Family Business Services

Making a difference*

The PricewaterhouseCoopers Family Business Survey 2007/08

*connectedthinking

PricewaterhouseCoopers

Acknowledgements

We would like to thank the family business owners who participated in our survey.

We would also like to thank Caitriona Allis, Rémy Barbeault, Lucille Chartier, Axel Dorenkamp, Colette Duff, Karen Glass, Paul Hennessy, Helen Kay, Jan-Olof Lindberg, Jacques Lesieur, Bob McCullagh, Roderick Reid and Véronique Rode-Coupeau for their active participation in this survey.

About PricewaterhouseCoopers

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

Table of contents

Foreword

Philippe Bailly
PricewaterhouseCoopers
Family Business Survey Leader
French Middle Market Services Leader

Allan Watson
PricewaterhouseCoopers
Global Middle Market Services Leader

Norbert Winkeljohann
PricewaterhouseCoopers Continental
European Middle Market Services Leader

Family firms are the most common form of business structure; they employ many millions of people; and they generate a considerable amount of the world's wealth. Indeed, they often deliver better returns than companies with a wider shareholder base[1]. Yet, until now, very few attempts have been made to gauge the opinions of the leaders of family businesses worldwide.

Our first global Family Business Survey aims to redress this omission. PricewaterhouseCoopers advises numerous family firms, many of which are expanding beyond their national roots. Recognising this, we decided that we needed to learn more about your opinions, intentions and expectations. We also thought that you would be interested in finding out how your views compare with those of your peers around the globe.

The story of every successful family business starts with someone who has the passion, confidence and courage to put his money where his mouth is. Entrepreneurs are typically creative over-achievers; they can see opportunities where others might not, and are utterly single-minded about pursuing them. They work incredibly hard, make things happen, are positive without being unrealistic and possess the resourcefulness to overcome all sorts of hurdles. They are also socially adept, capable of communicating effectively and good at inspiring others. Many of you will probably recognise these traits in yourselves.

Yet an entrepreneur's life is often a lonely one – and this is true of entrepreneurs everywhere, regardless of where they live or what kinds of companies they run. In the early years, they have to turn their hands to anything and everything, because they cannot call on the support staff or systems that executives in big corporations can summon to their aid.

In later years, some of the decisions they must make – such as whether certain family members should be allowed to work in the business and which roles different relatives should play – may be personally as well as commercially difficult.

Moreover, most entrepreneurs do not have time to look at the big picture; they are too busy grappling with the day-to-day demands of their own businesses. And most economic commentaries are directed at large quoted companies anyway, so getting the right information can be hard.

Our survey aims to identify the issues that most concern you and your family firm. We plan to produce regular follow-up surveys as part of our continuing efforts to listen to you and understand your needs. We hope that you will find the results revealing – and that they will help you in running your business.

Introduction

Family firms play a crucial role in the global economy. One measure of their importance is the proportion of registered companies that are family-controlled – a figure which ranges from more than 50% in the European Union (EU) to between 65% and 90% in Latin America and over 95% in the US. A second is their economic power. Family businesses generate between 35% and 65% of the gross national product (GNP) of the EU member states, about 40-45% of the GNP of North America, between 50% and 70% of the GNP of Latin America, and between 65% and 82% of the GNP of Asia[2].

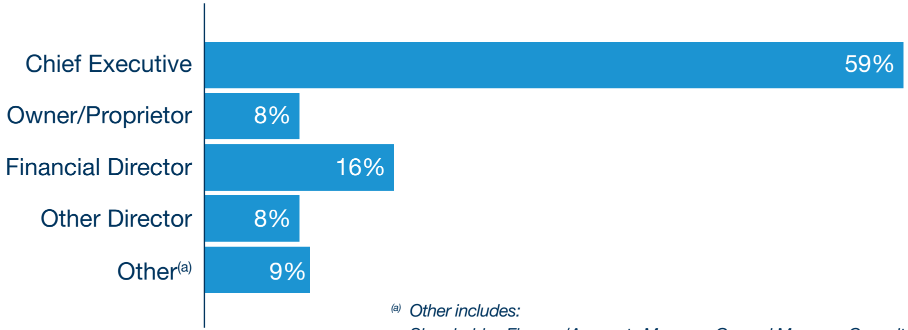
In short, the family firm is the dominant form of business structure worldwide.
It has produced corporate giants like Wal-Mart and Samsung, as well as many millions of more modest operations. Yet this structure presents some unique problems. Running a family business is arguably more difficult than running any other kind of business, precisely because it involves family ties as well as commercial relationships. We hope that our latest family business survey – the fourth conducted since 2002 and the first to cover the global scene – will help to shed light on these issues[3].

Our survey explores the key areas of interest to family firms, including the main corporate challenges they face; ownership, succession planning and the remuneration of management; conflict resolution; and the economic and regulatory changes that are highest on their list of priorities. (For details of our methodology, please see the Appendix). It draws on the views of top management in 1,454 small and mid-sized family businesses operating in a wide range of sectors in 28 countries (see Figures 1 and 2).

What is a family business?

We have defined family businesses as those companies in which at least 51% of the shares are held by a family or related families, the family members comprise the majority of the senior management team and the owners have day-to-day responsibility for the management of the business.

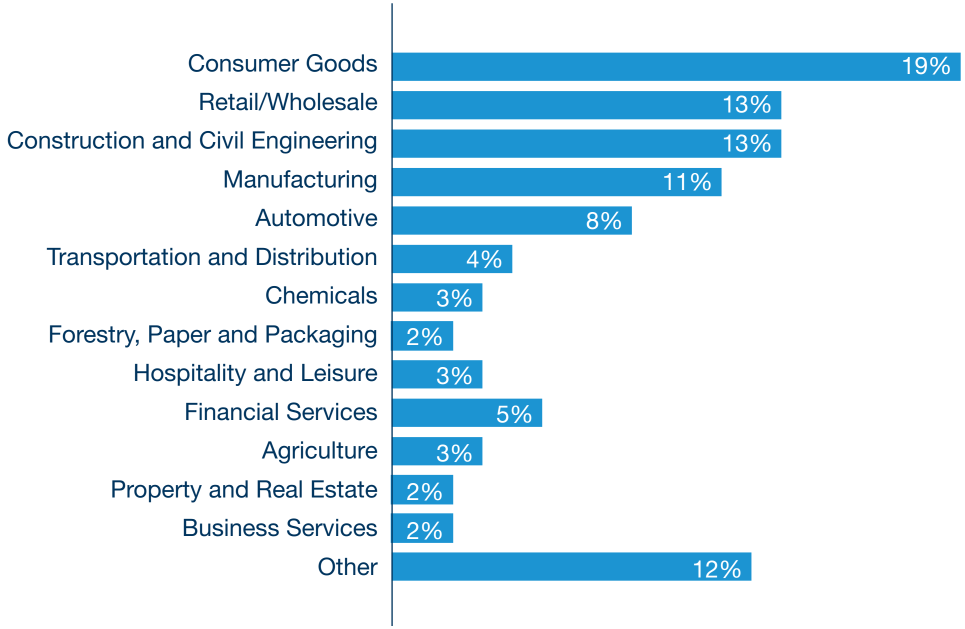
Figure 1: Survey participants by position in company



[a] *Other includes:*
Shareholder, Finance/Accounts Manager, General Manager, Consultant, Partner, Company Secretary

Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Figure 2: Survey participants by industry sector



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

More than 90% of the companies in our sample have been trading for longer than a decade. Indeed, 38% have been trading for at least 50 years, so they have already passed from one generation to the next. Seventy-two percent have fewer than 250 people on the payroll – and, predictably perhaps, the majority of the companies that employ larger numbers are those that have been in business longest. But half the firms we surveyed generate revenues of over €51m a year, so they are clearly thriving in the hands of the families who manage them.

Corporate challenges and priorities

Three-quarters of the family firms in our survey have expanded in the past 12 months

Many respondents are wary of growing too rapidly, but 70% are optimistic about the immediate future and anticipate that demand for their products or services will increase during the next 12 months

Most respondents also think that their companies are well placed to capitalise on any new opportunities, and almost all believe that their companies are somewhat or very competitive

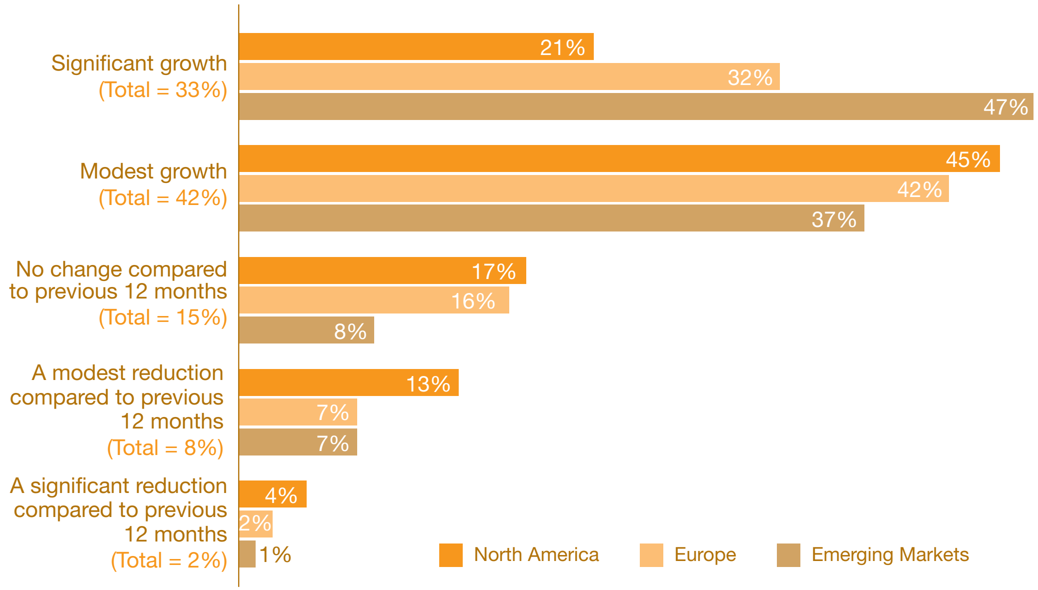
However, more than two-fifths of respondents – especially those based in North America and Europe – are keeping a close eye on market conditions

Difficulties in recruiting skilled staff are also a major source of concern. Respondents everywhere agree that labour shortages represent the single most important internal challenge on the horizon

The global economy has been firing on all cylinders, with gross domestic product increasing by 5.4% worldwide in 2006, the highest rate of growth for 30 years[4]. Most family businesses have prospered on the back of this strong performance. Three-quarters of the firms in our survey report that demand for their products or services has risen during the past 12 months (see Figure 3).

Companies trading in the manufacturing and construction sectors have fared especially well; 41% and 44%, respectively, have enjoyed significant growth. Those based in the emerging markets are also flourishing; 47% of the companies operating in developing economies have seen demand for their products and services soar, compared with just 32% of those operating in Europe and 21% of those operating in North America.

