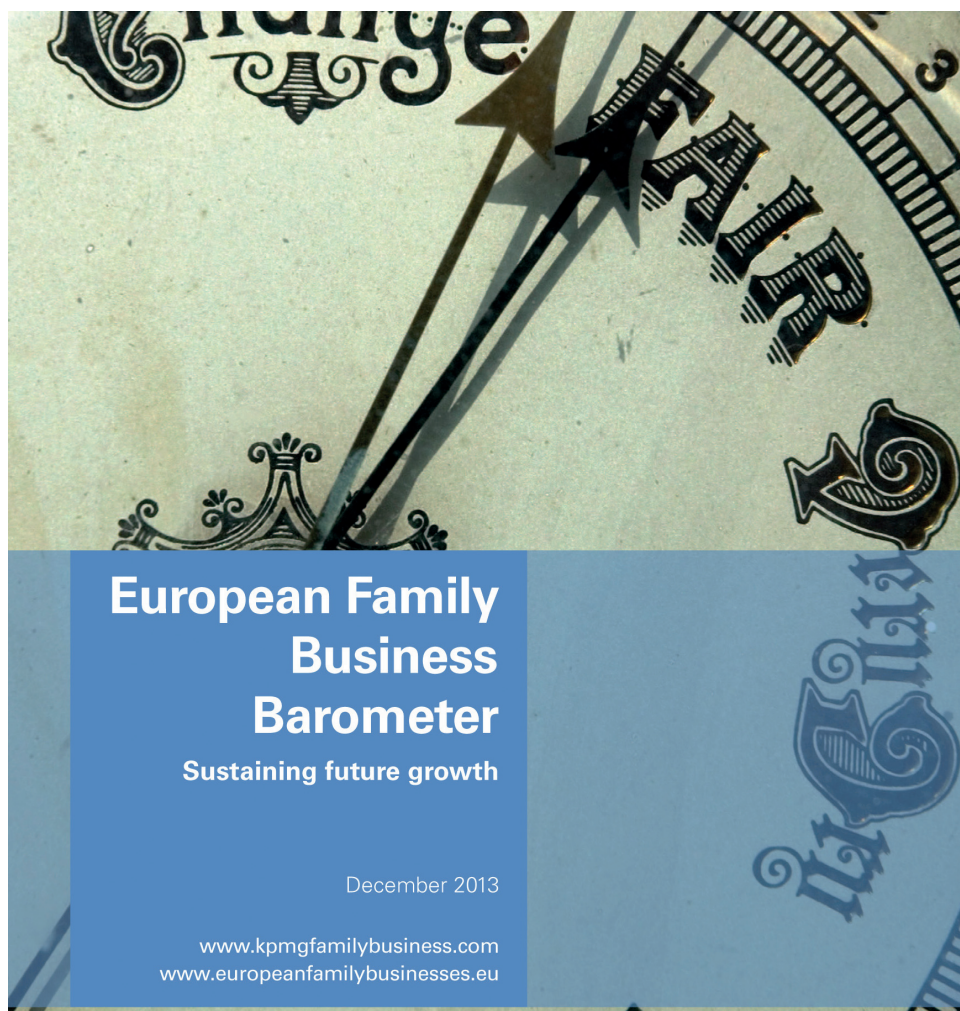


SUMMARY

- Europe's family businesses optimistic despite slow growth in Europe
- EFB in the heart of Europe's financial capital
- Is it profitable for a family business to invest in Corporate Governance?
- Save the date: 1st European Family Businesses Summit. Berlin, 24th and 25th of November



Europe's family businesses optimistic despite slow growth in Europe

• A recent poll shows that 54% of respondents (more than 600 companies across 14 EU countries took part) have a positive outlook for their business for the next 6-12 months.

• 43% of respondents report an increase in turnover during the last 6 months.

• 76% have either maintained or increased their staff numbers over the same period.

EFB and KPMG launch the first Family Business Barometer, which seeks to measure the confidence levels of family-owned businesses across Europe.

