



European family business barometer

Embracing innovation

kpmg.com/familybusiness
www.europeanfamilybusinesses.eu

Seventh edition

2018





Welcome

to the seventh edition

of the European family business barometer, a collaboration between European Family Businesses (EFB) and KPMG Enterprise.

Our annual survey this year received 1,576 responses from family businesses in 26 countries in Europe. Their responses reveal a continued confidence for the future of their businesses and family ties to the business.

Family businesses face challenges on many fronts. They're engaged in global competition to attract talent with specialized skills. An increasingly challenging regulatory environment has meant they can no longer depend on conducting business as usual. Growing political uncertainty combined with an unprecedented rate of change has left many businesses pondering what could be just around the corner. Despite these factors, family businesses continue to flourish.

Family business owners have traditionally kept an eye on the long term. The new reality requires these businesses to balance their instinct for long term planning with an agile approach to tackling the latest disruptive innovations. For many, that will mean embracing innovation to forge new paths in new, untapped markets. The foundation for their ability to overcome obstacles and find success will be through leading with their core values.

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Family business Europe's economic backbone



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As the pace of change continues to accelerate, businesses are

doubling down on their efforts to drive innovation. In this year's survey, family businesses identified innovation as a top priority. Family businesses are experts in long term survival — and they know this depends on their ability to innovate and adapt to a rapidly changing business environment.

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Olaf Leurs

Chairman,
KPMG Enterprise EMA Network
and Tax partner, Meijburg & Co,
KPMG in the Netherlands

In this seventh annual edition of the *European family business barometer*, European Family Businesses and KPMG Enterprise explore key issues facing family businesses across Europe this year and share the perspectives of family businesses on a range of critical topics — including market confidence, growth, and operational challenges.

Business families play an essential role in the European economy; however, the significance of their contribution is rarely fully appreciated. Throughout Europe, family businesses represent anywhere from 55–90 percent of businesses, depending on the country.¹ Their sizes are even more varied, ranging from small two-person operations to large global enterprises employing thousands.

Confidence abounds

Family businesses are coming off a strong growth year and are positioning themselves for further growth over the next 12 months. This growth, combined with a relatively favorable economic environment, has helped to spur the confidence of family businesses and their optimism for the future. In fact, 73 percent of respondents to this year's European barometer survey said they were confident or very confident about the prospects for their family business over the next year.

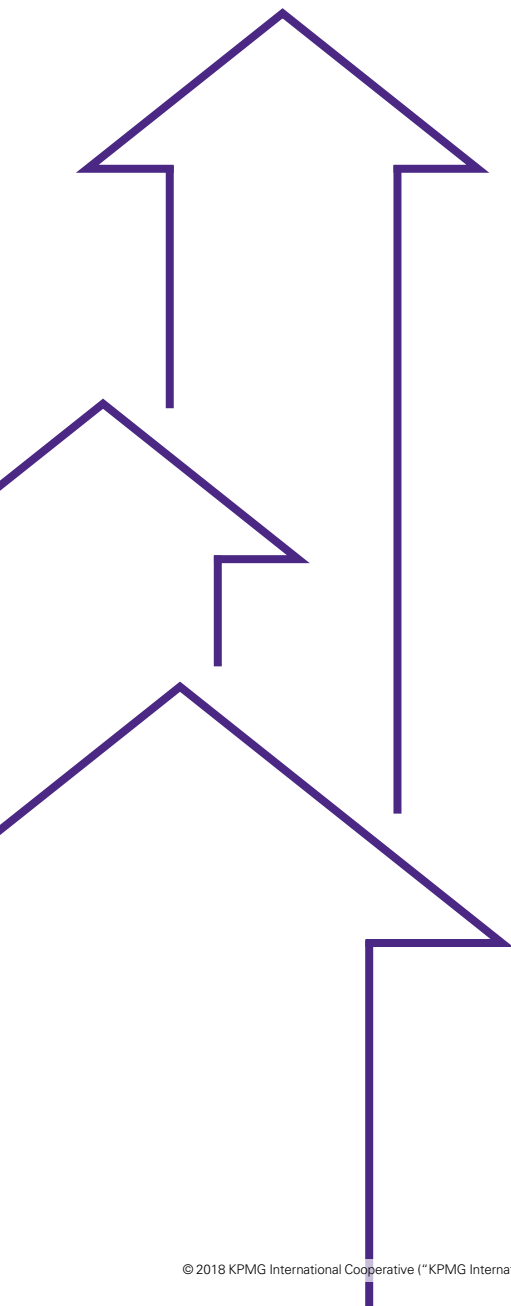
This confidence has been well-reflected in the strategic decision-making of family businesses, including head count increases over the last year. Over 54 percent of survey respondents said that they had increased their staff complement over the past year, compared to only 41 percent in 2017.

At the same time, a majority of family businesses indicated they had significantly increased turnover over the past year. In this year's survey, 64 percent of respondents said that turnover in their company has increased over the past year, compared to 57 percent last year and 54 percent in 2016.

Driving innovation forward

Innovation is top of mind for family businesses in Europe. In this year's survey, we found that family businesses are increasingly focused on driving innovation. The pace of change is rapidly accelerating, with new technology causing tremendous disruption across a wide range of industries. Companies across Europe are being pushed to make dramatic changes to adapt to new market conditions and to compete with new business models. Family businesses are rising to the innovation challenge, actively monitoring signals of change and streamlining decision making to ensure that they have the agility to respond to changes in real time.

¹ European Family Business Trends, KPMG International, 2015.



While the pace of change may be accelerating, adapting to change is nothing new for family businesses. They have, after all, been embracing change for generations. Many of Europe's — and the world's — oldest companies are family businesses. Their ongoing survival is a testament to their ability to change with the times.

According to the survey, family businesses are not only thinking about innovation, they are making strategic investment as well. Innovation investments by family businesses have generally occurred as a part of their everyday business operations rather than through decisions made by separate research and development (R&D) or innovation departments. This operational focus should not discount the strategic importance family businesses are giving to innovation. The survey results showed that there is an increasing desire on the part of family businesses to not only be early adopters, but to become leaders able to spur new innovations.

Given that family businesses have had significant success with their innovation investments to date, in terms of both their impact and their return on investment (ROI), it would not be surprising to see this desire turn into reality.

Looking ahead, innovation is expected to remain a significant priority over the coming year. In the survey, 24 percent of respondents listed innovation as one of their top two priorities, while 83 percent said they have plans to invest in innovation and technology as part of their strategic plans. Product innovation is expected to be a big part of this, with 23 percent of respondents reporting plans to diversify their products and services.

Managing challenges while remaining competitive

While business families may be confident in their future outlook, they also face a number of significant challenges. For example, family businesses in Europe are facing more competition than ever before — not only from other family businesses, but also from their public company counterparts.

