Barclays Wealth Insights

Volume 8: Family Business: In Safe Hands?

In co-operation with the Economist Intelligence Unit

BARCLAYS WEALTH

About Barclays Wealth

Barclays Wealth, the UK's leading wealth manager with total client assets of £145 billion globally (as of 31 December 2008), serves affluent, high net worth and intermediary clients worldwide. It provides private banking, fiduciary services, investment management and brokerage. Thomas L. Kalaris, the Chief Executive of Barclays Wealth, joined the business at the start of 2006.

Barclays Wealth is part of the Barclays Group, a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services with an extensive international presence in Europe, the USA, Africa and Asia. It is one of the largest financial services companies in the world by market capitalisation. With over 300 years of history and expertise in banking, Barclays operates in over 50 countries and employs over 134,000 people. Barclays moves, lends, invests and protects money for over 27 million customers and clients worldwide.

For further information about Barclays Wealth, please visit our website www.barclayswealth.com.

About this report

Written by the Economist Intelligence Unit on behalf of Barclays Wealth, this eighth volume of Barclays Wealth Insights examines the characteristics and motivations of family businesses, with particular emphasis on today's challenging economic environment.

It is based on two main strands of research. First, the Economist Intelligence Unit conducted a survey of 2,300 affluent and wealthy investors with investable assets ranging from £500,000 to in excess of £30 million. Among these 2,300 respondents, almost 300 were family members within a family business. Those respondents that represent a family business were spread across a wide variety of sectors, including retail, construction, financial services, agriculture, energy and utilities, and IT and telecoms. Almost one quarter have liquid assets in excess of £10m. Family business respondents were distributed internationally, with around 80% in Europe and Asia-Pacific, and the remainder in North America, and Middle East and Africa.

This was supplemented with a series of in-depth interviews with experts on family business. Our thanks are due to the survey respondents and interviewees for their time and insight.

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Foreword

At Barclays Wealth, we are dedicated to providing our clients with the means to manage their wealth successfully. For this reason, we are committed to investing in research to better understand the value of wealth and its importance in the future.

In partnership with the Economist Intelligence Unit, we have developed the eighth volume of Barclays Wealth Insights, a series of research reports which aim to provide a definitive picture of what being wealthy means in the 21st century.

In this report "Family Business: In Safe Hands?", we examine the structure, motivations and characteristics of family businesses around the world, within the context of a challenging economic environment.

Family businesses have long played an important role in economies around the world and this remains the case today. This report explores what makes family businesses different and looks at what the wider business environment can learn from the unique set of values and approaches often adopted by them.

As well as consulting with 2,300 wealthy individuals globally, including almost 300 family businesses, the Economist Intelligence Unit worked with a panel of experts drawn from academia, industry and financial circles, to provide additional insights and perspectives.

I hope you find this report an informative and entertaining read.

Thomas L. Kalaris
Chief Executive
Barclays Wealth

Our Insights Panel

Fergal Byrne, Report Author

Etienne Eichenberger, Founder of Wise, a philanthropy advisory service

Emmanuel Fievet, Head of International Private Banking at Barclays Wealth

Grant Gordon, Director General of the Institute of Family Business in the UK

Hakan Hillerström, A Family Business Consultant based in Switzerland

Andrew Keyt, Executive Director of the Loyola University Chicago Family Business Center

Mark Kibblewhite, Managing Director of Barclays Wealth

Danny Miller, Director of the Centre for Research in Family Enterprise at HEC Montreal Business School

Amin Nasser, who runs the Family Business Practice in the Middle East for PricewaterhouseCoopers

Ghassan Nuqul, Vice-Chairman, Nuqul Group

Jonathan Warburton, Chairman of Warburtons

Sir Ian Wood, Chairman of the Wood Group

Introduction

Family businesses are the backbone of the global economy. According to some estimates, family-owned companies account for between 70 per cent and 90 per cent of global GDP. As well as being the world's most prevalent organisational form, the family business is also among the most enduring – Houshi Onsen, a hotel and spa business based in Japan, was founded in 718 and is currently in its 46th generation of management.

Yet despite centuries of success for this most durable of models, there remains a common perception that family businesses are dysfunctional organisations that are plagued with nepotism, family conflict and drama. Even in the sophisticated business press, the family business model is often characterised as outmoded and problematic, and commentators tend to focus on the difficulties of the model, rather than its successes and advantages.

While there is no doubt that family businesses face particular challenges – governance and succession issues, to name just two – they also have unique strengths. They will often have a long-term perspective, stable leadership and a strong identity drawn from the shared objectives of family members. Taken together, these factors can give the family business a strong advantage over many listed companies.

In the wake of the worst financial crisis for decades, and with developed countries around the world falling into recession, these relative strengths of the family business model versus other ownership structures take on a particular relevance. As the share prices of listed companies continue to endure substantial volatility, as credit slows to a trickle and as highly leveraged companies struggle to rebuild their balance sheets, could the family business sector offer a rare bright spot in an otherwise unsettled outlook?

Based on a global survey of high-net worth individuals, including almost 300 family business owners, the eighth instalment of Barclays Wealth Insights provides fresh analysis into the state of family businesses around the world today. The report will assess the current situation and prospects of family businesses, and examine in detail their unique characteristics, advantages and disadvantages, with particular reference to today's challenging economic, financial and operating environment.

