

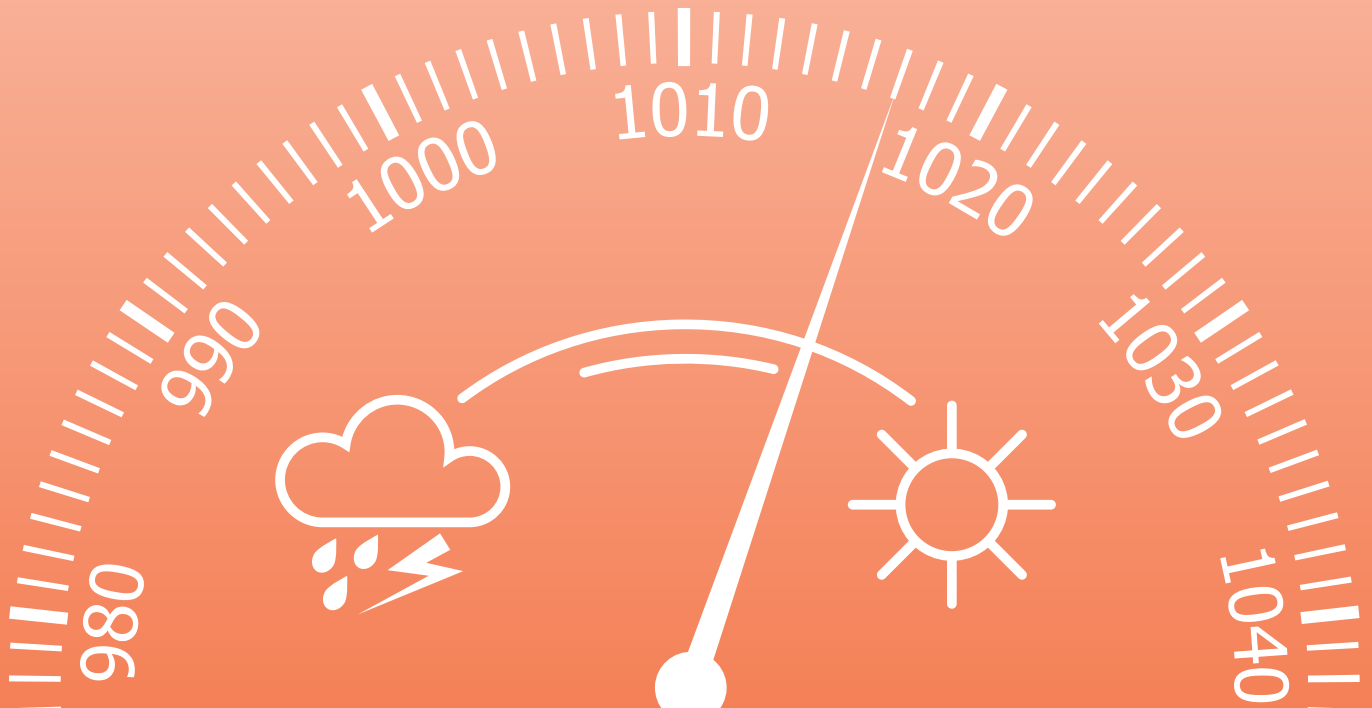


EUROPEAN FAMILY BUSINESS BAROMETER

INCORPORATING SOUTH AFRICA RESULTS

FIFTH EDITION | 2016

SUCCESSFUL & RESILIENT



Welcome to the fifth edition of the European Family Business Barometer

“

European Family Businesses (EFB) and KPMG continue to deliver insights into how the European family business community perceives its growth prospects and business performance. For the first time, we have insights from family businesses across Africa and throughout the document we draw comparisons between Europe and Africa. Family businesses in Africa have demonstrated strong resilience to external pressures and challenges and are optimistic about the future. To grow their business, company leaders are investing in two areas: core business and diversification.

”



Alan Barr

KPMG Head: Family Business (South Africa)

INTRODUCTION

Family businesses in Europe continue to demonstrate a high level of confidence in their future prospects and business performance. They are optimistic, determined and skilful at navigating through challenges and adapting to market changes.

In this fifth edition of the European Family Business Barometer, European Family Businesses (EFB) and KPMG have once again joined forces to offer insights into the confidence levels of family businesses, the challenges they face, and the solutions they seek to ensure their development and sustainable growth.

It is reassuring to see that, despite the sluggish economic growth and recent nervousness within the European market, the family businesses surveyed remained confident and optimistic about their outlook for the future. They are increasing their sales figures, entering new markets and growing their workforce. Over one third of respondents provided responses after the Brexit referendum result was made public. Although a slight decrease in confidence levels this year may reflect companies' fear of an uncertain future, the overall figures demonstrate the stability and strong resilience of the family business community.

European family companies are not just keeping their heads above water, they are actively taking advantage of opportunities for continued growth. They are clear about what drives their business success, investing primarily in what they consider their two main assets: talent and innovation.

The family business market is becoming more mature and business leaders are taking smart steps to prepare their companies for the future. They are increasingly formalising internal processes and procedures to avoid conflicts and establish efficient governance. They are welcoming non-family executives to bring in new expertise and knowledge. And they are giving next-generation family members management roles to ensure that the family legacy is passed on smoothly. In short, family businesses continue to demonstrate their unique nature and make their crucial contribution to the European economy.

Happy reading!



