In harmony – Family business cohesion and profitability

Initial findings from the global survey of the world’s largest family businesses
Family businesses remain the world’s economic backbone. Their enduring entrepreneurial spirit should be recognized, celebrated and supported.

EY and Kennesaw State University’s Cox Family Enterprise Center are delighted to present the first-ever global survey of its kind of the world’s largest family businesses. It offers a unique look at the practices, characteristics and success factors of 1,000 of the largest and most successful family businesses from more than 20 countries around the globe.

We named this report *In harmony: family business cohesion and profitability* because of what we found in our survey: the family businesses that are focused on strengthening their families as well as growing their businesses are the world’s most successful.

Our goal in conducting this survey was to analyze and explore what the world’s largest family businesses are doing now and in preparation for the future. *In harmony: family business cohesion and profitability* is the first of many reports we will be releasing based on our interviews. We expect the insights identified here, and in all future reports, will help family businesses succeed for generations.

We would like to thank Kennesaw State University’s Torsten M. Pieper, PhD, who was instrumental in helping to develop the insights uncovered during the study. We extend a special note of thanks to the family firms that responded to the questionnaire and shared their information and thoughts with our researchers.
Stand together or fall apart – the importance of cohesion in family business

Some believe you must sacrifice family relationships for success in a family business. But in fact, focus on the family doesn’t drain business success – it enhances it. That is one key finding of our new global family business survey. We now have compelling evidence that the largest and longest-lasting family businesses in the world became – and remain – successful by optimizing both family cohesion and profitable business growth. And if too much focus is placed on one over the other, both may suffer. We’ve also been able to pinpoint two key activities that contribute mightily to family cohesiveness: sustainability and family business branding. The results are a family business and a family that are healthy, successful and focused on the future – including preparing the next generation to enter the business.

About the global family business survey

This report is based on survey data gathered from a database of 2,400 of the world’s largest family businesses. This database comprises the largest family businesses from the top 21 global markets – Australia, Belgium, Brazil, Canada, China, France, Germany, the Gulf Cooperation Countries (Qatar, Bahrain, Kuwait, Oman, Saudi Arabia and the United Arab Emirates), India, Indonesia, Italy, Japan, Mexico, the Netherlands, Russia, South Korea, Spain, Switzerland, Turkey, the UK and the US.

From this list, Valid Research, an independent research institute in Germany, selected at least 25 companies for each global market and GCC country. Valid Research used a questionnaire and conducted phone interviews with senior ranking family business leaders. Our survey takes into account the responses of 1,000 of the world’s largest and oldest family-owned businesses.
In harmony: family business cohesion and profitability
So how exactly does cohesion work to help create profitability?

First, it’s important to understand who we mean when we talk about “family.” We found that leaders of family businesses turn to their spouses and parents for advice in both business and non-business matters (75% of respondents say of their advisors they have the highest degree of trust in a parent; 70% say spouse). Therefore, when we talk about family, we’re including both those directly involved with the business and those who aren’t (Figure 1).

![Figure 1: For each of the following advisors, please rate the degree of trust you have in them.](image)

<table>
<thead>
<tr>
<th>Advisor</th>
<th>Not trusted</th>
<th>Somewhat trusted</th>
<th>Trusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spouse</td>
<td>6%</td>
<td>24%</td>
<td>70%</td>
</tr>
<tr>
<td>Accountant/auditor</td>
<td>5%</td>
<td>25%</td>
<td>70%</td>
</tr>
<tr>
<td>Business peer</td>
<td>5%</td>
<td>33%</td>
<td>62%</td>
</tr>
<tr>
<td>Parent</td>
<td>6%</td>
<td>19%</td>
<td>75%</td>
</tr>
<tr>
<td>Lawyer</td>
<td>6%</td>
<td>31%</td>
<td>63%</td>
</tr>
<tr>
<td>Financial services advisor</td>
<td>5%</td>
<td>35%</td>
<td>60%</td>
</tr>
<tr>
<td>Banker</td>
<td>9%</td>
<td>43%</td>
<td>48%</td>
</tr>
<tr>
<td>Consultant</td>
<td>9%</td>
<td>41%</td>
<td>50%</td>
</tr>
<tr>
<td>Clergy</td>
<td>18%</td>
<td>38%</td>
<td>44%</td>
</tr>
<tr>
<td>Non-family member, minority business owner</td>
<td>12%</td>
<td>41%</td>
<td>47%</td>
</tr>
<tr>
<td>Family officer</td>
<td>7%</td>
<td>27%</td>
<td>66%</td>
</tr>
</tbody>
</table>

