Built to last

Family businesses lead the way to sustainable growth
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Methodology

In June 2012, EY conducted a survey of 280 family business members in collaboration with the Family Business Network International (FBN-I) and Credit Suisse. The aim of the survey was to gain an insight into how family businesses have continued to perform and remain relatively immune to the economic turbulences of the past years. We explored wide-ranging areas such as current business strategies, professionalism, growth strategies, people management and financing.

Some 33 countries were represented, 43% of respondents were family businesses with a workforce of over 1,000 employees and over 60% were in their third generation.

One-to-one interviews were conducted with the leaders of ten prominent and successful family businesses and renowned academics in the field, to gain further insights into the key characteristics that contribute to family business success.

The role of the FBN-I is to articulate the positive role of family business and its contribution to the economy and society. The FBN-I works to create opportunities for sharing best practice through national, regional and international programs and events. It also seeks to provide a thorough understanding of the micro and macroeconomic framework of family business and to promote its sustainability worldwide. Its strapline is, “By families, for families ... for successful enterprises.” Founded in 1990 as a federation of family business associations, the FBN-I has grown to 30 national associations. It is composed of 5,500 family business members (owners, leaders and next-generation successors). Members come from medium-to-large companies in 50 countries, across five continents.
How should we navigate through turbulent times? We all have been asking this question for quite a while. More than ever, companies are facing uncertainties in the global economic environment. The impact of the Euro crisis, the increasing public debt in the US and the shift of economic power from the mature to the rapid-growth markets brings volatility and puts some current business models at risk.

Family businesses are an important part of the world’s economy and the backbone of the economic systems in most countries. In fact, they make up more than 60% of all companies in Europe and the Americas, and they account for about 50% of employment, encompassing a vast range of firms of different sizes and from different sectors.¹ For instance, the engine of Germany’s economy, the largely family-owned Mittelstand businesses, are the envy of Europe, with their reliability, excellence and an ability to penetrate emerging markets. And in those very emerging markets, local family businesses are thriving as the entrepreneurs hand on fast-growing companies to their ambitious and well-educated offspring.

For years, family firms have been unfashionable, overshadowed by the spectacular performance of publicly owned companies. Their return on investment was lower than star-listed businesses and their capital turnover was insignificant compared with boom-time success stories. And yet it is clear that much of that fast growth has, in some cases, proved unsustainable and the promises of future success not always realistic. Now, many see that family businesses are the real winners.

Since the global financial crisis, more people have come to realize that stability and resilience are very desirable. They see the benefit of businesses that think not in months, but in generations.

As this report shows, family businesses have weathered the storm admirably. Despite turmoil in the markets and fundamental readjustments in major economies, many are growing. They see the rebalancing of the global economy as an opportunity for expansion into developing markets.

They are succeeding by remaining true to the family culture and values, while embracing the best management practices that the corporate world has to offer.

This report analyzes the three key factors that underpin family business success: growth and resilience, talent management, and sustainability.

Yours sincerely,

Growth and resilience
Growing against the economic odds

The aim of this research was twofold: on the one hand, we wanted to demonstrate family businesses’ resilience and ability to grow steadily against a backdrop of slow economic recovery and Eurozone crises; and on the other, to understand what they felt were the key factors behind their growth and success. There is a copious amount of excellent academic literature proving that family businesses outperform non-family businesses in times of downturn and success factors behind this phenomenon have been identified and analyzed in detail. Therefore, it was not the aim of this report to conduct this very same exercise, but instead to find out what family business owners themselves perceived to be these factors and competitive advantages. We have supplemented our research with one-to-one interviews with family business leaders and experts in order to deepen our insight and gather first-hand experiences and anecdotes.

“One reason family businesses are so able to withstand shocks is that they are specifically built to do so”

Philip Aminoff
President Emeritus of the European Family Businesses Group
and Chairman of Electrosonic Group, Finland
The most important finding of the survey was that, in the 12 months to June 2012, 60% of respondents reported growth of 5% or more, and one in six of 15% or more. This is even more remarkable when you realize that almost three-quarters of the firms surveyed were based in Europe and the US, where economic conditions have been most difficult. This shows that the family business model remains robust in the face of adversity. Furthermore, it confirms the old adage that family businesses succeed by operating a different management style focused on long-term vision and investment.

Another important consideration emerging from the survey is that the majority of the respondents were from mature businesses in at least the third generation of family ownership. This leads us to conclude that the more embedded the family business culture and values, the more likely firms are to be thriving in these difficult times.

What do family businesses themselves think makes them so resilient in times of economic turmoil? And what do they think are their competitive advantages and driving success factors?

Throughout this report, we will look at a number of the key success factors underpinning resilience and sustained growth, starting with family businesses’ long-term management style, their unique “agility” in reacting, their ability to adapt to change, and their attitude toward funding growth, innovation and succession intentions.
The top 50 global challengers

There is also the most extreme side of the spectrum when it comes to growth of family businesses.

