10th Family Business Survey — North American Report

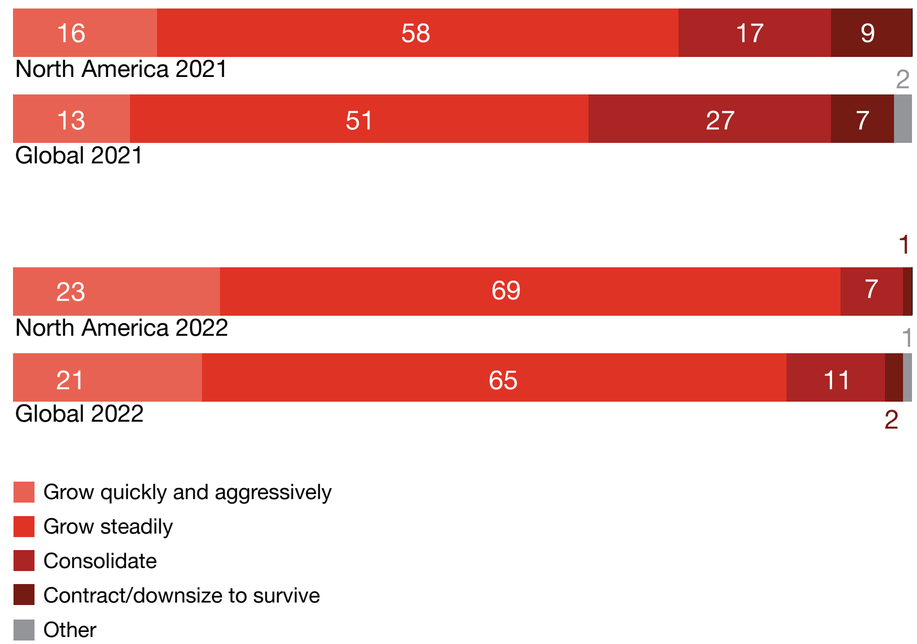
An approach for lasting family business success

pwc

[PwC's 10th Family Business Survey] examines the current thinking and future outlook of more than 230 family business leaders across Canada, Mexico and the United States. Referred to as the North American region in this report, it's part of a global survey of approximately 2,800 decision-makers in 87 territories. These businesses can no longer rely solely on their values and legacy to propel their organizations forward, according to our findings. Today's and tomorrow's family business leaders require a new approach to achieve lasting success — one based on accelerated digital transformation, prioritization of sustainability goals and professional family governance.

Following a year of economic upheaval and workplace disruption sparked by the COVID-19 pandemic, most family businesses in North America have set modest growth goals for 2021. More than half (58%) of the North American respondents to PwC's 2021 Family Business Survey are looking to grow steadily, while only 16% expect to grow quickly and aggressively. These decision-makers are feeling more ambitious about 2022, with 23% expecting rapid growth and 69% foreseeing steady growth.

Growth goals cautious for 2021, more ambitious for 2022



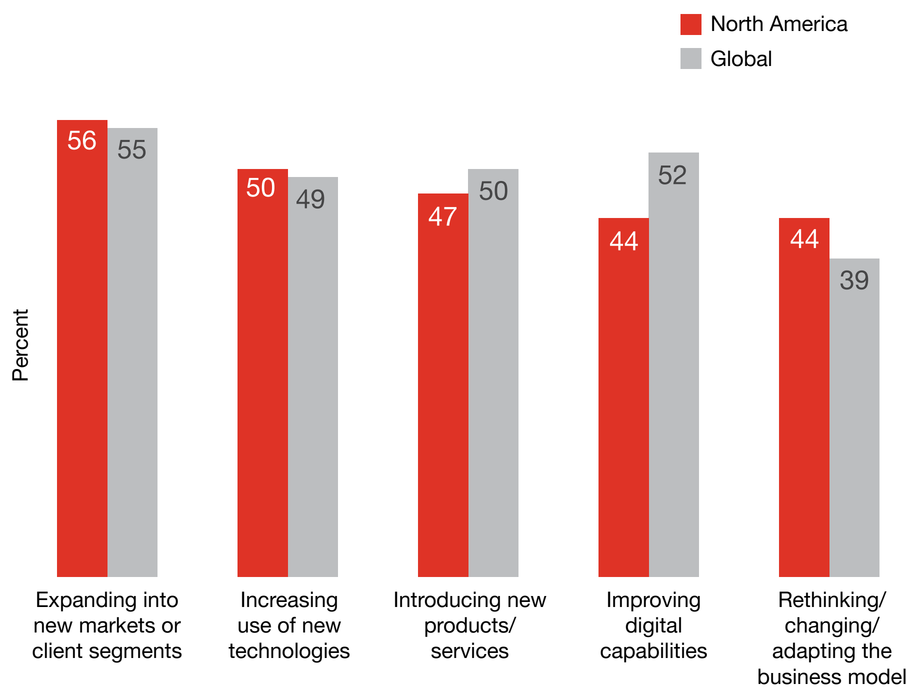
Q: Which of the following best describes your company's ambitions for 2021 and 2022?
Source: PwC 10th Family Business Survey, October-December 2020: base of 2,801 (North