Figure 3:
Three-quarters of respondents report that demand for their products or services has grown in the past 12 months

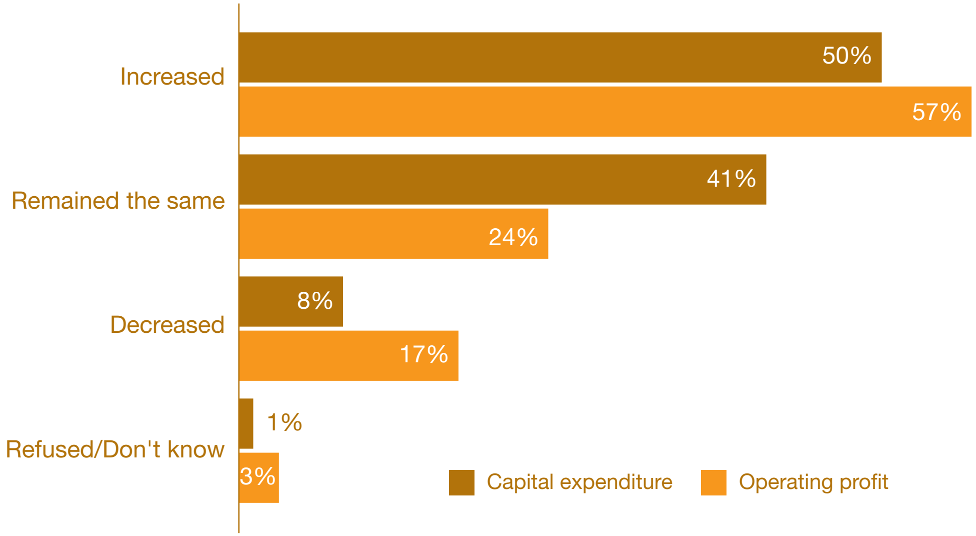


Source: PricewaterhouseCoopers Family Business Survey, 2007/08

A substantial number of the companies in our sample are cautious about over-stretching themselves. Only half the executives we surveyed stated that they had increased their capital expenditure within the last 12 months, while 41% have maintained the same level of investment (see Figure 4). Executives in North America and Europe are particularly wary of growing too fast. Only 43% and 47%, respectively, have boosted their capital expenditure, whereas 66% of executives trading in emerging countries have lifted capital spending – a difference that reflects the pace at which their economies are expanding.

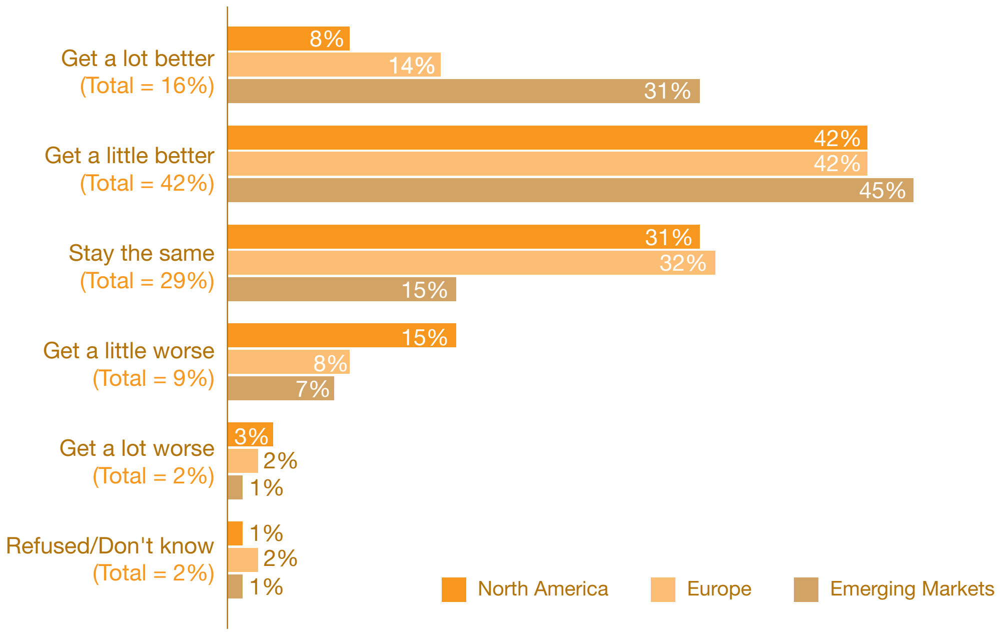
Nevertheless, the majority of respondents are optimistic about the immediate future. Fifty-eight percent believe that the markets in which they operate will get better over the coming year, and 70% expect to see an increase in the value of the orders their companies secure (see Figures 5 and 6). Executives in the emerging economies are especially positive; 31% anticipate that their main markets will grow significantly, and 84% that the value of the orders they win will rise, during the next 12 months. North American and European respondents are rather less upbeat, with the exception of those trading in the consumer goods sector; even so, 63% and 68%, respectively, think that their order books will grow.

Figure 4:
Only 50% of responding companies have increased their capital expenditure and operating profits in the past 12 months



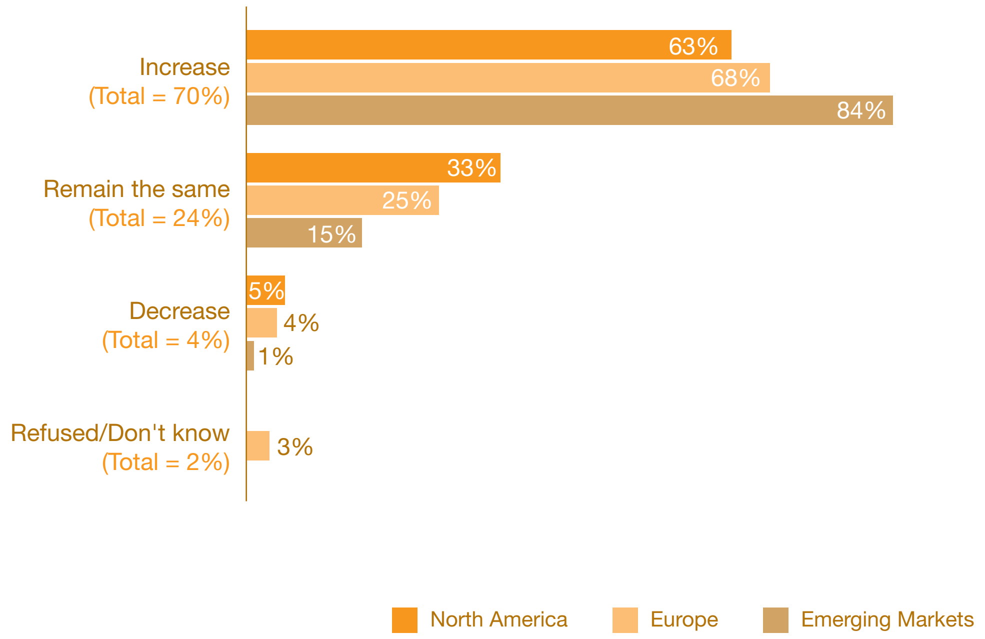
Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Figure 5:
Nearly 60% of responding companies believe that the markets in which they do business will get better over the next 12 months



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Figure 6:
Seventy percent of responding companies expect the value of the orders or contracts they secure to increase over the next 12 months

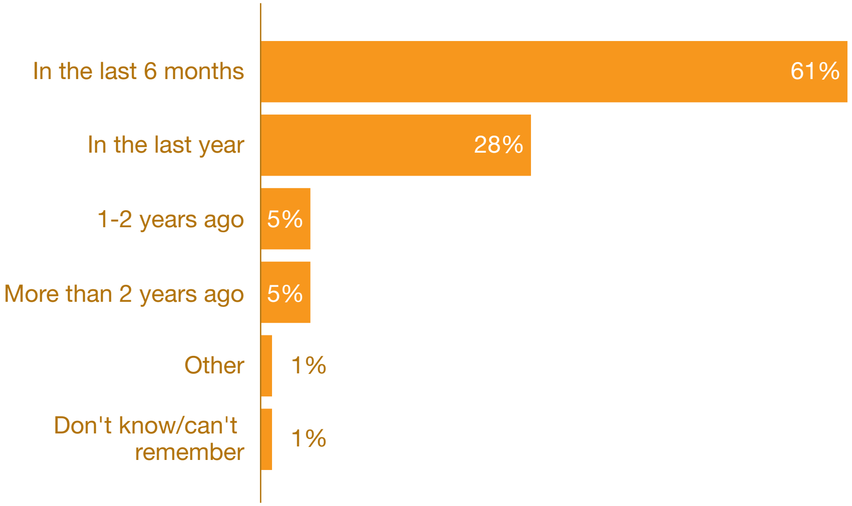


Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Moreover, most of the executives we surveyed believe that their companies are in a strong position to capitalise on any new opportunities. Seventy-five percent of them have business plans – although the percentage varies from 72% in small companies (those with 250 or fewer employees) to 85% in large ones, and from 70% in North American companies to 81% in those based in the emerging economies.

Nearly 90% of the firms that have business plans have also updated them within the past 12 months (see Figure 7). However, a full 25% of the companies in our sample have no business plan – a weakness that could ultimately constrain their ambitions, since a robust commercial strategy is essential for any organisation that wants to secure additional funding (through venture capital or debt financing), key personnel or new partners.

Figure 7:
Nearly 90% of those companies that have a business plan have reviewed them within the last 12 months