Key: [Not trusted] [Somewhat trusted] [Trusted]

Note: Numbers may not sum to 100% due to rounding.
In our survey, we asked the largest and oldest family businesses in the world to answer a battery of questions, including some designed to understand and measure family cohesion. For instance, we asked leaders of the business to rate how strongly they agree with statements such as “Members of this family care deeply about one another,” “Members of this family are proud of being part of the family” and “Members of this family stick together” (Figure 2).

Figure 2: Please rate the extent to which you agree or disagree with each of the following statements. Members of this family ...

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree</th>
<th>Neither agree nor disagree</th>
<th>Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Care deeply about one another</td>
<td>2%</td>
<td>17%</td>
<td>81%</td>
</tr>
<tr>
<td>Support one another</td>
<td>3%</td>
<td>20%</td>
<td>78%</td>
</tr>
<tr>
<td>Are proud of being part of the family</td>
<td>3%</td>
<td>14%</td>
<td>84%</td>
</tr>
<tr>
<td>Depend on each other</td>
<td>6%</td>
<td>26%</td>
<td>66%</td>
</tr>
<tr>
<td>Work closely together to accomplish family goals</td>
<td>3%</td>
<td>22%</td>
<td>76%</td>
</tr>
<tr>
<td>Would do almost anything to remain together</td>
<td>5%</td>
<td>26%</td>
<td>71%</td>
</tr>
<tr>
<td>Are often engaged in dysfunctional conflicts</td>
<td>6%</td>
<td>55%</td>
<td>24%</td>
</tr>
<tr>
<td>Stick together</td>
<td>2%</td>
<td>21%</td>
<td>77%</td>
</tr>
<tr>
<td>Are young family members who plan to enter the business in the future</td>
<td>12%</td>
<td>28%</td>
<td>60%</td>
</tr>
</tbody>
</table>

Key: Disagree | Neither agree nor disagree | Agree

Note: Numbers may not sum to 100% due to rounding.
We then compared the answers to these and other questions with the companies’ return on equity (ROE) and growth ambitions (Figure 3). In that comparison, we discovered that a surprising 35% of the variance in ROE for these businesses can be predicted by a combination of the family’s cohesion, its growth ambition, and a focus on sustainability and branding.

![Figure 3: About what is your ROE?](image)

Note: Numbers may not sum to 100% due to rounding.

Growth ambition is not just the business’s targeted annual growth rate, however (Figure 4). Businesses that are growth oriented also want to invest capital and increase the number of employees — strong indicators of a healthy business.

![Figure 4: What is your target annual growth rate as a % of profit?](image)

Note: Numbers may not sum to 100% due to rounding.
As shown in Figure 5, sustainability and branding lead to cohesion, which, through growth ambition, leads to profitability (as measured by ROE). Profitability leads to more cohesion, which then causes a family business to focus more on those things that promote cohesion, creating a virtuous circle. Our study shows that a cohesive family is a future-focused family that is much more likely to concentrate on preparing the next generation for leadership.

**Figure 5: Factors influencing cohesion and profitability**

![Diagram showing relationships between sustainability, branding, cohesion, growth ambition, and profitability]

Note: The plus (+) sign on the arrows means improving one aspect leads to higher levels of another aspect; of course, the opposite is true as well. For instance, improving cohesion and growth ambition results in higher firm profitability, whereas less emphasis on cohesion and growth ambition results in lower profitability.

**Sustainability and branding cultivate cohesion**

Sustainability and branding aren't the only factors that affect family business cohesion and profitability, of course. There are innumerable other elements, many of which are unique to a particular business and a particular family. However, sustainability and branding together represent 20% of the effective measures used by the world's largest family businesses to create and support family cohesion – a far greater proportion than any other factors.1

Through these two activities, a business demonstrates to the family that it is:

- Working toward long-term sustainability in itself, society and the environment
- Proud of being a family business, and one of which family members can be proud
- Interested in allowing family members and their children to make meaningful contributions

Emulating how the world's largest family businesses implement sustainability programs and promote their brands can give direction to any family business looking to cultivate cohesion.

