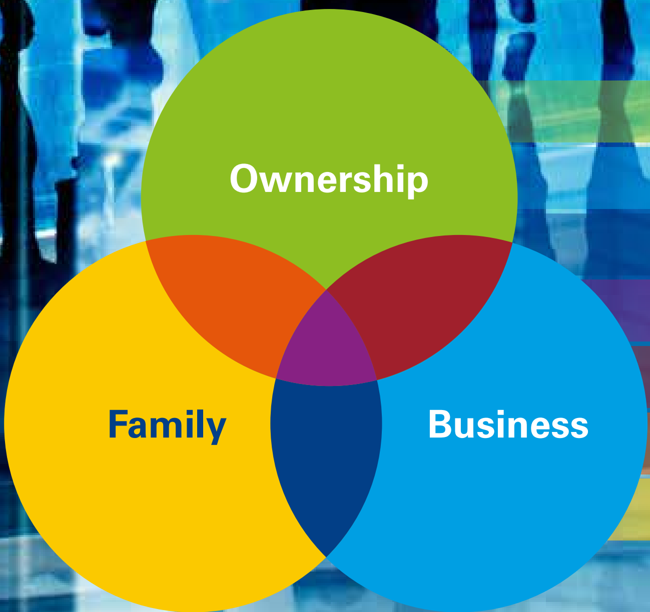
KPMG
cutting through complexity

Family Business Conference

9 – 10 September 2015

Stellenbosch, Cape Town

Summary of key presentations and feedback document



Succession & next generation
Governance
Growth
Assurance
Exit strategies
Wealth preservation
Philanthropy

CONTENTS

FOREWORD

Dear Delegate

On behalf of KPMG, I would like to thank you for attending the 2nd KPMG Family business conference in South Africa. We hope you enjoyed the insightful presentations, the interactive table discussions on the Sages case study and interesting panel interactions, as thoroughly as we did.

Family values and governance are critical to effectively manage the challenges of succession, wealth preservation and philanthropy in a family business. Without these being in place, a family will struggle to maintain family harmony and longevity of the business. These were the common themes across all the sessions during the day.

The main purpose of the conference was to provide family businesses from across the country the opportunity to listen, learn and share their experiences on three very relevant topics for a family business. We believe that the conference achieved its goal and also provided a wonderful opportunity to network with like-minded people.

This publication serves as a summary of the gala dinner and conference highlighting the key messages and insights.

Passion; it's what drives entrepreneurs, family businesses and fast-growing companies alike. It's what also inspires KPMG to help drive your success. Your success is our legacy. We look forward to continuing the conversation on managing the key challenges facing a family business.

Alan Barr
KPMG Partner,
South Africa Head of Family Business

A. KEY MESSAGE AND PHOTOS FROM THE DINNER

On Wednesday evening the Family Business Conference was preceded by a Gala Dinner at the picturesque Landtscap in Stellenbosch. Whilst the weather was on the chilly side, conversations warmed the atmosphere. John Maytham as the guest speaker encouraged us to not lose hope as South Africans.







B. CONFERENCE SESSIONS

1. Insight by KPMG Global head of Family Business: Christophe Bernard

Family Businesses create more than 70% of global GDP annually. Between 50% - 80% of jobs in the majority of countries worldwide are in Family Businesses. Average long-term financial performance is higher for family businesses than for non-family businesses. During good economic times, family-run companies don't earn as much money as non-family-run companies. When the economy slumps, family firms do perform better.

5 key success factors of a Family Business

- Long term vision - Family Businesses think in generation perspective.
- Focus on core business - Family Businesses are less diversified, focusing on their core business and related know-how
- Values / Focus on people - Family Businesses retain better talent. Family Businesses do not rely on financial incentives, they focus on creating a culture of commitment and invest in their people.
- Confidence in future - Family Businesses are increasingly confident about the future more than businesses overall.
- More equity / less debt - Family Businesses tend to have lower levels of financial leverage and a lower cost of debt. They associate debt with fragility and risk. Debt means having less room to maneuver if a setback occurs.

Major issues Family Businesses are facing

- Governance, survival and succession, people and skills, access to finance.

The European Family Business Barometer (Fourth edition) released in September 2015 revealed that:

- 75% of respondents have a positive outlook for the future
- 58% have increased turnover
- 46% have increased staff numbers
- 58% of those who are engaged in activities abroad have increased them.