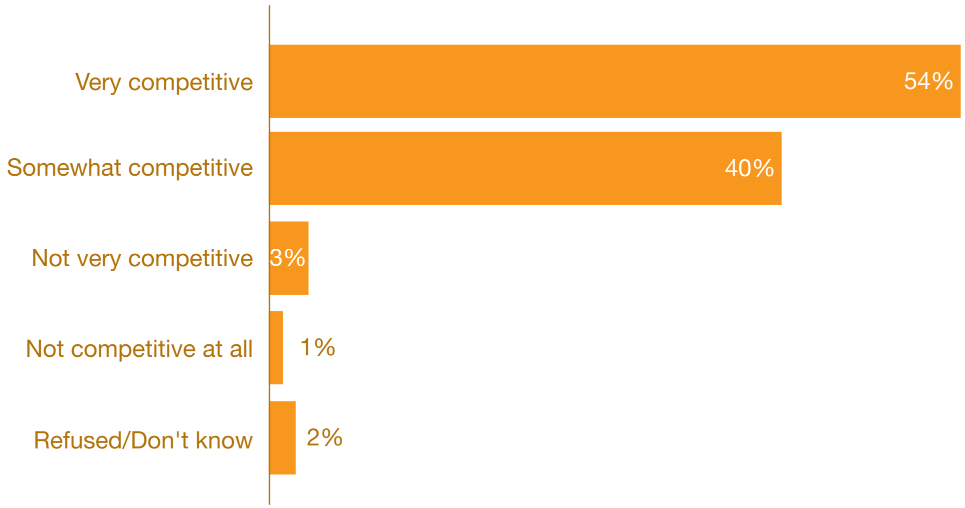


Source: PricewaterhouseCoopers Family Business Survey, 2007/08

"I would like to leave behind a firm that is in good health"
French respondent

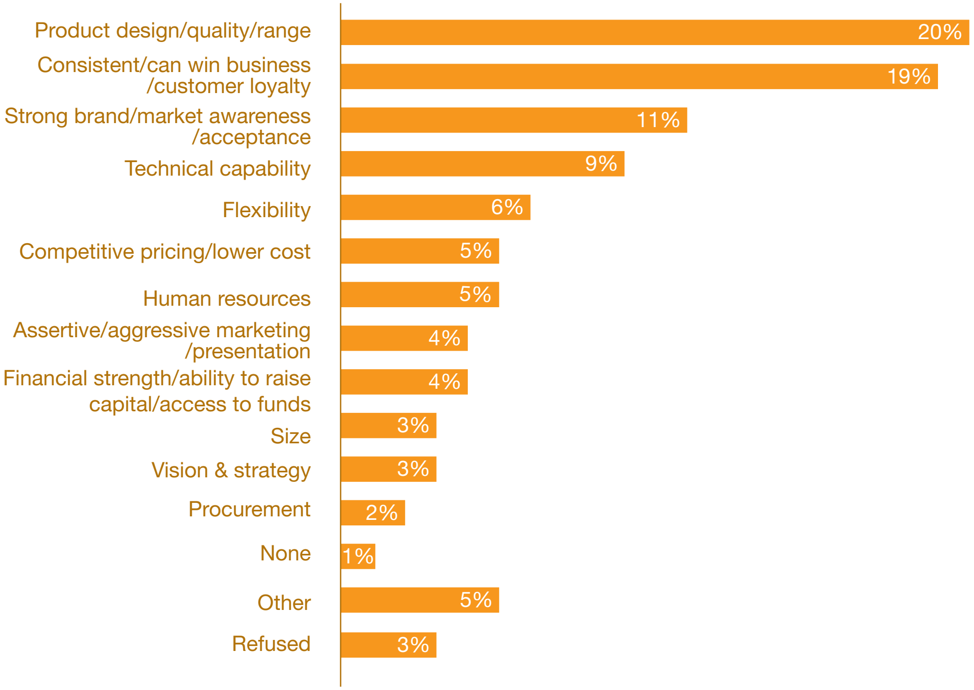
The overwhelming majority of executives are likewise convinced that their companies can compete effectively with the market leaders in their sector (see Figure 8). They are particularly confident about the design and quality of their products and their ability to retain customers – attributes in which one-fifth of respondents believe they lead the field (see Figure 9). And though some respondents admire some of these same features in their main rivals, 16% think that their competitors have no distinguishing qualities at all (see Figure 10).

Figure 8:
The vast majority of responding companies are confident that they can compete effectively with the market leaders in their sector



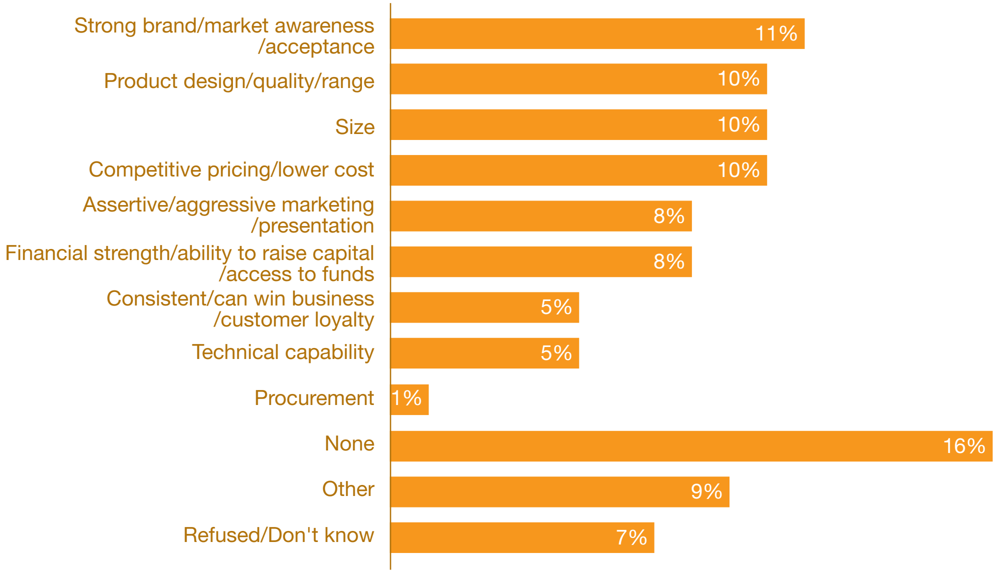
Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Figure 9:
The key strengths in which responding companies believe they surpass their competitors are product design and customer loyalty



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Figure 10:
The key strengths responding companies most admire in their competitors are a strong brand, product quality, size and competitive pricing



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

That said, there are some notable regional differences in perspective. Seventy-one percent of respondents in North America and 64% of those in the emerging markets believe that their companies are "very competitive", for example, compared with just 48% of those in Europe. North American executives also think that they are better at winning business and keeping their customers than their peers in other parts of the world do. Conversely, executives in Europe and the emerging markets are more confident of their ability to design and manufacture good products (see Table 1).

Table 1:
There are significant regional differences in the key strengths responding companies believe they possess

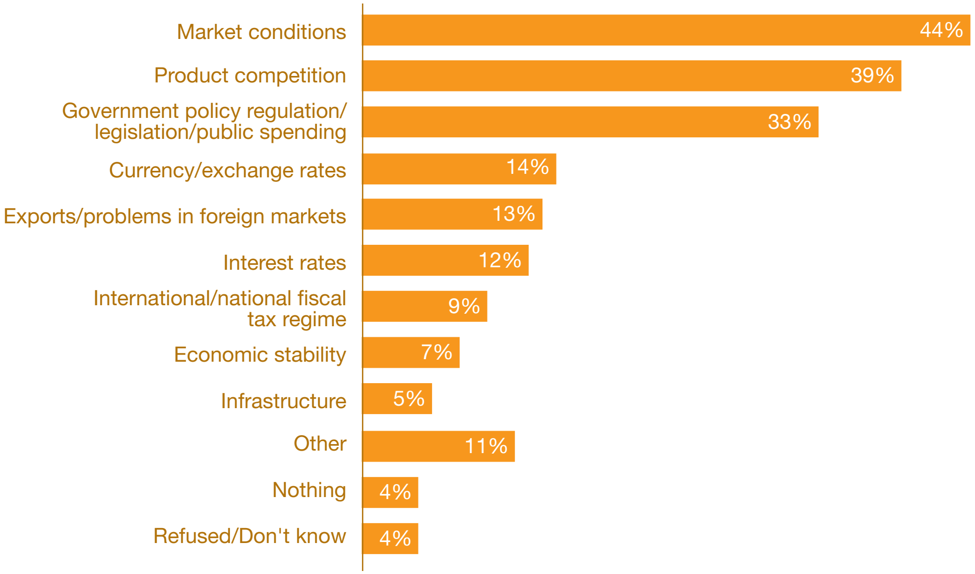
North America	Europe	Emerging Markets
Customer relations (19%)	Product design (22%)	Product design (20%)
Product design (14%)	Customer loyalty (13%)	Strong brand (15%)
Flexibility (12%)	Technical capability (11%)	Customer loyalty (10%)

Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Despite this mood of optimism, there are few signs of complacency. Asked what external challenges they thought would most affect their companies over the coming year, 44% of respondents cited market conditions – evidence, perhaps, that they fear an economic slowdown, as interest rates in a number of developed economies continue to climb, leaving consumers with less disposable income.

Thirty-nine percent of respondents also pointed to competitive pressures and 33% to government policy, including regulation, legislation and public spending (see Figure 11). Of course, government policy has a huge bearing on the commercial climate in which companies operate, but such caution is especially understandable at a time when the political leadership of a number of countries, including France, Turkey, Ukraine, the UK and US, is changing or due to change quite shortly.

Figure 11:
Responding companies believe the main external challenges they will face in the next 12 months are market conditions, competition and changes in government policy

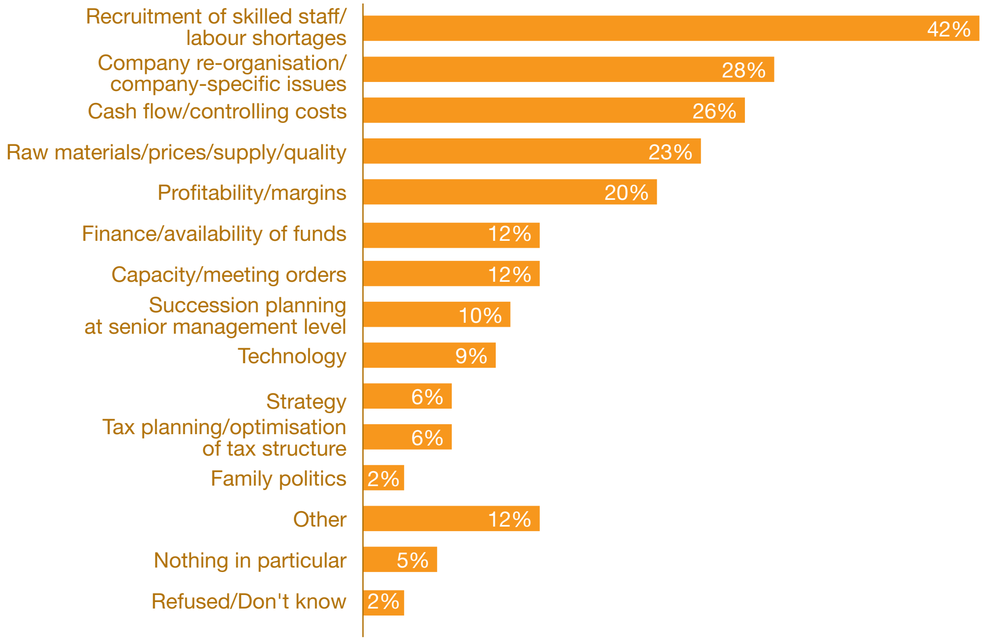


Source: PricewaterhouseCoopers Family Business Survey, 2007/08

"I want to be known as the person who turned a small family business into a big institutional company"
Mexican respondent

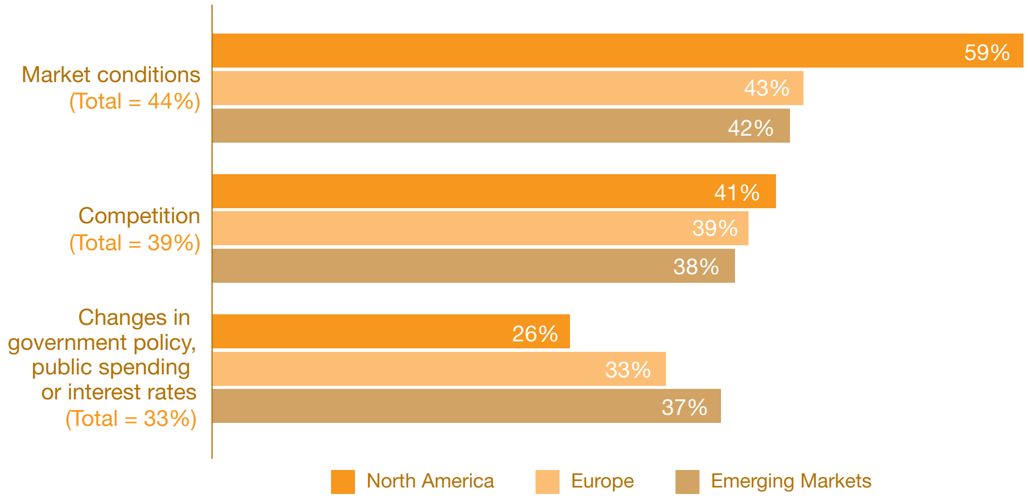
Many of the family businesses in our sample are equally concerned by several internal challenges, by far the most important being labour shortages. Forty-two percent of respondents believe that difficulties recruiting skilled staff will be one of the biggest obstacles they face over the next 12 months (see Figure 12). Executives in the consumer goods, retail, wholesale, civil engineering and automotive sectors are particularly anxious about being able to hire the people they need, whereas those in the manufacturing sector are more concerned about raw materials, production costs and supply chain issues.

