

# ***The 'missing middle': Bridging the strategy gap in family firms***



**2,802** interviews  
with senior executives  
from family businesses  
across 50 countries

**43%** of family businesses  
don't have a succession  
plan in place

**Only 1 in 4** family  
businesses say they feel  
vulnerable to digital  
disruption



*“You get an idea, and then you go and make it happen – that’s the family way.”*

Jette Egelund, Chairman, Vipp, Denmark

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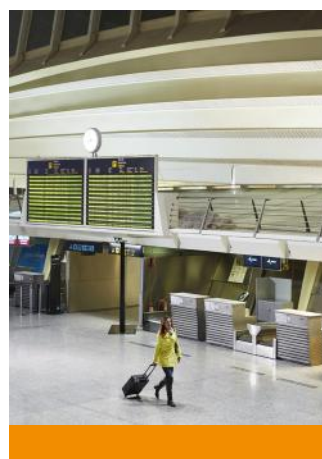
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# Foreword

This is the 8th Family Business Survey we've run at PwC, and it's the largest and most comprehensive yet. Senior executives from over 2,800 firms have taken part, from 50 countries and sectors as diverse as agriculture, retail and manufacturing. We've spoken to firms just approaching their first generational transition, and those that can measure their longevity in centuries rather than years. We've talked to the founders of successful enterprises, ambitious next gens, and professional CEOs. We discussed global megatrends such as digital technology and globalisation, and the personal and professional challenges of 'keeping it in the family'. And we've talked in depth to many families who generously gave us their time and whose stories we are proud to feature in this report.

Key issues stay constant year-on-year, especially those relating to the particular qualities of the family firm and the strengths – and challenges – inherent in this model. However, there is a definite sense of evolution. In 2012, the dominant themes were skills, scale, and succession – in other words, the practical day-to-day challenges the family firm typically faces. By 2014, this had evolved to focus on the need to professionalise: to sharpen up processes and institute robust governance, both for the business and the family. As we will see later, this agenda is far from complete, though progress is definitely being made. This year, the shift is perhaps more fundamental: from the short term and the tactical, to the medium term and the strategic. The challenge is in the middle: having a strategic plan that links where the business is now to the long term and where it could be. This is what we are referring to as the 'missing middle'.



## 2,802

Semi-structured interviews conducted with key decision makers in family businesses with a sales turnover of \$5m to over \$1bn



## 2016

Interviews conducted between

## May and August



Across

## 50

countries

Family firms are clearly ambitious, wanting to grow and ensure the long term success and stability of their business. But it is becoming clear that many of the issues faced by the family business sector derive from a lack of strategic planning. Some family firms are doing this, and doing it well, but in our experience, a much higher proportion are absorbed in the everyday and longer term planning is neglected. Family firms may lack the skills to develop a robust strategic plan, and may not even know what such a plan needs to look like. Likewise some family business owners assume that 'thinking in generations' means that the medium term will somehow look after itself. But it won't.

The risks of the 'missing middle' are all too real, and all the more so given the global trends all businesses are now facing, and the increasing pace of change.

Once again, we see families are still struggling to embrace effective succession planning. We know the next generation are ambitious and talented and will be able to drive the business forward to address issues such as digital disruption. Having an effective succession plan in place is one way of creating the conditions for the next generation to be successful.

In this report we look in more detail at this year's survey results, and at the causes and consequences of the 'missing middle'. And with all that in mind, we offer family firms some practical, actionable advice about dealing with strategic planning, and making a success of it.

What's clear is that family firms remain a vital part of economies across the world, contributing the bulk of GDP in many territories and a primary driver of job creation. We're committed to working with family firms and helping them to ensure the long term future of the business and make an even bigger contribution to growth and prosperity.

*Stephanie Hyde*



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# The family business sector in 2016

*This year's results tell us that despite tough economic conditions and the accelerating pace of change, the family business sector continues to be vibrant, successful and ambitious. They tell us family firms are vital to all economies, offering stability, a commitment for the long term, and responsibility to their communities and employees. They also tell us that family businesses can be an engine for change and innovation.*

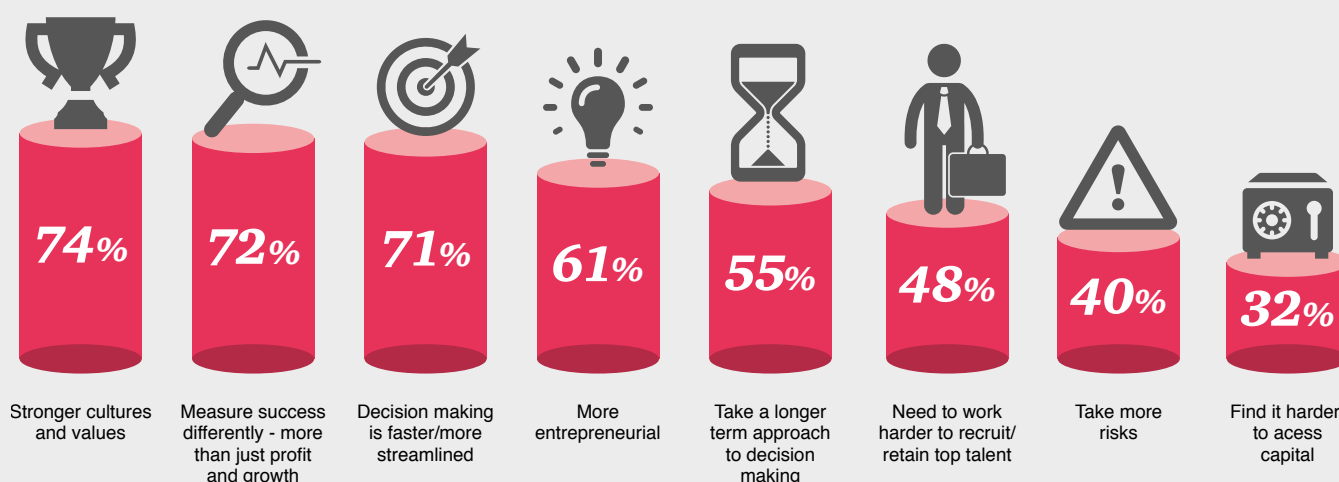
Unshackled from the quarter-to-quarter pressures of their listed peers, family firms can invest for the long term, and allow good ideas the time they need to prove themselves. It's a classic example of 'patient capital' and an invaluable counterbalance to the short-termism of many public companies.

And family firms are proud of it: 77% of the respondents to this year's survey believe they offer stability to the wider economy, 74% say they look after their staff better, and 72% believe they see success in broader terms than simply profit and growth. Likewise, 55% say they take a longer-term perspective on decision-making, and 71% say they make those decisions faster than their peers. Many survey respondents also cited the advantages of direct communications, faster decision making, and an enduring entrepreneurial spirit.

All of this is extremely positive, and the fact that the big picture has remained largely the same for the best part of a decade is in itself a measure of the resilience of this sector.

But the absence of any significant change from survey to survey in areas such as succession, globalisation, and digital and innovation is a cause for concern. Despite the extraordinary longevity of some individual family firms, the average life-span across the sector is three generations. Typically, only 12% make it that far, and the number getting past four generations falls to as low as 3%<sup>1</sup>. In some cases selling the business is a conscious choice and a mark of success; but equally for many, not surviving the transition to the next generation may be a sign of a family firm not achieving their long term ambitions.

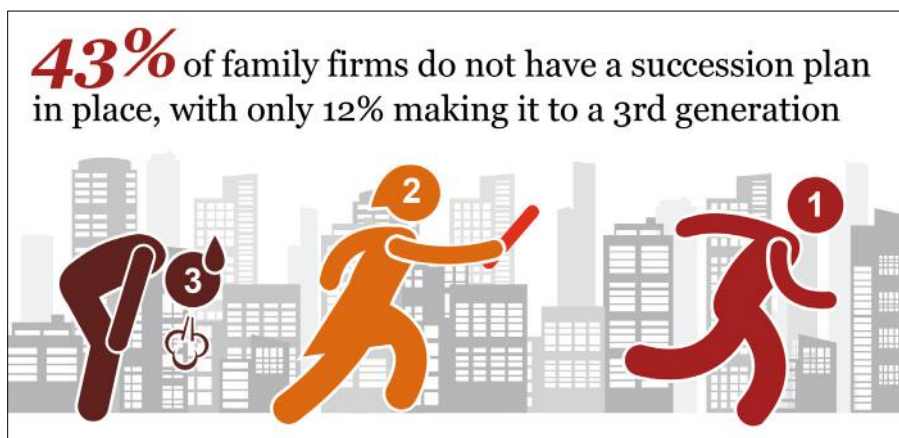
Fig 1: How family businesses differ from non-family businesses



Q: Benefits of family businesses: please tell me how much you agree/disagree with the following options on a scale of 1-5 where 1 = Disagree strongly and 5 = Agree strongly

Base: all Global respondents (n = 2,802)

<sup>1</sup> A study of management practices, carried out by National Bureau of Economic Research Family Business Alliance. Retrieved October 2016: ([http://www.fbagr.org/index.php?option=com\\_content&view=article&id=117&Itemid=75](http://www.fbagr.org/index.php?option=com_content&view=article&id=117&Itemid=75))



### **Succession: Failing to plan means planning to fail**

The most obvious potential ‘failure factor’ for the family firm is the succession process. The transition from one generation to the next is the fault-line in this business model. There’s no point in having detailed plans for business continuity, if the single most significant risk to this is not addressed.