Jesus Casado
EFB Secretary General

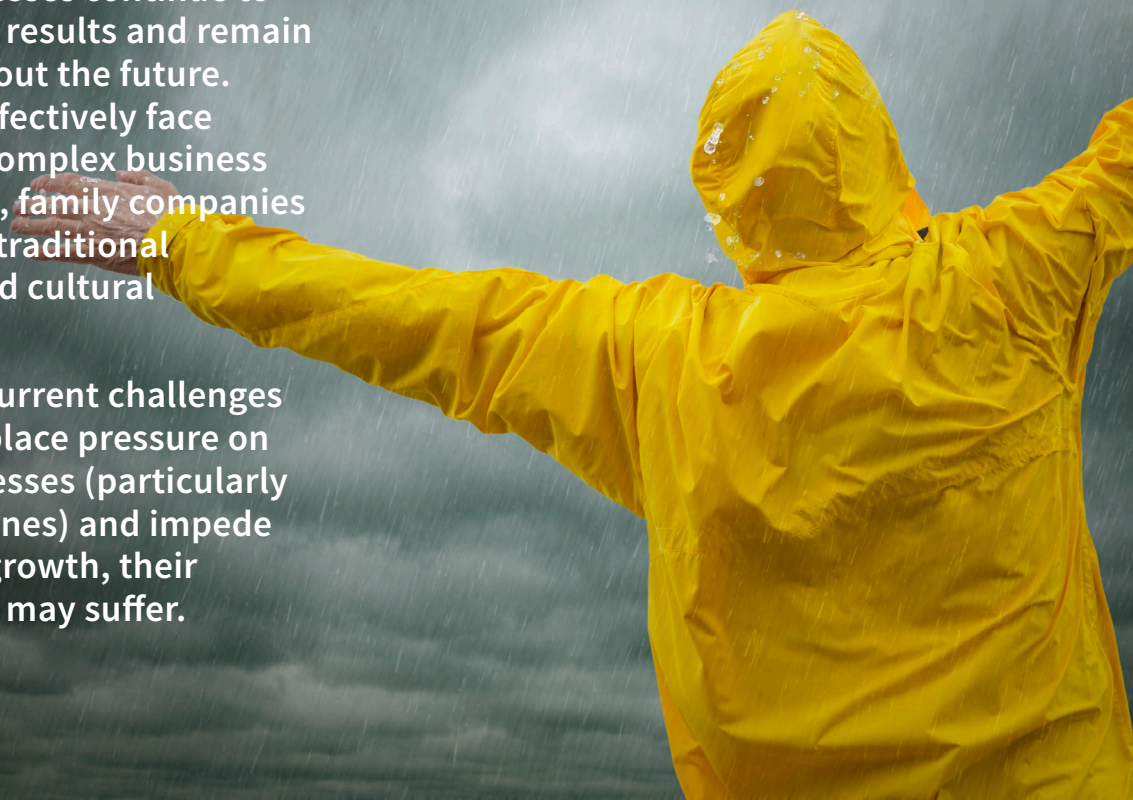


Christophe Bernard
KPMG Global Head of Family Business

STRONG CONFIDENCE IN THE FUTURE

In spite of the recent upheavals in the European market, the intensifying war for talent and business competition, European family businesses continue to post positive results and remain confident about the future. In order to effectively face the current complex business environment, family companies rely on their traditional structural and cultural strengths.

However, if current challenges continue to place pressure on family businesses (particularly the smaller ones) and impede their future growth, their performance may suffer.



“Family businesses are key to the economic growth of South Africa and 73% of respondents are confident about the future despite the political uncertainty and unstable currency.”

Alan Barr, Head of Family business, KPMG South Africa

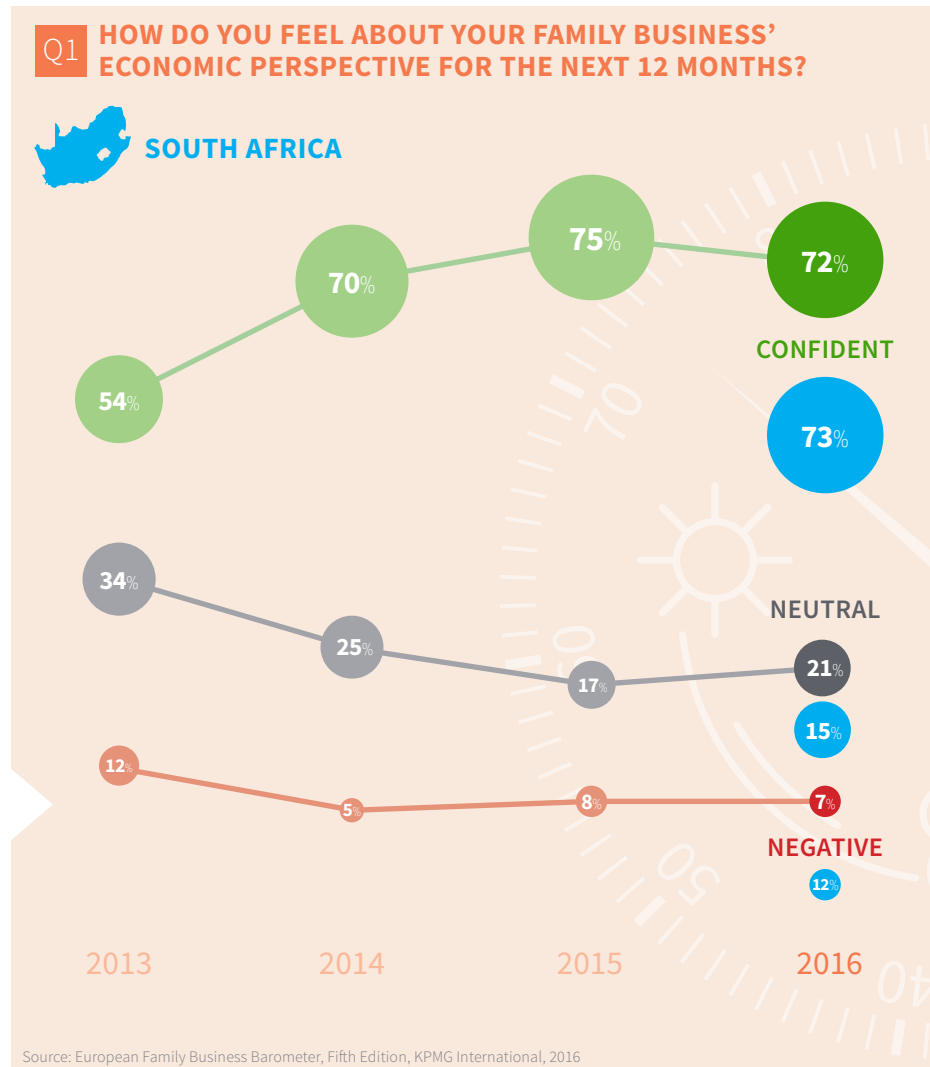
High confidence levels and positive performance

The European family business community continues to feel positive about the future, with 72% of respondents stating that they feel confident or very confident about their economic prospects for the next 12 months¹. Around one fifth (21%) of the companies surveyed feel uncertain about their future prospects and only 7% feel pessimistic (Q1).

Many factors explain this confidence, not least the increasing ‘maturity’ of family businesses and the favourable funding landscape.

¹ 17% feel very confident and 55% feel confident.

72% of family businesses are confident about the future



Backed by their confidence, family businesses continue to demonstrate sustainable growth and positive performance. After placing a high focus on turnover increase last year, 54% of the companies surveyed report that their turnover has grown, 30% that their turnover has remained stable, and 16% that their turnover has fallen (Q2). Those who are cautious about their growth plans cite their desire to remain leaders in their market niche and their focus on

improving profits as the key reasons for their stable turnover.

Compared with overall European annual economic growth of less than 2 per cent², the family business market's growth rate looks impressive: almost three quarters of companies are growing at over 5% per annum (Q3). Primarily, the respondents attribute this success to an optimised product and service portfolio, high market demand, and aggressive sales.

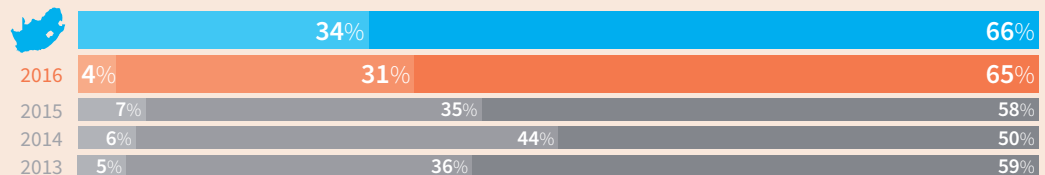
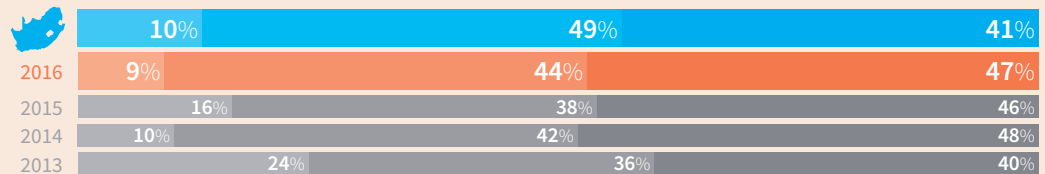
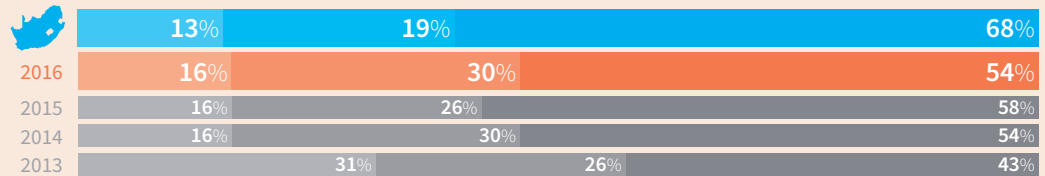
Family businesses are ambitious about their future: regardless of their previous annual performance, 83% of respondents plan to grow turnover in the year ahead. It would appear that if it were not for market challenges such as political issues and competition for the best talents, growth in the family business market in 2015 could have even been higher.

