The future is now
Family Business Survey

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Introduction

PwC has worked extensively with family firms across the world for many years, so we appreciate how distinctive these businesses are compared with today’s publicly-listed corporates. Decision making is very different when it’s your own money that’s at stake and as a result family firms tend to have a long-term commitment to jobs and local communities, which gives a significant but often underrated stability to national economies.

In the face of the current uncertain economic environment, governments around the world have been looking for ways to encourage – in broad terms – exactly the same ‘patient’ and responsible approach to business that the family firm has been practicing for centuries.

In this year’s survey we have canvassed the views of 1,952 family business owners spread over 30 countries, including 100 family business owners across South Africa. We have been able to record the views of these entrepreneurs operating in a wide range of industries and have benchmarked local views and trends against those of their global counterparts.

The results of this year’s PwC Family Business Survey prove that there is a great deal the wider corporate sector could learn from family firms, just as there is far more that governments could do to support them. But it’s not all one way. We believe there’s much more the family business sector itself could do as a collective to take greater control of its own destiny.

We believe that family firms can do more to help themselves, firstly by adopting some of the professional processes and practices of their publicly-listed corporate competitors, but also by being more proactive in finding and securing the assistance they need.

*The survey shows that family firms are robust, vigorous and successful – they’re ambitious, entrepreneurial and continue delivering solid profits, even in the continued uncertain economic environment.*

PwC is committed to helping family businesses succeed. We hope you will find the information shared in this report useful as you plan for the future of your business. I encourage you to reach out to any of the contacts listed in the contacts section to talk about the survey findings or other issues as discussed in more detail.

Andries Brink
National Private Company Services Leader

Andries Brink
A family business usually develops as a result of true entrepreneurship, with many having been founded to meet a demand for a specific service or product and having developed the skill and know-how to deliver this.

Other defining characteristics are that ownership (shareholding) and control (directorship and management) are kept within the family and that owners of family businesses will involve people who are like-minded while keeping control on a strategic, operational and succession level.

**Characteristics of a family business**

**Quicker and more flexible decision making**

Owners of family businesses often believe that they are more agile and flexible than their corporate competitors, which means they’re better able to exploit gaps in the market.

Some businesses cited the current economic challenge as a business opportunity and have been able to move quickly to acquire businesses or competitors at historically low prices.

**An entrepreneurial mindset**

Family business owners tend to be self-driven, fearless, hands-on individuals, who believe in themselves and in what needs to be done. They are generally proud and emotionally attached to what has been achieved and for that reason keep it within the family.

Family business owners in South Africa believe they play a vital role in their country’s economy. This includes job creation, supporting long-term employment and adding stability to a balanced economy. Family businesses view themselves as entrepreneurial and risk taking.

“The future is now”

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The family business
Agile, personal, long-term

This year’s PwC Family Business Survey covers 1,952 firms across the world, including 100 South African businesses. Participants come from both developed and emerging sectors as diverse as manufacturing, retail, automotive and construction. The respondents could not have been more varied in their size, location and industry, and yet there was a marked similarity in their approach to business, and in what they considered to be the distinctive characteristics of businesses like theirs.

“Family businesses will have the chance to fill niches that the corporate companies cannot cover because they are not as flexible as self-owned companies that can realise new ideas.” (Switzerland)

“A big difference is the long-term vision and focus found in family businesses and a focus on value for the family as well as its employees and community. It is not just about job security for the family and people working here now, but also about our children. Our management is treated as part of the owners and everyone shares in the profit of the company.” (South Africa)
“It goes without saying that South Africa – as a nation and as an economy – displays a resilience that is admirable. While industry leaders acknowledge the vast array of challenges and uncertainties they face, they remain refreshingly positive in their belief that by becoming more agile and adaptable, their organisations will ultimately be better able to succeed. Stakeholder engagement and a positive long-term outlook characterize SA’s current business sentiment. In short, business leaders are committed to creating certainty. PwC is proud to support these businesses in South Africa, as well as on the wider African continent.”

Suresh Kana, Africa Senior Partner, PwC
Main findings

Growth outlook: Family businesses are ambitious and confident about their prospects

Seventy percent of family businesses have grown sales in the past year, compared with less than half in 2010. Over 93% of the businesses we spoke to anticipate steady or aggressive growth in the next five years and 53% of those who expect to grow are very confident about their company’s prospects over that period.

The economic environment remains the key external challenge

Just like every other business, family firms are facing major challenges in the current downturn and in this respect there is little change from the previous survey conducted in 2010. The three issues identified by most respondents were market conditions (54%), which includes a lack of confidence in government, policy uncertainty and existing infrastructure (i.e. electricity, e-tolling and taxes), exchange rate fluctuations (32%) and government policy and regulation (32%).

BBBEE (Broad-Based Black Economic Empowerment) is seen as a particular challenge to family businesses, particularly with regard to the availability of qualified empowerment partners and the importance of a good ‘fit’ between the family business culture and the culture of the empowerment partner.

Despite their clear sense of their own importance within the economy, family businesses in South Africa do not feel supported or fully recognised by the Government and this impacts the successful implementation of BBBEE. There is a feeling that more needs to be done to support family businesses, including accessing finance and relaxing labour laws and regulation.

Internally, the two main issues are retaining the right skills and talent and managing costs

The recruitment of skilled staff and talent has become more acute since the previous survey with the proportion of companies recognising it as a top priority growing from 54% to 60%. Cash flow and cost control have also increased significantly as an issue from 19% in 2010 to 33% in 2012.

