How is external talent accelerating the growth of family businesses?

Find out why family businesses are growing faster than non-family owned peers.

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Family Business

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Executive summary

Family businesses form the backbone of the global economy; they include some of the earliest, oldest and largest companies in the world. An estimated two in three companies globally are family-owned and together they are responsible for creating upwards of 70% of global gross domestic product (GDP), according to the Family Firm Institute.[1]

Almost 4 in 10 companies (38%) are targeting current-year growth of 6%–10% and more than 1 in 4 (27%) are looking at revenue growth rates of 11%–25%, significantly above World Bank forecasts of global GDP growth this year of 2.7% and well ahead of non-family business peers.

Family businesses are focused on geographical expansion, growth into adjacent business sectors and increased market share through the pursuit of acquisition opportunities. They are more focused than non-family businesses on talent as both a driver of growth and a potential challenge to that growth.

Technology is a bigger megatrend driving change for family-business leaders (and second only to demographic shifts) than it is for non-family businesses. Like other middle-market leaders, they see increasing competition as a greater threat than geopolitical instability or slow global growth. In fact, 88% agree that uncertainty presents them with opportunities for growth.

These findings come from a new EY longitudinal global survey of middle-market companies that as a whole represent 99% of all enterprises and contribute almost half of global GDP.[1] The EY Growth Barometer[2] explores middle-market leaders' growth ambitions, strategies and challenges, as well as their attitudes toward global risks and uncertainties. The survey covers 2,340 C-suite executives globally with revenues of US$1m to US$3b and high-growth companies less than five years old. Family-owned businesses constitute 18% of that global total.

What is it about family-owned companies that enables them to grow faster than their middle-market peers? Are there lessons for all corporate leaders whatever the size and ownership structure of their enterprise?

"A focus on long-term strategy, the agility to invest in innovation and a solid and stable capital base have always been hallmarks of family businesses, wherever they operate," says Marnix van Rij, EY's Global Leader for Family Business. Family businesses show they can still financially outperform middle-market businesses that don't have a family ownership structure."

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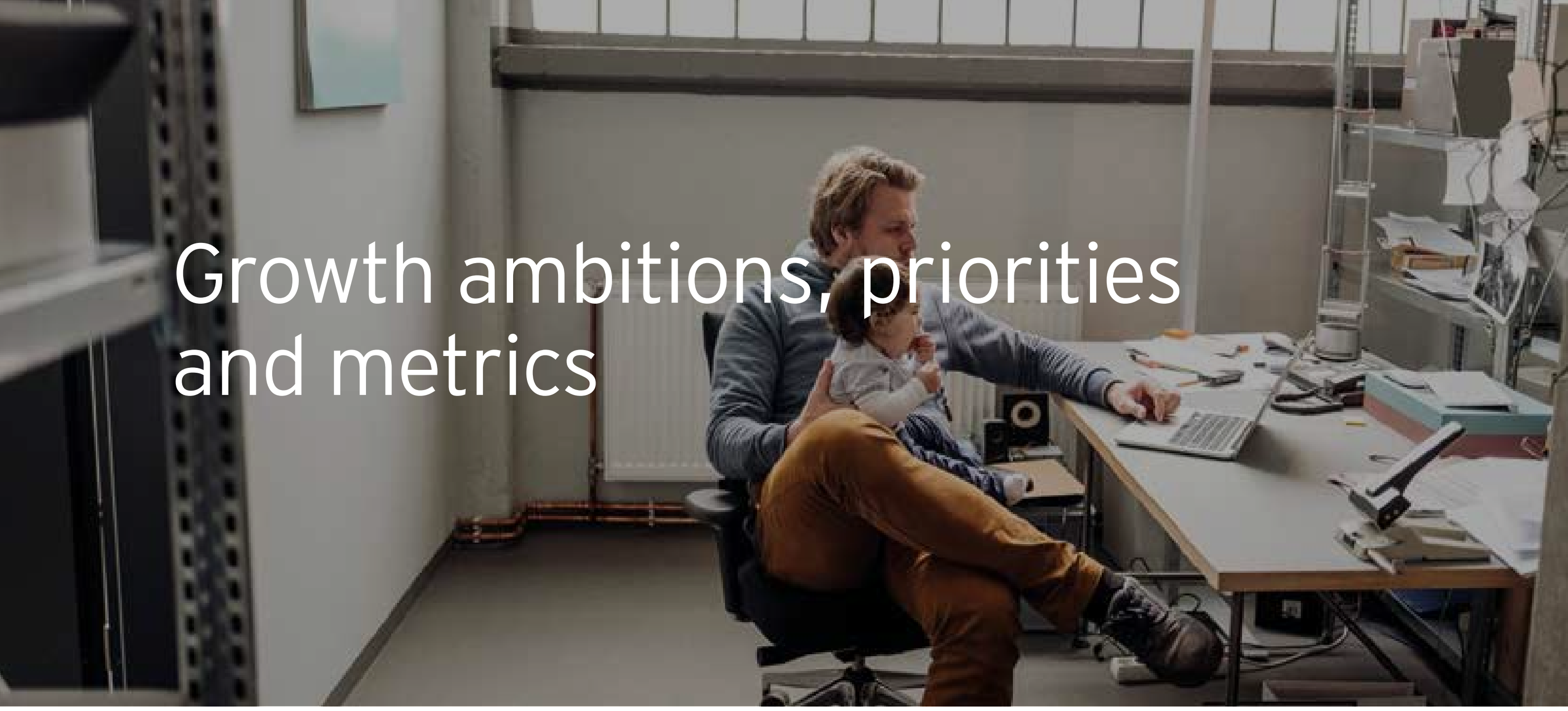
[1] http://www.ffi.org/page/globaldatapoints.

