



KPMG Enterprise

European Family Business Trends

MODERN TIMES?

kpmgfamilybusiness.com

kpmg.com/enterprise



ACKNOWLEDGEMENTS

In preparing this report, we have benefited from our numerous researches and studies, in particular from the European Family Businesses Barometer, conducted in partnership with European Family Businesses (EFB).

EFB is the EU federation of national associations representing long-term family owned enterprises, including small, medium-sized and larger companies. EFB's mission is to press for policies that recognize the fundamental contribution of family businesses in Europe's economy and create a level playing field when compared to other types of companies.

We would like to thank in particular **JESÚS CASADO NAVARRO-RUBIO**, Secretary General at EFB, for his time and insights for this report.



INTRODUCTION

Family businesses are one of the oldest forms of commercial organization. They continue to be among the most common forms of business today and the driving force behind the global economy. According to the Family Firm Institute, family-owned companies account for two-thirds of all businesses worldwide, generating more than 70% of global GDP annually.

Still, their economic importance is often underestimated. For many, the term 'family business' conjures up images of their neighborhood bakery or grocery store. However, the truth is that family businesses are all around us – from millions of small- and mid-sized companies to renowned giants like Wal-Mart, Ford, and Dior. According to McKinsey, one-third of all companies in the S&P 500 index are defined as family businesses.

With no generally agreed definition and limited data available, family businesses continue to be an enigma. What is usually known about them? Not a lot: often a family's strong desire to retain control of the business, a unique value-based culture, and long-term vision. These are the major characteristics which usually set family businesses apart and which family business owners cite as the major drivers of their success.¹

FAMILY BUSINESSES ARE OFTEN SEEN AS STABLE, BUT PERHAPS CONSERVATIVE AND OUTDATED. THEIR BEHAVIOR MAY SOMETIMES SEEM IRRATIONAL AND THEY RARELY, IF EVER, DISCLOSE CERTAIN BUSINESS INFORMATION.

Opinions about family businesses vary. Some argue that they are stable, reliable employers who care about their staff. Figures confirm that family businesses better retain their talents, create a strong culture based on values and commitment and investment in training.² Others are more skeptical as to family businesses' ability to survive in the new economy. Their closed structure and desire to keep certain business information confidential help contribute to the image of an authentic, but sometimes irrational management style, perplexing professionals and posing limits for business development.

So what does today's family business look like? How does it survive and grow in the modern economy? This report reveals the **'changing face' of family business**, and seeks to provide fresh insight and perspectives.



CHRISTOPHE BERNARD

KPMG Global Head of Family Business

¹ Source: Fourth European Family Business Barometer 'Determined to succeed', EFB-KPMG, September 2015.
² Source: 'What You Can Learn from Family Business', Harvard Business Review, 2012.



THE CHANGING FACE OF FAMILY BUSINESS

WHAT HAVE WE RECENTLY LEARNED?

Family businesses stay close to their roots. However, they seem to contradict numerous skeptics who claim them to be obsolete and predict their rapid retreat. It is increasingly fashionable to be branded a 'family business' and the importance of the family business market to the global economy is even harder to neglect.

There was a meaningful shift about a decade ago, when companies around the world went from hiding the fact that they were a family business to being open and proud about it. Some well-known giants loudly publicized their 'family' roots and incorporated 'we are a family company' into their marketing campaigns. Other businesses of all sizes followed them.

While family businesses advertise their 'family' nature, European and international institutions are paying increasing attention to this growing market. The topic was discussed at the World Economic Forum in Davos, and the European Parliament plenary recently approved its own-initiative report on family businesses in Europe.

“WE BUILD OUR FUTURE ON OUR FAMILY BUSINESS FOUNDATION.

THE “FAMILY” VALUE MAKES US UNIQUE. WE BUILD OUR FUTURE ON A SOLID FOUNDATION.

SINCE 1876, THE YEAR HENKEL WAS FOUNDED, THE HENKEL FAMILY HAS SHOWN A STRONG COMMITMENT TO THE COMPANY. THE FAMILY PROVIDES US WITH THE OPPORTUNITY TO OPERATE IN THE LONG TERM. IT ALSO SUPPORTS US WHEN WE HAVE TO MAKE DIFFICULT STRATEGIC DECISIONS. WE ARE COMMITTED TO LEADING HENKEL WITH AN ENTREPRENEURIAL SPIRIT, WHICH HAS BEEN A STRONG CHARACTERISTIC SINCE OUR FOUNDATION, AND THAT IS WHAT ULTIMATELY MAKES THE DIFFERENCE IN THE MARKETPLACE.³”

HENKEL

“ OUR RICH HISTORY EVOLVED FROM OUR ROOTS IN CHOCOLATE TO A DIVERSE GLOBAL PRIVATELY OWNED BUSINESS ENCOMPASSING PETCARE, GUM AND CONFECTIONS, FOOD, DRINKS AND SYMBIOSCIENCE, IS UNDERScoreD BY THE GUIDANCE OF THE MARS FAMILY AND OUR PRINCIPLES-LED APPROACH. ”⁴

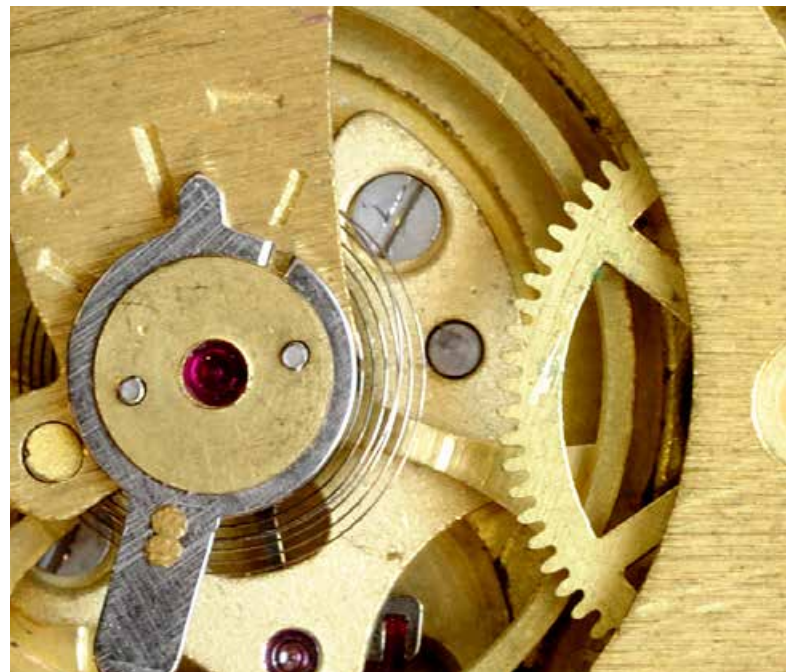
MARS

The report *‘recognizes that family businesses are the single biggest source of employment in the private sector and that therefore what is beneficial to continuity, renewal and growth in the family business sector is conducive to continuity, renewal and growth in the European economy’*. In addition, the report calls for a better understanding of family businesses through better statistics and data.⁵

Family businesses have proved to be both successful and resilient. The importance of their role in the economy is obvious. Just take a look at Europe, where over 14 million family businesses provide over 60 million jobs in the private sector.⁵ In various European countries, family businesses represent from 55% to 90% of all companies, and they are present in businesses of all sizes, from corner shops to big corporations (as an example, 40% of the 250 largest companies in France and Germany are family-owned).⁶ Many family companies do extremely well in the modern reality, and often even better than their non-family peers.

