



*cutting through complexity*

Family matters

**Financing Family  
Business growth  
through individual  
investors**

[kpmgfamilybusiness.com](http://kpmgfamilybusiness.com)

# Contributors

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# Foreword

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 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.

Our report, *Family matters – Financing Family Business growth through individual investors*, 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.

We hope that sharing our knowledge and insight will create discussion and provide food for thought. We welcome your experiences and feedback on this topic – please don't hesitate to contact us.



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# Introduction



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 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. In 2009, a 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 maximize 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 maximizing 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 underutilized route for investment is the involvement of high-net-worth individuals (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 timeframes and attitude to risk.

This survey explores how family businesses and HNWIs can work together to better capitalize 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 underutilized capital market.

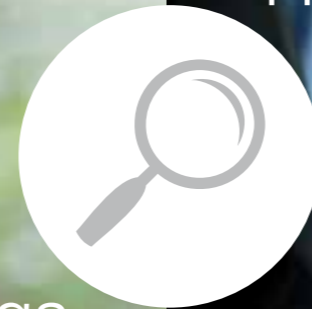


# Key findings

# Key findings



## Family business findings



## HNWI 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 recognize 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.

### 1 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.

### 2 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.

### 3 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

## Capturing the opportunity

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
- Investments 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
- Personalized 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
- High-level experts, who will make judgements based on an overall view of the business rather than focusing on details



# Financing for family businesses







1 Maintaining family control of the business is the top priority for a majority of family businesses globally, with 76% of businesses surveyed owned by families with a majority stake.

2 Securing funding can be difficult for family businesses due to the desire for discretion, privacy and retention of control. Despite this challenge, 58% of family businesses surveyed say they are seeking external financing.

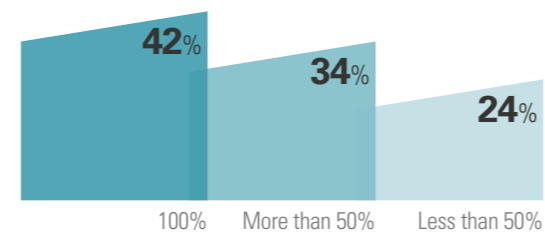
3 Survey results suggest that family businesses are more amenable to offering equity to the right investors than commonly perceived. One-third said they would be willing to offer equity in the short to medium term, with half willing to offer it for the long term.

4 The majority of respondents (94%) stated that long-term timescales and additional expertise were the preferred traits for investors.

# Who controls the family business?

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.

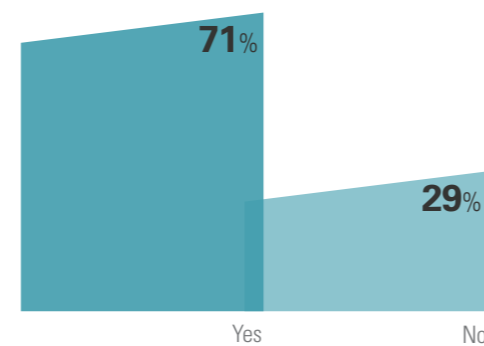
**FIGURE 1** What proportion of the company is owned by family members?



## Families in control

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.

**FIGURE 2** Is the CEO of the business a member of the family?



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.

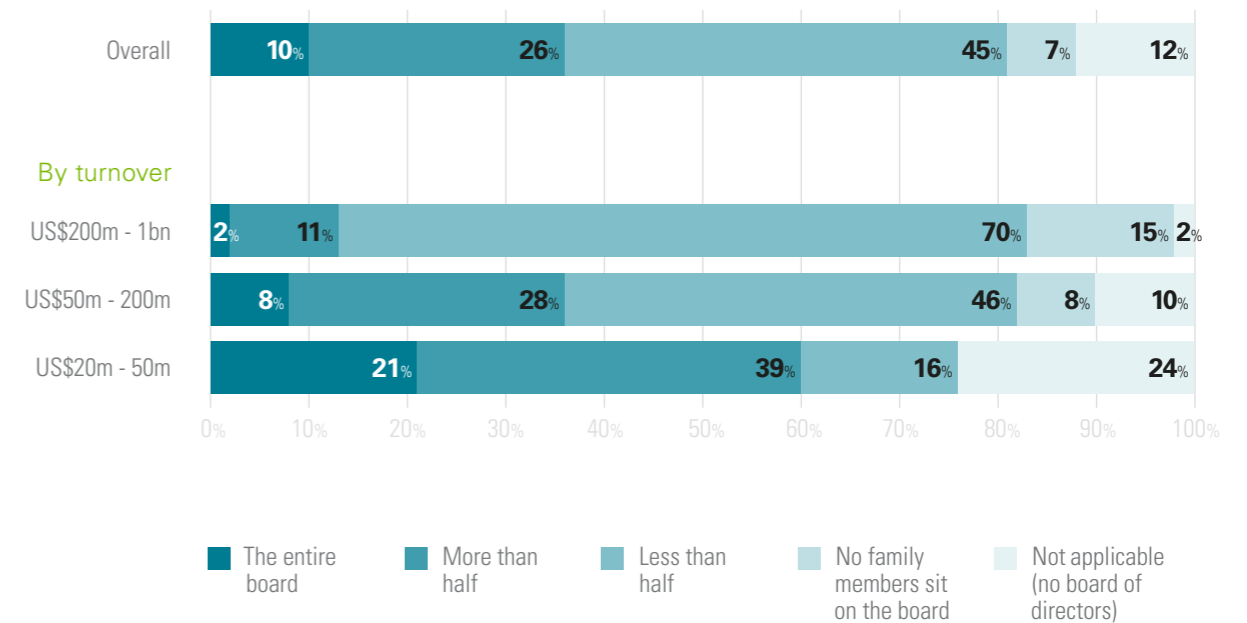
"We are very emotionally attached to our family business as we have been in operation for decades now," says one family member CEO of an Australian business. "Family members are positioned in both top management and at different levels based on their interests and skills ... Our business serves all our 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 recognize 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.

**FIGURE 3** What proportion of the board of directors is made up of family members?



**Formal governance prevalent in large companies**

As might be expected, given the need for more professionalized 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).

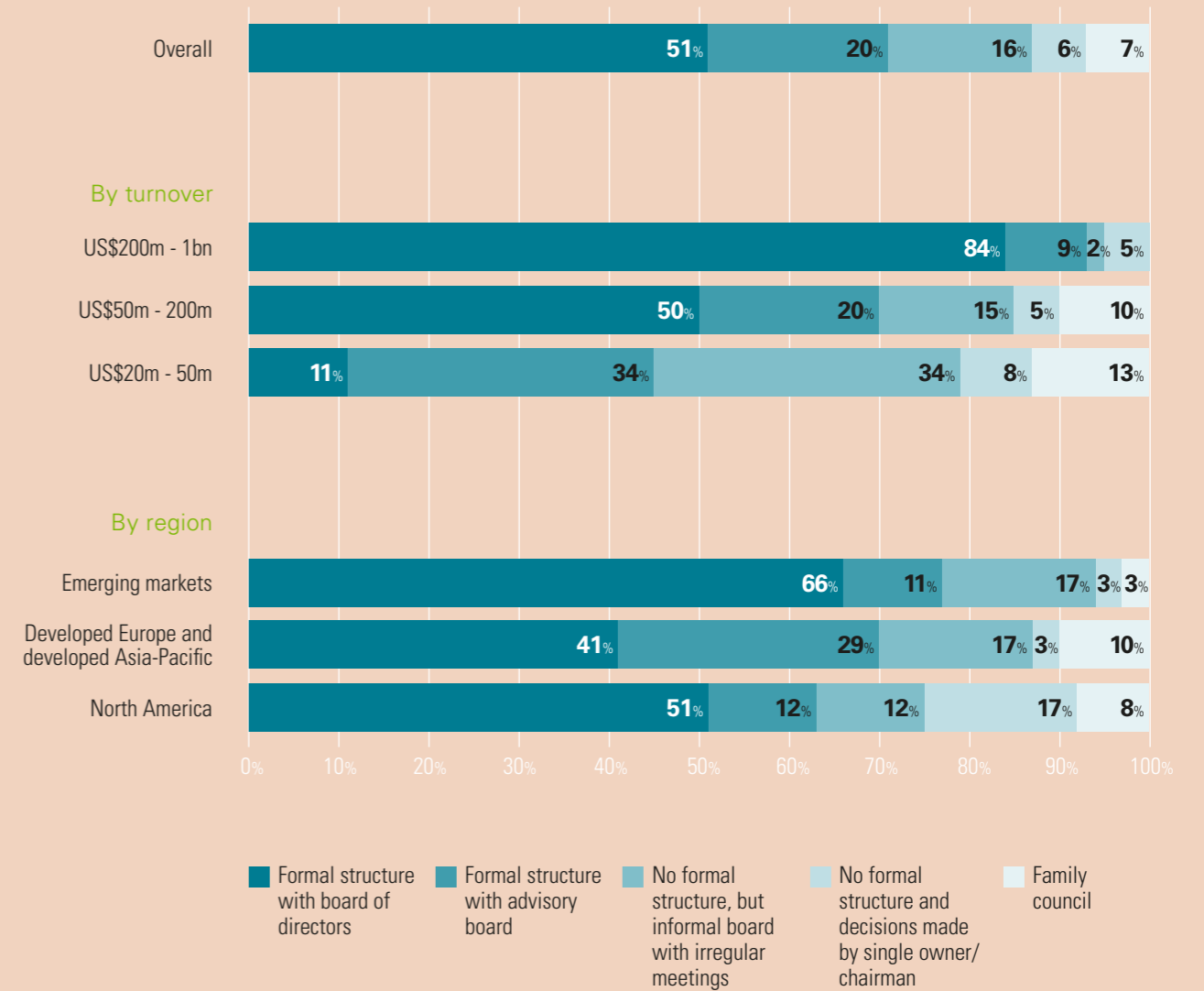
In larger companies, the board is also more likely to have a higher number of independent members, reflecting the need for more outside expertise and stronger corporate governance as companies mature.



**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).

**FIGURE 4** Please select the option that best describes your governance structure:



# What are the financing needs of family businesses?

Finance is the lifeblood of family businesses. Many are seeking capital to fund expansion plans, yet the uniquely long-term perspective most family members have when managing their companies, together with a reluctance to relinquish control and a desire for discretion, means that finding finance that matches their requirements can be a challenge. As a result, family businesses are casting a wide net when seeking funding, using a variety of finance sources, from more typical bank debt through to tapping family wealth, securing support from other businesses and bringing HNWI's on board as investors.

Survey findings suggest there may be a lack of knowledge surrounding the benefits of partnering for HNWI's, raising an argument for further education to be provided to family business owners concerning the financing options available to them. Family business associations might be an appropriate vehicle for such an education.

The business needed financing during the recession when bank financing was rather difficult and sparse, so we approached a few investors who were well known to the family to provide financing.

CEO, UK

## Capital needed for growth

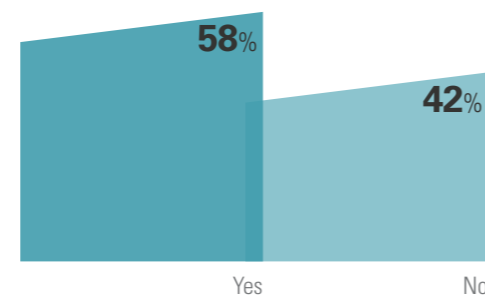
The popular perception of family businesses is that they are largely self-financing. This is certainly true for a significant minority of our respondents, with 42% saying they are not currently seeking outside finance (Figure 5). As illustrated by an Argentinean respondent: "We initially approach family members to buy equity, so that the company shares remain within the business." Indeed, many comment that they'd often prefer to finance through profits where possible. However, more than half of the family businesses (58%) surveyed say that they are currently seeking external financing.

In the short to medium term, businesses say the priority for this financing is expansion in existing markets through organic growth, funding day-to-day operations and new product or service development (Figure 6).

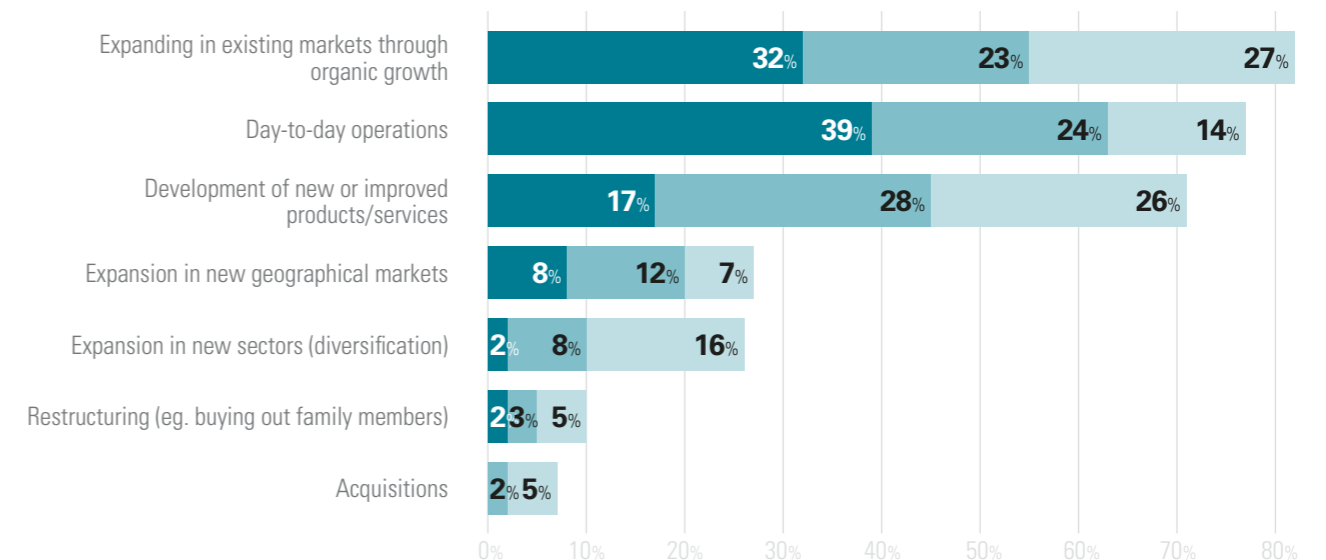
However, over the longer term, family businesses generally have more ambitious growth plans. Acquisitions are top of the agenda with nearly a quarter citing this as the most

important funding need, followed by expansion in new geographies (18%) and new sectors (16%) (Figure 7). This suggests that family businesses would be more adventurous and expansive, if they were better able to tap into sources of funding that were appropriate to their needs.

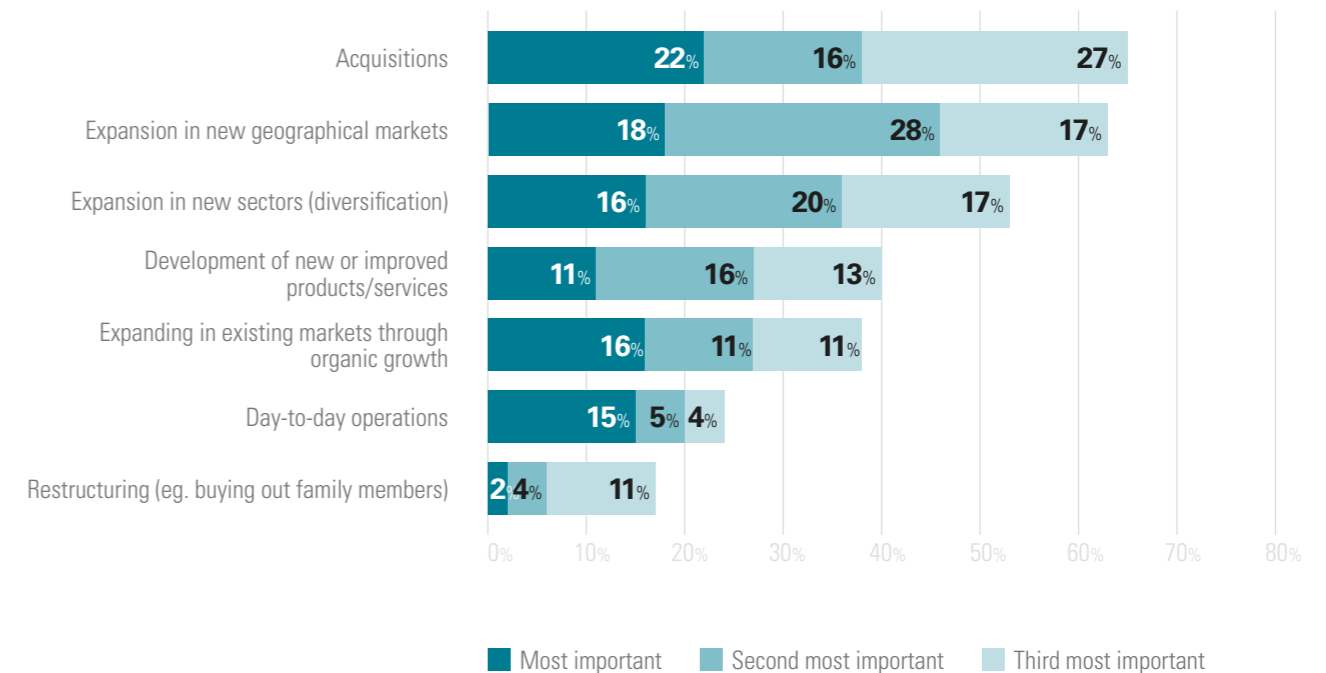
**FIGURE 5** Are you currently seeking external financing for your projects?



**FIGURE 6** What is likely to drive your need for external financing in the short to medium term (1-3 years)?



**FIGURE 7** What is likely to drive your need for external financing in the long term (3+ years)?



**Bank debt hard to secure**

Bank debt is by far the most popular method of financing for family businesses, with 30% of respondents saying this is the most important source of capital for them, followed by financing through internal profits, cited by 28% of respondents (Figure 8). However, nearly three-quarters of companies state that the current economic climate has had an impact on their ability to finance their projects through bank loans (Figure 9).

In many regions banks have reined in their lending since the crisis and a major challenge for family businesses – many of which place a high value on discretion – is the detailed level of information many banks now require when considering loan applications. As one respondent from Singapore notes: “Our business strategies are well documented and our plans for success are listed step by step, however banks do not necessarily always offer finance easily as they expect to know details like turnover, which we do not like sharing.”

An Indian CEO also shares concerns about bank loans: “Obtaining capital from the banks on an overall basis has been positive, but there were times when we’ve had obstacles in presenting our financial data and other documents leading to longer time procuring the amount affecting the performance.”

