News release

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Contact	Rowena Mearley, Global Communications Tel: + 1 646 313 0937 e-mail: rowena.j.mearley@us.pwc.com
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Strategic planning, not economic headwinds, will hold family businesses back from growth – PwC.

- ***Slow or no progress on strategic planning could impact growth***
- ***Family businesses in Asia Pacific are the most aggressive for growth***
- ***Younger generations eye up floatation and sell off of businesses earlier than previous generations***

LONDON, 2 November 2016 – Despite economic uncertainty, almost two thirds (64%) of family businesses have grown over the past year, according to a new global survey of over 2800 family businesses in 50 countries by PwC.

The sector has ambitious plans to grow again over the next five years despite global economic head winds with only one in five family businesses reporting a drop in sales in the past two years.

Family businesses in Asia Pacific are the most ambitious, with 21% looking for the quickest and most aggressive growth according to findings from PwC's biennial global survey of family businesses: *The 'Missing Middle': Bridging the strategy gap in family firms*.

Family businesses in Western Europe (10%) and North America (12%) have lower levels of ambition for quick and aggressive growth with respondents in these regions mainly predicting 'steady growth'. Globally, 15% of respondents aim to grow quickly and aggressively in next five years and 70% aim to grow steadily.

In the near term, respondents do not see Brexit affecting their ambitions for growth (only 15% globally say it will have a negative impact). Unsurprisingly, fears about the potential impact of Brexit in the next 1-2 years were highest in the UK (38% - over twice the global average of 15%) and among EU countries (22%). Globally, 83% said they were not planning to take action to address Brexit.

Despite the relatively steady outlook, the report warns that family businesses' growth outlook could be curtailed by the organisation's own lack of strategic planning rather than economic factors or other external concerns. In fact, many issues now facing family business come back to a lack of strategic planning – the 'missing middle' – namely having a strategic plan that links where the business is now to the long-term and where it could be. This results in many families not being able to turn early promise into sustainable success.

While some family firms are managing strategic planning well, many are caught between the deluge of every day issues and the weight of inter-generational expectations. PwC found that in survey to survey, areas such as succession, diversification, digital, cyber security, and innovation, are not being tackled.

Stephanie Hyde, Global Entrepreneurial & Private Business leader, PwC, comments:

> "It is clear family firms remain a vital part of economies across the world, contributing the bulk of GDP in many territories, and are a primary driver of job creation."
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> "Overall, their performance and outlook for growth remain strong with notable progress on professionalisation, but less so on strategic planning. Having an ambition to grow, without a strategic plan of how to get there, is just an aspiration. Not only is it limiting their ambition to expand and grow, it could also expose them to additional risks that they have not effectively planned for."

In three successive surveys now, family businesses have made on average, around a quarter of their sales overseas with ambitions to raise that to a third. Yet in each survey, international sales have remained at around 25%. One in three family firms are still operating in only one sector and still only in their own home market, yet just under 80% plan to export/sell goods outside of their home market within five years.

A number of the key challenges respondents from over 2800 businesses in 50 countries identified related to their strategic planning:

- **Succession**: Only 16% of family firms have a plan for their succession process for all senior executives: 43% have none at all.
- **Innovation**: 64% identify innovation as a key challenge to keep ahead in the next five years
- **Digital:** 47% say keeping pace with digital and new technologies is one of their key challenges, yet only a quarter think their business is vulnerable to digital disruption
- **Professionalization**: three out of five respondents say they will bring in non-family professionals to help run the business.
- **Skills**: 58% say their ability to attract and retain the right talent is a key challenge over the next five years. Almost half believe that they need to work harder than non-family businesses to recruit/retain top talent (48%)
- **Finance**: A third say that they find it harder to access capital (32%) than their non – family business counterparts. Three quarters (76%) say they will use on their own capital to fund growth
- **Cyber security**: Less than half (45%) believe their business is prepared for dealing with a data breach or cyber-attack
- **Geopolitical concerns:** The majority of family businesses identify political and economic stability as more important than growth potential when considering new export markets.
- **Working life**: Next generation family members are more certain they have to work harder to prove themselves than current generation believe they do (88% vs 66%). Nearly two thirds say they are properly appraised (65% vs 59% in current generations)

Peter Bartels, Global Family Business Leader, PwC, comments:

> "This year's results on succession show a recurring theme too. It's the fault-line in the family business model. There's no point having detailed plans for business continuity, if the single most significant risk to this is not addressed. A managed succession process can be a rallying point for the family, allowing it to reinvent itself in response to changing circumstances, but without a plan it is the most obvious 'failure factor' for the family business."
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> "The next generation play an important role in creating the family business' future. The great majority of family businesses around the world don't believe they are vulnerable to digital disruption and many state they have a strategy fit for a digital world. In our experience they underestimate the impact of digitisation. It shows that it is very fruitful to listen to the next generation and have them be the change agents for digital transformation."

The report finds that a more uncertain economic environment means that for many family businesses, ensuring the company stays in the family is possibly not as important as it once was. Fewer than half of family businesses plan to pass both ownership and management of business fully to the next generation (39% will pass on management; 34% will pass on ownership). First generation business owners are now almost twice as likely to be planning to sell or float their business (29% vs 17% average across all businesses).

Notes

For a full report, go to www.pwc.com/fambizsurvey2016 or contact Sarah Wall at sarah.l.wall@uk.pwc.com

1. PwC interviewed over 2800 family businesses in 50 countries between May and August 2016, with turnovers ranging from US$5 mil to over US$1billion. The total turnover of all those companies interviewed was more than $500bn. A third of interviewees came from 3rd/4th+ generation businesses.
2. Family businesses' differentiating factors remain strong with many respondents believing it to be a significant advantage over other business types because of their stronger culture and values (74%); different ways of measuring success beyond profit and growth (72%); faster decision making (71%); more entrepreneurial approach (61%), longer term approach to decision making (55%). Their wider role in society is also recognized: 77% believe they add stability to a balanced economy, 74% believe they support employment even in difficult times.
3. According to the survey respondents, businesses from the Middle East and Western Europe are the most diversified.
4. Following the 23 June referendum in the UK on leaving the European Union, questions about the potential impact of Brexit on their businesses were added to the questionnaire; 1,145 respondents answered these questions.

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