PwC Global Family Business Survey 2018

The values effect

How to build a lasting competitive advantage through your values and purpose in a digital age

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Foreword

We believe family businesses – built around strong values and with an aspirational purpose – have a competitive advantage in disruptive times. There is an enormous opportunity for family businesses to start generating real gains from their values and purpose by adopting an active approach that turns these into their most valuable asset.

The release of our ninth PwC Global Family Business Survey comes at a time of extraordinary transformation. Digital technology is disrupting whole industries; sustainability is becoming central to the conduct of business; in the corporate and financial worlds, winning trust is more important than it's ever been; and millennials represent an enduring demographic change.

We believe that family businesses – often built around strong values and with an aspirational purpose in mind – have a competitive advantage at a time like this. They are trusted more than non-family businesses by a 16-point margin globally, according to a special report in the 2017 Edelman Trust Barometer. And it's long been recognised that a family firm – ranging from a global enterprise to a business in a small community – is more likely than other companies to treat each day's activity as an investment in the long term, prioritising broad stakeholder interests over satisfying the quarterly earnings cycle.

Yet one consistent finding since we started this biannual survey in 2002 is that many family businesses are not yet turning these inherent advantages into a winning strategy to help secure profitable, long-term legacies. This latest survey suggests there is a great opportunity here. Indeed, a healthy 75% of our survey respondents felt that having a clear set of values created a competitive advantage. There was also evidence that businesses with annual growth of 10% or more tended to be those with a clear sense of agreed values and purpose.

This plays into legacy in an important way. Family businesses are being propelled towards a vastly different landscape. The strategies that worked well in the past might not be sufficient to sustain their businesses in the future. How can family businesses harness the legacies of the past and strive for strategic renewal, using their values as a key differentiator? And how should the next generation play a role in tackling digital disruption while preserving the values of the business?

There is an enormous opportunity for family businesses to start generating real gains from their values and purpose by adopting an active approach that turns these into their most valuable asset.

No global survey of the health of family business in 2018 would be complete without looking at the challenge of digitalisation. There was a marked jump since our last survey (2016) in the number of businesses feeling vulnerable to digital disruption – a trend highlighted in PwC's latest annual flagship CEO Survey as well. Many family business leaders recognise the digital challenge, and many are preparing for it. But there's a real opportunity to boost engagement in the digital realm by enlisting the help of the next generation.

Overall, our respondents expressed enormous optimism about future growth but also increasing concern about changing business models, digitalisation, cybersecurity, regulation and protectionism. They are thinking carefully about innovation and attracting and keeping the right talent for their business. This suggests that there's never been a more pressing time to get the fundamentals right.

For this year's report, we surveyed 2,953 companies in 53 territories, covering a wide range of sectors, from agriculture to technology. We would like to thank the respondents for taking the time to participate. We were also privileged to speak with leaders at 10 of the world's most prestigious and successful global family businesses. We would like to express our sincere thanks to them for being so generous with their time and insights (a full list of those interviewed is available on page 54).

We hope you'll find the report valuable and that its insights will help you make better decisions for your family business.

David Wills
Global Leader - Entrepreneurial & Private Business, PwC Australia

Peter Englisch
Global and EMEA Family Business Leader, PwC Germany

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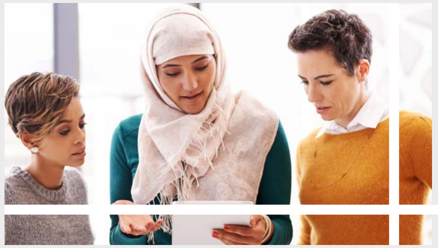

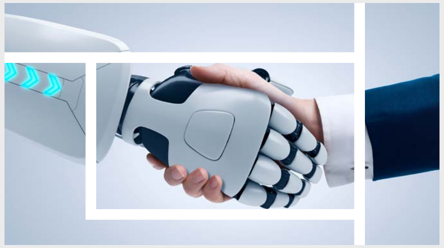

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Growth – and how to sustain it

This year's survey finds family businesses in robust health, with levels of growth at their highest level since 2007. Yet there is a nagging sense among many family businesses that the trajectory of growth over the next two years and beyond can't easily be charted, given a set of key challenges.

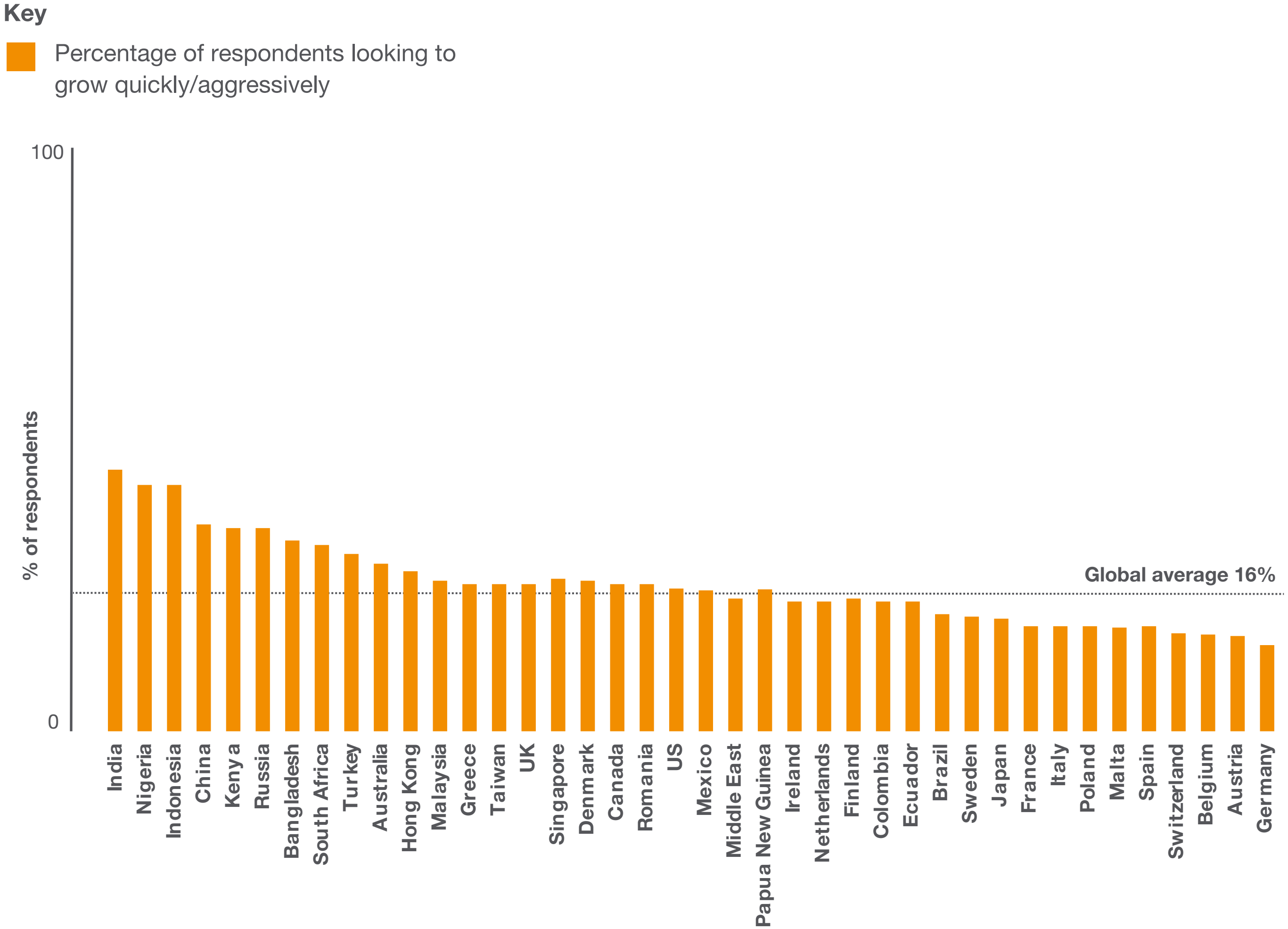
This year's survey finds family businesses in robust health, with levels of growth at their highest since 2007. Revenues are expected to continue growing for the vast majority of businesses (84%), with 16% saying growth will be 'quick' and 'aggressive' (see Exhibit 1).

Sixty-nine percent of our respondents saw revenue growth in the 12 months before the survey was conducted, compared to 64% reporting revenue growth over the same period when we last did the survey in 2016.

These findings echo what we found in the private-company cut of our 2018 CEO Survey, where a solid majority of private-company chief executives said they were somewhat confident or very confident about their company's growth prospects in the next 12 months.

Of the 722 private-company chief executives polled for that report, 85% said they were somewhat confident or very confident about their company's growth prospects in the next 12 months.

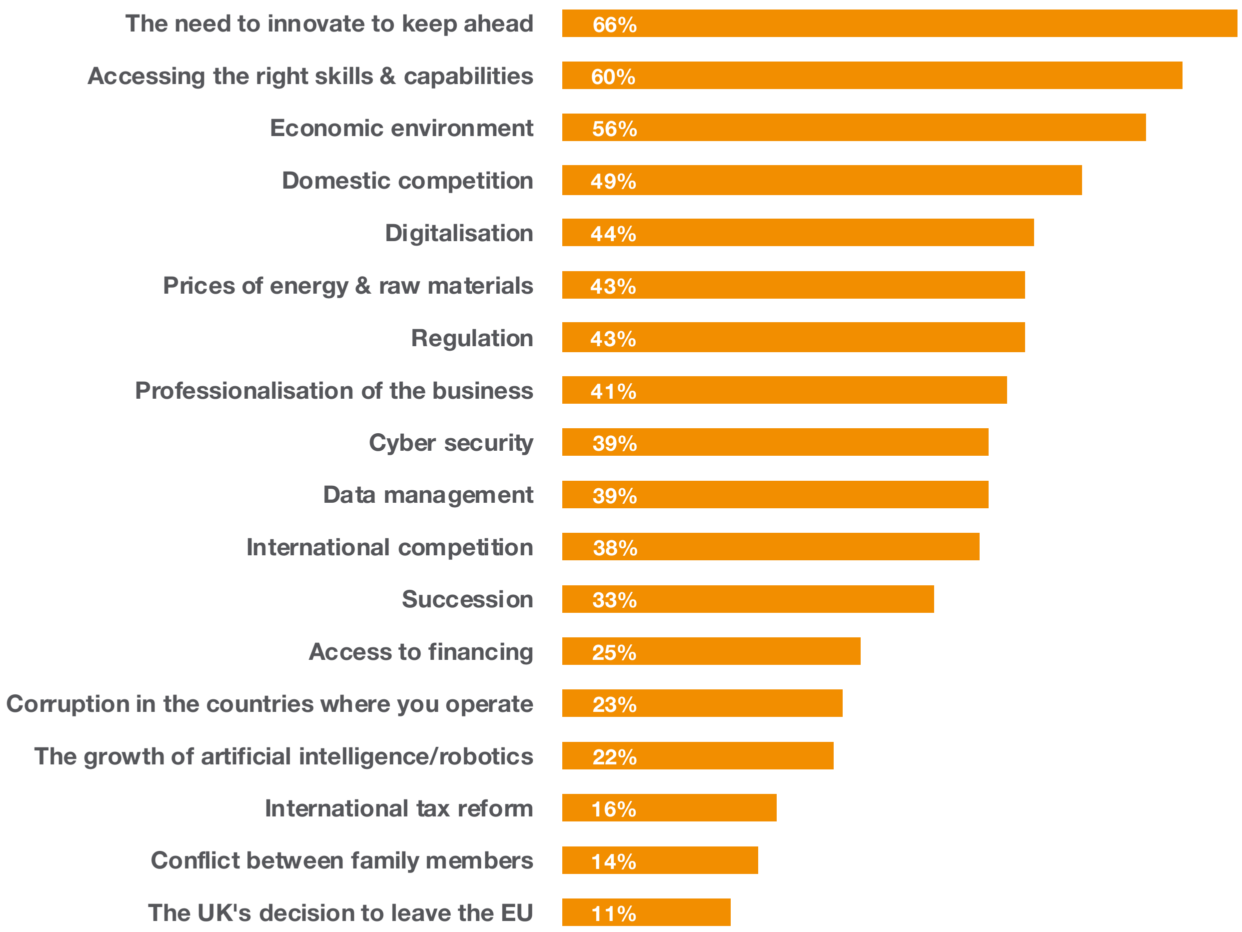
Exhibit 1: Family business growth ambitions, by territory



Base: all respondents in each market (2018: all answering n=30–171 in each territory)
Source: PwC Global Family Business Survey 2018

Yet there is a nagging sense among many family businesses that the trajectory of growth over the next two years and beyond can't easily be charted, given a set of key challenges (see Exhibit 2). Among the top five challenges were: innovation (66%), accessing the right skills and capabilities (60%) and digitalisation (44%). Indeed, 80% say digitalisation, innovation and technology ranked together as a significant challenge. Moreover, more businesses feel vulnerable to digital disruption specifically (30%) than at the time of our 2016 survey (25%). Our survey respondents shared concerns about companies coming out of nowhere and toppling established businesses.

