South African edition 2016/2017

Family Business Survey

New vines from strong roots

2 802

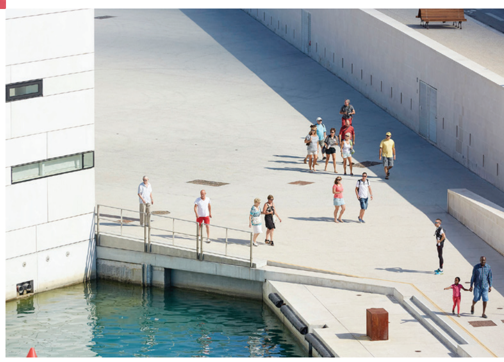
Interviews conducted globally with family businesses

50%

of SA respondents agree that professionalisation is a key challenge for the next five years

17%

of SA respondents have robust, documented and communicated succession plans in place



http://www.pwc.co.za/private-companies

Definitions

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 business (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 business; and
- In the case of a listed company, the person/s who established or acquired the business (or their families) possesses 25% of the right to vote through their share capital and there is at least one family member on the board of the company.

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Foreword

Despite the current economic uncertainty and the accelerating pace of change, South Africa's family business sector has high ambitions for quick and aggressive growth over the next five years. But our own experience in this sector is that only a limited number achieve their very ambitious targets. Many struggle to attract and retain the top talent that they need and others are hampered by a lack of funding.

Other significant challenges facing family businesses continue to focus around current market conditions, compliance with regulation, volatile exchange rates, the containment of costs, the need to professionalise the business, and corruption.

This year's survey is the largest and most comprehensive that PwC has run so far. It covers more companies locally and globally than any of our previous surveys. Senior executives from over 2 800 family businesses in more than 50 countries have taken part, of whom 130 were from South Africa, representing sectors as diverse as agriculture, retail and manufacturing.

We spoke to family members who manage their own firms, and CEOs who have been brought in from outside. And we spoke to those who plan to pass the running of their business on to the next generation, as well as those who see their family's future as owners but not managers of the business they have built.

The family business model has proved to be a driver for growth in the South African economy. These businesses have high levels of innovation and production – essential ingredients for contributing to growth in the economy. The resilience of the family business model appears to be supported by the following key factors: long-term management and investment; more flexible decision-making processes; an entrepreneurial mindset; a greater commitment to jobs and the community; and a more personal approach to business, based on trust.

Overall, the South African family business sector is in good shape, with 78% of respondents (Global: 64%) reporting growth in the last 12 months, and 62% expecting to grow steadily over the next five years, according to this year's survey results. In addition, 80% of South African respondents believe they offer stability to the economy and look after their staff even in the bad times. Survey respondents also cited the advantages of faster decision-making and an enduring entrepreneurial spirit.

Despite the relatively steady outlook, the absence of any change from survey to survey in areas such as succession planning, diversification, digital transformation and innovation is a cause for concern.

What is becoming clear is that the challenges are part of a much wider issue. The survey shows that family businesses are good at dealing with the nuts and bolts of running a business. But the challenge is having a long-term plan that links where the business is now to the long-term vision of where it could be. In other words, a vision that looks beyond the next 12 months to a five- to ten-year horizon. In some instances, selling the business is a conscious choice and a mark of success; but for many, not surviving the transition to the next generation may be a sign of a family firm not achieving their long-term ambitions.

Family businesses are still lacking when it comes to succession planning. Too many family businesses are still approaching the matter of succession as a one-off event rather than a long-term process. Being an effective owner means being an effective custodian of the family's values – the principles and priorities that give the business its character and continuity. A robust succession plan needs to be implemented as long as possible before the moment of handover. This is even more important now, when many people are having children later in life, meaning that the next generation will not yet be ready to take over when the current owners would like to retire.

The South African family business sector is in good shape, with 78% of respondents reporting growth in the last 12 months, and 62% expecting to grow steadily over the next five years.

In this year's survey, as many as 68% of respondents believe their family and business strategies are completely aligned, but anecdotal evidence suggests otherwise. Although many family businesses surveyed have some sort of succession plan (35%), only 17% have a formal succession plan that has been discussed and documented. More worryingly, this figure has not risen significantly in recent years.

More than a third of family businesses in South Africa plan to pass the business ownership on to the next generation. In the next five years we expect to see the biggest inter-generational transfer of wealth the modern economy has ever seen. Much of this wealth will take the form of shares in family businesses.

We recently undertook a detailed survey of the next generation of family business leaders to find out what their priorities are, and how they see the future. It comes as no surprise that the 'next gen' are ambitious, dynamic and open to change. According to the survey results, 88% want to do something special with the family business, and 69% would bring in experienced non-family members to help professionalise the business. In fact, they want the business they hand on to be very different from the one they inherit – they want to explore new products and services, as well as new markets; they are also interested in new locations and even new business models.

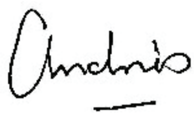
Indeed, we think they are more likely than any previous generation to make a go of it. The sort of person who is going to be running a family firm in five to ten years' time will look and think very differently from most of those doing it today. 'From strong roots new vines will emerge' – which is why a more robust approach to succession is critical for the whole family business sector.

In 2014, the main focus of our *Family Business Survey* was the professionalisation of the family firm. This year's results show that significant progress is being made in this area, but more still needs to be done. Every business will eventually reach the point where it has to professionalise the way it operates. This year's survey proves how important these priorities are. For instance, 50% of South African family business owners (Global: 43%) say the need to professionalise the business is a key priority over the next five years.

Digital transformation is also an area where the next generation could have a significant role to play. Many of them have grown up with the new technology and are keen to employ it when they take over. Just over half of South African family businesses (55%) understand the tangible benefits of moving to digital and say they have a realistic plan for measuring them.

In this report we look in more detail at this year's survey results, with a focus on the next generation of family business leaders. What is clear is that family firms remain robust, vigorous and successful – they demonstrate longer-term thinking and a broader perspective as they are more willing to invest for the long term.

We are committed to working with family businesses and helping them ensure the long-term future of their businesses while making an even larger contribution to economic growth and prosperity.



Andries Brink
PwC Africa Leader:
Entrepreneurial and Private Business

The family business sector in 2016

This year's results tell us that despite tough economic conditions and the accelerating pace of change, the family business sector continues to be vibrant, successful and ambitious. They tell us family businesses are a vital part of the economy, offering stability, a commitment for the long term, and a sense of responsibility towards to their communities and employees. They also tell us that family businesses can be vehicles for change and innovation.

Unshackled from the quarter-to-quarter financial performance of their listed peers, family businesses can invest for the long term, and allow good ideas the time they need to prove themselves. It is a classic example of patient capital acting as an invaluable counter-balance to the short-termism of many public companies. And family businesses are proud of it. **85%** (Global: 77%) of this year's respondents believe they offer **stability to the wider economy, 82%** (Global: 74%) say they **look after their staff better** and **81%** (Global: 72%) believe they see **success in broader terms than simply profit and growth**. Likewise, **78%** (Global: 71%) say they make decisions faster than their peers in the corporate sector. Many survey respondents also cited the advantages of direct communication, faster decision-making and an enduring entrepreneurial spirit.

But the absence of any significant change from survey to survey in areas such as succession planning, globalisation and digital and innovation is cause for concern. In some cases selling the business is a conscious choice and a mark of success; but equally, for many, not surviving the transition to the next generation may be a sign of a family business not achieving their long-term ambitions.

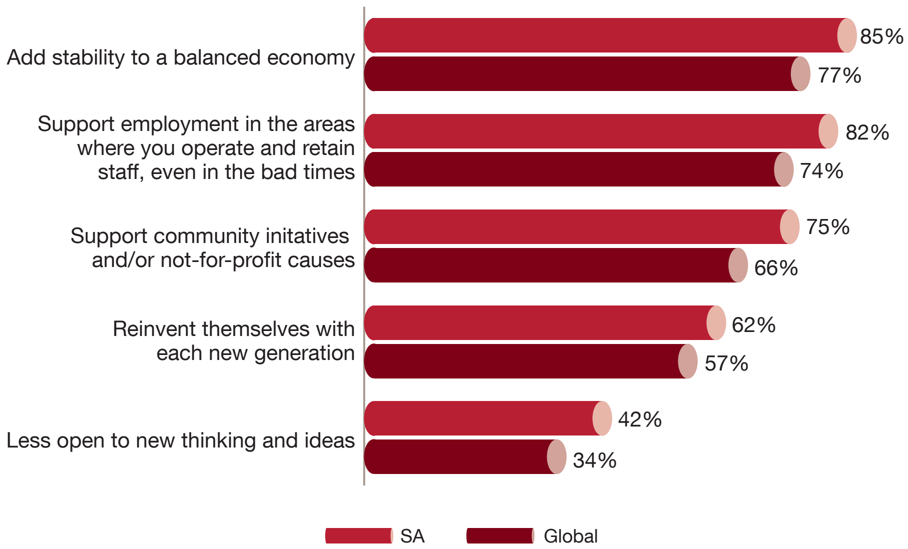
Family-owned businesses have been hit by the economic downturn like all others. The South African environment is no different, if not more challenging, with local family businesses being slightly more likely (than the global average) to think they need to work harder to recruit and retain top talent and finding it increasingly difficult to source capital.

But while family businesses in South Africa have suffered along with everyone else, they are able to leverage an inherent competitive advantage to ensure they survive and prosper despite the poor business and economic climate. **Stronger cultural values, unique measurements of success** and **faster decision-making** are what clearly differentiate family businesses from other organisations.

The increased pressure brought about by **B-BBEE compliance** requirements and the need to adhere to good **corporate governance principles** has changed the landscape for family businesses in South Africa.

