

Garbutt
& Elliott



2015 Praxity The Family Business Survey

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Introduction

As part of Praxity's commitment to the Family Business sector a focus group was created in 2006 to provide support, ideas and training for those who deal with the special dynamics involved in a Family Business.

This is the second year we have run the survey which was again well received. The group believe that the survey provides family businesses with a balanced report on the opportunities, challenges and insights of other family businesses. The survey also allows us to determine a family businesses agenda and monitor and analyse any trends highlighted.

The survey was distributed to a variety of business size's and sectors however the results show that despite this organisations still experience similarities. In general it was great to see is the increase in confidence for the future.

We hope you enjoy reviewing the results and thank you to everyone who completed the survey, your involvement is greatly appreciated.

Kind regards

Praxity Family Business Working Party



Executive summary

Financial development

- The recession has been a difficult time for all businesses; however 58% of respondents reported an increase in profits over the past year.
- Also, 55% of respondents described their finances as good or excellent.
- 27% of respondents identified that their numbers of employees have increased over the past year.

The next generation

- Handing a business from one generation to the next can be very difficult; it is therefore encouraging to see that more family businesses are now in their 3rd, 4th or 5th generation of the family running the business.
- This trend looks as though it could continue with 53% of respondents saying that they will pass on the business to the family in the future.

Decision making

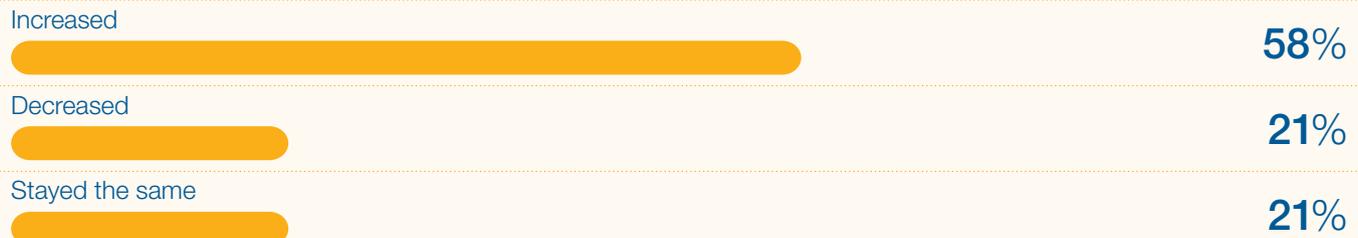
- It is difficult to make decisions in a family business with many different factors to consider. Respondents showed that when conflicting decisions are being made the business should take priority.
- Increasingly family businesses realise the value of having an independent facilitator to help them with the often complicated issues of family business decision making.



Family Business and Finance

Last years survey showed that despite the recession the majority of family businesses were still experiencing increased profitability, it is therefore encouraging to report that this year there has been a further increase of family businesses experiencing improved profits.

Did net profits of the business increase over the past tax year?

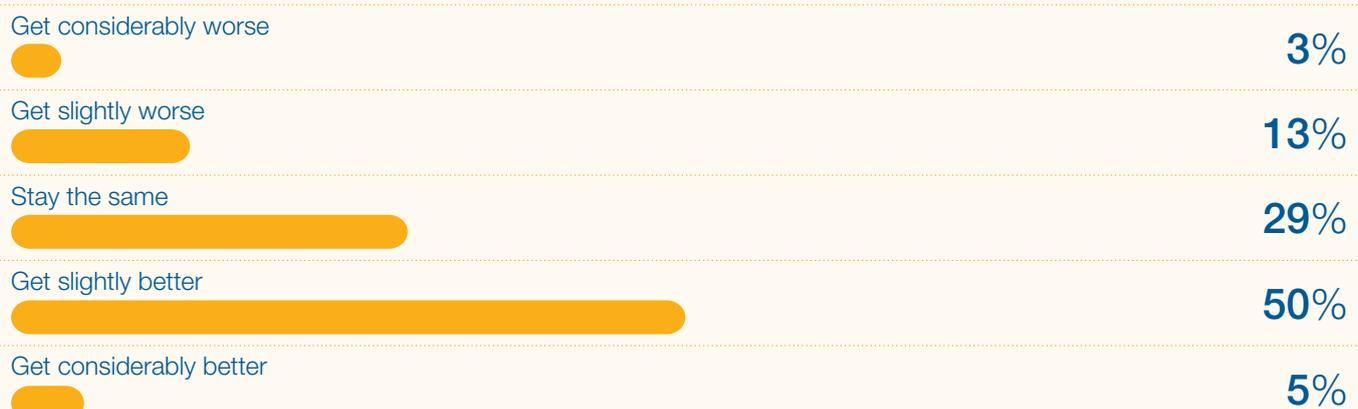


How would you describe the finances of the business?