Figure 12:
Responding companies believe the main internal challenges they will face in the next 12 months are labour shortages, corporate restructuring and cash flow management



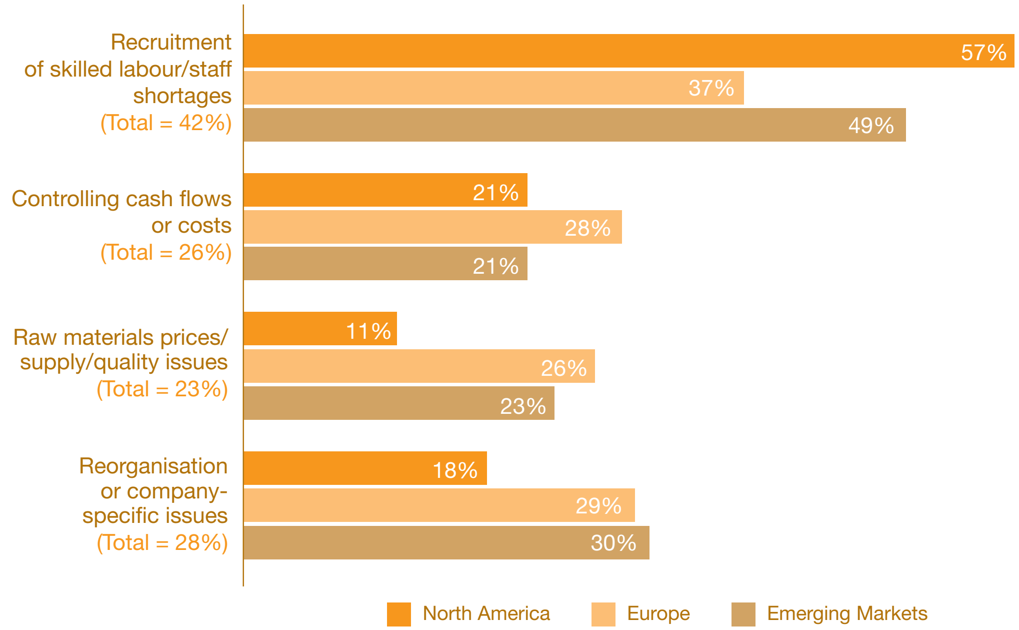
Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Figure 13:
The top external challenges companies identified, by region



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Figure 14:
The top internal challenges companies identified, by region

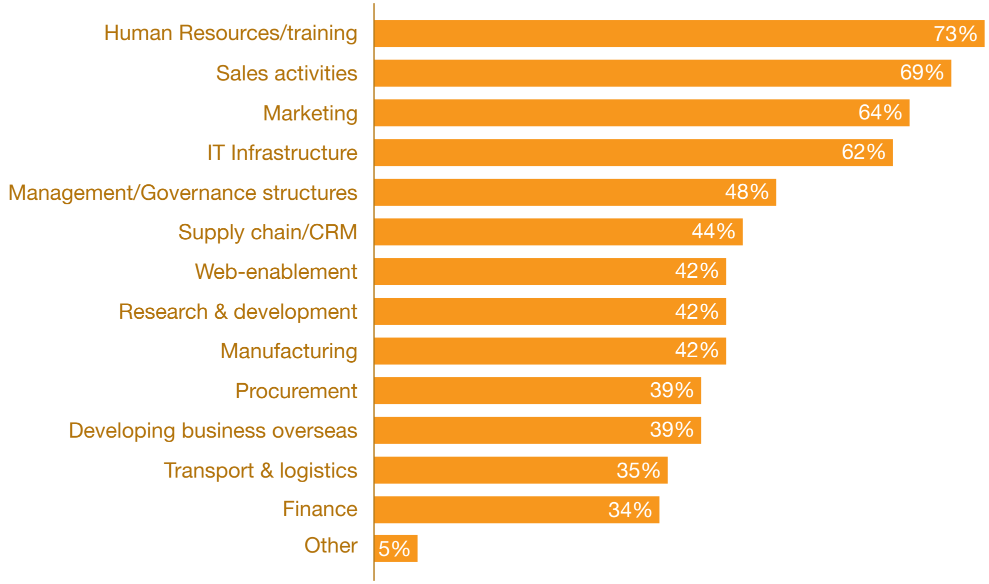


Source: PricewaterhouseCoopers Family Business Survey, 2007/08

However, the weight respondents place on some of these problems also varies from one region to another. North American and European executives are more concerned about market conditions than any other external risk, for example, while those running companies in the emerging economies see the prospect of changes in government policy as a bigger threat. Similarly, executives based in North America and the emerging economies are more worried about the shortage of labour than their European peers, although all agree that it is the single most important internal challenge on the immediate horizon (see Figures 13 and 14).

This almost certainly explains why human resources heads the list of areas in which family companies plan to invest over the coming year. Although respondents intend to invest in a wide range of activities, including sales, marketing and the development of their electronic infrastructure, a hefty 73% say that their first priority is to hire and train good new employees – and the percentage is even higher, at 78%, in companies with an annual turnover of more than €50m (see Figure 15).

Figure 15:
The top investment priorities of responding companies over the next 12 months are human resources, sales, marketing and IT



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

More than 70% of respondents say that their top investment priority is human resources

Ownership, succession planning and the remuneration of senior management

One-quarter of the family firms in our sample are due to change hands within the next five years

Half of these companies are expected to remain in the family

Yet almost half of all responding companies have no succession plan, and the percentage is even higher in small firms or those that have been in business for fewer than 20 years

Conversely, more than two-thirds of companies have plans for dealing with both business and family issues, should a key manager or shareholder fall sick or die

A surprisingly high percentage of family business owners have also failed to gauge their potential tax exposure, and are unaware of the domestic capital gains tax or inheritance tax liabilities they may have accrued

However, more than four-fifths use some sort of incentive scheme to remunerate senior management, the most popular option being the annual bonus

While many entrepreneurs happily devote their time and energies to building a business, they pay less attention to what will happen when they are no longer running the show. They find it difficult to address issues like illness, incapacity, retirement and death, and therefore postpone dealing with such problems.

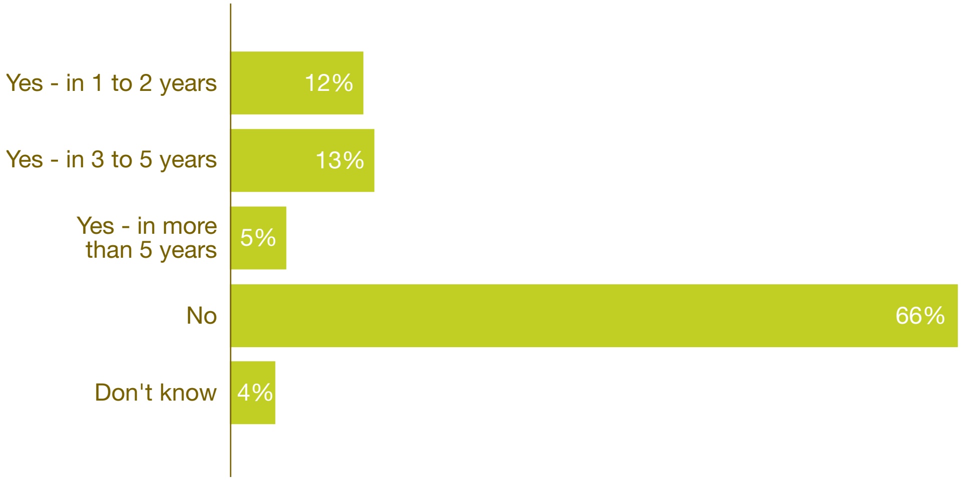
Passing the family business on to the next generation is difficult. Indeed, most family firms fail to make the leap. According to the Cox Family Enterprise Center at Kennesaw State University, Georgia, only one-third of family businesses, worldwide, manage the transition from one generation to the next[5]. The majority of family firms are either sold or wound up after the founder's death. This is sometimes because the business itself is not viable, the founder does not want to let go of the reins or the offspring are reluctant to join the firm. But the main reason why so many family businesses expire after just one generation is lack of planning.

A good succession plan outlines how the succession will occur and what criteria will be used to judge when the successor is ready to take on the task. It eases the founder's concerns about transferring the firm to someone else and provides time in which to prepare for a major change in lifestyle. It encourages the heirs to work in the business, rather than embarking on alternative careers, because they can see what roles they will be able to play. And it endeavours to provide what is best for the business; in other words, it recognises that managerial ability is more important than birthright, and that appointing an outside candidate may be wiser than entrusting the company to a relative who has no aptitude for the work.

"I would like to hand over the company to the next generation in better shape than I got it"
Finnish respondent

Twenty-five percent of the companies in our sample are expected to change hands within the next five years (see Figure 16). This is probably a reflection of the fact that many family firms were created in the two decades following the Second World War. In a recent analysis of more than 20m business owners trading in the US in 2002, for example, 31% were 55 or older, and 11% were at least 65 years of age[6]. So the shift to second-generation ownership is growing steadily.