Executive summary

Family businesses possess certain attributes that could mean they are well positioned to survive and even thrive in a downturn. Respondents to our survey who represent family businesses perceive a long-term perspective to be among the most important advantages of the family business model. They also exhibit greater risk aversion and are less motivated by money than other wealthy individuals in the survey. In combination, these traits can lead to a conservative financial and business strategy which, while it is rarely favoured during boom years, comes into its own when the economy enters a downturn. A methodical and careful approach, it seems, can lead to sustainable success.

Philanthropy and a close relationship with society are key motivations for the family business. Family business members are far more likely than other wealthy individuals in the survey to consider the ability to help others and increase their social status as key motivations to amass and protect their wealth. More than half see the ability to help others through their wealth as important, compared with 39 per cent of other survey respondents, and there is a similar difference in opinion regarding the ability to increase social status. These findings reflect the widely held view that family businesses often have a strong relationship with the community and have broader motivations when starting their business than merely making money.

Family relationships are a double-edged sword for the family business. The key advantages of the family business model, according to survey respondents, are the strong network of family relationships and clear and shared objectives among family members. These are indeed important benefits, as they enable the business to forge a strong identity and common purpose. Yet the closeness of family relationships can also lead to disaster, as respondents themselves admit when they point to conflict between family members, and the difficulty separating home and work life as being the biggest disadvantages of the family business model.

Experts questioned for this research suggest that external management can be a powerful tool to offset governance weaknesses. Strong governance is the bedrock of any business, yet all too often, there is a tendency among family businesses to be complacent about this vital capability. Less than one in five survey respondents from family businesses consider a strong governance structure to be an important characteristic of success for their business. They also tend to think that the family business model compares favourably with other types of business when it comes to governance, whereas non-family business respondents largely disagree with this statement. Experts questioned for our research point to the importance of bringing external management rigour into the business to offset some of the governance problems associated with family businesses.

Planning for the next generation is an essential component of success. Survey respondents identify succession planning as the most important characteristic of a successful family business. Yet all too often, plans for the transition of the business to the next generation are not made early enough. A related risk is that family businesses can be prone to nepotism – indeed, survey respondents see this as the third most important disadvantage of the model. As well as representing poor governance, a nepotistic approach to succession can lead to deficiencies in corporate performance and lead to lower retention rates for talented non-family employees.

The family business in a downturn

The global business community has rarely faced a more challenging outlook. A financial crisis that had its origins in sub-prime loans in the US has spread to infect not just the financial services sector, but the real economy as well.

Despite unprecedented interventions from governments and central banks around the world, credit remains scarce and expensive, even for the most highly-rated companies. Major economies, including the US, UK, Eurozone and Japan have all fallen into recession, and confidence among both businesses and consumers has slumped. Many companies have shelved investment plans, and job losses are expected to mount throughout the rest of 2009. Even the economic juggernaut of China has slowed, ending suggestions that leading developing economies would somehow 'de-couple' from the slowdown in the west.

Against this highly challenging backdrop, companies around the world undoubtedly face a difficult future, and family businesses are no exception. In order to survive, they must rein in costs, scrutinise investments carefully, put in place the right management team, and ensure that their products or services meet the changing needs of today's customer base.

Yet compared with listed companies, unquoted businesses that remain in family ownership may have certain attributes that can prove advantageous in today's challenging environment. While there is no panacaea for coping with a downturn, the organisational structure, values and outlook of the family business can often provide a strong foundation for coping with difficult economic conditions.

There are numerous reasons why family businesses may be well placed to survive in a downturn. First, they have a long-term perspective and are not subject to the short-term demands of external investors in the way that listed businesses are. Second, they tend to be financially conservative, and do not employ leverage to the same extent as many other companies. Third, they have close alignment between ownership and control, which helps to prevent the 'principal agent' problem, whereby a separation of ownership and control (as is seen in listed companies) can lead to managers pursuing opportunities that are not in the interests of the company and its shareholders. Fourth, they have a close network of family members who control the business, which helps with quick decision-making and maintaining an agile approach to strategy. And finally, they will typically have long-term, steady leadership, which means that management will often have been at the helm during previous downturns.

Indeed, there may be opportunities during a downturn that family businesses will be better positioned to exploit than listed companies. “In 2009 and 2010, there will be some significant opportunities for family businesses,” says Mark Kibblewhite, Managing Director of Barclays Wealth. “They are not as highly geared, many are cash rich, they can be light on their feet and the chain of command is more straightforward than for a larger, listed company.”

A long-term perspective pays dividends

The most commonly cited advantage of the family business model is its long-term perspective. Without a stock market listing, private family businesses are insulated from the need to respond to the short-term demands of investors. They can adopt a more long-term, so-called ‘patient capital’ approach that could mean that they are better placed to ride out volatility than their listed peers.

“A well-structured family business that has clear objectives can have a significantly longer timeframe than other types of organisation,” says Mr Kibblewhite. “This allows them to exploit opportunities that others cannot because they do not need to achieve such a quick payback. They are not under pressure to hit certain benchmarks and have the advantage of being able to anticipate longer-term trends.”