Find the full report on www.kpmgfamilybusiness.com.

Christophe
Bernard

2. Succession

Sustaining a family business beyond generations is often a challenge and fewer than half of all family businesses survive the transition from one generation to the next. Families in business have an opportunity to create a lasting legacy that brings with it a sense of accomplishment and pride. However, succession and integrating the next generation into business is perhaps the toughest and most critical challenge of a family business, involving business management and ownership succession as well as leadership development.

Succession key learning points

- **Leadership succession is one of the most difficult issues in family businesses.** A lot of businesses fail because succession is not handled properly: the leader does not organise succession, never retires, or does not prepare his children to work together. Another cause of failure is when leaders put their children in top positions regardless of their skills or interests.
- **The process should be as objective as possible and start with the business needs.** Sometimes one of the family members clearly appears as the next leader, but it is not always the case. One of the elements that should not be underestimated is the ability to integrate the culture of the family business. One of the attributes of the new leader should be the consistency with the family values.
- **Several options should be considered, including hiring a non-family executive and changing the structure of the leadership team.** The next leadership can take a different form. The founder is often chairman of the board (when there is a board) and CEO at the same time, while these roles can be split after him. Also, the leadership of the business can become more collegial with the creation of an Executive Committee.
- **It is the role of the Board of Directors to select the next CEO.** While business leaders may have good ideas regarding who could succeed them, the Board of Directors can play a key role in the successor's selection – and it is their role. The Board – especially if they include non-family members who can bring objectivity – can go through the process of evaluating the business needs, clarifying the desired profile of the next CEO, and selecting the candidates.
- **Outsiders (Human Resource specialists) can support a fair process.** Some family firms use head-hunters to define the job requirements, and to compare several candidates. This practice can reinforce the stakeholders' trust in the process.

The next generation must prove itself and earn trust. Outside experience, hands on responsibilities for a profit centre, development of new geographies or new lines of products… all these experiences allow the next generation to prove itself.

For succession to take place, the current leader needs to be willing to "let go", or rather to have new projects. For the current leaders, the business is often their brainchild and leaving the business is threatening: "what shall I do? I need to come to the office every day". Taking on new responsibilities, like chairmanship of business associations, philanthropic work, business angel activities etc. are great ways for the current leader to spend time in a meaningful way out of the office.

The earlier the better, it is easier to develop new projects at the age of 65 than at the age of 80.

B. CONFERENCE SESSIONS

Key message on Succession from Mr Philip Krawitz (Cape Union Mart Group)

Philip Krawitz was the keynote speaker on the topic of Succession. His presentation contained interesting facts on family businesses, provided background to the Cape Union Mart Group and its own succession story with many textbook key learning points as well as valuable lessons learnt doing it the hard way at this successful 4th generation family business.

The Cape Union Mart Group was founded in 1933 and is now a successful multi-brand manufacturer and retailer employing 2 800 people in a 100% family owned business that follows modern corporate governance principles.

Philip emphasised the facts outlined by previous speakers that family businesses generally have a very low survival rate from one generation to another and approximately only 9% survives beyond the 3rd generation. Successful family businesses on the other hand have many advantages over corporates. These include the long term nature of relationships, ability to make decisions quickly and loyalty on many levels.

By providing an overview of the Family Business model and the Adizes life cycle curve, Philip motivated the case for effective succession planning. He shared their lessons learnt and the 4 golden rules of effective succession which included not having too many children!

Philip devoted the last section of his talk to explain the way in which the Group handled the transition from family Chief Executive Officer to appointing an external non family member to succeed him. His key message was that whilst the ship remains yours (or the Family's) you have to assume the role of Admiral, letting go of the helm handing over to a Captain who may set a different course to reach an agreed destination.

For the full presentation refer to the slides sent separately.

Philip
Krawitz

Successful Transgenerational Entrepreneurship Practises (STEP) project by Elmarie Venter (NMMU)

Professor Elmarie Venter, Director of the Nelson Mandela Metropolitan University (NMMU) Family Business Unit, provided delegates with an overview of the state of research into Family Businesses. She focussed specifically on the STEP project which was founded in 2005 by the Babson College and a group of European universities and business schools. The project is envisaged to be a leading international collaborative research project that would bring together a large group of scholars interested in entrepreneurship within family business contexts. The aim is to use research methods that allowed scholars to interact with leaders and owners of family businesses. The key question to be answered in the research is how do Business Families generate and sustain entrepreneurial performance from one generation to another.

