

From trust to impact

**Why family businesses
need to act now to ensure
their legacy tomorrow**





Foreword

In the best of times, the strengths of family businesses are often overlooked as unicorns take flight and the stock market follows. But when times are tough, the strong fundamentals that are their hallmark—commitment to values, long-term thinking, sensible leverage—are what recoveries are based on. It happened in 2009 after the financial crisis when family businesses rebounded to build back opportunities in a shattered world economy. And it will happen again in the post-COVID-19 recovery for two key reasons: family businesses are more trusted than other institutions and leaders, and, in most sectors, they are more resilient.

The Edelman Trust Barometer confirms the first reason: 67% of respondents in Edelman's 2020 report said they trusted family businesses—against 58% for public companies—making family businesses the most trusted type of enterprise. And our tenth Family Business Survey, conducted from October through early December 2020, confirms the second. Only 21% of family businesses say they required additional capital in 2020, at a time when companies [raised a record US\\$3.6tn](#)¹ in capital from public investors to ensure liquidity. And the majority of survey respondents expect a return to strong growth by 2022.

This is good news for the world economy, given that family businesses are estimated to contribute more than half of GDP and two-thirds of employment.² But it goes deeper than that. In a world where capitalism is under fire³ and people are demanding more accountability, family businesses can

help win back trust. The Edelman Trust Barometer clearly shows how trust is built on a foundation of competence and ethics. Of the four main institutions of society—government, business, non-governmental organisations and the media—only business scores positively on both counts.

Family businesses have the characteristics and capabilities needed to claim the sweet spot where competence and ethics converge. But, as the results of our survey also show, thriving in today's world will require a change of mindset; a rethinking of their priorities and behaviours, including heightened investment in the digital tools needed for economic resilience; and a new definition of legacy. The world is changing, and so is the formula for lasting family business success.

Family business owners want, above all, to create a company that makes a positive impact and ensures a legacy for future generations. They have earned a reputation for prioritising their employees and the communities they serve. They 'give back' in the traditional sense, but their approach is based on a definition of legacy that is changing.

In today's business environment, in which the pace of change is accelerating, profit will need to be aligned with purpose. And as more pressure is put on companies to demonstrate their environmental, social and corporate governance (ESG) credentials, our survey indicates that family businesses are not assuming the leadership role they could. They are not prioritising key areas such as sustainability, which is no longer

¹ "Companies have raised more capital in 2020 than ever before," *Economist* magazine, 10 Dec. 2020, <https://www.economist.com/business/2020/12/09/companies-have-raised-more-capital-in-2020-than-ever-before>.

² Contributions of family businesses towards GDP are difficult to estimate due to the different definitions of *family-owned* and *controlled*. See Belén Villalonga and Raphael Amit, "Family ownership," *Oxford Review of Economic Policy*, Volume 36, Issue 2, Summer 2020, pp. 241–257, <https://academic.oup.com/oxrep/article-abstract/36/2/241/5813058>.

³ Fifty-six percent of respondents in the Edelman Trust Barometer's recent survey say capitalism as it exists today does more harm than good in the world. See Edelman, *Edelman Trust Barometer 2021*, 2021, <https://www.edelman.com/trust/2021-trust-barometer>.

a 'nice to have' for those who can afford to show concern; rather, it's a business imperative. If family businesses fail to demonstrate their commitment to sustainability with concrete actions, they may risk losing the trust and goodwill that give them licence to operate.

We surveyed 2,801 family businesses in 87 territories and then conducted three panel discussions with family business leaders to test our findings. Based on the results, we argue that family businesses, though resilient, should recognise their blind spots and take a leadership role that demonstrates their commitment to sustainability.

As our surveys in the past have shown, family businesses are on a learning curve to marry their personal values with their business purpose, and vice versa.⁴ ESG was already rising up the list of business resolutions long before the arrival and spread of COVID-19. Today, it's not a question of whether it's a good idea to prioritise ESG practices, but only of how long it will take for consumers, investors, lenders and governments to punish those that don't. The OECD has warned [against a return to business as usual](#), arguing that COVID-19 highlighted the vulnerabilities in our societies and economic system.⁵ Public sentiment, too, has shifted;

even before the pandemic, [43% of consumers](#) expected businesses to be accountable for their environmental impact.⁶ Companies with the highest ESG ratings are outperforming others and [recovered more quickly](#) from the first wave of the pandemic.⁷

The time to act is now if family businesses want to keep their legacy for future generations.



Dr. Peter Bartels
Global Leader, Entrepreneurial
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Peter Englisch
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A message from the chairman of the Family Business Network International

Family Business Network International (FBN) is pleased to have collaborated with PwC for the tenth edition of its global Family Business Survey, which builds on PwC's long-time involvement in supporting business-owning families and collaborating with many FBN chapters around the world.

The unprecedented COVID-19 pandemic has tested business families' capacity to adapt to change and be resilient across generations. Family businesses contribute meaningfully to both economic growth and employment, and with their inherent focus on long-term success and responsible ownership, many create a more purpose-driven model of business. These contributions have also been amply demonstrated during the pandemic.

As the survey results indicate, there are two things we family businesses can do better: digitalisation and sustainability. Considering this report's recommendations, we invite business families to move from aspiration to action in both these areas that are increasingly essential for our future.

If we apply the same spirit of innovation, entrepreneurship and generational resilience for which family businesses are known to these two areas, we can enhance the long-term success of our businesses and help build a better, more sustainable world.

Please join us in this journey.

Farhad Forbes

Chairman, Family Business Network International

⁴ PwC, *Global Family Business Survey 2018: The values effect*, 2018, <https://www.pwc.com/gx/en/services/family-business/family-business-survey-2018.html>.

⁵ OECD, *Building back better: A sustainable, resilient recovery after COVID-19*, 5 June 2020, <http://www.oecd.org/coronavirus/policy-responses/building-back-better-a-sustainable-resilient-recovery-after-covid-19-52b869f5/>.

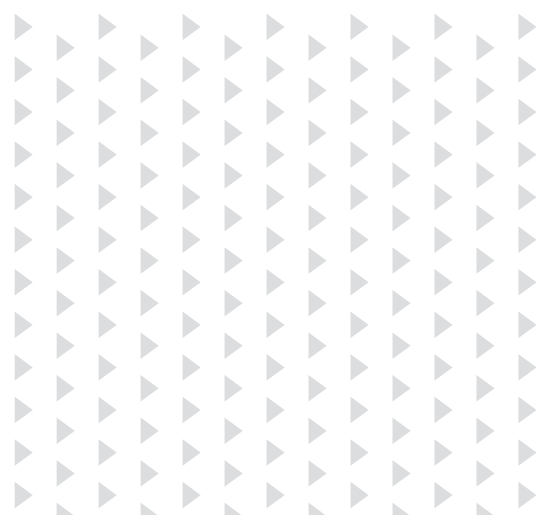
⁶ PwC, *The consumer transformed: Global Consumer Insights Survey 2020*, 2020, <https://www.pwc.com/gx/en/industries/consumer-markets/consumer-insights-survey.html>.