The survey showed that confidence in the economy is still growing. More family business identified that they expect the economy to “get considerably better” over the next 12 months. Our experience shows that as the family business’s profitability improve, potential conflicts between family and business can come to the fore, particularly in the area of rewards, family employment and dividend policy. We have found that planning can not start too early and that successful transition to the next generation requires the family to establish a vision which is shared with the key employees. A successful vision can only be developed with the wider input of current and future shareholders and increasingly the understanding and input of individuals who have experience in a number of family organisations.

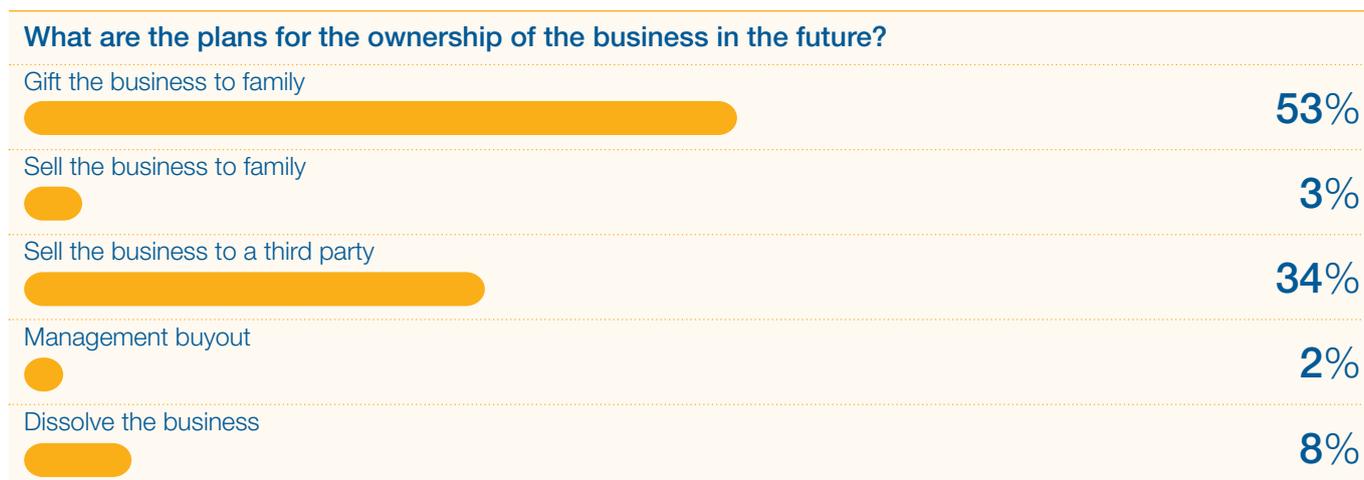
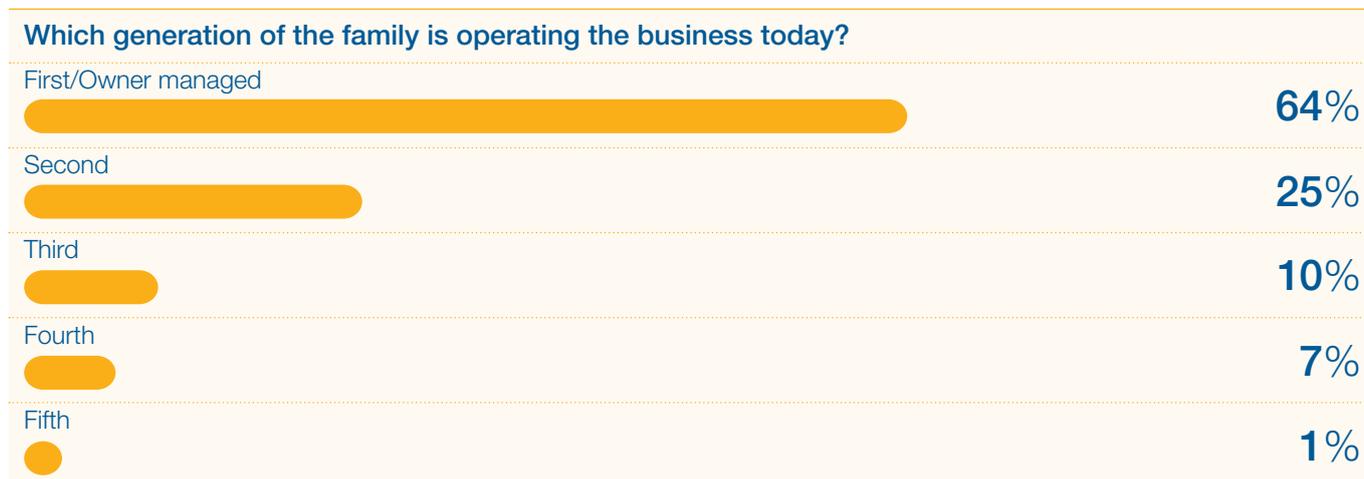
How do you expect the general economic situation in the UK to develop over the next 12 months?





