Coutts 2005 Family Business Survey

Are family businesses better prepared than other businesses to compete in the future?

Mark Evans, Head of Family Business and Strategic Philanthropy

Contents

Coutts

Foreword

Most surveys on family businesses concentrate on past performance. But, as we know, past performance is no guarantee of future success. As a result, Coutts is pleased to announce the first in a series of surveys that look forward. In this survey we compare the practices of family and non-family businesses in areas such as company structure, planning succession, business strategy, and philanthropy. In our next survey we will be exploring what companies are doing to capture future opportunities.

We are particularly grateful to the directors and shareholders of the family and non-family companies who participated in the survey for their personal insights. We hope that the collective wisdom of the participants will be a useful guide for family business owners planning for the future.

In addition to leveraging our own long established history of working with family businesses, we consulted with twenty highly respected family business advisers and academics to construct the survey and interpret the findings. Working with so many experienced individuals and organisations has been an enormous privilege. Many of their comments are included in this report. We would like to thank:

John Freeman, Association of Family Business Advisers
Peter Leach, BDO Centre for Family Business
Tony Bogod, BDO Centre for Family Business
Juliette Johnson, BDO Centre for Family Business
Howard Leigh, Cavendish Corporate Finance
Penny Webb, Change Partnership
Sarah Grunewald, Directorbank
Ken McCracken, Family Business Solutions
Barbara Murray, Family Business Solutions
Bill Gordon, Family Business Solutions
Hakan Hillerstrom, Hakan Hillerstrom
Grant Gordon, Institute for Family Business (UK)
Miles Templeman, Institute of Directors
John Tucker, International Centre for Families In Business
Robert Hannington, Knight Frank
Nigel Nicholson, London Business School
Asa Bjornberg, London Business School
Dr Panikkos Poutziouris, Manchester Business School
Michael Maslinski, Maslinski & Co Limited
Nigel Harris, New Philanthropy Capital
Jai Mukherjee, New Philanthropy Capital
Caroline Fiennes, New Philanthropy Capital
Colin Mayer, Oxford Said Business School
Andrew Drake, Penningtons Solicitors LLP

Mark Evans

Head of Family Business & Strategic Philanthropy

"Are family businesses better prepared than other businesses to compete in the future?" A qualified "Yes"

Mark Evans
Coutts
When starting a family business, the issue of family involvement is often not a priority. But as the company evolves, family involvement can be a powerful plus in creating a culture that employees, customers, suppliers and the community can all thrive on. Family businesses that can combine good family and corporate practices with a track record of business success and social responsibility are the best prepared to compete in the future.

Peter Leach and Juliette Johnson
BDO Centre for Family Business

."…the biggest issues they (family businesses) really face (compared with non family companies) will be around their transition from the current to the next generation, particularly in passing from a sibling partnership to a cousin consortium.If they can get this challenge right, and ensure the appropriate processes and structures are in place for both the family and the business, then they place themselves in a very strong position to compete going forwards. This transition however is a huge challenge and shouldn't be underestimated. Whilst the research shows that many families recognise this challenge, it does not mean they are actually going to face it and address it!" Peter Leach and Juliette Johnson,

Sarah Grunewald
Directorbank

"Are family businesses better prepared to succeed? I very much hope so!"

Michael Maslinski
Maslinski & Co. Ltd *Maslinski & Co. Ltd*
"There seem to be three obvious areas in which family companies could be seen as better equipped than others - staff continuity, social responsibility and women on the board.",
"Could family businesses be potentially better able to compete in the future than other forms of business? I would conclude that the answer would be "Yes" John Freeman, Association of Family Business Advisers

Nigel Nicholson and Asa Bjornberg
London Business School
"Family businesses face unique challenges and have a unique competitive advantage rooted in their ownership, leadership and culture. If family firms recognise these complex issues for what they truly are and pro-actively manage them, they may well be in a position where they are better prepared to compete in the future."

Andrew Drake
Penningtons Solicitors
"On the general question of whether family businesses are better prepared than other businesses to compete in the future, I suspect that the real answer is yes and no. I believe that they have some characteristics which make them better able to compete and others which make them more vulnerable to failure, or indeed conflict. Family businesses which a) have family members who communicate well with each other and with non-family management and b) follow excellent standards of corporate governance and c) have planned for the future are, in most cases likely to give their non-family counterparts a good run for their money!"

Method and Sample

In order to ensure a representative sample of businesses, we divided the United Kingdom into five geographic regions - North, Central, London, South and Ireland. We chose three sales turnover categories £1 – 5 million (small), £5 – 50 million (medium-sized) and £50 million plus (large). We also consolidated industry types under four main headings – business services, distribution services, renewable and heavy industries and public services.

Telephone interviews were conducted by DVL Smith on our behalf with directors and/or shareholders of two hundred and ninety-three UK companies. Fifty-one percent of these are family-owned and forty-nine percent are other businesses, giving us an even split. Fifty-five percent of the sample was first generation businesses, thirty-two percent second generation and nine percent third or more. The survey comprised forty questions over a range of topics from business strategy to philanthropy.

Total of 293 CATI interviews were completed as follows

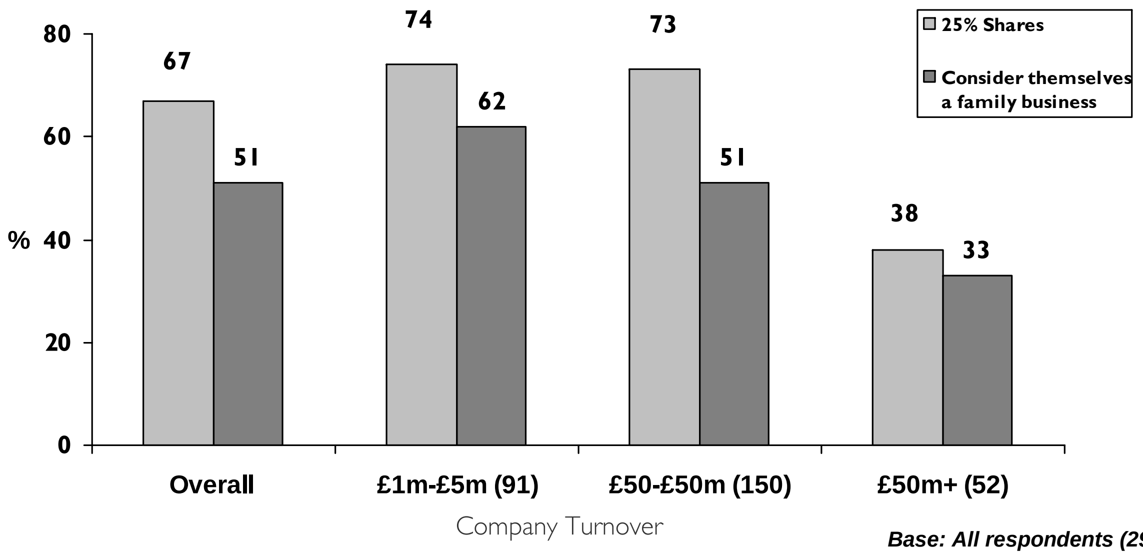
Break	Family business n	Non-Family business n	TOTAL n
Location			
Central	45	34	79
London	26	39	65
Northern	19	30	49
Southern	39	30	69
Ireland	20	11	31
Turnover			
£1m - £5m	56	35	91
£5m - £50m	76	74	150
£50m+	17	35	52
Sector			
BSI (Business services)	20	57	77
DIS (Distribution)	59	29	88
RHI (Renewable & Heavy industries)	58	47	105
PS (Public sector)	12	11	23
TOTAL	(n=149)	(n=144)	(n=293)

Fieldwork was conducted from 13th June – 5th July 2005

You need to think of yourself as a family business to be one

We asked
In terms of share ownership, does at least one family member or family group (including trusts) own more than twenty-five percent of the voting shares of the company? Do you consider yourself to be a 'family business?'

We found
Taking the shareholder definition alone, sixty-seven percent of the companies interviewed said that more than twenty-five percent of the shares were owned by one family group. This rises to seventy-four percent in small companies. However, overall, around a quarter of those who might be classified as a family business on the basis of share ownership, do not consider themselves to be a family business.



Base: All respondents (293)

Coutts comments
The definition of a family business is the cause of much debate. Some people recognise any business in which the family members retain control of a certain percentage of the voting shares of the company. Others put more store on management control, number of family members in the firm, and generation.

This finding supports the notion that nobody starts a family business. That is to say, when any commercial venture is launched, the individuals concerned are most unlikely to be looking ahead to a time when they will pass on what they have created to the next generation.

You need to think of yourself as a family business to be one

Contributor comments

John Freeman
Association of Family Business Advisers
"Is there a perceived marketing benefit in declaring oneself to be a family business. If not, then the reverse may be perceived."

Sarah Grunewald
Directorbank
"Why don't more of them make a virtue of being family businesses? I suspect that its a particularly British problem - there is a perception of the family company as being old-fashioned, flawed in some way. We should do more to celebrate the strengths of the family company - we need diversity within our economy and different patterns of economic ownership are essential, I believe."

