

European family business barometer

**Succession top of
mind as business
families eye their
legacy**

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Eighth edition

2019



Welcome

to the eighth edition

of the European family business barometer, a collaboration between European Family Businesses (EFB) and KPMG Enterprise.

This year, our annual survey received 1,613 responses from family businesses in 27 countries across Europe. We are encouraged to find that Europe's business families remain positive about the future of their companies and their families at a time of rising economic and geopolitical uncertainties.

Family businesses are responding to an uncertain, changing world by prioritizing innovation, training and education, and diversification. Sustainability is taking on greater importance for many family businesses as well. This suggests to us that family businesses are determined to stay highly relevant and intensely competitive on the world stage, adapting and thriving in a fast-changing world.

At the same time, many respondents are preparing for one of the most significant periods for any family business: succession. These family businesses are deeply involved in determining how to transfer ownership, management and governance responsibilities to the next generation and secure the future of both the business and the family. Inevitably, there will be challenges to overcome — but we are confident family businesses will do so and lay the foundation for decades of continued success.

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Family businesses

**steadfast and optimistic
in challenging times**



Business families are a critical part of the European economy, a fact that is often overlooked by pundits, analysts and market watchers. In some European countries, the majority of companies are family businesses — and together, they form vast and diverse groups across Europe, from tiny two-person operations to huge organizations that span the globe and employ thousands. Family businesses have long been part of Europe’s economic and social fabric, and they will continue to be so for many years to come.

In this eighth edition of the *European family business barometer*, European Family Businesses (EFB) and KPMG Enterprise examine the important issues facing Europe’s family businesses this year. In addition, the report shares the perspectives of family businesses on a range of key matters, from overall business confidence and business priorities to succession and beyond.

Remaining confident in an uncertain world

In a world of widespread geopolitical, trade and economic uncertainty, Europe’s family businesses remain confident and upbeat. More than half (59 percent) report rising turnover in the prior year, while another 28 percent said turnover remained steady.

Business confidence is also strong: 62 percent of respondents are confident or very confident about their business outlook for the next 12 months. Optimism is especially high among family businesses in Ireland (91 percent), Portugal (78 percent) and the Netherlands (67 percent).

Innovation tops the priority list

Fostering innovation and developing their workforces’ skills are top priorities for Europe’s family businesses. Nearly three-quarters of respondents (72 percent) say becoming more innovative is very important — or extremely important — to their business over the next 2 years.

This is especially true for larger family businesses, who are more likely to be competing on the global stage.

Family businesses are also committed to ensuring their employees are equipped with the knowledge and skills needed to thrive in a rapidly changing work environment where technology and data are pervasive and competition is increasingly global. In our survey, 64 percent of respondents said that educating and training their workforce was a key priority over the next 2 years.

This focus on the future is also driving many family businesses (50 percent) to make diversification a priority as well. This is an indication that family businesses are recognizing that their core business, even as it continues to thrive, may not provide the foundation for growth over the long term. As customer needs change, business competition grows more intense, and technology continues to disrupt industries, moving into new products and services could enable family businesses to sustain strong growth and stay competitive.

This willingness to embrace and adapt to change is of course a hallmark of many family businesses, many of which have

survived and thrived through decades — and even centuries — of social and economic change. This capacity to evolve has served family businesses well for many years, and it will continue to do so in the years to come.

Increasingly worried about regulatory changes

While the war for talent and declining profitability top the list of family businesses' concerns (63 and 62 percent, respectively), this year's survey shows that regulatory matters are of increasing concern as well.

As fears over a European recession grow and nations start to look at their budgets and plan for a potential downturn, business families are wary. They will be looking for signs of regulators' moves to improve tax transparency, update audit regulations or even raise tax rates, all steps that could have a significant impact on the family business and the family's wealth. As more family businesses begin to look at succession planning, they will be paying very close attention to regulatory matters that could influence how succession is structured.

Succession on the mind

Over the next 5 to 10 years, the world will experience a significant transfer of wealth between generations as the senior generation hands over control of the family business and other assets to the next generation. Not surprisingly, succession is on the minds of many European family businesses.

According to this year's survey, 35 percent of respondents plan to pass ownership of the business to the next generation, and 33 percent plan to pass on management responsibilities as well. Notably, respondents feel that dealing with the emotional fallout of relinquishing ownership is the greatest challenge (37 percent) they face in handing over the reins.

The majority (62 percent) expect to name a family member as the next president or CEO — though that figure drops to 52 percent of family businesses with 1,000 employees or more. This may reflect the fact that as family businesses grow larger in an increasingly complex business environment, family members realize that it's time for non-family executive leadership.

KPMG Enterprise and European Family Businesses look at these and other results of our *European family business barometer* research in the pages that follow. We hope you find the report useful and insightful as you chart your own family business' path forward.

If you have any questions, feel free to contact us or a local adviser. For more on the report methodology, please see page 42.

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Europe's family businesses

remain positive in an uncertain world



Trade wars, geopolitical uncertainty, recession fears, rising populism, Brexit and the climate crisis: in decades past, any one of these could have triggered economic slowdowns and rampant business pessimism. Yet today, facing all of these issues, Europe's family businesses remain positive about the future. Many of these families and their businesses have weathered crises over decades and even centuries of trade, booms and busts. Their confidence sends a powerful message to the rest of Europe's business community: We will get through whatever comes our way.

Business confidence is improving: 53 percent of respondents feel confident about their family business' economic outlook over the next 12 months, unchanged from the previous two surveys. However, a further 9 percent feel *very* confident about the year ahead — a sharp rebound from last year (4 percent), but still well off the mark set in 2017 (18 percent).

Irish respondents are far and away the most positive of those we surveyed: 56 percent were confident about the next 12 months — and a whopping 35 percent were very confident. The upbeat sentiment is also seen in Portugal, where 62 percent of respondents are

confident about the year ahead and a further 16 percent are very confident. In the Netherlands, too, 62 percent feel confident about their family business' 12-month prospects, with another 5 percent feeling very confident. However, the outlook is not as rosy elsewhere: for example, in Germany, where recession fears continue to take hold and industrial orders in some sectors have been declining over the past few months. Faced with uncertainty, German family businesses — highly conservative by nature — have begun to pull back and slow down their spending. Reflecting this mood, only 47 percent of German respondents expressed confidence in the year ahead, while 4 percent were very confident.