What is the key to this lasting growth and success? Incredible luck or specific skills and knowledge? Our research has shown that the answer is quite simple. Many family businesses do not rest on the laurels of previous generations and, contrary to popular belief, they are neither conservative nor old-fashioned. Family businesses demonstrate a unique formula for

success: they capitalize on unique ‘family’ strengths while actively adapting to the new and ever-changing market trends. Skeptics should take back their criticisms and pessimistic forecasts and seriously rethink many assumptions about family businesses’ ability to succeed.



3. Source: www.henkel.com.

4. Source: www.mars.com.

5. Source: European Family Businesses (EFB).

6. Source: ‘The five attributes of enduring family businesses’, McKinsey&Company, 2010.

FAMILY BUSINESS DEMONSTRATE SOLID GROWTH

While the EU economy's recovery is feeble and unstable, European family businesses demonstrate increasing confidence in the future and positive performance.

European economic recovery has been slow since 2013 (1.3% growth in 2014 and 1.8% in 2015).⁷ The World Bank's forecasts are positive thanks to robust consumer demand, the gradual return of investment, and continued increase in exports.⁸

Meanwhile, European family businesses are demonstrating overwhelming business confidence and stable improvement in performance.

75% of European family businesses feel optimistic about the future

Even two years ago, when the economic climate in the EU zone was difficult and business confidence was low, over half of family businesses expressed a positive business outlook. Now, at the end of 2015, the number of those who are optimistic in their forecasting has reached 75%, an encouraging double-digit swing (Figure 1).⁹

The bright future for family businesses is not about survival, it is about continued sustainable growth, and growth is definitely back on their agenda. 58% of respondents report an increase in turnover in the last six months (Figure 2) and over one-third of respondents forecast further growth in the next two years. Only 17% still cite 'decrease in turnover' among their major issues, compared with two years ago when it was the main challenge for over half of the respondents.

58% of family businesses surveyed have increased their turnover in the last 6 months

TOP 5 BUSINESS PRIORITIES OF FAMILY BUSINESSES FOR THE NEXT 2 YEARS



#1 IMPROVE PROFITABILITY (59%)

#4 BECOME MORE INNOVATIVE (23%)



#2 INCREASE TURNOVER (37%)



#3 MOVE/EXPORT INTO NEW MARKETS (23%)



#5 DIVERSIFY INTO NEW PRODUCTS/MARKETS (21%)

Source: Fourth European Family Business Barometer, EFB-KPMG, September 2015

7. Source: European Commission.

8. Source: The World Bank's EU Regular Economic Report, May 2015.

9. Source: Fourth European Family Business Barometer 'Determined to succeed', EFB-KPMG, September 2015.

75% of European family businesses include investments in their short-term strategy

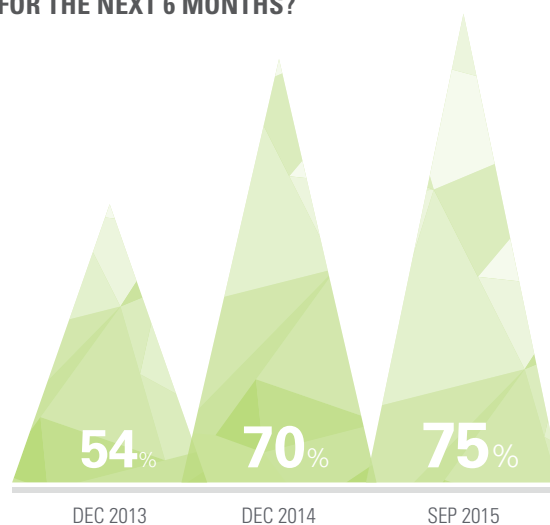
Positive business performance impacts employment levels. Companies are competing not only to hire, but also to retain the best talent. 84% of respondents are split between those who continue to grow their workforce and those who expect to maintain current levels, with a slightly higher number planning to increase their workforce (46%) (Figure 2).

Access to finance, which has a direct impact on maximizing opportunities for growth and development, is not a concern anymore and, as a result, family businesses are increasingly ready to make new investments (75%). Other factors that can contribute to this success include long-term orientation in investment returns, personal attachment to the business, and a strong desire to adapt in order to seize new opportunities.

“ Family businesses are developing and growing. In pursuit of success, companies have responded differently to the financial crisis of 2008. The three major trends characterizing family businesses nowadays are: rapid internationalization, increased hiring, and considerable investments in digital projects. **”**

JESÚS CASADO NAVARRO-RUBIO
SECRETARY GENERAL
EUROPEAN FAMILY BUSINESSES

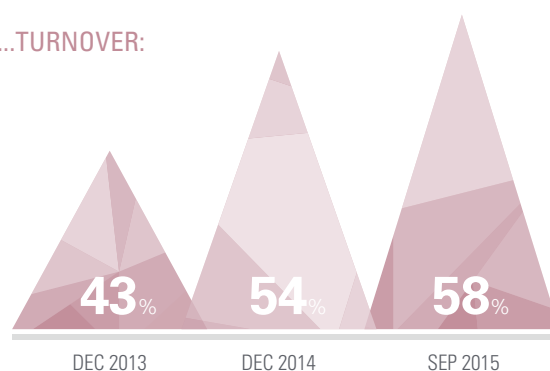
FIGURE 1: **HOW CONFIDENT DO YOU FEEL ABOUT YOUR FAMILY BUSINESS' ECONOMIC PERSPECTIVE FOR THE NEXT 6 MONTHS?**



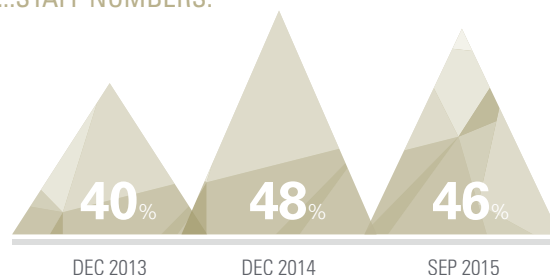
Source: Fourth European Family Business Barometer, EFB-KPMG, September 2015

FIGURE 2: **IN THE PREVIOUS 6 MONTHS YOUR COMPANY HAS INCREASED...**

...TURNOVER:



...STAFF NUMBERS:



Source: Fourth European Family Business Barometer, EFB-KPMG, September 2015

FAMILY BUSINESSES ARE UNDERGOING FAST STRATEGIC CHANGES

Family businesses are optimistically looking to the future and building their business strategy. A natural desire to keep the business within the family means business owners have to make decisions relating to when and how to transfer the company to the next generation. An emerging trend over the last two years is for many family businesses to take the decision to sell the business.