Given our current era of rapid innovation, family businesses have also seen an intensification of the war for talent. This year, 53 percent of respondents identified the war for talent as one of their top three concerns. Increasing talent requirements are a natural consequence of bringing on the non-traditional and technical roles needed

to drive innovation. The talent required to help family businesses compete in the digital economy has proven to be in short supply and high demand — a phenomenon that is particularly troublesome given the strong innovation imperative most companies have.

In order to improve their competitiveness, family businesses are taking a creative approach to their talent management, developing unique remuneration, incentive, and benefits packages to enhance talent acquisition. They are also increasingly focused on becoming ‘employers of choice’ — embracing and promoting their unique value propositions in order to differentiate themselves and better attract talent.

Planning for uncertainty

Beyond operational challenges, one of the top issues for business families today is political uncertainty. Brexit continues to be top-of-mind for many family businesses, particularly in the UK and Ireland. However, without clarity as to what the post-Brexit landscape will look like, few companies have taken concrete steps to prepare for any related ramifications. On a Europe-wide basis,

only 10.87 percent have taken steps to prepare for Brexit.

Political uncertainty may be causing some European family businesses to take a more conservative approach to growth. According to the survey, only 36 percent of respondents increased their activities abroad over the last year — down from 44 percent in 2017, 65 percent in 2016 and 58 percent in 2015. For those that are still intent on international expansion, many are exploring alternate growth corridors beyond the traditional (US/China) and into areas such as parts of Africa.

KPMG Enterprise and European Family Businesses explore these findings and other issues facing family businesses in this edition of the *European family business barometer*. We hope you find this report insightful and helpful for achieving the results desired by your family business.

If you have any questions, feel free to contact us or a local adviser. For more on the report methodology please see the methodology section at the end of the report.



Political and economic challenges ranging from Brexit to

recent trade tensions are impacting plans of many family businesses to grow beyond their borders. Some have postponed international expansion all together. In other cases, we are seeing companies considering non-traditional or alternative growth corridors.



Jesús Casado Navarro-Rubio
Secretary General,
European Family Businesses
(EFB)

Confidence and optimism remain strong

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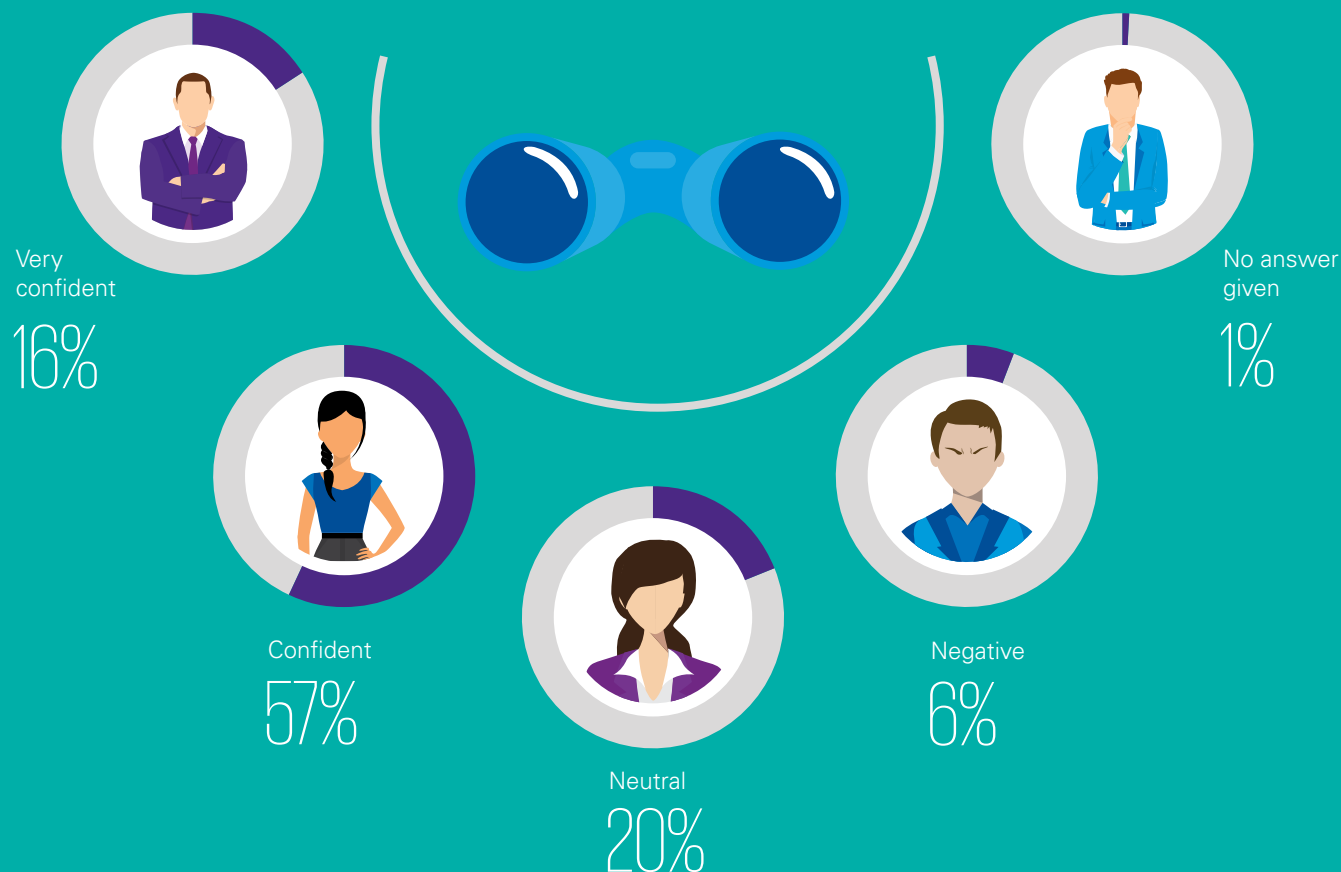
Entrepreneurship is inherently different for family businesses. Most people associate entrepreneurship with a dominant outstanding individual who builds a business and then sells it. That image does not fit a successful multi-generational family. Instead of the heroic individual, you have a family that takes collective responsibility for building the business and hopefully one day, passing it on to the next generation.”

Ken McCracken

Head of Family Business Consulting,
KPMG Enterprise in the UK



How do you feel about your family business' economic perspective over the next 12 months?



Note: Numbers have been rounded to the nearest whole number.

Source: European family business barometer, KPMG International, 2018.

European family businesses remain confident and optimistic about the future.

The past year has seen its share of political, economic and regulatory challenges for family businesses in Europe. However, overall, 73 percent of respondents report that they are confident or very confident in their family business' economic perspective over the next 12 months. This compares with 71 percent last year and the year before.

Much of this confidence is likely rooted in the success of the past year. More than 64 percent of respondents reported an increase in turnover. This compares with 57 percent last year and 54 percent in 2016. Only 11 percent of respondents reported decreased turnover in the past 12 months. Spain (74 percent), Italy (72 percent) and France (72 percent) reported the most significant increase in turnover. Ireland lagged behind with a lower than average reporting of 57 percent experiencing increased turnover, while UK, Poland and Malta went against the trend reporting decreased turnover.

