

# Creating stronger foundations for the future

2019 US Family Business Survey



2019 Small Business Forum  
Brenham, Texas  
June 5, 2019



# Serving high net worth families & family owned businesses



170 years  
serving families



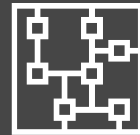
3,000 families  
in the US



2,700 dedicated  
professionals



10,000 families  
globally



Uniquely trained  
at Northwestern  
University's  
Kellogg School of  
Management



Provide access  
to other high net  
worth families, top  
academe and  
business experts



Wide range of services to help families grow their business while protecting their wealth



# About our survey



- The 9th Global Family Business Survey - and it's the largest yet.



- Represents one component of PwC's global survey of over 2,900 family business leaders in 50 countries.



- **Who did we interview?** Owners, founders, next gens, family and professional executives



- **Key focus areas and common themes for the US**
  - Values and purpose are the backbone of strategy
  - Ensure the next generation is deeply involved
  - Determine the skill sets needed for a more digital future
  - Professionalizing your board

[www.pwc.com/us/familybusinesssurvey](http://www.pwc.com/us/familybusinesssurvey)

Codify your values  
and purpose in  
your strategy.

1





# Values and purpose are the backbone of strategy

## 79%

**Expect to deliver steady growth over the next two years**

- The outlook is looking bright
- Family businesses need to position themselves for changes ahead.
- Of the businesses with 10% or more annual growth, 84% had a clear sense of agreed values and purpose



## 81%

**of the US respondents (in the global survey) felt they had a strong sense of values**

- Only 49% actually had values articulated in written form.

