



cutting through complexity

Succeeding in a changing world

Business Leaders Agenda

Family Business

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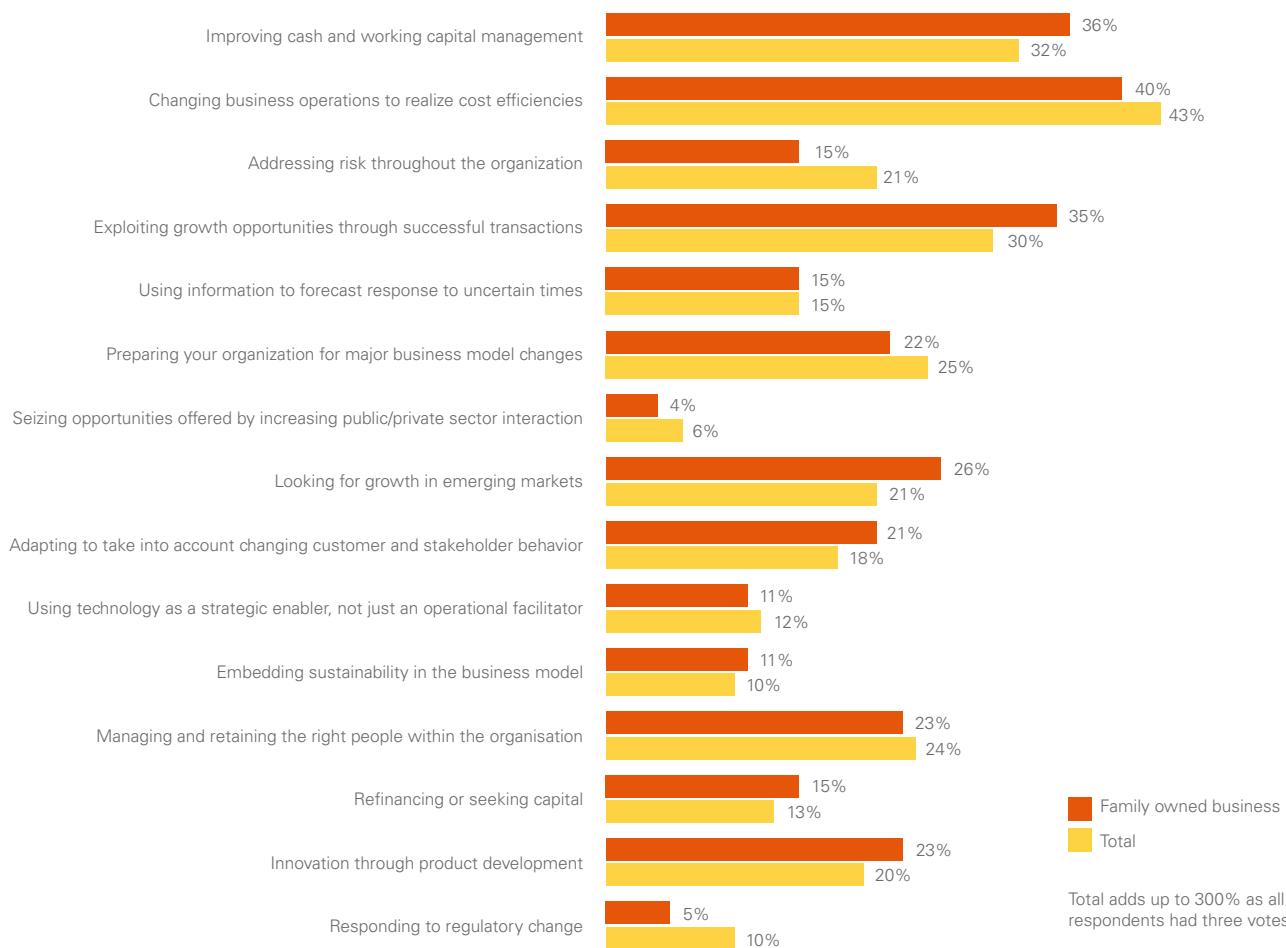


Family Business – succeeding in a changing world

KPMG Europe LLP surveyed 700 companies in 21 countries that listed themselves as 'family businesses' in February 2012, with a view to find out the issues that they currently face.