Exhibit 2: Key challenges for family businesses over the next two years

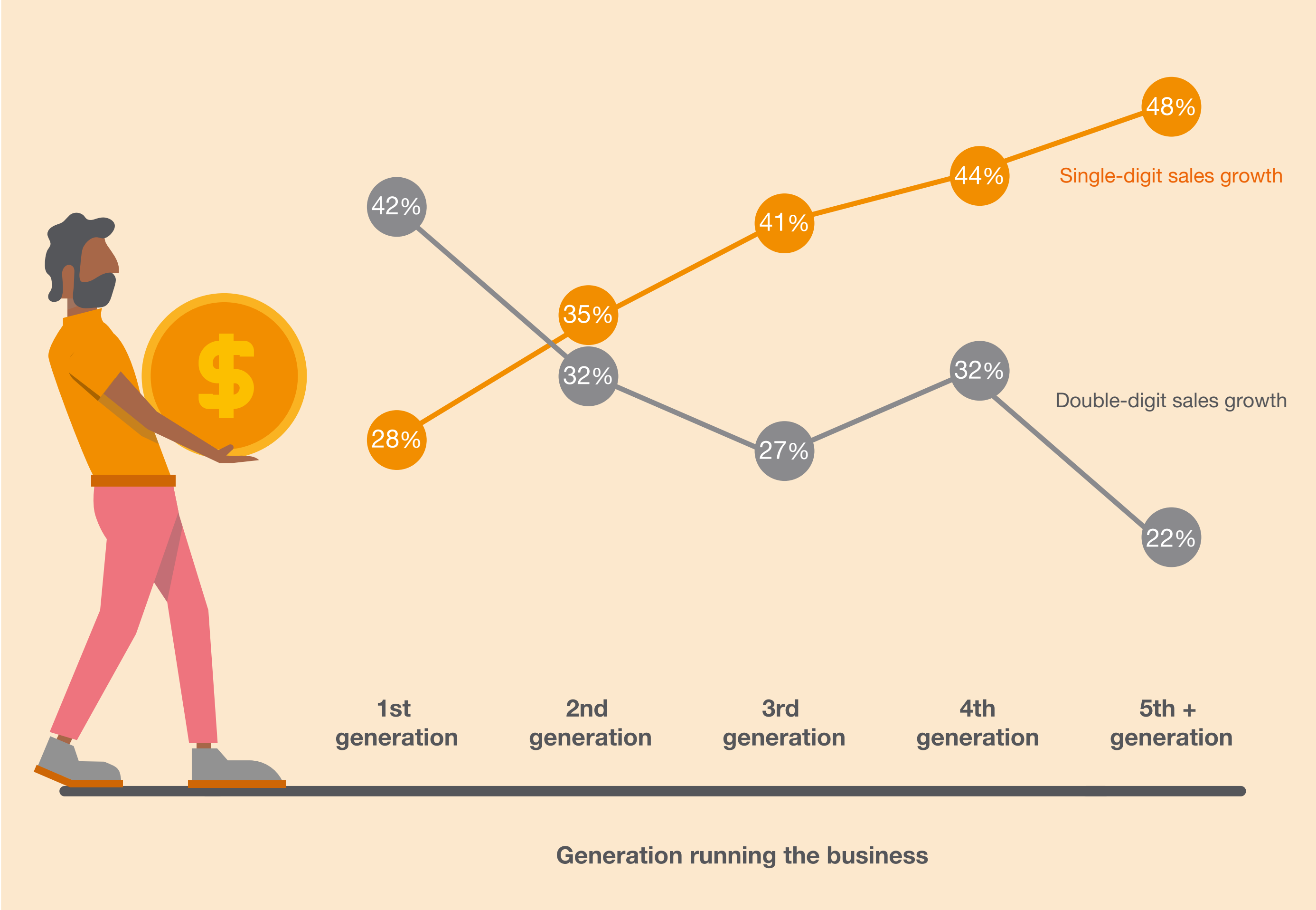


Base: all global respondents (2018: all answering n=2,950 – 2,952).
Source: PwC Global Family Business Survey 2018

Our survey findings show that first-generation family businesses clearly outperform those run by subsequent generations in their ability to achieve double digit growth, highlighting the need to balance business model continuity with an appetite for disruption (see Exhibit 3).

Reconciling optimism with concern will naturally seem challenging. But one big takeaway that emerges is this: those family businesses that are actively pursuing their values and purpose and nailing down a clear strategic plan are showing the way. Specifically, respondents who said they deliver 10% or more annual growth tend to have some consistent attributes (see Exhibit 4, page 10). Eighty-four percent say they have a clear sense of agreed values and purpose, compared to 76% of those that had slower growth. Almost two-thirds (63%) said they intend to make significant strides in digital capabilities (compared to 54% among businesses that have slower growth). And 55% had a fully costed, formalised and documented strategic plan (compared with 46% for the slower growth group). This tells us that it pays to take an active approach to values and purpose.

Exhibit 3: Growth rate by generation running the business



Base: all 1/2/3/4/5+ generation global respondents (2018: all answering n=1,040/1,082/480/187/127)
Source: PwC Global Family Business Survey 2018

It also pays to plan ahead. Mid-term strategic planning – over a three - to five-year time frame – is often one of the biggest missing pieces of the puzzle for family businesses. This was also a theme of our 2016 survey **(The 'missing middle': Bridging the strategy gap in family businesses)**.

This year, we found that survey respondents fall into three groups:

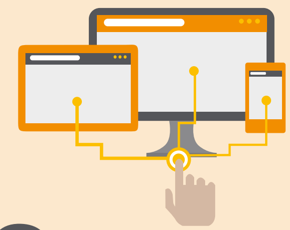
- The first group, making up 21% of the total, has no strategic plan at all. These 'low-strategic planners' seem to be more focused on keeping the boat afloat than thinking about where it's going.
- The second group makes up another 30% of the total. These companies have a plan in mind, but it is not far advanced; it isn't explicit about costs or methods for achieving the company's goals. Together, these first two groups represent a little more than half of the companies surveyed, and, as a whole, they are more likely to fall behind over time.
- The third group, the remaining 49%, are those with a costed, formalised and documented mid-term plan. Within this, we have defined a sub-group (36%) of 'high-strategic planners' who also have financial and non-financial key performance indicators (KPIs). There is a correlation between these high-strategic planners and other high value groups. High-strategic planners constitute 56% of the companies with a high level of philanthropy; 53% of those with a robust, documented and communicated succession plan; 46% of businesses with annual turnover above US$100m; 42% of companies with double-digit growth; and 41% of those with a high level of focus on digital technology.

High-strategic planners are translating their strategic goals into everyday practices and building up the habits that, over time, create a distinctive legacy.

Exhibit 4: Behaviours of family businesses with 10%+ growth

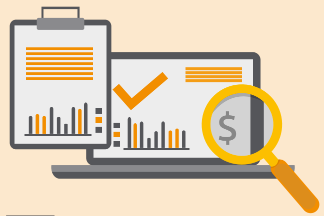
84%

Have a clear sense of agreed values and purpose as a company
(vs. 76% among those who have <10% growth)



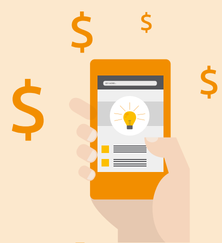
63%

Are aiming to make significant steps in terms of digital capabilities
(vs. 54% among those who have <10% growth)



55%

Have a fully costed, formalised and documented strategic plan
(vs. 46% among those who have <10% growth)



22%

Are aiming to earn the majority of revenue from new products or services
(vs. 16% among those who have <10% growth)

Base: all global respondents with 10%+/<10% growth (2018: all answering n=1,000/1,001)
Source: PwC Global Family Business Survey 2018

Established:	1911
Current generation leading the business:	Fourth generation
Annual turnover (2017):	More than US$35bn
Number of employees:	115,000
Sector/s:	Pet care, confectionery, food

Defining the role of business in five principles

Mars Inc., US

Victoria Mars, Member, Board of Directors (Chairman of the Board from 2014 to 2017)

Businesses often display their principles and values on their website and in their marketing materials. Some even carve them onto the walls of their offices. But do they live by their principles in everything they do? Those looking from the outside at most businesses would probably need some convincing. One company that might convince them is the family-owned business Mars. A diversified, global business in pet care, confectionery and food, Mars operates according to five principles that are deeply embedded in the company's culture.

The Five Principles are: quality, responsibility, mutuality, efficiency and freedom. "There's not a conversation I have with our associates and leaders, other corporations, government officials, or when I speak in public that doesn't weave in The Five Principles," says Victoria Mars. Mars, the former chairman and current director of the Virginia-based company and a member of the fourth generation of the family owners, stresses the importance of nurturing these principles. "Repeat, repeat, repeat; demonstrate, demonstrate, demonstrate The Five Principles all the time. It's so critical you don't forget about these five principles."

Mars is one of the biggest privately-owned businesses in the world, and it employs more than 100,000 people in 80 countries. The company's five principles, which are visibly present in each of its hundreds of sites, unite Mars associates across geographies, languages, cultures and generations.

The company's approach makes a good example of what it means to have values clarified, codified and communicated. The principles are not only written down, but are brought to life in detail in a 26-page document on the company's website. In it, each value is given practical relevance and application for employees, suppliers and other stakeholders.

For instance, much is made of the way in which Mars is a decentralised organisation in which employees – which it calls associates – are given the "freedom to act with full responsibility for doing their assigned jobs." In the workplace, "divisive privileges" are to be avoided, and an egalitarian spirit is encouraged.

Under the principle of mutuality, the company holds that its business relationships should be measured by the degree to which they create mutual benefits for the company and its stakeholders. Success is achieved if quality and value are given to customers, suppliers, distributors and others. "Gains that ignore this will be short-lived" is the powerful warning in this section.

The fifth principle, freedom, takes as its starting point

Defining the role of business in five principles (cont.)

the "deliberate choice" that Mars is a privately held company. Free from what Mars calls the "restrictions" of having to incur debt to grow – as many publicly listed companies do – the company has more control over its affairs. It has the freedom to re-invest a substantial portion of its profits each year. "As long as Mars remains free, our well-being can always come before any other financial priority," the company states in its description of this fifth guiding principle.

Victoria Mars says it's unlikely the company would have been as successful building its business without The Five Principles. "From one generation to the next, it was always about how we did business rather than what we do as a business, and The Five Principles came out of that legacy," she says.

The values embedded in the principles come from Mars' grandfather, Forrest Mars, Sr., whose father, Frank, founded Mars as a confectionery company – a precursor of today's Mars company – in the US state of Washington in 1911.

"My grandfather was a great believer in how you do business," says Mars. "Around 15 years ago, we found a letter written by him in 1947 that talked about this idea of mutuality with your associates, your community and all your business dealings as the very objective for the company's existence. This has shaped the family's values and principles, and was further expanded when my father, my uncle and my aunt codified The Five Principles in the early 1980s. They have been updated a few times, but what hasn't changed is the principles themselves. What evolves more constantly is the relevance of how one lives them in the current times.

"As a child, I grew up with these principles as part of how we lived as a family. They weren't hanging on a wall, posted on the kitchen fridge. But they guided our family and me on how we interacted with people. I thought this was just the norm."

For the Mars family, having these principles helps the family steer what it believes is the right course for the business – and the principles are not open to challenge, as Mars explains. "You can get managers that can come along who might say we need to change aspects of the principles, but the family will say: 'You don't understand; these are our principles, our values. You don't have the right to change them.' We own these principles and values. The business doesn't own them; we own them. The real connector between the family and the company are The Five Principles of how we do business. It's the glue that holds us together."

What these principles can mean in practice has recently been demonstrated in the launch of the company's 'Sustainable in a Generation' plan. This comprehensive programme was launched in 2017 and has three pillars that the company is working to create through its operations: 'healthy planet', focused on climate change, land and water stewardship and waste management; 'thriving people', focused on, among other things, increasing incomes and unlocking opportunities for smallholder farmers in the company's supply chain, including disadvantaged women; and 'nourishing wellbeing', focused on health issues among people and – naturally – their pets, too.

Another practical expression of the company's principles is highlighted by their use in helping to recruit the right talent, says Mars. "Our principles and values will attract the associates we are looking for to work in our business and will keep the ones we have working for us. They will encourage consumers to buy our products and affect how communities we work in feel about us being part of their communities,

"From one generation to the next, it was always about how we did business rather than what we do as a business, and The Five Principles came out of that legacy."

and how governments feel about us working in their country."

Mars also believes a broader definition of the purpose of business is vital to engage the next generation. "Business is more than earning a return. It is about the impact you have on the world, and that is absolutely important to the next generation," she says.

"As the fourth generation of our family, my siblings, cousins and I are asking ourselves how we are going to keep our children, grandchildren and great-grandchildren connected to the business when they aren't going to be as closely linked as we are," Mars notes. "We've got to find another way to connect them. It's easy to end up with just words on a wall; you have to keep training, telling stories and demonstrating how you behave and show how to live by these principles."

Getting value from your values

As decision making grows more complex during an accelerated pace of change, family businesses need to implement guidelines and tools to codify their values as a way to make better decisions. And our research shows family businesses that make their values and purpose explicit and measurable, and incorporate them into strategic plans, see better returns and greater longevity. Adopting an active stance towards values really pays off.

The values of a company are the operating beliefs and principles that guide behaviour among not just the leadership but also its employees. These concepts often manifest in the company's culture.

They affect not just what a company says but also what it does. For example, a family business might collectively agree on the need for community investment, just as it might agree on the need for trust and cohesion among family members and employees. Genuinely held values become ingrained in everyday practice: the deals made, suppliers worked with, products and services launched and ways of managing employees.

> "You can only interpret the values of the family – the values of the business – by living them personally and by making everybody in the business aware of them, by making the 'genetic code' of these values comprehensible to all."
>
> - Dr. Reinhard Zinkann, Co-owner, Executive Director, Miele (Germany)

Companies that are managed with strong values, a clear purpose and an eye for legacy will tend to build trust and loyalty among staff, suppliers and consumers, and will have greater resilience during downturns. This is why family businesses are often viewed as more trustworthy than other companies.[1]

Although many family businesses are strongly aligned around a shared sense of values, they don't always use them to their full advantage until there is a crisis. A faulty product hits the market and the company goes into crisis mode and has to remind the market that it's not some less-than-professional operation. Rather, it's a family business with its name on the door – one that cares deeply about its customers and stakeholders – and one with a legacy worth preserving.