Backed by their confidence, family businesses are focusing on business planning to boost their company's potential. Forty one percent of European family business owners surveyed are ready to take a quick decision and undertake a strategic change for their companies in the coming year.¹⁰

The primary choices are selling the business or passing on management to the next generation, both of which entail a drastic change in the company's management and/or ownership structure.

It is common knowledge that the primary goal of almost any business owner is to successfully preserve the business and pass it on to their children and grandchildren. Thus 82% of family business owners consider smooth and timely succession preparation as crucial for their business.¹⁰ It should come as no surprise that after mentioning succession among their key priorities, family business owners plan to pass on management, ownership and governance of the business to the next generation (Figure 3).

Selling the business is a new trend which has considerably gained popularity in the last two years. The owner's decision to part with the company is influenced by a number of factors, including the size of the business and the generational profile of the family members controlling it. In large companies, as well as family businesses operating into the second generation and beyond, owners are much more reluctant to sell than in first-generation or small businesses.¹¹



ESSENTIAL STEPS TO TRANSFER THE BUSINESS

Handing over a family business to the next generation is make-or-break time for most family-run businesses, and statistics reveal the disparity between the optimistic intentions of business owners and the massive failure of their companies to survive through the generation. The reality is alarming: only 30% of family businesses make it to the second generation, 12% make it to the third, and only 3% make it further.

Without a good plan in place, each time the business passes into the hands of the next generation, it could face failure, no matter how well it was doing previously. Preparation should include:

- 1** Reviewing current goals and objectives (of each party involved)
- 2** Documenting the succession plan (it should be concrete and straightforward, and ideally encompass successions beyond the one at hand)
- 3** Creating a plan defining how and when the transition will take place.

To be successful, the completed succession plan must be communicated to all family members, whether active or non-active within the business.

Once the preparation phase is over, transition of management can commence, followed by transition of control and lastly transition of ownership.

Don't put off succession planning until you are 50...proper planning takes time!

10. Source: Fourth European Family Business Barometer 'Determined to succeed', EFB-KPMG, September 2015.

11. Small businesses are defined as having less than €10 million in turnover. Large companies are those with turnover of over €50 million.

41% of respondents are considering a strategic change over the coming year

FIGURE 3: **ARE YOU CONSIDERING ANY OF THE FOLLOWING OPTIONS FOR YOUR FAMILY BUSINESS IN THE NEXT 12 MONTHS?**



“ NEXT GEN OF TODAY INFLUENCES THE FAMILY BUSINESS STRATEGY

Proficiency in foreign languages and excellent digital skills are the two characteristics that usually set today's Next Gen apart from their parents and grandparents. It allows a family business to develop internationally starting already from the first generation and be competitive in the strongly digitalized market space. ”

“ FAMILY BUSINESS OR AN ALTERNATIVE WAY?

Next-generation members tend to gain an outside experience first. It broadens their horizons and strengthens their legitimacy to take higher responsibilities when they return and join the family business. The decision to build a career within the family company or start their own business depends largely on the company's size and business activity. The bigger the company, the greater the opportunity to take on a managerial role. The more future-oriented the business, the stronger the desire of the new generation to continue the family legacy. However, a family structure that is too complex may force new family members to look for professional opportunities outside the company, ” as there is no room to integrate them all.

“ SENIOR GENERATION'S ROLE

Next-generation members bring their excellent language and digital skills to the family business, helping it to develop and compete in the changing marketplace. The senior generation's primary task is to convince new family members to join the family business by providing good education, fostering open dialogue on the company's vision and goals, and giving young members roles and responsibilities 'soon enough'. ”

JESÚS CASADO NAVARRO-RUBIO
SECRETARY GENERAL
EUROPEAN FAMILY BUSINESSES

FAMILY BUSINESSES PROFESSIONALIZE

Striving for further growth, many family business owners have taken steps to achieve higher professionalization within their companies.

Family businesses – particularly first- or second-generation businesses where the founding force is still active – can generally be distinguished from corporations by a number of characteristics. These include a casual approach to business processes and procedures, more personal management, less defined business strategies and plans, and a ‘do-it-yourself’ attitude.

But when the business has a desire to grow, ‘professionalizing’ is inevitable. With growth placed high on the agenda, European family businesses actively improve their governance structures, ‘educate’ the family, and bring in outside talents.

88% of family businesses have some formal governance mechanisms in place

‘Having good governance structures and processes’ consistently tops the list of the most important factors driving family business success, cited by 85% of respondents. By recognizing the importance of governance, the majority of family business owners (88%) already have some formal governance mechanisms in place.¹²

KPMGINSIGHT

A COMMON QUESTION ASKED BY FAMILY BUSINESS OWNERS IS: *WHAT GOVERNANCE MECHANISMS ARE APPROPRIATE FOR MY BUSINESS?*

In its simplest form, governance in a family business means:

- 1 Focusing on the development of people and family harmony (a family forum/council), and
- 2 Establishing pre-agreed rules as to how the family will participate and be recognized (a family constitution/charter); and
- 3 A forum which focuses on business strategy, risk, accessing outside perspectives and developing future business leaders (a business board)

A family business advisor can assist family firms in deciding what business governance structures (e.g. formal advisory board versus formal board of directors) are appropriate for their current and future needs. They can also assist in guiding families on an appropriate board composition, as well as how board meetings should be conducted to maximize their value.