Figure 16:
Twenty-five percent of the companies in our sample are expected to change hands within the next five years



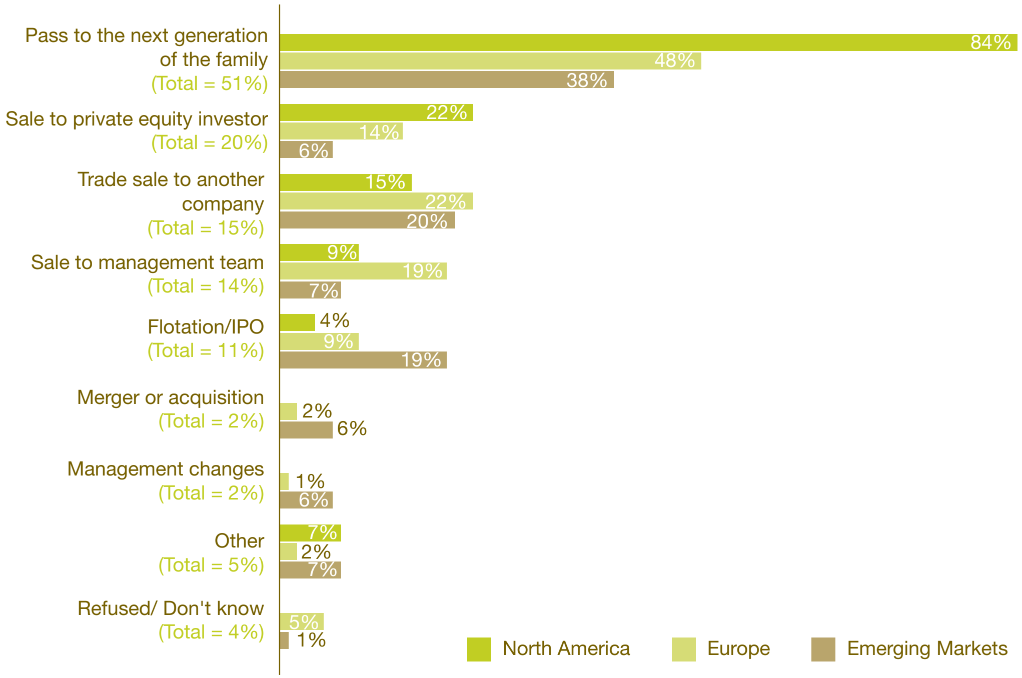
Source: PricewaterhouseCoopers Family Business Survey, 2007/08

"We are the third generation, so we want to be as good as the first and second"
Swiss respondent

Fifty-one percent of those respondents who foresee changes in the ownership of their business anticipate that the business will remain in the family (see Figure 17). And the older the company, the more likely this is. Sixty-two percent of proprietors running firms that have been trading for more than 50 years plan to hand the reins to their offspring, compared with just 35% of those running firms that have been trading for less than 20 years.

North American respondents are particularly keen to keep their families in the picture. Eighty-four percent aim to pass their companies on to their descendants, whereas only 48% of those based in Europe and 38% of those based in the emerging economies intend to do so.

Figure 17:
Half the respondents who anticipate that their companies will change hands over the next five years expect the business to remain in the family



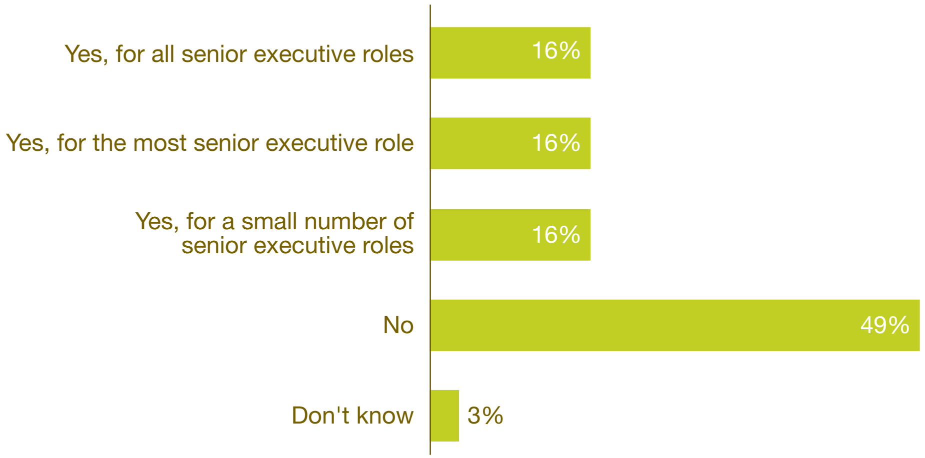
Source: PricewaterhouseCoopers Family Business Survey, 2007/08

“It’s very important to leave an organisation with the right management and structures in place”

Canadian respondent

Yet nearly half the companies we surveyed have no succession plan in place, and the percentage is even higher in small firms or those that are relatively young (see Figure 18). Fifty-six percent of all companies with a turnover of less than €50m a year and 60% of those that were founded within the last 20 years have not made any preparations for transferring key management positions to another generation. This is a grave oversight, given that creating a suitable new holding structure typically takes between three and five years and that uncertainty about the future can seriously impair a company's earnings or, worse still, jeopardise its entire existence.

Figure 18:
Nearly half of all responding companies do not have a succession plan

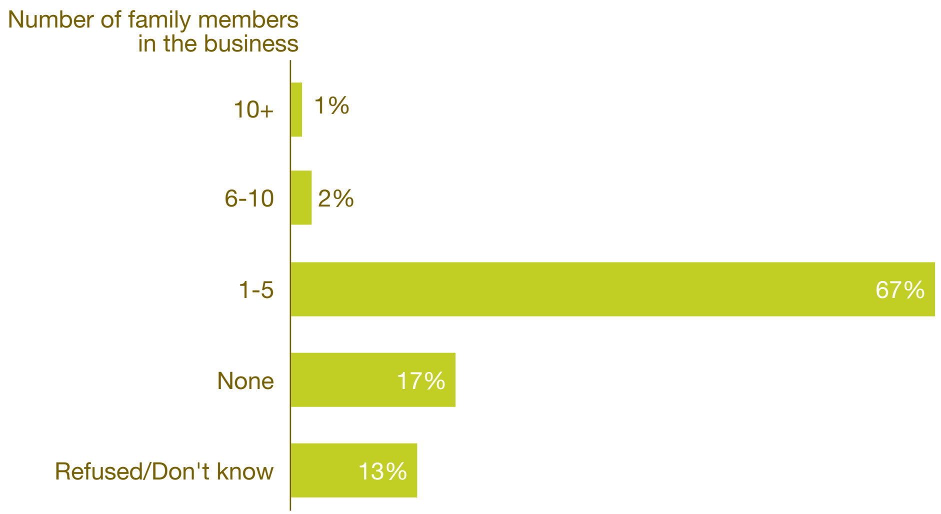


Source: PricewaterhouseCoopers Family Business Survey, 2007/08

"My aim is to establish a proper succession for this business.
That does not mean family-owned"
Swiss respondent

Moreover, even in many of those companies that have drawn up a succession plan, some of the most important details have not been worked out. Seventy percent of respondents expect that family members will assume one or more of the most senior management positions in the business, although 17% – predominantly those running large companies – intend to bypass their families altogether (see Figure 19). But only 48% have actually chosen a successor.

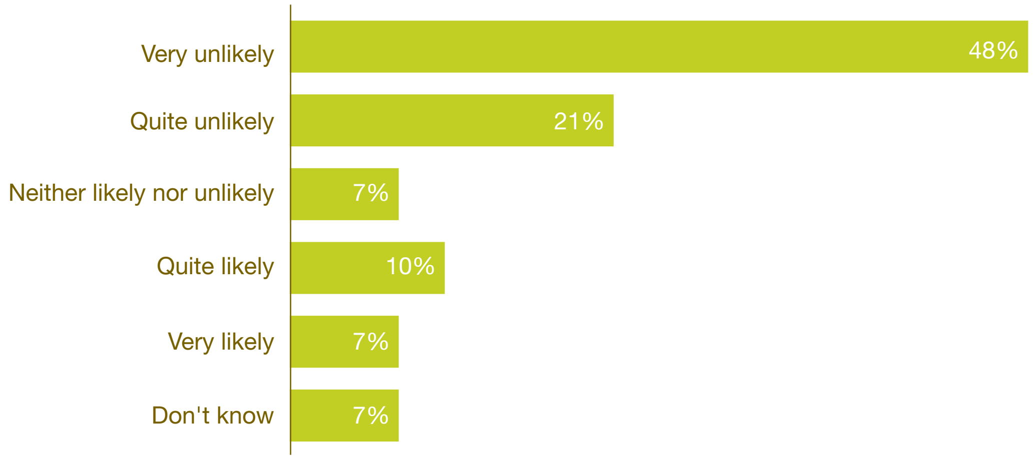
Figure 19:
Seventy percent of respondents expect that family members will assume at least one of the key senior roles within the business



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Nevertheless, the majority of respondents with succession plans in place are confident that their families will welcome the arrangements they have made. Only 17% think it is quite, or very, likely that the plans they have made may create dissent within the family, although another 7% say that they do not know what will transpire (see Figure 20).

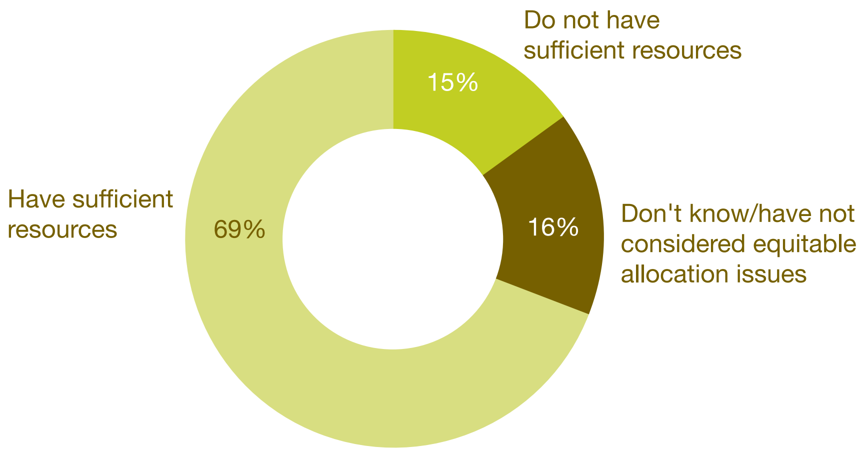
Figure 20:
More than two-thirds of respondents with succession plans in place think it is unlikely that these will create minorities or disenfranchised factions within the family in the future



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

This is possibly because more than two-thirds of all respondents have sufficient resources to treat their heirs fairly, whether or not they are involved in the business (see Figure 21). North American entrepreneurs are particularly well placed; more than four-fifths of those surveyed claim that they are wealthy enough to redress any inequalities in the division of the shares by giving the remaining members of their families other assets.

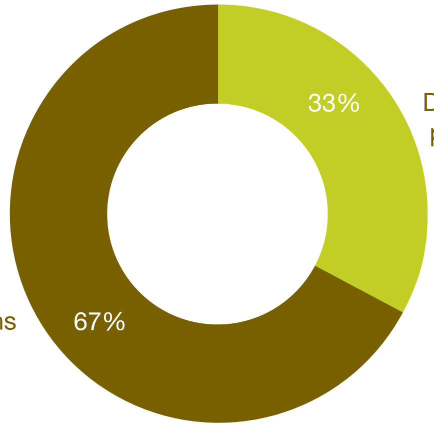
Figure 21:
Most proprietors have sufficient resources to divide their assets fairly between family members who are involved in the business and those who are not



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

"I want to ensure that the family business is divided fairly between the family members and that everyone is content… before I retire"
South African respondent

Figure 22:
Most responding companies have plans for dealing with business and family issues, should a key manager or shareholder become incapacitated or die



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

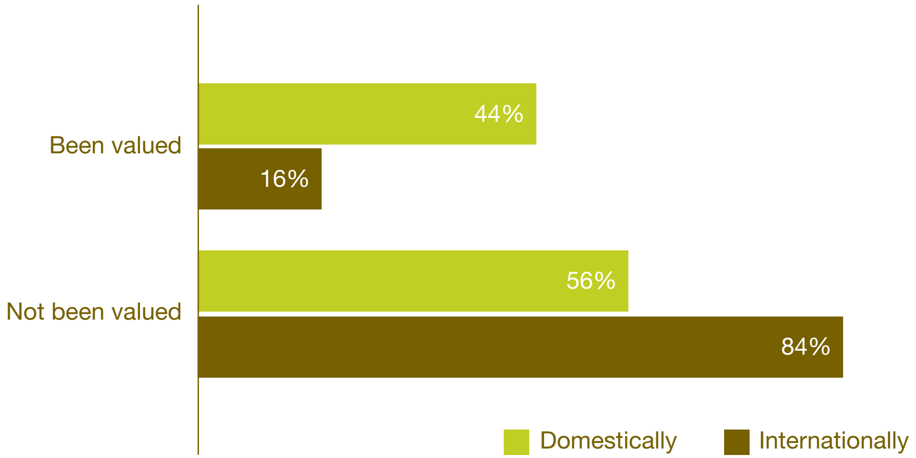
Ironically, while many of the family businesses in our survey have not developed a succession plan or appointed someone to take over the reins when the current head of the company retires, they may be better prepared for other – less predictable – contingencies. More than two-thirds of all respondents say that they have made provision for dealing with both business and family issues, should a key manager or shareholder become incapacitated or die (see Figure 22).