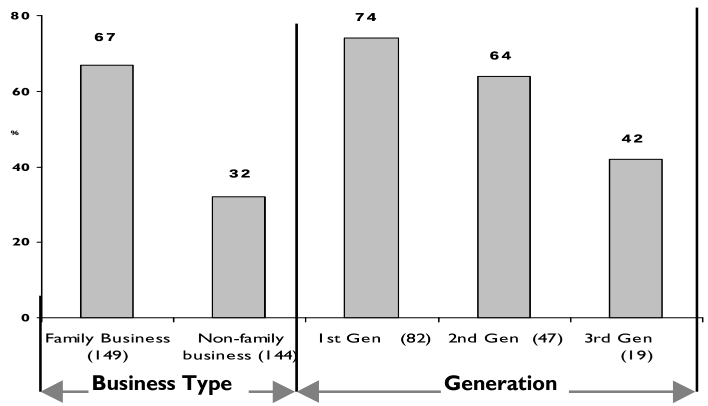
Grant Gordon
Institute for Family Business (UK)
"One way to think of family businesses is that their owners have consciously decided to plan transmitting the firm to the next generation. In other words to create their future dealing with the issue of succession will be a necessary step to take."

Combining the roles of chairman and chief executive works for some

We asked
Are the positions of Chairman and Chief Executive Officer held by the same person?

We found
Overall, sixty-seven percent of family businesses have the same person performing the roles of chairman and managing director. This rises to seventy-four percent in first generation family businesses. By way of comparison, only thirty-two percent of non-family businesses have the two jobs occupied by the same person.

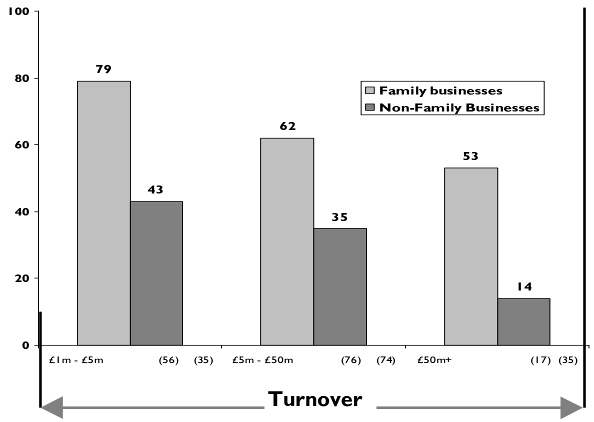
Chairman/CEO/MD same person



Base: All respondents (293)

Base: All family businesses (149)

Chairman/CEO/MD same person by turnover



Caution: Low cell sizes

Base: All family businesses (149)

Combining the roles of chairman and chief executive works for some

Coutts comments

The Combined Code for UK listed companies states that there should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. The Chairman is responsible for the leadership of the board, ensuring its effectiveness on all aspects of its role and setting its agenda. He is also responsible for ensuring that the directors receive accurate, timely and clear information and for ensuring effective communication with the shareholders.

Accordingly, the provisions of the Combined Code state that the roles of Chairman and Chief Executive should be separated and the division of responsibilities between them set out in writing by the board.Whilst the Combined Code is the key source in respect of corporate governance for UK listed companies, there is a view that private companies should also endeavour to comply with the obligation to separate the roles of Chairman and Chief Executive.

Employing outside directors can be one of the best investments that families can make. Family businesses that separate ownership and management control often perform better and survive longer. The new corporate governance index launched by the FTSE Group to track the link between corporate governance and greater shareholder value, gives the heaviest weighting (44%) to structure and independence of the board.

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Contributor comments

Peter Leach and Juliette Johnson
BDO Centre for Family Business
"It is very common to see family members holding the majority of board positions in first and second generation family businesses. Family business owners see the members of the family as cheaper, more trust worthy, loyal and hardworking than a non-family member would typically be. This is especially true for the role of CEO and Chairman who effectively control the business."

Nigel Nicholson and Asa Bjornberg
London Business School.
"The larger the firm, the less likely it is to have a family majority on the board. Given demographic trends with declining birth rates, we might be heading for a future where non-family professionals will run family firms to a greater extent."

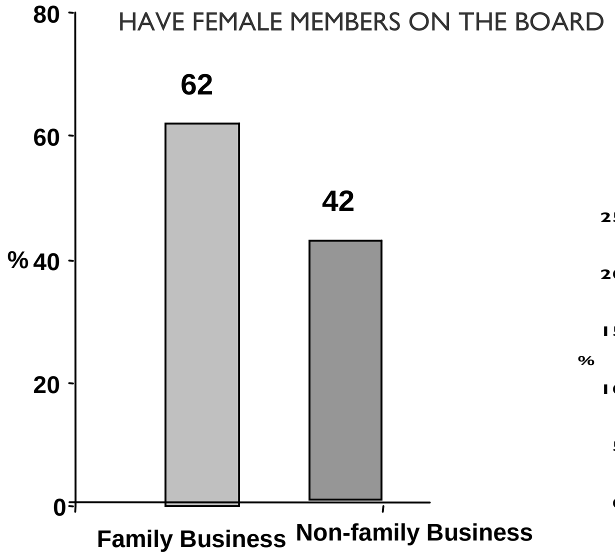
Andrew Drake
Penningtons Solicitors
I am not sure it is totally surprising that the roles of Chairman and Chief Executive are held by the same person in so many of the family businesses, particularly given that many of those interviewed were first or second generation businesses. As family businesses develop, however, it does become increasingly important that the roles are separated. Sometimes this separation will occur naturally as a result of the introduction of a non-family Chief Executive

Colin Mayer
Said Business School
I was particularly struck by the board composition results and the way in which this changes across generations of ownership. There is considerable potential in this survey to perform both cross-sectional analyses of how board composition varies across firms and how it changes over time between generations.

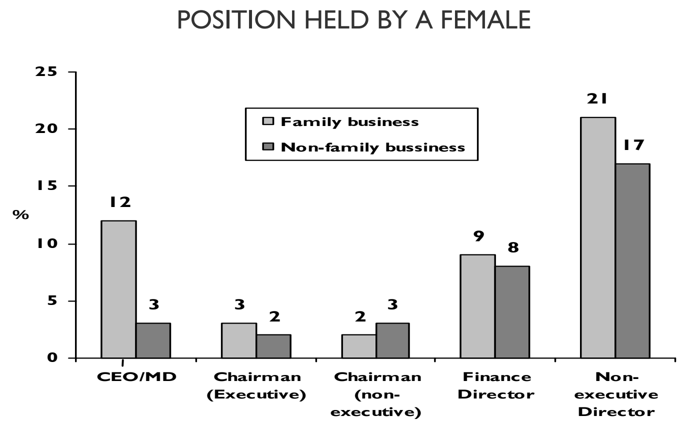
Encouraging women to break the glass ceiling opens up new opportunities

We asked
How many women are there on the board of directors? Which of the following positions are held by a woman - chief executive officer, chairman, finance director, non-executive director?

We found
Family businesses are significantly more likely to have a female presence on the board with the real difference appearing to be the top job of chief executive officer



Base: All respondents (293)



Base: All family businesses (149)

Encouraging women to break the glass ceiling opens up new opportunities

Coutts comments

For most of industrial history, the founders of family businesses have tended to be male. However, a recent survey of FTSE 100 companies showed that those that follow best practice on corporate governance are far more likely to have women directors than those that do not. In a family company the sort of issues that can arise may hinge on how the son may feel working for a sister who is younger and better qualified than he is.

Not enough has been written about the unique contributions of women in UK family businesses. Studies in the United States suggest that women-owned family businesses are on the rise. The time has come to explore the invisible role that wives and daughters have been performing for a long time now. Anyone inside or outside a family business should be able to apply for the leadership position. The fact that 12.0% of family businesses have female chief executive officers and 21.0% female non-executive directors suggests that women are starting to change the way family businesses are managed.

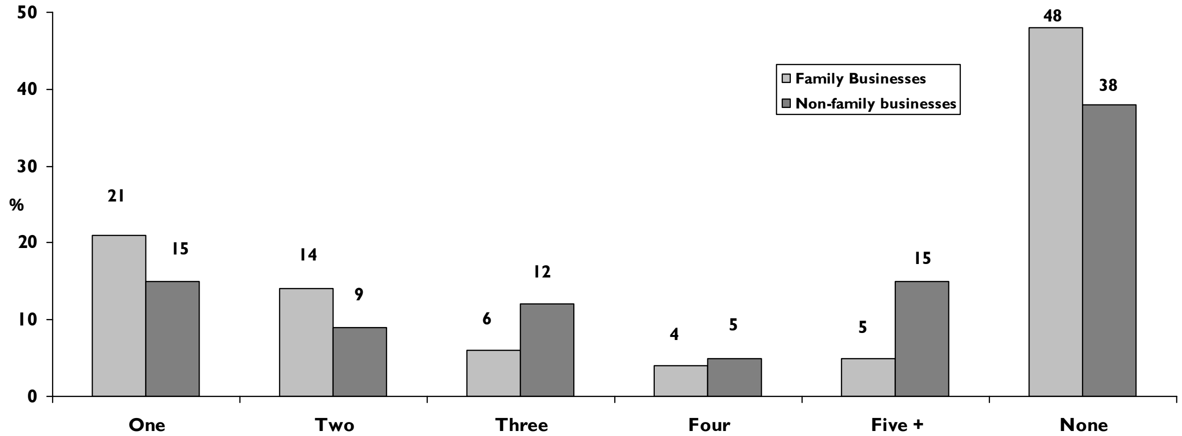
Contributor comments

John Freeman
Association of Family Business Advisers.
"How many females are listed as board member, and how many actually act as a director attending meetings and contributing to the direction and running of the business as against being a 'sleeping' shareholder?"