Turnover remains strong

One of the factors driving business confidence among Europe's family businesses is the fact that turnover remains strong. Fifty-nine percent of respondents report that turnover increased over the past 12 months — up from 58 percent in 2018 and 54 percent in 2016. Twenty-eight percent said turnover remained steady over the last year, a slight improvement over the previous 2 years.



Family businesses sometimes struggle to distinguish between the needs of the business and the

needs — or wants — of the family. This challenge often becomes easier to navigate as the business grows larger, as ownership disperses across generations and non-family members join leadership teams. However, it's important for family businesses of all sizes to ensure they aren't automatically combining business and family interests. Sometimes, they're not aligned.



Jonathan Lavender

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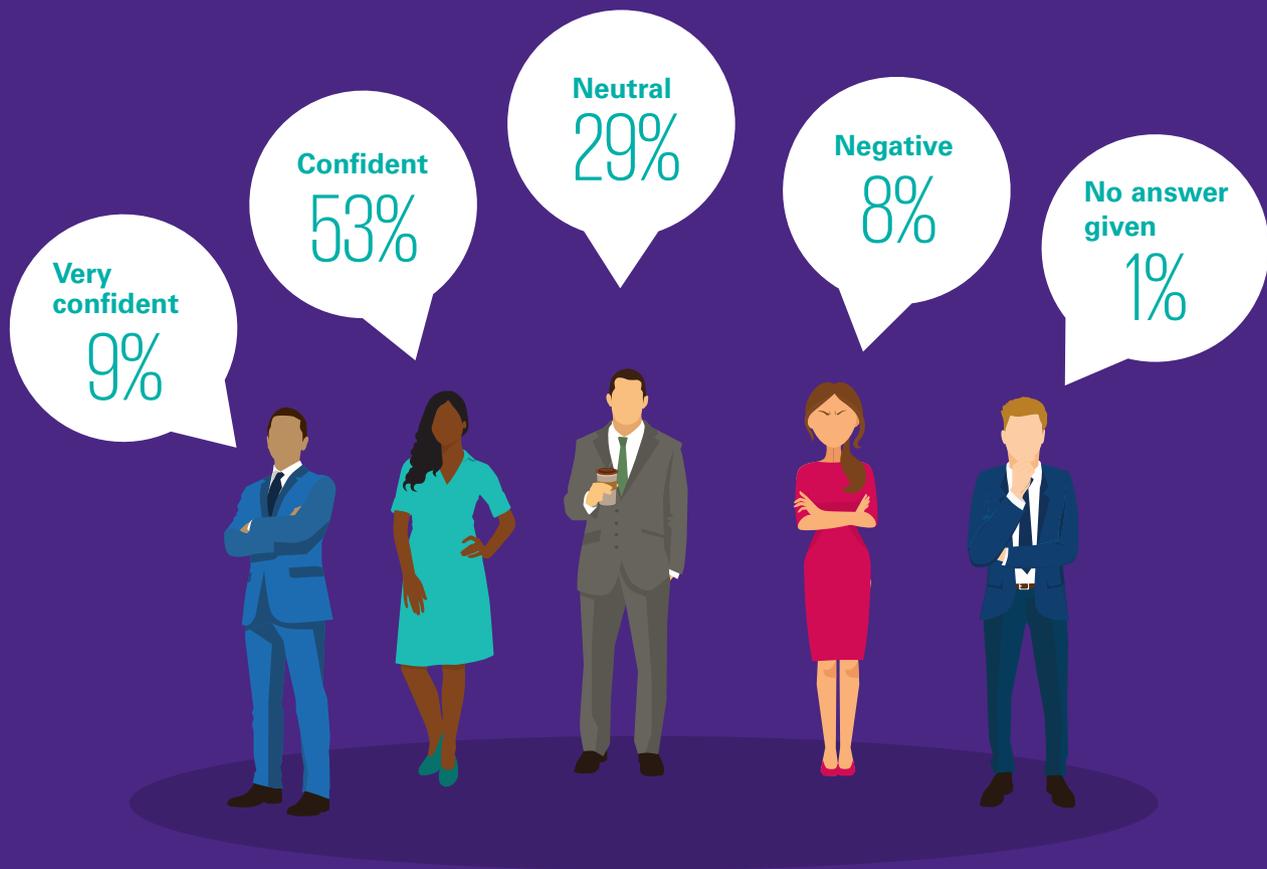
Uptick in international activity

More than one-third (37 percent) of family businesses surveyed report increased international activity over the past 12 months, led by those in Croatia, Belgium, Ireland and Austria. That's up slightly from 2018 (34 percent) but still well below the 65 percent seen in 2016's report. Respondents from Germany,

Finland and the UK were least likely to have reported increased international activity. International activity remains an important part of many family businesses' strategy moving forward: 35 percent of respondents said that geographic expansion was a key objective over the next 2 years.



How do you feel about your family business' economic perspective for the next 12 months?



Note: Numbers have been rounded to the nearest whole number.

Source: KPMG Enterprise *European family business barometer*, KPMG International, 2019.

Regulatory

concerns emerge



The war for talent once again emerged as the leading area of concern for Europe's family businesses (63 percent). High-growth companies are especially concerned: 73 percent of firms whose staff numbers have risen by 20 percent or more cite the war for talent as a top worry. Even firms whose workforces have declined say finding talent remains an important issue (54 percent). The war for talent appeared to be most acute in Belgium (84 percent), Croatia (77 percent) and Ireland (79 percent), while it's far less of a concern in Italy (51 percent) and Switzerland (39 percent).

Second on the list are worries over declining profitability (62 percent). Notably, next-generation respondents appear to be rather more concerned about declining profits than the senior generation: 37 percent of the next generation felt falling profits were an extremely relevant concern — compared to only 26 percent of their senior counterparts. This may reflect the next generation's belief that future profits won't be driven by the core business but will depend on diversification, innovation and technology. In Italy, for example, where declining profitability is a major concern for family businesses, many business leaders see technology as playing a vital role in improving margins.

