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Kin in the game

PwC Family Business Survey
2010/11

We've talked to more than 1,600 family-business owners and managers to discover how you're dealing with the economic downturn, what challenges you're facing and how you're preparing for the future.

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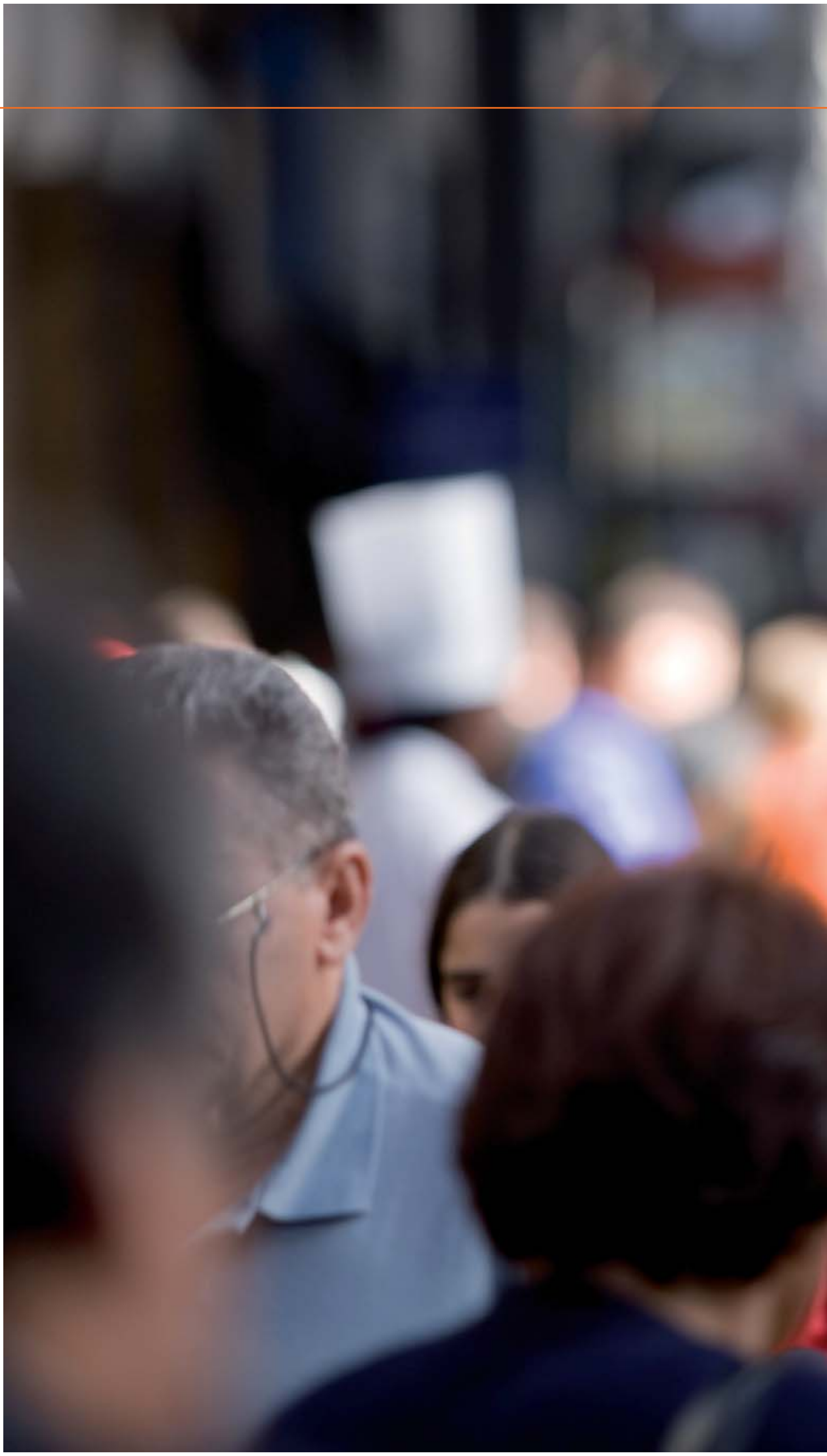


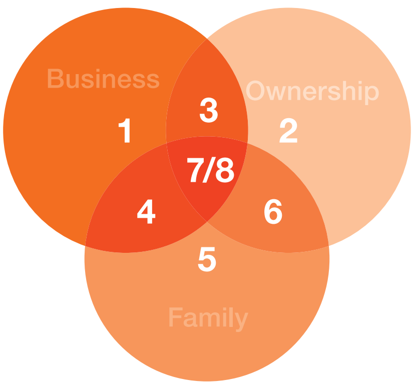
Foreword

When world-famous investor Warren Buffett coined the expression ‘skin in the game’, he was referring to executives who use their own money to buy shares in the companies they’re running. In all family firms, the founding family has a significant stake in the business and one or more relatives – or ‘kin’ – hold senior management positions. The title of our second global Family Business Survey reflects this duality. Family firms have both ‘skin’ and ‘kin’ in the game.

The same concept underlies the well-known model of the family business as three overlapping circles: the company, the owners and the family (see Figure 1). The model shows the range of interests that exist, and where they intersect or diverge. It demonstrates how the perspectives of the different parties depend on where they stand within the three circles as much as they do on the personalities of the people involved.

It also illustrates how the family dynamics colour the business itself. If there's unhealthy conflict between the family members, it will spill over into the way the business is managed and owned – whether that's through disputes over money, charges of nepotism or infighting over who should head the business when it passes from one generation to the next. Conversely, if relations within the family are healthy, the business is more likely to be healthy, too. Solid, mutually supportive bonds help to encourage loyalty to the company, make people more motivated and facilitate decision-making – qualities that mean the business itself is better equipped to deliver strong results.

Figure 1: Family firms are often depicted as a set of three intersecting circles



1. External investors
2. Management and employees
3. Owner managers
4. Inactive or passive owners
5. Family
6. Family employees
7. Working family owners
8. Family, owner and business leader(s)/ 'controlling owner'

The most successful family firms are those in which there's a good balance between the three circles, with professional management, responsible business ownership and a harmonious family dynamic. Such companies tend to have clear written agreements about the composition and election of senior executives, the decisions that require a majority vote and the conditions in which family members can (or can't) work in the business. They also have robust governance procedures; bring in outside directors and managers, where necessary; and monitor the performance of relatives who are working for the business, just as they do the performance of outside directors and managers.

Ownership issues are likewise separated from family issues. The most long-lasting family firms typically have rules about how shares can (or can't) be traded inside and outside the family, and when shares can be sold – be it to raise fresh capital for the business or to release cash for the family members. In other words, they provide solid mechanisms for ensuring the business has enough funds to grow while maintaining the family's control.

Lastly, in such firms, the needs of the family itself are given due weight. When most of the family's financial resources are tied up in the company, it may be reluctant to take risks that might actually be good for the business. It may also have insufficient assets to treat all the family members fairly, regardless of whether they work for the company. Professional wealth management enables a family to spread its risk and manage its other investments as effectively as possible, thereby helping to preserve a healthy family dynamic.

In short, in the best, most enduring family firms there are clear boundaries between the business, the owners and the family, with separate forums for discussion of ownership and family matters outside the boardroom. And there is separate financial provision, wherever feasible, for heirs who don't work in the business. This is particularly important when economic conditions are difficult, as they are for many companies right now.

We've talked to more than 1,600 family-business owners and managers in 35 countries in the course of completing our survey – the largest of its kind ever to be conducted. We wanted to discover how you're coping with the economic downturn, what challenges you're facing and how you're preparing for the future. We also thought that you would welcome the opportunity to compare your own experience with those of your peers around the world and find out what they're doing to thrive. Our survey aims to identify the issues that most concern you and your family firm. We hope that you'll find the results illuminating – and that they will help you in running your business.

Norbert Winkeljohann
Member of PwC's
Network Leadership Team

Jacques Lesieur
Project Owner
PwC Family Business Survey

Fending off challenges and investing in the future

We asked you to tell us about the challenges you're dealing with, and where you're investing. Nearly half the executives we spoke to said demand for their companies' products and services has grown during the past 12 months. But the recession has exacted a high price. More than a third of all respondents reported that operating profits had fallen, and more than two-thirds are worried about market conditions – up from less than half three years ago. Even so, relatively few companies have retrenched. Indeed, many plan to expand over the next 12 months.

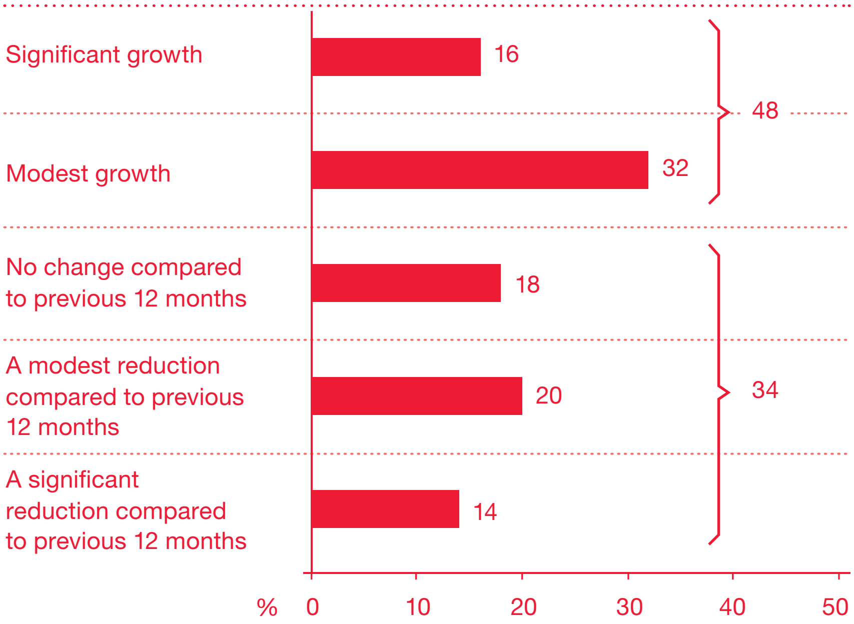
Most family-business managers believe they are well-placed to capitalise on any new opportunities. Three-quarters say that they have business plans and two-thirds that they have access to additional cash, should they need it – although the vast majority would have to borrow the money. Many people also 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 on doing so in the future. Nevertheless, almost everyone is confident about being able to compete effectively.

In 2007, when we completed our first global Family Business Survey, there were few signs of the financial crisis that was about to occur. The recession wrought carnage on numerous companies and, though the worst now seems to be over, fears of a 'double dip' remain. So how have family firms fared during this period of economic turbulence?

Our second global Family Business Survey shows that many family firms have prospered. (For details of our methodology and survey population, please see the Appendix). An impressive 48% of the total sample report that demand for their products or services has grown during the past 12 months, and 16% report that it's grown substantially (see Figure 2).

However, the recession has certainly taken its toll. In 2007, only 10% of the companies we covered had experienced a reduction in demand for their products or services. Today, the figure is 34%. Construction companies have been especially hard hit; 22% have experienced a significant reduction in demand, compared with the overall average of 14%.

Figure 2: A surprisingly large number of companies have seen demand for their offerings increase during the past 12 months



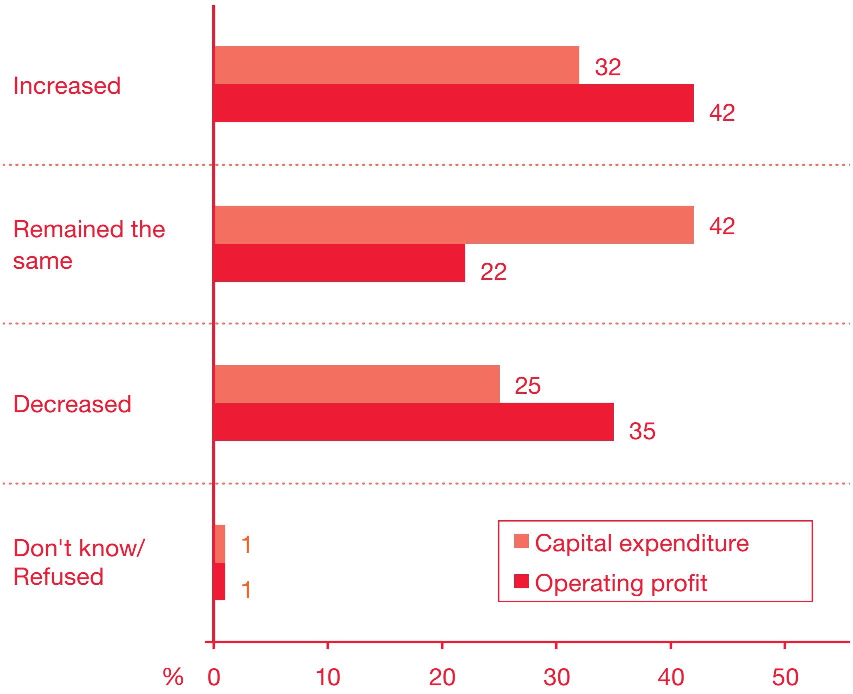
Source: PwC Family Business Survey 2010/2011

What is a family business?

A family business is an enterprise in which the majority of the votes are held by the person who established or acquired the firm (or by his or her spouse, parents, children or children's direct heirs); at least one representative of the family is involved in the management or administration of the firm; and, where the company is listed, the person who established or acquired the firm (or his or her family) possesses 25% of the voting rights through his or her share capital and at least one family member sits on the board.