EY has recently collaborated with Campden FB in order to identify the fastest growing family businesses at global level and what contributed to their growth. This investigation led to the publication of a list of the 50 fastest-growing family businesses in the world that achieved average growth of 65% between 2009 and 2011.

Half of the companies that made the list are based in Europe, mirroring our survey results and again proving how remarkably robust family businesses are especially considering the economic landscape in which they operate. This is a testament to the resilience of the family business sector in Europe.

When the top 50 fastest-growing family businesses were challenged as to which factors contributed to their spectacular growth, most of them put their success down to being a family business before any other consideration.

Peter Englisch, Global Leader of the EY Family Business Center of Excellence, commented these phenomenal achievements: “How the ‘global challengers’ were able to turn their potential advantage of being family businesses into superior growth and success is very impressive. These companies embody the spirit of innovation and entrepreneurial power.”

You can view the full report on ey.com/familybusiness
Taking the long-term view

One feature that sets family businesses apart from others is their focus on the long term. It is no surprise that, when asked what was most important to the ongoing success of their business, over half of the respondents singled out “a long-term management perspective.”

Factors most important to ongoing business success

- Long-term management perspective
- Established brand recognition and customer loyalty
- Focus on core business (rather than diversification)
- Rapid-growth economies
- Focus on high product quality
- Unique, niche or innovative products
- Alignment of owner and management interests
- Superior talent management
- Flexible, focused governance
- Focus on sustainability and social responsibility
- Cost leadership
- Easy access to finance

The survey suggests that this approach has helped family firms to weather economic storms. The highest-performing firms over the past years (those with growth of more than 10%) were more likely than the worst-performing ones to say that long-termism was a factor in their success.

Comparison between how “long-term management perspective” was rated as success factor by low-performing and high-performing respondents

Mario Preve
Chairman of Riso Gallo, an Italian rice producer since 1845

The benefits of taking a long-term view were borne out by the interviews with family business members. Mario Preve says: “The family business has the advantage that it is not only a matter of profit; it’s like your home. I always say that it’s like the relay race: someone passes you the baton and then you pass it on to someone else. We say that we didn’t get the company from my parents, we are borrowing it from our children. And this is important. We are thinking of how it affects our offspring. We don’t think in quarters, we think in generations.”
Building a robust business

Philip Aminoff
President Emeritus of European Family Businesses Group and Chairman of Electrosonic Group, a Finnish family business

One reason that family businesses are so able to withstand shocks is that they are specifically built to do so. “These days, people give them fancy names, like black swans, but a long-term family business has usually seen a number of catastrophic events, either internal or driven by technological innovation or geopolitical forces,” says Philip Aminoff, whose family owns several businesses in Finland. This drives them to try to build “robust” businesses, he says. “They make sure they have a strong balance sheet and build long-term relationships.” Long-termism is a key feature of this robustness. “People always say that life is too short, but instead we should think that life is too long and that you can’t betray people or be dishonest because it will come back to haunt you later on,” says Aminoff.

However, the features that make family companies robust or resilient don’t only flow from the fact of who owns them. Something less tangible is important. “It’s more about the mindset of the owner,” Aminoff says. “Family businesses are usually of the same mindset as foundation-owned businesses or even, in some cases, cooperatives. They own without the intention to sell and this makes it completely different because you think of the company as creating a stream of revenue from the assets. And while, to some extent, you can understand the assets by reading the balance sheet, the customer relationships, the employees and so on are also assets.”

“Family businesses tend to want to enhance the very, very long-term earnings capacity of those assets for as long as they can conceivably see into the future,” continues Aminoff. “This means that you really see the assets as something you want to develop and cherish. You make sure that you don’t load the balance sheet with too many liabilities that could hinder the long-term development of your assets. If you talk to private equity or people in listed companies with fragmented ownership, it’s about return on equity, top-line growth and key ratios. And the easiest way to achieve those things is to load up with debt and make acquisitions. A long-termist family business doesn’t do that. I think there really is a fundamental watershed between the philosophies.”

Anne Kirstine Riemann
Chairman of Riemann, a Danish second-generation sunblock and perspirants manufacturer

In some cases, long-termism is related to a firm’s ownership structure. Anne Kirstine Riemann, Chairman of a second-generation Danish family business, says that being completely privately owned means that “we can actually make the long-term investments; we are not reporting quarterly earnings.” As an example, she explains that the business was able to build a factory that has a return-on-investment timeline of “20 to 30 years.” She adds: “It was very expensive, but worth it. In a public company’s terms, we should have done a sell-and-leaseback deal, because that makes a much smaller drain on liquidity, although it costs more in the long run. But we can afford to look ahead and make the investment.”