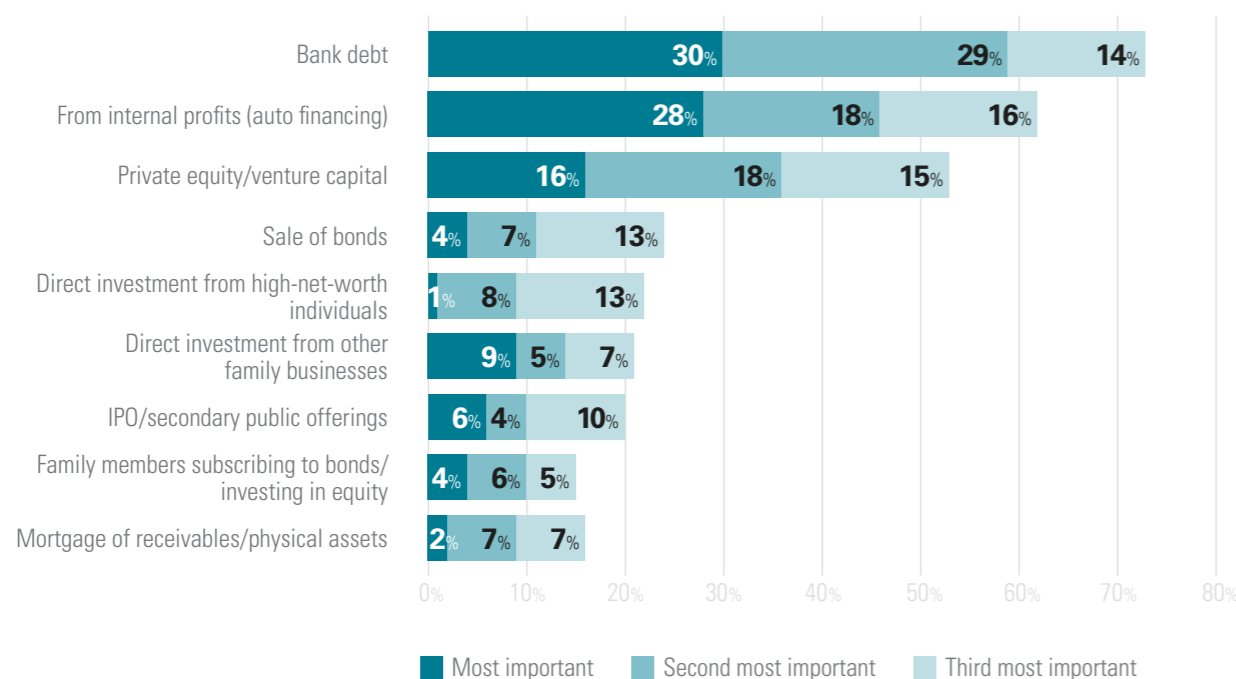
In a similar vein, an executive in Japan says: “Banks have started asking for documents that we keep confidential and feel are personal as it is a family business...we therefore try to find alternatives before deciding on a bank loan.”

Some respondents also feel that banks often do not understand the unique characteristics of family businesses and therefore fail to appreciate some of the sensitivities inherent in running a family-owned company.

Banks are too rigid and go strictly by the book, not considering any emotional sentiments that may be attached to the business. We have had too many failed transactions with them as they expect evidence for everything.

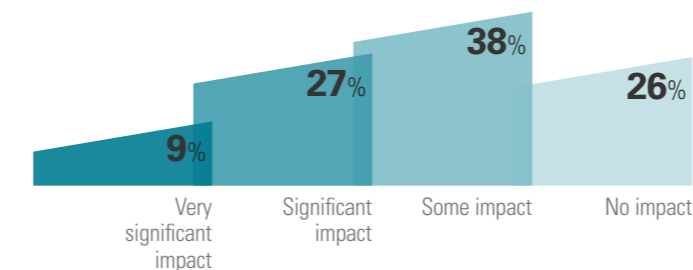
FAMILY DIRECTOR, CANADA

**FIGURE 8** How does your family business usually finance its projects?



These comments clearly illustrate that family business do see themselves as private and can be inward looking. These businesses could benefit from independent insight that HNWI individual, among others, can bring.

**FIGURE 9** Has the current economic climate influenced your ability to finance your projects via bank loans?



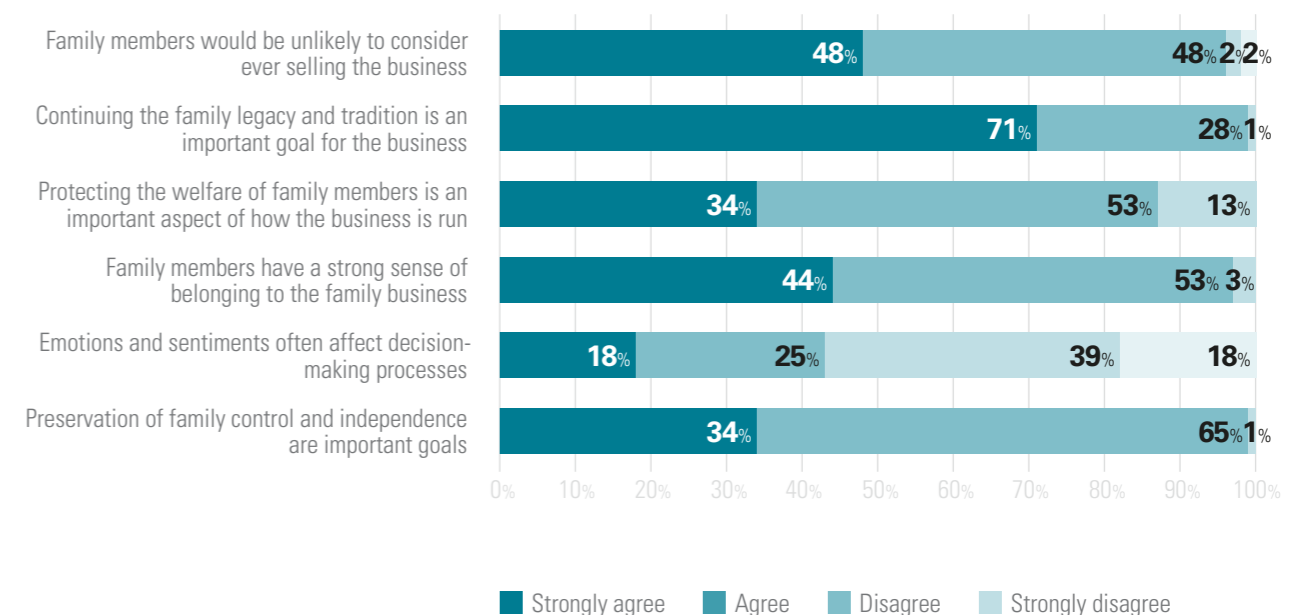
**Focus on preservation**

The fact that bank loans and auto-financing are by far the most popular forms of raising capital reflects the importance that most family businesses place on retaining equity. Indeed, over 96% state that family members are unlikely to ever sell the business, and 99% agree that preserving family control and independence are important goals (Figure 10). A similar proportion of respondents consider the family business as a legacy that they need to protect for future generations.

Our family business is very dear to us. Our ancestors worked hard to keep the business going and we intend to continue the legacy. We would never consider selling our business.

CHAIRMAN, AUSTRALIA

**FIGURE 10** Please select your level of agreement with the following statements:



# Are family businesses willing to offer equity for investment?

The question of equity has traditionally been a contentious one for family businesses, the majority of which are wary of losing control with the introduction of external investors, and for HNWIs, who prefer to have some contribution to decisions concerning the companies they invest in. The two parties have shied away from each other because of this issue – family businesses feeling that HNWIs would only be interested if they were offered equity, and HNWIs feeling they would have no say at all if investing in family businesses – but the reality is that the two are willing to meet closer to the middle than either party perceived.

## Open to the right equity investors

Survey results suggest that some family businesses will consider offering equity to the right investors and nearly half of respondents rank private equity and venture capital as one of their three most important funding sources (Figure 8, previous page).

The long-term horizons of HNWIs are one of the traits that contributes to the argument that they are the right equity investors. But despite this good match, only 22% of family businesses state that investment from HNWIs is one of their three most important sources of capital. Respondents that do source capital from HNWIs have a highly positive experience, suggesting that more family businesses could secure a great deal of benefit from this type of investor. “We depend on internal profits first and then find ways of encouraging high-net-worth individuals as they tend to focus on long-term investments,” says one Australian family CEO.

A Swiss executive says the reliability of HNWIs has meant they have now replaced bank debt: “In the early days, we’d rely on banks, but now we depend on HNWIs and other family businesses as these are patient, long-term investors.”

Survey findings show that family businesses are generally open to the idea of receiving input from investors, be that advice, industry knowledge, or in some cases, offering equity or a board seat. This suggests that the issue of equity may not be the barrier to investment that HNWIs have believed it to be.

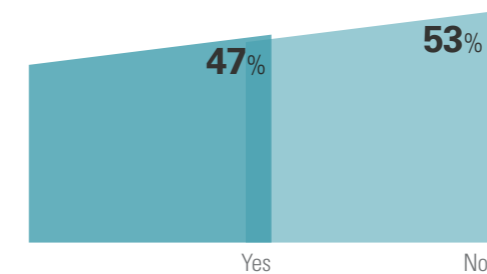
Our findings suggest that the issue of being able to obtain equity in a family business is far less of a barrier to entry than some investors may perceive.

Nearly half of the companies in our survey say they have previously offered equity to external investors to allow them to pursue their strategy (Figure 11). Moreover, one-third of companies say that they would be willing to offer equity in their business in the short to medium term, while almost half say that they would be willing to give up equity in the long term (Figure 12).

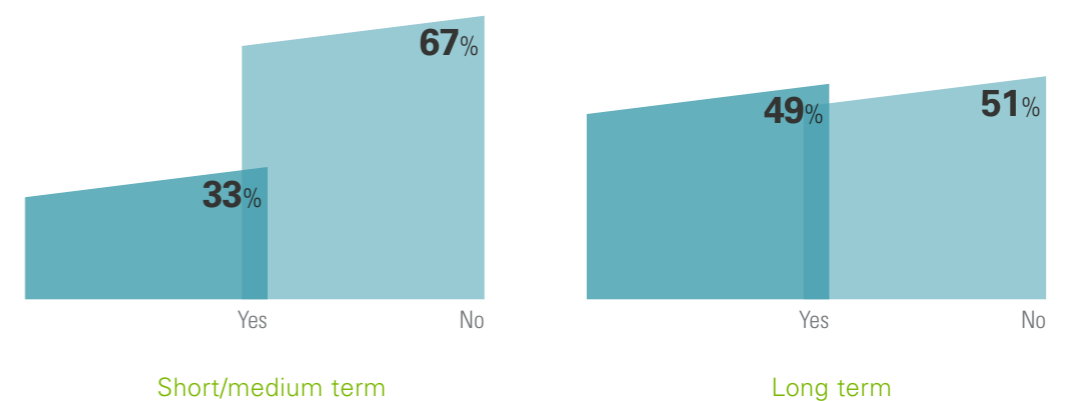
High-net-worth investors are a good catch as they prefer long-term investments and do not interfere.

CEO, SWITZERLAND

**FIGURE 11** In the past, have you ever offered equity in the business to external investors to pursue your strategy?



**FIGURE 12** In the future, would you consider offering equity in the business to pursue your strategy?

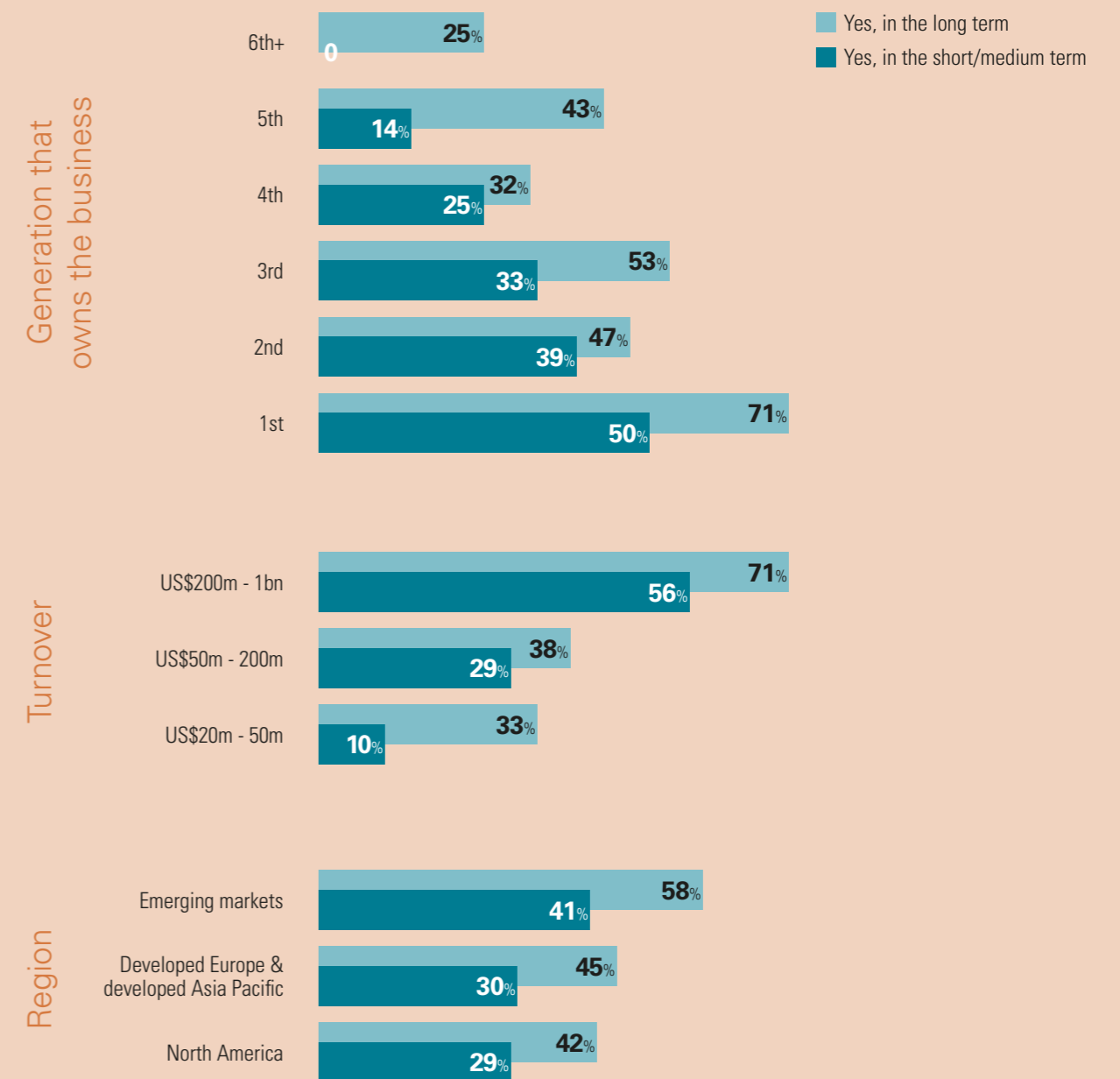


Larger firms may provide investors with the most opportunity as these are the most open to the idea of offering equity, particularly when in the more developed stages of growth and further growth becomes harder to fund through family funds and debt financing. Nearly three-quarters (71%) of family businesses with revenues between US\$200 million and US\$1 billion are prepared to offer equity in the long term, while a third of smaller companies (with revenues between US\$20 million and US\$50 million) would do so (Figure 13 – *Turnover*). Firms based in emerging markets are also, on average, more willing to offer equity than those based in developed markets, which possibly reflects a lack of alternative financing available in less mature markets (Figure 13 – *Region*).

The willingness of family businesses to offer equity is influenced not only by company size and location, but also by the relative longevity of the business. First-generation family businesses are far more likely to say they would offer equity in the long and short term (71% and 50%, respectively) than sixth-generation businesses, of which none would offer equity in the short term and just a quarter would in the long term (Figure 13 – *Generation that owns the business*).



**FIGURE 13** In the future, would you consider offering equity in the business to pursue your strategy? (Showing positive responses only)



**Families seek funds with added expertise**

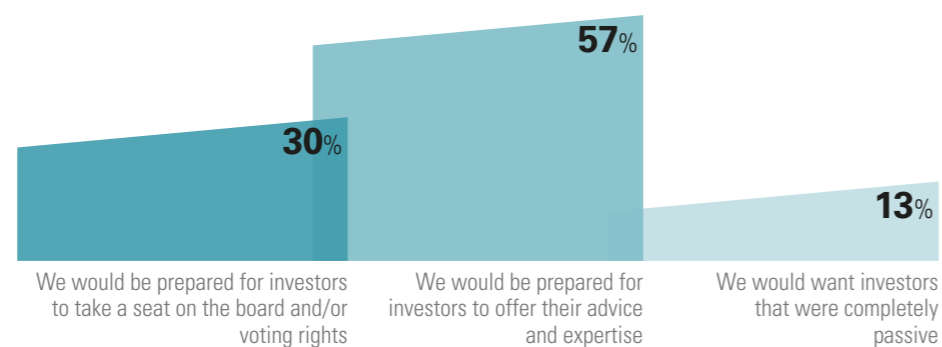
While access to more funding is the most significant reason for family businesses to offer equity in their companies, they are also attracted by the additional expertise an outside investor can bring. This suggests that, although family businesses are keen to maintain control, they also recognize that outside experience and knowledge can bring significant benefits to their company.

This is reflected in the fact that just 13% of respondents say they would want outside investors to be completely passive (Figure 14). By contrast, 30% say that they would be prepared for investors to take a board seat, suggesting they value the strategic input an outside investor could bring, while 57% would be willing for outside investors to offer their expertise. In addition, this approach offers a lower level of risk in comparison to debt, as well as encouraging improvements in governance, according to 54% and 22% of family businesses respectively (Figure 15).

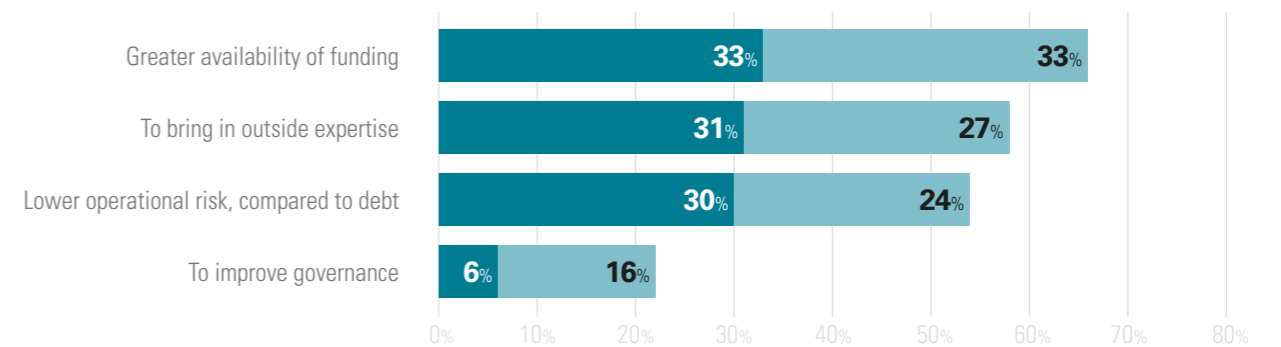
Yet despite these potential benefits, family businesses do perceive difficulties with bringing in outside investors. The most important barrier – by some margin – that would prevent firms from offering equity is the possible loss of independence, cited by nearly 70% of respondents (Figure 16). This clearly reflects the importance that family firms place on retaining the majority of voting rights.

Another important barrier for family businesses is detailed reporting requirements, mirroring their concerns about securing bank debt in the current environment. As one German executive comments: “Once equity comes into the picture, the reporting requirements increase and there will be more demand for financial information that we do not want to share.” However, this level of concern is unlikely to be warranted in the case of most HNWI investors, who are likely to have a greater understanding of family business sensitivities around disclosure.

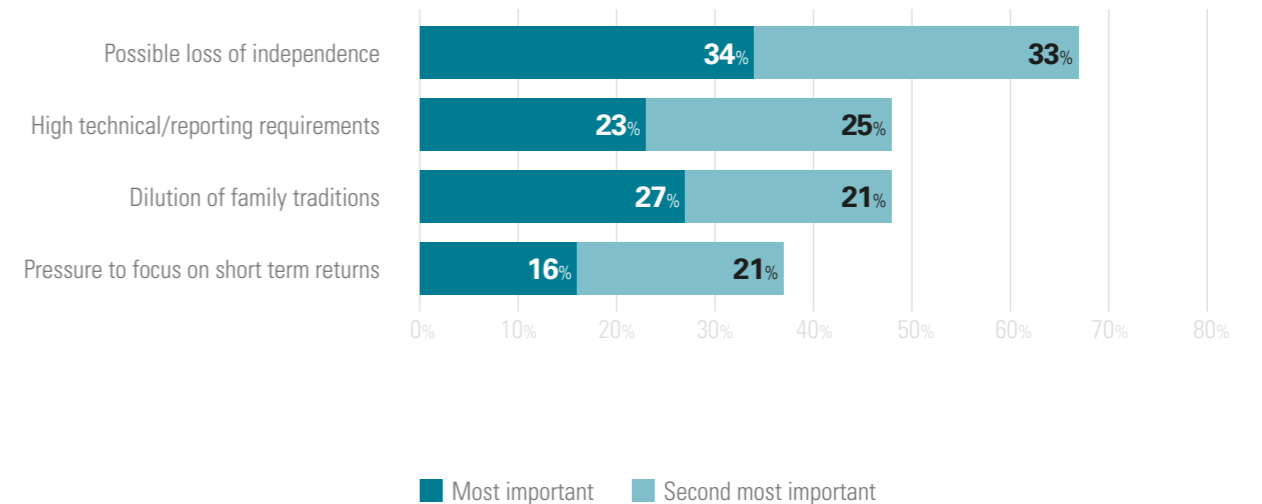
**FIGURE 14** Assuming that you were interested in opening your capital to external investors, would you want those investors to have an active role?