Regulatory change: a growing concern for family businesses

However, concerns over regulatory change cracked the top three this year (60 percent) — a notable shift that suggests

some anxiety among family businesses regarding planned or potential regulatory action in the future. This may in part reflect anxieties leading up to the 2019 European election, when the survey was actually conducted; at that time, fears of a far-right populist surge were at their highest, and many worried about the policies that would come in the wake of such an event.

While that populist surge failed to materialize, there are other factors that may be driving respondents' concerns about regulatory changes. The impact of Brexit on the UK and EU continues to be a source of unease for many family businesses. Ongoing uncertainties over trade wars, tariffs and other trade-related disputes are areas of great concern for European companies, family businesses among them. Amid rising recession worries, respondents are wary about governments' potential responses in case of an economic downturn. They're also paying close attention to any regulatory efforts to improve tax transparency and update audit regulations, measures that could have a substantial effect on their businesses.

Political uncertainty was cited as a high area of concern by 69 percent of UK respondents, compared to 51 percent of respondents across Europe. UK respondents are also more concerned about currency instability (42 percent) than their European peers (32 percent). Given that 2019 has been marked by significant Brexit-related political turmoil, this comes as little surprise.

An overhead photograph of a meeting. A man in a blue sweater and glasses is pointing at a tablet mounted on a white table. A woman in a blue top is looking at the tablet. Another woman in a dark top is leaning over the table. A man in a light blue shirt is partially visible on the right. The background is a grey wall and a wooden bench.

Financing:

keeping it in the family



Family businesses want to keep control, clearly. When it comes to financing further expansion or other investments in their businesses, a majority of respondents prefer to do so through profit retention (49 percent). This makes sense, given that family businesses tend to be more risk averse and — as one would expect where some family businesses are centuries old — they tend to be quite good at thinking and planning for the long term. That said, 41 percent said they would also turn to bank financing or debt. For 31 percent, financing could also be provided through an injection of personal or family equity, or a loan to the business. One in four respondents (26 percent) would also seek financing through industrial alliances.

But while this might suggest that family businesses are slowly opening the door to financing alternatives, the results indicate that, in reality, there's little interest in seeking financing from outside sources. While 18 percent of respondents admitted they might seek financing via equity or loans from external partners, a mere 8 percent would turn to the capital markets. This may speak to family business' wider concern over the mid- to long-term prospect for Europe's economy; it could be that they believe the company wouldn't be fairly valued by the market. Or it may be simpler than that: a great reluctance to — as they perceive it — cede partial control or influence to outside shareholders. The disinterest in

“



Family business' attitudes often hold up a mirror to the wider world. The fact that so few

family businesses see capital markets as a viable financing option may reflect long-term economic concerns. Perhaps their reluctance regarding capital markets is a sign that when many family businesses look at where things are heading, they don't like what they see. ”

Olaf Leurs

Tax Partner, KPMG Meijburg & Co,
KPMG in the Netherlands



Family businesses are deeply focused on innovation. We see many German family

businesses getting involved with innovation hubs and partnering with smaller, more nimble startups — whether through direct investment, sharing ideas, co-developing products or other means. Working with startups enables family businesses to access the ‘courage’ needed to move fast, take risks and accelerate innovation.



Dr Vera-Carina Elter
Head of People and KPMG Enterprise, KPMG in Germany

capital markets lessens somewhat as family businesses grow; however, while more than three-quarters of businesses smaller than 250 people are uninterested in capital markets, only 66 percent of businesses larger than 1,000 people feel the same way. This may reflect a realization that as a business and its ambitions grow, its need for funding can only be met by turning to capital markets.

There are also differences between family and non-family members in terms of how they regard their business financing options. Family members expressed sharp distaste for capital markets (78 percent) and equity interests from other partners (60 percent); they are not especially keen on industrial-alliance financing (50 percent); and nearly a third

(31 percent) take a dim view of bank financing. Non-family members share family members’ skepticism over capital markets (70 percent), but they’re more open-minded about industrial alliances (41 percent), equity interests from partners (54 percent) and bank financing (23 percent). This may reflect non-family members’ different backgrounds and experiences, greater familiarity with alternative financing sources, or simply the fact that they have no say in what the family chooses to do with the business’ profits. We also expect that as the next generation takes the reins at more and more family businesses, their drive to diversify will incline them to be more open to new funding sources.



Responses when asked how attractive the following financing options are:



Note: Numbers have been rounded to the nearest whole number.

Source: KPMG Enterprise *European family business barometer*, KPMG International, 2019.

Innovation

remains the key priority



It's a myth that family businesses are stuffy traditionalists afraid of change. Family businesses are absolutely focused on innovation. The larger ones may be a few steps ahead of their smaller counterparts in this regard, typically thanks to having more resources available to them, but even smaller family businesses have innovation on the agenda. Families recognize that innovation is key to managing risk, driving revenue, overcoming falling margins — and staying in business.



Luís Silva

Associate Partner,
KPMG in Portugal



Fostering innovation and developing their workforces' skills are top priorities for Europe's family businesses, according to our survey.

Nearly three-quarters of respondents (72 percent) said "becoming more innovative" was a very important or extremely important priority for their business over the next 2 years. This drive is especially strong among larger companies: 78 percent of companies with 250 to 999 people and 80 percent of those with more than 1,000 people cited innovation as a top priority. Smaller companies can find it more challenging to make resources available to invest in innovation or research and development, as they're typically more focused on growth and profitability.

Notably, innovation is seen as a greater priority by the next generation (48 percent) than the senior generation (42 percent). This suggests that the next generation is increasingly aware of the critical importance that innovation, particularly digital-powered innovation, now plays in unlocking new growth opportunities for any company in the modern marketplace.