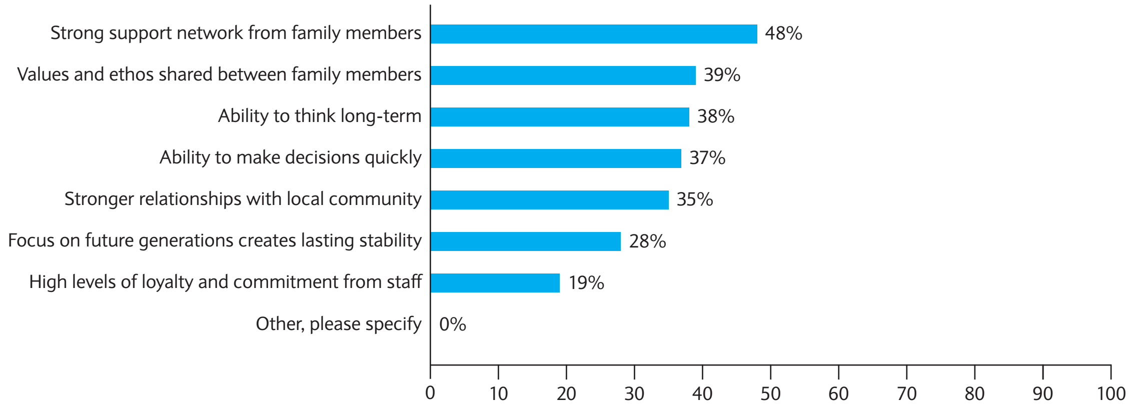
Danny Miller, Director of the Centre for Research in Family Enterprise at HEC Montreal Business School, agrees that there is less pressure on family businesses to generate a quick return. “They have fewer impatient shareholders breathing down their neck, or short-term hedge fund investors, so they can make longer-term investment decisions and focus on things that do not pay off immediately.”

Emmanuel Fievet, Head of International Private Banking at Barclays Wealth, agrees that a long-term perspective flourishes in the absence of external pressure, but counsels that demands from investors are not necessarily a bad thing. “Certainly in a family business, the management can have more time to see the results of their action and there is less external pressure on them,” he says. “But I would add that external pressure is not always negative – sometimes it forces companies to do the right thing sooner rather than later, so it’s not black and white.”

According to the respondents to a major survey conducted by the Economist Intelligence Unit on behalf of Barclays Wealth, the ability to think long-term is perceived to be among the most important advantages of the family business model. Only the strong support network among family members and their shared values and ethos are seen as more important – and indeed, these factors may help to reinforce the long-term perspective of the family business.

Which of the following do you think are the most important advantages of the family business model? (Family business members only)

Graph 1



The ability to compete

Andrew Keyt, Executive Director of the Loyola University Chicago Family Business Center, points out that the family shareholding structure facilitates longer-term thinking. “When you have a smaller group of shareholders with more in common than just a financial investment perspective, it becomes easier to take a longer-term view,” he says. “All the research shows that family firms are much more committed to the longer-term and not driven to maximise returns from one quarter to the next.”

A long-term perspective means that family businesses can exercise prudence during both upswings and downswings in the economy. They are less likely than listed companies to pursue adventurous growth strategies to satisfy short-term investors during a boom and some academics have argued that they are more likely to invest through a downturn, giving them a sustainable advantage over companies for whom there are wider swings in performance and investment.

Family business owners’ ability to take a longer-term perspective may be tempered in the US by a general cultural bias towards a shorter-term decision-making focus. “There are always exceptions, but it’s fair to say in general that family businesses in Europe tend probably to take a longer-term perspective than in the US,” says Hakan Hillerström, a Family Business Consultant based in Switzerland. “In general, the business culture in the US is more short-term. Everything is shorter-term. When you are talking about long-term to an investment banker it may be a year or two, when I speak to families we are talking about a couple of generations. When we look at succession, we look 50 years ahead. It’s a totally different perspective.”