North American family businesses saw reasonably strong performance over the last financial year (pre-COVID-19), with 60% experiencing growth and 17% reporting a sales reduction. The good news: Nearly three-quarters (74%) expect to see growth in 2021, and 92% anticipate the same in 2022.

Most North American respondents say they want to chart new directions. When asked to name their top priorities for the next two years, about half pointed to traditional priorities for the family business sector, including expansion into new markets or client segments (56%) or introducing new products or services (47%). But three of the top five priorities are focused on upskilling employees and enhancing technology deployments by increasing the use of new technology (50%), improving digital capabilities (44%) and revising the business model (44%).

While the long-term impact of COVID-19 on the way family businesses operate is yet to be determined, it's clear that the skills and technologies needed by those businesses will be different. Despite the pandemic, many family business leaders are already addressing those challenges by digitizing their companies and upskilling their employees. In fact, 76% of North American respondents listed digital, innovation and technology as a top five priority over the next two years.

Top priorities focus on digital, innovation and technology

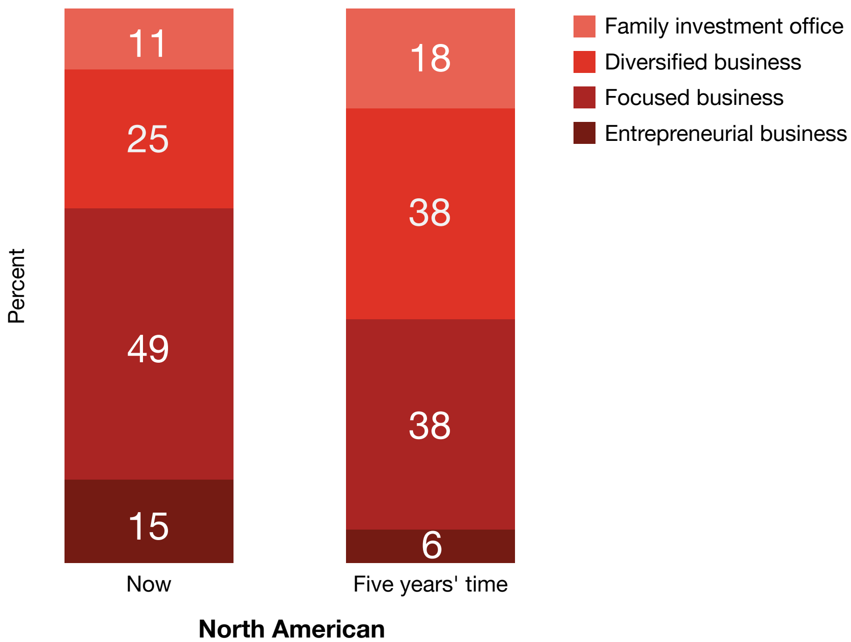


Q: Which, if any, of the following are the company's TOP FIVE priorities for the next two years?

Source: PwC 10th Family Business Survey, October-December 2020: base of 2,801 (North America, 236).

Most of the decision-makers surveyed say that diversification is the way forward. Currently, 25% of business structures are a diversified business, but North American respondents say they expect that segment to increase to 38% within five years. It's evidence that family business leaders believe diversification is a key to future success, and that the pandemic has driven increased urgency around diversification.

