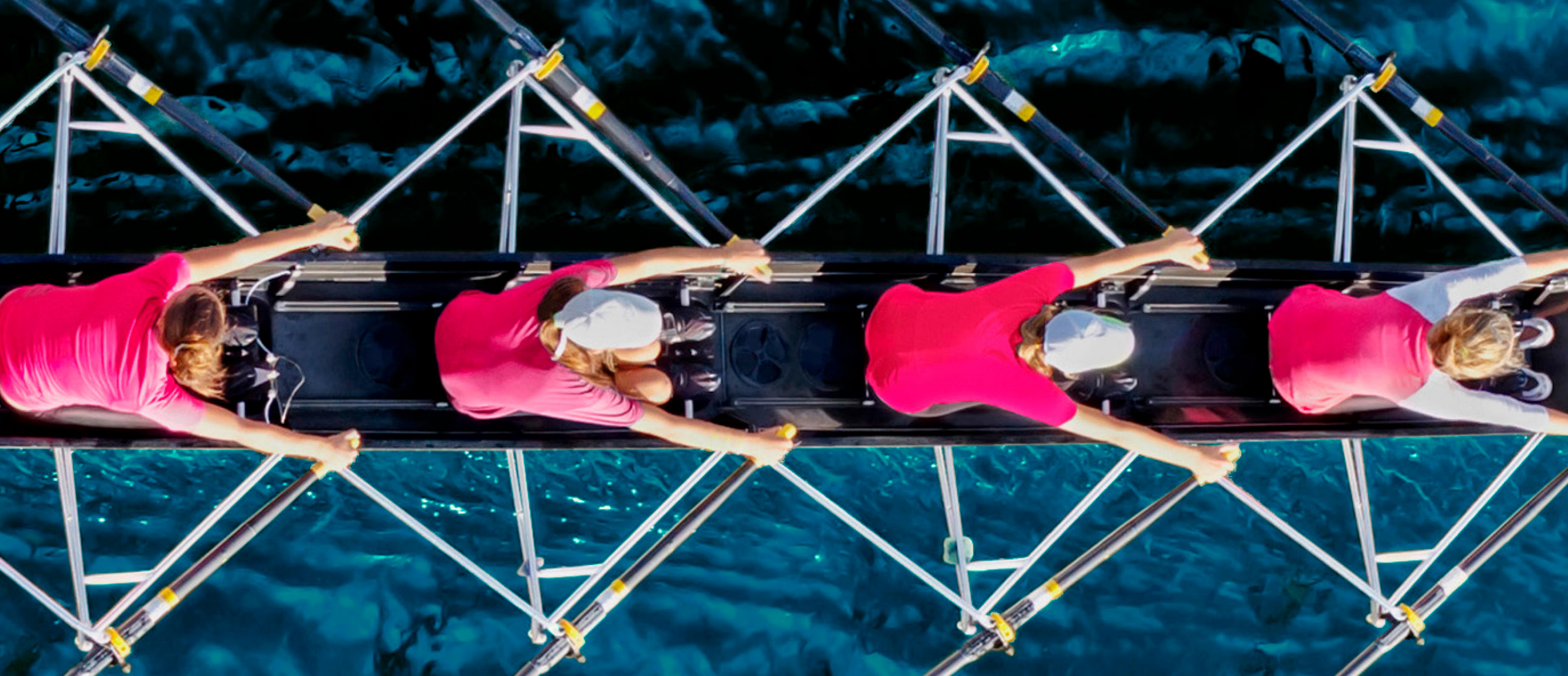

PwC's 11th Global Family Business Survey

Transform to build trust: Keeping family members united

Insights from PwC's 11th Global Family Business Survey show that although families trust their relatives, better governance structures and strong communication would lead to better outcomes.