While it is a constant refrain among family businesses that they look to the long term, it’s important not to be seduced by the rhetoric, says Andrew Wates, recently retired chairman of British construction company Wates. “One has to be careful not to use the ‘long-term approach’ to justify poor performance,” he says. “Every company needs rigorous performance measurement. It is often easy to attempt to justify missing delivery by suggesting it will come right in the long term.”
Family businesses are adapting to new realities and changing conditions

The most successful family firms have always adapted to new realities, reinventing themselves as times change. It is evident that we are currently living through a period of economic turmoil and the survey found that family firms are under no illusions about the challenges they face. Asked what they considered the biggest risk factors for their businesses, the firms’ most popular answer was the global financial situation.

And asked which factors are motivating changes in management structure, two-fifths of respondents said it was the need to adapt to new business conditions.

But there is evidence that family firms see the “new normal” as an opportunity. Almost half of respondents – and four-fifths of the highest-performing ones – said that they saw the rapid-growth economies as a source of new markets and customers. Less than half as many considered these new markets as a source of added competition.

Despite the challenging backdrop and trend toward retrenchment, family businesses are planning to expand. Over half of respondents said that they were looking to introduce new products and services. The same proportion said that they were looking to increase existing market share, while almost 4 in 10 said that they planned to move into new countries.
The impact due to the rise of rapid-growth markets

Opportunity of new markets and customers
Added competition globally
Increased speed to markets for new products
Added competition locally
Cheaper input prices
More regulations and red tape
Supply chain inefficiency

Focus of expansion plans

New products/services
Increasing existing market share
New countries
Related industries (in which they are already active)
Increasing capacity
Capital investment
New industries
No plans for expansion in place

More than one response was allowed

Guido Corbetta  Professor of Family Business at Bocconi University in Milan and Jens Fiege  Member of the executive board, Fiege Logistics, a fifth-generation German contract logistics firm

Many family businesses from advanced economies have serious plans to expand into emerging economies. “All the medium and larger sized family companies understand that emerging markets are very important. They are preparing for M&As,” says Guido Corbetta. But that doesn’t always mean China. “When they are thinking of which markets to go into, it is often a question of a cultural fit. For example, it’s easier for Italians to go to Brazil or Argentina than to India or China,” Corbetta says. For others, expansion can be closer to home. Many German firms are also looking to Eastern Europe.

Jens Fiege points out an added complexity of globalization: “From the financial market perspective, there is a certain volatility and uncertainty in the exchange rates market. We might do work for clients in one currency and then be paid in another. For example, the same client might require us to work in European currencies at certain times and in Chinese currency at others. That makes life more complex and more risky for us.”

It is well-known that Germany’s family owned engineering businesses have been very effective at penetrating China. But other European firms have also globalized effectively. You might have thought of risotto rice as an Italian, or at any rate, European commodity. Not so. Riso Gallo sells rice in 74 countries and 30% of its business is done overseas.
Financing growth

Businesses need financing to expand and family firms are not completely immune to the credit freeze. When asked how hard it is to obtain financing, around a third said that it was more difficult than before, and about the same percentage said that conditions were the same as previously.

These funding problems are perhaps a result of respondents’ geographical spread. Many were from Western Europe, where bank lending has traditionally been the preferred channel for business credit. But in its absence, family firms may have an advantage over other businesses, as they often have more retained earnings with which to fund expansion. Indeed, the survey respondents said that using retained earnings was their preferred current method of funding.

Reinvesting retained earnings could be a real competitive advantage for family businesses, as it allows them be more independent from capital markets and to stay focused on innovation and further development of core competencies, rather than satisfying stakeholders’ quarterly expectations.

However, over-reliance on retained earnings, bank loans and family funding also has its limitations and is not always necessarily the most efficient way to fund growth – family businesses should increasingly consider alternative sources of funding such as private equity or even floatation. As this survey shows, external funding is the less desirable route, however, if family businesses wish to remain competitive and efficient, they should not dismiss these external funding options that, if rightly handled, they can be very effective and beneficial and have worked extremely well for many successful family businesses.
Is it hard for a family business to get funding right now? “I don’t think that it’s a disadvantage to be a family owned company at the moment,” says Heinrich Spängler. “In recent times, it was fashionable to be big and listed on the stock exchange and those companies might have got financing more easily. But for now, I don’t see a difference between publicly or privately owned companies. What I would say is that, because of the long-term orientation and the values in a family business, I would trust that business to do everything to survive.”

“For us, it is an advantage to be a family business and to have family-owned companies as our customers. You personally know the family and the successors – whether they actually come into the business or not – and that helps. You see the strengths and weaknesses of the owners,” says Spängler, who is the sixth generation of his family to work for the bank, founded in 1828. “The fact that the management and ownership does not change every five years makes for stability and means that the company’s values are less likely to change overnight.”