In a time of downbeat economic predictions, particularly in parts of Europe, our findings revealed much hope, in that family businesses had growth firmly on their agenda.

The primary issues for these, often medium-sized, but well run organisations, revolve around three main themes, preserving cash, growth and changing governance.



Family businesses as the backbone of the economy

Of the 700 businesses that we surveyed, 62% agree that family businesses will increasingly be the backbone of their economies. Family businesses are a major growth driver in many national economies with the huge capacity to create employment.

The driving forces for family businesses are related to growth, risk and ownership control. As they tend to take the longer term view; interested in growing the family wealth and having a different set of strategic goals compared to non-family owned private companies, their long term economic contribution is significant, and will be increasingly so as many western countries attempt to return to healthier economic positions.

In times of good news, it is often the case that family enterprises are not recognised as the work of the big global corporations is reported. However, in times of economic uncertainty, the resilience and sustainability of family businesses, brings them back into the spotlight again. For many family businesses the ability to plan long term can give them a huge competitive edge, allowing them to be more innovative than the corporate sector. In addition, the agility in which a well-run family business can take decisions quickly means that many are in a better position than the corporate sector to ride out economic downturns, and some are actively acquiring other companies that are doing less well.

Their independence from the capital market, and strong focus towards cash reserves are also qualities that will continue to give traditional family businesses a genuine competitive edge in the marketplace as the global economy recovers.

However, improving cash and working capital was cited as a major issue for the family businesses that we surveyed, more so than respondents from the corporate sector according to the findings. Family businesses are often cash rich, with low working capital requirements. In the current economic climate, particularly in the Eurozone, getting access to funds is incredibly tough. Family businesses have no option but to carefully manage cash within their organisations as this seems to be a sector that is not viewed as attractive enough by many of the banks looking to lend.





Taking the professional approach

As family businesses operate in continued challenging times, it is interesting to note that, based on our survey findings, we are beginning to see the growing professionalization of the family business sectors.

Nearly 80% of respondents looking to bring non family executives and non executive directors into their businesses in order to keep competitive. One of the downsides of being part of a family business is that they are often perceived as having no separation between family and business interests, which can lead to conflict and key decisions not being taken effectively. So in order for family enterprises to play to their strengths in the global competitive arena, they will have to adopt an even more professional approach.

The fact that such a large percentage of respondents are starting to now act on this is a hugely important move as family businesses start to professionalise their Governance model. They understand that they can own the capital and net the dividends, as well as play a key role in deciding the strategy of their business, but bring in professionals with commercial experience and knowledge to execute the day to day running of the business. It is important however, that families have a clear vision that they can share with professional management about their expectations for the business and the direction that it needs to take.

Competitiveness to survive and grow will depend on the strategy and organizational capabilities, which flow from the family directly and from the resources hired from outside.

The increased accountability, both internally to a Board, involving external non-family members can be used to bring in new and different skills and experiences. Where there are different shareholders, the introduction of corporate governance disciplines can be a commercial advantage. There are a good number of family businesses which enjoy the wisdom and counsel of external directors in helping develop their business, without seeing the presence of independently minded individuals as a disadvantage. The greater the number of commercial minds on both sides will lead to a greater likelihood of better decisions being taken and better business performance.