2 Source: European Commission

83% of family businesses
plan to grow turnover
next year



Q2 IN THE PREVIOUS TWELVE MONTHS, YOUR COMPANY HAS:



■ DECREASED ■ MAINTAINED ■ INCREASED

“Only 45% of respondents in South Africa operate abroad compared to 76% of European counterparts. Overseas markets present an excellent opportunity to diversify the business and a natural hedge against the unstable currency.”

Alan Barr, Head of Family business, KPMG South Africa

Family businesses seem aware of current growth drivers: they are taking advantage of global economic opportunities and are increasingly pursuing international markets. The percentage of family businesses operating abroad has consistently risen over the past four years, from 60% in 2013 to 76% in 2016. Over three quarters of the companies surveyed already operate beyond their national boundaries. Of those, two thirds (65%) strengthened their international operations over the previous year (Q2). The companies surveyed are slightly more cautious with regard to staff expansion. It seems that the ‘war for talent’, still one of the biggest challenges

for family businesses, significantly limits their ability to grow their workforce. This year, the majority of respondents (91%) are almost equally split among those who increased their workforce and those who maintained it at the previous year’s level (Q2).

Regardless of the market environment, small companies are apparently under greater pressure³. While 76% of large companies are optimistic about the future, this figure drops to 58% among small enterprises.

This year, disparities among companies of different sizes were obvious with regard to confidence levels, but even more so with regard to performance.

Large businesses continue to demonstrate steady growth: 74% have increased turnover and 60% staff numbers over the past twelve months (compared with 64% and 53% respectively in 2015). The performance of small businesses was more modest: among them, only 47% have grown sales and 34% workforce over the same period (compared with 47% and 32% respectively in 2015). Consequently, it may be assumed that the ‘sustained well-being’ of the European family business community is largely due to the performance of big family groups.

³ EU definition is taken as a basis: small companies (turnover of less than €10m), medium-sized companies (turnover of €10m - €50m). Large companies are defined as those with turnover of over €50m. The same definition applies throughout the study.



76% of family businesses
operate abroad

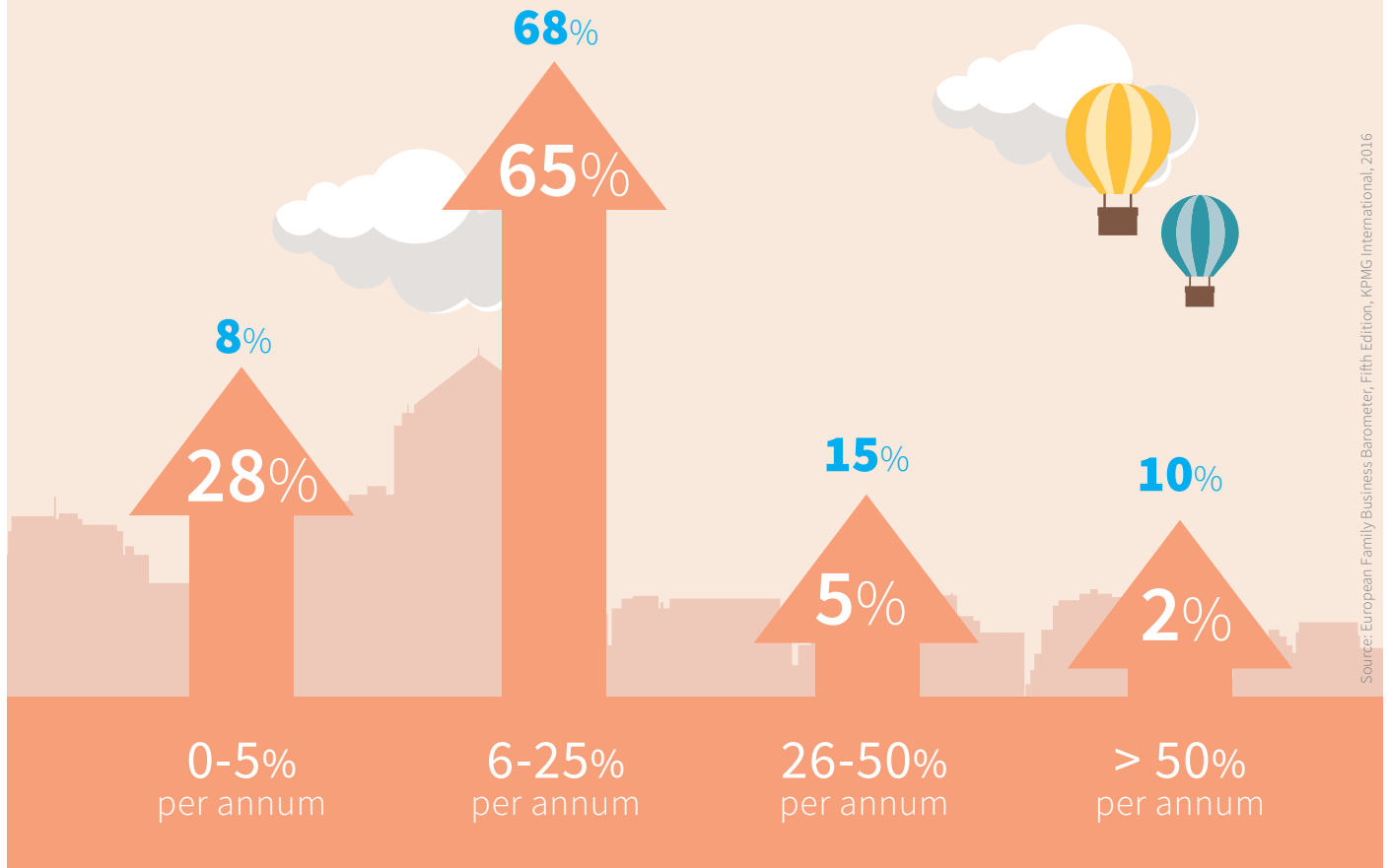
 **45%**

The main drivers for turnover growth in South Africa were:

- aggressive sales combined with good client care
- new products/services
- market demand

Q3 (AMONG THOSE WHO REPORTED AN INCREASE IN TURNOVER IN Q2)
WHAT WAS YOUR TURNOVER INCREASE IN THE LAST 12 MONTHS?

 **South Africa**



Top four concerns in South Africa were identified as: Political uncertainty (68%), unstable currency (37%), increased cost of labour (27%) and “war for talent” (27%)

South Africa



Family business issues

For family businesses the future is about sustainable growth and, although they are optimistic, there are still major challenges inhibiting their growth plans. The biggest concerns this year relate to attracting and retaining talent, political uncertainties and strong competition (Q4).

The **war for talent**, after having steadily gained importance as a concern over the last four years, now seems to be the primary challenge for family businesses, cited by 37% of respondents. In 2013, this issue was not even among the top five. This should not be taken lightly: although family businesses usually retain talents better and have lower workforce turnover than their non-family peers⁴, they usually rely heavily

on their employees. Difficulties in attracting the best talents, especially for small companies, may hinder their future performance.