The number of companies reporting an increase in operating profits over the past 12 months has also dropped from 57% to 42%, with smaller firms (i.e., those with revenues of less than 50 million euros) bearing the brunt of the contraction (see Figure 3). Capital investment has fallen commensurately.

Figure 3: Operating profits and capital expenditure are down from earlier levels



Source: PwC Family Business Survey 2010/2011

Only 32% of all companies have increased their capital expenditure over the last year, compared with 50% in 2007.

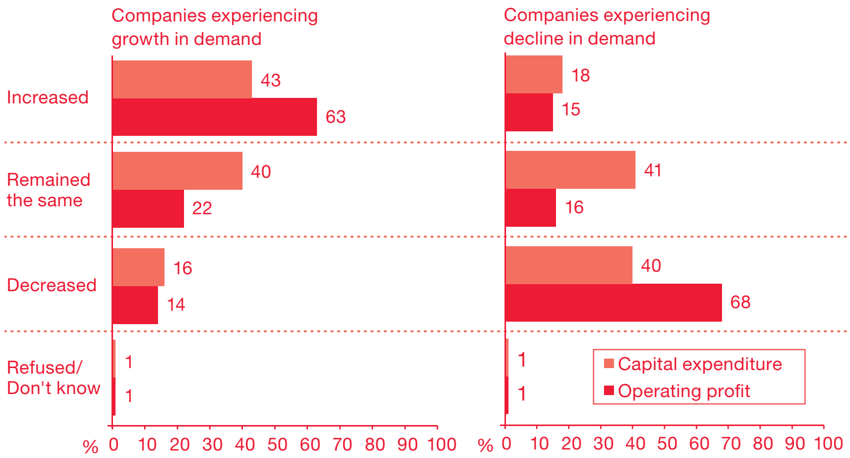
Predictably, perhaps, companies based in the emerging markets have done best, reflecting the speed at which these economies are expanding. Twenty-nine percent have enjoyed significant growth and 50% have seen their operating profits rise, a performance that enabled 48% of them to lift their capital spending.

But surprisingly few firms have decided to retrench. Although 68% of the companies that have experienced declining demand for their products and services in the past 12 months saw their operating profits shrink, only 40% have cut back on the amount they invest in the business. The remaining 28% have clearly chosen to put long-term growth before short-term gains (see Figure 4).

Of course, family firms are better placed to take the long view than their listed counterparts because they're under less pressure to deliver quarterly results and pay dividends to shareholders, and rarely burden themselves with the same levels of debt. They tend to be more careful about overstretching themselves, and they're often underpinned by the values of the founding family, as distinct from being managed as purely commercial concerns. So they can weather storms that overturn larger and more aggressively managed operations.

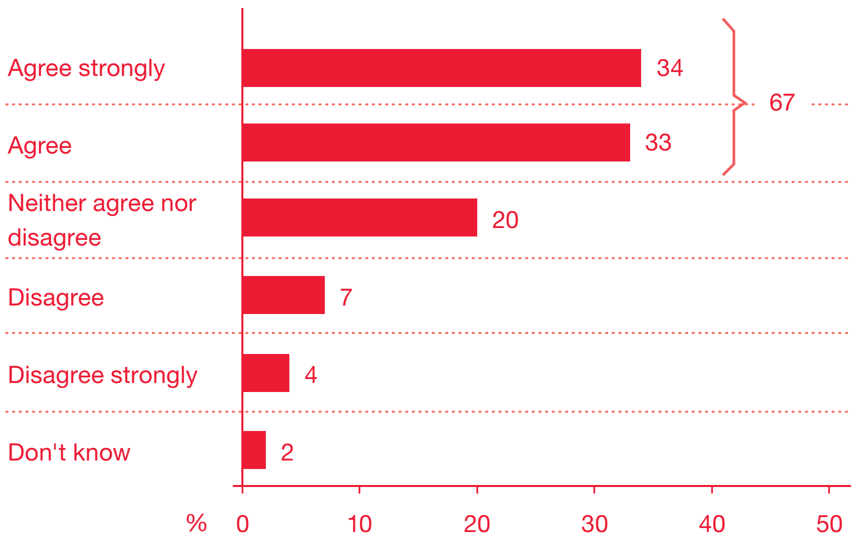
This may be one of the reasons why two-thirds of the people we spoke to believe that being part of a family business has helped them cope with the recession (see Figure 5). It may also explain why many of them are relatively confident about the future. Sixty percent – rising to 69% in larger firms – intend to expand their businesses over the next 12 months. Similarly, 56% are positive about how the markets where they do business will perform over the next year, which is broadly in line with the situation in 2007 (see Figure 6).

Figure 4: Marked differences exist between the companies that have grown and the companies that have shrunk



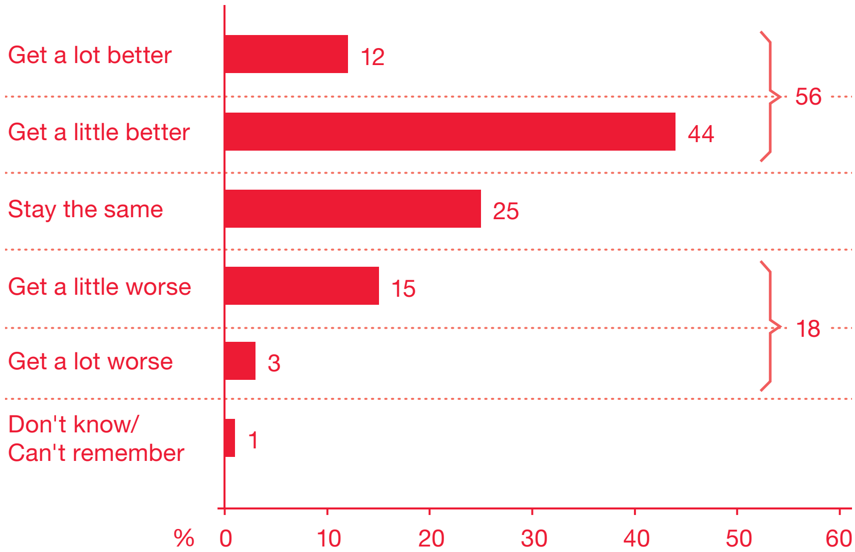
Source: PwC Family Business Survey 2010/2011

Figure 5: Most executives think being part of a family business has helped them cope with the economic slump



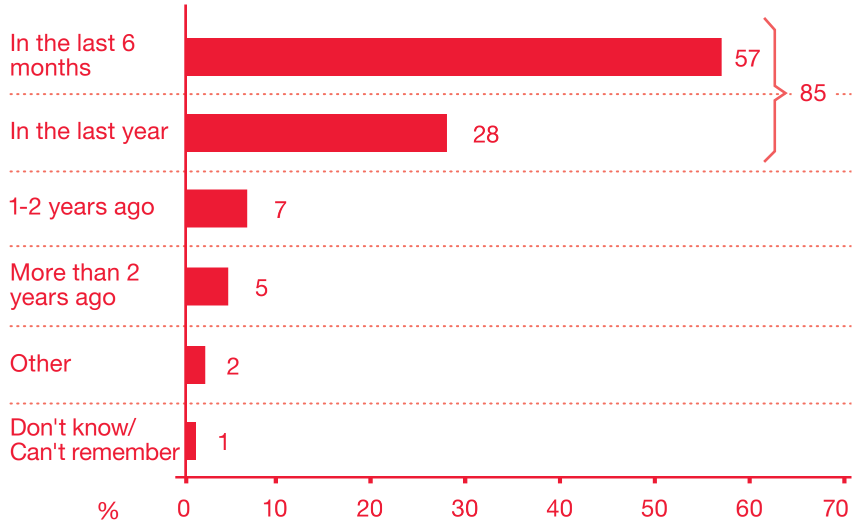
Source: PwC Family Business Survey 2010/2011

Figure 6: Many people are positive about the immediate outlook



Source: PwC Family Business Survey 2010/2011

Figure 7: Most companies with business plans have recently reviewed them



Source: PwC Family Business Survey 2010/2011

Moreover, many of the family firms in our survey claim they have both a business strategy and enough financial resources to capitalise on any opportunities that emerge. A full 77% have business plans, and the vast majority of these companies have reviewed or updated their plans within the past 12 months (see Figure 7). Larger companies are particularly well-prepared; 87% have proper business strategies in place.

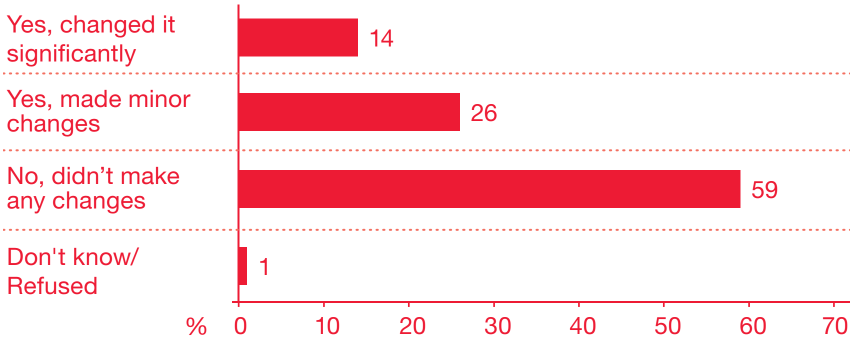
Two-thirds of the managers we talked to also say they have access to additional cash, if they need it to realise their goals. Only 21% told us that their cash flows are restricted and only 12% that there's nothing left in the coffers, although larger companies are less likely to be suffering from cash flow constraints than smaller ones.

That said, many executives clearly envisage returning to 'business as before'. Only 14% have made significant changes to their business models over the past 12 months, while 26% percent have made minor modifications and 59% have left their business models untouched (see Figure 8). Ironically, family-business owners based in the emerging markets are the most likely to have made major changes, whereas those based in North America – where the financial crisis originated – are more likely to have made tweaks. A substantial 56% of respondents also expect to keep using the same business models in future, regardless of the upheaval the crisis has caused (see Figure 9).

> ***"The strength of our balance sheet and our conservative approach to business have served us well"***
> *British executive*

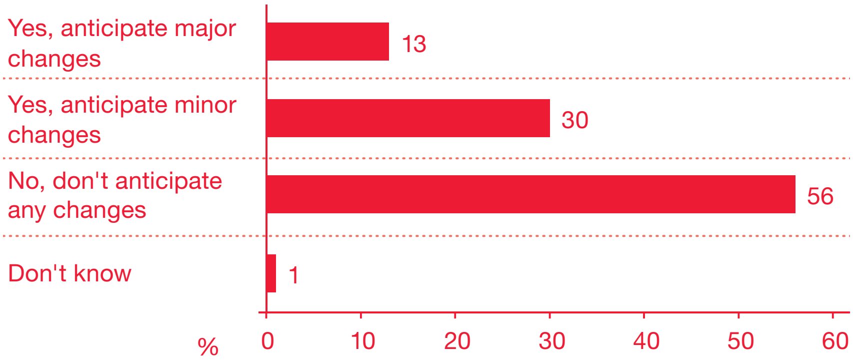
This seems rather short-sighted. Some of the companies that have recently reviewed their business plans may indeed be well-equipped to survive in volatile economic conditions, with robust business models that don't need to be altered. But others may be more vulnerable, given that the mature economies are now experiencing an 'era of austerity' which could last a long time. Taxes are rising, as the governments of the industrialised world struggle to repair public finances deeply damaged by the debts they accrued in managing the recession[1]. And with less money in their wallets, consumers are cutting back on their household expenditure[2].

Figure 8: Most companies haven't changed their business models



Source: PwC Family Business Survey 2010/2011

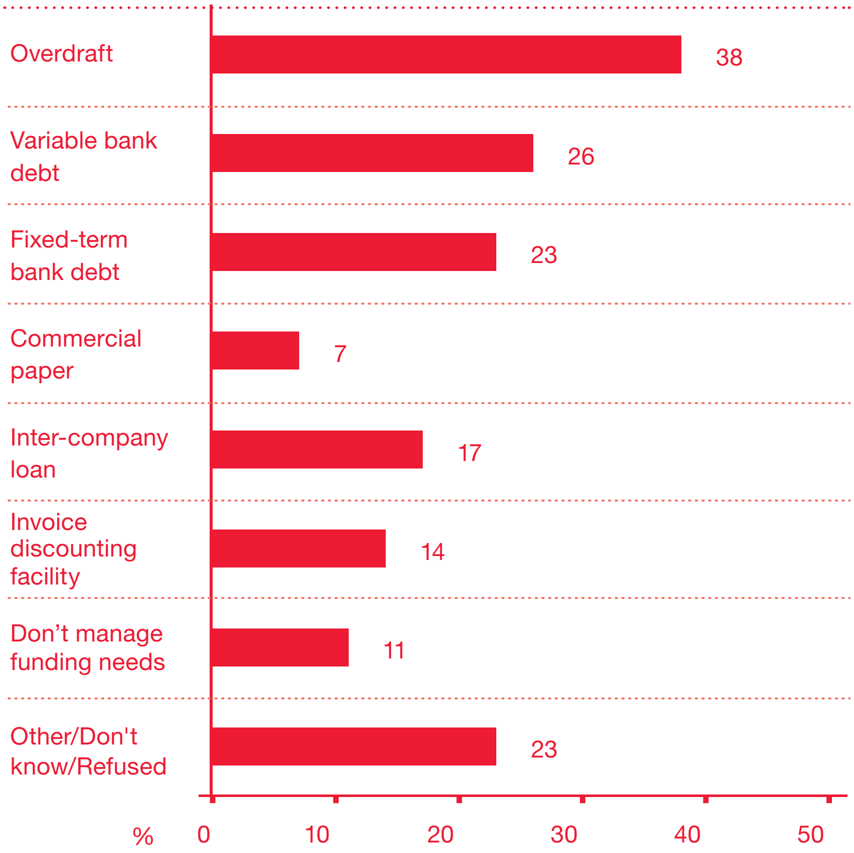
Figure 9: Most executives don't plan to change their business models in the near future



Source: PwC Family Business Survey 2010/2011

What's more, even though two-thirds of respondents told us their companies have access to additional cash, closer examination shows that the vast majority of them would have to borrow the funds. Only 14% could manage their short-term financing needs via invoice discounting (i.e., getting faster access to income they've already earned but haven't yet been paid). The rest would have to resort to overdrafts, bank loans and other forms of debt or simply don't know how they would raise the capital (see Figure 10).

