KPMG

# Family Pictures

## A Panorama of the Background and Outlook of Brazilian Family Businesses

2017 Survey- 2nd edition

**KPMG Board Leadership Center**
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“It is essential to have a clear distinction between the roles of shareholder, family and business. We have held forums in order to deal with company problems with the Board of Directors, discussing topics of interest to shareholders and family issues, such as integration, training the new generation and values. Another essential problem is to make the Board of Directors independent, with persons endowed with visions different from those of controllers.”

**Ricardo Setubal, Itaúsa**

“Our governance model is well defined, which leads us to have a clear view of the roles and responsibilities between the different family, property and business structures. Furthermore, the Family Council mandate defines our strategies and targets. Each structure has a specific dynamic that should be complied with. We prepared ourselves during generations for this interaction to occur with respect in connection with relations of power and decision, and with harmony regarding issues of ties and perpetuating a united family. However, this is a live process, in which rules and criteria are reviewed at each transition moment.”

**Regina Scripilliti Velloso, Votorantim Group**

“I consider succession and leadership as key challenges in a family business - both aspects are interconnected and are potential sources of conflicts in family businesses. It is important to make it very clear how the succession procedure will take place between generations, and the formation of leaderships within the family. Every family member should make efforts to align expectations and to make clear actions that will give rise to new leaderships. Members of the new generation should form part of building these stages, for the succession as well as for developing new leaderships, bearing in mind competencies required for business strategies.”

**Rafael Battistella, Battistella Administração e Participações**

Following up on KPMG's series of technical publications on family businesses, we are pleased to present the second edition of "Family Portraits", a survey conducted with the support of the ACI Institute and KPMG's Board Leadership Center, aimed at consolidating and analyzing information provided by the businesses included in the survey, in order to provide interested parties with a panorama of the businesses' profiles, backgrounds, views on the country's political and economic environment, governance structures and future outlooks, and to provide members of these closely held companies with benchmarks in governance practices of such organizations.

In this second edition we were able to make comparisons with results of the previous survey, identifying trends, and were also able to draw parallels with the publication's European version, the "European Family Business Barometer – Successful & Resilient", now in its fifth edition and headed by KPMG and by European Family Business (EFB) – the European federation of national family business associations. Through these counterpoints we were able to identify that Brazilian confidence, although still affected by political uncertainty and the adverse performance of Brazil's economy's in recent years, has risen exponentially and achieved levels close to European reality.

In general, Brazilian family businesses feel secure about their strengths and have begun to consider investment opportunities as part of their strategic plans, albeit still with little focus on overseas business expansion. Their governance structures are still present opportunities for improvement, yet the importance of governance is recognized as paramount to company success and perpetuity.

Family businesses do not expect significant changes during the near future in their corporate and management structures, but appear to be more willing to appoint a CEO to conduct business, aiming at higher level of professionalism, and have therefore placed less importance on preserving family control over business transactions.

The assertion of our survey's first edition, that "today's family business will continue to be a family business in the future", is still valid, yet there is a greater perception that family businesses need to keep an eye on opportunities for further business consolidation and strengthening their brand and market presence.

**Sidney Ito**
Leading Partner for Corporate Governance and Risks, and CEO of ACI Institute at KPMG in Brazil

**Sebastian Soares**
Leading Partner for Enterprise Markets at KPMG in Brazil

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# Sum

# Profile of Participating Family Businesses

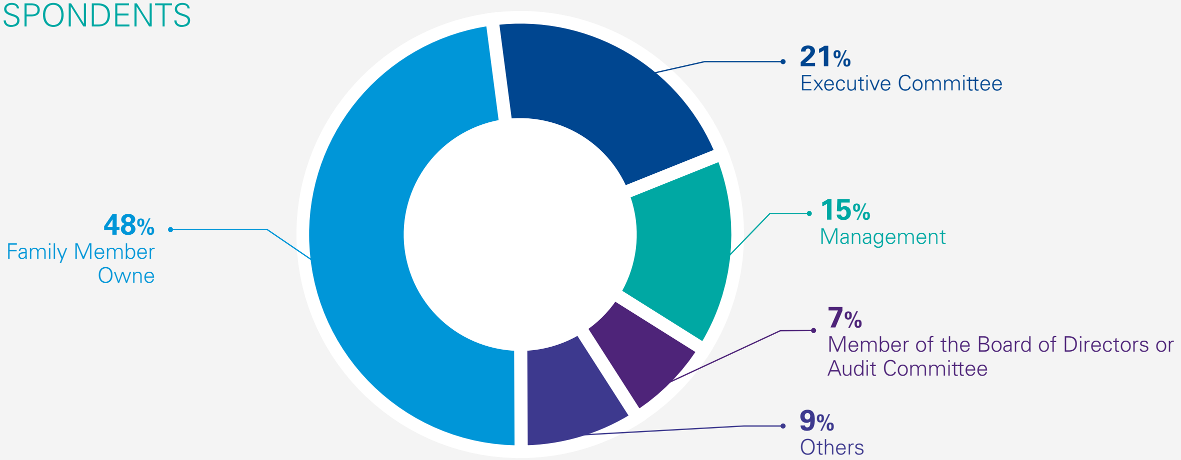
In this, the second edition of the Brazilian family business survey, data was obtained from 181 respondents across 15 Brazilian states and the Federal District, the country's capital. Survey participants responded to the online questionnaire between November 2016 and January 2017, providing a picture of current and future perspectives of family businesses, and the governance structures they use to face their key challenges.

A large majority of the respondents are members of the family that own the company (48%) or of the executive committee (21%). Among the companies surveyed, 21% are retailers and wholesalers, 20% are service providers, 19% deal with industrial goods and manufacturing, and 13% are agricultural concerns.

With regard to size, 34% of the participating companies have annual sales of up to R$ 99 million, 30% have revenues from R$ 100 million to R$ 499 million, and 36% have revenues above R$ 500 million (20% exceeding R$ 1 billion). In terms of number of employees, 18% have up to 99 employees, 45% have 100 to 999 employees and 37% have over 1000 employees.

The vast majority (79%) of family businesses that participated in the survey's second edition have been in the market for over 20 years and are controlled by the familys' second generations (43%). Limited liability partnerships and simple corporations predominate (53%), and with regard to shareholder control, a large portion (44%) are under direct majority control (individuals) or indirect majority control (legal entities) (26%). Lastly, 79% of the surveyed businesses are controlled by a single family, while 21% have more than one controlling family .

## OFFICE OF RESPONDENTS



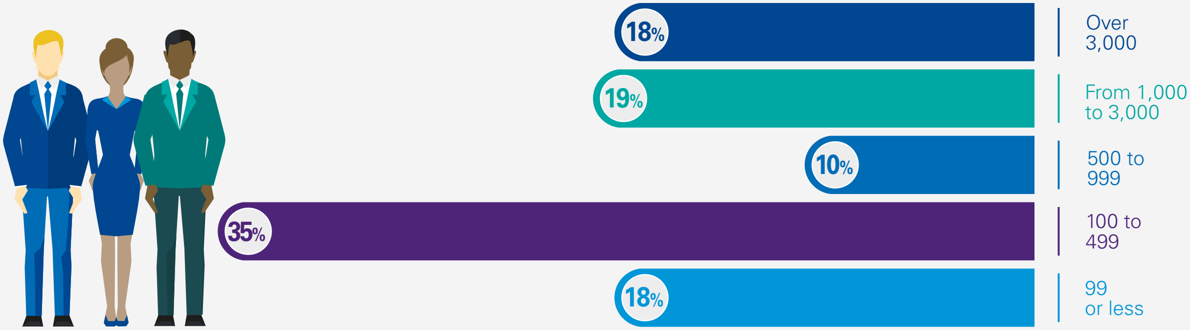
## INDUSTRY

| | |
|---|---|
| Wholesale and Retail | 21% |
| Services | 20% |
| Industrial Goods and Manufacturing | 19% |
| Agribusiness | 13% |
| Construction | 9% |
| Consumer Goods (other thanWholesale and Retail) | 6% |
| Transportation | 3% |
| Financial Services and Insurance | 2% |
| Information Technology | 2% |
| Telecommunications | 2% |
| Oil, Gas and Biofuels | 2% |
| Public Utilities | 1% |

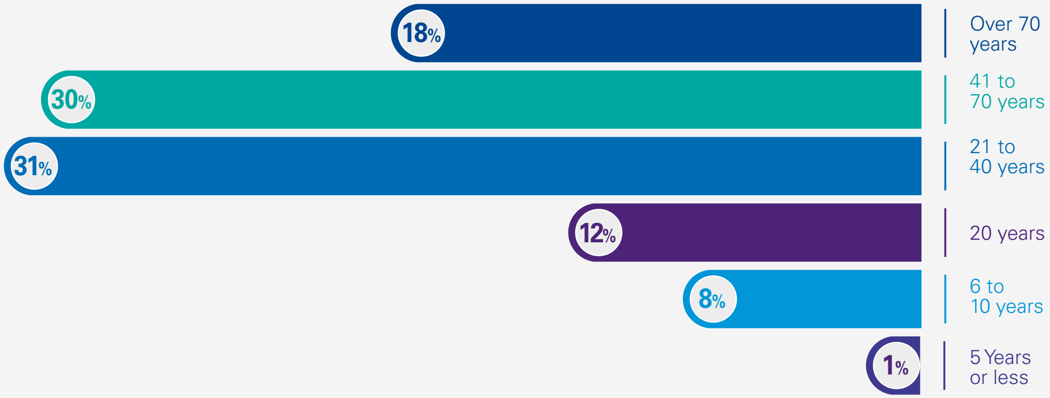
## ANNUAL REVENUE

| | |
|---|---|
| Over R$ 1 Billion | 20% |
| R$ 500 Million to R$ 1 Billion | 16% |
| R$ 100 to R$ 499 Million | 30% |
| R$ 50 to R$ 99 Million | 12% |
| R$ 49 Million or less | 22% |

