South African edition 2014/2015

Head over heart?
Family Business Survey

2 378

interviews conducted globally with family businesses

79%

agreed that digital technology is the number-one global trend affecting their business in the next five years

26%

agreed that professionalising the business is a key challenge over the next five years

pwc

www.pwc.co.za/family-business

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.
- In the case of a listed company, the person/s who established or acquired the business (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.

Contents

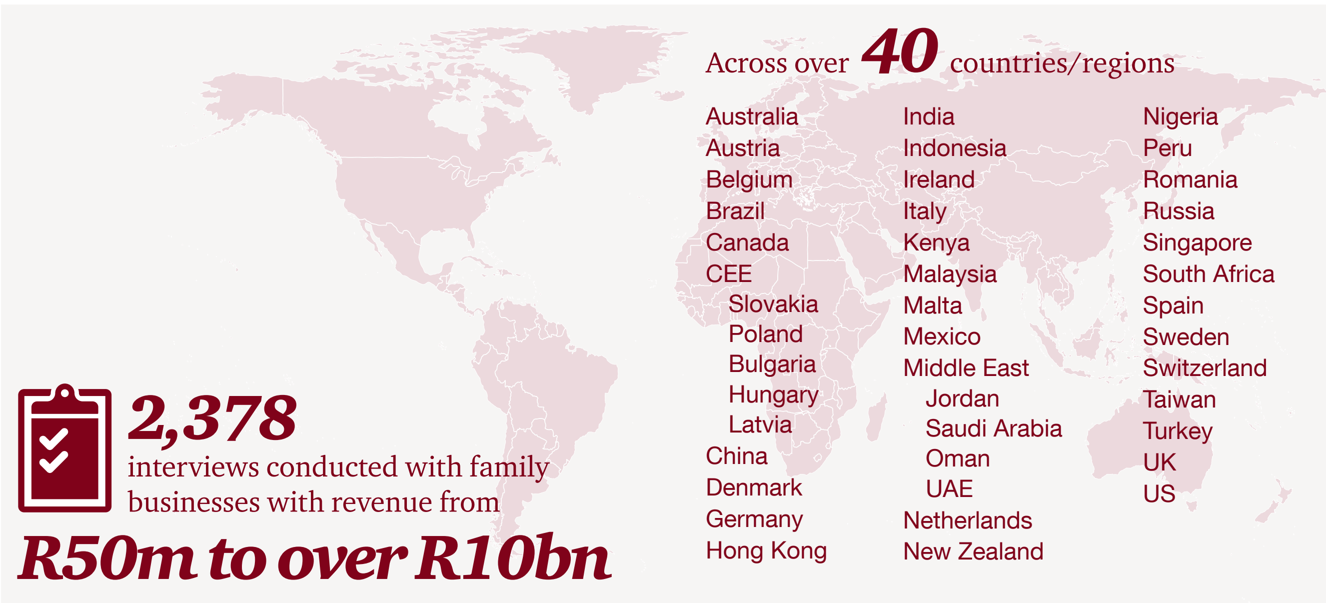
Foreword

This year's survey covers more respondents locally and globally than any of our previous surveys. It covers more companies and more markets than ever before. Entrepreneurial start-ups through time tested fifth generational (and older) family firms have been interviewed worldwide, with South African families making up 120 of the almost 2,400 family businesses surveyed. Respondents included family members who manage their businesses, as well as CEO's external to the family who have been brought in to manage the businesses on the family's behalf.

South African (and global) **family businesses remain resilient despite the adverse global economic environment** they find themselves in post-recession. Significant challenges facing family businesses continue to focus around shortages of skills, the need to innovate, political instability, price competition and the containment of costs.

Family business is reacting to the new economic reality they find themselves in. It is clear that they are cognisant of the need to adapt to the emerging global mega trends and to undergo significant reforms to ensure that they remain relevant and continue to be able to meet their objectives for generations to come.

What is this new economic reality and what can family business do to address it? It is clear that the economy is a colder and harder place than it was pre-recession. **Competition is more intense, price pressure is growing and the speed of change continues to accelerate**. These realities are tough for any business to face. The ability to react appropriately to this



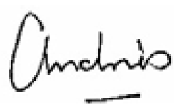
can be even more difficult for family business which has traditionally been known to be risk averse and very calculating in their decision making due to their inherent objectives of providing for the long term, multi-generational prosperity of the family earning them the reputation for being 'patient capital'. In a South African context, these challenges are further aggravated by labour unrest, infrastructure challenges and a depreciating Rand.

Family business worldwide is acknowledging that in order to face these challenges head on and do so successfully, **they need to adopt a more professional approach to their business**. 26% of South African family businesses, compared to 40% worldwide, believe this to be a key and significant challenge to their business over the next 5 years. This need encompasses both the professionalisation of the business as well as the professionalisation of the family. The need to draw on the expertise of external talent equipped to lead family business through the uncertainties of significant change is undeniable. With the incorporation of external talent comes the need to develop and document formal processes and procedures that form the backbone of the businesses operations and provide it with the context and structure it needs to grow and adapt. While family members are usually well equipped to run their business in the traditions which have made it successful in the past and often have their veins pumping with the entrepreneurial flair and passion that launched them successfully into business, this can cloud their judgement and ability to step back and make pure, cold, objective business decisions that non-family members can offer.

With the incorporation of external management into the family firm, the already neglected and emotional task of succession planning becomes even more important and complex. Again, our survey has revealed that only 13% (16% globally) have discussed and documented succession plans. Succession remains one of the most significant risks to the survival of the family business and is becoming even more challenging. There is a widening generational gap as people are having children later in life and in many cases there are significant communication gaps between those currently running the business and those expecting to take over the business. Planning for succession is widely neglected. The old adage rings especially true in this regard, '**those who fail to plan, plan to fail**.' The resulting conflicts and tensions from poorly planned and executed handovers can, and often do, at best result in the erosion of significant value for the family and at worst precipitate the demise of the entire company.

Many of the findings in this survey are consistent with the findings of our 2012 survey. What is clear is that family business needs to draw on their apparent strength to adapt and reinvent themselves and gear up for a new and exciting economic order. Now is the time for family business to ask themselves very difficult questions, the answers to which will likely see them having to break the emotional ties to the traditions of the past that have seen them operate so successfully to date, and make the necessary adaptive changes to ensure their continued success and relevance in the South African and global economies of the future.

These changes will ask many families to step out of their comfort zones, but the sector is founded on **entrepreneurial energy, determination and vision** which has allowed it to survive tough business environments in the recent past and it will undoubtedly empower the sector to succeed even now.