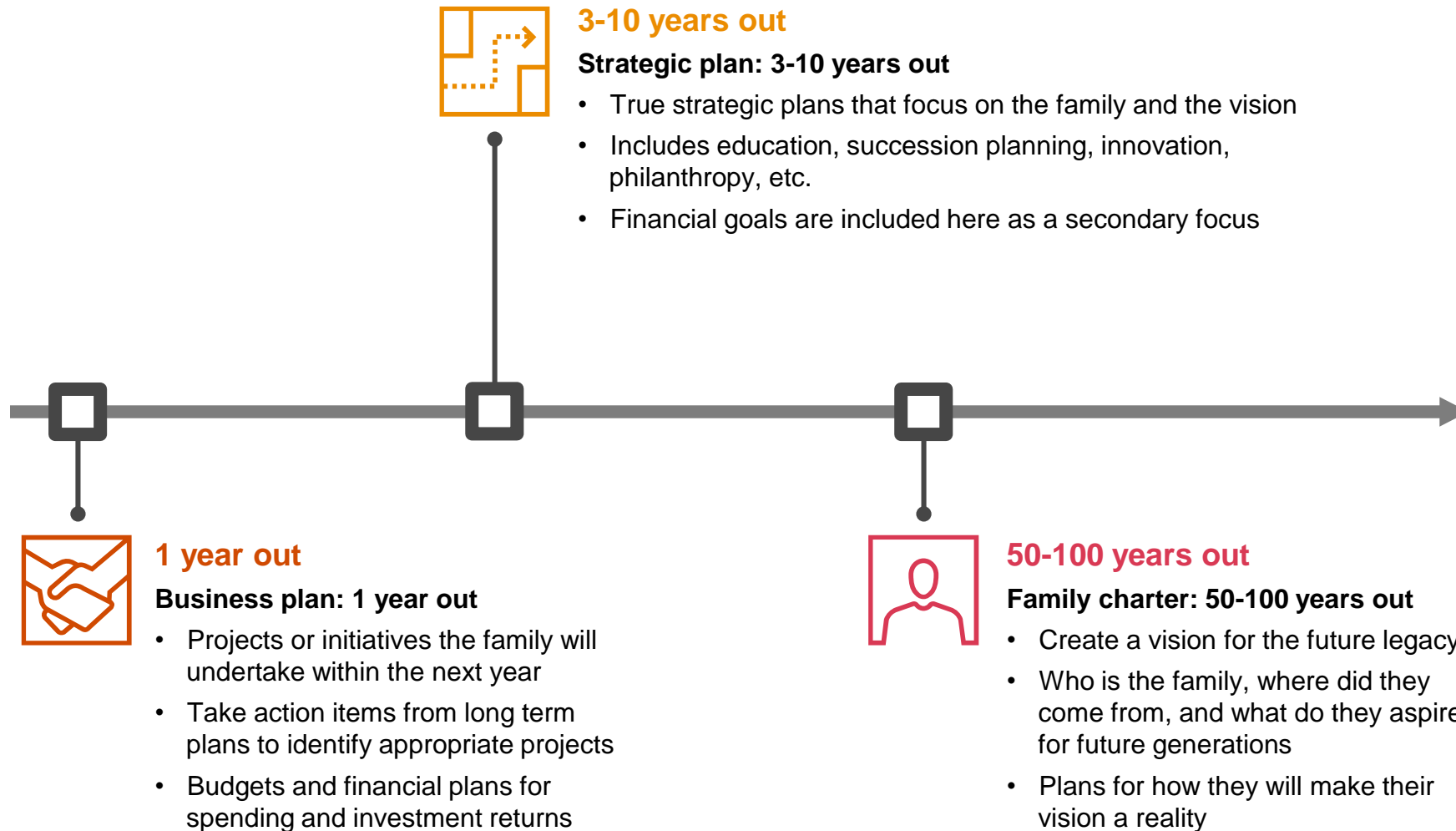


### Key takeaways:

1. Don't underestimate the power of strategic planning.
2. Make your values explicit and measurable. Keep it simple.
3. Incorporate your values into the strategic plan.
4. Consider a mid-term roadmap.



# Types of strategic plans



## By 2020:

Almost all US family business respondents expect a mid-term strategy roadmap in place.

Today is a different story:

- 27% have no strategic plan
- 31% have an informal plan
- 42% are advanced.



Ensure the next generation is deeply involved.

2



# Prepare the next generation to lead the family business

## 62%

**of family leaders plan to pass the business on to the next generation**

- Transition to G1 to G2 is the most difficult - not all will succeed.
- Only 12% will make it to G3
- On an upward trend? In 2017, 46% were reluctant to pass the baton to the next generation



## 62%

**expect upcoming family members gain outside work experience**

- Leaders cite attracting and retaining best talent as an important personal goal (85%) than improving profitability (76%).
- Planning for the future may require different skills.



### Key takeaways:

1. Set them up for success. Think about roles that cannot be outsourced but are integral to family ownership.
2. Continuity planning should be a collaborative effort of management, shareholders/family and the board and be directly tied to the company's values and strategic plan.
3. Consider a skills assessment and formal development plans.
4. Transparency is vital. Less emotion, more communication. Protocols will help with difficult decisions.





# 4 paths to success



**STEWARDS**



**TRANSFORMERS**



**INTRAPRENEURS**



**ENTREPRENEURS**

“

You should work in your family business because you want to contribute and because you love it and you truly believe in it, not because you don't have any other options.

-The Steward



“

I didn't want to change our strategy. I wanted to change our company culture.

-The Transformer



“

I want to create a modern  
version of my father's business.