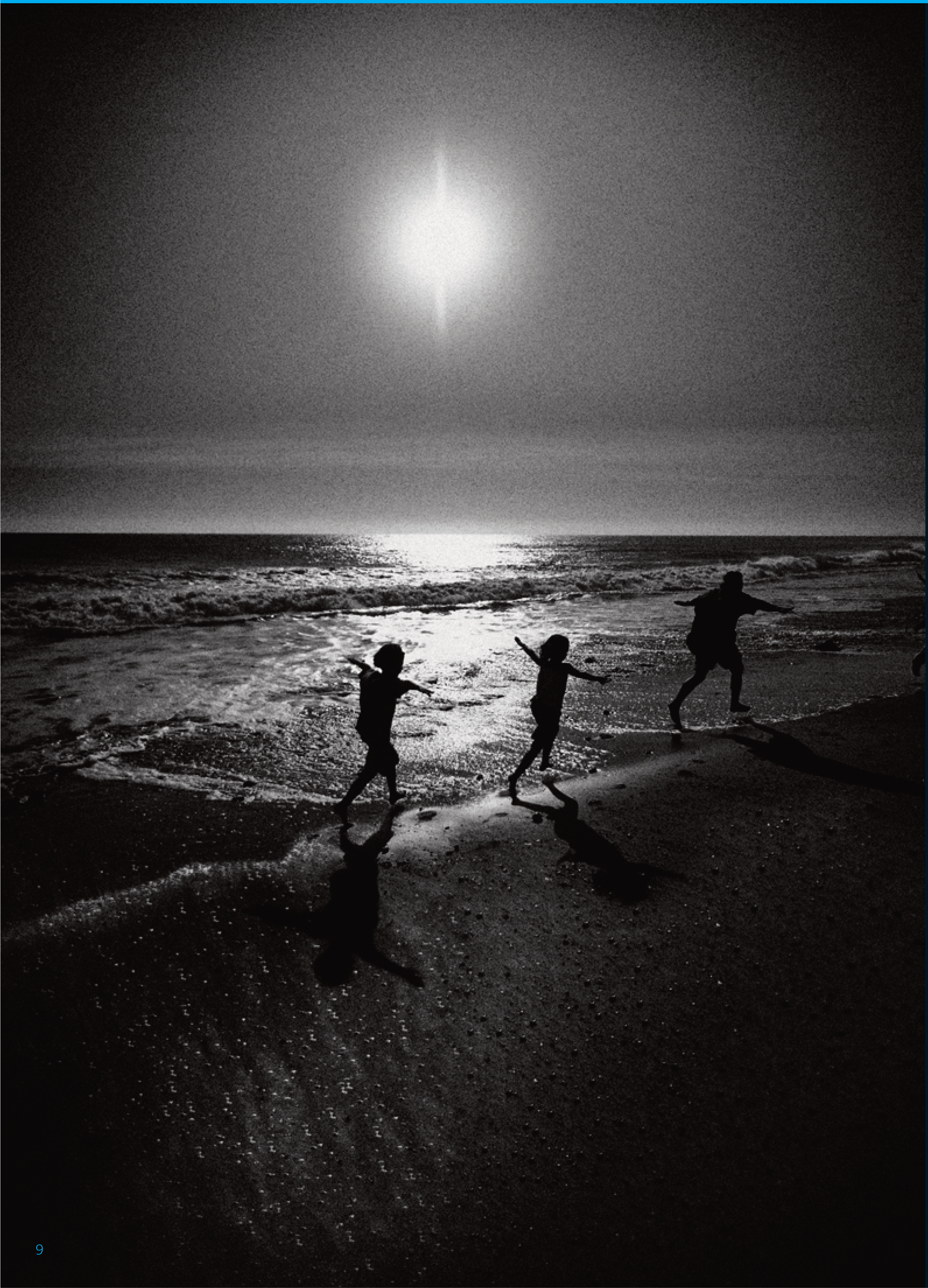
The survey reveals that family business members who represent service-based companies (such as financial services, media and professional services firms), and those who represent industrial or manufacturing companies (such as chemicals, automotive or natural resources firms) tend to have different perceptions when it comes to time horizons. In general, respondents from service industries are more likely to view the ability to think long-term as an advantage of the family business model. This is likely to reflect the differing time horizons of services and industrial companies. While service companies may in general have a time horizon that spans one or two years, industrial companies must take a longer view because of their greater requirement for capital expenditure and fixed investment. So for service companies, the ability to look beyond their traditional time horizon is naturally a greater advantage.

An important underlying reason why family businesses pursue a longer-term time horizon is to do with their motivations. For many family business owners, the goal is not simply to make as much money as possible, and this deters them from seizing the short-term opportunities that may be more widely adopted by listed companies.

“Most family businesses tend to have a wider range of values besides pure financial values,” says Grant Gordon, Director General of the Institute of Family Business in the UK. “The family business means a lot to them. Their name is on the door, they have a reputation and standing in their community. So it’s rarely just about making money. They tend to care about the longer-term standing of the brand and business, and about their legacy. Families want to pass on a business to the next generation that is stronger and more likely to succeed.”

The notion that family business members run companies for many more reasons than just to make money is a strong theme that runs through the survey. Asked about their motivations for creating and protecting their wealth, family business members were less likely than non-family business members to cite the enjoyment of making money as being important.

When we split the data by region, we find that family business members from Asia are especially unlikely to cite the enjoyment of making money as an important motivation. Just 30 per cent said that it was important, compared with 43 per cent from Europe and 48 per cent from North America (although it should be pointed out that the pool of family business respondents from North America was fairly small at 30 individuals). This finding no doubt reflects the very strong family structure that characterises many Asian societies, which means that the family business is viewed as an asset to be passed down the generations, rather than simply as a source of personal wealth.