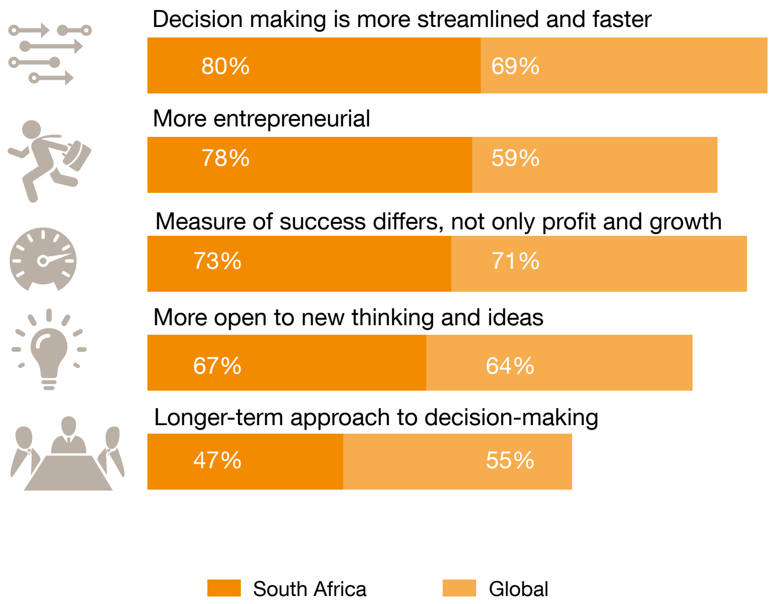
Andries Brink
National Private Company Services Leader, Southern Africa

The unique family factor

Dissecting the family business

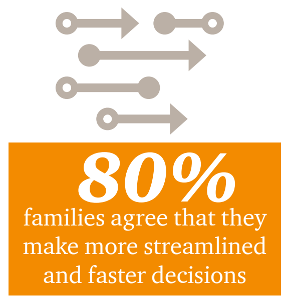
Without question, family businesses remain a dynamic and resilient sector, even though the post-recession economic environment is proving tough and there are continuing pressures in relation to skills shortages, innovation, and governance. This is the big picture, but when you look more closely at the detail it's clear that there are significant shifts underway in the family business sector.

% Agreeing with statements about how family businesses behave



Decision-making

Forty-seven per cent of the South African respondents agree with the statement that family businesses have a longer-term approach in decision-making than non-family businesses. What is clear from the results is that families believe that they make more streamlined and faster decisions. At first this might seem contradictory; however, if you dissect the results it will show that family businesses have a longer-term view and a broader perspective, as these businesses are more willing to wait for returns, earning them the reputation for 'Patient Capital'. Also, a family business has the ability to adapt quickly to changes in the economic environment and to make immediate decisions when risks and opportunities arise, without having to wade through miles of red tape, checks and procedures.



The reputations of the family and the business are intertwined (Copper et al., 2005), hence the greater sensitivity of family businesses to maintaining the integrity of their name. This often motivates the family to make quality decisions that have a sustained impact on the business. Where the business is the main source of wealth and employment for many family members, the vested interest of the family in the business increases. As a result of this increased interest, family members will exhibit a high level of commitment to decisions made in the business.

– Roland Eboru, Non-Executive Director, Fred Footwear Co

Entrepreneurship

Seventy-eight per cent of the South African respondents (59% globally) agreed that they are more entrepreneurial than non-family businesses. This translates into a 19% difference between the global and South African respondents. One of the clear reasons for this is the South African unemployment rate, which according to Trading Economics[1] currently sits at 25.5%. The number of unemployed persons has increased to its highest level since 2008. Compared to some of our global counterparts, unemployment rates, such as the United Kingdom (5.9%)[2] and the US (6%)[3], South Africa is lagging behind. This encourages families to be open to new thinking (67% agree) and ideas and to take risks by starting their own business in order to gain financial independence. Being more entrepreneurial has become a necessity.

78%

of the South African respondents agreed that they are more entrepreneurial than non-family businesses

73%

of the South African respondents agree that commercial success is a clear priority in the short term

Return on investment

For the family business, success is not only measured in growth and margins. More often than not, the measure of their success cannot be monetised. Typically, these measures include ensuring job satisfaction for their employees and family members, leaving behind a legacy and to be remembered for their family and community contribution. **Seventy-three per cent** of the South African respondents (71% globally) agree that commercial success is a clear priority in the short term, but they tend to be more focused on staff, the community and their family.

1 http://www.tradingeconomics.com/south-africa/unemployment-rate
2 http://www.bbc.co.uk/news/business-29627831
3 http://data.bls.gov/timeseries/lns14000000

‘Head’ is winning over ‘heart’
Key findings

This year’s survey suggests that the new economic pressures are forcing many family businesses to re-think their strategies and make some tough decisions. This is sharpening the tension already inherent in the family business model, between family concerns on the one hand, and business objectives on the other: what you might call ‘heart’ and ‘head’.

So 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. 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.

Family businesses are finding it tougher to compete in the post-recession climate, and are acutely aware of the need to keep pace with the speed of change in an increasingly fluid and disruptive environment where innovation is key and skills are scarce. Many are responding by professionalising the way they operate – from systems and processes to corporate governance. But there remains a significant challenge which many have not yet identified, and that is to professionalise the family as well as the business, especially in relation to succession planning.

The emerging picture shows very clearly that the family business has become, since our last survey, much more business focused and in doing so has recognised the need to professionalise their business so as to achieve their most important priorities, being:

- *to remain in business* ***(15.7%, 16.2% globally)*** *and*
- *improve profitability* ***(14.2%, 13.7% globally)****.*

‘A good head and a good heart are always a formidable combination.’

(Nelson Mandela)

The pace of change is accelerating

Family businesses in South Africa have a similar outlook to family businesses the world over in terms of the global trends that will transform their playing field over the next five years. Seventy-six per cent (79% globally) identified **digital technology** as one of the top three global trends that will affect their business, in addition to **resource scarcity/climate change** (58%, 52% globally) and the shift in **global economic power** (57%, 60% globally). The need to continually innovate remains the most pressing internal issue in 2014, as it was in our previous survey. The world as a whole is undergoing a digital revolution, and companies recognise the need to adjust their investments in technology. Technology advances will influence the way in which the family business innovates and how it delivers its product and services to the market. The winners will be those companies with the agility and flexibility to adapt, and which are able to make the often significant investments required to keep pace with new technology.

76%

digital technology

58%

resource scarcity/climate change

57%

shift in **global economic power**

Professionalising … the business

Professionalising the business will allow family businesses to innovate better, to bring in fresh perspectives, diversify more effectively, export more, grow faster, and be more profitable. It will open up new commercial opportunities and new options for a possible sale in the long term by making them more attractive prospects for both private equity and multinational investors.

Many family businesses are filling the skills gap by bringing in outside talent at both management and executive levels – 63% of respondents (65% globally) have non-family members on the board, and 39% (34% globally) have non-family shareholders. A lot is expected of a non-family member joining a family business, with the individual being required to have both business and emotional intelligence if they're going to succeed.