One contributing factor is the rising electricity price. South Africa has seen a 45% increase in electricity tariffs in the last two years. This suggests that many businesses have to take action to streamline internal processes, improve inventory control and reduce debt. A number of businesses also cited the importance of establishing or improving their internal IT systems, especially in relation to regulatory compliance.

Succession planning: The transition between generations can build or break a family business

Around a quarter (26%) of respondents are apprehensive about the transfer of the business to the next generation, stating that the next generation won’t have the required skills and aptitude to own and run the company. Another 22% foresee that there will be conflict between the family and those managing the company.

Some family businesses are planning to manage the transition process – and reinforce the business for the future – by bringing in external management. It is almost unavoidable for a growing and successful family business not to consider the need to appoint an external CEO and/or management team at some point. Over 90% of family businesses in South Africa have procedures in place to deal with family member issues and conflict.

Globalisation: Extending African footprints

Seventy-five percent of the family businesses surveyed identified Africa as their most significant expansion opportunity. According to the IMF, between 2000 and 2010, six of the world’s 10 fastest-growing economies were in sub-Saharan Africa and the forecast for the next five years is even more optimistic.

South African family businesses should consider cross-border opportunities as an important aspect of their strategic planning. Findings of the global survey suggest that family businesses are more likely to export to other countries on their continent, particularly neighbouring countries.

Government support for family businesses

No less than 56% of respondents strongly disagree that the South African Government recognises the importance of family businesses to our country’s economy and 81% believe that the Government is not doing enough to help businesses survive and develop their activities in the current economic climate. Three-quarters of respondents believe that the Government should make it easier for family businesses to access finance.
Pursuit of growth
Facing up to external and internal challenges

Growth

Seventy percent of family businesses have grown sales in the past year, compared with less than half in 2010. Over 93% of the businesses we spoke to anticipate steady or aggressive growth in the next five years and 53% of those who expect to grow are very confident about their company’s prospects over that period.

External challenges

With current economic conditions remaining tough, family-owned businesses are finding market conditions more of a challenge (76%) compared to the 2010 survey (69%). Disaggregating the 2012 percentage highlights a lack of confidence in the Government and policy uncertainty as well as the general state of infrastructure, which contribute 28% and 19% respectively to the 76% total.

Government policy often features prominently as an external challenge and it has increased from 25% in 2010 to 32% in the current survey. We find that larger family businesses are experiencing the most significant impact of government policy on their businesses. Businesses want to be able to plan ahead and government policy (including regulation, legislation and public spending) needs to be executed in a stable environment in which there are clearly-defined fiscal and monetary policies for the foreseeable future.

In the 2010 survey, 23% cited currency and exchange rates as an issue. While this has increased to 45% in the latest survey, the bigger family businesses have plans and processes in place to deal effectively with currency fluctuations. Two-thirds of the businesses that cited the exchange rate as a challenge have revenues of between R40m and R160m.

Some businesses have told us that they have opted to invest more in their operating capital and buy more foreign raw material than they would typically need in a production cycle, rather than be exposed to continuous currency fluctuations when the raw materials are sourced only when needed. They report that this approach has also enabled them to buy when exchange rates are favourable and wait it out when they are not.
**Internal challenges**

Whether we were speaking to a local executive or to one from a developed country such as Canada, the biggest internal challenge remains the shortage of skilled labour. Globally, 43% of family businesses recognise this as their biggest internal challenge. Locally, 60% of the family businesses we asked said that the battle for brains is their biggest internal challenge.

More and more family businesses are telling us that finding appropriately skilled talent is a problem. They expect this trend to continue with 64% seeing this challenge persisting for the foreseeable future.

The second-biggest internal challenge revolves around cash flow and cost control. In 2010, 19% mentioned it as a challenge, while 33% give it a high priority in the current survey. Of these, fewer than 5% are businesses with revenues of more than R800m.

It appears that size does count when dealing with cash flow and cost control, as the majority of businesses that recognise it as a challenge are those with revenues between R40m and R160m.

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Key internal challenges within the next 12 months

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Global 2012</th>
<th>South Africa 2012</th>
<th>South Africa 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment of skilled/talented staff</td>
<td>43%</td>
<td>54%</td>
<td>60%</td>
</tr>
<tr>
<td>Cash flow/controlling costs</td>
<td>17%</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>Company re-organising/company specific</td>
<td>21%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Raw materials/prices/supply/quality/transportation</td>
<td>10%</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Finance/availability of funds</td>
<td>14%</td>
<td>14%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Base: All respondents

*“The financial markets are our top external challenge, including competitive growth from the Asian market and customer uncertainty about the economy.”*  
(Second-generation family business)

*“I think the challenges will be trying to stay competitive with corporations and not being driven out of the market due to cost factors or other issues. The world is losing the personal touch due to the declining number of family businesses. There is less of a bond between businesses and their customers.”*  
(Second-generation family business)
The war for talent
Competing for skills and retaining talent

In many markets family businesses are in competition with listed companies to attract the brightest and the best. The challenge can be that the most highly-qualified people have not traditionally opted to work for family firms because they believe that their progress will be artificially constrained by the shareholding structure, and they will achieve greater financial rewards and career fulfilment elsewhere.

“‘We have a professional management team that manages the business, all family not employed unless they have the right skills required. The family, however, determines the culture and strategic direction.’ (South Africa)

“‘They agree that the long-term success of the organisation depends on building and retaining exceptional employee teams. They are therefore very focused on integrated long- and medium-term incentive plans to enhance career opportunity and retention within the organisation.’ (South Africa)

Sixty-one percent of South African respondents agree that South Africa does not have enough appropriately skilled people entering the job market.