Almost two-thirds (64 percent) felt that educating and training their workforce was a key priority for their business. Once again, larger companies are more likely to see training as a priority: 77 percent of

those with more than 1,000 people plan to make workforce training a top objective. This push for workforce learning reflects a welcome ambition to ensure family businesses' workforces are equipped for the future of work, acquiring the skills needed to be productive in a world of ubiquitous technology and data and a global marketplace.

Fifty percent of respondents overall also believe that diversification into new products or services would be a priority over the next 2 years, and 35 percent cited geographic expansion as a key objective over the same period.

Overall, larger businesses are more likely than their smaller counterparts to be focused on innovation, developing their people, diversification and geographic expansion. While this could suggest that larger family businesses have greater growth ambitions and are more willing to embrace dramatic change, it may also reflect the fact that these larger companies face greater competitive pressures globally and must push further to achieve growth. It would seem to us that family businesses of all sizes have an eye on the future — and they recognize that while the core business may continue to thrive, it may not sustain the growth desired in the long run.



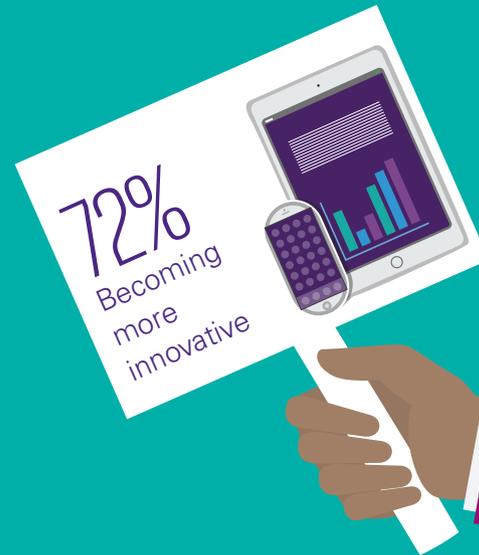
Innovation and workforce training are inextricably linked. Family businesses need the right people to drive innovation; investing in training and education helps them develop people with the skills and knowledge needed to unleash creativity and spark new ideas that can drive business growth. ”

Ramón Pueyo Viñuales

Head of Sustainability and Corporate Governance and Head of Family Business, KPMG in Spain



How important are these key priorities over the next 2 years?



Note: Numbers have been rounded to the nearest whole number.

Source: KPMG Enterprise *European family business barometer*, KPMG International, 2019.

Looking forward:

investment plans



Family businesses' independence and autonomy can be a tremendous advantage when

making investment decisions. If the business needs to invest in order to respond quickly to changing conditions, the family can choose to do so in an instant, at least in theory. Because to be that responsive, family businesses need to ensure they have the funding and resources required in the first place — and be willing to spend the money when the time comes. ”

Silvia Rimoldi
Partner,
KPMG in Italy



Though they seem more reluctant to commit resources than in previous years, Europe's family businesses intend to concentrate their investments over the next year on three main areas: their core business (27 percent), innovation and technology (25 percent), and their people (22 percent). Rounding out the list are international expansion (13 percent) and diversification (12 percent). This suggests that Europe's family businesses see innovation as a critical component of achieving profitable growth going forward, which we would expect to see in today's business environment.

Smaller family businesses are more likely to invest in the core business: while 23 percent of large (1,000 people or more) companies plan to invest in the core business, that figure rises to 30 percent

of family businesses with 50 people or less. This is not surprising, in that bigger family businesses are more likely to be going up against larger companies in different markets around the world, and investments beyond the core business are required to stay relevant and competitive. At that level, these non-core investments become essential for survival, not simply for growth.

It's also interesting to note that 8 percent of family businesses that have experienced staff reductions in the past 12 months are planning to invest in people over the next 12 months; this compares to only 1 percent of family businesses that grew 0–20 percent in the past year and 5 percent of those that grew more than 20 percent over the same period.

In the next 12 months, what do you plan to invest in?



Note: Numbers have been rounded to the nearest whole number.

Source: KPMG Enterprise *European family business barometer*, KPMG International, 2019.



Family businesses are sometimes unfairly thought of as being too traditional or behind the times. Nothing could be further from the truth. Europe's business families may have deeply historical roots, but they're always looking towards the future. You can see that in their desire to see the EU intensify efforts to ensure young Europeans get the education and skills they need to be prepared for the jobs of tomorrow. ”

Udo Vetter

President,
European Family Businesses (EFB)





Succession

**on the mind as a generation
readies to cede control**



Succession is an important and often challenging subject for any family business. Being confronted with the reality of transferring business control to the next generation, and then stepping away from the business, is one of the most difficult moments for any family business leader. Some wrestle with the transfer until the very end. Not surprisingly, the decisions that arise around how to pass on management, oversight and ownership of the family business can generate extensive — and often passionate — discussion, as decision-makers navigate the interests of both the business and the family itself.

KPMG Enterprise and EFB professionals expect succession to continue to be a critical topic for family businesses across Europe and around the world over the next 5 to 10 years. During this period, the world will see one of the largest ever intergenerational transfers of wealth take place. Globally, US\$15.4 trillion is expected to be transferred by 2030; US\$3.2 trillion of which will be transferred in Europe.¹ Needless to say, business families will be spending more and more time determining how best to pass that wealth to the next generation.



Older family businesses still have family members in charge, but this may become less

common in the future. Families will increasingly feel that they need outside expertise to help the business navigate a complex and constantly changing environment. As businesses grow more global and more digital, external executive leadership can bring the experience, skills and independent perspective needed to innovate, take strategic risks, and prosper. ”