Figure 1 Strengths and weaknesses of family businesses

Q: % agreeing on statement about strengths and weaknesses of family businesses. 1 = Disagree strongly and 5 = Agree Strongly



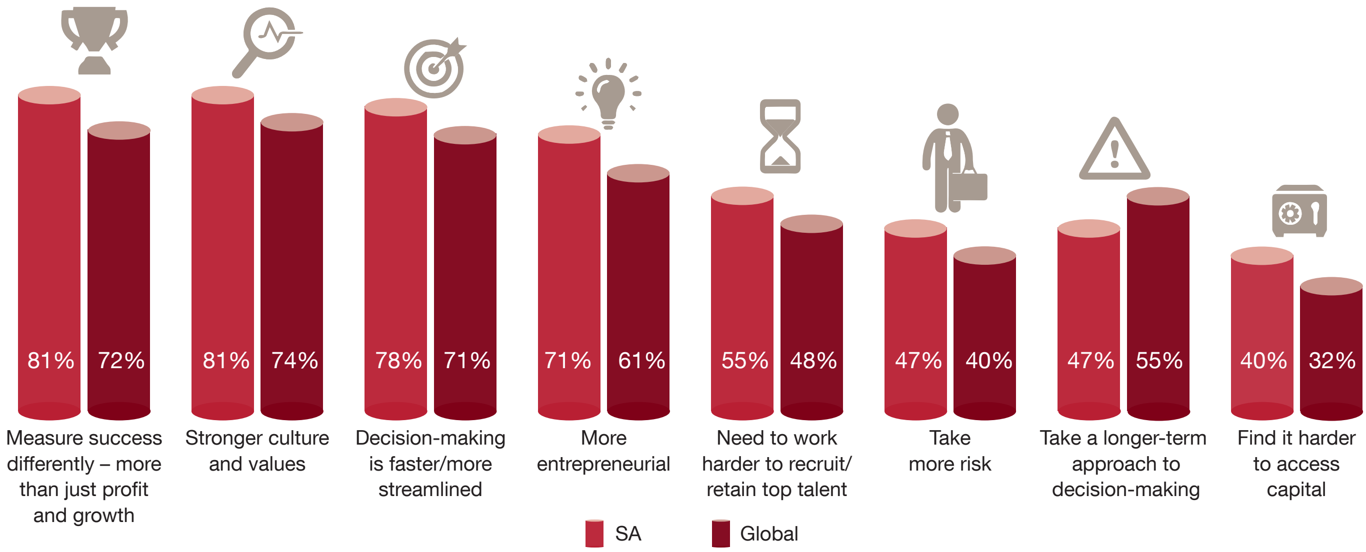
Base: All respondents (SA=130, Global=2 802)

More than **80%** of South African respondents believe family businesses offer **stability to the economy** and look after their staff even in the bad times, while three-quarters believe family businesses support community initiatives. More than two fifths think family businesses are less open to new thinking and ideas.

82% *of family businesses look after their staff better*

Figure 2 How family businesses differ from non-family businesses

Q: Please tell me how much you agree on a scale of 1-5, where 1= Disagree strongly and 5 = Agree strongly



Base: All respondents (2016: South Africa=130, Global=2 802)

Stronger culture and values

Four out of five (81%) of South African respondents recognised stronger cultures and values as the factors that define a family business.

Family enterprises are often led and stewarded by family members who are guided by values that were ingrained in the day-to-day operations of the business by the founder and have been passed on to the next generation.

These values often garner loyalty from family and non-family staff members who are strongly connected to the legacy of the business. The longevity of these values also helps support a unique culture – often one that embodies priorities beyond profitability. Ironically, though, as is the situation with the Bosveld Group, the subject of our case study on page 12, family businesses with a broader focus than just profits are in fact more profitable.

Organisational culture must be nurtured and developed over time to reflect market changes. Yet the underlying permanence of family values and beliefs creates stability that can endure through leadership transitions and industry upheavals. This is a unique advantage to being in a family business.

Measurement of success

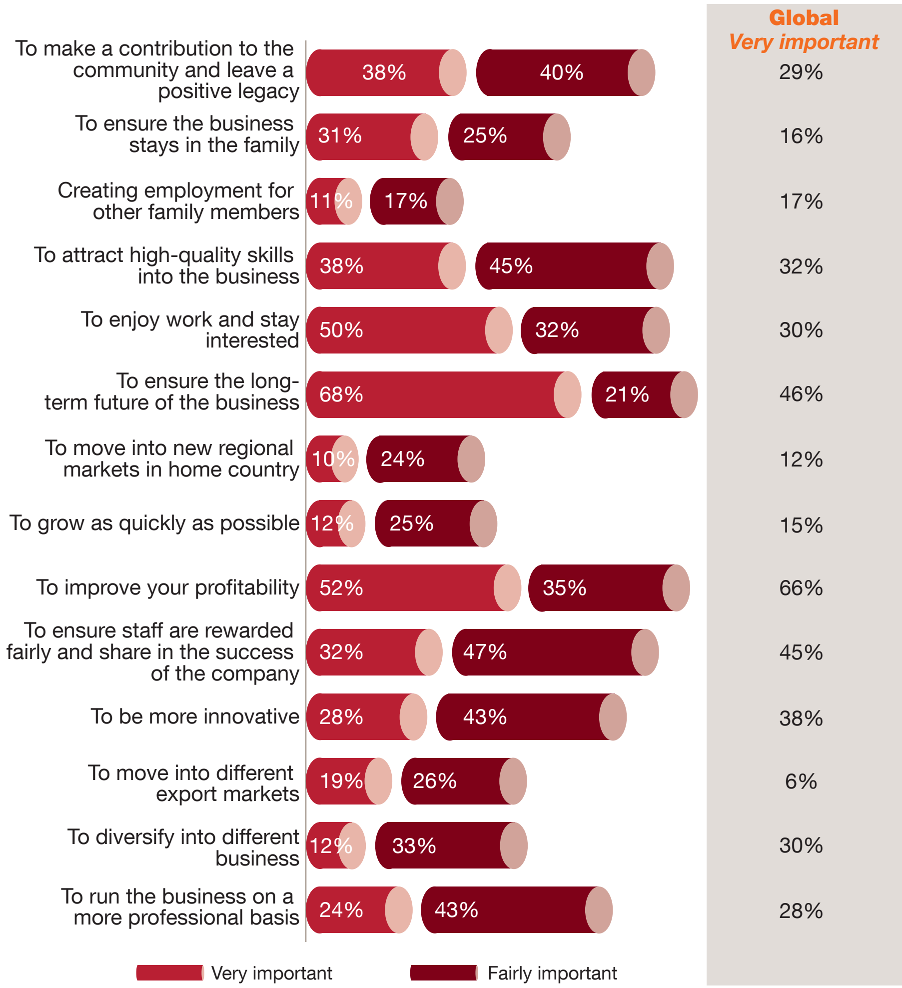
Conventionally, the success of a business is measured by some variation on income, turnover, share price or market capitalisation. But for the family business, success is not only calculated in financial terms. Typically, it is measured in ensuring job satisfaction for employees and family members, making an impact on the community and leaving behind a lasting legacy. Eighty-one per cent of the South African respondents (Global: 74%) agree that success cannot only be measured in numbers on a page.

"Our lasting family business legacy is not only the growing of crops, but to utilise our land to feed our people."

– LH Claassen, LHC Group

Figure 3 Personal and business goals over the next five years

Q: % agreeing on statement of potential personal and business goals. On a scale of 1-10 where 1 means it's not important to them over the next five years and 10 means it's essential to them over the next five years.



Base: All respondents (2016: South Africa=130, Global=2 802)

Stakeholder expectations in the family business

Family-run companies, in particular, are more likely to have a business model built on trust, personal relationships and strong values, and as stakeholder expectations change this could become a significant competitive advantage.

As the majority of family businesses play in the private companies space in South Africa, it is interesting to note that in the recent PwC private companies CEO survey eighty-three per cent of CEOs surveyed (Global: 90%) say customers have a high or very high impact on corporate strategy and they're making changes in the way they develop new 'ethical' products and services in response to changing stakeholder expectations. 63% are doing this to some extent and 23% are making significant changes.

Strategy is changing, as is the definition of 'success'. The majority of private companies have made changes to their organisation's purpose to address wider expectations 37% (Global: 24%) have done this in the last three years, and 47% (Global: 45%) say they have always had a purpose that includes the broader impact they have on society.

Three-quarters of private company CEOs (Global: 76%) agree that business success in the 21st century will be redefined by more than financial profit, and this will need new definitions of success, and new approaches to reporting to measure and monitor these new criteria.

Decision-making

Seventy-eight per cent of South African respondents believe family businesses have a longer-term approach to decision-making than non-family businesses. They also believe they make more streamlined and faster decisions as there are no formal corporate channels that must be followed. These business decisions often involve the input of multiple family members and can give rise to various conflict situations.

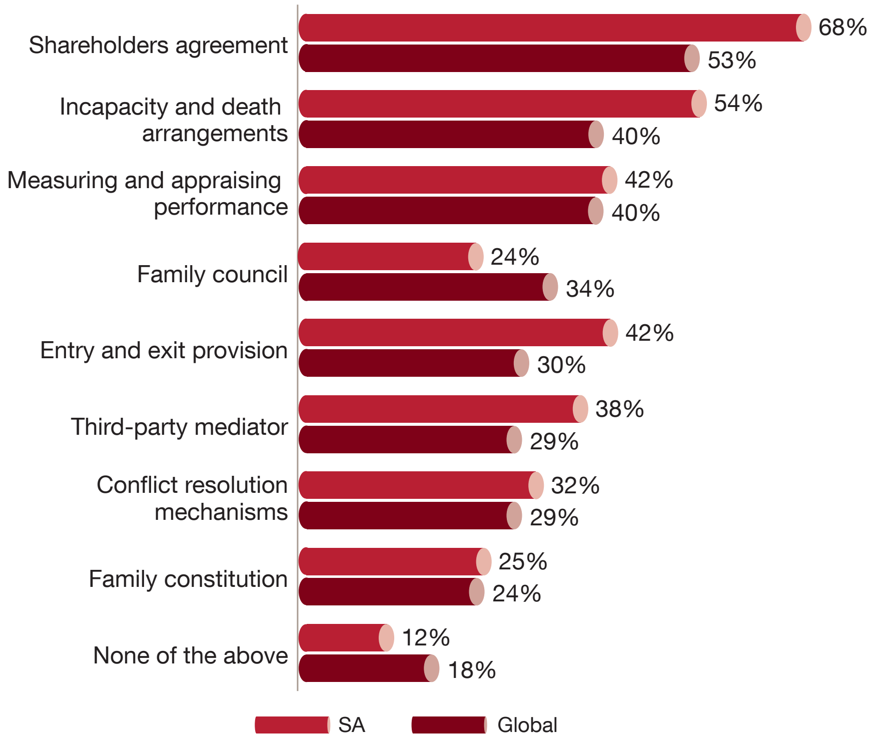
The job of operating a family-owned businesses is often grievously complicated by friction arising from rivalries between family members who hold positions in the business, or at least derive income from it. Unless the principals resolve their hostility, the business will suffer and may even come to an end.

