www.pwc.com/fambizsurvey

Kin in the game

Country comparisons

Key cross-border findings from the PwC Family Business Survey 2010/11

Digging into the data

When we conducted our second global Family Business Survey, we talked to over 1,600 entrepreneurs around the world. You told us how you're faring in tough economic conditions, how you're planning for the future and how your experiences vary from one region to another. We published your feedback in late 2010.[1]

But how do the challenges facing entrepreneurs vary from one country to another? How do your attitudes and aspirations diverge? We've now dug even deeper into the data to identify the key features that distinguish family firms in different countries.

[1] We interviewed top executives in 1,606 family businesses operating in 15 industry sectors between 26 May and 17 August 2010. All respondents were interviewed via a 20-minute telephone call, with the exception of respondents in Japan and Turkey, who were interviewed face-to-face. The full report was released on 3 November 2010. Copies are available at http://www.pwc.com/fambizsurvey.

Coping with the current malaise

There's been a lot of talk about how the world has divided, with developed economies struggling and developing economies surging ahead. Our survey reveals some surprising nuances. Family firms in Brazil have certainly prospered. A full 74% saw demand for their products and services rise last year, and for 41% the increase was significant (see Figure 1).[2] But about two-thirds of Swedish and Canadian family firms also grew, outstripping the pace in South Africa.

Danish and Finnish family businesses have bucked the trend, too. Over half of them succeeded in boosting their operating profits, whether or not demand for their offerings rose – suggesting that Danish and Finnish entrepreneurs are particularly good at cutting costs. Elsewhere, however, the picture's less rosy. Irish, Italian and Japanese companies have been especially hard hit, with operating profits down by 70%, 46% and 45%, respectively.

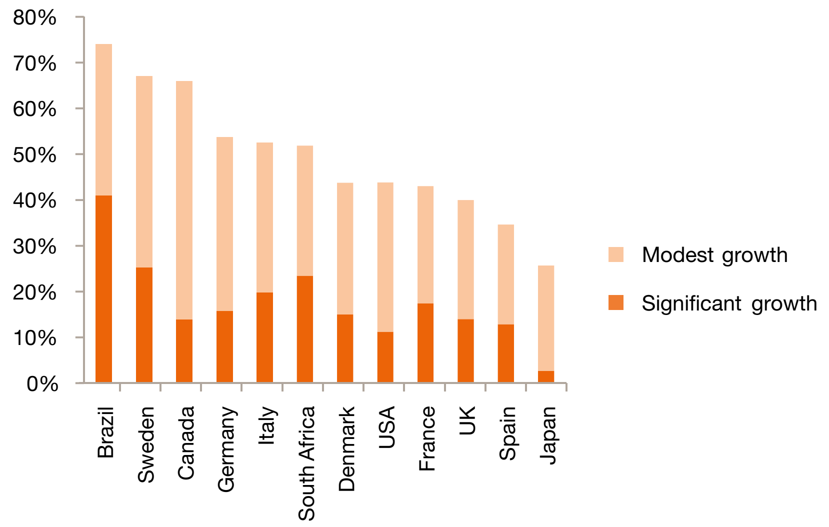
These differences have clearly shaped the short-term plans of the family business owners we interviewed. More than half (56%) believe their core markets will improve this year, and more than half (60%) hope to pick up more business. Brazilian and Swedish entrepreneurs are especially optimistic about the potential for growth. But 70% of US entrepreneurs and 79% of German entrepreneurs are also planning to expand – which is rather more noteworthy, given that they are no more confident of their markets picking up than entrepreneurs in other countries. That said, the majority of US and German family firms have strong cash reserves, which means they're well placed to seize any opportunities that do come their way.

British, Spanish and Japanese entrepreneurs are far more pessimistic. Over a quarter of British entrepreneurs, and over-two fifths of Spanish entrepreneurs, think their core markets will get a lot worse, as their governments wield the knife. And a third of Japanese entrepreneurs are simply struggling to stay afloat, although they're paddling very hard; two-thirds intend to change their business models, which is half as much again as the average.

So what could derail these plans? Entrepreneurs in Brazil, Japan, South Africa and North America

Figure 1: Many family firms have managed to grow against the odds

Q: Looking back over the past 12 months, how would you describe the demand for your company's products/services compared to the previous 12 months? Has there been…



Source: PwC Family Business Survey 2010/11

[2] All figures are based on the survey findings from the 12 countries with 74 or more participating companies. A difference of 11 points or more between countries or between a country and the global average can be considered significant at the 95% confidence level. We've supplemented our analysis with survey findings on family firms in other countries.