63%

of the South African respondents have non-family members on the board

91%

of the South African respondents have at least one mechanism in place to deal with family conflict

> *'In today's economic climate, family businesses acknowledge they will have to adapt faster, innovate earlier, and become far more professional in the way they run their operations.'*
>
> ***(Henrik Steinbrecher, PwC Global Middle Market Leader)***

Professionalising … the family

The strength and weakness of the family business model is right there in the name: the family. Professionalising the family is much harder than professionalising the business, and often gets postponed simply because it raises too many challenging issues. Progress has been made in some areas, with 91% of the South African respondents having at least one mechanism in place to deal with family conflict, which is higher than the global average of 83%. Mechanisms include shareholder agreements (71%, 54% globally), incapacity and death arrangements (60%, 43% globally), family councils (22%, 32% globally), third-party mediation (33%, 27% globally) and family constitutions (20%, 22% globally). Only 9% (17% globally) have nothing in place at all.

Too many businesses are either not planning for succession at all or managing it as a personal issue between two individuals, rather than as a process which requires the same rigour and objectivity as any other aspect of business decision-making. The result, all too often, is escalating tensions and a family conflict that can precipitate the demise of the whole company. As one of our respondents succinctly stated, 'Family businesses generally fail for family reasons.'

Growth and beyond

More competitive, more volatile

78%

Growth

Seventy-eight per cent of family businesses (65% globally) report growth in the last twelve months, and 64% (70% globally) expect to grow steadily in the next five years. Ninety-six per cent of South African family businesses predicting growth are confident of achieving it.

South Africa is listed amongst China, the Middle East, Kenya, India and Russia as the top six countries/territories to grow quickly and aggressively.

According to our latest 17th PwC Global CEO Survey, CEOs across the globe remain nervous about government efforts to balance reform with growth. Globally, overregulation tops their list of potential threats to organisations' growth prospects, with 88% of South African CEOs voicing the same concern. South African family businesses also agreed that political instability (54%) and price competition (53%, 58% globally) are key hindrances for growth.

77%

Economic environment

The key issues facing family businesses in South Africa are similar to those facing family businesses worldwide. Seventy-seven per cent of the South African respondents (63% globally) thought that market conditions and the general economic environment remain key external challenges over the next twelve months as well as the next five years.

77%

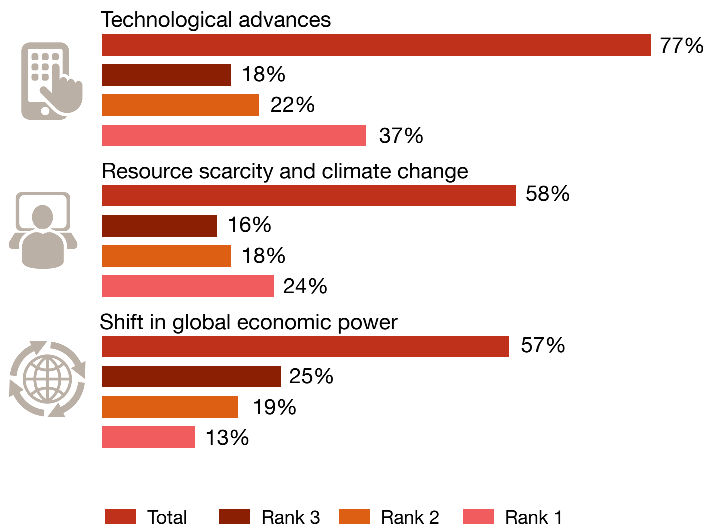
Internationalisation

Increased internationalisation is predicted. International sales account for 15% of sales today (expected to rise to 24% of sales in the next five years). Even though exports are likely to account for a larger proportion of sales, few businesses expect to be exporting to a significantly larger number of countries than they do now, and most tend to stick to neighbouring territories or those with the same language and a similar culture. Seventy-seven per cent of South African family businesses are planning to increase sales in the next five years through local growth and expansion of their business into Africa.

Embracing change

Global trends and the innovation imperative

The global trends that will transform business over the next five years



58%

of the South African respondents note innovation as a key challenge.

Family businesses understand that the new economic order (individuals that exhibit progressive social values, high social intelligence and are motivated by authenticity, design, quality, experience and provenance[4]) is far more disruptive and fluid. Their businesses will need to keep pace with the changes these individuals demand. Family businesses in South Africa have a similar outlook to those the world over in terms of the global trends that will transform business over the next five years.

The need to continually innovate is one of the most pressing internal issues in 2014 (58%, 64% globally). Innovation is closely related to the challenge of attracting the right talent to the family business: skills rank second in family businesses list of priorities, and 65% (61% globally) list it as a key issue over the next five years (both up from 64% in 2012). Those pressing for aggressive growth are more likely to see this as a key ongoing challenge. Even though innovation is listed as a high priority, anecdotal evidence, and the experience of our own teams worldwide, however, suggests that family businesses are still reluctant to change. This contradicts family businesses' continued claim that one of their strengths is their ability to reinvent themselves – 56% (56% globally) of respondents said so this year – there are not very many examples of businesses that have actually done so.

Our latest PwC Africa Business Agenda[5] indicated that for most CEOs, product and service innovation is top of their mind. They also state that innovation is about much more than inventing new products. It's about inventing new processes and models that meet untapped market and consumer needs. It's not industry or geographic location that sets leaders apart – it's their strategy and vision, executing the right ideas and bringing them to market at the right time.

[4] Roy Morgan Research

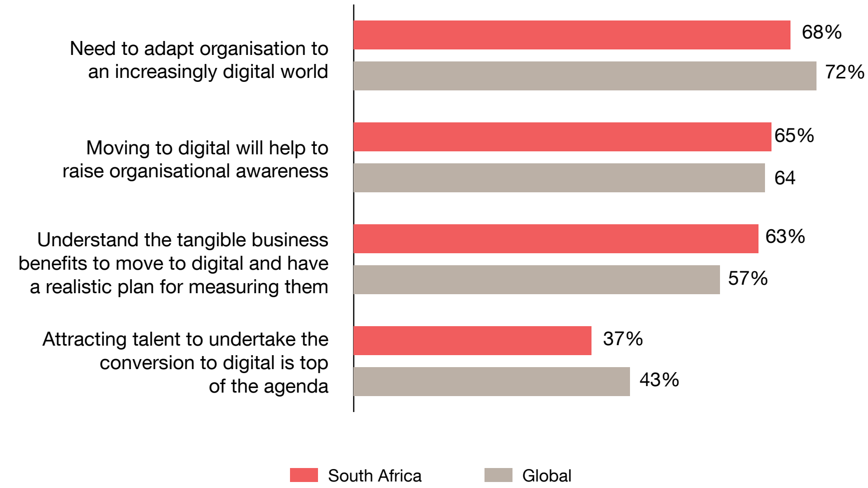
[5] The Africa Business Agenda, PwC, September 2014

On leaving a legacy:

'To build an entrepreneurial company that is sustainable and profitable. Longevity, and diversification - adapting to new technology and new markets.... It's not just a case of new physical markets, we have to be flexible enough to adapt our product to suit different areas.' (South Africa)

Technological advances

% Agreeing with statements regarding technology



Sixty-eight per cent (72% globally) of respondents recognise that they will have to adapt the way they operate externally, and organise themselves internally, to fully exploit the opportunities of digital and avoid being overtaken or left behind by more innovative and advanced competitors, while 37% (43% globally) accept that they will need to attract the right talent to do this.