What if family businesses codified these values right from the start and made them active? Our research shows family businesses that make their values and purpose explicit and measurable, and incorporate them into strategic plans see better returns and greater longevity. Indeed, many of today's entrepreneurs are founding companies based on a clear set of values, and many of them have themselves come from family-led businesses, where they would have learned, first-hand, the role that clearly articulated values can have. Businesses that talk about their values as 'social capital' and treat this as an asset that is relevant to today's world can get better returns if they act smartly and communicate their values effectively.

Businesses that embody their values in everyday practices and routines get better results. "The ones that get it right start with understanding the value of values. They get that this is what distinguishes them in the market. It's their DNA, their secret sauce," says Dr. Justin Craig, a professor of family enterprise at Northwestern University's Kellogg School of Management. "This is what has helped them across previous disruptions. The thing that distinguishes successful family businesses is that they take the time to communicate and educate and remind themselves, and the next generation, early and often about the value of values."

This year, we set out to test some of the findings about values from our 2016 survey. That report found that 74% of family businesses believed they had a significant advantage over non-family businesses because they have a stronger culture and values.

> "My grandfather was a great believer in how you do business. Around 15 years ago, we found a letter written by him in 1947 that talked about this idea of mutuality with your associates, your community and all your business dealings."
>
> - Victoria Mars, Member, Board of Directors (Chairman of the Board from 2014 to 2017), Mars Inc. (US)

This year, 79% felt they had a clear sense of values and purpose as a company. Breaking it down by region, there were some interesting differences: only 68% of respondents in Asia felt this to be the case, compared with 86% in both Africa and Latin America, 81% for North America and 80% for Europe (see Exhibit 5). Of the global total, 70% felt strongly that having a clear sense of agreed-on values increased revenues and profitability. Critically, as many as 75% felt that having a clear sense

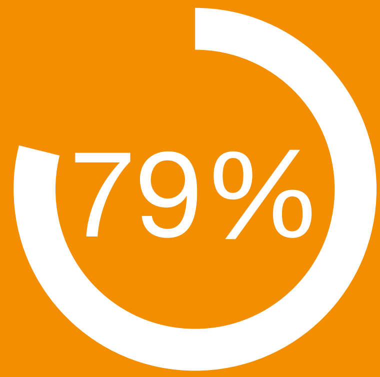
1 Source: 2017 Edelman Trust Barometer, Special Report: Family Business

Exhibit 5: Sense of agreed values and purpose, by region

Key

Proportion of respondents agreeing strongly with the statement:
'You have a clear sense of agreed values and purpose as a company'

Base: all global respondents (2018: n=2,167)
Source: PwC Global Family Business Survey 2018



of respondents on average globally felt they had a clear sense of values and purpose as a company.

of values gave them a competitive advantage.

At the same time, only 49% of respondents actually had values articulated in written form. This rose noticeably to 53% among businesses generating double-digit growth. The message is clear: adopting an active stance towards values really pays off.

Other findings reinforce this point. Of the businesses with 10% or more annual growth in our survey, 84% had a clear sense of agreed values and purpose, compared with 76% among those with a lower growth rate.

These findings tell us that as decision making grows more complex during an accelerated pace of change, family businesses need more than ever to implement guidelines and tools to codify their values as a way to make better decisions (see case study on GMR Group, "The virtue of humility as a value", page 49). Indeed, living up to codified values and purpose is the best risk management system you can put into place.

When it comes to codifying values, a good starting principle is keep it simple. The family that controls Henkel, the Germany-based global chemicals and consumer goods company, decided some time ago that the business had too many values. It cut the list down to a handful and

"Once we established Ferd, we tried to make a conscious set of assigned values – more precisely, values we would like people to talk to us about."

- Johan H. Andresen, Owner and Chairman, Ferd (Norway)

"Our values are the core of everything. They are the first pillar of what we do and why we do it. Our values of 'decent, worthwhile, secure' underpin what we are all about. None of them are more important than the others, because they work together. Those three words are our benchmark for decision making."

- Jonathan Falder, Managing Director, HMG Paints (UK)

inscribed them on five pillars in the lobby of company headquarters in Düsseldorf. "The previous set of values wasn't clear enough," says Dr. Simone Bagel-Trah. "And we had too many of them. Reducing their number from 10 to five allowed us to ensure that everyone remembers and understands them. It's much easier to identify with a set of values and act on them when they are clearly laid out and are relevant to employees in their daily work." (See case study, "Showing values through sustainability," page 28).

No matter how solid your values are, they will change over time. As the business grows and new people join, leaders need to revisit what those values are and, in some cases, refresh them. Values cannot simply be assumed; they need to be brought to life by living up to them. So, it is important to talk about and champion values regularly to make sure people agree on what they mean and their relevance. It is also crucial to examine whether values drive the right behaviours to improve performance, including those of management, staff and shareholders. Everyone must be committed to the actions needed to support these shared values. One example of how family businesses are doing this is to develop a values compass, as the family-owned company Mars has done to great effect (see case study, "Defining the role of business in five principles," page 11).

It is also useful to recognise the difference between having family values and having values that work for the business, as illustrated by our case study on Ferd, a Norwegian family

"We have many thousands of employees and recruit many every year, but what we always try to do is use our values to help us make the right decisions when hiring. We always seek to hire people who have principles in their DNA that are in line with our values."

- Fernando Simões, Chief Executive, The JSL Group (Brazil)

"We realised that we could not do business with an opportunistic mind-set. Each business was different, and there were no synergies between them. It was very difficult to synchronise all the businesses we had entered into. We then thought that we should have a vision, have our own values and create a robust organisational structure."

- GM Rao, Founder and Chairman, GMR Group (India)

firm (see case study, "Bringing values to life," page 21). The company was established in its current form in the 1990s but has a pedigree stretching back more than 160 years. Before Ferd was established, the Andresen family "internalised our values," explains Chairman Johan H. Andresen. "They were good, old-fashioned types of values, like honesty, dedication and loyalty. But they weren't something that drove the business.

"We weren't going to take our family values and say the business should be like this. You might say the company's values [now] overwrite the family's values," says Andresen, explaining that the family took the famous quote by (the former US president) John F. Kennedy, adapting it into 'Ask not what the company can do for you, but what you can do for the company.'

Values can also be creatively shared and reinforced in family businesses involving more than one family (see case study on Al Shirawi Group, "Building on shared values between families," page 47).

Values are more effective when explicitly communicated to customers and suppliers (see case study on Miele, "Always valuing independence, across generations," page 41). That is exemplified in South Africa by the approach taken by ZZ2, the country's largest independent agriculture group, which traces its roots to the owning family's farming activities in 1698. Chief Executive Tommie van Zyl says everyone from the purchasing office through to the logistics supply chain understands the business's value system. "We adopted an 'open systems philosophy' in our business. Instead of focusing internally on the family or on the business all the time, the focus should be outside of that, and thinking about the interactions and the linkages in the wider world," he says.

"It's much easier to identify with a set of values and act on them when they are clearly laid out and are relevant to employees in their daily work."

- Simone Bagel-Trah, Chairwoman, Supervisory Board, Henkel (Germany)

Values should be communicated explicitly and clearly if they are to be adopted across the family business and beyond (see case study on illycaffè, "Taking the long view on values for sustainable business," page 23).

Every employee who joins AX Holdings, a diverse group in Malta operating in hospitality, healthcare, construction and development, must attend a course about the group, the businesses, its values and how those values are applied. "In this way, we have a cascading effect that ensures all employees adopt these values," says Chief Executive Michael Warrington.

Values can also help with recruitment. Our survey showed that 79% of respondents that had a clear sense of values felt that this helped attract potential joiners. This is illustrated by our case study on The JSL Group of Brazil (see "Channelling legacy in valuable ways," page 39).

Established	1896
Current generation leading the business:	Fourth generation
Annual turnover (2017):	US$54bn
Number of employees:	93,700
Sector/s:	Pharmaceuticals and diagnostics

Projecting a vision for business in society

Roche, Switzerland

André Hoffmann, Vice Chairman

When the Paris-based business school INSEAD received a donation of €40 million in the summer of 2018, it was the largest gift made by anyone in its 61-year history.

The donor was André Hoffmann, Vice Chairman of pharmaceuticals group Roche and a member of the family with a controlling shareholding in the group since 1948.

Yet the money – actually gifted in his name and that of his wife, Rosalie – was not just an eye-catching case of corporate and personal largesse. It is being used to set up the Hoffmann Global Institute for Business and Society which, as an INSEAD announcement said at the time, "promises to bring fresh perspectives and innovative solutions to the most intractable global issues that threaten our sustainable future."

The Institute will explore issues such as ethics, gender balance, humanitarian operations, social impact, sustainability, technology for good, wealth inequality and other topics related to the role of business in society.

These are issues of great importance to Hoffmann, who has a clear vision for the role of business in society and in particular for how it gives his family's business a clear purpose beyond generating profit. Business is often too focused on short-term gains, Hoffmann says, and is rarely interested in its impact on society and the environment. This needs to change, in his view.

"The economist Milton Friedman once said, 'The business of business is business.' So, what he was saying was: 'Let us make money, and the rest will take care of itself. We don't have to worry about externalities.' But this is clearly, to my understanding, not true," says Hoffmann.

"We need to look at financial returns, because without that, there's nothing. But you also need to look at environmental and social returns. We can satisfy shareholders; we can have a profitable business; we can have a forward-looking business. But we can also minimise the impact of our footprint on society and the environment. My dream is to position Roche and many other companies into this territory where they can become net contributors to societies – and not the opposite."

Hoffmann, who earned a Masters in Business Administration from INSEAD in 1990, believes one of the main ways the Institute can help to bring about that change is by influencing how business is taught. "The Institute for Business and Society aims at changing the norm in which business is taught," he says. "We have to realise the way we teach business management is only aligned on the single metrics, which is financial return. The rankings of business schools are often based on the salary you earn when you graduate. But judging success just on the amount of money you receive, as we know now, is no longer suitable. And business schools need to wake up to this fact."

Purpose has a particular role to play at Roche itself, too. "The purpose of Roche is not to make money; the purpose of ours is to satisfy a community and in particular to satisfy the patients' community," Hoffmann explains. "How can we create new ideas which will make the life of the patient easier and perhaps even cure them?"

A family business structure supports that purpose, thanks to the multi-generational, long-term approach taken by many family businesses – including Roche, which was founded by Hoffmann's great-grandfather Fritz Hoffmann-La Roche in 1896. The structure of Roche's 'hybrid' ownership helps in this regard. The family has most of the voting shares but doesn't control the quoted shares on the stock exchange, Hoffmann explains. "So, we have two types of security: we have the voting shares, and we have a dividend certificate. That means that we are under the scrutiny of every investor on the planet, but we're also able to take long-term decisions because we have the majority of the vote."

This means that when the company makes a decision, it is likely to influence the fifth and even sixth generations as well, says Hoffmann, who is a member of the fourth generation of the family. "This means business thinking has to be transgenerational.

"That's what separates us from non family-owned businesses. It's the concept of sustainability, which, I'm glad to say, is much in favour at the moment. And this sustainability is lived by the family."

To illustrate this, one need look no further than Hoffmann's early life. His father, Luc, was one of the co-founders of the World Wide Fund for Nature and dedicated his working life to conservation projects. The younger Hoffmann was brought up in the Camargue region of France, where his father had set up an institute to protect the Mediterranean wetlands. And he was deeply influenced by his father's commitment to the environment.

"I grew up in this conservation environment, and I spent a lot of time trying to protect species. Today, I'm more and more convinced that what matters is the interface between humanity and nature," he says.

"I think that one of the legacies a family business has is this long-term thinking. It's this backbone that is always there."

When it comes to the more than 93,000 employees at Roche and its future employees, Hoffmann believes that having a strong sense of purpose is an excellent recruitment incentive. "How do we make sure that the people who want to make an impact on public health or even on disease solutions come to Roche rather than go to other businesses?" he says. "We need to be able to provide the right environment and have sufficient stability while still maintaining a certain amount of excitement."

For Hoffmann, all of this lays the foundations for Roche's legacy: "I think that one of the legacies a family business has is this long-term thinking. It's this backbone that is always there, despite changes in fashion, despite the change in technologies, despite digitalisation, despite all these challenges that the world is throwing at business."

Five principles for getting value from your values

Peter Englisch,
Global and EMEA Family Business Leader, PwC Germany

1. Be specific about your values: codify them, write them down and act on them. Do this with the full involvement of family members. This will strengthen not only your family cohesion but help you make better decisions for the family business.
2. Communicate your values internally and externally to activate your family business advantage. Many family businesses have values but don't always bring them to others' attention. You can't get value from your values if you don't communicate them.
3. Develop business principles and a code of conduct that brings your values to life. This helps build trust and credibility internally and externally and open doors for new business partners.
4. Put values at the forefront of your recruitment efforts and embed them into your workplace, as you seek to bring the best talent to your business. Displaying your values is a good way to attract and retain the best talent for your business.
5. Focus on value creation along the entire value chain, such as ensuring that you work according to shared ethical standards. Your values have a mutually reinforcing impact beyond your own business.

Established:	1849
Current generation leading the business:	Fifth generation
Annual turnover (2017):	30.8bn Norwegian Krone
Number of employees:	8,857
Sector/s:	Conglomerate, industrial and financial investments

Bringing values to life

Ferd, Norway

Johan H. Andresen, Owner and Chairman

"Ask not what the company can do for you, but what you can do for the company."