5 MAIN DRIVERS FOR SUCCESS IN A FAMILY BUSINESS

#1 HAVING GOOD GOVERNANCE STRUCTURES & PROCESSES IN PLACE (85%)



#2 PREPARING & TRAINING A SUCCESSOR BEFORE LEADERSHIP SUCCESSION ACTUALLY TAKES PLACE (82%)



#3 MAINTAINING FAMILY CONTROL OF THE BUSINESS (80%)



#4 FINANCIAL LITERACY AMONGST FAMILY MEMBERS (73%)

#5 BALANCING FAMILY CONCERNS AND BUSINESS INTERESTS (72%)



Source: Fourth European Family Business Barometer, EFB-KPMG, September 2015

12. Source: Fourth European Family Business Barometer ‘Determined to succeed’, EFB-KPMG, September 2015.

85% of respondents consider external managers beneficial for the company

Linked to this is the position of non-family executives helping the business remain competitive by bringing about a new dynamic and necessary skills. Among the companies surveyed, 85% agree that external managers are beneficial for their company's success and 76% have already given non-family members management roles. Among the benefits that a non-family executive can bring, the most frequently mentioned are external expertise and ability to professionalize the business (Figure 4). *"As all businesses play hard to win, we feel we could excel by adding new non-family board members,"* says a General Managing Director from the UK. *"They are more realistic and could help take on new challenges with a different, more credible approach."*

A Director of Operations from Spain shares his view on adding an external investor to the Board: *"We have always been appreciative of investors' knowledge and experience. We believe that their ideas could also contribute to the achievement of different desirable results."*

“ INVOLVEMENT OF INDEPENDENT BOARD MEMBERS ENABLES US TO TAKE DECISIONS MORE EFFECTIVELY WITHOUT ANY SENTIMENTS AND DISRUPTIONS. ”

CEO, FRANCE

It is interesting to note that, while not ranked as one of the major success factors, 'financial literacy among family members' has significantly risen in importance over the last two years, from 41% to 73%.

FIGURE 4: **WHAT DO YOU CONSIDER AS THE MAIN ADVANTAGES THAT NON-FAMILY EXECUTIVES BRING TO THE FAMILY BUSINESS ?**



Source: Fourth European Family Business Barometer, EFB-KPMG, September 2015

FAMILY BUSINESSES RAPIDLY MOVE ABROAD

Growth can come from a number of avenues, not least overseas markets. By demonstrating increasing activity abroad, family businesses are challenging the common belief that they are less inclined to grow internationally.

According to the European Commission,¹³ international trade accounts for 15% of EU GDP and Europe is the world's largest exporter. Moreover, EU firms are major investors in other markets around the world and the turnover of these foreign subsidiaries is considerable.

74% of the surveyed companies have activities abroad

Figures suggest that family businesses are taking advantage of global economic opportunities and are contributing considerably to the European economy's international success. 74% of the surveyed companies are already operating beyond their national boundaries (compared with 60% two years ago) (Figure 5). Of those, more than half have recently increased their activities abroad. Furthermore, almost a quarter of respondents (23%) plan to invest in internationalization and cite moving/exporting into new markets among their top two business priorities for the next two years.

While most investments are poured into the domestic and neighboring European markets, the priority choices in other markets are Asia and North America (Figure 6). This corresponds to the overall European export breakdown, where China and the United States are among the major investment destinations for the EU firms outside Europe.¹³

European family businesses outline the improvements in the regulatory area: the percentage of those who do not invest abroad because of the lack of public support has dropped from 26% to 4% since two years ago.¹⁴ Despite certain factors that may affect positively or negatively their internationalization, family businesses express a certain wish to capture opportunities proposed by the overseas markets.



Family businesses are becoming increasingly global, in their own specific way:

■ While big corporations can afford 'try and fail' approaches, family businesses are more prudent before deciding to move abroad, they think three times and not twice before taking the final decision.

■ Family businesses rely strongly on local partners and choose them carefully. Similar values and similar ways of doing business are among the most important criteria.

■ Whenever moving abroad, family businesses search for 'volunteers' among family members before tapping into local talent to head their international branches.



