Family business owners optimistic, but...

LONDON, UK: Family firms around the world are confident about their future prospects, but many aren't doing enough to prepare themselves for the years ahead, says PwC. Nearly half still don't have a succession plan and of those that do, only 50% have decided who will take over the top job.

- 60% of family firms intend to expand in the next 12 months
- 95% are confident they can compete effectively with their sector market leaders
- But nearly half still don't have a succession plan
- And vast majority with access to capital would have to borrow the money if needed.

These are just some of the findings of a survey of more than 1600 family business executives in 35 countries conducted by PwC.

Although a surprisingly large number of family firms have seen demand for their offerings increase during the past 12 months (modest growth: 32%, significant growth: 16%), 34% have seen a reduction in demand, up from 10% in 2007 when PwC first conducted the global Family Business Survey.

However, despite the impact of the recession, most family firms are confident about the future. 60% intend to expand their businesses over the next 12 months, and 56% are positive about how the markets where they do business will perform over the next year. In addition, 95% of respondents are somewhat or very confident that their companies can compete effectively with the market leaders in their sector.

Handing over the reins

One of the biggest risks facing any family-owned business is the transition from one generation to the next. 27% of survey respondents said they expect their business to change hands within the next five years, with 53% of these companies expecting the business to remain in the family. Yet 48% of all companies have no succession plan, a similar percentage to the last survey two years ago. Of those that do have a succession plan, only 50% have decided who will take over the top job.

Norbert Winkeljohann, member of PwC's Network Leadership Team, says: "To ensure a smooth transition, family businesses must do some careful planning. Companies that survive a change of ownership are usually those that have developed a good plan, outlining how the succession will take place and what criteria will be used to judge when the successor is ready to take over the reins."

Conflicts over which relative should take over control could be made worse by conflicts over money. Only 61% of respondents said they think they have enough resources to divide their assets fairly between all their heirs, including those who don't work for the business.

Some of the other findings which suggest that many family businesses aren't adequately preparing themselves for the future include:

- 62% haven't prepared for the possible sickness or death of a key manager or stakeholder
- 56% haven't established any procedures for purchasing the shares of incapacitated or deceased shareholders
- 50% either lack the liquidity to buy out family members who want to dispose of their stakes in the business or haven't considered the possibility
- 37% don't know how much domestic capital gains tax they or their companies might be liable for, while 58% don't know the international implication.

Resolving conflicts

The survey also revealed that few companies are prepared for dealing with conflicts between family members. Only 29% respondents said they have introduced procedures for resolving disputes.

Winkeljohann says: "Compared to our survey findings in 2007, the percentage of family firms experiencing tension has increased significantly, particularly when it comes to the future strategy of the business and the competence of the family members managing it. Yet only 29% - a mere 7.4% more companies than in 2007 - have introduced procedures for dealing with conflicts.

Having good conflict-resolution mechanisms in place is crucial to the success of a family business. Any conflict between family members - be it over money or future leadership - will spill over into the way the business is managed and owned. If relations within the family are healthy, the business is more likely to be healthy, too."

Securing credit

Some firms may find it harder than they expect to secure credit. Even though two-thirds of survey respondents said they have access to additional cash, the vast majority of them would have to borrow the money if they needed it.

Winkeljohann says: "Under the new Basel III Accord designed to strengthen the financial services sector, the amount of capital banks are required to hold will rise from 2% of their loans and investments to 7%. This agreement, which is due to take effect in 2013 and phased in over several years, is expected to drive up the price of credit and reduce the amount that is available."

1. The PwC *Family Business Survey 2010/2011* covers small and mid-sized family companies in 35 countries: Austria, Bahamas, Bahrain, Barbados, Belgium, Brazil, Canada, Cyprus, Denmark, Egypt, Finland, France, Germany, Ireland, Italy, Kuwait, Jamaica, Japan, Jordan, Malta, Netherlands, Norway, Oman, Russia, Saudi Arabia, South Africa, Spain, Sweden, Switzerland, Syria, Trinidad and Tobago, Turkey, United Arab Emirates, United Kingdom and United States.

Interviews with top executives in 1606 companies operating in 15 industry sectors took place between 26 May and 17 August 2010.

2. PwC firms provide industry-focused assurance, tax and advisory services to enhance value for their clients. More than

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