The personal involvement also means that people can make decisions without being pushed and pulled by share prices. “We talk on a personal basis and don’t get involved with the craziness of the market,” Spängler says. “I like the markets and understand that they play an important role, and a necessary one, if a company is beyond a certain size. But they overdo it in one direction or another and force you into running a company in a certain way. Especially in a time like this, it is an advantage to be a family-owned company.”

In both Northern and Southern Europe, family firms say that businesses that have good relationships with their banks can still get finance from them. That said, some firms are looking to alternative sources of finance. “There are some deals being done with private equity,” says Guido Corbetta. “For example, in France and in Italy, new public-private funds of private equity are taking a minority stake in a lot of family companies.” Other families can also help with funding. “There have been cases of European families that want to move into China linking up with other families, either European or Chinese, to do so,” Corbetta says. Flotation is also a real option. “Often people in family businesses are very anti-IPO, but flotation has worked for Prada, Ferragamo and Brunello Cucinelli to give three Italian examples. I think that there can be benefits. For example, you can get some money in, and you become more attractive to managers because you have to be more disciplined and pragmatic as a business.”
Innovation

Family firms are not standing still

When asked how they intended to use new finance, innovation emerged as a clear focus. Almost half of the surveyed firms said that they expected to focus more on innovation in the coming years. The figure rose to 6 in 10 for firms with over 1,000 employees.

Uses for additional finance

Developing innovation, new products, new technology
Support investment into new markets
Mergers and acquisition related investment
Support growth in current market
Mixed investments
New staff
Relocation

Youth and innovation

Jouni Salo
Hollming, a Finnish conglomerate in waste management, renewable energy, industrial services and shipping

Innovation is a common aspiration, but how can it be made a reality? One way is to listen to the next generation. Jouni Salo’s family is an owner of the Hollming shipping business. He brings knowledge from his day job as a project manager for a shipping software company called NAPA to the family firm. He encouraged the family firm to integrate its onboard and shore-based computer systems. This had several upsides, including allowing onboard staff access to social media, something which was extremely popular. Staff retention rates have since gone up.

Youngsters, says Salo, are good at bringing modern know-how into the business. “We are more into new technological stuff, smartphones, LinkedIn, Facebook, and we can take this mindset and apply it to our family companies. Usually, family companies are in fields that are less high-tech than perhaps the sorts of businesses where young professionals are working at the start of their careers.”

“The technological edge is coming more into shipping, due to the rising price of fuel. Everybody needs to do something to survive and technology is going to boost efficiency in any field of business,” says Salo. In other business, he says, tech-savvy next generations could help with production management, modularization or warehouse-to-customer applications. “It’s about taking the web-based global mindset and using it in local businesses,” he says.
Guido Corbetta talks about the importance of “agility.” “Family businesses can decide in a few days to invest money in the company, or they can decide to take a reduction in their salaries, or decide that they are not going to pay dividends for the next three years. Obviously, these are things that you cannot so easily do in a public company.”

Family businesses can also react more quickly to difficult situations. Anne Kirstine Riemann, the second-generation chairman of Riemann, a manufacturer of antiperspirants and sunblock, says: “Family businesses often have much shorter chains of command. This equips them to go faster. If my CEO wants to make a specific investment that is not in the budget, he doesn’t have to go to committees and boards. He has to make me a business case and ask me what I think and he can have a yes or no answer in 15 minutes.”

MANE has fifty R&D offices around the world and spends 9% of its revenue on them. “We are constantly working in chemistry and biochemistry to create new building blocks, new fragrancing substances and new flavoring substances,” says Mane.

MANE also produces technological innovations that help produce fragrances and flavors. These include gelatin microcapsules – twenty microns in diameter – that are used in chewing gum or clothes. “We have innovation at the level of the ingredient and then technological innovations to deliver the product at the right moment,” Mane says.

Innovations are no use, however, if they can’t be used by MANE’s factories all over the world. Mane personally chairs the Innovation and Technology Transfer Committee, which ensures that innovations are spread to where they are needed. “An innovation that stays in the books is worthless,” he says. “It needs to be put into the pilot plant, brought to the attention of clients, adopted and then produced. We have to be able to industrialize the innovation.”

Being 100% family owned helps create the innovative culture that is vital to MANE. “Independence means that the business does not have to take decisions for bankers or shareholders. We can spend money on developing R&D and on the things that will benefit the business,” says Mane. And employees appreciate it. “A few years ago, our chief flavorist was courted by a competitor, but he told me he liked working for us because he got five more minutes in bed in the morning. I asked him what he meant and he said: ‘I don’t need to wake up five minutes earlier, rush to the mailbox and go through the newspaper to find out if you have sold us the day before.’ We have 3,300 employees, so our family ownership buys us 3,300 times five minutes every day.”
Succession intentions

As mentioned earlier in the report, a long-term perspective is one feature of family firms that separates them from other businesses, and the most crucial element that ensures the viability of the long-term perspective is succession: the aspiration that the business will continue to be run by future generations. This dynastic aspiration is the one element that sets family businesses aside from all other businesses and makes them resilient. In our survey, two-thirds of all businesses questioned said that they planned to keep the control of the business in the family. Three-quarters of those in rapid-growth economies planned to do the same.