[2] EY commissioned Euromoney Institutional Investor Thought Leadership to undertake an online survey of 100% C-suite (60% CEOs, founders or managing directors) in companies from 30 countries and with annual revenues of $1m–$3b. The survey was conducted from 31 March 2017 to 12 May 2017. The 2,340 respondents are geographically representative of global GDP (as per World Bank 2016 data and 427 of these were from family owned businesses). EY further invited its global network of Entrepreneur Of The Year™ alumni to take the survey. The survey was available in English and six other languages. In-depth follow-up interviews were conducted during May 2017 to provide additional specific insights, some of which are included in this report.



Growth ambitions, priorities and metrics

In common with all respondents, 5% of family businesses are looking at negative growth in the current year, but far fewer (24% compared with 32%) are looking at low single-digit growth. Almost 4 in 10 family businesses (38%) are targeting revenue growth of 6%–10% and a significant 1 in 3 (32%) are looking at growth of more than 11% this year. Family businesses in Australia (33%) and Mexico (29%) have significant numbers of companies pegging growth of 16%–25% this year. One in three family businesses in India (33%) and 29% of family businesses in the Netherlands are targeting growth rates of 11%–15%. These rates are significantly ahead of non-family businesses in Australia, Mexico, India and Netherlands, (by 29%, 8%, 9% and 17%, respectively).

In addition to region, sector differences play a significant role in determining immediate growth plans. While family businesses in automotive are facing the hardest challenges with 26% predicting negative growth this year, almost 1 in 4 family businesses in financial services (24%) are looking at growth of 11%–15%. These sector differences are common to all global respondents and reflect particular current challenges and opportunities in, for example, digitization and sector convergence.

Family business leaders, in common with all middle-market respondents, place entry into a new geography at the top of their strategic growth wish list, followed by growth into an adjacent business activity. Increasing market share is a third priority, ahead of mergers and acquisitions or divestments.

Return on investment tops a ranking of metrics used to measure success (6% ahead of non-family business C-suite) followed by margin or profit improvement, in line with all respondents.

"A focus on ROI reflects the long-term strategy adopted by family businesses," says van Rij, "and an acute awareness of the responsibilities of stewardship of the family's assets. This close connection between ownership and executive is unique to multigenerational family enterprises."

Attracting the third largest percentage of responses among family businesses was the number of unique users or customers (3% more than non-family business responses).

"Success can be measured with very different metrics," says Paolo Fietta, CFO of Italian coffee-maker Illycaffè, founded in 1933. "In business, the economics are always important but so, too, is the satisfaction of the customer."

