.
- Look to see if management appropriately identifies and manages strategic, financial, operational and compliance risk as part of the company's way of doing business, and if not, push for the company to implement enterprise risk management (ERM).
- Oversee each of the company's top risks. Discuss them as part of the board/committee agenda. And don't forget about cyber risk; it's becoming a top risk for every company.
- Push for appropriate controls to prevent and detect potential fraud, theft, legal or regulatory noncompliance, and conflicts of interest.
- Keep up with the speed of change, and don't allow the company—or the board—to become complacent.

Governance provides an edge for family businesses—roles are clear; decisions are made objectively; and the various stakeholders work together to ensure healthy growth of the business over the long term. A top performing board is a critical piece of the equation. Service on a strong family board—whether for a family member or an independent director—can be extraordinarily satisfying. This report has offered insights, considerations, and practical recommendations—focusing on the key areas of governance enablers, board composition, board effectiveness, and talent.

In our experience, solid governance rests on a foundation of clear roles and responsibilities, an organisation in which there is a strong culture— with alignment of the company's vision and deeply held values—as well as open communication. The skills that are needed to successfully guide the business over the next five to ten years should be the touch point when new board members are recruited—and those skills are likely to include emotional intelligence as well as critical knowledge and experience in areas such as strategy, finance, and human resources. Board effectiveness requires preparation, engagement, and directors who don't hesitate to speak their minds and challenge management and the family—constructively. With regard to talent, outstanding directors find ways to have tough discussions about succession, align compensation to strategy, and insist on performance while serving as coaches and mentors for the next generation.

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Caribbean Infrastructure Forum

Date: 11-12, December 2017

Location: Hilton Rose Hall Resort & Spa,

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We hope you will join us on 11-12, December, 2017 in Montego Bay,Jamaica to discuss how Public Private Partnerships can fill the infrastructure gap in the Caribbean, share lessons learned and network with regional and international counterparts.

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KPMG

Financing family business growth through individual investors

By: ***Felicia Govender,*** *Director, KPMG Enterprise*

While family businesses have the unique characteristics of a family, they, like other companies are often in search of financing to propel growth. As a family grows and changes, the family business must also evolve to accommodate changing family dynamics. The future of the family members, maintaining the independent nature of the family business and the preservation of family unity depend on the growth of the family business and its capacity to generate sufficient profit for all its members. The number of people who live off of the family business revenue increases generation after generation. The future of the family and its unity are more likely to be key priorities of a family business in comparison to other companies, which brings additional pressure for growth that needs to be addressed.

To increase profit and accelerate growth, a business requires strong financing. Access to capital post global financial crisis is not always easy and finding financing can be very difficult for a business, especially a family business. A key differentiator between family businesses and other companies is the fact that the majority of family businesses view maintaining control over their company as a key success factor, which can make financing options even more limited.

Some family businesses may look to private equity or corporate strategic partners, but such financing options limit or reduce control for the family business owner. This strong desire of family businesses to retain majority ownership creates the opportunity for high-net-worth individuals (HNWIs) to play a role in bridging the funding gap via partnering.

By tapping into this HNWI group, family businesses can access investors that are more willing to accept a minority stake in the business. Not only can HNWIs provide a source of funding, they can also provide insights that can benefit the business beyond funding. This article examines sources of funding for family businesses, and takes a deep dive into the synergies between HNWIs and family businesses. Mergermarket on behalf of KPMG International surveyed 125 family businesses and 125 HNWIs and asked them about the funding investments they are seeking, the respective investors they work with and their previous experience with HNWIs or family businesses. Our report explores the relationship between family businesses and HNWIs and outlines how the gap can be bridged between the two groups to produce a lasting and productive relationship. In KPMG member firms' experience, there are key considerations for both sides in order to effectively seek out, solidify and maintain a productive relationship between HNWIs and family businesses. We believe that despite these challenges, family businesses and HNWIs can make excellent business partners. Our survey echoes this opinion and offers insights for both HNWIs and family businesses who are embarking on this journey.