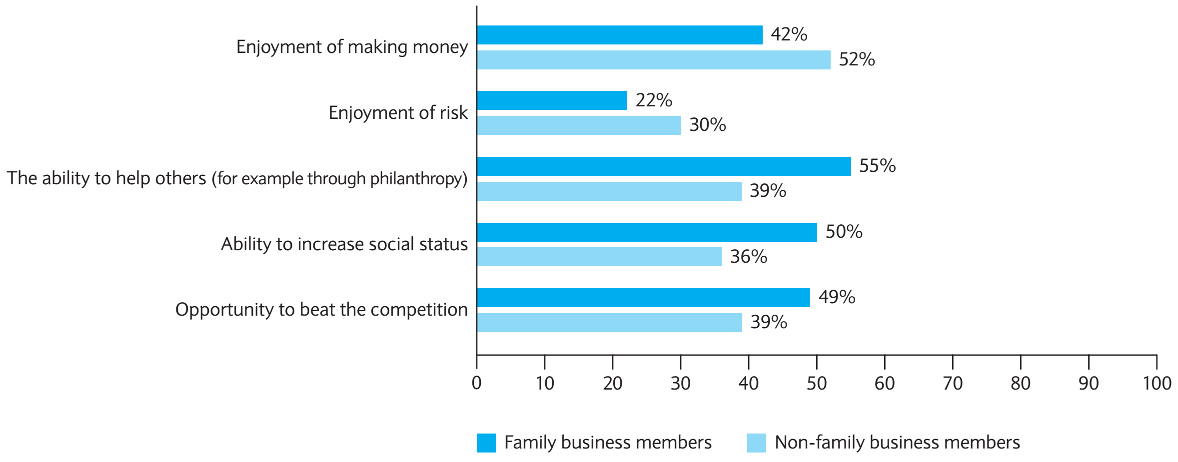


"With most family businesses, risk is taken at the business level, and the wealth creation strategy is often the business, less the family's financial assets."

Mr Fievet, Barclays Wealth

When creating and protecting your wealth, how important are the following motivations? (per cent who describe as important or very important)

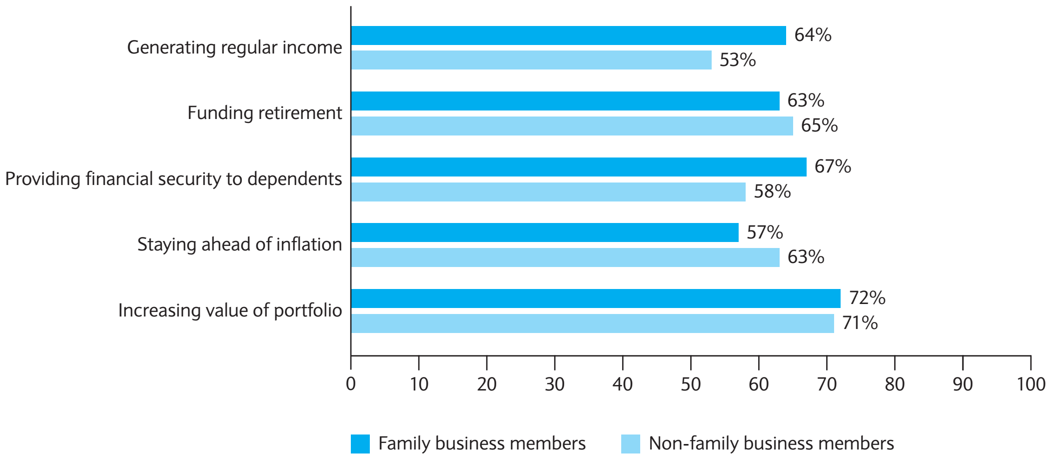
Graph 2



Financial security for dependents also proves to be a vital consideration for family business members, which encourages a time horizon measured over decades rather than years. According to the survey, 67 per cent of respondents consider financial security for dependents as an important objective for wealth creation and protection, compared with 58 per cent of non-family business members. "Family business owners tend to be very paternalistic," says Mr Keyt. "They see their businesses as an extension of themselves and having their children involved heightens their sense that taking care of the business is also taking care of their family."

When creating and protecting your wealth, how important are the following motivations? (per cent who describe as important or very important)

Graph 3



Steady leadership and the stewardship of family members also help to foster a long-term perspective. While a listed company may see chief executives come and go every few years, the management team of a family business is likely to be there for an entire generation. "There is a higher emotional value to the family business and the family is more dedicated to the longevity and survival of the company," says Mr Keyt. "Family businesses tend to have a more consistent value set in the way that they run their business."

A recognition that long-term stability is an important quality for the successful family business means that, in general, family business members are less tolerant of risk than other executives: only 22 per cent of family business members consider enjoyment of risk as an important motivation for creating wealth compared with 30 per cent of the non-family business members.

> "With most family businesses, risk is taken at the business level, and the wealth creation strategy is often the business, less the family's financial assets."

Mr Fievet of Barclays Wealth emphasises the distinction between assets of the business and personal wealth in terms of risk appetite. "With most family businesses, risk is taken at the business level, and the wealth creation strategy is often the business, less the family's financial assets."

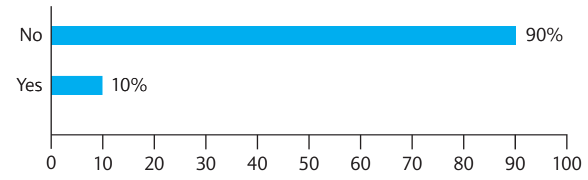
This combination of relative risk aversion, along with a recognition that money is not the predominant motivation, may be one reason why family businesses, in general, do not apply leverage to the same extent seen in listed companies. Another, of course, is that they do not suffer the pressure from activist investors to gear up their balance sheets. "There is evidence that large family firms are less leveraged than public companies," says Mr Gordon. "Family businesses tend to very cautious when it comes to their balance sheets."

