



# European Family Business Barometer

Sustaining future growth

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// Welcome to our inaugural Family Business Barometer produced by European Family Businesses (EFB) and KPMG.

This collaboration seeks to gauge the confidence of the family business communities across Europe, and the challenges and opportunities they face. //



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## Sustaining future growth

Welcome to the report of the first European Family Business Barometer. European Family Businesses (EFB) and KPMG have joined forces to create a unique Barometer to measure the confidence levels of the members of EFB, and the opportunities and challenges impacting on their operations in the short, medium and long term.

The past few years have been challenging for businesses of all sizes and family businesses are no different. However, for this sector of the business community, navigating their way through the challenges associated with a downturn and their ability to adapt to the changing environment has ensured their continued contribution to regional economies and the EU as a whole.

Overall, the Barometer indicates that family businesses remain confident in their ability not only to survive the current economic conditions but to also take advantage of opportunities for continued growth, investment and success.

The business environment is changing. But the general vision, principles and foundations of family businesses persevere. Their long-term focus is highlighted through the majority of

respondents indicating that they have a strategic investment plan for their business ranging from investing in internationalisation, diversification and continued development of the core business. In addition, positively the respondents see a greater opportunity in Europe.

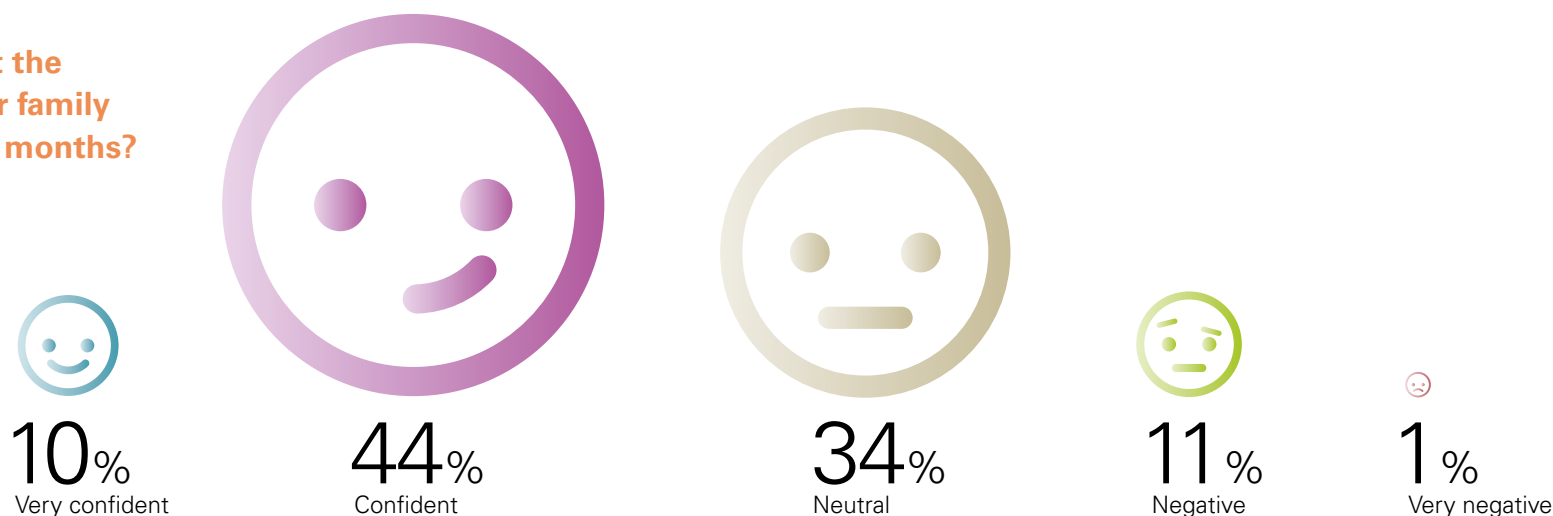
Although the Barometer suggests that the picture is positive for the future, significant challenges remain. Namely, lending to family businesses remains difficult, highlighted by just over half the respondents noting that they have experienced complications in accessing finance. Secondly, the Barometer suggests that the respondents see that there is significant room for improvement with regards to the regulatory framework in which family businesses operate.