Family businesses are a major force in the global economy. According to the Family Firm Institute, they create more than 70% of global GDP. Yet, they share a number of characteristics that set them apart from other companies. These attributes include a strong desire among family owners to retain control of the business, an emphasis on managing the company with longevity in mind (as a legacy to preserve for future

Family businesses create more than 70% of the global GDP.

generations); and a desire for business information to remain confidential. KPMG's European Family Business Barometer, published in June 2014, found that 87% of businesses indicated maintaining control was a key success factor – an increase of 15% on the previous year.

As a result, many family businesses walk a fine line between successfully attracting funding, and monitoring the impact this may have on the family's control of the business and its information.

The issue of maintaining control and independence imposes limits on the possible routes for family business financing, including private trade sales, initial public offerings (IPOs) and private equity (PE).

In emerging markets, a 2012 Bain & Co PE report found that minority investments in family businesses by PE firms are common due to the developing nature of these markets. An earlier KPMG report on India's post-financial crisis PE market re-iterated this trend, stating that the desire of a family business to retain control was just one of the factors encouraging minority-stake deals, rather than buyouts. This has happened in recent years in the developed world too (according to Preqin, as many as 40% of PE investments in the US were minority deals in 2013). However, when PE firms decide to exit, problems may arise, as the entire business often needs to be sold to maximise value – making them unsuitable partners in many cases.

Corporate strategic partners are another option, although these investors are likely to see any investment as part of a longer-term plan to secure full control. As a result of these limitations, family businesses may not be maximising their growth potential. The amount of capital available through traditional non-equity sources, such as bank debt, may not match the number of high-quality opportunities available to them. Indeed, since the crisis, the availability of bank debt has shrunk markedly. In the UK, for example, the Bank of England's quarterly Trends in Lending report for April 2014 found that lending to UK businesses has contracted year-on-year since 2009. Similarly, a 2014 KPMG and CGPME (Confédération Générale des Petites et Moyennes Entreprises) barometer on access to credit and finance for SMEs in France revealed decreases in credit and financing availability from banks by 45%. Yet there may be investors in the market that would be better suited to family businesses. One possibly underutilised route for investment is the involvement of HNWIs, many of which have family business experience. These investors are more willing to accept minority stakes, without ambitions to secure full control or a full sale in the future. They are also likely to have experience relevant to the family businesses they are investing in and may have a similar attitude in terms of investment time frames and attitude to risk.

The survey explored how family businesses and HNWIs can work together to better capitalise on these growth opportunities. To achieve this, we surveyed family businesses about the type of investment they require, their investors of choice, and their previous experience of receiving investment from HNWIs or other family businesses. We also surveyed HNWIs about their investment strategy and how this might align with family businesses.

We conclude by exploring how the gaps between the two sides can be bridged. While there are challenges on both sides, the survey reveals that both parties have an appetite for investment and could prove to be highly compatible partners. The survey also identifies steps which can be taken to improve the efficiency of this underutilised capital market.

Family business findings

1. **Retaining majority ownership is important for family businesses.** More than three-quarters (76%) of those surveyed say that family members retain a majority share of the business. In addition, the vast majority of family owners are unwilling to sell the business or relinquish control over it. The prevailing view is the business is highly important to all family members and should be managed with longevity in mind.

2. **Nevertheless, many family businesses recognise the importance of external influence and the value of independent board members.** Around half of those surveyed say that more than 50% of their governance board is composed of non-family members.

3. **Like all companies, family businesses need finance.** Fifty-eight percent of those surveyed are currently seeking external financing to fund their business development plans. Expansion is the priority for most in both the short term and the long term. The short-term focus is on organic growth in existing markets, but over the long term, the more ambitious strategies of acquisitions and expansion into new geographical markets are the main focus. To fund this expansion, family firms are often willing to offer equity, as long as they can maintain a controlling position and their strategic independence. Nearly half (42%) of family businesses have previously raised financing from HNWIs, however, comments suggest that the majority of HNWIs in these instances are close friends or relatives of the family business owners. Of those that have sourced financing from HNWIs, the overwhelming majority (92%) say that this has been a positive experience in comparison to financing from other sources. However, many say that attracting this type of investment is challenging because of a lack of availability and difficulties finding a partner.

4. **HNWIs generally self-manage a large proportion of their investments.** Nearly three-quarters (72%) take responsibility for half or more of their investments. In addition, 61% say their investments are solely self-managed, or mostly self-managed, with experts

consulted when needed. Only 25% manage their investments through a family office.