In the summer of 2013, EFB, in conjunction with KPMG, launched the first European Family Business Barometer. Amongst other topics, the Barometer was created to primarily gauge the confidence levels of family business in the EU. The first Barometer received 600 responses across 14 Member States of the EU. Below we present an extract of the results, and the full report can be found on our website:

The results of the Barometer indicate that a majority of family

CONFIDENCE

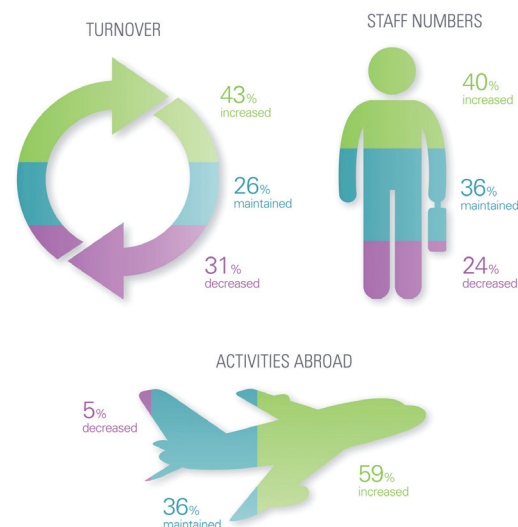
What is your feeling about the economic situation of your family business for the next 6-12 months?



businesses are confident for the future, with 54% of respondents indicating that they have a positive outlook for their business for the next 6-12 months. In addition, with 43% of respondents reporting that their turnover has increased during the last six months, and 26% indicating that they have maintained turnover, the future for many appears bright. Furthermore, 76% of respondents have either maintained their staff number or increased it over the last 6 months (40% increased, and 36% maintained).

CONFIDENCE

In the previous six months your company has:



Other encouraging signs from the Barometer are that 92% of respondents are thinking about investment opportunities, and 57% of those are looking to invest in the European Union. This indicates that family businesses still see opportunities for growth in the EU.

INVESTMENT IN THE FUTURE

Are you thinking about investment opportunities?

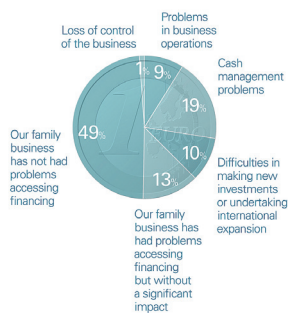
Although the Barometer shows that many respondents believe the picture is mainly positive for the future, significant challenges remain. Namely, lending to family businesses remains difficult, highlighted by just over half the respondents (51%) noting that they have experienced complications in accessing finance.



ACCESS TO FINANCE

Regarding the last six months, how has your family business been affected by the greater restrictions on access to financing?

(Figure 1)



The Barometer also suggests that a majority of respondents believe there is significant room for improvement in the regulatory frameworks in which they operate. When asked to rank the regulatory changes that would have the greatest impact on the future success of their business and, therefore, would be most welcomed, 62% selected simpler tax rules; 59% indicated that bureaucracy is a major challenge; and 57% highlighted that simplification of labour market regulations, including more flexible employment arrangements, would be most welcome.

THE FUTURE FOR FAMILY BUSINESS

Which of the following regulatory changes would you welcome first?



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Roger Pedder,
EFB President

'The results of this 1st edition are encouraging. Family companies have a positive outlook for the future and they are investing in Europe. Exercises like this one reinforce the reality that family companies are a stable and responsible platform for growth in Europe. But we must not ignore the other results

from the Barometer, namely the challenges that remain. Lending to the real economy must be normalised and family businesses are still impeded by obstacles that are present in the regulatory environment. We hope that surveys such as the Family Business Barometer can bring insight into this crucial sector, which we see as the backbone of the European economy.'



Christophe Bernard,
Global Head of Family
Business, KPMG

'This collaboration has provided an insight into the confidence of the family business communities across Europe, and it is refreshing to see, whilst the economic landscape has been difficult, family businesses have remained confident and continued to contribute to the regional economies. These businesses are not only surviving but also taking advantages of opportunities for continued growth, investment and success. There continues to be great growth opportunities not only with respect to increasing investment in current markets but also expanding into other European territories.'

The European Family Business Barometer is based on the responses of an online survey from 600 finished questionnaires which were received from EFB Members across 14 European countries; this first edition was open from July to September 2013. The survey will be conducted twice a year to measure the changing issues facing family businesses. The next Barometer results will be published in mid-2014.



EFB in the heart of Europe's financial capital

On the 28th and 29th of November, EFB held its winter General Assembly in London. With the support of Deutsche Bank, EFB also organised a conference entitled "Building to last in a challenging environment".