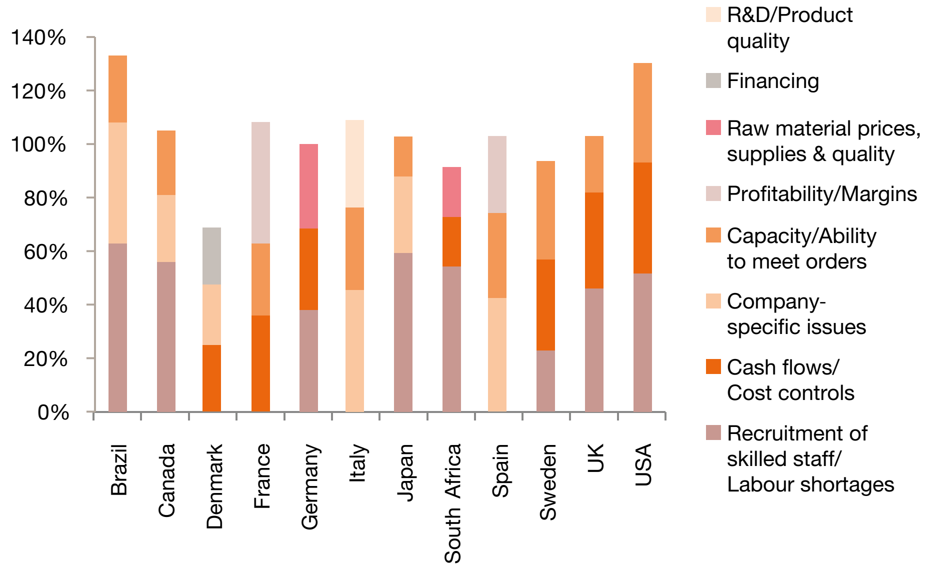
are particularly anxious about the shortage of skilled labour (see Figure 2). Danish and Irish entrepreneurs are more concerned about cash flows, while French entrepreneurs fret about margins and Swedish entrepreneurs about capacity.

But all agree that the internal challenges pale into insignificance next to the external challenges. Market conditions are by far the biggest concern. More than four-fifths of US entrepreneurs worry about the state of the market, as do three-quarters of Brazilian and Canadian entrepreneurs (see Figure 3). Conversely, only half of all French entrepreneurs are bothered about market conditions – possibly because they're almost equally preoccupied with government policy and competition.

French family-business owners aren't alone; government policy and competitive threats are the other two issues most likely to bring on the grey hairs. But Swedish, Danish, Swiss, British and South African entrepreneurs are also seriously concerned about exchange rates, while Canadian entrepreneurs worry about the tax regime.

Figure 2: Labour shortages are the commonest internal challenge

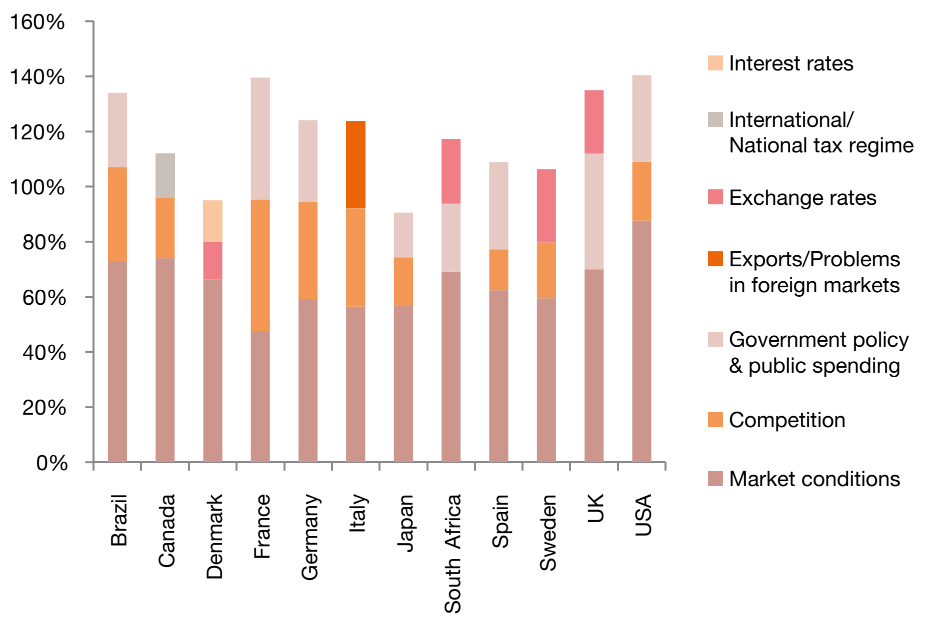
Q: Apart from demand and issues relating to sales and orders, what do you think will be the top 3 internal issues or challenges that will affect your company in the next 12 months?