Figure 10: Most companies would have to borrow the money, if they needed additional short-term cash



Source: PwC Family Business Survey 2010/2011

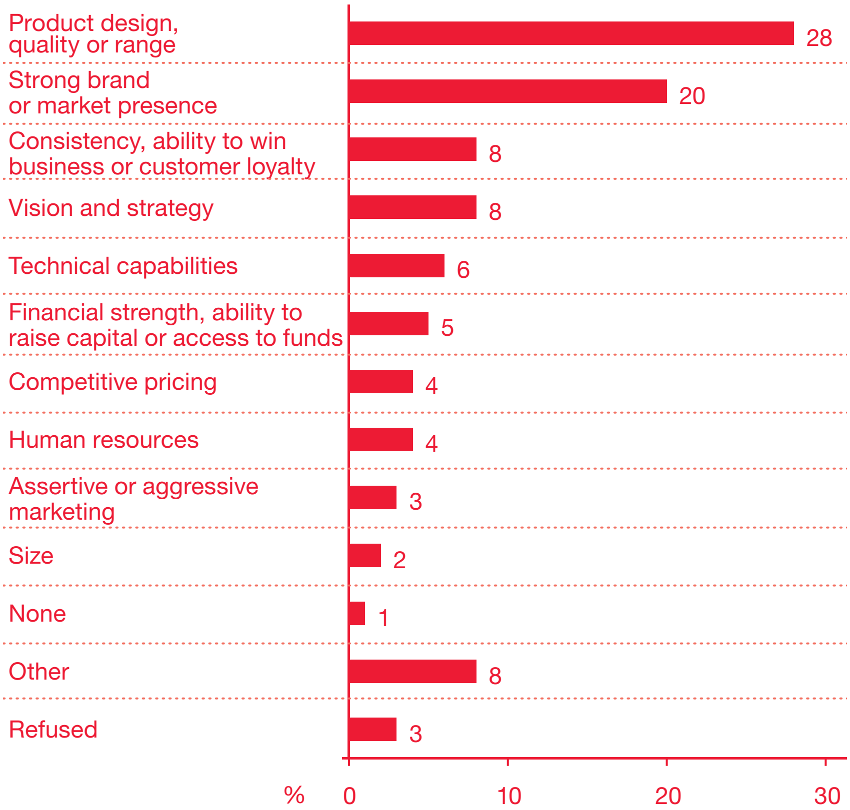
However, some firms may find it harder than they expect to get credit. Under the new Basel III Accord designed to strengthen the financial services sector, the amount of capital banks are required to hold will rise from 2% of their loans and investments to 7%. The agreement, which is due to take effect in 2013 and be phased in over several years, is widely expected to drive up the price of credit and reduce the amount that's available[3]. The many family firms that have never previously been burdened with debt facilities and covenant restrictions would also have another set of stakeholders to manage, as well as facing new pressures which could compound any existing emotional strains.

"The banks are making it more difficult to get loans these days"
Cypriot executive

Yet, despite these difficulties, 95% of family-business managers are somewhat or very confident that their companies can compete effectively with the market leaders in their sector. They're particularly confident about the design and quality of their products, the strength of their brands and their ability to retain customers – the same three traits they saw as key competitive advantages three years ago. But they now place more weight on product quality and branding than on customer loyalty, recognising that differentiation is critical in an era of lower consumer spending (see Figure 11).

Most family-business managers are more grudging about praising their rivals. Although some of them admire the strong brands, product quality and size of their competitors, they're much more reserved about doing so than they are about expressing confidence in their own skills (see Figure 12).

Figure 11: Product design and branding are key strengths



Source: PwC Family Business Survey 2010/2011

"We have a very strong image in the market, we are very trustworthy and our brand is strong"
Finnish executive

Perspectives also vary slightly by region. Executives in the mature markets are more likely to think their companies very innovative and to admire large competitors. Executives in the emerging markets, by contrast, are more likely to pride themselves on the quality of their staff, and to praise their rivals' assertive marketing and competitive pricing (see Table 1).

Figure 12: Competitors also excel at branding and product quality

Source: PwC Family Business Survey 2010/2011

Table 1: Perspectives vary by region

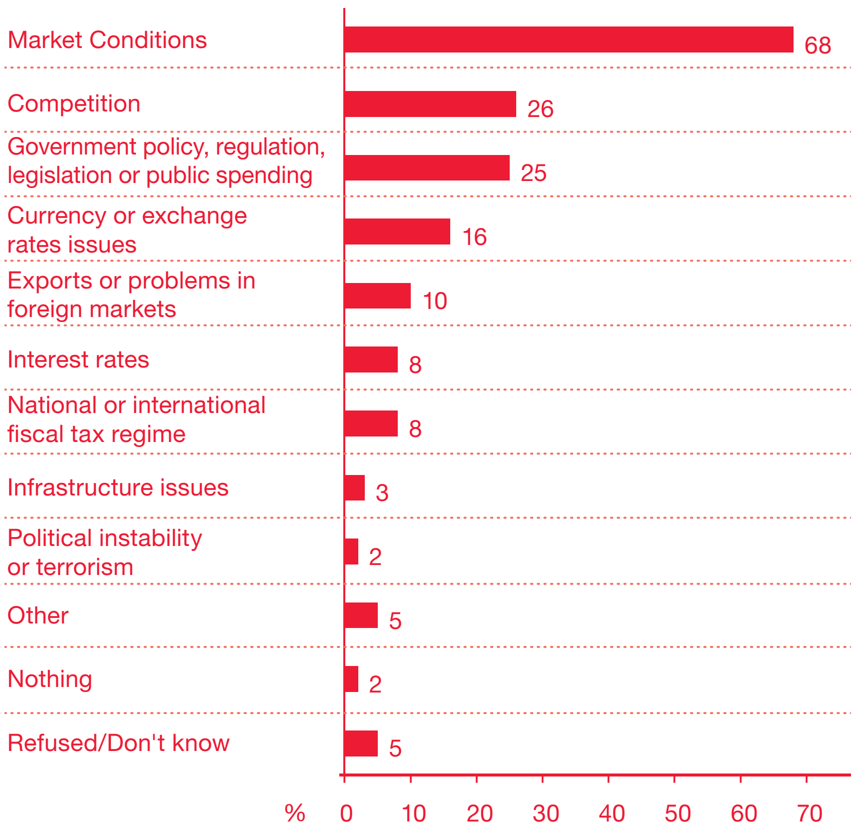
Key strengths respondents think they possess		*Key strengths respondents admire in rivals*	
Mature markets	*Emerging markets*	*Mature markets*	*Emerging markets*
Product design (28%)	Product design (29%)	Strong brands (13%)	Strong brands (16%)
Strong brands (19%)	Strong brands (22%)	Size (11%)	Assertive marketing (12%)
Innovativeness/long-term vision (9%)	Excellent staff (7%)	Product design (10%)	Competitive pricing (11%)

Source: PwC Family Business Survey 2010/2011

But the power of the competition preys much less on the minds of respondents than it did in 2007, when 39% cited it as one of the top three external challenges they faced. Today, only 26% are concerned about losing out to competitors, whereas 68% are worried about market conditions (other than competition) – up from 44% three years ago (see Figure 13). For all their professed optimism about the prospects for growth, many family-business owners and managers are obviously very nervous about the economy. Government policy (including regulation, legislation and public spending) also keeps some people awake at nights. Most proprietors want a stable regime with a clearly defined five-year fiscal and monetary policy, so that they can plan ahead.

Many of the executives we spoke to are likewise concerned about various internal challenges, although the order they rank them in has changed over the past three years. Thirty-eight percent are anxious about labour shortages (see Figure 14). This was the biggest source of unease in 2007 as well – and evidence, perhaps, that family firms should promote differentiating factors like their business values and long-term perspective more actively in the battle for brains. But managing cash flows and controlling costs has now risen to second place on the agenda; 30% of people list it as one of their main internal challenges, compared with 26% three years ago.

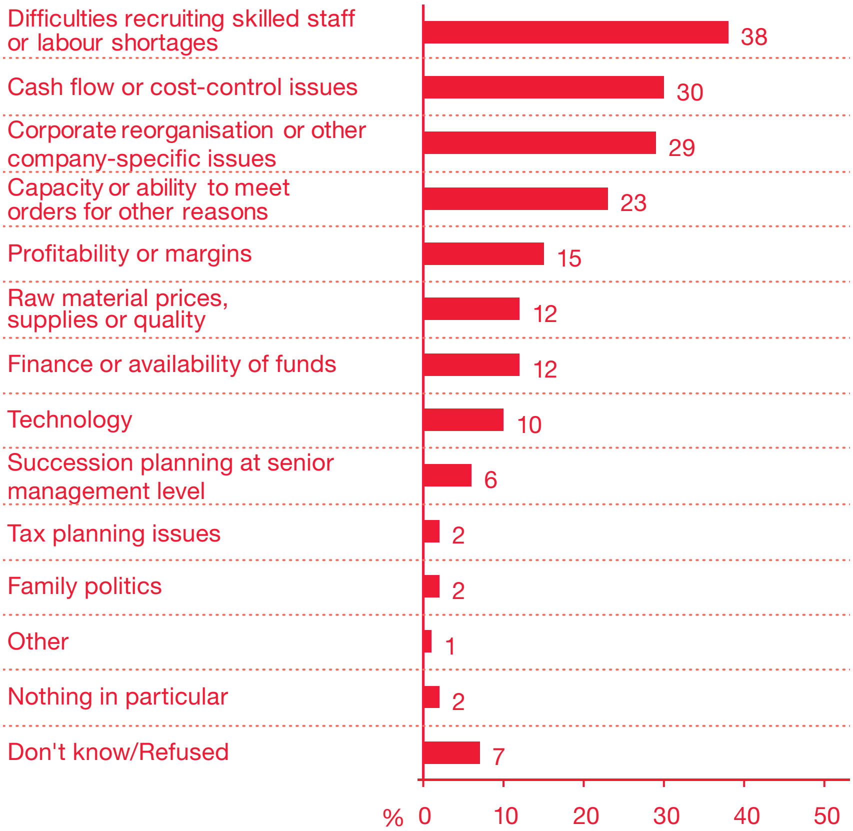
Figure 13: Market conditions, competition and changes in government policy are the biggest external concerns



Source: PwC Family Business Survey 2010/2011

> ***"We're worried about the persistent influence of the financial crisis on consumer behaviour"***
> *Austrian executive*

Figure 14: Labour shortages, cash flow management and corporate restructuring are the main internal challenges

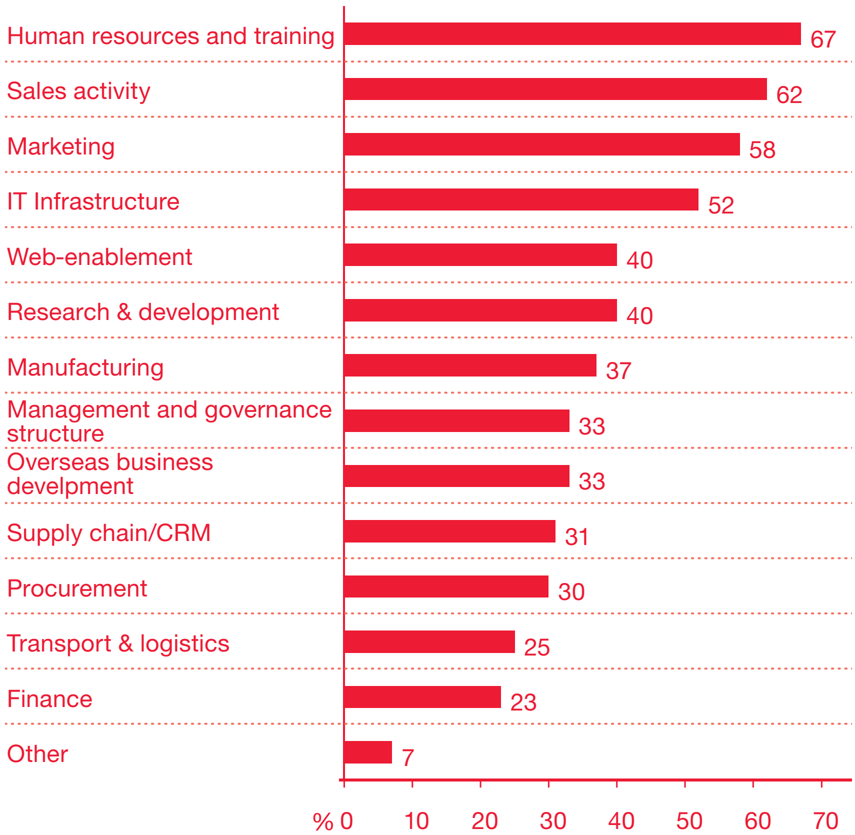


Source: PwC Family Business Survey 2010/2011

Their investment plans reflect these anxieties. Sixty-seven percent of the family firms in our sample intend to invest in human resources or training over the next 12 months (see Figure 15). This is only marginally less than the 73% that planned to do so in 2007 and a sign of the importance they attribute to the human factor.