It would be hard to beat this for originality and creativity as a family business mission statement, paraphrased, of course, from former US president John F. Kennedy's most resonant quote.

But for Norwegian business leader Johan H. Andresen, it is simply an effective way to express how he and his family have approached defining, articulating and living the values that drive the Ferd group of companies, which operate in the Nordic region. In essence, the family decided that it had to live up to the company's long-cherished values, rather than the other way around.

Pinpointing this distinction was part of deliberations that took place 20 years ago at an important juncture in the trajectory of the family's business interests.

Ferd's origins go back more than 160 years, when Andresen's great-great-grandfather, also called Johan, bought a tobacco company called Tiedemanns, which became the basis of the family business. Tiedemanns soon became one of the biggest tobacco firms in Scandinavia. The family used money from Tiedemanns to diversify into shipping, publishing, packaging and consumer products. But in the 1990s, with increasing pressure on tobacco companies from governments and anti-tobacco groups, the family decided tobacco was no longer a business they wanted to be in.

They sold off the tobacco interests and established Ferd, which has holdings in a range of businesses, including some highly successful non-listed companies. Many of these are in Norway's energy sector, like oil and renewable energy services company Aibel; oilfield technology business Interwell; and the country's biggest ferry operator, Fjord Line. Ferd (from a Nordic word for 'journey without an end') also invests in publicly-listed stocks, hedge funds and real estate. The Oslo-based investment group has also pioneered social entrepreneurship and pursued many so-called impact investments – those designed to create a social or environmental benefit.

When Ferd was created, Andresen, his family and those running the new business felt able to set out a properly defined set of values. Although a set of family values had guided the legacy business for almost two centuries, they decided they really needed values to guide the company and the family's interaction with it.

"Previous to establishing Ferd, we as a family internalised our values," explains Andresen. "They were good, old-fashioned types of values, like

Bringing values to life (cont.)

honesty, dedication and loyalty. But they weren't something that drove the business. Once we established Ferd, we tried to make a conscious set of assigned values – more precisely, values we would like people to talk to us about, in those terms.

"We weren't going to take our family values and say, 'The business should be like this'. You might say the company's values overwrite the family's values."

> "Of course, there is a legacy, all the stuff we've done. But let's look at what we are going to do. That is the best way of having a legacy."

That's where Kennedy's aphorism comes in. "The family's values are a reflection of [that]," says Andresen.

They laid out the company's values in four points: credibility; a spirit of adventure; team play; and a long-term view of goals and success.

Credibility is very important to Ferd, says Andresen. It means something more than trust. "Credibility isn't something you have. You can't buy it; you can't make it up and say you're more credible today than you were yesterday. Credibility is different from trust; it means that you actually believe in someone who's doing something they've never done before – and that is something we are doing all the time. We always do something we haven't done before."

Andresen says this idea of credibility is also an important factor in Ferd's efforts to attract the best talent. "The people we are trying to hire have an option. They can go elsewhere because they have a huge amount of potential; everyone wants them. But if you're a values-based owner with credibility, those high-potential people select you."

Part of the hiring effort is geared towards the 'team play' value. And Andresen says the fact that Ferd has little staff turnover is a testament to its success in recruiting team players.

Family businesses often take a long-term view in their decision-making processes and value the concept when it comes to evaluating returns. But Andresen feels Ferd has added a new twist to the concept. "I've reformulated the traditional idea of the long term with the idea of 'we can be impatient for a very long time.' In other words, the concept of the long term for a family business is not a resting point; it isn't a pillar that enables things to fix themselves. No, things won't fix themselves. You need to be constantly impatient for success, but against the background of long-term objectives."

A strong indication that values are also important in generating deal flow is that the most recent investments made by Ferd were in two other family businesses where the owners selected Ferd as their partner over other suitors.

Family businesses like Ferd that reinvent themselves perhaps don't get too bogged down with the idea of legacy. As Andresen says: "Of course, there is a legacy, all the stuff we've done. But let's look at what we are going to do. That is the best way of having a legacy."

That said, the impact of five generations of the Andresen family who built a business empire endures. Andresen says he honours that through his efforts beyond Ferd, such as setting up a microfinance fund and Ferd's social enterprise efforts. He is also chair of a council of ethics for Norway's oil fund, one of the world's biggest sovereign wealth funds. "As family owners, we always said the leader doesn't just lead in a closed company. They have two roles. One was to run the company, and the other was to play an active role in society. Successive generations have tried to live up to that responsibility. All these things stretch and modernise the legacy," Andresen says. "You're making a legacy outside of the company that feeds back to the values of credibility."

Established:	1933
Current generation leading the business:	Third and fourth generation
Annual turnover (2017):	€467m
Number of employees:	1,290
Sector/s:	Beverages and coffee

Taking the long view on values for sustainable business

illycaffè, Italy

Andrea Illy, Chairman

During a global coffee crisis from 1998 to 2002, prices skyrocketed, consumption fell and the euro was in turmoil. Instead of cutting staff or renegotiating supplier contracts, Italy–based illycaffè – more commonly known as illy – stayed its course, holding fast to its policies.

"We just sacrificed our profit in the short term for the long term, maintaining financial stability," says Andrea Illy, the founder's grandson and the company's chairman. "We started working immediately to improve our situation and recover as soon as possible after the crisis."

This approach to weathering business challenges by taking the long view is typical of many family businesses. Liberated from quarterly financial demands, they are freer to put the needs of employees, suppliers, customers and society first. Their competitive advantage comes from benefitting all stakeholders, not just those with financial stakes. And at a time when there is a heightened sense that business should be about a purpose beyond profit, illy's approach serves as a good example.

Andrea Illy, his sister and two brothers stay true to the purpose and values set by their grandfather, Francesco, who started the business in 1933, and their father, Ernesto, who ran it until 1994. The company's purpose is to deliver the world's best cup of coffee by pursuing excellence for everyone involved. Even more simply, illy is about happiness. "That's the real goal in life," says Illy. "In order to be creative in your life, you need to be inspired, and in order to be inspired, you need to be happy."

The company's values underscore that mission. One is to "create and share superior stakeholder value over time through our commitment to improvement, transparency, sustainability and people development." Another is to inspire everyone in the value chain – "from bean to cup" – to create what the company calls "beautiful experiences" and products to delight customers.

Pursuing that mission has not always been a smooth process. Following the dissolution of an international coffee agreement in the late 1980s, which fixed prices and guaranteed quantity and pricing quotas, a black market thrived and prices plummeted. Meanwhile, new coffee exporters like Vietnam emerged, leading to oversupply and lower prices. The market was flooded with often low-quality coffees.

Taking the long view on values for sustainable business (cont.)

In 1990, Andrea Illy, armed with a chemistry degree, joined the family business as a quality supervisor. To ensure illy was delivering on its mission to make the world's best coffee – and bought only the highest quality beans during this tumultuous period – he made some changes. Inspired by practices he saw in Japan, Illy developed a 'total quality' programme to set standards at the company and for the industry.

Then, in 1991, the company began directly sourcing beans from coffee growers in Brazil to guarantee a reliable supply of high-quality, sustainably farmed beans.

To be sure that its suppliers' practices truly were sustainable for the environment and society – in 2011 – illy partnered with DNV GL Group, an international certification body. Today, illy is audited on more than 60 important performance indicators. To share knowledge and passion for coffee all around the world as well as teach sustainability and environmentally responsible cultivation, along with better business practices, illy set up the 'University of Coffee.' Twenty years on, the university educates more than 20,000 people a year in 25 countries, including not just farmers but also people who serve and enjoy coffee.

To keep its suppliers thriving and loyal to the company, illy pays on average 30% over market value for its higher quality beans. It also keeps dividends for shareholders modest and invests most profits in the company to further improve quality.

"For a company founded on ethical values, it's very hard to accept that you are basically enriching people's lives with a well-being of coffee and you cannot give back to those who produce the product."

"The better quality we offer to our consumer, the more they will drink and the higher premium they will pay, and this can be reinvested for growth and development for those who produce it," says Illy.

In the end, it's about values. The company prioritises the needs of stakeholders like farmers over its own family of shareholders, continuing to pay farmers premium prices even when times are tough. Their businesses must be sustained just like their coffee crops. "For a company founded on ethical values, it's very hard to accept that you are basically enriching people's lives with a well-being of coffee and you cannot give back to those who produce the product," adds Illy.

Illy calls this a virtuous cycle in which everyone benefits. He thinks of the company as a 'shared-value company,' one in which competitiveness and the health and success of its communities are inextricably linked. Companies aren't profit machines but rather social institutions that use profits to create well-being for stakeholders, explains Illy.

And the consumer comes first. "My father used to say the consumer is the owner; we are not the owner. He or she is the real boss," Illy says.

Next come the suppliers, other partners and about 1,200 staff at the company's more than 100,000 retailers, cafes and shops. They all make it possible to get illy coffee into the hands of its customers in 140 countries.

Last but not least is the family, which is there not to enrich itself but to serve the company and the community. "This is our philosophy," says Illy. "This is our family business."

Pursuing purpose

Business leaders are talking more than ever about finding the right balance between the profit motive in business and a heightened sense of purpose that runs through the C-suite.

The purpose of an enterprise is its reason for existence: the expectations you have about what products and services you produce, why those create value and what you will do with the value you create in the world. Beyond making money, your purpose might include providing for your family and community, fostering an innovative way to improve the world at large or realising another aspiration. The family originally founded or acquired this business for a purpose, and unless that has changed, you are still here to realise it.

Today, business leaders are talking more than ever about finding the right balance between the profit motive in business and a heightened sense of purpose that runs through the C-suite. Corporate malfeasance has increased public distrust and led government leaders to attempt to legislate morality. Examples include a UK requirement that companies of a certain size report their gender pay gaps; regulations in China to more aggressively tax polluters; and laws in South Africa obliging companies to value non-financial stakeholders the same way as financial stakeholders.

"When we do things, we have to think about how other people might be affected by our actions and take these into account."

- Eddy Lee, Director,
Lee Kum Kee (Hong Kong)

"My father used to say the consumer is the owner. We are not the owner. He or she is the real boss."

-Andrea Illy, Chairman,
illycaffè (Italy)

Survey after survey shows that the millennial generation, which makes up a sizeable portion of the workforce in most countries, expects companies to contribute to society, have a clear purpose based on values and be more sustainable. They want to work for companies they feel good about and tend to buy from those that meet their ethical standards. To be accountable in this way, businesses will increasingly need to track their activity and its impact. Roche, the pharmaceuticals group, has a clear sense of community purpose (see case study on Roche "Projecting a vision for business in society," page 18).

In our survey, 68% of family businesses globally had a documented vision and purpose, or mission statement, for their company.

"A family business without a common purpose won't survive," says Dr. Peter May, Family Business Consultant and Strategic Adviser to PwC's family business practice in Germany, "particularly in the turbulent environment we're in at the moment when everything is changing, whether it be digitally or with the political uncertainty we see globally. Family businesses must be clear: what is our reason to stand together for the next 20 to 30 years and the next generation to come?"

"The purpose of Roche is not to make money; the purpose of ours is to satisfy a community and in particular to satisfy the patients' community."

- André Hoffmann, Vice Chairman,
Roche (Switzerland)

"If I were to speak from my heart, the most important part of the business is that we are two families. It is our greatest value as a business – this cooperation between the families."

- Sumeet Valrani, Director
Al Shirawi Group (United Arab Emirates)

Five principles for pursuing purpose

Ganesh Raju,
Family Business Leader,
PwC India

1. Purpose defines your ‘licence to operate’ beyond making money. Be clear on which problems your business is committed to solve, and what kind of value you want to generate for your customers, employees, stakeholders and society.
2. Define the link between your products and services and the company’s purpose. For example, running a company in India producing machinery for farmers means not just being great in engineering terms. It is also about a broader purpose that has to do with feeding populations and helping farmers achieve this efficiently.
3. Focus on real and sustainable value-creation according to your defined purpose along the entire value chain. Consider the impact on your business model and leave room for necessary adjustments. Staying with the farming example, do you really need to be producing highly engineered machinery for farmers in a developing country, or is your purpose better-served by producing less technically complex machinery that suits local conditions?
4. Apply and monitor Corporate Social Responsibility (CSR) principles and define key non-financial performance indicators that support you better in long-term decision making to achieve your goals and support your family business brand.
5. Communicate your defined purpose internally and externally, as well as what you are doing to achieve it. This will help you align and unify various stakeholders, strengthen your employer branding and bring your competitive family business advantage to life.

Established	1876
Current generation leading the business:	Fifth generation
Annual turnover (2017):	About US$23bn
Number of employees:	More than 53,000
Sector/s:	Adhesive technologies, beauty care, laundry and home care

Showing values through sustainability

Henkel, Germany

Simone Bagel-Trah, Chairwoman, Supervisory Board

Fritz Henkel was probably among the first sustainability entrepreneurs in history. After founding Henkel, now one of the world's biggest industrial and consumer businesses, in 1876, he made sure the chimneys in his factory were built taller than what was legally required. He didn't want ash falling on his neighbour's fields and harming their crops.

"My great-great-grandfather was keen to build good and long-lasting relationships with his employees, business partners and neighbourhood," says Dr. Simone Bagel-Trah, Chairwoman of Henkel's Shareholders' Committee and Supervisory Board. That visionary commitment to sustainability and social responsibility has been an overriding principle for Henkel since its earliest days.

In 2010, Henkel developed an ambitious sustainability strategy known as 'Factor 3.' It lays out the company's goals for 2030: to create more value with a reduced ecological footprint and to become three times more efficient. It aims to do this either by creating three times the value created in 2010, while using the same amount of resources, or by producing the same value as in 2010 with only one-third of the resources. "Achieving more with less: this idea is at the heart of our strategy, because we need sustainable solutions that will allow future generations to live a good life, too," says Bagel -Trah.