Political uncertainties have clearly overtaken many other concerns this year, a hot topic being the Brexit referendum. This is not surprising as the referendum's unclear consequences for the entire European economy is naturally alarming for family businesses, who wish to operate in a stable, predictable political and regulatory framework.

On a positive note, **decline in profitability** continues to fall in the ranking of major challenges cited by family businesses, perhaps as a result of their 2015 resolution to improve profitability.

4 Source: *What You Can Learn from Family Business*, Harvard Business Review, 2012

The number of respondents who consider the **'war for talent'** a concern increased. **37%** of them classified it as their biggest challenge.

Family companies encounter no hurdles when seeking funding and traditionally rely on two sources of financing – bank debt and share ownership (indicated by 78% of respondents; 48% of them chose bank debt and 30% share ownership). Consequently, reinvesting or ploughing back earnings remains the number two financing choice. Equity financing is crucial for family companies, allowing them to maintain strong control over the business. Furthermore, reinvesting in the company rather than a loan payment is usually a more profitable option for business owners. In the long term, it would be desirable to see a higher ranking for shareholders' equity as the preferred source of funding.

Family businesses have always occupied a particular niche in the market and it is interesting to see that the respondents attribute much of their companies' success to their unique characteristics. To effectively meet the challenges of the current complex environment, family companies rely on their structural and cultural strengths: long-term outlook, ability to take fast and flexible decisions, and employee loyalty and commitment.

When asked what changes would have the greatest impact on their business and future success, 30% cited more flexible labour market regulations, 29% reduced non-wage labour costs, and 27% reduced administrative costs (Q5).

30% of respondents feel that **more flexible labour market regulations** would boost their growth prospects.



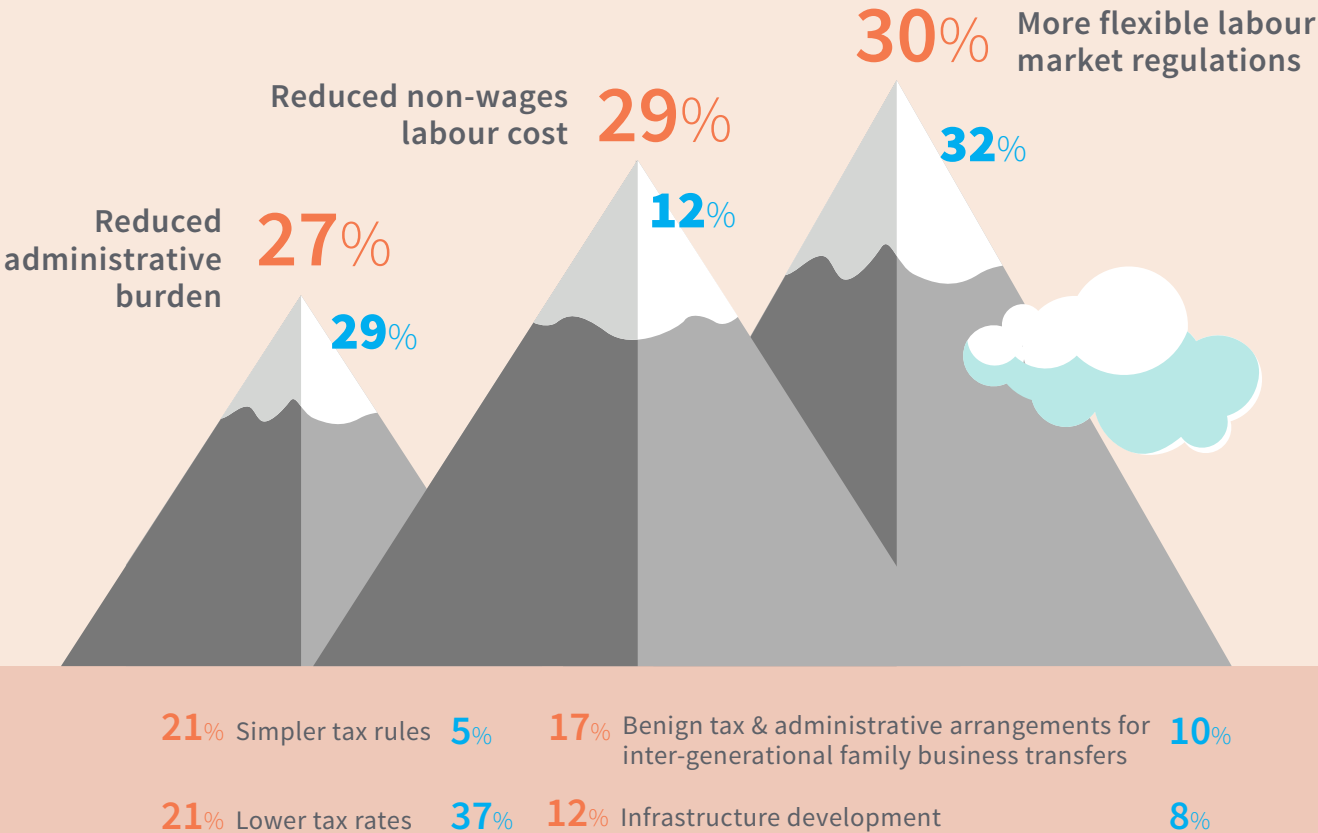
“37% of respondents indicated that lower tax rates would boost the growth prospects of their business. The high tax consequences are even more apparent when the business is handed down to the next generation, either through death or retirement.”

Alan Barr, Head of Family business, KPMG South Africa

Q5 WHICH CHANGES AND/OR IMPROVEMENTS WOULD BOOST THE GROWTH PROSPECTS OF YOUR BUSINESS?



South Africa



FOCUS ON TALENT AND INNOVATION

Backed by a positive outlook, European family businesses include new investments in their strategic plans. This is yet another indicator that family businesses are preparing for future growth and confident in their ability to generate returns by re-investing profit.

When setting business goals and objectives, family companies remain clear as to what drives their success – people and innovation. The rising importance of these two success factors is reflected in the high levels of investment expenditure.