Family businesses aim to be more diversified in five years



Q: Where do you think your company will be in five years?

Source: PwC 10th Family Business Survey, October-December 2020: base of 2,801 (North America, 236).

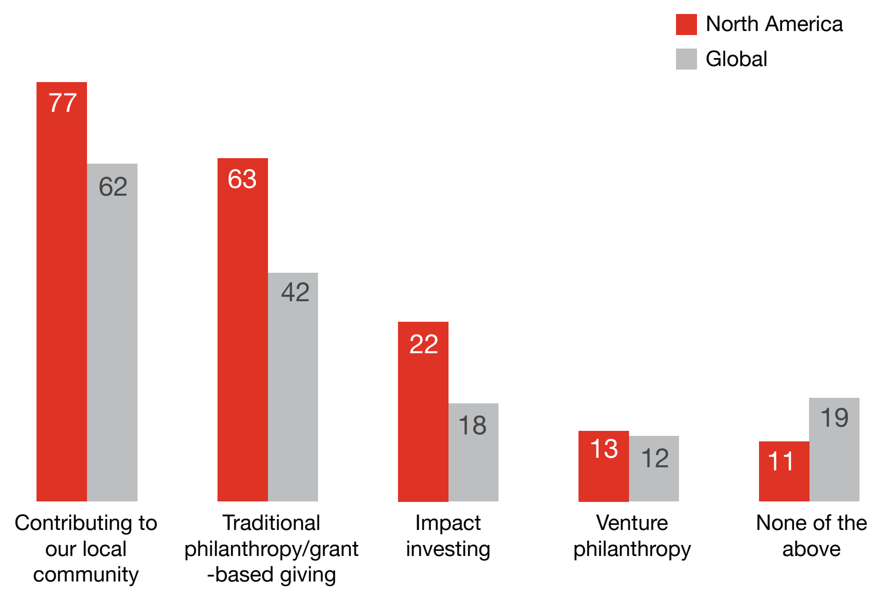
In addition to covering diversification, this year's report also takes a closer look at environmental, social and governance (ESG) issues and the future of work. That future includes an update on the evergreen issues for family businesses: succession, governance and next-gen planning.

Increasing the focus on ESG

Family businesses have focused on ESG for decades, even if they were called philanthropy or social responsibility. These companies are built on values and purpose and are centered on trust with their customers, community and stakeholders. Their message, on the whole: We prioritize community over profits.

The overwhelming majority of North American business leaders — 89% — told us they're engaged in some form of social responsibility activities, more than the global average of 80%. Seventy-seven percent contribute to their local community (62% globally), and 63% are involved in traditional philanthropy and grant-based giving (42% globally).

More than three-quarters contribute to their local communities



Q: Which, if any, of the following are the company's TOP FIVE priorities for the next two years?
Source: PwC 10th Family Business Survey, October-December 2020: base of 2,801 (North America, 236).

What's new? With the public's push for greater transparency, family businesses have an opportunity to be at the forefront in ESG areas. How are family businesses reporting these efforts externally? This may require companies to more effectively communicate and report their achievements — traditionally, an uncomfortable task for many family business leaders who prefer to keep their efforts private. Only 23% of the North American family business leaders surveyed said they've developed and communicated a sustainability strategy.

Nearly half (45%) of respondents said there's an opportunity for family businesses like theirs to lead the way in sustainable business practices, although only one-third believe they should fight climate change.

Closing the ESG gap and making greater strides in addressing concerns can be challenging. But there is great incentive to move forward with this. Many employees want to work for companies focused on making the world a better place, and companies that prioritize ESG can increase employee engagement. Customers also reward companies with strong ESG initiatives, and many are willing to pay more for products and services from companies that have strong ESG values.

Family businesses may already have a trust advantage in this arena, as they are trusted more than other types of businesses. Seventy-eight percent of the US respondents to the 2019 Edelman Trust Barometer said they trusted family businesses, while only 54% said they trusted business in general.

Predicting the future of work

For most, if not all businesses, the pandemic has been a game changer. Nearly all companies have examined their business and are seeking to reimagine everything from simple processes to the entire operating model. At a minimum, most are automating business processes, which requires them to upskill their workforce.