Tom McGinness

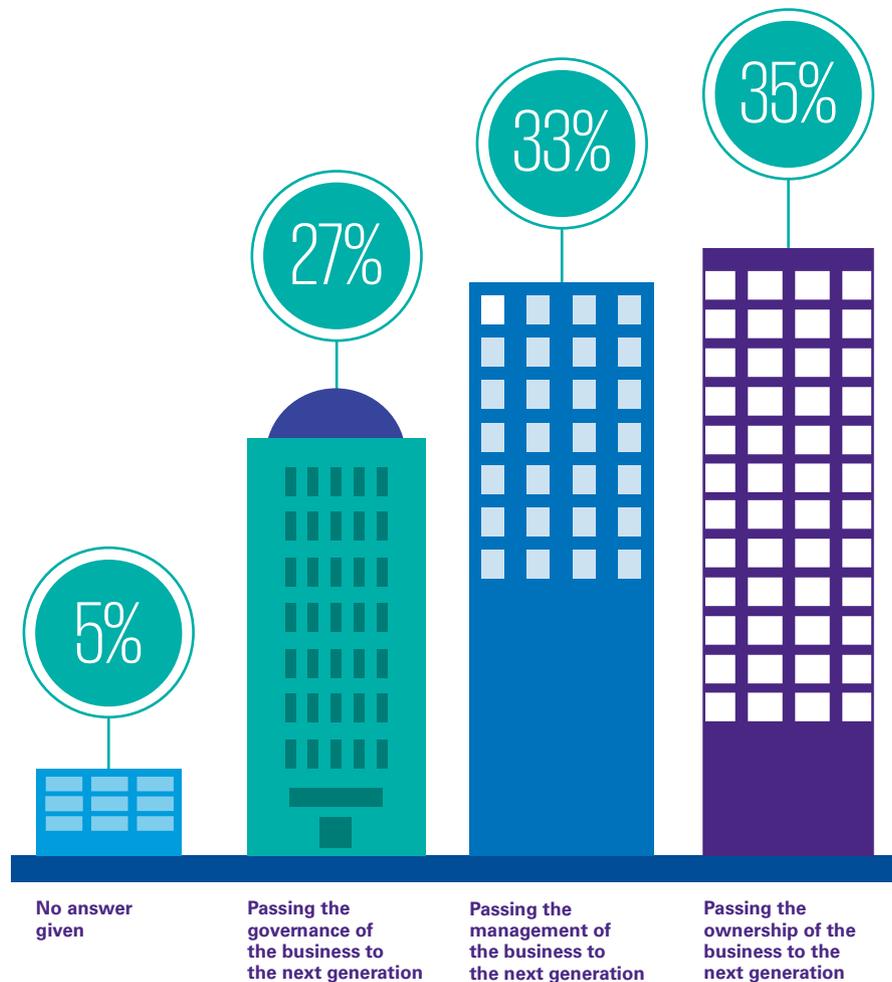
Global Co-leader, KPMG Enterprise Family Business, KPMG International, Partner, KPMG Enterprise in the UK

¹ Wealth-X, A Generational Shift: Family Wealth Transfer Report 2019.

According to this year's survey, 35 percent of respondents say they intend to pass ownership of the business to the next generation — and 33 percent plan to pass on management responsibilities to the next generation as well. Fewer respondents (27 percent) say they plan to transfer oversight responsibilities to the next generation, perhaps indicating the senior generation's desire to keep a close watch on things.

As these figures suggest, the family business successions to come may not simply be a matter of passing the baton to a son or daughter. While 84 percent of family businesses currently have a family member as president or CEO, only 62 percent feel a family member will occupy that role in the years to come. Interestingly, while more than two-thirds (69 percent) of larger, older family businesses — those with 1,000 or more employees — have a family CEO at the helm today, only 52 percent expect that trend to continue. This may indicate that as Europe's family businesses grow larger in an ever more complex business environment, the families behind those businesses are now recognizing the need for a robust executive leadership, even if that comes from outside the family. Bringing in a non-family CEO can also be a way to defuse tensions among family members, especially for older businesses spanning five or six generations.

What transition options are you considering for the family business?



Note: Numbers have been rounded to the nearest whole number.

Source: KPMG Enterprise *European family business barometer*, KPMG International, 2019.

However, most family companies will elect to appoint a family member as CEO when there's little to distinguish between family or non-family candidates, or there's no added value to bringing in an 'outsider.' The drive to preserve and sustain the culture at the heart of the family business is deeply ingrained and not something most families would tinker with lightly.

Family businesses beginning to adopt formal mechanisms

Over the years, a variety of structures, practices and documents — e.g. family offices, formal boards of directors and family constitutions — have been suggested as a means to assist families with the management and governance of the family business, including succession. Yet family businesses seem remarkably reluctant to adopt these measures.

Only one-quarter of family businesses overall report having a shareholders' agreement (26 percent) or formal board of directors (24 percent). While shareholders' agreements are slightly more common among smaller family businesses, boards of directors are more common in family businesses employing 250 people or more. This latter trend makes sense, for as companies grow larger and more complex, so do their governance needs,

eventually requiring a more formal board to be put in place.

Seventeen percent hold structured family gatherings, and 12 percent have a family constitution in place to guide them. Ten percent have established a formal advisory board. Only 8 percent of family businesses overall have a family office, according to respondents — although this rises to 14 percent of younger (i.e. less than 20 years old) family businesses.

This relatively low adoption of various governance structures is surprising, although the results may reflect respondents' differing interpretation of what these terms mean. The fact remains that companies of all sizes benefit from, if not outright require, proper governance, and family businesses are no exception. True, many family businesses may not wish to put a family constitution in writing, preferring instead to act according to an unwritten constitution comprising various norms, traditions and precedents. In Italy, for example, more than 20 percent of family enterprises operate with a sole administrator, and the families see little reason to change their approach. This sort of 'natural' informal or implicit way of governing the business may work — up to a point. When these informal methods are no longer sustainable, family businesses need to look at more formal structures.



Family businesses know that to lead the company, you need someone exceptional. You need someone

very talented and hardworking who has outstanding business acumen. Those aren't inherited qualities. Sometimes, they're found in the next generation of the family — but sometimes the right leader might be found somewhere else, outside the family.



Vangelis Apostolakis

Deputy Senior Partner,
KPMG in Greece



However, the absence of other mechanisms is worrisome — particularly the apparent lack of boards of directors at so many of Europe’s family businesses. Boards are especially valuable to a business, providing the oversight, sober reflection and independent perspective companies need to remain true to their values, achieve their objectives, and avoid unnecessary risk. To run a business without such oversight seems to invite trouble, even if it has worked well enough until now. Any family business should invest the time and resources to establish more formal governance practices. Even those businesses currently operating under informal practices should do so now, so that both the family and the business have time to ‘test’ the new mechanisms and ensure they function effectively, well before the business reaches the point where they become necessary.