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1. While we believe families can do many things to improve unity, the data shows that these two approaches clearly contribute to cohesion. Moreover, these two approaches are relatively more controllable than most other factors.
Build sustainability into the business

Care for the future and the family will care for the present

Sustainability is at the top of the agenda for many organizations these days. Our study shows that incorporating sustainability into business helps not just the “triple bottom line” (people, planet, profit), but family cohesion, too.

We asked the leaders of the world’s largest family businesses to rate their commitment to sustainability through statements such as “Our family firm believes it is important to improve the environment” and “Our family firm can have a positive effect on society when we make decisions that are consistent with sustainability goals” (Figure 6). When we compared the data to ROE and cohesiveness, we discovered that sustainability links not just to cohesiveness, but also directly to profitability.

Figure 6: Please rate the extent to which you agree (or disagree) with each of the following statements. Our family firm ...

<table>
<thead>
<tr>
<th>Statement</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Believes it is important to improve the environment</td>
<td>77%</td>
<td>20%</td>
<td>3%</td>
</tr>
<tr>
<td>Believes it is important to pursue sustainable business practices</td>
<td>78%</td>
<td>19%</td>
<td>3%</td>
</tr>
<tr>
<td>Focuses on satisfying immediate concerns, figuring that future problems can be dealt with at a later date</td>
<td>55%</td>
<td>30%</td>
<td>15%</td>
</tr>
<tr>
<td>Seldom considers sustainability in its decision-making</td>
<td>53%</td>
<td>22%</td>
<td>24%</td>
</tr>
<tr>
<td>Often makes decisions based on achieving sustainability objectives</td>
<td>67%</td>
<td>28%</td>
<td>4%</td>
</tr>
<tr>
<td>Believes it is important to foster ethical behavior</td>
<td>78%</td>
<td>19%</td>
<td>3%</td>
</tr>
<tr>
<td>Can have a positive effect on society when we make decisions that are consistent with sustainability goals</td>
<td>74%</td>
<td>24%</td>
<td>3%</td>
</tr>
<tr>
<td>Considers how things might be in the future, and tries to influence those things in day-to-day decision-making</td>
<td>72%</td>
<td>25%</td>
<td>3%</td>
</tr>
<tr>
<td>Is willing to change direction to adjust to market differences as long as the ethical foundation remains secure</td>
<td>70%</td>
<td>27%</td>
<td>3%</td>
</tr>
<tr>
<td>Treats employees with dignity and respect</td>
<td>83%</td>
<td>16%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Key: Agree - light green, Neither agree nor disagree - medium green, Disagree - dark green

Note: Numbers may not sum to 100% due to rounding.
Think of sustainability as not just a focus on the triple bottom line, but also a business's ability to bounce back from market fluctuations, regulatory changes, disruptive technology, environmental crises and nearly anything else that’s thrown at it. That’s because a business focused on sustainability is, as the Financial Times describes it, “intimately connected to healthy economic, social and environmental systems. These businesses create economic value and contribute to healthy ecosystems and strong communities.”

Astrachan agrees: “Cohesive families have the ability to face obstacles and rapid changes that leave the family even closer than they were before they arose.”

When sustainability practices are implemented in a family business, it’s not just good for the environment. Sustainability practices also result in increased operational efficiency, reduced waste and increased product differentiation, which directly improve business processes and profitability.

One real-life example is a very large family business retailer that has sharpened its focus on sustainability in recent years. It has published aspirational goals for its stores that are also designed to increase profitability, such as zero waste, 100% renewable energy use and a focus on sustainable products.

Sustainable business, sustainable profit, sustainable family

For family members, sustainability is a way to demonstrate that the family and its business are focusing on the sustainability of the business itself, the environment and the community. By taking steps to safeguard the future, the business shows it is committed to that future and cares about the lives of employees and family members. In return, family members are likely to become increasingly committed to the family and needs of the business. These benefits may be particularly important for family members who are not directly involved in day-to-day business operations.

Sustainability also helps to increase non-family employee commitment and customer loyalty. For example, recent studies have shown that consumers around the world will pay more for brands that they perceive as sustainable.

Many family businesses are already using sustainability as a direct way of boosting both family commitment and company profitability. One family, for instance, has instituted a zero-waste goal, which the next generation in particular is excited about. Another has actively trained family members in the precepts of sustainability, and they now give talks in the community and to their industry associations, which has increased pride in the family and business.