Roger Pedder, EFB President

The conference was opened by **Alexander Winkler** of Deutsche Bank, who remarked that they were proud to be supporting EFB in their endeavours in creating a better understanding of the role and importance of family businesses across Europe.

In his address, **Roger Pedder**, President of European Family Businesses, noted that one of the fallouts of Europe's economic crisis was that many were questioning the EU and its merits. Mr Pedder noted that the EU was created to bring Europe together for the benefit of all. In that respect, Mr Pedder argued, that the EU has been successful when considering the freedoms that Europeans enjoy in terms of mobility and access to the single market. Mr Pedder declared that EFB still believes in the benefits of Europe's institutions, and EFB will strive to continue to ensure that the European environment is the best it can be for family businesses.

The first presentation of the day was dedicated to the first edition of the Family Business Barometer, the joint EFB-KPMG project started in the summer of 2013. **Christophe Bernard** KPMG's, EMA Head of Middle Markets, hailed the working relationship that EFB and KPMG had forged through their joint partnership. Mr Bernard stated that he was excited by the already substantial work that had been achieved and he noted that KPMG's Global centre of excellence had also launched its Family Business Think Tank with the support of EFB.

Friderike Bagel, KPMG's Senior Manager, Executive to EMA Head of Middle Markets and **Darius Movaghar**, EFB's Senior Policy Advisor,

presented the first results of the Family Business Barometer. Mrs Bagel noted that the Barometer covered numerous topics such as competitiveness, confidence, access to finance, governance, and the regulatory environment.

Jim Hinds, Russell Reynolds, Regional Leader for Europe, delivered his presentation entitled 'How useful are Non-Executive Directors in Family Businesses?' He noted that research has shown that an active board is one of the variables that correlates significantly to multi-generation family



Christophe Bernard, Global Head of Family Business, KPMG

business survival. In addition, he argued that an active board plays a central role in deciding strategy and therefore its survival as an independent entity. Importantly, Jim Hinds emphasised the point that the role, structure, and composition of the board of directors vary from one family business to another; no one size fits all; stage and state of family business is critical. With regards to the broader world of Executive search, where Russell Reynolds is the global leader, Mr Hinds noted that there was a structural



Jim Hinds, Regional Leader for Europe, Russell Reynolds

shift taking place in the boards of public companies, as there is a growing demand for women in board rooms. Interestingly, Mr Hinds remarked that in the UK and across Europe, family businesses have a much more gender balanced board structured when compared to their listed counterparts. When talking to certain family businesses, Jim Hinds noted that there were still certain misconceptions around the impact of having Non-Executive Directors; for example, control and privacy will be lost, the family's values and long-term vision will not be respected, and family members will be squeezed out. Regarding the usefulness of Non-Executive Directors (NED), Hinds argued that NEDs in family businesses can bring an objective perspective on strategy and control, as well as adding new skills and knowledge in areas where family expertise may be lacking, and challenge the family on whether it is going in the right direction.

In his presentation entitled 'Transcending Family Wars: evolution of the modern family business,' **Grant Gordon**, Director of the IFB Research Foundation, focused on the lessons to be drawn from certain failed family



Grant Gordon, Director of IFB Research Foundation

companies, and successful modern family businesses. As a preamble, he noted that the merger of the Unquoted Companies' Group and the Institute for Family Business has laid the foundations for a much bigger and stronger platform to continue the crucial work by the IFB Research foundation. Grant Gordon noted that in the UK there is a growing recognition of the importance and benefit of having diversified ownership models for the economy. He noted that among the four main types of company ownership models in the UK the biggest is listed PLCs, second family businesses, third private equity, and fourth cooperatives or employee owned. Regarding the presence of family businesses in the UK, Grant Gordon remarked that the family business sector generates revenues of over 1 trillion pounds, and employs more than any other form of enterprise with 9 million jobs. Regarding the factors that can lead to problems in a family business, and why certain successful brands have lost their way, Mr Gordon remarked that there are certain key issues that may cause difficulties: structural problems, lack of communication, ineffective governance and little or no engagement by owners. As an example, he noted that a very famous Italian fashion house made a crucial error in appointing the next generation to lead irrespective of their skills and experience. Another example was a famous brewing family that lost their engagement as owners and failed to participate meaningfully in the business. Mr Gordon stated that thanks to the work undertaken by the IFB Research Foundation, 6 success factors of family companies have been highlighted: clear vision, a strong set of values, thinking long-term, internationalisation, managing risk and strong people practices. Finally Mr Gordon underlined the future research themes that IFB Research Foundations would be undertaking which include, family business branding, engagement of the next generation, and producing international database on family businesses. When quizzed on the usefulness of philanthropy in driving family business success, he noted that family companies have this already in their DNA as it is often integrated into their values set.