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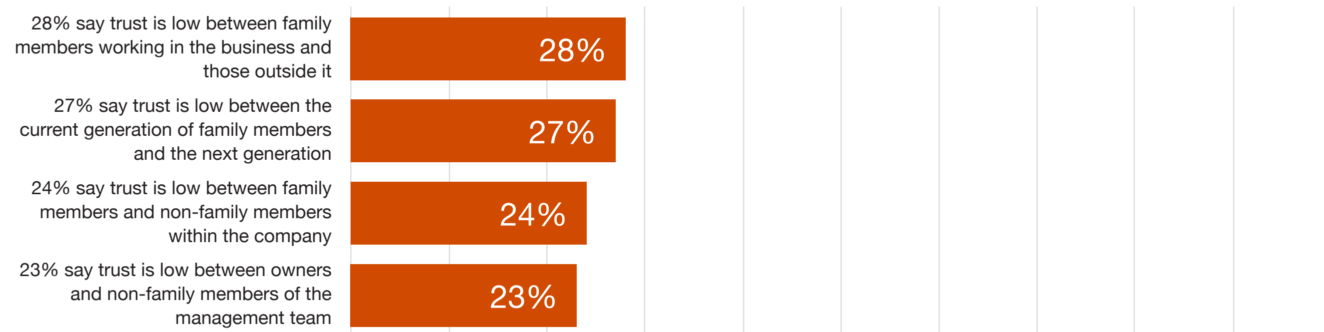
This article is the third in a series of deep dives into the findings from PwC's 11th Global Family Business Survey, each focusing on one of three key stakeholder groups: customers, employees and family members.

When family trust breaks down, a family business will inevitably suffer. History is filled with stories of high-profile family business disputes. So, it's not surprising that 85% of respondents to PwC's 11th Global Family Business Survey, which polled 2,043 family business leaders in 82 countries, say that trust between family members is essential. The good news is that nearly three-quarters (74%) of those surveyed say they are extremely confident they are trusted by family members. A further 23% say trust levels are high among family members. Only a small minority say that trust levels are low. But that's not the whole story. As the second chart below shows, stubborn trust gaps remain.

Family values

Family business leaders report high levels of trust and transparency...

...but gaps persist between groups



Source: PwC's 11th Global Family Business Survey

The relationships between family members, both those involved in the business and those who are not, can affect the management of the company in ways that simply don't exist in non-family businesses. Succession planning, for example, can take a toll if it is not managed transparently. Explaining to a son or daughter that they are not doing their job well is tough. Not surprisingly, a significant share—one in four—of respondents report a trust gap between the current generation and the next. There is a similar trust gap between family members who work in the business and those who don't.

When trust is low, conflicts occur: 30% of respondents say that disagreements happen from time to time, and one in ten say they happen regularly. Such conflicts have a spill-over effect on trust across the wider business: 22% of respondents (rising to 24% among second-generation businesses) say family disagreements are the biggest challenge when building trust with all stakeholders.

Lack of clarity and poor communication can also lead to conflict. More formal governance structures, however, will help build and maintain high levels of trust among family members and allow leaders to deliver on the three core aspects of a family business: family, business and wealth.

Family businesses often cite the fact that they are not constrained by the reporting requirements that regular corporations face. Family businesses can, for example, take a longer-term view without outside investors breathing down their necks. But to thrive and minimise conflict, they will have to become more like non-family businesses when it comes to strategy and communications. This is especially true when delineating the potential roles family members take on in the company, whether as owners, board members or other kinds of leaders.

In light of these challenges, we will investigate ways families can build trust using a model developed by Sandra J. Sucher, a Harvard Business School professor of management and the author, with Shalene Gupta, of *The Power of Trust*. The model describes four pillars of trust: **competence** (is the company good at what it does?), **motive** (whose interests is the company serving?), **means** (is the company using fair means to achieve its goals?) and **impact** (what is the tangible impact the company has, as opposed to the impact it claims to have?).

By examining the relationships and challenges that families face through the lens of these pillars, it's possible to identify key actions that leaders can take to ensure that trust remains high, and that the family legacy is preserved, even as the business and the family grow through the generations.

Competence: Clearly defining roles and qualifications reduces friction

Running a family business means having the many difficult conversations that any business leader must have about operations and performance—only with relatives, and often ones who are leaders-in-waiting. That is not easy. It's not a given that all family members will have the same expectations about their roles in the business or will agree on strategy. As the chart above shows, not all family members enjoy the same trust levels. What's more, 41% of respondents say that not all family members share similar views and priorities about the business's direction.

At PwC's NextGen Leader Academy, held in Boston in August 2022, the room was filled with highly qualified and capable young family business leaders, with an average age of 33. All held leadership positions in their family businesses, managing hundreds of people. But the majority said they were still in the dark about where the business was heading, and about what role they should play. A respect for their elders, combined with a certain degree of fear for the future, was holding them back from having essential conversations about their long-term roles.

A solid majority of family business leaders report good communications within the family—65% say relevant information is shared in a transparent and timely way, and 65% say family members regularly communicate with stakeholders about the business. But this still means that around a third are not communicating as well as they should—and it's the younger generation of family members who often feel left out or constrained as a result.

