

FAMILY BUSINESSES ACROSS THE GLOBE HAVE DIFFICULTY PLANNING LONG-TERM – MYTH OR REALITY?





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► INTRODUCTION

DO FAMILY BUSINESSES ACROSS THE GLOBE HAVE DIFFICULTY PLANNING LONG-TERM?

BDO TESTED THIS HYPOTHESIS WITH A GLOBAL STUDY TO DISPEL OR PROVE THE MYTH USING A CONFIDENTIAL ONLINE SURVEY TO OBTAIN VIEWS ON BEST PRACTICES IN THE FAMILY, OWNERSHIP AND BUSINESS AREAS OF A FAMILY ENTERPRISE.

If it's true that family firms are influenced by a variety of myths, how does this impact their ability to ensure these businesses thrive in a competitive global landscape?

While the global marketplace has created countless opportunities for family businesses to expand, these new operating conditions may have also created an environment where certain preconceptions can hold back business performance.

It could be that specific assumptions are only true for a particular generation or business environment or are grounded in cultural beliefs. Whatever the cause, these beliefs could hinder a company looking to remain competitive internationally.

Further, if it is a reality that the dynamics within a family business play an important role in its development, it is equally important for companies to recognise the myths or prejudices that could similarly impact their ability to advance and prosper.