Henkel is collaborating with partners along the entire value chain to get this done. One example is its cooperation with Plastic Bank, a Canada-based social enterprise that collects plastic waste before it enters the ocean, while creating income-generating opportunities for people living in poverty. Henkel supports collection centres in Haiti, one of the poorest countries in the world and one with no recycling infrastructure. Local collectors pick up plastic they find in waterways or in the street, hand it in at a collection centre and, in return, get cash, cooking fuel or free charging for their mobile phones.

Henkel is also incorporating the plastic collected into its own product packaging, which marks another step towards creating a 'circular economy.' This is just one of many sustainability initiatives that Henkel supports around the world, in addition to driving resource efficiency within its own operations and business. This commitment is regularly recognised in external ratings and rankings.

So, sustainability is a core value for both the company and its founding family – one of five company values inscribed on five pillars in the foyer of Henkel's headquarters in Düsseldorf:

- We put our customers and consumers at the centre of what we do.
- We value, challenge and reward our people.
- We drive excellent, sustainable financial performance.
- We are committed to leadership in sustainability.
- We shape our future with a strong entrepreneurial spirit based on our family business tradition.

The five values were adapted in 2010 after a comprehensive consultation with different stakeholders. The company then held workshops with all of its 50,000 employees globally to integrate the values into the company. "The previous set of values wasn't clear enough," says Bagel-Trah. "And we had too many of them. Reducing their number from 10 to five allowed us to ensure that everyone remembers and understands them. It's much easier to identify with a set of values and act on them when they are clearly laid out and are relevant to employees in their daily work."

The company's values also have implications for the way Henkel attracts and recruits new employees. "We want to make sure that they fit into our company culture, and vice versa," says Bagel-Trah.

Fritz Henkel's legacy is still alive through these values today. "He might have worded them a little differently back then, but they contain the essence of what was important to him in his time," says Bagel-Trah. "A few years ago, I did some research in our archives. I read a lot about the era in which he lived, about what he did and said, the letters he wrote, what he said to his employees. I found all of our current values reflected in many of those documents."

Henkel is a publicly-listed company, with a majority shareholding by the Henkel family. "However, we are not like many other family-run businesses where the business is entirely in the hands of its founding family," Bagel-Trah says. "Henkel is more than 140 years old, but we have been a listed company for more than three decades. In essence, we are a 'hybrid' that combines the best of both worlds. The family is still the biggest shareholder, but we also have outside shareholders and fulfil all the requirements of a listed company in terms of transparency and governance."

The Henkel family owners are spread out all over the world and include more than 150 members, including Christoph Henkel and Konstantin von Unger, who sit on the company's Shareholders' Committee with Bagel-Trah. Together, the family has put more than 60% of the ordinary shares in Henkel in a share-pooling agreement, which is the cornerstone of the family's governance structure. Under the agreement, the family shareholders have committed not to sell their shares - at least not outside of the family.

Bagel-Trah says one of the ways the family reinforces its values to all of its members and passes them on to the next generation is through regular family events. "We organise many family meetings. We live our values without needing to constantly and explicitly refer to them," she says. "Seeing how we interact makes it clear that they are important and highly relevant to us."

"We live our values without needing to constantly and explicitly refer to them. Seeing how we interact makes it clear that they are important and highly relevant to us."

Established	1888
Current generation leading the business:	Fourth generation
Number of employees:	10,000
Sector/s:	Conglomerate

The value of constant entrepreneurship

Lee Kum Kee, Hong Kong

Eddy Lee, Director (also Chairman of the Lee Kum Kee Family Investments Ltd.)

Ten years ago, the family owners of Lee Kum Kee, famous for its oyster sauce, unveiled a sculpture in its main production base in China's Guangdong province. The *Willow* sculpture celebrated Lee Kum Kee's 120 years of existence, but it was also designed to represent the company's core value of 'Si Li Ji Ren,' which translates to 'considering others' interests.'

It's a value that has guided the company through sometimes tumultuous times and continues to do so as the company strives to be a successful family business many years into the future.

"This is our core value," says Eddy Lee, a fourth-generation member of the Lee family owners and the person in charge of the family's affairs and investments. "When we do things, we have to think about how other people might be affected by our actions and take these into account."

The family came up with the idea for a sculpture to symbolise Lee Kum Kee's values. He says the artwork also integrates three crucial elements of being a family business: the interrelationship between the family, the company and the community. "These are very important to us as a business and a family," he says.

Those values have helped build a business that is the world's largest manufacturer of oyster sauce and one of the largest producers of soy sauce. Under the fourth generation of the family, Lee Kum Kee has diversified into being a maker and supplier of Chinese herbal medicines through its LKK Health Products Group. The business has diversified further in recent years, including into real estate. In 2017, the Lee family acquired the '20 Fenchurch' skyscraper – better known as the 'Walkie-Talkie' – in London's financial district for a record-breaking £1.3bn.

But it is perhaps its oyster sauce that best encapsulates the values of Lee Kum Kee to the broader public. The branding on the sauce bottles usually portrays a stylised, traditional scene of a woman dressed in a cheongsam and a boy paddling a sampan full of oysters.

"We have to continuously look for change and also be able to take a certain degree of risk."

The labelling is in Chinese and English script with, among other information, a simple “Since 1888”. To the consumer, this portrays a product that has survived the test of time – exemplifying quality and longevity, two of the most outstanding values of a family business anywhere.

The efforts to diversify and bring in different streams of revenue is a testament to the Lee family’s entrepreneurship, which Lee says is itself a significant value. “We call it constant entrepreneurship,” he says. “We have to continuously look for change and also be able to take a certain degree of risk.”

Lee says the family nurtures this constant entrepreneurship through what its members call the ‘6-6-7-7’ concept. “This idea means you don’t have to have a 100% [certainty] of making a success of a new initiative. You need maybe about 66% to 77%. It means to take the risk and go ahead and do it.”

But it is perhaps through an initiative of Lee’s brother Sammy in setting up a venture capital company called Happiness Capital, where Lee Kum Kee’s values as a family business are evolving most clearly.

Despite Lee Kum Kee’s success today, not so long ago, family disharmony threatened to bring the business down. To ensure the business survived, the family had to evaluate their values and implement various structures.

Lee Man Tat, Lee’s father, was taken to court by his brother for control of the business more than 30 years ago. Man Tat resolved the conflict by buying out his brother’s shares of the company. But this conflict between siblings and another one that occurred within the second generation led members of the fourth generation – Lee and his three brothers, David, Sammy and Charlie, and their sister, Elizabeth Mok – to formalise a family governance structure.

They established a family council in 2002 and drafted a family constitution. “Together, we built a mission and vision statement for generations three and four,” Lee says. “And we developed the values and principles that hold all of our businesses together.”

Lee says the council has been a useful forum for resolving difficult issues and refining the family’s connection with the business. It has brought in rules such as a mandatory retirement age for family members working in the company and allowing more engagement by non-family members on the various boards that run the company and its subsidiaries.

The family also makes it a priority to meet together to resolve any issues that might affect family harmony. And their successful efforts have also brought in the engagement of the next generation into the family business through the use of external advisors.

Lee and his siblings, together with their father and members of the fifth generation, believe they have a framework for taking the business forward for many years into the future. Along with its clear set of values and its legacy, family members now even talk about creating a company that will last many hundreds of years into the future.

Securing legacy in a digital age

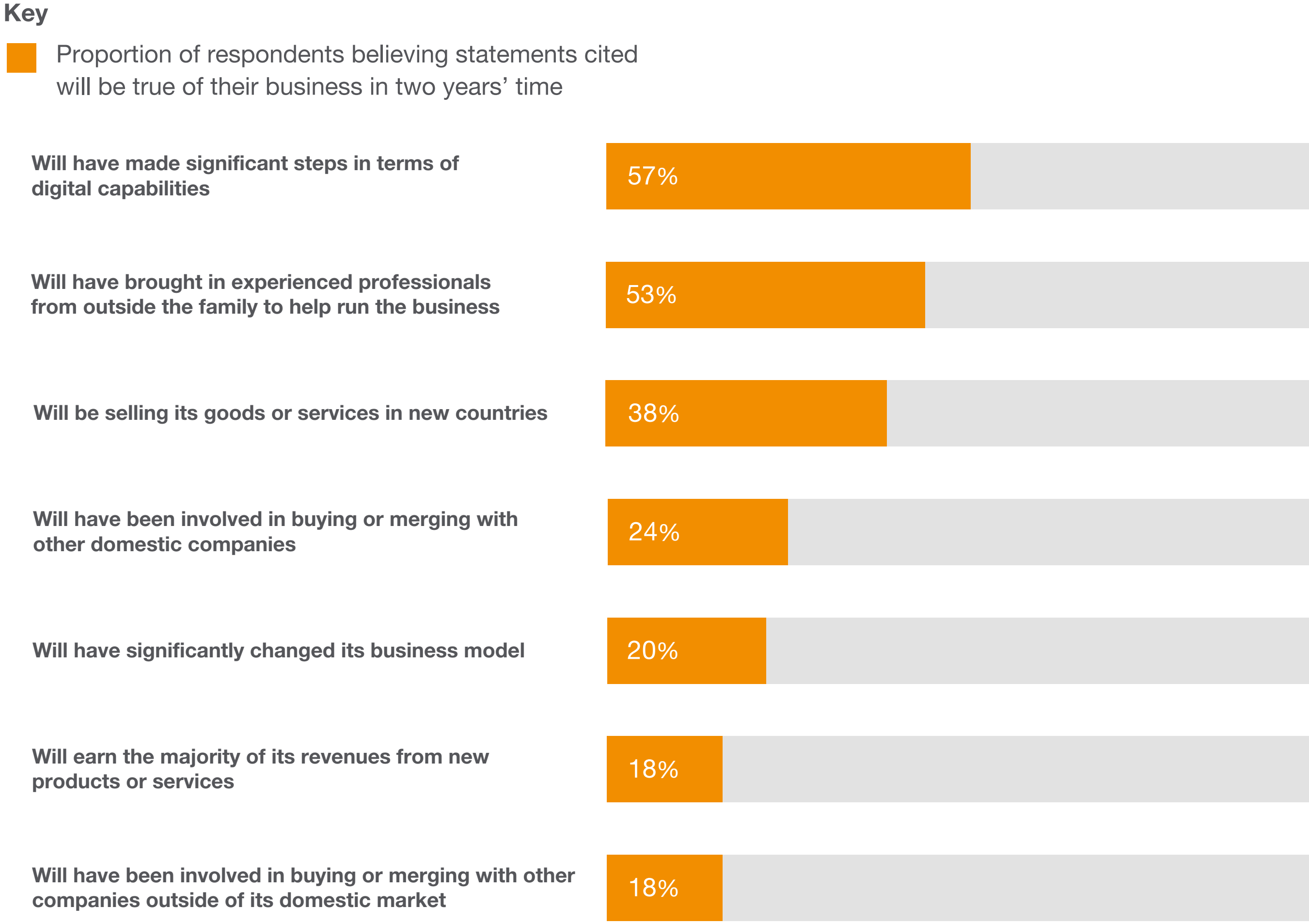
Although family businesses recognise the challenge of digital technology, that doesn't mean they are ready for it. One place to start is the board, where a strong combination of directors with the right skills can be hugely beneficial as family businesses look to tackle digitalisation. Another focus can be on millennials, who are the best-educated generation in history and are extremely tech-savvy. Part of family business legacy will be determined by the way in which the next generation is encouraged to be involved.

Family business leaders are waking up to the disruptive reality of artificial intelligence (AI), the Internet of Things, digital fabrication (3D printing) and robotics.

Thirty percent of our respondents said they feel vulnerable to digital disruption, significantly higher than the number that said so in our 2016 survey (25%). More than half (57%) are aiming to make significant steps in terms of digital capabilities in the next two years (see Exhibit 6).

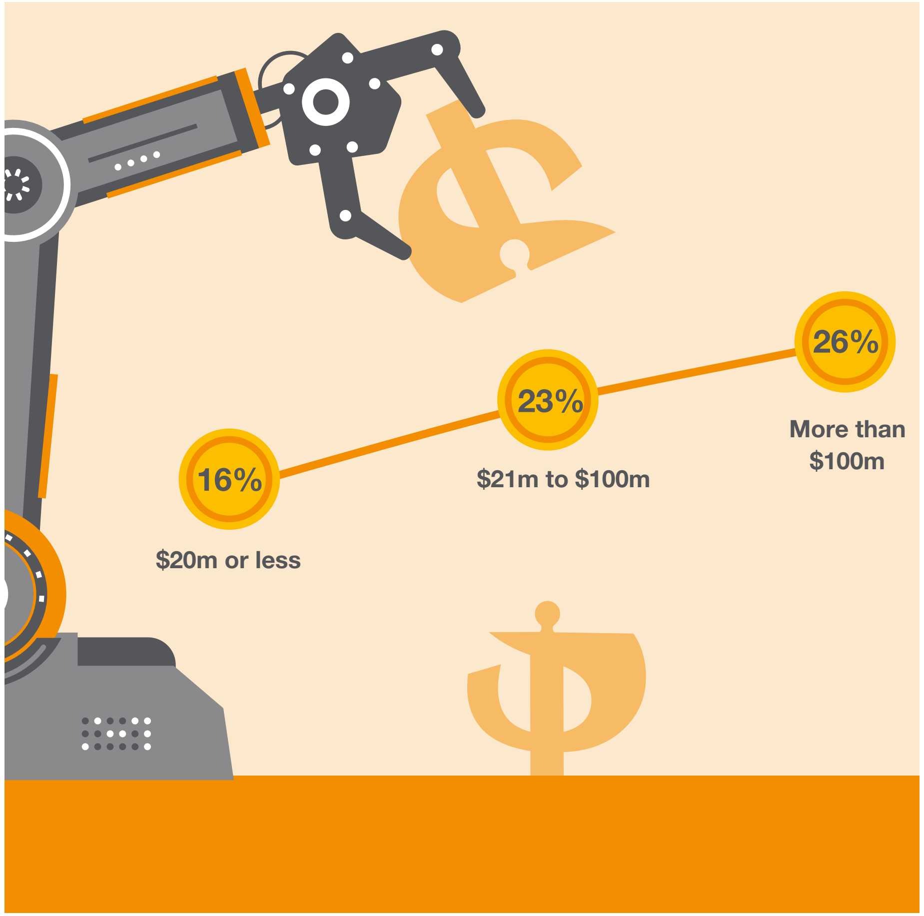
Among the specific technological advances cited as challenges by the survey respondents were digitalisation (44%), the growth of AI and robotics (22%) and cybersecurity (39%). The largest businesses, with more than US$100m in annual turnover, were more likely to see AI and robotics as significant challenges (see Exhibit 7, page 34).