However, the quality of some of these plans is open to question. Only 43% of the companies we surveyed have appointed a caretaker management team to run the business, should the incumbent chief executive die before any of his or her children are old enough to assume control. Only 48% have put procedures in place for purchasing the shares of incapacitated or deceased shareholders. And only 45% have agreed the basis on which the company should be valued, should something happen that requires the sale or transfer of any shares.

North American companies are more ready for the unexpected than their peers in the rest of the world. The vast majority have already put contingency measures in place. Three-quarters have likewise established procedures for purchasing the shares of any shareholders who fall sick or die, and nearly two-thirds have agreed the basis on which the shares should be valued, whereas fewer than half of those companies based in Europe or the emerging markets have taken similar precautions.

A surprisingly high percentage of family business owners (particularly those in the retail and automotive sectors) have also failed to gauge their potential tax exposure, even though tax 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 transferred to the next generation or sold to the management team or an external party. But more than half of all respondents have not had their companies valued domestically, and more than four-fifths of those with a cross-border presence have not had their companies valued internationally, within the last 12 months (see Figure 23).

Figure 23:
More than half of responding companies have not been valued domestically, and more than four-fifths have not been valued internationally, within the last 12 months



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

"I would like to give my children as good an opportunity as I inherited"
UK respondent

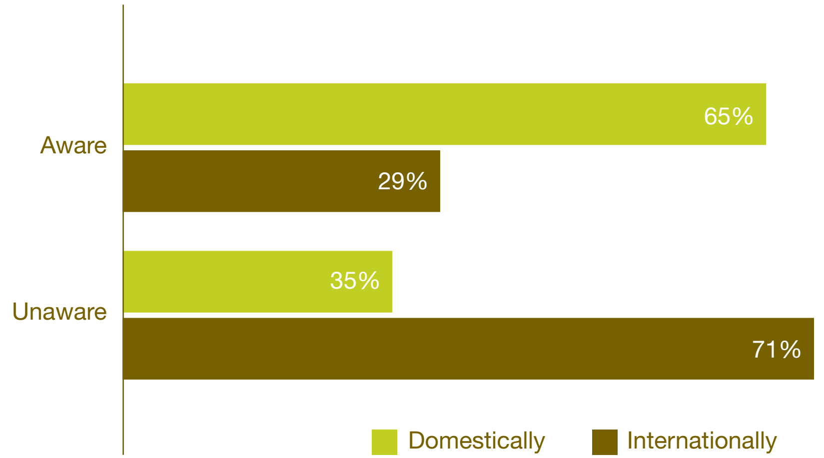
As a result, 35% of the family business owners in our survey have no idea of the domestic capital gains tax for which they or their companies might be liable, while 71% do not know about the international implications (see Figure 24). Similar numbers are unaware of the domestic and international inheritance taxes to which their heirs might be exposed (see Figures 25 and 26).

Lack of knowledge about the level of inheritance tax that could be levied on their personal estates is especially marked amongst those who have been in business for less than 20 years; 44% do not know the extent of their domestic liabilities, while 67% do not know the extent of their international liabilities. It is also more pronounced in emerging countries than it is in North America, where 66% of respondents claim that they are aware of the domestic inheritance tax they will have to pay, even though only 38% have arranged for their companies to be professionally valued within the past 12 months.

Conversely, the vast majority of proprietors are fully aware of the importance of remunerating senior management properly – further evidence, if any were needed, that they are generally better at focusing on the immediate demands of the business than preparing for a future in which they have no part. More than four-fifths of the companies in our sample employ between one and 10 people as senior executives, although large firms sometimes have bigger management teams. Seventeen percent of those with revenues of over €50m a year employ between 11 and 20 people in positions of senior management.

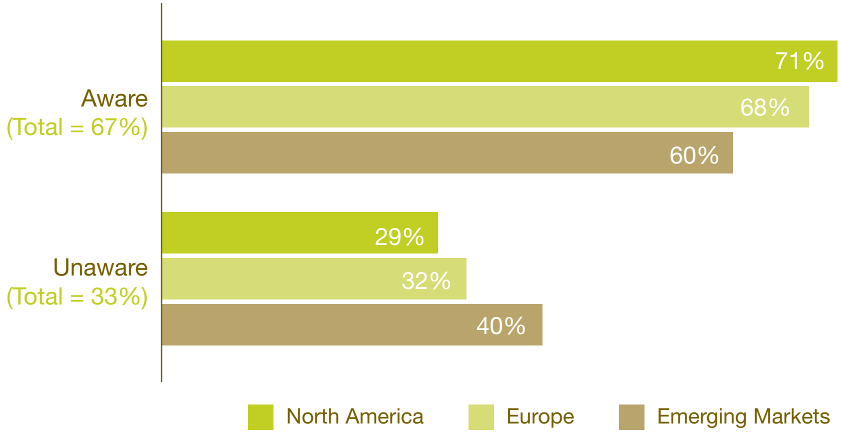
Expanding the management roster to include external directors often pays dividends. Numerous studies suggest that there is a positive correlation between good corporate governance and financial performance – and that the composition of the board is one of the most important factors in this equation[7].

Figure 24:
More than one-third of family business owners are unaware of their potential domestic exposure, and more than two-thirds are unaware of their potential international exposure, to capital gains tax



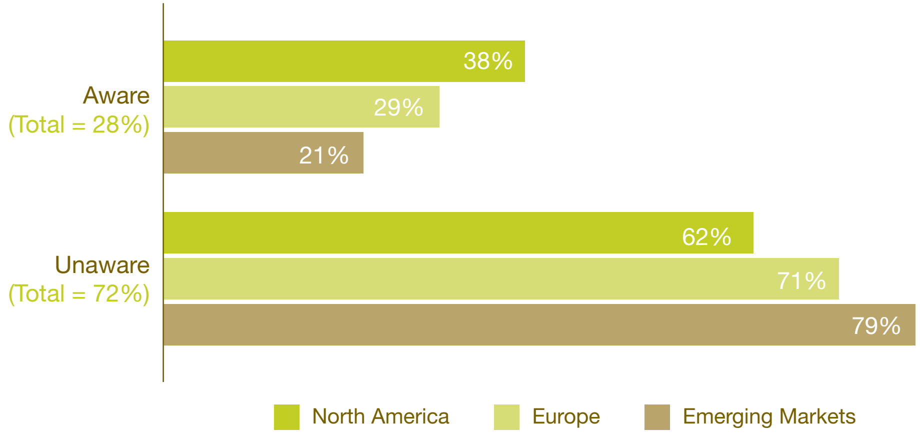
Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Figure 25:
One-third of family business owners are unaware of the domestic inheritance tax for which their heirs might be liable



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

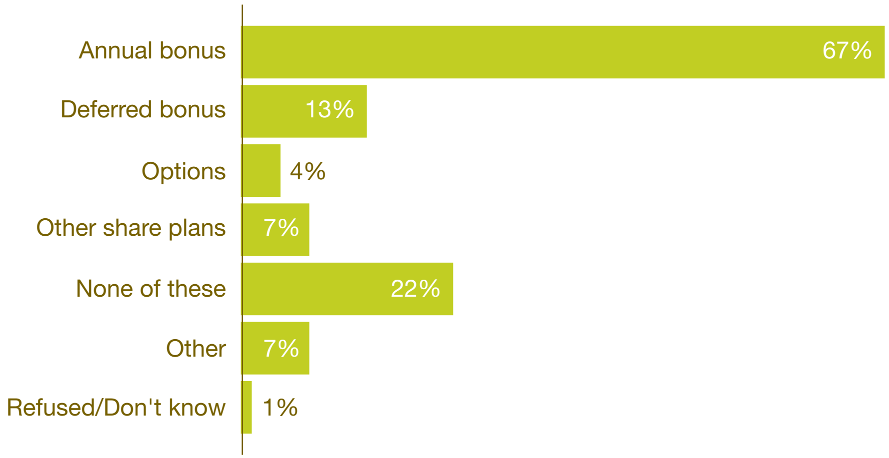
Figure 26:
More than two-thirds of family business owners are unaware of the international inheritance tax for which their heirs might be liable



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

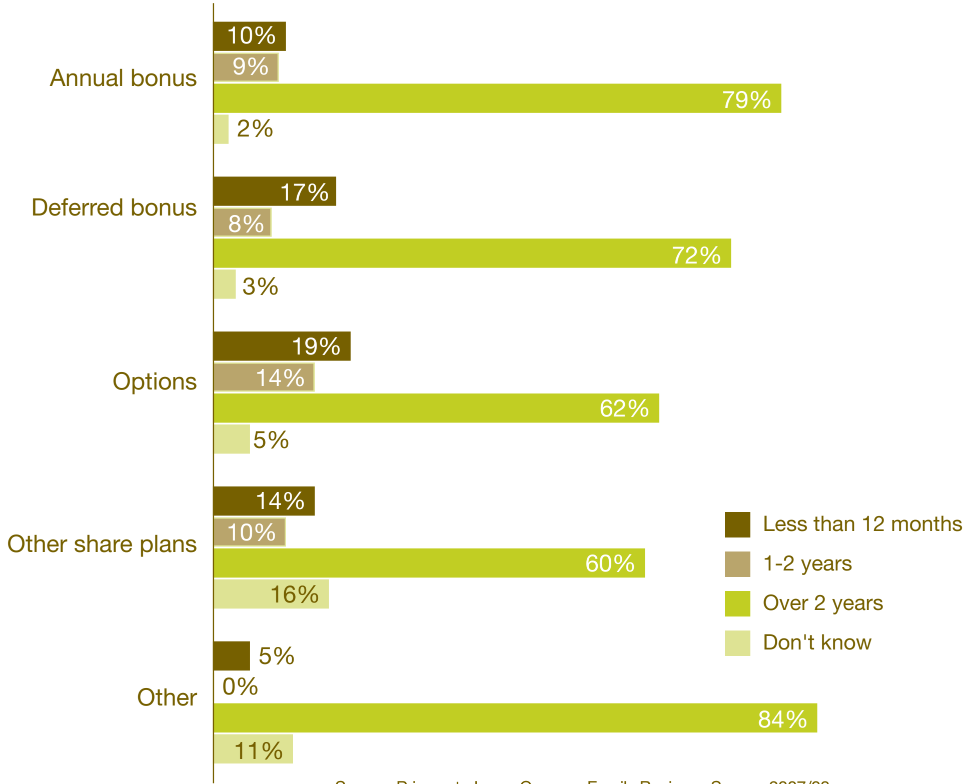
Almost four-fifths of all respondents also use some sort of incentive scheme to reward their most senior personnel, the most popular option being the annual bonus (see Figure 27). And most of these incentive schemes have been in place for longer than two years (see Figure 28). Again, large companies – and those based in North America – are more likely than smaller companies to have bonus schemes, and to have operated them for a longer period of time. However, respondents from companies of all sizes believe that they have a positive effect (see Figure 29).