The fact is, the world is changing rapidly for businesses, regardless of the mode of ownership. Forty percent of CEOs in PwC's 2023 Global CEO Survey said that their companies will not be fit for purpose in a decade if they continue on their current track. The imperative to transform is urgent, and leaders need to be clear about what that means for the business. As Philippe Haspeslagh, the honorary chairman of Ardo, his family's US$1.3 billion Belgium-based global frozen foods company, says, 'In our company, what moved us forward the most was when the current generation stepped away from defining what the next period would look like. We asked the next-gen to prepare their view and present it to us instead.'

Room for improvement: Only 27% of respondents say they have a family employment policy.

Actions that build trust: Formally agree on education and business-experiences pathways for family members. Set milestones, and review them regularly with next-gen family members.

Motive: Write a "constitution" establishing what the family wants to achieve and how

A constitution is a family mission statement—essentially its licence to operate—that goes beyond providing details on the dividends family members can expect. It can cover everything from sustainability to community relations and financial goals. It should also include actions that specifically relate to what the company stands for. In our survey, 68% of respondents say the family that owns the business has a clear sense of agreed values and purpose for the company. But only 43% say those values and purpose are written down, and only 36% say they're communicated with family members.

A written mission statement, created with input both from those who work in the business and from those who don't, helps manage expectations and can reinforce the family business's innate advantage when it comes to a long-term view of financial returns—the so-called patient-capital approach. By contrast, when values and purpose are left to interpretation, disagreements are bound to occur. 'Communication in the family can be challenging when there is a business. It's not easy to get the point across when everyone wants to get their idea across,' says Whalen Kadji, a project manager at the Cameroon-based conglomerate Kadji Group and the grandson of the company's founder. 'That's why we all need to be clear about our values and mission.'

Assuming that different generations share the same values is unwise. 'We get people together to talk about our values and our purpose,' says Helena Brennand, family governance advisor at Valor, a consultancy, and a shareholder at Grupo Cornelio Brennand, her family's Brazil-based business. 'As head of the family council, I understand it is this board's responsibility to have family members understand the family's purpose, to make sure it is properly communicated.'

There is a correlation between trust, communication and performance. Our survey shows that respondents who have higher levels of trust report fewer conflicts, and those who have agreed values written down report higher levels of growth in the past 12 months.

Room for improvement: Only 50% of respondents say they have a shareholders' agreement. Only 41% have a dividends policy, and only 30% have a family constitution.
Actions that build trust: Ensure that the shared vision of the family stays up to date and is supported by all family members. Bring together all generations, as well as non–family members of senior management teams, at least twice a decade to review and revise the family constitution and protocols in the face of changing circumstances and mindsets.

Means: A formal governance structure improves clarity and communications

A governance structure describes the ecosystem in which family members navigate their relationship with the business, the community, and their own roles and responsibilities. If that structure is not clear, then conflicts will be harder to resolve. Harmony and support between family members are an essential part of the socio-emotional wealth of a family, which cannot be taken for granted, especially when the family grows from one generation to the next. This is true not just for those who work in the business, but also for those with roles in philanthropic activities, as well as for passive investors: they are all part of the human capital of a family business.

A governance structure will include ways to manage dissent. Challenging a company's leaders can surface new ideas, so a certain amount of conflict can be healthy. But what is the right level of tension? It needs to be high enough to trigger change or innovation but not so high that it causes a rift or poor decision-making. A formal conflict-resolution mechanism is essential for dealing with such rifts, yet only 19% of respondents in this year's survey say they have one in place, an improvement of only four percentage points over the previous survey, conducted in 2021.

Board composition is another area where family businesses are falling behind in their governance. Only 9% of those surveyed report having diverse boards, defined as ones that include two or more women, one board member under the age of 40, one non–family member and one from a different sector background. This shortcoming can be addressed explicitly in a family constitution that sets guidelines for board representation. But only 30% of respondents to the survey say they even have a family constitution or protocols in place. Those protocols should include provisions for smooth and timely succession, for example. ‘If family board members are only required to retire at 70, that means the younger generation are at least 40 before they join the board,’ says Haspeslagh. ‘Transitioning younger generations to a board role helps to manage generational transition overall.’

Room for improvement: More than a third (36%) of those surveyed say their board consists solely of family members; 31% say that they have no women on their board.
Actions that build trust: Consider organising regular family meetings during which family values and challenges—including diversity, equity and inclusion—are debated across generations.

Impact: Transparent reporting on non-financial goals shows commitment to deliver

A recurring theme of this year’s survey is that although family businesses say they have clear values and purpose, they are often failing to effectively codify those values and communicate them both inside and outside of the family.