Sarah Grunewald
Directorbank
"There seems to be clear evidence that the requirement within family businesses to be inclusive of family members across gender and generation, and the need to minimise risk of controversy because of the possible impact on family relationships, seems to give family businesses a discipline and a set of coping skills that their non-family competitors lack. For example…the inclusion of females on the Board, even if only as non-executive directors"

Nigel Nicholson and Asa Bjornberg
London Business School
"Family businesses are creating diversity and a broader set of leadership skills by including women leaders in the top management teams. The fact that family businesses do this to a greater extent than non-family firms could be because they have access to talented women through different networks and are not pressurised by public shareholders to be conventional in terms of board selection. It may also be a sign that the traditionally 'invisible' influence of women in family firms has always been there but is now beginning to take a modern shape: as officially recognised positions of leadership."

Non-executive directors can help keep emotions out of the boardroom



Base: All family businesses (149)

We asked
How many [non-family/independent] directors are there?

We found
Forty-eight percent of family businesses do not have any non-executive directors, versus thirty-eight percent of non-family businesses. Larger and third generation family businesses are much more likely to have non-family/independent non-executive directors.

Coutts comments
Although not everyone agrees with it, the Higgs Report recommends a minimum number of non-executive directors in promoting good governance and business prosperity.

In addition to their normal roles and responsibilities, independent non-executive directors can help keep family emotions out of the boardroom, act as a sounding board or sparring partner for the current generation, evaluate siblings, and act as mentors to potential successors.

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Non-executive directors can help keep emotions out of the boardroom

Contributor comments

Sarah Grunewald
Directorbank
I think there is strong evidence that family businesses are getting more comfortable with the appointment of external NXDs - this statistic will converge with non-family businesses over time",

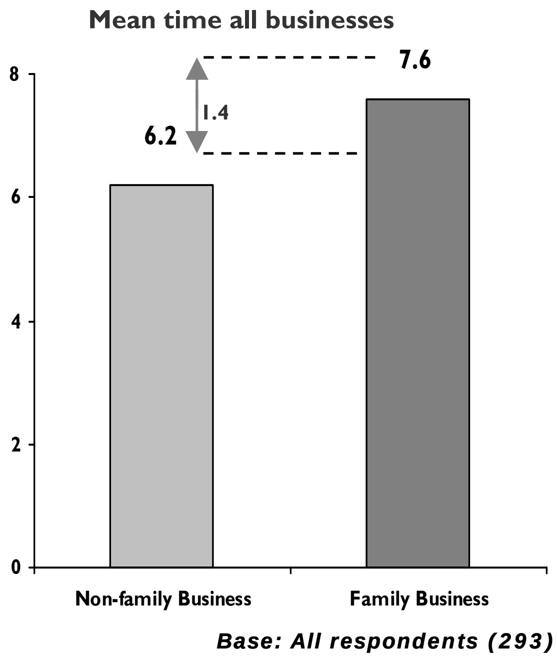
Grant Gordon
Institute for Family Business (UK)
"Independent directors can add value both at the company strategic level as well as at the family level. In terms of the family owner dimension their input will depend on a solid appreciation of the family dynamics; and giving them this insight should not be left to chance."

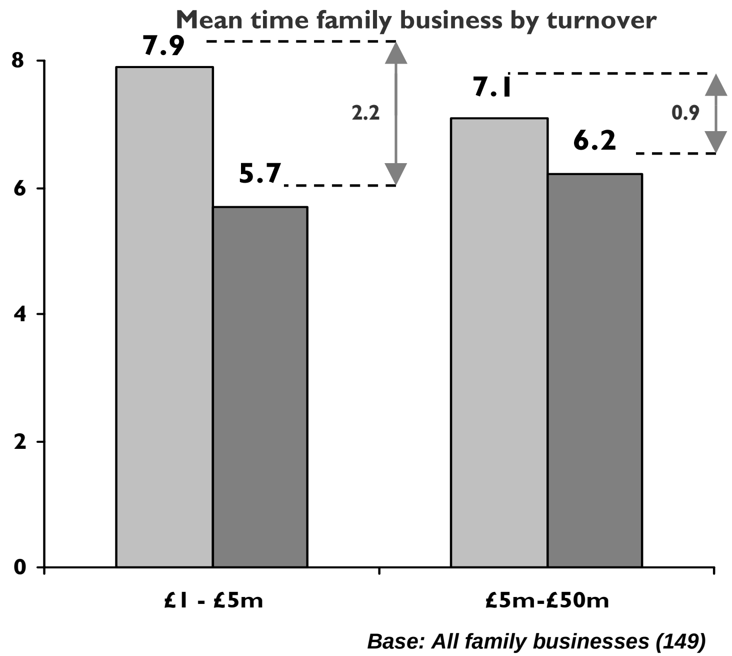
Andrew Drake
Penningtons Solicitors
Independent non-family directors can be so important for family businesses. Apart from the obvious advantage of bringing in "outside wisdom", they can, very importantly, provide an impartial view on issues such as management succession and which family member should be taken into employment or onto the Board. It can, however, be crucial that they are truly independent and neutral.

Long-term sustainable growth is what counts

We asked
Over how many years has your company demonstrated continuous growth in profits before tax?

We found
On average, family businesses report longer continuous growth in pre-tax profits and particularly so amongst the smaller companies





Long-term sustainable growth is what counts

Coutts comments

Various studies across the United States and Europe support the contention that family businesses out perform non-family businesses over the longer term. In the Institute for Family Business Report on the structure and performance of the UK Quoted Family Business PLC Economy by Dr Panikkos Poutziouris, Manchester Business School, (January 2005), the quoted family firm sector was found to outperform their non-family FTSE peers.

The fact that family businesses do not have to constantly demonstrate profitability, means that they can focus more on the people who drive financial performance – the employees, the customers, the suppliers, the community and the family.

Contributor comments

Peter Leach and Juliette Johnson
BDO Centre for Family Business
."Family businesses do not need to look for short term returns which can impact on their longer term growth. In the early days, families tend to draw small salaries (if at all) and low dividends and instead reinvest profits back into the business in order to help it grow. This is especially the case for families who see themselves as custodians for future generations. Their decisions made will be more long term focused rather than having to concentrate attention on short term decisions to meet the needs and demands of external shareholders.",

Grant Gordon
Institute for Family Business (UK).
"The finding in the Coutts Report that family firms report longer continuous growth in pre-tax profits helps to substantiate that the family business sector is a key driving force in the economic engine room of the UK economy."

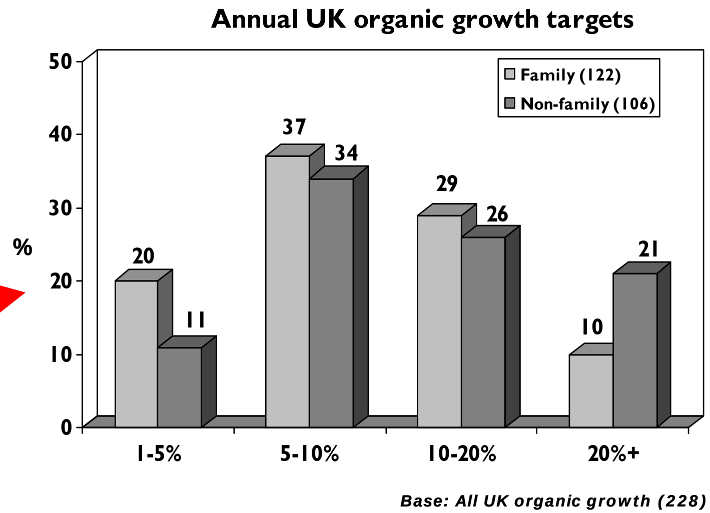
Michael Maslinski
Maslinski & Co. Ltd
"Perhaps the fact that the shareholders are family members rather than faceless institutions makes management less likely to take undue risks with shareholders money. Remember that the management of non family companies often have incentives which encourage excessive risk taking, because their bonuses and share option schemes give them upside without commensurate downside."