**FIGURE 15** What factors might encourage you to offer equity in the business?



**FIGURE 16** What factors might prevent you from offering equity in the business?





# What type of investors do family businesses want?

Family businesses place a high value on long-term investment horizons and expertise in investment partners – precisely the attributes HNWIs can bring. Nevertheless, most family businesses appear to be either unaware of the good match that this type of investor could be for their company or find it difficult to tap into this source of finance.

## Long-term view vital for family businesses

If they were to offer equity, family businesses place the strongest emphasis on investors having a long-term orientation towards investment returns (Figure 17). One participant from South Korea notes: “Those who have previously invested in family businesses tend to understand how risks are shared and do not get too demanding and are patient with returns which is the best thing a business can expect from an investor.” Nearly a quarter (23%) say this is the most important attribute, while it is the second most important for a further 15%. Business or industry experience, and a similar appetite for business risk follow closely in importance. One Chinese executive explains: “We prefer corporate investors with industry expertise as they have a concrete reason to put their trust in us. They may also advise on our business plans.”

Interestingly, given the emotional attachment many families feel towards their business, these three issues are viewed as far more important than more ‘intangible’ issues such as trust, familiarity and values, although these factors may be driving the desire for long term investors with a similar appetite. The lower importance given to intangible issues may also reflect a desire among many family businesses to balance out family involvement with more objective investors. One US executive says: “Having a mix of family members and external investors all involved in the decision-making process can help decrease any emotional tension.”

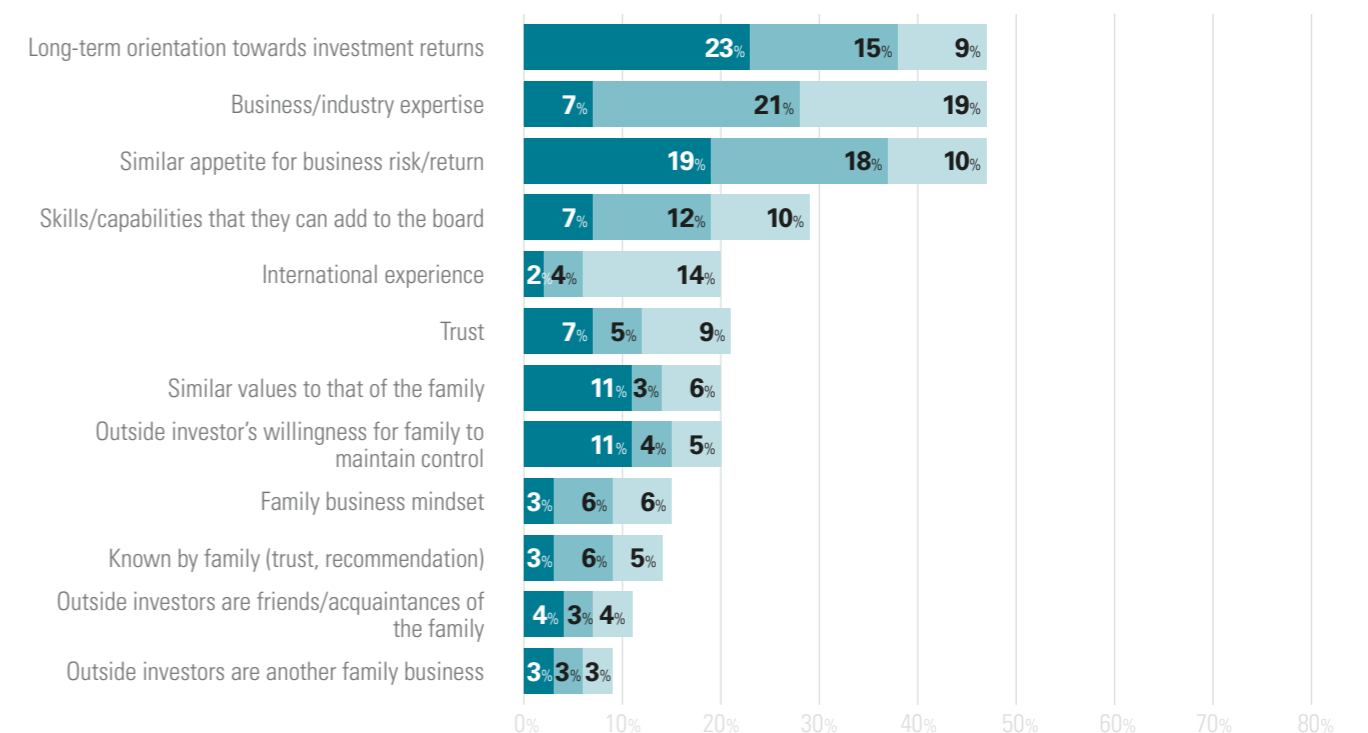
Inconsistencies between what family businesses say they want from an external investor, and the type of investor they generally approach, indicates that there may be a lack of awareness of the characteristics of HNWIs and other family businesses as funding sources.

PE and venture capital were rated as the preferred source of investment, despite the limited length of time for which they invest (Figure 18). Corporates are then rated second, despite their poor fit to the preferences of family businesses for long-term minority stake commitment.

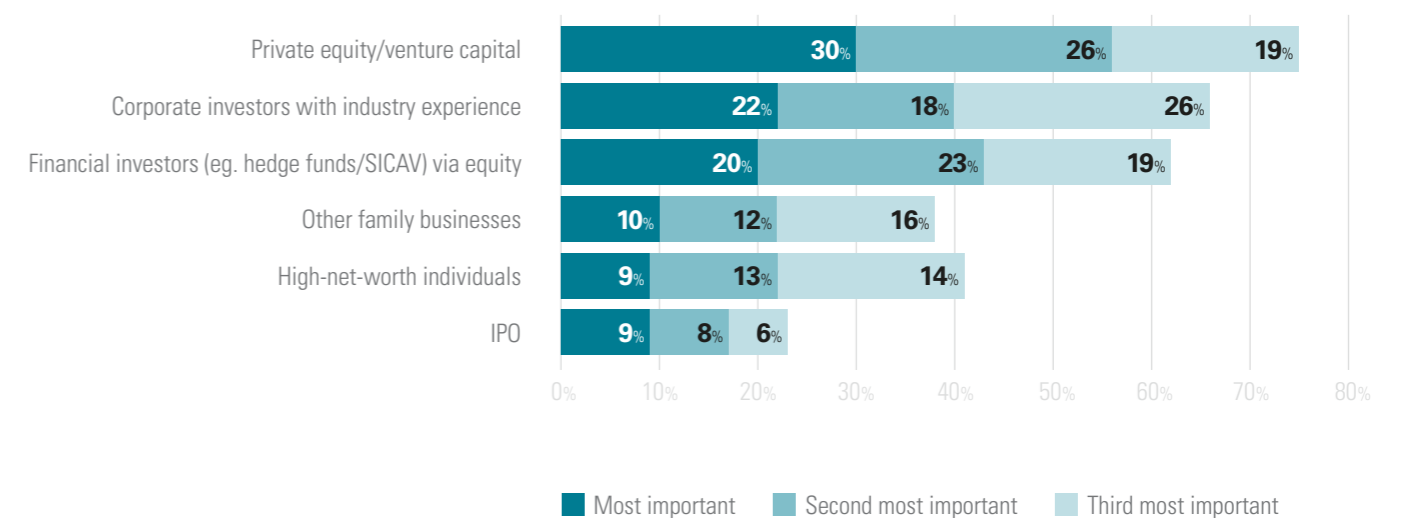
Surprisingly, HNWIs and other family businesses rated low on the list of preferred investor types and are considered less desirable even than hedge funds, which generally have much shorter term return expectations than HNWIs and other family businesses. It would seem that there is a misperception about a low availability of finance through this route.



**FIGURE 17** Assume you are considering raising additional capital by issuing equity. What characteristics are/would be important to you?



**FIGURE 18** Assuming that you were interested in opening your capital to external investors what type of investors would you prefer?



**Positive experience with HNWIs**

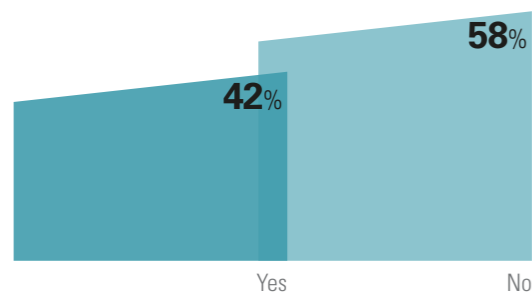
The large minority of family businesses have tapped into HNWI and other family business investment pools. Some 42% of respondents say they have previously received direct investment from these sources (Figure 19).

Encouragingly, the overwhelming majority (92%) of those that have attracted HNWI funding say that this experience has been positive in comparison with financing from other sources (Figure 20), citing expertise and long-term investment expectations as some of the advantages. One respondent from UAE notes: "They are reliable and easily approachable compared to the other sources of finance; also we could add-on skills to our management through their expertise."

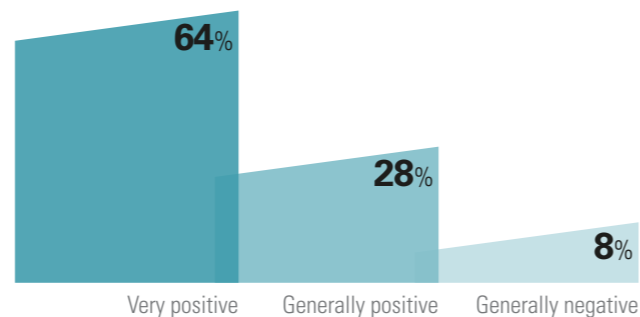
HNWIs not only provided us with capital, but also their international knowledge and strategic expertise.

CEO, FRANCE

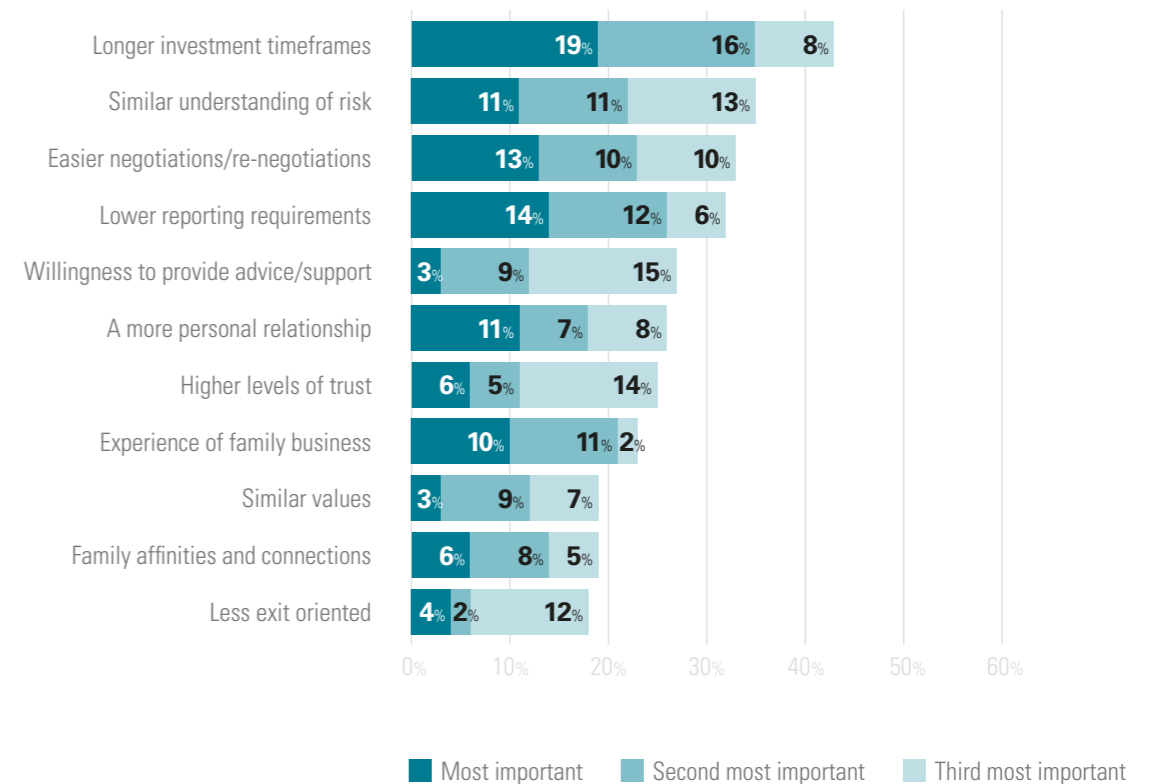
**FIGURE 19** Have you previously obtained direct investment from high-net-worth individuals or other family businesses?



**FIGURE 20** How would you rate your experience of receiving finance directly from HNWIs or other family businesses in comparison to financing from other sources?



**FIGURE 21** What factors might encourage you to source investment from HNWIs or other family businesses as opposed to raising money from more traditional sources like banks or private equity funds?



A chairman and family member from Italy adds "HNWI's tend to stay loyal to their investment decisions and do not get restless if the business is going through a few rough times. They do not plan early exits as they are patient and willingly give chances for the business to perform."

Indeed, when considering a possible investment from these sources, family businesses rate longer investment timeframes and similar understanding of risk as the most important positive attributes on offer (Figure 21). These were followed by easier negotiations, lower reporting requirements and a willingness to offer support and advice. A Brazil-based CEO says: "We feel the need to have more minds to work on different strategies and external investors could be the key to making effective business decisions."

Across all respondents, the top reason family businesses offer for why they may be dissuaded from seeking investment from HNWIs and other family businesses is the potential for interference with management (Figure 22, overleaf). However, the experience of many of those who have sought funding from these sources suggests that these fears may be unfounded. As a US executive says: "We seek investment from HNWIs because they tend not to interfere with the decisions of the company."

**Potential for HNWI-family business partnerships to grow**

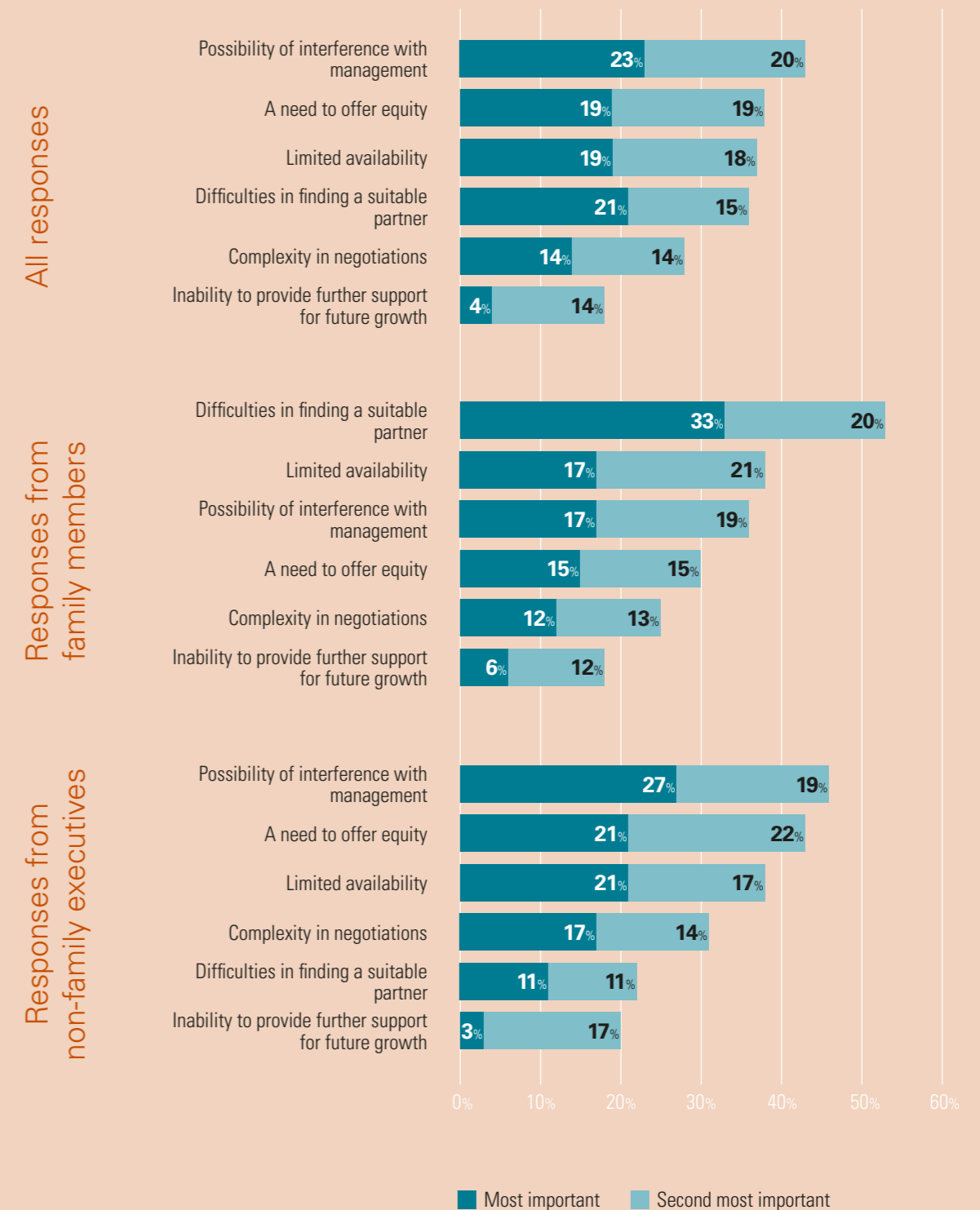
However, there is a marked split in views on potential barriers, according to whether the respondent is a family member or not. Non-family executives appear to be much more concerned about potential interference, ranking this as the biggest drawback. Family members however, say finding a suitable partner can be difficult (Figure 22 – Responses from family members). Non-family members may be concerned that the involvement of outside investors might jeopardize their position of influence within the company (Figure 22 – Responses from non-family executives), while family members are likely to be more secure in this regard. Family members also say the limited availability of capital from HNWIs and other family businesses is the second biggest barrier.

For all respondents, the need to offer equity ranks as the second most important barrier to accessing this type of capital, although again, non-family members are more concerned about this than family members.

These results suggest that, while many family managers and owners may be open to the idea of bringing in HNWIs and other family businesses as equity investors, the difficulties in sourcing this type of capital and finding the right investors are holding them back. The potential for good partnerships clearly exists – however, misconceptions around interference and reporting requirements, together with a lack of coordination in sourcing HNWI investment appear to get in the way. This is where further education from family business associations and other economic bodies may help to bridge the gap.



**FIGURE 22** What do you see as the principle barriers for obtaining investment from high-net-worth individuals or other family businesses?



# Investment goals of HNWIs





## Investment goals of HNWI's

# Highlights



1

The majority of HNWI's manage their own wealth and come from a family business or entrepreneurial background. Long-term capital appreciation is the most important driver for investment, followed by steady cash flows and diversification.

2

More than 70% of respondents invest directly in other companies, with small to medium-sized companies the most popular targets.

3

HNWI respondents view family businesses as a good investment match, with nearly half having previously invested in at least one family business – 95% of those who have rated the experience positively.

4

A long-term view, business profitability and the potential for a board seat are the three most important factors that would attract a HNWI to invest in a family business.