"Clients don't pay on time and it causes cash flow problems"
Maltese respondent

Figure 15: Human resources, sales and marketing head the investment agenda



Source: PwC Family Business Survey 2010/2011

However, comparing the results with those from three years ago reveals several significant changes. First, the number of companies (particularly smaller companies) planning to invest in each area is lower than it was before, suggesting that many firms have had to rein in their spending. And, second, they're mainly economising on IT, management and governance, the supply chain, transport and logistics, and finance. Some companies may now have robust IT infrastructures, but management and governance, and finance are ongoing concerns.

There are also some notable regional variations in the anxiety executives express. Executives in the mature markets are much less worried about labour issues and government policy than those in the emerging markets, for example. Conversely, they're much more concerned about managing costs and cash flows (see Table 2). This helps to explain why barely two-thirds of respondents from the mature markets intend to invest in human resources and training over the next 12 months, compared with more than four-fifths of their peers in the growth economies (see Table 3).

Table 2: The challenges differ in the mature and emerging markets

Key external challenges		*Key internal challenges*	
Mature markets	***Emerging markets***	***Mature markets***	***Emerging markets***
Market conditions (67%)	Market conditions (69%)	Labour issues (34%)	Labour issues (54%)
Competition (26%)	Government policy (31%)	Cost control & cash flows (32%)	Company reorganisation (29%)
Government policy (24%)	Competition (27%)	Company reorganisation (29%)	Cost control & cash flows (21%)

Source: PwC Family Business Survey 2010/2011

Table 3: People's investment priorities differ, too

Mature markets	***Emerging markets***
Human resources/training (64%)	Human resources/training (81%)
Sales activity (61%)	Marketing (67%)
Marketing (56%)	Sales activity (66%)

Source: PwC Family Business Survey 2010/2011

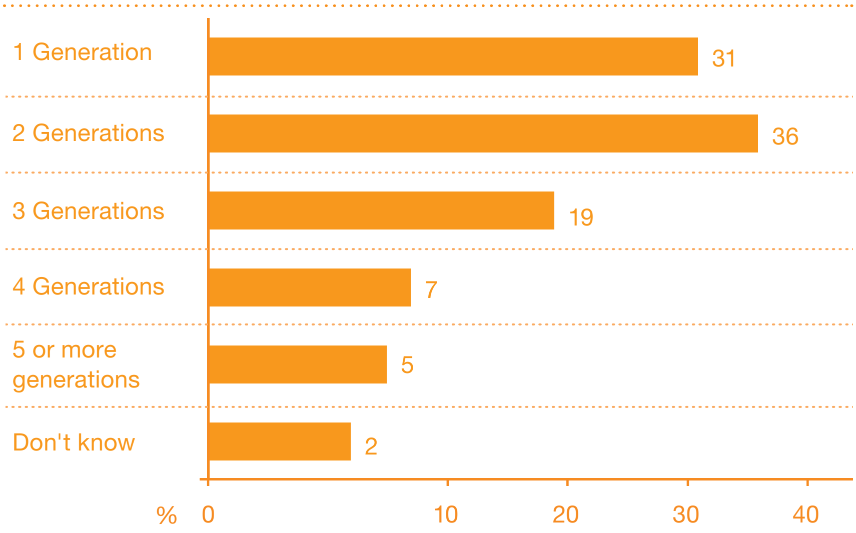
Handing over the reins

We invited you to tell us how you're handling succession planning and ownership issues, and how you believe senior management should be rewarded. More than a quarter of the family businesses in our survey – rising to more than a third in the emerging markets – are likely to change hands during the next five years, and more than half these companies 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 specific individual to take over the top job.

Managing ownership of the business and other family assets equitably is almost equally challenging. Only three-fifths of proprietors think they have enough resources to divide their assets fairly between all their heirs, including relatives who don't work for the company. A significant number have also failed to make any provision for dealing with family and business issues, if key personnel or shareholders should get ill or die, or to assess their potential tax liabilities. 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 emphasis on new challenges, career progression and work-life balance, an attitude they may need to change as Generations X and Y rise up the ladder.

It's widely recognised that one of the biggest risks facing any family-owned business is the transition from one generation to the next. The Family Firm Institute estimates that only 30% of US family firms survive the shift to the second generation, only 12% are still viable in the third generation and only 3% make it to the fourth generation or beyond[4]. Our research bears this out. Thirty-one percent of the companies in our survey are still managed by the entrepreneurs who established them.

Figure 16: Most of the family firms in our survey have only existed for one or two generations



Source: PwC Family Business Survey 2010/2011

Just 36% have survived the passage to the second generation, and the percentage declines rapidly thereafter (see Figure 16).

Of course, some family firms are effectively 'lifestyle' businesses. If they've provided a comfortable income for the founder and his or her dependents, they've arguably served their purpose. But others generate a considerable amount of the world's wealth; indeed, some reports suggest that family firms collectively create between 70% and 90% of global GDP per year[5]. The death of such companies is therefore a loss to the community at large.

So, what accounts for the high attrition rate? In some cases, the founder's simply too caught up in the day-to-day activities of running the business to plan for the future. But many entrepreneurs are also reluctant to cede control. The passion that drove them to set up their companies in the first place prevents them from stepping back from the helm. Selecting a successor can also be an extremely emotive issue. If more than one relative is interested in taking over the business, for example, it may be difficult to choose the best candidate without offending other family members.

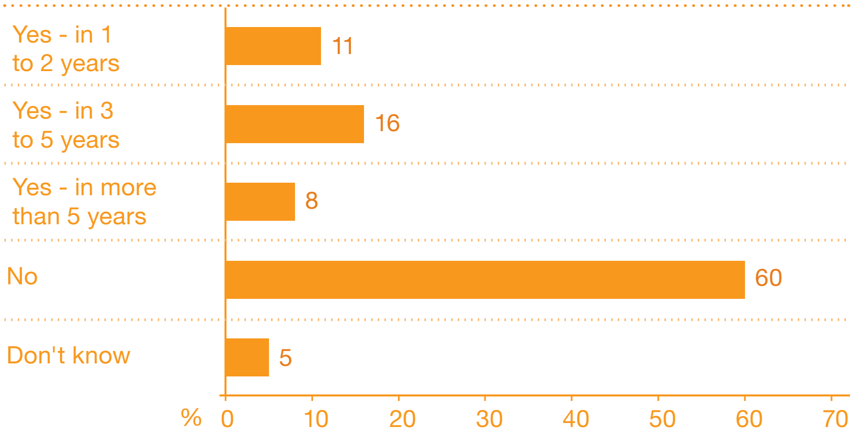
Yet careful planning is essential to ensure a smooth transition. As we noted in our previous survey, a good succession plan outlines how the succession will occur and what criteria will be used to judge when the successor's ready to take on the task. It eases the founder's concerns about handing over to someone else and encourages the heirs to work in the business, rather than embarking on alternative careers. And it endeavours to provide what's best for the business, recognising that competence is more important than family connections.

Twenty-seven percent of the companies in our sample – rising to a remarkably high 36% in the emerging markets – are expected to change hands within the next five years (see Figure 17). And over half of the people who anticipate a change of ownership think the business will remain in the family (see Figure 18). The older the company, the more likely this is; 66% of proprietors running firms that have been trading for more than 50 years plan to pass the wheel to their offspring, compared with just 35% of those running firms that have been trading for less than 20 years.

"It's a great responsibility to take over a family business, and it's important to keep the peace between the family members"
Norwegian executive

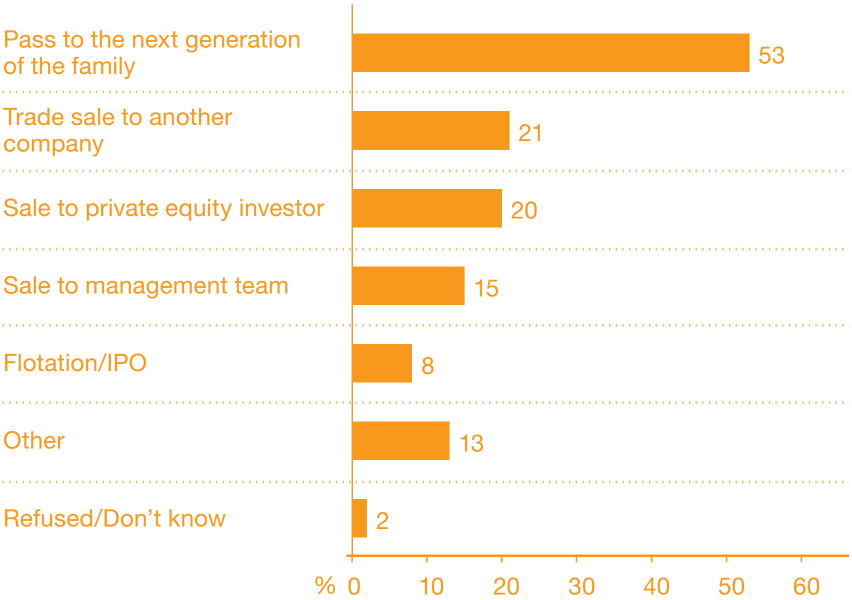
This is consistent with the picture in 2007. So, too, is the fact that nearly half the companies we surveyed don't have a succession plan, although larger companies are generally more prepared for the transition than smaller ones; 61% have some sort of plan in place (see Figure 19).

Figure 17: More than a quarter of companies are expected to change hands within the next five years



Source: PwC Family Business Survey 2010/2011

Figure 18: Most of those who think their companies will change hands over the next five years expect the business to remain in the family

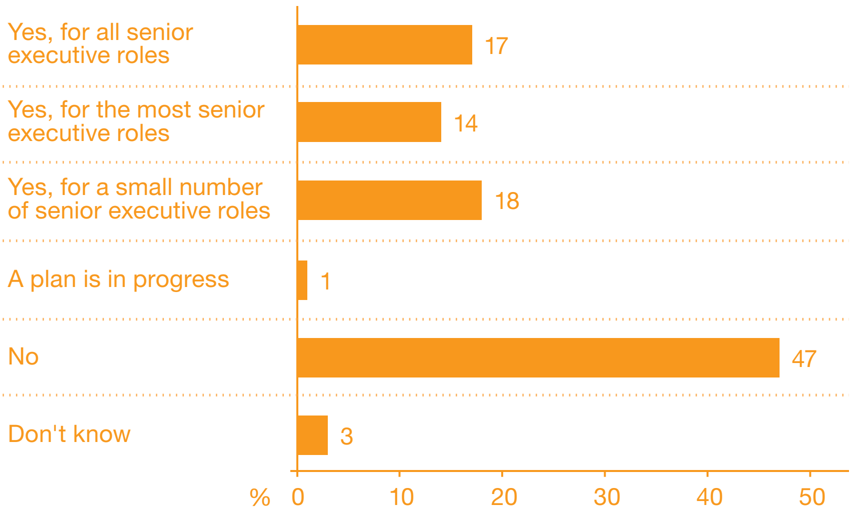


Source: PwC Family Business Survey 2010/2011

"My greatest desire is to guide the company through the current economic crisis and then hand it on to the next generation"
Swedish executive

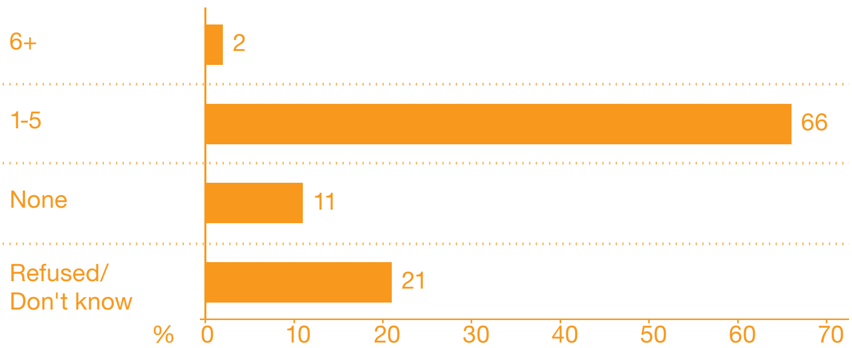
There's certainly a pressing need for better planning, even in many of the companies that have drawn up a succession plan. Sixty-eight percent of the executives who say they've prepared for the changeover expect family members to assume one or more of the senior management positions in the business, although 11% – rising to 34% in North America – intend to bypass their families altogether (see Figure 20). But only 50% have actually designated a specific individual to take over the top job, and the percentage is even lower in the emerging markets (43%).