Source: PwC Family Business Survey 2010/11

Figure 3: Market conditions head the list of external challenges

Q: Apart from demand and issues relating to sales and orders, what do you think will be the top 3 external issues or challenges that will affect your company in the next 12 months?



Source: PwC Family Business Survey 2010/11

Preparing for the future

Many of the family firms in our survey plan to invest in becoming more productive this year. The top three priorities are human resources and training, sales and marketing. But here, too, there are some marked national differences (see Table 1). US and Maltese entrepreneurs are investing heavily in human resources and IT. They're also focusing on sales and marketing, like their Canadian peers. South African entrepreneurs are more interested in beefing up their manufacturing, governance and logistics, while Brazilian and Italian entrepreneurs plan to invest across the board. Swiss entrepreneurs are the odd ones out; only 38% plan to invest in human resources, in contrast with their German and Austrian neighbours.

These aren't the only changes on the horizon; 27% of the proprietors in our sample expect to bow out over the next five years – 11% of them within the next two years alone. The turnover rate's likely to be especially high in Brazil, Denmark and Finland, where well over a third of entrepreneurs want to hang up their boots.

More than half of those expecting a change of ownership think the firm will stay in the family, but the percentage varies substantially from one country to another. Only 36% of British proprietors and 41% of those in the DACH region[3] plan to pass the business on to their descendants, for example, compared with 81% of their Japanese counterparts.

However, many family businesses have made little provision for handing over the reins or dealing with contingencies. More than half of all Swedish, Italian, Belgian and French firms, and more than two-thirds of all Danish and Finnish firms, haven't got succession plans for any senior executives. More than half of all Spanish and Brazilian firms haven't got plans for coping with the sudden loss of a key manager or shareholder. And only a fifth of French, Spanish and Japanese firms have appointed caretaker management teams to step in, if the chief executive unexpectedly dies.

Table 1: Most family firms are investing in their people and promotional activities

Q: In which of the following areas do you plan to invest in your company in order to improve productivity and overall competitiveness in the next 12 months?

Investment area	Average	Countries in which emphasis is particularly high
Human resources	67%	Brazil (94%), Italy (81%), US (79%)
Sales activities	62%	Italy (80%), Brazil (79%), US (78%), Canada (75%)
Marketing	58%	Brazil (74%), US (74%), Canada (70%)
IT infrastructure	52%	US (80%), Brazil (67%), Italy (64%)
R&D	40%	Italy (79%), Brazil (59%)
Manufacturing	37%	Italy (73%), South Africa (53%), Brazil (49%)
Overseas expansion	33%	Italy (82%)
Management & governance	33%	Brazil (82%), South Africa (49%)
Supply chain	31%	Italy (61%), Brazil (56%)
Procurement	30%	Brazil (57%), Italy (52%)
Transportation & logistics	25%	Brazil (51%), South Africa (38%)
Finance	23%	Brazil (49%)

Source: PwC Family Business Survey 2010/11

[3] DACH is a synonym used to represent the dominant states of German-speaking Europe. It is based on the official automotive licence plate abbreviations for Germany (D for Deutschland), Austria (A) and Switzerland (CH for Confoederatio Helvetica).

The honourable exception to this pattern is Germany, where entrepreneurs are typically much better prepared (see Figure 4). A full 50% have succession plans for every senior executive role in place. They're also more likely than entrepreneurs in most other countries to have made plans for dealing with events like the illness or death of a key manager or shareholder and for looking after the business while the heirs grow up.