Succession planning raises a number of challenges

When it comes to transitioning management or governance of the family business, respondents say the biggest challenge is finding the right person for the job: 32 percent of respondents feel it’s difficult — or extremely difficult — to identify a successor. Respondents representing both the senior generation and the next generation agree on this issue.

Family members are less likely to believe finding a successor will be hard: 51 percent feel identifying a successor won't be difficult, a sentiment shared by only 44 percent of non-family members. Surprisingly, *motivating* the successor is also seen as a significant challenge by 29 percent of respondents — a matter both the senior and next generations also agree upon. The obvious question to ask in relation to this figure: If the successor is difficult to motivate, why are they the successor?

Respondents also cited concerns over training the successor to take over the business (26 percent) and family conflicts related to the succession (24 percent). It's notable that the next generation is more concerned about these matters than the senior generation, particularly around family conflict. In fact, 32 percent of senior generation respondents felt managing family conflict would not be at all difficult, compared to 18 percent of those in the next generation.

The next generation is also more concerned than the senior generation about supporting management through the transition period (20 percent cited this as a challenge overall) and maintaining good relations with stakeholders (15 percent). The concern over supporting the successor is understandable: The next generation will want the business to reflect

their values, and may worry that the successor will instead reflect the senior generation's values. This may be less of a concern if the successor is part of the next generation, of course.

Family members also display much more optimism that most succession challenges can be overcome, compared to non-family members. Forty-six percent feel it won't be difficult to support management through the transition, compared to 32 percent of non-family members. Over half (54 percent) of family members see little difficulty in maintaining good stakeholder relations during the succession, compared to 44 percent of non-family members. And 40 percent of family members don't anticipate much difficulty in training the successor, whereas only 26 percent of non-family members feel the same way.

Ownership succession poses a different set of challenges for Europe's family businesses. The greatest challenge, according to respondents, is dealing with the emotional fallout of relinquishing ownership (37 percent). Surprisingly, the senior generation seems to be more at ease with the idea of the hand over: 28 percent of senior-generation respondents say it won't be difficult at all to relinquish ownership of the business, in contrast to 12 percent of those in the next generation.



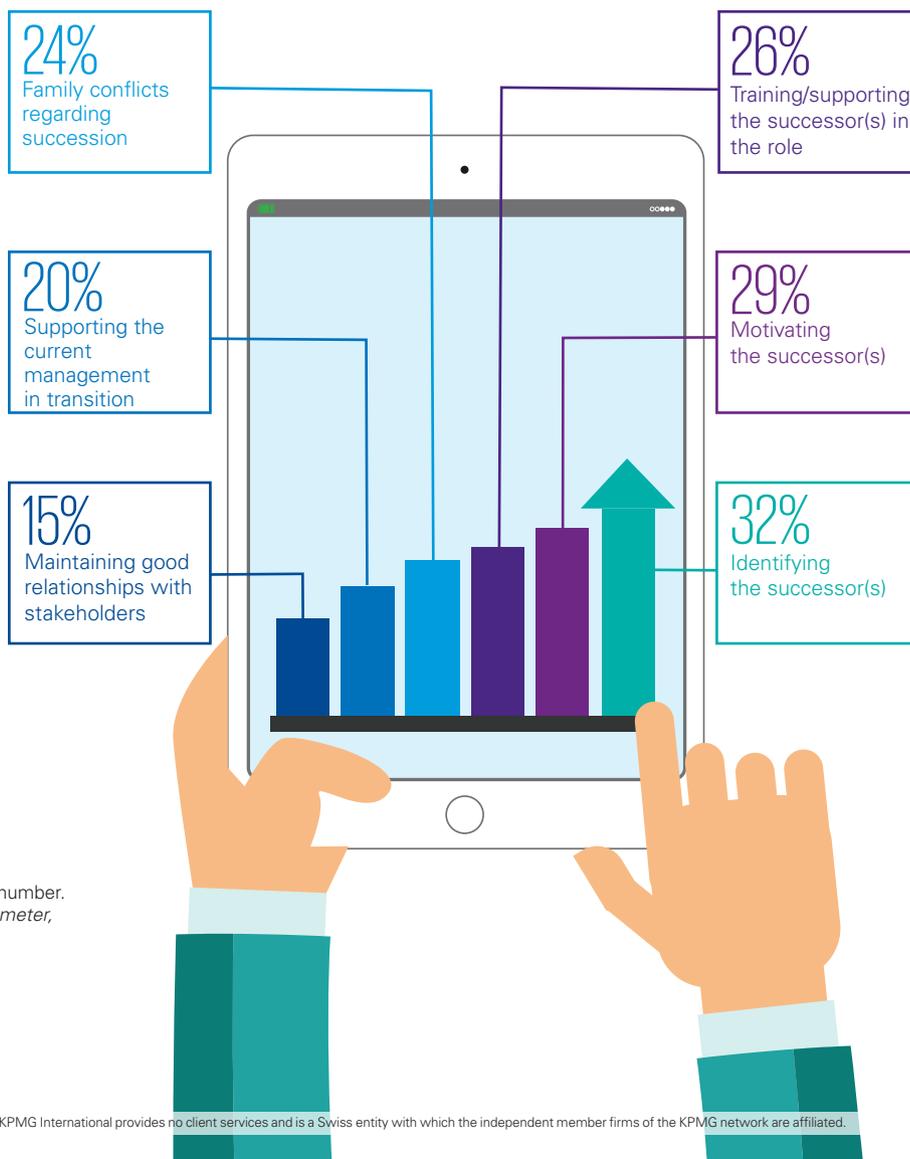
Family businesses are starting to look at and adopt governance practices from larger, listed companies, though the rate at which they're doing so varies depending on the country and the family's culture and traditions. One reason is that as businesses grow larger and more complex, the need for structured oversight becomes more acute. However, perhaps the most significant factor is that families realize they need a well-structured plan in place for the massive intergenerational wealth transfer that will take place over the next decade.