Family businesses will remain in a strong position as markets continue to stabilise and they will continue to make their crucial contribution to renewed growth in Europe.

We hope you enjoy reading the first survey which we hope has and will lead to a better understanding of this crucial but often unreported part of Europe's economy.

## CONFIDENCE

**What is your feeling about the economic situation of your family business for the next 6-12 months?**



The past few years have been difficult for all countries across Europe and the confidence levels in many businesses has been low. However, in contrast to many other sectors, family businesses seem confident about the future with 54%<sup>1</sup> of respondents indicating that they have a positive outlook for their business for next 6-12 months.

The ability of the family business community to navigate their way through challenges such as a squeeze

on profitability; decline in sales; and the weight of administrative burdens – all identified as the key issues facing family businesses in the current market – is evident.

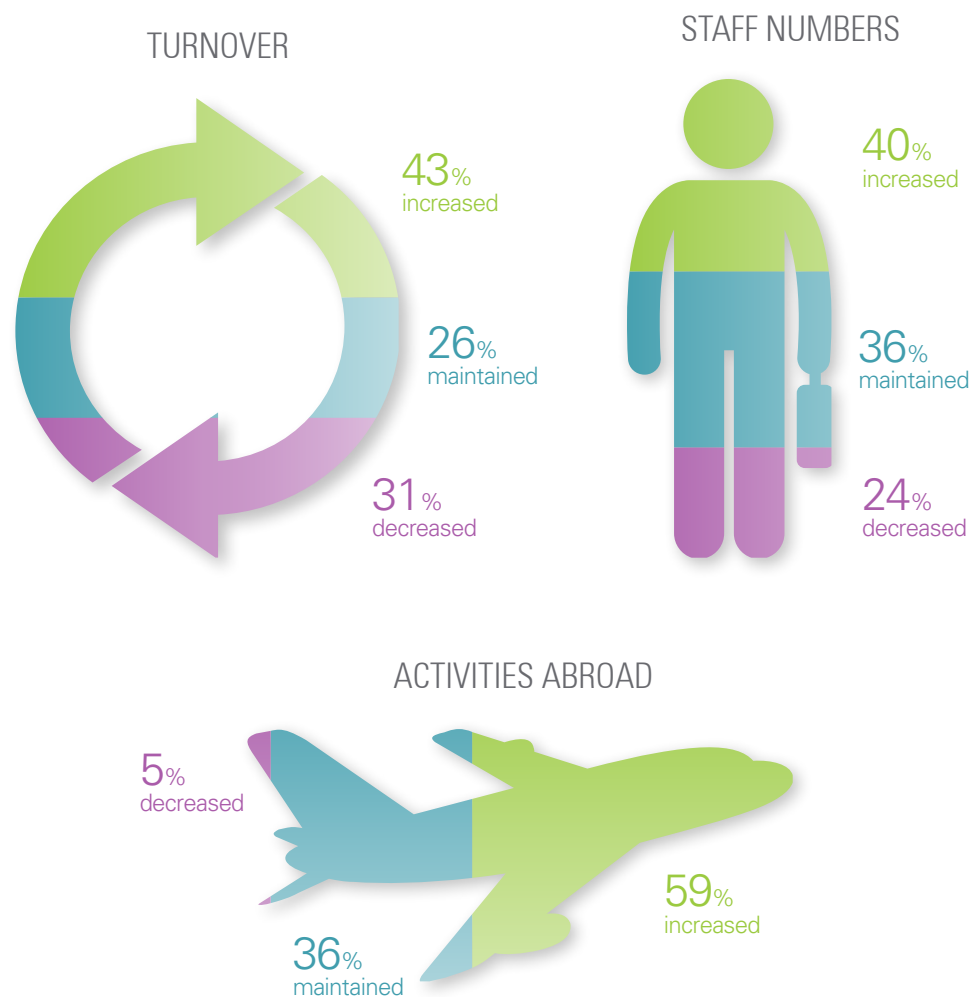
This insight reinforces what KPMG and the EFB are hearing from family businesses.

In contrast to many other sectors, family businesses are confident about the future with **54%** of respondents indicating that they have a positive outlook for their business for next 6-12 months.