Next generation family business owners

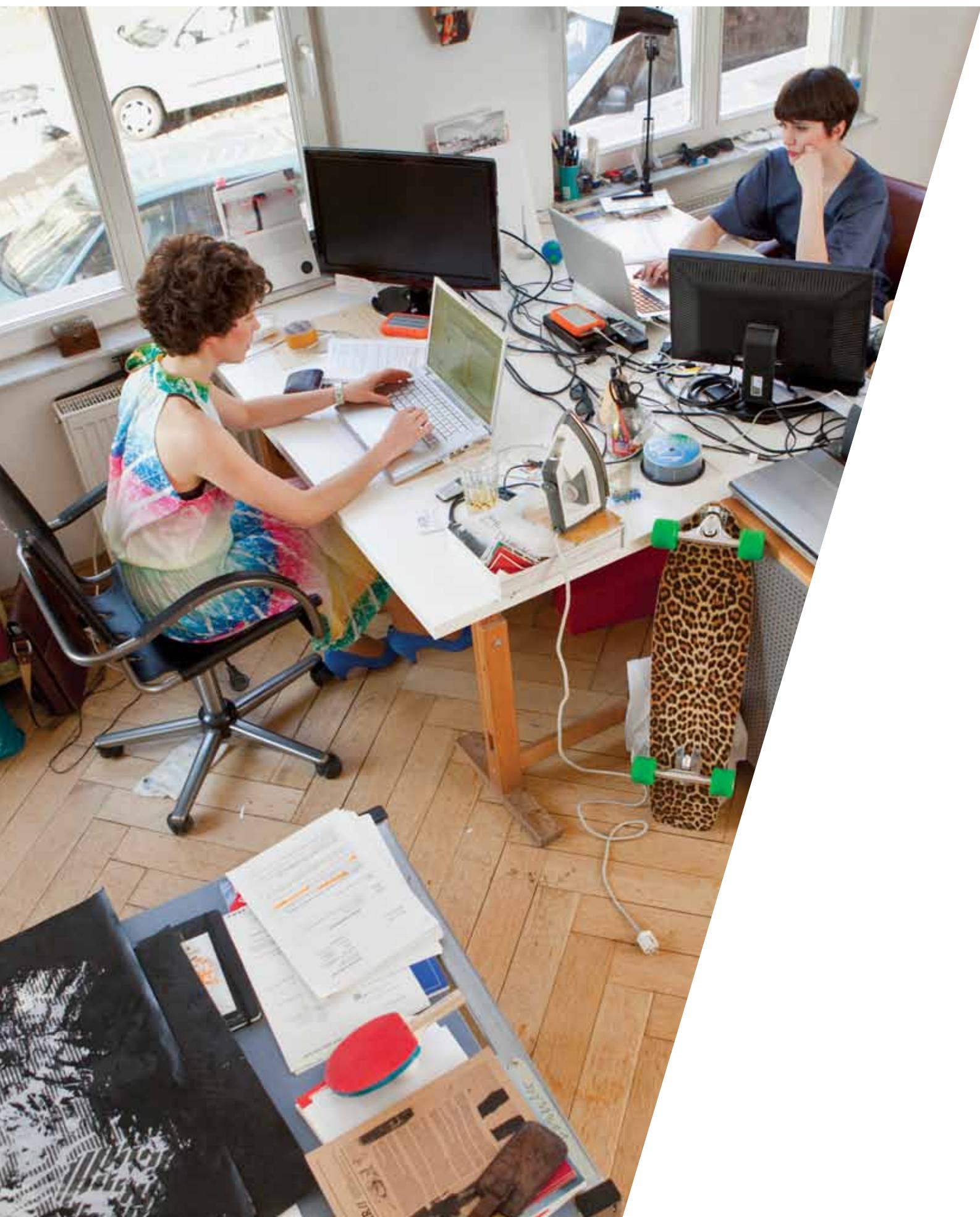
As family businesses look outside for specific commercial skills that are required to move their businesses forward, what will this mean for the next generation of family business owners?

Nearly half of the businesses that we surveyed felt that the next generation of family business owners will change their decisions about entering the business due to the economic conditions.

Whilst in many family businesses, structured and systematic programmes exist for the younger generation to join the business; many next generation family businesses owners will see the benefits of cutting their commercial teeth outside of the family enterprise. Future family business leaders will want to come to their businesses with a good commercial awareness as most of them start at the junior executive level within the business.

However, with job prospects for graduates in the larger corporate sector increasingly competitive, and much data signalling that the jobs market is tough for graduates currently, there could be added pressure for the next generation to forego industry experience and go to work directly from university in the family firm. The next generation must be engaged in planning their own future, and come to see the family business as a flexible and open environment in which they are invited to play a meaningful role.