The extent to which organizations handle that successfully determines whether and how they'll move forward. Plus, employees are looking for a radical change: 77% of workers who responded to PwC's Hopes and fears 2021 global survey of 32,500 workers say they're ready to learn new skills or completely retrain. And 80% are confident they can adapt to any new technology entering their workplace.

The same skills issues are center stage for family businesses, and they're making strides in the right direction: More than three-quarters of North American family business leaders say they use technology to drive efficiency and collaboration in the business (78%) or to access relevant data for improved decision-making (76%), and 61% have invested in digital capabilities for employees. But only 42% describe their digital capabilities as strong, and just one-third have developed a clear and documented roadmap for digital transformation, an essential tool for achieving digital goals.

For family businesses, which traditionally are slow to change, attracting and retaining talent is becoming increasingly challenging. Workers, on the whole, are attracted to organizations that offer more digital skills, more inclusivity and more flexibility. For younger generations in particular, the employee experience is becoming as much of a priority as the pay.

Younger job seekers want to know how a potential employer will prepare them to make an impact on the business both right now and in the future. They're asking, what technologies will you provide to help me do my job effectively? How will you help me balance my life with my work? Family businesses that can't provide a path to digital upskilling risk losing out in the intense competition for talent.

To overcome that, many family businesses appear to be ready to adapt to the new technology landscape, and only 27% of respondents say their company is resistant to change. The way ahead is to build a compelling narrative. Let potential hires know that they have the opportunity to join a long-standing organization with high-minded core values, including loyalty to employees; that they can do great work for society as well as the firm; and that they will be given the chance to upskill and make themselves even more relevant in a competitive marketplace.

Creating governance policies

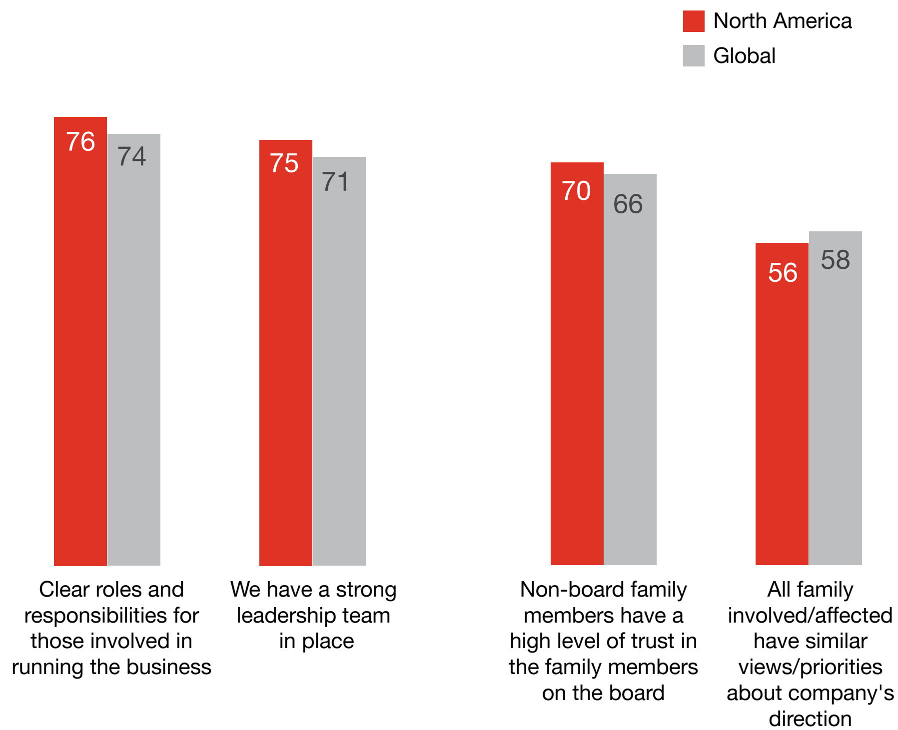
Most North American family business leaders have one or more key governance policies in place. More than two-thirds (69%) have testaments or wills, 64% have shareholders agreements detailing when and how shares can be sold, and 43% have policies outlining dividend allocation. Forty percent have a family employment policy that provides parameters for family members working in the business. It typically covers compensation, extent of or limitations on their roles, and the hiring process.