But there's quite a lot more that many entrepreneurs could – and, arguably, should – be doing to safeguard their businesses. Two-fifths of the proprietors in our sample aren't aware of their domestic exposure to capital gains tax (CGT) and inheritance tax (IHT), for example, while four-fifths aren't aware of the international taxes they or their heirs might incur. Again, German family-business owners tend to be better primed than entrepreneurs in other countries, although Spanish and Brazilian proprietors are also quite well informed on this score (see Figure 5).

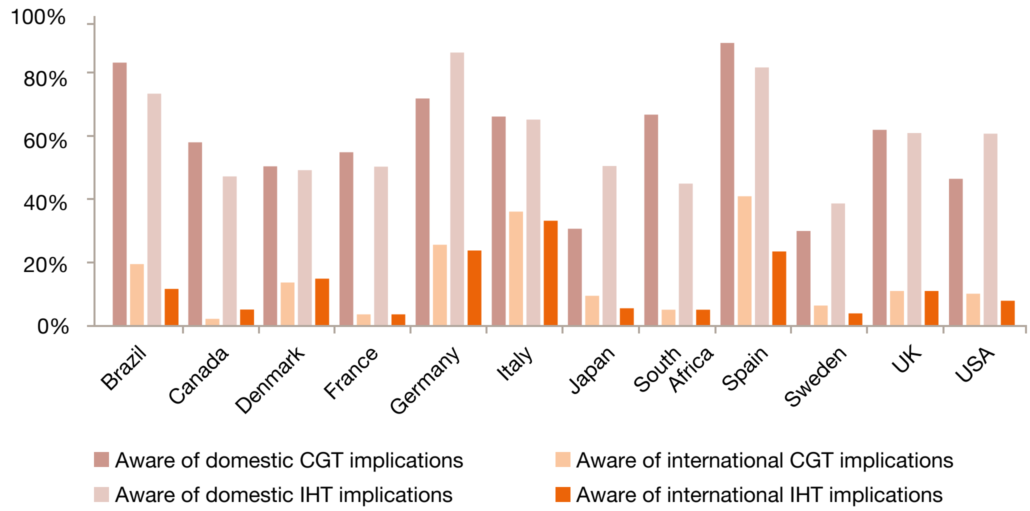
Figure 4: German firms are the most likely to have succession and contingency plans

Qs: Does your company have a succession plan for all senior roles? Does your company have a plan for dealing with the sudden loss of a key manager or shareholder? Is there caretaker management in place to allow children to mature?

Source: PwC Family Business Survey 2010/11

Figure 5: Many entrepreneurs haven't checked their potential tax exposure

Qs: Are you aware of any CGT implications on your business domestically? Are you aware of any CGT implications on your business internationally? Are you aware of any IHT implications on your business domestically? Are you aware of any IHT implications on your business internationally?