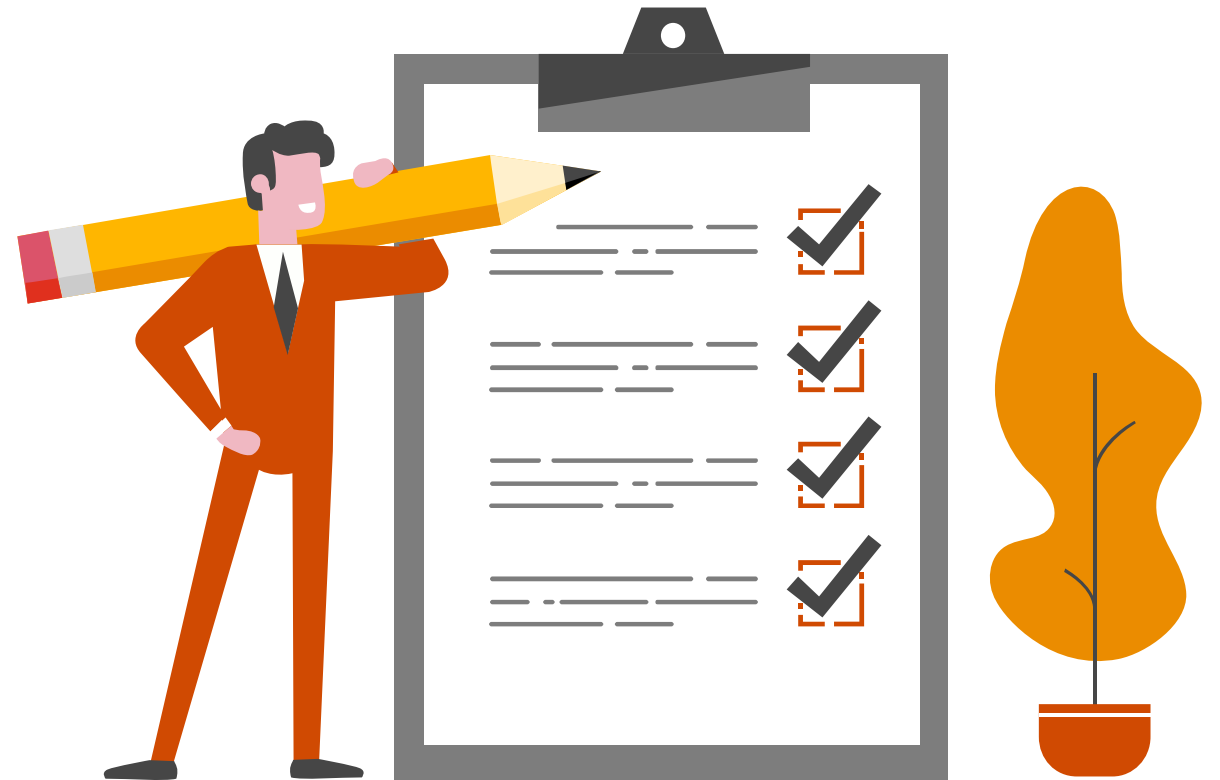
-The Intrapreneur



“

Nothing will teach you more than starting your own business.

-The Entrepreneur







So what's their path to success?  
Understand “who they are”