Generational change in family businesses is a highly complex process and often constitutes a balancing act for everyone involved – family, company and owner. Resolving issues around succession is both emotionally led as well as practical; alongside fiscal, legal and financial questions are the very personal aims and values of the family members and, in particular, the views and ambitions of the next generation of family business owners.

Succession intention by firm generation and by advanced vs. rapid-growth economies

The graph below shows a very high succession intention in family businesses, but the reality is that only 30% of firms survive through the second generation, 13% survive the third generation, and only 3% survive beyond that. Furthermore, earlier this year EY, in collaboration with University of St. Gallen, reported some extremely worrying results of a global survey of students with a family business background: only 22.7% express an intention to succeed in the family business.

“Low succession intentions of the young generation are an alarming signal for family firms across the world, which is aggravated by the fact that many family firms face successions in the years to come,” explains Peter Englisch, Global Leader of the EY Family Business Center of Excellence. “Of course, there may also be capable successors outside the family. However, companies that are particularly successful in the long term are those where numerous generations are at least involved in its development. An unsolved succession issue can compromise firms’ performance significantly,” says Englisch. “When corporate succession is not solved convincingly, companies may face turbulence and, in the worst case, even sale or closure.”

Comparing the two surveys, there seems to be a clear mismatch between the succession intentions of family businesses themselves and those of the next generation, which opens an interesting debate.

Talent
Managing people is at the heart of family businesses’ success

More than most other businesses, family firms think about how to manage complex corporate governance challenges and ensure that they have the right people in the right job. Talent and its effective management are always key drivers of business performance. One reason why family firms have performed well in recent times is that they have a competitive advantage in attracting and retaining talent. On the other hand, this is a particular challenge for a family business because it is inextricably linked to that of succession, both from within and outside the family.

“The days when genetics were seen as a qualification for an executive job are long gone”

Peter Englisch, Global Leader
EY Family Business Center of Excellence
One of the differences between the best- and worst-performing businesses surveyed was their attitude to talent management. Some 23% of best performers thought talent management important to their future success, compared with 16% of the worst-performing businesses who didn’t. Modern family businesses also know that non-family managers are essential to their ongoing success. The days when genetics were seen as a qualification for an executive job are long gone. Family firms know that they need to absorb the best practices from the corporate world. One in six firms said that bringing non-family members into key positions had been a motivator of governance change over the past three years.

Factors motivating change in governance

- New family members coming into the company
- No changes made
- New or different skills required
- Non-family members coming into significant management positions
- Family members leaving the company
- Globalization or regional expansion
- Financial constraints
- Set-up family office
- Key non-family personnel leaving the company

More than one response was allowed
Family firms are appealing more to top managers

The open-mindedness and ease with which families can hire non-family executives is key to their future success. When asked how hard they had found it to hire non-family executives in the year to June 2012, a quarter of firms said that they had found conditions no different from usual. However, it is more difficult for firms in the first and second generation to attract non-family executives compared with those in the third generation and above, in which at least two successions have taken place and the family business culture is firmly engrained. In addition, the controlling egos often associated with the founders generations are much diluted and therefore less of a threat for non-family executive in terms of control and executive autonomy.

Ease of attracting non-family executives

![Ease of attracting non-family executives](chart)

Attracting non-family executives by generation

![Attracting non-family executives by generation](chart)

Philip Aminoff says that, in the Nordic countries, family businesses are increasingly appealing. “Over the past ten years, it has become easier to hire non-family people to chief executive and senior management positions in family businesses,” he says. “People are sick and tired of the quarterly panic and reporting idiocy, where you can’t do any business because you have to report to compliance all the time. Lots of people just don’t want to be in listed companies anymore.” The focus of family businesses’ on robustness and resilience – so long derided by the advocates of ever-faster growth – now appeals to the best managers.
As it has become clear over the past few years that bonuses and high pay do not guarantee good results, incentives have become a hot topic. When asked what incentives were used to bind non-family executives to the firm, respondents very clearly prefer to use non-monetary incentives, namely offering executives greater levels of involvement in the decision-making process. Half of the respondents chose this option; almost twice as many as the next most popular answer, which was deferred compensation packages.

Notably, the highest-performing companies were almost twice as likely as low-performing ones to give non-family executives a greater level of involvement. The best performers also made more use of deferred remuneration, while low-performing businesses were far more likely than high-performing ones to offer executives rates of remuneration above industry standards.