# What is the typical investment profile of HNWI's?

HNWIs often have family business experience and generally like to remain in control of their investment portfolios. They are seeking to deploy their capital in opportunities that provide long-term returns and offer diversification benefits. And, while most prefer to take on a medium amount of risk in the hope of medium returns to achieve these aims, there are HNWIs that take a high or low-risk approach to investments, suggesting that there are investors in the market for companies with differing risk profiles.

## HNWIs understand family businesses

HNWIs are generally well-versed in the way family businesses operate, as the source of their wealth is usually drawn from their own family business. The majority of HNWIs surveyed have experience in family businesses: nearly half (48%) belong to an established family business

that has been in operation for more than one generation and over a third (34%) have built up a business themselves (Figure 23).

HNWIs also like to take responsibility for their investment portfolios, suggesting a high degree of involvement in, and engagement with, the investments they make. As many as 72% of respondents self-manage 50% or more of their wealth (Figure 24). Just 2% of those surveyed outsource all of their investments to third parties. As one Japanese entrepreneur notes: "I have created my own wealth; I will be hands-on in any investment but will rely on specialist advice. It's hard-earned money so I need to dedicate myself to being involved in the process."

This level of involvement is reflected in the low proportion of HNWIs that use a family office to manage their wealth. Three-quarters do not use a family office, suggesting a less formal and more individual approach to wealth management is preferred by most (Figure 25).



FIGURE 23 Is your wealth connected to a current/former family business?

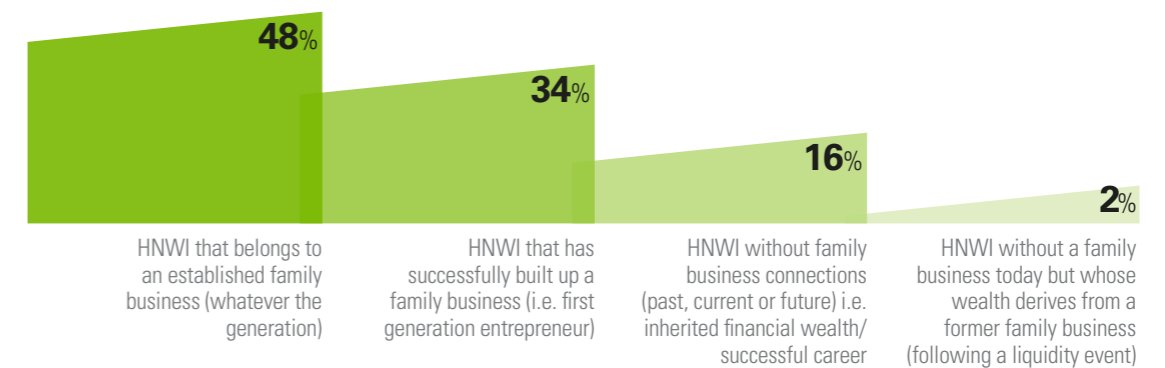


FIGURE 24 To what extent are you managing your wealth yourself?

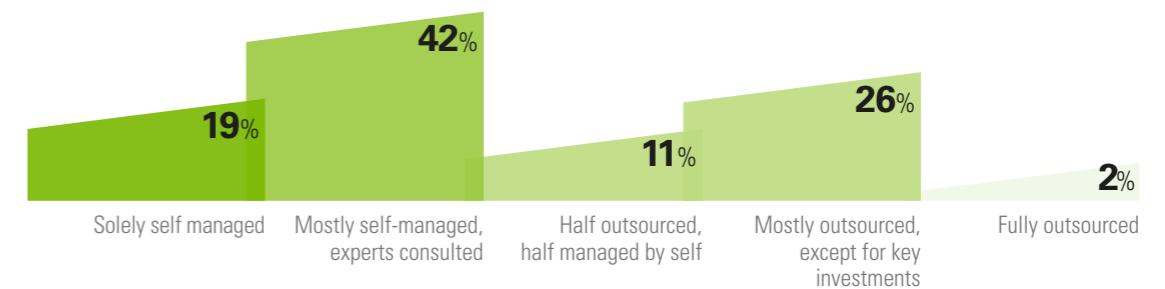
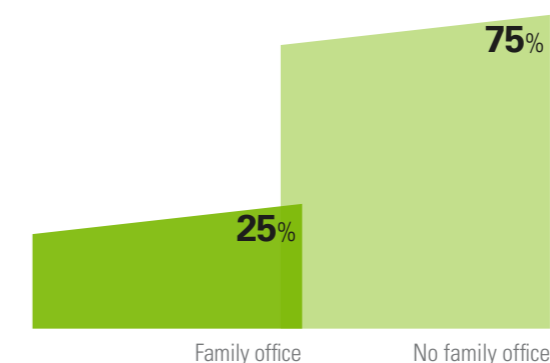


FIGURE 25 Do you manage your investments through a family office?



**Long-term horizons, current income and diversification drive investment decisions**

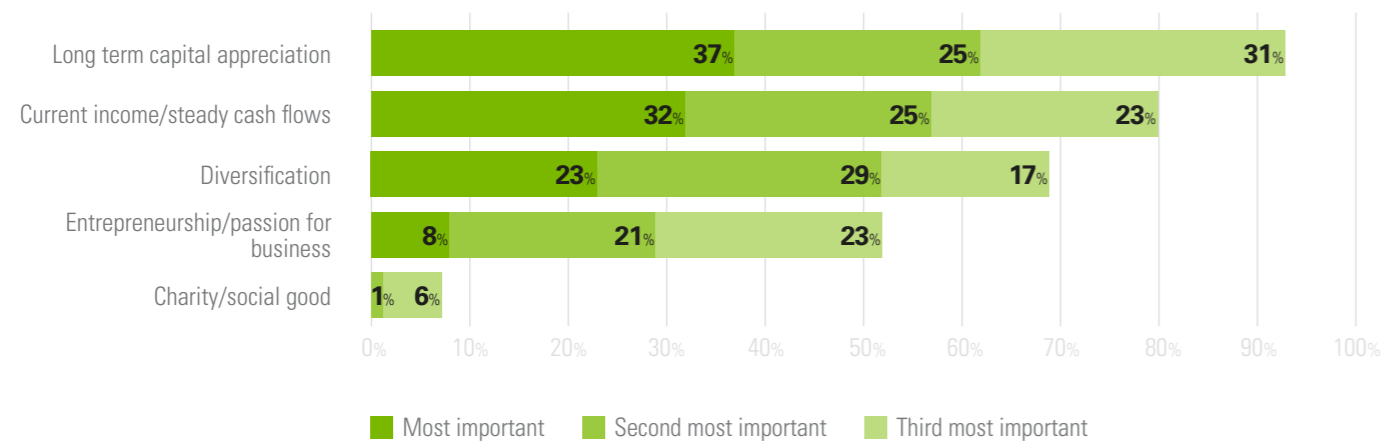
HNWIs invest for three main purposes. Long-term capital appreciation is the most important, current income ranks second and gaining a level of diversification comes in third (Figure 26). However, many HNWI also seek to match their investment choices with their expertise and experience in running companies – entrepreneurship and a passion for business are also important drivers for HNWI investments.

The desire for long-term capital appreciation is reflected in HNWI's appetite for risk. The majority (60%) of HNWIs take

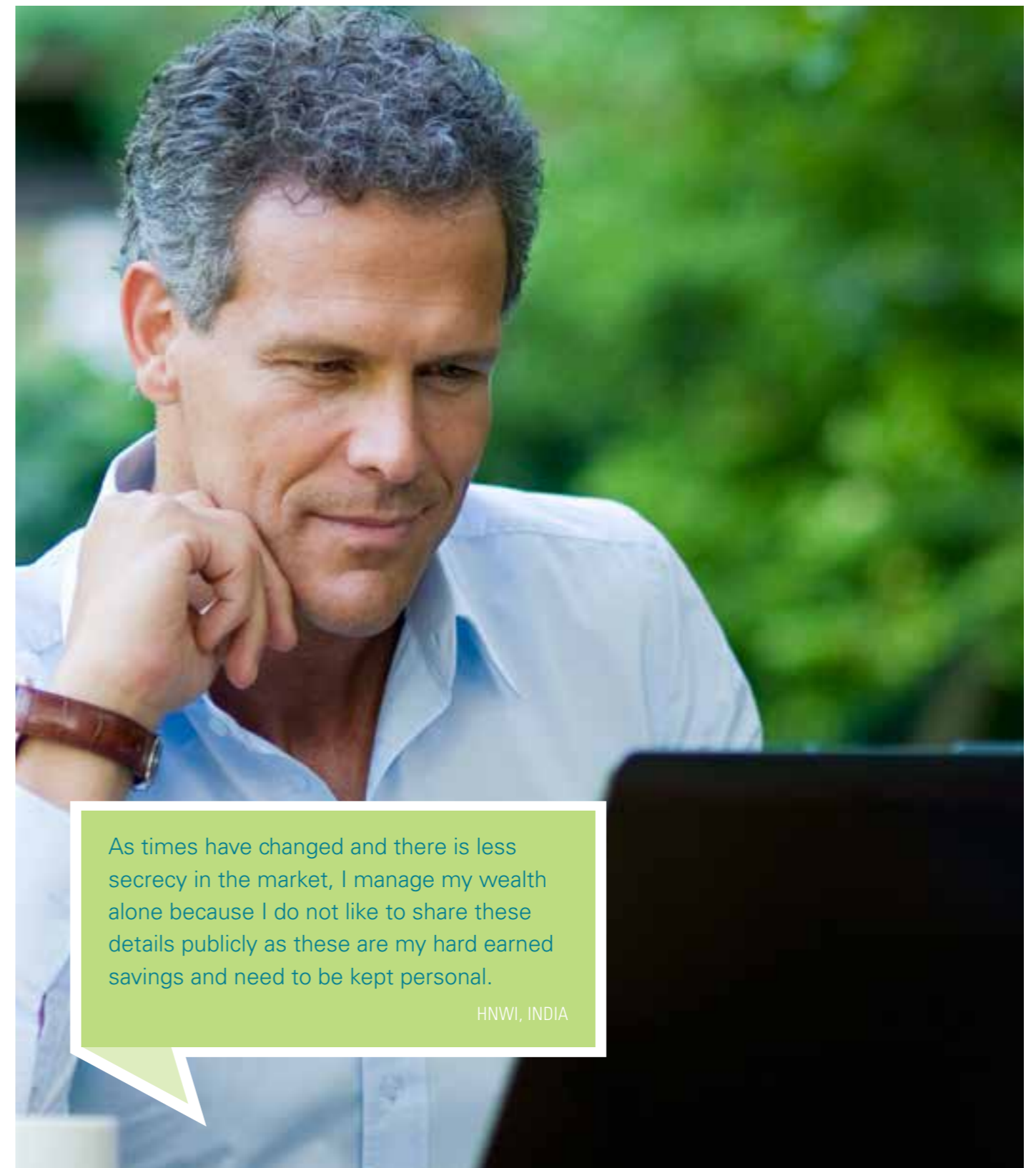
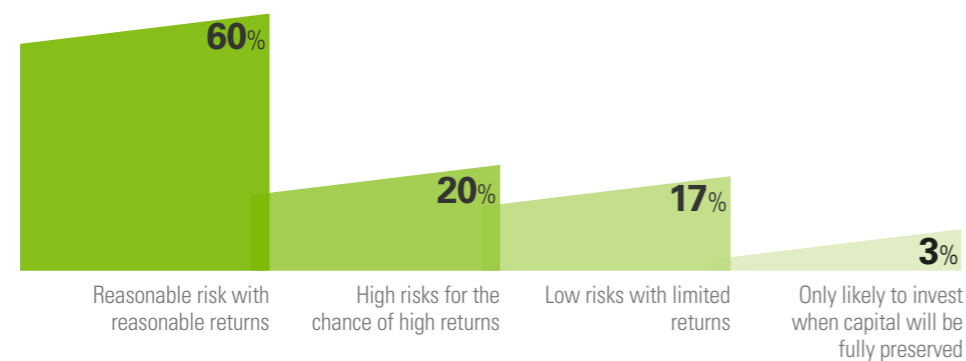
a balanced approach to risk for investments outside of their main business, searching for reasonable risk with reasonable returns (Figure 27). As one German entrepreneur says: "Wealth management for me is a focus on maintenance rather than rapid growth and mostly I prefer slow and steady gains to risky investment opportunities."

Nevertheless, there are HNWIs at both ends of the risk spectrum. One-fifth of HNWIs are prepared to assume high risk investment strategies in a bid to generate high returns. A further fifth are risk-averse and will settle for low returns in exchange for low risk.

**FIGURE 26** Not including investments in your own company, which of the following items is the main driver for investments?



**FIGURE 27** Not including investments in your own company, to what extent are you willing to risk your invested capital when making investments?



As times have changed and there is less secrecy in the market, I manage my wealth alone because I do not like to share these details publicly as these are my hard earned savings and need to be kept personal.

HNWI, INDIA

# What is the appetite for HNWI's investing directly in businesses?

HNWIs are extremely active business investors and the vast majority invest directly in companies. While some have an appetite for investing in larger companies and start-ups, the sweet spot for most HNWIs is small and medium-sized companies where their capital and expertise may be highly valued and where there is significant potential for return.

## Direct investing second only to listed equities

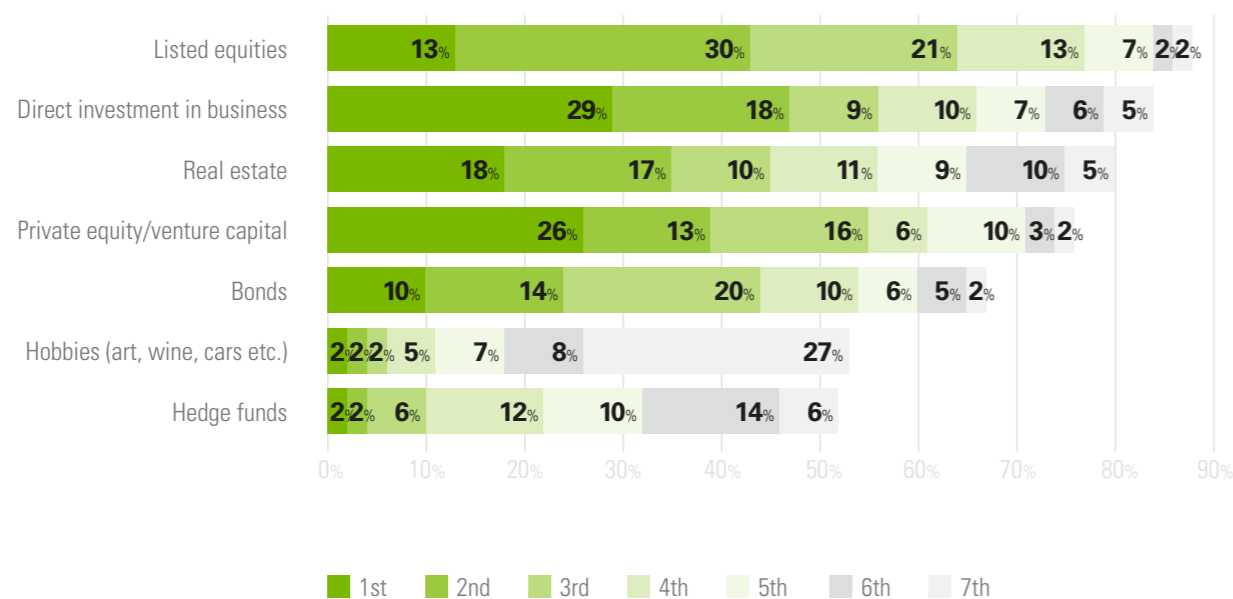
Direct investment in businesses is a large part of the typical HNWI portfolio. These investments account for the second highest proportion of committed investment from HNWI overall (Figure 28). Only listed equities account for a larger share. Moreover, direct investment in business is the most

important part of the investment portfolio for nearly a third of HNWIs (29%). Some 73% of respondents already invest directly in other businesses (Figure 29).

The reasons for investing directly in businesses vary, although are generally centered around the need for some diversification from their own businesses and from stock market volatility and because this type of investment often closely matches HNWIs' risk appetite. A US entrepreneur comments: "We expect a good amount of liquid returns from our investments. We invest in businesses so that we can procure adequate working capital for our operational needs."

Familiarity is another reason for investing directly. "With the rise in media and communication, a substantial amount of our investments go towards direct businesses, mainly businesses which are in the same sector," says an Australian HNWI.

**FIGURE 28** Not including investments in your own company, please rank your committed investments to the following types of investment (participants can rank up to seven options)



Consistent with the risk profile and long-term return horizons preferred by most HNWIs, small and middle-sized companies are their most popular investment targets, with 62% and 68% respectively citing these, and a smaller proportion targeting start-ups and large companies (Figure 30). This is because many HNWIs see these types of business as offering the potential for a degree of stability but also rapid growth.

An Indian entrepreneur notes: "Small companies have more phases to go through and if managed well in the initial stages, a lot of success can be expected in little time by defining processes, monitoring financial synergies and adapting to the latest technology."

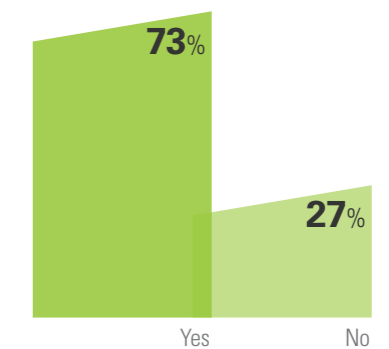
Mid-size companies are good targets as they are partially developed businesses ... and with proper guidance they could outperform larger companies.

HNWI, FRANCE

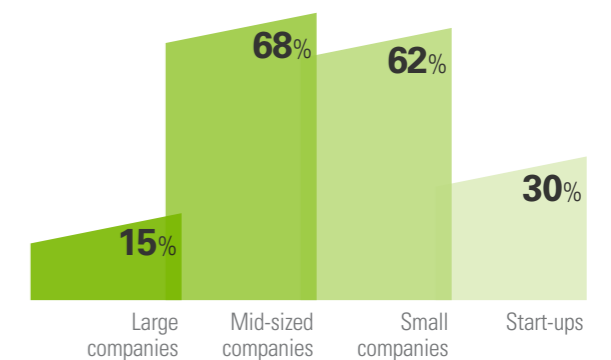
An Italian HNWI adds: "As small companies have more possibilities to be tweaked and appraised, I feel comfortable approaching small companies who have opportunities to make it large in the near future. I prefer investing for at least three years and I reinvest the best I can."

Unsurprisingly, given HNWIs' preference for largely managing their wealth themselves, the majority (67%) like to make fewer, more significant investments. The remaining third prefer to make multiple, smaller investments (Figure 31).

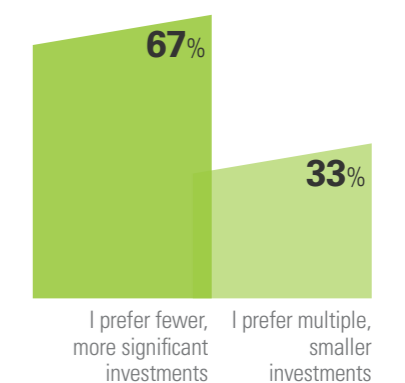
**FIGURE 29** Do you currently invest directly in other businesses?



**FIGURE 30** What type of companies do you target? (participants can select multiple options)



**FIGURE 31** Which of these styles best describes you?





# How do HNWIs view family business investment?

HNWIs see family businesses as a good match for them. Nearly half have invested in at least one family business, often in a personal capacity. Encouragingly, the vast majority say their experience of doing so has been positive.

### Largest proportion prefer family businesses

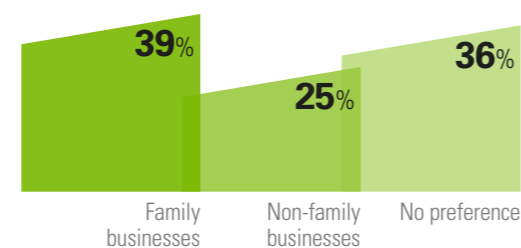
Many HNWIs are attracted to family businesses. When given a choice between investing directly in family or non-family businesses, the highest proportion (39%) of HNWI prefer to invest in family businesses, while 25% prefer non-family businesses (Figure 32). A further 36% have no particular preference.