The 17th PwC Global CEO survey noted that in order to grow and develop business today, whether it is local or global, family or corporate, one has to understand what benefits technology (and particularly digital technology) can bring to the business, and how the business should transform, enabled by digital and other technologies.

Liesbeth Botha, PwC Director in Business Transformation and Innovation, notes that, business transformation can be seen as the way in which a particular business changes the way it operates internally, or how it adapts itself to develop new products or offerings for new or existing markets. The terms 'innovation' and 'transformation' are often used interchangeably in this respect.

In this survey we highlight 'professionalising the business' as one of the challenges and priorities for sustainability. Formalising the operational process and automating management information are two important elements in professionalising the family business. All of this can and should be underpinned and supported by 'made to order' systems, implemented through use of the appropriate technologies.

Business transformation and technology

Technology plays a major part in both **internal business transformation** and in the **innovation of the products and offerings** of a business to new and existing clients and markets. Internally, we could single out the enterprise and resource planning (ERP) systems that depend on information and communication technologies (ICT) as one of the most important technologies of a business. ERP systems enable all businesses to entrench proper processes into their corporate support functions such as **human capital, finances, procurement and logistics**. Once these processes are designed, systematically implemented and adopted by employees, it allows businesses to extract critical management information from the system and **enables planning** and **strategy development**.

New technological developments provide both an advantage and a huge challenge to businesses. The challenge will always be to find adequate financing to fund the investment in new technologies. From an African perspective, there is the additional challenge of localisation of the new technologies, which are not necessarily customised for Africa's business climate, products, or the skills of the available labour force.

In embracing all new technologies across the continent, huge opportunities for Africa's economic growth will be uncovered through business transformation, growth and innovation.

Resource scarcity and climate change

Fifty-eight per cent of South African respondents (52% globally) noted that resource scarcity and climate change are likely to be a key global challenges of the next five years.

There has been increased concern over whether the rising demand for natural resources is affecting limits supply growth — particularly, but not only, based on the projected impacts of climate change.

We identified in our Megatrend Report that the scarcity of resources and the impact of climate change are of growing economic concern. Demand for energy is forecast to increase by as much as 50% by 2030, and water withdrawals by 40%. Impacts may include increases in extreme weather and rising sea levels, which could make traditional methods of farming, hunting and fishing difficult or impossible in some places. The need for sustainable solutions may well be at odds with the need for resources to fuel growth and feed populations. Time-honoured traditions will be challenged by changes to the physical environment.

Shift in global economic power

Fifty-seven per cent of South African respondents (60% globally) noted that the shift in global economic power is likely to be a key global challenge for the next five years. There is a major shift in the balance of economic, financial and political power from developed countries toward emerging markets. This will have a major impact on business strategy and expansion considerations for products and services. Per our Megatrend Report, the competition generated by new geographies and sources may create different competitor profiles to those faced historically. This will demand unprecedented and innovative responses to market factors never encountered before. This provides family business with significant opportunity to exploit its flexibility and differentiate itself from the market.

On the couch with …

Pieter du Toit, Managing Director, Dutoit Group

Dutoit is a leading South African producer and distributor of superior fruit and vegetables

The du Toit family has been in business together for more than 115 years. The family businesses' primary operations are based in the Koue Bokkeveld where conditions are ideal for producing world class fruit and vegetables.

The family and The Dutoit Group's (Dutoit) success is not due only to the prime farming land that they own and cultivate, but critically their professional and visionary approach to running their business is tantamount to their continued generational success. Dutoit prides itself on its ability to fuse stability with forward-thinking innovation. Its rich, long history means that the family business is established and stable with a strong infrastructure, while its long-term vision has made it dynamic, adaptable and innovative.

The Dutoit business model is based on integration, from plant material through to the consumer. The company therefore prefers to build relationships with clients who also work on a long-term programme with a strong growth focus.

Growth and Innovation

To prepare itself for multinational export, Dutoit identified the need to invest in internal professional structures as well as the necessary infrastructure to facilitate the change in market focus and the growth in productions. This investment allows the Company to deliver its products effectively and efficiently to its key markets around the world.

Dutoit is a respected and important global participant in the pome fruit, stone fruit and onion industries. It plans to grow its share in these industries by aggressively investing in new land, better varieties and the latest growing and packing techniques. These investments are critical to capturing the opportunity it has identified in the market.

Professionalisation

Having learned over many generations the importance of the family being able to carry on where the present generation leaves off, Dutoit has identified the advantages of professionalising the governance structures of the business to ensure stability during generational handover and meaningful participation of a wide range of family and non-family stakeholders. The Dutoit Board comprises 9 members and is chaired by Jan-Linde du Toit, a non-executive family member. He is supported by four external non-executive directors and four executive directors. The diverse views available to the board from both family and non-family as well as executive and non-executive members enables the board to balance its views and strategies between that of the family and that of the business.

Dutoit has also acknowledged the value of having the right talent in the right positions within the business and has a policy of appointing the best person for the job whether family or non-family. This ensures that their people are well looked after and appropriately

rewarded based on their performance, which cultivates a professional, competitive and dynamic working environment.

Resource scarcity and innovation

Water is recognised as a scarce but vital natural resource in the production process. Dutoit ensures that there is always sufficient irrigation water in storage dams and boreholes for the area under cultivation. To ensure the most efficient and responsible usage of this scarce resource, Dutoit has implemented innovative technology into their irrigation practices. This includes the use of moisture probes to apply scientifically-based irrigation scheduling, and a computer model to ensure that the correct volume of water is supplied at the correct time to the root zone of the tree.

This demonstrates Dutoits ability to embrace technology in the innovation of their business to ensure they remain relevant and competitive in today's environment.

Taking it to the next level

Professionalising the business

Twenty-six per cent of South African family business respondents agreed that professionalisation, currently significantly lower than the global average of 40%, is a key challenge over the next five years. It may be that family businesses in South Africa have indeed made more progress in this area; it could also be that the responses conceal (or reveal) either a degree of denial, or a resistance to any change that might appear to threaten family control.

So what does 'professionalising the business' mean for the family business? What areas does it cover, and what are family businesses doing to address it? The first thing to say is that it's not about process for its own sake, or about weighing down the entrepreneurial flair that launched the family business in the first place. It's about giving structure and discipline to that vision and energy, so that family business will be able to innovate better, diversify more effectively, export more and grow faster. In short, it is about achieving their twin goals of ensuring the company's long-term future and improving profitability.