<sup>1</sup> 54% constitutes 44% respondents who have indicated that they are confident; and 10% who have indicated they are very confident

## CONFIDENCE

In the previous six months your company has:



For family businesses, the future is about more than just survival, it's about continued sustainable growth. With 43% of respondents reporting that their turnover has increased during the last six months, and 26% indicating that they have maintained turnover the future for many appears bright. In addition, unlike many sectors, family businesses have been bucking the trend of disinvestment with over 76% respondents either increasing or maintaining the size of their workforce; 63%<sup>1</sup> considering investing in activity in countries beyond their own; and 85%<sup>2</sup> indicating that they anticipate growth for their family business during the next six months.

It is reassuring to see that family businesses are not only confident in their ability to achieve sustainable growth but that many respondents have a clear sight on their source of that growth. It is interesting to see that this confidence is supported by the willingness to invest in activities traditionally associated with generating longer term rewards. 90% of respondents indicated that they have a strategic investment plan for their business ranging from investing in internationalisation, diversification and continued development of the core business. This is further supported by the results that only 28% of those surveyed indicated that they would be investing less than 1% in research and development activities.

<sup>1</sup> See infographic on investment in the future (pages 10-11)

<sup>2</sup> 85% is constituted from 23% anticipating growth from the domestic market; 30% growth from overseas markets; and 32% growth from domestic and international markets.