The reasons for investing in a family business are well aligned with the importance families place on the longevity of their company and the idea that they are managing a legacy for future family members, as these are the factors that appear to give HNWIs comfort and the potential for good, stable returns. As one Spanish entrepreneur notes: "I like family businesses that have maintained continuity over the years as they are likely to have developed a secret for business success and have an advantage in the market."

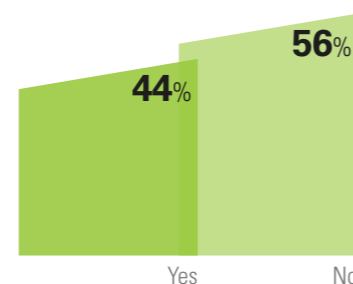
Another, UK-based HNWI adds: "I am in favour of family businesses as they are creative and many have proved their worth by surviving previous economic storms to remain powerful forces in their sector."

This attraction is reflected in the finding that nearly half (44%) of HNWIs have previously invested directly in a family business (Figure 33), with more than three-quarters of these having invested in one or two family businesses (Figure 34). Nearly a quarter (24%) are serial family business investors and have invested in three or more.

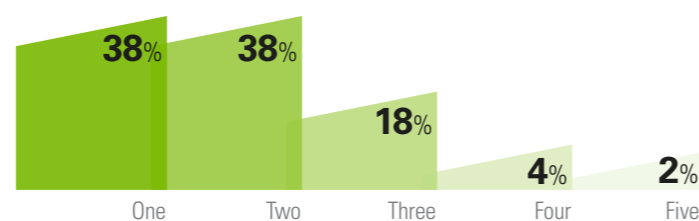
**FIGURE 32** Do you have a preference for family businesses or non-family businesses?



**FIGURE 33** Have you previously invested directly in a family business?



**FIGURE 34** How many family businesses have you invested in?



### Positive experiences

HNWIs are generally very happy with their investments in family businesses. The overwhelming majority (95%) of those that have invested in a family business view the experience positively in comparison to their other investments, with 55% saying their experience has been very positive (Figure 35). This is reflected across different regions, with the vast majority of HNWIs in both developed and emerging markets rating their experiences positively.

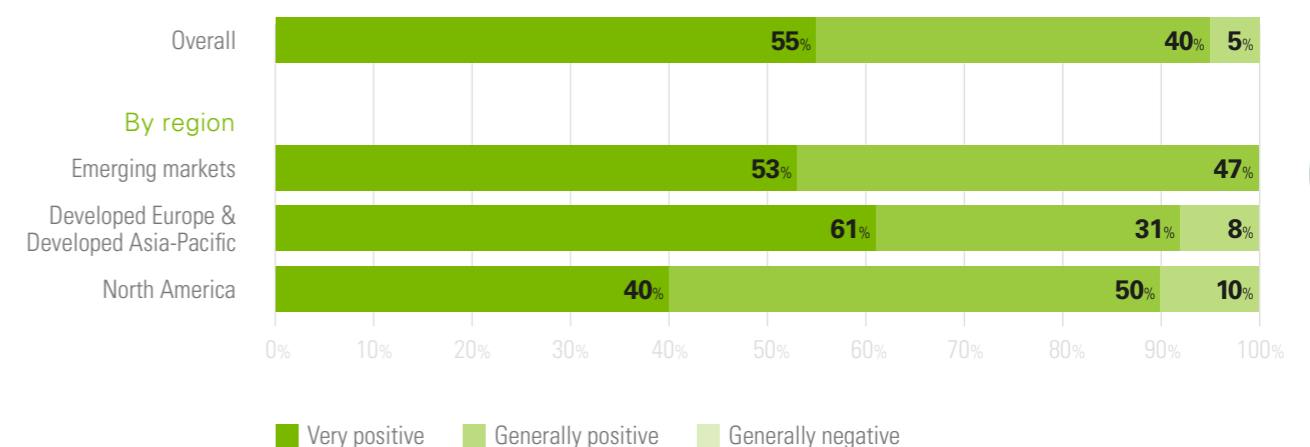
Comments from respondents suggest that this positive experience can be attributed to the level of personal engagement the family has with a HNWI investor, as well as the alignment of interest in furthering business goals. "The overall experience was positive," says a New Zealand HNWI. "The speciality of family-run businesses is that they are long-term oriented and for these firms, reputation is above all, so our money invested has sure returns in the long-run."

"Very positive, we've had better deals with family businesses, they are pretty open in their views and functioning and we've not experienced any sort of conflicts," adds a South African HNWI.

I would always like and want to invest in a family-run business because they have more stability in the market. A family business that has been running for generations will always grow, and also increase investments from profits. A family business is not likely to fail as most of these businesses are established to increase the wealth of the family.

ENTREPRENEUR, CANADA

**FIGURE 35** How positive has your experience been of investing directly in family business in comparison to your other investments?



**Personal approach preferred**

Most HNWI's invest in family businesses on a personal rather than a more formal basis (Figure 36). This is possibly because many HNWI investments are made on the basis of personal recommendations or through an informal network of contacts.

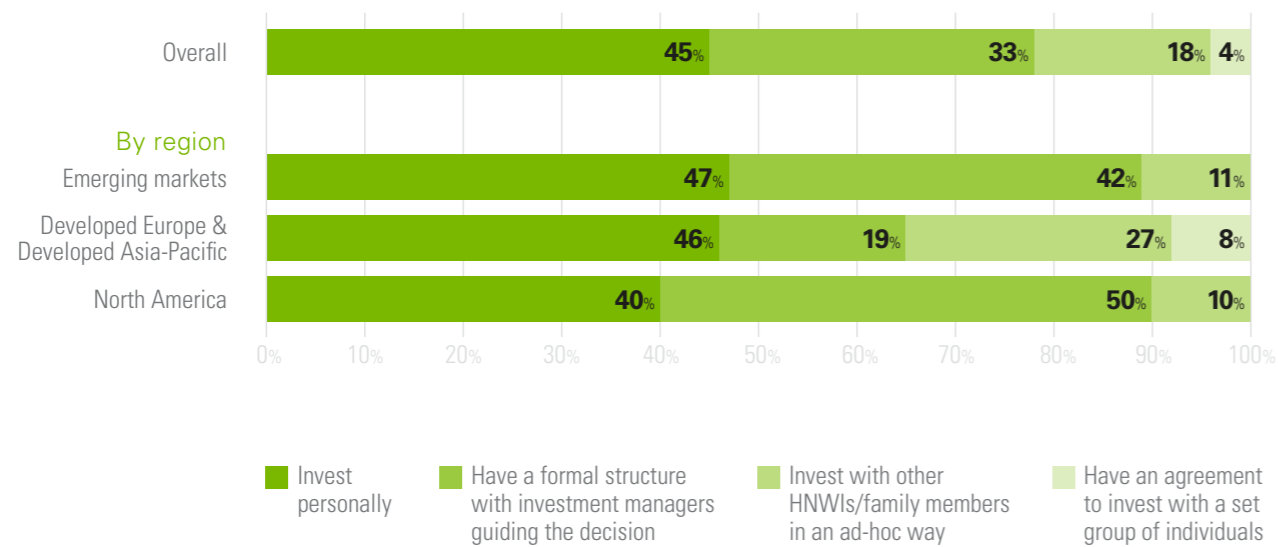
An Argentinian entrepreneur comments: "We invested personally as we knew the family running the business and were sure about the returns and profitability."

A Brazilian HNWI adds: "In both cases, I have invested in family businesses that were familiar to me and I financed their business expansion."

Another Saudi HNWI who is yet to invest in family business, says: "It would be highly likely that I would invest in a family business if I knew a family member or had information on the market value of the company based on its products. The industry experience would not matter to me as talent can be sourced or is already present in the family."

Nevertheless, there is some regional variation. HNWI's based in developed markets in Europe and the Asia-Pacific region are more likely to invest in a more informal way, while those based in North America and in emerging markets tend to invest within a formal structure using investment managers to guide their decisions.

**FIGURE 36** What investment modes do you use when investing in family businesses?



It was a great experience as the family business owners are very open and maintain a good relationship with all their contacts. They never fail to give importance to their investors, which encourages more investment.

HNWI, CHINA

# What would attract HNWIs to invest in family businesses?

The attractions for HNWIs to family businesses match closely with the considerations and attributes that our survey shows are important to family members themselves – a long-term view and a personal rather than institutional approach to areas such as documentation. The difficulties in finding the right opportunity that families mention are also reflected by HNWIs. This suggests that HNWIs could be a far more important source of capital for family businesses if only the two sides of supply and demand were able to connect more easily.

Family businesses are managed with a long-term view – this ensures strategic success. The agreement or deal with them is less complicated and has a personalized touch. These factors are highly attractive.

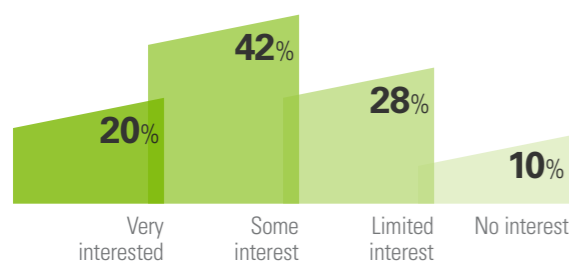
ENTREPRENEUR, GERMANY

## HNWIs seeking more family business investment

HNWIs' positive experience with family business investment is reflected in their appetite for further investment. Nearly two-thirds (62%) of HNWIs say that they are either interested or very interested in investing in family business (Figure 37). Only 10% say they have no interest in doing so.

The main attraction of family businesses to HNWIs is that they are managed with a long-term view (Figure 38). This matches the top reason that family businesses give for seeking investment from HNWIs. The second most important is a similar understanding of risk (which is placed third by family businesses).

FIGURE 37 To what extent are you interested in investing directly in family businesses?



Other important factors are the likelihood of easier negotiations and the fact that family businesses represent an efficient mechanism for capital preservation. Personal interaction with family members, particularly at a senior level, is especially valued by HNWIs, as many comment that this gives them greater scope for providing strategic input. As one Polish HNWI puts it: "I am very interested as these family businesses are focused and determined towards working for their organizational and family welfare and success. Decisions are quick and more collaboration and coordination can be witnessed in their management."

A Russian entrepreneur agrees that the personal touch and collaborative spirit makes family businesses a preferable investment: "I have financed many family businesses as this sector favours personalized relationships and family business owners provide more information on the company's progress. Also, the funds tend to perform better in the long term as business expansion occurs and new opportunities come along."

Another Mexican entrepreneur says: "For me investments are a gamble and I do my best to pick the right cards as I mass invest in fewer businesses aiming at a greater return in the long term. Based on my previous experiences, I would prefer a family business."

Consistent with the family business view, the top factors were all tangible business factors, with less tangible factors such as value and family affinities placed further down the list.

FIGURE 38 What factors have/might attract you to investing directly in family businesses?

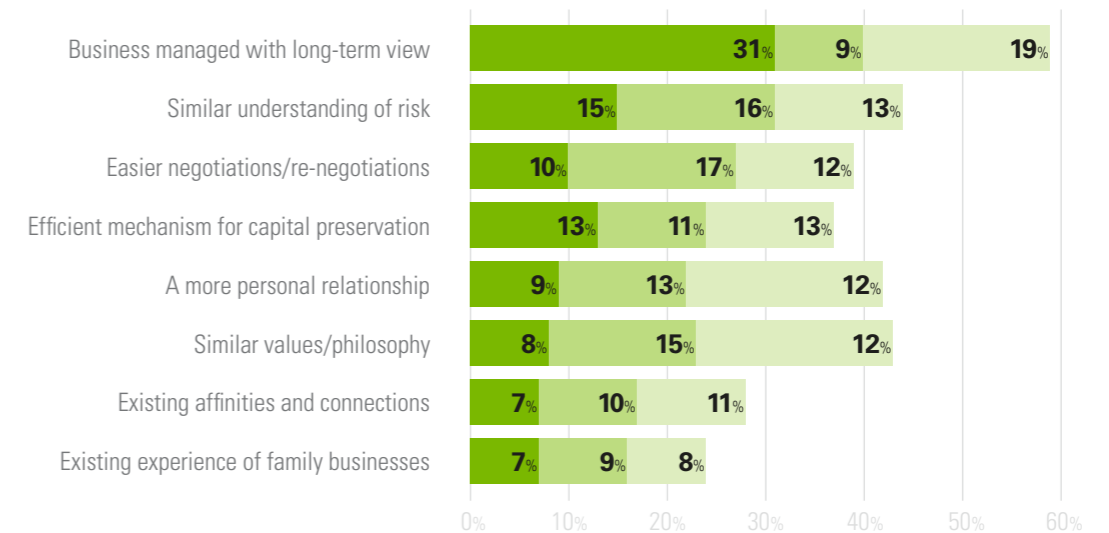
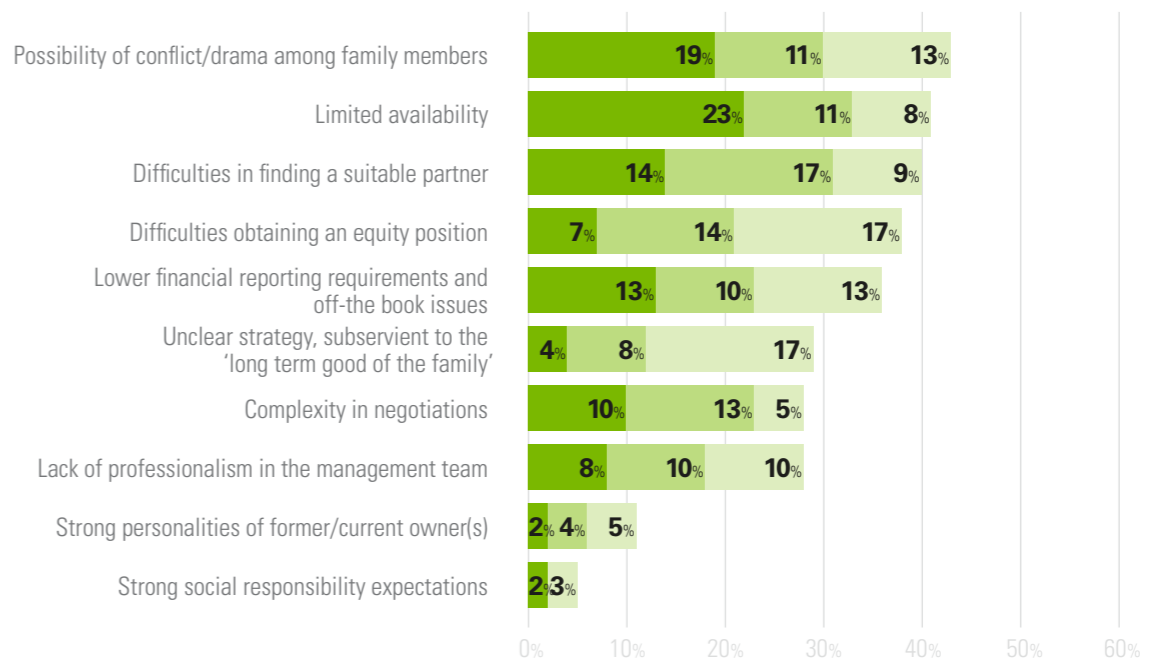


FIGURE 39 What factors have/might discourage you from investing directly in family businesses?



Most important Second most important Third most important

**Opportunities are hard to source**

Perhaps unsurprisingly, the possibility of conflict and disagreement among family members was the most significant factor that could discourage HNWI's from investing in family businesses (Figure 39, previous page). "If a family deals emotionally rather than practically in a situation, it means there will be conflicts, which would restrict them from meeting their goals. This would highly discourage me to invest in a family business," reveals one Canadian entrepreneur.

However, the next biggest barriers to making investments are similar to those stated by family business executives – limited availability and difficulties finding a suitable partner. There is clearly a need for more effective ways of bringing family businesses and HNWI's together.

A French entrepreneur elaborates: "It's quite challenging to find a suitable counterpart who shares the same philosophy and working methods, that's why the availability is minimal."

HNWI's perceive the issue of obtaining an equity stake as a barrier (the fourth biggest factor). Yet in reality, this is not necessarily an obstacle, as our findings from the family business survey suggest that many firms would be willing to offer an equity stake for the right investor.

**Board seats and control are important to HNWI's**

In terms of governance, the potential to have a presence on the board is most highly valued by HNWI's (Figure 40). The family business survey suggests this may well be possible with 30% of firms saying they would be willing to offer a board seat in return for investment (Figure 14, page 26).

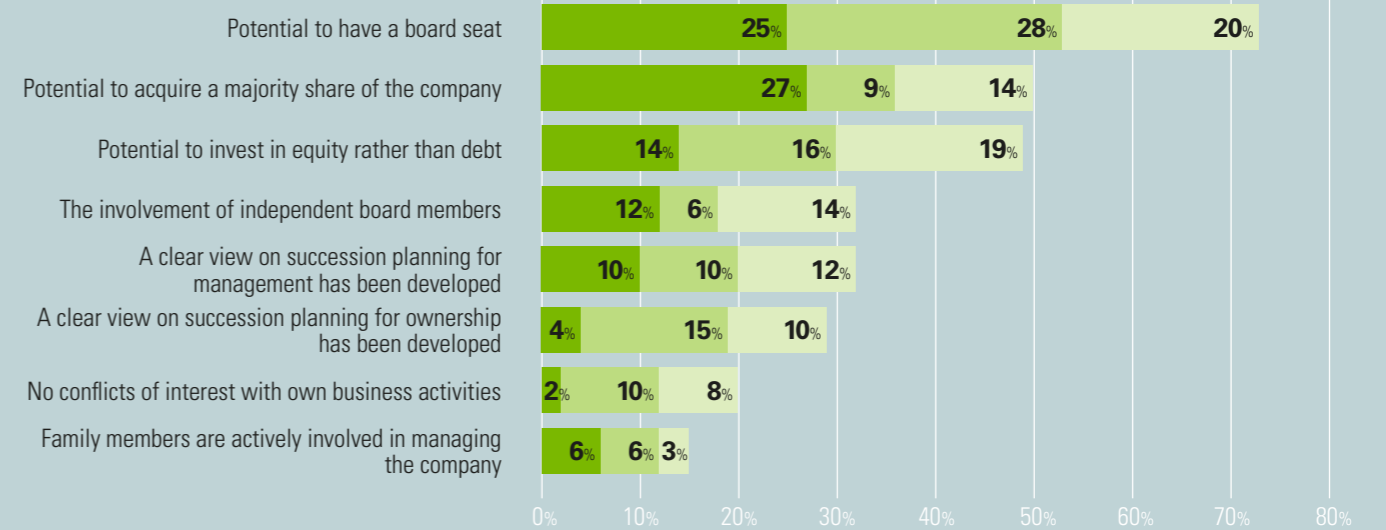
However, the issue of control is a more contentious one. While the potential to acquire a majority stake is ranked as second most important to HNWI's, nearly all family businesses surveyed say they wish to maintain ownership and control.

**Profits and growth prospects most attractive**

The business factors most likely to attract HNWI's are high profitability and the potential for strong organic growth, reflecting their goal of long-term capital appreciation and desire for a medium level of risk (Figure 41). These are followed by strong cash flows and high solvency.



**FIGURE 40** If you were to invest in a family business, which of these governance factors would be important to you?



**FIGURE 41** If you were to invest in a family business, which of these business factors would be most important?





# Conclusion: Bringing family businesses and HNWIs together

## Highlights

**1** Our research indicates that some main obstacles to investment partnerships between HNWIs and family businesses are the perceptions on both sides concerning control of the business. Suggested solutions include education of family business owners on investment options, networking and use of external advisers.

**2** Involvement in the company either through an equity stake or board seat could attract HNWIs to a family business.

**3** Long-term horizons, industry expertise and low levels of interference are the most attractive traits of an investor for family businesses.

