What is generally known about Family Business?
Family Businesses are discrete

Family Businesses have a unique value-based culture

Family Businesses create more than 70% of global GDP annually

Family Businesses perform well

Family Businesses have a long-term vision & live longer

Family Businesses create more than 70% of global GDP annually
Family Businesses come out of shade...

We build our future on our family business foundation.

The “family” value makes us unique. We build our future on a solid foundation.

Since 1876, the year Henkel was founded, the Henkel family has shown a strong commitment to the company. The family provides us the opportunity to operate in the long term. It also supports us when we have to make difficult strategic decisions. We are committed to leading Henkel with an entrepreneurial spirit, which has been a strong characteristic since our foundation, and that is what ultimately makes the difference in the marketplace.

HENKEL

Source: www.henkel.com
Family Businesses come out of shade...

International & European institutions pay an increasing attention to the sector

The European Parliament plenary has approved its own-initiative report on family businesses in Europe

It ‘recognizes that family businesses are the single biggest source of employment in the private sector’ …

… and calls for a better family businesses statistics and data.

Source: European Family Businesses (EFB)
... and their importance in the economy is even more obvious

1/3 of all companies in the S&P 500 Index are defined as family businesses

30% of all companies worldwide with sales in excess of $1 billion are family-controlled enterprises

40% of the 250 largest companies in France and Germany are family owned

What have we recently learned?

‘European Family Business Trends: Modern Times?’, 2015
European Family Business Barometers’(five editions), 2013 - 2016
What have we recently learned?

**FAMILY BUSINESS TRENDS**

- Solid growth
- Fast strategic changes
- Professionalization
- Active internationalization
- New sources of finance
- Increasing philanthropy
1. Family Businesses demonstrate solid growth

3/4 are positive about the future

The pressure is higher on small businesses than on large ones*

47% Increased turnover in the last 12 months

34% Increased staff numbers in the last 12 months

74% 60%


*Small businesses are defined as the ones with less than €10 million in turnover. Large companies are defined as the ones with more than €50 million in turnover.
2. Family Businesses are undergoing fast strategic changes

#1 Passing the management of the business to the next generation

#2 Appointment of a non-family CEO

#3 Sale of the business

1/3 of family businesses owners plan strategic changes in the next 12 months

All of them entail a drastic change in the company’s management and/or ownership structure!
Keep or sell?

8% of the owners plan to sell the business in the next 12 months.

Number of family business owners ready to part with the company has doubled since three years ago...

3. Family Businesses professionalize

- **88%** have put some formal governance mechanisms in place.

- **74%** have integrated non-family executives into management roles.

Key benefits:
- ‘they bring expertise & knowledge’ (57%)
- ‘they help to professionalize the business’ (43%)

4. Family Businesses rapidly move abroad

- 2013: 60%
- 2014: 72%
- 2015: 74%
- 2016: 76%

40% plan to invest in activities abroad
22% place internationalization among their top business priorities

5. Family Businesses open to new sources of financing

Family businesses are **more amenable to offering equity to the right investors than commonly perceived**, especially to a right partner…

… but often these investment partnerships are **kept in secret**

42%

of the family businesses have **previously raised financing from HNWIs**…

… and **92%** of those rate their experience as positive

A **right partner** primarily means an investor with **similar appetite for business risks and returns, similar values** and a clear **understanding of family business**

Philanthropy is evolving in almost all parts of the world… … among family businesses as well

1/3 of family businesses consider philanthropic activities as important

Next-generation members learn the new skills

Family members not directly involved in the business make a meaningful contribution

Senior-generation members, stepping out of the business, can take over the philanthropy management roles

And what about Africa?

African Family Business Barometer 2016
African family businesses feel confident

68% of respondents are confident about their future prospects

96% plan to grow further next year

39% have grown turnover

39% have increased staff numbers

72%
... and demonstrate positive performance

54% of South African family businesses surveyed have activities abroad

76% of them have increased activities abroad in the last 12 months

57% of them have increased activities abroad in the last 12 months

South African family businesses are facing serious challenges...

- **37%** Political uncertainties
- **32%** Unstable currency
- **27%** Limited access to finance
- **24%** Decline in profitability
- **23%** Increased competition
- **22%** “War for talent”
- **17%** Rising energy costs
- **11%** Limited access to finance

In Europe, ‘war for talent’ is a primary concern (37%), steadily increasing in its importance since three years.

... and look for changes and reforms

- Easier access to finance: 36%
- Infrastructure development: 25%
- Lower tax rates: 21%

15% More flexible labour market regulations
18% Reduce administrative burden
21% Reduced non-wage labour costs
6% Benign tax and administrative arrangements for intergenerational family business transfers

South African family businesses define **key drivers for success**

97% **Having good governance structures & processes in place**

93% **Preparing and training a successor** before leadership succession actually takes place

85% **Communication between generations**

92% **South African family businesses focus on good governance, timely succession preparation and intergenerational communication**

**BUT**

... the governance mechanisms are not well implemented

85% of South African family businesses have some formal governance mechanisms in place

BUT most of them are implemented in a quarter of the companies or less

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... and there is a strong demand in external expertise.

92% consider the external executives beneficial for family business

88%

52% have already integrated external executives

African family businesses are planning for future…

53% of the African family businesses are planning strategic changes within the next year.

17% Passing the management of the business to the next generation

14% Appointment of a non-family CEO, retaining ownership/control within the family

10% Passing the governance (ultimate control) of the business to the next generation

9% Passing the ownership of the business to the next generation

8% Initial public offering (i.e. publicly listing the firm)

8% Sale of the business

8% Initial public offering (i.e. publicly listing the firm)

But...

... among those, who plan to **pass the business** to the next generation **within** the next 12 months:

46% have not identified a successor or are in process

36%

Different generations have different challenges and fears

Senior Generation
- 47% too strong attachment to the business
- 36% rapidly changing business environment
- 27% no heirs interested in the business

Next Generation
- 29% tense family relations / family conflicts
- 29% expectation to join family business
- 32% unclear career perspectives in the family business

Senior Generation should openly communicate with the Next Generation and guide through their career.

African family businesses are setting business goals...

- Improve profitability: 52%
- Increase turnover: 34%
- Become more innovative: 25%
- Diversify into new products / services: 24%
- Educate and train your staff: 13%
- Move/export into new markets: 12%
- Attract new talent: 9%

In Europe, the highest priorities for family businesses relate to profitability, turnover, innovation and moving abroad.

... and include **new investments** in their strategic plans

56% plan investments

15% plan divestments

26% No investments / no divestments

**AREAS OF INVESTMENTS**

- **Core business**: 66% (78%)
- **Diversification**: 51% (28%)
- **Innovation / new technology**: 49% (52%)
- **People (recruitment & training)**: 40% (47%)
- **Internationalization**: 15% (40%)

Family businesses are not only the backbone of our economy today...

...but also its future
The future of family businesses seems to be bright!

Family businesses correspond well to the entrepreneurial spirit of the new generation – Generation Z

By 2025, family businesses from the emerging markets will represent 40% of all world’s enterprises with $1 bn in sales

Family businesses provide 50% to 80% of jobs in the majority of countries around the world

Family businesses are increasingly proud to be ‘a family-owned business’ and will continue the family legacy & tradition
And when the family businesses face serious challenges...

To put the **appropriate governance mechanisms** in place

To ensure the **timely succession preparation**

To **integrate external executives** into the company’s management

To **prepare the business for an exit**

To improve the **intergenerational communication**

...an external advice can help
Thank you

KPMG Global Centre of Excellence for Family Business

www.kpmg.com/familybusiness