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<th>Factors binding non-family executives</th>
<th>High performing</th>
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<tr>
<td>Greater levels of involvement and sharing decision-making</td>
<td><strong>60%</strong></td>
</tr>
<tr>
<td>Deferred compensation packages</td>
<td><strong>40%</strong></td>
</tr>
<tr>
<td>Treat them like a family member</td>
<td><strong>20%</strong></td>
</tr>
<tr>
<td>Non-monetary benefits</td>
<td><strong>20%</strong></td>
</tr>
<tr>
<td>Compensation levels above industry standards</td>
<td><strong>20%</strong></td>
</tr>
<tr>
<td>“Global workforce” and international assignment opportunities</td>
<td><strong>10%</strong></td>
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More than one response was allowed
In terms of binding non-family talent to the business and incentivizing loyalty, even the most experienced families are always looking for new strategies. “When it comes to incentive plans, our own family has worked with phantom shares, with real preference shares and with long-term incentive plans of different sorts. But I would say that the jury is still out on which work the best,” says Philip Aminoff. However, he does say they will never have the same mindset as the family owner, who will think in terms of decades. A non-family manager thinks in a three-to-five year timescale and incentives should take this into account.

But it is not just about the money. It’s also important that both the family members and non-family executives are very clear about their respective roles and responsibilities. In the Nordic family business culture at least, there are “a lot of checks and balances in the companies,” to make sure that families respect non-family managers. While this may appeal to non-family managers, clarity about decision-making can also be positive. “Everybody knows that the family member has the final word,” Aminoff says. “In a fragmented holding structure, you just don’t have that.”

The interaction between family and non-family members has to be handled properly and recruiting the right non-family executives is extremely important. How do you do that? Fiege says: “One important aspect is to make sure that they are working as if they were working in any other business. You can’t have a family that is working as patriarchs, and takes all the decisions away from non-family executives. You have to work with them in partnership. It is very important that people feel motivated and empowered, not frustrated.”

These days, all family businesses are aware of the value of non-family executives. But how do firms manage the needs of both family and non-family employees? One example of a new generation of family members successfully entering the firm is the Fiege logistics company, based in Germany. Jens and Felix Fiege, cousins in their 30s, recently became the fifth generation to work at the family firm and are tipped to one day become co-CEOs.

So, how is succession best handled? “It is always good to get external experience before joining the company, because you learn things that you might not learn in the family company,” says Fiege. “Secondly, because in the family company you gain important positions at a younger age, it is important that the non-family managers can respect you for what you have done before, not the heritage you have.”

Structure is vital. “It’s also important that roles and parameters are transparent and clear to everybody,” Fiege says. “Those sorts of rules have to be discussed before you go into the business. If you look at cases when things don’t work out, it’s because there is a frustration on one of the two sides or because there is a lack of trust, because there is confusion about what was agreed on. Guidelines and transparency are key.”

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Sustainability

Built to last Family businesses lead the way to sustainable growth
Sustainability is a core principle for family businesses

An inevitable part of the long-termist outlook that is typical of family businesses is a focus on sustainability, which manifests itself as environmental, economic and social responsibility.

Notably, a third of the businesses surveyed said that they had introduced green technologies in the past three years. Such investments are unlikely to pay off in the short term, especially given that the cost of such green technologies is often high. Over a fifth of the businesses surveyed also said that they had recently introduced or revised their corporate value statement, demonstrating the central importance of values to family businesses. Almost the same proportion had reviewed their supply chain for sustainability and humane practices, while a slightly lower proportion said that they had reduced their carbon footprint.

<table>
<thead>
<tr>
<th>Steps toward the sustainability process</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduced “green” technologies (clean tech)</td>
<td>32.9</td>
</tr>
<tr>
<td>Introduced new and revised corporate value statement of your company</td>
<td>22.5</td>
</tr>
<tr>
<td>Reviewed your supply chain for sustainability and humane practices</td>
<td>21.8</td>
</tr>
<tr>
<td>Reduced your global footprint against climate change issues</td>
<td>21.1</td>
</tr>
<tr>
<td>Purchased sustainable raw goods from local resources</td>
<td>13.6</td>
</tr>
<tr>
<td>None</td>
<td>27.1</td>
</tr>
</tbody>
</table>

In terms of the overall focus of their sustainability strategy, almost 40% of firms said this was orientated around environmental issues, followed by social issues and governance-related issues.
Philanthropy

Traditionally, business-owning families have been involved in philanthropy, and almost half the respondents said that they engage in philanthropy or “impact investing.” Interestingly, it was slightly more likely for firms owned by the second or third generation to have such activities, with around a half compared with just 4 in 10 of those in the fourth generation or more. Family businesses in rapid-growth economies were also far more likely to be involved in philanthropy or impact investing, with two-thirds compared with just under two-fifths in advanced economies. This could reflect the fact that businesses in rapid-growth countries are more likely to be first-generation entrepreneurs, who often have a greater interest in giving rather than conserving wealth. Or perhaps it could reflect that times are hard for family firms in advanced economies and they have had to cut back on their good work.