Eighty-eight per cent of South African respondents (Global: 82%) say their family has at least one procedure/ mechanism in place to deal with conflict, showing that the majority of family businesses recognise the need to minimise risk in this area.

Sixty-eight per cent of South African respondents (Global: 68%) say that the family and the business strategy are completely aligned, with only 9% admitting to some misalignment. The presence of conflict-handling procedures minimises misalignment.

Figure 4 Procedures/Mechanisms in place to deal with family conflict

Q: Which of the following policies and procedures, if any, do you have in place to deal with any conflict that may arise between family members?



Base: All South African respondents (2016: n=130; 2014: n=120), all global respondents (2016: n=2 802)

In conversation with...

Professors Shelley Farrington and Elmarie Venter
Nelson Mandela Metropolitan University Family Business Unit

Studying family businesses

Family businesses are probably the original form of organised business activity and to this day dominate the economies of most countries. Globally, family businesses account for two-thirds of all businesses, 70%-90% of annual global GDP and 50%-80% of jobs in the majority of countries.[1]

Despite their significance, researchers have only been studying family businesses since the 1980s. Their interest was triggered by a special issue of the Organisational Dynamics academic journal in 1983 devoted to family businesses. Since the early days, the field has evolved significantly.

Until the mid-1980s, the field was dominated by a handful of researchers who focused on succession in small and medium-sized businesses (SMEs). Today, scholars from all over the world and from a variety of disciplines have entered the field. The scope has expanded to include topics such as governance, competitive advantage, leadership and management.

1 Family Business Institute. 2015. Global Data Points. [Online]. Available: http://www.ffi.org/?page=GlobalDataPoints [Accessed 15 September 2015].

Scholarly attention is now also focused on publicly held and privately controlled family businesses. Although research on succession is not as prevalent as in the past, it will always remain relevant given the unique nature of these kinds of businesses and the many new family businesses in developing economies such as China, Russia, India and South Africa.

Research challenges

The lack of a consistent definition of what constitutes a family business is a challenge for researchers and remains an area of contention to this day. Family business researchers also face several practical challenges.

Data on family businesses is sparse, response rates to surveys are often low and a general reluctance to provide sensitive information exists. Overall, higher levels of trust and engagement are necessary when studying these businesses.

Importantly, not all family businesses are the same, nor do they perform in a similar manner. As a result, scholars must consider this diversity in their research.[2]

2 Melin, L; Nordqvist, M. & Sharma, P. 2014. The SAGE Handbook of Family Business. London: SAGE

Research trends

Despite these research challenges, research on family businesses continues to grow in an effort to find answers to the many questions that still remain. These include:

- What can we learn from family businesses that we do not already know from other management research?
- Why is it that family businesses often outperform non-family businesses in tough economic times?

It has been suggested that the answer to these questions lies in researching the 'family' variable in family businesses.[3] Researchers today are increasingly focusing on wealthy families, the entrepreneurial behaviour of these families, and how they preserve wealth while transferring it (as well as resources and entrepreneurial mind-sets) across generations.[2]

The emphasis on 'transgenerational entrepreneurship' in these studies focuses on understanding common themes emerging from successful transgenerational entrepreneurial families across the globe.

3 James, A.E., Jennings, J.E. & Breitkreuz, R.S. 2012. Worlds Apart? Rebridging the Distance between Family Science and Family Business Research. Family Business Review, 25(1):87-108.

Through the efforts of the Nelson Mandela Metropolitan University's Family Business Unit, data from successful South African family businesses are also collected to form part of this international research.

Family businesses around the world face different challenges and opportunities, and understanding how these businesses operate in changing institutional environments and contexts is a new and important stream of research in the field of family businesses.[2]

Family businesses are also known to vary across national cultures, and these cultures in turn influence succession, governance and other management issues.[4]

Similarly, researchers also need to be mindful of the different meanings of 'family' across cultures. Some suggest that the field would be well served by thinking of kin-based businesses rather than family businesses.[5]

In general, family business research needs to open up its boundaries to a growing array of international and ethnic contexts, and increased cross-cultural studies in the field are needed.[6]

The South African and African contexts

Given these trends, researchers in the field of family businesses in South Africa can make a contribution to the field as a whole. To date, very little research on family businesses has been conducted in Africa, especially among indigenous communities, and virtually no research has been done specifically among black-owned family businesses in South Africa.

The extent to which African culture influences the strategies adopted by African businesses, and how this influences their success or failure, remains unknown.

By comparing strategy-making and the distinct resources and capabilities of African family businesses with those of family businesses in other cultural settings, insights can be provided into the underlying factors that contribute to success in different cultures and under different circumstances.

Given the African concept of family and the extended family members that it includes, research in South Africa can also contribute to studying kin-based businesses instead of family-based businesses.

In South Africa today there are many first-generation black-owned family businesses. How entrepreneurial mind-sets are developed and transferred to the next generation among these family businesses, as well as how wealth is preserved for the family in the future, are questions that remain unanswered.

Despite the myriad of opportunities for research on family businesses in South Africa, in this country the field is still in its infancy. It is estimated that only about 50 journal articles on family businesses have been written by South African authors, and the majority of these were written by only five authors.

4 Benavides-Velasco, C.A., Quintana-García, C. & Guzmán-Parra, V.F. 2013. Trends in Family Business Research. Small Bus Econ, 40:41–57.

5 Chua, J.H., Chrisman, J.J. & Steier, L.P. 2003. Extending the Theoretical Horizons of Family Business Research. Entrepreneurship Theory and Practice, 27(4):331–338.

6 Litz, R.A., Pearson, A.W. & Litchfield, S. 2012. Charting the Future of Family Business Research: Perspectives From the Field. Family Business Review, 25:16-32.

Creating a lasting family legacy

"In a family business it's very good to keep the ideals, rules, regulations and systems the same, but modernised so they can work in today's world. This is essential to running an effective and smooth operation."

A third-generation family business, South Africa

There is a clear sense of desire for a combined business and community legacy among family business leaders in South Africa. For some, this goes as far as changing lives for the better by sharing their wealth. They want the business to survive for the community as much as for the family, and many have an eye on modernising for future sustainability, while remaining true to their values and ethics:

- **For the family/community:**
  - To have created jobs and been a good and loyal employer;
  - To have provided for the family, and secured something for their future;
  - To have changed lives for the better and to have created wealth that is shared in the community; and
  - For family to remain involved and share in profits, and to hand over a strong business to the next generation.
- **For the business:**
  - To leave behind a thriving, sustainable business with continued local employment;
  - To have grown/diversified/modernised/professionalised/innovated with an eye on the future;
  - For ethics/moral values within the company culture to endure;
  - To be personally remembered as having been honest and having shown integrity; and
  - For the business to be respected for quality and leadership in its field.

"It would be nice to see the company grow and be sustainable and provide job sustainability for the people who live here. In South Africa, we employ 300 people that are living in an average family of five, so we provide 1 500 people with shelter and food."

A first-generation family business, South Africa

In conversation with...

Milaan Thalwitzer
CEO: The Bosveld Group

Family, country and community: Giving something back in South Africa

One of the family business's great strengths is its rootedness in its community. PwC's Family Business Survey has interviewed companies in the past that have been going for over 50 years and have worked with the same suppliers all that time. Many family businesses turn these relationships into a unique competitive advantage, and take pride in the positive role they play in creating local employment and supporting local communities. The Bosveld Group is a great South African example.

The company was founded in the 1960s, and is now South Africa's largest private citrus fruit producer, exporting 5.5 million boxes of fruit to 50 countries across the world. Milaan Thalwitzer is the current non-executive chairman, and three of his sons-in-law hold management roles, with one acting as CEO. With four daughters and being in the agriculture business, Milaan had a sound succession plan in place to ensure the family business stays in the family.

Milaan was named National Farmer of the Year in 2014, in recognition of the company's commitment to land reform and making the black empowerment agenda a reality. Bosveld committed to Broad-Based Black Economic Empowerment (or BBBEE) 13 years ago, and is now involved in a number of pilot projects in which the company leases land from black communities on long-term contracts, and then pays rent from the proceeds of the fruit-growing business.

Training for local people is built into the scheme, so that the owners of the land get a chance to work on it too. Milaan says:

> *"If we can get this right, it should be a win-win for everyone. Land reform is a complex and sometimes divisive issue here, but we can find a way forward if the farmers themselves play an active part in finding the answers."*

Bosveld is committed to South Africa because the family has always been committed to South Africa: "When people ask me why we've been so successful I say it's down to three things: keeping pace with change, seizing new opportunities and our commitment to this country. In the next five years our plan is to make the most of the energy the next generation is bringing to the business, and empower our local communities so we make a positive and sustainable impact. We have no immediate plans to diversify our fruit production internationally. South Africa is a land full of potential and we must first invest in our own future and the future of our people."

Milaan is a great believer in corporate governance. Through his involvement in boards of other entities, Milaan soon realised that the success of the governance of his own family business will depend on the input and participation of knowledgeable directors and directors that are independent from the family members involved in the business. Milaan asked his board to adopt the governance principles set out in the King reports and make effective use of the finance, audit and remuneration committees to ensure sound corporate governance. Independent chairperson of the audit committee, Steve Booysen, confirms that input from independent board members is being sought and is highly appreciated.

But the board can only manage the business affairs, and to Milaan the family behind the business is the reason for the business. For this reason the management of the family's interests for the benefit of both those involved in the business and those not involved, is equally important. Milaan appointed knowledgeable independent trustees to the family trust and does not shy away from consulting professional people to advise him and the family on important matters.

As the business grew, Milan realised that he would need help to manage and grow it. He therefore approached his sons in law, who already had their own successful careers, to join the family business.

Three of the four sons in law today work in the business as CEO, Marketing Director and Production Director respectively.