Source: PwC Family Business Survey 2010/11

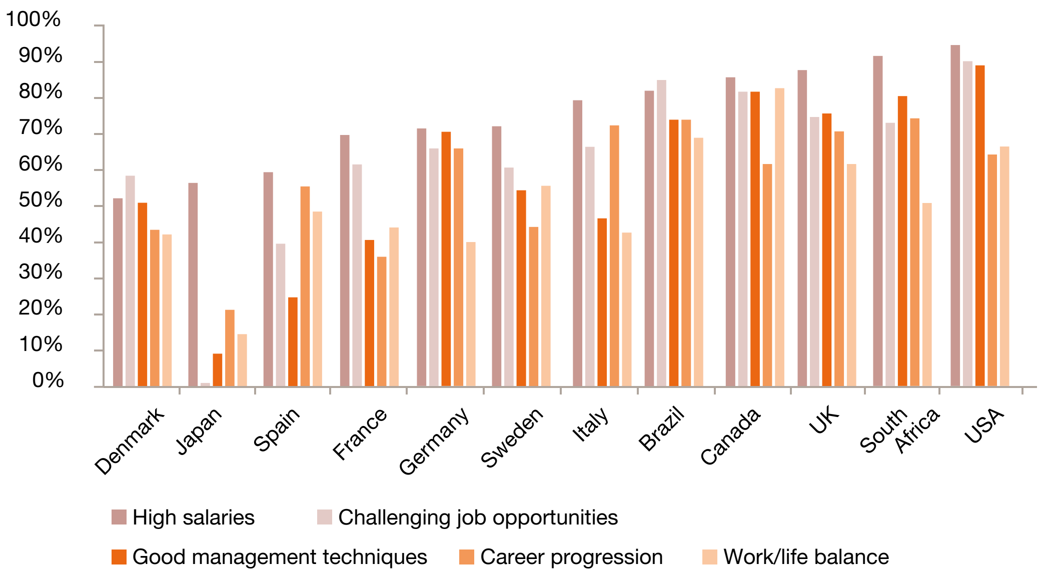
Retaining the right people

Just as entrepreneurs in different countries prepare for the future in different ways, so they use different mechanisms to retain and incentivise senior executives (see Figure 6). North American, British, Maltese and South African firms rely heavily on high salaries and good management techniques. German and Brazilian firms likewise prefer to pay and manage people well, but they place almost as much or more weight on challenging job opportunities and career progression, while Canadian firms trade on their ability to provide a good work/life balance.

Use of annual bonus schemes is also much more common in the US, UK and South Africa than it is in other countries. And many US family firms operate deferred bonus schemes or share plans for their most highly prized executives. However, Japanese, Danish and French firms use all such incentives much less frequently – relying more, perhaps, on loyalty.

Figure 6: Anglophone family firms offer the biggest management incentives

Q: Which of the following measures do you have in place in order to retain key talent within the company?



Source: PwC Family Business Survey 2010/11

Clearing the air

Occasional conflict is a fact of life but in a family business it can be deeply destructive – and Japanese family firms are enduring more than their share of feuds at the moment, probably because they're among those that have borne the worst of the recession. Future strategy, the role in-laws should play in the business and the failure of family members working in the business to consult the wider family are especially likely to set sparks flying.

But more than half the Brazilian and Italian entrepreneurs we interviewed also said that their families quarrel about the future direction of the business. In Swedish and Danish family firms, by contrast, it's the role of relatives and whether or not they should be allowed to work for the business that's most likely to trigger dissent – a marked difference from the situation in the majority of Dutch, British, US, German, French and Spanish firms, where the role of in-laws causes little, if any, tension. 16% of Danish family firms also experience a lot of strife over future strategy (see Table 2).

However, less than a third of the companies in our sample have conflict resolution procedures in place. German, South African and Brazilian family firms lead the way; over two-fifths of German and South African firms, and over half of Brazilian firms, have some sort of process for dealing with disputes. But only 8% of French firms, 15% of Japanese firms and 23% of Swiss firms have any such measures. Yet it's important to set some ground rules – before conflicts arise. A few simple guidelines enshrined in the articles of association or a shareholders' agreement can avert many potential problems in smaller family businesses.

In fact, in half the countries we covered those family businesses that have established a means of resolving conflicts favour shareholders' agreements over other procedures. But Italian, Brazilian and Spanish firms prefer family councils as a forum for discussing business issues; indeed they are more than half again as likely to use family councils as companies in the rest of the world. Japanese and Belgian firms prefer family constitutions, while British, Dutch and Irish firms

Table 2: Japanese and Brazilian firms suffer more than their share of conflict

Q: To what degree do you experience tension within your organisation regarding...?

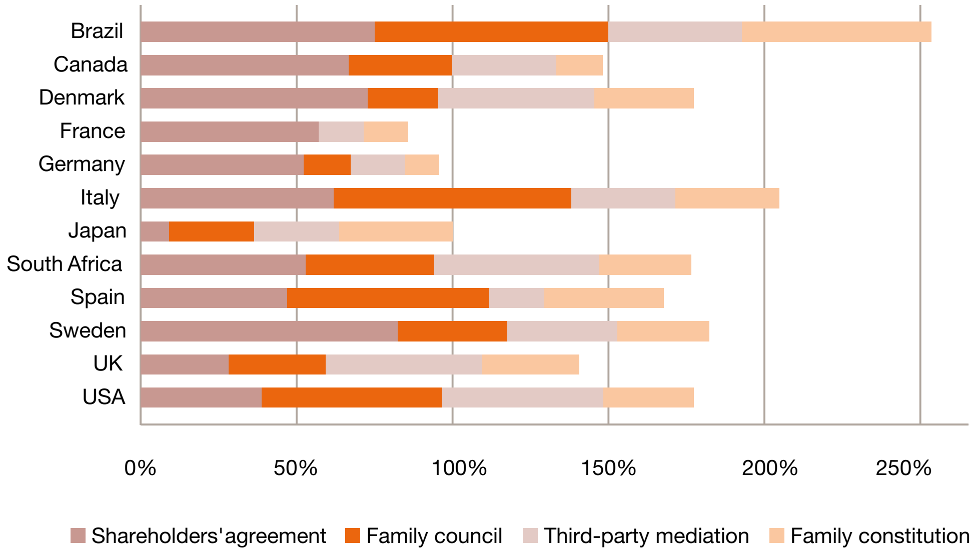
Issue	Average	Firms experiencing some or a lot of tension
Future strategy	40%	Japan (72%), Brazil (63%), Italy (55%)
Performance of family members in the firm	37%	Japan (58%), Brazil (53%)
Who can and can't work for the business	31%	Japan (63%), Brazil (44%)
Failure to consult the wider family on key issues	31%	Japan (67%), Brazil (49%)
Role of in-laws	26%	Japan (72%), Denmark (43%), Sweden (39%)
Remuneration of family members in the firm	26%	Japan (56%), Brazil (49%)
Reinvestment of profits versus dividend payments	26%	Japan (55%), Brazil (44%)