The most popular area for giving was education; with over a quarter of families saying that this was now their focus – twice as many as the second most popular area, poverty alleviation.

Targets of philanthropic investing
Built to last
Family businesses lead the way to sustainable growth
Focus on

Sustainability

Andrew Wates
Retired Chairman of the Wates Group, a British construction firm now in its fourth generation, and Vice-Chairman of FBN-I

“Sustainability is a complex term with several different aspects. For a start, it is about succession, which is an almost continuous process for a family firm” says Andrew Wates, who now leads Wates Giving, the corporate foundation of the Wates Group. Wates has recently transferred the business to the fourth generation which already has a program for the fifth generation, the eldest of whom is just 18.

“Families instinctively focus on intergenerational transition,” says Wates. “Contemplating what shape of business you want to pass on comes quite naturally. This makes you think about risk, competencies and markets.”

As a builder, the environmental side of sustainability also looms large for Wates. “We are all beginning to seek to understand the global environmental consequences of our actions today,” says Wates. “Ten to fifteen years ago, such matters would not have been on the agenda. What is interesting is that the next generation are asking these questions and are already thinking of their children’s future.”

Family businesses, perhaps, have an advantage when it comes to sustainability. “All companies with a strong value set are beginning to address the issue, but the difference with family businesses is that the next ownership generation are in the same room,” points out Wates.

Wates stresses that sustainability is not an added extra, but an integral part of how family firms do business. “There are practical aspects of long-termism around financial gearing, risk analysis and people and team development that rise to the top of the agenda when you break away from chasing short-term results,” he says. “Ultimately, to build a sustainable business, all these matters need to be prioritized. I would add that long-term customer relationships are something for which every good company strives. These are often achieved by having strong core values and gaining an understanding of your customers’ needs over time – sometimes decades. There can be a natural affinity with like-minded customers.”
Putting people first

For some, sustainability is about the environment. But for many family businesses, it is also about people. “That is a part of the mentality of the family business. You think about it automatically,” says Mario Preve of Riso Gallo. “It’s really about your everyday behavior, the way you look after people. We want to make sure that our employees are happy and we have families that have worked for us for generations too – my secretary is the third generation to work for Riso Gallo.

“People know that if they need something then we will be there. For example, if they need a doctor, we will give them a recommendation. They know they can come to us for that. People are more productive if they are happy in the work that they are doing. Also the salaries we pay are on the higher side, so the people who work for us aren’t looking for other work.

Anne Kirstine Riemann echoes the sentiment. “My father was kind and took care of people, including his staff,” she says. “We do things for the staff that not all companies would do. For example, on lifestyle issues, we help people with therapy or even to go to an addiction center. We may help people find a lawyer or doctor or the like.”

... and Anne Kirstine Riemann

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Looking after people is “the right thing to do,” says Riemann. But on a practical level, it also keeps the business running well. “If someone has a problem, they become preoccupied with it and at work their head is not in the game. Happy people are productive people.” Sustainability has many faces.
Summary and conclusions

“Do the right things and the figures will follow.”

“Do the right things and the figures will follow” is the central message of this report.

It also highlights how the link between ownership and business – and between current success and long-term perspective – creates unique opportunities.

Family firms focus on their customers and core competencies in order to constantly improve the quality of their product or service and maintain their competitiveness. So they look more to long-term value creation rather than short-term profit maximization.

Attracting and retaining the best talent is also a top priority for family firms as with any other business. But family firms seem to have a clear advantage: high-flying managers are finding the open-mindedness and long-term view of family firms increasingly attractive. Nevertheless, our survey suggests that it remains a constant challenge to find and manage experienced external managers who are qualified to run the business and who also understand the family’s goals and objectives.

Another key finding is that good governance is also essential to the establishment of trust and reliability – especially during and after a generational transition. It is no wonder that most respondents indicated that such a transition is the top factor for motivating a change in governance. Therefore, each process of succession should be started early and communicated clearly. Transition planning should become a permanent process in more mature family businesses.

Another important factor to consider is that strong governance and a good competitive position, combined with customer and employee loyalty, results in a better financial rating. This opens up access to more finance facilities. Even if the preferred financing options are retained earnings, bank loans and family funding, the ability to access the capital market becomes more important in the future.

For successful family businesses, spending is targeted on innovation and expansion, rather than satisfying shareholder expectations. This creates long-term opportunities. For example, this approach offers the next generation the opportunity to introduce new technologies or change the business model.