> *"I am not getting younger and do not want to work forever. I had my turn, now it is in the hands of the next generation to take that which was given to me by my father and now give to them, to grow to the next level. I know they can ..." says Milaan.*

And how does Milaan want to be remembered? "As someone who was lucky enough to combine his greatest passions: my love for my family, country and community, and my love for farming."

Key survey findings

Performance

South African family businesses have maintained a consistent level of performance over the last financial year compared to the results of our 2014/2015 survey.

Seventy-eight per-cent have seen sales growth over the last year, while 10% have seen a reduction in sales.

Globally, 64% of family businesses grew while 20% shrank. South African family businesses are bullish about the future with 84% expecting to grow and 22% expecting to grow quickly and aggressively (compared with 15% globally expecting similarly fast growth).

Growth

Among those South African family businesses expecting to grow by 10% or more, the majority (83%) will use external financing to help fund this growth. Sixty-nine per cent will use their own capital.

Growth will primarily be achieved through growing their core business in existing markets, coupled with expanding into new markets and acquisitions.

International sales currently account for 17% of South African family businesses' turnover but are predicted to account for 25% in five years' time.

Short-term challenges

The **most significant issues** facing South African family businesses over the next 12 months are:

- Market conditions;
- Government policy/regulation;
- Currency/Exchange rates; and
- Staff recruitment.

Long-term challenges

Major challenges anticipated over the next five years are similar to those expected in the short term, but also include

- Cost containment;
- Corruption;
- Innovation; and
- The need to professionalise the business.

In terms of respondents' personal and business goals over the next five years, many want to ensure the long-term future of their businesses, improve profitability, enjoy work and stay interested.

The family business advantage

Survey respondents in South Africa feel they have some advantages over non-family businesses. More than 80% think family businesses have a stronger culture and values, as well as a faster decision-making process, and as well as are more streamlined and more entrepreneurial than non-family businesses. However, over half also think that family businesses need to work harder to recruit and retain top talent.

Resolving conflict

Eighty-eight per cent of South African family businesses surveyed have at least one procedure/mechanism in place to deal with family conflict (Global: 82%).

Succession

Seventeen per cent say they have a robust, documented and communicated succession plan in place (Global: 15%). More than a third of family businesses in South Africa plan to pass the business ownership (but not the management) on to the next generation. The same proportion plan to pass the management of the business on to the next generation, while 22% plan to sell or float the business.

Going digital

South African family businesses recognise the importance of digital transformation. Fifty-five per cent of respondents claim to understand the tangible benefits of going digital and say they have a realistic plan for measuring them (Global: 59%).

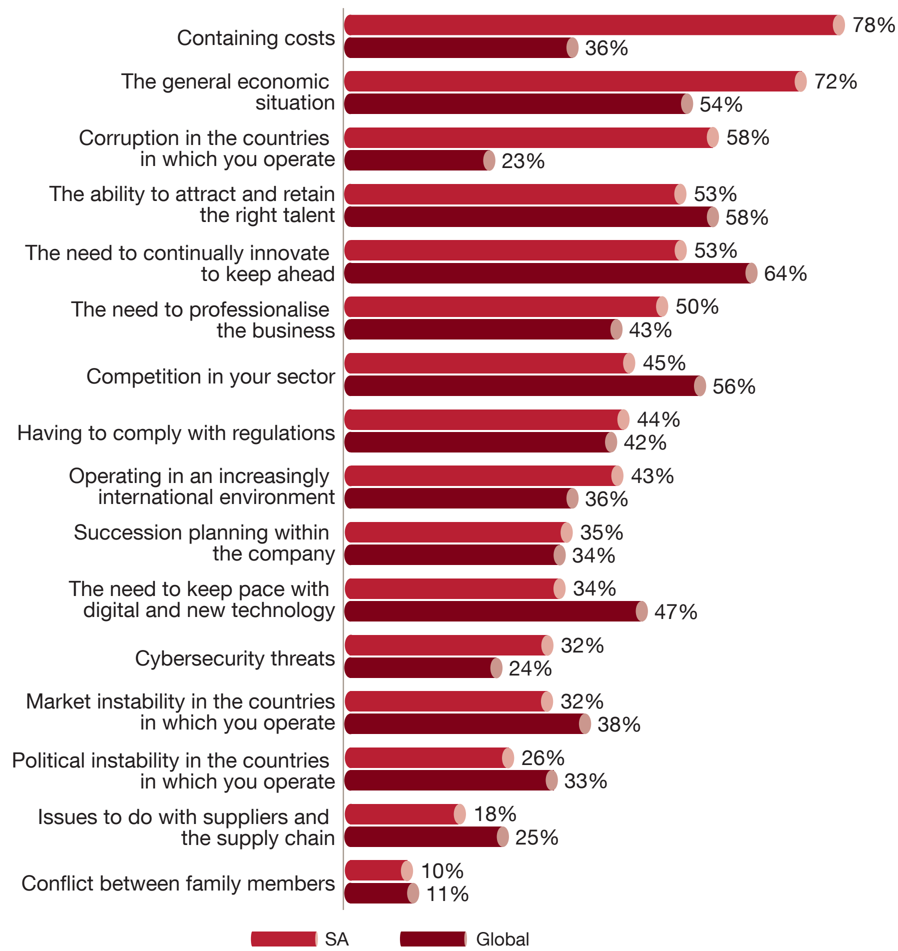
At least half of South African family businesses believe that digital transformation is already integrated into their business's culture and that they have a strategy fit for the digital age. A quarter believe that they are vulnerable to digital disruption.

The challenges that lie ahead

The current economic conditions in South Africa gave rise to the fact that the **general economic** climate and **cost containment** were recognised by the South African respondents in this year's survey as the most significant challenges facing them over the next five years. Only 36% of global respondents see containing costs as a significant challenge. More difficult economic conditions in South Africa – attributed to increasing inflation and the weaker rand – played a big role compared with our global counterparts. More than half also identified **corruption**, the need to **innovate, and attracting/retaining talent** as challenges.

Figure 5 **Most significant challenges facing family businesses**

Q: ***% agreeing on most significant challenges in their business in five years' time on a scale of 1-5, where five means it's going to be a major challenge for their business and 1 means it will be a minor challenge or not particularly important.***



Base: All South African espondents (2016: n=130; 2014: n=120), all global respondents (2016: n=2 802)

The economy today

***Dr Roelof Botha** has been an economic advisor to PwC for the past 26 years. He writes a number of columns on topical economic issues in national and regional publications and is a visiting lecturer at GIBS.*

Several of the challenges among family businesses highlighted in the survey are reflected in the World Economic Forum's latest *Global Competitiveness Report*, especially with regard to the containment of costs.[1]

It is clear that South Africa's very low ranking for the quality of our education system (134th out of 138 countries) imposes indirect costs on many businesses, due to the need for additional training of staff. This is reflected in the country's exceptionally high ranking for the extent of staff training (19th).

South African businesses also face a burden regarding a poor health environment and the prevalence of a number of diseases. It is ranked a lowly 98th for the *pay & productivity* competitiveness indicator.

Proxies for some of the key challenges facing family businesses in South Africa are also found in the latest economic forecasts by the World Bank, particularly with regard to the general economic situation. Although several commodity prices started recovering in 2016, mining output in South Africa has continued to deteriorate, placing pressure on the balance of payments.

The identification of cost containment as the single most pressing challenge facing family businesses is related to higher domestic inflation during the first half of 2016. Despite lower oil prices, food inflation has escalated due to a serious drought, exacerbated by currency weakness.

Furthermore, a return to a restrictive monetary policy stance and increased interest rates has reduced the spending power of households, most notably for durable goods, which has declined for six successive quarters and was 10% lower in Q2 2016 than Q4 2014 (in real terms).

Fortunately, the World Bank does not expect South Africa to enter a recession, with 2016's paltry GDP growth forecast of 0.6% expected to rise to 1.1% next year and 2% in 2018. Family businesses can also take some cheer from the prospect of lower inflation, which could lead to lower interest rates early in 2017.

The consumer price index has declined from a level of 7% in February to just above the Reserve Bank's target range (3% to 6%) in September. The country's long-term bond yield trend is also signalling a lower interest rate environment, having declined by 100 basis points since early January.

Other developments that would benefit the future business environment in South Africa include sound growth performance in construction activity, an imminent end to the drought, the continued robust performance of retail sales, the recovery of export commodity prices and the existence of fundamental fiscal stability.

The latter would be the result, *inter alia,* of sound management of the public finances by South Africa's National Treasury, combined with a sustained recovery of taxation revenue growth.

Growth and globalisation

In general, the family business sector is in good shape, with **78%** of South African respondents (Global: 64%) reporting **growth** in the last 12 months, and **62%** expecting to **grow steadily** over the next five years. These results are very similar to those in our 2014 survey. The outlook for aggressive growth has slightly improved to 22%, with being **growth** and **forecast expectations** both **higher** than the global average.

In successive surveys since 2012, between 15% and 22% of our respondents have told us that they aim to grow aggressively over the following five years, and some have indeed done so. But our own experience in this sector is that only a limited number achieved their very ambitious growth targets. Many struggle to find and develop the skills that they need to do this, and others are hampered by a lack of funding. Some find themselves mired in family disputes which absorb the family's time and energy and turn its attention inwards. Another common theme from the survey is growth through diversification: more than half plan to launch new entrepreneurial ventures but 40% of family businesses operate in only one sector and only in their home market. This can expose the family business to risk, as the whole enterprise stands or falls in one dimension. And yet despite their ambition, 86% see themselves having largely the same portfolio in five years' time.

Ninety-one per cent of the South African respondents (Global: 85%) in our survey of family businesses aim to grow their businesses by **expansion into existing markets**, compared to only 36% who aim to achieve growth by moving into new sectors. This contrast is mainly due to the fact that 64% of respondents believe market conditions will be a major challenge facing businesses in South Africa over the next 12 months.

Fifty-four per cent of South African respondents (Global: 52%) aim to grow through expanding their business into **new countries**, and **53%** (Global: 45%) believe that growth will be achieved through **acquisitions**.