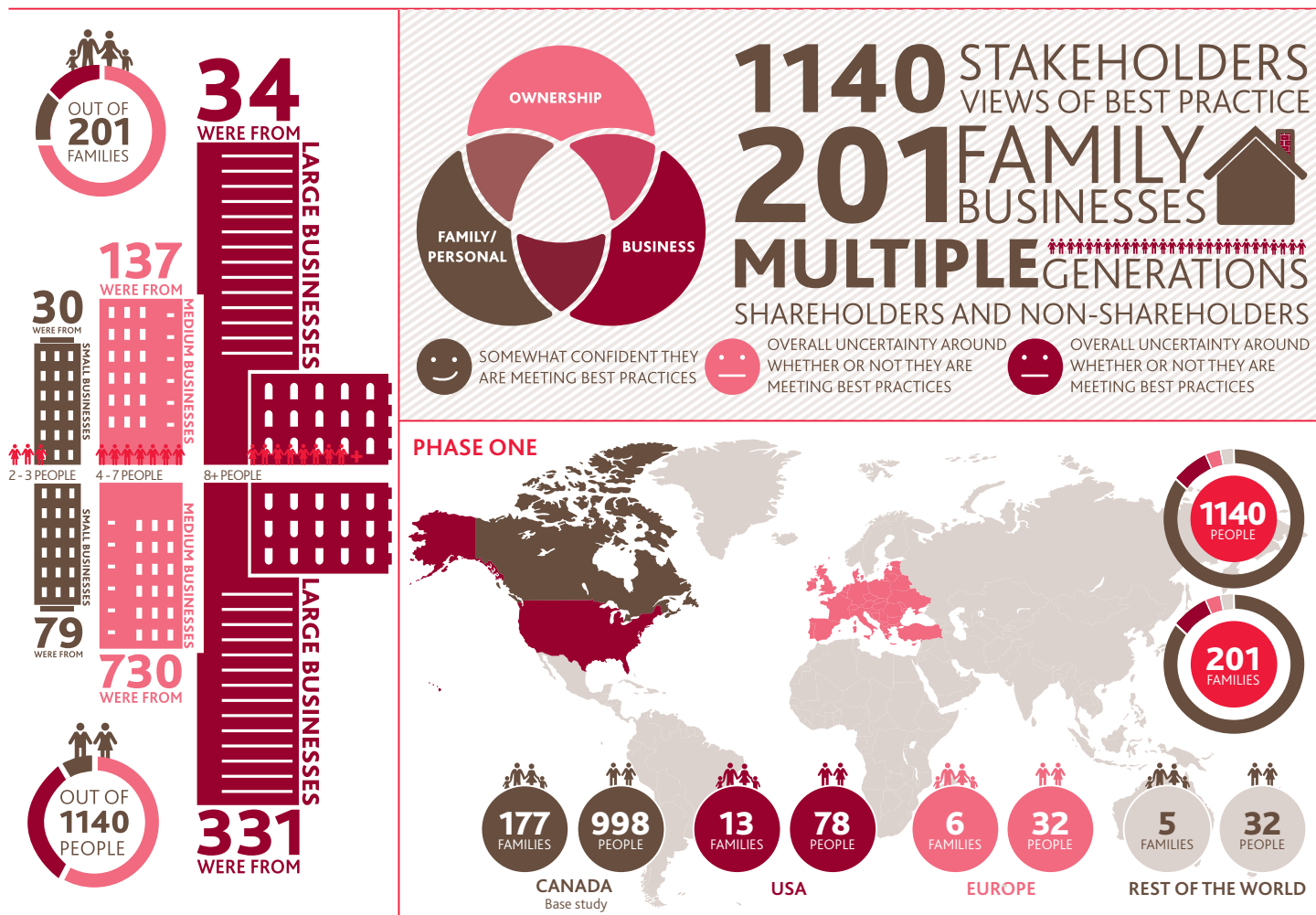
▶ ABOUT THE RESEARCH

A successful transition of business and wealth is the ultimate strategic direction for every family enterprise. Yet, as folklore and studies of both would suggest, the majority of family businesses fail to effectively sustain these two important assets beyond two generations.

With this in mind, BDO's Global Family Business group took both a qualitative and quantitative approach to examining 13 key areas of the family enterprise to identify the typical roadblocks and the most common building blocks for business continuity. The report shares the results of six years of research into family, business, and ownership issues facing Canadian families as compared with the findings from a preliminary study of family businesses in the UK, Europe, Asia, Australia, New Zealand and USA.

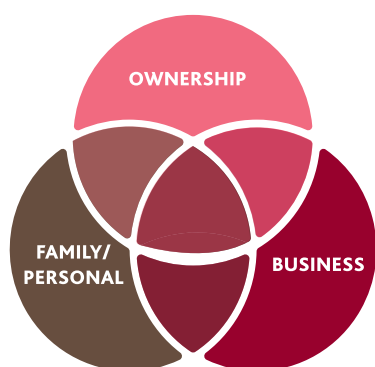
The study first compared and contrasted the viewpoints of almost 1,000 stakeholders from over 175 Canadian family enterprises to identify the most common roadblocks and building blocks. These common roadblocks and building blocks resulted from best practices in the family, ownership and business circles.

This data was then compared to the input garnered from international family businesses to identify any global trends and determine if there is truth in the statement that **family businesses across the globe have difficulty planning long-term**.



Our approach

Family enterprises face many complexities arising from the differing objectives of the **ownership**, **business**, and **family** circles. Our approach combined our **research** into these three key areas with the findings of **live cases** using multi-generational survey participants.



We used a confidential online survey process to gather participants' perspectives on **family philosophy** and **principles**, along with their views around **business management** and **ownership philosophies**.

Anonymity was guaranteed in order to ensure all participants could be open and honest in their responses to 40 questions that focused on best practices in 13 key areas of the family enterprise.

As a result, our report incorporates:

- Actual results **across cultures** based on input from senior and successor generations comprising direct family members, in-laws, shareholders, non-shareholders, family employees, and those not involved in the day-to-day operations.
- **Expert opinion** through analysis by family business advisers with a combined 160 years of experience.



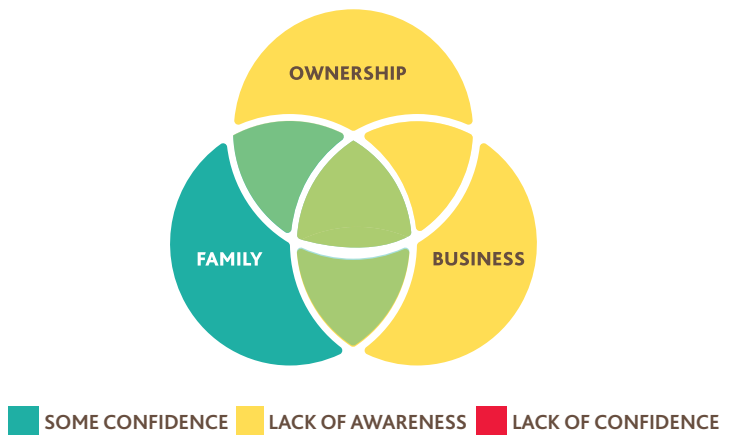


► THE FINDINGS

Do family businesses adequately plan for the future?

Perhaps one of the biggest debates about family businesses is whether or not they adequately plan for the future. Are these companies adept at setting themselves up for new growth?