As the above graph demonstrates, these results are the most negative of all countries surveyed.

Level of agreement that people entering the job market have the right skills and education

<table>
<thead>
<tr>
<th>Country</th>
<th>NET Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>33%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>28%</td>
</tr>
<tr>
<td>Finland</td>
<td>22%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>22%</td>
</tr>
<tr>
<td>India</td>
<td>22%</td>
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<tr>
<td>Ireland</td>
<td>17%</td>
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<tr>
<td>Greece</td>
<td>15%</td>
</tr>
<tr>
<td>Germany</td>
<td>13%</td>
</tr>
<tr>
<td>Singapore</td>
<td>12%</td>
</tr>
<tr>
<td>Denmark</td>
<td>8%</td>
</tr>
<tr>
<td>Malta</td>
<td>5%</td>
</tr>
<tr>
<td>Mexico</td>
<td>2%</td>
</tr>
<tr>
<td>USA</td>
<td>2%</td>
</tr>
<tr>
<td>Australia</td>
<td>0%</td>
</tr>
<tr>
<td>Canada</td>
<td>-2%</td>
</tr>
<tr>
<td>Belgium</td>
<td>-5%</td>
</tr>
<tr>
<td>Sweden</td>
<td>-7%</td>
</tr>
<tr>
<td>Turkey</td>
<td>-10%</td>
</tr>
<tr>
<td>Austria</td>
<td>-14%</td>
</tr>
<tr>
<td>Middle East</td>
<td>-14%</td>
</tr>
<tr>
<td>South Korea</td>
<td>-19%</td>
</tr>
<tr>
<td>France</td>
<td>-26%</td>
</tr>
<tr>
<td>Italy</td>
<td>-30%</td>
</tr>
<tr>
<td>Brazil</td>
<td>-31%</td>
</tr>
<tr>
<td>Romania</td>
<td>-42%</td>
</tr>
<tr>
<td>Russia</td>
<td>-47%</td>
</tr>
<tr>
<td>UK</td>
<td>-51%</td>
</tr>
<tr>
<td>South Africa</td>
<td>-61%</td>
</tr>
</tbody>
</table>

NET agreement = proportion of those disagreeing subtracted from those agreeing
The *Global Competitiveness Report 2012-2013* ranks South Africa 113th out of 144 countries in terms of its labour market efficiency, with rigid hiring and firing practices (143rd), a lack of flexibility in wage determination by companies (140th), and significant tensions in labour-employer relations (144th).¹

Just under half (45%) of second-generation family businesses recognise retaining skill and talent as a serious challenge. However, the need for good people certainly does not only impact family businesses. In the latest South African edition of PwC's Annual Global CEO Survey, released in January 2013, no less than 88% of local CEOs indicated that they are extremely concerned about the availability of key skills.

The long-term skills shortage is a problem globally, but more so than ever in South Africa, where the level of concern has increased steadily over the past few years to reach a situation in which the unavailability of key skills now tops the list of challenges facing CEOs in South Africa.

It is certainly true that the challenge of finding and keeping good people is intensified in family-run businesses, most notably in second-generation companies, where access to large pools of talent is limited by the size of the organisation, constrained remuneration options and limited opportunities for career advancement.

**Considerations**

**Development programmes: Map what you have and what you need**

Family businesses should consider implementing (if not already in place) a formalised talent management process that will map the skills and capabilities within each team or department and then develop a plan to ensure there is a pipeline of suitably-qualified people coming through in the short, medium, and long term. Such a plan should include training and development needs for the individuals concerned.

The value of well-structured mentoring and coaching programmes as a vehicle to transfer skills and address the need for succession planning, cannot be overemphasised.

**Career paths to attract and provide incentives to the right talent**

Talent outside the family structures often perceive that their career options will be limited. Formal career paths can go a long way to addressing this perception and remove a potential barrier to attracting the right talent. A structured approach will also help family business founders to ‘let go’.

**Innovative rewards**

Future talent is motivated by more than money. Family businesses are in a better position to move more quickly and have more liberty than corporate counterparts in implementing innovative solutions to attract and keep talent.

**Culture management and continuity**

New managers of family businesses need to understand and appreciate the very different environment they have transitioned into and adapt their management style accordingly.

It is imperative that they find a way to maintain, build upon and leverage the elements of the family business culture – that is the way things get done – that contributed to the business success.

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As the survey results make clear, family firms are a vigorous group of extremely ambitious entrepreneurs, many of whom are running successful high-growth companies. However, there are particular hurdles to overcome if the family business sector is to fulfil its full potential and achieve its ambitious growth plans. Some of these are specific to their particular business model – such as succession planning.

Succession planning
The transition between generations can build or break a family business

As the survey results make clear, family firms are a vigorous group of extremely ambitious entrepreneurs, many of whom are running successful high-growth companies. However, there are particular hurdles to overcome if the family business sector is to fulfil its full potential and achieve its ambitious growth plans. Some of these are specific to their particular business model – such as succession planning.

Succession
The very essence of the family business is that it is passed from one generation to the next, but the moment of transition – and the years leading up to it – can make or break the firm’s future success.

Succession – what that will look like and what it will mean to the families behind these businesses – should be a top-of-mind issue as many of the current generation of leaders will be exiting in the next three to five years. In many cases, the outgoing generation doesn’t appreciate the new complexities of doing business nor are they planning to take a more global approach to business which is necessary in today’s economic environment.