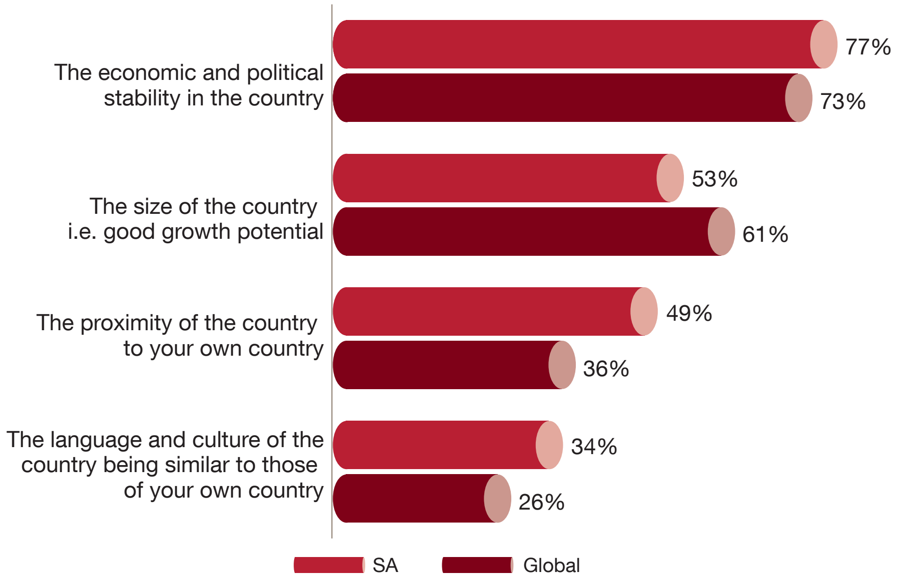
Those planning to grow by more than 10% annually for the next five years plan to employ a number of **external financing methods**, but many will continue to rely heavily on their **own capital**. Businesses in South Africa are slightly more likely than their global peers to use external finance and less likely to use their own capital.

In a PwC survey of the next generation of family business leaders, released in April 2016, **88%** of next-generation leaders want to leave their stamp on and do something special with the business.[2] This would incorporate giving the business a **global footprint**.

Turning to international sales, the story is very similar. Many businesses do manage to build a successful export businesses, but in general the picture is less encouraging. On average, **foreign sales** account for **17%** of turnover in South African family business with estimated foreign sales of 25% of turnover in the next five years. And yet from survey to survey the actual level of export sales remains unchanged. The number of respondents that have any form of international sales has decreased from 70% (2014) to 65% (2016). There are many possible factors in play here, from a lack of skills and experience to apprehension about political risk overseas, to more recent concerns about the impact of Brexit.

Figure 6 Factors influencing the choice of export markets

Q: How important will the following factors be in deciding which existing countries and/or new countries you will sell your goods and services to in the next five years? Please answer using a scale of 1-5, where five means it is a very important factor and 1 means it is not particularly important.



Base: All respondents (2016: South Africa=130, Global=2 802)

Even if the worst of the downturn has passed in most economies, price pressures remain intense, customers are becoming more demanding, and margins are tight; in short, family businesses are having to accept that the conditions they enjoyed before the recession are now unlikely to return in the short term.

This is partly a reflection of the new economic reality, but it's also symptomatic of the more profound shifts that are underway as a result of global megatrends like demographic change, globalisation, urbanisation, and the digital revolution.

The business landscape is becoming more fluid and more disruptive than ever before. The winners will be those businesses with the agility and flexibility to adapt, and which are able to make the often significant investments required to keep pace with new technology. Companies that triumph will be those that are able to anticipate change and are willing to be disrupters themselves in their approach to market, in their products and services, or in their willingness to change strategy and even sector, if that is where the opportunities lie.

Overall, however, the message is clear: whether it is growth, diversification, or internationalisation, the ambitions of family businesses remain strong but are not being fully realised.

General economic crime

Economic crime remains a serious challenge to business leaders, government officials and private individuals in South Africa. Asset misappropriation, procurement fraud and bribery and corruption have been in the forefront in South Africa. In the PwC survey on economic crime we found that the trend has remained unchanged from 2014, with 69% of South African respondents indicating that they had experienced some form of economic crime in the 24 months preceding the survey. When compared to the global statistic of 36%, we are faced with the stark reality that economic crime is at a pandemic level in South Africa.

While the global trend moved marginally down, South Africa saw the prevalence of economic crime retaining its already high 2014 level of 69%. There is a fear that unless drastic action is taken to curtail the current economic crime trend, we may very well experience an upsurge toward the kind of levels that were experienced when our first Global Economic Crime Survey was carried out in South Africa more than a decade ago. South African respondents reported the highest percentage of economic crime in the world, with France coming in at a close second, followed by Kenya and Zambia.

This does not make for good reading from the perspective of the African continent. However, when looking at the list of the other countries reporting the highest rates of economic crime, we also see the likes of Spain, the United Kingdom, Australia and the Netherlands being featured. The fact that included in the top ten reporting countries are what are considered to be developed countries brings home a clear message that economic crime is a global issue and one that affects developed markets as much as it does emerging ones.

Top ten countries reporting the highest levels of economic crime (% respondents reporting economic crime in the 24 months preceding the survey)

1	South Africa	69%
2	France	68%
3	Kenya	61%
4	Zambia	61%
5	Spain	55%
6	United Kingdom	55%
7	Australia	52%
8	Russian Federation	48%
9	Belgium	45%
10	Netherlands	45%

Source: PwC's Global Economic Crime Survey, 5th South African edition, March 2015

Securing the right skills and fostering innovation

It's more important than ever for businesses to find, develop and retain the right people, with the right mix of skills and creativity. In PwC's 19th Annual CEO Survey, 90% (Global: 72%) of CEOs were concerned to some degree about the availability of key skills.[7]

In the new business landscape, innovation is no longer just a 'nice to have'. Companies with a focus on innovation used to be the clear leaders in their field, but the pace of change is now so fast that every company will have to innovate or die, and sustainable competitive advantage will be about an organisation's capacity for constant reinvention: not just of its business model, but of its products and services, and its route to market.

[7] http://www.pwc.com/ceosurvey

As more millennials enter the workforce they bring new skills with them – not just a familiarity with digital technology, but a more flexible approach to work. By 2020 they will make up around 50% of the global workforce. They see careers as portfolios of experiences rather than a ladder to be climbed in one organisation, and hence only 18% plan to stay in their current role for the long term.[8]

Millennials want to be proud of their employer – to feel their company's values match their own, and that they're doing work that's worthwhile. Our Global CEO Survey found that two thirds of private businesses – like public ones – agree that in five years' time top talent will prefer to work for organisations which have values that are aligned to their own.

[8] Millennials at work: Reshaping the workplace, PwC, 2011

Professionalisation

In 2014, the main theme of our survey was the professionalisation of the family business. This year's results show that real progress is being made in this area, but there is clearly more that still needs to be done.

Every business will eventually reach the point when it has to professionalise the way it operates by instituting more rigorous processes, establishing clear governance and recruiting skills from outside, and family businesses are no different. This year's survey proves again how important their priorities are, as 50% (2014: 29%) of respondents have indicated that professionalising the family business is a key challenge over the next five years.

But the family business has another dimension that other companies never have to tackle, and that is the family itself. The issues here are much harder to address. They are more personal, and more complex, and the risks if things go wrong are potentially terminal. No surprise then that progress in this area is slower or that some companies like to think they have made advances when, in fact, little has changed.

This year's survey shows that family businesses are continuing to establish the process to "professionalise the family", including mechanisms such as shareholder agreements and family constitutions.

At the most basic level, better processes and a clearer division of roles and responsibilities free up time and space for the senior team to think and plan more strategically.

The role of the professional CEO

We have looked before at the advantages of bringing in an external CEO, and the challenges that this entails, for both the family and the professional coming in. Some external hires clearly relish the chance to make decisions quickly and enjoy the autonomy that the family business model can offer.

But many CEO respondents this year citied the difficulties they continue to encounter. Families can be reluctant to give up control, and external CEOs can find their professional judgements being overridden by family and owner decisions which may appear to be based on emotion rather than rational argument.

Another common observation is that professional managers are often called upon to be an unofficial mediator between different parts of the family. Not only can this be difficult or damaging to working relationships; it is a role that no professional manager should be asked to play, as they need to focus their energy and skills on running the business. Many talented managers in fact actively decline taking roles in family businesses for precisely this reason.

Judging from this feedback many family businesses still have more work to do in understanding the value of an external CEO and giving them the freedom they need to do the job properly. If not, the risk is that they will not stay and the value to the business won't be realised.

The role of the board

Many family businesses start with no non-execs at all; the next phase is to bring in a couple of outsiders to 'tick the box' for regulatory and compliance purposes. In many cases, these directors are friends of the family or professional advisers, which means that, in practice, they're more insiders than outsiders. They can still play a useful role, but our experience suggests that they're unlikely to offer the independence or 'edge' that the family business really needs. They're certainly unlikely to challenge a strong founder or CEO to any significant extent. But that's the degree of challenge all family businesses eventually need.

To reach full maturity, a family business needs a strong board of individuals with relevant experience, and a wider perspective. People able and willing to give an opinion, and question decision-making.

Nowhere is this more important than in strategic planning. A good Board should be challenging the business to develop such a plan, if it doesn't already have one. It should be asking questions about the impact of new technology and requesting information on market trends. The right kind of non-executive director will also have significant experience to offer in respect of the detail of the planning process, from helping the business think through the issues objectively, to scenario assessment, to the formulation of a realistic and effective plan, and monitoring progress against it on a regular basis.

While every family business wants the board to "fit", every business will have different needs when it comes to the selection of a board. We often work with owners who are nervous about giving up control or sharing confidential information with outsiders even when these people are board directors. Other worry about the expense or struggle to see the value of board meetings, which means they do not allow the time to make the best of them. The process of selecting and hiring outside board members also raises real concerns about getting it wrong, especially for owners who do not have established processes for doing this and are not aware that there are ways to protect themselves if things do not work out. Likewise, attracting the right individuals and ensuring a good fit can be challenging, as potential non-executives need to understand the dynamics of the family business and the complexity of the family relationships involved.