Every family firm has to find a way to reconcile the personal and professional, and the succession process can bring these two dimensions into direct conflict, with both the family and the firm at risk as a result. Conversely, a well-managed succession process can be a rallying point for the family firm, allowing it to reinvent itself in response to changing circumstances and find new energy for growth, diversification and professionalisation. To do this effectively family businesses need to develop, implement, and communicate a robust succession plan, and do so as early as possible before the actual handover.

This is even more important now, when many more people are having children later in life, meaning that the next generation may not yet be ready to take over when the current owners would like to retire.

And yet only 15% of family firms have a ‘plan’ for their succession process. More worryingly, this figure has not risen significantly in recent years. In our experience adopting the thinking and terminology of ‘business continuity’ rather than ‘succession’ can itself be a useful way forward: if the current generation sees succession in these terms it can help them approach it more objectively, and avoid the emotional stresses that can otherwise arise.

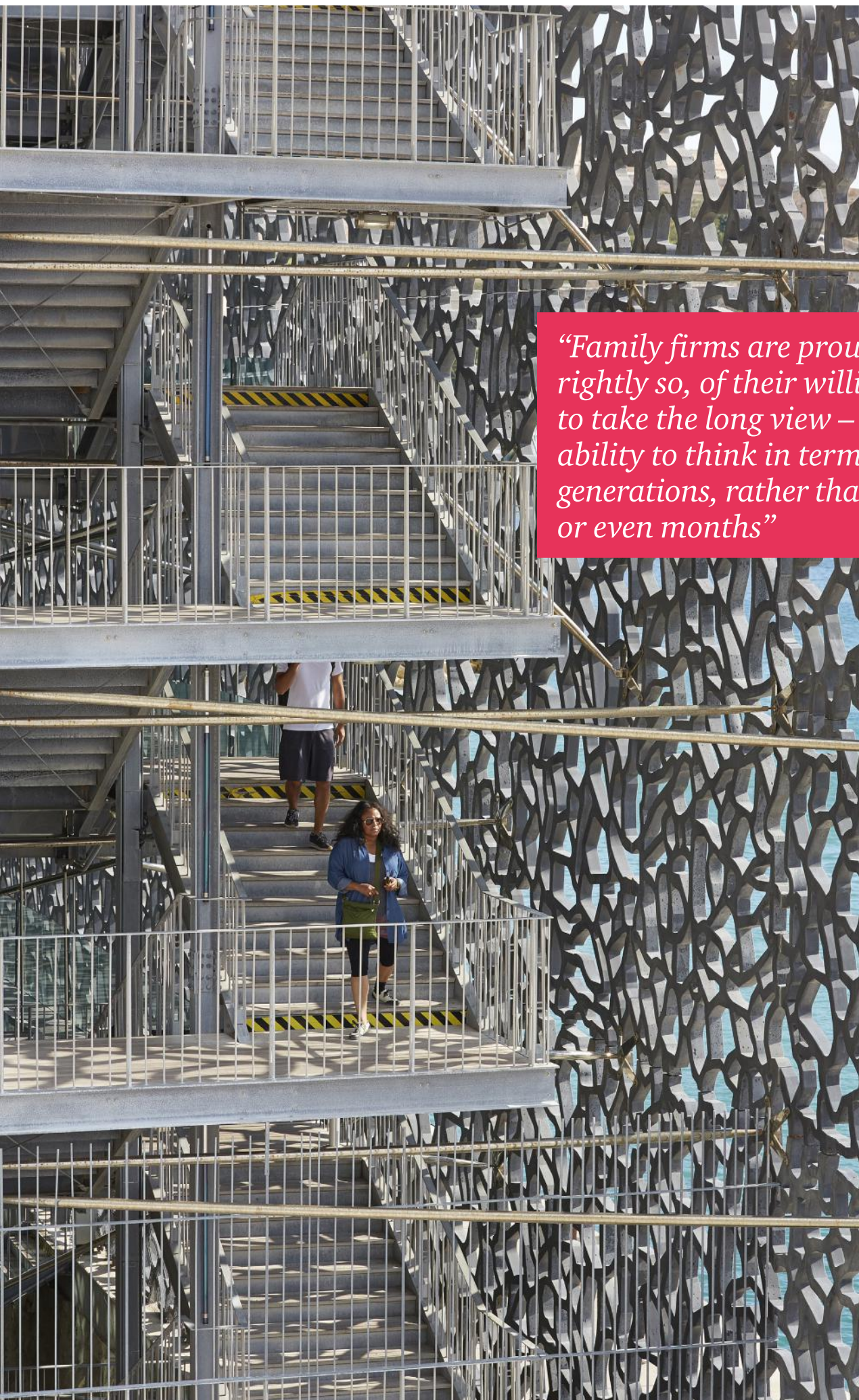
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*“This estate has been here for 300 years. We don’t just own the land, we’re part of the landscape. That’s why everything we do is driven by the need to be conscientious land-owners, and careful custodians of the family’s heritage, both now and for future generations.”*

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**John Hoy, CEO, Blenheim Palace, UK**





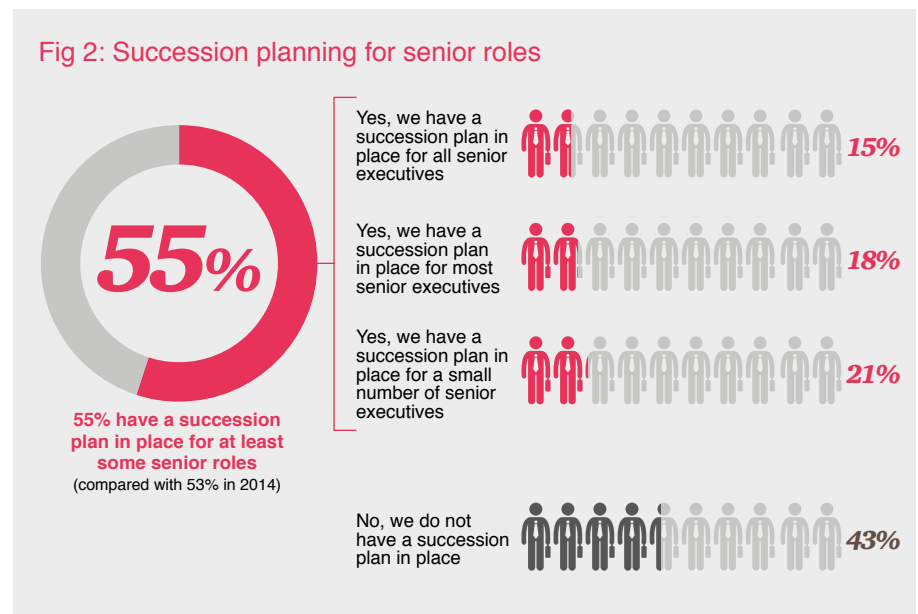
*“Family firms are proud, and rightly so, of their willingness to take the long view – their ability to think in terms of generations, rather than years, or even months”*



As Simon Le Maistre, Partner in PwC's Australian Family Business practice observes, "Succession planning is even more important where there are some family members working in the business and some not. In many of these cases, issues like ownership and entitlement may not have even been discussed or considered, which means different people are making different assumptions about the future. In these circumstances, we spend a lot of time sitting with family members, to work through a fair way forward. This can prevent conflict, and help the family become more unified for the future."

### The missing middle

What's becoming clear – both from the survey results, and our work with owners and executives across the world – is that the challenges with the succession process are just one example, albeit a vital one, of a much wider issue. Family firms are proud, and rightly so, of their willingness to take the long view – to think in terms of generations, rather than years, or even months. At the other end of the scale, family firms are good at dealing with the everyday: the nuts and bolts of running a business. The challenge is in the middle: having a strategic plan that links where the business is now to the long term vision of where it could be. As one survey respondent from the US put it this year, there's a need for



Q: Does your company have a succession plan for key senior roles?  
2% responded 'I don't know'  
Base: all Global respondents (n = 2,802)

"more transparency in longer-term thinking and a reasonable assurance that there will be consistency in the delivery of that vision." And that vision needs to encompass the family, the owners and the firm. They are interdependent, and success for the one cannot be delivered without the other.

But as one Australian respondent described it, "There is an absence of any strategy, beyond the annual budget." In other words, a plan that looks beyond the next twelve months, to a five to ten year horizon. This is what we're calling the 'missing middle', and this is why so many family firms fail to turn early promise into sustainable success.