⁷ Alex Rolandi, "ESG rating 'linked to outperformance' amidst coronavirus pandemic," *Funds Europe*, 16 Apr. 2020, <https://www.funds-europe.com/news/esg-rating-linked-to-outperformance-amidst-coronavirus-pandemic>.



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Introduction and key findings

The year 2020 was a test for everyone, as COVID-19 disrupted lives and livelihoods. The health and safety of their people remained top of mind for family businesses as they reconfigured their operations to combat shrinking economies and an uncertain future. Yet optimism remains high for growth in 2022, despite the fact that the majority of the 2,801 family business leaders who took the survey did so before news of the vaccines.

The first section of this report looks at the financial resilience in family businesses and shows how they are prepared to lead the post-COVID recovery. The second section highlights the need to prioritise the ESG agenda and rethink how family businesses contribute to reducing climate change, to sustainable business practices, and to society.

The third section evaluates the state of technological transformation in family business. The pandemic has proved the vital importance of strong digital capabilities for businesses. But only one in five family businesses say their digital transformation journey is advanced—though they continue to believe digitalisation is a top priority.

The final section focuses on family dynamics. The very relationships that make a family business strong can also hold it back. It's a difficult subject for many, but introducing a more professionalised approach to governance takes emotion out of the equation and correlates with business success. Perhaps it is not surprising that during the pandemic, and despite stalling progress on instigating formal governance procedures, the number of respondents who have formalised succession planning has doubled to 30%.

We tested our findings by convening three panels of family business owners and executives, representing a mix of businesses and industries from around the world. Their views and our recommendations are captured at the end of each section.

The world is changing; now is the time to embrace a new formula for lasting family business success.



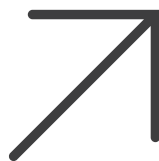
2,801

respondents



87

territories



55%

of surveyed businesses
grew in the 12 months
before COVID-19



86%

of surveyed businesses
are expecting to grow
in 2022

Key findings

The responses of the 2,801 owners and executives who participated in the survey reveal important insights into how family businesses operated in a pandemic year.



Economic resilience is high

79%

say they needed no additional capital in 2020, and only one-third (34%) are cutting dividends during the crisis. 64% expect to grow in 2021.



Progress on digital transformation is slow

38%

say their digital capabilities are strong. In the 2018 Family Business Survey, 80% were worried about innovation and technology, and 57% said they would invest in it.



There's a real desire to lead on sustainability, but action has been slow

55%

say there is an opportunity for them to lead the way on sustainable business practices, but only 37%, on average, have a sustainability strategy in place.



There's resistance to change and professionalisation

51%

have a documented vision and written purpose statement, 30% have succession plans, and 29% say there is a resistance to change.

Growth in the time of COVID-19

The COVID-19 pandemic has been an extraordinary test of resilience for almost all businesses. Family businesses are rising to meet the challenge at a time when financial uncertainty was already affecting forecasts. Before the pandemic, 55% of respondents were predicting growth for 2020—the lowest percentage since 2010, the year following the global financial crisis (see Figure 1).



Now, in looking beyond COVID-19, almost half (46%) of family businesses expect sales to decline. But 86% anticipate a return to pre-pandemic growth rates by 2022, an impressive level of optimism given that no vaccines had been approved when the survey was conducted.

Not surprisingly, the impact of COVID-19 on sales is uneven across sectors. Eighty-four percent of those in hospitality and leisure—the highest proportion of any sector—expect a contraction, followed by 64% in automotive and 63% in entertainment and media.

Resilience

Only one-third (34%) of surveyed businesses have had to cut dividends, and 31% of family members have taken salary cuts. Overall, only one in five businesses (21%) needed to access extra capital; 15% of the owners are putting in more of their own cash, and a further 23% say they are prepared to do so if necessary.

“We had three principles to get us through the crisis: to look after our people, to preserve cash and to build a better business for the future. Some parts of the business doubled overnight, while other parts, such as restaurant supplies, disappeared. I feel a great sense of pride in how we helped the community, delivering food to people who couldn’t get to the shops and helping those in need.”

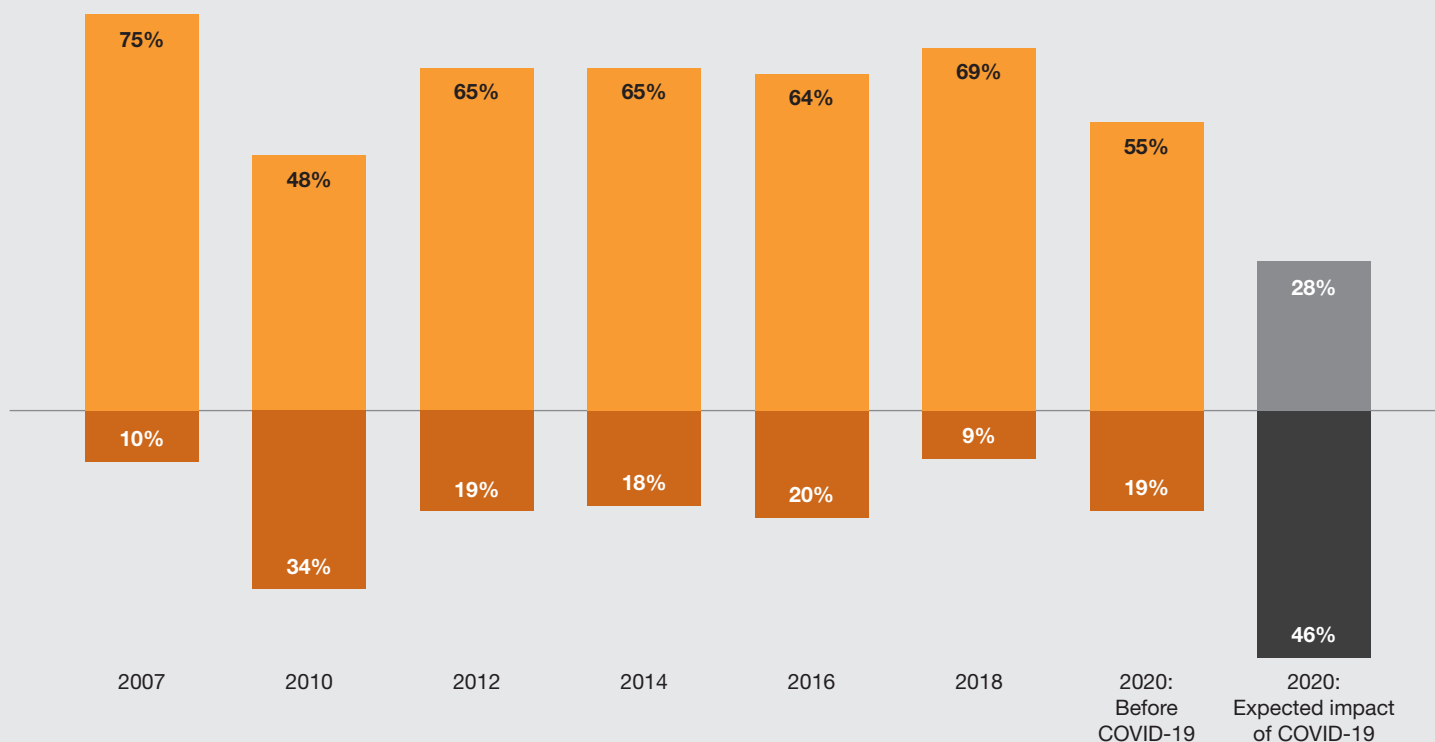
Nicholas Oughtred, chairman, William Jackson Food Group, food and drinks manufacturer and supplier, UK

Figure 1: Family businesses expect the COVID-19 pandemic to impact growth more than the great recession did

2021 survey Q: Looking back over the last financial year, before the COVID-19 pandemic, would you say your sales have been... And what do you think the impact of the COVID-19 pandemic will be on your sales?