Figure 27:
The most popular means of rewarding senior management is the annual bonus



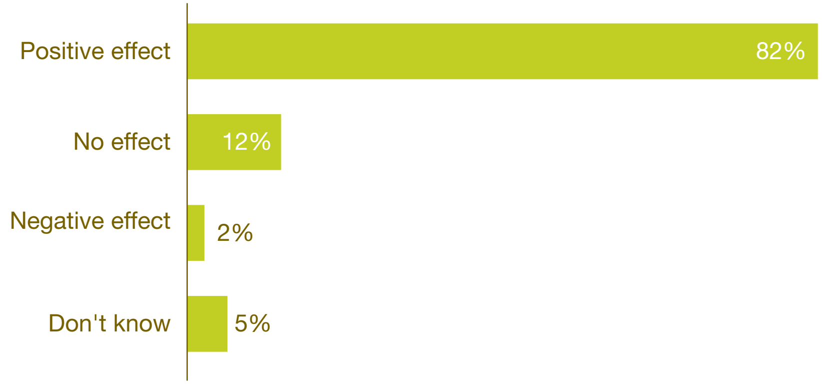
Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Figure 28:
Most of the incentive schemes responding companies use have been in place for more than two years



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Figure 29:
Most respondents believe that incentive plans have a positive effect on senior management



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Twenty-five percent of responding companies are expected to change hands within the next five years

Conflict resolution

More than one-third of the family firms in our survey have quarrelled about future strategy, while more than one-quarter have quarrelled about the competence of family members actively involved in the business or about who should be allowed to work for the company

Two-thirds of family businesses have no defined criteria for choosing which family members who want to take an active role in the organisation should be allowed to do so

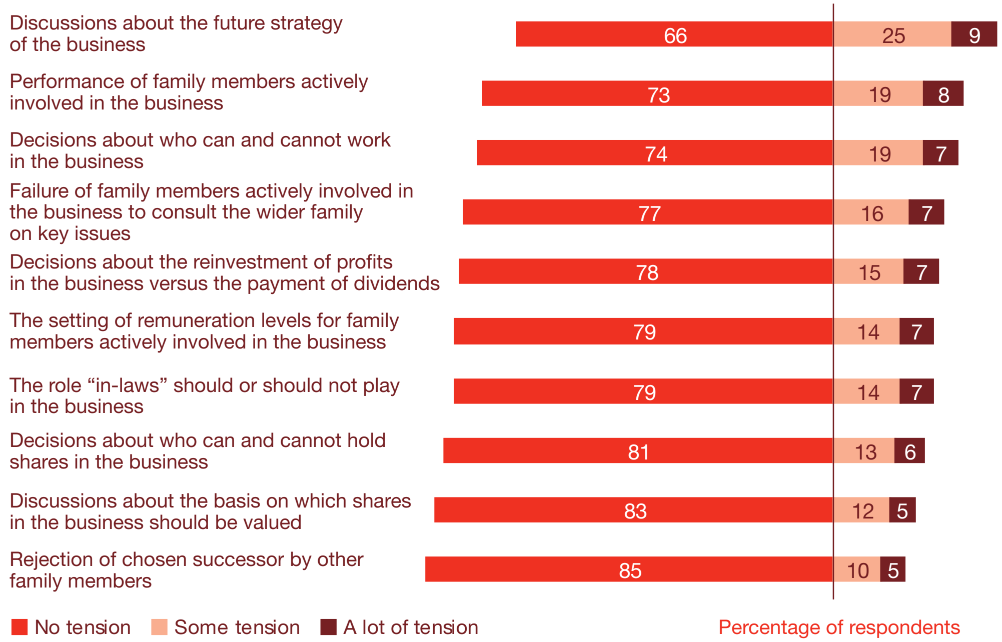
More than half also employ relatives without requiring them to compete for their jobs on the open market

More than two-thirds of the companies in our sample do not have any procedures for dealing with disputes between family members

Family firms combine all the tensions of family life with those of business life, so it is hardly surprising that conflicts sometimes erupt. This is especially likely when the management of the business is about to change hands or where ownership has already passed to the second or third generation. Most entrepreneurs are strong characters and enjoy a greater degree of control than their descendants by virtue of the fact that they set up the business in the first place. Moreover, as a company matures, it is increasingly probable that some of the shareholders will not be involved in the day-to-day running of the business – and that they may periodically disagree with the way in which their relatives are managing it.

Fortunately, most of the family businesses in our survey experience comparatively few conflicts but, when they do, there are several issues that generate heat. At least 20% of respondents report that decisions about who can and cannot work in the family business, failure to consult with the wider family on key issues and the role of "in-laws" have sometimes caused strains. But it is discussions about the future strategy of the business and the competence of family members actively involved in the business that are most likely to trigger a dispute. Thirty-four percent of respondents say that they have quarrelled about the future direction of the business, and 27% that they have quarrelled about the performance of family members employed within the firm (see Figure 30).

Figure 30:
Although most family businesses experience relatively few conflicts, a core group of issues are likely to cause tension



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

In fact, two-thirds of family businesses have no defined criteria for choosing which family members who want to take an active role in the organisation should be allowed to do so. However, companies based in the emerging markets are more rigorous than those based in Europe and North America in this regard. Only 32% of European firms and 28% of North American firms have established guidelines for deciding who can work in the business, compared with 44% of those located in other parts of the world.

More than half the family businesses in our sample also employ relatives without requiring them to compete for their jobs on the open market. It comes as no surprise, perhaps, that preferential treatment of family members is quite common in small firms, particularly small firms working in the retail and wholesale sector.

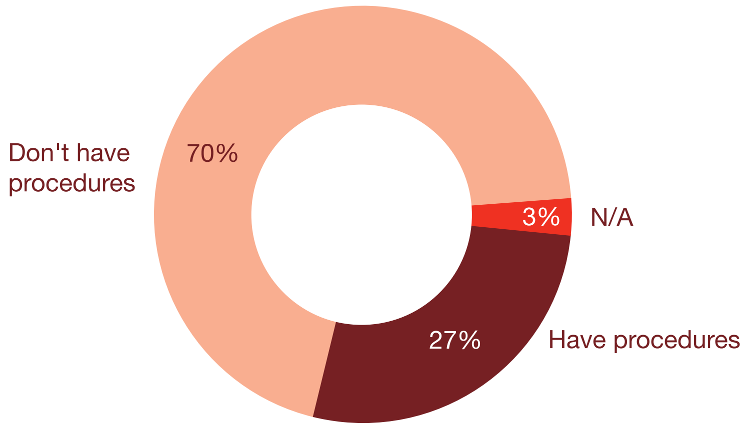
But the prevalence of such behaviour in the capitalist heartlands of the New World seems rather more noteworthy. Sixty-four percent of North American companies award family members a role in the business without measuring them against external candidates, whereas only 46% of those based in the emerging economies do the same.

Given the absence of formal hiring procedures in many family firms, then, it is probably inevitable that conflicts about which relatives can work for the business and how well they perform should sometimes emerge. It is also vital for the health of the business and family alike that such disagreements be effectively managed. However, barely a quarter of the companies we surveyed have introduced any procedures for dealing with disputes between family members (see Figure 31).

"I believe that in any family business today you need a balance and blood from outside the family. You need an outside outlook on how you are running the business"

US respondent

Figure 31:
More than two-thirds of responding companies have not adopted any procedures for resolving conflicts between family members

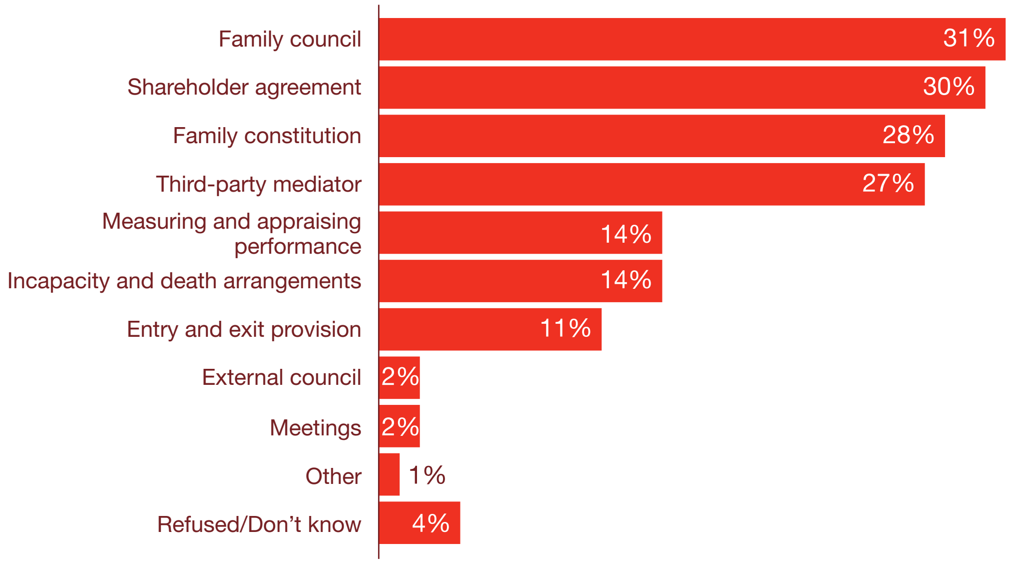


Source: PricewaterhouseCoopers Family Business Survey, 2007/08

“I’d like to ensure peace and continuity in the family business”
South African respondent

Thirty-one percent of these companies rely on family councils, which provide a useful forum for discussing issues outside the boardroom and giving "passive" owners who are not engaged in managing the business an opportunity to air their opinions (see Figure 32). Another 30% have drawn up shareholder agreements, and 28% have created family constitutions – a formal set of rules for the alignment of corporate and family governance. Formal rules for the management of a family business have several advantages; they clarify the assumptions and expectations of the different family members, depersonalise sensitive issues and avert many disagreements before they emerge.

Figure 32:
Family councils, shareholder agreements, constitutions and mediation are the most common measures family businesses use for resolving conflicts



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

More than a quarter of the companies with conflict resolution procedures in place also use third-party mediation, where appropriate. This can take many forms. It might, for example, entail calling in an independent consultant to provide a completely objective perspective and develop the best solution for the business. Alternatively, it might involve delegating a decision to the non-family members of the management team or even nominating a specific individual to act as a "tie breaker" – although it is clearly essential that any non-family executives should be genuinely free to express their views, if such unofficial arrangements are to work.