The Next Generation

Defining the future of the family business can often be a difficult decision, we therefore asked the following questions to try and assess the importance of engaging with the next generation.



The results show that that majority of respondents plan to transfer their business to family in the future. It is therefore important that appropriate planning is undertaken to train and support the next generation, providing a defined structure of roles and responsibilities.

When making decisions there are many matters to consider some that create conflict between the family and the business. The survey shows that the business must take priority. We increasingly see family businesses employing non-family members at a senior level and, indeed, some moving to the point where the family business is entirely run by non-family members with the family remaining in control with strong corporate governance.



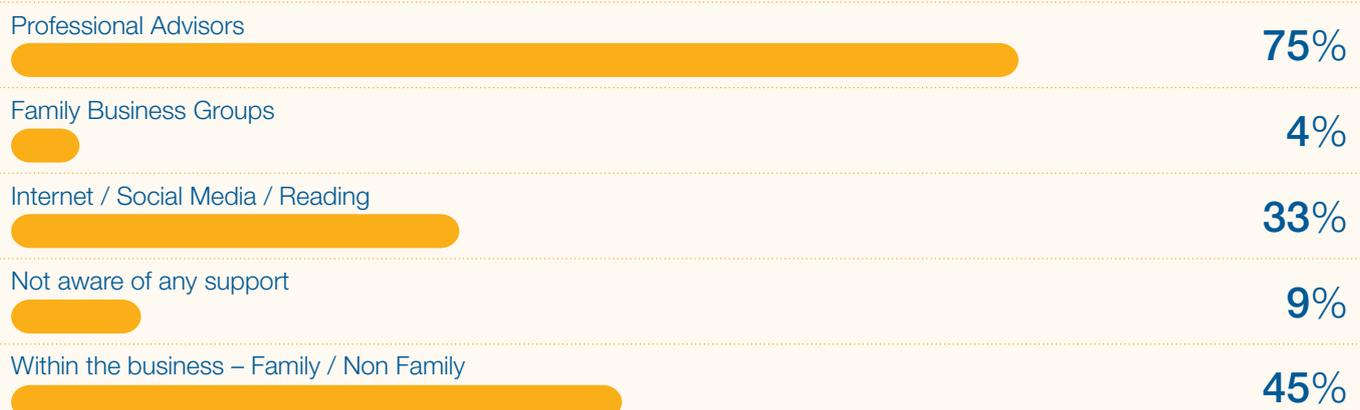
Decision Making

These families increasingly rely on appropriate professional advisors who have experience in understanding the issues both of the family and the business. They can set up appropriate structures to allow the business to make the required business decisions allowing the family to retain their confidence as investors without day-to-day interference.

When considering a business decision which takes priority?