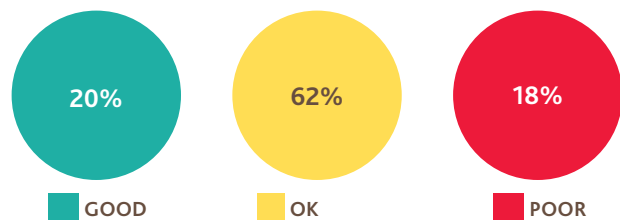
According to the preliminary results from the global BDO Discovery Questionnaire into the state of family business planning, there is reason to believe that, on the whole, their approach may need to be reviewed. Based on a survey of 200 families, the first phase of BDO's research indicates that while many may believe they are looking ahead and implementing long-term planning methods they are, in reality, making decisions based more on perceptions than facts. The common denominator among participating families is a lack of awareness and information around what constitutes best practices - both for ensuring their operation remains competitive in the marketplace (business circle) and for preserving, protecting and nurturing their equity in the business (ownership circle).



“...while many may believe they are looking ahead and implementing long-term planning methods they are, in reality, making decisions based more on perceptions than facts.”

We compared the responses from individual family members to determine if, overall, the family is aligned in their thinking or if they have disparate views.

Findings: Levels of alignment



- The results highlight that less than 20 per cent of families are comprised of people with disparate views – the majority are somewhat on the same page
- When related to the overall uncertainty in the business and ownership circles, the 'OK' levels of alignment suggest that most stakeholders, regardless of their level of involvement, report the same lack of awareness around best practices.

The research suggests that family firms need to ensure that they are more open in their communication in order to enhance their decision-making ability. They may require assistance to help them remove the guesswork and replace it with a proactive approach to addressing the lack of awareness and uncertainty that are highlighted in the first phase of the survey.

The research also provided some insight on the validity of some additional legends - as follows.

LEGEND 1 - Are respondents family focused or business minded?

There is a perception that family businesses promote a focus on the family unit, rather than embody the professional stance that other organisations aim for. This perception was in fact borne out by our research, which found that family-owned businesses were more optimistic in questions relating to the family than they were with regard to achieving best practices around shareholder and corporate matters.

Specifically, respondents ranked themselves higher for factors like alignment of family philosophy and familial ties. However, levels of confidence around business planning, compensation, contingency, future uncertainty, communication, decision-making and succession planning were all ranked somewhat lower. This would support, for example, the claim that family companies are more likely to promote and compensate relatives based on relationships rather than merit, and offer an open-door employment policy for immediate and extended family members.

LEGEND 2 - Does gender bias exist in family firms?

Our research also took a quantitative look at whether it is a myth or reality that gender still plays a major part in family businesses – is male leadership still more prevalent in certain cultures?

Recent studies would suggest there has been a significant shift globally towards merit-based candidate selection, with greater consideration being given to the family member with the greatest skills, experience or passion for a role.

Preliminary findings from the BDO study would suggest that female stakeholders are experiencing greater involvement and information sharing compared to historic averages. From a position where mothers and daughters were only informed of business strategies on a need-to-know basis, the level of female participation would support the theory that more females are now actively included in the discussion and planning of the family business. This would lend credence to the statement that gender bias is yesterday's reality.

LEGEND 3 - Are the 'in-laws' considered family?

In exploring the legend that in-laws are 'not family', our research would suggest that this is indeed yesterday's myth. Contrary to the notion that in-laws are a source of tension, our process found that the majority of family businesses are more collaborative today, actively looking to include stakeholders like in-laws when gathering insight and more open to including in-laws in company management.

This level of collaboration continued even where in-laws weren't shareholders or playing a direct role in the company.

“...family firms need to ensure that they are more open in their communication in order to enhance their decision-making ability. They may require assistance to help them remove the guesswork and replace it with a proactive approach to addressing the lack of awareness and uncertainty...”

► CONCLUSIONS

Current trends

- Regardless of geography, families are experiencing similar roadblocks
- There is a global lack of clarity around best practices
- Decisions are being made despite the overall lack of communication and perceived lack of information.

Preliminary results indicate that it is a **reality** that family businesses across the globe:

- **Have difficulty planning long-term**
- **Still have a tendency to be 'family first'**
- **Involve females as much as males in family business matters.**

The results showed no significant difference between the perceptions of male versus females - both indicated an overall lack of awareness around where they are today with regards to business and ownership matters. The uncertainty depicted in their responses suggests that business families are generally making key decisions based more on their perceptions than by following best practices. We believe they are not truly conscious of how best to build for continuity.