Daniel Trimarchi
Program Director,
KPMG Enterprise Global Centre of
Excellence for Family Business,
KPMG International

Managing the tax implications of the family business' hand over is another key concern surrounding ownership succession: 35 percent of respondents see this as a key challenge, though the senior generation appears to be less concerned about this issue than the next generation.

The senior generation is also less worried about managing family conflict arising from the transfer of ownership. Overall, 22 percent of respondents feel soothing family tensions will prove challenging — yet 31 percent of senior-generation respondents don't believe there will be much difficulty. Only 12 percent of the next generation share their optimism. Respondents from smaller family businesses appear to be more relaxed about managing family conflict: 50 percent of respondents from businesses with fewer than 50 employees feel handling the issue won't be difficult, compared to 36 percent of respondents from businesses employing 1,000 people or more.

How difficult do you think the following will be considering the transition of the family business management and governance?



Note: Numbers have been rounded to the nearest whole number.
Source: KPMG Enterprise *European family business barometer*, KPMG International, 2019.

How difficult do you think the following will be when considering the transition of family ownership?



Note: Numbers have been rounded to the nearest whole number.

Source: KPMG Enterprise *European family business barometer*, KPMG International, 2019.

Generational **(mis)alignment**



Generational conflict is nothing new: Each generation often sees the world through very different lenses. Europe's family businesses aren't immune to the phenomena — though, according to our survey, the families surveyed seem to be of similar minds in many ways.

Overall, a solid proportion of respondents feel aligned or extremely aligned on their business' future direction on a range of areas: new products and services (54 percent), corporate social responsibility (53 percent), business strategy (49 percent), family involvement (49 percent), succession (46 percent), financing growth (46 percent) and leadership style (40 percent). Alignment is greatest around corporate social responsibility and family involvement.

The senior generation is more likely than the next generation to feel positively about intergenerational alignment. It is also noteworthy that the larger the family business, the more likely it is that respondents report strong alignment between the generations. That's not to say there aren't hints of conflict between the generations: 13 percent of next-generation respondents say the generations aren't aligned around financial growth, and 9 percent of the senior generation would agree with them.

The senior generation's comparative positivity, which we have observed throughout this year's survey, may be a consequence of their experience — they've 'seen it all' and watched their businesses weather countless business cycles and

economic booms and busts. Alternatively, however, the senior generation may be so upbeat because they simply don't recognize that things aren't as rosy as they think they are; or they're not being honest with themselves. The senior generation of many family businesses can often turn a blind eye to the concerns and perspectives of the next generation, leading to miscommunication, frustration and potential conflict. Meanwhile, the next generation may well be burdened by expectations to reproduce or surpass the senior generation's success with the business, and wondering how to accomplish this in a world that seems, to them, incredibly uncertain.

KPMG Enterprise and EFB professionals both view succession as a process, not an event. No matter how well they think things are going, the senior generation should make a concerted effort to bring the next generation into the business at an earlier point. The senior generation needs to relinquish some control and allow the next generation to find their role or place within the business; this enables the next generation to find their footing while the senior generation is still around to support, advise and guide them. That said, the senior generation should take care to listen to the ideas and concerns of the next generation with an open mind, and not dismiss those ideas and worries too casually. Instead, engage with the next generation, bridge the gaps, and work together to address and alleviate the next generation's concerns about the business and their place in it.

Sustainability

moves towards center stage



No one can deny the rising importance of sustainability to businesses of all kinds across Europe, not only family businesses — and not simply because many companies are required to report on sustainability matters. If you're a family business of any size, especially one focused on the consumer market, you can be absolutely certain that sustainability is important to your customers. If you're not focused on sustainability, you should be.

Patrick De Schutter

Partner, Head of Family Businesses and Regional Development, KPMG in Belgium



Sustainability is definitely on the minds of Europe's family businesses: 37 percent of respondents say that sustainability is very important to their company's strategy — and another 16 percent say it's extremely important. Moreover, sustainability takes on even greater importance the larger the family business. While 45 percent of family businesses employing under 50 people say sustainability is very or extremely important to their strategy, 66 percent of those with 1,000 people or more say the same.

That's not to say smaller family businesses take a dimmer view of sustainability; it may reflect the fact that they simply don't have the time or resources to focus on the issue. A business that's trying to manage margin pressures may find it much harder to focus on sustainability matters. This suggests that Europe's smaller businesses — family-owned or not — could use more support and help to become more sustainable, from financial incentives to advisory support and beyond.

Europe's business families commonly take great pride in contributing to the

well-being of their communities, and take great care with their reputation in those communities. Businesses also recognize that sustainability is a key factor in attracting and retaining younger talent. Yet while it's not surprising that respondents pay attention to sustainability, it's notable that this sustainability push is different. It's being driven by next-generation family members, who have grown up in a world facing climate change and are convinced that the climate crisis and sustainability will be critical and that transformational forces will impact both business and society. As a result, the next generation is determined to ensure their companies perform well on environmental issues and corporate social responsibility. The next generation's sustainability interests increasingly extend beyond the business itself to encompass how and where the family itself invests; considering the significant wealth to be transferred to the next generation, this could send ripples across Europe's business community.



Europe's family businesses may not see climate change as a major priority for the EU at the moment, but that's likely to change as the next generation takes control. The next generation is more deeply committed to sustainability and environmental issues, and we expect to see them demand more action from the European government on these issues.

Jesús Casado

Secretary General,
European Family Businesses (EFB)



Committed

to the European project



With Europe's 2019 elections now past and a new European Commission and EU Parliament taking shape, Europe's family businesses are eager to see politicians make trade a priority. Thirty-five percent feel the EU's key priority should be completing the single European market, a matter of particular importance to large companies. Twenty percent believe the EU's main priority should be taking the lead on championing global free trade; that figure rises to 30 percent of UK respondents, perhaps reflecting Brexit anxieties.