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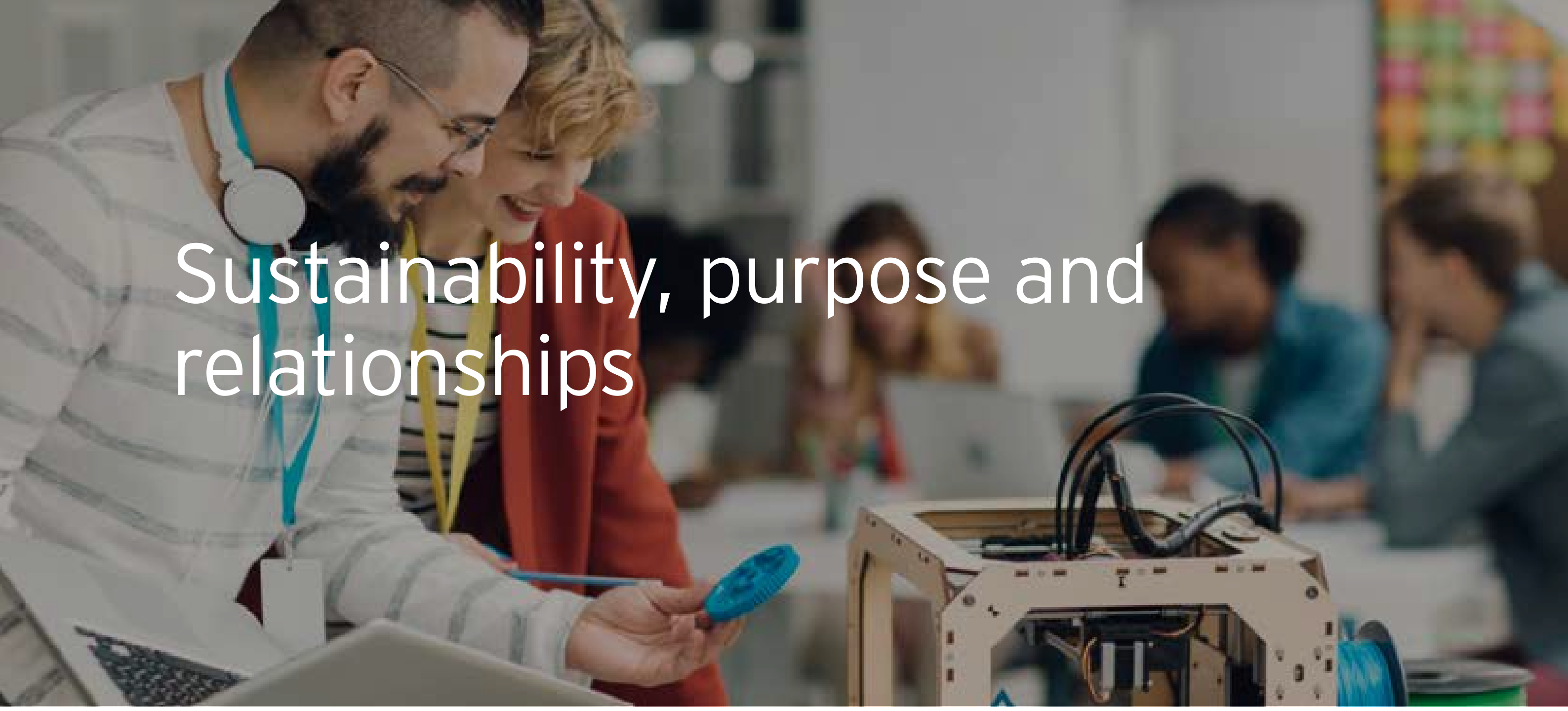

Sustainability, purpose and relationships

While interconnectivity and globalization have brought us closer together, not all parts of the global community have enjoyed the benefits. A large majority (87%) of family business leaders believe that business cannot be sustainable unless it benefits the wider community.

"Sustainability is part of our DNA," says Fietta. "It is part of the company we are, and always have been."

A long strategic horizon and a deep sense of social responsibility are shared among family business leaders. Over 70% of responses agree that independence allows them to take a long-term view and that building a legacy for future generations is at the heart of their business (compared with 62% of non-family businesses).