Further evidence of a long-term perspective among family businesses comes from a survey finding that illustrates their relatively low willingness to sell the business. According to the research, just 10 per cent of family business owners say that they have or would consider selling their business, compared with 22 per cent of other business owners in the survey. Although an exit, such as initial public offering, is a goal for some family businesses, the vast majority, it seems, prefer to remain in family ownership.

Family business members in Asia-Pacific were least likely to have sold or sell – just four per cent said that they had done so or were planning such a move, compared with 13 per cent in Europe. Again, this reflects the very strong family values in many Asian societies, which see the business as an asset to be passed down the generations, rather than as one that can be sold to make a return. It might also reflect the relatively earlier stage of capital markets in the region, which mean that there are fewer opportunities for exit.

Have you previously sold/ are you considering selling a business? (Family business members only)

Graph 4



The ability to compete

This broader set of motivations and values that are held by family businesses should not be interpreted as reflecting a lack of entrepreneurial zeal or competitiveness. Indeed, compared with non-family businesses in the survey, family business members are more likely to consider the opportunity to beat the opposition as an important motivation to amass and protect their wealth.

They are also fairly confident about their ability to compete with listed companies. Almost four in 10 family business respondents believe that they are successful in their ability to compete with listed multinationals. There is however, a difference between service-based companies and industrial or manufacturing businesses. Among the family business respondents, those from service companies believe that they are much better placed to compete than those from manufacturing or industrial companies. This is likely to reflect the much greater fixed investment and capital expenditure required by manufacturing and industrial companies, which may be easier to implement with the assistance of investment from public markets.

The Patient Capitalists

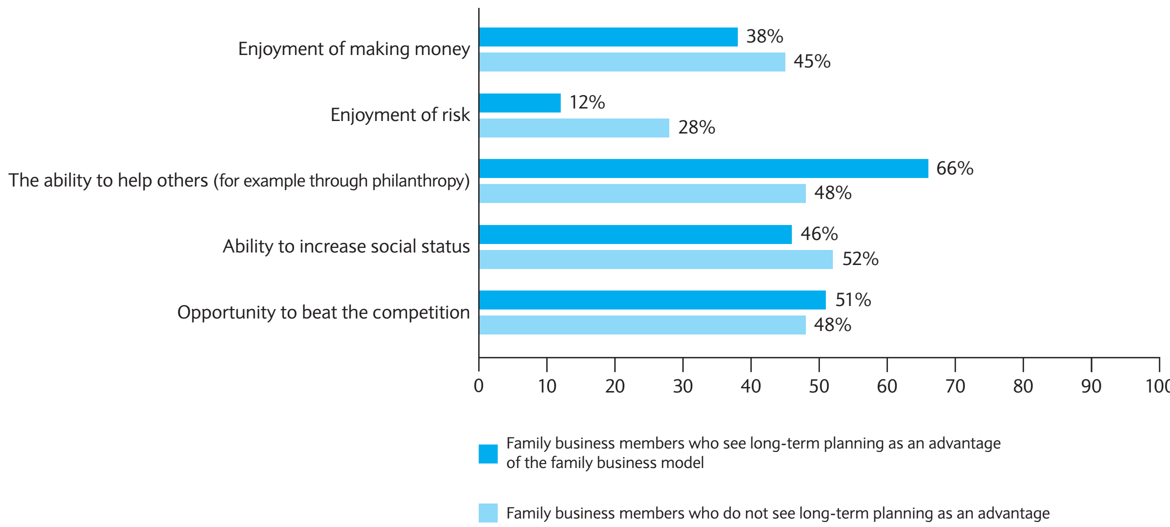
Not all family businesses in the survey saw the ability to think long-term as an important advantage of this form of organisational model, and the differences between the group that does recognise this advantage and the group that does not is especially revealing. When asked about their motivations to amass and protect their wealth, those respondents who believe that the ability to think long-term is an important advantage (let us call them the patient capitalists) were less likely than other family business members to consider the enjoyment of making money or the enjoyment of risk to be an important motivation for them to amass and protect their wealth. And they were more likely to see the ability to help others as an important motivation.

When asked about their objective for creating and protecting their wealth, long-term goals, such as providing financial security for dependents, and funding retirement, are seen as more important to this group than to the other family business respondents. And crucially, when asked how the family business model compares with listed companies across a number of criteria, patient capitalists are more likely to report better relative performance of the family business than those outside that group.

The long-term thinking exercised by the patient capitalists does have its downside, however. Asked about the disadvantages of the family business model, patient capitalists were significantly more likely than other family business members to see the potential for conflict between family members as a key area of concern. This may stem from differences in opinion regarding the strategic direction of the business – for example, some family members may favour greater risk-taking or be frustrated by what they perceive as the business's failure to pursue short-term opportunities.