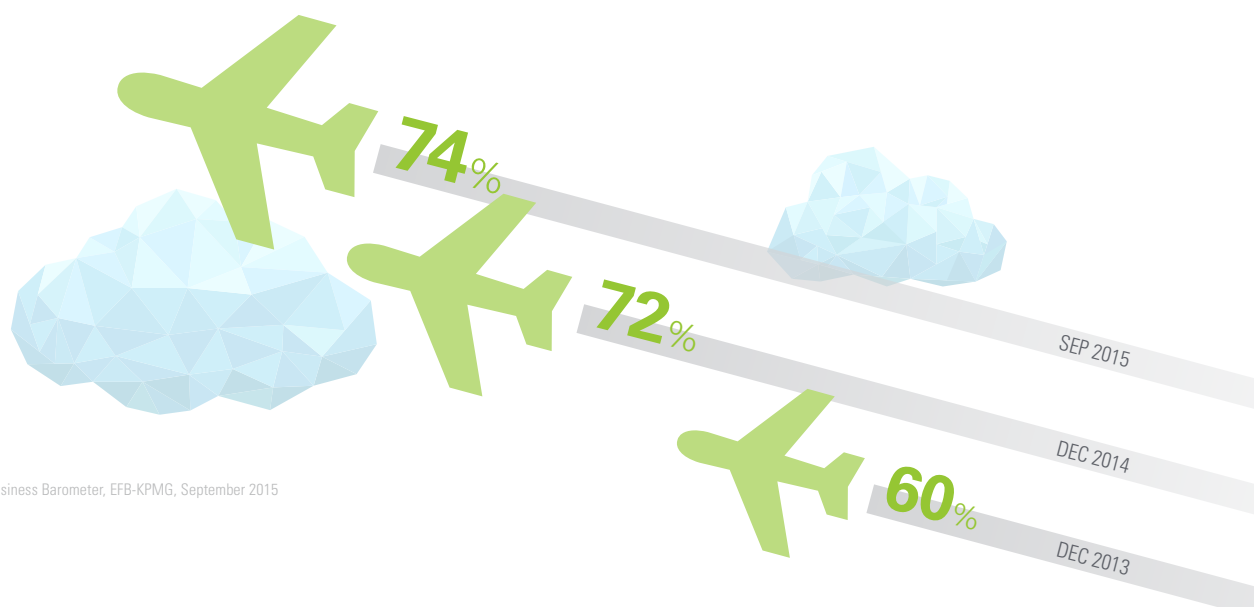
JESÚS CASADO NAVARRO-RUBIO

SECRETARY GENERAL, EUROPEAN FAMILY BUSINESSES

13. Source: 'Going Global. The way forward', European Commission.

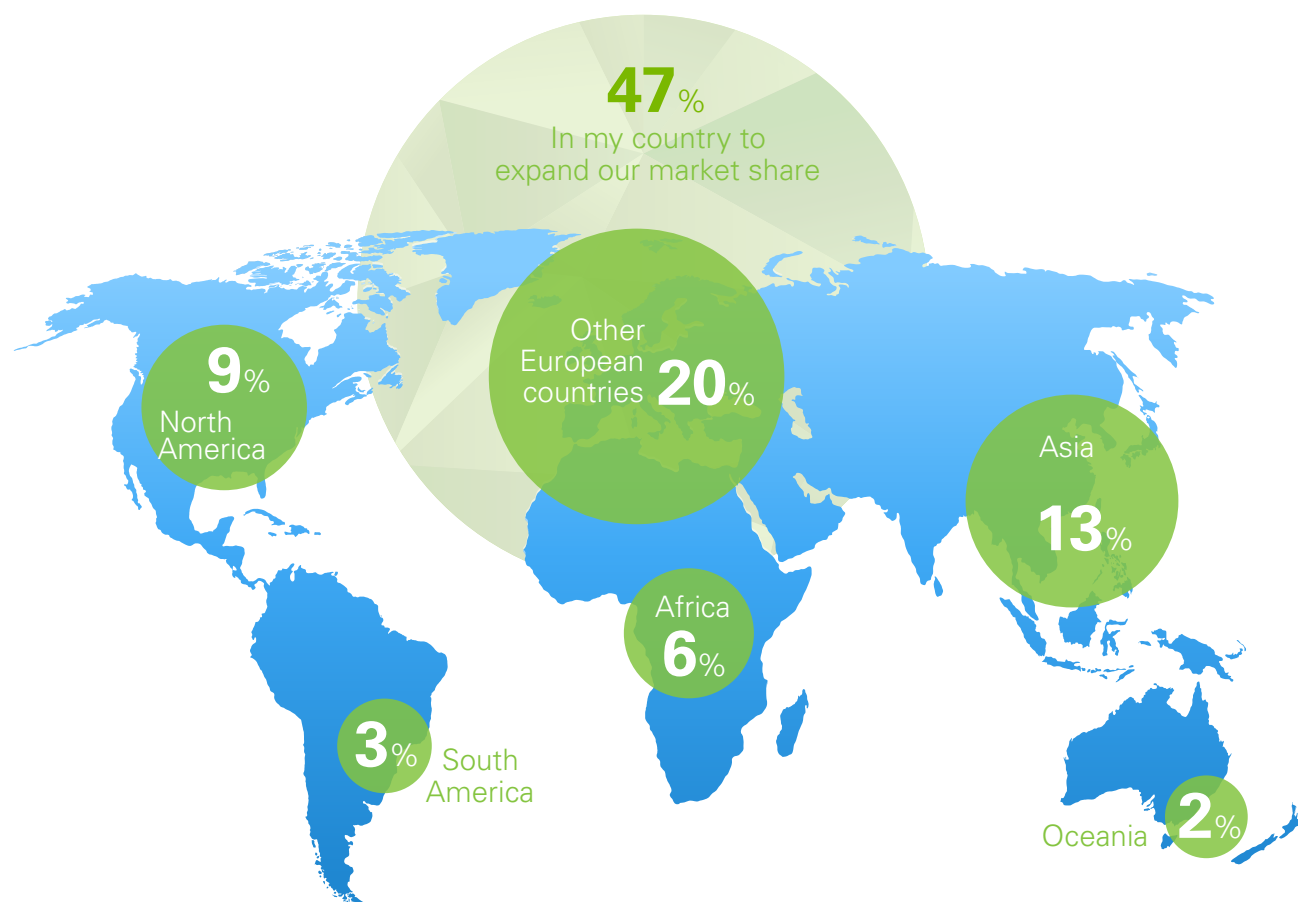
14. Source: Third European Family Business Barometer "A more confident outlook", EFB-KPMG, December 2014.

FIGURE 5: **FAMILY BUSINESSES HAVING ACTIVITIES ABROAD**



Source: Fourth European Family Business Barometer, EFB-KPMG, September 2015

FIGURE 6: **WHERE ARE YOU THINKING ABOUT INVESTING?**¹⁴



Source: Third European Family Business Barometer "A more confident outlook", EFB-KPMG, December 2014.

FAMILY BUSINESSES OPEN INTO NEW SOURCES OF FINANCING

There is a common misconception that family businesses are entirely self-financing and therefore self-reliant, or that a bank loan is the only alternative funding source. Our recent research¹⁵ shows a very different story.

Many family businesses are in search of capital to fund development plans. They aren't just seeking any investment though, as the unique structure to the family business model means that most are innately reluctant to relinquish control, while still seeking long-term investments. This leads to specific challenges when it comes to finding financing options that suit their needs. This approach to financing means that most family businesses are looking further afield than the traditional options such as banks. Our survey found that an increasing amount of family firms were interested in new forms of financing, namely high-net-worth individuals (HNWIs) as investors, even if it means bringing them more holistically into the business.

Reasons for searching financing from HNWIs are numerous. Some consider that bank requirements are too excessive and appreciate HNWIs' lower reporting requirements. *"There were different sets of verifications that were to be completed before funds being released by the bank which made me feel insecure,"* says one German family CEO.

Others cite the advantageous long-term investment expectations: *"We try our best to connect with high value clients and other businesses and depend on them for our funding necessities as we get investments for a longer time with ample opportunities,"* notes one UK respondent.

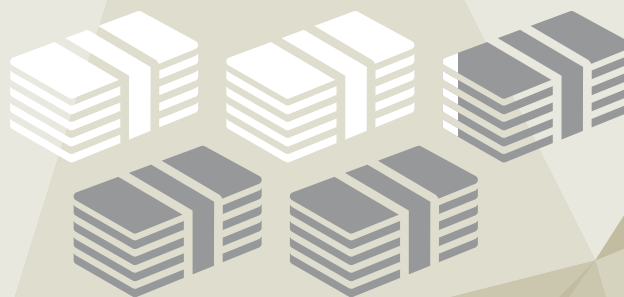
Other important factors are: more personal relationships, useful expertise and experience, and easier negotiations. One Managing Director from Germany says: *"We want to raise capital from businesses and individuals who can contribute a little, if not a lot, through their business ideas and experiences, and banks are never concerned with this aspect which is a general expectation."*

“WE WANT TO BE KNOWN TO HAVE THE BEST LEADERS ON BOARD AND THAT IS POSSIBLE WHEN WE HAVE EXTERNAL INVESTORS JOIN IN THE OPERATIONS OF THE BOARD AND SUPPORT DECISIONS AS THEY ALSO HAVE GREAT SKILLS AND KNOWLEDGE IN ANALYZING BUSINESS DECISIONS THAT CAN HELP IN CRITICAL SITUATIONS.”