Gary Deans, UK Head of Family Business, KPMG and Roger Pedder presented the preliminary results of the vast and ambitious joint EFB/KPMG European tax ranking study on family businesses. ➔

Mr Pedder noted that the idea of the project came out of discussions within EFB to try and find a way of highlighting best practices in the field of taxation for family companies across the EU. The first exercise within the joint EFB-KPMG tax ranking study aims to compare the participating countries in their respective fiscal treatment of family business transfers. Mr Deans noted that due to the complexity and varying taxation models across Europe, the model used to compare the levels of taxation has been kept as simple as possible; the study has taken fictitious family companies and applied the qualifying rate of tax whilst assuming reliefs and no reliefs. Mr Deans noted that the study has split the analysis by looking at the transfer of business on death, and also the transfer of business on retirement (gift). Regarding the results that focused on the transfer of business on death, Mr Deans noted that even though many exemptions regimes exist across the EU, without proper planning or preparation to qualify for the reduced tax rate, the potential tax due could be very costly. In addition, Mr Deans noted that the types of tax levied at death vary across the EU, with majority levying an Inheritance Tax. Regarding the results that focused on the transfer of business on retirement, once again Mr Deans emphasised the varying types of taxation that are levied across the EU. In addition, much in the same way as the taxation due upon death, Mr Deans showed that the tax exemptions exist in certain member states, but preparation and planning were essential to qualify. When quizzed on the existence of common features on how the exemptions are granted, he noted that most Member States that grant reliefs on transfer taxes lay down conditions that guarantee business continuity. The full report will be published in March/April 2014.

The final presentation of the day was given by **Josef Ritter**, Head of Equity Capital Markets for Europe, Deutsche Bank and **Henrik Johnsson**, Head of European Leveraged Capital Markets, who gave their expert insight into financing opportunities for family businesses. On the equity side, Mr Ritter noted that IPO's (Initial Public Offering) can be an attractive option for family businesses who are seeking to expand. Mr Ritter explained that, in the current climate, valuations have recovered and the number of IPO requests have gone up dramatically as a result. Mr Ritter noted that IPO's can offer a range of advantages

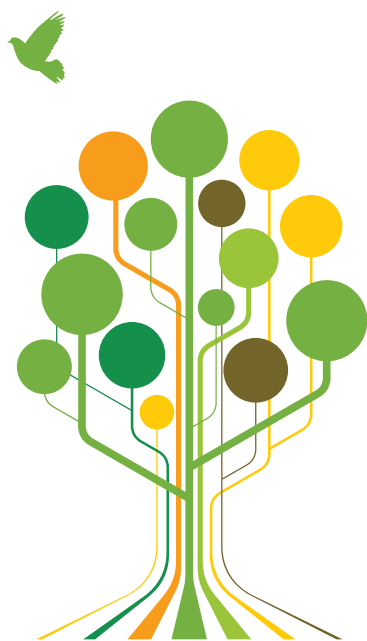


*Josef Ritter, co-head of Equity Capital Markets for the EMEA region,
UK Head of Family Business, Deutsche Bank*

for companies, notably adding flexibility for when a company is accessing capital markets. But Mr Ritter noted that the drawbacks of going public can include the huge amount of preparation that is required to enter the market, the associated compliance requirements and exchange rules. Mr Johnsson focused his intervention on the capacity to access debt instruments in capital markets, and in particular High Yield Bonds (HY). Mr Johnsson noted that HY refers to any bond which is rated as sub investment grade. Mr Johnsson noted that HYs are often referred to in the industry as debt IPOs, due to associated reporting requirements and processing timeframe that can take up 6 to 8 weeks. He was asked if there were particular countries in Europe that utilised this financial product more frequently than others. Mr Johnsson explained that Southern Europe is seeing a substantial growth in this market as the banks are weaker, and therefore companies are seeking alternative financing options.