2007–2018 survey Q: Looking back over the last financial year would you say your sales have been...

■ Sales growth ■ Sales reduction



Note: Sums don't total 100, because results show only the percentage of responses indicating sales growth or decline. The range of possible answers to the multiple-choice questions includes “stable” and “don't know.”

Base for the 2021 survey is all global respondents (n=2,801).

Source: PwC Family Business Survey 2021



Family businesses have proven robust and adaptable—and as we have come to expect, they are taking a people-first approach, prioritising the well-being of their employees and supporting their local communities throughout the crisis. Eighty percent are enabling staff to work from home, and 25% are repurposing their production to meet pandemic-related demand.

Despite everything, their 2022 growth ambitions are in line with what they told us in 2018 (see Figure 2).

This optimism isn't blind; it's based on planning and risk management. Four out of five (82%) are prioritising diversification and/or expanding into new markets or products; these are two of the three top priorities for businesses over the next two years.

“Back in March, I thought we might lose the company. We were under-leveraged going into the pandemic and rapidly became over-leveraged. I was encouraged by the way the entire organisation, including the family, responded to the crisis, and there was a lot of support and empathy throughout the business. We ended the year very confident and optimistic about the future. The net effect is that the culture bar in our company has risen significantly. We went through pain together, and that has brought us closer.”

Chris Herschend, chairman, Herschend Family Entertainment, theme park and tourist attraction owner, US

Figure 2: Back to business as usual in 2022

Q: Which of the following best describes your company's ambitions for 2021 and 2022?

■ Grow quickly and aggressively ■ Grow steadily ■ Consolidate ■ Contract/downsize to survive

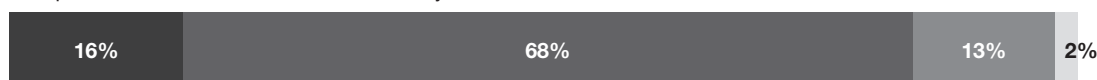
2021



2022



Comparison: 2018 FBS outlook for next two years



Note: Base is all global respondents (2021: n=2,801; 2018: n=2,817-2,950).

Source: PwC Family Business Survey 2021

Sustainability: Translating ambition into action

The pressure on all businesses to contribute to a cleaner environment and fairer society is increasing, so actions around a sustainability agenda—not just commitments—will take on a new urgency. In 2017, PwC identified **five urgent challenges** facing the world: wealth disparity, technological disruption, demographic pressures, polarisation of opinion and declining trust.⁸ COVID-19 has only served to accelerate and intensify these.

⁸ PwC, *ADAPT: Five urgent global issues and implications*, May 2020, <https://www.pwc.com/gx/en/issues/adapt.html>.

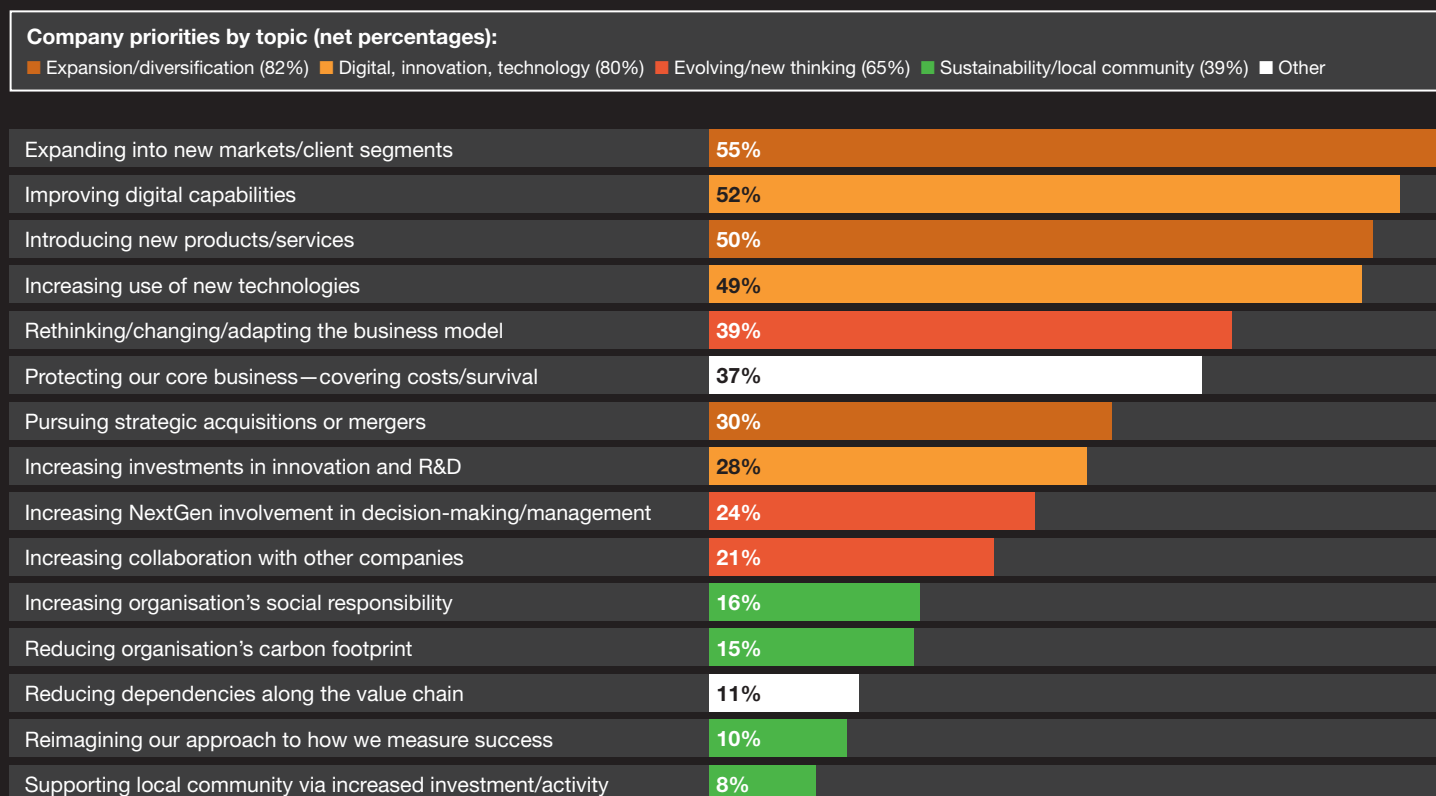
Family businesses have a head start to lead on sustainability. They are the most trusted form of business,⁹ are potentially more agile and are relatively free from short-term market pressures. And they can have a significant impact. In 2018, the top 750 family businesses employed more than 30m people and generated US\$9.1tn.¹⁰ Non-listed companies (336 of these top 750 are listed, but the majority of family businesses worldwide are not) also have the advantage of being able to take a longer-term view of investment in

sustainable initiatives. This sets them apart as natural leaders on sustainability, a role that 55% of respondents to the survey say they are ready and willing to adopt.