Even though half plan to pass the business on to the next generation, they have concerns about their capabilities. Succession should be an ongoing process, not one that begins every 30 years. It’s clear that this is a pivotal time for family businesses in South Africa and by extension, for the economic well-being of the country.

Own, manage, or sell?

Forty percent of respondents intend to pass on the management of their business to the next generation, though it was noticeable that 26% remain unsure whether the next generation will have the skills and enthusiasm to do this successfully.

Almost a quarter (23%) intend to pass on their shares, while bringing in professional managers, citing the next generation’s lack of skills as the main reason for this decision. Understandably, the proportion with this sentiment was slightly higher among those businesses looking to start exporting for the first time.

“In the event that someone is not pulling their weight, it is much more difficult to make a business decision that you should make – there can be a conflict between the head and the heart.” (Ireland)
The future is now

“The risk is you have] a narrow vision in terms of experience and need to inject new blood to get a different perspective. You can get complacent with a stable mindset and it would be better to be open or receptive to change.” (United Kingdom)

Succession planning is often evolutionary rather than planned. This means that for the family business to be successfully passed on to a next generation there should be a family member who takes the initiative and is willing to learn the trade the hard way. This means that the successor will naturally grow into the role of CEO/chairperson under the supervision of the father/uncle/grandfather, until succession comes naturally and without sudden changes to the management style of top management. The challenge is to decide on the vision of the business and to be adaptable when the management of the business is passed on to the next generation, but also to maintain the family culture as the business is growing.” (South Africa)

“It is almost unavoidable for a growing and successful family business not to at some point consider the need to appoint an external CEO/management team. With rapid changes in the economy, the owners of the business need to focus on growth, while maintaining the “family-culture” which has served them well in the past through their internal structures – build on the family’s ethos and management style.” (South Africa)

The remaining respondents had either not yet decided what to do with their business when they retire or were planning to sell or float it (30%). Those in the latter category had come to this conclusion either because the next generation did not want to take the business on, were too young or did not have the necessary skills.

Flotation is probably not an option for most family businesses, which makes acquisition by a larger public company or private equity firm a far more likely outcome.

Family businesses that are considering taking this route have to consider carefully what this would mean in practice and what they might need to do to configure or restructure their operations to make them an attractive prospect for a commercial buyer or private equity investor. Those who value the personal nature of their business and the strength of its values need to accept that both of these are likely to be diluted – if not eliminated – should the firm be acquired by a third party.

Regardless of the form it takes, the moment of transition is rarely completely straightforward and is one of the most common sources of conflict within both the family and the business.

Don’t know

| Passed on to the next generation of the family to manage and own | 40% |
| Passed on to the next generation in terms of ownership, but professional management would be brought in too | 23% |
| Sell/float | 30% |
| Other | 2% |
| Don’t know | 12% |

Base: All respondents

| Passed on to the next generation of the family to manage and own | 41% |
| Passed on to the next generation in terms of ownership, but professional management would be brought in too | 25% |
| Sell/float | 17% |
| Other | 5% |
| Don’t know | 12% |

Global 2012

South Africa 2012

“Succession planning is often evolutionary rather than planned. This means that for the family business to be successfully passed on to a next generation there should be a family member who takes the initiative and is willing to learn the trade the hard way. This means that the successor will naturally grow into the role of CEO/chairperson under the supervision of the father/uncle/grandfather, until succession comes naturally and without sudden changes to the management style of top management. The challenge is to decide on the vision of the business and to be adaptable when the management of the business is passed on to the next generation, but also to maintain the family culture as the business is growing.” (South Africa)
Handling conflict

One unique quality that sets family businesses apart is their ownership model – the fact that the firm passes from one generation to the next. This can either be a source of strength and longevity, or a structural weakness that can undermine an otherwise healthy business.

This is where it gets personal. Many family firms find it difficult to manage the moment of transition from one generation to the next and some of the other problems we’ve already discussed can be traced back to issues left unresolved here. For example, some family businesses attempt to solve the conflicts that can arise at succession by allocating senior job titles by way of compensation to those who are perceived to have ‘lost out’.

Conflict can arise from a whole range of causes at this point, which is one reason why it’s such a dangerous time. There can be disagreement about whether to sell the business or hand it down. Many of the businesses we surveyed this year were unsure about either the aptitude or appetite of the next generation.

There can also be disagreements about future strategy and direction. Across the world PwC has seen numerous examples of younger family members with new ideas that may be at odds with their parents’ view of the future.

Remuneration can also – unsurprisingly – be extremely divisive, especially where there is a long-established pay framework in place that does not adequately recognise the different contributions made by each family member. In some firms, for example, all family members are paid the same, regardless of the role they play.

“Endurance and sustainability are probably some of the most sought after qualities a family business owner could wish for.” (South Africa)
A good number of respondents have put measures in place designed to deal with potential conflict, ranging from shareholders’ agreements (68%), entry and exit provisions (40%), and provision for a third-party mediator (41%) – though the presence of the latter may suggest that that particular business has experienced conflicts in the past.

Nearly half (46%) have also instituted formal measures for assessing performance, which can be the result of bringing in professional managers who would need such appraisal or arise from the need for an objective process to manage underperforming family members.