South African businesses, their boards of directors and shareholders are exposed to a tough political system, increased official regulation of industries, demanding international investors and competitive pressures in the market. Family businesses in South Africa are aware of the risks and opportunities inherent in a well-managed and disciplined operation.

The latest PwC Africa Business Agenda[6] indicates that Africa's CEOs are leading change in response to global trends and highlighted organisational structure and design as one of the key items that will need to transform in the next five years, while a staggering 53% have already completed the change or, as a minimum, have concrete plans to implement the change programmes.

There are three distinct areas where family businesses are feeling the need to professionalise their operations. Some of this is fairly basic work around systems and processes, but progress is also being made on corporate governance and people management.

[6] The Africa Business Agenda, PwC, September 2014

Corporate governance: Are we playing catch-up?

Sixty-three per cent (2012: 50%) of South African family businesses now have non-family members on their board. This is an increase of 13%, compared to the prior survey. If we look at the global comparison, there was only a 1% increase on the prior survey. This shows that South African businesses are seeing the value of appointing experienced non-family members, and that they might only now be catching up with their global counterparts, of which, 65% have non-family members on the board. South African families are discovering their roles as owners as being important to the success and legacy of their business, embracing the concept of 'owned by family' and 'managed professionally'.

Although South African family businesses recognise the value of appointing non-family members to their boards, the efficacy of their involvement is diluted by the common practice of a single family member acting as both Chair and Chief Executive Officer.

To ensure growth and expansion opportunities, foreign investors require robust corporate structures, governance and performance. Growth and too-rapid expansion without solid structures and foundations may lead to inefficiencies, value erosion and increased costs.

Leaving a legacy

The case studies in this report all illustrate, in different ways, how important it is for those running family businesses to leave something worthwhile behind or, as several interviewees put it, 'to be remembered'. This is borne out by the survey results: family businesses may be putting business issues first this year, but the pull of the personal legacy remains very strong. Many talk about 'longevity', 'integrity', and 'making a difference', and say they want to pass on a business that is stable, sustainable, and profitable. They also talk about creating employment, sustaining the family's values, and supporting the community – all issues that have slipped down their overall list of priorities, but which come sharply into focus when the emphasis shifts from the professional to the personal. This is clearly a highly emotive issue, and is no doubt related to the fact that most family businesses bear the family name.

Systems and processes: stepping up a notch

Though there are some family businesses that manage without formal business processes; especially first-generation entrepreneurial start-ups, most larger businesses now have documented procedures and policies, if only to comply with external regulation. There are still family businesses with thousands of employees and no HR manager, but these are now the exception, not the rule. Likewise, many are automating their operations and increasing their use of IT as a way to improve productivity and efficiency and to counter cost-related pressures. They are also being more systematic and structured in their approach to sourcing, again as a result of rising costs. Increased focus on branding will ensure leaving a hard-earned legacy and ensuring longevity of the family name.

Skills: professionals for performance

In South Africa, the question arises as to whether there is a sufficient pool of trained and experienced people available to serve as independent non-family executives. Also, as a result of this limited pool of skilled people, conflicts of interest often arise.

Sixty-five per cent (61% globally) of family businesses cited attracting the right skills or talent as one of the two foremost challenges in the next five years (compared to 61% in the previous survey).

Successful non-family executives need to be attentive to family dynamics, divisions and problems, striving to be consensus-builders with the ability to maintain, preserve and strengthen family unity.

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

The survey results show that non-family respondents are much more likely to be pushing for aggressive growth, innovation, international expansion, diversification and professionalisation of the business. These are higher priorities for professional management than for family members, who tend to be more focused on family and community, and more concerned about a personal legacy, as well as the generational investment outlook.

Dr Jonathan Marks

Gordon Institute of Business Science

Family businesses are presented with many unique challenges, as well as issues common to all growing businesses. The most common discussion point for a family business often relates to the issue of succession. The founder(s) may become preoccupied with planning managerial succession and at the same time trying to determine the appropriate balance of loyalty to family and placing the most skilled individual(s) into key positions in the business. While the overall purpose of the family business may be one of lifestyle maintenance, this is often a function of good growth, profit and ultimately management. Appropriate skill and talent is not just relevant for family businesses, it is a challenge that every growing business will face, especially at the managerial level.

For many family businesses the search for skilled and talented staff is linked to overall professionalisation of the business, which is often a function of growth. As the business grows, the business model and business cycle are challenged, and traditional management practices and even loyalty to staff and suppliers are also challenged. Research shows a paucity of next-generation management and leadership talent, and as the business looks outside the family for skills, the very nature of the business begins to change.

To meet some of these ‘people’ challenges, family businesses can consider the following strategies:

- Consider **international experience** for next-generation family members: as businesses have to be increasingly international from the start, exposing the next generation to international study and work opportunities helps to build an internationally-focused skills base and a broad contextual understanding.

- Include **non-family members on the board**: apart from the regulatory or governance requirements of non-executive directors, having an external view at board level gives a fresh perspective, network and opinion on the business’s strategy.

- Grow a **base of non-family managers**: having the best talent and skill is about planning, and not luck. By investing consistently in a pool of non-family middle management, the business will have better options for skilled senior managers.

- Provide **opportunities for wealth creation**: all staff need to feel valued and appreciated, but alongside this the business should consider ways in which non-family management members can also build wealth. While the family may not relinquish equity, opportunities for co-investment in new ventures, phantom stock plans or non-voting stock options can be used to incentivise managers.

- **Strive for a meritocracy**: while ‘kinship’ is frequently a criteria for promotion and advancement in the family business, striving for a model based on performance and merit will create a culture that signals to non-family staff and managers that their contributions are valued and rewarded.

In recruiting and selecting skilled and talented staff, the family business is competing with the non-family business, which is able to project a different culture and avoid many of the implied and imagined ‘traps’ of the nepotistic family business. By contrast, the family business can project a far more caring and open culture in which staff are valued and appreciated, and in which the family owners have a real and genuine interest in all their staff.

On the couch with ...

Tommie van Zyl, CEO, ZZ2

ZZ2 is the single largest producer of tomatoes in South Africa

The Van Zyl family has been in South Africa since the seventeenth century. The family's early history is a typical reflection of the history of settlement at the Cape, particularly the Dutch element. During the early 1900's, farmers were encouraged to each register a code, which was used to mark their cattle with a branding iron. The Van Zyl family's brand was ZZ2.

Since then, ZZ2 has become the well-known brand name of the farming organisation which, among other agricultural production activities, supplies more than 40% of commercially traded tomatoes in South Africa.

The farming operations are spread across South Africa, and the ZZ2 group consists of various independent companies, managed under the ZZ2 umbrella and with revenues exceeding R1bn per annum.