Support for family businesses

The figures relating to how important family businesses are to their national and the global economy speak for themselves, they are a very vital part of the global economy, contributing a huge percentage of GDP.

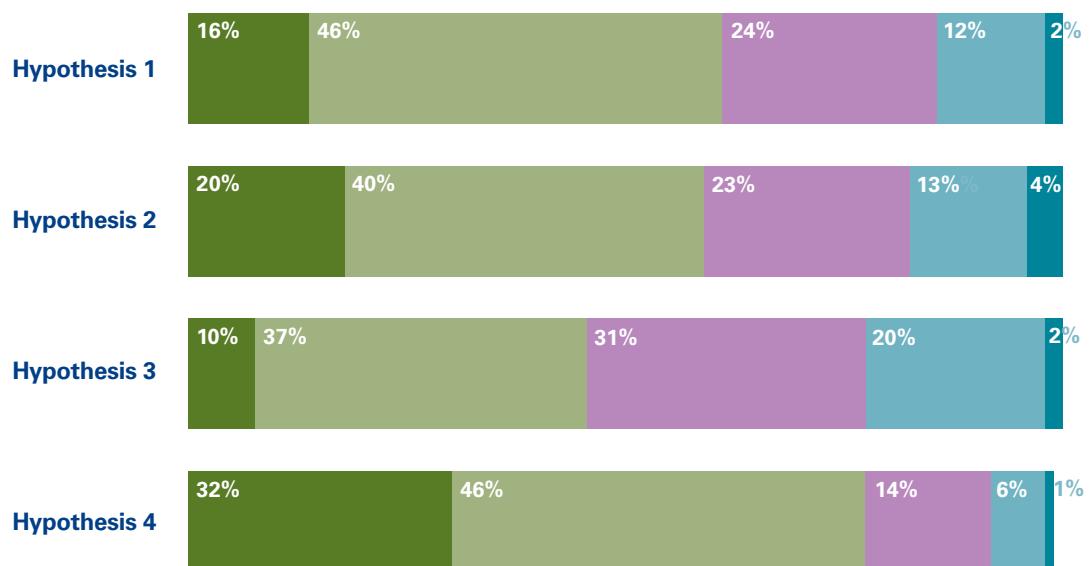
However, 60 percent of the family businesses that we spoke to agreed that family businesses need to be better supported by national governments through funding and initiatives.

It is important that this vital global business community is allowed to operate on a level playing field with the large and publically owned corporates. There are many issues that are pertinent to a family business, particularly around succession and inheritance tax. In addition, there is more that the various Governments could be doing to improve access to non-banking sources of finance for family businesses and the corporation tax regime tax, which in some countries has a bias towards debt finance, often resulting in entrepreneurial family firms funded by retained earnings having a higher cost of capital than companies that rely on debt finance. Often the financial logic that drives family businesses is found to be different from non-family businesses and Governments should have a greater awareness of these in order to better support the family business sector.

However, there are many tax incentives that are particularly favourable to the family business sector which they should make sure they are aware of and are making full use of.

Finally, and this is a very positive sign, with over a third of family businesses expressing a desire to look for growth via transactions, and a similar number interested in the benefits of exploring a move to the emerging economies, it is pleasing that this sector seems to be focussed on growth and it's opportunities. For many family businesses, maintaining the value of the business for future generations is paramount and in the slow growth economies of Europe in particular, it makes sense that family businesses are on the acquisition trail and looking for opportunities in the double digit growth economies in the East and Africa. A real hope for the future.

Family Business Results



Hypothesis 1

Family Business will increasingly be the backbone of the economy due to its long term planning, agility, and a consolidated family ethic.

Hypothesis 2

The Family Business sector needs to be better supported by government funding and initiatives, otherwise its growth will be limited and its size and contribution to the economy will be reduced.