Figure 19: Nearly half of all companies have no succession plans



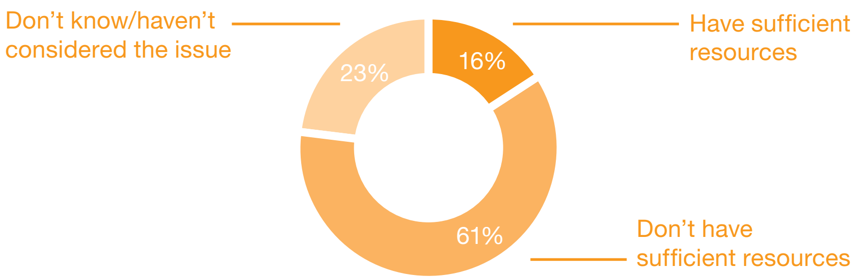
Source: PwC Family Business Survey 2010/2011

Figure 20: In most companies with succession plans family members are expected to assume at least one of the key roles



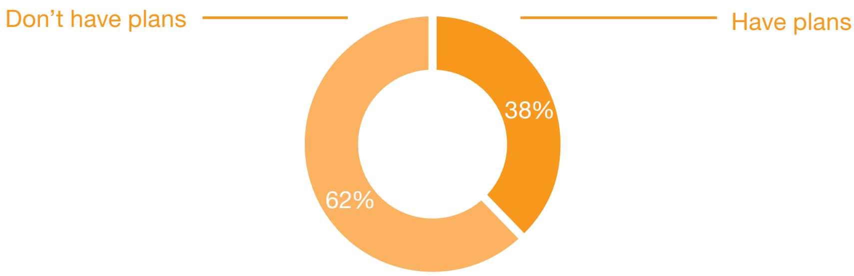
Source: PwC Family Business Survey 2010/2011

Figure 21: Equitable division of assets is a problem for many proprietors



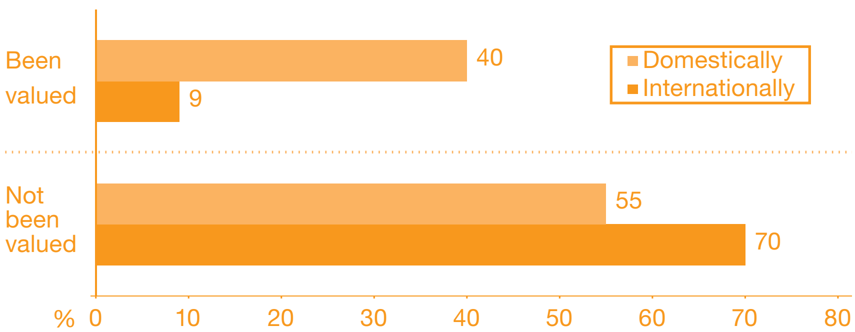
Source: PwC Family Business Survey 2010/2011

Figure 22: Many companies haven't prepared for the sickness or death of a key manager or shareholder



Source: PwC Family Business Survey 2010/2011

Figure 23: More than half of all proprietors haven't had their companies valued for at least a year



Source: PwC Family Business Survey 2010

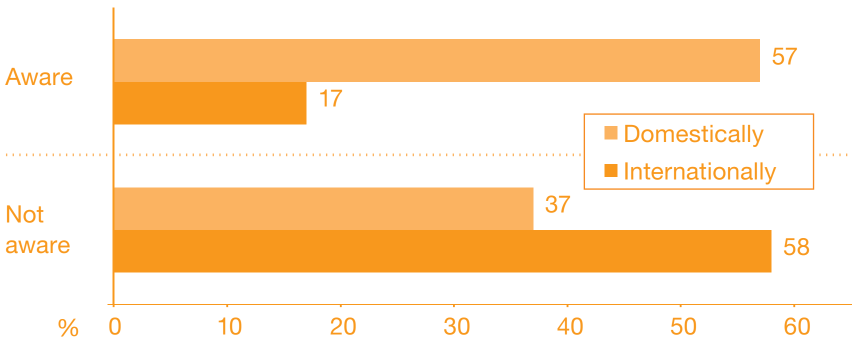
Moreover, some families have seen their wealth significantly eroded during the economic downtown. Only 61% of respondents think they have sufficient resources to divide their assets fairly between all their heirs, including those who don't work for the business (see Figure 21). Conflicts over money could therefore compound any disagreements about which relative should succeed to the throne.

Further evidence that some family firms may be less ready for the future than they realise comes from the fact that 62% haven't made any provision for dealing with family and business issues, if a key manager or shareholder gets seriously sick or dies (see Figure 22). Similarly, 38% haven't appointed a caretaker management team to run the business, if the incumbent chief executive expires before any of his or her children are old enough to assume control.

Indeed, many family firms would face considerable difficulties if any sudden change of ownership occurred, regardless of the cause. Fifty-six percent haven't established any procedures for purchasing the shares of incapacitated or deceased shareholders. And 50% either lack the liquidity to buy out family members who want to dispose of their stakes in the business or haven't considered the possibility.

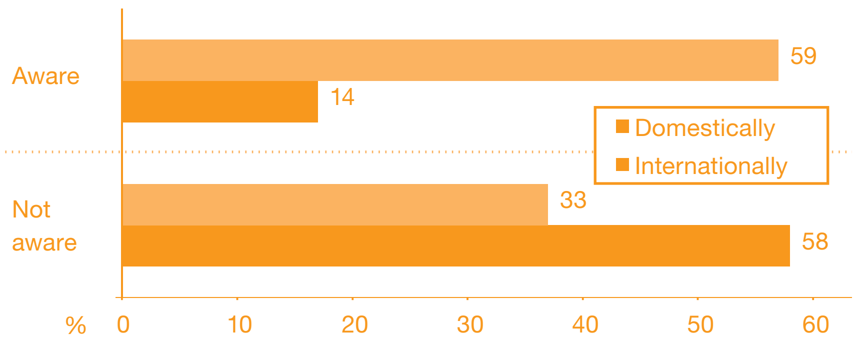
The majority of family-business owners have also failed to assess their potential tax exposure, even though taxes are rising in the mature economies and planning is essential to realise any opportunities for mitigating the financial burden. The first step is to get the business professionally valued, in order to assess the likely tax liability if the business were to be sold to an external party or transferred to the next generation. However, 55% of all respondents haven't had their companies valued domestically, and 73% of those with a cross-border presence haven't had their companies valued internationally, within the last 12 months (see Figure 23).

Figure 24: Many proprietors don't have a complete picture of their exposure to capital gains tax



Source: PwC Family Business Survey 2010/2011

Figure 25: Many proprietors are also unaware of the full extent of the inheritance tax their heirs might have to pay

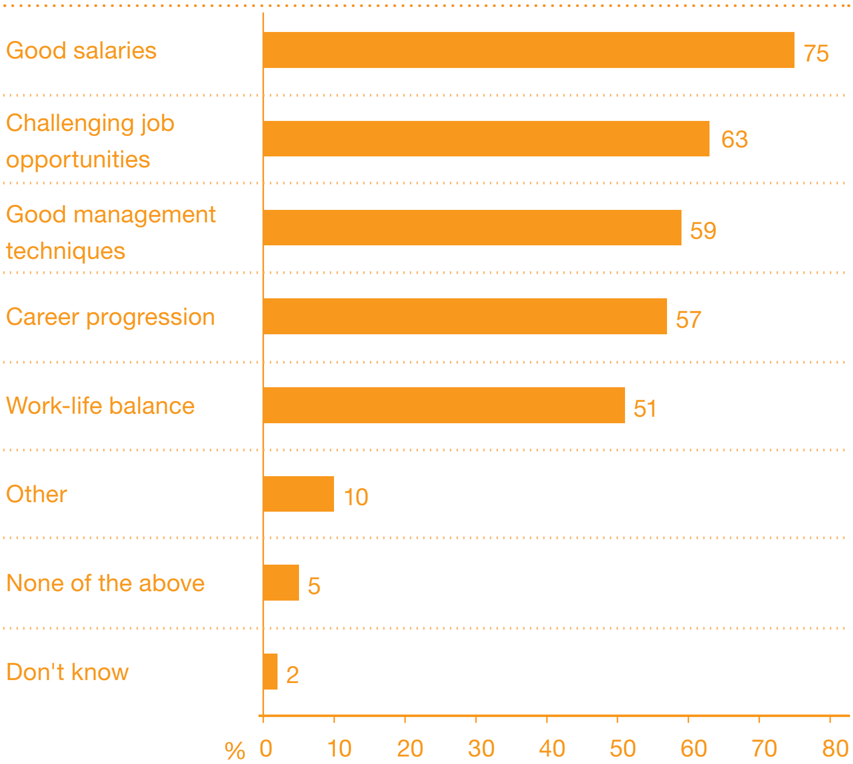


Source: PwC Family Business Survey 2010/2011

But though many family-business owners don't know how much tax they or their heirs might incur, they are acutely aware of the need to remunerate senior management properly. A full 88% employ between one and 10 people in their senior management teams; and 75% believe the best way of retaining them is to pay them well (see Figure 26). They place much less emphasis on new challenges, career progression and work-life balance – a view they may need to modify in order to recruit the next generation of executives. Both anecdotal and empirical evidence shows, for example, that Generation X and Y workers rate leisure time much more highly than their Boomer counterparts[6].

The emphasis also varies from one region to another (see Figure 27). Executives in the emerging markets are particularly likely to see salaries, good management techniques and career progression as the most effective means of holding onto key staff.

Figure 26: Salaries top the list of measures family firms use for retaining key talent

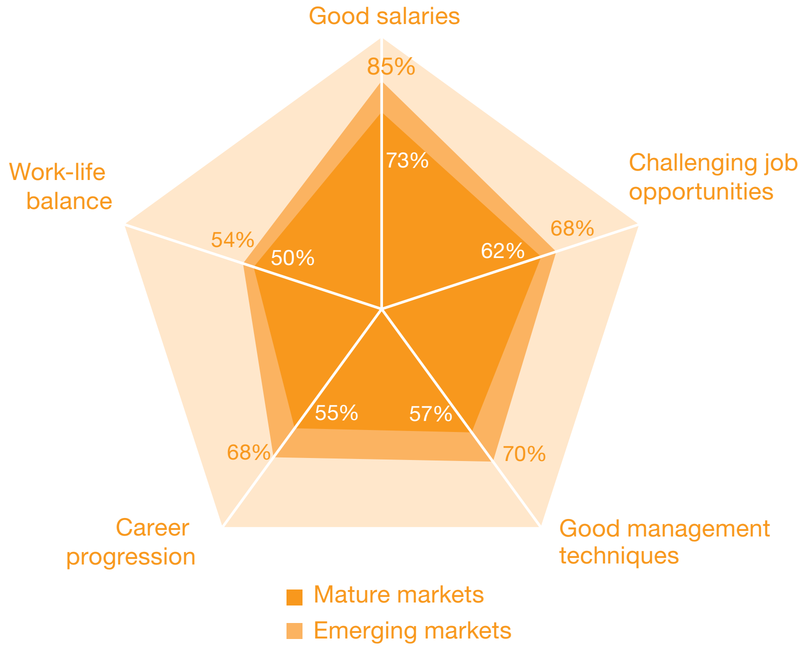


Source: PwC Family Business Survey 2010/2011

"I want to deal with workers, customers and suppliers in a human way"
German executive

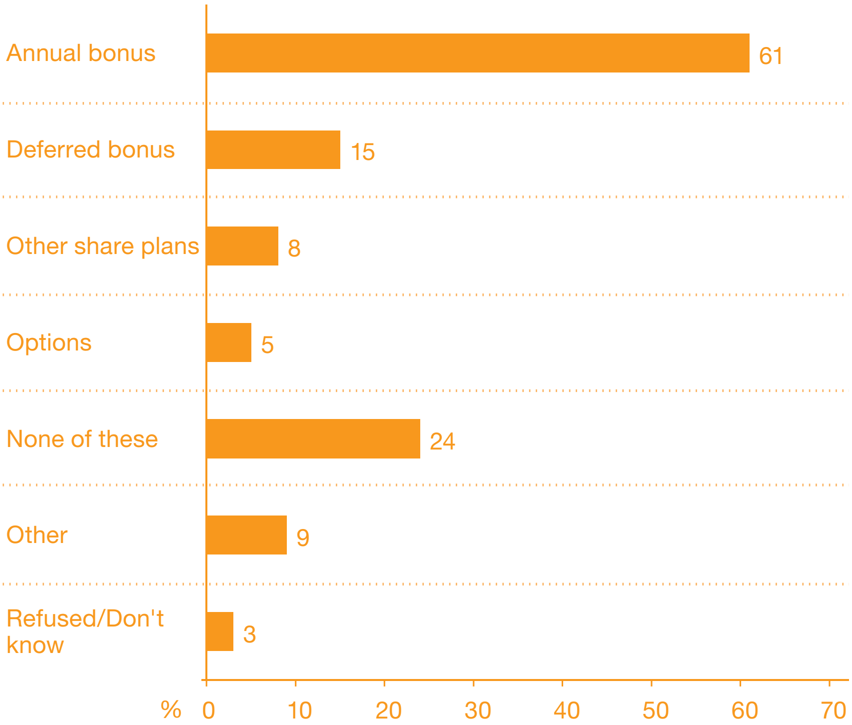
In addition to paying generous salaries, 76% of the family firms in our survey use some sort of incentive scheme to reward senior executives. Annual bonuses are still the most popular choice, as they were in 2007, but 22% of companies operate share plans, option schemes or other incentive plans, many of which have been in place for more than two years (see Figure 28). Payment of an annual bonus is particularly common in larger companies (77%). However, most people, regardless of the size of their companies, believe such schemes have a positive effect.