Across all respondents, 98% had some sort of conflict resolution mechanism in place, though it is possible that many of these mechanisms are very rudimentary. Furthermore, there is no way of knowing how effective they are likely to be should an actual conflict arise. Indeed, we suspect that some family businesses are seriously underestimating the degree of conflict that the next transition point may generate and would benefit from a greater understanding of the best practice governance measures they might take now to mitigate it.

**Considerations for smaller family businesses**

It is widely-recognised that the transition from one generation to the next is one of the biggest risks facing any family-owned business. As with so many things in life the answer lies in planning ahead. There need to be plans in place to be able to substitute the abilities of the owner or manager. Although this is true for all key personnel in the business, we’re concerned here with a change of ownership and/or management.

To identify the key elements of a successful transition of a business to the next generation, it helps to first identify the potential threats that can typically hinder the process of succession and then evaluate and identify tools to overcome these challenges.
### Transition considerations

<table>
<thead>
<tr>
<th>Identify challenges</th>
<th>Suggestions to meet these challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entrepreneurial spirit</strong></td>
<td><strong>Identify potential successors among descendants from an early age.</strong></td>
</tr>
<tr>
<td>Members of a family who establish family-owned businesses usually have a strong entrepreneurial spirit. There may be a question about whether succeeding generations will bring the same kind of drive and passion when they inherit the business.</td>
<td>Involve these descendants in the business and instigate, instil and require discipline, a work ethic and passion for the business from the start. Reward hard work in monetary and non-monetary ways, but penalise ineffectiveness and laziness in the same manner.</td>
</tr>
<tr>
<td>It is a truism that people value things more if they have had to work for them and this can be a problem with inheriting assets. The success rate is undoubtedly better when a business is bequeathed to a child or children who were participants in the process of building and establishing the business.</td>
<td>Make time for succession planning and let the children and successors know and be part of these plans. Consideration can be given to pass ownership to the descendants but to bring in professional independent managers after the demise of the owner.</td>
</tr>
<tr>
<td><strong>Legal structure</strong></td>
<td><strong>It is recommended that business be conducted via a separate legal persona and to have the shareholding held in a trust, especially if the business has a significant growth potential.</strong></td>
</tr>
<tr>
<td>If the owner conducted the business in a company or close corporation, the business will not cease because of his or her demise. The debitors, assets, creditors and inventory will be that of the entity and will not form part his or her estate.</td>
<td>Holding shares in a trust will, however, disqualify the business from being treated as a ‘small business corporation’ for income tax purposes. However, among other factors, this will only affect small businesses with annual turnover of less R14 million.</td>
</tr>
<tr>
<td>It is important to know that the owner merely bequeaths the shareholding or member’s interest if he possessed it personally. However, the shares or member’s interest need to be bequeathed in the will of the owner. Otherwise, they will devolve in terms of the law of intestacy and might end up in the hands of children that were not intended to receive them.</td>
<td>For businesses exceeding this threshold, it is undoubtedly beneficial to hold the shares in a trust, preferably from the commencement of operations as a subsequent transfer of shares will cause capital gains tax to be payable.</td>
</tr>
<tr>
<td>If the shareholding or member’s interest was held by a discretionary trust, the owner would not be able to bequeath such shareholding or member’s interest by will, as it did not legally belong to him or her.</td>
<td></td>
</tr>
<tr>
<td>If he or she wishes to convey intentions with regards to which descendant/s should effectively take control of the business, then a letter of wishes addressed to the trustees of the trust will suffice.</td>
<td></td>
</tr>
<tr>
<td>If the owner conducted the business in his or her own name or in partnership then all the assets and liabilities of the business will form part of the winding-up process of the estate, which will restrict normal business activities.</td>
<td></td>
</tr>
<tr>
<td><strong>Family considerations</strong></td>
<td><strong>If the surviving spouse of the business owner is not involved in the business do not let him or her remain part of the business, either by way of shareholding, in a managerial position or by way of benefitting him or her by burdening the business by providing him or her with an annuity-like income from the business.</strong></td>
</tr>
<tr>
<td>It often happens that the owner of a business desires that his or her surviving spouse be funded from the business after his or her demise.</td>
<td>A buy and sell contract with an underlying insurance policy will enable the deceased to sell his or her shares and to extract a cash value for his or her estate, which can be bequeathed to his/her spouse.</td>
</tr>
<tr>
<td>In many instances, such a surviving spouse does not contribute to the management or operations of the business and then such provision merely causes an outflow of cash from the business. Such an obligation on a business may prove to place such a burden on the business that its survival is threatened.</td>
<td>Suitable successors should be identified from an early age. Share succession plans with the family and descendants and make provision in other ways for those children who will not be part of the business in the future.</td>
</tr>
<tr>
<td>If the interests of the surviving spouse are to be ignored, most testators want to bequeath their assets in the most equitable way to their heirs, usually in equal proportions to their surviving children. As was mentioned earlier, this may cause ownership of the business to end up in unintended hands.</td>
<td>Draft a proper will that encompasses all the wishes and directions of the owner. If a trust is involved, have a letter of wishes drafted and kept with the will in safe custody. Ensure that the trust is drafted so that it cannot be seen as merely the alter ego of the owner and ensure that proper minutes and resolutions are kept.</td>
</tr>
<tr>
<td><strong>Regulatory environment</strong></td>
<td><strong>Build trusted relationships with sound business advisors from the commencement of the enterprise. It is far easier and more cost effective to start off correctly than to attempt to fix problems later.</strong></td>
</tr>
<tr>
<td>Businesses in South Africa today are subject to such a cumbersome regulatory environment that it can easily dampen the entrepreneurial spirit required to succeed.</td>
<td></td>
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<tr>
<td>The economic principle that the potential rewards should be directly correlated to risks taken is to a certain extent undermined by the regulatory environment.</td>
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<tr>
<td>The rights afforded by labour laws to employees, the rights enjoyed by lessees, the cumbersome rules emanating from black economic empowerment legislation, taxes, levies and municipal rates are just some of the burdens businesses must deal with.</td>
<td></td>
</tr>
</tbody>
</table>
Once a business achieves a certain size, it can only progress further by making a significant step change. This may take the form of a new opportunity in the domestic market prompted by the actions of a competitor or the introduction of a new product or innovation, but by far the most common change arises when the business begins to export for the first time.