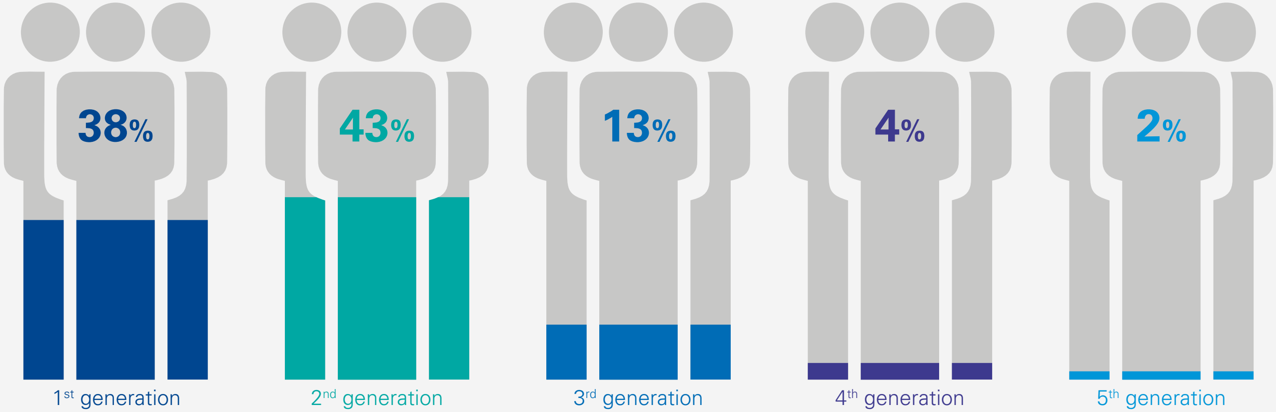
# NUMBER OF EMPLOYEES



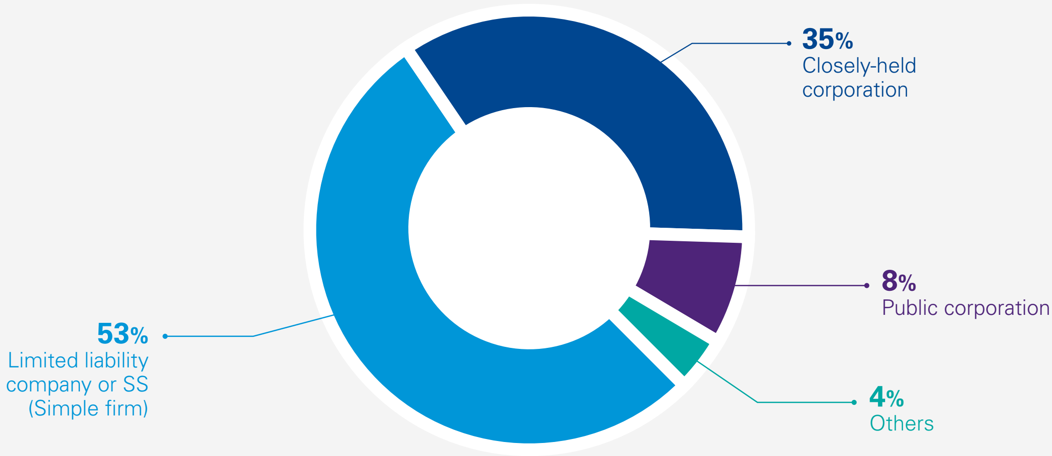

# AGE OF COMPANY



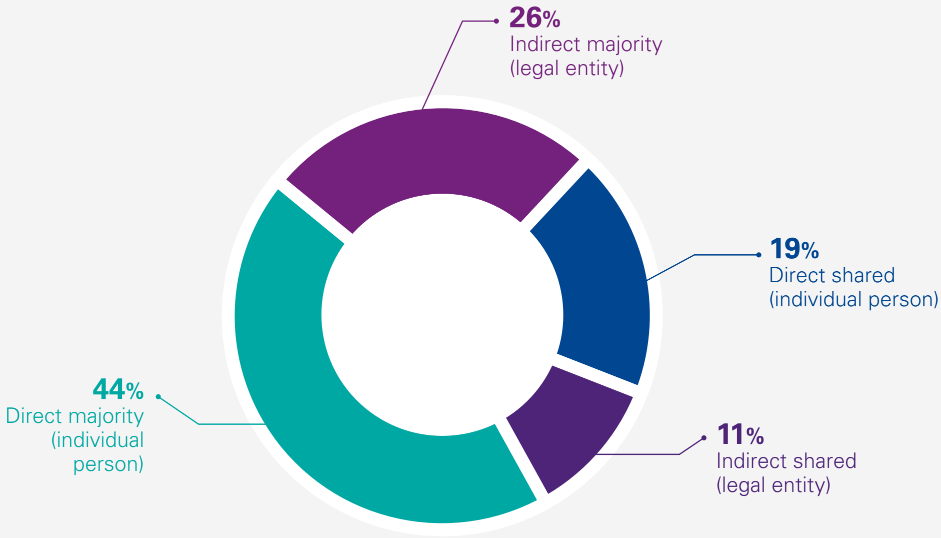
## AMILY GENERATION CURRENTLY HOLDING HIGHEST OFFICE IN THE COMPANY




## LEGAL STRUCTURE



## FORM OF EQUITY CONTROL




## TYPE OF CONTROL

# Family Business Activities

Brazil is undergoing a peculiar political and economic period that has impacted daily routines and family business strategic planning. Data gathering for this survey began immediately after the impeachment of the country's president, and the uncertainty on her replacement's actions, combined with expectations following the activities of operation Lava Jato (Car Wash), had a marked influence on the perception of the survey's respondents.

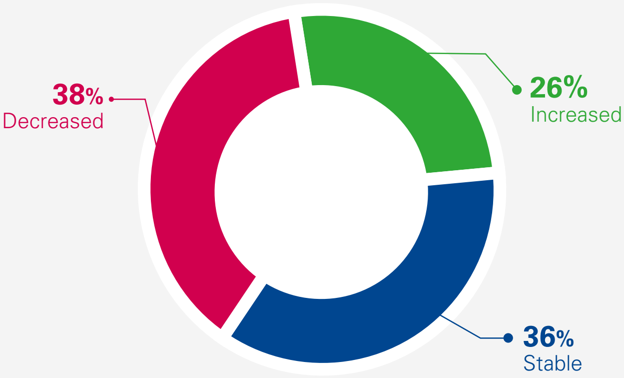
When asked about the behavior over the last six months of a number of indicators, family businesses responded in line with the deepening of the country's economic crisis and increasing unemployment rates. As many as 38% reported having reduced the number of employees while 36% maintained their headcount, and only 26% increased the number of employees. Those that reduced their headcount did so by as much as 25%, and of those that increased the number of employees, most did so by only 5%.

Nonetheless, this index showed improvement compared to the previous edition in which 49% of respondents reported a reduction in the number of employees and only 19% reported increased headcounts during the period. In the European edition of the survey, there is an observable difference compared to the results of the Brazilian edition: only 9% of companies reduced the number of employees during the 12 months prior to the gathering of data (June 2016).

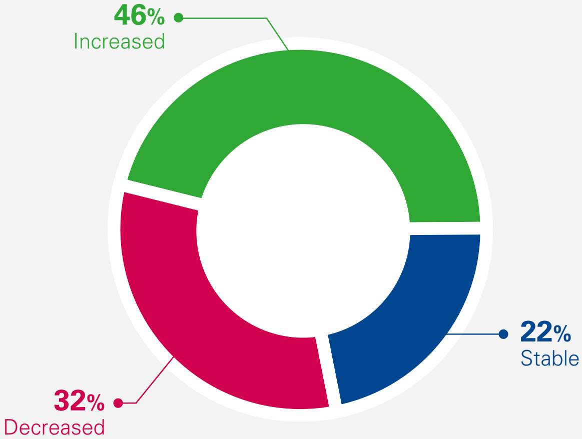
With regard to revenues, 46% of Brazilian family businesses reported increased sales over the last six months. However, only 30% experienced increased profits as compared to the 44% that suffered decreases, an indication that such companies experienced considerable cost increases but were not necessarily able to pass on such increases in the prices of goods and services. Among those companies that had growth in revenues, 74% reported that this increase was between 6% and 25%. The European survey inquired about the volume of business over the last 12 months, with 54% of the respondents reporting increased volume, 30% reporting no change and 16% reporting reduced volume of business over the period.

The geographical coverage profile remained virtually unchanged from the previous edition to the present: 34% of the companies surveyed increased their geographical coverage, 58% remained stable and only 8% experienced a decrease. Results differed in Europe, where 65% of the surveyed companies expanded their activities to outside of their home countries over the last 12 months.

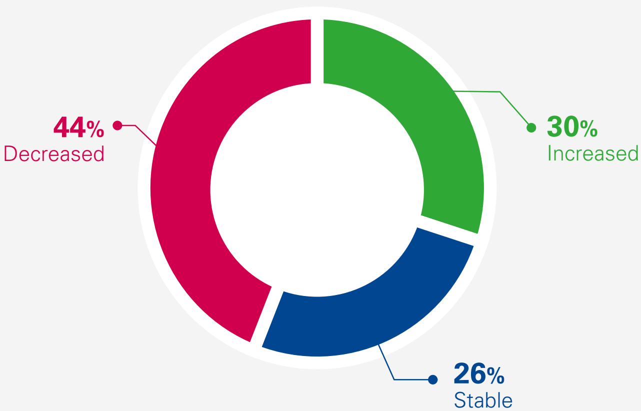
## NUMBER OF EMPLOYEES



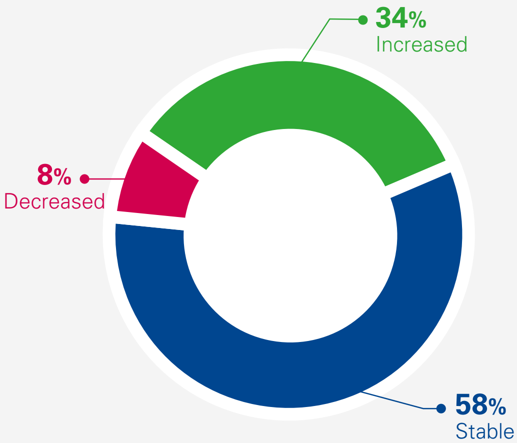

## REVENUES




## PROFITABILITY




## GEOGRAPHICAL COVERAGE



Focusing on family business outlooks, the most frequently cited concerns of family businesses were political and economic uncertainty, declining profitability, reduced sales, limited access to credit and rising labor costs.

This scenario was in contrast to that of the preceding edition, when the rising costs of basic inputs (electricity, water, sanitation, etc.) and increased taxation were were the principal concerns of family businesses. This change is understand understandable, given the recent water crisis in Brazil's Southeastern region (and still in effect in other regions) and the times of considerable uncertainties with regard to tax issues (tax relief, repatriation of assets, return of the CPMF tax on banking transactions, for example) during the previous survey's preparation.