5. **The majority (60%) of HNWIs are looking for investments with reasonable risks and reasonable returns...**
   ...and are focused on long-term capital appreciation. Both of these traits are well matched by investing in family businesses. Nearly half (44%) of HNWIs have previously invested in a family business and the vast majority (95%) say that it has been a positive experience in comparison to their other investments.

6. **The main factor that would deter HNWIs from investing in family businesses is the possibility of conflict among investee family members.**
   Apart from this, the main reason given for not making more of these types of investments is a lack of availability and limited information on the opportunities.

HNWIs are happy to be involved and offer their advice, which is a trait that many family businesses are looking for. They would often like to have an equity stake, which (in some cases) could be a barrier to investment, although nearly half of family businesses say that they would offer equity given the right circumstances.

Key findings

The survey results show HNWIs and family businesses are a good match for each other and the experience can be overwhelmingly positive on both sides. As a result, there is real opportunity for a greater number of partnerships. However, this can only happen if the respective parties can find ways to connect and communicate more effectively. They will also need to find mechanisms to manage the possible dilution of control and the preservation of independence. To increase the investment rate and collaboration between the two sides, family businesses need a way of advertising their financing needs, while keeping their business details confidential.

Our survey finds that:

Family businesses can provide HNWIs with:

- Sustainable business investment opportunities: family members rely on the business and have their reputation invested in its success with a reasonable level of risk and good capital security;
- Opportunities for growth;
- Chances to contribute advice and expertise and have a say in the companies' future developments; and
- Personalised touches and long-term relationships.

HNWIs are appreciated as investors by family business as they are:

- Patient investors that take a long-term view;
- Not focused on a rapid exit strategy;
- Trusted partners who can treat information with discretion and have lower reporting requirements and more flexibility than other sources of finance;
- Often people with family business experience, as the majority have earned their wealth through family businesses; and
- High-level experts, who will make judgements based on an overall view of the business rather than focusing on details.

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Who controls the family business?

*By: **Jamie-Lee Wright,** Manager, KPMG Enterprise*

Family control and leadership are an integral part of family businesses globally. Many of these businesses have been built by successive generations and families therefore wish to maintain strong links through majority ownership and taking day-to-day management roles within their companies. However, most families also recognise the need for outside influence and some degree of independence in the running of their businesses. They therefore tend to balance heavy family involvement by building boards at least partly comprised of non-family members.

Families in control

Mergermarket on behalf of KPMG International, surveyed 125 family businesses and more than three-quarters of survey respondents (76%) say that the family holds a majority stake in the business. This includes 42% that own 100% of their company, giving family members ultimate control over company direction (Figure 1).

In addition, the family plays a dominant role in management teams: in 71% of cases, the CEO is a family member across the sample (Figure 2). However, there is some variation by size: while the majority of small and medium-sized family businesses has a family CEO in place, larger businesses are less likely to have a family member as CEO.

Family involvement appears to be led by a sense of shared values and the business' importance to the family over the long term. In some instances, involvement in the business also serves as a rite of passage for family members. "We are very emotionally attached to our family business as we have been in operation for decades now," says one family member CEO of an Australian business. "Family members are positioned in both top management and at different levels based on their interests and skills. Our business serves all our family members and we have recently been recruiting the younger generation, helping them to gain the right knowledge as they volunteer their time to help the business succeed."

Adding expertise and independence

Many family businesses recognise the need to bring in outside expertise and talent at senior levels and they understand the importance of checks and balances that independent, non-family members can provide to their company. A South African family-member CEO says: "We will welcome new board members to share inputs and drive business decisions based on their knowledge and perception." The board of directors plays a vital balancing role in many businesses, with 52% of companies saying that less than half or none of the board is made up of family members (Figure 3). Only a tenth of family businesses had a board comprised entirely of family members. In addition, half of the firms say they have a formal governance structure with a board of directors (Figure 4, overleaf). The other half had a less formal structure, although 20% use an advisory board structure to provide some level of independent input to the company.