Hiring was also up this past year with 54 percent indicating they had increased the number of staff while only 10 percent decreased. This compares

with 41 percent and 16 percent in 2017. Austria, the Netherlands, and France all led the way with increased hiring with Poland and Romania lagging behind.

The strength of the European economy likely also contributed to the increase in confidence. The European economy experienced an excellent year. Overall gross domestic product (GDP) growth in the 28-member European Union reached 2.5 percent in 2017 — one of the best periods of growth since 2007, putting Europe just ahead of the 2.3 percent expansion posted by the US in 2017.

Bigger companies more confident

The size of the company appears to have played a role in these confidence levels, with larger companies showing greater confidence. Only 64 percent of those companies with less than 50 employees are confident or very confident. This compares to 75.4 percent for companies with 50–249 employees, 82.46 percent for companies with 250 to 1,000 and 82 percent of companies with over 1,000 employees. The highest level of confidence is with companies with more than 1,000 employees as a higher percentage reported feeling 'very confident'.





With more resources and strong track records, these larger companies may feel better prepared to face the challenges ahead, especially in their brand recognition and ability to recruit new talent.

UK confidence drops amid Brexit concerns

While overall confidence is up across Europe, the UK was a notable exception to this trend. This year, the UK experienced a significant year over year drop in confidence, going from 83 percent in 2017 that were confident or very confident to only 68 percent in this year's survey. With Brexit negotiations ongoing and without a clear path forward, business families may be taking a wait and see approach to determine how the exit from the European Union will impact business. However, there is clear concern in the UK.

In regions where governments have remained stable, businesses appear to feel comfortable with the status quo. On the flip side, in some countries where new governments have been elected, the hope is that they will take a business-friendly approach to build the economy.

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The entrepreneurial success of business families is often

overlooked. To have one successful business within a family is already an achievement — but we are seeing something special when success spans over four or five generations. Family businesses know how to endure. They have weathered generations of economic ups and downs. They know how to diversify, change course and keep ahead of the competition.”

Tom McGinness

Global Co-Chair and UK Head of Family Business KPMG Enterprise Global Centre of Excellence for Family Business, KPMG International

Challenges impeding growth or forcing innovation?



Despite strong economic indicators, challenges are inevitable for any business. Family businesses are reporting concerns in a few key areas.

The war for talent rages on

The war for talent continues to be a top stumbling point. This year, 53 percent of respondents identified the war for talent as one of their top three concerns. This compares to 43 percent in 2017 and 37 percent the year before.

This increased competition for labor seems particularly pronounced in Austria (73 percent), Finland (76 percent), France (76 percent) and the Netherlands (78 percent). With unemployment at record lows, sitting at approximately 4 percent, the challenge to attract and retain talent is a growing issue.

Non-traditional and technical roles, which are of paramount importance for driving innovation and helping family businesses compete in the digital economy, are proving to be particularly troublesome. The specific skill set these positions demand may not be available within the family and may be difficult to find through traditional training and development, forcing business families to look outside to fill these roles.

While this is a natural occurrence as the business grows and matures, it can pose challenges on a number of fronts. On the one hand, family businesses are forced to compete against large and attractive employers for talent. On the other hand, they have to consider the impact on the family when they decide to pass over family members for what might be perceived as attractive positions.

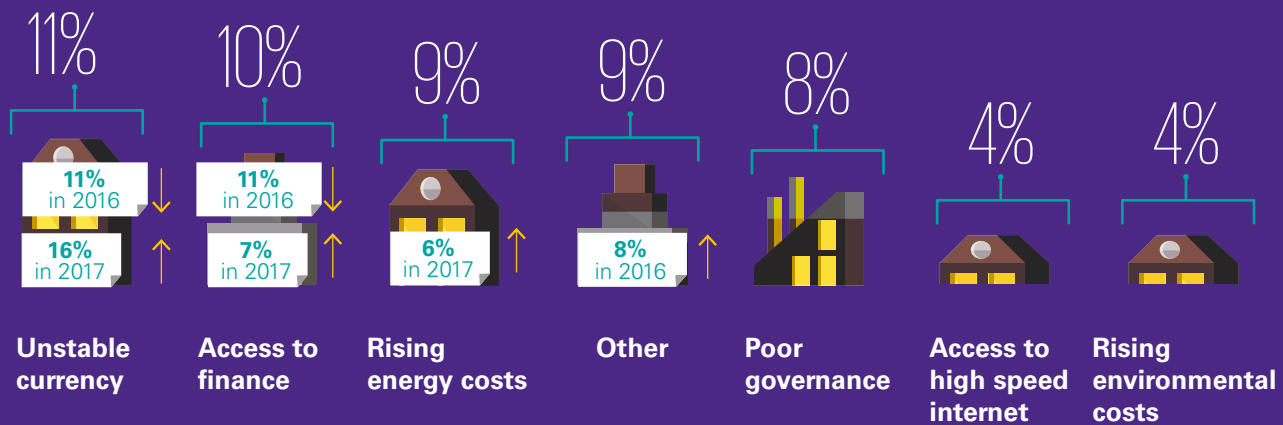
Despite the ongoing challenges, businesses are reporting an increase in hiring. In the survey, 54 percent of respondents reported increasing hiring this year versus 41 percent in 2017. Only 10 percent of respondents to this year's survey reported decreasing their total numbers, a drop from 16 percent in the 2017 survey.

The cost of labor continues to rise

A natural connection exists between the war for talent and an increased cost of labor. The cost of labor has become a bigger issue this year over last. This year, 36 percent said increased cost of labor was a top-three concern versus 32 percent in 2017. Regionally, Bulgaria (65.6 percent), Czech Republic (84.5 percent), Poland (58.34 percent), Slovakia (76.02 percent) and the UK (55.71 percent) all expressed the greatest concerns.

Responses when asked to choose the three most important issues facing family business right now:







Using their strengths to attract and retain talent

Family businesses are increasingly competing for talent with large private and public companies that have the ability to offer attractive equity deals. They are responding by taking a creative approach to remuneration, incentives and benefits while focusing on the unique advantages of working for a family firm.

The businesses showing the most success in attracting and retaining talent are building a recruitment strategy that involves promoting and living a brand and culture based on their unique value proposition as a family business.

Trust is one significant advantage that family businesses have over their competitors. According to the Edelman Trust Barometer, these businesses are more trusted. The survey found that 75 percent of respondents trust family business over non-family business globally. Further 54 percent would rather work for a family business.²

They are also being increasingly proactive in their talent acquisition strategies, actively approaching potential talent rather than waiting for applications.

The overall war for talent remains focused primarily on recruitment. A long-standing

track record of strong value-based culture and leadership continues to drive loyalty and retention among those that choose to join a family business.