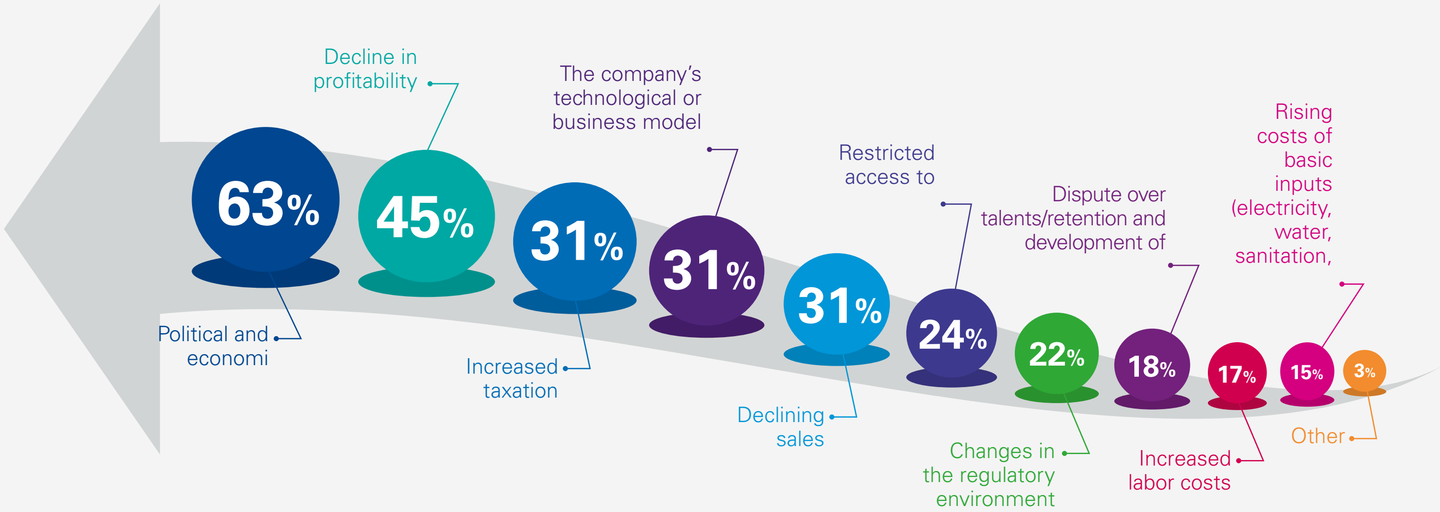
The same question was put to European companies, and political uncertainty, although less intense (37%), was among the most mentioned items, together with the dispute over retention and development of talent (a rate that has risen in Brazil). Other concerns raised by Europeans were increased competition (36%) and declining profitability (33%).

## WHAT ARE CURRENTLY A FAMILY BUSINESS'S CHIEF CONCERNS?

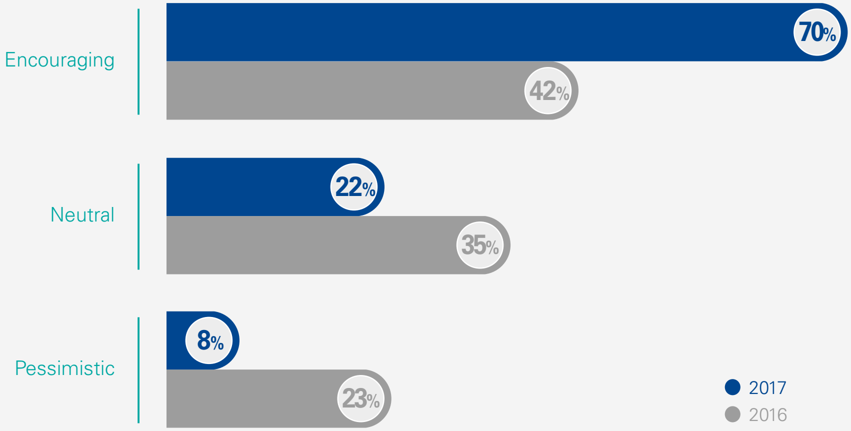
Brazilian respondents were also asked about principal concerns of their family businesses regarding factors that are likely to substantially affect business continuity over the next five years, and the results were similar. Once again, political and economic uncertainty and declining profitability were the most frequently cited items.

In spite of all of these concerns, a large majority (70%) of the respondents seemed optimistic about the future (next 18 months). This rate showed great improvement when compared to the replies in the preceding edition, when the a large portion of respondents were plagued by uncertainty and insecurity, there were no prospects for the economy's recovery and the level of confidence was only 42% (with 23% pessimism compared to the current level of 8%). In Europe, 72% of family businesses surveyed showed confidence in the economic environment of family businesses for the near future.

## WHAT ARE THE KEY CONCERNS OF YOUR FAMILY BUSINESS OVER THE NEXT FIVE YEARS THAT ARE LIKELY TO AFFECT BUSINESS CONTINUITY SUBSTANTIALLY?



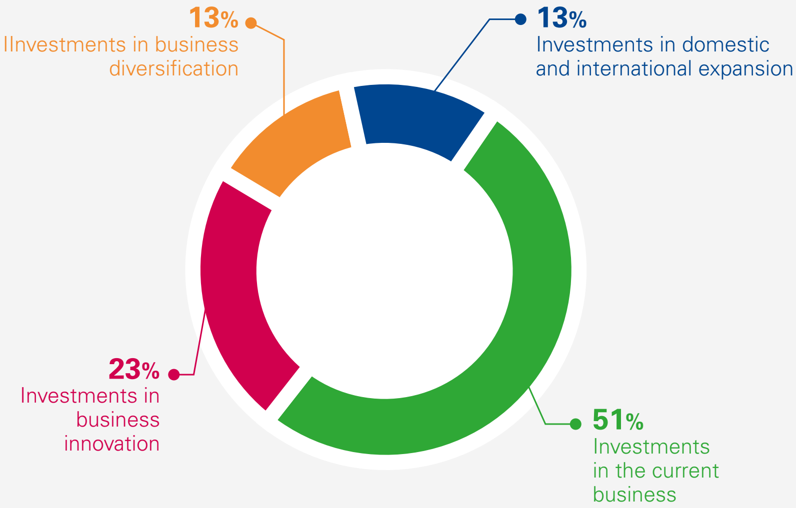
## EXPECTATIONS ON BUSINESS PROSPECTS FOR YOUR FAMILY BUSINESS IN THE NEXT 18 MONTHS

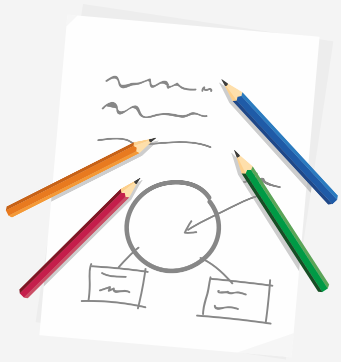



In line with this promising expectation, 78% of family businesses stated that their strategic planning included new investments, and of these, 51% intend to focus investments in their current business while 23% will innovate in their current activities.

## OES YOUR STRATEGIC PLAN INCLUDE INVESTMENTS OR DIVESTMENTS?

## IN CASE OF AN INVESTMENT OUTLOOK, POINT OUT KEY ITEMS:



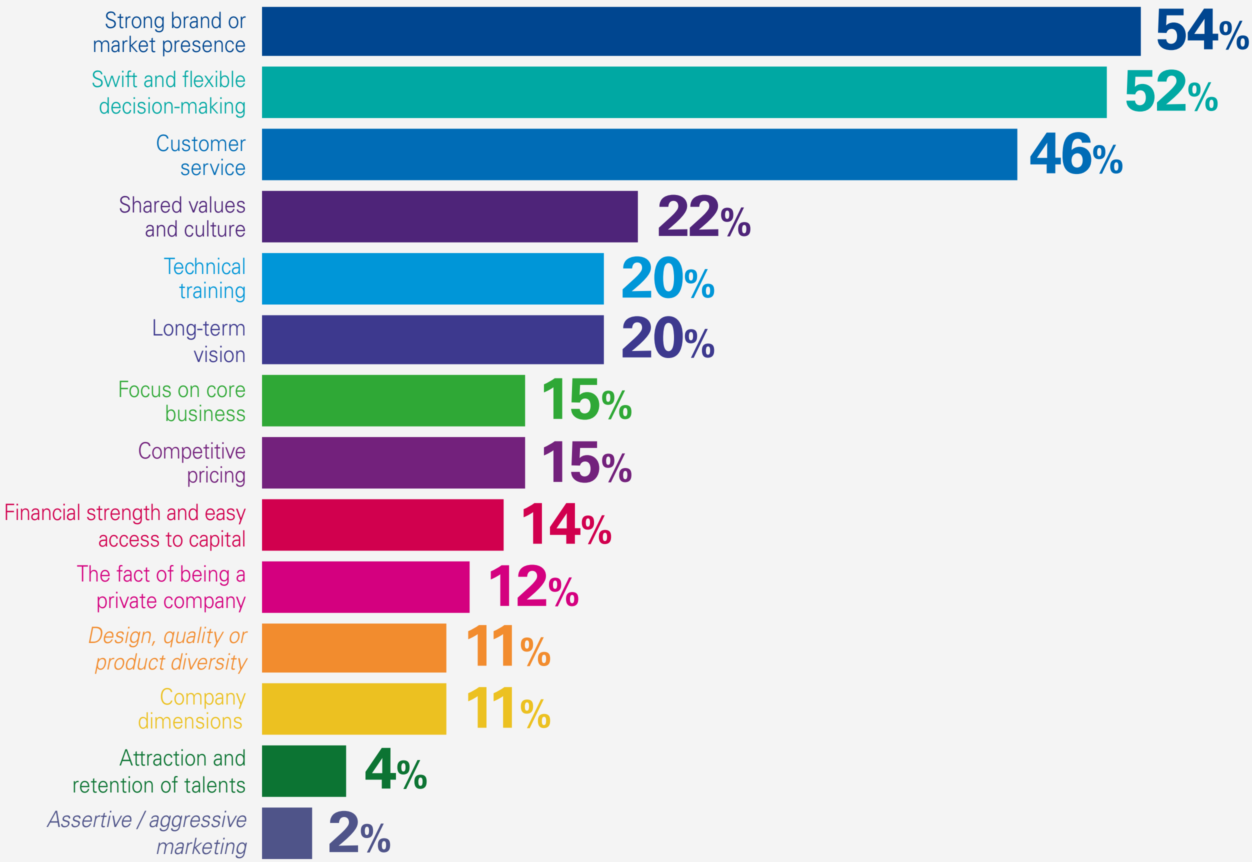
When inquired about the likelihood business expansion beyond current locations, of the 59% who intend to extend their territory, 80% plan to expand to other regions in Brazil, 15% plan to grow in other Latin American countries and only 5% are considering expanding beyond Latin America.