# 5 Focus areas

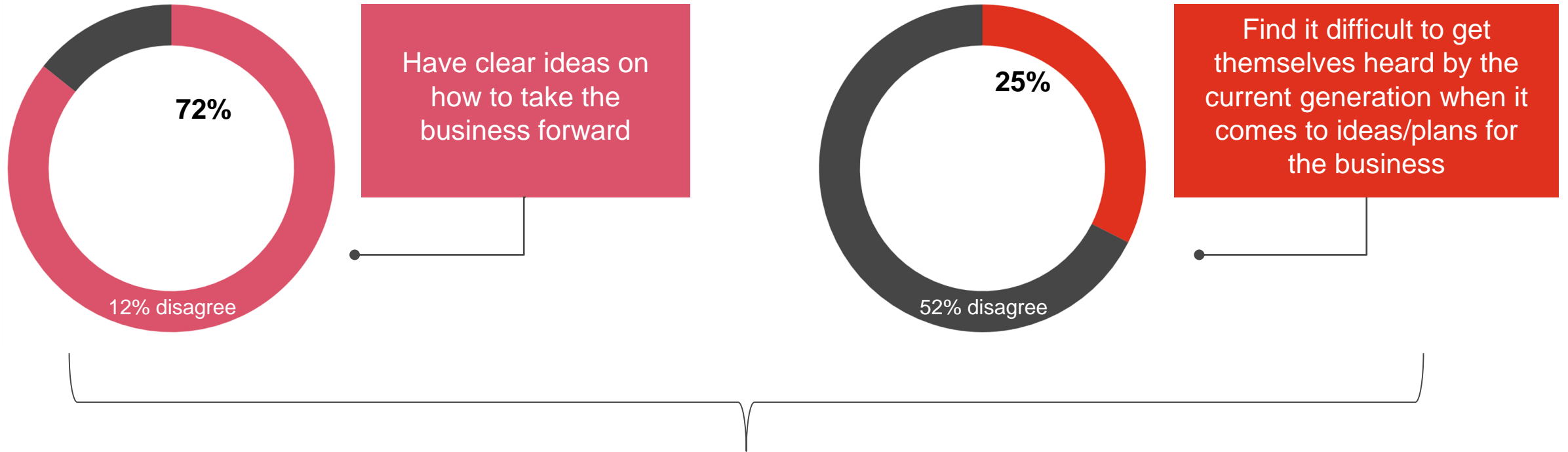
Focus area		Insight	
Digitization		Next gens are leading the charge when it comes to how the business prepares itself to be successful	
Innovation		82% of next gens think innovation is very important or essential, but only 15% of these think that their own firm is doing well in this area	
Professionalization		Some of the most insightful and sophisticated family firms are moving from the idea of the 'family business' to that of the 'business family'	
Diversification		Some have been able to spot new ways to exploit the family firm's existing capabilities	
Social Responsibility		Many of today's next gens believe business should be a force of good, not just a way to generate wealth	

Source: PwC Next Gen Study

# What's their path to success? Communication and culture



# Next Gens often had trouble getting their message heard.



**25%** of those with a clear idea on how to take the business forward find it difficult to get themselves heard by the current generation (18% of all next gen)

# Culture plays a critical role for the NextGen finding their voice

Next Gen that found it easiest reported:



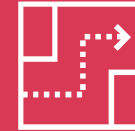
**Freedom to  
make mistakes**



**Being given  
responsibility  
sufficiently early**



**Strong family unity and  
a culture of respect**



**Clear strategy &  
lines of reporting**





**Clear demarcation  
of roles**

**If all (or many) of these are in place there is a much higher likelihood of the Next Gen being able to make a strong impact.**



# 5 Focus areas for NextGens building influence

Focus area		Insight	
Build Credibility		Credibility is not automatic. It is most effectively built by proving themselves – bringing back successful experiences from working outside & demonstrating their value and hard work within the family business	
Two-way Listening		Listen to understand, not to respond.	
A clear vision/plan		Often when Next Gen have had their ideas adopted it is because they've shown how it has worked before (either on a small scale or by preparing a solid case, including market research) and having a clear, evidenced, plan.	
Communication skills		Articulate with influence and recognize how relationship patterns can influence how messages are heard.	
Patience and Persistence		Recognize the importance of playing the long game. Tenacity and hard work matter.	

Source: PwC Next Gen Study

Raise the digital IQ.

3



# Determine the skill sets needed for a more digital future

# 37%

## worry their business is vulnerable to digital disruption

- Most family businesses have been through at least one cycle of disruption
- Gradual job market evolution: AI will impact employers before it impacts employment



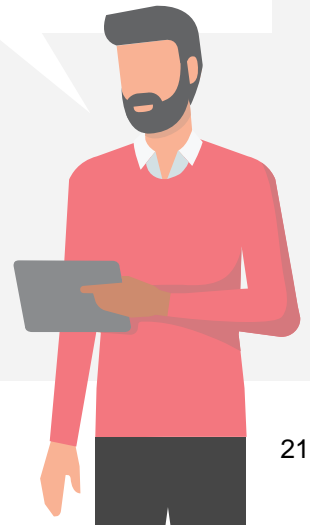
## Key takeaways:

1. You don't have to be the next Amazon or Netflix. But you may need to change your ways to maximize your potential to drive new business.
2. Improve your readiness by starting with the board.
3. Integrate employees with an appetite for change.
4. Train existing employees in adaptive processes that favor agility and automation.
5. Encourage the next generation to be involved.