The increasing importance of relationships across the business ecosystem is widely recognized by middle-market leaders of both family and non-family businesses. Eighty percent of family business leaders agree that successful growth depends on the strength of their network. Building alliances that may include suppliers, customers and even competitors is widely accepted as a route to accelerated growth, building on internal resources to plug gaps or to access new technologies.

"The way we funded our operations was very traditional," says Rudi Deruytter, CEO of Belgian retail bank CKV, owned by the De Clerck family. "To grow faster, we needed to change our model. We have done that by working together with a FinTech platform called Savedo, which has allowed us to attract cross-border funding."

The family business has the freedom and agility to experiment with different ways of accessing and investing in innovation.

Talent and culture

Nowhere in these survey results are the differences between family businesses and others more starkly differentiated than in leaders' approaches to talent. While one in three non-family businesses (33%) are planning to keep current staffing levels this year, one in three family businesses (33%) are hiring more full-time staff. Less than half the percentage of family businesses than non-family businesses plan to reduce staff (5% compared with 10%).

"We started as a pharmacy in Beirut 80 years ago," says Joanne Chehab, CEO of Lebanon-based Malia Group. "Today we are composed of over 27 legal operating entities and over 1,800 staff. It's our people that differentiates us from our competitors, and our people who have enabled us to grow to where we are today."

These results reflect family business leaders' confidence in the long-term sustainability of their growth plans. "In family firms, employees see themselves as part of a broader family culture," says van Rij. "Leaders' commitment to their staff is second-to-none, and many employees, as a result, work for the same family firm for their whole careers."

As with all middle-market leaders, finding more people with the right skills is ranked highest (27% of responses) among a range of talent needs, closely followed by people who are an excellent cultural fit (24%). Moreover, the middle-market C-suite agrees that talent with the right skills is the No. 1 factor in contributing to their growth strategy, ahead of supply chain efficiency and new technology, but family-owned businesses rated talent more highly (with 27% of responses) than their non-family peers (with 22%).

While family business leaders place supply chain efficiencies first as the factor more likely to contribute to productivity in the short term (with 27% of responses), this is followed by improved organizational culture (20%), ahead of non-family responses.