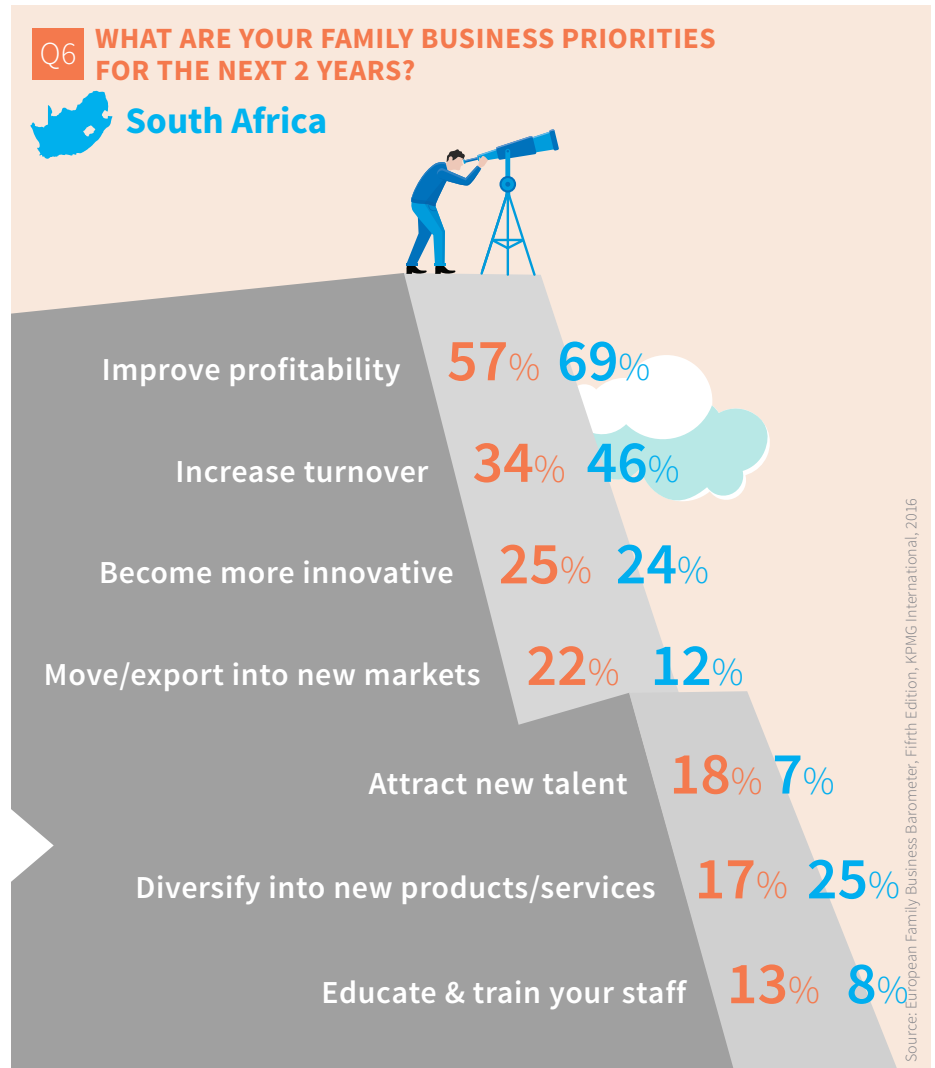


Family business goals

When asked to identify future objectives, unsurprisingly, 57% cite improved profitability and 34% higher turnover as their top business goals (Q6). The ranking is consistent with the previous year's results and corresponds to the natural desire of family business owners to increase sales and keep income ahead of costs to allow their businesses to further develop.

The main year-on-year changes related to the other priorities. While strategies were previously almost equally split between overseas expansion, innovation and diversification, innovation has now taken the lead, closely followed by internationalisation and the search for talent.

The **highest priorities** for family businesses relate to **profitability**, **turnover**, and **innovation**



"37% of respondents indicated that they are not planning on making any investments in the next 2 years which is most likely due to the high level of political uncertainty."

Alan Barr, Head of Family business, KPMG South Africa

Investment plans

A company's ability to innovate is a prerequisite for competing in the current global economy and a major success driver. It is therefore not surprising that, after placing innovation among the top 3 business priorities, over half of respondents planning new investments cited innovation as one of their top investment areas (Q7).

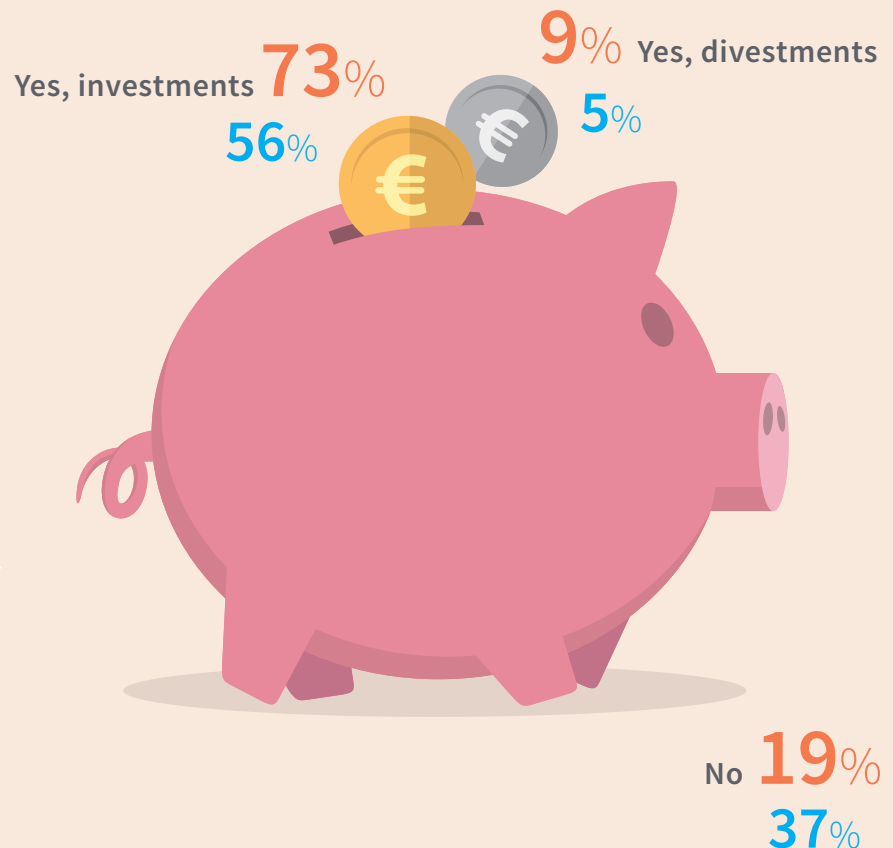
Family business investment strategies confirm that growth is firmly on their agendas. 73% of the companies surveyed plan new investments in the year ahead. Among large companies, the percentage is even higher (84%), proof of their greater optimism about the future and strong desire to re-invest profits.

73% of family businesses surveyed **plan to invest** in the near future



Q7 DOES YOUR STRATEGIC PLAN INCLUDE ANY INVESTMENTS OR DIVESTMENTS?

South Africa



Source: European Family Business Barometer, Fifth Edition, KPMG International, 2016

IF 'YES', IN WHICH AREAS DO YOU PLAN TO INVEST?

(MULTIPLE ANSWERS PERMITTED)



78%
58%

In the core business

52%
33%

In innovation and new technology

47%
27%

In people (recruitment & training)

40%
3%

In internationalisation

28%
42%

In diversification

Family business leaders understand what, or rather who, constitutes their key assets. Struggling to find and retain the best talents, they allocate a significant share of their spending on new hires and training.

Family businesses continue to invest in internationalisation and diversification, often through investments in other companies to gain easy access to new markets. The primary investment targets are start-ups, young one-to-five-year-old companies, or stable businesses over 20 years old.

FUTURE STRATEGIES

Family businesses are planning for the future. One third of them are ready to take quick decisions entailing a drastic change in the company's management and/or ownership structures.

To ensure a bright future and smooth implementation of agreed plans, family business owners are taking steps to boost their companies' professionalisation.



“A number of the next generation of South Africa families live abroad, which is a key reason why a majority of respondents planning on selling their business, plan to sell to third parties and why a low % plan on handing over to the next generation.”

Alan Barr, Head of Family business, KPMG South Africa

Fast strategic changes

Family businesses feel confident and optimistic about their future and are developing their business plans. This year's survey shows a slight drop in the number of those who plan to implement fast strategic changes, from 41% in 2015 to 36% in 2016.

The key strategies relate to handing over the reins of power, either to next-generation family members (18%) or a non-family CEO (10%) (Q8). The results are naturally subjective and based on where the business is in its life cycle and the generational profiles of current leaders. Family business owners demonstrate a desire to prepare their business for the future either by giving young family members management roles or by bringing in external expertise and talent.