Political uncertainty remains a concern

This year, 36 percent of respondents identified political uncertainty as one of their top three concerns versus 30 percent last year and 37 percent in 2016. With Brexit negotiations trending toward the likelihood of a hard Brexit, political uncertainty seems to be weighing heavily on the minds of those in the UK and Ireland in particular. Overall, 63 percent of respondents in Ireland and 52.8 percent of those in the UK identified political uncertainty as one of their top three concerns. These findings are similar to 2017 when negotiations first began.

However, while they are carefully watching and clearly concerned, the lack of clarity around what the post-Brexit landscape will look like has many family businesses taking a wait and see approach to post-Brexit planning. Only 10.87 percent of companies have taken steps to prepare. Without a clear plan in place, businesses cannot be certain about what the new arrangements will mean overall. Instead, they appear to be waiting to take action when they know what the circumstances will be.



Family businesses find it difficult to hire professionals with a new skill set, especially where non-

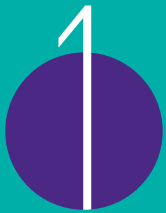
traditional, digital and technical positions are concerned. But they have numerous benefits to attract new staff and may dare to be bolder. Typically, family businesses offer flatter hierarchies where people can work independently. Their brands are well-known and come with established corporate values. They have a tradition of sustainability and social engagement. All these aspects are very appealing to Generation Y. So even in a candidate-driven market, family businesses can be confident and show their strengths.

Dr. Vera-Carina Elter

Head of People and KPMG Enterprise KPMG in Germany

² Source: 2017 Edelman Trust Barometer, "Special Report: Family Business," Edelman, 28 September 2017.

Business families are increasingly embracing and promoting their status as family businesses in their recruitment efforts — emphasizing key benefits of working for a family business as part of their recruitment efforts including:



Long-term vision

Family businesses are well known for having a long-term vision and offering greater job stability than non-family businesses. Without the constant pressure from shareholders and stock markets, they do not see a need to cut employees as a strategy for improving share prices. Instead, they tend to offer greater stability and prefer to avoid layoffs even during difficult times.



Employee recognition

Taking the long-term view also means the drive to success has a more realistic time horizon. Employees are typically rewarded bonuses based on short-term personal performance and long-term value.



Training

They also understand the value of retaining employees who, in effect, become part of the family. This is evidenced by the amount of investment in training and development paired with the practice of promoting from within.

International expansion postponed

The geopolitical and economic environment around Brexit and increasing trade tensions with the US are a concern for many business families. Many are responding by postponing plans for international expansion.

In this year's survey, only 36 percent of respondents said they had increased their activities abroad over the past year — compared with 44 percent last year, 65 percent in 2016 and 58 percent in 2015.

Results naturally varied by company size, with larger companies having a much stronger focus on international expansion as part of their growth strategy. Many large family businesses are better positioned to experiment with expansion — while smaller companies continue to take a more cautious approach to ensure they have considered all of the implications and have a plan firmly in place before making a final move.

On a geographic basis, the survey found that family businesses in Greece, France, Austria, Belgium, Italy, Spain, the Netherlands and Switzerland have been more likely to move towards international expansion, while Poland, Finland, Germany and the UK have remained more cautious.

Those that do expand abroad continue to build solid partnerships with local players that have similar values and ways of doing business, prior to making the move. They also continue to send family members to pave the way and lead these ventures.

Expansion and the future

Looking forward over the longer term, 54 percent of respondents indicated their strategic plan included investments in internationalization. Again, there is a clear correlation between international expansion plans and company size with 76.19 percent of companies over 1,000 employees reporting expansion plans versus 68 percent of companies with 250–1,000 employees versus 56 percent of companies with 50–250 versus 39 percent of companies with less than 50.

Political and economic uncertainty among many of the traditional paths for international expansion are forcing companies to look more broadly as part of their international planning. Many are considering alternate growth corridors for international expansion that takes them from the traditional corridors such as the US and China. This includes exploring what Africa has to offer in terms of political and economic stability as well as demand for products and services.

Regulatory environment creating complexity

The regulatory environment continues to be a concern for family businesses. The introduction of the *General Data Protection Regulation (GDPR)* and *Open Banking (PSD2)* are just two of the most notable examples that have had a significant impact on organizations doing business in Europe.

The impact can be seen in this year's survey, with 32 percent of respondents identifying regulatory change as one of their top three concerns compared to 28 percent last year and 21 percent in 2016. On a country basis, respondents from the Netherlands, France, Germany and Poland showed the strongest concern.

As regulatory requirements increase, larger family businesses are moving away from relying exclusively on finance teams to monitor and ensure compliance. Instead, many are setting up or expanding separate compliance departments, tasked with the role of responding to regulatory changes. There has also been an increase in the number of board positions focused on varied areas of compliance to ensure the company is following required regulations.

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Our KPMG Enterprise advisors are seeing good progress this past year as family businesses are preparing for growth. The next step will require scaling their operations, which is a delicate and crucial operation. The business world is globally connected. As European family businesses prepare to do business on the world stage, they will find themselves going head-to-head with companies from around the world. They have to factor increased global competition in their growth and expansion plans.”

Jonathan Lavender

Global Chairman,
KPMG Enterprise,
Global Head KPMG Enterprise Family
Business, KPMG International,
Partner, KPMG in Israel

Changing face of leadership



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This year's survey revealed that 33 percent of family businesses are considering hiring an external CEO. As family businesses grow, it becomes increasingly important for them to reach out beyond the family, to find the additional skill sets they need. This is particularly true in the case of highly specialized roles in areas ranging from digital innovation through to key roles at the production or assembly line level. Unfortunately, these specialized roles are increasingly difficult to fill. The growing skills gap must be urgently addressed by policy-makers.”

Darius Movaghar
Senior Policy Advisor,
European Family Businesses (EFB)

Are you considering ...

Passing your management
to next generation

53%

Passing your
governance to next
generation

50%

Passing your
ownership to next
generation

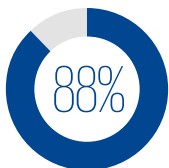
53%

Appointment of
non-family CEO

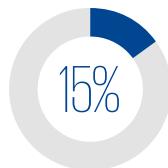
33%

12%

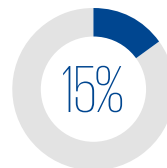
Sale of business in next 3 years



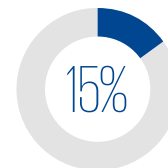
To third party



To employees



To family



Via IPO

Yes

As they look to the future, most families plan to pass their business on to next generation. According to the survey, more than half have plans to pass the business on to the next generation, either through management (53 percent), ownership changes (53 percent) or governance (50 percent). In the short term, 12 percent of respondents reported having plans to sell their business in the next 3 years.

Generations working together, longer

Founders are staying involved in the company well beyond the traditional retirement age, with many working well into their 70s and beyond. These businesses are having to adjust to multiple generations of the family working in the business at the same time for a longer period of time.