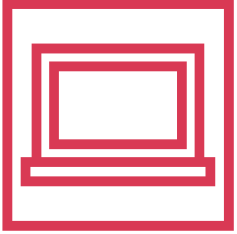


## Why they feel most vulnerable to digital disruption

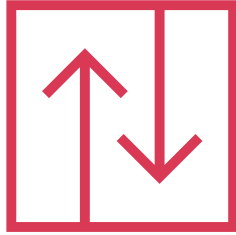
- “ Brand losing its relevance in the digital online world.
- “ The gap in customer expectations. Older people don't like technology and younger ones love it.
- “ Others are using AI to become more efficient in producing what we do.
- “ Our competitors can view and target our clients, suppliers and vendors.
- “ Sensitive data can be compromised, including customer profile data, credit cards and sales records.



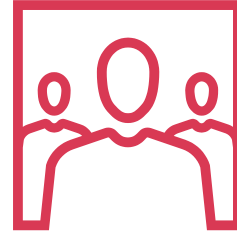
# Digital is...



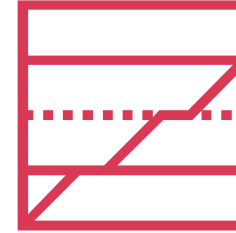
Adopting technology innovation



Being data-driven in every decision



Designing experiences to achieve 100% adoption

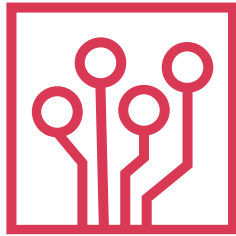


Moving with startup speed & behaviors

# To drive...











Productivity revolution



New or accelerated growth models

# The basics of technology and innovation

Innovation focus areas	Description
 <b>AI and Machine Learning</b>	Gain insights from self-improving algorithms to analyze massive amounts of structured and unstructured data to achieve intelligent and autonomous automation
 <b>Analytics</b>	Categorize and identify correlations and patterns to discover market trends, client preferences and behavior
 <b>Automation</b>	Orchestrate and integrate tools, people and processes to reduce human intervention and improve accuracy through robotics and other techniques
 <b>Blockchain</b>	Explore new business models enabled by real-time ledgers validated across multiple parties without an intermediary
 <b>Cloud Computing</b>	Deploy services with internal and external computing resources with improved cost, reliability and performance
 <b>Cybersecurity</b>	Protect client and bank information from internal or external attacks and threats
 <b>Data</b>	Provide a highly secure, stable and efficient platform to deliver consistent, accurate and integrated information.
 <b>Productivity and Social channels</b>	Secure seamless access to all services/channels to improve productivity, experience and interactions for clients and workforce







# The need for greater operational and financial efficiencies have driven the demand for automation in middle and back offices

Digital transformation has been a top enterprise priority to achieve cost savings and grow revenue, as well as create a better customer experience. To enable firms to achieve their goals, automation has been a key lever over the past decade and continues to grow as its capabilities mature over time.



## Why Automation?

Automation: The use of tools and technologies, including **macros/scripts**, **workflows**, **software robots**, and **artificial intelligence**, to perform a set of activities

### Free Up Capacity

Firms use automation to reallocate resources' time to high value activities

### Simplify Resourcing Model

Automation reduces the need for labor arbitrage and offshoring

### Increase Workforce Effectiveness

Automation increases productivity, flexibility, and quality of work

### Optimize Product Offerings

Automation combined with analytics enhances product/service offerings and increases revenue

### Improve Customer Experience

AI-powered automation observes and predicts customer behaviors

Professionalize the board.