MANAGING DIRECTOR, UK

Family ownership stays among the top priorities for family businesses,¹⁶ still they are more amenable to offering equity to the right investors than commonly perceived, especially to the right partner and when they can maintain a controlling position and strategic independence. One third would be ready to offer equity in the short to medium term, with half willing to offer it for the long term.

42% of respondents have previously raised financing from HNWIs and **92%** of them rate their experience as positive



Source: Fourth European Family Business Barometer, EFB-KPMG, September 2015

15. Source: 'Family matters: Financing family business growth through individual investors', KPMG, September 2014.

16. Source: Fourth European Family Business Barometer 'Determined to succeed', EFB-KPMG, September 2015.

The choice of investment partner is crucial. The right partner primarily means an investor with a similar appetite for business risks and returns, similar values and a clear understanding of the family business. As one CEO from Germany notes: *"HNWI and family businesses follow similar business values like honesty, trust and secrecy. Moreover, the relationship gets personal as there are invitations sent for all events and also feedback forms get sent out. HNWI and family businesses will always come forward to help other businesses in need as they would also expect help some time and would know that they will get some help from us as they helped us earlier."*

Figures show that investment partnerships between family businesses and HNWIs is not a virtual idea, but a reality which has confirmed its creditworthiness. Forty-two percent of family businesses surveyed say they have previously received direct investment from HNWIs. Encouragingly, the overwhelming majority (92%) of those that have attracted HNWI funding say that this experience has been positive compared to financing from other sources.

However attractive, this type of investment may be challenging because of difficulties in finding a partner, lack of networking and experience-sharing in the family business community, and the desire of family businesses to keep these types of investment secret.



How can family businesses make themselves attractive to HNWIs?

SEVEN STEPS TO A SUCCESSFUL PARTNERSHIP:

- 01 Have an open dialogue with HNWIs
- 02 Spend time building and widening networks
- 03 Highlight the tangible benefits of investing in their business
- 04 Demonstrate that the business welcomes outside input
- 05 Ensure some level of formal governance structures are in place
- 06 Consider offering a board seat
- 07 Keep relations personal

FAMILY BUSINESSES EXTEND PHILANTHROPIC ACTIVITIES

Philanthropy is evolving in almost all parts of the world and family businesses seem to follow the general trend.

Philanthropy is definitely on the rise around the world. Individual philanthropic activities are growing,¹⁷ and increasingly businesses of all sizes are attesting to their commitment to social responsibility. Family businesses seem to follow the general trend. Our research shows that the number of family companies that consider philanthropy important or very important for their business success has almost doubled over the last two years, from 18% in December 2013 to 34% in September 2015.¹⁸

1/3 of family businesses surveyed consider philanthropic activities as important or very important

Though data is limited, various studies demonstrate that family businesses are even more philanthropic than their non-family peers.¹⁹ The greater likelihood of philanthropy among family businesses is said to be due to the presence of certain distinctive features, values and principles that have been found to be inherent in such businesses.

Besides creating a positive image of a socially responsible business, philanthropy contributes to family harmony, bringing together and uniting family members. Philanthropy allows next-generation family members to learn the skills that they will need to be successful stewards of the family legacy when their turn comes. It is an excellent way for family members who are not directly involved in the business to make a meaningful contribution. Also, senior-generation members, stepping out of the business, can continue their business activity by taking over the philanthropic management roles.

“ Big corporations choose ‘sound’ social projects like big foundations, large-scale events, and much-publicized partnerships. Family businesses are rather secret ‘heroes’. They have strong geographic roots and tend to ‘give back’ to their local communities. Philanthropic activities of family businesses are often local and not widely known. ”

JESÚS CASADO NAVARRO-RUBIO
SECRETARY GENERAL
EUROPEAN FAMILY BUSINESSES

17. Source: World Wealth Report, 2010, Merrill Lynch, Capgemini.

18. Source: Fourth European Family Business Barometer ‘Determined to succeed’, EFB-KPMG, September 2015.

19. Source: “Natural Philanthropists: Findings of the Family Business Philanthropy and Social Responsibility Inquiry, IFB, 2009.





FACING UP TO CHALLENGES

ISSUES INHIBITING FAMILY BUSINESS SUCCESS

Family businesses are consistently optimistic about their future and show a high potential and desire for future growth. However, there are a number of significant challenges that, if not well managed, could handicap their success. Sometimes they require business owners to make difficult choices for the future of their business.

Family businesses have progressively learned to cope with the wide array of issues imposed by their unique structure, such as potential family conflicts, strong emotional involvement, and generational change. However, our research shows that new worrying challenges constantly arise. If not sorted out, these challenges can hinder future performance considerably.

The most critical concerns surround competition, recruiting and retaining talents, and profitability. In addition, the size of the business impacts the company's ability to develop and compete.

INCREASED COMPETITION

Although performance indicators are positive, increased competition, mentioned by 37% of respondents, topped the list of major challenges for European family businesses in 2015.²⁰ This is no surprise with over 20 million businesses currently operating within the EU area²¹ and around 1.2 million new companies starting up in this market each year.²² And still, the fact that over one third of respondents mention competition among their major challenges poses a question of whether family businesses will be able to sustain the positive growth trend they have shown thus far.

3 MAIN CONCERNS OF FAMILY BUSINESSES

Source: Fourth European Family Business Barometer, EFB-KPMG, September 2015



**INCREASED
COMPETITION**
(37%)



'WAR FOR TALENT'
(33%)



**DECLINE IN
PROFITABILITY**
(32%)

“FAMILY BUSINESSES DO THEIR BEST TO PERFORM UNDER STRESSFUL CONDITIONS AND GENERALLY TRY TO WEATHER ECONOMIC DOWNTURN AS THEY BELIEVE IN CONTINUING THE LEGACY. FAMILY BUSINESSES DO THEIR BEST TO AVOID SELL OUT IN A BID TO PRESERVE WHAT THEIR FOUNDING MEMBERS WORKED SO HARD TO CREATE.”

CEO, FRANCE

‘WAR FOR TALENT’

The competition for talent is on the rise as economies recover, business confidence increases, and companies look for new hires to drive growth. Even though the retention rate in family companies is, on average, better than at non-family firms (9% of workforce turnover annually versus 11% respectively),²³ European family businesses are forced to fight for the right people with the right skills.

Attracting and retaining the best talent has been a constantly increasing challenge over the past two years. Of the businesses surveyed, 33% said that ‘war for talent’ is their biggest issue.²⁰

People are the bedrock of success in family businesses, and company owners need to do everything they can to ensure they attract the right talent in order to continue to succeed and grow. Hence, they tend to look for changes and reforms which could have a positive impact. It is not surprising then, that when asked to rank the regulatory changes that would have the greatest impact on their future success, family businesses requested more flexible labor market regulation and lower non-wage labor costs.