EY Americas Family Business Leader Carrie Hall has found that “when a family demonstrates commitment to the business through words and actions, such as an emphasis on sustainability, it provides a level of confidence and enthusiasm for stakeholders that enhances performance and overall harmony.”
Brand yourself as a family business

Family business branding is the other potent way that the world’s largest family businesses increase the unity and commitment of family members. Through such branding, a family features its ownership structure in marketing, advertising and other internal and external communications. Our survey shows that levels of commitment to and confidence in family business branding are strong predictors of family cohesion. As mentioned earlier, our data shows that about 20% of cohesion in the world’s largest family businesses is due to the combined effects of sustainability and family business branding.

Our survey confirmed that family business branding is a growing trend: 76% of the respondents indicated they referred to themselves as a family company in their corporate communications, and 51% did so with regularity (Figure 7). The most common reason cited was that the family strongly identifies with the company and feels that the business is a large part of who they are as a family (Figure 8).

“When children and even distant family members see the family name as an integral part of the company,” Astrachan says, “they take pride in being family members, identify more strongly with the family and the business, and get energized to continue the legacy.”

Hall notes that being known as a family business may also lead to trust: “You are buying from a person rather than a corporation. You are supporting the values and contributions of the family with your purchase.”

Figure 7: Do you refer to the fact that you are a family company in your corporate communications (e.g., your advertising, website, social media, press releases, etc.)?

Note: Numbers may not sum to 100% due to rounding.
Additional research shows that family business branding also increases customer loyalty. About 30% of consumers have a preference for products and services offered by family companies (65% think quite favorably of family businesses).\(^5\)

Recently, a large manufacturer of home products made the decision to include family business branding as part of its marketing, including featuring a family member in advertising. They cited a desire to connect more authentically and honestly with consumers. The business believes this marketing campaign will be a key differentiator for it.

### Family owned and proud of it

Why does branding promote cohesion? The reasons are similar to those for sustainability. Family business branding connects the family to the identity of the business and promotes pride in participation, even if family members aren’t directly involved in the business. It also demonstrates the commitment of the business to the family legacy and to making the family an important and continuing part of its future.

Family business branding implies, if not outright states, that the business will remain a family business, which gives the next generation more confidence that they can plan a future for themselves in the business and encourages them to feel a higher level of loyalty and commitment. And it goes both ways: our survey shows that family businesses with high levels of cohesion are actively planning for and preparing the next generation.

Many family businesses already use a family branding strategy to build family unity and brand identity for products and services. Many companies tell the stories of their families openly in their advertising, and it has become increasingly popular to use taglines such as “a family business” in advertising, packaging and promotion. One family has even started a program of regional shows that they call “family reunions,” at which they train customers (retailers and distributors) and show new and bestselling products. These events help brand the company as a family business and extend the notion of family to its supply chain.

“Quality products and services are requisite for business success, but family businesses can do something others can’t,” Astrachan says. “They can tell the story of the family, its struggles, failures and successes, and in the process customers and stakeholders identify with the company and gain greater faith in its trustworthiness.”

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Family businesses know that preparing for succession is vital to the future of the business, but ongoing succession planning is not always a top priority for business owners, perhaps due to hesitancy to face the specters of retirement and death. However, according to a report by the International Institute for Management Development’s Global Family Business Center, “It is statistically proven that generational transition is the highest risk for continuity and that the vast majority of families in business fail to effectively deal with it.”

Flouting these prevailing trends, our study shows that family businesses with high cohesion are much more likely to be preparing – and preparing for – the next generation. Significantly, 40% of our respondents are first generation and 32% are second generation (Figure 9). As we know, 70% of family businesses fail before they reach the second generation, and only 10% make it to the third generation. Therefore, it is exceptionally important – and yet surprisingly rare – to prioritize training and preparation for the next generation, as these cohesive companies do.

“Not every family business will survive,” says EY Global Family Business Leader Marnix van Rij. “Many do fail, sometimes due to differing family interests or the inability of the next generation to grow the business, but the greatest contributor to family succession failure is unmanaged expectations. Other contributing factors include a lack of transparency or undefined family governance to explain the process and outline the criteria for a successor.”

“Families that are in the third, fourth or later generations have figured out how to engage and train the next generation,” Hall says. “The family and the business, including non-family members, rally around the future leaders ensuring they receive the education and support to feel good about their roles and promote future success.”

Figure 9: What generation are you?