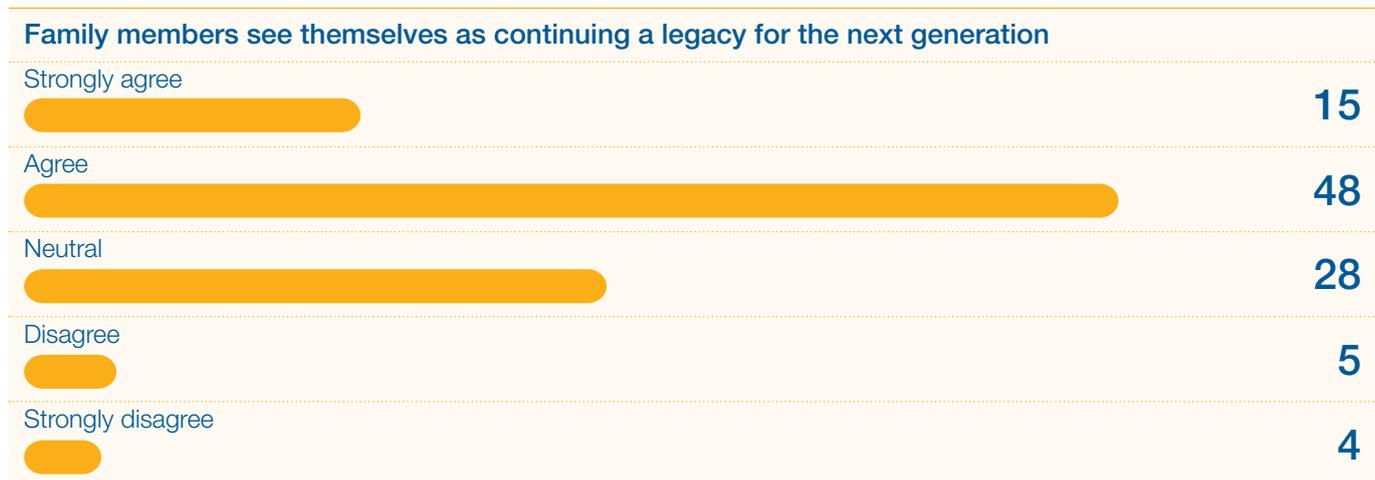
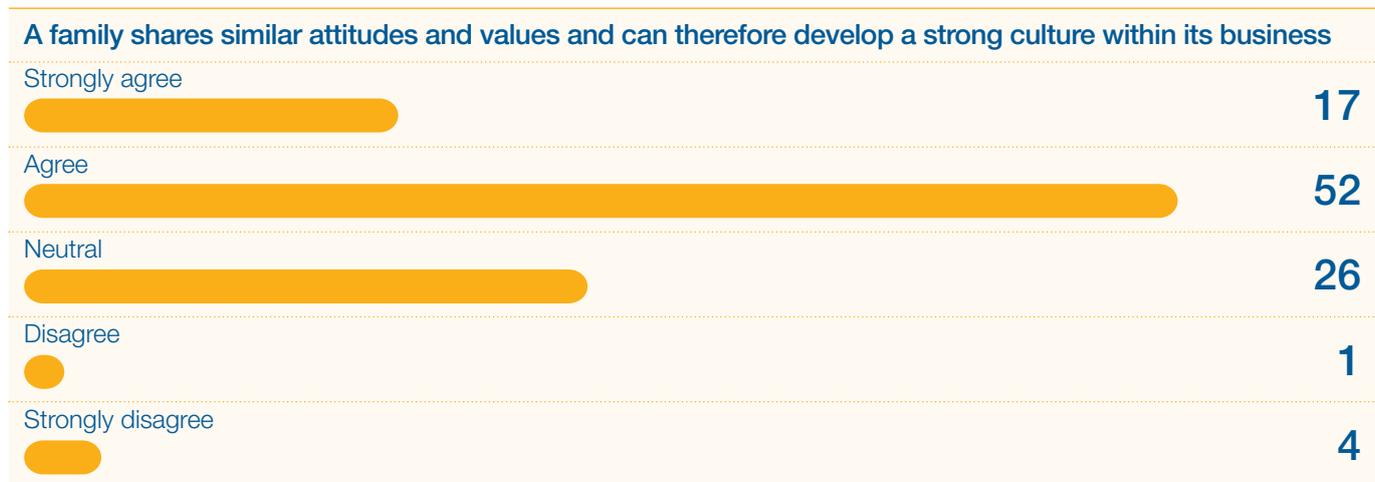
Where do you go for support on Family Business matters that relate to issues raised in this survey?





Advantages and Disadvantages of being a Family Business

The survey shows a desire to adopt similar attitudes and family values which can be reinforced in a constitution or family charter. This document clearly-stated visions and values that are aligned with those of the business. This draws on a strong family culture which, in most cases, revolves around long-term planning being embedded in the strategy of the family business by reinvesting profits.