# What are the obstacles and how can they be overcome?

With such a multifaceted problem, there must be a multifaceted solution. There will be family businesses and HNWI that do not fit within the findings of this study, and require a more unique approach, however, our results show that, when it happens, investment collaboration between HNWI and family businesses is viewed highly positively on both sides. There is clearly a good match between the two groups; both seek to achieve long-term goals, have a shared appetite for measured and managed risk, value a personal touch and there is a clear mutual appreciation of what either side can offer. In addition, many HNWI are from family businesses, suggesting they understand some of the characteristics unique to managing this type of company. The question, therefore, is: why are there not more HNWI investments in family businesses?

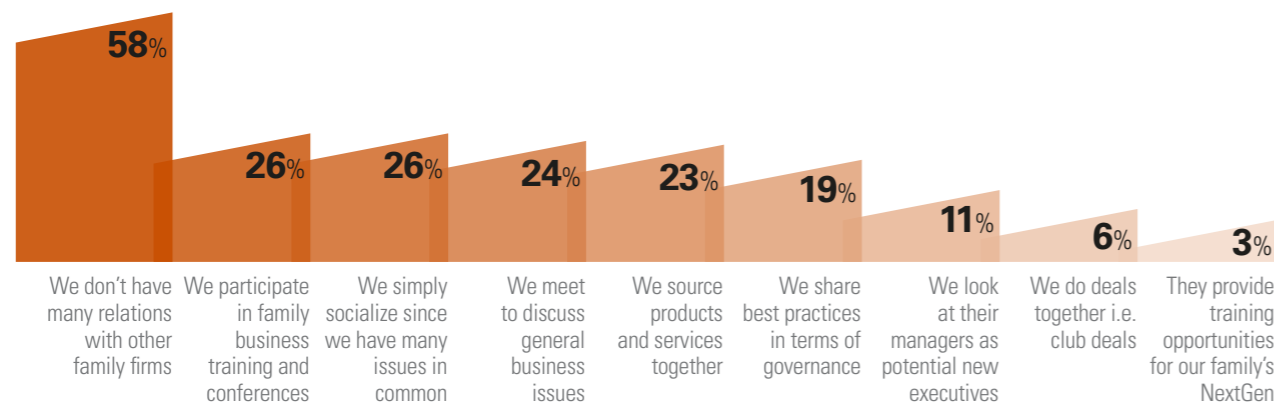
## Education and communication are key

Family businesses and HNWI both identify limited opportunities and a lack of availability as the key reasons for either not seeking HNWI investment or for HNWI not making more family business investments.

Education may go some way to alleviating any potential lack of knowledge about the possibilities a partnership between family firms and HNWI could bring. Family business associations, business incubators and chambers of commerce could play an important role in helping to bridge this gap – facilitating any networking or introductions and teaching family owners in particular about the options they have for funding.

Given that most HNWI come from family businesses, contact and networking between family businesses could help facilitate such investments. Yet the majority (58%) of family businesses surveyed say that they do not currently have many relations with other family firms (Figure 42).

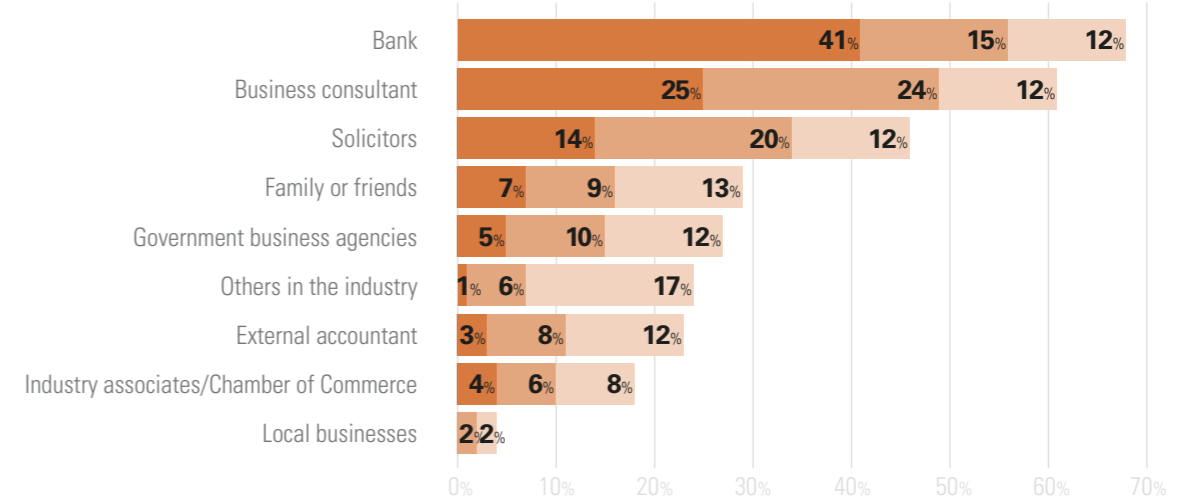
**FIGURE 42** What activities do you have with other family businesses? (participants can select multiple options)



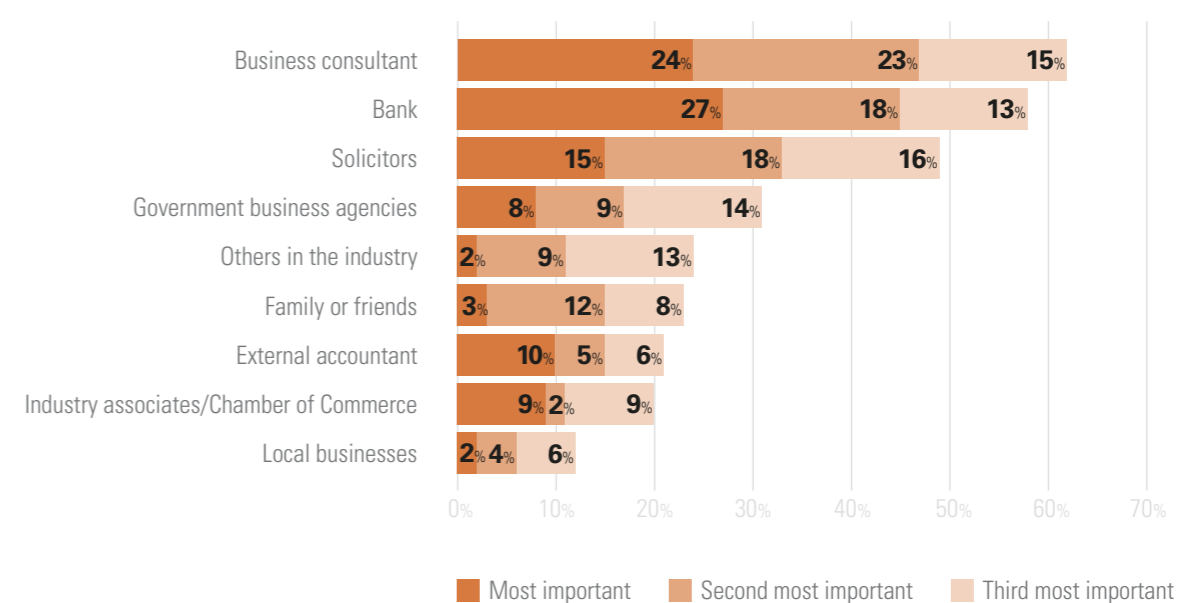
External advisers are another channel through which investment partnerships may be formed. Both HNWI and family businesses named business consultants and banks as the two most important sources of advice when looking to

invest or seeking investors (Figures 43 and 44). This presents the opportunity for these advisers to play an integral role in connecting these two groups, and providing introductions that could benefit both parties.

**FIGURE 43** If you were looking to bring in outside (non-family) shareholders to raise further capital for the business, who would you approach for advice on how to do this?



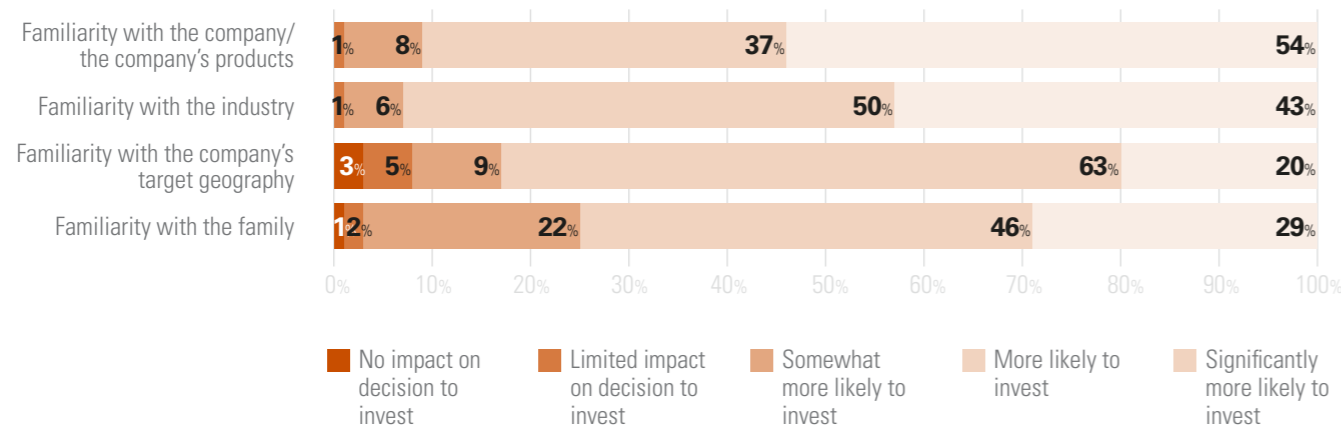
**FIGURE 44** If you were to invest in a family business, who would you approach for advice on how to do this?



The case for building better networks is strengthened further by the fact that HNWI's say they would be more likely to invest in businesses when they are familiar with the family, as well as with the company, industry and target

geography (Figure 45). Although, ultimately the company they are investing in is the most important consideration, by forming stronger and wider networks, both sides are likely to improve their chances of finding the right partner.

**FIGURE 45** For each of these factors, please indicate how familiarity would impact on your decision to invest in a family business (participants can select multiple options)



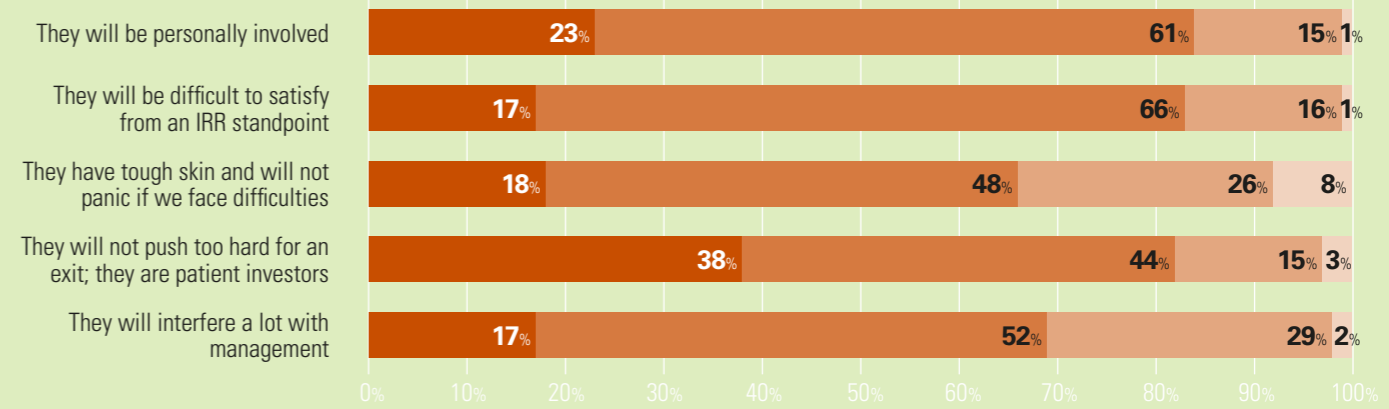
**A meeting of minds and aims**

HNWI's perception that they are unable to obtain an equity position in family businesses is not necessarily the reality. Indeed, many family businesses say they would offer equity for the right investor, and many even say that they would be prepared to offer a seat on the board.

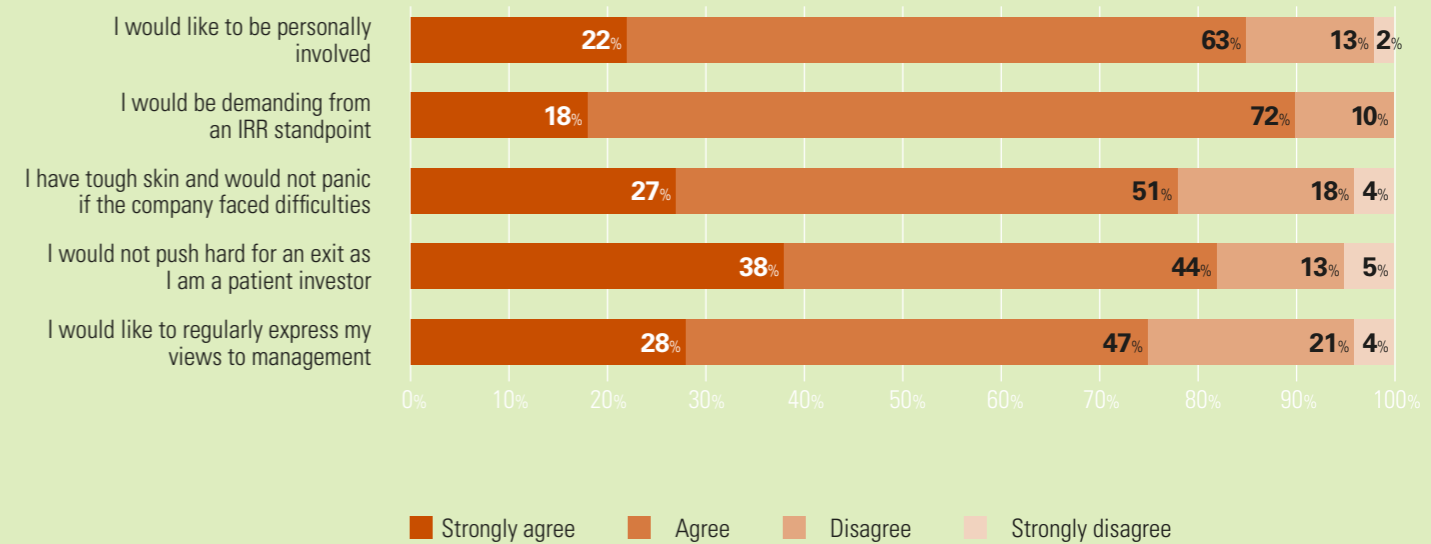
When asked about the characteristics of HNWI's, there is a close match between family businesses' perception (Figure 46) and the HNWI's self-reported profile: HNWI's indicate that they would like to be personally involved, that they would be relatively demanding from an internal rate of return perspective, that they have tough skin and are unlikely to panic, that they would not push hard for an exit and that they would regularly like to express their views to management (Figure 47).

This high level of personal involvement fits well with the type of investor that family businesses are looking for. Indeed, very few family businesses say that they are looking for an investor to be completely passive. Instead, many suggest that they would want an investor that could add experience and expertise to help them build and grow the business. The key issue for family businesses therefore seems to be the ability to manage the control tendencies of HNWI investors. Board seats are fine but the premium on independence remains strong.

**FIGURE 46** What is your perception of the likely involvement of high-net-worth individuals or other family businesses post-investment?



**FIGURE 47** For a potential investment in a family business, please indicate the extent to which you agree with these statements:



# Take action

## How can family businesses make themselves attractive to HNWI investors?

- 1 **Have an open dialogue with HNWIs.** Many family businesses would consider offering equity in return for HNWI investment, but prefer to retain control. HNWIs often seek to realize a controlling interest. Nevertheless, mechanisms can be designed for both parties to get more of what they want, such as the ability to intervene and contribute without antagonizing the family business's prized strategic independence.
- 2 **Spend time building and widening networks.** Most HNWIs have experience of running or being involved with their own family businesses and are likely to be part of family business networks. With better networks and connections, family businesses will increase their chances of finding the right partner for their company.
- 3 **Recognize the long-term horizons common to most HNWIs.** Like the perspective of most family businesses, HNWIs take a long-term view with their direct investments. Spend time outlining what your long-term plans are and how you plan to develop the business. HNWIs will also appreciate the personal investment and stake that family members have in the business – its importance to the family offers HNWIs a degree of comfort when investing.
- 4 **Highlight the tangible benefits of investing in your business.** When it comes to making an investment, HNWIs prioritize tangible business factors, such as being managed for the long term, good profitability and strong opportunities for organic growth – these are positive attributes that need to be emphasized when seeking HNWI investment.
- 5 **Demonstrate that the business welcomes outside input.** Many family businesses value the perspective and experience outside investors can bring – and HNWIs are very well placed to offer these, given their experience of family businesses. Recognize the benefits in addition to capital that HNWIs can bring.
- 6 **Ensure some level of formal governance structures are in place.** The potential for conflict or drama between family members is the main deterrent for HNWIs investing in family businesses. With the right, formalized corporate governance structures, such as a professional and independent board of directors and clear lines of control, family businesses can allay these concerns.
- 7 **Consider offering a board seat.** HNWIs are highly attracted to the idea of having board-level involvement in family businesses as this gives them a degree of influence on how the company is managed. For family businesses, this can formalize and define the scope of the HNWI's involvement, helping to manage the concerns around interference highlighted particularly by non-family executives.
- 8 **Keep it personal.** HNWIs value the personal touch in family business investments. While more formal procedures and arrangements may be necessary, family business managers would do well to maintain regular personal contact with HNWIs and foster good relationships with them.



## How should HNWIs present themselves as attractive investors for family businesses?

**Get to know family businesses.** HNWIs and family businesses both see a lack of opportunity and difficulty in finding a partner as the main barriers to greater collaboration between the two. The majority of family businesses also do not have many connections with other family companies. Make time to widen your network as this will help you identify investment opportunities.

**Be flexible on equity.** Many family businesses are open to the idea of offering equity, although they are less keen on the idea of relinquishing their position of control. Try and be creative in negotiations to find a solution that fits both sides.

**Highlight the value and experience you can bring.** Most family businesses are looking for more than just financial backing. If you have connections in particular areas, particular expertise or experience of working in similar environments, family businesses are likely to see these as helpful to their growth plans.

**Target family businesses in an area or sector you know well.** An understanding of the market in which the company operates will be highly attractive to family businesses, as they will appreciate the input and experience you can bring. It will also make your investment easier to monitor. Nevertheless, keep in mind any need for diversification in your portfolio.

**Emphasize your long-term perspective.** As family businesses are managed with the long term in mind, be willing to lock up your investment for a significant period and make it clear that you would not be pushing for an early exit or panic if things go wrong.

**Be sensitive about disclosure and reporting.** A key draw for family businesses is that many HNWIs may have more flexible reporting requirements than banks or other institutional investors. While tangible business factors, such as profitability and growth are highly important, be prepared to make allowances for the unique nature of the family business, where discretion and confidentiality are often highly valued.

**Get to know the family.** Family members appear to be more open to the idea of offering equity and more welcoming of external expertise than non-family members working in family businesses. The family should therefore be your first port of call and the focus of your relationship with the company. However, you will also need to allay the concerns of non-family members, who may feel threatened by an outsider with influence.

**Seek out younger family businesses.** Our survey suggests that the younger the business, the more likely it is to be open to offering equity. Therefore first, second and third generation businesses are more likely to find the involvement of a HNWI attractive than, for example, a sixth generation company.



# Q&A: Conversations with the Advisory Board



Both family businesses and HNWI's say it is hard to find deal opportunities, and yet their aims match each other well. We spoke to the study's advisory board for their views on how both sides can find each other in the first place and work well together in the long run.