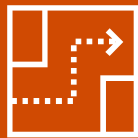
4



# Evolution of the family board

# 80%

say the directors are involved in developing the strategic growth plan



# 30%

Next generation sit on the board of directors

- New skill sets in demand for directors
- Rising private equity interest is one of the drivers
- Important to find the right mix - internal and external
- Majority independent board will require formal governance structures and processes to do their part well.



## Key takeaways:

1. Build a well-balanced board. Consider: Variety of skill sets, experience, and diversity.
2. Document board roles and responsibilities.
3. Consider a formal assessment process, driven by your future strategy and the skills you need to get there.
4. Integrating technological expertise can help guide digital development.
5. First move to add non-family members? Recruit at least 2 independent directors.





Effective and thorough succession planning is "the final test of greatness" for family businesses.

- "Family Business Succession", Dr. John Ward and Dr. Craig Aronoff

**Reality check:** Family businesses with a formal succession plan in place are in a decline (2017: 27%; 2019: 18%)

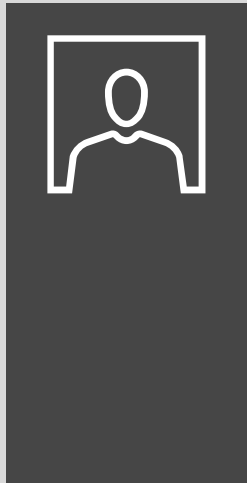
**What to do?** Leverage your board. One of the key roles of the board is to manage succession.

# Family enterprise governance



## The role of a family business board

- Separating the company's needs from the family's needs
- Help the CEO and management team look beyond tactical issues
- Accountability
- Planning/advising on CEO succession



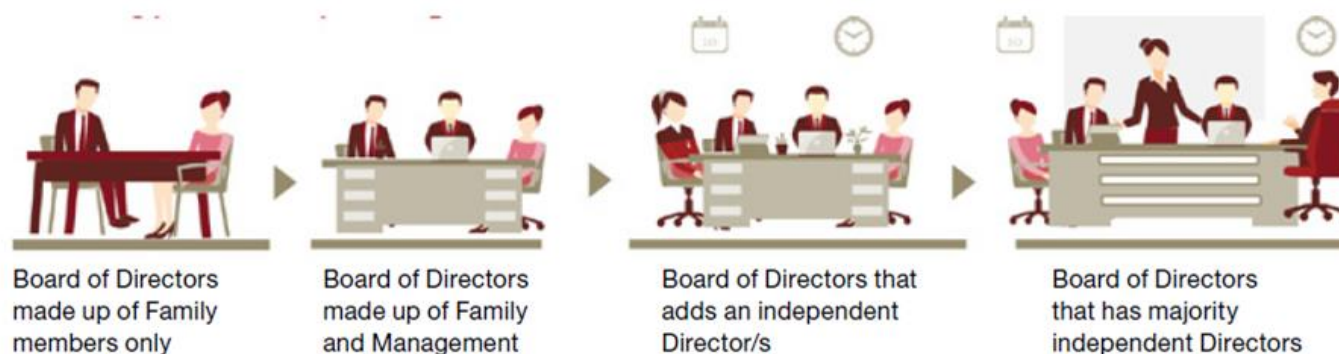
## Your family business is ready for a board of directors when you are

- Anticipating generational transition
- Experiencing significant growth
- Expanding into new business areas
- Facing competitive threats and disruption
- Changing or enhancing strategy
- Seeing value in maturing and professionalizing the board



# Finding the right mix for your board

Owner-centric



Distributed leadership and ownership

Companies are adding more expertise on the board to meet the needs of the family and the business.