**85%** of respondents indicated that they anticipate growth for their family business during the next six months



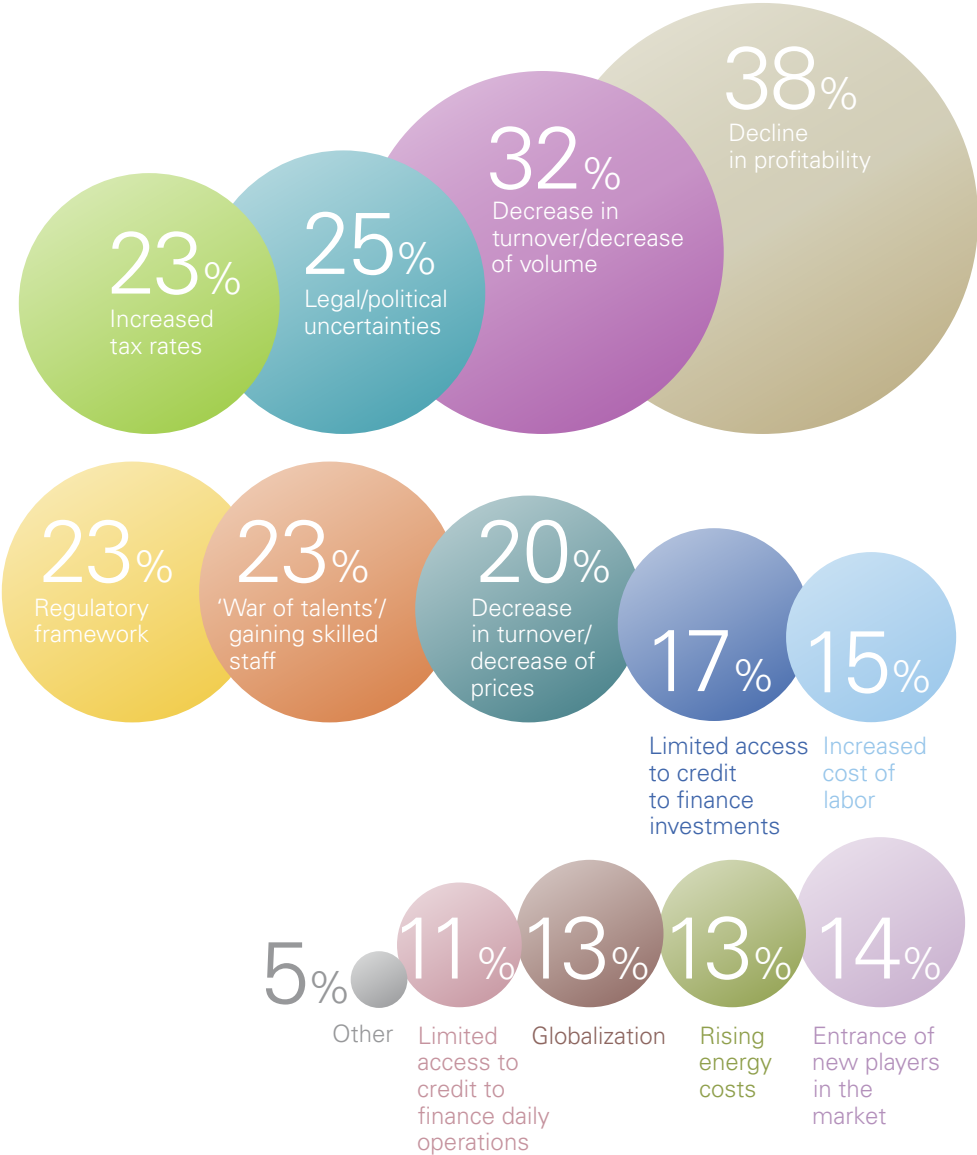
# CHALLENGES AND CONCERNS

## What are the major issues that your family business is facing right now?

The challenges of the past few years have been unrelenting for many businesses. It is therefore no surprise to see that a decline in profitability and decrease in turnover/ volume is high on the agenda for many of the family businesses surveyed.

The biggest surprise is that access to credit to finance daily operations features quite low on the list of concerns with just 11% of businesses surveyed noting this as a major issue facing their business in the current environment. This figure could however, be mis-leading as 17% have indicated that limited access to credit to finance investments is a major issue. This could be a sign of confidence in respondents ability to access finance or a willingness, or acceptance, that self-funding is the route open to them.