However, third-party mediation is a predominantly Western practice. North American and European respondents regard it as one of their main options for resolving disputes, whereas respondents in the emerging economies typically prefer family constitutions or councils (see Table 2).

Table 2:
There are regional variations in the conflict resolution procedures family businesses most prefer to use

North America	Europe	Emerging Markets
Third-party mediation (44%)	Shareholder agreements (32%)	Family constitutions (42%)
Shareholder agreements (36%)	Family councils (31%)	Family councils (28%)
Family councils (36%)	Third-party mediation (29%)	Shareholder agreements (23%)

Source: PricewaterhouseCoopers Family Business Survey, 2007/08

More than one-third of family businesses experience tension when considering their future business strategy

The economic and regulatory changes family businesses would most like to see

The vast majority of family business owners would like to have a simpler tax regime and/or pay lower taxes

They would also welcome help in creating closer links with academia for the purposes of product development, a stronger corporate compliance environment and the provision of more state support for staff training

Their motives for running a family business – and the achievements for which they wish to be remembered – vary hugely. Some respondents want to build companies that will last a long time or bequeath strong businesses to their offspring. Others love their work so much that they cannot imagine doing anything else

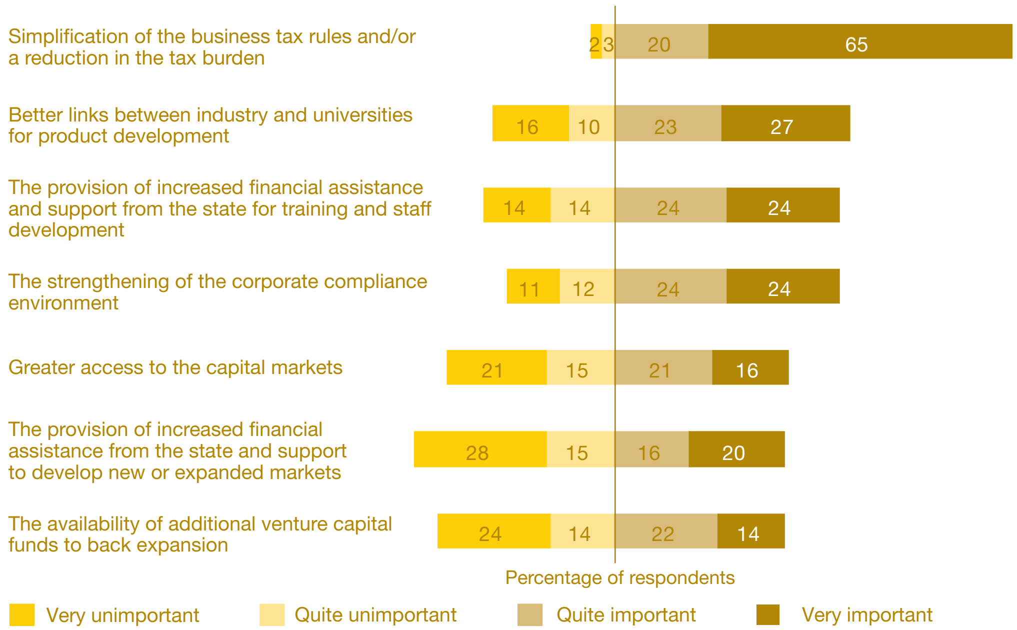
A number of entrepreneurs are also firm believers in the importance of corporate social responsibility. One in 12 stressed the importance of trading in an honest, ethical fashion or improving the existing social and environmental order in some way

We have focused on the key issues family firms face, and how they resolve internal conflicts, so far. But what about the external reforms respondents would most like to see? Head of their list of priorities by a large margin is a better tax regime. Eighty-five percent say that the simplification of the rules governing corporate taxes and/or the lessening of the tax burden is very, or quite, important to them (see Figure 33).

Half the companies in our sample would also like assistance in creating closer links with academia for the purposes of product development, a stronger corporate compliance environment and the provision of more state support for training and staff development. They are less concerned about getting access to additional funding, although almost 40% think that an injection of venture capital, greater access to the capital markets or government subsidies for developing new markets and expanding their existing markets would be helpful. Many family business owners, it seems are confident of being able to raise any money they need to grow on their own.

"Taxation should be changed to make it easier for family firms"
Finnish respondent

Figure 33:
The simplification of the tax regime and/or a reduction in the tax burden tops the list of changes family businesses would most like to see



Source: PricewaterhouseCoopers Family Business Survey, 2007/08

Almost two-thirds of respondents consider that simplification of the tax regime/reduction of the tax burden should be a top priority for governments over the next three to five years

Conclusion

It is clear from the feedback we received that the family firms in our survey do not intend to rest on their laurels. Asked what one lasting achievement they would like to stand as their legacy, respondents provided a wide variety of answers. But there were several recurring motifs.

A number of respondents said that they want to make their companies bigger. Some of them talked in terms of "sustainable growth". Others were more ambitious; they spoke of "international expansion", of creating "a market leader" and even of "building a billion-dollar business".

Similarly, some respondents hope to establish companies that will "stand the test of time", as one individual put it, and bequeath a strong business to their offspring. "I want to leave a healthy, profitable company for the next generation," stated a Belgian proprietor, sentiments echoed by a Canadian entrepreneur who aims "to create a well established, well run business that my children can carry on". Indeed, family business owners from Australia to Brazil and all points between aspire to pass sound, successful firms on to their heirs.

The importance of behaving in an upright fashion also surfaced as a regular theme. An Irish respondent talked of establishing a "culture of honesty", for example, and a French respondent of leaving a company that possesses "integrity", while an American respondent expressed the desire to be remembered as "someone who helped to build an ethical company and who's grateful to our Creator for the opportunities I've been provided with".

Improvements in the existing social and environmental order were likewise high on the agenda of some respondents – and a number have quite specific goals in mind. One entrepreneur wants "to reduce the level of crime [in South Africa] through projects initiated by the business". Another actively supports his local cancer clinic, while others are concerned with Green issues.

Of course, more commercial ambitions were also overtly in evidence, including the desire to build prestigious brands, modernise and introduce cutting-edge technologies. But only 20 people talked in terms of financial enrichment – and, even then, their aspirations were often quite modest: enough money to "live comfortably" or "allow the [members of the] family to lead the lifestyle they want". Those whose aim is to "make a lot of money" or build a "rich estate" are in the tiny minority. What drives most family business owners, it appears, is the desire to "leave something worthwhile for the next generation" or "give something back to the community" and sheer "passion" for their work.

Appendix

Our survey covers small and mid-sized family companies in 28 countries: Australia, Belgium, Brazil, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Mexico, the Netherlands, Norway, Oman, Portugal, Qatar, Saudi Arabia, Spain, South Africa, Sweden, Switzerland, Turkey, the United Arab Emirates, United Kingdom and United States.

A total of 1,454 interviews were conducted between 5 February and 15 June 2007. All respondents were interviewed via a 20-minute telephone interview, with the exception of respondents in Spain and Luxembourg, who were interviewed face-to-face. The research was coordinated by the PricewaterhouseCoopers International Survey Unit, Belfast, our global centre of excellence in market research, which designed the questionnaire in conjunction with family business experts from PricewaterhouseCoopers. A separate survey was completed in India, the results of which are not included here.

Contacts

For further information, please contact:

Global
Allan J. Watson
allan.j.watson@uk.pwc.com

Europe, Middle East & Africa
Norbert Winkeljohann
norbert.winkeljohann@de.pwc.com

North America
Eric S. Andrew
eric.s.andrew@ca.pwc.com

Richard Calzaretta
richard. calzaretta@us.pwc.com

Asia Pacific
Robert Gazzi
robert.gazzi@hk.pwc.com

Central and South America
Carlos Biedermann
carlos.biedermann@br.pwc.com

Abelardo Macotela
abelardo.macotela@mx.pwc.com

Australia
Gregory Will
gregory.will@au.pwc.com

Belgium
Wilfried D'haese
wilfried.dhaese@be.pwc.com

Brazil
Carlos Biedermann
carlos.biederman@br.pwc.com

Canada
Eric S. Andrew
eric.andrew@ca.pwc.com

Cyprus
George Loizou
george.loizou@cy.pwc.com

Denmark
Kent Hedegaard
kent.hedegaard@dk.pwc.com

Finland
Ola Saarinen
ola.saarinen@fi.pwc.com

France
Philippe Bailly
philippe.bailly@fr.pwc.com

Germany
Norbert Winkeljohann
norbert.winkeljohann@de.pwc.com

Greece
Marios Georgiou
marios.georgiou@gr.pwc.com

Ireland
Paul Hennessy
paul.hennessy@ie.pwc.com

Italy
Marco Tanzi Marlotti
marco.tanzi-marlotti@it.pwc.com

Luxembourg
Luc Henzig
luc.henzig@lu.pwc.com

Mexico
Juan Carlos Simón
juan.carlos.simon@mx.pwc.com

The Netherlands
Steef Klop
steef.klop@nl.pwc.com

Norway
Thomas Holst
thomas.holst@no.pwc.com

Poland
Antoni Tyminski
antoni.tyminski@pl.pwc.com

Portugal
Jaime Esteves
jaime.esteves@pt.pwc.com

South Africa
Andries Brink
andries.brink@za.pwc.com

Spain
Jose Felix Galvez
jose.felix.galvez@es.landwellglobal.com

Sweden
Jan-Olof Lindberg
jan-olof.lindberg@se.pwc.com

Switzerland
Marcel Widrig
marcel.widrig@ch.pwc.com

Turkey
Adnan Nas
adnan.nas@tr.pwc.com

United Kingdom
Frank Blin
frank.blin@uk.pwc.com

United Arab Emirates
Amin Nasser
amin.nasser@ae.pwc.com

United States
Alfred Peguero
alfred.peguero@us.pwc.com

The survey core team:

Philippe Bailly
Family Business Survey Global Leader
philippe.bailly@fr.pwc.com

Jacques Lesieur
Family Business Survey Project Leader
jacques.lesieur@fr.pwc.com

Rémy Barbeault
Family Business Survey Coordination
remy.barbeault@fr.pwc.com

Axel Dorenkamp
Family Business Survey Coordination
axel.dorenkamp@de.pwc.com

References

1 Chris Flood, “Family companies top value league”, *Ft.com* (January 30, 2007).

2 International Family Enterprise Research Academy, “Family Businesses Dominate” (2003).

3 PricewaterhouseCoopers has produced three previous family business surveys. The first covered family firms in Ireland and was published in 2002. The second covered family firms in Ireland and was published in 2004. The third covered family firms in 12 of the 27 member states of the European Union (Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Luxembourg, Malta, the Netherlands and Sweden) and was published in 2006.

4 International Monetary Fund, “World Economic Outlook” (April 2007).

5 “Passing on the Crown – Family Businesses and How a Family Firm can Avoid a Succession Crisis”, *The Economist* (November 6, 2004).

6 US Census Bureau, “Characteristics of Business Owners: 2002” (September 2006).

7 Jay W. Eisenhofer and Gregg S. Levin, “Does Corporate Governance Matter to Investment Returns?” *Corporate Accountability Report*, Vol. 3, No. 57 (September 23, 2005). The Bureau of National Affairs, Inc.

pwc.com