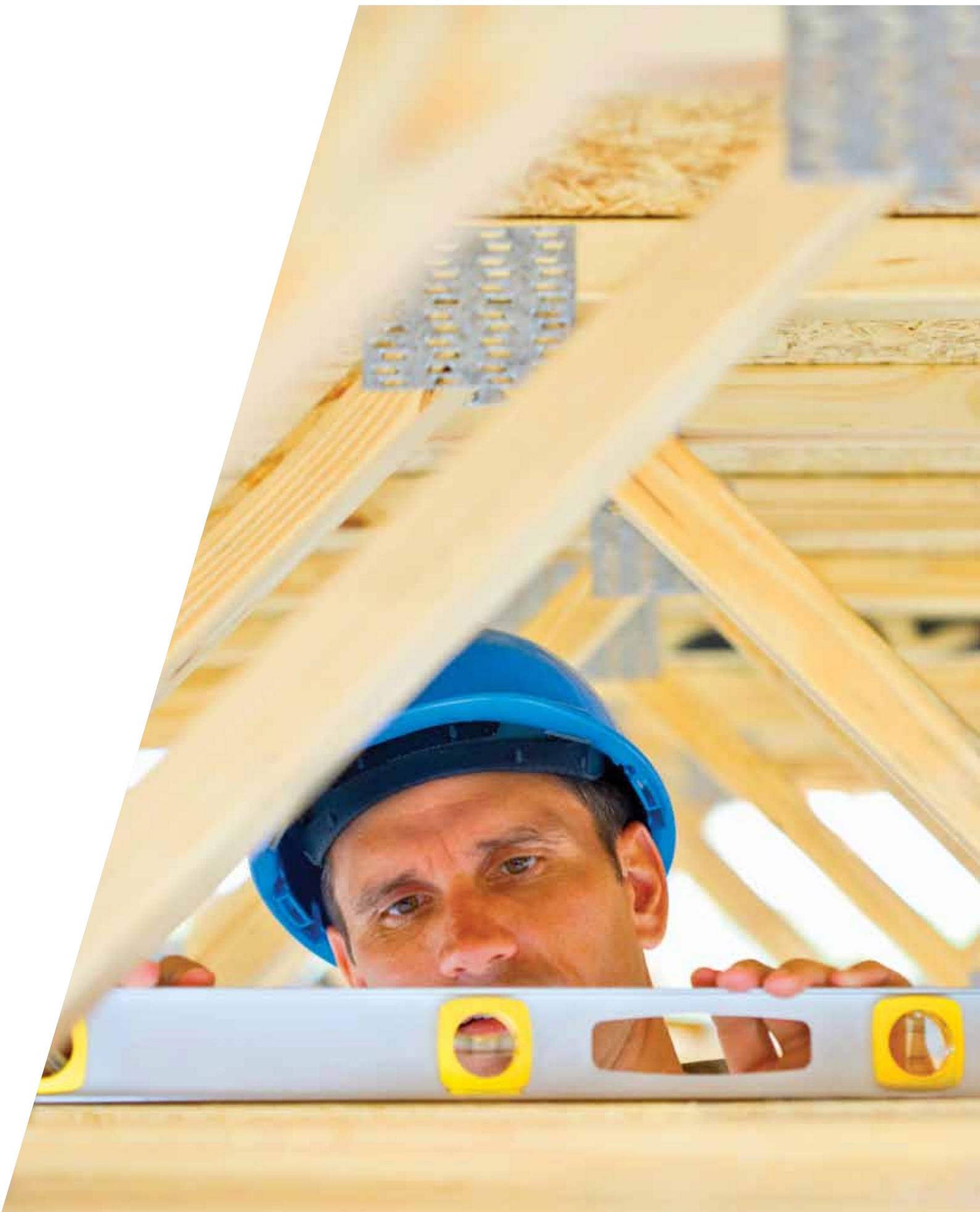
Hypothesis 3

The continued subdued economic conditions will encourage more of the next generation to either make the decision to join the family business earlier, or revisit the decision not to join.

Hypothesis 4

Non family executives and / or Non Exec Directors and outside advisers will become increasingly important to enable family businesses to remain competitive and reduce internal conflicts.





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