But there is a risk that established approaches and ways of thinking, particularly regarding what sustainability means and how family businesses are governed, could hold them back. For now, they are not prioritising ESG or sustainable practices (see Figure 3).

Figure 3: Family businesses say that diversification and improving digital capabilities, not sustainability, are their top priorities

Q: Which, if any, of the following are the company's top five priorities for the next two years?



Note: Base is all global respondents (2021: n=2,801).

Source: PwC Family Business Survey 2021

9 Sixty-seven percent say family-owned businesses are the most trusted, vs. 58% for public companies. The percentages are based on respondents prioritising which of the following categories of businesses they trust most: family owned, privately owned, publicly owned and state owned. See Edelman, *Edelman Trust Barometer 2020*, 19 Jan. 2020, <https://cdn2.hubspot.net/hubfs/440941/Trust%20Barometer%202020/2020%20Edelman%20Trust%20Barometer%20Global%20Report.pdf>.

10 David Bain, "The World's Top 750 Family Businesses Ranking," *Family Capital*, 3 Mar. 2020, <https://www.famcap.com/the-worlds-750-biggest-family-businesses>.

This lack of prioritisation is a rare example of family businesses being hindered by their independence. Listed companies have felt pressure around sustainability from customers, lenders, shareholders and employees increase in recent years. Investment in ESG-focused funds rose fourfold in the US in one year, to **more than US\$21bn** in 2019, and sustainability-related regulation, including emissions disclosures and gender pay reporting, has proliferated.¹¹ Listed companies have been steadily nudged into ESG practices and policies. They have no choice but to respond, and in doing so they are visibly leading the way. For family businesses, the opportunity to achieve their top priority—expanding into new markets—could serve as the impetus to invest in ESG.

Reclaiming the ESG agenda

Giving back is in the DNA of family businesses. They think about the total impact of their business on society, they prioritise the well-being of their employees, and they believe in supporting their communities and society. More than 80% engage in some form of social responsibility activities, including 42% that say they engage in philanthropy.

It's how they think about sustainability that must change. Sustainability needs to be central to their business operations, rather than simply embedded within their philanthropic activities. In some economies it already is. Our survey shows that family businesses in countries where traditional forms of philanthropy are less practiced have gotten the message. In Asia, for example, family businesses are embracing sustainability practices by putting them at the heart of what they do. In China, 79% of family businesses are prioritising sustainability, compared with 23% in the US. Yet 76% of US family businesses contribute strongly to their community, compared with 54% in China.

“Sustainability is about *being* good, not just *doing* good.”

Vimal Shah, chairman, Bidco Africa Group, agribusiness and manufacturer of fast-moving consumer goods in Kenya, Uganda and Tanzania



¹¹ Morningstar, *Sustainable Funds U.S. Landscape Report*, 2020, <https://www.morningstar.com/lp/sustainable-funds-landscape-report>.



ESG is an existential issue. Businesses that don't demonstrate their commitment to sustainable practices could be punished by consumers, the media and even regulators. Family business owners want, above all, to create an enduring asset for future generations. Legacy matters—it's top of mind for two-thirds (64%) of the respondents in our survey. If sustainability isn't a priority, their licence to operate and their legacy are at risk. And it would appear COVID-19 has increased family business owners' desire to protect their business and create a legacy (see Figure 4).

Figure 4: Long-term personal goals for the business

Q: How important to you are the following longer-term goals, i.e., over the next five years or longer?

The top long-term priorities for family businesses

Protect the business as the most important family asset



Ensure the business stays in the family



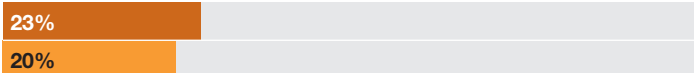
Create a legacy



Create dividends for family members



Create employment for other family members



■ 2021 ■ 2018

Note: Base is all global respondents (2021: n=2,801; 2018: n=2,817–2,950).

Source: PwC Family Business Survey 2021

The view from the front line

Ten leaders of family businesses from Africa, Asia, Europe, Latin America and the Middle East, representing ten sectors



Our family business panel representatives agree that there is an undeniable blind spot when it comes to translating family core values into concrete actions that demonstrate their commitment to ESG. They regard closing that gap as critical, not only to create new opportunities, but to secure the long-term future of the business. But they also realise that family business is behind the curve on knowing how to measure sustainability: for example, how to achieve net zero in carbon emissions or how to communicate progress and commitment, once achieved.

The panel believes that the next generation's (NextGen's) interest in sustainability is important not only in encouraging family businesses to embrace ESG, but in attracting younger family members into the business. Purpose and meaning are vital to this generation, and ESG can provide both.

“If you don’t embed sustainability in everything you do, you will find yourself out of business, whatever sector you are in. It’s just a matter of when.”

Jakob Haldor Topsøe, chairman,
Haldor Topsøe Holding, chemical technology,
Denmark



Peer recommendations



Embed ESG in your business and operating model. The family business leaders on the panel agree: ESG has gone from a nice feature for a company to have to an imperative for success.

“In the past, ESG was thought about as something we do when everything else was OK,” says Sara Hughes, president of Lwart Group, an industrial conglomerate in Brazil. “Now we’re incorporating it into every decision we make.”

The panel identifies many benefits of embedding ESG, from lowering the cost of capital to enhancing brand value.

“When you do good things, good things come to you,” says Ghassan Nuqul, chairman of Nuqul Group, a conglomerate in Jordan specialising in hygiene products.



Ask for help in measuring and meeting ESG targets. ESG measurement is a nascent discipline, and there is no internationally consistent system for reporting ESG progress. It was only in September 2020 that the World Economic Forum published a [framework for assessing progress on ESG](https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation).¹² These metrics were welcomed by the family business leaders on the panel, who are pushing for more measurement and accountability in their own organisations. Drawing on outside expertise is seen as an important element of solving the sustainability puzzle.

“The stronger word in the boardroom is still the financial word, the return on investment,” Hughes says. “Intangibles don’t get measured.”



