Family-owned businesses struggle to find financing

Although family businesses are responsible for 70% of global GDP, 58% of these businesses say they are currently seeking external financing to fund their investment plans, but their fundraising options are limited.

This is according to a recent survey conducted by KPMG the global network of professional firms providing Audit, Tax and Advisory services.

Private Equity funding often requires the entire business to be sold to maximise value in the event of an exit, and corporate strategic partners often see any investment as part of a longer-term plan to secure full control. As a result of these limitations, many family businesses may not be maximising their growth potential.

KPMG has identified one possibly underutilised route for investment with the involvement of high-net-worth individuals (HNWIs), many of which have family business experience as well as significant investment capital. It is estimated that there are up to 14 million high net worth individuals around the world with around $53tn of wealth.

Top priorities

Survey results show that the top priorities of HNWIs and family owned businesses align, making this underutilisation surprising: HNWIs name long-term capital appreciation (37%) as their top driver for investment, while family businesses name long-term orientation towards investment returns as their top investor characteristic (23%).

"We found that relations between family businesses and HNWIs in South Africa are exceptionally strong," says Craig Steven-Jennings, a partner at KPMG in South Africa. "Four out of five family businesses have already obtained direct investment from HNWIs - and all of them were positive about the experience."

The survey also found that family firms, in South Africa, were not just looking for a silent partner. All respondents were prepared for investors to offer advice and expertise - even offering a seat in the boardroom in one case.

Important steps

"From the survey, education and awareness on the potential benefits of these partnerships have emerged as important first steps to link these two groups. This report has revealed some important misconceptions on the sides of both family members and HNWIs," Christophe Bernard, KPMG's global head of Family Business explained.

Other key findings of the survey include:

- 44% of HNWIs have previously invested in a family business and the vast majority (95%) say that it has been a positive experience in comparison to their other investments.
- More than three-quarters of survey respondents (76%) say that the family holds a majority stake in the business.
- 60% of HNWIs are looking for investments with reasonable risks and reasonable returns, and are focused on long-term capital appreciation. Both of these traits are well matched by investment in family businesses.