*"Family firms need to be able to break free from 'success syndrome' – if they aren't open to change it can lead to complacency, arrogance, and an excessively internal focus."*

**Ireland, 2nd generation**

*"We have the infrastructure of a multinational, with the flexible organisational structure of a startup. That's a huge advantage. We also understand how strategy works in this sector. You need to have a medium term plan, but you have to be incredibly flexible about how you implement it."*

**Konstantinos Gerardos, Co-CEO,  
Plaisio SA, Greece**



## ***Ten steps to effective succession planning***

**Dr Dominik von Au** is the Family Governance Leader for PwC Germany, with extensive experience of working with established family firms to achieve a smooth and effective transition between generations. We asked him to summarise the secret to a successful succession:

### ***Into leadership...***

#### **1. Get experience outside the family firm**

As the business landscape becomes more complex, it's vital to bring a broad range of experience to the task of leadership. So develop a career plan that involves working outside, to allow you to acquire the specific skills the family firm needs.

#### **2. Develop a strategic plan for the medium term**

The next generation often see the succession process as an opportunity to modernise the business, and there may indeed be a need to do this. But it's important to make changes in the context of longer term objectives, which is why it's vital to have a strategic plan, developed jointly by both the current and incoming generation, and in consultation with all the shareholders.

#### **3. Broaden the decision-making process**

As the business passes from one generation to the next, it's important to create an organisational structure which isn't dependent on one single individual. Decisions need to be made collectively, and with proper information and preparation.

#### **4. Strengthen the role of the Board**

The board has a key role to play in overseeing the succession process, and in ensuring that family members are only offered positions they are properly qualified to fill. Becoming a member of the board is a useful way for the retiring generation to make an invaluable ongoing contribution.

#### **5. Clarify what the retiring generation will do**

The current generation needs to have a clear plan for their life after retiring. This will prevent misunderstandings, or the temptation to interfere. Taking on roles outside the family business – in the community, for example – can be both worthwhile and rewarding.

### ***Into ownership...***

#### **1. Start early**

It's vital to start the process as early as possible. Everyone needs to know what to expect, and what the timetable is, to avoid misunderstandings and unspoken tensions that could lead to outright conflict. This is especially important for family members who are going to be taking executive roles in the future. Our advice is always to transfer shares during the current generation's lifetime.

#### **2. Communicate, communicate, communicate**

Decisions need to be made by a process of consultation and discussion, not dictated by the owner. Everyone with a stake in the future needs to have a say in it.

#### **3. Do your homework**

Make sure you know the tax and legal implications of your succession plans. Depending on your circumstances and jurisdiction, some approaches may cause difficulties which may not be obvious until it's too late.

#### **4. Invest in education**

The people who are going to be running the business need the right expertise to do that, but ownership demands specific skills too. Make sure all current and prospective shareholders are educated to become professional and competent owners.

#### **5. Diversify your wealth**

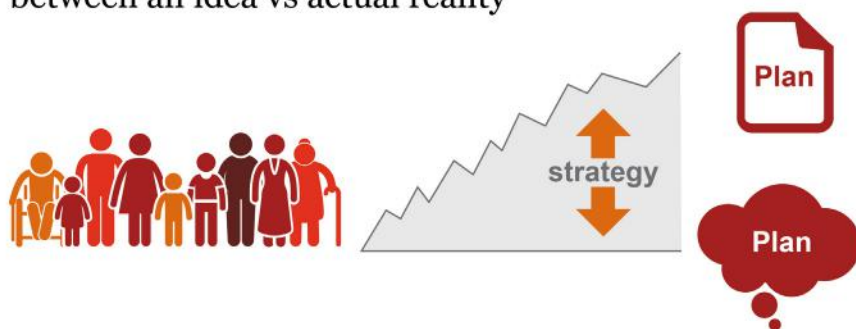
If the retiring generation rely entirely on the firm to provide a retirement income, that can put a disproportionate strain on the business. It can also make it harder for the older generation to 'let go', because their lifestyle is at stake. So build assets outside the family firm from an early stage.

Succession planning is a major factor in addressing the 'missing middle'. It's vital in its own right, to ensure business continuity, but it has a wider impact too. Succession planning is essential to ensure the aims of the owners and the family and the objectives of the firm are properly aligned over the medium to long term. In this year's survey, as many as 69% of respondents believe their family and business strategies are completely aligned, but the anecdotal evidence and our experience suggests this perception of alignment may sit primarily with the owner.

This focus on strategic planning is key to the succession process: without clarity about what you want the future to look like – both for the business and the family – it's impossible, for example,

to choose the right leader, or know what qualities and skills they will need. In other words, strategic planning and succession planning are inextricably linked; indeed, succession planning is a subset of the strategy process. But as this year's results prove, a limited number of family firms are approaching the succession process in a structured manner, and those who are see this as a one-off exercise focused on the 'who' rather than the 'what'. In reality, these decisions are part of a continuum, and constantly need to be revisited and adjusted as circumstances change, and the corporate strategy evolves.

**69%** agree that the family and business strategies are aligned but anecdotal evidence suggests a gap between an idea vs actual reality





# Delivering on ambition: Addressing the ‘missing middle’

## Growth and globalisation

In successive surveys since 2012, between 12 and 15% of our respondents have told us that they aim to grow aggressively over the following five years, and some have indeed done so. But our own experience of working in the sector would suggest that only a limited number achieve their very ambitious growth targets. Many struggle to find or develop the skills they need to do this, and others are hampered by a lack of funding. Others find themselves mired in family disputes which absorb the family’s time and energies and turn its attentions inwards.

Another common theme from survey to survey is growth through diversification: more than half plan to launch new entrepreneurial ventures, but one in three family firms is still operating in only one sector and in only their home market. This can expose the family firm to risk, as the whole enterprise stands or falls on one dimension. And yet despite their stated ambitions, 72% see themselves having largely the same portfolio in five years’ time, and 53% say it is ‘not important’ to diversify at all.

Turning to international sales, and the story is very similar. Many family firms do manage to build a successful export business – in Spain, for example, this is often easier to achieve than diversification through product mix. But in general, the picture is less encouraging. For the last few surveys, family firms have been making, on average, about a quarter of their sales overseas, while at the same time predicting that exports will rise to close to a third within the following five years. And yet from survey to survey, the actual level of international sales remains at around 25%. Likewise, in 2012, 67% said they were trading internationally, and 74% expected to be doing so in five years. But four years on, the numbers are almost exactly the same. There are many possible factors in play here, from a lack of skills and experience, to apprehension about political risk overseas, to more recent concerns about the impact of Brexit.

Overall, however, the message is clear: whether it’s growth, diversification, or internationalisation, the ambitions of family firms remain strong, but are not being fully realised. Something is holding these businesses back. In our view, that missing piece is a robust strategic plan.

Family businesses want to grow aggressively but only a few ***reach their target***



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*“We want to move from being a German company with a large international presence to an international company with German roots.”*

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**Stefan Leitz**, Chairman of the Management Board, Carl Kühne GmbH & Co, Germany

## Digital and innovation

Three quarters of the family firms we surveyed this year think that being more innovative is either important or very important, and the need to continually innovate came out as the biggest single challenge respondents see over the next five years (64%).

Family firms are well positioned to make a success of innovation. They consistently tell us that they believe they are able to re-invent themselves with each new generation, 57% said so this year, and this figure has risen steadily from 47% in the 2012 survey.

But is this really true? Some firms do manage this, and JBM Group in India and Mane Group in France<sup>2</sup> are great role models for how to do it in practice. But there are many more examples we come across in our work where family firms have struggled to change, and find it hard to innovate. This is also a very common observation among non-family CEOs and senior managers who've been brought in from outside. And the next generation also see this as a real challenge for the future success of the family firm, while acknowledging that they often struggle to make the case for change.

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*“People often think about digital in terms of the information it gives you, and yes, that’s important. But I look at it in terms of all the other things digital makes possible. There are some incredibly exciting developments in our sector using technology like driverless vehicles, robotics and automation to run warehouses better, manage deliveries more efficiently, and improve productivity.”*

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**Peter D Fox AM**, Executive Chairman, Linfox, Australia

**64%** of companies think that the most important challenge over the next 5 years will be the need to **continually innovate**



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*“It’s harder to grow as fast as we did in the beginning because so many other operators have moved into the same space. But we have such a huge advantage in having been there first and established a brand people really do trust. And we know that the way to keep growing is to keep coming up with new ideas.”*

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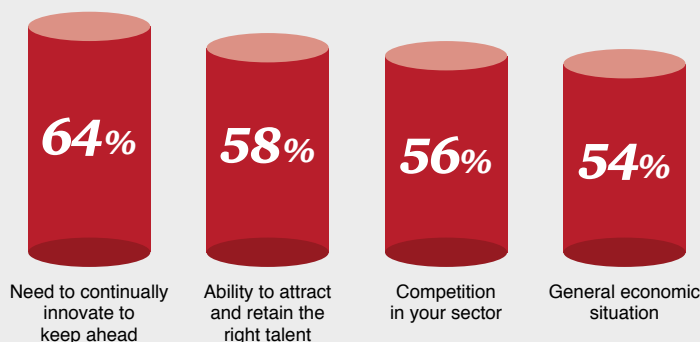
**Andy Berliner**, Founder, Amy’s Kitchen, US

So what makes innovation such a challenge for the family firm? One answer may be skills. Every time we run a Family Business Survey, the respondents cite skills as a key issue, and many say they struggle to attract and retain the right people (this year it was the second highest priority for both the next year and the next five years). It is hard to identify the ‘right’ people and skills without a clear strategic plan. This sets out the future direction of the business, and that in turn, will determine the range of skills and experience needed to achieve it. In other words, defining the challenge solely in terms of skills shortages could be masking the real problem. This is especially relevant when it comes to innovation.