Elmarie challenged delegates from successful family businesses to volunteer to become part of the study project.

Elmarie
Venter

3. Wealth preservation

The subject of money is an eternally contentious one and without any doubt raises more anxiety than any other area for those involved in a family business. Wealth preservation can be achieved in a various ways, including diversification. Diversification can be achieved at several levels including the main operating level, new lines of business related to the core business, joint family investments outside the business etc. Shareholders' views on diversification is influenced by their own personal background and position in the family business and therefore it is important for shareholders to discuss what ownership means for each of them, as well as their motivations for diversification. Ultimately, diversification requires funds.

Wealth preservation key learning points

- **Before starting to think of diversification, the first reflection to have is: what are the wealth owners' personal objectives?**
  - New entrepreneurial projects (as business angel or active entrepreneur)?
  - Philanthropy?
  - Enhanced lifestyle and "fun"?
  - Their children's education?
  - Transmission to the next generation?
  - Personal financial security?
  - Retirement?
- **Shareholders' views on diversification is influenced by their own personal background and position in the family business.** Ownership may have very different meaning to different owners. For "external" management, it may represent a fair retribution of their efforts to develop the business while fostering a stronger connection to the business. For members of the founding family, shares have often been inherited, they represent a family legacy, and the expectation of financial returns may not be the same as for other investments. The emotional attachment plays an important role and the level of connection to the business and trust in the management will impact the attitude towards diversification
- **Different projects and dreams have very different time frames; they imply different returns and different investment risk profiles.** An interesting way to approach the issue of diversification is to work on the family vision and to compare it with the business vision.
- **Once the different objectives have been clearly expressed, reflection can start on asset classes and investment tools.** The different asset classes generally considered by portfolios managers are: Equities, real estate, commodities, bonds, cash, etc.
- **Last but not least, being able to sell assets is also part of active wealth management.**

B. CONFERENCE SESSIONS

Key message on Wealth Preservation from John Kennedy (Citadel)

Surviving and Thriving' in the Wealth Preservation context is about protecting what you have and building on the foundation that has been created.

Preservation is about 'avoiding loss' and it needs to be considered from a Financial, Investment and Ownership standpoint(s).

The Family Economy has three broad categories;

1. Business 'Operator'
2. Family and Lifestyle
3. Investor

Each with their own guidelines and rules but with a number of overlaps. All have a clear need for the goals/vision/objectives and strategy to be clearly articulated and documented.

As the odds of long term sustainable business success are not always in your favour it's vital to translate business success to financial success.

Business success is the culmination of a sustained effort and focus on a core competency. Key risks to be aware of is the need to diversify the asset base, secure income(s) and manage liquidity (amongst other). This must be a conscious and planned transfer of wealth at the appropriate time(s) to weatherproof your overall portfolio.

Four key risks were highlighted which if not appropriately dealt with may result in 'permanent' loss of capital:

- Investing with the wrong partners and not doing your homework (due diligence).
- Chasing unsustainable yields / lending capital to financially weak entities/institutions/governments.
- Falling victim to the illusion of nominal wealth and not achieving real returns over time.
- Overpaying for an asset/security where the price is meaningfully distorted from the underlying valuation.

Avoid the 'reset button' by having a non-corruptible framework to guide you and stick to the game plan notwithstanding the turbulence and adversity we all experience.

John
Kennedy

4. Philanthropy

Philanthropy is an important aspect of wealth management, comprised of philanthropic goals and wealth transfers through charitable giving. When a family business is committed to giving money, assets and wisdom, it can positively benefit society, communities and the environment. To meet a family's philanthropic goals, it is not only important that the options for giving are aligned with a family's values, but are also an effective tool in wealth and tax management.