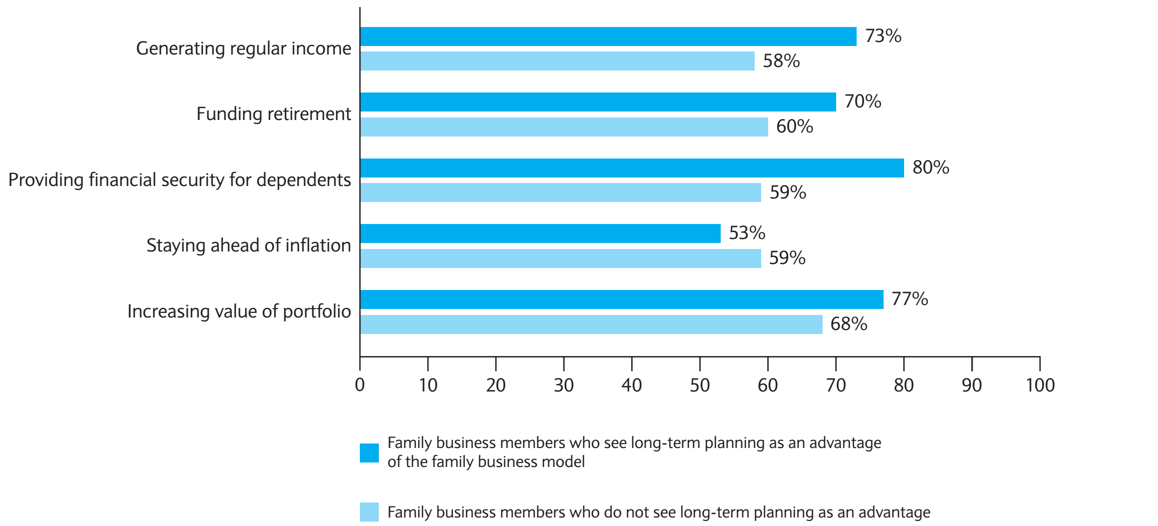
When creating and protecting your wealth, how important are the following motivations? (per cent who saw as important or very important)

Graph 5



When creating and protecting your wealth, how important are the following objectives? (per cent who saw as important or very important)

Graph 6



Does a long-term focus equal outperformance?

We have seen that unquoted family businesses possess a number of attributes that may give them an advantage over listed companies at certain points in the business cycle. But a key question is whether these perceived advantages translate into stronger performance – especially during a downturn.

Numerous academic studies have been conducted into the performance of family businesses versus other types of company, and a wide range of conclusions have been reached. Indeed, studies can be cited that suggest positive, negative and indifferent associations between family-owned businesses and superior performance.

For example, a study in 1994 by the accountancy firm Binder Hamlyn of 667 private companies in the UK found that non-family businesses outperformed family businesses in terms of growth in sales revenues and productivity. Yet more recent studies, such as those by Westhead and Howorth, and Castillo and Wakefield, both from 2006, found no correlations between family ownership and performance in unlisted companies. And other studies, such as that by Daily and Dollinger in 1992, found a negative correlation between family ownership and performance.

Why should the evidence be so conflicting? Part of the problem is that commentators define family businesses in different ways: for some, the key factor is the level of equity held by the founding family; for others, it is the degree of involvement by family members in management; and for others still, it is the degree of willingness to transfer the business from one generation to the next. With studies relying on different definitions, it is easy to see why conflicting results can creep into the analysis.

But perhaps a more important factor is that family involvement in a business can have both a positive and a negative effect on performance. While there are attributes that give family businesses an advantage over non-family companies, these can easily be cancelled out by problems associated with the model, such as the potential for conflict, poor governance and a reluctance to bring in independent directors or professional management. So at this stage, it is worth examining the advantages and disadvantages of the family business in more detail, and drawing on the survey results to examine how these may impact the prospects and performance of family businesses around the world.

Pros and cons of the family business model

Every business model has its unique mix of intrinsic advantages and disadvantages, and family businesses are no different. What is interesting, however, is that the very factors that can give family businesses the edge – the strength of family relationships and their close-knit leadership team – can also be their downfall. In the next section, we look at some of the advantages and disadvantages of the model, and discuss ways of addressing the unique challenges that family businesses face.

Family relationships

Nowhere are the advantages and disadvantages of the family business model better encapsulated than in the nature of family relationships. According to the family business members questioned for the survey, the strong support that they derive from other family members in their network is perceived as being the biggest advantage of the family business model, more important even than the ability to take a long-term perspective.

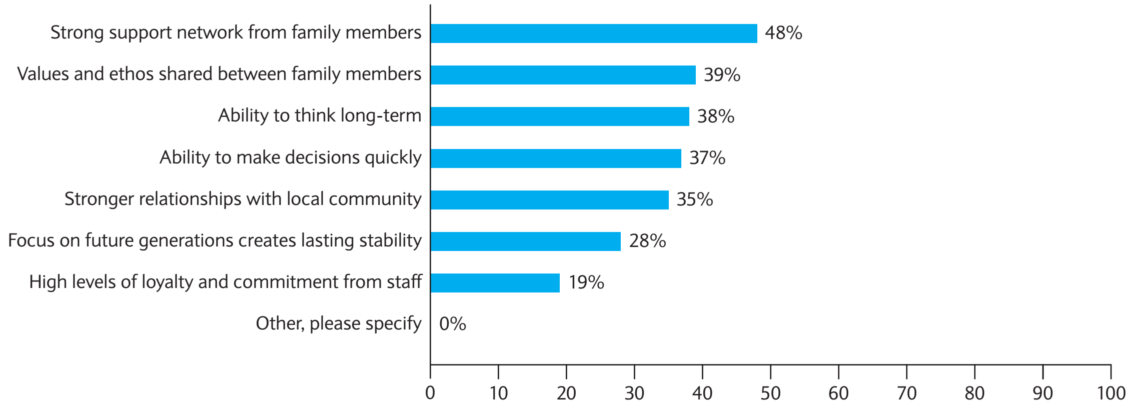
Strong, mutually supportive relationships help to foster loyalty to the business and increase levels of motivation. Close relationships between family members can also help to facilitate decision-making in what can be a less cumbersome and bureaucratic organisational structure.