## Interviewees:

- 1 **Robin Buckham**  
CEO of Family Business Australia
- 2 **Olivier de Richoufftz**  
President of Business Families Foundation
- 3 **Gary Deans**  
Partner, Head of Family Business, KPMG in the UK
- 4 **Chris Graves**  
Professor at The University of Adelaide
- 5 **Beverly Johnson**  
Partner, Head of Family Business, KPMG in Canada
- 6 **Kay Kloopping**  
Partner, KPMG in Germany
- 7 **Martin Kupp**  
Professor at ESCP and ESMT
- 8 **Julian Lange**  
Professor at Babson College
- 9 **Benoit Leleux**  
Professor at IMD and Academic Advisor to KPMG Global Survey on Family Business
- 10 **Jonathan Levie**  
Professor at Strathclyde University
- 11 **Sophie Manigart**  
Professor at Vlerick Business School
- 12 **Bill Noye**  
Partner, Head of Family Business, KPMG in Australia
- 13 **Albert Jan Thomassen**  
Executive Director of FBNet

**Q** The survey found that, while both family businesses and HNWI's were interested in working together, they found it difficult to source the right investors and deal opportunities. Why do you think this is?

**Deans:** I think one reason is that the two sides work almost within two discrete private networks and another is that they both tend to be very private in their own affairs – that makes it unlikely that the two will meet in the normal course of business.

**Leleux:** I'd agree. I do a lot of work in emerging markets, for example, and the family businesses in these markets know each other very well and know what's happening not just in the business but in the families themselves, such as marriages. The main problem is that they will often be reluctant to go to other family businesses for investment because it sends out the message that they need money – and their peers might question why.

**Johnson:** I think that's true, but we are seeing some changes with the younger generations. Family businesses have certainly been quite private with information and so that characteristic has led to a lack of awareness. However, when family businesses know each other, often through personal connections, they share stories and often become interested in working with each other. I think there is potential for change in the networks because of the advancement in technology where information is more quickly and readily shared and it's the younger generations that are leading this.

**Kloopping:** In my experience, there are two groups of HNWI's. Many of them are entrepreneurs and have had or been part of family businesses in the past – I feel this group recognizes the value in investing in family businesses. However, I believe the lack of connection is really in the group of sole HNWI's – those private clients who do not have a business. This is a special group – they are far removed from family businesses and from the idea of investing in family businesses. They do not have the past experience in their own business and most of them are much more risk averse.

**Q** So how could the two sides bridge the gap to become better connected?

**Levie:** One idea could be to set up a network similar to the Angel List in the US that connects HNWI's looking for investment and family businesses – this requires families to have a sponsor already, but it would broaden their networks considerably, bringing in investors that they might not otherwise have had access to. The issue with this, of course, is that family businesses need to feel comfortable enough with the idea of spreading the word that they are looking for funding.

**Leleux:** Yes, you might get some family businesses willing to do that, but for many it would be hard to get comfortable. I think family businesses tend to put themselves in situations where they don't want to talk to equity investors because of the disclosures they would have to make.

**Graves:** That's why I think there is a need for education. The close networks between family business owners mean that war stories about external investors are often shared – there are a lot of myths about loss of control and conflict. If we can educate family businesses about the potential benefits in realizing a family's goals and on what the steps are to make the relationship successful, I think many family businesses would be more open about networking with HNWI's.

**Buckham:** I think we'd all agree that is where advisers can assist. If you had a trusted specialist adviser who could outline what kind of funding they might need and then introduce them to someone who might make those funds available, this would certainly help to bridge the gap.

**Lange:** The other point is that the two sides need to get to know each other on a personal basis. The family business associations around the world often have committees for particular goals, be they philanthropic or furthering the interest of family businesses. If you had families and HNWI's working together on these committees, they'd not only get to know each other personally, they'd also see the skill sets, contacts and perspectives on both sides. That would give them something tangible to work with.

**Q** How proactive should HNWI's be in seeking out investments? Or should the onus be on family businesses?

**Graves:** It's a combination of both. What we're talking about is a supply and demand issue. There is a range of individuals keen to invest and offer their skill set; family businesses often need capital and expertise. There should be a good match, particularly if they have similar timescales and an understanding that both can't have control. And that's where advisers come in – they can introduce the two sides. However, both HNWI's and family businesses have to be clear with their advisers that they are seeking opportunities for this to happen.

**Noye:** That's true and I would suggest that if you had a hub, similar to the type that has been established in Australia, where legal firms have been providing loans for different family groups as a means of connecting people seeking finance, and where both sides are vetted, you'd have both sides being proactive. I agree that it's important for both parties to make an effort to connect and engage – a hub is a logical idea that may connect the two, particularly if it was able to categorise investors according to sectors and expertise.

**Thomassen:** The key point here is that they both share the same values and the report shows this clearly. But they also share a value that perhaps they should get rid of – modesty. They need to be more open and communicative about what they are seeking. And it doesn't really matter if it comes from the family businesses or HNWI's, both should do it.

"You can do this through the media or communications, but one other way that I find works quite well is to use independent directors because they are often more active in other networks, they can make connections."

### Q What are the opportunities for family businesses in offering equity to HNWIs?

**Thomassen:** I hear from a lot of families that this not only brings capital, but also discipline and access to new networks. Usually when a new investor gets on board, they also bring a more articulated approach so that the business strategy is more explicit – the family business can really benefit from this. In challenging times, having investors means you also have a partner that you can use as a sounding board or as a way to bring in fresh ideas. So, there are huge opportunities.

**Johnson:** One of the major benefits is for family businesses looking to expand into different geographies. There are some great synergies to be had if they can find an individual that has experience of, or is located in, that geography. Yet even if that's not the strategy, HNWIs can bring a great deal of experience, particularly if they are in the same industry. The issue is that there is a perception that if a family business is turning to an HNWI, it's because the bank has turned them down.

**Kupp:** There is also a lot to be said for the shared values between the two sides. Attracting HNWIs gives families the opportunity to get like-minded people on board that know what it takes to run a family business, that have the long-term horizons (unlike almost all other sources of finance) and that can offer value beyond equity. An experienced HNWI can give good, honest opinions that can really benefit family businesses.

### Q And what about the challenges?

**Thomassen:** The biggest challenge is the perception that investors will want control. Yet what I find is that many HNWIs, particularly those with a family business background, are keen to sit at the table, but don't need control. The other key point to bear in mind from the outset is there will need to be a split at some point in the future that could be either driven by the family business or the HNWI.

**Noye:** Yes, the biggest challenge is around equity, but this can be managed by keeping investors in a minority role and putting in conditions around that in the financial structure. Having independent specialists involved who can advise both parties and tailor arrangements accordingly is vital, particularly when it comes to constructing an appropriate arrangement for exit. Many family businesses would want to retain control and full family ownership over the long term and would not want an HNWI in there forever.

**Lange:** There are challenges and I think the point about exit is valid. There also needs to be a way for HNWIs to receive their returns during the investment. Family business owners often receive dividends or similar and there needs to be a way by which HNWIs receive similar financial benefits. That should be possible because, as the study shows, there is a lot of room for agreement between the two sides.

### Q How should HNWIs approach these kinds of deal and how do they differ from other types of investment?

**Kupp:** HNWIs should never go into this type of investment unless they are willing to put a lot of effort into understanding the business. Family business investments involve more work than other types of investment and it's very important to know who you are dealing with. They need to be very cautious about overly pursuing their own agenda. They also need to think about why they are making the investment. What's their end goal? To tap into networks? Or is it more about the returns and the opportunity itself?

**Noye:** Yes, HNWIs really need to go in with their eyes wide open. They need access to information such as financial history and forecasts, business plans and the sector, but they also need to look at how professional the family business is. What governance structures are there in place? Is there a family constitution? If family members are employed, under what conditions are they brought in? And is there an independent board?

**Johnson:** I would add that it's one thing to have a governance structure in place but another to have a functioning governance structure. For example, a business may have a board but they might never meet. Functioning is a key word – and for an HNWI, this could mean not just having family members in the business on the board.

### Q As we've explored, family businesses have a strong desire to retain full ownership. To what extent is this hampering them from capitalising on opportunities?

**Deans:** I don't think family businesses see this as hampering them at all. They tend to take the long-term view – if the appropriate financing isn't available at a particular point, they'll defer. They take a more conservative approach and are willing to bide their time.

**De Richoufftz:** I agree – they view the opportunities from a family perspective. Ownership for them is often expressed in the intangible benefits it brings of passing the business down to successive generations and having an emotional connection to the business. I would argue that their long-term involvement brings about a better understanding of how to deal with challenges, such as cyclical downturns. So they are strategic and won't rush into what others might see as an opportunity.

**Manigart:** Yes, but I do think that some could be more ambitious. Some don't fulfil their potential because there is an underlying feeling that they might have insufficient financial resources, which means they are sometimes self-limiting.

**Buckham:** It's true. Many family businesses are under-capitalised or under-leveraged – often deliberately so – and equity investment by non-family members can be viewed as threatening. As a result, they often rely on self-financing or debt. The trouble with that is that it can slow the growth of the business.

### Q So what compromises can be made on both sides to make partnerships successful?

**Manigart:** The survey highlights that there is a convergence between HNWIs and family businesses – both are well suited. This goes along with a need for non-bank sources of finance to be developed. I think HNWIs would do well to think about how they could structure their investment in other ways than equity – subordinated loans, for example. That would sit well with families that want to retain control, but also with HNWIs, who would be happy with higher interest rates. For their part, family businesses should be more willing to share information – they need to if they want funding.

**De Richoufftz:** Yes, they need to be willing to share information, but there also needs to be some understanding among HNWIs that family businesses will sometimes have below market results. That means HNWIs would do well to look at the long-term track record rather than try and base their decision on short-term financials. It's likely that returns will be staggered rather than linear as these companies are managed less with the goal of short-term appreciation and they tend not to spend money they don't have.

**Klopping:** I'd say the most important thing is that they agree on governance rules. Many don't have a formal governance structure or an external board. Usually the shareholders really do not decide too much – they are informed once or twice a year. Such a structure is not really acceptable for any external investor. Therefore there must be a common discussion process with shareholders, which may be difficult for the family business because they have to accept a new business structure which they didn't have in the past.

**Leleux:** Families need to be a little more transparent, need to let go of a little more of their governance, be a bit more forthcoming with their information and a little more willing to give equity.

# Individual country commentaries



# Australia

With 62% of family business respondents in Australia currently seeking external finance, opportunities are very much open for connecting with HNWI. Just as importantly, more than half of those surveyed have already obtained direct financing from HNWI – with six of those stating that they were very positive about the experience.

“HNWIs have a definite purpose in mind and once they are sure, they make investments. We have been able to woo them into investments as our strategies were unique and had a confirmation from wealth management firms that they would do well,” said the CFO of a nationwide poultry business.

The family business sector in Australia is becoming increasingly self-aware that they are different and unique. There is also a growing recognition of the sector by advisors, bankers, private equity, HNWI, media commentators and government policy makers. This awareness is a good sign for family businesses as it will open up new opportunities for the delivery of better tailored financial products, advisory services, advocacy and improved government policy and tax structure, to support them. I see the mutual interest by family businesses and HNWIs in each other as an exciting development and a whole new market opportunity.

BILL NOYE  
PARTNER, HEAD OF FAMILY BUSINESS,  
KPMG IN AUSTRALIA

All family business respondents agreed that HNWIs are watchful investors who would not panic if the company faced difficulty. The CEO of a South Australian flour company echoed this opinion. “HNWIs are generally patient in their investments and do not believe in getting too involved with the company or project they are funding. They would rather come in to help during crucial times. They will wait for performance results to show and will not plan an exit,” he said.

Australian HNWIs, on the other hand, have had fairly limited experience with family businesses, according to the survey. Less than a quarter of respondents had previously invested in a family-run firm. However, those investors that had taken the plunge had universally positive experiences. “Family businesses are like a long-term growth strategy for our business, earnings from the investment has been profitable always,” says one HNWI.

The good news for family business down under is that all HNWIs were, to some extent, interested in investing in family-owned companies in the future. However, families would need to be prepared to accept investors’ views as two-thirds of HNWIs said they would want to be personally involved, while half said they would regularly express their views on management.



# Brazil

Brazilian HNWIs have tended to stay away from family businesses as investments. Out of the five surveyed, only one had previously invested directly into a family-owned firm – and that particular firm was ‘well known’ to the investor. Potential for future investment mirrored this, with one investor showing a high level of interest and a further two respondents indicating some and limited interest.

While they may not target family businesses for investment, the survey did find that three of the five companies had either successfully built a family business or belonged to an established family business. This would indicate that the knowledge and understanding of family business values and preferences is there, with perhaps further education and promotion required to introduce this as an investment option for HNWIs.

The story is similar for Brazilian family businesses themselves, with only one out of the five surveyed having obtained direct HNWI investment before. In spite of this, the family business concerned was generally positive about the investment, which was raised from another family business. “We had to raise funds for getting this task completed and we decided to approach other family businesses as we believe in supporting each other in different activities,” said the executive director of a successful family winery in Sao Paulo.

While one family business owner was adamant in their disinterest in external investors at all, a number of family businesses indicated that they were open to the idea, with 60% of respondents having offered equity to external investors in the past.

Even if there are some challenges and difficulties, family business and HNWIs could become excellent business partners. It’s necessary to identify the needs of both parties and for family businesses to recognize the importance of external influences, aiming to establish new strategies and expand into new markets. For this purpose, encouraging closer connections and communication between them is essential for business.

SEBASTIAN SOARES  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN BRAZIL

# Canada

In Canada, there is more caution expressed by both parties on the pairing of family businesses and HNWI in business affairs, with only 20% having previously offered equity in the business, due to concerns over loss of independence and interference.

While across most countries, family businesses have expressed concerns from their perspective on the threat of external investors, in Canada, one HNWI highlights the potential risks of investing in family businesses if emotions are not kept in order and internal feuds begin. This fear can be somewhat allayed by the fact that nine out of 10 family business respondents said they did not believe that emotions and sentiments affected decision making. Respondents from both family businesses and HNWIs indicated that a high level of professionalism is key. This includes good governance practices and regular financial reporting. Transparency is important to both parties.

There is definite interest in investments between family businesses and HNWIs in Canada. Connecting with a HNWI isn't just about the money – family businesses may find they can tap into the knowledge and experience of HNWI investors to help grow their own business to the next level.

BEVERLY JOHNSON  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN CANADA

Sixty percent of respondents admit they are currently seeking finance, and 90% agree that the current financial climate has influenced their ability to secure bank loans, respondents seemed open to the idea of meeting half way.

The CEO of an equipment manufacturer said: "The availability of funding is the main factor that might encourage us to offer equity in the business. It is an active approach to gain finances. Offering equity in the business is actually an active approach to gain finances, but being a family-owned business we tend to get diverted from our strategies due to the pressure to cater to investors with continuous cash-flows."

The relationship between HNWIs and family businesses in China is quite positive, according to survey results. More than half of the HNWIs had previously invested in family businesses and all indicated that the experience had been positive.

One HNWI explained his family business investment experience led to others: "It was one of my first large investments in order to set up a new production plant and the business proved to give high returns, which has certainly influenced me to look at more family businesses as an investment opportunity."

Another, who has invested in family business before said: "It was a great experience as family business owners are very open and maintain a good relationship with all their contacts and never fail to give importance to their investors, which encourages more and more investments."

Seven out of 10 responses from HNWIs are in favor for investing with reasonable risk for a reasonable return and nine out of 10 indicated that they would not push for an exit because they are a patient investor. These responses align HNWIs with the preferences of the family businesses surveyed.

One such preference, as explained by a Shanghai-based CFO is for long-term, hands-off investment approach. "I would prefer to have investors who focus on long term benefits as our business still has to see a lot of development and success," he says. "They need to have trust in our decisions and should be willing to share ideas and knowledge when requested to facilitate growth in business which will also be a part of their returns in future."

Although none of the 10 family businesses surveyed have partnered with HNWIs in the past, they felt positive about the possibility of receiving funding from them. One Chinese family business CFO explains: "Of all investors around, I feel HNWIs have been exposed to family businesses at some time in their life which is an advantage as there could be quite a few instances where we could seek their advice or support and HNWIs would be more comfortable helping us out."

While HNWIs were not an obvious choice for the family businesses surveyed, three out of 10 said they would be willing to offer a board seat and five said they would be prepared for investors to offer advice and expertise. Two said they would prefer investors who are completely passive. The long-term, patient nature of HNWIs was a particular advantage for family businesses, as one CFO explains: "Long-term orientation towards investment returns would be the most important characteristic, considering our way of operations we have projects for longer time periods, so we also look forward to catering our investors' returns in the long-run with the completion of the project."

Family businesses in China are looking for funds to facilitate their expansion. On the other hand, HNWIs are looking for investment opportunities. There is huge investment potential for growth and success if these two parties can join in long-term business partnerships.

PETER KUNG  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN CHINA

# France

Family businesses in France reveal existing experience of sourcing financing from HNWI, with almost half of all respondents have previously raised funding through this channel. In general, respondents said they needed financing for upgrades or infrastructure improvement, and also were upbeat about their experiences with HNWIs.

The CEO of one family business, a Paris-based supplier of interior furnishings, says: "We needed financing for new technology and IT infrastructure. We approached three HNWIs that were known to us, and they agreed to put a fund together by approaching other investors to match the amount they put in." The CEO also explains why they chose to seek financing via this route rather than banks: "In previous transactions, our needs were not considered and we were not given a chance to explain our strategy. This has made us uncomfortable approaching banks as they do not seem to show much interest in our plans."

Similarly, the Managing Director of a Bordeaux-based winery reveals why HNWIs were a good fit for them: "We needed to update our facilities, so we approached HNWIs for funding to improve our wineries. The experience has been generally positive as they have been understanding and have not demanded short-term returns."

HNWIs in France are enthusiastic about investing in family businesses and the survey reveals that this is an established trend, with six of the ten French HNWIs surveyed having previously invested in one or more family business. One of the keys to their involvement, according to HNWI respondents, is the expertise that they can offer to family businesses. One such investor explains the attraction: "The business was explained in a personal way, and I met the family members and was given a brief review of the business plans. They were not pushy and explained that they appreciate my expert involvement in the business. These were the points that made it a good fit for me." Another HNWI echoes this view: "With the help of my friend, I have invested in five family businesses and I enjoy being able to offer my views. When looking at possible investments, I look for a board that seems bright and is driven to succeed."

In France this year, 67% of family businesses have expressed financing needs and 75% noted the recent implementation of at least one measure of tightening conditions to access bank loans, according to our May 2014 CGPME barometer (General Confederation of Small and Medium sized Enterprises). In these conditions, the use of HNWI who share the same values of patient capital over the long term and low risk-taking is a real opportunity to develop.

JACKY LINTIGNAT  
CEO OF KPMG IN FRANCE

# Germany

Family businesses in Germany are fiercely independent and loyal. Of the survey respondents, the majority (58%) have CEOs who are family members. All German family business respondents agree that family members have a strong sense of belonging, prioritize the welfare of family members and say that continuing the family legacy and tradition of the business is an important goal.

But despite these strong emotional ties, only 20% believe that emotions and sentiments affect decision making. The managing director of a German family mattress producer says: "Even though we are sentimental towards our business, the decision maker is very practical and, based on his authority, cuts off conversations when members go overboard with emotions. Family businesses do their best to perform under stressful conditions and are known to be patient during economic downturns as they believe in continuing the legacy and making reasonable investments."

Only a quarter of German family businesses say that the current economic climate has influenced the ability to gain finance for projects, providing potential for HNWIs to fill the gap.

Half of German HNWI respondents have previously invested in family businesses, and all were positive about the partnerships. One HNWI – the CEO of a German industrial equipment supplier – explains: "I was issued equity as well as interest in parts for my investment, and I was just looking at debt and not equity and was delighted when I got to know of the distribution."

Six out of 10 said they prefer to pursue reasonable risk with reasonable returns and the same proportion also expressed some interest in investing in family businesses. Another HNWI explains his preference for family businesses as investment opportunities: "Family businesses seem to be more organized as the decisions are never challenged as part of the agreement. They seem to be having more financial hold as there are many contributors at a single time and all work as a team when it comes to supporting business."

Responses from both sides indicate that there is common ground between the two, allowing family businesses to gain the financing they require, without the fear of losing control or independence.