Philanthropy key learning points:

- **Before starting their philanthropic project, family members should sit down and have an exchange about their various motivations.** Philanthropy can be a great way to express a family's values, to give back to society and support projects that are close to the donors' hearts. It can also be a source of conflict if family members do not agree – this is an area of strong emotional involvement. Sitting down and reflecting on the family values is a good first step. Then, the family can go further and see if they have a shared goal regarding philanthropy: which values does the family wish to embody through philanthropy? What would be the precise mission and purpose of the philanthropic efforts?
- **As part of the "vision" discussion, the family should ask itself "whose" project they are discussing.** You have to choose who would provide the funds and who would lead the philanthropic efforts:
  - Individual family members?
  - The entire family?
  - Both?
  - The Business?
- **Philanthropy is an opportunity to engage family members who are not involved in the family business.** Family philanthropy is an opportunity to bring different members of the family closer. Ideally, it should become a meeting place for family members, whether they work in the business or not.
- **Philanthropy needs professional governance.** Not-for-profit activities deserve proper governance. Outsiders can bring objectivity to the debate, in particular when it comes to choosing projects. The board of the foundation, the committees, and the executives, must be appointed with clear and impartial processes, and provide the abilities and values that are needed. Criteria and processes concerning the allocation of funds to projects are important to ensure fairness. Finally, goals and an assessment of impact should be put in place.
- **Other forms of contribution, such as social entrepreneurship, should be considered.**

Deborah *Tickle*

B. CONFERENCE SESSIONS

Key message on Philanthropy from Shelagh Gastrow (GastrowBloch Philanthropies)

A shift from charity to philanthropy

When introducing the concept of philanthropy, it was important to separate philanthropy from the general view of charity. These were two different concepts, although "giving" was the common element. Charity did not change the systems that created poverty, but rather made poverty bearable. Philanthropy, however, focused more on strategic giving that explored systemic change and innovation, provided leverage and built coalitions such as with the corporate sector and government to take pilot projects to scale.

Institutionalising philanthropy

The advantages of institutionalising philanthropy, both for individuals and family businesses were defined. The history and structure of philanthropic foundations or charitable trusts were examined and the advantages of philanthropy in terms of its capacity to take risk were outlined.

Family philanthropy

Family philanthropy was a mechanism that could enhance family values and the family's legacy over the long term. Philanthropy provided a mechanism to create bonds between generations, both to create a space to pass down values but also to learn from younger generations who would have a different world view. Family meetings relating to philanthropy were a way for family members to come together and to create common family projects.

Family business and philanthropy

Acknowledging that family businesses had a long term vision as well as challenges relating to succession and family governance, philanthropy offered a platform to engage with future generations and to create a legacy based on the values espoused by the family, both privately and within their business. It was also a way to include family members not in the business with a way to interact with those who were and provided an opportunity to contribute towards the business without pressure or conformity.

The family's brand in relation to philanthropy was understood to enhance the business's brand, built staff loyalty and social capital amongst the public.

Noted that 81% of the world's largest family businesses practised philanthropy and 47% had a family foundation.

Shelagh *Gastrow*

Managing philanthropy

Key questions that would need attention by individuals, families or family businesses were raised. These included:

- How much personal time could be dedicated to philanthropy?
- Levels of involvement within the family or the business.
- What support would be required (advisors, financial services)?
- What operational structure would be needed for a foundation?
- Who would serve on its board?
- Who would be responsible for financial management?
- Who would manage the giving and identify recipients?

Conclusion

With a shift away from a charitable paradigm, it was evident that philanthropy, both within family businesses and from an individual's private wealth, could effect change in the communities in which the business was based, but would also build the business's reputation and brand. Philanthropy was a unique way to extend family values and to leave a long term legacy for the business and the family.

C. FINAL THOUGHT

Family businesses are unique. At the center of this difference is the family dynamic, which can play a significant role in decision making and offers both opportunities and challenges. The growth and sustainability of a family business lies in the fine balance between the needs of the business and the expectations of family members.

Our goal is to empower family business owners and their representatives and this conference was just one way of doing that.

We hope to see you next year at our 3rd KPMG Family Business Conference to be held in Durban, September 2016.

Contact us

Alan Barr
Director KPMG Head of Family Business South Africa: Port Elizabeth
T: +27 41 395 1500
M: +27 83 388 6404
E: alan.barr@kpmg.co.za

Henry du Plessis
Director KPMG Family Business: Cape Town
T: +27 21 408 7319
M: +27 83 2991811
E: henry.duplessis@kpmg.co.za

John Kennedy
Citadel: Director Wealth Planning
T: +27 21 670 9125
M: +27 83 292 3456
E: johnk@citadel.co.za

Shelagh Gastrow
Director GastrowBloch Philanthropies
M: +27 82 494 2996
E: shelagh@gbphilathropies.co.za

Elmarie Venter
Professor and Director of NMMU Family Business Unit
T: +27 41 504 2204
M: +27 83 226 0806
E: elmarie.venter@nmmu.ac.za

kpmg.co.za