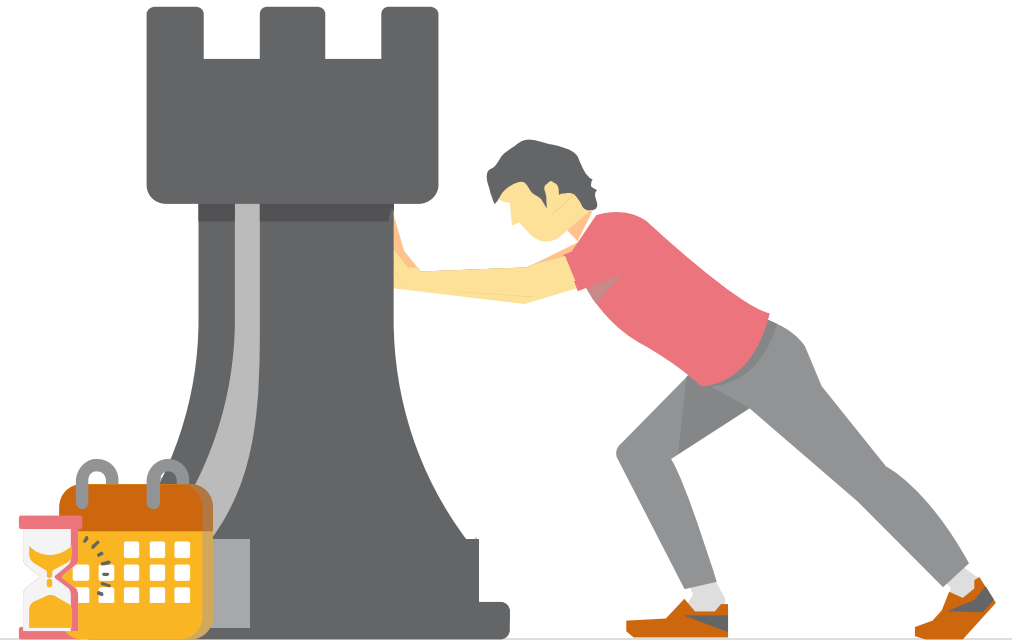
- Mix of internal and external directors tends to evolve based on owners' desire for a stronger board
- Board evolves from day-to-day operations to one of true oversight
- More formal governance structures and processes are expected

## Common factors:

- Generational transitions or bringing next gen into the business
- Significant growth
- Expansion into new business areas
- Competitive threats and disruption
- Changes or enhancements to the strategy

# The role of independent directors

- Bring fresh perspectives, skills or experience, networks that otherwise may be missing
- Ability to exercise independent judgement
- Better position to challenge ownership group in a positive way
- Introduce objectivity and shared accountability
- No fear or repercussion, so may feel freer to raise sensitive issues
- Ability to separate the company's needs from the family's needs
- Can serve as advisor to the CEO, helping to see beyond the tactical
- Can chair/staff board committees where independence is necessary





# Approach to assessing your board composition



**Objective:** Uncover the gaps in skills and knowledge needed on the board through a formal assessment process, driven by the company's future strategy.

## Key steps:

- Consider long term strategy and the skills/experience needed to meet those goals
- Identify ideal skills and expertise to provide insight to and effective oversight of the strategy; examples: IT, Cybersecurity, Risk Management
- Identify other desirable attributes, such as diversity – e.g., gender, ethnicity, age, thought
- Determine optimal board size – small enough for efficiency, large enough for committees
- Assess current board composition, including strengths and weaknesses, known transitions
- Compare optimal and current board composition to identify gaps, qualifications for new director(s)

**End result:** Description of the optimal board makeup and any gaps in the current board

# Approach to assessing your board composition

## Board composition grid

The chart below represents an example of a directors' survey on individual skills, experience and attributes. This information will help you to identify composition gaps, based on results from the collective whole.

### Interview insight

In building the board, it's best to start with what skills you need. Unfortunately, too many companies start with who they know.