**17%** of respondents have indicated that limited access to credit to finance investments is a major issue

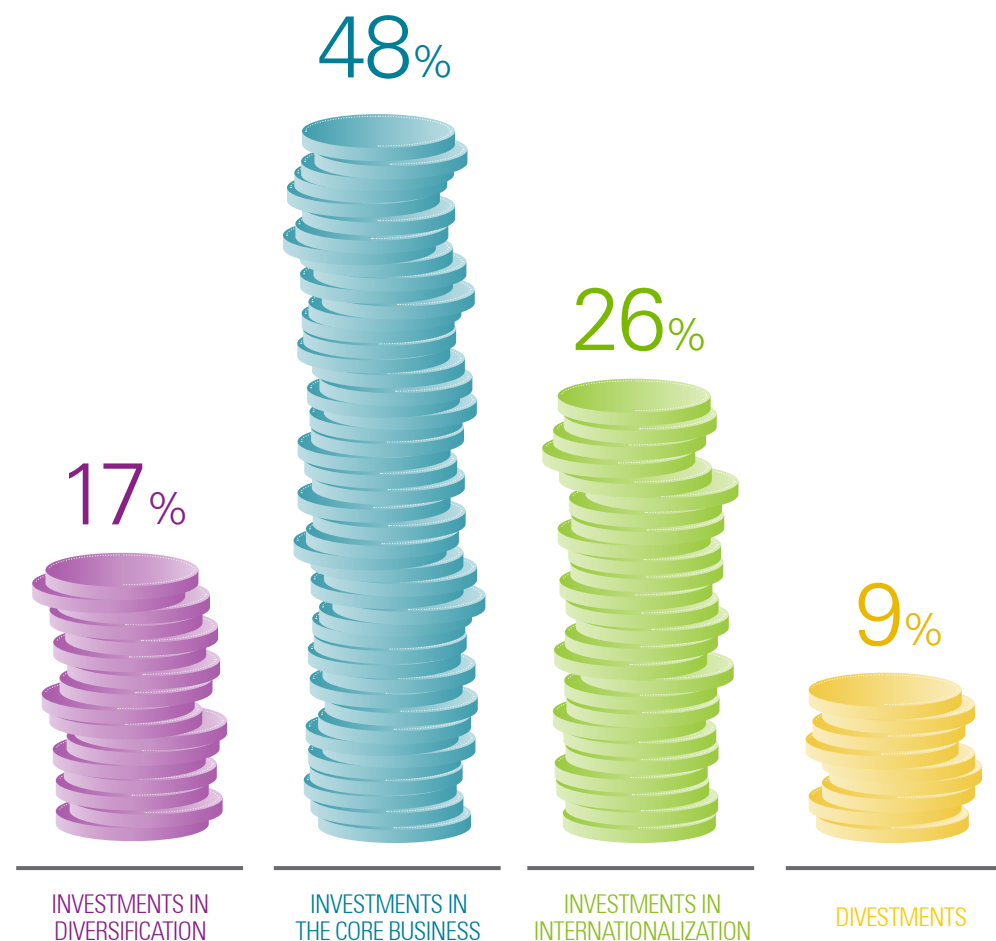


## INVESTMENT IN THE FUTURE

### Does your strategic plan include any investments or divestments?

Investment continues to be high on the agenda of many European family businesses. The results suggest that investment in the core business continues to be the priority. However with 26% of respondents indicating that they will be investing in internationalisation, the barriers to growth outside of a single market are no more. Successful businesses are likely to invest in a mix of investments and divestments reducing their exposure to risk of investing in a single approach.

The results suggest that investment in the core business continues to be the priority

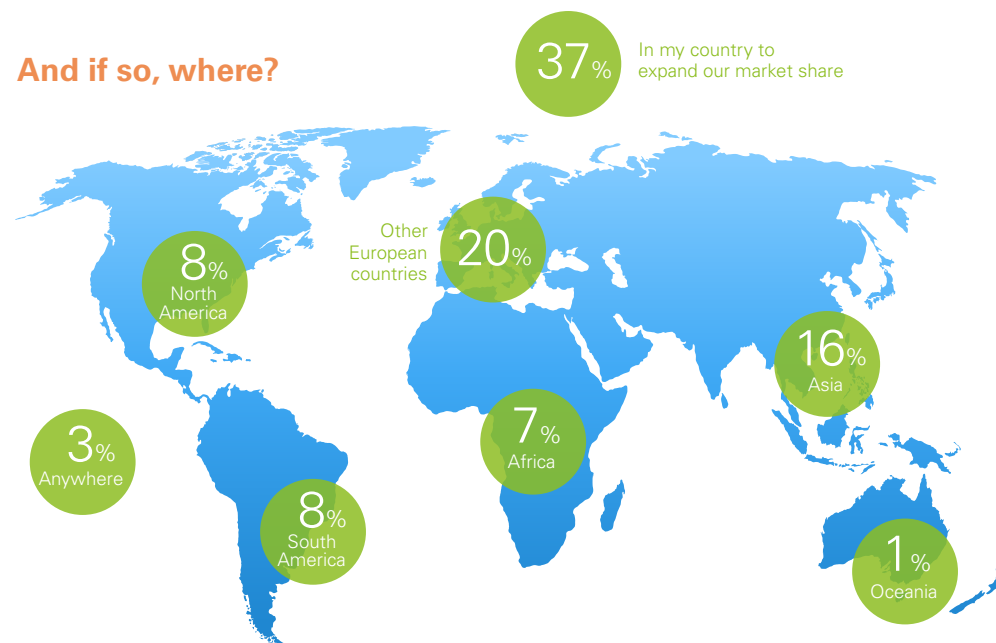


## INVESTMENT IN THE FUTURE

Are you thinking about investment opportunities?



And if so, where?



The future of the family business market appears to no longer be firmly fixed in the domestic market with 63% of respondents surveyed indicating that they are considering overseas investment opportunities. The ability for family businesses to enter overseas markets whilst maintaining or increasing their presence in the domestic market is likely to have contributed to their continued success and only 23% of respondents indicated that they expect to see their growth supported by their domestic market only. Of course this isn't always out of choice.

Family businesses appear to recognise that adaptability is an important part of their growth strategy and as such encouraging trading in multiple jurisdictions is something to be encouraged. Where businesses aren't entering foreign markets, it appears that almost half of those surveyed don't due to lack of familiarity with the market, financing to take the first step, or lack of public support.

It is also notable that 21% indicated that their products/services are not transferable into overseas markets, indicating that they understand the

products they offer, the markets they are most suited to and a commerciality that some other businesses often lack.

It is pleasing to see how many family businesses are planning to grow during the next six months, and that this growth is being stimulated by both the domestic and international markets. However, with

over half of the respondents indicating that their major challenges to growth include the increased administrative burden such as tax structures, regulatory frameworks and talent shortage, the opportunities to stimulate growth via the simplification of some legislation could be significant.