Figure 27: Companies in the emerging markets are more likely to stress the importance of multiple measures for retaining key staff



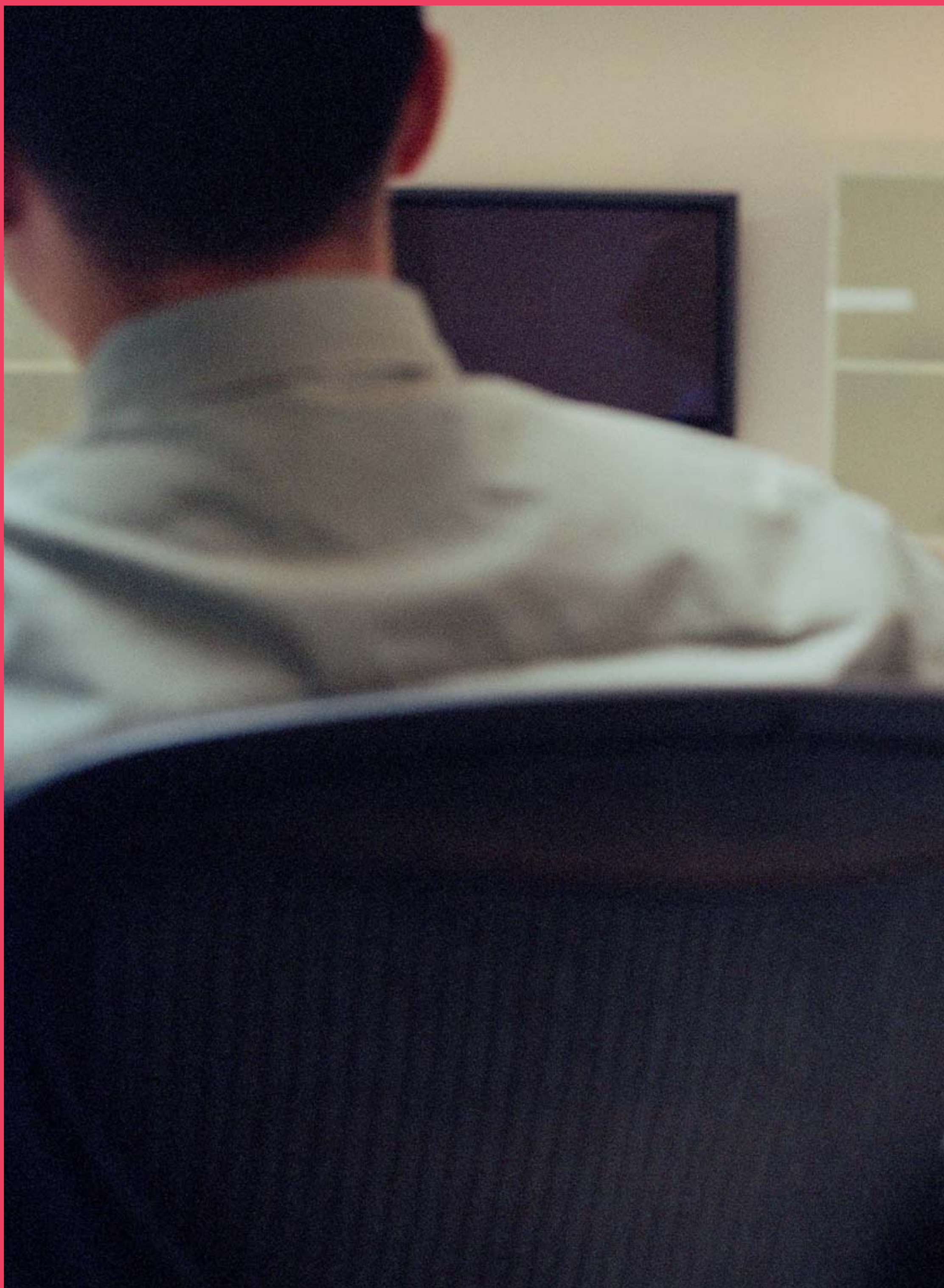
Source: PwC Family Business Survey 2010/2011

Figure 28: The most popular means of rewarding senior management is the annual bonus



Source: PwC Family Business Survey 2010/2011

Falling out and making up



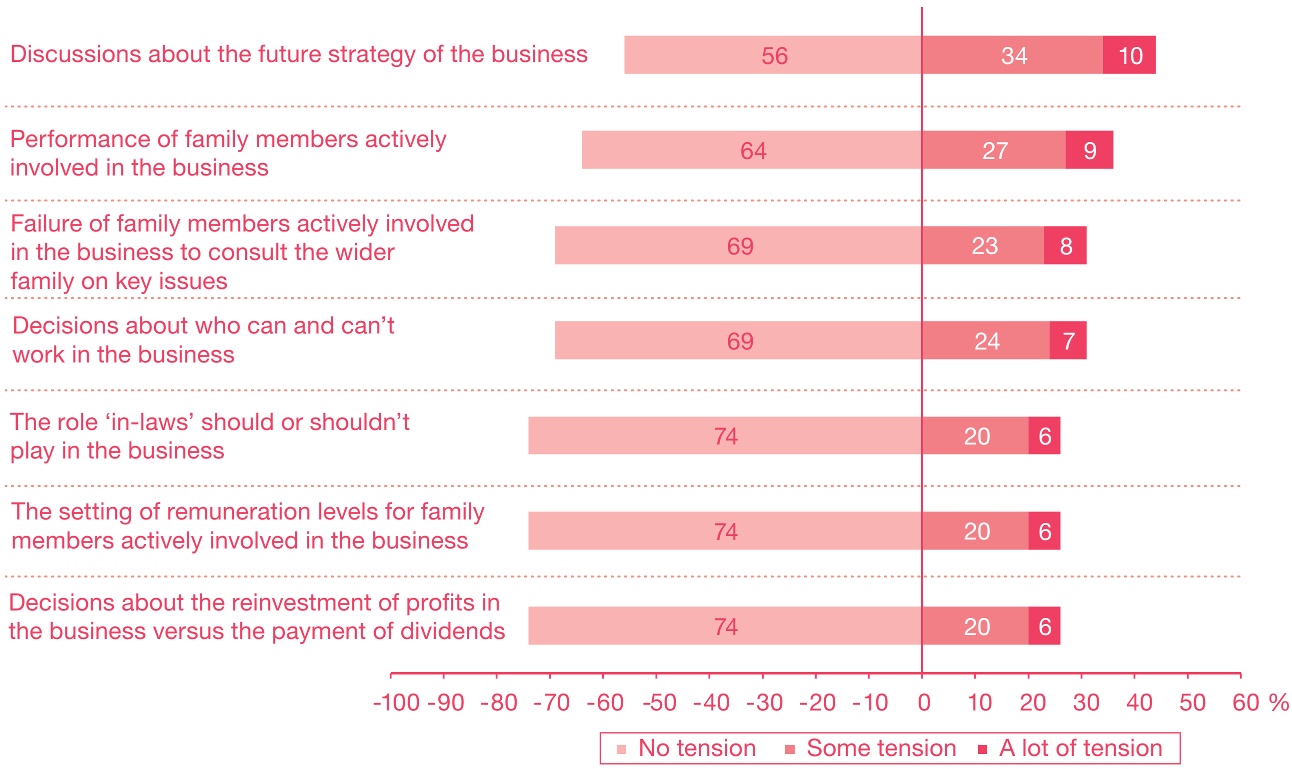
It's clear from your responses that the ability to manage differences of opinion smoothly is now more important than ever. The percentage of family firms experiencing tension has increased significantly during the past three years. Nearly half the people participating in our survey told us they've argued 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. Almost two-thirds of the family businesses in our survey also hire relatives without requiring them to compete for their jobs on the open market, which probably makes matters worse.

Yet, less than a third of all companies 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 relatively few businesses that have put conflict resolution measures in place tend to favour shareholder agreements, whereas family councils were the most popular means of resolving arguments about the business in 2007.

As we noted in the Foreword, a family business is essentially a combination of three different entities – the company itself, the family attached to it and the owners. The interests of the people in each circle overlap, but they aren't identical. These differences sometimes cause conflicts, especially in older companies, where it's more likely that some of the shareholders won't be involved in the day-to-day running of the business.

Certain subjects are particularly prone to make tempers fly. Forty-four percent of the people we spoke to said they'd quarrelled about the future direction of the business, and 36% that they'd quarrelled about the performance of family members employed within the firm. Thirty-one percent have also disagreed about who should be allowed to work for the business and whether family members who are actively involved in the business are consulting the wider family sufficiently (see Figure 29).

Figure 29: Disagreements about future strategy are the most frequent cause of dissent



Source: PwC Family Business Survey 2010/2011

> ***"I hope that we're all still talking and not killing each other"***
> ***Irish respondent***

These are actually the same issues that caused most dissent in our previous survey. However, the percentage of family firms experiencing tension has increased significantly, especially when it comes to discussing the future strategy of the business and the competence of the family members managing it.

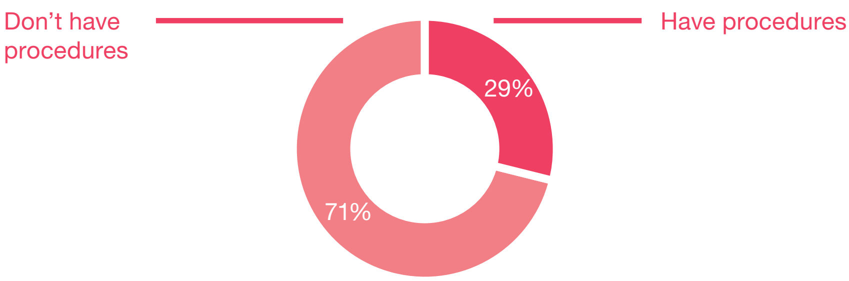
The economic climate may be partly to blame. Shareholders may be more likely to question the direction and management of a company when it's going through difficulties. But some proprietors also seem to have relaxed the criteria they use when deciding to bring family members into the business. Sixty-four percent hire relatives without requiring them to compete for their jobs on the open market, up from 43% in 2007. Preferential treatment of family members is particularly common in small companies and those based in North America.

It's probably understandable that so many owners should favour relatives when the recession has made it much harder for people to find work. Unemployment rates are currently hovering at about 10% in the US and the euro zone, for example, and may climb even higher in some countries[7]. Nevertheless, in hard times all companies need the best executives they can attract.

Whether or not the economic instability of the past few years has created more strife, only 29% of the companies in our sample – a mere 7.4% more than in 2007 – have introduced any procedures for dealing with disputes between family members (see Figure 30). The smaller and younger the company, the less likely it is to have done so.

The number of family firms with conflict resolution measures in place hasn't changed very much since 2007, then, but there has been some change in the procedures such firms prefer. In 2007, family councils were the most popular means of resolving arguments about the business, whereas shareholder agreements are now the first choice (see Figure 31).

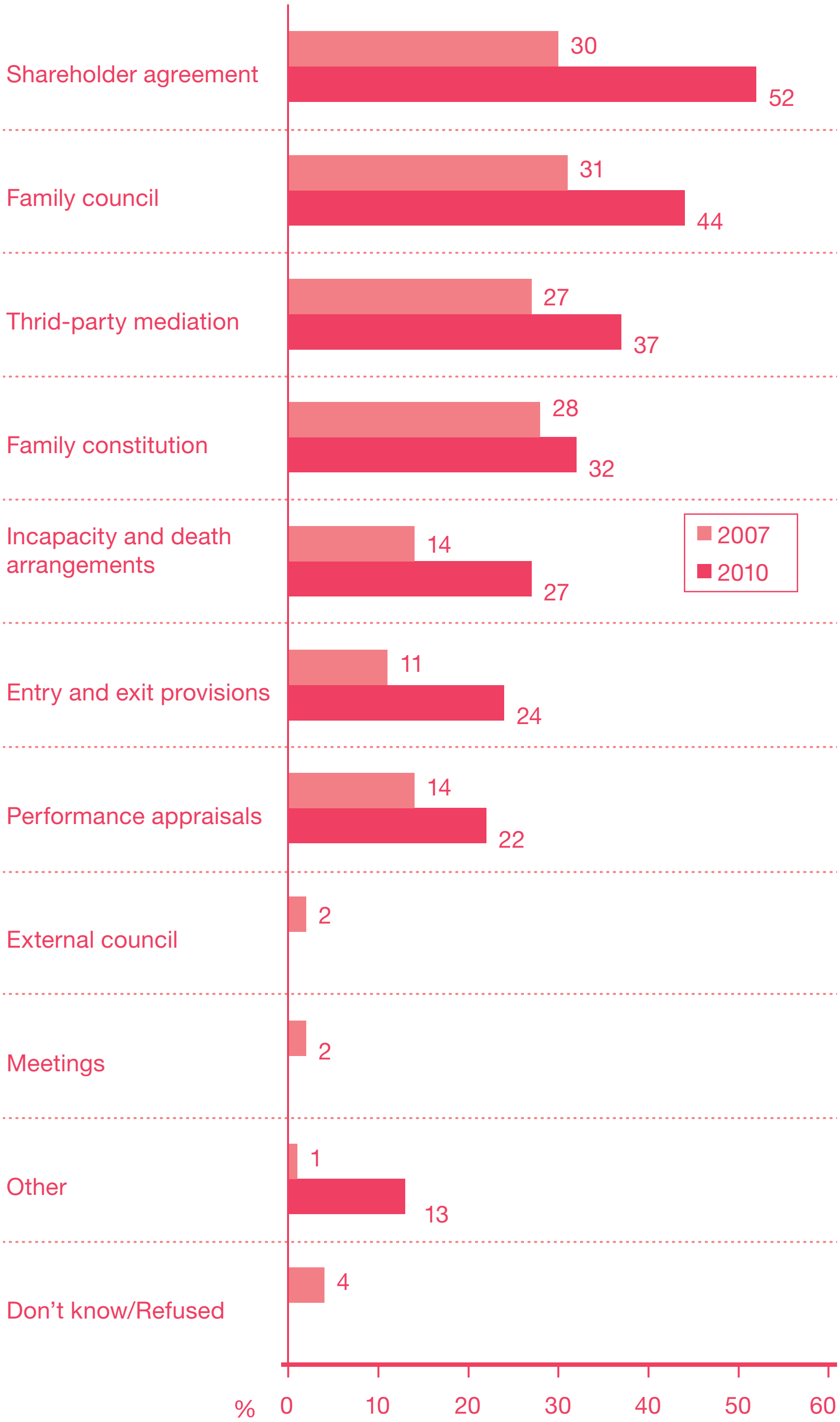
Figure 30: Most companies haven't adopted any procedures for resolving conflicts between family members