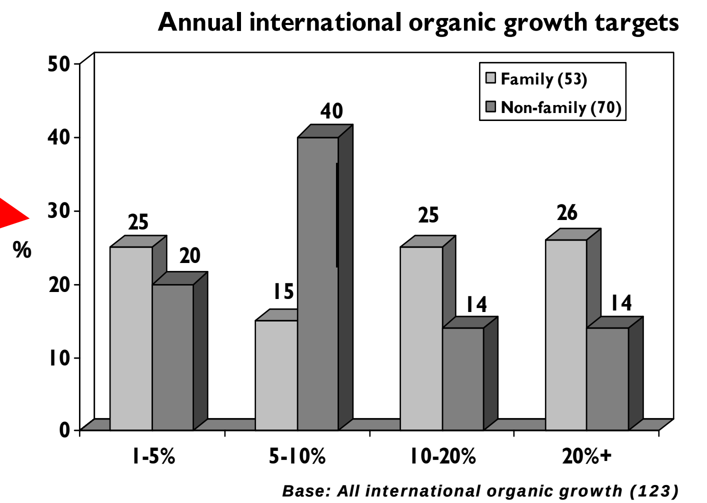
Be prepared to take some risk

We asked
Respondents were asked the extent to which a number of key elements formed part of their strategic growth plans

We found
Medium-sized family businesses are generally a little more conservative with ninety-two percent focussing on organic growth within the UK. Smaller family businesses are more likely to be focussed on acquisitions within the United Kingdom (forty-five percent)

Strategy	Family Business	Non-family Business
Organic growth UK	82%	74%
Strategic Alliances	47%	58%
Acquisitions in UK	39%	42%
Entering markets outside UK	36%	47%
Organic growth Internationally	36%	49%
Acquisitions Internationally	12%	26%





Be prepared to take some risk

Contributor comments

Peter Leach and Juliette Johnson
BDO Centre for Family Business
" A founder typically works out how to run their business as they go along and tends to be very hands on in doing so. In the earlier days, they are far more likely to grow locally and domestically rather than taking on risky and ambitious projects overseas. Then, as a family business passes down the generations, family members feel an obligation to protect what they have been given so they can pass it on to their children and hopefully future generations and so again, their decisions might be more risk adverse."

Panikkos Poutziouris
Manchester Business School
"The majority of family firms are in the business of modest controllable growth that will sustain lifestyle economics and family ownership-managerial control.."

Michael Maslinski
Maslinski & Co. Ltd
"The fashion for acquisitions is often driven by the need of CEO's to capture the headlines and show they are dynamic, rather than focusing on the less exciting but perhaps more rewarding task of steadily building the existing business, through continuous improvement. The fact that family companies are more wary of acquisitions and more focused on the core business definitely gives them an advantage."

Andrew Drake
Penningtons Solicitors
"The achievement of longer continuous growth in pre-tax profits amongst family businesses may be a consequence of the rather more conservative approach to building a business which is shown by the other findings."

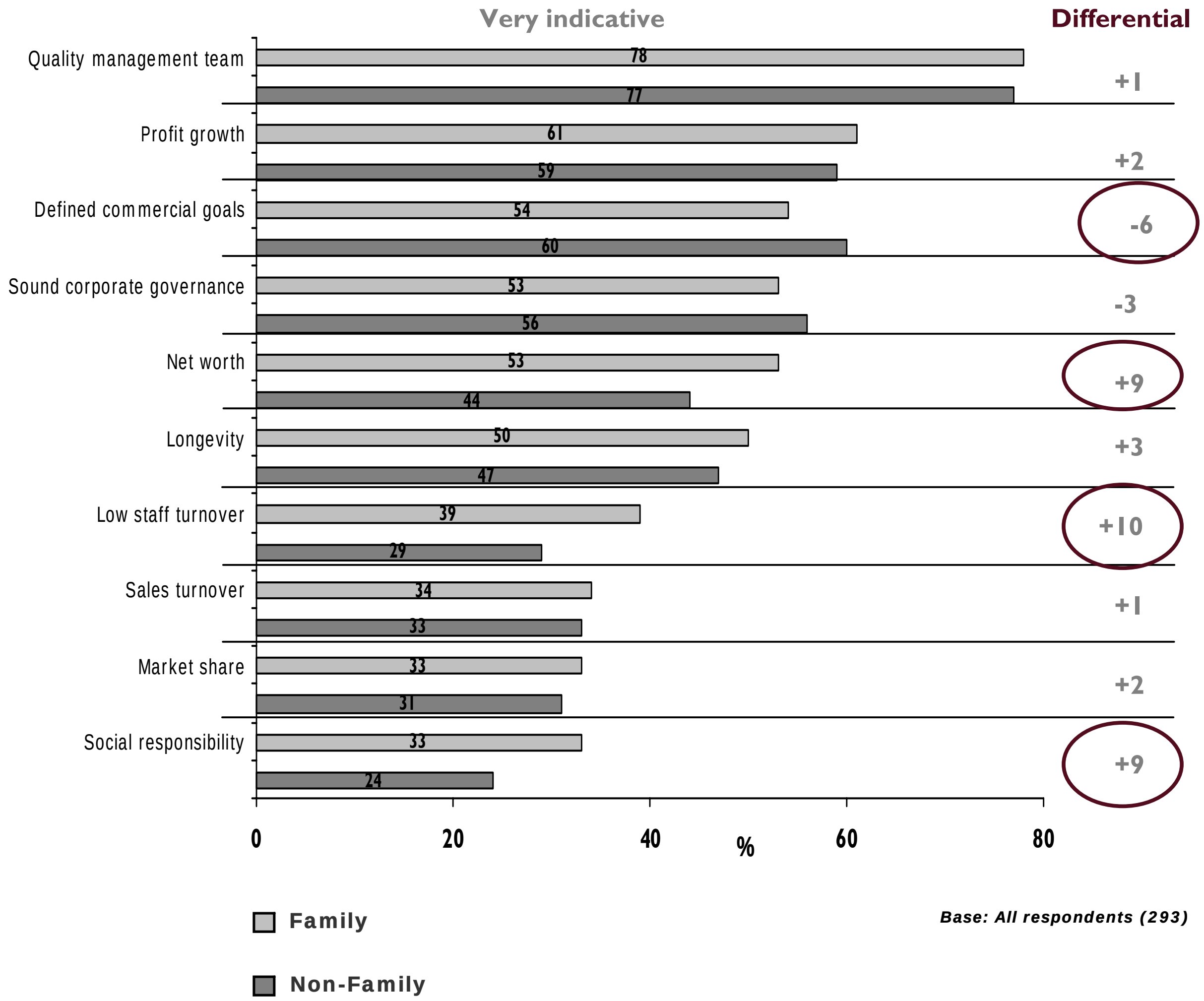
Look after the people and the profits will take care of themselves

We asked
Respondents were asked the extent to which they felt a number of key elements were indicators of a successful business

We found
Family businesses are marginally less likely to see having defined commercial goals as an indicator of success. However, they are more likely to cite low staff turnover, networth and social responsibility.

Coutts comments
Identifying the key performance metrics is essential for any business. Ensuring they are measurable is another matter.

Although we talk about family businesses taking the long term view, and not being obsessed with profits, family business owners view profit growth as the second most important indicator of a successful business.



Look after the people and the profits will take care of themselves

Contributor comments

Grant Gordon
Institute for Family Business (UK)
"A distinguishing feature of family firms is their values. Foremost among them is often their respect for the individual and the contribution that people make at all levels in the organisation.."

Nigel Nicholson and Asa Bjornberg
London Business School
"Differences between what family firms see as integral to their success as opposed to non-family firms, (family firms are more focused on community and staff compared to non-family firms) indicate that they have a more people-oriented view of success."

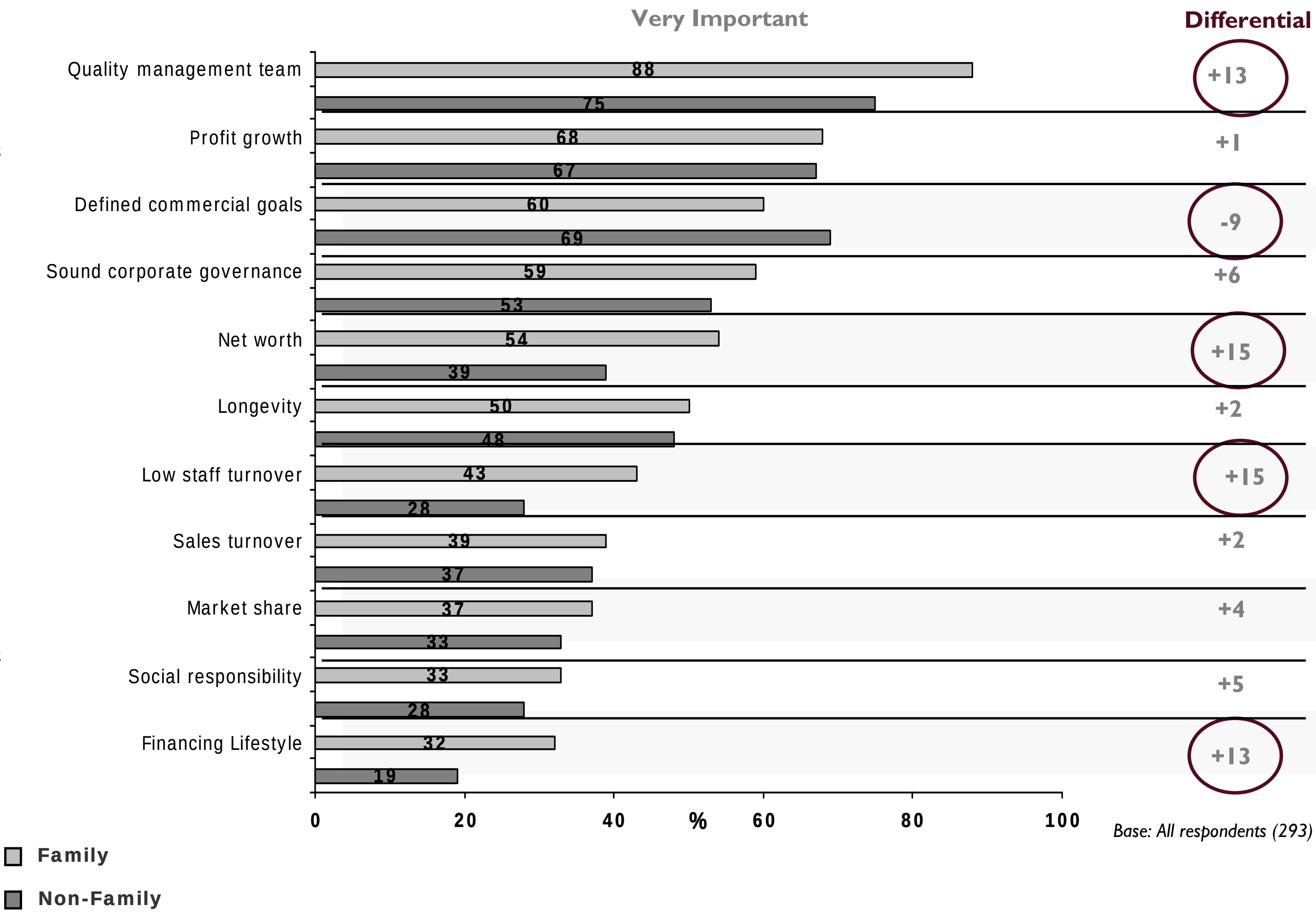
Michael Maslinski
Maslinski & Co. Ltd
"The continuing focus on the net worth of the business seems to me to be a better approach, provided the board really understand the drivers of value. Many target driven companies, with transient management, tend to throw out the baby with the bathwater in the interests of sweeping modernization."