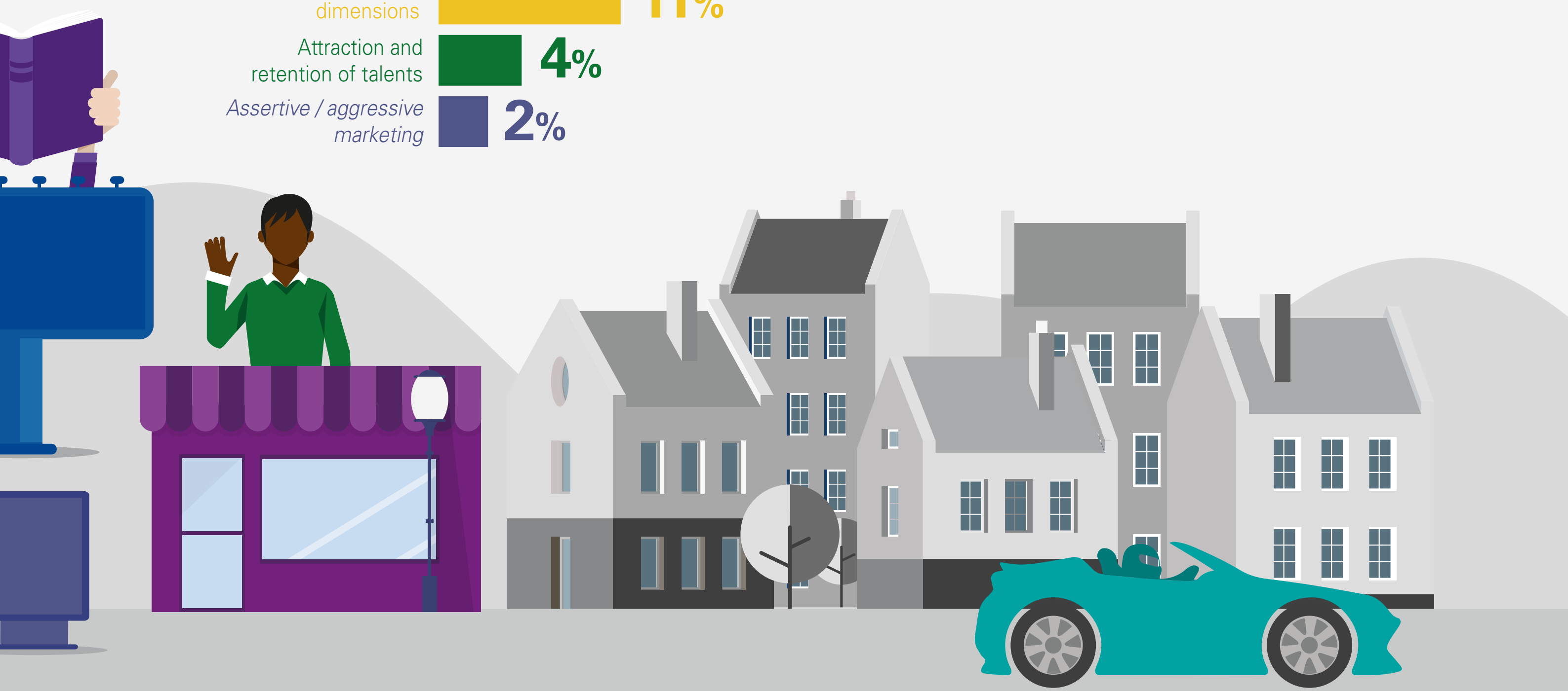
In this same regard, activities by Brazilian family businesses outside the country are still moderate. Only 35% have activities overseas and the 65% that do not, explain chiefly that the domestic market is sufficient, that they have little familiarity with overseas markets or that their goods or services cannot be sold overseas.

In a challenging political and economic environment, much of what makes family businesses confident in the future and optimistic about making investments, is the nature of family businesses. In line with the results presented in the preceding edition, a strong brand or market presence, swift and flexible decision making, customer service and shared values and culture were the replies most cited as strong points of family businesses.

A few of these characteristics were also cited by the Europeans but in the following order of importance: Long-term vision (58%), swift and flexible decision making (57%), loyalty and commitment of employees (51%) and shared values and culture (44%).

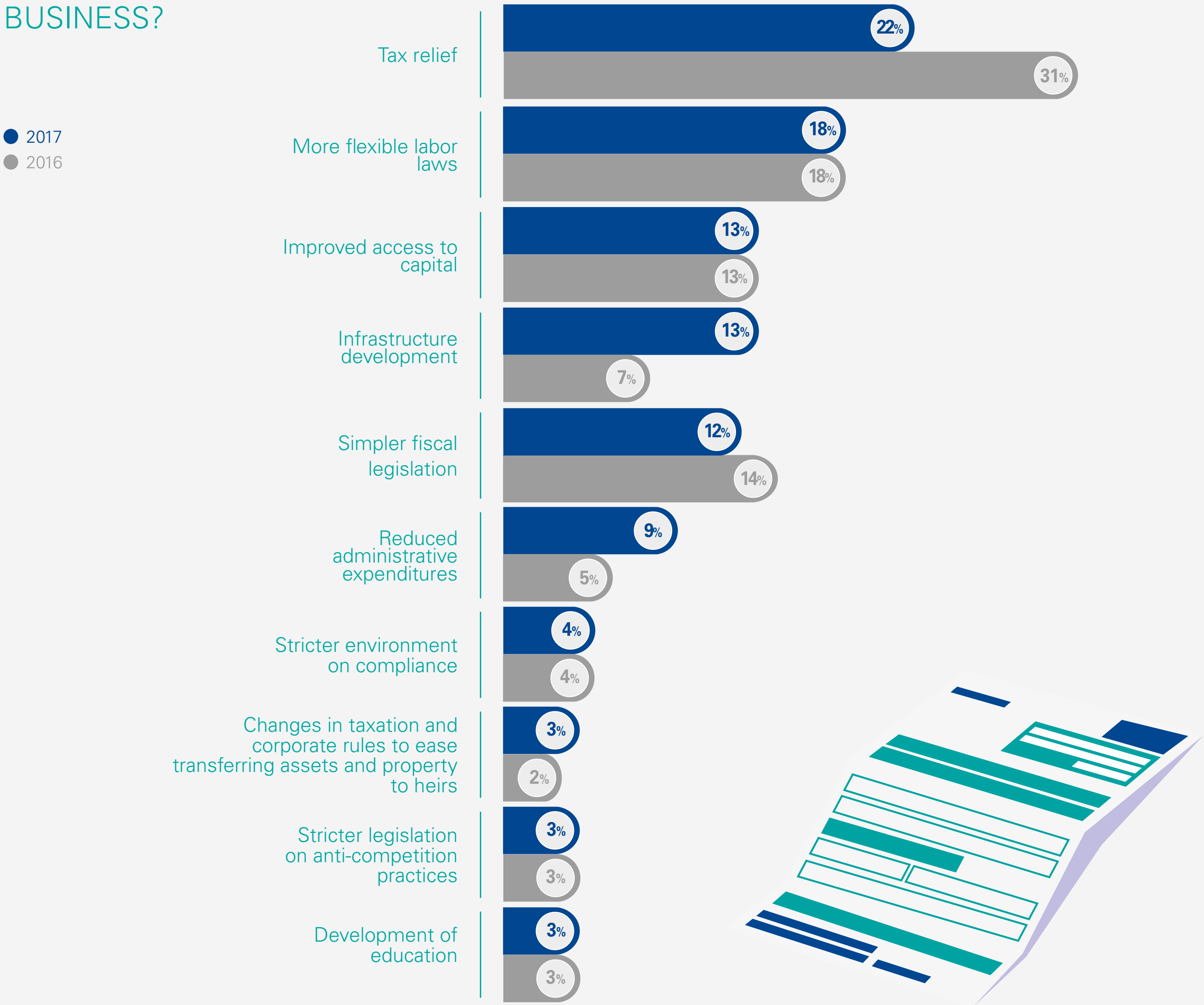
# YOUR COMPANY'S STRONG POINTS


Strong brand or market presence
54%
Swift and flexible decision-making
52%
Customer service
46%
Shared values and culture
22%
Technical training
20%
Long-term vision
20%
Focus on core business
15%
Competitive pricing
15%
Financial strength and easy access to capital
14%
The fact of being a private company
12%
Design, quality or product diversity
11%
Company dimensions
11%
Attraction and retention of talents
4%
Assertive / aggressive marketing
2%



When asked which change would most benefit their business, respondents still indicated tax reductions, however with less emphasis as compared to the preceding survey. In contrast, reduced administration expenditures were stressed in the new edition. Apparently family businessmen have begun to consider changes under their sphere of responsibility and have reduced their expectations regarding external factors that depend on the government.

## WHICH CHANGE WOULD MOST BENEFIT YOUR BUSINESS?

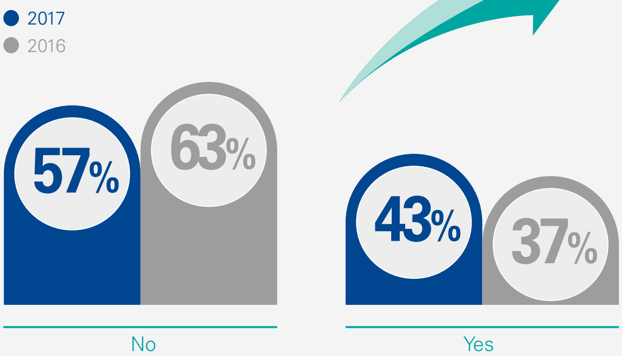


# Sources of Funding

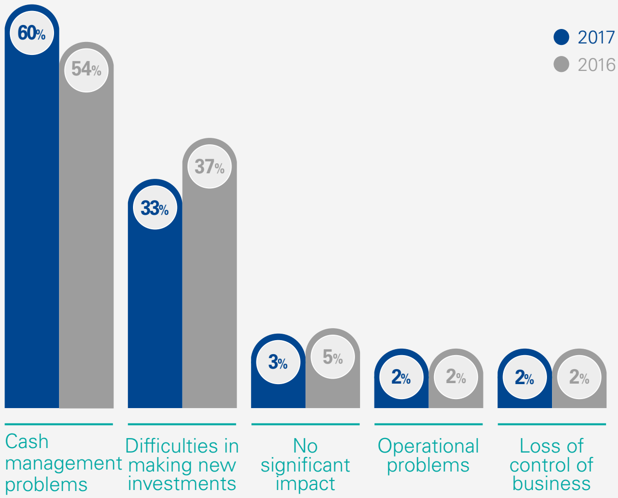
On seeking to obtain information on the family business credit profile, it was evident that 43% of organizations had difficulties in obtaining loans over the last six months. This percentage rose as compared to the previous survey, when 37% had faced some form of obstacle in obtaining loans. Furthermore, as shown below the chief source of loans continued to be banks (64%).