Managing succession

Only ***17%*** *of family businesses have a succession plan in place*

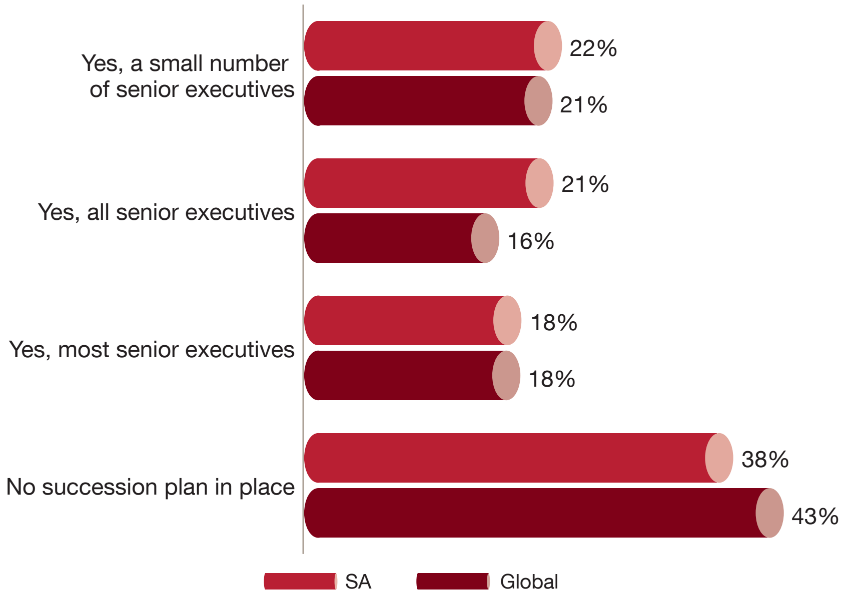
> *"It is important to remember that succession is a* ***process*** *not an event: The next generation needs to be fully prepared to take over, with their parents' support, and after the formal handover, the parents can continue to offer help and guidance, as long as they accept they're no longer making the decisions."*
>
> ***Stephanie Hyde, UK Executive Board, and Global Next Generation Programme Partner***

The most obvious potential 'failure factor' in a family business is the succession process. The moment of transition from one generation to the next is the fault line in this business model. There is no point in having detailed plans for business continuity if the single most significant risk to this is not addressed.

Every family business has to find a way to reconcile the personal and professional, but the succession process can bring these two dimensions into direct conflict, with both the family and the business at risk as a result. The only way to deal with this is to develop, implement, and communicate a robust succession plan, and to do this as long as possible before the moment of handover. This is even more important now, when many people are having children later in life, meaning that the next generation will not yet be ready to take over when the current owners would like to retire. And yet only 17% (2014: 13%) of family businesses have a 'plan' for their succession process.

Figure 7 Existence of a succession plan

Q: Currently, how many next-generation family members (including yourself if applicable) are there (if any) that are …



Base: All respondents (2016: South Africa=130, Global=2 802)

Succession is vital in its own right, to ensure business continuity, but it has a wider impact too. Succession planning is essential to ensure the aims of the family and the objectives of the business are properly aligned over the medium to long terms. In this year's survey, as many as 68% (aligned with global) of respondents believe their family and business strategies are completely aligned, but the anecdotal evidence suggests this is very unlikely to be the case.

A family business can only decide who the right successor is if they're clear about where they want to go and how they're planning to get there. In other words, strategic planning and succession planning are inextricable from one another – indeed, succession planning is a subset of the strategy process. As this year's results prove, very few family businesses are approaching the succession process in a fully professional manner, and even those who are doing this see it as a standalone exercise focused on the 'who' rather than the 'what'.

Of the South African respondents, 70% have next-generation family members (Global: 69%) working in the business. This suggests there is a strong pipeline of potential next-generation leadership, but with no formal succession plan in place, internal family conflict may undermine future growth, profitability and, ultimately the existence of the business.

Three gaps undermining successful succession

The generation gap

The current generation is not always confident that their children are ready and able to take over.

The credibility gap

The next generation says they have to work harder than others in the business to prove themselves.

The communication gap

Family businesses have to manage personal as well as professional relationships, and this brings with it the possibility of conflict.

Source The PwC next gen survey, 2016

Ten steps to effective succession planning

***Dr Dominik von Au** is the Family Governance Leader for PwC Germany, with extensive experience working with established family businesses to achieve a smooth and effective transition between generations. We asked him to summarise the secret to successful succession:*

Into leadership …

- **Get experience outside**
  As the business landscape becomes more complex, it's vital to bring a broad range of experience to the task of leadership. So develop a career plan that involves working outside, to allow you to acquire the specific skills the family business needs.

- **Develop a strategic plan for the medium term**
  The next generation often see the succession process as an opportunity to modernise the business, and there may indeed be a need to do this. But it's important to make changes in the context of longer-term objectives, which is why it's vital to have a strategic plan, developed jointly by both the current and incoming generations, and in consultation with all the shareholders.

- **Broaden the decision-making process**
  As the business passes from one generation to the next, it's important to create an organisational structure which isn't dependent on one single individual. Decisions need to be made collectively, and with proper information and preparation.

- **Strengthen the role of the board**
  The board has a key role to play in overseeing the succession process and in ensuring that family members are only offered positions they are properly qualified to fill. Membership of the board is a useful way for the retiring generation to make an invaluable ongoing contribution.

- **Clarify what the retiring generation will do**
  The current generation needs to have a clear plan for their life after retiring. This will prevent misunderstandings, or the temptation to interfere. Taking on roles outside the family business – in the community, for example – can be both worthwhile and rewarding.

Into ownership …

- **Start early**
  It's vital to start the process as early as possible. Everyone needs to know what to expect and what the timetable is to avoid misunderstandings and unspoken tensions that could lead to outright conflict. This is especially important for family members who are going to be taking executive roles in the future. Our advice is always to transfer shares during the current generation's lifetime.

- **Communicate, communicate, communicate**
  Decisions need to be made by a process of consultation and discussion rather than being dictated by the owner. Everyone with a stake in the future needs to have a say in it.

- **Do your homework**
  Make sure you know the tax and legal implications of your succession plan. Depending on your circumstances and jurisdiction, some approaches may cause difficulties that may not be obvious until it's too late.

- **Invest in education**
  The people who are going to be running the business need the right expertise to do that, but ownership demands specific skills too. Make sure all current and prospective shareholders are educated to become professional and competent owners.

- **Diversify your wealth**
  If the retiring generation relies entirely on the business to provide a retirement income, that can put a disproportionate strain on the business. It can also make it harder for the older generation to 'let go', because their lifestyle is at stake. So build assets outside the family business from an early stage.

The role of the next generation

In the next five years it is likely that we will see the biggest inter-generational transfer of wealth the modern economy has ever seen. Most of this wealth will take the form of shares in family businesses, which is why a more robust approach to succession planning is such a key priority for the whole family business sector– and indeed for the economy they help sustain. A change of this magnitude poses huge risks, but it is also opening up immense opportunities, with a new generation in waiting that is more ambitious, more open-minded and arguably better prepared than any of those that have preceded it.

Earlier this year, we undertook a detailed survey of the next generation of family business leaders to find out what their priorities are and how they see the future. Some of the findings came as no surprise – the 'next gens' are ambitious, dynamic, and open to change. They want the business they hand on to be very different from the one they inherited: they want to explore new products and services, and new markets, but they're also interested in new locations and even new business models.

The view from the next generation

- **88%** want to leave their stamp and do something special with the business.
- **70%** have worked outside the family business to gain experience before joining the family business.
- **69%** would bring in experienced non-family managers to help modernise/professionalise the business.

Source The PwC next gen survey, 2016

And they're more likely than any previous generation to make a go of that: many of today's next gens have benefited from a business school education, which is also giving them the analytical tools they need to carry out effective strategic and medium-term planning.

Indeed, we think the coming transitions could be some of the most interesting and significant that most established family businesses will ever go through. In other words, the 'missing middle' may only be a problem for the medium term. The sort of person who's going to be running a family business in five to ten years' time will look and think very differently from most of those doing it today.

Over a third of family businesses surveyed in South Africa plan to pass business ownership (but not management) on to the next generation. The same proportion plans to pass the management of the business on to the next generation, while 22% plan to sell or float the business. Nevertheless, feedback from the next-generation respondents suggests they are as ambitious as ever to take over and make an impact.

Five ways the current generation can support the next one

Sian Steele, ***Family Business Leader, PwC UK***

There are five key things the current generation can do to make sure the next generation has the best chance to succeed:

Plan ahead

The single most important factor for succession is a good plan. That starts with detailed career and development planning for the next generation so they can get a wide range of experience and acquire the right skills. If possible, find ways for them to work outside your home market as well as outside the family business. This will help build their credibility if they do eventually decide to come back to the family business.

Make it an opportunity, not a burden

Many of the next gens are excited about the chance to work in the family business and take over one day. But make sure they do not feel expectation as a burden, and have the chance to make a free choice about their future.

Give them the chance to build something of their own

Fifty-two per cent (Global: 54%) of respondents this year talked about the possibility of setting up new entrepreneurial ventures to run alongside the main business. Such ventures can be a wonderful way to give the next gens their own area of responsibility, where they can learn, explore new ideas, and gain vital skills. And who knows – those new ventures can evolve into the future of your business.

Understand where and when to let go

Almost all next gens say they would welcome continued support from their parents when they take over (*PwC Global Next Gen survey*), and many talk with feeling about the mentoring that they received and the lessons they've learned. But there is a fine balance between being there to help, and never letting go. It's an understandable wrench to step back from a business you have run and in many cases built. So spend time discussing the exact shape of your future role, and find yourself something else to do beyond the business, so you won't constantly be tempted to 'just show up'.

Address family governance

One positive role the current next gen can play is in relation to family governance. We all know how dangerous conflicts and misunderstandings can be in family businesses. The older generation is ideally placed to help manage this, both through their experience and through the 'gravitas' of age. So if your family business hasn't yet gotten to grips with family governance, or could benefit from a proper family constitution or family council, why don't you take on this task yourself, so the next gen can concentrate on taking on the business.

Embracing the digital age

Like their global counterparts, the majority of family businesses in South Africa recognise the need to adapt to an increasingly digital world. But only **55%** understand the **tangible benefits** of digital strategies and systems or have a realistic plan for measuring them.