Communicate, communicate, communicate. All panellists stress the importance of publicly talking about both the goals and achievements of the business.

“Listed companies are better at communicating on ESG because they know where this is heading,” adds Jakob Haldor Topsøe of Haldor Topsøe Holding, a Danish chemical technology company. “For family businesses, a quiet life has been a good life. That has to change.”



Involve the NextGen. Younger generations are the driving force behind sustainability, and in family businesses they are looking for greater responsibility. ESG is a natural fit. Fourth-generation businesses, for example, are more likely to embed sustainability in decision-making (60%, compared with 55% for all respondents) and are more likely to have a well-developed sustainability strategy (40% vs. 35%).

“I am first-generation, and we had no choice but to work in the company,” says Günseli Ünlütürk, chair at Turkish fashion brand Jimmy Key. “This current generation can choose what they want to do. The relationship between the business and generations is getting looser. The mindset of the elder generations should change and should be adapted to young generations’ mindset.”



Encourage board diversity. The panel believes that a lack of pressure from capital markets could be a handicap for family businesses when it comes to ESG. They feel that a diverse board, with independent input, could act as a good proxy and challenge thinking around sustainability.

¹² World Economic Forum, *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*, 22 Sept. 2020, <https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation>.



How to get your sustainability agenda started

Here are four areas to consider to help embed ESG into your business operations and to engage with both the NextGen and your board in the process.

- Measure the total impact of ESG actions. PwC has created a [Total Impact Measurement and Management](#)¹³ framework to help companies develop the capabilities to act on ESG goals and make better-informed business decisions.
- Follow best practices on non-financial reporting. The World Economic Forum recently published its [Measuring Stakeholder Capitalism](#) report, which describes a set of universal metrics under four pillars: people, planet, prosperity and principles of governance.¹⁴
- Your family is unique, and so are your children. [Take a short quiz](#) to find out which NextGen path they may be on, and explore case studies and tailored recommendations for the incumbent generation and next generation.¹⁵
- Consider shaking up the board composition. [A more diverse board](#) that is not comprised of family or friends of family will help challenge thinking.¹⁶

“In the past, we’ve never talked about [our positive impact], because if you do, you’re seen as boasting. That’s a mindset change that has to come.”

R. Dinesh, managing director, TVS Supply Chain Solutions Limited, logistics, India

13 PwC, Total Impact Measurement and Management, accessed in Jan. 2021, <https://www.pwc.com/gx/en/services/sustainability/total-impact-measurement-management.html>.

14 World Economic Forum news release, “Measuring Stakeholder Capitalism: Top Global Companies Take Action on Universal ESG Reporting,” 22 Sept. 2020, <https://www.weforum.org/press/2020/09/measuring-stakeholder-capitalism-top-global-companies-take-action-on-universal-esg-reporting/>.

15 PwC, *Global NextGen Survey 2019*, 2019, <https://www.pwc.com/gx/en/services/family-business/nextgen-survey.html>.

16 Jared Landaw (Barrington Capital Group LP), “Maximizing the Benefits of Board Diversity: Lessons Learned From Activist Investing,” Harvard Law School Forum on Corporate Governance, 14 July 2020, <https://corpgov.law.harvard.edu/2020/07/14/maximizing-the-benefits-of-board-diversity-lessons-learned-from-activist-investing/>.

Still behind the digital curve

The pandemic demolished any lingering doubts about the benefits of digital transformation. Digitalised services became the norm overnight, and businesses with established digital capabilities fared better than those that had to scramble to keep up. This was true for family businesses, as well. Those with strong digital capabilities and access to good data performed better than others (see Figure 5).

But these businesses are the minority. Although four out of five (80%) say that initiatives related to digitalisation, innovation and technology are a top priority, progress in these areas has been slow. Only 19% say that their digital journey is complete, and 62% believe they have a long way to go. In our 2018 Family Business Survey, 80% of respondents were concerned about innovation and technology. And although they name digital capabilities as their second highest priority, 29% still report in the 2021 survey that they don't have strong digital capabilities and that developing these capabilities is not high on their action agenda.



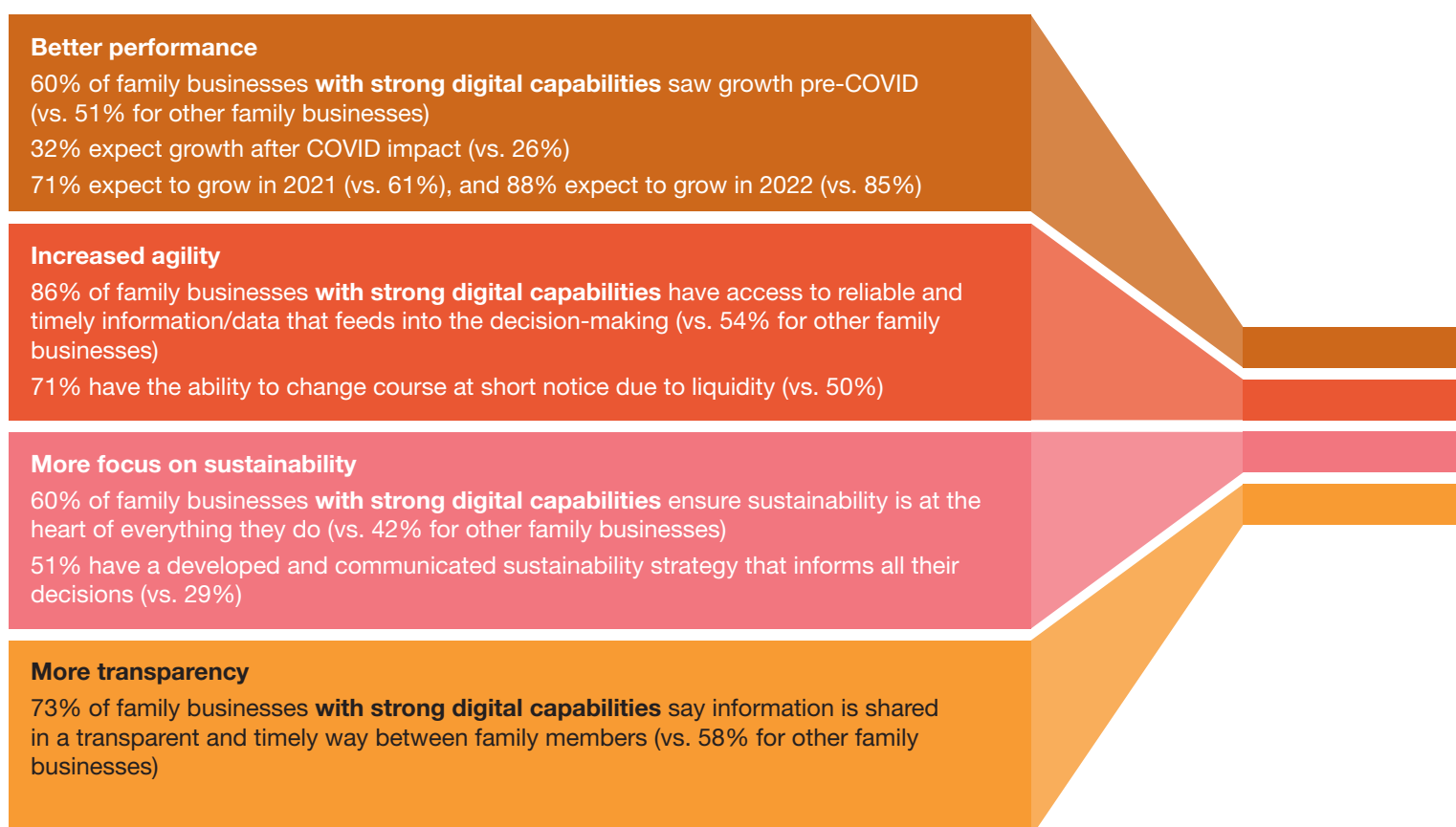
40% of third- or fourth-generation businesses describe themselves as digitally strong