Formal governance prevalent in large companies

As might be expected, given the need for more professionalised systems and procedures in bigger and more complex companies, the larger family businesses are most likely to have a formal board of directors. Over four-fifths (84%) of companies with revenues of between US$200 million and US$1 billion have a board of directors. Meanwhile, only 11% of companies with revenues of between US$20 million and US$50 million have a board of directors, with 13% of these smaller businesses using family councils to reach strategic and operational decisions (Figure 4 – turnover). In larger companies, the board is also more likely to have a higher number of independent members, reflecting the need for more outside expertise and stronger corporate governance as companies mature.

Emerging markets lead in formal governance

Interestingly, there is a large variation according to the stage of economic development of the markets in which these companies operate. Family businesses in emerging markets are more likely to have a formal board of directors than those in developed markets. Two-thirds of emerging markets businesses have a formal structure with a board of directors, with a further 11% using advisory boards; in North America, just half have a board of directors, while the proportion was lower still in developed markets across Europe and the Asia-Pacific region (Figure 4 – region).

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FIGURE 1

What proportion of the company is owned by family members?

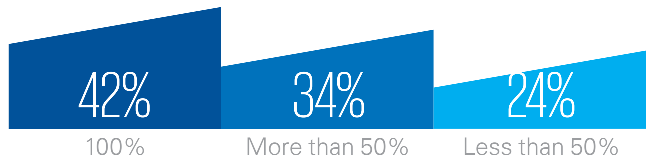


FIGURE 2

Is the CEO of the business a member of the family?

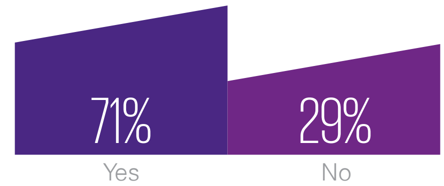


FIGURE 3

What proportion of the board of directors is made up of family members?