**63%** of respondents surveyed indicated that they are considering investment in other markets outside of their own country

# ACCESS TO FINANCE

It is pleasing to see that many family businesses have continued to grow during the past 12 months both in terms of turnover and staffing size. However, just over half of the respondents have experienced challenges with respect to access to funding (figure 1). The majority of family businesses responding indicate that their business has been affected by greater restrictions to financing leading to issues with cash management and in a small amount of extreme cases loss of control of the business.

A large proportion of respondents have also indicated that they have experienced challenges in accessing bank credit with approximately a third indicating that it is largely due to the increase of guarantees needed to secure the loans (figure 3). In addition, a quarter of respondents have indicated that banks have no interest in financing family businesses.

Regardless of a perceived reluctance by banks to fund family businesses, almost 50% of respondents (figure 2) indicate that they still see bank financing as being the most attractive source of funding during the next six months.

A shortage of funding could represent a key risk for family businesses as limited access to financing could restrict future investment and growth. While many family businesses have continued to experience success, access to funding however will be the stimulus for future success.

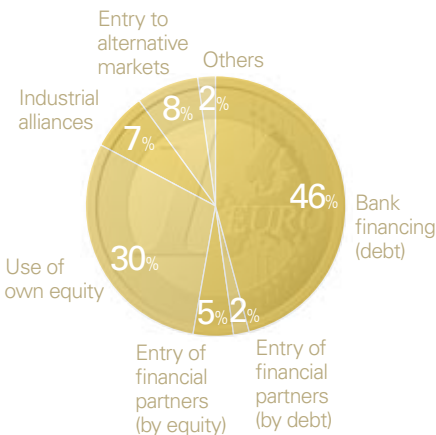
Regarding the last six months, how has your family business been affected by the greater restrictions on access to financing?

(Figure 1)



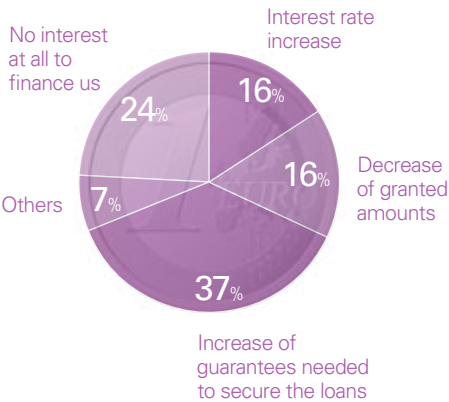
Regarding financing, which of the following options do you consider the most attractive in the next six months?

(Figure 2)



If you are facing problems in accessing bank credit, please explain why.

(Figure 3)



**24%** Almost a quarter of respondents have indicated that banks have no interest in financing family businesses



## THE FUTURE FOR FAMILY BUSINESS

### Importance of family issues for the business

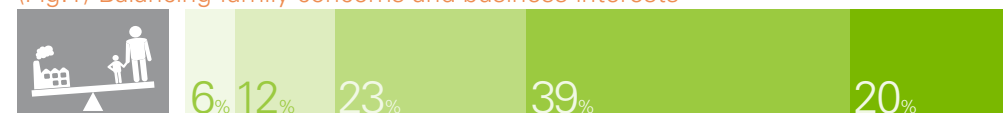
The challenges of the last couple of years have been unrelenting, regardless of which European country you sit in and while many businesses have needed to make difficult decisions, many family businesses have thrived. What drives their success is subjective, but there are common themes which emerge including: **having good governance structures and processes in place** – considering this market segment enjoys a freedom to carve out their future success, the acknowledgement of what good governance can bring is high and at 72% (fig. 3), it is the most important factor. This is also supported by other statistics in the survey such as 60% indicating that fairness among family members is of importance as is establishing a family code of conduct or constitution which was rated as important by 67%; **ensuring that a succession strategy is in place** – 87% (fig. 6) rated preparing and training a successor before the handover of leadership as one of their top priorities which is supported by 32% who considered the ability to take a long term view as the key strength of their business.