All this positivity bodes well for future family business and HNWI investment relationships.

In Germany, there is a long tradition of interest and engagement between individual investors with a family business background and other family businesses. We have noticed an increase in this interest recently. To bring both sides to one table and to be involved when they jointly engage for the prosperity of the family business – this brings real satisfaction.

CHRISTOPH KNEIP  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN GERMANY

# India

While banks across the world are retrenching, it would appear that in India, at least, family businesses still see them as their chief source of funding. Indeed, nine out of 10 respondents were upbeat about bank financing.

“Obtaining capital from the banks has been positive,” said the COO of one Mumbai-based engineering firm. The CFO of a multinational conglomerate agreed: “Bank debts are the main sources of finance; we have maintained a strong financial status and our credibility is high, so we get faster turnarounds on applications.”

As substantial lenders, banks in India still maintain an approach of largely mortgage and personal guarantees and have not moved sufficiently towards business model and cash flow-based funding. Further interest rates continue to be high, ranging from 12% to 18% and making it difficult for family businesses to service interest comfortably. Accordingly, there is greater participation and investments by way of crowd funding, angel and venture funding and high-net-worth individual funding for family businesses.

With its rise to the world's third largest economy, India is poised for growth and reform and with more than 5 million family businesses the country offers a significant opportunity for investors. HNWI's seem keen to partner with businesses to help shape their future. If these two parties can find a way to join, the next decade will be very exciting.

SANJAY AGGARWAL  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN INDIA

This reliance on bank financing probably accounts for the fact that only a fifth of respondents have obtained financing from HNWI's – however, those that have done so rated their experiences as generally positive. For many family firms, the main benefit of HNWI investment comes through shared experience. As the CFO of a New Delhi motorcycle manufacturer said: “HNWI's have a similar understanding of risks. The fluctuations in the financial performance do not really affect their decisions or investments. This makes them a reliable source of capital.”

The main obstacle appears to be the perceived level of executive involvement from HNWI investors – eight out of 10 said HNWI's would interfere with management. “There is a possibility of interference in the decisions and this often leads to disputes,” said one CFO. “This is the main factor as to why we would avoid extensive use of capital from HNWI's.”

However, from the HNWI point of view, this ‘interference’ may not always come to pass. When asked if they would regularly express their views to management, a little under half said they would not.

While only two respondents stated that they had previously invested in family businesses, both were encouraged by their experiences. “Investments are made in the established businesses, so the results are highly positive,” said one investor. A second echoed this opinion, saying: “Yields from the investments were high and met our expectations.”

In India, the future for families and HNWI's working together looks bright – eight out of 10 HNWI's said they were interested in investing directly in family businesses.

Investing in family businesses is a relatively new concept for many HNWI's in Italy, it would seem, with only a fifth of Italian HNWI's surveyed stating a preference for them. One Milan-based investor who preferred family businesses said: “Family businesses are stable and have their own unique ways of managing their capital and growing their investments and profits. They keep information secure, and their balance sheets would never show all profits, as they believe in secret asset allocation.”

Family businesses are an incredibly important resource in the Italian entrepreneurial landscape. Being prone to growth and profit-oriented, they play a strategic role for the economic development of the country. HNWI's combine knowledge, relationships and financial resources that are a natural complement to the development of family businesses. The meeting of these two worlds will bring to light immense opportunities for both sides.

GIANLUCA GEMINIANI  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN ITALY

# Italy

Encouragingly, sentiment is favorable and there does seem to be some interest in future investments. All three of those surveyed who had invested in family businesses previously were either very or generally positive about their investment.

Another HNWI from Milan expressed a preference for the ‘personal touch’ family businesses can bring to an investment partnership: “Family business investments tend to grow as family members do their best to make the business flourish, as they have pressures of debt payments, dividends and legacy continuation. As a fund provider, I get to know the business owner and decision maker and I feel more content with my investment as family businesses continue to have a personal touch in transactions.”

Another HNWI, who had not been aware of family businesses as an investment option, reflected this positive sentiment: “My confidence was raised when I got to know that there are more investors [in family business] as I got assurance on my decision as others would not simply invest without doing their homework.”

By contrast, family businesses in Italy seem to have more experience with HNWI's, with three-fifths of family businesses having obtained direct HNWI investment before – all of which were positive experiences. The CEO of a global kitchen appliance manufacturer said their compatibility was a big factor in the success of the investment. “The overall experience has been generally positive, as they have similar functioning and understanding of risks,” he said.



# Japan

Japan's family businesses place high importance on the retention of family ownership and preservation of the business and its traditions for the next generation. Of the family firms surveyed, 80% had a family member CEO, three out of five were 100% family-owned, and the remaining companies were more than 50% family owned.

A unique element of Japanese family businesses is their longevity – with two of the companies surveyed being run by the fourteenth and seventeenth generations. Despite this clear passion for the family to retain control, only two respondents felt emotion and sentiment affected decision making and all business who had previously received external investment indicated that the experience was positive.

As the economy has recovered in Japan, family businesses are expanding rapidly – creating a wealth of opportunity for investors. Family businesses in Japan differ from their Western counterparts however, as they have some of the oldest family businesses in the world, and place high value on preserving the business for future generations. HNWI's can be a good match for family businesses, as family businesses value the potential for new knowledge and experience, but HNWI's must be sensitive to their highly private nature.

TAKESHI KURATA  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN JAPAN

One factor that drives this positivity is the anticipated experience and expertise that HNWI investment attracts. As one Tokyo securities company CEO said: "We were planning on acquiring majority stakes in foreign markets so that we get easy access and experience of new areas for business. We decided to raise capital and offer equity in return so that we manage to attract smart investors who promote entrepreneurship."

The feeling is, in general, reciprocated by Japanese HNWI's. They are receptive to investing in family businesses, with our survey showing half of Japanese HNWI respondents prefer to invest in family businesses. One HNWI explains the ability to impart expertise onto the business is a key attraction: "Family businesses can gain more success if they receive guidance from experts and be practical."

In some instances, however, family business investment is based on certain conditions, particularly concerning investor involvement. "I do not mind a family business as long as I get freedom to express my opinions," adds another HNWI. This could prove an issue for some family businesses – two of the five surveyed said they would want investors to remain completely passive.

In the Middle East, family businesses certainly have the appetite for investment. The fundamentals are in place to connect family firms with HNWI's – four-fifths of respondents are seeking external finance, while three in five have previously offered equity in their business to external investors.

However, few respondents have obtained investment from HNWI's in the past, despite acknowledging the benefits that they can bring – including sector knowledge and financial compatibility.

"HNWI's are reliable and easily approachable compared to the other sources of finance. Also, we could add on skills to our management through their expertise," says the CFO of one UAE-based family business.

The finance director of a Saudi business agrees. "Outside expertise can be brought in which can be highly beneficial for our organization and we can develop 'out of the box [ideas]' with outside expertise," he says.

The biggest challenge to family businesses in the region is the thorny issue of management interference. All respondents felt that HNWI's would get heavily involved in management decisions.

# Middle East

"There's a high chance of interference with the management. This is the principle barrier that stops us from obtaining investments from these investors," said the finance director of one Lebanese company.

HNWI's in the region that have invested have had positive experiences and all are interested, to varying degrees, in future investment in family businesses. However, all respondents state that they would regularly express their views to management. Crucially, though, HNWI's view this as advisory rather than interference.

"I would like to be aware of the businesses movements so that I can help if possible," said one HNWI. "[However], I would be patient and would let the business leaders take their decisions without interruptions, assuming they have more experience."

If family businesses and HNWI can agree on the level of involvement as part of the investment plan, then there's no reason why the two parties can't reach a mutually beneficial partnership.

Investment between family businesses and HNWI's in the Middle East is not common mainly due to the perception that HNWI's would want to get closely involved in the management decisions and day-to-day operations of the family business. However, family businesses are seeking external finance and, in addition to financing, connecting with HNWI's can bring about synergies and tap into the knowledge and experience of HNWI's which will enable them to grow to the next level.

HARISH GOPINATH  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN MIDDLE EAST AND SOUTH ASIA



# Russia

HNWIs in Russia have mixed attitudes towards family business investments. Two out of five preferred to invest in family businesses, while one other specifically targeted non-family company and two more had no preference.



The fact that family members have a big stake in the company is attractive to investors, according to one Russia-based HNWI: "I like family businesses as they are well managed and organized. The way family members are placed strategically in different departments is a great sight, as everything is managed well and there is lack of manipulation as the members have their own share in the returns based on business performance." Encouragingly, four of the five Russian HNWIs have varying degrees of interest in investing in family businesses in the future, with two of them very much so.

Family business' view of HNWIs is generally positive, with three out of five having received direct finance from an external investor before, and four out of five businesses having previously offered equity to an external investor. One CFO from Moscow said: "We obtained investments from a HNWI, as we had existing relations with them. We had to develop our supply chain model with the increasing competition which required high amounts of investments and the HNWI showed great trust and confidence in our firm."

However, another respondent, a Moscow-based head of corporate development, said that finding this kind of partnership is challenging: "Sourcing investments from HNWIs is not easy, the availability is limited and finding the right partner to satisfy your investment need is difficult."

Despite this positivity, not all businesses are open-minded about offering HNWIs involvement – two out of five respondents indicated that they would prefer investors who were completely passive.

Family businesses in Russia and CIS are undergoing a transformation, whereby the first generations of owners are gradually considering the next steps: exit the business, pass it on to the next generation or other alternatives. These younger family firms are experiencing some of the many issues that are specific to family-owned businesses, which countries with third and excessive generations of owners have already gone through. Family business and HNWI sectors have become an increasingly important economic player to be recognized by financial institutions and other market participants. The challenges that this development may bring are numerous, but the opportunities will easily overcome them.

VICTOR AKULIAN  
PARTNER, HEAD OF FAMILY BUSINESS,  
KPMG IN RUSSIA AND THE CIS



Many HNWIs generated their wealth through the establishment, growth and ultimate exit of a family business. As a result, they very often have a great deal of insight to add to new family businesses – they can offer not only capital investment but also valuable wise counsel.

CRAIG STEVEN-JENNINGS  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN SOUTH AFRICA

# South Africa

Relations between family businesses and HNWIs in South Africa are exceptionally strong, according to the survey. Four out of five family businesses have already obtained direct investment from HNWIs – and all of them were positive about the experience. "They were easily approachable and their guidance throughout the undertaking was outstanding," said the CEO of a Stellenbosch-based investment company.

The survey also found that family firms were not just looking for a silent partner. All respondents were prepared for investors to offer advice and expertise – even offering a seat in the boardroom in one case. "We will welcome new board members to share inputs and drive business decisions based on their knowledge and perception," said the CEO of a Rustenberg engineering company.

In addition, the majority of those surveyed disagree that HNWIs would be overly involved in management decisions. "They would most probably not interfere with any business. They [only] get personally involved in examining flaws that can be rectified so that the business functions well," says one CFO.

HNWIs are equally upbeat about family businesses. Three out of the five have previously invested and all those enjoyed the experience. Respondents mentioned strong returns, high-quality service and long-term goals as the key advantages to family business investment.

"We've had better dealings with family businesses," said one HNWI. "They are pretty open in their views and functioning and we've not experienced any sort of conflicts." This opinion was backed by one of their peers. "My experience has been great with family businesses. The owners give you the importance you have not expected and promote individual views on a decision. Family businesses look at the long term."

However, respondents acknowledge that one obstacle persists – the emergence of a corporate culture clash. According to one HNWI: "Possibility of conflict is a fear factor which discourages companies from investing in family businesses. Most of the time, personal likes, dislikes and perceptions lead to conflicts and disruptions in the organization and its impact is visible on the investors and shareholders."



# Spain

Spanish family businesses are very receptive to HNWI investment. Eighty percent of Spanish family business executives interviewed said they had previously received HNWI investment, and rated the experience a positive one.

This positivity, judging from comments, is down to two key things: trust and transparency. The managing director of an accountancy institute in Zaragoza says: "As our business is built on the foundation of transparency, we never fail to highlight the key areas of investments so that we continue to build confidence in all investing parties. HNWIs trust us a lot as we have been using their funds for years and have given them good results as promised in the past." While an operations director adds: "We conduct regular research and have been coming up with new ways to approach different markets to get recognition for our business. Our strategies are approved by our top managers, who have years of market experience in decision making. HNWIs have funds which they can easily invest and we have succeeded in persuading them to make an investment with us, as we leave no unanswered questions and loopholes in our transactions."

Investors themselves show a mix of attitudes towards family businesses. For those viewing them positively, the prospect of hidden potential is enticing. "Family businesses that have maintained continuity over the years have more scope as there are hidden secrets to business and more advantage in the market," says one HNWI. "These businesses contribute to all members so success and profits are self driven, which is good for investors." Another attractive aspect is the stability and sustainability offered by most family businesses, as another HNWI explains: "Family businesses are more committed to development and sustainability as most members rely on the business and plan a career accordingly – especially the new generation."

In Spain there is a natural alliance between HNWIs and family businesses. HNWIs are interested in becoming a source of financing for family firms, either in equity or subordinated financing, valuing tradition and confidence inspired by the family. At the same time, HNWIs are a great choice as an investor for family businesses because they not only respect the privacy of the family, but also, through the provision of financing, allow family businesses to consolidate good governance practices and introduce new experience and knowledge for business development.

JUAN JOSE CANO FERRER  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN SPAIN



# United Kingdom

One HNWI – the director of a managed services and cloud provider in the UK says: "I am in favour of family businesses as they are creative and have survived the economic storms that occurred over the decade and still are powerful forces in the business industry."

Seven out of 10 HNWIs prefer fewer, more significant investments, while nine out of 10 agree or strongly agree that they would not push hard for an exit, as they are patient investors. However, 100% also indicated that they agree or strongly agree that they would like to regularly express their views to management, and also say they would like to be personally involved.

Family businesses are increasingly exploring alternative sources of debt finance and are attracted to lenders who match their long-term focus. This is an area where there could be mutual benefits.

Family businesses in the UK show caution toward HNWI investors, with only 33% having previously offered equity to an external investor. Possible loss of independence was the greatest fear for most. More than half of respondents indicated that they are currently seeking finance and more than half say that the current climate had influenced their ability to source much-needed finance through bank loans. However, it is their fear of losing control and a perception of high demands that make private equity and venture capital more attractive alternatives to bank loans, but these sources of finance are often seen as last resorts.

The CEO of a London-based brewery explains: "Once equity is issued, there are chances that there will be constant involvement of equity holders arguing for returns, and we have known of such cases. So we refrain from getting involved with external investors. Also, once equity is issued, reporting requirements become necessary and cannot be overlooked."

However, only one of the 10 UK HNWIs surveyed has no prior family business experience, indicating that most have a grasp of the issues family businesses come up against daily, and also the benefits of investing in them.

Traditionally, UK family businesses have been wary of external investment, preferring to maintain exclusive family ownership. However, many are now exploring alternatives to bank finance to fund growth and working with other families and individual investors could prove to be an attractive option. It is certainly worth exploring these providers of equity or debt as the benefits, financial and non-financial, could be significant.

GARY DEANS  
PARTNER, HEAD OF FAMILY BUSINESS, KPMG IN THE UK

# United States

Family businesses in the USA appear receptive to HNWI investment, with 65% having previously offered equity to external investors.



The CEO of a Chicago-based family business, who has previously received finance from an HNWI, says: "HNWIs will invest money for the reason of simple investment. They do not tend to interfere with any decisions of the company knowing it is a family-run business. However, we encourage them sometimes to help us in decision making if they are from the fields of our interest." In contrast to many countries, this would suggest that it is the family businesses and not the HNWI instigating any external business involvement.

Family members have strong involvement in the business, with half of the family businesses involved in the surveying stating that the CEO is a family member and half also say that emotions and sentiments affect decision making. Of those surveyed, 79% were majority family owned: 43% were more than 50% family-owned, 36% were 100% family-owned and the remaining 21% were less than 50% family-owned.

HNWIs also seem open to the idea of investing in family businesses, with one Cleveland-based respondent stating: "I have been thinking of investments into family businesses as there is personalization where you can share your ideas and speak about your contributions based on your market knowledge, and can offer to reshape business processes for better outcomes which is well accepted by owners and family members."

Of those surveyed, 50% have invested directly in other businesses, and of these, half have invested directly in family businesses. With 90% of respondents saying that they would want to express their views regularly to management, clear boundaries must be established from the offset to ensure the expectations of both parties are met, but it would seem that the two sides are equally as eager to explore this option.

There appears to be an interesting dynamic among family businesses and HNWIs. As family businesses and investing become more global, both tend to look for opportunities to invest together to build long-term, sustainable, and growing value-added relationships.

SCOT GUEMPEL  
PARTNER, HEAD OF CLOSELY HELD BUSINESS & OWNER  
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# Methodology



The survey included a combination of qualitative and quantitative questions and all interviews were conducted over the telephone by appointment. Results were analyzed and collated by Mergermarket and all responses are anonymized and presented in aggregate.

For the purposes of the survey a HNWI was defined as someone with more than \$10 million in liquid assets or assets potentially for sale. These individuals came from a range of backgrounds, including successful entrepreneurs, those owning a stake in a family business, those who have gathered significant wealth through successful careers and/or those who have inherited their financial wealth.

Family businesses, for the purpose of this study, are defined as firms in which multiple members of the same family are involved as major owners or

managers, either contemporaneously or over time, and were split into three main groups: those with turnover of \$20-\$50 million; those with \$50-\$200 million; and those with more than \$200 million globally.

The family businesses spanned a range of ages. Some 61% were firms in second or third generation ownership, while 16% were under fourth generation ownership and 11% owned by the first generation. Fifth and sixth generation-owned businesses made up 12% of survey respondents.

The family business interviewees occupy a range of senior positions, such as CEO, COO, CFO or head of strategy. Of those surveyed, 42% were family members, and 58% were non-family executives.

Emerging markets for the purpose of this study incorporate markets defined as Emerging and Frontier by MSCI. This covers Argentina, Brazil, China, Egypt, India, Lebanon, Mexico, Poland, Saudi Arabia, South Africa, South Korea, Russia, Taiwan and the UAE.

North America covers Canada and the USA.

Developed Europe and Developed Asia-Pacific covers Australia, France, Germany, Italy, Japan, Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and the UK.

Where strong regional or demographic variations have been found these results have been shown graphically. For survey questions, where there was limited variation between different sub-groups the corresponding charts have been omitted.

## Advisory Board

In the first quarter of 2014, KPMG Partners from 15 countries undertook 40 in-person interviews with family business and HNWI clients. The results of these interviews were analyzed by an advisory board that included experts drawn from KPMG, family business associations and leading universities, who identified relevant topics for further telephone survey and academic research.

	EMA	ASPAC	Americas	International Family Wealth
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<b>Associations</b>	Albert Jan Thomassen (European Family Business)	Robin Buckham (Family Business Australia)	Olivier de Richoufftz (Business Families Foundation)	
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## Survey design

The proposed topics were investigated using two surveys that gathered responses from 125 HNWIs and 125 family businesses. Respondents were based across 29 countries worldwide, covering a total of 82.4% of global GDP.

% of Global GDP	Countries	Respondents per country
52.2%	Australia, Canada, China, France, Germany, India, UK, USA	10 Family Businesses 10 HNWIs
21.0%	Brazil, Italy, Japan, Middle East (Egypt, Saudi Arabia, Lebanon, UAE), Russia, Spain, South Africa	5 Family Businesses 5 HNWIs
9.2%	Argentina, Mexico, Netherlands, New Zealand, Norway, Poland, Sweden, Taiwan, Singapore, South Korea, Switzerland	1 Family Business 1 HNWI

## Helping family businesses grow

From the kitchen table to the boardroom, KPMG's family business specialists bring decades of knowledge and experience to each engagement. Our global network of member firms enables us to work across borders and tap into an experienced pool of resources. We work alongside international thought leaders in the field of family business to share leading practices and resources, our professionals also advise on implementing creative and practical solutions to help families take their business to the next level.

*Family Business Adviser,  
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