Some financial institutions have been more selective, restrictive and demanding in accepting tangible warranties from borrowers. In Europe this rate was considerably lower, where only 17% of participants stated that they had encountered difficulties in accessing credit. Such difficulties were remembered as a possible cause of cash management problems and of difficulties regarding new investments.

## AS YOUR FAMILY BUSINESS HAD ANY DIFFICULTIES OBTAINING FINANCINGIN THE LAST SIX MONTHS IN?

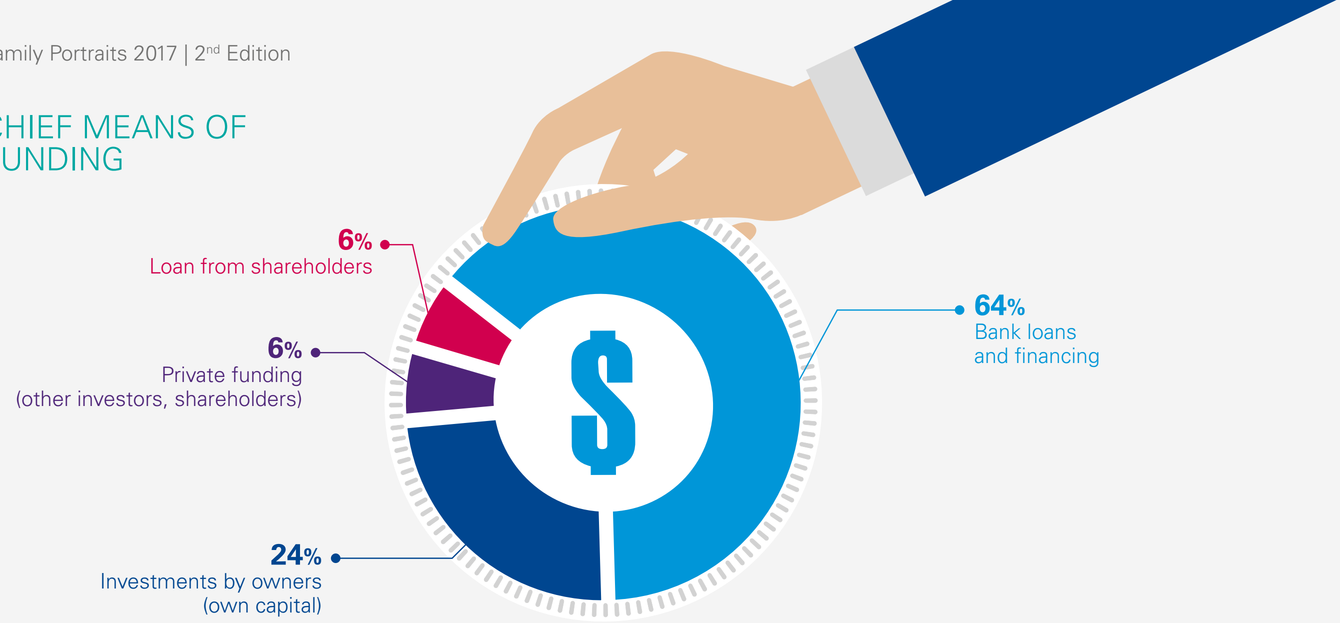



## THIS MAY CAUSE:




As in the previous survey, the objective for obtaining loans fell into one of three key categories: to provide working capital for companies that were facing cash management difficulties, to fund expansion of current business for those family businesses with a need to realize the potential of their existing activities, to fund investments in new projects for those companies that, in spite of the crisis scenario, have allocated their funding to different activities. The most common sources of funding accessed by family businesses were also very similar in both periods surveyed. Bank loans and financing were the most significant, followed by investments by owners (own capital).

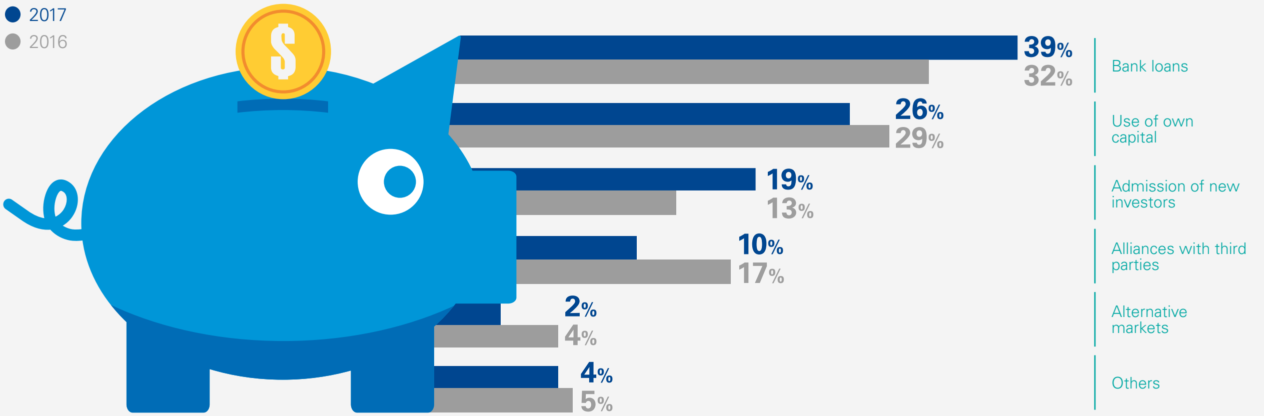
## CHIEF MEANS OF FUNDING




These same means of funding are considered by family businesses to be the most attractive for the next 18 months, followed by the admission of new investors and alliances with third parties. These same types of funding were mentioned by the Europeans as more attractive sources of financing, yet in different proportions:  bank financing (48%), use of own capital (30%) and the admission of new investors in the company (8%) or alliances with third parties (8%).

Alternative markets, such as initial public offerings and bond issuances, were considered attractive by only 4% of European respondents, very much in line with the responses of Brazilian companies.

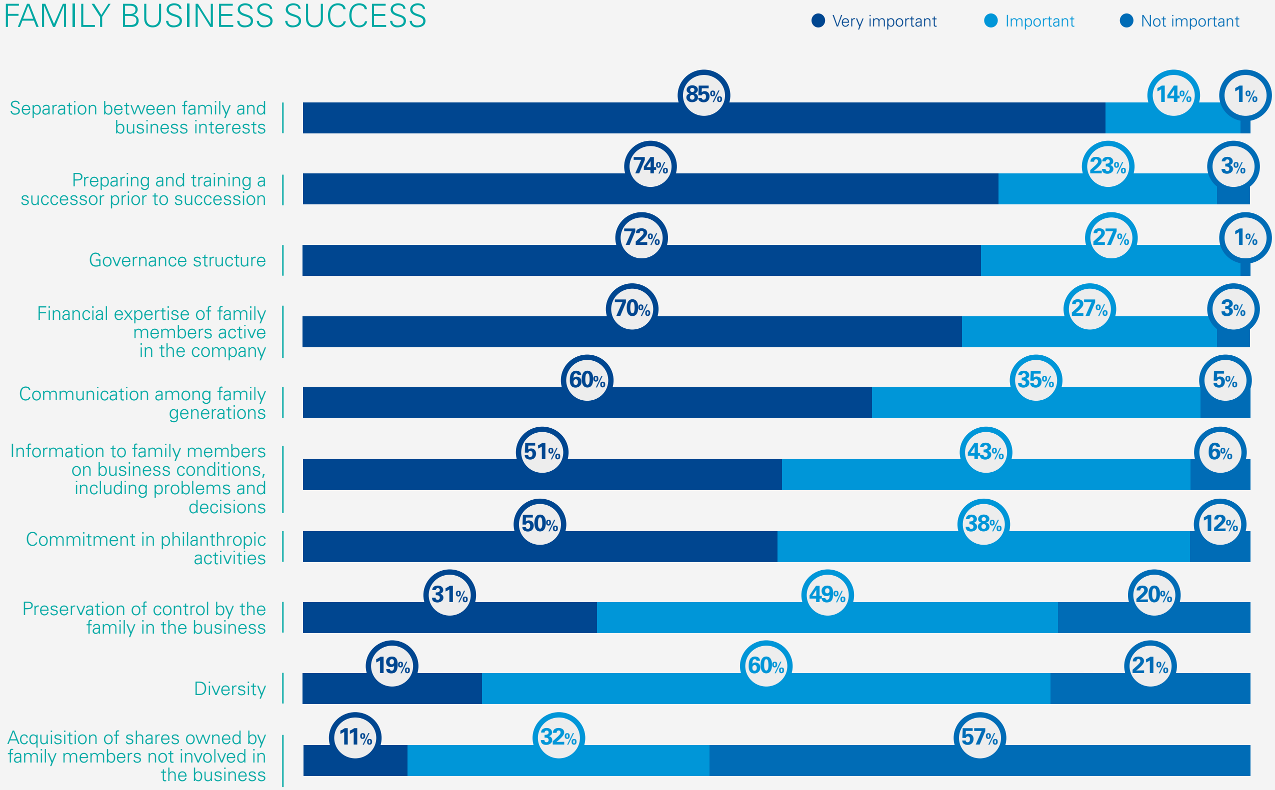
## MOST ATTRACTIVE TYPE OF FUNDING FOR THE NEXT 18 MONTHS



# Family Business Corporate Governance Structure

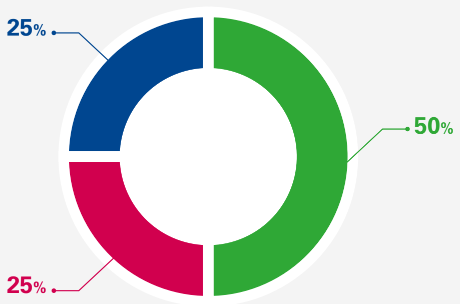
Family businesses have several specific features that can be construed as advantages, in addition to others that give rise to concerns. In this regard, specifically those family businesses with sustainable growth and a professional outlook in their strategic plan, consider the separation between family interests and those of the business, the preparing and training of a successor prior to succession, a structured governance, financial expertise among family members and communication among generations, as key factors for success.