Exhibit 6: Where family businesses see themselves in two years



Base: all global respondents (2018: all answering n=2,948-2,051)
Source: PwC Global Family Business Survey 2018

Exhibit 7: Percentage of companies saying AI/robotics will be a key challenge over the next two years, by revenue (US$)



Base: all global respondents with turnover of $20m or less/$21m–100m/over $100m (2018: n=684/1,032/985)

Source: PwC Global Family Business Survey 2018

Although family businesses are starting to recognise the challenge of digital technology, that doesn't mean they are ready for it. The most likely respondents to say they felt vulnerable to digital disruption were in these sectors: retail (53%), financial services (52%) and media and entertainment (65%). When asked specifically about digital disruption, only a minority could talk about specific technologies, and only 20% of respondents felt they would have significantly changed their business models within two years.

In Singapore, one of the most digitally connected cities on earth, we recently conducted a separate survey of family businesses in conjunction with the financial services firm UBS Group and the Singapore Chinese Chamber of Commerce & Industry. Even there, readiness was less than ideal. Just over 34% of those surveyed said digitalisation was included in their firm's strategic plan but also volunteered that it had not been mapped out in a well-thought-out approach. One quarter of respondents said they were in the early stages of rolling out their digital strategy.

Some family business leaders recognise this gap and are expressing concern. Others kept coming back to the challenge of keeping up with digital disruption. Steve Ragaller is Chief Financial Officer of Cretex, a diversified group focused on medical, aerospace and defence, infrastructure and industrial, based in the US state of Minnesota. The firm has been investing heavily in technology that is directly linked to the manufacturing process and sees itself as leading the industry in technologies like additive manufacturing and 3D printing.

But, Ragaller says, "there's the whole other side of technology that is the digitalisation of business processes and the communication between you and the customer – shortening the time frame associated with all the activities before you get to manufacturing a product. That, we're not leading in, and that's where my biggest concern is."

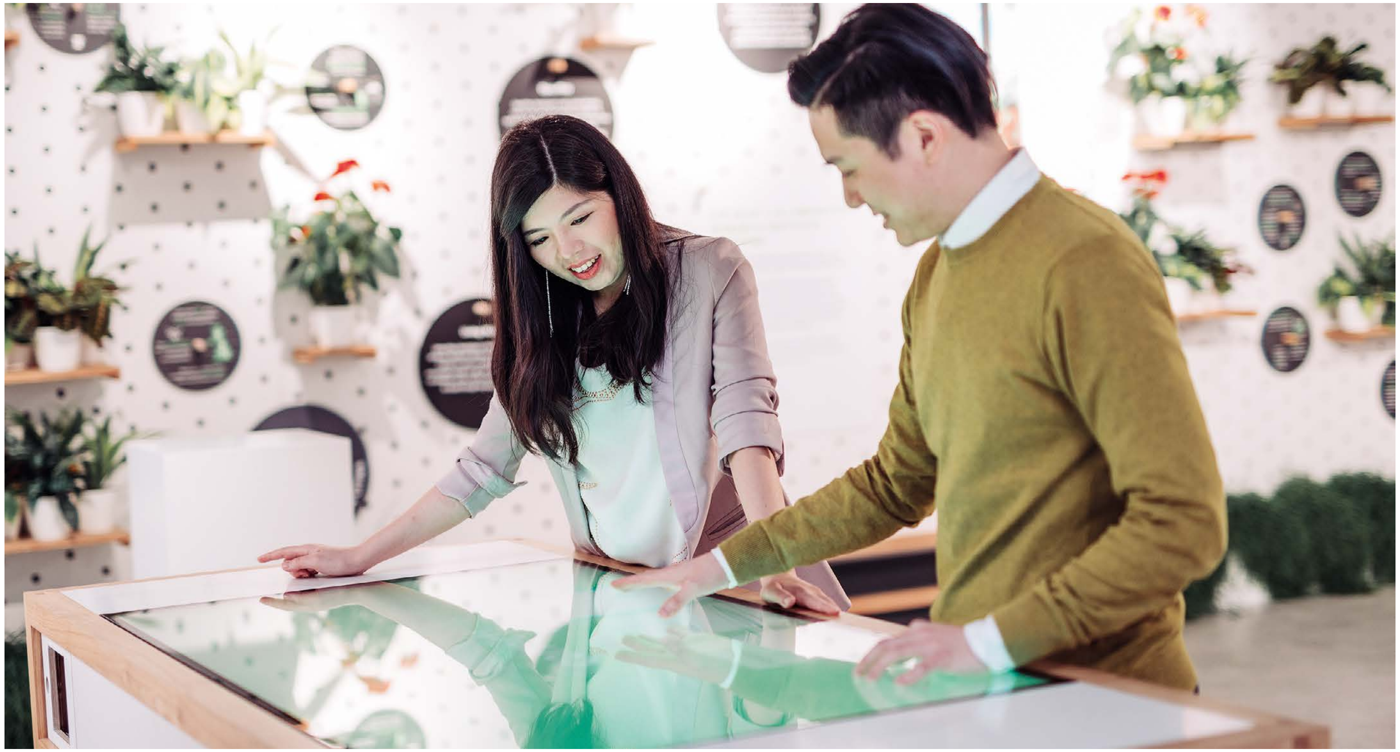
Digital technology is a critical priority when seeking potential employees. The ability to innovate and find the right people to keep the company competitive is a rising concern. Innovation and skills gaps were the two biggest challenges mentioned, while business leaders cited hiring, keeping and rewarding employees as top priorities.

"We realise the importance of transforming digitally, but finding the right talent to help us initiate and lead this process is another matter," says Joseph Foo, Chief Executive of Jason Marine, a family firm in Singapore that provides integrated solutions for communication, navigation and automation systems for the marine and offshore oil and gas industries. “Not only do we need talent who are skilled in all things digital, but we also need people who possess an intimate knowledge of our business and who understand how to navigate the challenges that are unique to our business and industry. It is hard to find someone who ticks all the right boxes.”

One place to start is the board, where a strong combination of directors with the right skills can be hugely beneficial as family businesses look to tackle digitalisation. Another focus can be on millennials, who are the best-educated generation in history and are extremely tech-savvy. They have a significant amount to offer families grappling with issues such as digitalisation. They are global citizens and represent a rich source of solutions to the skills gap, given their experience and education. And here’s an important point: part of legacy will be determined by the way in which family businesses encourage the next generation to be involved.

“There’s a big generational divide between the older, grey-haired, silver foxes and the next generation coming in,” says Paul Andrews, Founder and Managing Director of Family Business United, a UK-based resource centre for family businesses. “Once they get these younger people, it’s important to empower and enable the disruptive generation and allow them to do their job. The family businesses that don’t embrace change probably won’t be here in 20 years’ time because they haven’t taken the steps to address these issues now. When they do, it may be too late.”

Interestingly, in our survey we found that 69% of respondents expected or encouraged the next generations they hire – including their family members – to gain experience outside the family business. They recognise that no company has a monopoly on digital innovation, and it’s better to learn from a broad base of experience. In PwC’s recent study **(Same passions, different paths, 2017)**, we found that young family members are joining their family’s enterprise and already making a difference in digital technology.



“Digital transformation not only requires new technical solutions, it also requires a new culture. Family businesses are well-advised to use the digital skills of the next generation to successfully shape change.”

- Prof. Martin Viessmann, Chairman of the Board, Viessmann Group (Germany)

When families recognise the value of the next generation and empower them to take the initiative on digital technology, it can be transformative for the enterprise. At Viessmann Group, a German energy solutions provider, Chairman Martin Viessmann explained in a recent PwC study **(PwC/INTES 2017, Strategien erfolgreicher Familienunternehmen: Konservative Innovatoren)** that his son had been responsible for driving digital transformation before taking on a larger role in the company. “Digital transformation not only requires new technical solutions, it also requires a new culture. Family businesses are well-advised to use the digital skills of the next generation to successfully shape change,” Viessmann said.

Rikki Maizey, one of our survey respondents, is Chief Executive of Maizey Plastics, a large South African maker of industrial plastics.

He explains how he has employed his son in a new role: developing an online store for the company’s current and prospective customers.

“My son Richard has been working in the organisation for close to 18 months, but you know, we’re dealing with Gen Y here. We have to sit down and listen to the younger generation and understand what drives them and what makes them tick, and then see how we can use that in our business.

So, that's why I've been very specific with him on developing the online store for us," Maizey says.

There is an important note of caution here. Anecdotally, we hear from leaders that getting their own kids to join the business is difficult and requires increasing flexibility about what roles they might play. Next-generation members as a group are better educated and have more choices than preceding generations. They demand more meaningful work and have higher expectations from employers. Luring home next-generation family members after educating them abroad and widening their horizons presents the same hiring challenge. Why should young people return to the family firm in Vietnam when they can start something new with university friends in Montreal?

Eddy Lee is a fourth-generation member of the owning family of Lee Kum Kee, a Hong Kong–based firm famous for making the oyster sauce and condiments of the same name (see case study, "The value of constant entrepreneurship," page 30). Lee, who is in charge of the family's affairs and investment, says the company is making an extra effort to integrate the next generation into the family business in various ways.

"It's…dangerous to put an unmanageable or unfair burden on the next generation. You have to create a climate and a system where future success is not solely dependent on the next generation. You have to create a system where the next generation can slot in and feel happy and at home and enabled. You can't rely too much on them, but at the same time, let them fly. There should be a balance."

- Tommie Van Zyl, Chief Executive, ZZ2 (South Africa)

Five principles for building a digital legacy

Ng Siew Quan,
Asia Pacific Leader - Entrepreneurial & Private Business, PwC Singapore

1. Accept the reality that, thanks to the digital revolution, the world is different from the one you have experienced in the past as a family business founder and owner. You might have to rethink your assumptions about the way your business creates value.
2. Recognise that the next generation in your family business can play an important role in ensuring you are digitally fit-for-purpose – and so ensure your legacy in a rapidly changing world. Accept that you need help. What better way to get help than from the next-generation members of your own family?
3. Empower your next-generation family members, let them experiment and let them gain experience outside your business. Crucially, let them have the resources to do so. When they enter your business, agree with them on whether they have a custodial or 'intrapreneurial' role in a digital transformation – that is, whether they are merely stewards of the existing business or they will be given support and space to try a digital idea – some incubation capital, for example.
4. Enlist and encourage next generations to bring older employees along on the digital journey through 'reverse mentoring.' Reverse mentoring of parents counts, too!
5. Inculcate the family's values and those of the business into the new digital business you are building. Don't assume that by adopting digital strategies you somehow need to change your family or business values; they usually remain as they were.

Five principles for a forward-looking legacy

Jonathan Flack,
US Family Business Services Leader, PwC US

1. Thinking about the family business legacy – and how the family can and should continue it – can often boil down to simply thinking about succession. But there is much more to think about. Legacy should involve a plan for leadership succession, board succession and ownership succession, all combined. Pulling all this together into a comprehensive, formalised 'continuity plan' really helps.
2. Build this up as your forward-looking, mid-term strategic plan for the business. Remember that it doesn't merely focus on how you transition to the next generation and how they become the new managers of the business.
3. It's important to emphasise that leadership succession is best handled through long-term strategy, not tactically at the time when the successor is needed. When planned over five to 15 years, the family can find a variety of candidates – family and non-family – and give them training and opportunities to grow.
4. Board members with multiple industry perspectives can prove helpful when navigating the vast amount of change that businesses are faced with today, especially those we highlight in this report around digital disruption.
5. A good ownership succession plan should look at the most effective ownership structure for the business and revisit it regularly to determine whether adjustments or improvements should be made. It is a continuous process and is not something done one time. It is something the leadership of a family should continually assess.

Established:	1956
Current generation leading the business:	Second generation
Annual turnover (2017):	US$2.48bn
Number of employees:	24,000
Sector/s:	They are present in more than 16 economy sectors featuring: cellulose and paper, automotive, metals and mining

Channeling legacy in valuable ways

The JSL Group, Brazil

Fernando Simões, Chief Executive

The Instituto Julio Simões in the Brazilian city of Mogi das Cruzes has a replica of an old truck on display. In any other context, the truck would have little or no relevance, but for JSL, Brazil's biggest logistics company, it has special significance.

"It was the truck where it all began," says Fernando Simões, Chief Executive of the JSL Group, "the first truck my father used to start the business in the 1950s." Simões' father, Júlio Simões, left a sizable legacy. An immigrant from Portugal, Júlio created the biggest logistics company in Latin America's largest economy. It's a legacy that is intertwined with the extraordinary growth of the Brazilian economy in the years since JSL was founded. And it's the legacy of a company that has done as much as any company in the country to create employment opportunities and better working conditions.