DECLINING PROFITABILITY

Though family businesses clearly cite improved profitability to be their top business goal, they also admit that profitability is one of their permanent concerns. For the past two years, a decline in profitability is firmly placed in the top 3 of the European family businesses’ most pressing challenges, cited by 32% of respondents.

Declining profits are often accompanied by business decisions that can compromise a platform for growth such as workforce reduction. This, in turn, can lead to a lack of skilled labor similarly inhibiting the capacity to manufacture products or deliver services cost-effectively – a conundrum that can have a detrimental impact on the business.

SIZE MATTERS

Though the figures²⁰ shows the overall confidence across businesses of all sizes, the pressure is apparently higher on small companies. While 81% of large companies express an optimistic outlook for the future of their business, this drops to 66% among small businesses.

The size of a company also impacts its performance, which is inferior at small businesses compared to the large ones. Large companies show steady sales growth: 64% of them showed an increase in turnover over the past six months, compared to 47% for small businesses. And while large companies actively increase their activities abroad, small businesses maintain them at the same level. These marked differences are the kind that pose a threat to the family business market as a whole, as it is largely represented by small- and medium-sized businesses.

KEEP OR SELL?

Numerous challenges and issues that family businesses face unfortunately have their consequences. Selling a family business is normally considered a ‘failure’. *“Our family business has been of great support to the community and the family,”* as one family-business CEO from France put it. *“Our family members have made smarter decisions and get practical in all aspects even though it is a family business as there is lot of competition. They work hard and give more time without any expectation as they would never want to reach a stage where they need to sell off business.”* Though as we saw previously, an emerging trend is for families to take the decision to sell the business.

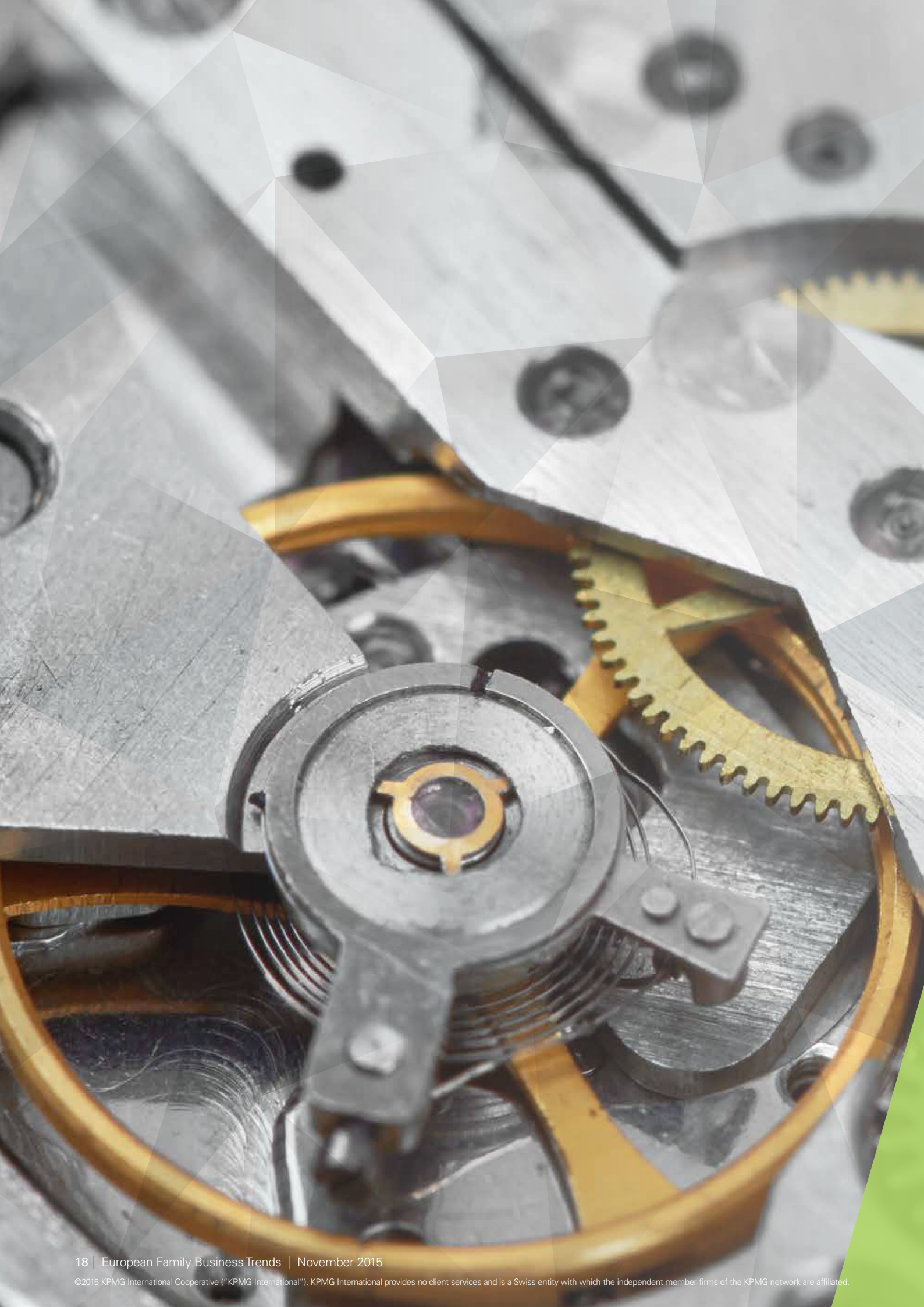
The reasons behind the decision to sell the business vary: irreconcilable differences within the family, inability to support a viable business under current ownership or economic conditions, or simply loss of interest for the business. Whatever the reasons behind this decision, they are worth exploring, as the trend raises serious questions about competitiveness among family business.

20. Source: Fourth European Family Business Barometer ‘Determined to succeed’, EFB-KPMG, September 2015.

21. Source: Eurostat, <http://ec.europa.eu/eurostat>.

22. Data for 2007-2011, Business Awards Europe.

23. Source: “What You Can Learn from Family Business”, Harvard Business Review, 2012.



CONCLUSION

Family businesses are not only the backbone of many countries' economies today, but may be their future as well. Despite numerous challenges, they demonstrate high optimism and the ability to grow.