Management skill and experience

Without doubt the emergence of ZZ2 from an average farming enterprise to a super family business can be attributed to the character and world view of its previous patriarch, Bertie van Zyl. He had exceptional people skills, and managed to assemble and retain not only family members to his enterprise, but also outside experts in various disciplines important to his operation. These included economists, agronomists, engineers and marketers — and eventually even professors of philosophy and ecology.

Mr van Zyl took a great and positive interest in his stakeholders, including his labour force and market agents.

Professionalisation

The commercial success during his reign was largely due to three strategic drivers, which even at that time spoke of becoming professional:

- The Brand: to ensure a price premium associated with a dominant brand, a good quality product had to be supplied year-round.
- Processes: to ensure reliable delivery, focus was placed on performing the following activities in-house:
  - A tomato seedling nursery;
  - Packhouses; and
  - A transportation fleet.
- People: Mr van Zyl invested disproportionately in the welfare and goodwill of the labour force, and in acquiring the best expert advice he could get, both nationally and internationally, through the appointment of consultants and by nurturing personal contacts.

Governance

During 2001, the appointment of the current CEO, Tommie van Zyl, was confirmed and formalised, together with the appointment of an independent Chairman of the Board. This was the tipping-point in the transition of ZZ2 from a family farming enterprise to a family-owned business system. Under the family farming enterprise model, the management style was one of centrally controlling the system. Under the family-owned business system, the move was towards an open system. Currently, the board consists of six non-executive and five executive directors. The orientation towards stakeholders led to a new openness and awareness of interdependence, and particularly to a focus on the consumer. In the area of internal organisation, it led to a more horizontal and self-regulating management system. The Management Council consists of the CEO and seventeen executives, ten of them family members.

Sustainability

ZZ2 is endowed with a sound and ethical corporate philosophy, independent of the influence of self-serving individuals. The aims of environmentally sustainable and affirmative value creation for all its stakeholders through an open system approach should safeguard its sensitivity and mobility in any conceivable environment. It should also ensure the relevance of ZZ2 as a sustainable value-creator for all its stakeholders over the short, medium and long terms.

The heart of the matter

Professionalising the family

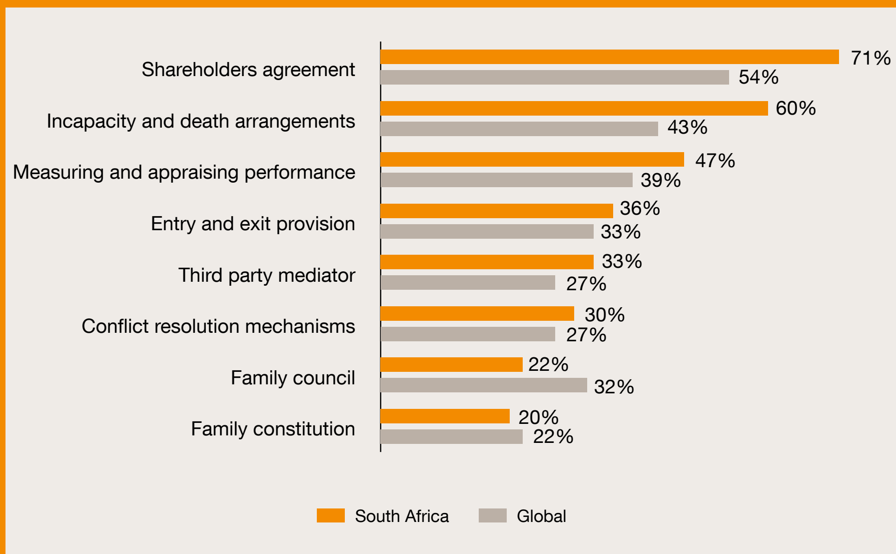
91%

of the South Africa respondents have at least one mechanism in place to deal with conflict

Working with one's relations can generate greater levels of trust and commitment, but it can also lead to tensions, festering resentments and even open conflict, as the individuals concerned struggle to keep 'head' and 'heart' separate, and make a success of both their work and family lives.

This year's survey shows that an increasing number of family businesses have mechanisms in place to deal with potential conflict, and the survey results show that there has been further progress in this area since 2012.

Mechanisms to deal with family conflict



'Professionalising the family' means putting processes in place to govern the way in which the family interacts with the business. This includes establishing an infrastructure for decision-making, and formal channels for communications to supplement the informal ones which will come into their own during times of tension or difficulty. It's about protecting the family's interests and safeguarding the business's survival. In other words, it's the vital family governance element, which must sit alongside the equally important corporate governance structure.

More family businesses are setting up family offices, either dedicated or shared. These offices, in their turn, are becoming more professional, moving beyond 'concierge' services to relationship advice, family counselling and, where necessary, mediation.