Our message: Now is the time to act.

The experience of family businesses that have upgraded their digital capabilities shows the vital importance of a clear road map. The actual advantages of digitalisation don't always match up to the assumed ones, so planning is key. For example, 58% of digitally strong businesses use technology to improve their compliance and reporting function, but only 44% of those planning a digital upgrade see this as a priority. This needs to change.

The survey also found that NextGens have a greater role in 46% of digitally strong businesses, though digitalisation, innovation and technology (as well as sustainability) are more of a priority for third- and fourth-generation businesses.

Figure 5: Strong digital capabilities translate into strong business performance



Note: Base is all global respondents (2021: n=2,801).

Source: PwC Family Business Survey 2021

The view from the front line

Eight leaders of family businesses from Asia, Europe, Latin America and North America, representing six sectors



Our panel confirms that those businesses with good digital capabilities found transitioning their employees to remote work easier. The agility of family businesses is apparent in the rapid adaptations that many made to their business model or operations. Intergenerational tension surrounding digital transformation also strikes a chord.

“We had tried for two years before the pandemic to apply virus-killing technology to our tissue manufacturing process without success. But when the pandemic hit, we thought about how we could use the technology, and within eight days we had designed a mask, imported the fabric and started manufacturing masks. Today, masks have become one of our new wellness core businesses.”

Ghassan Nuqul, chairman, Nuqul Group, a hygiene product conglomerate, Jordan

“Digitalisation is not a goal you can reach; it’s a constant journey. The current pandemic shows us the power of digital technologies when we deploy them the right way—with a clear focus on creating value for customers and employees.”

Burkhard Eling, CEO, Dachser Group, logistics, Germany

Peer recommendations



Rediscover your entrepreneurial flair. The pandemic has been an essential reminder of the potential of family businesses, particularly regarding the possibilities and opportunities stemming from technology.

Gabriela Baumgart, who is on the board of industrial conglomerate Grupo Baumgart in Brazil, describes the pandemic as “a reset” for many family businesses. “This is a new era for family businesses. In the past, many have tended to avoid risk and have been quite conservative. That has changed. It’s an opportunity to review business models and see if the governance is being effective. They are remembering how to be entrepreneurial again, adapting and creating value in a challenging world.”



Digital transformation and agility go hand in hand. Digital technology helped firms pivot their operations quickly.

“One of our businesses, Daba, is an exclusive distributor of Nespresso in Spain and several African countries. Before the pandemic, we sold mainly through our shops; only about 10% of sales were online,” says Alfonso Libano Daurella, vice chair of Cobega Group, which has global operations in soft drink distribution. “We shifted the business model when the pandemic hit so that around 80% of sales were online and our shops delivered the coffee locally to customers. We moved from being a retail business to an internet delivery business in just four months. That’s the mentality you need during a crisis—don’t close the shops, change.”



Allow the next generation to challenge priorities. As mentioned above, NextGen members are an important motivating force for digitalisation. Our [2019 NextGen Survey](#) found that younger family members saw technology as one of the three most important drivers of change for the business, and 64% of them felt this was the area in which they could add value.¹⁷

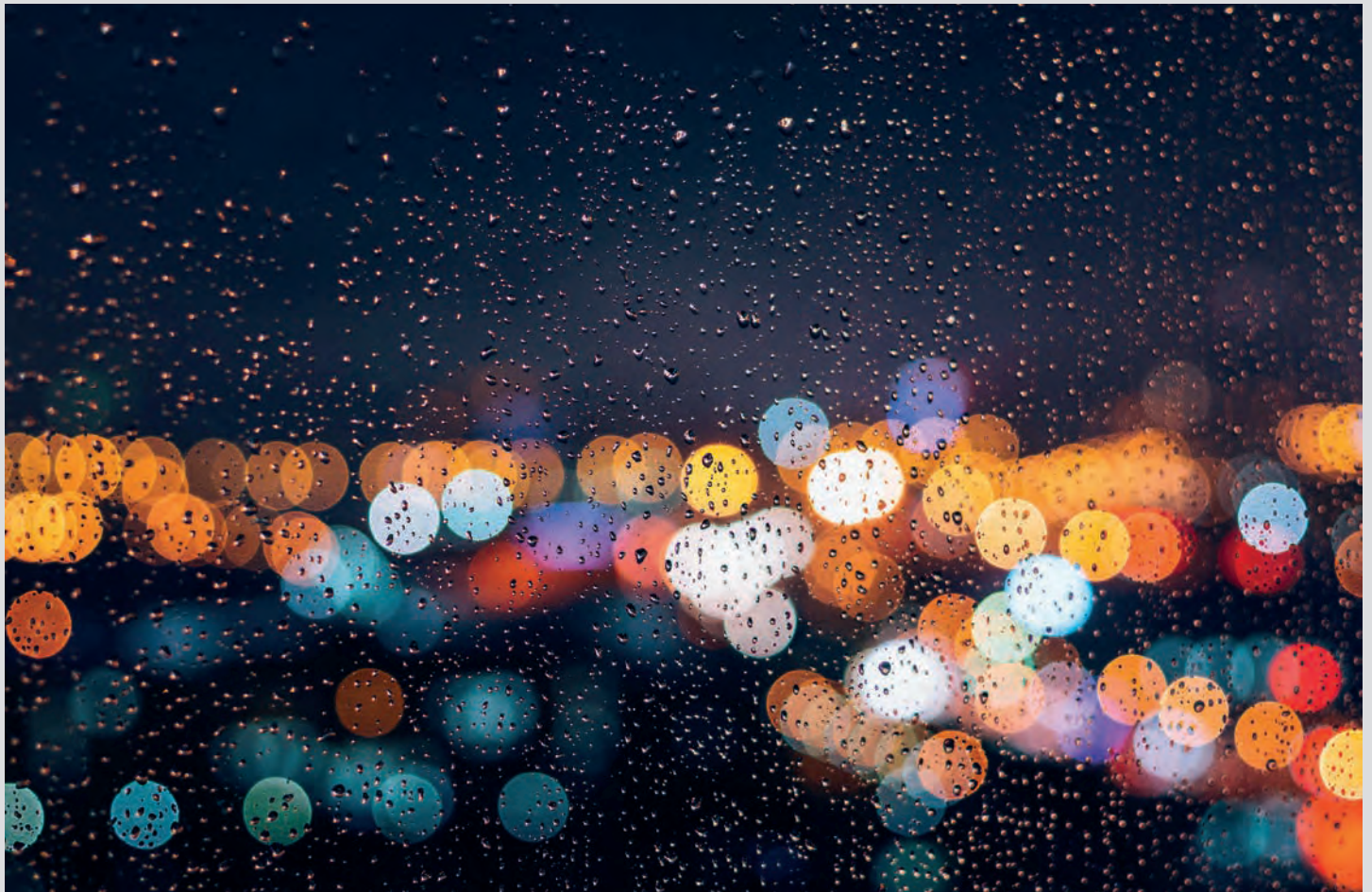
Nina Østergaard Borris, daughter of Torben Østergaard-Nielsen, the owner of Danish shipping company USTC, was appointed COO of the group in 2020 at age 36. She says that different generational priorities were apparent when the business recently went through “the long process of deciding what we wanted to be known for. I am more aware of the agenda around digitalisation and ESG, but my father is good at listening and asking the critical questions. It’s been a good experience. As a NextGen, you have to be mindful not to throw out the good things because you are focused on something new. My father has valuable experience; I have a more forward-looking mindset.”