## IMPORTANCE OF THE FOLLOWING ISSUES FOR FAMILY BUSINESS SUCCESS

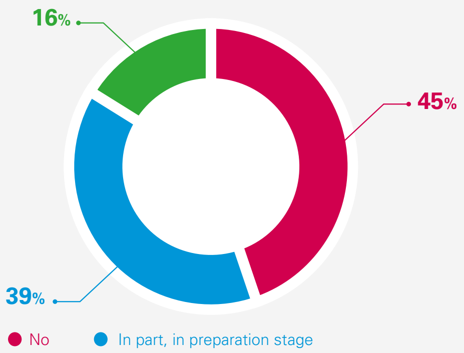


Concerning this issue, there was a notable decline compared to the previous edition in the relative importance attributed by family businesses to preserving family control and to the acquisition of shares owned by family members not involved in the business. This change from 55% to 31% and 51% to 11%, respectively, between editions can be interpreted as an initial departure from the idea that a family business must keep the business in the family in order to achieve/preserve its success. Drawing a parallel with the European survey, it is possible to note practically the same perceptions, yet with different intensities. For example, the existence of a good governance structure was deemed to be the item of greatest importance for the success of family businesses in Europe (93%), followed by communication among generations (92%), preservation of control by family members (87%), preparing and training a successor prior to succession (85%) and financial expertise among family members active in the company (81%). In order to understand the reality of family businesses and the actual involvement of a family with the business, a number of queries were posed that gave rise to the following scenario, much in agreement with the results of the previous edition:

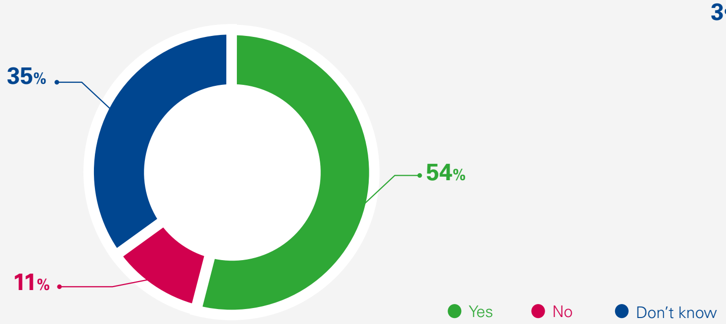
## RE THERE NEXT GENERATION FAMILY MEMBERS INTERESTED IN PARTICIPATING IN MANAGEMENT OF THE BUSINESS?



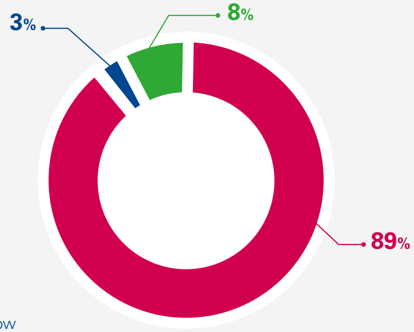

## IS THE NEXT GENERATION PREPARED TO PARTICIPATE IN MANAGEMENT OF T HE BUSINESS?




## IN CONTRAST, ARE THERE NEXT GENERATION FAMILY MEMBERS WHO DO NOT WISH TO PARTICIPATE IN MANAGEMENT OF THE BUSINESS?

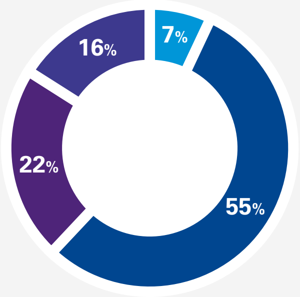



## ARE PERSONAL EXPENDITURES BY FAMILY MEMBERS STATED AS COMPANY EXPENDITURES?



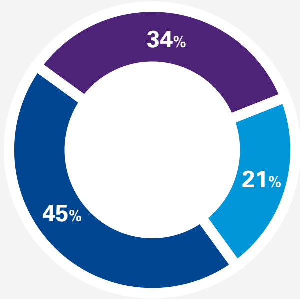
## HOW MANY FAMILY MEMBERS HOLD OFFICES IN THE COMPANY?

- No family member
- Not more than 3 family members
- From 4 to 5 family members
- Over 5 family members



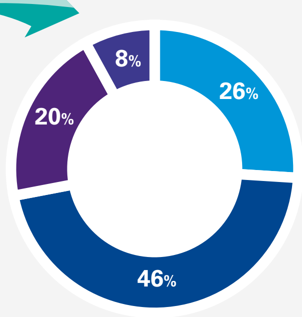

## DO WOMEN FAMILY MEMBERS HOLD OFFICES IN THE COMPANY?

- No
- Yes, a few
- Yes, significantly



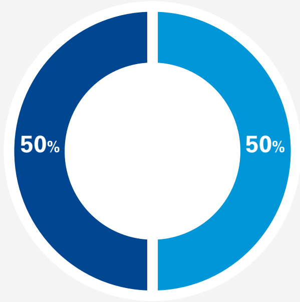

## IN WHICH FUNCTIONS?

- Board of Directors
- Executive Committee
- Operating
- Management




## DID CONTROLLING FAMILIES ORGANIZE A FAMILY COUNCIL OR EQUIVALENT?

- Yes
- No




This panel of results demonstrates a possible absence of communication between family generations, in view of the number of respondents that indicated their lack of awareness of the next generation's interest in the business. The panel also provides evidence that, while there are next generation members who wish to participate in the company, there is also a significant portion who don't have such interest.
Similarly, 45% of participants affirmed that next generation family members are not prepared to hold management positions with the company.

Further, with regard to family involvement in the company, 89% of respondents stated that there is a separation between personal family expenditures and business expenditures, 50% stated that they are in favor of creating a Family Council or equivalent and 55% replied that they have as many as three family members who hold offices in the organization. Only 55% of companies have female family members holding offices in the company.

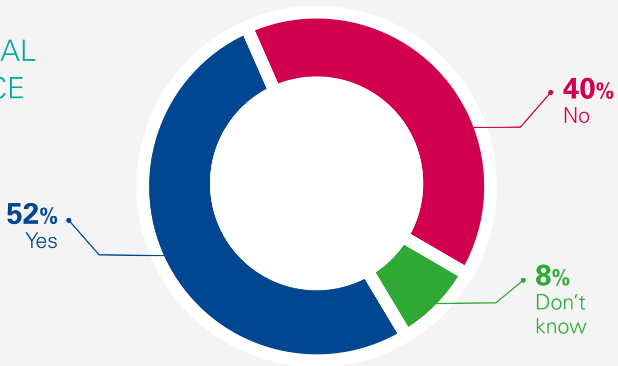
A large majority of these (72%) are members of the Executive Committee or Board of Directors. Other issues related to corporate governance were put forth to the family businesses, and as in the previous edition, the responses revealed points for improvement. The percentage of companies with a Code of Ethics and Conduct is still low (58%) and there is a lower rate of companies that actually train their employees (38%). Moreover, only 39% of respondent companies have complaint channels for reporting information on frauds, unlawful actions or actions contrary to the organization's policies.

Along these same lines, only 29% of the reponsdents reported having a structured process to detect, assess and manage corporate risks, and the rate of companies that have D&O or Directors' and Officers' civil liability insurance is lower still. Of the 21% that reported having such insurance, insured sums range from not over R$ 10 million (67%), from R$ 10 million to R$ 50 million (22%) and over R$ 50 million (11%).

| SOME ASPECTS OF CORPORATE GOVERNANCE FOUND IN PARTICIPATING FAMILY BUSINESSES: | YES | NO |
|---|---|---|
| Does the company have an integrated Information Technology system, for example: SAP, TOTVS)? | 89% | 11% |
| Does the company retain independent auditors? | 72% | 28% |
| Is there a shareholders' agreement? | 63% | 37% |
| Was a Code of Ethics prepared, handed out to every company employee and disclosed externally? | 58% | 42% |
| Does the company have an Internal Audit function? | 50% | 50% |
| Is there succession planning? | 47% | 53% |
| Does the company have a reporting channel that allows anonymous reporting of frauds, unlawful acts and/or thosenot in accordance with company policy? | 39% | 61% |
| Do employees receive annual training on the Code of Ethics and Conduct? | 38% | 62% |
| Is there a structured process in the company to detect, assess and manage corporate risks? | 29% | 71% |
| Does the company have D&O (Directors' and Officers'civil liability) insurance? | 21% | 79% |

Concluding the topic of corporate governance structure, 52% of the family businesses surveyed stated that they retained an external consultant to take care of corporate planning or to model the current corporate governance structure.

## DID THE FAMILY RETAIN AN EXTERNAL CONSULTANT TO PROVIDE GUIDANCE IN CORPORATE PLANNING OR IN STRUCTURING GOVERNANCE?



# The Board of Directors and its Committees

The Board of Directors is an important body within a company's governance structure. Among its responsibilities are to provide strategic guidance and define the direction of the business, to define the business's key objectives, to dictate the rhythm to be adopted by the executive committee, and to monitor the executive committee's activities.

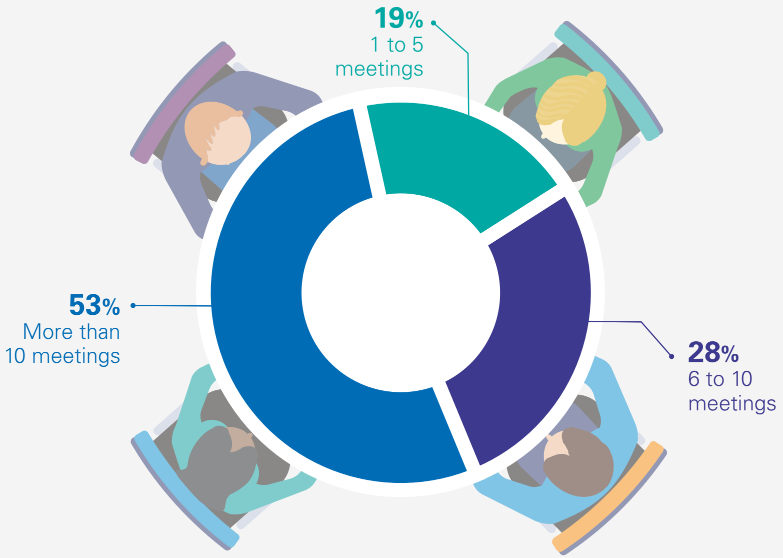
Currently 53% of Brazilian family businesses have a Board of Directors, a rate that in Europe is as high as 73%. Most existing Boards of Directors have from four to six (45%) or from seven to ten (38%) members in all. In 49% of the companies surveyed, three to five board members are members of the controlling family, and in 68% at least one of the members is also an executive officer. There is a complete separation between executive committee members and members of the Board of Directors in 32% of participating businesses. Similarly, in 73% of the companies surveyed, the offices of CEO (or equivalent) and Chairman of the Board are held by different persons. Another item examined was the existence of independent members of the Board of Directors: 73% of companies already have independent board members.