Every business faces challenges as it grows, but this process can be particularly tricky for the family firm, as it raises complex questions about the resources the business can draw on, its ability to access finance and the risks owners are prepared to take.

Our survey shows that family firms are ambitious to grow, so many of them will face this challenge in the near future.

Some family businesses may be wary of exporting because they lack the specific skills and experience they need to do so effectively, but their reluctance may also spring from an understandable caution, or an inadequate understanding of the real nature of the risks that international expansion entails.

It’s clear from our survey that the identification, assessment and management of risk – in its broadest sense – are some of the skills that many family firms need to develop further. Other capabilities respondents mention range from specific areas like innovation, intellectual property and IT, to the need for a more focused and strategic approach to managing the business. Anticipating and addressing regulatory requirements and changes are a particular concern.

Seventy-five percent of the family businesses surveyed identified Africa as an expansion opportunity. According to the IMF, from 2000 to 2010, six of the world’s 10 fastest-growing economies were in sub-Saharan Africa and the forecast for the next five years is even more optimistic. The South African family business should consider cross-border opportunities as a vital part of their strategic planning, in addition to protecting and maintaining their local market share.
Issues raised by going global

One of the key challenges international companies face when searching for opportunities in Africa is where to start. Expanding into overseas markets becomes particularly complex for family firms, as they often draw strength from their longstanding local ties, which cannot easily be replicated elsewhere.

Survey results suggest that the five most significant challenges encountered when doing business in other countries are exchange rate risks (23%), understanding the local economics and ways of doing business (16%), logistics (14%), competition (19%) and dealing with local regulations (15%).

While the specifics of the market size and growth, channels to market, industry structure and government regulations will affect a company’s final decision, it is important first to gather relevant intelligence regarding a country’s macro environment. This allows for the clustering, prioritising and validating of regions, sub-regions and countries.

In today’s globalised world, making trade between economies easier is increasingly important for business. Excessive bureaucratic requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers, stifling trade potential.

Research shows that exporters in developing countries gain more from a 10% drop in their trading costs than from a similar reduction in the tariffs applied to their products in global markets.

Globally, South Africa ranks 115th among 185 economies in terms of the ease of trading across borders. The rankings for comparator economies and for sub-Saharan Africa in general (137th), provide other useful information for assessing how easy it is for a business in South Africa to export and import goods.

Knowing and understanding how to navigate the obstacles are some of the factors that have allowed successful international companies to profit from Africa’s high growth potential across a range of sectors.

Doing business in Africa requires both flexibility and a long-term strategic approach. There will be challenges ahead, but the overall opportunity remains in the continent’s long-term potential.

“[The greatest challenge is] consolidation through globalisation. Customers are getting bigger, which will put greater pressure on the size of the family businesses as against large multinational or publicly-owned corporates. In other words, scale.” (Australia)
Some of the world’s largest corporations began life as family businesses, and in the years since Rémy Martin bottled his first brandy or William Procter founded his soap and candle firm, the relationship between governments and firms like these has changed radically. As part of our survey, we asked family businesses whether they feel valued by their governments and what more they think should be done to support them.

**Family firms feel undervalued and overlooked**

Our results suggest that regardless of their size, sector or market, family firms are proud of the economic contribution they make, and yet many feel this is overlooked or underrated by their own governments.

Firms in markets like Turkey, Switzerland, Mexico, India, Malta and Singapore generally agree that their government values their sector, but this positive sentiment was outweighed overall by the number of respondents who considered that theirs does not – South Africa, the United Kingdom, France, Russia, Italy, Romania and Greece were the most negative.

<table>
<thead>
<tr>
<th>Country</th>
<th>NET Agreement</th>
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</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>-14%</td>
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<tr>
<td>Malta</td>
<td>-19%</td>
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<tr>
<td>Turkey</td>
<td>-24%</td>
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<tr>
<td>Middle East</td>
<td>-26%</td>
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<tr>
<td>Canada</td>
<td>-32%</td>
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<tr>
<td>Switzerland</td>
<td>-36%</td>
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<tr>
<td>South Korea</td>
<td>-38%</td>
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<tr>
<td>Hong Kong</td>
<td>-39%</td>
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<tr>
<td>Mexico</td>
<td>-42%</td>
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<tr>
<td>Austria</td>
<td>-47%</td>
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<tr>
<td>India</td>
<td>-49%</td>
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<tr>
<td>Sweden</td>
<td>-54%</td>
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<tr>
<td>Germany</td>
<td>-56%</td>
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<tr>
<td>Ireland</td>
<td>-58%</td>
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<tr>
<td>Taiwan</td>
<td>-62%</td>
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<tr>
<td>Belgium</td>
<td>-71%</td>
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<tr>
<td>UK</td>
<td>-71%</td>
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<tr>
<td>Brazil</td>
<td>-72%</td>
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<tr>
<td>Finland</td>
<td>-77%</td>
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<tr>
<td>Australia</td>
<td>-79%</td>
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<tr>
<td>Denmark</td>
<td>-97%</td>
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<tr>
<td>Romania</td>
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<tr>
<td>USA</td>
<td>-100%</td>
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<tr>
<td>Italy</td>
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<td>South Africa</td>
<td>-100%</td>
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<td>Russia</td>
<td>-100%</td>
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<tr>
<td>Greece</td>
<td>-100%</td>
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</tbody>
</table>

NET agreement = proportion of those disagreeing subtracted from those agreeing
Real support – or benign neglect?