### Doing innovation well

Given today’s rapid pace of change, new technologies and disruptive business models, all companies need to be able to think beyond the immediate demands of the day-to-day business and develop an informed view of what the picture will look like in two, five or ten years. This means understanding the trends driving change, assessing which products are vulnerable to new technology, and how global trends such as demographic change are affecting the market. This assessment is what will drive the development of the strategic plan. That in turn will help determine what skills the business will need to develop or hire for the future. Without this, companies will struggle to identify how, where and what they should be innovating.

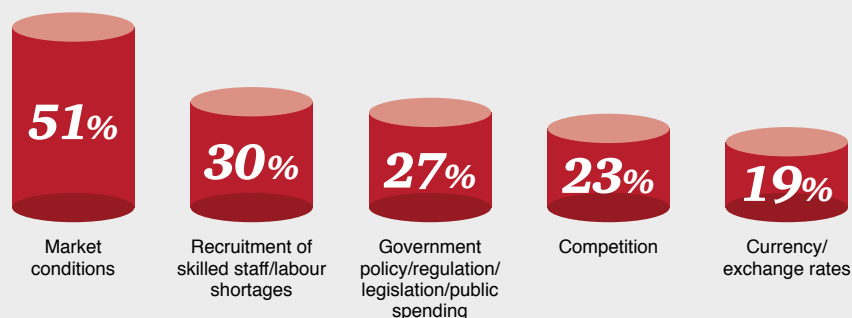
Fig 3: Key challenges over the next five years



Q: Of the following factors, how much of a challenge is each for your business in 5 years’ time on a scale of 1-5, where 5 means it’s going to be a major challenge and 1 means it will be a minor challenge.

Base: all Global respondents (n = 2,802)

Fig 4: Main issues being faced in next 12 months



Q: What do you think will be the top 3 internal and/or external issues or challenges that will affect your company in the next 12 months?

Base: all Global respondents (n = 2,802)

*“Digital has to be absolutely integral to every organisation’s marketing and communication strategy. It’s central to every aspect of consumer engagement, whether that’s e-commerce, advertising, consumer targeting, or social media. That’s the future, and it’s happening now.”*

**Osama Ibrahim Seddiqi, CFO,**  
Seddiqi Holdings, UAE

*“Breaking the mould is hard. 100% of the share capital is in the hands of family, and to actually innovate and develop the business is a challenge in and of itself.”*

**Professional manager, UK, 3rd generation**



Some major listed companies are good at this sort of future thinking (and have dedicated resources to do it); family firms often aren't (and don't). But the sector quickly needs to develop this 'medium term mind-set', especially in relation to issues such as the challenge of digitalisation, because that will require considered and possibly significant investment to stay ahead of the curve, and the right skills inside the business to ensure that investment delivers.

This year only 7% of our respondents spontaneously cited technology as a key challenge in the next twelve months, and technology and digital only feature in the list of top priorities for the medium term on a prompted basis (taking fifth place, at 47%). This is clearly a concern, especially when a third of respondents think family firms are less open to new thinking and ideas than other companies, and only 40% believe they're willing to take more risks than other firms. And perhaps most telling of all, only one in four say they feel vulnerable to digital disruption, and only 54% have ever discussed this at board level. Alfred Peguero, Family Business Leader, PwC US, cautions: "Every business is vulnerable in some way to digital disruption, and those who think they are immune will soon find out that this is not the case. I see this as a threat which is facing all businesses and individuals, no matter their geographical location, industry or size".

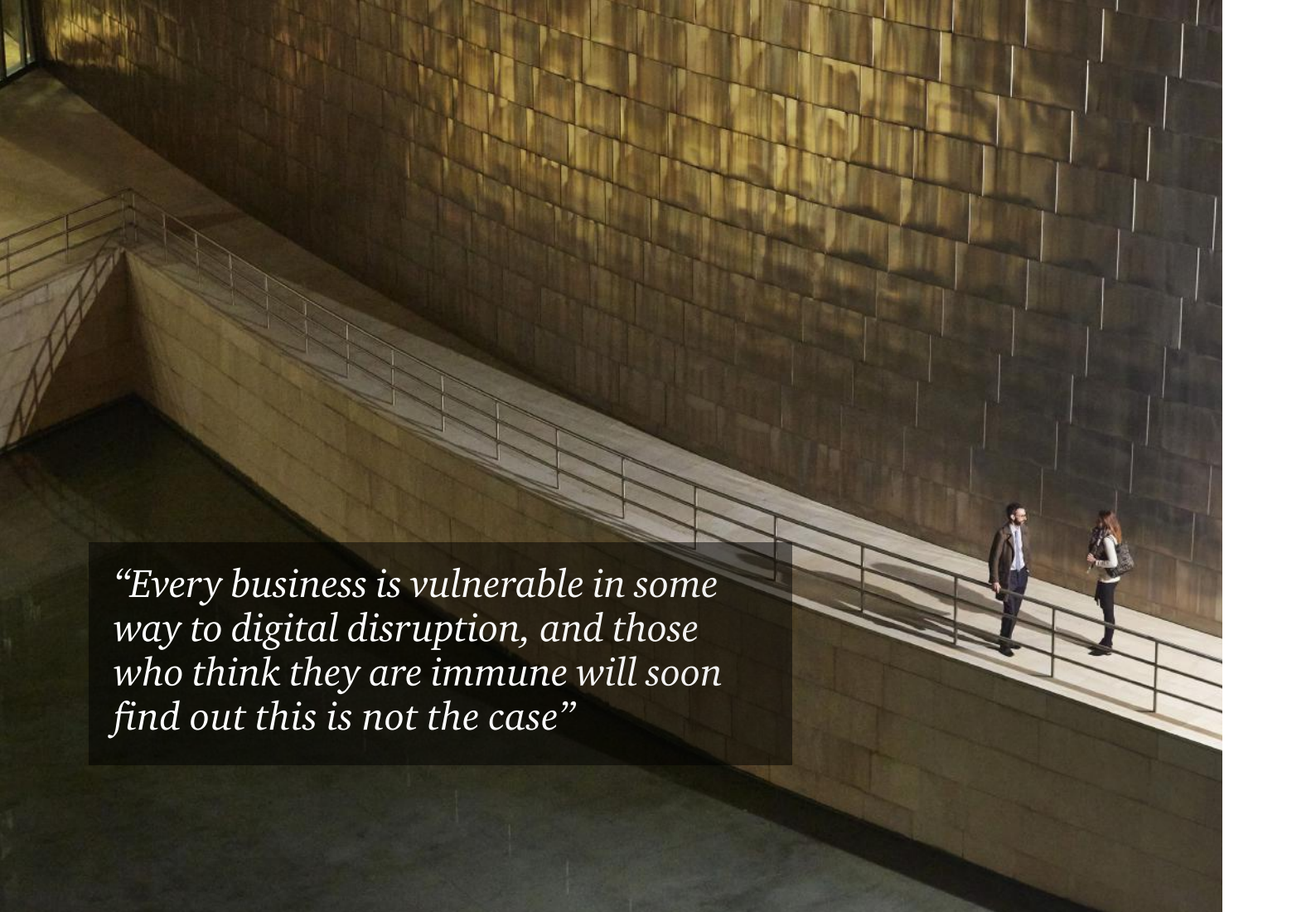


*"We have an innovation division where the employees work with innovation labs in Israel, the US and elsewhere in India. We incubate new ideas, and work hard to keep pace with new developments. We also encourage our doctors to take part in conferences and research forums across the world, and to collaborate actively with one another. We don't let people or ideas get stuck in silos."*

**Shobana Kamineni**, Executive Vice Chairperson, Apollo Hospitals, India

*"The big challenge is that it takes a long time to change the thinking in the family business as they feel that the old way has created their success story. It is the biggest challenge for professional managers joining these companies."*

**Professional manager**, Taiwan, 2nd generation



*“Every business is vulnerable in some way to digital disruption, and those who think they are immune will soon find out this is not the case”*

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*“In our family, we say nothing is permanent except change. And we like it that way.”*