Family businesses provide 50% to 80% of jobs in a majority of countries and represent over 75% of net job growth.²⁴ They remain a significant part of national economies and continue to strengthen their positions in the global economy, largely due to their growth spurt in emerging markets. It is estimated, that an additional 4,000 of them could hit US\$1 billion in sales by 2025. If this happens, emerging-market family businesses will represent 40% of all world's largest enterprises.²⁵

Family businesses are rapidly changing and adapting to new market space. The future of family businesses is about people and successful business handovers. Family businesses seem to know what to offer to the Next Gen – Generation Z. Everyone thought previously that Generation Y was the most entrepreneurial generation. It is now Generation Z that shows great promise as the next wave of entrepreneurs. Company culture is often a game-changer for them. What Generation Z is seeking is strong values and entrepreneurial spirit, and family businesses are definitely in the best position to offer them.

Family businesses know how to survive by sticking close to their roots. Advertising increasingly featured the expressions 'we are a family business' and cite 'continuing the family legacy and tradition' as their most important goal.

There is no doubt about the potential of family businesses for success. Provided they can navigate the challenges they face deftly and on time, the future of family businesses definitely looks bright.

Thank you



CHRISTOPHE BERNARD

KPMG Global Head of Family Business

24. Source: European Family Businesses (EFB).

25. Source: 'The family-business factor in emerging markets', McKinsey&Company, 2014.



CONTACTS

EUROPE

JESUS CASADO

Secretary General, EFB

T: +34 915 230 450

E: jcasado@europeanfamilybusinesses.eu

GLOBAL

CHRISTOPHE BERNARD

Partner, Global Head of Family Business, KPMG

T: +33 (0) 1 5568 9020

E: cbernard@kpmg.fr

TATIANA ANDREEVA

Project Manager, Family Business, KPMG

T: +33 155 689 038

E: tandreeva@kpmg.fr

AUSTRIA

YANN-GEORG HANSA

Partner, KPMG

T: +43 (0) 1 3133 2446

E: yannhansa@kpmg.at

BALTICS

TOMA MARČINAUSKYTĖ

Director, KPMG

T: +370 52 102 607

E: tmarcinauskyte@kpmg.com

BELGIUM

THOMAS ZWAENEOEL

Partner, KPMG

T: +32 2 708 38 61

E: tzwaenepoel@kpmg.com

BULGARIA

KALIN HADJIDIMOV

Partner, KPMG

T: +359 (0) 2 969 7700

E: khadjidimov@kpmg.com

CROATIA

ZORAN ZEMLIC

Director, KPMG

T: +385 15 390 038

E: zzemlic@kpmg.com

CYPRUS

DEMETRIS VAKIS

Partner, KPMG

T: +357 22 20900

E: demetris.vakis@kpmg.com.cy

CZECH REPUBLIC

MILAN BLAHA

Partner, KPMG

T: +420 222 123 809

E: mblaha@kpmg.cz

FINLAND

KIRSI ADAMSSON

Senior Manager, KPMG

T: +358 (0) 20 760 3614

E: kirsi.adamsson@kpmg.fi

FRANCE

JACKY LINTIGNAT

Partner, KPMG

T: +33 (0) 1 55 68 90 36

E: jlintignat@kpmg.fr

GERMANY

DR. CHRISTOPH KNEIP

Partner, KPMG

T: +49 (0) 211 475 7345

E: ckneip@kpmg.com

ABOUT THE REPORT

The report is based on the research and insights of the **KPMG Global Centre of Excellence for Family Business**, as well as using the findings from our two recent studies:

European Family Business Barometer. Four editions of this study were conducted through 2013 – 2015 in partnership with EFB (European Family Businesses). The study delivers insights into the confidence levels of family businesses in Europe, challenges they face and the changes they need to overcome. The fourth edition '*European Family Business Barometer: Determined to succeed*' was released in September 2015 and was based on the 1401 completed questionnaires received from 25 European countries.

Global Family Business Survey 'Family matters: financing family business growth through individual investors', conducted by KPMG and gathering responses from 125 family businesses and 125 high-net-worth individuals based across 29 countries worldwide, covering a total of 82.4% of global GDP.

GREECE

VANGELIS APOSTOLAKIS

Partner, KPMG

T: +30 21 0606 2378

E: eapostolakis@kpmg.gr

MALTA

ANTHONY PACE

Partner, KPMG

T: +35 6 2563 1137

E: anthonypace@kpmg.com.mt

ROMANIA

RICHARD PERRIN

Partner, KPMG

T: +40 37 237 7792

E: rperrin@kpmg.com

HUNGARY

ZOLTÁN MÁDI-SZABÓ

Senior Manager, KPMG

T: +36 1 88 77 331

E: zoltan.madi-szabo@kpmg.hu

THE NETHERLANDS

OLAF LEURS

Partner, KPMG Meijburg & Co

T: +31 (0) 6 212 01 043

E: leurs.olaf@kpmg.nl

SLOVAKIA

RASTISLAV BEGAN

Director, KPMG

T: +421 259 984 612

E: rbegan@kpmg.sk

IRELAND

OLIVIA LYNCH

Partner, KPMG

T: +353 (0) 1 410 1735

E: olivia.lynch@kpmg.ie

ARNOLD DE BRUIN

Partner, KPMG

T: +31 (0) 65 333 0859

E: debruin.arnold@kpmg.nl

SPAIN

JUAN JOSE CANO FERRER

Partner, KPMG

T: +34 914 563 818

E: jjcano@kpmg.es

COLIN O'BRIEN

Partner, KPMG

T: +353 (0) 1 410 1679

E: colin.obrien@kpmg.ie

ANDRZEJ BERNATEK

Partner, KPMG

T: +48 22 528 1196

E: abernatek@kpmg.pl

SWEDEN

PATRIK ANDERBRO

Partner, KPMG

T: +46 21 495 0738

E: patrik.anderbro@kpmg.se

ITALY

SILVIA RIMOLDI

Partner, KPMG

T: +39 011 839 5144

E: srimoldi@kpmg.it

PORTUGAL

VITOR RIBEIRINHO

Partner, KPMG

T: +351 21 011 0161

E: vribeirinho@kpmg.com

UK

GARY DEANS

Partner, KPMG

T: +44 (0) 141 300 5811

E: gary.deans@kpmg.co.uk

ABOUT KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 155 countries and have more than 155,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

KPMG GLOBAL CENTRE OF EXCELLENCE FOR FAMILY BUSINESS

With decades of experience working with family businesses, KPMG professionals across various countries understand the nature of a family business and are passionate about it. KPMG's Global Centre of Excellence for Family Business is designed to leverage KPMG member firms expertise on Family Businesses, enabling them to offer specialized insights to clients.

www.kpmgfamilybusiness.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).

Designed by **CREATE** | CRT36561