Note: Countries where percentage is at least 11 points higher than the average
Source: PwC Family Business Survey 2010/11

prefer third-party mediation (see Figure 7). Nevertheless, mediation still plays a comparatively small role in family firms in most countries, although an impartial adviser can sometimes diffuse disagreements that no amount of eyeballing between relatives can resolve.

Figure 7: Shareholders' agreements get the thumbs up most frequently

Q: What procedures do you have in place to deal with any conflict that may arise between family members?



Base: All respondents with conflict resolution procedures in place (466)
Source: PwC Family Business Survey 2010/11

Getting government onside

Of course, no internal arrangement, however efficient, can address some concerns. So we asked you how important you consider various changes that would require government intervention. Lower taxes and simplification of the tax regime are perennial concerns, particularly for German, Italian and Brazilian family firms.

But more than a third of Danish, Spanish, Swedish and South African entrepreneurs also regard better links between industry and academia for the purposes of product development as a top priority. Two-fifths of Japanese and South African entrepreneurs, and half of all Maltese and Brazilian entrepreneurs, likewise put more rigorous enforcement of corporate compliance high on the agenda, while more than a quarter of Spanish and South African entrepreneurs stress the importance of greater access to the capital markets.

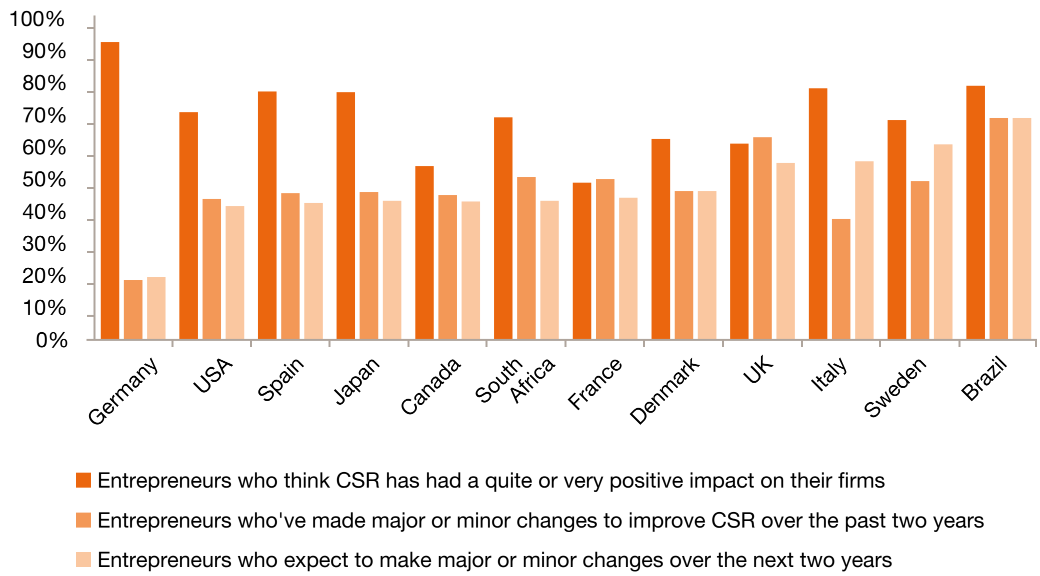
Creating social value

Attitudes towards corporate social responsibility (CSR) also vary. Family-business owners in Brazil and the DACH region are especially upbeat; 48% and 47%, respectively, say that it's had a very positive impact on their organisations. And though British entrepreneurs are slightly less enthusiastic, nearly two-thirds of them have made changes to address the CSR agenda during the past two years, which is significantly higher than the norm.