The balance of identifying a successor and dealing with rivalry among successors is slightly mis-matched with over half of respondents appearing unconcerned about rivalry for the role of successor. Could family businesses see inter-family competition as beneficial to the future of the business? **Maintaining family control of the business** – 84% (fig. 5) of respondents see maintaining control of the family business as a key driver for success. This is taken a step further with 54% indicating that they consider maintaining roles senior members of the family retiring/exiting being important demonstrating that the family unit carries much weight in these businesses; **Communication between family members** across the generations and **ensuring that family are informed of business issues** also rated highly in the survey with, scoring a combined 86% (fig. 8) and 84% (fig. 4) respectively.

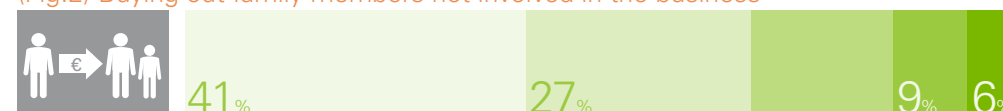
All figures are based on a combined figure of 'somewhat important', 'very important' and 'extremely important'.

Family businesses clearly have a clarity over what drives their success and it is interesting to note that many of these drivers are not short-term in outlook

(Fig.1) Balancing family concerns and business interests



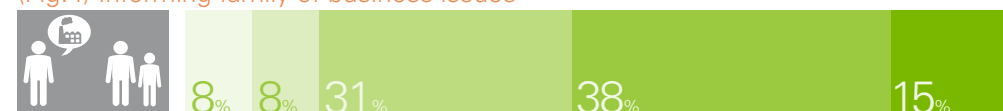
(Fig.2) Buying out family members not involved in the business



(Fig.3) Formalising the family role in the governance of the business



(Fig.4) Informing family of business issues



(Fig.5) Maintaining family control of the business



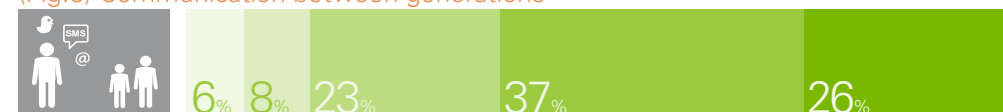
(Fig.6) Preparing and training a successor before leadership succession



(Fig.7) Selecting a successor



(Fig.8) Communication between generations



NOT AT ALL IMPORTANT NOT VERY IMPORTANT SOMEWHAT IMPORTANT VERY IMPORTANT EXTREMELY IMPORTANT

# THE FUTURE FOR FAMILY BUSINESS

Which of the following regulatory changes would you welcome first?



What is surprising is how low the call for Government subsidies and anti-competitive behaviour legislation is, with only 11% and 9% respectively indicating that this would make a major difference

The survey results have highlighted the important contribution that family businesses are making across Europe and how their levels of confidence are affecting success indicators such as turnover. However, future success is partly reliant on their ability to continue to meet the challenges that lie ahead. When asked to rank the regulatory changes that would have the greatest impact on the future success of their business and therefore would be most welcomed, 62% requested simpler tax rules; and 57% highlighted that simplification of labour market regulation including more flexible employment arrangements. These figures are supportive of the consistent theme across the survey that people can not only be an organisations biggest asset but also their biggest challenge.

Throughout the survey, the need for improvements in education, support with the war on talent and the increased costs of labour emerge as themes. While the employer has the main responsibility to address these challenges for their own business, Governments also have role to play in providing the right educational skills and qualifications, supporting businesses to encourage apprenticeships around the areas of skills shortage and addressing some of the challenges associated with employment regulation. These statistics may come as no surprise to family businesses but what is surprising is how low the call for Government subsidies and anti-competitive behaviour legislation is with only 11% and 9% respectively indicating that this would make a major difference.

## METHODOLOGY

The European Family Business Barometer is based on the responses of an online survey, from 600 finished questionnaires which were received from EFB Members. The survey ran from July to September 2013.

The survey will be conducted twice a year to measure the trends of issues facing family businesses.

The responses came from 14 European countries:

Austria	Hungary
Bulgaria	Ireland
Czech Republic	Italy
Finland	Portugal
France	Spain
Germany	The Netherlands
Greece	UK

We trust that you have found this Barometer to be an insightful look into the family business sector. We look forward to continuing this project and shedding more light on this crucial sector for Europe.



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