This reality is pushing younger generations to seek different, yet meaningful, roles within the company for the opportunity to leave their mark, including roles that may change the overall nature of the business. Many are focused on introducing new values to the business that enable social and charitable contributions. They are also looking at ways to diversify the workforce and hiring talent that share similar values.

Social and charitable contributions are nothing new for family businesses. In fact, the majority of the world's largest family businesses regularly engage in philanthropy. However, there may be

an opportunity to promote their good works. In the 2017 edition of the *Edelman Trust Barometer*, only 17 percent of respondents recognized family businesses as leaders on societal challenges.³

Without the pressure of managing day-to-day operations, the next generation of leaders has the bandwidth to explore the innovations and product and service changes that will help the business transition toward the future.

Extended passing of the baton

With founders remaining active longer, we are seeing a more gradual passing of the baton from one generation to the next — resulting in many businesses families refocusing on forms of governance such as family councils to help smooth out the transition.

Even as the current generation retires, they are not leaving the businesses completely. While they may hand over control of the company, many remain active as ambassadors for their brands and help to maintain relationships.

Whether the founding generation retains control or not, the gradual succession allows the next generation to work with current leadership for several years before a complete succession takes place. This approach helps to preserve key relationships and business knowledge while slowly introducing important changes that may be needed for the future.

³ Source: 2017 Edelman Trust Barometer, "The Family Business Paradox," Edelman, 28 September 2017.

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Founders are staying involved in the business well into their 70s and 80s. Instead of retiring, they remain connected, perhaps not always as the direct decision maker. They may take on an ambassador role, contributing their skills to maintaining important relationships and protecting the value of the business. When founders stay in control beyond the expected retirement age, succession is a slower more methodical process where the next generation works closely with the founding generation before taking over.”

Daniel Trimarchi

Program Director,
KPMG Enterprise Global
Centre of Excellence for Family Business
KPMG International





Looking to the future **laying out key priorities**

Key priorities over the next 2 years

Improve profitability

49%

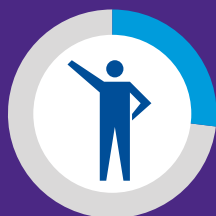
(64% in 2017
57% in 2016)



Attract new talent

27%

(32% in 2017
18% in 2016
16% in 2015)



Move to new markets

23%

(27% in 2017
22% in 2016)



Train workforce

14%

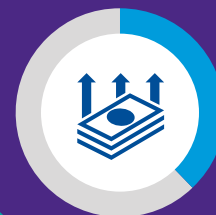
(23% in 2017)



Increase turnover

38%

(45% in 2017
34% in 2016)



Become more innovative

24%

(37% in 2017,
25% in 2016
23% in 2015)



Diversify products and services

23%

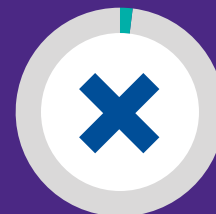
(28% in 2017
17% in 2016)



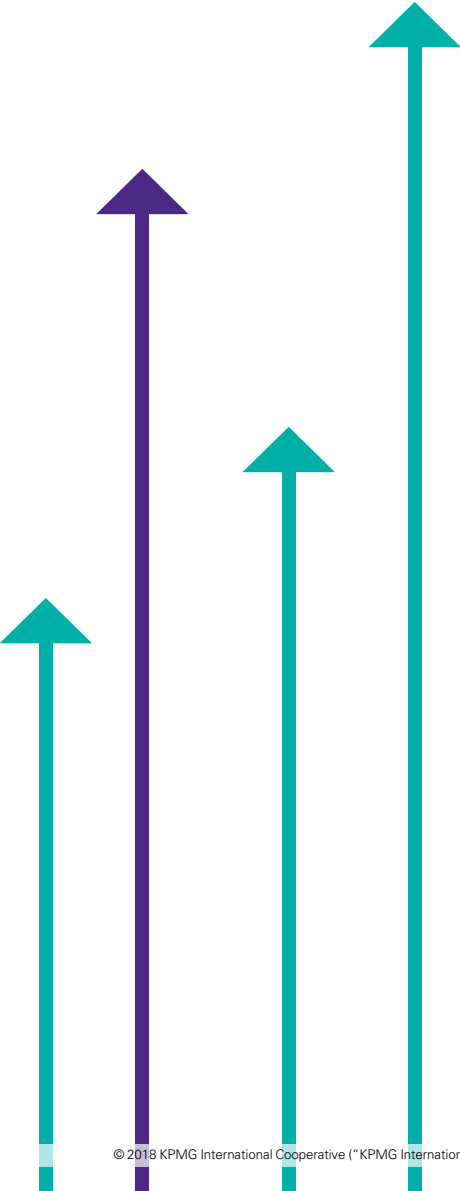
No answer given

2%

(2% in 2016)



 Top three responses



By far, the most pressing priorities for family businesses over the next 2 years are improving profitability (49 percent) and increasing turnover (38 percent). The question in both cases is, 'how?' The answers may come from the next highest identified priorities: becoming more innovative and attracting new talent. More strategic innovation coupled with the right people could contribute to addressing the top priorities of family businesses.

Embracing innovation to channel growth

Family businesses recognize the importance of innovation as a means to drive growth. In this year's survey, 24 percent of respondents indicated that becoming more innovative was one of their top two priorities.

The world at large does not necessarily recognize family businesses as innovators. Past studies have indicated that while 45 percent of respondents recognized businesses in general as innovators, that number dropped to 15 percent when respondents provided their view of family businesses.⁴

In fact, innovation and entrepreneurship have always been at the heart of family business success. Many family businesses have lasted for generations — and their success has depended on their

ability to adapt. Their longevity speaks to their entrepreneurial mindset and ability to monitor signals of change over time and adjust their businesses accordingly.

However, the rapid rate of change within today's business environment is unlike anything business families have seen in the past. Family businesses that have typically taken a more incremental and gradual approach to innovation are being challenged by the ever-increasing need to innovate. For them, being able to change is not the critical issue — it is being able to change quickly enough to respond to the pressures of today's business world.

Moving beyond traditional boundaries

As part of their change agenda, an increasing number of family business owners recognize the need to expand beyond their traditional products and services. A number are working to expand into new product or service areas and into adjacent business areas. According to this year's survey, 23 percent of respondents plan to diversify their products and services over the next 2 years. The focus being placed on diversification is a strong signal of the willingness and desire of family businesses to adapt to any shifts in the economy or the demands of their customers.

⁴ Source: 2017 Edelman Trust Barometer, "The Family Business Paradox," Edelman, 28 September 2017.

Business owners are also actively looking for new ways to do business, setting up in-house research and development teams tasked with finding or developing new methods, materials and technologies to help them stay ahead of their competition and even create new intellectual property that can be monetized over time.