Advantages and Disadvantages of being a Family Business



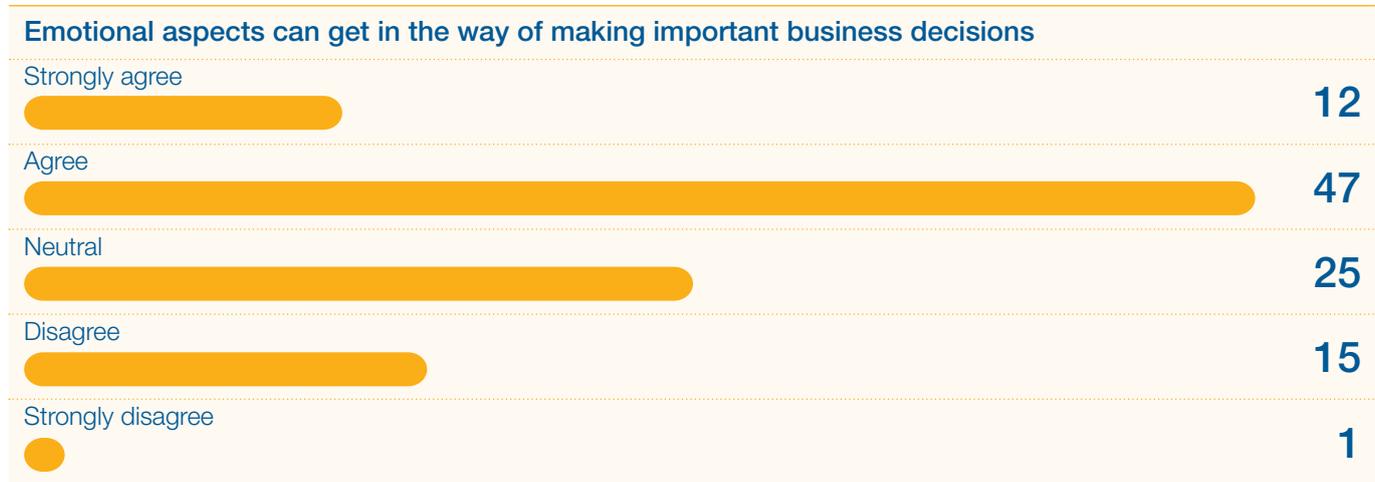
The survey supports our view that, increasingly, family businesses are looking to carry on the legacy in the next generation. There is an understanding that this will not happen automatically, but requires improved communication, forward planning and an acceptance by the family business that the next generation will require more training, support and, often, non-family management expertise to allow the family business to develop and reward its stakeholders. Increasingly a high proportion of family businesses understand the need to reinvest profits to enable the business to innovate and develop for the benefit of the next generation. Some 'patient capital' is an important part of any economy in ensuring financial stability and family businesses operating this long-term approach have consistently out-performed those business that adopt a more short-term strategy.



The survey indicates that there is a clear understanding that business disagreements can put a strain on family relationships and we observed that this is sometimes the reason why a family business is not transferred on to the next generation. Our work in this area indicates that the adoption of a well thought through family constitution or family charter can significantly reduce the problems in clarifying appropriate processes which need to be adopted when conflicts arise.



Advantages and Disadvantages of being a Family Business



The emotional reactions to issues can get in the way of business decisions, but we feel this is becoming less of an issue with improved communication which leading to a reduction in misunderstandings.



By their very nature family businesses will overlap into family social time. If appropriate rules are established in a constitution then strong communication between the family and the business allow family members to direct issues through appropriate channels.



Conclusions

Family businesses are a unique and increasingly important part of UK economic development. They employ a great number of people in the private sector, pay significant taxes to the Government, are strategic long-term players, are great innovator and are supported by an increasing number of family business support organisations. It has been shown that family businesses coming out of recession are reviewing their strategic positions and the survey highlights that an increasing number are developing a strategy for the transfer of the business through to the next generation, often with an increase in non-family members on the board to balance the expertise of the family.

For most family businesses this is a major step in their development and they are increasingly looking for support and guidance from outside independent advisors and facilitators. They have the experience of putting the fundamentals of family charters into practice, advising on the appropriate levels of corporate governance and, in certain businesses, the development of improved communication and the formulation of family assemblies or family councils. Our research is supporting the view that in making this critical step in their development family businesses are seeking appropriate independent outside advice to ensure that the transition has the greatest chance of success.

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