Twenty-one percent of respondents feel the EU's top priority should be ensuring the education system is preparing students for the jobs of the future. Given the importance of sustainability to many family businesses' strategy, it is rather surprising to see only 13 percent of respondents say the EU's priority should be leading on climate change. Few respondents expressed interest in regulating the digital economy, either: a mere 10 percent felt this area should be a top priority for the EU.

It's encouraging to note that what family businesses would like to see from the EU aligns well with the reform program outlined by the incoming European Commissioner and the EU Parliament. Expanding and strengthening the single market, taking concerted action to support free trade across Europe and around the world, and investing in ensuring Europe's younger generations are equipped to thrive in a digital world — these initiatives are good for the future prosperity of Europe and Europe's family businesses.



Europe's business families know what they want the European government — and by extension, Europe's national governments — to focus on. They want to see the single European market completed. They understand that the single market is essential to the ongoing, long-term success of their businesses and the European economy overall. ”

Darius Movaghar
Senior Policy Advisor,
European Family Businesses (EFB)



Striding

**confidently towards
tomorrow**



Family businesses have long played a key role in Europe's economy, and over decades and even centuries they have demonstrated the long-term perspective needed to thrive in all conditions. They have, in many cases, seen it all. And we can use their experience as a guide to what's to come, and how to navigate the challenges that arise.

Europe's family businesses still see cause for optimism in the short term, and other companies should use their confidence as an inspiration. At the same time, family businesses are also sending a clear signal on what they believe will be important to ensure they

can continue to grow and succeed over the long term: focusing on innovation, investing in upgrading the skills and education of their workforce, and expanding beyond the core business on which their success has been built on.

Family businesses have endured precisely because of their skill at anticipating the need to evolve with the times, and all companies — and countries — should learn from their example. Europe and the rest of the world face many significant economic, environmental and social changes, and it is time to be bold and evolve.

Methodology

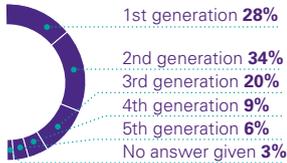
The *European family business barometer* is based on the results of an online survey. In total, 1,613 completed questionnaires were received during the period 13 May 2019 to 19 July 2019. This is the eighth survey of its kind to be conducted measuring trends among European family businesses.

This year's questionnaire was developed with the support of the SPRING team (EU-funded project, Erasmus+ KA2 Knowledge Alliances, www.euspring.eu).

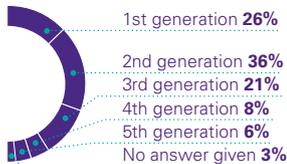
Respondents' profiles

1. Which generations of your family are currently involved in the following roles within your family business:

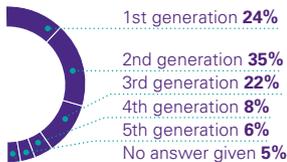
1.1 In ownership?



1.2 In governance?

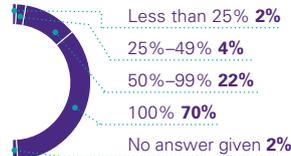


1.3 In management?



2. Concerning the ownership structure of your business:

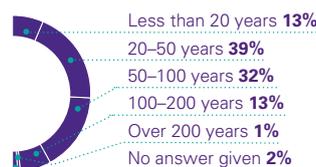
2.1 What is the percentage of the family's ownership?



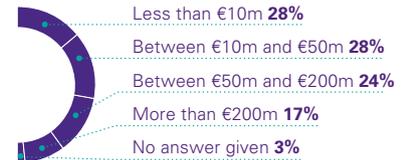
2.2 What is your family business?



3. How long has your family business been operating with family ownership?



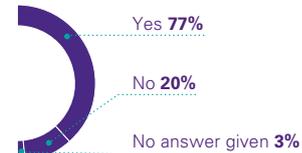
4. What is the approximate annual turnover of the family business?



5. Approximately, how many people do you employ (the equivalent of full-time employees)?



6. Are you a family member?



7. Which generation do you represent in your family business?



Note: Numbers have been rounded to the nearest whole number.

Source: KPMG Enterprise *European family business barometer*, KPMG International, 2019.

We trust that these results have provided an insightful look into the family business community.

If you would like more information about the study, please contact a family business adviser listed in the pages that follow. KPMG Enterprise and European Family Businesses (EFB) look forward to continuing this project and shedding more light on this important sector for Europe. We hope that you will continue to contribute to our survey.

Responses from the following countries have been analyzed:

- Andorra
- Austria
- Belgium
- Bulgaria
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Greece
- Ireland
- Italy
- Luxembourg
- Malta
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Serbia
- Slovakia
- Spain
- Switzerland
- Turkey
- United Kingdom



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About **EFB**

European Family Businesses (EFB) is the EU federation of national associations representing long-term, family-owned enterprises, including small, medium-sized and larger companies.

The organization was created in 1997 and represents EUR1 trillion in aggregated turnover, 9 percent of European gross domestic product. EFB's mission is to press for policies that recognize the fundamental contribution of family businesses in Europe's economy and create a level playing field when compared to other types of companies.

Visit: www.europeanfamilybusinesses.eu

About **KPMG Enterprise**

Passion. It's what drives entrepreneurs, family businesses and fast-growing companies alike. It's also what inspires KPMG Enterprise advisers to help you drive success.

KPMG Enterprise advisers in member firms around the world are dedicated to working with businesses like yours. We understand what is important to you and can help you navigate your challenges, no matter the size or stage of your business. You gain access to KPMG's global resources through a single point of contact — a trusted adviser to your company. It's a local touch with a global reach.

Visit: www.kpmg.com/enterprise

KPMG Enterprise

Global Center of Excellence for Family Business

As with your family, your business doesn't stand still — it evolves. Family businesses are unique. KPMG Enterprise Family Business advisers understand the dynamics of a successful family business and work with you to provide tailored advice and experienced guidance to help you succeed.

To support the unique needs of family businesses, KPMG Enterprise coordinates with a global network of member firms dedicated to offering relevant information and advice to family-owned companies. We understand that the nature of a family business is inherently different from a non-family business and requires an approach that considers the family component.

Visit: www.kpmg.com/familybusiness

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