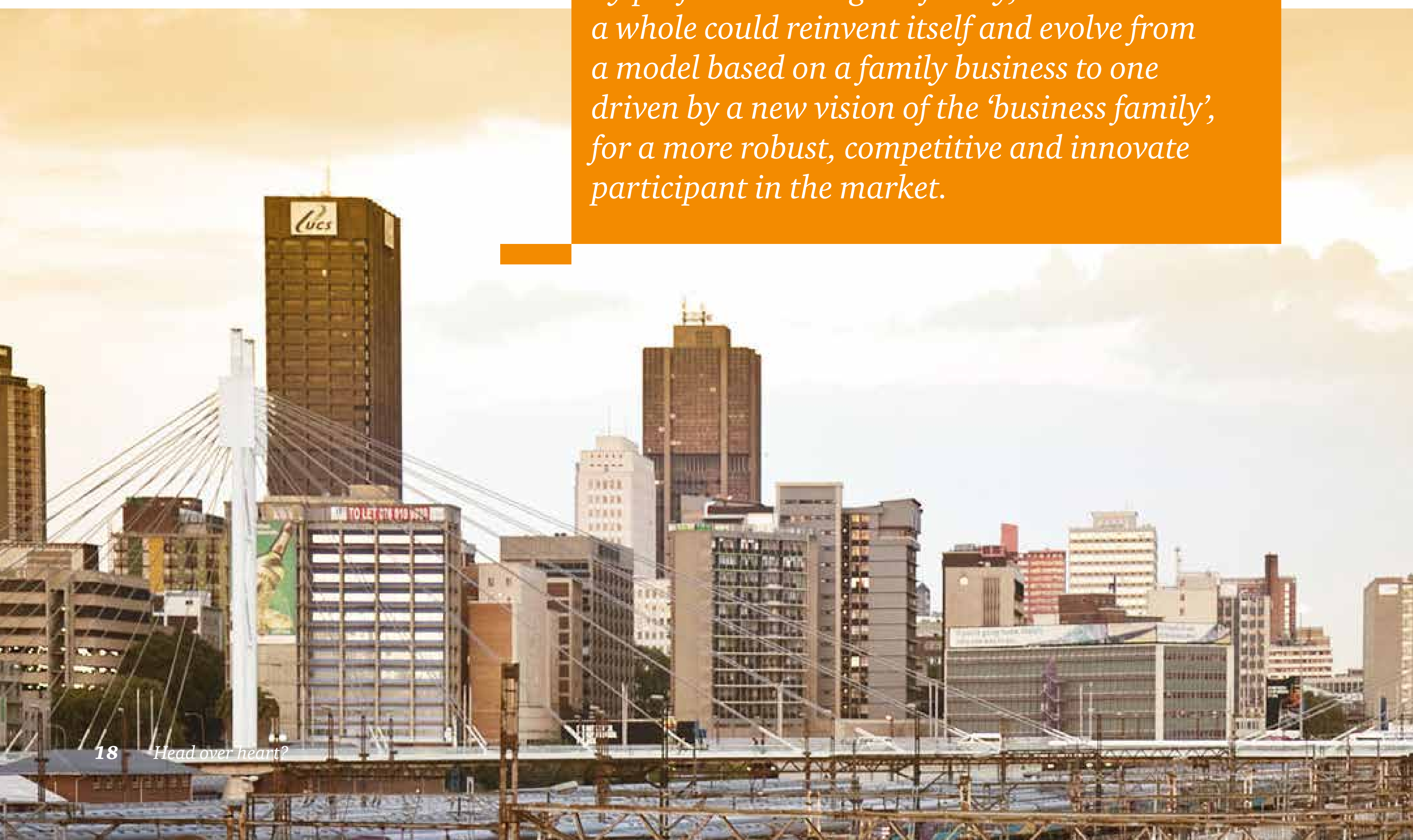
Changing role of the family office

Family offices come in many different shapes and sizes: they can accommodate anything from a finance director or legal counsel, who spends some of their time dealing with the family's personal affairs, right through to teams of advisors managing all the family's investment and personal affairs, as well as concierge services. For many families, the use of an office will be driven by a lack of time; for others it will be about actively managing their affairs and dealing with investments in new ventures outside their core business.

In recent years there has been a lot more awareness of the value of family offices, and as family businesses have become more complex, the traditional family office is evolving to meet their needs. In many cases this means operating not just in traditional 'head' areas such as tax planning and asset protection, but in softer 'heart' areas too. This includes advising parents and children on the psychological aspects of bequeathing and receiving wealth, and supporting younger members of the family to gain the professional and personal development they will need to be effective owners or managers. Many family offices are also now taking an active role in helping the family to define and codify its values and ethos to ensure that these principles continue to inform the way in which the business operates, whether or not a family member is CEO.

The changing role of the family office reflects the increasingly global footprint of many families and also the drive for greater professionalisation. For large multi-generational families, transparency and communication are key, and family offices continue to look for effective and safe ways to communicate with multiple stakeholders.

By professionalising the family, this sector as a whole could reinvent itself and evolve from a model based on a family business to one driven by a new vision of the 'business family', for a more robust, competitive and innovate participant in the market.



Passing the baton

Successful succession

The 'passing of the baton' has always been a hazardous moment for the family business, and never more so than now. The world has changed out of all recognition since the current generation first went into business 30 or 40 years ago.

As the business gets older, more potential successors come into play, the numbers in the wider family grow, and the potential for conflict rises. In many cases the word 'succession' itself can provoke an extreme emotional reaction, especially in the founder or current CEO. It's an unwelcome reminder of age and mortality, and threatens loss of influence and redundancy in the widest sense of the word.

Succession will always be an emotive issue, which is all the more reason why it needs to be managed on a professional rather than a personal basis. Too many family businesses are still approaching it as a one-off event, rather than as a long-term process.

No surprise, then, that so many family businesses exhibit 'sticky baton' syndrome, where the older generation hands over management of the business in theory, but in practice retains complete control over everything that really matters. No surprise, either, that so many incumbent CEOs either evade or block any discussion about succession with those who expect to take over. This creates uncertainty, which is unhelpful for the individuals and the business, and in extreme cases can lead to a complete disconnect between what the incumbent is privately planning, and what the next generation is expecting.

Six ways to address the 'family factor'

Peter May, a specialist in family businesses, Germany advice to family firms:

- It's not enough to manage the business – you need to manage the family too.
- As a family, your role is to ensure the best professional leadership of the firm, and a family CEO might not always be the right choice.
- Prepare and train the family for the task of ownership – in other words, invest in your future shareholders.
- Network with other family businesses and share your learning and experience with them.
- Keep the entrepreneurial spirit alive. One way to do this is by creating space for innovators, both inside and outside the family.
- Play to your strengths in attracting talent: a family business can be a special place to work, offering a human touch and a sense of belonging which is becoming increasingly rare in other types of company.

'Professionalising' of the next generation is helping to close the credibility gap that exists in a family business. Younger family members go through a proper development programme before entering the business, and in many cases this includes a spell working outside the business.

In our Next Generation Survey[7] interviewees, only 7% had gone into the family business straight from school, as their parents and grandparents typically did. 55% had gone through a professional development programme, 14% had taken business degrees, 34% had been on management and training courses, and 46% had worked for another company before joining the family business. The latter, in particular, can provide an invaluable insight into the crucial difference between owning and managing a business.

[7] PwC New Generation Survey, 15 April 2014, Bridging the gap: Handing over the family business to the next generation

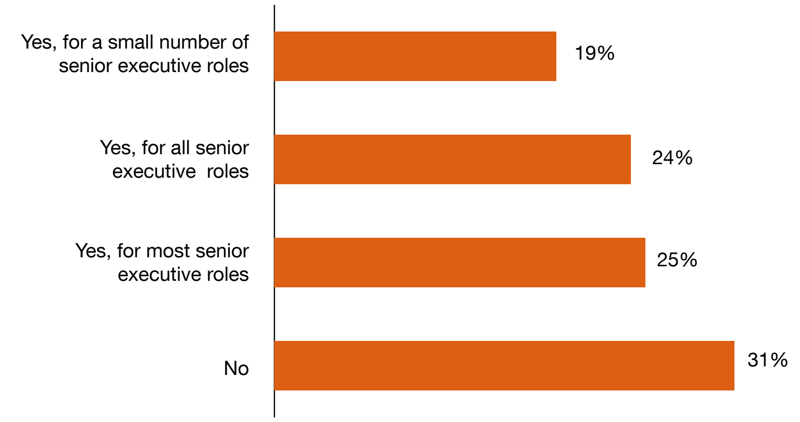
13%
(16% globally)