Business first, family second

We asked
Respondents were asked the importance of a number of key elements when deciding business strategy

We found
In forward planning, family businesses remain true to their view of low staff turnover and networth as key indicators of success. Attention is also focused on quality management and lifestyle issues.

Coutts comments
There are those that say that it is not money that fuels a business, but the energy and commitment of each and every employee



Base: All respondents (293)

Business first, family second

Contributors comments

John Freeman
Association of Family Business Advisers
"My experience shows that planning for the future through governance is more effective in family business than in other structures when it is carried out."

Nigel Nicholson and Asa Bjornberg
London Business School
"It is interesting to note that family firms place more importance on the quality of the management team than non-family firms in terms of strategy. In family firms, business strategy has to be aligned with family needs and emanate from family values. Thus, composition of the management team is a vital but more difficult achievement.
Family firms also consider staff retention to be more significant in terms of strategy compared to their non-family counterparts, which is another indication of their people-oriented, long-term approach, relying on stakeholder relationships and loyalty."

Panikkos Poutziouris
Manchester Business School.
"My thesis is where the family is not accountable to outside investors, the strategic intent is not very much tuned to growth and financial performance metrics."

A share buy-back may hold the answer

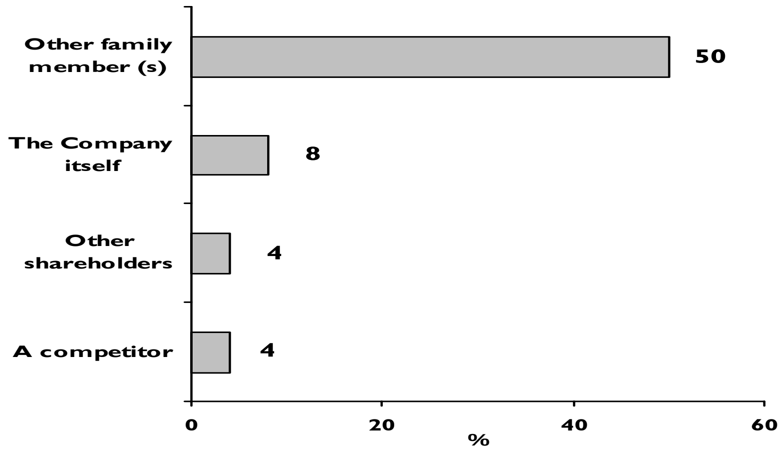
We asked
If a family member with a material shareholding wanted to sell, who would be the most likely purchaser?

We found
Family interest unsurprisingly and clearly comes to the fore. However, there is greater willingness to see the chief executive role move outside the business than that of the chairman.

Coutts comments
There is often not much choice for the family member who wants to sell. They have to revert to the family. The challenge is what to do if another family member does not have the necessary funds to purchase the shares.

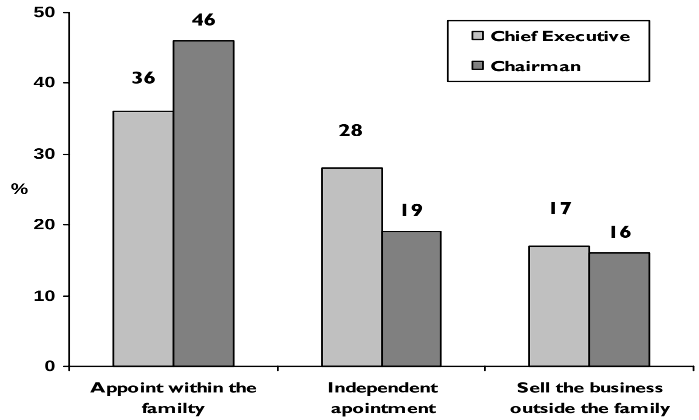
Family members who want to sell also have to think about what price they can get for their shares. There is often a very heavy discount applied.

Most likely purchaser



Base: All family businesses (149)

Likely Action



Base: All family businesses (149)

A share buy-back may hold the answer

Contributor comments

Peter Leach and Juliette Johnson
BDO Centre for Family Business

"It is no real surprise that most FB's are likely to sell to other family members. A lot of families see themselves as custodians who want to keep the shares in the family. In fact many families have it written into their Articles of Association that shares can only be passed down the bloodline in order to try to protect themselves longer term. This rule is often extended to excluding spouses, particularly in light of increasing divorce rates"

Sarah Grunewald
Directorbank

"It is our experience that the higher the social conscience within a firm, the less likely the business is to be happy with the short-termism of the private equity arena. However, planning an acquisition strategy while maintaining family control and avoiding over-gearing will be fraught with frustration and difficulty."

Nigel Nicholson & Asa Bjornberg
London Business School

"Less than half of family firms envisage family succession for these positions [chairman and chief executive officer]. Not surprisingly, however, family chairmanship is viewed as being more likely than appointing a family CEO. In general terms, it is harder to fire a family CEO if things don't work out, and harder to find a non-family chairman who can provide cultural stewardship based on family values and greater understanding of family shareholder needs."

Andrew Drake
Penningtons Solicitors

"It would be interesting to know whether the relatively low likelihood of the Company itself purchasing shares is partly a result of family businesses not realising that it is legally possible for a Company to do this. This can be a very useful tool for family businesses."

Plan for a successor as soon as you start,

We asked
Respondents were asked whether or not they had identified a successor for the post of chief executive.

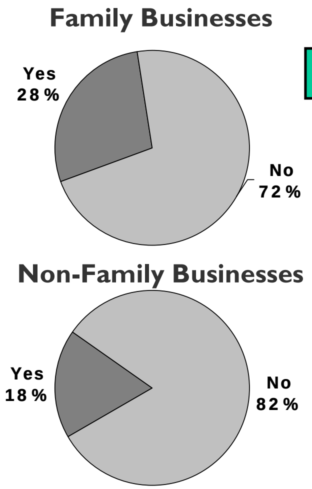
We found
Family members are far more likely to have identified a successor.

Coutts comments
Business succession is considered to be the biggest challenge facing family businesses. Advisers recommend planning years in advance. Key is that the next generation family members earn their place in the company.

In the past next generation family members had fewer career choices and were more heavily influenced by their parents. Today it is essential that they are given the opportunity to make up their own minds.

Who was involved in appointment decision?	Family (n=41)	Non-Family (n=28)
Board of Directors	*51%*	*54%*
CEO/MD	*24%*	*18%*
Family members	*27%*	-
Shareholders	*5%*	*19%*
Professional advisor	*2%*	-
Independent nominations committee	-	-

YES



NO

Who would be involved in appointment decision?	Family (n=108)	Non-Family (n=116)
Board of Directors	*45%*	*48%*
CEO/MD	*21%*	*16%*
Family members	*19%*	*1%*
Shareholders	*13%*	*20%*
Professional advisor	*4%*	*5%*
Independent nominations committee	*1%*	*3%*