Still, most family businesses want to be seen as leaders on issues that build trust in their communities and beyond. Nearly two-thirds (64%) say there is an opportunity for family businesses to lead the way in sustainable business practices, up from 55% in 2021; 60% say businesses need to deliver greater benefits for the planet and human society, up from 53% in the previous survey.

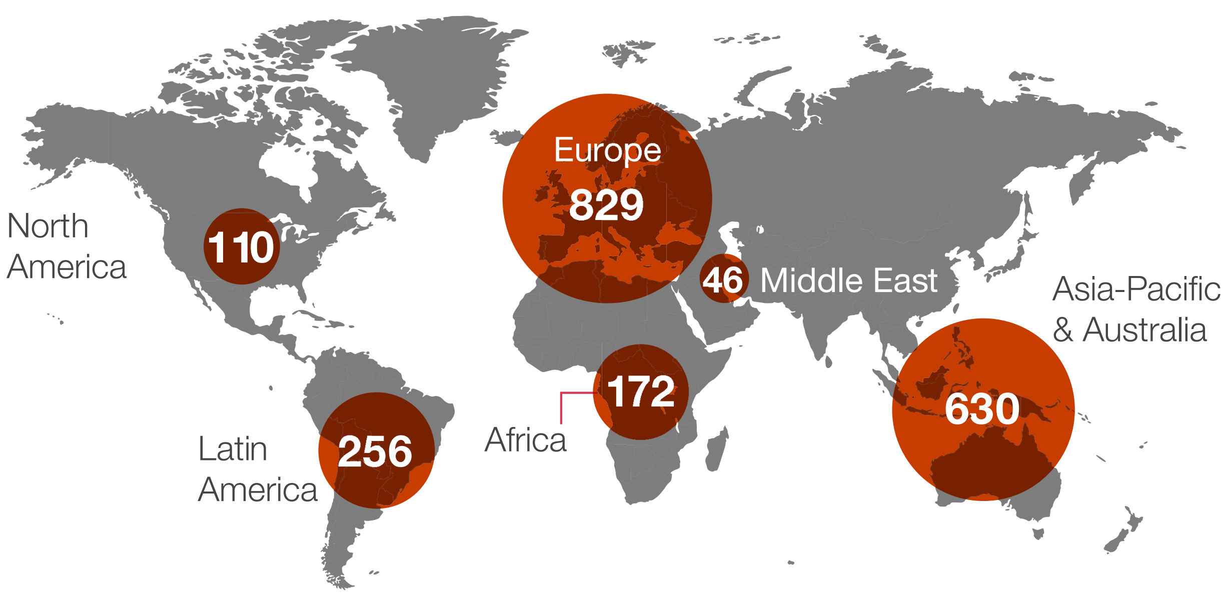
Delivering on those aspirations requires defining what actions are needed and then taking them. As Marike Westra, the chief communications and sustainable impact officer at COFRA Holding AG, a Switzerland-based multinational clothing retailer owned by the Brenninkmeijer family, puts it, ‘It’s not necessarily about being vocal, but asking if you are taking action, and how you are going to show what you are doing.’ Family businesses should “walk the talk” by becoming more transparent on non-financial measures, and by holding themselves accountable for their climate, social and environmental impact.

Room for improvement: Though 79% of respondents say they have a clear purpose, only 41% say it is regularly communicated.
Actions that build trust: Consider setting targets for, and reporting on, non-financial activities, including carbon usage and diversity, equity and inclusion initiatives; and document those priorities in the family constitution. Review the philanthropic activities of the organisation, and ensure that they are aligned with the family’s values.

About the Family Business Survey

PwC's 11th Global Family Business Survey is an international market survey of family businesses. The goal of the survey is to get an understanding of how family business leaders perceive their companies and the business environment. The survey was conducted online in collaboration with the Family Business Network International (FBN International). The survey conducted 2,043 interviews in 82 territories between 20 October 2022 and 22 January 2023. Respondents comprised businesses ranging from under US$10 million in revenues (24%) to multi-billion-dollar enterprises (6%). Close to half (47%) report annual revenues of more than US$51 million. Manufacturing accounts for 40% of the businesses surveyed, and 24% are in consumer goods, with the rest coming from financial services, technology and healthcare, among other industries.

2,043 interviews conducted globally



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Further reading

- https://www.pwc.com/gx/en/issues/trust/translating-trust-into-business-reality.html
- https://www.pwc.com/ceosurvey
- https://www.strategy-business.com/feature/Leaders-in-waiting
- https://www.pwc.com/gx/en/services/family-business.html

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