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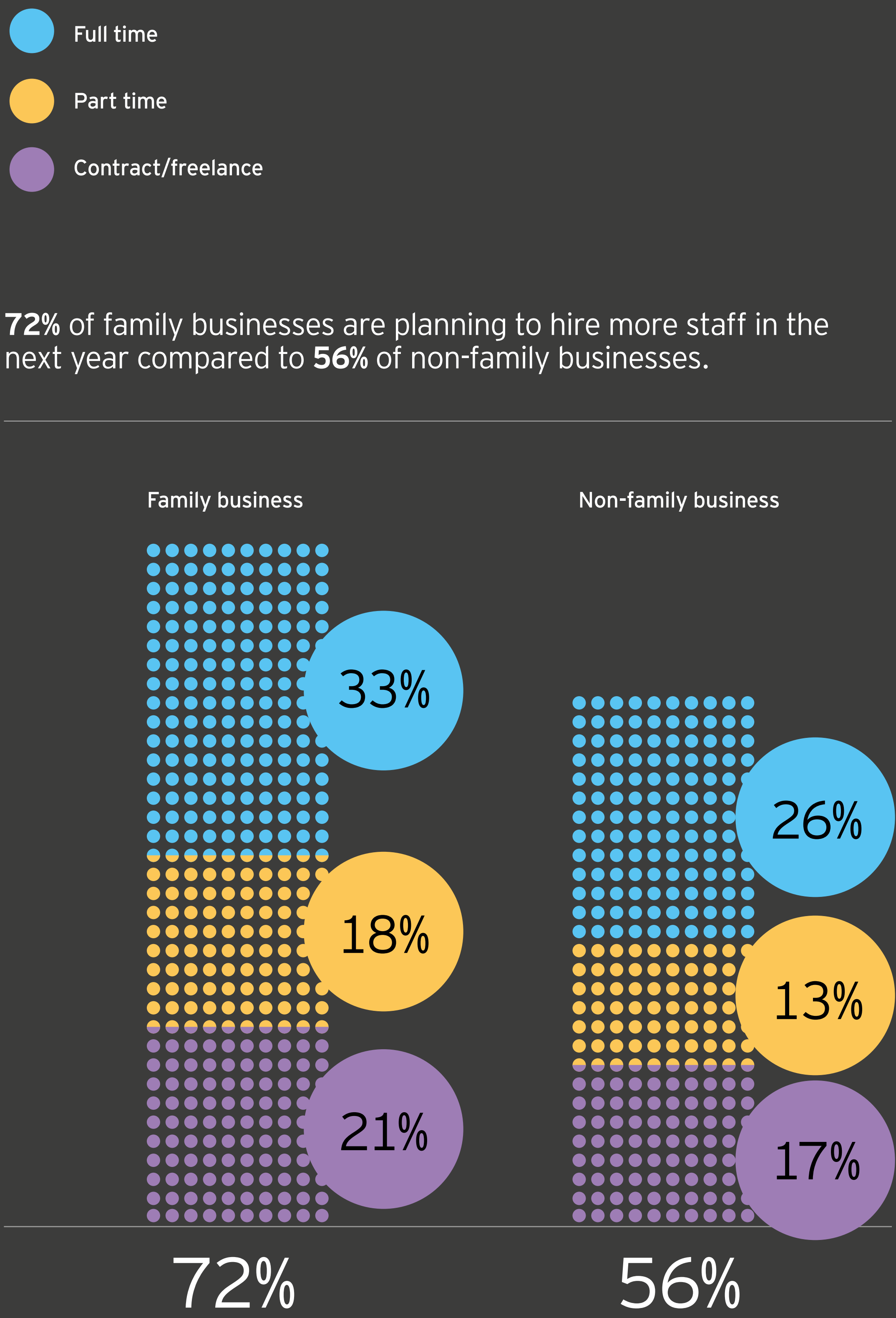
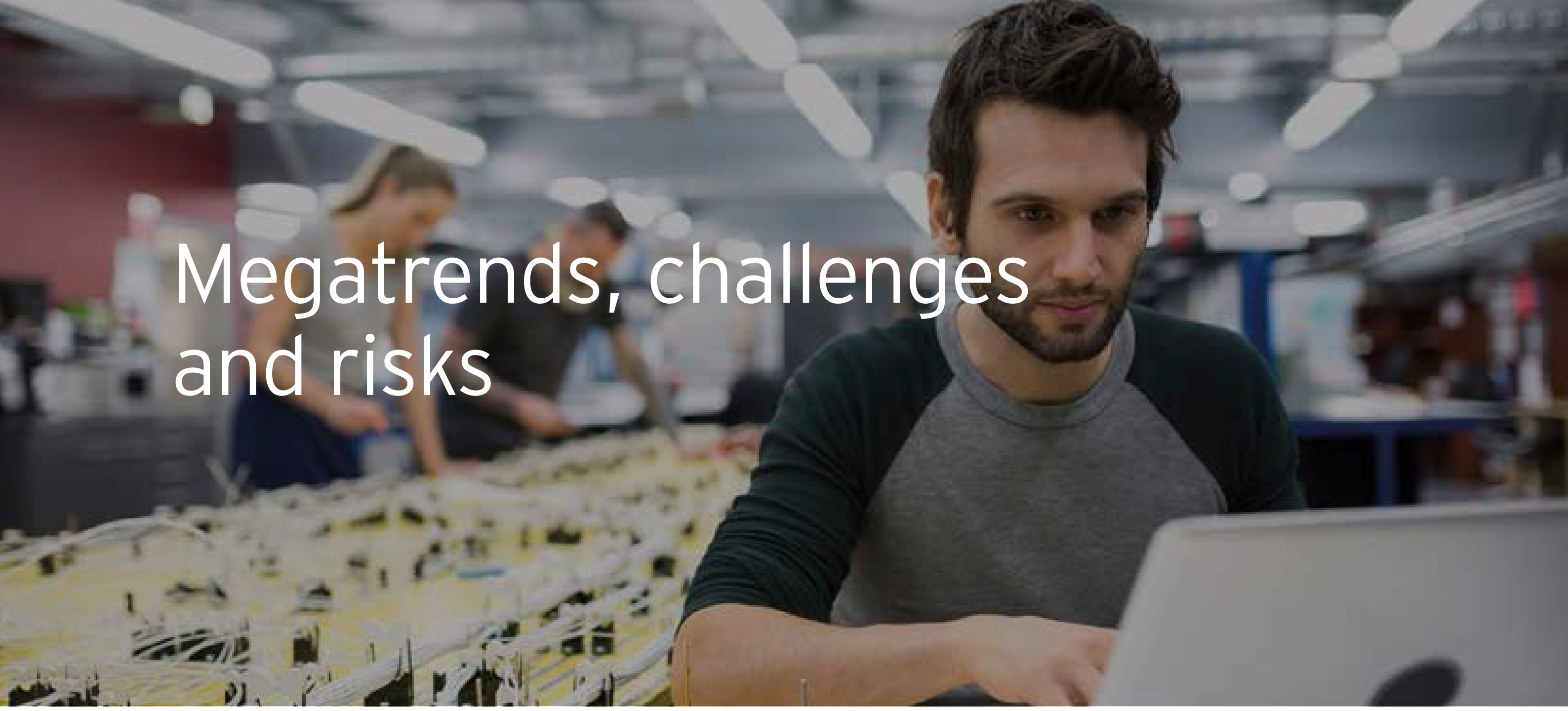
Hiring plans reflect family business leaders' confidence in their growth strategies