has a succession plan in place that is robust and documented

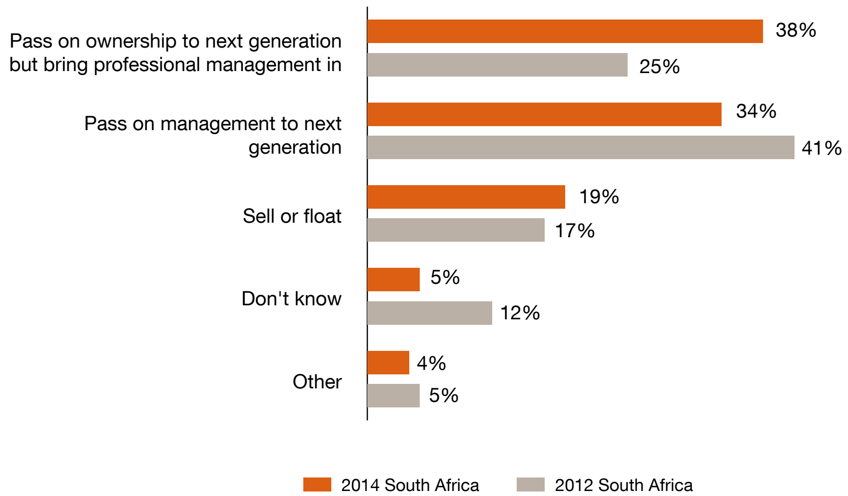
A plan that is not written down is not a plan – it is merely an idea. This is an issue family businesses must address with the same commitment and energy as they devote to professionalising other aspects of the business. Without it, the entire enterprise is at stake.

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. There is also some forward-thinking family-business CEOs who are open-minded about the next generation's involvement, because they see the family business as meritocratic, not dynastic. They would be happy to see the next generation take over, but they accept that management may skip one or even two generations and that the business may not revert to family management at all.

Succession plan for key senior roles?



Future plans for management and ownership of family businesses



Roland Eboru

Non-Executive Director, Fred Footwear Co

Successor competencies are the most important factor that contributes to the succession of family businesses. These competencies are largely dependent on mentorship, formal education and depth of professional experience. They are advantageous characteristics that most professional managers will have over family siblings working in the business. The research further indicates that prevailing opinion, particularly among second-generation family business owners, is that professional managers are critical for the generational success of a business. They are often a source of new ideas, as well as a catalyst for change and new business networks that revitalise the business.

The rationale for the 15% increase from 23% (2012) to 38% (2014) is that an increasing number of family businesses are realising the importance of professional management in the business. They are also recognising shortcomings in the skills that exist among their family siblings. As a result, more family businesses are opting for external professional managers as suitable successors. Lastly, research evidence suggests that the succession process in family businesses tends to be less complicated when credible successors are involved (which could be in form of professional managers).

Robust and documented succession plans in South African family businesses are not common. They often occur informally and are not always well-structured. The need to maintain a healthy lifestyle settles in with the South African working population. It is conceivable that senior citizens of the South African working population may want to retire early or alter their lifestyle, particularly as they become older. In so doing, they become catalysts for change (in terms of succession) in the organisations where they work.

Conclusion

Professionalising the business will allow family firms to innovate better, diversify more effectively, export more, grow faster, and be more profitable. But these benefits will only be realised if family businesses have the courage to professionalise the family, as well as the business. Doing one and not the other will only create tension and possible conflict, especially if outside managers are brought in at executive level.

Professionalising the family is much harder, and will take longer, and it's understandable that many family businesses are shying away from tackling an issue so fraught with potential conflict. But it cannot be postponed indefinitely. The choice is to do it slowly and painfully, or quickly and painfully. But the rewards will be significant for those who do seize this challenge, while the risks of not doing so will increase with time, especially as it's likely that the failure rate of the family business sector will rise as the pace of change in the wider economy accelerates.

Professionalising the family will ensure that family members become effective owners, whether or not they are actively involved in managing the business. It will make it possible to reinvent the business, by taking the objective perspective of the informed investor, rather than falling prey to decisions dictated by emotion or history. By professionalising the family, this sector as a whole could reinvent itself, and evolve from a model based on a 'family business' to one driven by a new vision of the 'business family'.

Profile of South African respondents

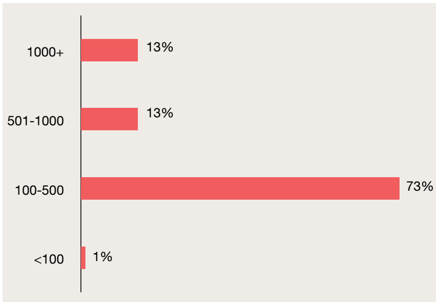
Survey methodology

2 484 semi-structured telephone and online interviews with key decision makers in family businesses in over 40 countries worldwide were conducted by London-based Kudos Research between 29 April and 29 August 2014. Their report takes into account the responses of 2 378 respondents, where the South African views total 120 South African companies. The turnover of participating companies varied from R50 million to more than R1 billion.

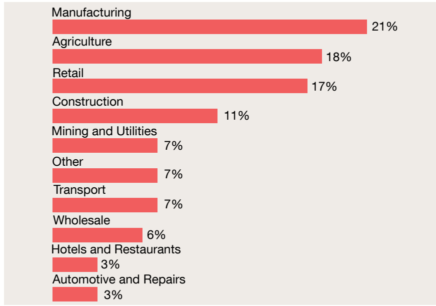
The interviews were conducted in the local language by native speakers, and tended to average between 20 and 35 minutes in length. The results were then analysed by Jigsaw Research.

Profiling our respondents

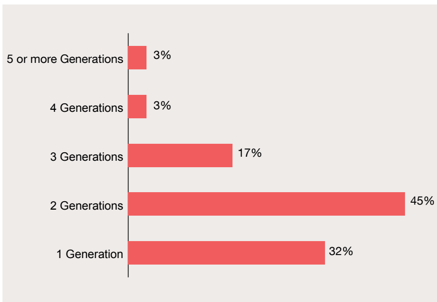
Total turnover in the last financial year



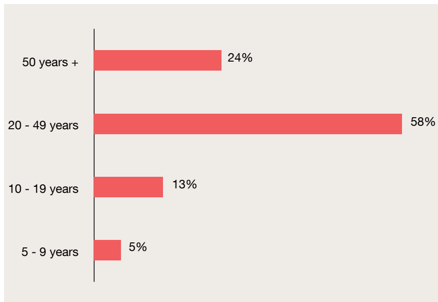
Sector breakdown



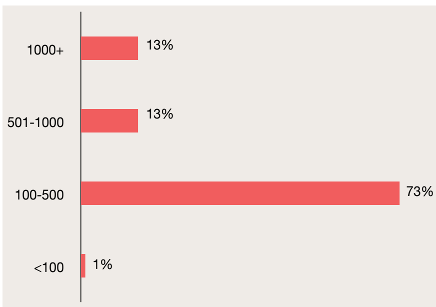
Generations



Age of the company



Number of employees



Contacts

Gert Allen
Africa Private Company
Services Leader
+27 (0) 82 859 0939
gert.allen@pwc.com

Schalk Barnard
Africa Family Business
Leader, PwC South Africa
+27 (0) 79 971 8583
schalk.barnard@pwc.com

Andrea Benkenstein
Africa Centre of Excellence
Senior Manager
+27 (0) 79 898 9250
andrea.benkenstein@pwc.com