Feelings run even higher when it comes to the action governments are taking – or not taking – to support family firms. Only three markets (Singapore, Turkey and Malta) agree that their government is doing everything it can to help them and there was overwhelming dissatisfaction from countries such as Australia, Denmark, France, Romania, the USA, Italy, South Africa, Russia and Greece.

A number of global respondents observed that their governments take unfair advantage of one of the characteristics of the family firm that governments always claim to value: other corporations can threaten to re-locate if they aren’t given tax breaks or other incentives, but there’s no need for governments to make the same effort for family businesses, because their strong local ties mean that they are highly unlikely to move to a more advantageous jurisdiction.

So what are family businesses looking for?

This divides into general measures and specific demands. Family businesses – like all businesses – want to see a reduction in red tape, a more stable economic environment, low interest rates, a more flexible labour market, further incentives for employment and training, a more consistent tax and regulatory framework and investment in infrastructure.

Family businesses also want to see more targeted support for their sector and measures specifically designed to help firms like theirs evolve and grow. Foremost among these, unsurprisingly, is tax. Family businesses are broadly united in their desire for a simpler and more supportive tax regime, especially when it comes to capital gains and inheritance tax – they want governments to make it easier and less costly to pass their businesses to the next generation. All too often the value added by one generation is all but wiped out by the tax that has to be paid by the next.

Family businesses are also concerned to see more financial incentives and tax reliefs for start-ups, additional grants and incentives to support R&D and investment in new technology, improved access to long-term finance, and more training and support tailored to the needs of the family firm, which includes mentoring and networking, and help with succession planning, conflict resolution, and international expansion. The latter need to focus in particular on helping family businesses understand the different cultural, commercial and regulatory environments they will face in specific markets overseas.

The general feeling of owners and managers of family businesses is that compliance with the regulatory environment burdens them to such an extent that they become uncompetitive and that the incentives and assistance provided by government are not enough. When entrepreneurs decide to start a new business, they are faced with a lot of bureaucracy and red tape at a point when they can ill afford it due to financial and other constraints.

Level of agreement that government recognises the importance of family businesses

<table>
<thead>
<tr>
<th>Country</th>
<th>Level of Agreement</th>
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<tbody>
<tr>
<td>Middle East</td>
<td>-7%</td>
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<tr>
<td>Malta</td>
<td>-13%</td>
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<tr>
<td>Switzerland</td>
<td>-13%</td>
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<tr>
<td>Singapore</td>
<td>-18%</td>
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<tr>
<td>Mexico</td>
<td>-19%</td>
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<tr>
<td>Turkey</td>
<td>-21%</td>
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<tr>
<td>Canada</td>
<td>-22%</td>
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<tr>
<td>Austria</td>
<td>-26%</td>
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<td>India</td>
<td>-26%</td>
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<td>Hong Kong</td>
<td>-26%</td>
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<tr>
<td>Sweden</td>
<td>-31%</td>
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<tr>
<td>Germany</td>
<td>-40%</td>
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<tr>
<td>Belgium</td>
<td>-42%</td>
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<tr>
<td>Taiwan</td>
<td>-42%</td>
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<tr>
<td>Brazil</td>
<td>-43%</td>
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<tr>
<td>South Korea</td>
<td>-48%</td>
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<tr>
<td>Ireland</td>
<td>-68%</td>
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<tr>
<td>Denmark</td>
<td>-70%</td>
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<td>Australia</td>
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<td>Finland</td>
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<td>Russia</td>
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<td>France</td>
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<tr>
<td>Romania</td>
<td>-70%</td>
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<tr>
<td>Greece</td>
<td>-70%</td>
</tr>
</tbody>
</table>

“Family businesses in Germany pay the lion’s share of duties and taxes, whereas the big corporations relocate to other countries.”
(Germany)  

“We would like to see consultation and training in succession planning, tax incentives and ownership incentives and improved tax laws, so as to make it easier to pass the business on without capital gains tax – we have capital gains tax here which can be pretty shocking.”
(Australia)
The process to register a business as a private company and for tax purposes in South Africa takes at least two months. One of the biggest stumbling blocks is the registration of a business for VAT purposes. Furthermore, the repayment of VAT (which often is the case for a start-up business) also takes too long. This impacts on the cash flow of the business, which it can often ill afford.

What’s more, to meet all compliance requirements is a challenging task, which not only takes substantial time, but also calls for a high level of expertise, as the laws are complicated. This expertise must often be sourced at a high cost, as the available resources either don’t have the time or the knowledge required.

The penalties for non-compliance are harsh and non-compliance is not an option. The new tax administration bill is even less flexible as very little discretion is allowed.

Government offers very few incentives for smaller businesses, other than on the micro level. The capital gains tax and estate duty payable when a business is transferred to the next generation often can’t be paid because of cash flow constraints.