72% of family businesses are planning to hire more staff in the next year compared to 56% of non-family businesses.





Megatrends, challenges and risks

Seismic changes wrought by demographic shifts, globalization and technology are having a long-term impact on businesses of all sizes and ownership structure. Family businesses, like all middle-market companies, see demographic shifts as having the most immediate impact (with 34% of responses), followed by technology (24%). This reflects the effects of an aging population and migration of young talent, faced by economies such as Japan. However, consistent with the family business laser focus on talent, these leaders see shifts in working patterns, including the rise of the gig economy, as more disruptive (23%) than their non-family peers (18%).

Talent, too, heads the family business slate of challenges, with lack of skilled talent (15% of responses) and new market entrants ranked higher than technology disruption and insufficient cash flow (the top two challenges ranked by non-family business leaders). Increasing competition is the highest-ranked risk to current growth plans in both family businesses (22%) and non-family businesses (20%), trumping geopolitical instability and slow global growth. Middle-market leaders are united in their focus on the things they can change rather than the macroeconomic environment in which they operate. It is as if uncertainty is the new normal.

Innovation and the future

Customer demand is leading the drive to innovation for family-owned businesses (with 20% of responses), ahead of competition and profitability, and significantly ahead of non-family businesses that place it sixth (with 14% of responses). "We want to remain independent, which for us is one of our strengths," says Fietta. "We are looking primarily at the needs of our customers to grow our business."

Family business leaders, in line with all the middle market, look to internal strengths to drive the innovation agenda by harnessing the power of their own people's creativity and insight (27% of responses). Family businesses, however, place greater emphasis (20% of responses) on using customer data to drive innovation than do their non-family peers (16% of responses).

In terms of adopting robotic process automation for some business activities, family businesses are slightly ahead of the rest of the middle market, with 10% having already adopted RPA (compared with 5% among non-family businesses) and 21% looking to adopt in the next 10 years. However, family business leaders do not see RPA as replacing human talent, with most predicting headcount savings of under 10%.

"Automation through all our business has definitely improved productivity," says Chehab, "but it hasn't dramatically impacted our headcount or in any way replaced people. For us it means improving our agility and operating efficiency: it doesn't mean replacing our workforce."

In common with middle-market C-suite everywhere, most family business leaders (43%) spend 80% of their time running current operations and 20% on future strategy. Almost one in five leaders of family firms (18%), however, believe they should be spending half their time on the future (compared with under 16% of non-family businesses).

"Being a private (family) company means that we can make strategic decisions faster," says Alejandro Beristain, CAO of low-cost Mexican airline Interjet, part of the Aléman Group. "It gives us flexibility to expand and pursue growth in the business."

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Global data

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Over a third (34%) are set to grow 6%–10% this year, more than double World Bank GDP growth forecasts (2.7%) and 14% of all companies target growth over 16%

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