¹⁷ PwC, *Global NextGen Survey 2019*, 2019, <https://www.pwc.com/gx/en/services/family-business/nextgen-survey.html>.

How to make your digital transformation move faster

Moving faster along a digital journey requires an understanding of the value of data and analytic tools, as well as a commitment to upskilling your workforce. You should also recognise that transformation must be a part of a cultural shift that is supported by highly engaged leaders. Start this process by asking the right questions:

- How can I make faster and better decisions by [optimising my data assets](#)?¹⁸
- Do I understand the [critical success factors](#) for transforming my business?¹⁹
- Is my workforce [ready for the future](#)?²⁰



¹⁸ PwC, Data and analytics, accessed in Jan. 2021, <https://www.pwc.com/gx/en/issues/data-and-analytics.html>.

¹⁹ Al Kent, David Lancefield and Kevin Reilly, "The four building blocks of transformation," *strategy+business*, 22 Oct. 2018, <https://www.strategy-business.com/article/The-Four-Building-Blocks-of-Transformation?gko=aa2b7>.

²⁰ PwC, New world. New skills. Accessed in Jan. 2021, <https://www.pwc.com/us/en/services/consulting/workforce-of-the-future/new-world-new-skills.html>.

Family dynamics:

Holding up a mirror

Family businesses are complex, given the nature of the personal relationships on which they are built. The same relationships that allow the business to act and adapt quickly can also slow down its decisions and hold it back—and it can be difficult to admit that communication between family members and across generations is not what it could be. Almost seven out of ten survey respondents (68%) say that family members who are not on the board trust the family members who are on the board, but the evidence hints at underlying discord: only 58% say that all family members share similar views about the company's direction.





There are many sensitive issues to discuss and many areas in which progress is falling short (see Figure 6). Two-thirds (66%) of respondents report that family members communicate regularly about the business, but one-fifth (21%) say they have no formal mechanisms in place to deal with potential areas of disagreement.

Family harmony should never be taken for granted. It needs work and planning, and it should be approached with the same focus and professionalism that's applied to business strategy and operational decisions. Seventy-nine percent of family businesses have some form of governance policy or procedure in place—down from 84% when we asked the same question in 2018—but for many, there are significant gaps.

Conflict is inevitable. Only one in four respondents (23%) say they have never had a disagreement. At the other extreme, disagreements are a regular occurrence for one in ten (7%). Dealing with disagreement is very much a private affair; 80%

66% of family businesses say family members communicate regularly about the business

of respondents who report having disagreements deal with them internally. But just 13% have an established conflict resolution system, and only 12% have used an external third-party resolution service.

Succession planning is one of the most sensitive issues, and COVID-19 appears to have concentrated minds in this area. The survey confirms an uptick in business planning for succession: 30% of family businesses now have a formal succession plan, up from 15% in 2018.

Figure 6: Family values matter, but only half have put them in writing, and less than half have codified governance policies

Q: How strongly do you agree or disagree that...

The family have a clear sense of agreed values and purpose as a company



The family have a documented vision and purpose statement (mission) for the company



The family have a defined code of conduct



The family have the family values and mission for the company articulated in written form



■ 2021 ■ 2018

Note: Base is all global respondents (2021: n=2,801; 2018: n=2,817–2,950).

Source: PwC Family Business Survey 2021

Q: Which of the following policies and procedures, if any, do you have in place?

Shareholders agreement



Testament/last will



Emergency and contingency procedures



Entry and exit provision



Conflict resolution mechanisms



■ 2021 ■ 2018

Note: Base is all global respondents (2021: n=2,801; 2018: n=2,948–2,951).

Source: PwC Family Business Survey 2021



Values are a NextGen magnet

In 2018, about one-quarter (23%) of family businesses expected that NextGen family members would be majority shareholders within five years. In the 2021 survey, this number rises to just over one-third (35%). Younger generations are strongly motivated by meaning and purpose when it comes to their career, and sometimes struggle to find these qualities in the family business, according to conversations we have had with many NextGens. Clear company values can help to bridge the generational gap and give the NextGen that sense of purpose they crave. Family businesses with values in a written form are also better prepared for succession and are more communicative and transparent. And they performed better than their peers during the pandemic, too (see Figure 7). Though 70% of businesses say the family has a clear set of values, only 44% have written them down.

Figure 7: Written values correlate strongly with success

Better performance

58% of family businesses **with values in a written form** saw growth pre-COVID (vs. 52% for other family businesses)

32% expect growth after COVID impact (vs. 25%)

69% expect to grow in 2021 (vs. 61%), and 89% expect to grow in 2022 (vs. 83%)

More transparency

77% of family businesses **with values in a written form** say information is shared in a transparent and timely way between family members (vs. 54% for other family businesses)

77% say family members regularly communicate about the business (vs. 57%) and were more communicative during the pandemic (62% vs. 46%)

69% say family members have similar views/priorities about company's direction (vs. 49%)

More supportive of staff, suppliers and the community

54% of family businesses **with values in a written form** provided emotional/mental health support to staff (vs. 39% for other family businesses)

18% supported suppliers by making non-critical orders (vs. 12%)

46% took action to support their local community (vs. 34%)

Better prepared for succession

41% of family businesses **with values in a written form** have a robust, documented and communicated succession plan in place (vs. 20% for other family businesses)

13% have a succession plan that has been revised in light of COVID (vs. 5%)

Note: Base is all global respondents (2021: n=2,801).