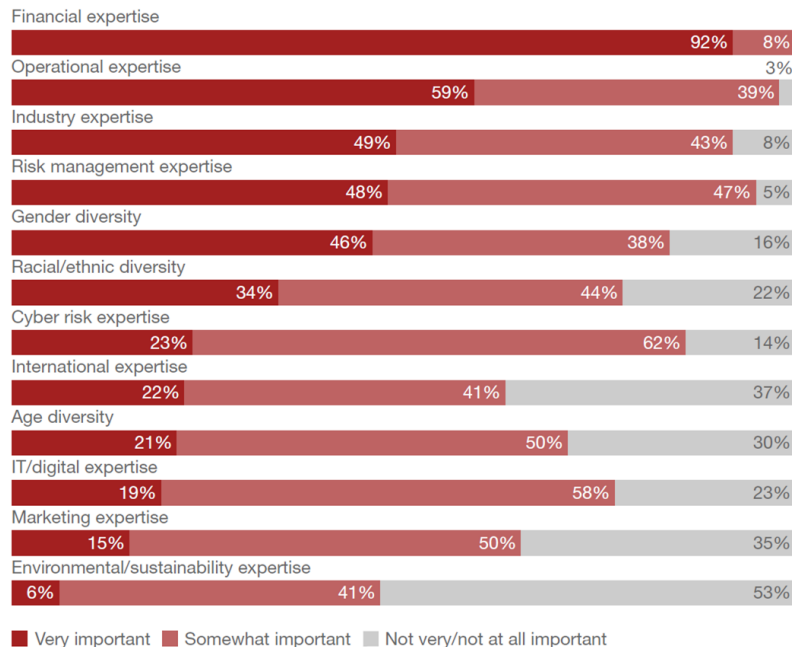
— A PwC Private Company Services partner

Needed skills, experience, and attributes	Director names										
	A	B	C	D	E	F	G	H	I	J	K
Financial literacy		X									
Financial expertise			X		X		X				
Industry expertise	X									X	
Operational experience		X		X	X	X	X	X	X		
Technology expertise											
Governmental/regulatory experience						X			X		
Marketing expertise			X					X			
Board experience				X					X		
Family business experience	X				X			X			
Family shareholder	X							X		X	X
Gender diversity		X								X	
Ethnic diversity				X		X					

# Approach to assessing your board composition

## New director attributes are in demand

- Financial, operational and industry expertise are still seen as the most important director attributes.
- However, there is rising interest for candidates with IT or cybersecurity experience, international expansion/operations, and risk management expertise
- Gender diversity also rated high - average 22% of people on board are women (2019 PwC Family Business Survey)



# Board effectiveness

## Consider your board committee structure



### Audit Committee



- Oversight of financial statements
- Oversight of financial reporting and related controls
- Ethics programs and enforcement
- Deterring fraud
- Oversight of financial risks
- Appointment, compensation and oversight of external auditors
- Oversight of internal audit



### Compensation Committee



- Establish CEO compensation
- Assess CEO performance
- Monitor CEO performance
- Provide ongoing constructive feedback to the CEO
- Approve the CEO's development plans
- Review compensation of other executive officers



### Nominating/Governance Committee



- All governance matters – e.g., Board and committee organization, director qualifications, etc.
- Director orientation
- Board assessment
- CEO/management succession planning
- Board succession planning
- Evaluate candidates for Board

# Board effectiveness

## Other practical considerations



### Agenda planning

#### Setting the course

- Annual agenda setting
- Pre-meeting agenda assessment
- Integration of agenda with charter



### Pre-read materials

#### Getting to the point

- Timing and nature of distribution to support decision-making
- Executive summaries and graphics
- Highlighting of changes and areas of focus



### Executive and private sessions

#### Enhancing communication

- Objectives and opportunities
- Time allotment
- Attendees

US Family Business  
Survey 2019

# Creating stronger foundations for the future

How US family businesses can  
sustain their trust premium through  
digital transformations



- The 9th Global Family Business Survey



- **4 Key focus areas and common themes:**
  - Values and purpose are the backbone of strategy
  - Ensure the next generation is deeply involved
  - Determine the skill sets needed for a more digital future
  - Professionalizing your board



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# Questions?



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