In addition to recruiting talent that can help them understand and take advantage of new trends, business families are also starting to establish partnerships with other organizations that can bring new knowledge or experience to the table. While many family businesses continue to take an independent approach to innovation, others are recognizing how alliances can help them to leverage unique skillsets to meet the needs of their customers.

While long-term strategic planning and incremental change remain the go-to approaches for many businesses, successful family businesses also recognize the advantages of being able to respond quickly when change is in the forecast.

Achieving innovation efficiently

While family businesses typically invest less in formal research and development on average than other businesses, they have been found to be far more efficient

in their innovation processes. Dollar for dollar, family businesses appear able to convert their investments into more patents and into more profitable product developments than other businesses despite their smaller budgets. It is quite likely that family businesses are able to produce such strong results because of their focus on prudent planning and efficient use of funds.⁵

The desire of business families to maintain control of their business likely also contributes to their innovation approach. Most family businesses are careful to avoid waste and have a keen eye for identifying the ideas that will work best within their sector. This is especially true for businesses with multiple generations who have kept in tune with changes in the marketplace. These businesses are not waiting for change to take place; they are actively looking for the indicators that signal change is ahead. Many of these future-focused business families are supported by organizational structures and cultures that are conducive to making decisions, experimenting, and shifting gears quickly.

Planning for the future

The ability of family businesses to stay ahead of the innovation curve will ultimately be determined by how they compete in the aforementioned war for talent. Most are not struggling to hire



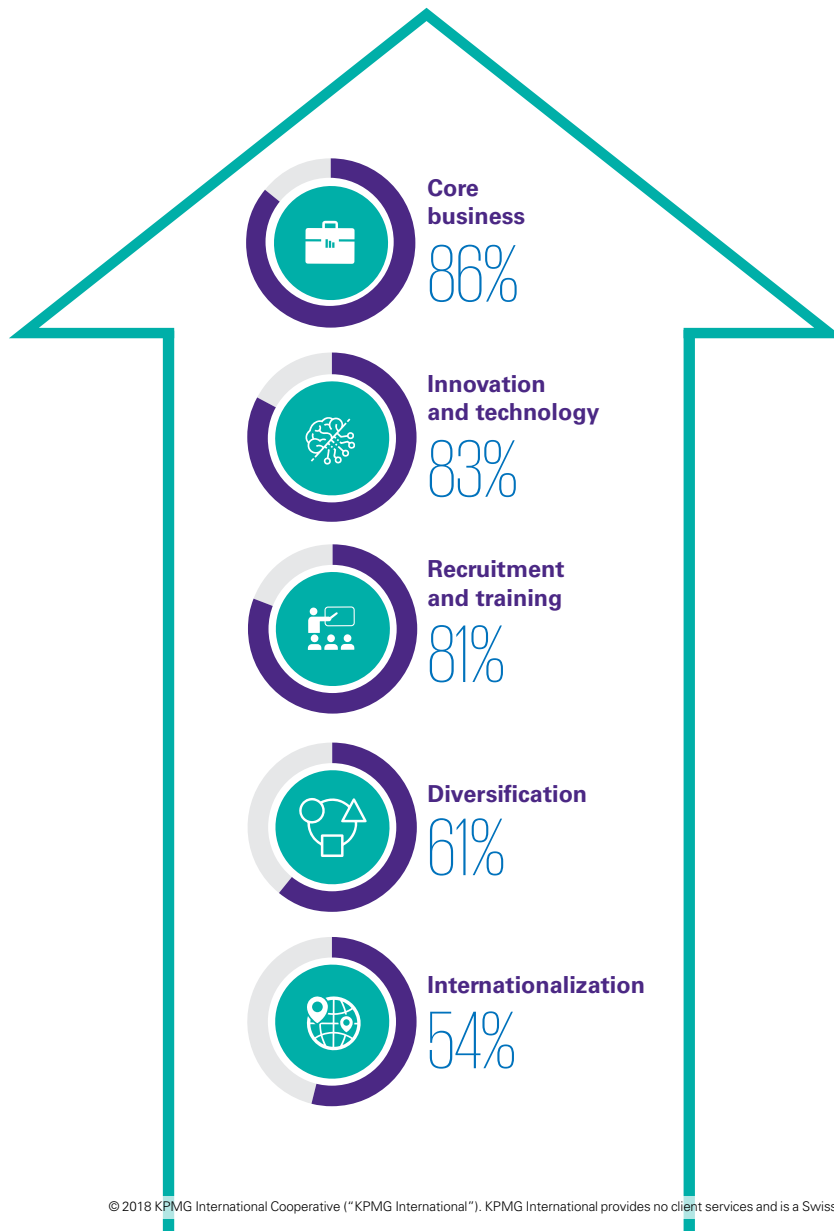
Family businesses are often portrayed as risk averse and

reluctant to change. Yet, in reality, they are among the most adaptive companies in the world. Their streamlined decision-making processes and ability to react quickly to new trends have enabled many family businesses to not only adapt but thrive, over decades of change spanning several generations.”

Silvia Rimoldi
Partner,
KPMG in Italy

⁵ Research: Family Firms Are More Innovative Than Other Companies, Harvard Business Review, 25 January 2017.

Does your strategic plan include investments in:



laborers or unskilled workers — rather, they are challenged to find the skilled talent they need to succeed as the digital and technological world evolves and customer demands change. Many business owners recognize their vulnerability in this area, with 53 percent of respondents identifying the war on talent as one of their top three concerns.

In addition to bringing in the right talent, family businesses continue to recognize the strategic importance of innovation. In this year's survey, 83 percent said their strategic plan includes investments in innovation and technology.

Family businesses today are looking for new ways to ride the crest of the innovation wave and avoid being swamped so that they can continue to grow their business and provide prosperity for generations to come. Their desire to invest in innovation coupled with their entrepreneurial experience well-position business families to lead economic change and industry innovation.

Reinvesting in the business

Business families have long taken a unique approach to financing — preferring to reinvest their core business without seeking outside financing. While this protects them from a certain level of risk, businesses that employ this approach run the risk of stunting growth by limiting the equity available for expansion.