Judging from other sections of the survey, one might think family businesses are particularly well positioned to make a success of innovation. Family businesses consistently tell us that they believe they are able to **re-invent themselves for each new generation – 62%** said so this year, and this figure has risen steadily from 57% in the 2014 survey. But is this really true? Some businesses that do manage to do this are great role models for how to do it in practice. But there are many more instances we come across in our work with the sector where family businesses have struggled to change, and found it hard to innovate.

So what makes innovation such a challenge for the family business? One answer may be skills: family businesses often say that they find it hard to attract and retain the right people. This may well be true, but it could also be masking the real problem. To do innovation well, a business needs to be able to think beyond the immediate demands of the day-to-day, and make judgments about what the picture will look like two, five or ten years out: what trends are driving change, what products could be vulnerable to new technology, how are global trends like demographic change affecting the market.

Multinationals are good at this (and have dedicated resources to do it); family businesses often aren't (and don't). But the sector urgently needs to develop this 'medium-term mind-set', especially in relation to the challenge of digitisation, because that will require considered and possibly significant investment to stay ahead of the curve, and the skills inside the business to ensure that investment delivers.

But the results of this year's survey are not encouraging: only 3% (Global: 7%) cited **technology** as a **key challenge** in the next twelve months, and technology and digital only feature in the list of top priorities for the medium term on a prompted basis. They then rank eleventh, at **34%** (Global: 47%). This is clearly a concern, especially when set alongside the fact that **42%** (Global: 34%) of respondents think family businesses are **less open to new thinking and ideas** than other companies, and only **47%** believe (Global: 40%) they're willing to take **more risks** than other businesses. And perhaps most telling of all, **only one in four say** (on par with Global) they feel **vulnerable to digital disruption**, and **only half** (Global: 54%) discuss this at board level. Every business is vulnerable in some way to digital disruption, and those who think they are immune will soon find out that this is not the case.

"Digital is an obvious area where a generation gap still lingers. Many next gens struggle to convince their parents that the business needs to do more on digital. Only 41% believe their business has a strategy fit for the digital world and 29% believe that family businesses are slower than other types of business in keeping up with new technology."

– The PwC Global Next Gen Survey, 2016

By 2020, an entire generation, Generation C (C for 'connected'), will have grown up in a primarily digital world. Computers, the Internet, mobile phones, texting, and social networking all are second nature to this generation.

3%

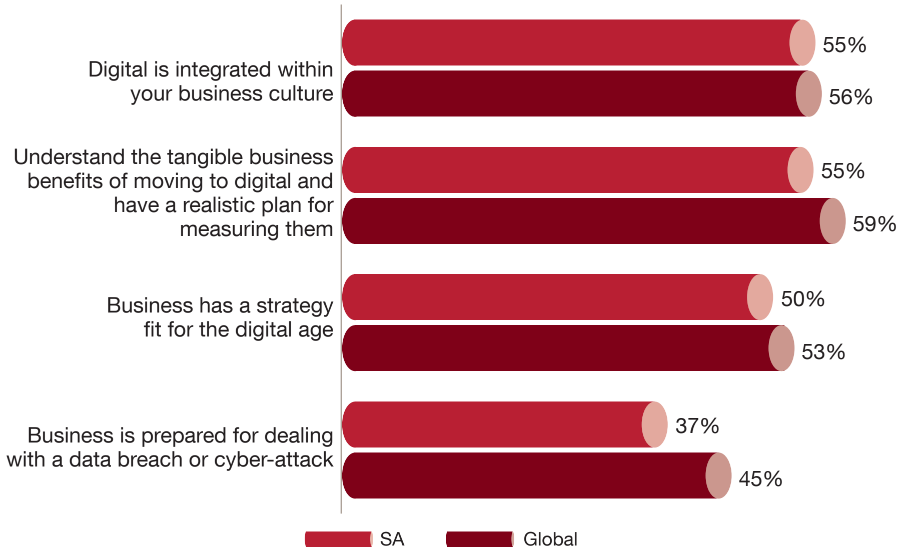
cited technology as a key challenge

And their familiarity with technology, reliance on mobile communications, and desire to remain in contact with large networks of family members, friends, and business contacts will transform how we work and how we consume.[9]

[9] PwC Strategy& http://www.strategyand.pwc.com/global/home/what-we-think/digitization/megatrend

Figure 8 Readiness for the digital age

Q: % agreeing on statement about readiness for the digital age – on a scale of 1-5, where 1= Disagree strongly and 5 = Agree strongly



Base: All respondents (2016: South Africa=130, Global=2 802)

"Through the development of social media everybody knows everything, in a way. As a company you are much more transparent, or you have to be much more transparent, about what's going on."

Dirk Van de Put, CEO, McCain, Canada
McCain is one of the biggest global family businesses

Sound corporate governance

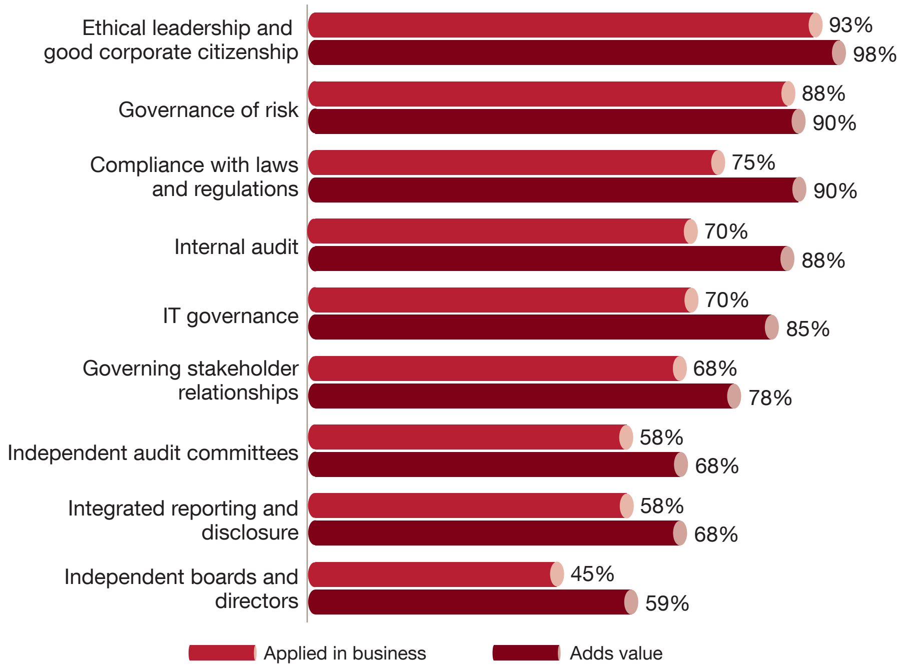
Corporate governance consists of the rules, processes and practices by which a company is directed and controlled. This is essential in establishing and maintaining market confidence and business integrity, which in turn is essential for companies that need capital to fund long-term investment. Access to equity capital is particularly important for companies oriented towards future growth and to balance any increase in leveraging.

The importance of corporate governance cannot be overemphasised as it creates the organisational climate in which the company operates. It will have limited operational impact on family businesses if the role of the board is confined to broad governance and does not demand innovation, research development and corporate entrepreneurship strategies. Corporate governance has the potential to enhance a business' corporate entrepreneurship and competitiveness by giving it a new strategic outlook, guided by the knowledge of external independent directors.

48% *of South African respondents see no barriers to adopting and applying the King Code in their businesses*

Figure 9 Application and value of the King Code™

Q: % agreeing on the value of each element of the King Code on Corporate Governance and % that currently apply it in their business.



Base: All respondents answering (2016: South Africa n=36-71)

Forty-seven per cent of South African respondents see no barriers to adopting and applying the King Code in their businesses. Barriers mentioned by the remainder are that:

- Costs outweigh benefits;
- The Code is not appropriate for family and small businesses;
- The Code is too complicated; and
- Implementing the Code can make it difficult to deal with clients if controls are too strict.

The release of **King IV™** will address the concerns that corporate governance principles are not appropriate for the family business/ small business, as the new codes takes on a **more simplified** approach.

King IV™ in a nutshell

- A set of voluntary principles and leading practices.
- Drafted to apply to all organisations, regardless of their form of incorporation.
- Sector supplements explain how the King IV Code™ should be applied by certain organisations/sectors.
- Proportionality is explained and advocated.
- King IV™ focuses on outcomes. The King IV Code's™ principles and practices are linked to desired outcomes, therefore articulating the benefits of good corporate governance.
- The Code™ differentiates between principles and practices. Principles are achieved by mindful consideration and application of the recommended practices.
- 'Apply and explain' regime (as opposed to 'apply or explain' regime in King III).
- New 'look and feel' to the King IV Report™ and King IV Code™.
- Philosophical underpinnings in King III retained but refined in King IV™.
- 'Corporate governance', for purposes of King IV™, has now been defined.
- Key new or enhanced features of King IV™ relate to:
  - Fair, responsible and transparent organisation-wide remuneration;
  - Responsible and transparent tax strategy and policy;
  - Balanced composition of governing bodies and independence of members of the governing body;
  - Delegation to management;
  - Delegation to committees;
  - Corporate governance services to the governing body;
  - Performance evaluations of the governing body;
  - Audit committee reporting on auditor independence and assurance matters;
  - Risk governance;
  - The combined assurance model;
  - Social and ethics committees;
  - Performance evaluations;
  - Responsible institutional investors; and
  - Technology and information.

Source: PwC's King IV™ - An outcomes-based corporate governance code fit for a changing world, 2016

Black economic empowerment

In the past few years we have seen the business landscape in South Africa change with the introduction of new Broad-Based Black Economic Empowerment (B-BBEE) regulations and the principles of sound corporate governance, as enshrined in the King Code, playing a vital role in the positioning of companies.

Although half of the South African respondents indicated that they have implemented some elements of B-BBEE and a further 30% are planning to do so, the challenge remains to attract and find the right business partner that agrees with and supports the family values and culture, two elements that are the foundation of the success of a family business. Almost all those who have implemented B-BBEE (97%) have a BEE certificate. Reasons given by those not planning to implement B-BBEE include: all key positions filled by family, they don't believe in it, or the business is already 100% black-owned.

Some respondents feel such initiatives will help empower/reward their workforces and help in dealing with suppliers. On the other hand, many say they have not gained any advantage from B-BBEE initiatives. B-BBEE is an integral part of owning and doing business in South Africa. The respondents acknowledged this, but it is clear that it remains an emotional matter for family businesses.