<table>
<thead>
<tr>
<th>Generation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>40%</td>
</tr>
<tr>
<td>Second</td>
<td>32%</td>
</tr>
<tr>
<td>Third</td>
<td>20%</td>
</tr>
<tr>
<td>Fourth</td>
<td>4%</td>
</tr>
<tr>
<td>Fifth</td>
<td>2%</td>
</tr>
<tr>
<td>Sixth</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Seventh</td>
<td>1%</td>
</tr>
<tr>
<td>Eighth</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Ninth</td>
<td>&lt;1%</td>
</tr>
</tbody>
</table>

Note: Numbers may not sum to 100% due to rounding.


Securing the future

When family businesses are invested in family cohesion, it leads naturally to an increased focus on securing the future of the business by equipping the younger generation to eventually take the reins. For example, many of the companies in our study (30%) require family members to gain outside work experience before joining the business (Figure 10). Many also make succession preparation an important agenda item: 44% say the board of directors has responsibility for succession preparation (Figure 11), and 28% have a separate succession preparation committee. Other activities undertaken by the world's largest family businesses to prepare the next generation include providing an understanding of the family, the business and the mission of each; communicating succession intentions and estate plans; and focusing on appropriate skill sets and education. These measures lead to a better-trained, better-prepared group of family members who are ready and able to take the family business into the future.

“Most people think that the critical task for succession is preparing the next generation for leadership,” says Torsten Pieper, Academic Director, KSU DBA Program and Research Director, Cox Family Enterprise Center, Kennesaw State University. “And while that is important, perhaps it is more important to prepare the next generation to be responsible owners who understand how to hold leadership accountable for financial and nonfinancial results and who understand the value of continuity and ownership unity.”

“Not every family business will survive. Many do fail, sometimes due to differing family interests or the inability of the next generation to grow the business, but the greatest contributor to family succession failure is unmanaged expectations. Other contributing factors include a lack of transparency or undefined family governance to explain the process and outline the criteria for a successor.”

Marnix van Rij, EY Global Family Business Leader
Future focus translates to next-gen focus

Figure 12: How important are the following in educating and preparing the younger generation to join your family business?

<table>
<thead>
<tr>
<th>Category</th>
<th>Not important</th>
<th>Important</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>4%</td>
<td>37%</td>
<td>58%</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>5%</td>
<td>40%</td>
<td>55%</td>
</tr>
<tr>
<td>Family business growth strategies</td>
<td>8%</td>
<td>44%</td>
<td>48%</td>
</tr>
<tr>
<td>Family business governance</td>
<td>6%</td>
<td>49%</td>
<td>45%</td>
</tr>
<tr>
<td>Work ethic</td>
<td>3%</td>
<td>38%</td>
<td>59%</td>
</tr>
<tr>
<td>Other</td>
<td>23%</td>
<td>45%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Key: Not important | Important | Very important

Note: Numbers may not sum to 100% due to rounding.

Live long and prosper – maximize family cohesion and profit

There is no trade-off or sacrifice to be made between focus on the business and focus on the family. In fact, the optimal mix – and what the largest and longest-lasting family businesses in the world do – is to focus on both simultaneously. Doing so enhances family cohesion, which increases profitability and succession preparation – two crucial elements for a family business that plans to continue far into the future.

In the coming months, EY and Kennesaw State University will be releasing further reports, offering a closer look at the findings from our survey and what they mean for family businesses around the world.

Stay connected with us for updates at ey.com/familybusiness.
EY Family Business Center of Excellence
Wherever you are, whatever your needs, we can help you succeed for generations

The Family Business Center of Excellence brings together advisors from the EY global network to share knowledge and insight to address family business challenges and provide seamless service for internationally based, family-owned companies. Wherever you are based or whatever your needs, there is someone ready to help you to succeed for generations.

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Kennesaw State University
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Cox Family Enterprise Center

Since 1987, the Cox Family Enterprise Center (CFEC) has been dedicated to the research, education and recognition of family businesses. Our commitment to this fundamental economic and social unit has allowed the CFEC to support and guide family businesses through our innovative programming, outreach and scientific research.

Our goal is to improve the well-being of family businesses through education for families and business leaders, recognition of the contributions family businesses make to society, and the scientific research of family businesses.

Please visit www.familybusiness.kennesaw.edu.

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EYG no. CF0116

1711-2476550
ED None

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