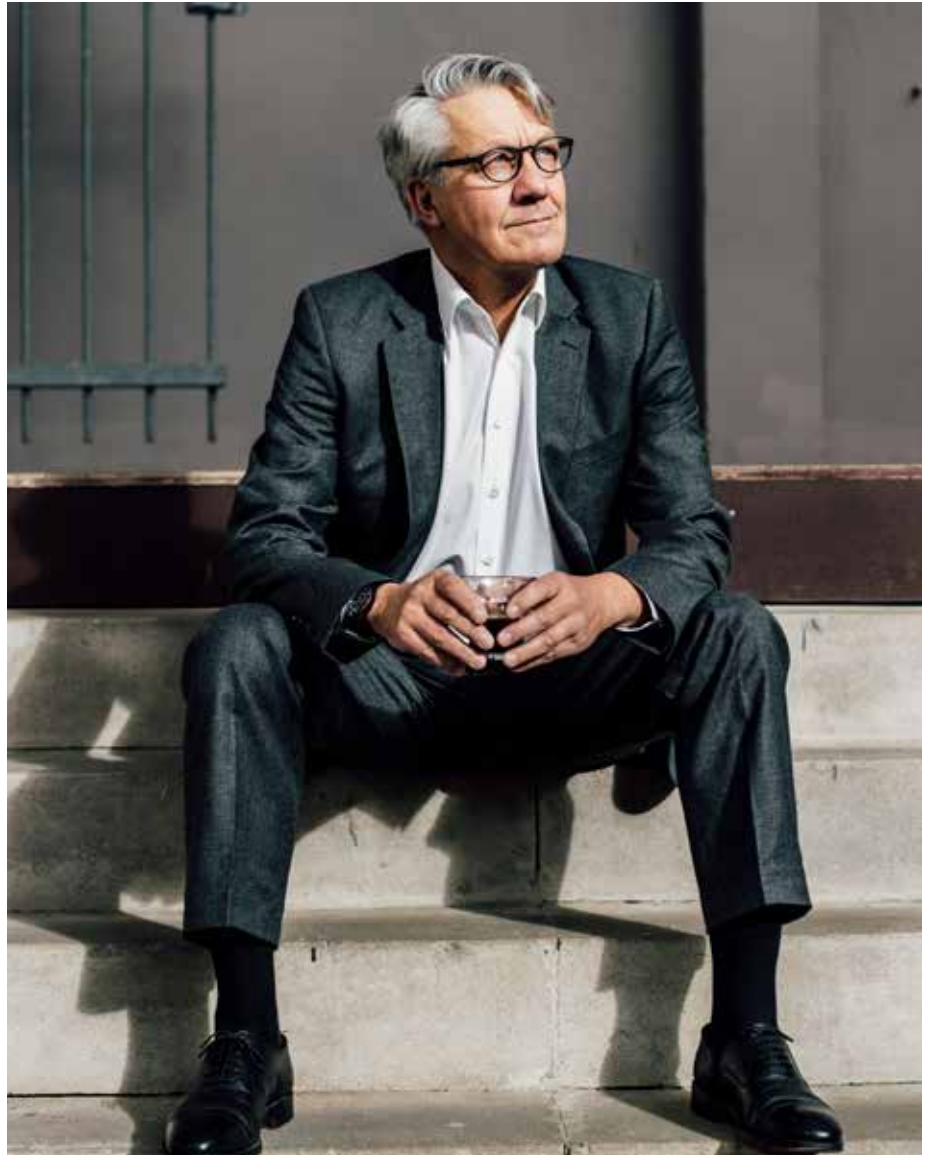
This year, 86 percent of respondents indicated that their strategic plan included investment back into the core business.

Financing innovation may be falling to the next generation of leadership, as they look for ways to maintain control and fund the company.

The path ahead

While the European economy has enjoyed several years of improving conditions, change may be on the horizon. Europe's economy lost momentum in the first quarter as expansions slowed from France to the UK, threatening to undermine the global growth the continent previously helped power. Figures from across the region pointed to a softer trend in the early part of the year, and US first-quarter data also showed activity weakened in the world's largest economy. Still, US annualized growth of 2.3 percent beat economists' estimates that it would slow to 2 percent.

Trade tensions with the US are hurting economic growth in Europe. The European Union has cut its forecast for economic expansion in 2018 to 2.1 percent, down from a prediction of 2.3 percent in May. There is a lot of talk these days about a potential trade war between Europe and the US.



Next steps



Building for the future

Family businesses provide an important perspective on the overall health of the economy and optimism in Europe. Although they are not monolithic entities with the same worldview, they can be used as a barometer for things to come.

When they anticipate difficult times ahead, they take precautions to reduce their risk, as can be seen in the slower plans for international expansion. On the other hand, their investment in technology and innovation show an overarching optimism for their plans as the economy changes.

Though they are often characterized as being slow to react to change, many have survived from generation to generation because they apply an entrepreneurial approach to their day-to-day business.

There is ample evidence that family businesses are paying attention to trends and looking for the right level of

innovation that will help them succeed in the future. They are reporting a desire to invest and focus on innovation, increase turnover and profitability and attract and retain top talent.

While confidence remains steady, the path ahead may see slower economic growth in Europe as trade wars intensify and political uncertainty deepens.

How they react to these factors will determine the fate for the next generation. If the past is any indication, these business owners will be hard at work shaping their future. Rather than rest on their successes, family businesses look for new ways to move forward. In good times, they wisely reinvest in their businesses. In difficult times, they push through with resilience and perseverance that will see them flourish in new ways.



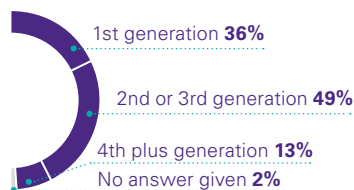
Methodology

The *European family business barometer* is based on the results of an online survey. In total 1,576 completed questionnaires were received during the period of 7 May to 7 July 2018. This is the seventh survey of its kind to be conducted measuring trends among European family businesses.

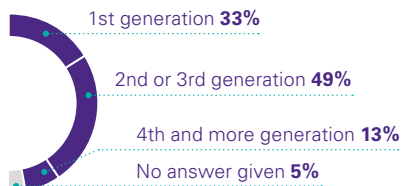
Respondents' profiles

1. Which generation of your family is currently involved in the business

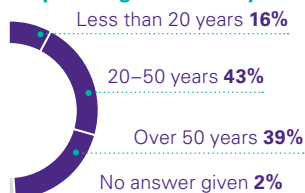
1.1 Regarding ownership



1.2 Regarding governance

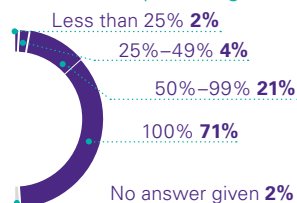


3. How long has your business been operating with family ownership?

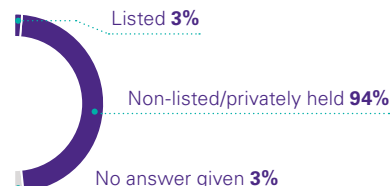


2. Concerning the ownership structure of your business...

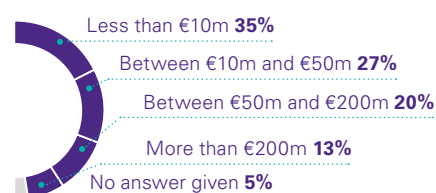
a) what is the percentage of the family ownership?



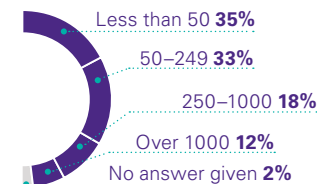
b) is your family business



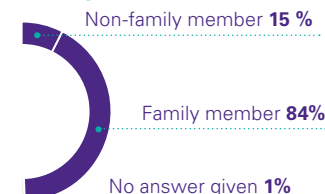
4. What is the approximate annual turnover of the business?