Preliminary results also suggest it is a **myth** that family businesses across the globe:

- **Still consider 'in-laws' as 'evil out-laws'.**

In-laws were invited to participate in nearly all surveys and the majority did so.

Are current realities tomorrow's myths?

Our experience would suggest that a number of the current realities for family businesses globally will become obsolete in coming years. We expect the largest development here will be the decline in knowledge transfer between generations. Thanks to the growth of digital information, intergenerational learning will likely become less relevant for new business leaders.

Culture change is part of the reason for this shifting reality - we see an increasing number of family businesses in East Asia being influenced by Western norms, especially around matters like gender biases. Over the next few years, this shift will spread further, influencing business strategies and management structures more broadly. We also expect other regions like South America will meet these expectations by experiencing a change to family business practices.

This transformation will also affect the cultural foundations that underpin family dynamics. Traditional concepts of relationships and marriage are being redefined and in turn affecting the way family businesses operate.

Overcoming the myths of family business planning

While misperceptions clearly present a serious challenge for businesses, it is extremely important that family firms consider how they might adjust their outlook to consciously explore and dispel common myths to ensure they do not impact negatively on the enterprise's performance.

The first strategy is to allow all stakeholders, whether or not directly involved in the day-to-day operation of the business, to play a role in setting the strategic direction for the family business. Without input, there is no buy-in. Without commitment, there is little accountability.

Secondly, every family business will be influenced by different myths, thanks to a variety of cultural and situational factors. The challenge is for companies and their advisers to recognise these biases, acknowledge their reality, and develop a plan to navigate the issues.

The level of information that the BDO Discovery Questionnaire provides is not only good business practice generally, but it is invaluable in ensuring that stakeholders and organisations share their perspectives and explore beliefs that might contradict or support key decisions.



► PHASE TWO OF THE RESEARCH

While Phase One of our research has uncovered some important findings, it is acknowledged that further study is required in order to provide greater statistical validity and more rigour in the data on a global basis.

The BDO Global Family Business group will be continuing this research into 2016 for a deeper dive into these important issues. Further participation is encouraged to continue this important research.

If you would like to participate in this ongoing study, and at the same time provide a value-added for your clients, please contact any member of the BDO Global Family business group or visit our website at www.bdointernational/familybusiness.

▶ ABOUT THE BDO GLOBAL FAMILY BUSINESS GROUP

The BDO Global Family Business Focus Group (BDO GFB) comprises representatives of member firms from the BDO global network. Each member has a primary objective to further the cause of family businesses around the world.

Founded in 2010, the group continues to grow through the sharing of knowledge and the development of best practices and intellectual property, while providing thought leadership and support for the advancement of advisory services to family business both within the wider independent BDO network and through partnerships with educational institutions and member organisations.

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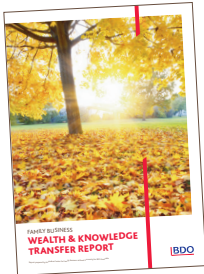
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▶ OTHER BDO STUDIES AND TOOLS

BDO IN AUSTRALIA

www.bdo.com.au



WEALTH AND KNOWLEDGE TRANSFER REPORT

After years of creating the building blocks to understand family businesses within the greater community, BDO has partnered with The Australian Centre for Family Business (ACFB) and Bond University to undertake an Australian-first report to understand the dynamics of wealth and knowledge transfer, and identify the key trends and issues that

will enhance successful transitions within private businesses.

BDO IN NEW ZEALAND

www.bdo.co.nz



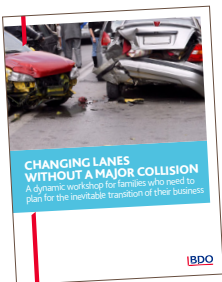
LEARNING FROM FAMILIES WHO HAVE BEEN THERE DONE THAT...

Research continues to highlight qualities that contribute to family business resilience. BDO's trusted family business advisers help families reach agreements in creating a workable framework for the future of their business. We engage in continual learning and thought leadership through alliances with the Australian Centre for Family

Business and D'Amore McKim School of Business Northeastern University.

BDO IN CANADA

www.bdo.ca/businesstransition



CHANGING LANES WITHOUT A MAJOR COLLISION

BDO Canada's family business services include an online assessment tool that provides a benchmark for where your clients are today in terms of their succession planning activities and the key action items required to facilitate the development of a successful business transition. Test drive the Discovery

Questionnaire and ask about our dynamic workshops for families who need to plan for the inevitable transition of their business.