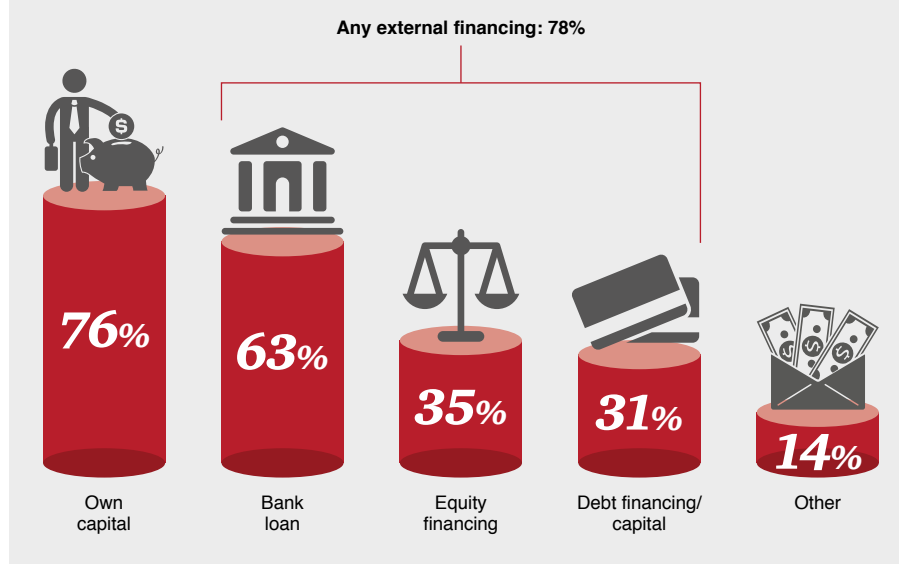
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**Nishant Arya**, Executive Director,  
JBM Group, India

As we discuss later, digitalisation is an area where the next generation could have a significant part to play. Many of them have grown up with new technology, and are keen to employ it when they take over. 59% of the current generation believe they understand the tangible benefits of moving to digital but 37% of the next generation say they struggle to get the business to understand the importance of having a digital strategy, and this rises to 43% in smaller family firms.

As we have observed many times, the most innovative companies are invariably those which are open to new ideas and new ways of working. Having a more diverse and inclusive workforce is a considerable advantage here, but being able to not just manage change but thrive on it is even more important. As Nishant Arya, Executive Director of India's JBM Group says, “In our family, we say nothing is permanent except change. And we like it that way.”

Fig 5: How family businesses plan to finance ambitious growth



Q: How do you plan on financing future growth? [Global respondents aiming to grow by 10% or more]  
Base: all Global respondents (n = 2,802)

## Financing growth

Financing growth is a recurring challenge for the family firm, and an area of concern flagged consistently in our Family Business Surveys. In this year's results, 76% of the respondents looking to grow significantly said they would be relying on their own capital, at least in part, to do that. Some have no doubt chosen to do this, preferring to finance themselves rather than relying on banks, or external investors who might want a measure of control.

As María Sanchíz, Family Business Leader, PwC Spain says, "In Spain, many family firms prefer to use their own funds – they don't want to expose the firm by taking out a loan and they think the best place to invest their money is in their own company. But that presents a very real risk: if something goes wrong, all the family's wealth is at risk, as well as the business."

However, using their own funds is not always a deliberate choice. Many family firms have been forced to draw on their own resources because other types of finance are either unavailable or too expensive. Again, robust strategic planning will help family firms bridge the gap to future growth, as this will help to determine whether the business has the appropriate capital structure and access to the funding it would need to take advantage of future opportunities.

The importance of aligning the business strategy with the owner and family strategy cannot be underestimated. If there are many dependent shareholders with diverging needs and priorities, this may affect the willingness and capacity of the business to invest in new ventures or drive fundamental change. Making the decision to go to the capital markets for funding, or look for other private investment, is a complex process with significant implications for the owners of the business, which demands exceptionally clear and comprehensive communications within the family.

At a more immediate and tactical level, family businesses need to consider issues such as whether they can free up more capital for investment by ensuring they have optimised their working capital.

Furthermore, family firms need to ensure their funding is on the right terms, and that its source is secure if circumstances change, whether inside the business, or outside in the market.

*"Trio already has a strong financial partner in Sberbank, but a full share listing is the longer-term goal. The process of preparing for a listing will mean an even higher degree of transparency and discipline, which is only a positive."*

Uvarkina Evgeniya, CEO, TRIO Group, Russia

*"We were one of the first Indian firms to get Private Equity (PE) funding in the late '90s. But we thought about it carefully before we did it: we sat down as a family to discuss it because we knew things were going to change radically, and we'd have to be even more accountable, and willing to adapt. We also knew that PE works to a very different timescale to families. PE houses are looking for a quick return on their money."*

Shobana Kamineni, Executive Vice Chairperson, Apollo Hospitals, India



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## Navigating the ‘no go zone’: Managing family wealth



**David Smorgon OAM**  
Executive Chairman, Family Advisory  
PwC Australia



**Stuart Morley**  
Head of Wealth, Private Clients  
PwC Australia

Intergenerational wealth transfer involves a raft of personal family issues, and in our initial engagement with a family, we often find that the family is not communicating regularly on matters relating to improving, preserving and protecting the family’s wealth. There is, in effect, a ‘no go zone’ where issues like wealth and ownership cannot even be raised. This leads invariably to different people having expectations and a different sense of entitlement, which in turn leads to fixed positions, jealousies, and potential conflict. This ‘no go zone’ is alive and kicking even in the largest and wealthiest families. Many of these families have regular social events and get-togethers, but that’s not the same as sitting down to discuss the hard issues.

But it’s not easy for families to start the process: it takes courage to take this step. But doing so will ensure family harmony and continuity, make it easier to protect relationships, facilitate succession planning, and work together more effectively. It’s a challenge to find the successful family formula, but it can be an even bigger challenge to preserve the family wealth.

There’s an old cliché that families make money in the first generation, enjoy it in the second, and lose it in the third. But there’s a good reason why that’s become a cliché: all too often it’s true. There are all sorts of reasons why this happens – from over-leveraging to accelerate growth, to over-spending on personal lifestyles, to matrimonial disputes, to putting ‘all the eggs in one basket’.

Many families invest for the long term as they are not dominated by short-termism, unlike many public companies. But even where family firms diversify their balance sheet, they don’t diversify where they invest their wealth, which leaves them with a disproportionate exposure to one single asset.

There will always be forces outside your control that even the best planning won’t protect you from, be it a change in government regulation, obsolescence, technological development, market and product disruption, or sovereign and political risk. That’s why every fund manager will say you need to spread your risk, but too many family firms don’t apply this basic principle to the money they have in their own firm. Some of this is for emotional reasons – owners are understandably attached to the business they’ve built. If they weren’t, they wouldn’t have been a success in the first place. But it’s important to strip out the emotion when it comes to a wealth preservation strategy. So consider the ways in which you may be able to release funds for the benefit of the family, such as a partial sale, recapitalisation, or bank loans.

Many family firms take the view that they will get higher returns from their own business than any fund manager could give them, especially after tax and fees are taken into account. And this can often be true. But diversification is just as important, to ensure long term and stable returns, and we often find owners shifting to this point of view as they near retirement and start considering the income they need to fund the lifestyle they want. That’s a good time to look at all the options, in the context of effective succession planning, and to achieve a successful transfer of wealth between the generations.

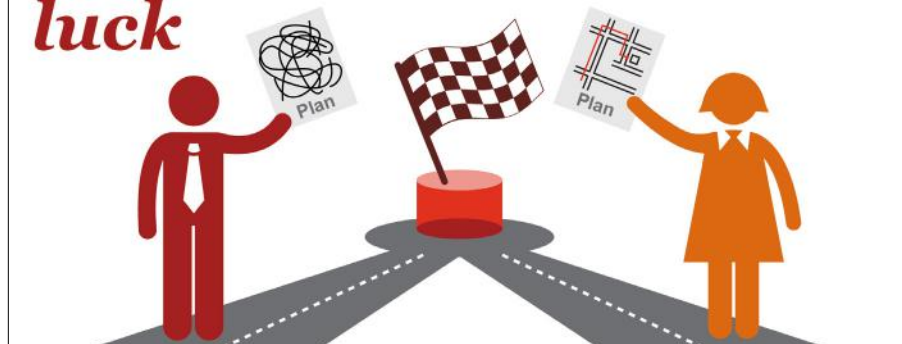
## Strategic planning

Both the survey results and our own experience lead us to conclude that greater emphasis on strategic and medium term planning is the missing piece that would allow many family firms to achieve greater success, and fulfil their true potential.

Some family firms are doing this already, and doing it well, but others are caught between the everyday and the weight of inter-generational expectations. While some are fully aware that this is an issue (for example, only half of this year's respondents believe they have a strategy fit for the digital age, and even that may be flattering the truth), others lack the skills to take on the task and may not know where to start. Some are consciously or unconsciously avoiding the issue, because they fear it will cause more problems than it solves, especially in relation to personal issues like succession. And some will say they have a business plan, and are getting on with executing it. But a strategic plan is not the same as a business plan, and a plan that isn't documented, communicated, managed, and monitored isn't a 'plan' at all.