This may be overcome by carefully planning succession, but this is not always possible. Labour laws and related issues are a further burden that impacts negatively on family businesses. Because of the difficulty in getting rid of underperforming employees or to cut back on the workforce due to the economic conditions, owners are hesitant to employ more people.

The fixing of minimum wages, unionisation and BBBEE requirements further constrain possible employment. Ownership and management of a family business is usually limited to family members, which makes it difficult, if not impossible, to comply with BBBEE requirements. When outsiders are allowed into the business, it can change the face and DNA of the business to that of an owner-managed or corporate business.

The Companies Act of 2008 was implemented on 1 May 2011 and was meant to ease compliance for smaller companies. Although audit and some other administrative requirements were relaxed, the practical implications of certain new requirements still need to be understood and implemented. It is interesting that many family businesses opt for voluntary audits.

Most family-owned businesses wish to be seen as good corporate citizens and to act honestly and ethically. They also want to be part of the solution to the issues facing South Africa. However, most also have an expectation that Government should do more and not treat them in the same way as it does corporate companies, when it comes to certain compliance issues.

Family businesses in South Africa believe they have stronger values than other businesses and a strong sense of responsibility to staff and community initiatives.

Family businesses in South Africa are committed to their communities and understand their role in people’s lives by providing jobs and giving back. These values are stronger among South African family businesses than their global counterparts. They are building legacies and are doing all they can to ensure that they are competitive and their businesses will continue to thrive.

Many South African family businesses are still in the first or second generation and many started from modest beginnings. These businesses need community support to grow, and in return they are very supportive of community needs.

A checklist for government action

- Is your tax regime as supportive as it could be for family firms?
- Are there grants and incentives designed to meet their specific needs, whether in innovation, R&D or new technology?
- Is there more you could do to help them obtain long-term finance for expansion?
- What are you doing to help them access export markets?
- What support do you offer on training and skills?
- Do you have agencies that facilitate networking, mentoring and partnerships with multinationals?
- Is there a national strategy for supporting and developing family businesses to grow domestically and internationally?
- And finally, is the support you offer adequately publicised?
Looking ahead

Globalisation will be crucial to success – or failure

The issue that emerges most strongly for the future is that of globalisation. There is clear apprehension about the impact of an ever more international approach to business and the growing power of global megabrands, though many businesses remain confident that local knowledge, agility and the ability to exploit profitable niches will keep their family businesses buoyant.

The economy remains a cause for concern

While two-thirds of respondents (66%) cited the general economic situation as their greatest concern, this proportion tended to be higher among those companies anticipating a business contraction. Increased competition within the market was noted by 58% of respondents as a cause for concern. This is often driven by the entry of new players. Half (50%) believe regulation will continue to be an issue.

South Africa is ranked 52nd out of 144 countries in the Global Competitiveness Report 2012-2013 and remains the highest-ranked country in sub-Saharan Africa and third among the BRICS economies. The strengths of South Africa in comparison to other sub-Saharan African economies include, but are not limited to, property rights, innovation and business sophistication.

These attributes make South Africa the most competitive economy in the region. However, in order to further enhance our competitiveness, we need to address a number of weaknesses. South Africa’s infrastructure, although good by regional standards, requires upgrading (63rd).

The security situation remains another important obstacle to doing business in South Africa. The high business costs of crime and violence (134th) and the sense that the police are unable to provide sufficient protection from crime (90th), do not contribute to an environment that fosters competitiveness.

Another major concern remains the health of the workforce, which ranked 132nd as a result of high rates of communicable diseases and poor health indicators generally.

If there’s one single message from this year’s survey it’s this: family firms are a vibrant and vital part of the global economy and can make an even more substantial contribution to growth and recovery if they’re given the right support, at the right time.

The war for talent is still waging for family businesses

Attracting appropriately-skilled staff (64%) and then retaining them (34%) were also high-profile concerns for the future, and again, especially for those planning high levels of growth. This reflects the combination of the country’s tight talent pool and the aging demographic of skilled workers.

The high-performing talent necessary to see family businesses into the future is a growing concern. Many respondents said that it is particularly difficult for family businesses to attract talented employees with the right qualifications because the brightest candidates tend to prefer working for listed multinationals, where the career path is clearer and where there is the possibility of equity at some stage.

Innovation will be vital to secure competitive advantage

Turning to the internal management of the business, the key emerging issues were innovation, skills and succession planning. The need to innovate (60%) was identified as a key challenge in the years ahead, although this was not as highly prioritised by South African family businesses. This is another area in which the Government or other bodies could potentially help and support family businesses.

A third (33%) anticipates the need to invest in new technology. Companies in Italy, Turkey and South Korea were particularly concerned about innovation, while those planning to grow aggressively were also more likely to focus on this.
Profile of South African survey respondents

Definition of a family business

For the purposes of this survey, a ‘family business’ is defined as a business in which:

- The majority of votes are held by the person who established or acquired the firm (or their spouses, parents, child, or child’s direct heirs);
- At least one representative of the family is involved in the management or administration of the firm; and
- In the case of a listed company, the person/s who established or acquired the firm (or their families) possess 25% of the right to vote through their share capital and there is at least one family member on the board of the company.

Survey methodology

This report highlights the views of 100 South African companies that were interviewed between June and September 2012 via a 20-35 minute, semi-structured telephone interview.

The South African portion of the survey is one component of PwC’s Global Family Business Survey of 1 952 interviews in more than 30 countries.
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