Plan for a successor as soon as you start,

Contributor comments

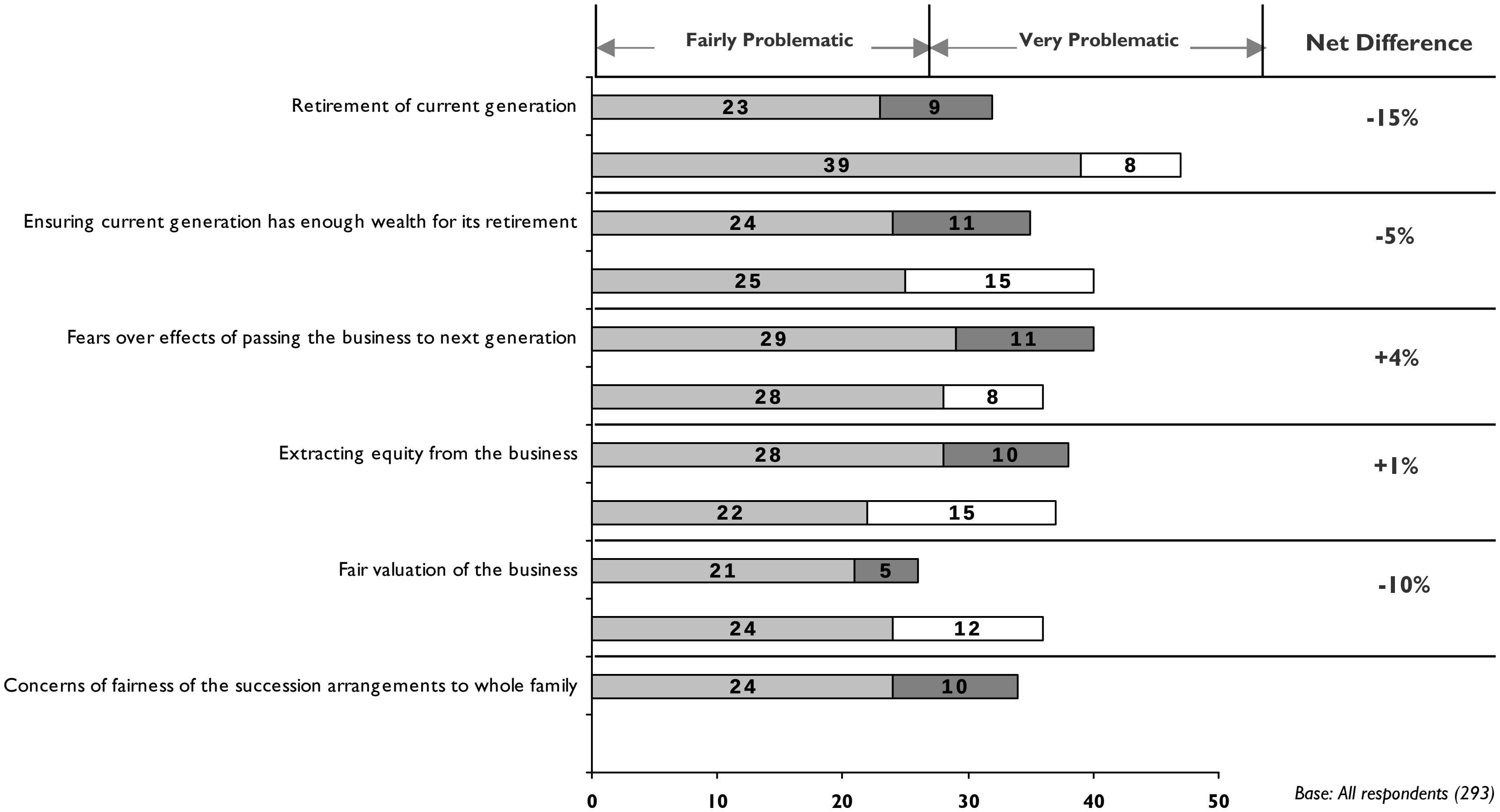
John Freeman
Association of Family Business Advisers
"Why do family businesses take the lead on identifying the next CEO? Because the topic is more likely to be openly/"noisily" discussed where family members are looking for the top job or where the partner is looking for the "other half" to retire. In non-family businesses it may be that it is a case of selling the business."

Know when to let go

We asked
Respondents were asked the extent to which they felt a number of issues would be problematic when ownership succession becomes imminent.

We found
Uncertainty over succession is likely to be driving greater fears over retirement of the current generation amongst non-family businesses

Coutts comments
We need to remember that business succession is not just about assessing the career prospects of the next generation. It is also about managing the change in personal lifestyle of the current generation and creating plans for a new beginning.

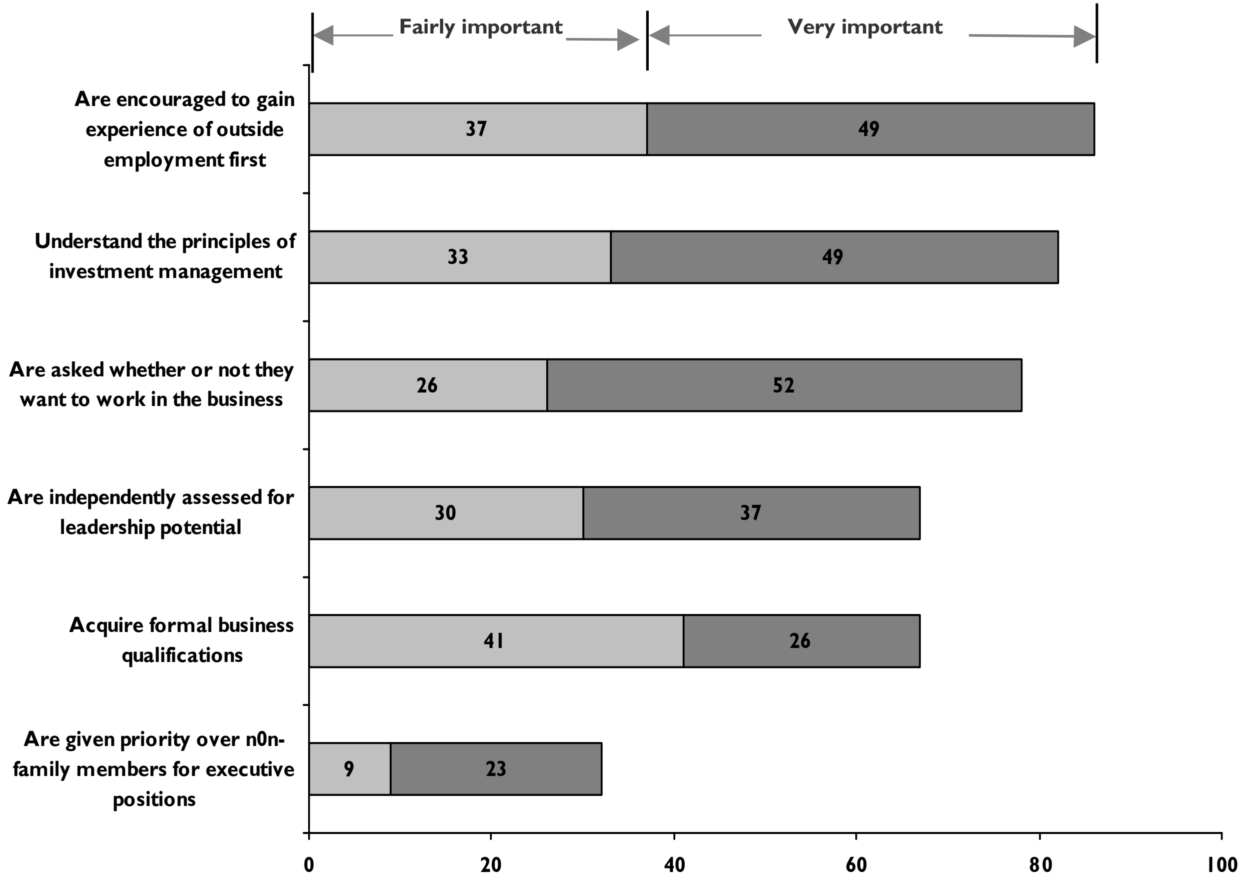


Base: All respondents (293)

Meritocracy matters more than birthright

We asked
Respondents were also asked how important they felt it to be that they engaged with the next generation in a family business in certain key areas

We found
The desire to work in the business coupled with outside experience are seen as key elements for the next generation in a family business



Base: All respondents (293)

Meritocracy matters more than birthright

Coutts comments

Too many next generation family members are tempted to join the family business because they inherit it rather than that they enjoy it or have any demonstrable management ability.

It is interesting that family business owners rate 'understanding the principles of investment management' as highly as 'gaining experience of outside employment first'. Even if a next generation family member does not join the family business, it is likely that they will inherit significant wealth and be better off if they know how to manage the investment managers.

It is also worth noting being born into a family business no longer necessarily entitles a family member to a management role. As more families separate share ownership from management control, more family members are having to compete with non-family members for executive positions.

Contributor comments

Caroline Fiennes
New Philanthropy Capital
"It is odd that a quarter of [family businesses] do not think it is important to ask the next generation whether they want to be involved in the business."