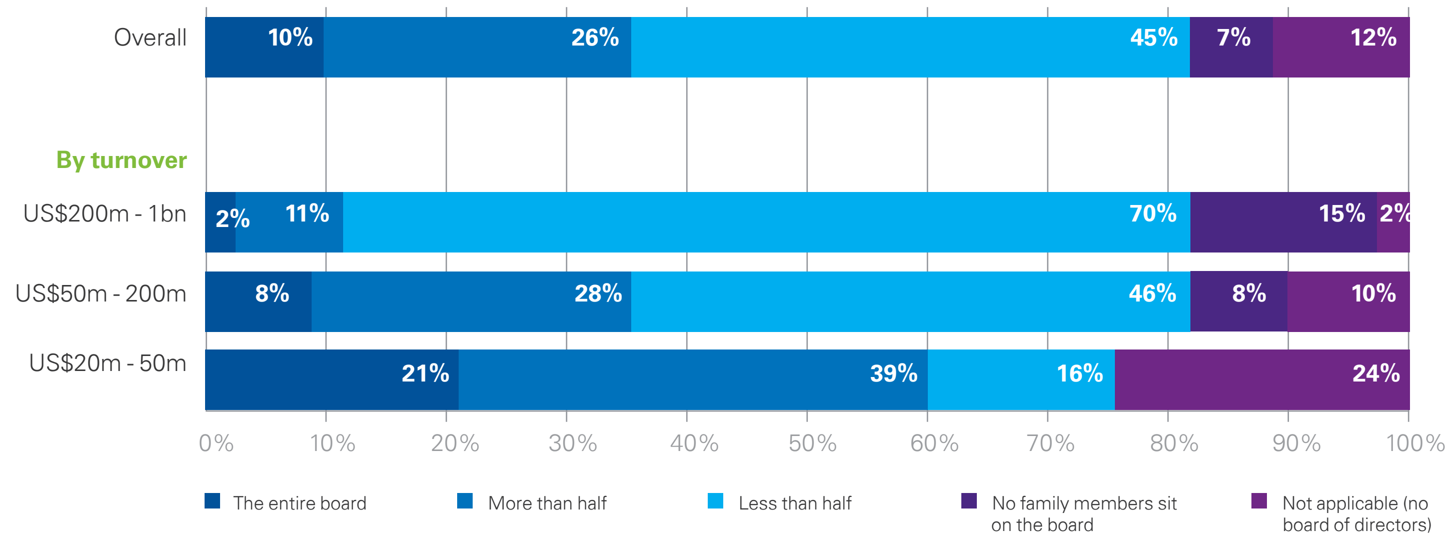
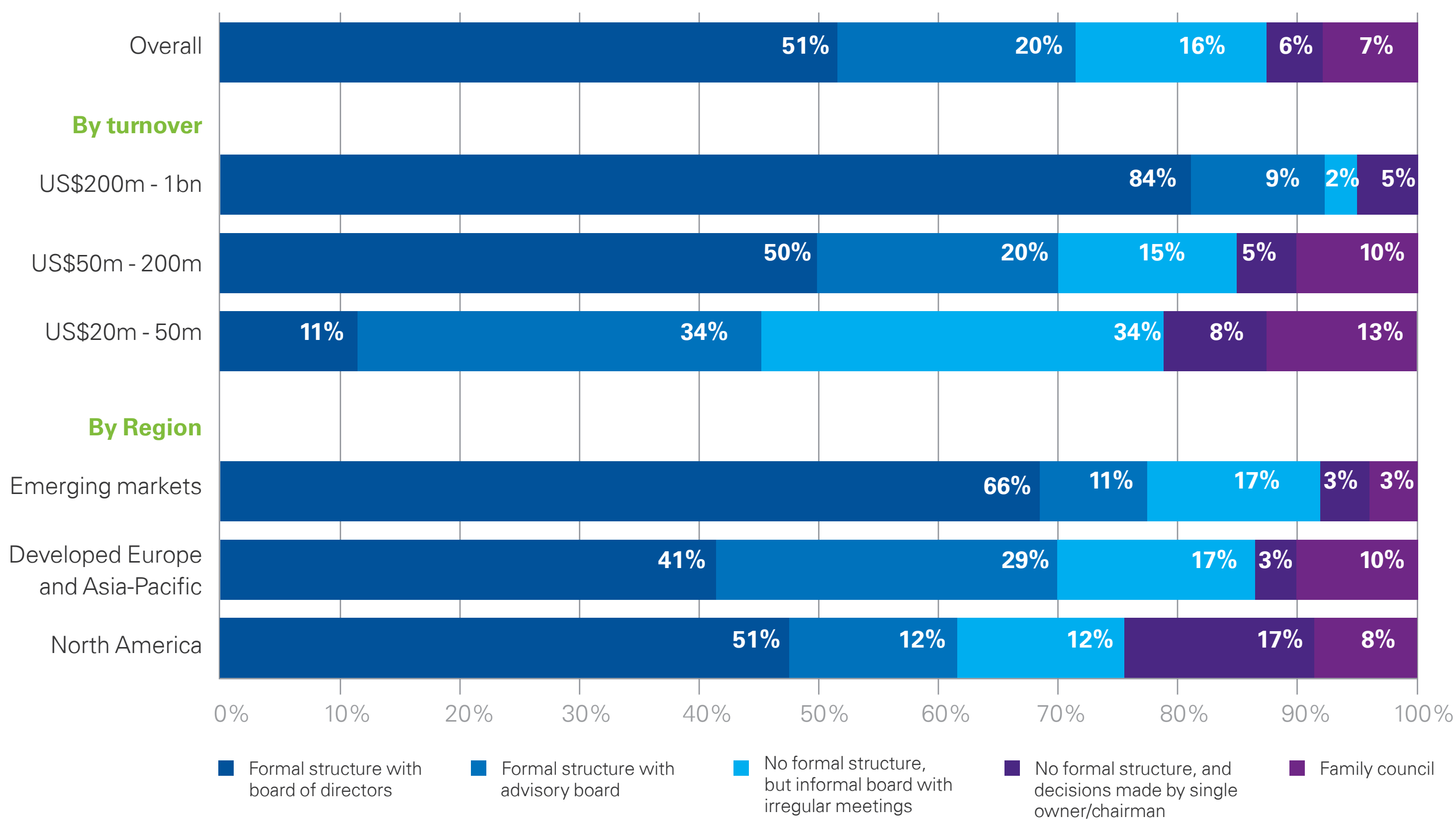


FIGURE 4

Please select the option that best describes your governance structure:



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