Analyzing the selection method of such independent board members, 50% of the surveyed companies employ their personal relations network for recruiting, 33% retain specialized external consultants and 17% rely on recommendations by a minority shareholder or by an investor. Attributes sought in independent board members are essentially related to a company's needs and area of activities, in addition to in-depth knowledge of the business.

## ATTRIBUTES SOUGHT IN INDEPENDENT BOARD MEMBERS


With regard to Board of Directors' activities, most boards (53%) meet over ten times annually and 75% define the company's strategic objectives and communicate them to management. However, only 55% formalize strategic objectives in a corporate plan and monitor their performance.

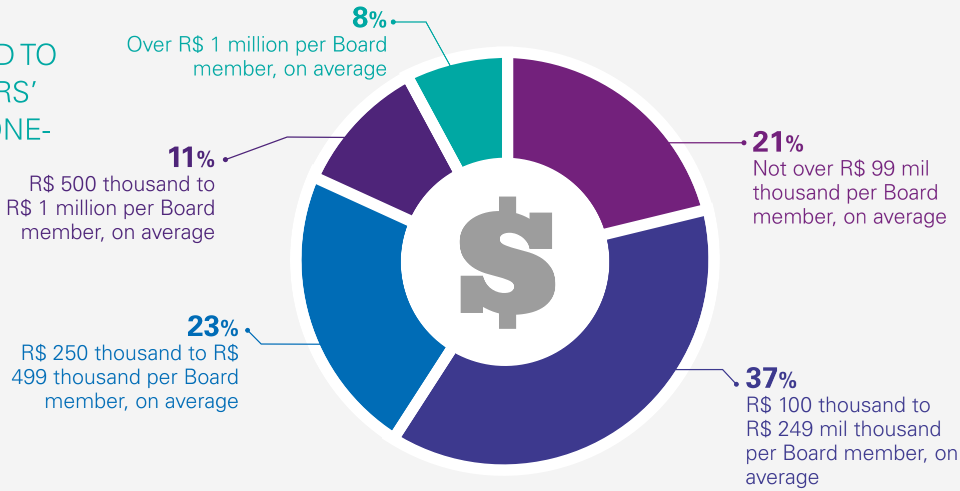
## YEARLY NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS




Moreover, with regard to responsibilities of the Board of Directors, 74% are responsible for approving annual compensation for the executive committee.

Regarding compensation of the Board of Directors, most board members receive an average of R$ 100 thousand to R$ 500 thousand per year and only 9% have variable compensation as part of their total compensation.

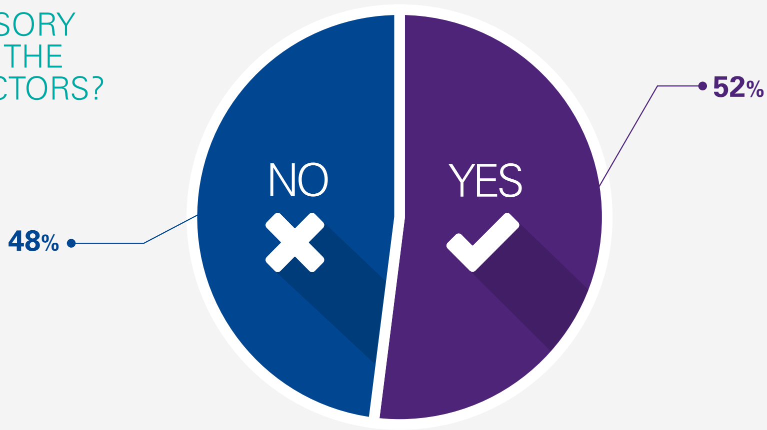
## AVERAGE COMPENSATION PAID TO BOARD OF DIRECTORS' MEMBERS OVER A ONE-YEAR PERIOD



In order to assist the Board of Directors with key issues that require dedication of time and specific technical expertise, some board members are provided with the support of advisory committees.

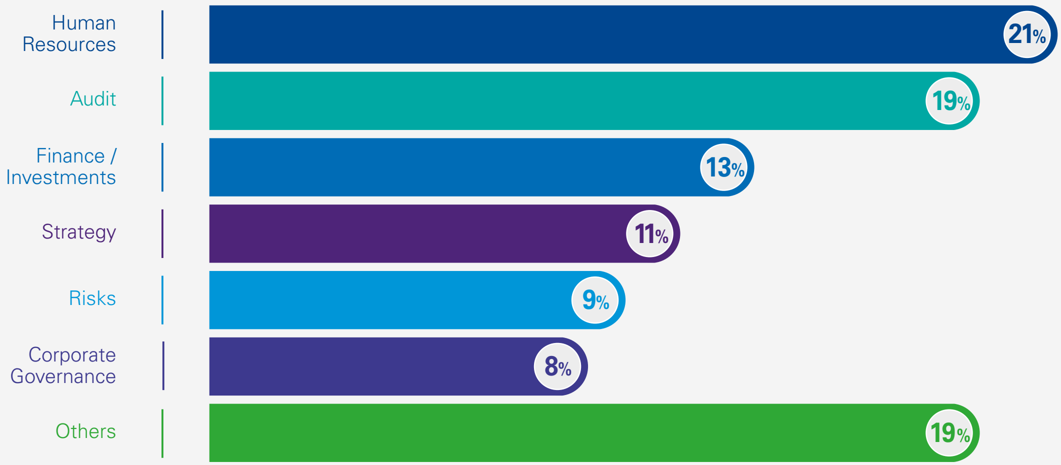
Among the survey's respondents that confirmed having a Board of Directors, 52% reported having at least one committee to advise the Board of directors.

## ARE THERE ADVISORY COMMITTEES TO THE BOARD OF DIRECTORS?




Most of them have a Human Resources Committee, Audit Committee or another committee adapted to their specific needs, such as, for example, Management, Sustainability, Compensation and Ethics Committees.

## ADVISORY COMMITTEES TO THE BOARD OF DIRECTORS

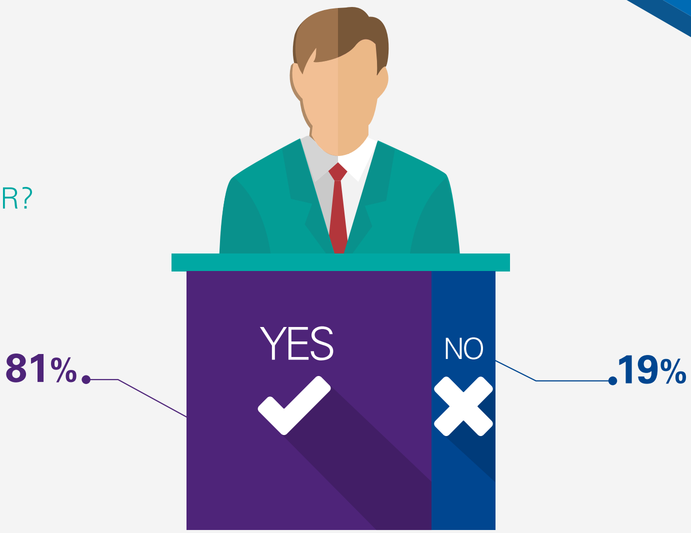


# Executive Committee

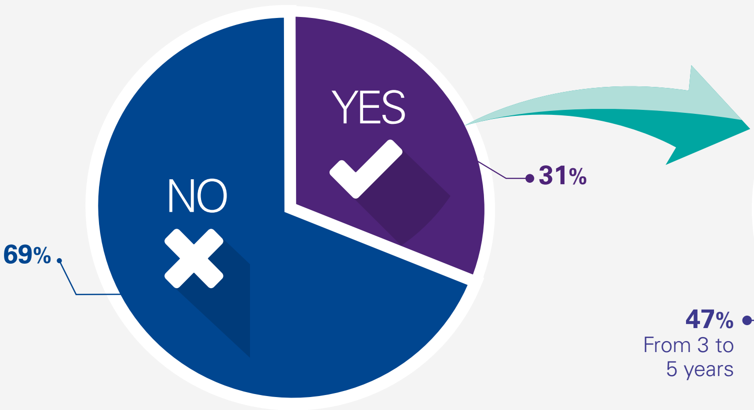
In order to understand how the executive committee is organized in a family business, we examined the presence of family members in this body. A large part of companies have family members on their executive committees. Similarly, 81% of CEOs are family members and only 31% of the surveyed companies intend to hire a market executive to hold this office in the future, most of which will do so in the next five years.

## PROPORTION OF EXECUTIVE COMMITTEE (OR EQUIVALENT) CONSISTING OF FAMILY MEMBERS

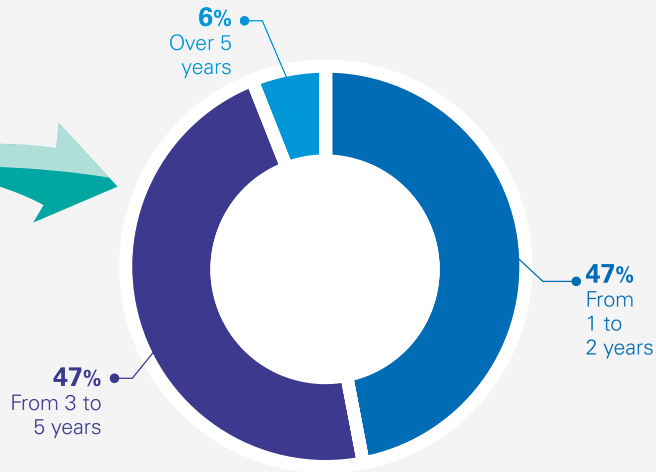

## IS THE CEO (OR EQUIVALENT) A FAMILY MEMBER?



## EXPECTATOIN TO HIRE A MARKET EXECUTIVE FOR THE OFFICE OF CEO?




## IF SO, IN HOW MANY YEARS?




When questioned on whether evaluation and compensation of family members who take part in management are defined and revised based on market criteria, only 57% of participants replied affirmatively.

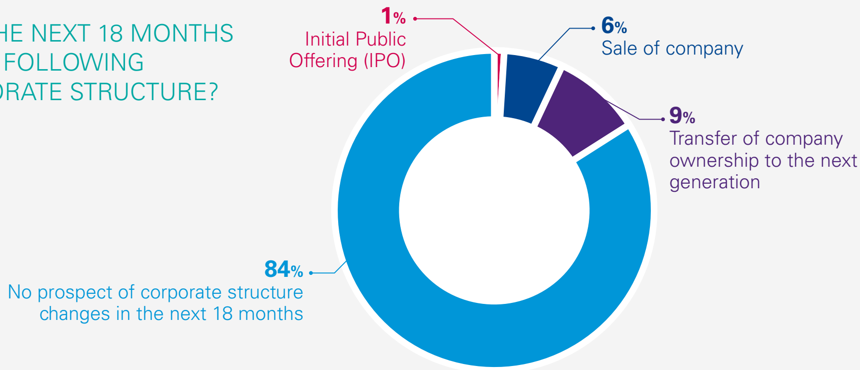
An significant portion of respondents stated that interaction between family executives and non-family executives is very good (61%), while 35% commented that relations are good but could improve, and only 4% rated relations as poor.