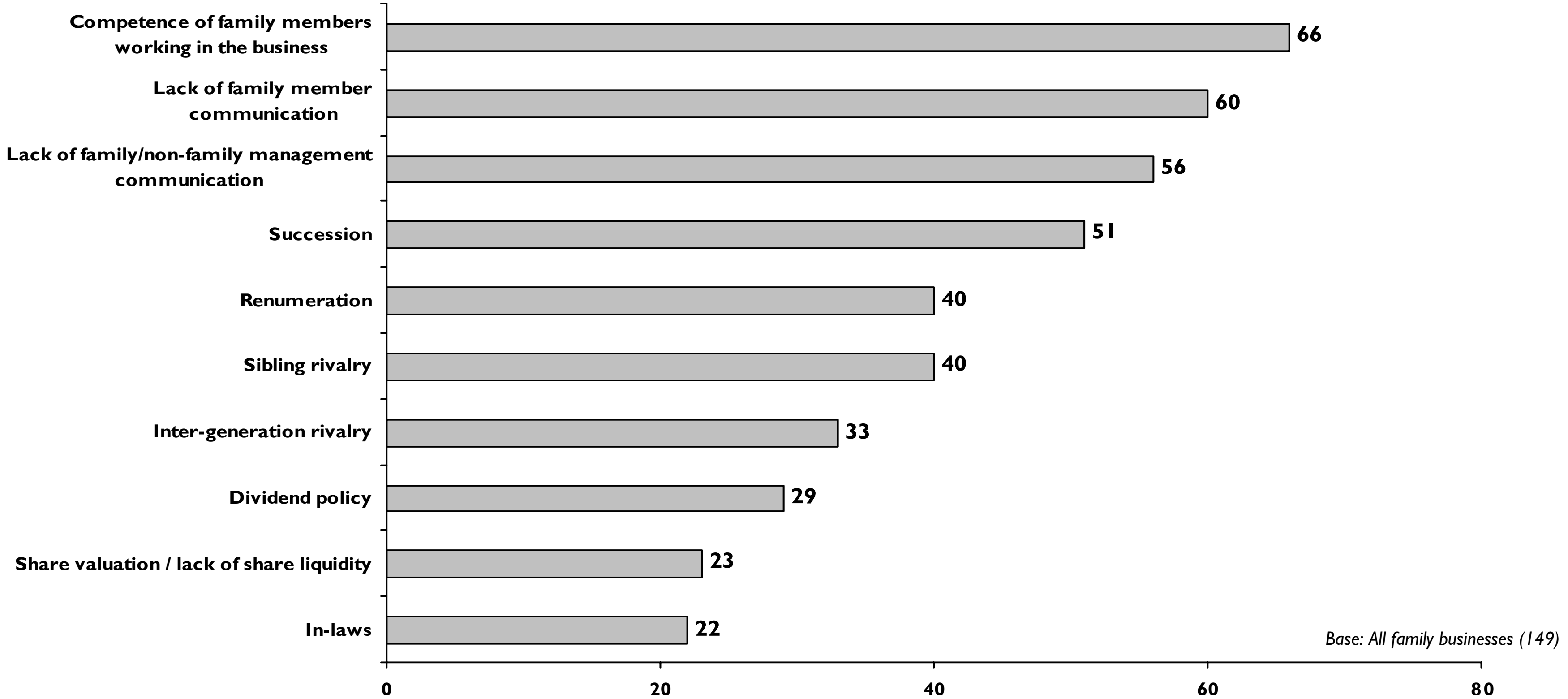
Expect conflict and know how to deal with it

We asked
Family businesses were asked what they perceived as major causes of conflict within a family business

We found
The biggest source of conflict appears to be the unwillingness or inability to remove under-performing family members from their position within the company

Coutts comments
The reality is that in family business is inevitable. It is often caused by lack of communication and made worse by not having a system to deal with it. It is often said that in addition to sharing many of the same problems, family businesses also have a set of issues of their own.

Often the best way to have improve communication between family members is to hold regular scheduled face to face family meetings. When conflicts do develop can be helpful to appoint a peacemaker in the family or appoint a professional family business adviser.



Expect conflict and know how to deal with it

Contributor comments

John Freeman
Association of Family Business Advisers
"The family businesses appear to be more aware of the potential conflicts/issues that could affect the business than the non-family business owners although in *many cases the issues are the same or very similar."*

Peter Leach and Juliette Johnson
BDO Centre for Family Business
"If a family member is given a job in the business, then they should be made accountable and appraised (by a non family member) just as any other employee would be. That way, a family avoids the conflict brought on by having potentially incompetent family members working in the business and gives a legitimate structure within which to remove them, without conflict. Similarly, regular family meetings and regular board meetings would be a good start to improve communication with both family and non-family but many avoid these due to time restrictions, firefighting, and the avoidance to talk about family issues which can be somewhat uncomfortable."

Caroline Fiennes
New Philanthropy Capital
"I am very struck by the (perceived) paucity of communication. That's a well-known driver of success."

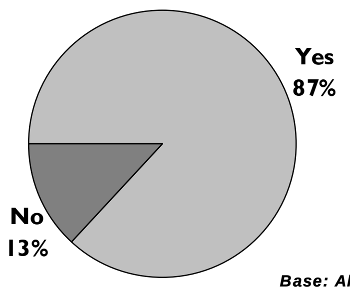
Andrew Drake
Penningtons Solicitors
"Family businesses are very conscious of their own vulnerability. The statistics, in particular, bear out that lack of communication, whether it be between family members or between family and non-family management, can be a significant problem area."

Enjoy giving your money away as much as making it

We asked
Respondents were asked whether they support any charitable causes and if so, how they decide who/what to support

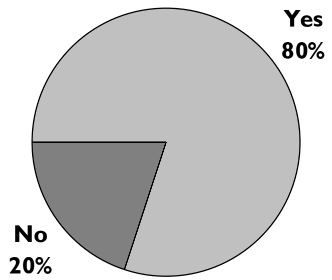
We found
While family businesses appear to be more likely to support charitable causes, they are less likely to do so in an organised and structured manner

Family Businesses

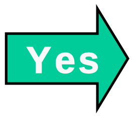


Base: All Family (130)

Non-Family Businesses



Base: All non-family (115)



How do you decide what causes to support?	*Family (n=130)*	*Non-Family (n=115)*
Personal preference	64%	50%
Ad-hoc appeals	42%	36%
Board discussions	30%	38%
Corporate Social Responsibility Committee	12%	28%
Family discussion	37%	-
Formal Family Council	7%	-

Base: All charitable support (245)

Enjoy giving your money away as much as making it

Coutts comments

Family businesses and their owners are often very generous in their support to good causes. It is a way of involving the whole family and the company even if not all the family members are involved in the ownership or management of the business.

While philanthropy can be richly rewarding, it can also pose difficult questions about how best to give in order to achieve the greatest social impact. Indeed with over 153,000 charities deserving of support, according to NCVO, it can be very hard knowing where to start. To give effectively, it is important to have a giving strategy.

Contributors comments

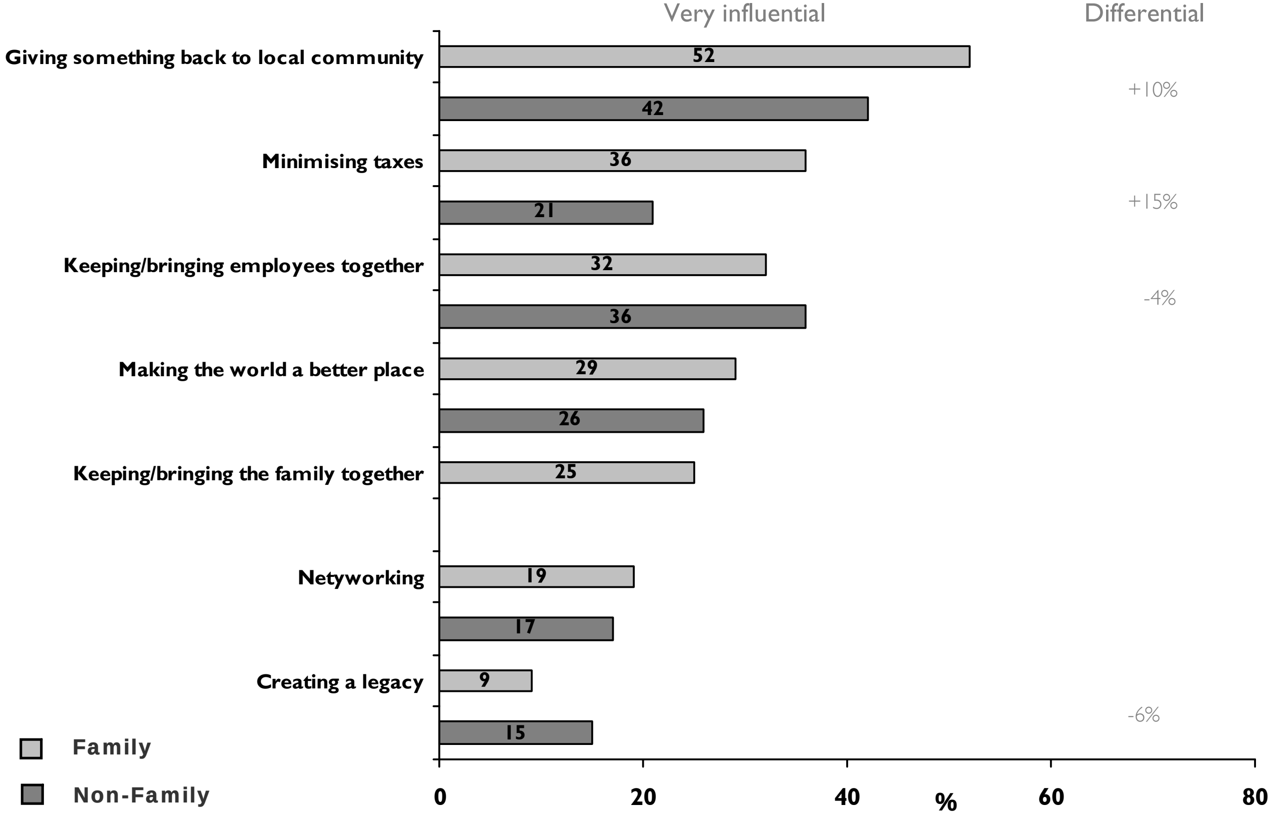
Nigel Harris
New Philanthropy Capital
Many companies now recognise that social responsibility benefits the community and enhances employee morale and the company's reputation. However, the companies that spend time defining a clear strategy and getting buy-in across the organisation, capture the greatest benefits.