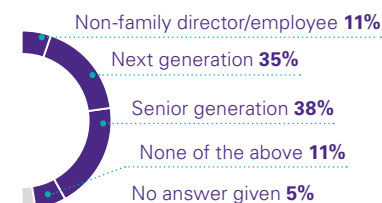
5. Approximately how many people do you employ? (the equivalent of full-time employees)



6. Are you a...



7. Are you a...



Note: numbers have been rounded to the nearest whole number.

Source: European family business barometer, KPMG International, 2018.

We trust that these results have provided an insightful look into the family business community.

If you would like more information about the study, please contact a family business adviser listed in the following pages. KPMG Enterprise and European Family Businesses (EFB) look forward to continuing this project and shedding more light on this crucial sector for Europe. We hope that you will continue to contribute to our survey.



Responses from the following countries have been analyzed:

- | | |
|------------------|------------------|
| — Austria | — Italy |
| — Andorra | — Malta |
| — Belgium | — Netherlands |
| — Bulgaria | — Norway |
| — Croatia | — Poland |
| — Cyprus | — Portugal |
| — Czech Republic | — Romania |
| — Denmark | — Serbia |
| — Finland | — Slovakia |
| — France | — Spain |
| — Germany | — Switzerland |
| — Greece | — Turkey |
| — Ireland | — United Kingdom |

About EFB

European Family Businesses (EFB) is the EU federation of national associations representing long-term family-owned enterprises, including small, medium-sized and larger companies.

The organization was created in 1997 and represents €1 trillion in aggregated turnover, 9 percent of European GDP. EFB's mission is to press for policies that recognize the fundamental contribution of family businesses in Europe's economy and create a level playing field when compared to other types of companies.

Visit: www.europeanfamilybusinesses.eu

About KPMG Enterprise

Passion, it's what drives entrepreneurs, family businesses and fast-growing companies alike. It's also what inspires KPMG Enterprise advisers to help you drive success.

KPMG Enterprise advisers in member firms around the world are dedicated to working with businesses like yours — we understand what is important to you and can help you navigate your challenges — no matter the size or stage of your business. You gain access to KPMG's global resources through a single point of contact — a trusted adviser to your company. It's a local touch with a global reach.

Visit: www.kpmg.com/enterprise



KPMG Enterprise

Global Center of Excellence for Family Business

As with your family, your business doesn't stand still — it evolves. Family businesses are unique and KPMG Enterprise Family Business advisers understand the dynamics of a successful family business and work with you to provide tailored advice and experienced guidance to help you succeed.

To support the unique needs of family businesses, KPMG Enterprise coordinates with a global network of member firms dedicated to offering relevant information and advice to family-owned companies. We understand that the nature of a family business is inherently different from a non-family business and requires an approach that considers the family component.

Visit: www.kpmg.com/familybusiness

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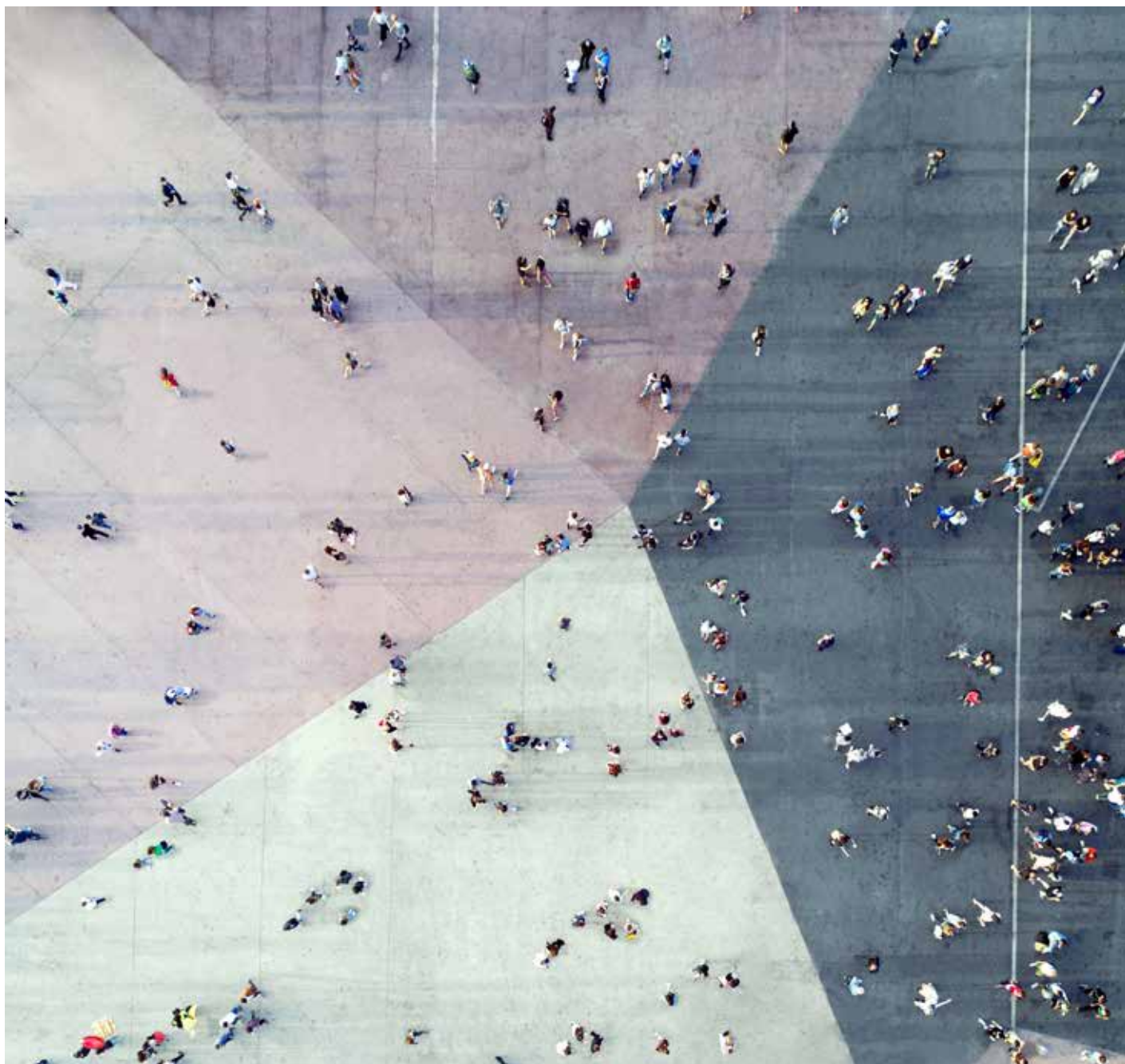
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Designed by Evalueserve.

Publication name: European family business barometer

Publication number: 135779-G

Publication date: October 2018