

A family affair:

How are family businesses performing?

PwC has recently completed the second edition of our Global Family Business survey, in which we've gathered together the views of more than 1,600 family business owners and managers in 35 countries. The survey looked at the main issues which may affect your family business, from the corporate challenges you face, to succession planning, management pay and conflict resolution.

It's been three years since the first Global Family Business survey was carried out, and in this time the financial crisis and recession have wreaked havoc on businesses around the world. But while family firms have undoubtedly suffered, the survey shows that most have weathered the storm remarkably well.

The past two years have not been easy and the survey revealed a more sombre mood than when we completed our first global survey in 2007. A number of respondents talked in terms of 'trying to keep our heads above water' and 'making it through the crisis'. As a family firm, you are not immune to recession; you can face many of the same challenges other forms of business face, and some of these challenges may be particularly difficult to manage because, in a family business, there are inevitably emotional as well as commercial ties involved. But family firms also enjoy several special advantages, as many of the executives who participated in our survey acknowledge. Two thirds of those we spoke to were convinced that being part of a family business has helped them cope with the economic slump.

In fact, the signs are that family businesses have coped well with the economic conditions, and many family businesses have prospered

despite the turmoil of the past two years. An impressive 48% of the businesses we spoke to said that demand for their products or services had grown during the past 12 months, and 16% said that it has grown substantially. One hundred of the family businesses we spoke to were in the UK and, if anything, they seem to have suffered slightly more than others – 40% said they had seen modest or significant growth in demand over the past year.

That said, the effects of the recession can be clearly seen. One third reported a decline in demand for their products and services – a significant increase from the 10% that said the same in 2007. Construction companies have been particularly badly hit, with 22% experiencing a significant reduction in demand, compared with the overall average of 14%. The number of family businesses reporting an increase in profits over the past 12 months has also dropped since the 2007 survey, from 57% to 42%.

Even so, family businesses remain positive. 60% told us that they plan to expand the business over the next 12 months and most feel that they are well-placed to compete and capitalise on new opportunities. And they have good cause to be optimistic. Listed businesses can sometimes feel pressure from shareholders to focus on short-term

results: family businesses have a naturally long-term perspective that has served them well during the recession. As a family business, your fundamental aim is to preserve and nurture the business, in honour of the legacy handed down to you by previous generations of your family, and for the benefit of the next.

The survey shows that family businesses are healthy, with ready access to cash. Two-thirds of the people we spoke to said they have access to cash if they should need it, and only 12% said they had nothing left in the coffers. And only a handful were planning to make, or had already made, major changes to their business model as a result of the recession.

What keeps them awake at night?

The recession has left its scars. Three years ago, family businesses told us their main external challenge was competition, with 39% naming it as among their top three external concerns. In 2010, only 26% were worried about losing out to competitors, but 68% named market conditions as a serious concern (an increase from 44% in 2007). It's fair to say that the financial crisis has moved the focus back on to the marketplace.

Even so, 38% of the people we spoke to said that their main internal challenge was the recruitment of talented staff, suggesting that many organisations are already looking ahead to how they will compete and expand in the future.

Keeping it in the family

Passing the business on to the next generation has always been one of the biggest headaches for family businesses and the survey suggests that many still have a pressing need for better planning in this area. A surprising number of businesses – more than a quarter, rising to nearly half in the emerging markets – expected to change hands sometime during the next five years, and more than half of these were expected to stay within the family. Even so, almost half of the companies we spoke to don't have a succession plan in place, and only half of those that do have identified and named the person who will take over.

Another worry is that most of the family businesses we spoke to haven't made any plans to cope with a sudden and unexpected change of ownership – 44%, for instance, didn't have any procedure for buying out shareholders who die or become incapacitated.

Resolving disputes

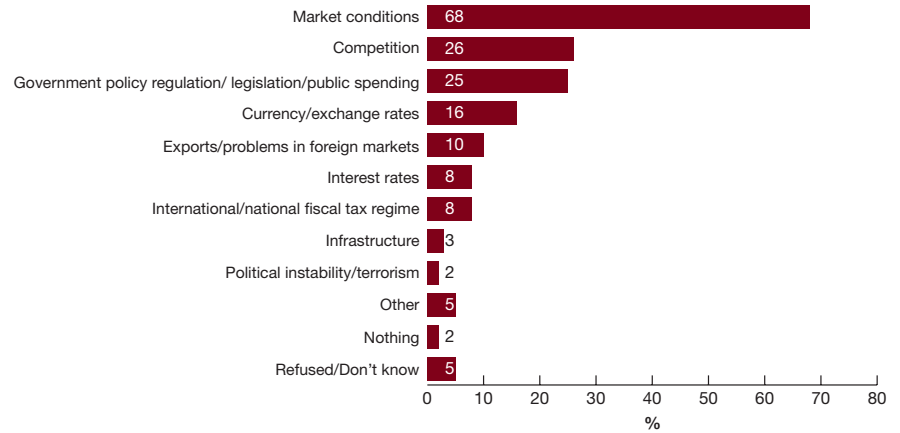
It's hardly surprising, given the difficult trading conditions over the past two years, that more family businesses say they have experienced tension between family members recently. The issues most likely to cause problems include the future direction of the business, and the performance of family members who are employed within the business. A serious argument between family members can destroy a business but, worryingly, less than a third of the businesses we spoke to had any system in place for dealing with family disputes.

What does the survey tell us?

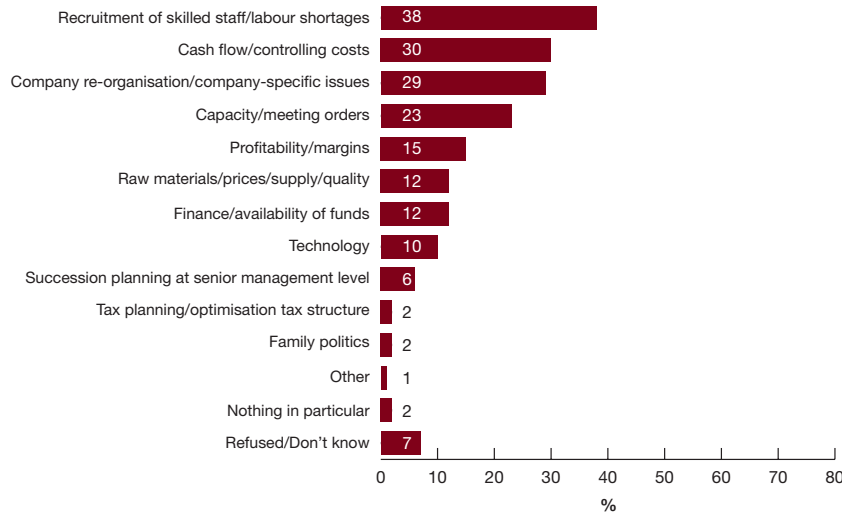
The past two years have been a struggle for survival for many of the UK's companies – the financial crisis and challenging times in the marketplace have all had to be overcome. But the global and UK surveys both suggest strongly that the longer-term, generational

perspective of family businesses, as well as their lower reliance on external financing, has served them well. The unique characteristics of a family business have allowed them not only to survive in a difficult economic environment, but to strengthen their foundations for the future.

External challenges



Internal challenges



If you would like to find out more about the Global Family Business survey, please do contact:

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