Respondents planning to sell their business are almost equally split between those who plan to dispose of all their business assets or just a portion of them. The key reasons behind such a decision include timing (favourable business stage), increased competition and an unbeatable price.



One in five family businesses plan to **hand management over to the next generation** within the next year

Increased professionalisation

Family-owned companies, particularly those in the early stages of their life cycle, are generally characterised by a casual attitude to business processes, more personal management, and informal business strategies and plans. A casual working space can be very conducive to entrepreneurial activities – allowing family businesses to thrive and grow in a way that big business does not allow. However, a different approach is seen when owners decide to take the business to the ‘next level’.

With family businesses placing growth high on the agenda, it is not surprising that they are taking steps to boost professionalisation. To that end, they are formalising governance structures, improving intergenerational communication and preparing successors (Q9). Already cited as important in previous years, these steps are even more so today. Intergenerational communication has gained the most importance, moving up from 81% in 2015 to 92% in 2016.

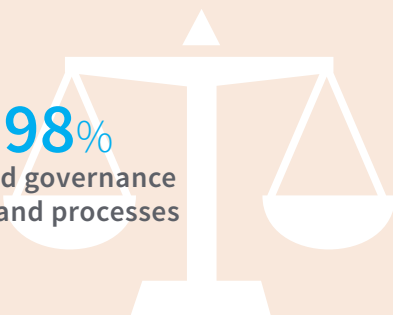
Q9 WHAT ARE THE KEY DRIVERS FOR SUCCESS FOR A FAMILY BUSINESS?



South Africa

93% 98%

Having good governance structures and processes in place



Communication between generations

92% 92%

“56% of next-generation respondents are concerned about potential family conflicts which further impacts a successful transition from one generation to another.”

Alan Barr, Head of Family business, KPMG South Africa

Integrating the next generation

The importance of legacy in a family business is confirmed by 49% of respondents, who have already given next-generation family members business management roles. However, integration difficulties may arise if the older and younger family members do not communicate enough. Both sides have concerns. The younger members are worried about forced integration into the family business and tense family relations. The more senior

members state that they sometimes feel unable to keep up with the rapidly changing business environment or to relinquish their hold on the company. Formal governance mechanisms are essential to ensure healthy family relations and continuity across generations.

35% of next-generation family members are **concerned about potential family conflicts**



South Africa

87% **86%**
Maintaining family control
of the business



85% **95%**
Preparing and training a
successor before leadership
succession actually takes place



Financial literacy amongst
family members

81%
90%



“86% agree that non-family member executives bring benefits to a family business but only 45% of respondents have non-family executives. The key challenge being finding the right fit for the family and the business.”

Alan Barr, Head of Family business, KPMG South Africa

Welcoming non-family executives

In some circumstances, family business owners need to take a decision about hiring an outside CEO, for example if there are no heirs, the heirs are not prepared to take on the business or are not interested in it. This can be an emotional decision or a clear strategic plan. The number of proponents of this strategy rises every year. In our survey, 85% of respondents agree that external managers are necessary for their company's success and 74% have already given non-family members managerial roles. Nevertheless, while family businesses recognise the need for external influence, they are still reluctant to relinquish control.

74% of family businesses currently have **non-family executives**

 **45%**

Formalising governance structures

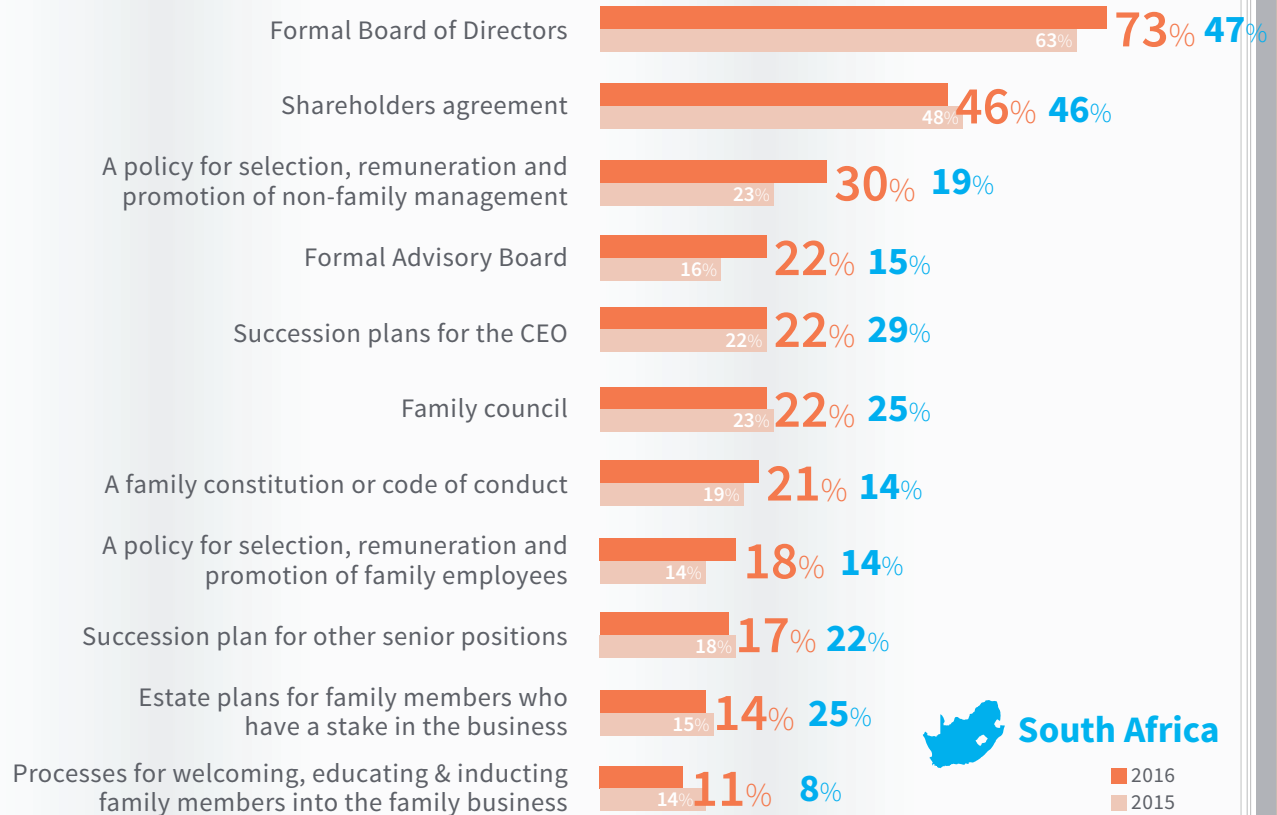
Regardless of the strategy – growing sales, tapping into new markets, or preparing for a successor – good governance is essential for ensuring proper implementation. Well aware of this, 88% of the family businesses surveyed already have formal governance mechanisms in place.

In line with their declarations, family businesses have demonstrated slight improvements with regard to formalising documents and processes for effective governance, integrating both family and non-family employees, and working towards successful business succession (Q10).

88% of family businesses have some **formal governance mechanism** in place



Q10 DOES YOUR FAMILY BUSINESS HAVE THE FOLLOWING MECHANISMS AND PRACTICES IN PLACE?