Empowerment within the family business

Stephan Eicker is a Director in PwC South Africa, involved in B-BBEE advisory services.

From the responses received during the survey it is clear that family businesses have embraced B-BBEE. For the most part this relates to elements of the B-BBEE codes of good practice dealing with business transformation. Elements scoring well were Skills Development (97%), Employment Equity (89%), Socio-Economic Development (89%) and Procurement (78%).

The two elements that received the lowest ratings are the ones relating to the core of a business, where the family business aims to secure the financial future of the family, firstly through ownership and secondly through management control of the business.

B-BBEE compliance for a family-owned business challenges the essence of the family business and, many would argue, stands in direct contrast to the goals a family business would have relating to ownership and management control. A key challenge remains to find a key partner who fits into the business and supports the existing family values and culture. Having the correct skills set and being affordable to the incoming owner are also underlying factors when choosing the right business partner.

For a family business, compliance with the Management Control element of B-BBEE would require the employment of non-family members in senior decision-making positions within the business, thereby relinquishing some day-to-day control of activities. This, however, can be overcome through the appointment of suitably experienced and competent individuals.

The question of ownership is often far more complex, as the family would lose some of its control of the business when new outside third-party shareholders are introduced.

For many family-owned businesses this is a very tough decision to make and often a delicate process. We find that changing ownership is normally motivated by one of two strategies, either defensive or offensive.

Families would bring B-BBEE shareholders on board as a defensive strategy if there is a major threat to a large portion of their business being lost due to the lack of B-BBEE ownership compliance. In essence, this move would be made to maintain the current business status quo.

Others would employ an offensive strategy by bringing B-BBEE shareholders on board, seeing the additional opportunities this may bring for growth and increased profitability over the medium to long terms.

B-BBEE in family businesses is very dynamic, with family businesses that realise the effects of B-BBEE non-compliance having to weigh the cost of compliance vs the benefits. The next wave of B-BBEE compliance will be the introduction of a requirement to have at least 51% B-BBEE shareholding, which is currently being driven by the Procurement scorecard of the 'new' B-BBEE codes of good practice.

It therefore goes without saying that without transformation at ownership level, the family business has to focus more on the other B-BBEE score card requirements in order to achieve a meaningful B-BBEE rating.

Implementing B-BBEE elements for the sake of compliance is a costly exercise. Businesses therefore need to understand when and how they will derive benefits from implementing the B-BBEE principles and focus on those elements in order to achieve a win-win situation.

A final word

There are five conclusions to be drawn from this year's survey and a final word:

- Family business firms must focus their efforts on dealing effectively with succession planning and must implement robust plans to address it.
- The journey of professionalising the family firm is not yet complete and will take more time and resources. This is particularly true in regard to family governance and the role of the board.
- Family firms need to develop a 'medium-term mind-set' around the challenges and opportunities of digitisation. They need to look at what trends and norms are driving change, what products could be vulnerable to new technology and how global changes are impacting the market.
- Consideration needs to be given to the increasingly important role that the next generation will play – both in running the family business and in responding to digital disruption. The next generation needs to be empowered and supported to do so.
- There is an equally urgent imperative for businesses to find, develop and retain the right people with the right mix of skills and creativity. Businesses need to focus on innovation – the pace of change is so fast – sustainable competitive advantage is about an organisation's capacity for constant reinvention.

Although this agenda is not easy, it is vital and necessary for the family business. If it is executed well and efficiently, it offers family businesses the opportunity to fulfill their potential even more effectively than they already are.

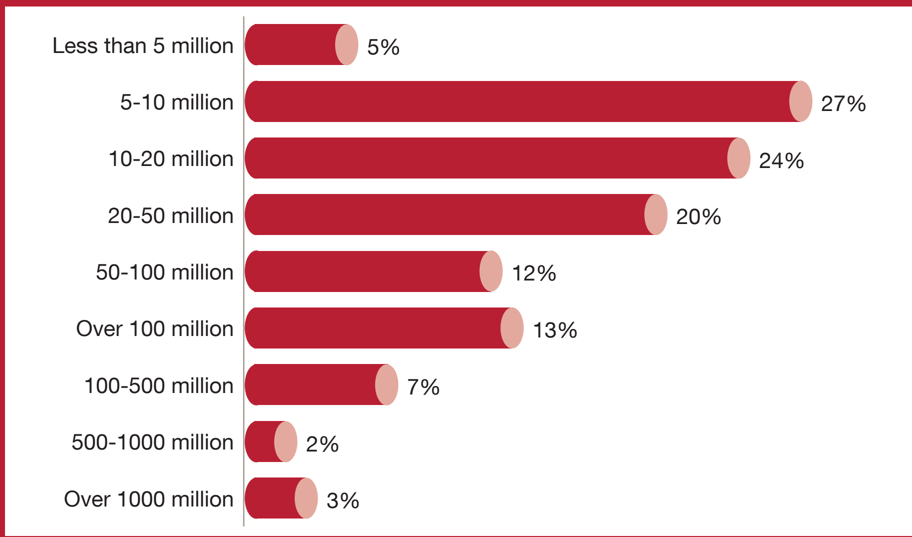
Profile of South African respondents

Key decision-makers in family businesses in over 40 countries worldwide participated in the survey between May and August 2016. Semi-structured telephone and online interviews were conducted with 2 802 respondents globally, of whom 130 were South African companies.

The turnovers of participating companies ranged between R1 million and more than R1 billion.

Figure 10 Turnover in the last financial year (R)

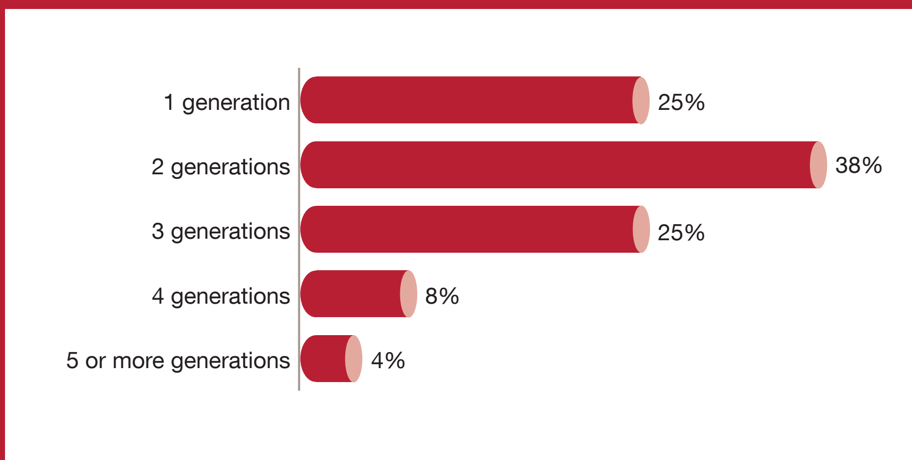
Q: What was your company's total turnover in the last financial year?



Base: All South African respondents (2016: n=130)

Figure 11 Generations that have managed the business

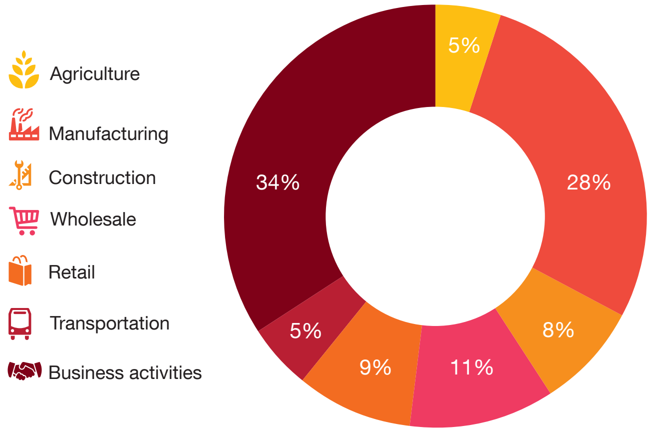
Q: How many family generations have managed the company?



Base: All South African respondents (2016: n=130)

Figure 12 Sector breakdown

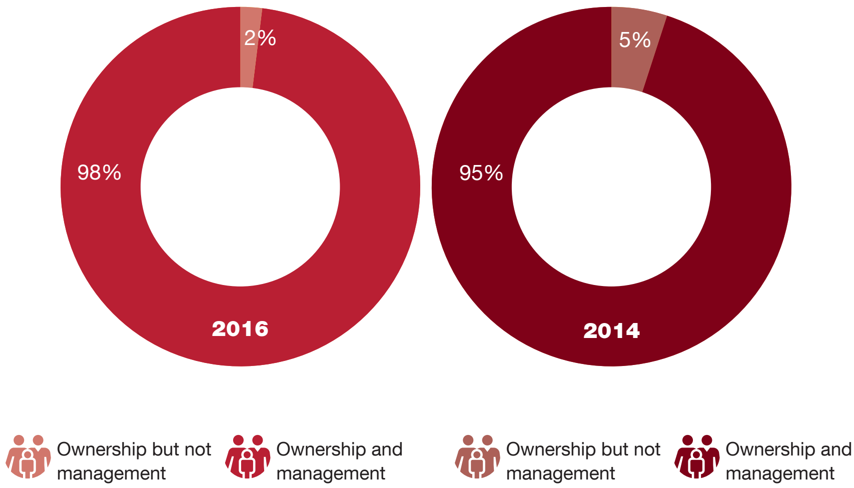
Q: In which sector does your organisation work?



Base: All South African respondents (2016: n=130)

Figure 13 Family's role in the business

Q: Is your company a family-owned business where the owners have day-to-day responsibility for the ownership and/or management of the business?



Base: All South African respondents (2016: n=130; 2014: n=120)

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Notes

Supporting family businesses

At PwC, we know that the most successful family businesses are those in which there is a good balance between professional management, responsible business ownership and a healthy family dynamic. We have a keen understanding of the unique subtleties of family businesses, and we have the tools, experience and focus to help family businesses optimise the positive forces in their enterprises, while anticipating and minimising any conflict.

No matter what the size, industry and market, PwC's advisors assist family businesses across the globe. From strategy and governance, to business transition and private wealth, to putting values in action, we have the tools, people and presence to help family enterprises build lasting value.