Source: PwC Family Business Survey 2021

The view from the front line

Eight leaders of family businesses from Asia, Europe, Latin America and North America, from seven sectors



Our panel agrees wholeheartedly that family dynamics are a sensitive issue. Topics such as succession can be emotional, which makes them difficult to navigate and, as a result, tempting to avoid—though succession is also the only area of family governance in which concrete actions increased since the 2018 survey. Many families want to keep discussion of these sensitive issues among themselves, but they agree that they often need professional support and moderation to address them properly. Finding such support can help professionalise the business and encourage families to reconsider the role, responsibilities, and composition of the board and management.

“Many family business owners spend a lot of time on the business but much less time on family issues. Often the feeling is that they have no problems, so there is no reason to make time to discuss family issues. But if you don’t spend time on this, or only do so when a conflict arises, then it’s too late.”

Farhad Forbes, co-chairman, Forbes Marshall, engineering, India, and chairman of Family Business Network International



Peer recommendations



Professionalise family governance. Having a professional governance structure and a clear process for conflict resolution, preferably involving an independent party, makes business sense, particularly for family businesses. A professional approach strips emotion and personal bias, common stumbling blocks for families, out of decisions.

“If you are planning to sell a new product, you sit down and work out the business case. You invest time into the issue. I don’t see family harmony as any different. Take advice and build in protocols for the future,” says Alfonso Urrea Martin, CEO of the tools division of Mexican industrial manufacturer Grupo Urrea.



Governance should reflect that families are dynamic. Family businesses need to revisit governance structures regularly, because the structure of ownership can change as NextGens enter the business or through marriages. Therefore, it is important to set out parameters in a family constitution and keep them current.

“We rewrote the constitution eight years ago and will rewrite it again soon,” says Ajay Shriram, chairman and senior managing director of DCM Shriram Group, an Indian conglomerate. “People get married, dynamics change. We involved our mother and teenage nieces, who aren’t working in the business, because the reality is that all family members have an influence, and you have to be ready for that.”



Write values down. A written accounting of a family business’s values helps with communications and transitions.

Bernhard Simon, third-generation CEO of the German logistics company Dachser Group, handed over the reins to new CEO Burkhard Eling, who isn’t a family member, on 1 Jan. 2021. In planning the transition, the family went through the process of writing out the company’s values. “My aunt and mother gave us, the third-gen family members, the freedom to ask the question, ‘Do we want to remain as shareholders or sell the business?’” Simon says. “It’s the only way to become aware of why we wanted to still be a family-held company. Going through that process meant we were able to write down the values we were living with, and they lead the decisions we make. Every executive that joins the company, Burkhard included, has to sign up to the values as part of their contract.”

“I see the written values as a gift,” Eling says. “They act as glue between the family, executive board and management board. I don’t feel hindered by them, because they give me a clear understanding of where the strategy needs to lead the company in a sustainable way. Values need to be the common ground on which a company is built.”



Allow external help. Conflict and differences of opinion are inevitable—we’re only human. But the emotions involved in family discussions can be difficult to resolve internally. Many on the panel see the benefit of involving a neutral, outside perspective.

“External resources have helped us a lot. We are three brothers, and we took the view that the key was communication, communication, communication,” Shriram says. “We have worked with a behavioural scientist since 1996; the three of us go to a retreat every year for four days and just talk. We unburden ourselves and get any conflicts out of our minds. It’s a very powerful opportunity to open up.”



How to start addressing family governance

Family dynamics are always an emotional issue, but one that, when addressed, can lead to significantly stronger outcomes. Here are some initial steps to help ensure good working relationships within a family business.

- Join a network that offers peer-to-peer learning and helps family business owners identify trusted advisers. Such networks operate through regional and international organisations, including the Family Business Network International and PwC's Family Owners Network.
- Regularly revise your family governance provisions based on best practice targets. [PwC's Owners Agenda](#), for example, creates a practical framework to help prioritise actions.²¹
- Develop well-planned [family leadership summits](#) that engage with the next generation. This is a tried-and-true practice that can engage NextGens and provide career path guidelines.²²
- Review your [board composition](#).²³


"In 2018, we involved the fourth generation in discussing our family values, and we added some new ones to our values as a result. New generations are more purpose-driven. They want more of a work-life balance. They focus even more on the business's total impact, on ESG, and sustainability, in addition to looking at the financial and cultural results."

Gabriela Baumgart, board member, Grupo Baumgart, industrial conglomerate Brazil

21 PwC, Family business services, accessed in Jan. 2021, <https://www.pwc.com/gx/en/services/family-business.html>.

22 Bob Frisch and Cary Greene, "Leadership Summits That Work," *Harvard Business Review*, Mar. 2015, <https://hbr.org/2015/03/leadership-summits-that-work>.

23 Beatrice Ballini, "Every Family Business Needs an Independent Director," *Harvard Business Review*, 27 Jan. 2020, <https://hbr.org/2020/01/every-family-business-needs-an-independent-director>.



Redefining the formula for family business success

For family businesses, there is good news in these survey findings but also a wake-up call. Their financial resilience makes family businesses well-placed to succeed, but they need to readjust both their mirror on society and on themselves. If they can accomplish that, their power to fuel the post-COVID-19 recovery grows even more important because of their financial impact around the world. To retain their licence to operate, they will need to revisit their purpose and use the trust they have gained to create measurable non-financial impact.

The NextGen family members will play a vital role in pushing family businesses forward in policy areas that are essential to the company's legacy. Our final conclusions focus on the three key areas in which immediate actions will help secure a lasting formula for success for the generations to come.

Deliver on ESG. Family businesses have a richly deserved reputation for prioritising the welfare of their employees and the communities in which they operate. But they are also at risk of losing control of the narrative, and larger, listed companies are claiming the ESG agenda for themselves. Family businesses need to learn how to measure and communicate their ESG agenda to a wider stakeholder group.

Transform digital capabilities. Over many years, our survey has shown there is more talk about digitalisation than action. The shocks of COVID-19 reveal that those that had already embarked on their digital journey were better placed during the crisis. Now is the time to act. The 29% of respondents who are not making digitalisation a priority and have not made progress will face significant challenges in protecting their legacy.

Professionalise family governance. We saw in the 2018 survey that success came when families improved their internal governance by adopting more businesslike practices. Families' sense of purpose must be shifted to the business operations for continued success. Codifying values helps with both performance and family communications.

Methodology

About the Family Business Survey

The Family Business Survey is a global market survey of owners and executives. The yearly turnover of participating companies ranges from under US\$5m to more than US\$6bn. The goal of the survey is to get an understanding of what family businesses are thinking on the key issues of the day. All results were analysed by Jigsaw Research.

2,801 online surveys conducted in 87 territories between 5 Oct. and 11 Dec. 2020



Note: Sum of surveys doesn't total to 2,801, because one respondent was unable to select a territory.

Source: PwC Family Business Survey 2021

Europe

1061

Middle East

73

Africa

231

North America

205

Latin America

413

Asia-Pacific

817

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