Kin in the game

PwC Family Business Survey 2010/11

Executive Summary

We've talked to more than 1,600 family-business owners and managers in 35 countries in the course of completing our second global Family Business Survey – the largest of its kind ever to be conducted. We wanted to find out how they're coping with the economic downturn, what problems they're facing and how they're preparing for tomorrow.

Fending off challenges and investing in the future
Many people were remarkably positive. Nearly half the executives we spoke to said demand for their companies' products and services has risen in the past 12 months. But the recession has exacted a high price. More than a third of the family businesses participating in our survey have seen operating profits fall, and more than two-thirds are bracing themselves for tough market conditions – up from less than half three years ago. Even so, relatively few firms have retrenched. Indeed, many plan to expand over the next 12 months.

Most executives believe they're well-placed to capitalise on new opportunities. Seventy-seven percent have business plans and 65% have access to additional capital, although the vast majority would have to borrow the money. What's more surprising, perhaps, is the fact that so many people envisage returning to 'business as before'. Only 14% have made major changes to their business models over the past 12 months, and only 13% plan to do so in the future. Nevertheless, almost everyone's confident about being able to compete effectively.

Handing over the reins
If recessions are unpleasant, succession planning can be even more painful. More than a quarter of the family businesses in our survey – rising to more than a third in the emerging markets – are expected to change hands during the next five years, and more than half of them are expected to stay in the family. However, almost half the companies in our sample don't have a succession plan, and only half of those that do have designated a particular individual to take over the top job.

Managing ownership of the business equitably can be almost equally challenging. Only 61% of the entrepreneurs we interviewed have enough resources to divide their assets fairly between all their heirs, including relatives who don't work for the company. A considerable number also told us they haven't assessed their potential tax liabilities or made any provision for dealing with the serious illness or sudden death of key personnel. But most proprietors recognise the value of good management and believe the best way of retaining senior executives is to pay them well. They put much less weight on career progression and work-life balance – an attitude they may need to revise as Generations X and Y rise up the ladder.

Falling out and making up

The ability to manage differences of opinion smoothly has become more important than ever. The percentage of family firms experiencing tension has increased significantly during the past three years. Nearly half the people we talked to said they've argued about the future direction of the business, and nearly two-fifths said they've argued about the performance of family members employed in the firm.

Yet only 29% of the companies in our sample have introduced any procedures for dealing with disputes between family members. The smaller and younger the company, the less likely it is to have done so. The few firms that have put such measures in place tend to favour shareholder agreements, whereas family councils were the most popular means of resolving arguments about the business in 2007.

Dealing with regulation and creating value for society

Regulation, government incentives and corporate social responsibility are perennial concerns. So, what did people have to say on this score? The vast majority of family-business owners and managers want a simpler tax regime and/or lower taxes. More than half also would also like to see a tougher corporate compliance environment, and many have serious reservations about whether their governments have done enough to support the business community during the recession. Criticism is particularly marked in the emerging markets.

But most executives are much more upbeat about the growing emphasis on corporate social responsibility. Seventy-three percent said it's had a constructive impact on their companies. Almost half have already made minor or significant changes to their businesses in order to become more socially responsible, and half plan on doing so over the next two years.

What we've learned

The responses we received during this year's survey show that a more sombre mood prevails than in 2007, but most family firms are determined to keep up the struggle and some have fared very well, despite the recession. Many of the entrepreneurs we questioned are keen to bequeath healthy businesses to their children, although they're not all confident that their heirs will rise to the challenge. Some also stressed the importance of personal integrity and of making a contribution to society at large.

Of course, philanthropy's only feasible when a company is successful – and commercial ambitions featured regularly in the feedback we received. But it's obvious that many people attribute much of their companies' resilience to the fact that they're *family* firms. They talked about the support they received from relatives and the benefits of being able to take the long view. Indeed, the aspirations of many of the 1,606 people who generously contributed to our research can be summed up in the words of one Dutch family-business owner, who said: "We've been trading for 78 years. Let's go for the 100."