Paul Hennessy, Family Business Leader, PwC Ireland, says, "Family firms are good at executing a plan once they have one – they can follow a 'roadmap' and generally do that very well. It's getting that map together in the first place that is the challenge. I've seen this happen many times, both in relation to specific issues like implementing digital technology, and more widely in terms of strategic planning. In fact, you can often find family businesses that have plans covering specific issues – like

Without a clear plan written down, agreed and communicated... the road towards success is down to **luck**



technology – but no overall strategy linking them all together. There has to be one clear strategic plan, covering all aspects of the business, which is explicitly aligned to the family's long term objectives and plans. That has to start with vision and values: you need a shared vision of the objectives and agreed values to guide the decision-making process required to get there, Without these two things, planning processes invariably flounder."

Peter Bartels, Global Family Business Leader, PwC Germany, agrees: "We often work with clients where the owner has a plan in his or her head, but doesn't share it any wider. But because the rest of the business trusts them, then it works. At least for a while. But in the long term, this can be a recipe for disaster, and it will be next to impossible to hire professional managers or to get external funding for financing growth or restructuring. There needs to be a clear plan, written down, agreed, and communicated."

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*"Every five years we take a long look at the business and decide what we need to achieve the next phase, whether that's people, funding, skills, or a new organisational structure."*

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**Sreekanth Reddy**, Executive Director, Sagar Cements, India

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*"In the real estate industry, there are a lot of people coming in, thinking they can make a quick buck. But they don't understand how it works: they don't even have a business plan, never mind a medium and long term strategic plan. Those are the most important skills my father taught me."*

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**Andrew Taplin**, Managing Director, Taplin Real Estate, Australia



## ***Ten steps to effective strategic planning***

**Paul Hennessy** is the Family Business Leader for PwC Ireland.

While each business needs a strategic plan suited to its sector, market, and stage of development, there are some basic principles that all good plans share. Here is a ten-step guide to get you started.

### **1. It's about the 'what' not the 'how'**

A strategic plan is about setting your business goals over the medium term, and deciding the direction of the firm. A business plan is about the specific actions you need to take in the next twelve months, to make the strategic plan a reality. So having a good business plan is crucial, but it's only half the answer.

### **2. Stand in the future and look back**

Where do you want to be in three years? In five? Be absolutely clear about what the future looks like, and then work out what you need to do to get there – from your products and services, to your balance sheet, your working culture, and your organisation.

### **3. Stand in the present and look around**

Take a long hard look at the business as it is right now. Do you have a genuine competitive advantage? Are your ambitions realistic? What needs to change? Techniques like SWOT analysis can help you get an objective view of where you are internally, and you can also use PESTLE to analyse the external factors at play in your market (Political/Economic/Social/Technological/Legal/Environmental). Porter's five forces analysis is another useful way to assess issues such as the threat of new competitors entering your sector, or the likelihood of new game-changing products or services.

### **4. Invite input**

The CEO needs to drive the strategic plan, but the more people who contribute, the more likely it is to be robust. People are also more committed to something they've helped to create. So involve skilled people from across the organisation (and trusted advisers outside), including those with a good grasp of how the market is changing. Ask your employees, canvas your customers.

### **5. Be prepared for change**

A rigorous strategic planning process should challenge the way you're operating today, and test its fitness for the next phase. If it doesn't do that, it's not doing its job. So be open to different alternatives, and new approaches, and accept that you may need to adapt your own personal role, as well as the way the business operates.

### **6. Set a timescale**

A good strategic plan is like an itinerary – it's about when you plan to reach the milestones along the way, as well as the final destination.

### **7. Assign responsibilities**

The CEO and board must take ultimate ownership of the plan, but specific elements need to be owned and driven by appropriate managers, supported by the budget and resources they need to succeed.

### **8. Translate the strategic plan into a business plan**

Move from the strategic to the tactical by turning the first phase of the plan into a programme of action and implementation over the next twelve months.

### **9. Measure, monitor and adapt**

As you implement the plan, assess how well it's working, and whether it needs to be fine-tuned. Use objective KPIs to evaluate progress.

### **10. Communicate, communicate, communicate**

Don't just share the strategic plan, but the progress you're making against it. This builds a shared sense of commitment, energy, and sense of direction.



# Professionalisation 2.0

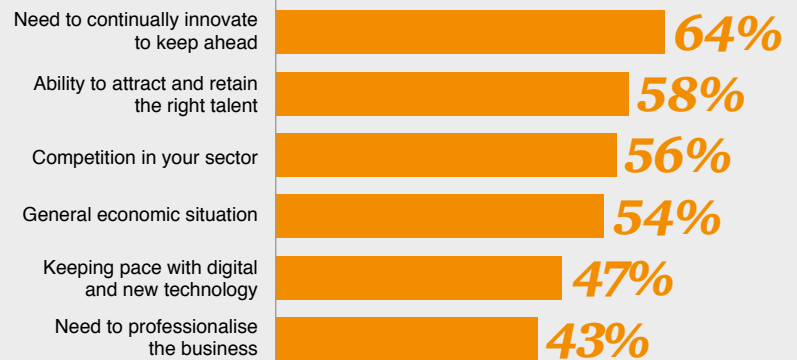
In 2014, our survey's main theme was the professionalisation of the family firm. This year's results show that real progress is being made in this area, but there is clearly more that still needs to be done.

Every firm will eventually reach the point when it has to professionalise the way it operates, by instituting more rigorous processes, establishing clear governance, and recruiting skills from outside, and family firms are no different. This year's survey proves – again – how important these priorities are. For example, 43% of respondents say the need to professionalise the business is a key priority over the next five years.

But the family firm has another dimension which other companies never have to tackle: the family itself. The issues here are much harder to address. They're more personal, more complex, and the risks if it goes wrong are potentially terminal: as we've said many times, 'family firms fail for family reasons'. No surprise, then, that progress in this area is slower, or that some companies like to think they have made advances when in fact, little has really changed.

This year's survey shows that family firms are continuing to establish processes to 'professionalise the family', including mechanisms such as shareholders' agreements, family councils, and incapacity arrangements.

Fig 6: The top six key challenges over the next five years



Q: How much of a challenge do you think the following factors will be for your business in 5 years time on a scale of 1-5, where 5 means it's going to be a major challenge for your business and 1 means it will be a minor challenge or not particularly important.

Base: all Global respondents (2016: n=2802; 2014: n=2378)

Bringing in external managers is another way of professionalising the business; this takes on an added importance and urgency in the context of the 'missing middle'.

At the most basic level, better processes and a clearer division of roles and responsibilities frees up time and space for the senior team to think and plan more strategically.

*"We'd got where we were by being really flexible and entrepreneurial, but there comes a point when you need rules. We had a lot of unwritten rules, but they can start to get in the way eventually. Professionalisation is an ongoing journey, but I see it as my mission to make us more resilient in the face of any future downturns. To make us stronger for the future."*

**Dato' Roslan**, Executive Director/  
Group COO, AZRB, Malaysia

## The role of the professional CEO

We've looked before at the advantages of bringing in an external CEO, and the challenges that this entails, both for the family and the professional coming in. Some external hires clearly relish the chance to make decisions quickly, and enjoy the autonomy that the family business model can offer.

But many CEO respondents this year cited the difficulties they continue to encounter. Families can be reluctant to give up control, and external CEOs can find their professional judgements over-ridden by family and owner decisions, which may appear to be based on emotion rather than rational argument.

Given the overall theme we have been highlighting this year, it is particularly significant how many external CEOs say they are excluded from the strategic decision making process – many describe this in terms of decisions taken by the family 'round the dinner table' (or in the case of one Australian firm, at the barbecue). A CEO from a third-generation Australian business said: "I am not privy to the inner circle of decision making, that doesn't worry me but might worry some people."

Another common observation is that professional managers are often called upon to be an unofficial mediator between different parts of the family. Not only can this be difficult and damaging to working relationships, it's a role no professional manager should be asked to play: they need to focus their skills and energy on running the business. Many talented managers are, in fact, actively put off taking roles in family firms for precisely this reason.

Judging from this feedback, many family firms still have more work to do to understand the value of an external CEO, and give them the freedom they need to do the job properly. If not, the risk is that they will not stay and the value to the business won't be realised.

## The role of the Board

It is no surprise to find that larger and older family firms are more likely to have non-family non-executives: 79% of companies turning over more than \$100m have such directors, as do 75% of firms which have reached at least a fourth generation.

Many family firms start with no non-executives at all, though most have formal or informal advisers who can act as a friendly sounding-board. When a proper board is first established, these people are often invited to be the first non-executives. But as they are friends of the family or existing advisers, they're often more like insiders than outsiders, especially as many of them stay in post a very long time, which carries the risk of 'going native' (and hence the importance of renewing the board periodically). They can still play a useful role, but our experience suggests that they're unlikely to offer the independence or 'edge' that the family firm really needs to maintain a competitive advantage. They're certainly unlikely to challenge a strong founder or CEO to any significant extent.