These key findings reinforce our initial statement on how important family businesses are to the world’s economy and how their business model and responsible practices ought to be emulated.

Family businesses have a competitive advantage that delivers sustainable growth and prosperity. But it is up to each family to turn this potential advantage into real success by doing the right things.
Appendix
All demographic charts

1. Size

- 1,000+
- 250 to 999
- 50 to 249
- 1 to 49

2. Generation

- Gen 4 or later
- Gen 3
- Gen 2
- Gen 1

3. Geographical breakdown

- Western Europe
- South America
- Asia
- Eastern Europe
- North America
- Africa

4. Sectors

- Heavy Industries
- Materials
- Consumer products
- Energy
- FMCG
- Financial services
- Health care
- IT
- Utilities
- Telecommunications

5. Listed/non-listed company

- No
- Yes
Our commitment to family business

For more information about the Family Business Center of Excellence, please visit ey.com/familybusiness

The growth DNA of family business

EY understands what keeps you busy during the day and awake at night. We appreciate the difficulties you face trying to balance the concerns of the family and the intricacies of your business. We know what makes a family business successful.

Our ongoing in-depth research and work with companies similar to yours provides us with the basis to give you advice based on the leading practices of other successful family businesses around the world.

The EY approach is anchored in our “growth DNA of family businesses” model. Our bespoke services support both the personal and company performance agenda of family business leaders and aim to help you succeed for generations.

We know that an aligned family and business strategy secures both your family’s and your company’s values on a long-term and sustainable basis – it also forms the foundation for the planning of ownership and management succession.

The practical assistance and professional advice we offer your business can help you unlock your company’s potential to enhance your performance. The highly personalized services we offer will enable you and your family to plan successfully for the future.

This model reflects our approach and focus on the main areas of concern for family businesses – those where we believe we can be most useful.

Managing capital: capital is the lifeblood of a growing company, and many family businesses will be looking ahead and considering new investments. If you are opening new subsidiaries, taking on new staff, planning an acquisition, upgrading your technology or developing new products, you may need to consider refinancing or restructuring or to explore private or public capital injections.

Sustaining growth and profitability: to sustain growth and continue to drive profitability, you may be looking to explore new markets and broaden your product or service mix to exploit opportunities, achieve optimum returns and mitigate risk. This may involve pioneering innovative entry strategies, with any acquisitions seamlessly integrated into your business and realizing back-office efficiencies that will improve top and bottom line.

Managing and retaining talent: a company is only as good as its employees; this principle applies even more in our globalized world. Increased cost-consciousness, market volatility, international assignments, legal requirements, tax complexities and the retention of top performers, present a whole host of challenges to family businesses.

Next generation planning: generational change in family businesses is a highly complex process and often constitutes a real balancing act for everyone involved – family, company and owner. The issues to resolve always have an emotional component in addition to practical, objective and technical aspects. Alongside fiscal, legal and financial questions, the very personal aims and values of the entrepreneur and family members will always be a major consideration.
EY cares about your family and your family business

Each family business is unique. Yet successful family businesses have much in common. Taking advantage of that knowledge and understanding the factors of success underpins what we call the growth DNA of family business.”

As an organization focused on entrepreneurship that has a dynastic will to build a stronger business, generation after generation, EY understands your issues. Our experienced professionals can help you deal successfully with the challenges of today’s marketplace and assist you and your family in planning for the future.

We know what makes a family business successful. We can help you manage the delicate balance between sustaining growth and innovation, while managing risk and maintaining personal wealth.

Our advice is independent and practical. We have sector and subject matter professionals that understand industry specific issues and can help you implement leading practices and benefit from them. And our highly globally integrated team can support you wherever you do business.

Balancing risk: the need to be able to react quickly to market developments makes additional demands of family businesses’ flexibility and adaptability to risk. This can be achieved through forward-looking risk management combined with an effective control system that allows you to both keep your business out of trouble and improve performance simultaneously.

Future management structure: family businesses revolve tightly around the current owner – yet arranging a successor within the family may not always be possible. For instance, your descendants could lack the desire and the willingness to assume the entrepreneurial risk, or they may not have the necessary qualifications and experience to manage the company. Contingency management, appointing non-family executives and family charters all contribute to ensuring your business succeeds for generations.

Culture and responsibility: customers and employees alike are attracted by a long-standing family business commitment to sustainability, whether it is an uncompromising commitment to use local products, to source from renewable resources, or to avoid using cheap labor. You may need to consider how best to integrate ethics and values into your performance strategy, and align it with the achievement of company goals with respect to growth, market positioning and optimizing internal processes such as financial and non-financial stakeholder reporting.

Effective tax management: tax has a strong impact on a family company’s investment decisions, financing and liquidity situations affecting competitiveness and growth. It is therefore vital to ensure that you understand the tax implications of the business and personal wealth decisions you make.
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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