BDO IN NETHERLANDS

www.bdo.nl



THE BALANCE IN FAMILY- AND BUSINESS INTERESTS

The Dutch BDO Family Business Advisory Group, part of BDO Netherlands, is market leader in its sector, with a long history in serving family businesses. This ensures that also the financial, fiscal and legal interests of your company get ample attention.

In addition, the knowledge of the Family Business Advisory Group is constantly fed by the many years of cooperation with scientific institutions, including Nyenrode University and the University of Utrecht.

BDO IN DUTCH CARIBBEAN (BDO CURACAO)

www.bdo.cw



FAMILY BUSINESS COACHES

The experienced and expert business coaches from BDO have been working for many years together with executives of family businesses on the most diverse entrepreneurial issues. The coaches are fully aware that family interests and business interests are not always the same or even each other's opposite.

With our experience and in-depth understanding of the challenges facing stakeholders in a family business, BDO internationally is a leading adviser to Family Businesses. We work closely with our clients to align the aspirations of the family with those of the business.

BDO IN N. IRELAND

www.bdoni.co.uk



THE CONTRIBUTION OF FAMILY BUSINESS

Building on our long track record of working with family businesses, BDO's partnership with Queen's University will help us to increase our knowledge base and provide leading edge best practice advice. The study recognises the unique and complex environment within which family businesses operate and covers areas

such as leadership, strategy and governance including succession planning and the management of talent.

BDO IN UK

www.bdo.co.uk



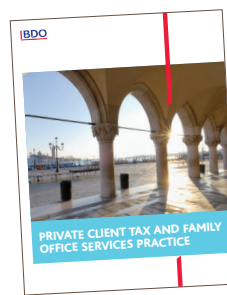
OVER 25 YEARS

For over a quarter century, BDO UK has been at the forefront of helping business families align family and business philosophies. We work closely with other institutions and specialists in creating and delivering knowledge in this field. We assist clients to achieve longevity with a succession planning process that facilitates the transition of responsibilities from one

generation to the next with care and support.

BDO IN USA

www.bdo.com



LEVERAGING THE COMPETITIVE ADVANTAGE

BDO USA family business consulting group helps business owners, stakeholders and leaders leverage the inherent competitive advantage of family businesses. Our integrated coaching and consulting approach enhances business value and strengthens dynamics within owner-operated companies, family businesses,

boards, and management teams. We blend practical thinking with psychological strategies to ensure business families successfully advance their business, engage in positive family relationships, and manage and transition wealth.

BDO IN SINGAPORE

www.bdo.com.sg

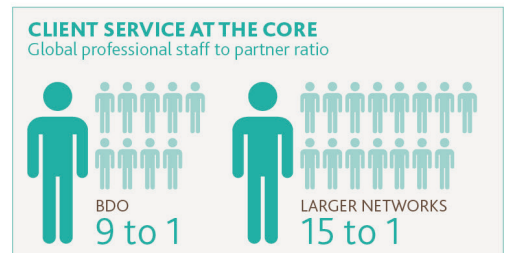
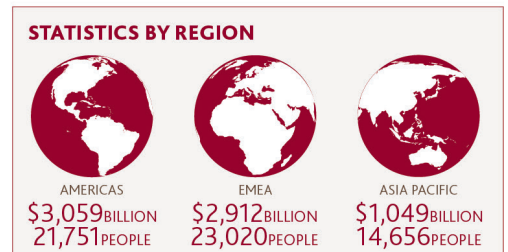
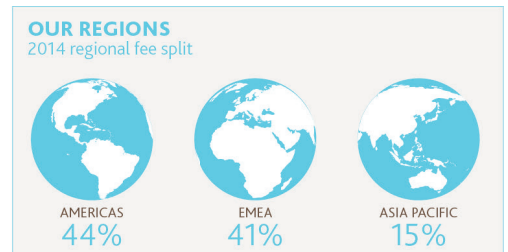


KEEPING IT IN THE FAMILY

BDO Singapore's Family Business Advisory team works closely with regional South-East Asian families to address the unique challenges that family businesses face, particularly within the Asian context. BDO Singapore also runs educational and thought leadership programs with government agencies, such as the Singapore Business Federation (SBF), to assist family business

owners in addressing a range of issues, from succession planning to wealth preservation.

▶ ABOUT THE BDO NETWORK



Statistics as of 1 December 2014

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