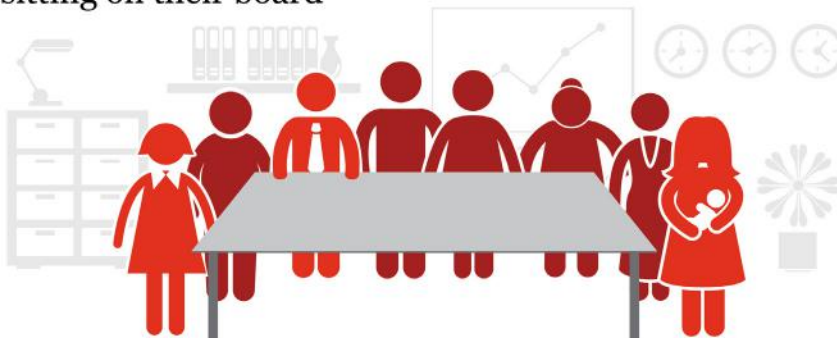
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*"Turnover among managers is very high as family members dismiss the management team frequently even though the business results are significantly better than the prior years."*

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US, 5th generation

**65%** of family businesses have non-family members sitting on their board



As Siew Quan Ng, Family Business Leader, PwC Asia Pacific, observes; “That’s the degree of challenge all family firms eventually need. To reach full maturity, a family firm needs a strong board of individuals with relevant experience, and a wider perspective, complemented with some independent and objective views.” A well-functioning board can add tremendous value to a family business by – for example – examining how the company’s assets and profits are being used, and moderating discussions about the level of dividends. This can help ensure the company retains sufficient funds to both survive and grow.

It is interesting in this context, that 73% of family firms looking to grow aggressively have non-family non-execs. Family firms need a board which is able and willing to give an opinion, and question decision-making, but which also shares the company’s vision and values. As Andy Berliner of the US based organic foods producer, Amy’s Kitchen says, “We’re forming an advisory board, but finding people who share our values and have the right experience to help is not easy. We want people who not only have the skills but who appreciate what we’re doing and can put their heart into this.”

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*“Not being a family member or shareholder means you don’t get the chance to be involved with the strategic business decisions going forward. So, it can be difficult to put forward your own personal perspective. So, you don’t always feel that you’re adding any value to the business.”*

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South Africa, non-family, 2nd generation business

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*“You’re a communicator between family members, they cannot talk to each other so they use me to talk to them.”*

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Singapore, non-family member

While every family firm will want directors who ‘fit’, every business will have different needs when it comes to the selection of the board. We often work with owners who are nervous about giving up control or sharing confidential information with ‘outsiders’, even when these people are board directors. Others worry about the expense, or struggle to see the value of board meetings, which means they don’t allow the time needed to make best use of them. The process of selecting and hiring outside board members also raises real concerns about getting it wrong, especially for owners who don’t have established processes for doing this, and aren’t aware that there are ways to protect themselves if things don’t work out. Likewise attracting the right individuals and ensuring a good fit can be challenging, as potential non-executives need to understand the dynamics of the family business, and the complexity of the family relationships involved.

### ***A perspective on governance and professionalising the family firm***




Siew Quan Ng, Family Business Leader, PwC Asia Pacific, highlights the role that governance and risk management play in the professionalisation journey.

“Governance at the early stages of a family business is typically effected through informal systems centred around the owner, who makes major decisions concerning the business. This arrangement is fine so long as management and ownership remain concentrated within a few individuals/family members. But as the business grows and transitions to a stage where there are more shareholders who may have different interests, mechanisms must be put in place and formalised so that all these views are taken into account. This all the more evident when the family decides to list the business. Aside from compliance to regulatory requirements by local authorities, the business needs to demonstrate to investors through corporate governance disclosures that the board and senior management are running a tight ship.

Which brings me to the next point on risk management. The universe of risks faced by a small owner-managed business is nowhere as complex as that of a multinational conglomerate. When a family business starts to scale up and evolve, so too must the way in which it manages risks. Unfortunately, risk management is often seen as an afterthought – a part of the compliance process. The reality is that the successful businesses all manage risk from the onset, beginning with the articulation of strategy. The Board (and by extension the shareholders) must be able to gain comfort from the fact that the business’s governance architecture supports this. In essence, it is not just about effectively managing risks, but just as importantly, knowing when to take on the right risks as well.”





*“While every family firm will want directors who ‘fit’, every business will have different needs when it comes to the selection of the board”*

Nowhere is the board more important than in strategic planning. A good board should be challenging the business to develop such a plan, if it doesn't already have one. For example, it should be raising questions about the impact of new technology, and asking for information on market trends. The right kind of non-executive director will also have significant experience to offer in the detail of the planning process, from helping the business think through the issues objectively, to scenario assessment, to the formulation of a realistic and effective plan, and monitoring progress against it on a regular basis. A robust strategic plan will also be invaluable in recruiting new non-executives, by identifying areas for future expansion or diversification, where different skills and input might be needed at board level.

### ***Beyond ‘rubber stamping’: The contribution the board can make<sup>2</sup>***

In our experience, many family firms are not making full use of their board: a good board is much more than merely a ‘rubber stamping’ body. Here's a summary of areas where a robust and objective board can make a real difference:

- Helping the owners separate what the company needs from what the family wants
- Fresh perspectives, relevant experience, and access to influential networks
- Help the CEO move beyond the tactical and the day-to-day
- Ensuring there is accountability across the business
- Assistance with risk management
- Objectivity, independence, and an ‘outside-in’ point of view
- Support and advice on planning for CEO succession
- A ‘safe place’ for difficult discussions
- Smoothing the transition to the next generation
- Planning and advising on exit strategies.

<sup>2</sup> Family Business Corporate Governance Series: What is a board's role in a family business? PwC US <http://www.pwc.com/us/en/governance-insights-center/publications/assets/corporate-governance-role-in-family-business.pdf>



# The role of the next generation

*“I’d be delighted if my sons and nephews wanted to join the business, but I’d want them to develop a career outside the company first. And if they do join, they’ll have to have the right skills. Family businesses go wrong when family members are given jobs they’re not suited to. They need to have something to offer in whatever position they may take. It’s tough enough being a family member.”*

Daniele Simonazzi, CEO, FLO S.p.A., Italy

In the next five years it is likely we will see the biggest inter-generation transfer of wealth the modern economy has ever seen. Much of this wealth will take the form of shares in family businesses, which is why a more robust approach to succession planning is such a key priority for the whole family business sector – and indeed for the economies they help sustain. A change of this magnitude poses huge risks, but it’s also opening up immense opportunities, with a new generation in waiting that’s more ambitious, more open-minded, and arguably better prepared than any of those that have preceded it.

Earlier this year, we undertook a detailed survey of this next generation of family business leaders, to find out what their priorities are, and how they see the future. Some of the findings came as no surprise – the next generation<sup>3</sup> are ambitious, dynamic, and open to change. They want the business they hand on to be very different from the one they inherit:

they want to explore new products and services, and new markets, but they’re also interested in new locations, and even new business models. 88% said they want to do something special that will really make a mark, and 79% have lots of ideas about how to take the business forward. 59% would like to diversify their product portfolio, but 68% believe their firm is unlikely to make this change, even a decade ahead (which tallies with the Family Business Survey results). This may explain why 47% of the next gens are looking to set up a parallel venture, alongside what the main business is doing.

And they’re more likely than any previous generation to make a go of that: many of today’s next generation are from the millennial generation, which comes to the workplace with different expectations, different priorities, and an easy familiarity with digital technology, all of which will influence the future direction of the family business sector. Many have benefited from a business school education, which also gives them the analytical tools they need to carry out effective strategic and medium term planning.

Indeed, we think the coming transitions could be some of the most interesting and significant that most established family firms will ever go through. The sort of person who’s going to be running a family firm in five to ten years’ time will look and think very differently from most of those doing it today.

With the biggest inter-generational transfer of wealth happening, it’s now more important than ever to get

**succession right**



<sup>3</sup> [www.pwc.com/nextgen](http://www.pwc.com/nextgen)



## ***Five ways the current generation can support the next one***

**Sian Steele**, Family Business Leader, PwC UK.

There are five key things the current generation can do to make sure the next generation have the best chance to succeed:

### **1. Plan ahead**

The single most important success factor for succession is a good plan. That starts with detailed career and development planning for the next gen, so they can get a wide range of experience and acquire the right skills. If possible, find ways for them to work outside your home market, as well as outside the family firm. This will help build their credibility if they do eventually decide to come back to the family business.

### **2. Make it an opportunity, not a burden**

Many of the next gen are excited about the chance to work in the family firm and take it over one day. But make sure they don't feel expectation as a burden, and have the chance to make a free choice about their own future.

### **3. Give them the chance to build something of their own**

54% of respondents this year talked about the possibility of setting up new entrepreneurial ventures to run alongside the main firm, and 47% of those questioned in our next gen Great Expectations<sup>4</sup> survey said they would like to do this. Such ventures can be a wonderful way to give the next gen their own area of responsibility, where they can learn, explore new ideas, and gain vital skills. And who knows – those new ventures could evolve into the future for your firm.

### **4. Understand where and when to let go**

Almost all next gens say they would welcome continued support from their parents when they take over (91% in our next gen research), and many talk with feeling about the mentoring they've received, and the lessons they've learned. But there's a fine balance between being there to help, and never letting go. It's an understandable wrench to step back from a business you've run, and in many cases, built – 61% of next gens in Great Expectations acknowledge this as a challenge in their own family. So spend time discussing the exact shape of your future role, and find yourself something else to do beyond the business, so you won't constantly be tempted to 'just show up'.