Source: PwC Family Business Survey 2010/2011

"A family row can ruin a company"
Brazilian executive

Figure 31: Shareholder agreements, family councils and mediation are the most common measures for resolving conflicts



Source: PwC Family Business Survey 2010/2011

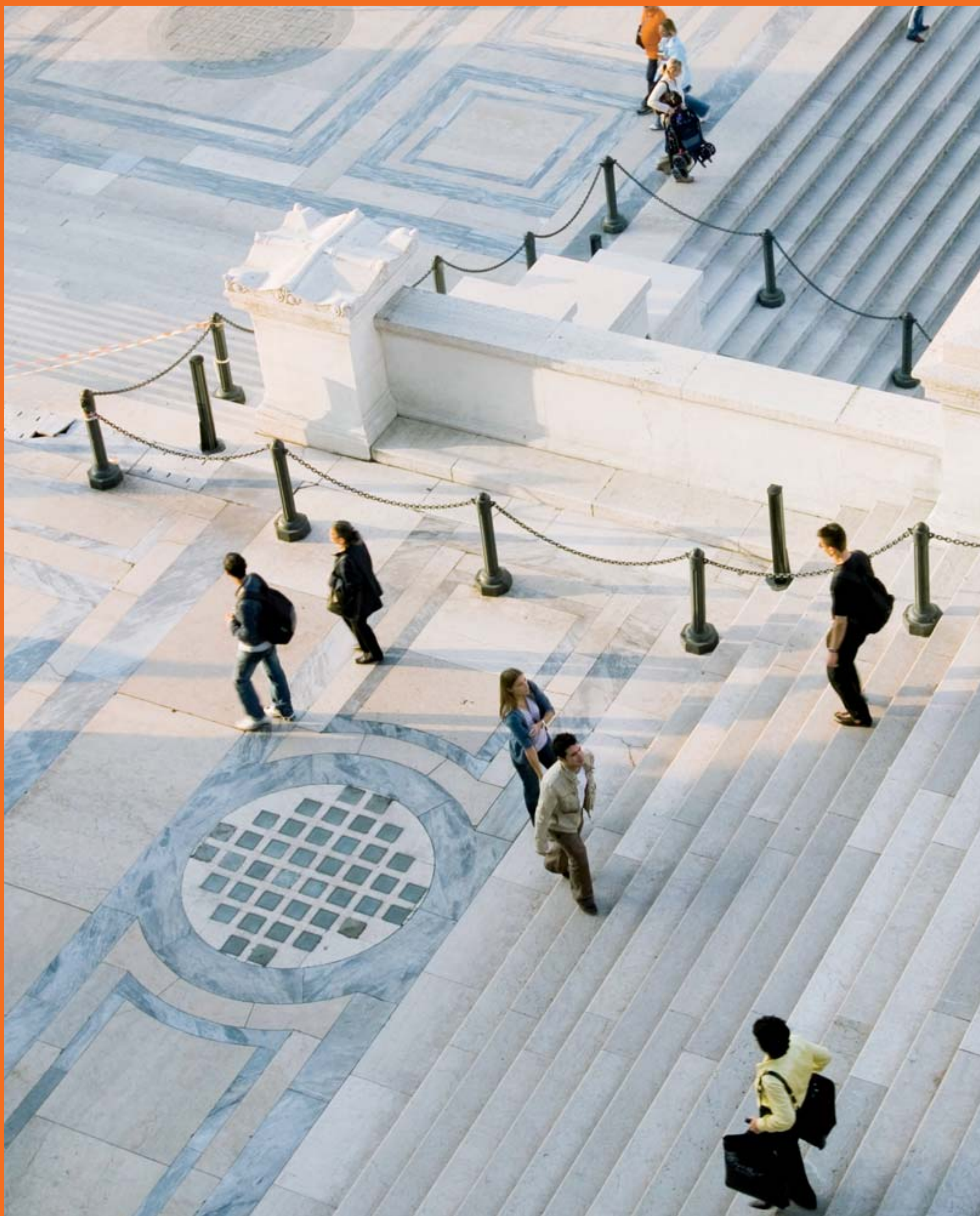
Use of third-party mediation has also become more widespread, possibly because employing a non-executive director or independent business consultant to act as an impartial go-between has several advantages. It provides a neutral forum in which the disputants can air their differences without being intimidated; the process is more structured than 'ordinary' negotiation; and the results are often more long-lasting. But third-party mediation is still a predominantly Western practice. Family businesses in the emerging markets typically prefer family councils or constitutions and shareholder agreements (see Table 4).

Table 4: The conflict resolution procedures family businesses prefer vary by region

Mature markets	*Emerging markets*
Shareholder agreement (51%)	Family council (60%)
Family council (39%)	Shareholder agreement (57%)
Third-party mediation (37%)	Family constitution (47%)

Source: PwC Family Business Survey 2010/2011

Dealing with regulation and creating value for society

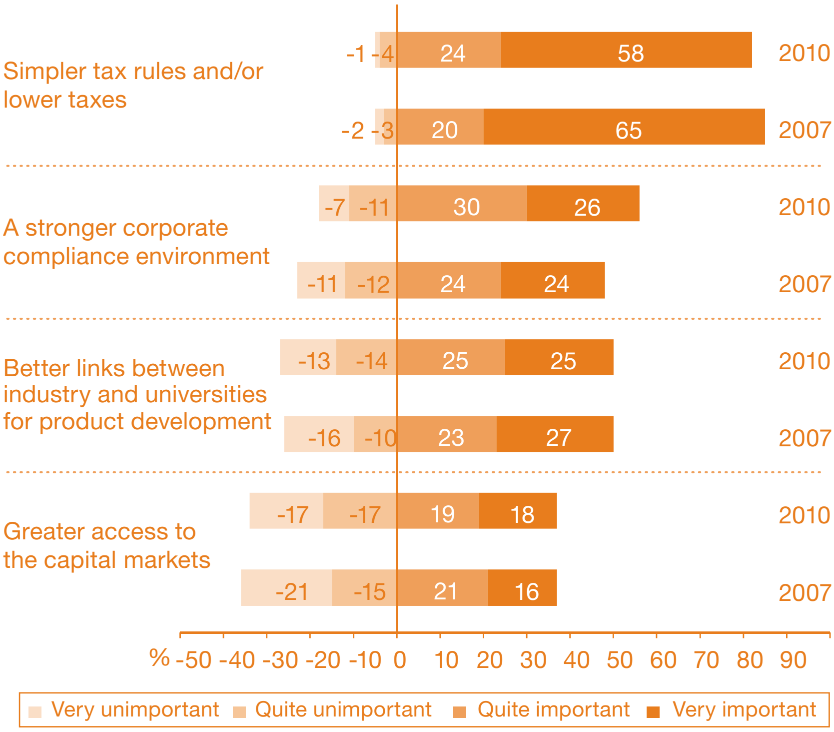


Regulation, government incentives and corporate social responsibility are perennial concerns. So, what did you have to say on this score? The vast majority of family-business managers told us they would like to have a simpler tax regime and/or pay lower taxes. More than half also want to see a tougher 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 people are much more upbeat about the growing emphasis on corporate social responsibility. Nearly three-quarters of the executives we spoke to 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.

We've discussed the key commercial and managerial issues family firms face, and how they resolve internal disputes. But what's their attitude to regulation and corporate social responsibility? We asked respondents which regulatory changes they would welcome most. Top of their wish list is a better tax regime, as it was in our previous survey. More than four-fifths of the executives we spoke to say simplification of the corporate tax rules and/or a reduction in the tax burden is quite or very important to them (see Figure 32).

Figure 32: Tax changes top of the list of changes family firms want



Source: PwC Family Business Survey 2010/2011

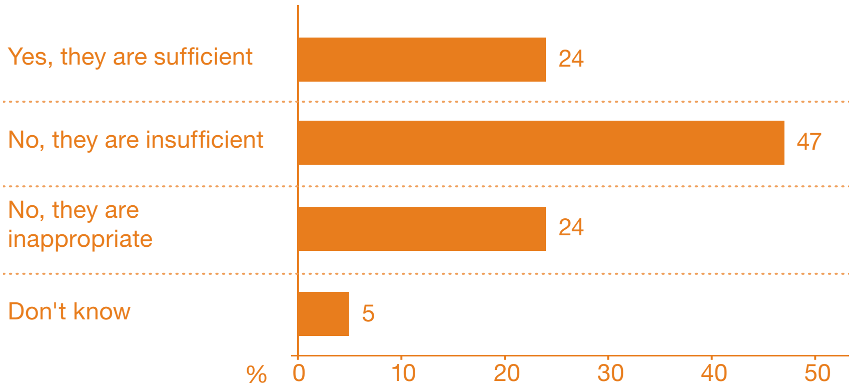
This isn't surprising, since the tax rules in many jurisdictions are now hideously complex. US IRS Commissioner Doug Shulman recently acknowledged that the US tax code is 'already four times longer than *War and Peace* and [growing] each year'[8], while new British Chancellor George Osborne compared the 11-000 page UK tax code to a 'spaghetti bowl', when he established an office specifically to simplify the country's tax regime in July 2010[9].

More remarkably, 56% of respondents also favour a tougher corporate compliance environment, a feature that ranked only fourth on their agenda three years ago. The virtual collapse of the banking system in 2008 may account for this response; many commentators have argued that one of the main causes of the financial crisis was inadequate or outdated regulation. Half the executives we interviewed would likewise appreciate assistance in creating closer links with academia for the purposes of product development, whereas only 37% are concerned with getting greater access to the capital markets.

There are obvious reasons why relatively few entrepreneurs should be interested in floating their companies at present, of course. Although the number of initial public offerings increased in the first half of 2010, the sovereign debt crisis in the euro zone, the uncertain pace of the recovery and limited access to credit have all curbed interest in new offerings. Moreover, the main stock market indices are still languishing at levels well below those they reached in late 2006 and early 2007[10].

The precarious state of the global economy probably also explains why only 24% of people think their governments have done enough to support the business community during the recession (see Figure 33). Forty-seven percent believe the initiatives that have been introduced are 'insufficient', while 24% consider them 'inappropriate'. Criticism is particularly marked in the emerging markets, where only 17% of respondents think their governments have helped them sufficiently (see Table 5).