Many of these governance areas are included in a family constitution. Nearly one-third (31%) have an agreement in place, such as the robust document deployed by a fifth-generation global family business led in part by a family counsel that's separate from the company's board of directors.

Governance in family businesses typically evolves as a progression, generally starting with a founding parent and moving from controlling ownership to a sibling partnership and later to what might be called a cousin consortium. Transparency is essential to a smooth, productive governance in family businesses. If both family members and unrelated employees are clear on the rules of engagement, that eliminates a lot of stress. Ultimately, there will be much less conflict between the family side of the operation and the management team — a situation that otherwise could lead to an uncomfortable family conflict.

The good news here: Three-quarters or more of the survey respondents believe that their leaders have clear roles and responsibilities (78%) and/or have a strong leadership team in place (75%). But there's room for improvement. Despite efforts and strides made when it comes to trust and transparency — 70% of non-board family members report a high level of trust in the family members on the board — only 56% of family members engaged in the business say they are on the same page about the direction of the company.

The majority have a clear sense of company and/or family values



Q: How strongly do you agree or disagree with the following:

Source: PwC 10th Family Business Survey, October-December 2020: base of 2,801 (North America, 236).

Planning for continuity

Every business should have a near-term business continuity plan and a long-term succession plan. The COVID-19 crisis brought greater urgency to these priorities, highlighting the sobering reality that circumstances can change in an instant and in ways that are beyond anyone's control.

Despite that, only one-third of North American family business leaders say they have a robust, documented and communicated succession plan in place. Ideally, a succession plan is a living, breathing plan that evolves and adapts as the business matures, yet only 9% of family businesses in North America say they revised their plan in response to the pandemic.

Events of the past year have brought to the forefront a variety of challenges and opportunities that many family businesses hadn't focused on previously. For example, many of these businesses are paying more attention to succession and, in some cases, they're codifying and communicating their plans. But for many others, there's still a long way to go. While most family business leaders probably have at least an informal succession plan in place, only a minority have fully embraced the need to not only have a plan but to document it and effectively communicate it to all essential parties.

Given the velocity of internal and external changes that family businesses are facing now — or will be in the near future — those that have not yet begun planning for succession could be vulnerable to significant risks. The sudden departure of a leader, whether due to death or unexpected retirement, could result in fractured family relationships and a successor who doesn't have the capability or

credibility to lead, potentially weakening the company's ability to move forward. Also, external stakeholders — customers, vendors, investors and financiers — could be reluctant to work with an organization that isn't governed by a good succession plan.

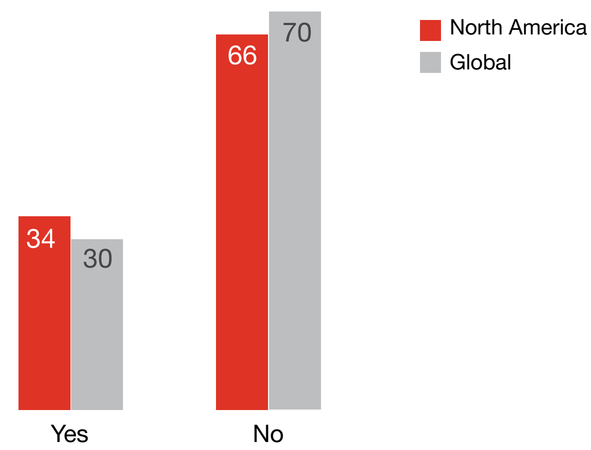
Why aren't some family businesses farther along in their plan to put new leadership in charge? For one thing, some have been so focused on shifting their day-to-day business operations as a result of COVID-19 — addressing remote work and employee safety, along with pandemic-related issues around the supply chain and customers — that they haven't set aside time to address long-term succession planning.

There's also the long-established reason for resisting succession planning. Many founders and controlling owners find it difficult to envision a time when they won't control the business, and it's hard for them to think about ceding responsibility or control to others.

In other situations, it can be challenging to determine who is willing, ready and capable of leading a family business, so the transition can be daunting. Some family members find it easier to take the path of near-term avoidance, even if it leads to long-term struggles.