METHODOLOGY

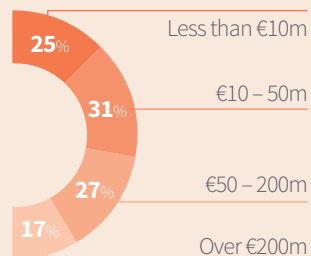
The European Family Business Barometer is based on the results of an online survey. In total, 959 completed questionnaires were received from 1st May to 30th June 2016.

This survey measuring trends among European family businesses is the fifth of its kind.

Respondents' profiles

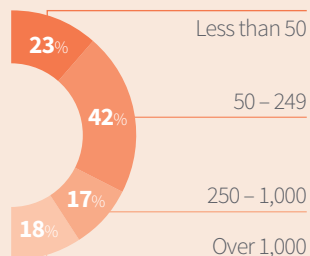
ANNUAL TURNOVER

Approximate annual turnover of the business



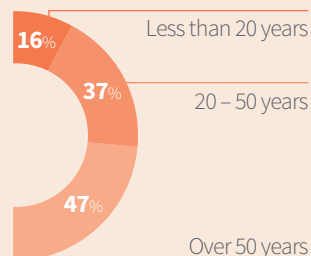
NUMBER OF EMPLOYEES

Approximate number of people employed



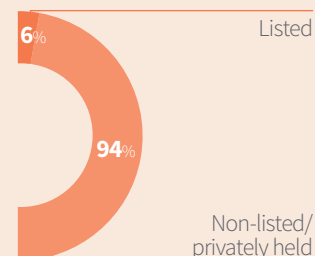
COMPANY AGE

Length that business has been operating with family ownership



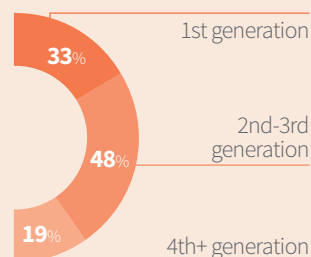
COMPANY STRUCTURE

Is the business listed or non-listed?



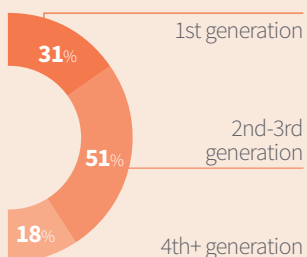
GENERATIONAL PROFILE – OWNERSHIP

Generation that currently owns the business



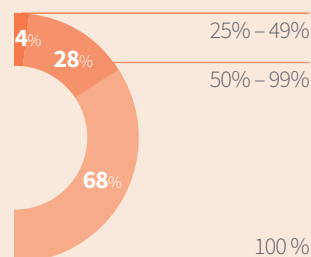
GENERATIONAL PROFILE – GOVERNANCE

Generation that currently manages the business



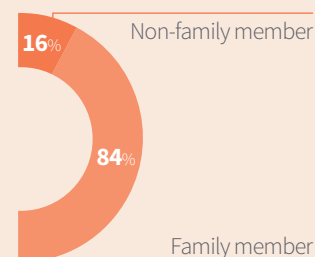
FAMILY CONTROL

Share of the company under family ownership



RESPONDENT'S PROFILE

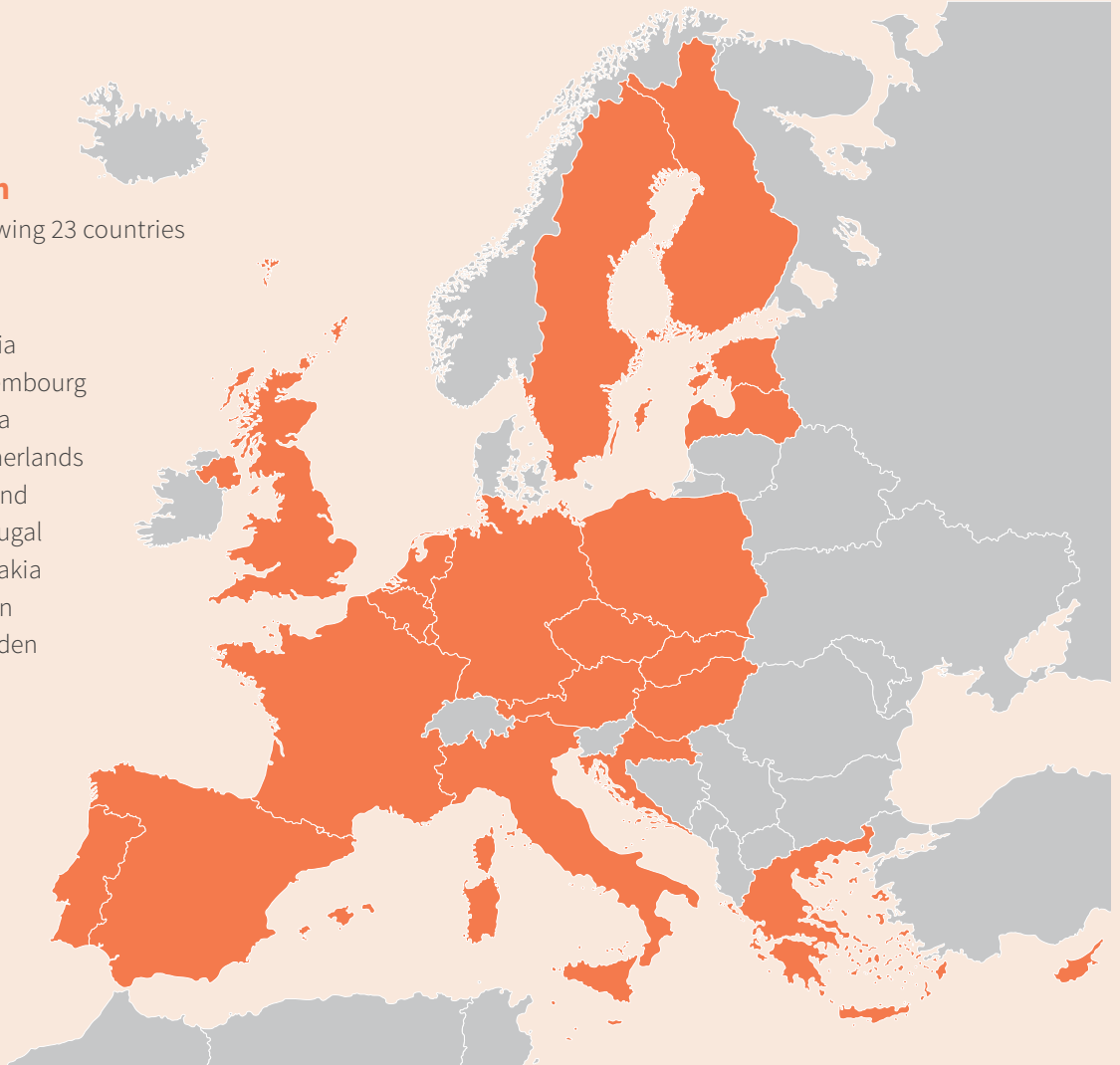
Family member or non-family employee status of respondent



Geographic location

Responses from the following 23 countries have been analysed:

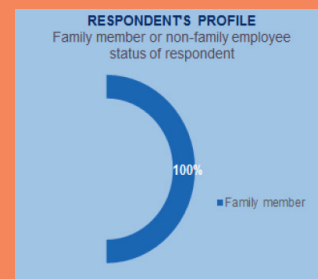
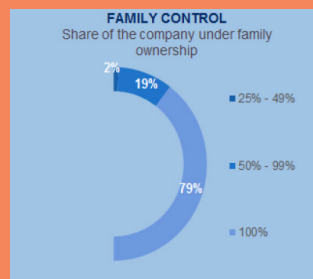
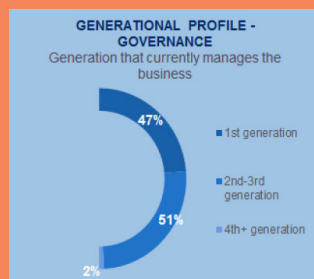
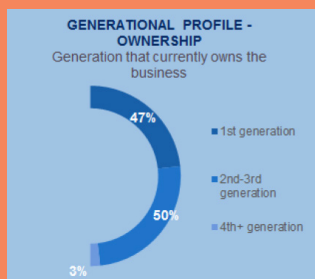
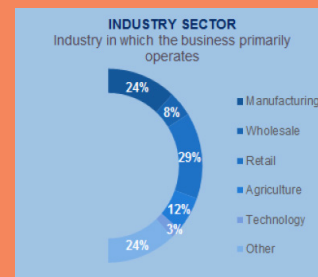
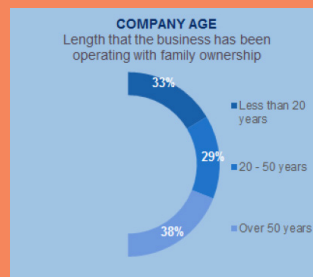
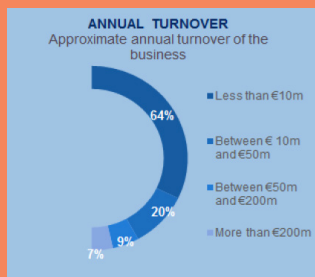
- Andorra
- Austria
- Belgium
- Croatia
- Cyprus
- Czech Republic
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Italy
- Latvia
- Luxembourg
- Malta
- Netherlands
- Poland
- Portugal
- Slovakia
- Spain
- Sweden
- UK



METHODOLOGY: SOUTH AFRICA

The first South African Family Business Barometer is based on the results of the same online survey used for the European Family business barometer. In total, 59 completed questionnaires were received from 1st May to 30th June 2016. This survey will help us compare results among South African family businesses to their European counterparts and measure trends going forward.

Respondents' profiles



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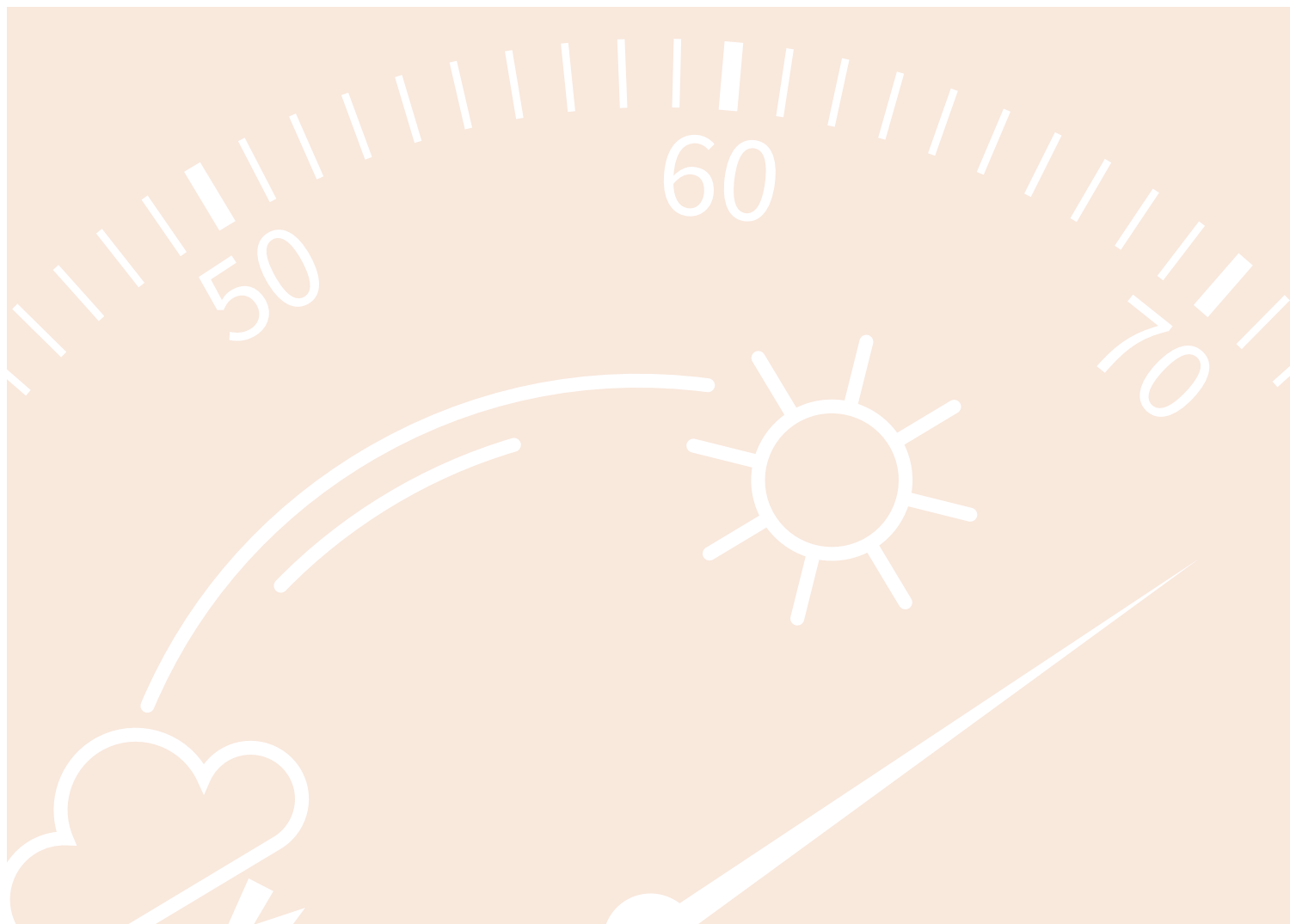
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“ Thank you

We trust that these results have provided an insightful look into the family business community. We look forward to continuing this project and shedding more light on this crucial sector for Europe. We hope that you will continue to contribute to our survey.

”

A stylized, handwritten signature in black ink, appearing to read 'Jesus Casado'.

Jesus Casado
EFB Secretary General

A stylized, handwritten signature in black ink, appearing to read 'Christophe Bernard'.

Christophe Bernard
KPMG Global Head of Family Business

About EFB

European Family Businesses (EFB) is the EU federation of national associations representing long-term family-owned enterprises, including small, medium-sized and larger companies. The organization was created in 1997 and represents €1 trillion in aggregated turnover, nine percent of European GDP.

EFB's mission is to press for policies that recognize the fundamental contribution of family businesses in Europe's economy and create a level playing field when compared to other types of companies.

Visit: www.europeanfamilybusinesses.eu

About KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 155 countries and have more than 174,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

KPMG Enterprise Global Centre of Excellence for Family Business

From the boardroom to the kitchen table, KPMG Family Business advisers share practical advice and experienced guidance to help you succeed. To support the unique needs of family businesses, KPMG Enterprise coordinates a global network of member firms dedicated to offering relevant information and advice to family-owned companies. We understand that the nature of a family business is inherently different from a non-family business and requires an approach that considers "the family component".

Visit: www.kpmg.com/enterprise

www.kpmg.com/enterprise
www.europeanfamilybusinesses.eu

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