JSL employs 24,000 people and operates a fleet of thousands of trucks and cars. It has diversified into vehicle dealerships and leasing through its subsidiary Movida. It also has a car and truck rental business.

In the first decade of the new millennium, JSL witnessed unprecedented growth, with net revenue rising from R$181m in 2000 to R$1.5bn by 2009. In 2017, JSL had revenues of R$8.1bn. It is also listed on the "B3" stock exchange in São Paolo, although Simões family members are the biggest shareholders.

Simões says that one of the company's main values and a significant factor in JSL's success has been putting the customer first. "This has always been a big part of the company's culture, something that started with my father and moved over to the next generation," he says. "We seek to understand the real needs of each client – seek to provide the best service – which all helps us to have long-term business relationships."

Simões' work at the family business began early. He started working for his father's company when he was just 14, in 1981.

The role of his father at this early stage was obvious, Simões says. "I did not start working here because I liked the company; I started working here because I liked my father."

His skills also were a significant factor in following in his father's footsteps. Simões moved up through the company and in the early 1990s, he began sharing management of the business with his father.

Channeling legacy in valuable ways (cont.)

> "We always seek to hire people who have principles in their DNA that are in line with our values."

In 2009, Júlio passed him the chairmanship of the company, which he took public a year later, changing the company name at the same time. Simões says this is also when the company sought to reinforce the importance of perpetuating its core values, which were defined and shared at the company in 1991. Those values are the importance of the client, the employees, hard work, simplicity and profit.

He says these values are important to the overall culture of the business and are used when recruiting staff.

"We have many thousands of employees and recruit many every year, but what we always try to do is use our values to help us make the right decisions when hiring," he says. "We always seek to hire people who have principles in their DNA that are in line with our values."

In 2006, the family business set up the Instituto Julio Simões, a nonprofit organisation that channels JSL's investments in socioeconomic projects. It not only focuses the group's values "more practically," says Simões, but also "helps to channel the legacy of my father."

The institute has concentrated on areas like raising awareness of the importance of primary healthcare and providing free healthcare to many of JSL's vehicle drivers. Launched by the institute in 2011 and still an essential part of its work today, the Pela Vida Program aims to minimise the risks to driver safety. Drivers often deal with long hours, poor eating habits, irregular sleep and social isolation.

The institute is also trying to become a reference point for good safety practices in road transport and sustainable development in the logistics sector.

Simões, now in his early 50s, likes to emphasise not just the role his father played in his life and the business but also the role of his mother, Elvina Benedicta Simões. Without her influence on encouraging harmony within the family of eight, he says, his father wouldn't have been able to create the business he did.

Simões says the values and the legacy of his father and mother are in good hands with the next generation. His son Fernando Simões Filho sits on the board of JSL. The family has not yet drawn up a family constitution, but "this is something we are looking at", Simões says.

Markus Miele (left) and Reinhard Zinkann

Established	1899
Current generation leading the business:	Fourth generation
Annual turnover (2018):	US$4.8bn
Number of employees:	20,100
Sector/s:	Manufacturer of premium domestic appliances

Always valuing independence, across generations

Miele, Germany

Reinhard Zinkann, Executive Director

Dr. Reinhard Zinkann recalls an occasion a couple of years ago when he was asked why his company, Miele, was not interested in receiving a credit line – a common type of bank funding for companies. He explained to the person he was talking with that Miele simply doesn't use credit lines.

Miele is known globally for its premium domestic appliances, such as washing machines, ovens, dishwashers and vacuum cleaners. In its 119-year history, the company has only ever used its own funds, eschewing bank loans, stock exchange funding or other forms of external capital.

"Keeping the company free from the often short-term interests of the capital market has helped us overcome economic crises, changes of government and periods of high inflation," says Zinkann, one of Miele's five executive directors.

This helps the company take a long-term view of business, especially at a time when pressure on publicly-listed companies to deliver on a quarterly basis has arguably never been greater. "Finally," says Zinkann, "it helps us to strengthen our position as an independent, family-driven enterprise as well, which is our overriding strategic goal."

The way in which Miele finances itself is a rarity in business, and so is its ownership structure – even relative to other family businesses. Co-founded by Zinkann's great-grandfather – also called Reinhard Zinkann – and his business partner, Carl Miele, in 1899, the company is owned almost equally by two families: the Mieles (51%) and the Zinkanns (49%). Markus Miele – like the present-day Reinhard Zinkann, one of the great-grandsons of the co-founders – represents the Miele family within the company. Only direct descendants of the co-founders are granted shareholder status. The families have never intermarried and stay equally committed to the business and its ownership structure.

When it comes to manufacturing and the customer, Miele has always been guided by its promise of 'Forever Better.' The phrase was devised by the two founders and has guided Miele and its employees ever since, according to Zinkann. This notion forms the basis for the company's aspiration to be the quality and innovation leader in the industry, as well as for its focus on maintaining the Miele brand's position in the premium segment. These core values remain unchanged but are interpreted in line with the times. 'Forever Better' doesn't just refer to the idea

Always valuing independence, across generations (cont.)

> "You can only interpret the values of the family – the values of the business – by living them personally and by making everybody in the business aware of them."

of having a quality product that helps people handle laborious household chores with ease, but also endeavours to inspire people and enrich their lives.

Miele's values help with its recruitment efforts, too, says Zinkann: "We offer secure and well-paid jobs in a highly respected company, which combines the values and appreciative culture of a family-run business with the job and career perspectives of a successful global player. This distinguishes Miele from many other employers and makes Miele attractive to potential employees."

"Our notion of 'thinking in generations' and a family-like atmosphere of appreciation are very tangible at Miele. Like the two proprietor families, we have some employees who also represent the third or fourth generation of their families."

Every new manager is taken through an induction programme, which involves visiting company headquarters in the German town of Gütersloh, as well as visiting sales offices elsewhere, to give them a sense of the way values are brought to life on a daily basis throughout the company.

As part of this programme, new colleagues get to know the executive directors and co-proprietors, who make a point of being accessible and approachable in the course of daily work.

"An old calendar motto still hangs on the wall in Carl Miele's former office, which says, 'Freude ernährt; Unfriede verzehrt,' which can be interpreted as 'In peace, we flourish; in discord, we wilt.' Together with a sense of mutual respect, this notion possibly made it easier for our two-family business to avoid existential conflicts among partners than what you can find at a one-family company, where several family groupings may have to coexist," Zinkann says. This spirit of cooperation between both families created a strong legacy at Miele that remains in place today.

That spirit has forged deep roots in the company's governance structure. Miele has a 'family council,' made up of three representatives from each family, which was put in place to make sure that one family cannot out-vote the other in company meetings.

This structure filters down through senior management. The operational management team is made up of five executive directors who works on an equal footing and who arrive at decisions unanimously.

Says Zinkann: "You can only interpret the values of the family – the values of the business – by living them personally and by making everybody in the business aware of them, by making the 'genetic code' of these values comprehensible to all. In the end it all boils down to defining why you are in business."

Private equity: thinking outside the family

Family businesses and private equity are reaching a moment of convergence of interests – on goals, and even values and purpose – at a time when there is an increasing focus on long-term value generation, succession and professionalisation at family businesses.

Family business leaders have traditionally viewed private equity investors as not necessarily compatible with their long-term strategies and values. Nonetheless, we included questions on external financing this year.

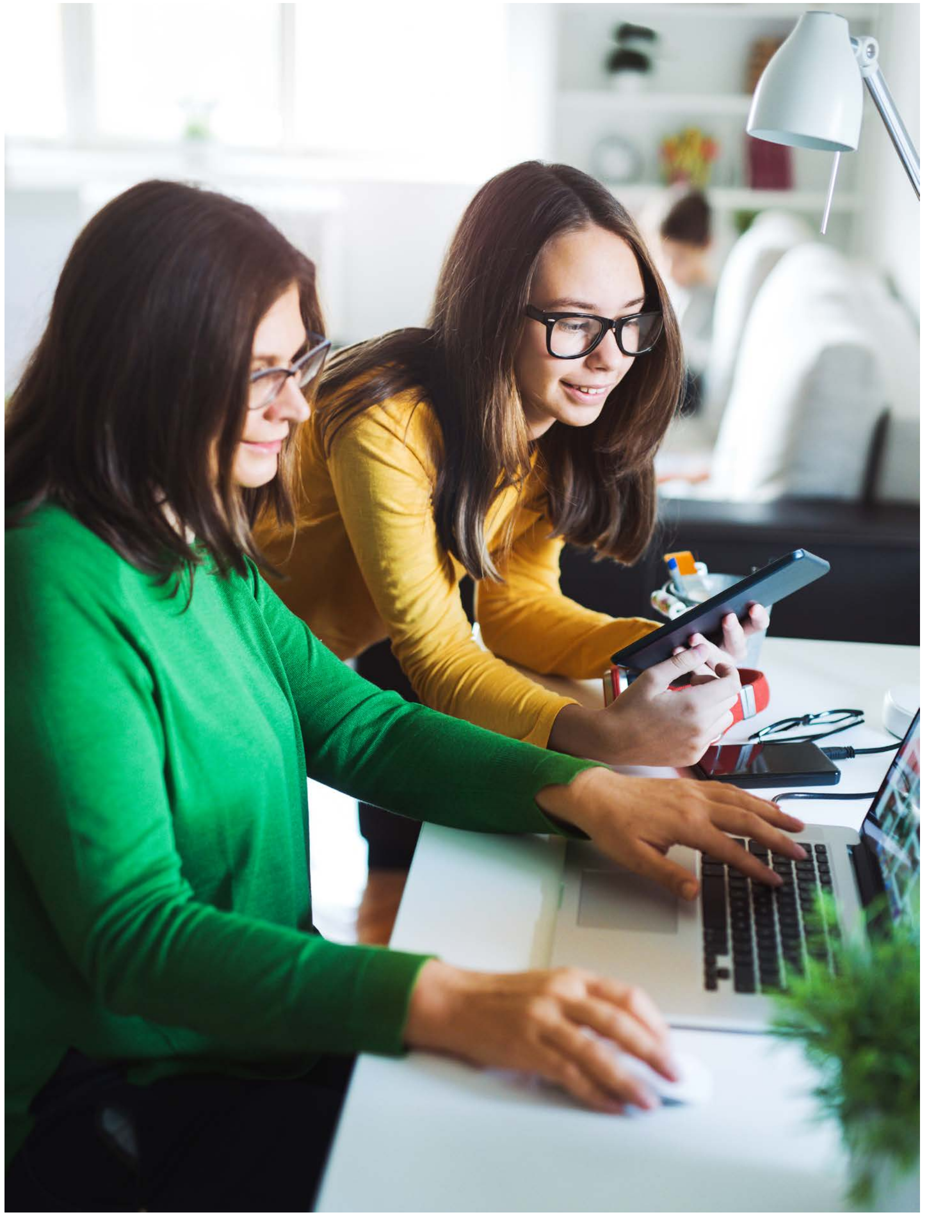
One of the most striking findings is that while 81% of respondents continue to rely more on banks for funding needs, more than a third of family business leaders said they would consider private equity.

That echoes what PwC has found in other recent studies, notably in Germany, home to tens of thousands of privately-held Mittelstand companies that form the backbone of the country's economy. When respondents were asked in a PwC Germany study in 2011 whether they would be open to private equity, a mere 18% said yes. That proportion grew to 61% by 2013 and a staggering 83% by 2017, the latest year the survey was done **(Private Equity in Familienunternehmen: Der Beginn einer wunderbaren Freundschaft?).**

This tells us that family businesses and private equity are reaching a moment of convergence of interests – on goals, and even values and purpose – at a time when there is an increasing focus on long-term value-generation, succession and professionalisation at family businesses.

Demographics and legacy are big factors. Over the coming decades, trillions of dollars will be passed down from one generation to the next in the largest transfer of wealth in history. More than 350,000 family and private businesses will change hands as owners retire, according to a 2018 PwC Australia study on the role of private equity in family business **(Once in a lifetime: Creating the right growth for Australian private and family business)**.

In this situation, family business leaders often face a choice between an outright sale, maximising growth potential before a sale, or 'going for growth' and engaging with private equity.



One of the most striking findings is that while 81% of respondents continue to rely more on banks for funded needs, more than a third of family business leaders said they would consider private equity.

Those seeking to maximise growth need a partner who offers more than money. The right partner will help improve governance and procedures, add a more challenging board member, expand the network and eventually help prepare the business for a successful exit or succession. An increasing number of family businesses might be starting to view private equity as a smart choice.

At the same time, private equity businesses are sitting on significant amounts of money - but with few good deals to invest in. Investors are now increasingly looking for opportunities with family businesses, which are attractive because they tend to be stable – and often undervalued. To attract these family companies, private equity firms are acting in a more collaborative way, focusing on building operational value and making portfolios bigger, stronger and more reliable instead of just trying to generate quick returns.

This means that family businesses have an opportunity to learn more about the benefits private equity can bring.

Family offices can help in a private equity world

Sian Steele,
Global Family Office
Leader, PwC UK

Family businesses consistently deliver long-term, sustainable growth, underpinned by their focus on values and profit with purpose.

Yet the research we have undertaken over the last 14 years shows us that they don't always achieve the growth they aspire to. It also shows that attitudes to leverage – the taking on of debt – within the business can be polarised. A company's decision to take a prudent approach to debt is entirely understandable when the economy is coming out of a period of global recession. But are family businesses now ready for a period of more ambitious growth and a refresh of views on fundraising? Specifically, could it be time to look at the benefits of private equity in family businesses?