Additionally, with regard to the interaction between external and family executive officers, 28% of participating companies agreed that, on occasion, family members make decisions without inquiring of and involving non-family executives or board members, and further, 9% rarely seek non-family members to opine on decisions, an indication that many family business resolutions are still restricted to family members, even though they have formal governance structures to decide on strategy and business development.

# Family Business outlook

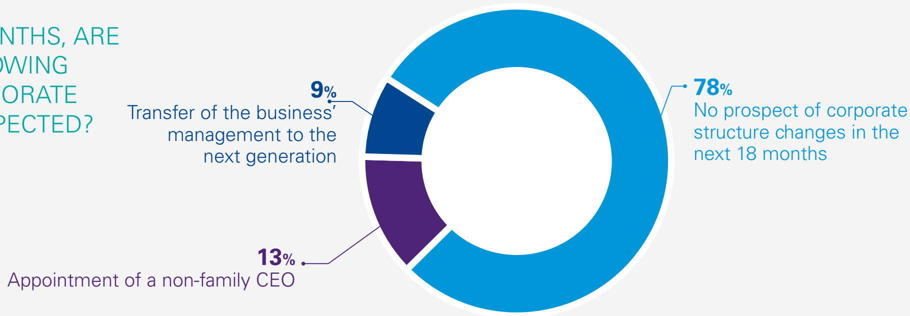
With regard to family business horizons, broadly speaking of corporate structures, only 16% of respondents affirmed that they intend to make changes in the next 18 months. Planned changes include transferring company ownership to the next generation (9%), sale of the business (6%) and going public (IPO) (1%), a scenario very similar to the previous survey. In the European outlook, strategic changes considered for the next 12 months involved transferring management of the company to the next generation (18%), appointing a CEO from outside the family (10%), transfer of the business' ownership to the next generation (9%), sale of the business (8%) and going public (1%).

IS IT EXPECTED IN THE NEXT 18 MONTHS TO SEE ONE OF THE FOLLOWING CHANGES IN CORPORATE STRUCTURE?




Regarding the level of management, only 21% of Brazilian companies under family control are expected to make replacements in business management, with 13% considering the appointment of a non-family CEO and 9% planning to transfer business management to the next generation.

N THE NEXT 18 MONTHS, ARE ANY OF THE FOLLOWING CHANGES IN CORPORATE MANAGEMENT EXPECTED?



# Conclusion

**In concluding yet another edition of our survey on Brazilian family businesses, and taking into account the previous year's results of a similar survey conducted in Europe, we were able to identify trends and to monitor the effect of Brazil's evolving political and economic environment on family businesses, as well the effect of their own characteristics, which have often enabled them to overcome a number of hurdles and to visualize an uncertain future with growing confidence.**

In spite of the optimism reflected and growth found in their outlooks, family businesses are still currently faced by several difficulties.  Some family businesses have faced obstacles in obtaining loans and an alarming number of such organizations have required financing in order to cover their working capital. Similarly, there is still progress to be made in matters of corporate governance structure and mechanisms, in addition to the inclusion of women in the management of family businesses.

Among other highlights, topics considered as key to family business success have basically remained unchanged, however preserving family control of the business and acquiring the stake of those family members not involved in company affairs, are no longer seen as essential items for the family business success by a significant portion of respondents.

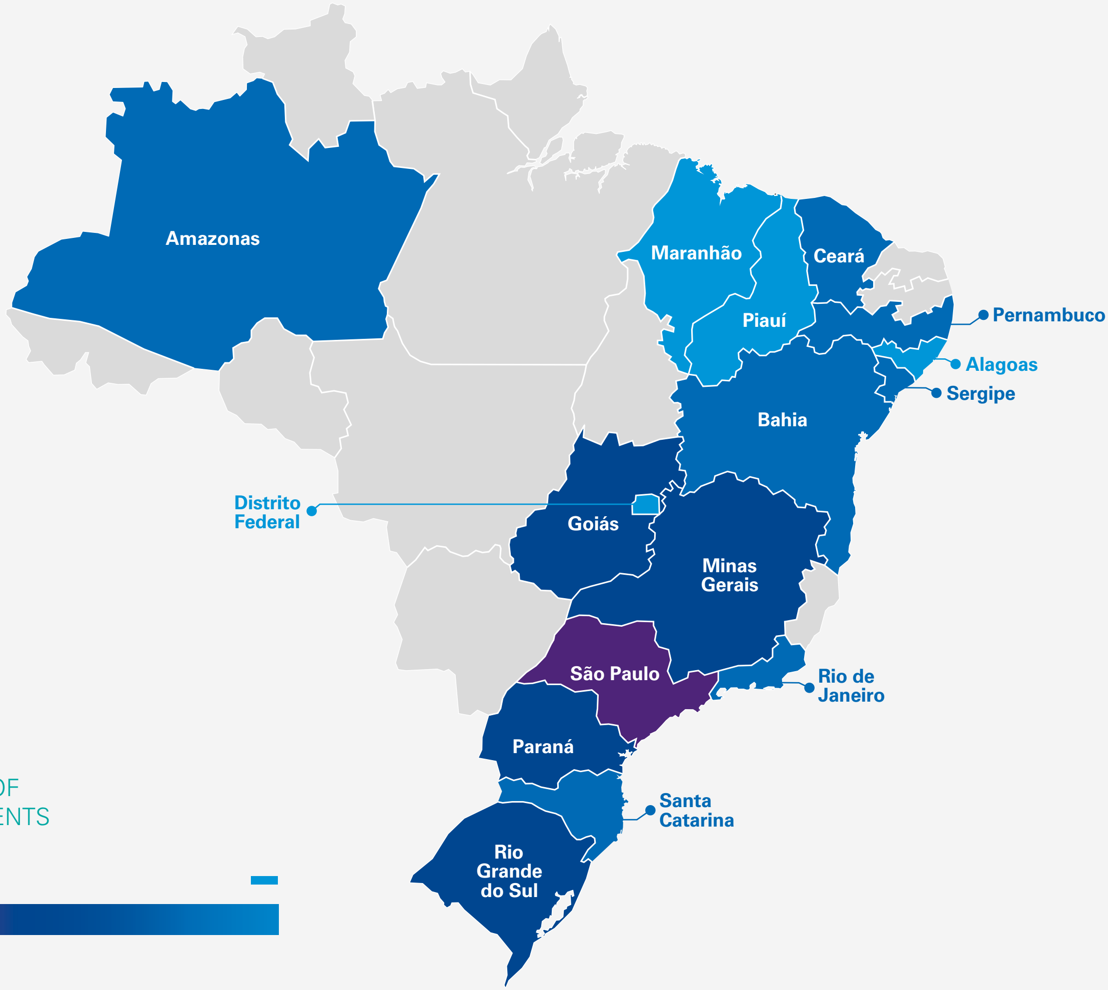
We believe that, although these facts are still significant, their relevance has declined, chiefly due to the trend for organizing family holding companies and agreements among the families that hold control.

Considering the current Brazilian economic and political environment, it is observable that from facing existing market adversities, Brazilian family businesses have realized the importance of a more robust corporate governance structure, in addition to formalized processes and practices, with effective internal controls that provide greater safety to business during a period of growing uncertainty and volatility of external factors.

The confidence expressed by respondents in the survey's outcome reflects a more mature outlook, possibly attributable to the crisis from which the country has begun to recover. A decreased concern for keeping the company's control within the family and greater willingness to retain external professionals, acquiring market expertise to strengthen the business, are examples of this trend towards awareness of the need for change as a means of visualizing the organization.

In summary, our survey's results lead us to reiterate the conclusions presented last year's survey; Brazilian family businesses are making efforts to keep the business within the family without losing control, and to support their growth by means of a more professional management and ever more solid governance, with a view to their perpetuity.

# Geographical Distribution of Participating Family Businesses




NUMBER OF RESPONDENTS

# The ACI Institute

Jointly with the Board Leadership Center, KPMG's ACI Institute encourages the exchange of expertise and development of good governance practices.

Organized in 1999 in the United States and in 2004 in Brazil, the ACI is an important discussion forum that makes available relevant information to members of Audit Committees, Boards of Inspectors and Boards of Directors of organizations, leading to the enhancement of perceptions in connection with their responsibilities and activities, and improving their operating procedures.

The ACI Institute sponsors round tables, holds surveys and discloses information by means of a number of technical publications throughout the year. Among the subjects discussed by the ACI forums, highlights are Audit Committee, Board of Inspectors and Board of Directors activities and efficacy; good governance practices in family businesses; risk management; how good practices are assessed by rating agencies and financial institutions; IFRS and Law no. 11,638; civil liabilities by managers and D&O, among others.

# Consulting in Corporate Governance

KPMG is highly specialized in projects related to Corporate Governance. Our professionals fully dedicated to the subject may assist family businesses in structuring their governance, covering process development and the set of activities that combine company operations and meet expectations of business perpetuation and family harmony.

Based on a holistic view, and simultaneously concerned with family interaction with ownership and business, KPMG is capable of providing support as follows:

- Structuring Family Governance: Family Counseling, Succession Plan, Family Agreements, Family Holdings, preparing Financial Statements, creating a Family Office, Coaching and Training Plan.
- Corporate and Business Governance Structuring: Board of Directors, Board Advisory Committees, Professionalized Management, Performance Indicators (KPIs), Management Coaching.
- Structuring Operating Procedures: Internal Control Environment, Operating Process Risk Management, Ethics and Conduct, Accounting and Tax Support.

# Enterprise Markets

KPMG's Enterprise Markets in Brazil is a line of business focused on differentiated assistance to entrepreneurs, family businesses and startups. Despite the size of the company or the current life cycle stage, we are there to provide a specialized touch with a local approach and a global reach. Your business is important for KPMG.

# About KPMG in Brazil

KPMG is a global network of independent firms that provide professional Audit, Tax and Advisory services. We are present in 152 countries, with 189,000 professionals acting in member firms throughout the world.

In Brazil there are approximately 4000 professionals spread out in 22 cities located in 13 States and the Federal District (Brasilia).

Guided by its purpose of creating a change, KPMG has become a reference company in its field of activity. We have shared value and inspired confidence in capital markets and communities for over 100 years, changing persons and companies and creating positive impacts that contribute to produce sustainable changes in our customers, governments and civil society.

# Contact

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