There can also be issues involving levels of authority. While the younger generation in many family businesses may be pushing for a change and a path to power, they're often in a subordinate situation, so it may not be easy for them to initiate succession discussions, particularly when they might not have a say in the outcome.

North American family businesses are slightly more likely than global family businesses to have a documented succession plan



Q: Does your company have a robust, documented and communicated succession plan in place?

Source: PwC 10th Family Business Survey, October-December 2020: base of 2,801 (North America, 236).

Clearly, many businesses need to resolve generational issues by having honest, in-depth discussions among all family members. This may be uncomfortable for some, but it's essential to resolve these issues if the firm is to avoid conflicts and continue to thrive.

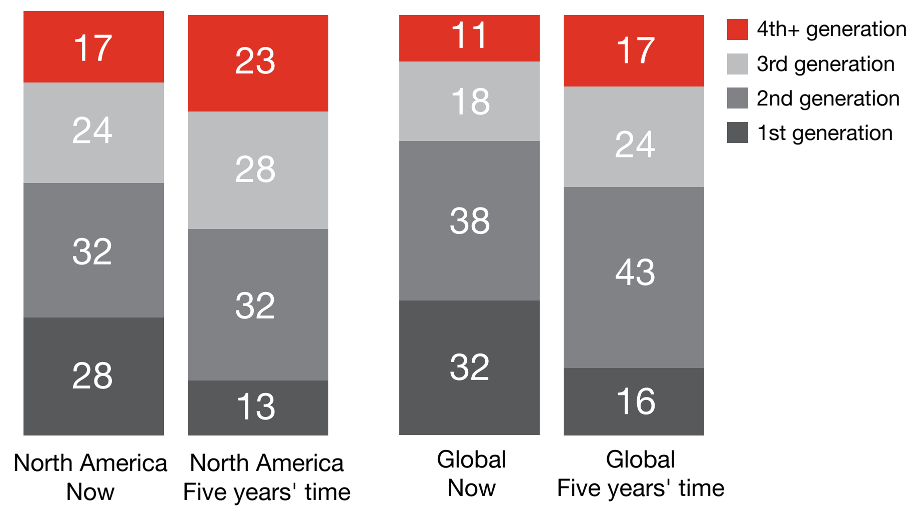
Planning for next-gen leadership

The skills and new ways of thinking needed to help family businesses be successful vary significantly from the capabilities and ideas that were essential during the birth and initial development of these organizations. It will take leaders with a unique set of skills — upholding reliable tried-and-true ideals while generating new ideas — to maneuver through the varied crises of the post-pandemic period and beyond, and to ensure that family businesses not only survive, but thrive for future generations.

However, the desire for a changing of the guard is becoming evident. Thirty-nine percent of North American family business leaders told us they want to see the next generation increase involvement in decision-making and management (globally, only 24% of family businesses are focused on next-gen involvement). Most first-generation North American family business leaders expect next-gen family members will become majority shareholders within five years and more than half (54%) expect to be family controlled or family owned within five years.

Putting those expectations into practice, 67% of North American family businesses already have next-gen family members working in the business, but this drops to 35% in Mexico.

Most first generation North American family businesses expect that the next generation will become the majority shareholders in five years



Q: Please plot where you think your company CURRENTLY lies on the model below?

Q: And where on the model do you think your company will be IN FIVE YEARS' TIME?

Source: PwC 10th Family Business Survey, October-December 2020: base of 2,801 (236, North America).

In some cases, family member owners may be considering retirement but are unwilling to hand over responsibility to the next generation. There's anecdotal evidence that some leaders had begun the process of transition when COVID-19 shutdowns went into effect, putting those plans on hold. That created frustration for younger family members who had been preparing to step into leadership roles.

But most family business leaders seem to be expecting the next generation to take charge within five years, so there's a need for well-developed professionals who are ready to lead. Family businesses should focus on that goal now so they will be deep into preparations for the changeovers.

Conclusion

Family business leaders who want to ensure their legacy for future generations should make plans and take steps to act on those plans now. Those plans should involve ongoing dialogues among family members and company leaders that encompass the keys to a successful future: digitization, diversification, upskilling, ESG initiatives and family succession plans.

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