Henrik Johnsson, Head of European Leveraged Capital Markets, Deutsche Bank



***Is it profitable for
a family business
to invest in
Corporate
Governance?
"Understanding
the issue behind
the issue"***

RUSSELL REYNOLDS ASSOCIATES

Pedro Goenaga
MD Corporate Governance Practice
Russell Reynolds Associates

It is not for me to anticipate the answer. I prefer to let each reader come to their own conclusion. There are two different aspects to the term profitability in a family business; financial return and emotional return. We all understand the unit of measurement of the first aspect in monetary terms, but the second can be summarized by the combination of shareholders' satisfaction and their environment throughout the life of a company, and their participation in it, even after it has been sold. This requires considering the legacy of the founder, the company's mission and the values transmitted amongst other factors. It turns out that one of the main differences between an investor in the Ibex 35, Mib 30 or Dax 30 and a shareholder of a non-listed family business is that most of the former are ruled only by economic return (following Regulator's guidelines), while a large part of the shareholders of family businesses, to a greater or lesser degree, seek a balance between the two. The best way to optimize the financial and emotional return equation starts with Corporate Governance. Once the mid-term strategic objectives are known, it is necessary to determine whether senior management (Board, CEO and Executive Committee) are prepared to meet the objectives and furthermore, in the case of the Board, monitor their rate of progress. The effectiveness of the Board should be assessed in two ways: the suitability of the members' profiles and the dynamics of their performance. It is not sufficient to just have the appropriate profiles; the processes and group dynamics should also be up to the established goals. In the first instance, it is necessary to analyze the balance between Directors representing Ownership, Executives and Independent Advisors, their preparation, previous experience and ability to add value to the challenges that the business faces (globalization, innovation, digitization, etc ...). The efficiency in the dynamics of the Board's performance is a result of the number of meetings, agenda and duration, as well as sufficient information in terms of quantity and quality being provided early enough, decision making process, monitoring of implementation, etc. One of the main responsibilities of the Board lies in ensuring the adequacy of the CEO or Chief Executive, in addition to always having a succession plan in place. This means that not only should the adequacy of the existing CEO be assessed, but also knowing who in the team might be prepared to fill the position when the time comes, and if necessary, knowing what options exist in the market. In recent research conducted by Russell Reynolds Associates, it has been concluded that the most profitable public companies over the last 10 years were also those that had better followed the recommendations of Corporate Governance in the number of Independent Advisors, and diversity in both gender and nationality. Likewise, half of them have segregated the functions of the President and CEO. Specifically, companies that had complied with these recommendations, were "coincidentally" 50% more profitable than the rest. Why should family businesses miss out on the opportunities that Corporate Governance can provide them?

At the end of the day, family businesses have to compete with other domestic or international conglomerates with different types of ownership, who often have fewer financial constraints and adopt best practices in Corporate Governance. May be now, it is a good time to think over the following questions: Why forego the experience that an Independent Director can bring to find new marketing channels, reach strategic agreements or reduce risk? What skills do our CEO and Executive Committee lack to face the challenges that the company has ahead and beat our competitors? Does the fact that some members of Senior Management belong to shareholding families or that decision making to date has always been focused on the same person that centralizes power provide enough reason? Does it not make sense to separate ownership from management? At Russell Reynolds Associates our Partners are aware that family firms are knowledgeable of many of these practices. There are many obstacles that need to be understood and removed in order to advance the economic return without harming the emotional return. In other words, it is necessary to understand "The issue behind the issue" by which family businesses sometimes forego the opportunity to optimize their management and improve their competitive position and profitability, starting with their Corporate Governance.



SAVE THE DATE:

1st European Family Businesses Summit

Berlin, 24th and 25th of November

On the 24th and 25th of November, EFB will host the first European Family Businesses Summit, a very special event in Berlin where the German Chancellor, Angela Merkel, will deliver a speech. On 24th there will be a networking dinner, followed by the conference program on the 25th. Key speakers from politics and business will discuss the challenges and advantages Family Businesses face in a changing European Union.

Don't miss this opportunity to meet important Family Entrepreneurs from all over Europe. Invitations will follow shortly.