For many family business owners, there is an eternal triangle of conflict formed by the desire to diversify outside the business, the need to raise capital for growth and the unwillingness to lose control. This trifecta might be fuelled by concerns that divergent views will lead to family conflict and challenges over how to recruit and keep important talent.

Historically, when we have asked family businesses how they might raise funds for diversification and growth, private equity would have been very much a 'minority sport.' But we are seeing a shift of attitude on both sides. On the private equity side, several global private equity houses are renewing their focus on the family business sector and carving out teams with the right skills and experience for the space.

At the same time, we see family businesses starting to embrace the opportunity to strengthen their boards, improve corporate governance and take steps to separate ownership and management. The process of engaging with this type of investor can be hugely valuable in bringing fresh perspectives. The finding in our survey that well over a third of respondents would be open to private equity is telling.

With this shift in appetite for separation of management and ownership, we also see a sharp uptick in the use of family offices to give structure and governance around the family, including instilling in the next generation of owners the power of vision, underpinned with purpose and values. The remit of a family office will be a varied one. But it must provide the financial management and controls to not just preserve but also grow the wealth that the family has created for current and future generations, taking legacy to the next level.

Established:	1971
Current generation leading the business:	Second generation
Annual turnover (2017):	US$761m
Number of employees:	10,032
Sector/s:	Printing and packaging, oil and gas, logistics, heavy equipment, publishing, manufacturing, engineering services, trading and education

Building on shared values between families

Al Shirawi Group, United Arab Emirates

Sumeet Valrani, Director

Sumeet Valrani believes businesses often underestimate the value of cooperation, particularly among the people within a company. That is hardly surprising, because the two businesses of which Valrani is Chief Executive are part of the Oasis Investment Company and represent a model for how two families can come together and build a successful company.

Dubai-based Oasis Investment Company, holding company of Al Shirawi Group (where Valrani is also a board member) are rare in the world of family businesses in that they are run by two families from two different countries and cultures who have come together to form a company and have managed a successful transition to the second generation of both families.

“We are a business between an Emirati family and an Indian family in partnership,” says Valrani. “We have common values and operate within this model extremely successfully. I believe the underlying dynamic of the business is built on our two-family dynamic.”

The Al Shirawi Group was founded in 1971 by Abdullah Al Shirawi and Mohan Valrani, Sumeet’s father, as a trading business and has since become one of the biggest conglomerates in the United Arab Emirates. It operates in multiple sectors, including oil and gas, manufacturing, logistics, publishing and education. The group employs more than 10,000 people across the Middle East.

Valrani believes the two-family ownership structure has been beneficial in reaching important decisions. “The fact that we are two families means we each behave with more decorum and with more unity,” he says. “Each family keeps each family united. Whenever there is any decision, one member of each family must be part of that decision. We’re their regulators, and they are ours.”

He adds: “If I were to speak from my heart, the most important part of the business is that we are two families. It is our greatest value as a business – this cooperation between the families.”

Perhaps the best example of the benefits of the two-family dynamic happened when the business went through tough times in the 1980s. In 1986, the price of oil collapsed, and the group faced an existential threat. A massive restructuring was started.

Building on shared values between families (cont.)

But everyone stuck together, went through the painful process of cutting the business back to a much smaller operation and started recovery efforts – and eventual renewal. “That process would have severely tested any relation between business owners, but, if anything, the bond between Uncle Abdullah and my father strengthened,” explains Valrani.

The crisis also led to the decision by the founding fathers that has become a guiding principle for the Al Shirawi Group: it won’t open any offices abroad unless a family member is committed to going there to sort out any problems. “Unless we are prepared to roll up our sleeves to fix the problems, then we don’t open an office there,” says Valrani. “That is a big part of our philosophy as a business today.”

The second generation of both families – whose senior members are represented by Valrani; his brother Navin; Mohammed Abdulla Al Shirawi; and Hisham Al Shirawi – came together in the early 2000s to formalise a family governance structure. Two members from the second generation of each family met to talk about how they should proceed. The final version of the plan was presented to all members of the second generation.

“Each family keeps each family united. Whenever there is any decision, one member of each family must be part of that decision. We’re their regulators, and they are ours.”

Those efforts led to the group’s so-called ‘protocol’, the first formal structure addressing how the two families interact with the business. “The protocol remains in place today pretty much exactly how it was formulated,” says Valrani. “Through the protocol, everyone knows where they stand. So far, it has stood the test of time, and that’s a testament to the strength of the relationship between the two families.”

The two founders did not participate in the formation of the protocol, instead choosing to stand back and allow the second generation a free hand to draw it up. Valrani reckons this is another reason the two families work so well together: the ability to cooperate at all levels and to let go. “The legacy of the first generation is the ability to give up control in their lifetime,” he says. The ‘letting go’ by the founder-entrepreneur is often one of the most challenging family governance issues faced by a business transitioning to the second generation.

There are seven members of the second generation working in the business now. According to the protocol, each member is allowed to bring one child into the company. Both families believe this rule will help maintain unity as the business eventually transitions to the third generation. Any member of the third generation who isn’t entering the business will be fully supported, including with the provision of capital, to assist their entrepreneurial ambitions.

Another significant value for the Al Shirawi Group is the separation of the company’s wealth and the family’s wealth. “The business is focused on profitability within the rules and regulations of the countries we operate in,” says Valrani. “With this being the case, we separate company wealth and family wealth very, very clearly.”

He adds: “The minute we start bringing in the question of a non-measurable, non-commercial purpose, we are very scared that we get into subjective decision making, and that could undermine the business.”

“The two families respect each other’s families values and cultures,” says Valrani. “And for this to work well, philanthropic efforts are always a personal decision and a private one.”

Established:	1978
Annual turnover (2017-2018):	About US$1.3bn
Number of employees:	11,200
Sector/s:	Airports, energy, roads, security and sports

The virtue of humility as a value

GMR Group, India

GM Rao, Founder and Chairman

In 1998, when the family that owns GMR Group took stock of where the business had come 20 years after it started in a rural part of India, it could look back with satisfaction on what had been achieved.

The business had grown from a tiny jute-milling operation in Andhra Pradesh state with only US$5,000 in capital to a diversified operation involving growing and trading rice, sugar, timber and cotton; building power plants; and even banking and mutual funds.

GMR grew particularly fast after a wave of economic reforms unleashed by India's government in the early 1990s, giving the private sector a key role in building infrastructure in one of Asia's largest economies. Large family-owned companies like GMR started to play a role in building key infrastructure, where the government was unable to step in on its own.

But something was missing, explains GMR founder and chairman GM Rao. "We realised that we could not do business with an opportunistic mind-set. Each business was different, and there were no synergies between them. It was very difficult to synchronise all the businesses we had entered into," he says. "We then thought that we should have a vision, have our own values and create a robust organisational structure."

In particular, Rao and his family members wondered if the group's success so far had been based on hard work – or just luck. "We wanted to understand our DNA and ultimately our values," says Rao.

The family called in consulting professionals to conduct a review to get to the core of what the business was all about. It was a detailed, top-down exercise, which resulted in the identification of seven values, of which the most important was humility. A big part of humility involves proactively seeking feedback from stakeholders, listening, learning and implementing improvements with a focus on excellence.

"Any leader who says 'I don't know' and carries that attitude, will listen, learn and implement," explains Rao.

It was this attitude of humility that, he says, helped GMR complete a major infrastructure project: the building of a new airport for the city of Hyderabad, in south-central India. It was the first time that an Indian company had built a world-class airport from the

The virtue of humility as a value (cont.)

ground up, on a greenfield site. "We executed it with humility in our hearts and an 'I don't know' attitude in our minds," says Rao.

GMR has completed many infrastructure projects since the Hyderabad airport. Many of them reflect a nation-building ethos that has driven GMR since it undertook a rationalisation of its businesses, around the same time as it identified its values.

"We found that the need of the country was infrastructure. The power sector was opening up; we entered into power sector. Roads opened up, and we went into roads. Airports opened up, and we went into airports. In all these projects, we were either the first or second to enter – and we always had pretty much a first-mover advantage," explains Rao.

In 2006, GMR won a contract to rebuild the old Indira Gandhi International Airport in Delhi. The task was completed in four years – a relatively short time frame for the industry.

Today, GMR is the largest private airport developer and operator in India; it also operates in the sector in the Philippines. It is one of the largest operators of power plants in the South Asian country, with a growing renewables portfolio. GMR also operates highways and special economic zones. The group is listed on the National Stock Exchange of India and on the Bombay Stock Exchange.

Charitable activities are important, and are principally channeled through a foundation called the GMR Varalakshmi Foundation (GMRVF) Trust, which is supported with 2–3% of group earnings annually. The Trust runs 13 vocational centres, which train 6,000 people every year.

As the group has grown, the family has ensured that it attracts the right people to manage a family business, Rao says. This has meant bringing in people with a global perspective on how family businesses and governance are handled in other parts of the world.

"We spent a lot of time in developing a family governance model. Just to identify the best people to help us with family constitution took us two to three years. Prior to writing a formal family constitution, we took almost two years to align the family," Rao says.

GMR's vision is to create what Rao calls an "institution in perpetuity." "We want to build an entrepreneurial organisation which creates value for society. This vision is very difficult to achieve, especially at this juncture when there is a lot of disruption. We have also realised that unless we have a family governance model, corporate governance won't happen, and unless corporate governance is in place, we cannot create an institution in perpetuity. Family governance is a prerequisite for all family businesses. I believe that with good family governance, one can create any type of business."

GMR is helped by a 'group performance advisor council,' an independent panel separate from the board that monitors GMR's performance from the outside. "They discuss our performance with CEOs, CFOs [chief financial officers], business leaders, customers, suppliers and important stakeholders every quarter and provide us with thorough feedback," Rao says.

When it comes to hiring, Rao believes that values, not just competence and experience, should be a criterion. "What is more important is whether our value systems match or not," he says. "A person could be an outstanding performer, but we examine if his or her value systems are good."

Rao believes there is a need, allied to values, for today's generation – and leaders in particular – to embrace spirituality. Not the religious kind, but a spirituality encompassing physical, emotional and mental harmony. "Spirituality is critical in order to control one's emotions and still be able to execute at a high level," says Rao.

"We spent a lot of time in developing a family governance model. Just to identify the best people to help us with family constitution took us two to three years. Prior to writing a formal family constitution, we took almost two years to align the family."

A final word

Values and purpose have been constant features of life at family businesses for a long time. But times are changing – and they are changing rapidly. Leaders of family businesses have an opportunity to reboot their approach to their values and purpose to ensure they are best-placed to thrive in an increasingly complex business and social environment. By doing so, they will secure a lasting legacy that's fit for the 21st century and beyond.

We believe the time has come for family businesses to view values, purpose and legacy through a lens that may be quite different from the one through which they may have been viewed historically. That's because the world is evolving at a faster rate than ever, and the assumptions that may have served a family business well over the past generation or two may not stand the test of today's challenges.

In addition, an enormous transfer of wealth is poised to take place in the next three to five years as family businesses around the world deal with a generational transition on an unprecedented scale. For many family businesses this change will introduce a multi-year period in which there will be a compelling requirement to revisit and reboot their approach to values, purpose and legacy, and to position themselves competitively for the 21st century.

There is a wealth of collective experience in the family business community that demonstrates how a new approach can pay dividends, and we believe that our 10 global case studies bring this to life and will stimulate new ideas.

We have identified a few key principles that may guide you on your individual journey:

- **Ensure the next generation is deeply involved.** Their views are likely to help bring greater alignment between family values and business values because the members of the next generation deeply understand some pivotal concepts: the pace of disruption, the impact of digital technology and the meaning of purpose. Their own way of "horizon scanning" – seeing what's around the corner – should be properly recognised and incorporated into your strategic planning. One quick win to consider: invite younger family members to observe board meetings or establish a "next-gen committee" to consult with.
- **Regard your values and purpose as your unique assets, and as your own social capital.** If used properly, these can make a real difference in distinguishing your family business. They can also enhance customer and employee loyalty, as well as increase shareholder commitment and financial returns. To bring your unique competitive advantage to life, you should codify your values in writing, embrace them, include them in your strategic planning, and communicate them effectively. Doing so will not only bridge the family interests and business needs, but also provide guidance on better decision making for the long-term.
- **Think about the composition of your board in relation to how you apply values and purpose.** Boards play a critical role in determining how to practically measure progress in the application of values and purpose, as well as ensuring that appropriate behaviours are recognised and rewarded. Having the correct balance of family and non-family board members is essential in achieving the appropriate level of board objectivity to do this successfully. An effective board with the right skills and experience will also reap benefits in how the business deals with disruption in areas such as digitalisation, as well as in shining a spotlight on the importance of having a proper strategic plan.

What is clear is that family businesses that take a more formal and collaborative approach to the determination and application of their values and purpose tend to post more impressive growth and performance statistics over the mid- to long-term. It is also clear that new imperatives are prompting the need for family businesses to reconsider their resilience and effectiveness.

At PwC, we are committed to working with family businesses to help revisit how values, purpose and legacy should be viewed and effectively deployed in the current environment of unprecedented challenge and rapid change.

"The message is clear: adopting an active stance towards company values generates practices that pay off in real terms. A commitment to a clearly defined set of values can act as an 'inner compass' for a family business as it navigates challenges of technological and competitive disruption."

- Peter Englisch, Global and EMEA Family Business Leader, PwC Germany

Research methodology

Between 20 April 2018 and 10 August 2018, 2,953 semi-structured telephone, online and face-to-face interviews took place with senior executives from family businesses in 53 territories worldwide.

The interviews were conducted by Kudos Research, in the local language by native speakers, and averaged between 30 and 40 minutes. The turnover of participating companies ranged from US$5m to more than US$1bn. All results were analysed by Jigsaw Research.

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