### **5. Address family governance**

One positive role the current gen can play is in relation to family governance. We all know how dangerous conflicts and misunderstandings can be in family firms, and 52% of next gens in our Great Expectations survey said that they were worried about the prospect of dealing with 'family politics'. The older generation are ideally placed to help manage this, both through their experience and the 'gravitas' of age. So if your family firm hasn't yet got to grips with family governance, or could benefit from a proper family constitution or family council, why don't you take on this task yourself, so the next gen can concentrate on taking on the business.

<sup>4</sup> [www.pwc.com/nextgen](http://www.pwc.com/nextgen)

# A final word

There are five key conclusions to be drawn from this year's survey, which require concerted and determined action:

- Family firms must redouble their efforts to deal effectively with succession, and institute robust plans to address it.
- The professionalisation journey is not yet complete, and will need further time and resources. This is especially true in relation to family governance, and the role of the board.
- There is an equally urgent imperative to make the time and space to carry out a rigorous strategic planning process. This includes planning for the future of the family, as well as the future of the firm. There is much to be learned from family firms who are already doing this well, and our own teams are ideally placed and skilled to assist with this.
- Thinking positively about the opportunities digital disruption presents is critical. And this may mean facing up to some stark realities about the long term future of some areas of the business. This is where family firms can deliver on their ability to reinvent themselves and not lose the entrepreneurial spirit they were founded on.
- The next generation have an increasingly vital role to play, both in responding to digital disruption and the strategy setting process. They need to be empowered and supported to do so.

This agenda is not easy, but it is necessary. And if done well and promptly, it offers family firms a golden opportunity to punch above their weight, and fulfil their huge potential even more effectively than they already are.



# The people behind the stories

This year we've talked face-to-face with more than 30 senior executives from family businesses across the globe to get their insights, observations and personal views on business, family and working in the family firm. We thank them all for participating.

From the co-CEO of a tech retailer in Greece and the founder of a paper manufacturer in Mexico, to the CFO of an agribusiness in Russia and the founder of a patisserie chain in Japan, we're delighted to share their stories in our report.

Read their stories at [www.pwc.com/fambizsurvey2016/stories](http://www.pwc.com/fambizsurvey2016/stories)



**Peter D Fox AM**  
Executive Chairman  
LinFox  
Australia



**Dan Perkins**  
Managing Director  
Perkins Construction  
Australia



**Andrew Taplin**  
Managing Director  
Taplin Real Estate  
Australia



**Mario Haidlmair**  
CEO  
Haidlmair  
Austria



**Paul & Michael Higgins**  
Co-CEOs  
Mother Parkers  
Canada



**Jette Egelund**  
Chairman  
Vipp  
Denmark



**Juha Vidgrén**  
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**Konstantinos Gerardos**  
Co-CEO  
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**Shobana Kamineni**  
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**Nishant Arya**  
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**Jasper Lim**  
Executive Director  
Tohtonku Sdn Bhd  
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**Agustín Anaya**  
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**Tere Cazola**  
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Tere Cazola  
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**Jonas Wintermans**  
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**Sir Graham Avery**  
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**Sayyid Nasr bin Badr  
bin Hamad Albusaidi**  
Non-executive Director  
SABCO Group  
Oman



**Zbigniew Inglot**  
Owner & President of  
Supervisory Board  
Inglot  
Poland



**Boris Tarasov**  
Founder & CFO  
Avgust  
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**Evgeniya Uvarkina**  
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Trio  
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**Milaan Thalwitzer**  
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South Africa



**Selim Yaşar**  
Chairman  
Yaşar Holding A.S.  
Turkey



**Osama Ibrahim  
Seddiqi**  
CFO  
Seddiqi Holdings  
UAE



**John Hoy**  
CEO  
Blenheim Palace  
UK



**Simon Spinks**  
Managing Director  
Harrison Spinks  
UK

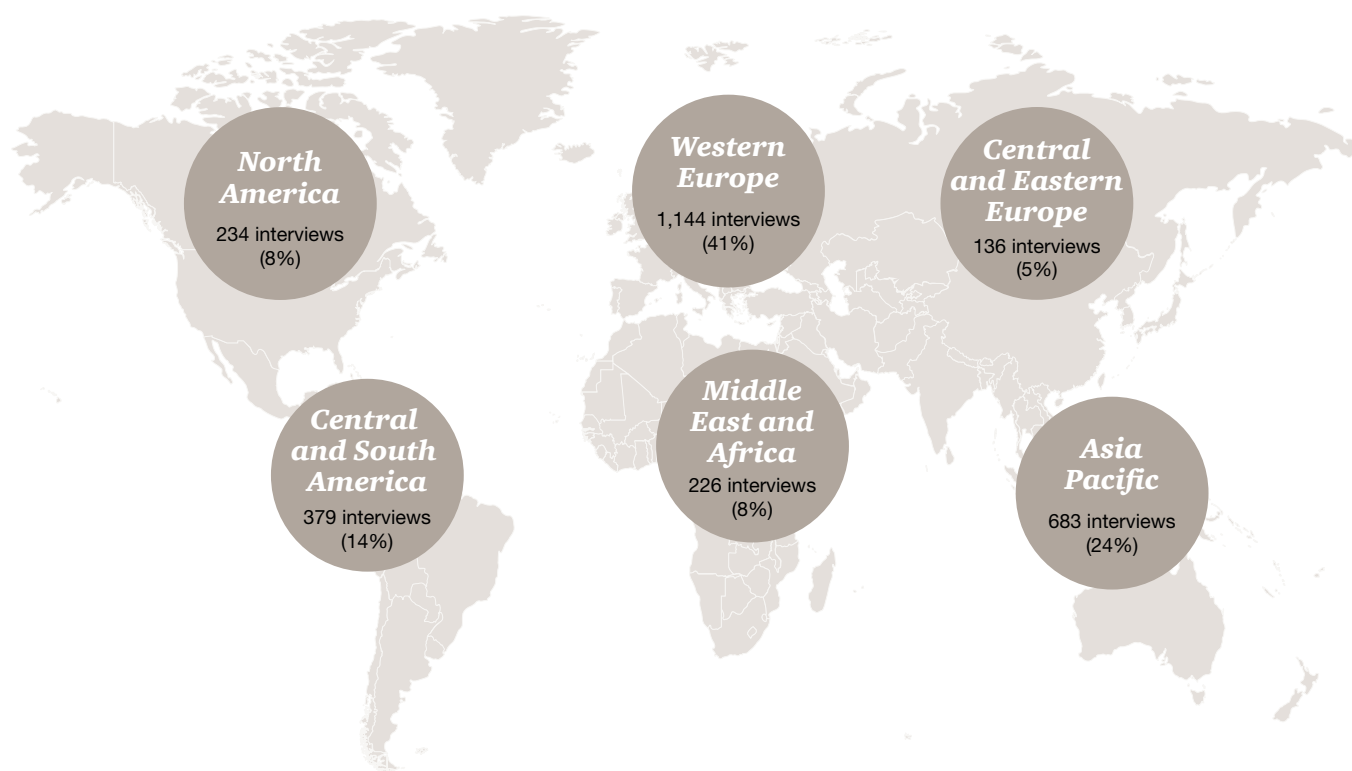


**Rachel and  
Andy Berliner**  
Founders  
Amy's Kitchen  
USA



**Mitzi Perdue**  
Author/Entrepreneur  
USA

# Research methodology



## ***'Family business' definition***

For the purposes of this Survey, a 'family business' is defined as a business where:

1. The majority of votes are held by the person who established or acquired the firm (or their spouses, parents, child, or child's direct heirs);
2. At least one representative of the family is involved in the management or administration of the firm;
3. In the case of a listed company, the person who established or acquired the firm (or their families) possess 25% of the right to vote through their share capital and there is at least one family member on the board of the company.

## ***Survey methodology***

Between 9 May 2016 and 19 August 2016, 2,802 semi-structured telephone, online and face-to-face interviews took place with senior executives from family businesses, in 50 countries worldwide.

The interviews were conducted by Kudos Research, in the local language by native speakers, and averaged between 25 and 35 minutes.

The turnover of participating companies ranged from US\$5m to more than US\$1bn.

Following the 23 June 2016 referendum on the UK leaving the European Union, questions about the potential impact of Brexit on their businesses were added to the questionnaire. 1,145 respondents answered these questions.

All results were analysed by Jigsaw Research, an independent market research firm.

## Thanks and acknowledgements

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At PwC, we know that the most successful family firms are those in which there is a good balance between professional management, responsible business ownership and a healthy family dynamic. We have a keen understanding of the unique subtleties of family business, and we have the tools, experience and focus to help family businesses optimise the positive forces in family enterprises, while anticipating and minimising any conflict.

No matter what the size, industry or market, PwC's advisers assist family businesses across the globe. From strategy and governance, to business transition and private wealth, to putting values in action, we have the tools, people and presence to help family enterprises build lasting value.

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