Figure 33: Family-business managers are critical of government initiatives to help them through the recession



Source: PwC Family Business Survey 2010/2011

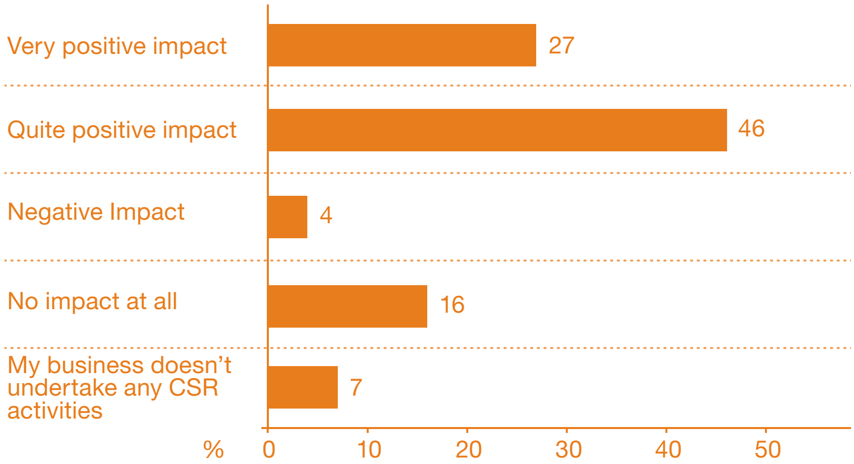
Table 5: Executives in the emerging markets are especially dissatisfied with their governments' initiatives

	Mature markets	*Emerging markets*
Think measures sufficient	26%	17%
Think measures insufficient	45%	60%
Think measures inappropriate	25%	21%

Source: PwC Family Business Survey 2010/2011

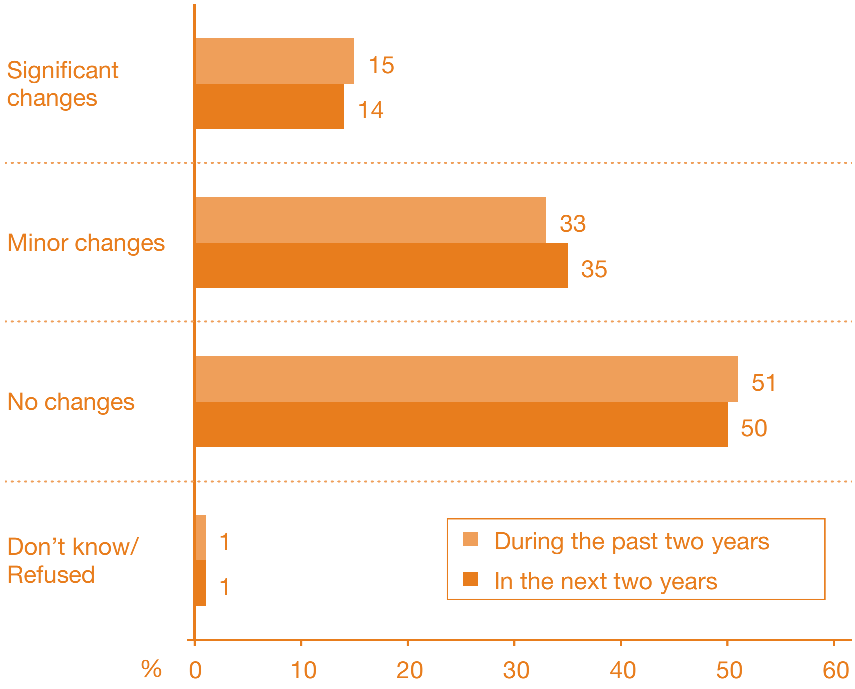
However, most executives are much more upbeat about the growing emphasis on corporate social responsibility (CSR). Nearly three-quarters report that CSR has had a quite or very constructive impact on their companies, and those based in the emerging markets are particularly positive (see Figure 34). Forty-eight percent of all respondents have already made changes to accommodate CSR, while 49% plan on doing so over the next two years (see Figure 35). These people recognise that building a reputation as a responsible business helps a company distinguish itself from the crowd; customers often favour suppliers who demonstrate regard for the environment. CSR can also help a business improve its performance by reducing energy and waste disposal costs, coping with new laws and restrictions more effectively and even developing new products or services.

Figure 34: Most executives believe CSR has had a positive impact on their business



Source: PwC Family Business Survey 2010/2011

Figure 35: Many companies have already made CSR-inspired changes, and many more plan to do so over the next two years



Source: PwC Family Business Survey 2010/2011

"I want to build a thriving company that's careful about the environment, both social and ecological"
French executive

What we've learned

The responses we received during this year's survey show that a more sombre mood prevails than in 2007. A number of family-business owners talked in terms of 'trying to keep our heads above water' and 'making it through the crisis'. Several battle-weary executives also expressed a yearning to withdraw from the fray. I'd welcome 'anything that would enable me to retire earlier', one Maltese proprietor remarked.

But most people are determined to keep up the struggle and some have fared extremely well, regardless of the recession. "I've grown the company tenfold in 10 years, which I think is quite an achievement," a Finnish owner said. Others also have 'thriving and profitable' operations, enjoy 'international success' and aim to 'keep on growing'. Many of these entrepreneurs are eager to bequeath healthy businesses to their children. "I think that in every family-controlled business, continuity from one generation to the next is what everyone wants most," a Brazilian proprietor observed.

They're not all confident that their heirs will rise to the challenge. "The younger generation don't take the positions as seriously as the older ones," a Canadian executive complained. A Cypriot family-business owner also has grave doubts on this score. "I believe that, if I don't manage to [take the company public], it will be destroyed," he commented. Nevertheless, some successors clearly regard their responsibilities very seriously. "I want to continue providing the quality product and exceptional service that my dad has been providing for the last 20 years," said one person who's recently assumed the top job.

The desire to leave a stable and successful business for their offspring is by no means the only theme that emerged in our conversations with family-business owners around the world. Many also stressed the importance of personal integrity. A Japanese proprietor talked of 'righteousness and selflessness', for example. Similarly, a US proprietor prided himself on being 'true to my word', while a Maltese proprietor said he'd like to be remembered as someone who has run his business 'not as a businessman but as a gentleman'.

Some entrepreneurs are equally concerned with making a contribution to society at large. "We'd like the community to think we're an ethical business with high morals," one Danish family-business owner said, while a Spanish respondent explained that, in addition to running a business, his family operates a 'social foundation'. He's not alone. "We donated £50 million to charity last year. I want to give young people the best possible start in life," one of the key shareholders in a British family firm told us.

Of course, such philanthropy's only possible when a company is successful – and commercial ambitions featured regularly in the feedback we received. "I want to grow the business much bigger, let's say tenfold," a Cypriot proprietor remarked. Other respondents spoke of driving up turnover and profits, and creating 'durable value'. Some also acknowledged the contribution their employees have made. "We have very dedicated loyal employees. . . . That's one thing our competition can't buy," a Canadian executive noted. "Teamwork is more important than all the money in the bank," a Maltese owner agreed.

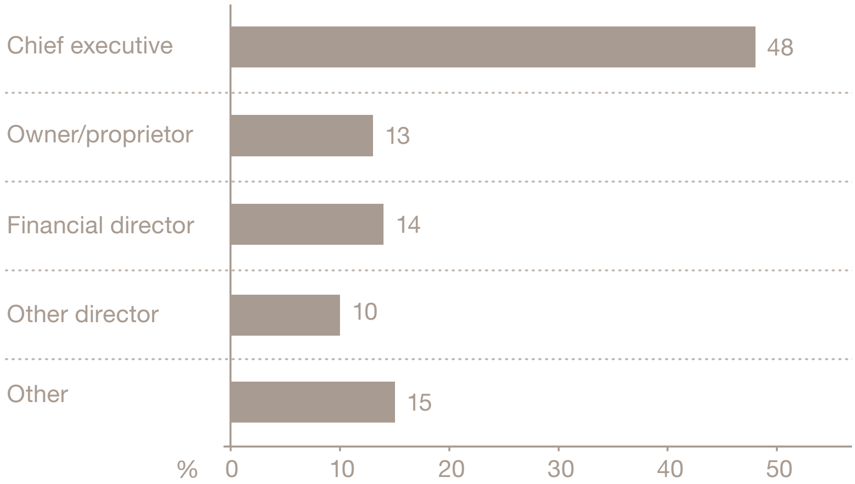
However, it's obvious that many respondents attribute much of their companies' resilience to the fact that they are family firms. There are a few notable exceptions who want to 'escape from the family model', as one person put it. But for the majority of the participants in our survey, being part of a family business is a big plus. It 'means that we're looking at the business long-term rather than short-term, which gives us a lot of motivation and a good position', a Finnish respondent explained. "The unity of our family has helped us. We respect each other and each person has a different expertise," a Brazilian respondent added.

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."

Appendix: Methodology and survey population

Our survey covers small and mid-sized family companies in 35 countries: Austria, Bahamas, Bahrain, Barbados, Belgium, Brazil, Canada, Cyprus, Denmark, Egypt, Finland, France, Germany, Ireland, Italy, Kuwait, Jamaica, Japan, Jordan, Malta, Netherlands, Norway, Oman, Russia, Saudi Arabia, South Africa, Spain, Sweden, Switzerland, Syria, Trinidad and Tobago, Turkey, United Arab Emirates, United Kingdom and United States. We interviewed top executives in 1,606 companies operating in 15 industry sectors between 26 May and 17 August 2010. All respondents were interviewed via a 20-minute telephone call, with the exception of respondents in Japan and Turkey, who were interviewed face-to-face. The research was coordinated by the PwC International Survey Unit, Belfast, our global centre of excellence in market research, which designed the questionnaire in conjunction with family business experts from PwC.

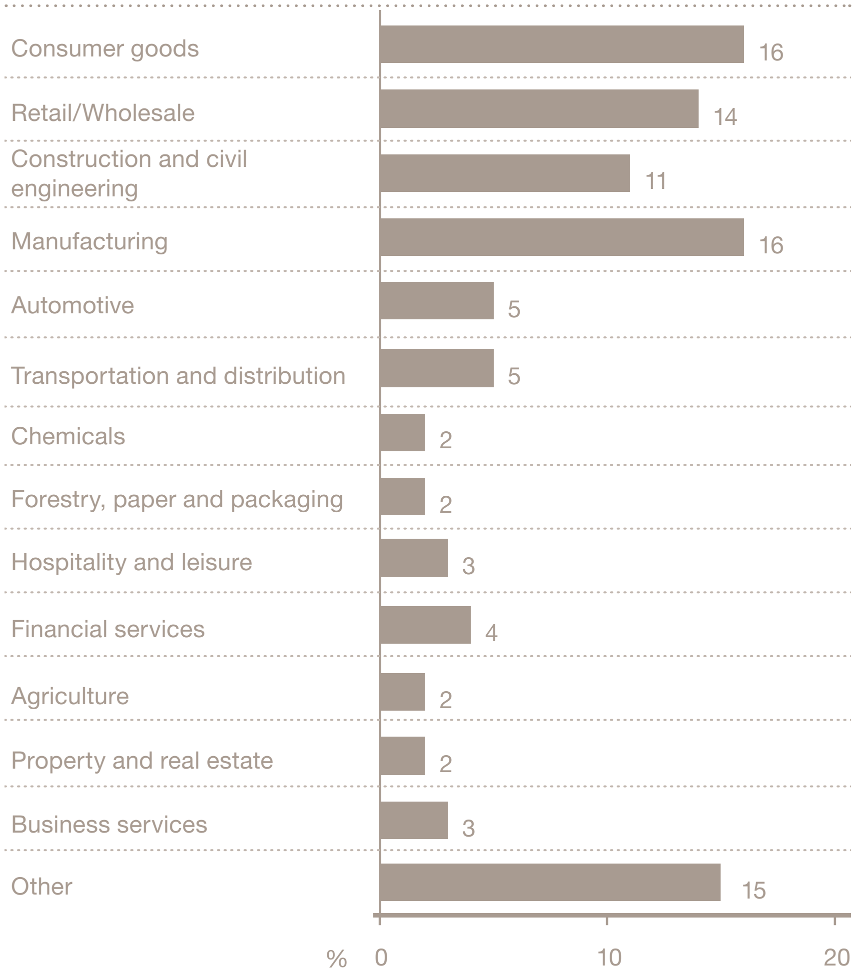
Figure 36: Survey participants by position in company



Source: PwC Family Business Survey 2010/2011
Note: Other includes President/Vice President, Chairman, Partner, Company Secretary, Member of the Board or Shareholder

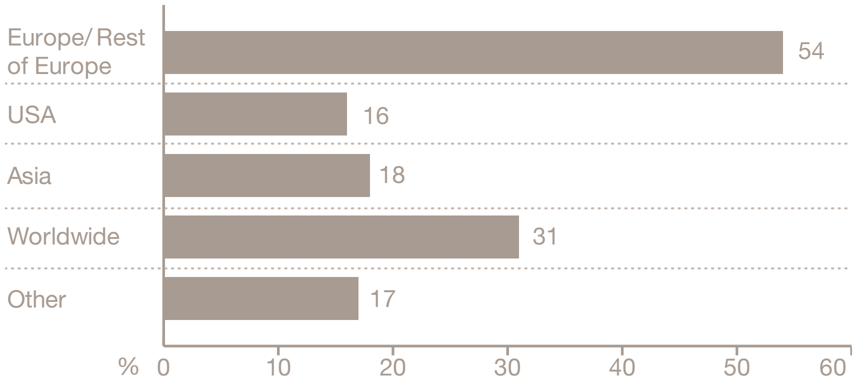
Eighty-two percent of the companies in our sample have been trading for at least 20 years. Indeed, 42 per cent have been in business for at least 50 years. Thirty-one percent employ more than 250 people and 28% generated revenues of over 50 million euros last year. More than half (54%) export goods or services to foreign markets, and 31% trade worldwide. The largest firms have generally been in business longest and are more likely to export to other countries. However, companies in the consumer goods and manufacturing sectors also tend to be particularly active overseas; 61% and 81%, respectively, export products or services to other territories.

Figure 37: Survey participants by industry sector



Source: PwC Family Business Survey 2010/2011

Figure 38: The countries with which companies that export their goods or service trade



Source: PwC Family Business Survey 2010/2011
Note: Other includes Africa, Australia, Central America and South America

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Contacts

For further information about the survey, please contact:

Axel Dorenkamp
Global Middle Market Director
+49 541 3304 585
axel.dorenkamp@de.pwc.com

For media enquiries, please contact:

Mike Davies
Director of Global Communications
+44 20 7804 2378
mike.davies@uk.pwc.com

For enquiries about the research methodology, please contact:

Colette Duff
Managing Consultant at PwC's International Survey Unit
+44 2890 415216
colette.duff@uk.pwc.com

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