By contrast, only 10% of Swedish entrepreneurs think CSR's had a particularly positive effect on their companies, but that's probably because many of them regard it as a prerequisite for doing business. Sweden's far ahead of the game, as the fact that it earned first place for corporate ethics in the World Economic Forum's latest Global Competitiveness Report clearly demonstrates.[4] However, many Brazilian and Italian firms are still in catch-up mode, which explains why they're more likely to be planning major changes than their counterparts in most other countries (see Figure 8).

Figure 8: More than half of all entrepreneurs in every country are positive about CSR

Qs: How would you describe the impact of CSR on your business activities? During the past 2 years have you changed the way you manage your business for CSR reasons? In the next two years do you anticipate making any changes to the way you manage your business for CSR reasons?



Source: PwC Family Business Survey 2010/11

[4] World Economic Forum, 'The Global Competitiveness Report 2010-2011', p.311, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf

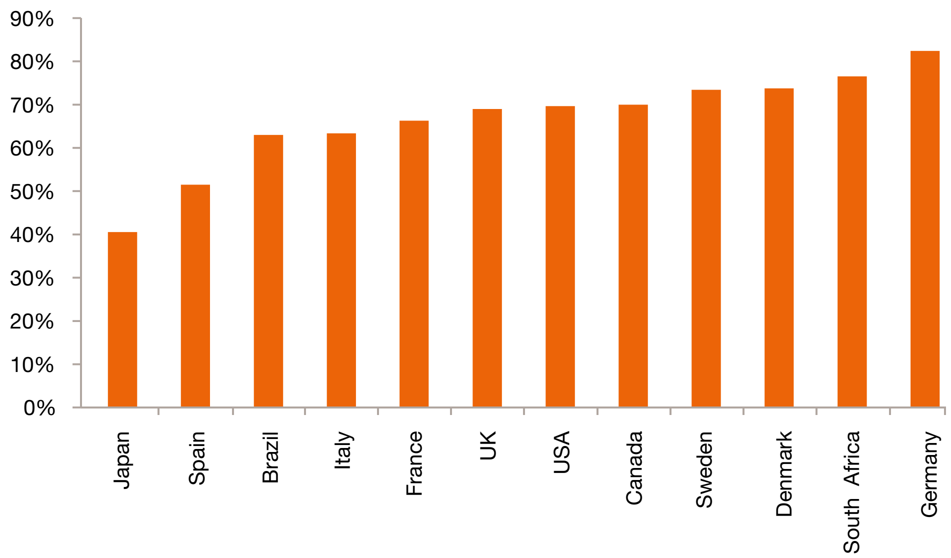
Reaping the rewards of 'family'

There's one thing on which the majority of entrepreneurs in every country agree, though – and that's the value of being part of a 'family' business. Two-thirds of the executives we spoke to believe it was easier for them to weather the economic crisis because their companies are family concerns. German, South African, Danish and Swedish proprietors are particularly emphatic on this point (see Figure 9).

Times may be tough, but entrepreneurs in every country in our survey are bent on surviving, if not thriving. You know you're the lynchpin of your national economies and you're planning to be around for a long time to come.

Figure 9: For entrepreneurs the family business has big pluses

Q: Do you agree that being part of a 'family' business helped you through the economic crisis?



Source: PwC Family Business Survey 2010/11

Contacts

For further information about the survey, please contact:

Axel Dorenkamp
Global Middle Market Director
+49 541 3304 585
axel.dorenkamp@de.pwc.com

Jacques Lesieur
Project Owner 'PwC Family Business Survey'
+33 4 93 37 20 06
jacques lesieur@fr.pwc.com

Norbert Winkeljohann
Member of PwC's Network Leadership Team
+49 69 9585 5566
norbert.winkeljohann@de.pwc.com

Acknowledgements

We would like to thank the family business owners who participated in our survey. This follow-up report was improved by conversations with a large number of people – particular thanks to Helen Kay, Véronique Rode-Coupeau and Miguel Sanchez.