Andrew Drake
Penningtons Solicitors
"The importance of social responsibility amongst family businesses is striking, but not necessarily surprising. In my experience social responsibility can, in fact, often be a reason why a family avoids ever selling the family business."

Increase the impact of your giving

We asked
Respondents were asked the extent to which they felt a number of key elements were influential in terms of their companies' giving

We found
Family business giving is driven most strongly by the desire to give back to the local community and the prospect of minimising taxes



- Largest single reason for not giving more was lack of funds – 36%

  - just 10 respondents cited a lack of giving strategy

- Lack of funds also major reason amongst those choosing not to give – 24%

  - 4 respondents citing a lack of giving strategy

Base: All respondents (293)

Increase the impact of your giving

Coutts comments

Understanding the motivations and objectives of the different family members is the first step to identifying the right causes and charities to support Family businesses often demonstrate the same long term view to their philanthropic giving as they do to their business strategy. Not only do they feel a heightened sense of community responsibility, but they also recognise the long term benefits it can bring. As an example, the best employees are often looking for more than a salary. They also want to understand the values of the company they are joining.

Contributors comments

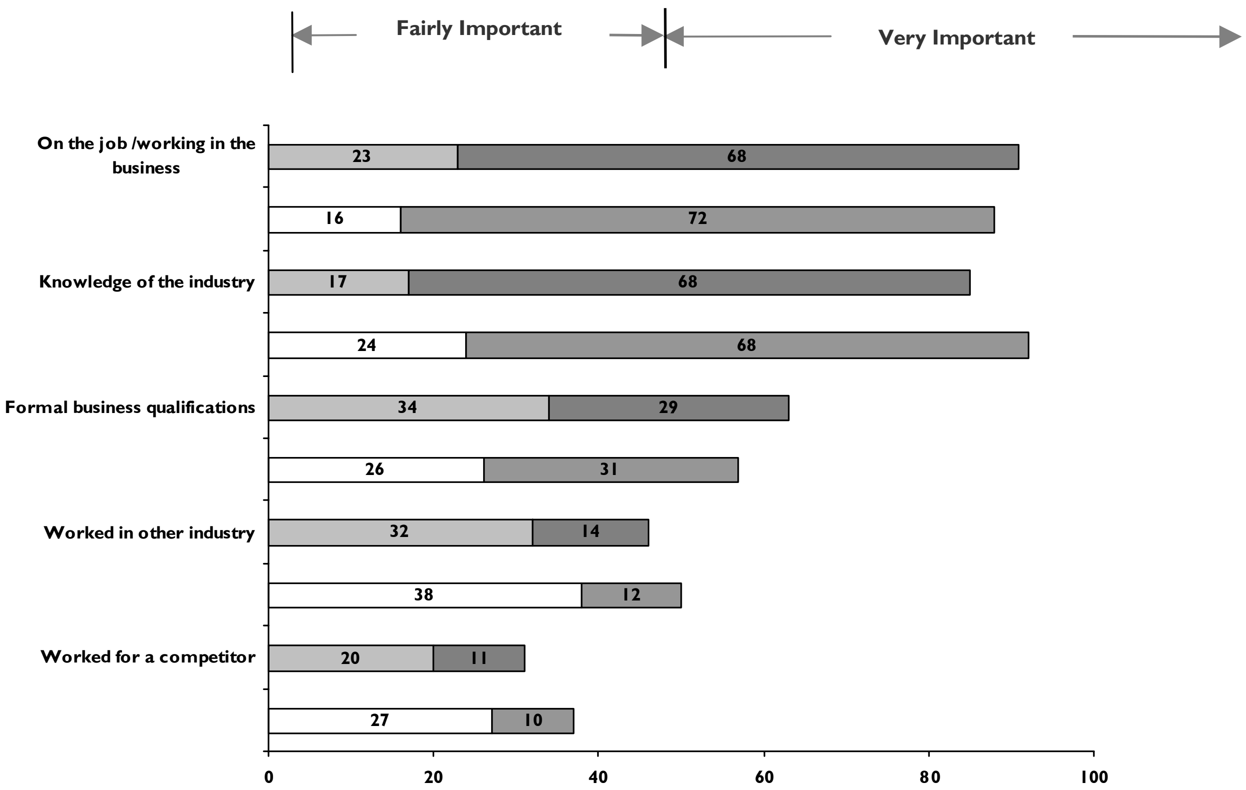
Michael Maslinski
Maslinski & Co. Ltd
"I believe there is evidence that the brightest graduates are turning towards companies where their employment has a social dimension, recognises their need for life outside work and where there is far more to staff motivation than targets and financial rewards."

Nigel Harris
New Philanthropy Capital
Many companies are increasingly aware that a coordinated approach to social responsibility delivers multiple benefits. Why not pull together corporate sponsorship, corporate donation and employee's voluntary activity, focusing on just one or two charities?'

It's not what you know, it's how you know it

We asked
Respondents were asked the importance of a number of elements in the education of a chief executive

We found
Family businesses are less likely to see having worked for a competitor as important in a chief executive officer, although this was seen as very important for the next generation.



Current Chief Exec has... FAMILY	NON-FAMILY	Differential
91%	89%	+2%
85%	92%	-7%
53%	57%	-4%
46%	44%	+2%
42%	54%	-12%

Base: All respondents (293)

It’s not what you know, it’s how you know it

Coutts comments

Understanding the motivations and objectives of the different family members is the first step to identifying the right right causes and charities to support.

At the end of the day, it was on the job experience that counted most for family and non-family businesses in selecting the current chief executive officer. With knowledge of the industry equally as high, it suggests that there is not much scope for senior management to move across boundaries.

Contributors comments

John Freeman
Association of Family Business Advisors
“They also saw that training the future generations as being vital to maintaining the family business and there is no logical reason why family members cannot fill future executive positions if properly trained and are capable of doing so.”

Peter Leach and Juliette Johnson
BDO Centre for Family Business.
“…families are typically quite introverted, concentrating on learning on the job, rather than expanding their horizons to work outside for competitors. This limits the amount of new thinking and experience that can be brought in to a family enterprise. Getting experience at a competitor can be difficult however, especially if a family member bears the company name.”

Coutts 2005 Family Business Survey

We have recently undertaken an extensive survey of family businesses, in association with twenty highly respected fellow-contributors, including The BDO Centre for Family Business,The Institute of Directors,The Institute for Family Business (UK), London Business School and Penningtons Solicitors. Specifically, we set out to answer the question: Are family businesses better prepared than other businesses to compete in the future? Our findings, and our expert contributors' commentary upon them, make fascinating reading, To view the full report please visit our website below,

The Coutts Prize for Family Business

How better to help family business owners learn from each other than by seeking out and celebrating the very best in the field? Under our new annual awards scheme, we will be looking to identify the best managed small, medium and large family firms in England and Wales.And, with the help of our judging panel of independent experts, chaired by Roger Pedder, Chairman of C & J Clark (Clarks Shoes), we will be analysing what makes them successful. Please visit our website below to find out more.

Coutts Education and Networking Programme

We are also committed to providing family business owners and their families with networking and educational opportunities. And one way in which we are doing this is through an ongoing series of discussions, held in London and other regional centres. Attendees will be able to benefit from the practical advice and experience of other family business owners, as well as the insights of leading professional advisers and academic experts. For more information on our Education and Networking Programme, please see our website,

Coutts Services for Family Business Owners

Throughout our 300 year history, we have looked after the owners of some of Britain's most successful family businesses; helping them manage their personal wealth effectively - and, in many cases, also helping them manage change successfully within their businesses.Today, we are more committed than ever to this vital and vibrant sector of the economy which is why we provide an integrated range of services, encompassing the financial needs of family business owners, their families, their firms and their trusts. Our services range from electronic commercial banking services to personal credit cards, from estate planning to strategic philanthropy.

www.coutts.com/familybusiness

For more information on private and commercial banking for family business owners and their businesses, the Coutts Prize for Family Business, the Coutts Education and Networking Programme and the Coutts 2005 Family Business Survey, please send an email to family.business@coutts.com, or visit our website www.coutts.com/familybusiness or contact:

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Coutts & Co

From the time John Campbell started his family business as a goldsmith banker at the sign of the Three Crowns in the Strand, a Coutts tradition of personal service based upon trust, integrity and expertise has been continuously maintained – and appreciated by successive generations of clients.

Mark Evans: Head of Family Business and Strategic Philanthropy at Coutts & Co
In this role Mark is involved in advising family business owners and philanthropists on a range of issues from managing business succession to creating effective giving strategies. Mark sits on the Advisory Council of the Institute for Family Business (UK) and is a board member of the Association of Family Business Advisers. Mark is also a member of Pilotlight, working to help small, innovative charities grow and fulfil their potential.

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The information contained within these slides has been compiled from information recieved from the Coutts Family Business Survey 2005, and is believed to be correct. Coutts Family Business Survey 2005 was carried out by DVL Smith between 1st June to 30th July 2005.

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