"In theory, one of the benefits of a family business should be the lack of internal friction and politics, compared with a big organisation where people have to fight for resources and capital allocation," says Mr Fievet.

The support network should not just be restricted to those family members who play an active role in management. "A strong support network allows the family to support itself in the longer-term with both insiders and outsiders – those that don't have active roles – rallying around and working together unified as a group," says Mr Gordon. "In my experience, it's not enough to work with the insiders. If you take the outsiders for granted, that is liable to lead to problems."

Which of the following do you think are the most important advantages of the family business model? (Family business members only)

Graph 7



Shared values and ethos from family members

Every family has its own unique or distinct set of values, and these values underpin the family business to a lesser or a greater degree. According to the survey, the shared values and ethos held by family members is another big advantage of the family business model, and again is seen as slightly more important than the ability to take a long-term perspective.

"Family values are the bedrock on which family companies deal with change," says Mr Gordon. "They provide a compass that helps guide how decisions are shaped, and they impact the unique culture that develops in every family firm. Every family brings their own set of values which they transmit into the business. What's important is that the values are communicated and shared across the family."

In his research on successful family businesses, Mr Miller notes the prevalence of broad religious values in families. "We noticed that many of the most successful businesses were run by religious families," he says. "It did not matter what religion, but they were religious and they were disciplined. Their long-term values, such as serving the community, doing the right thing, making their wealth count in a socially positive way and not being personally over-indulgent, really kept the family together. In our research, these values kept coming up again and again."

The need for clear and shared objectives

Shared values and ethos should extend into clear and shared objectives among the family members. This is particularly important because of the potential overlap between the goals of the business and the goals of the family, and the fact that there may be family members that are not working closely with the company, who may have different financial goals and perspectives.

According to the survey, clear and shared objectives are essential for the family business, and were identified as a key characteristic for success by 44 per cent of respondents. "This is where it all starts," says Mr Gordon. "The family needs to have clear goals and objectives for the business. The ultimate role of the family business owner is to answer these questions: why are we in business together? What do we want to achieve? The answers to these questions feed into the business and give the management clarity. Strategy is driven by family vision, but this should be a two-way street – the business has to feed into the family's vision as well."

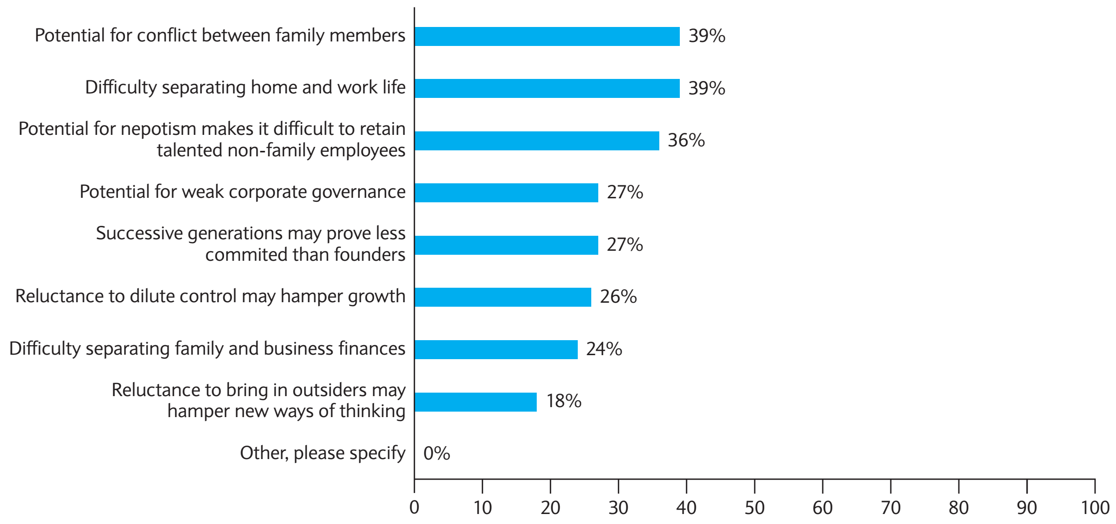
The potential for differences of opinion and perspective grow as more family members become involved, both directly and indirectly. "As the family grows, the diversity of values, ideas and opinions grows," says Mr Keyt. "The challenge that family businesses face is: how do you deal with this divergence and how do you keep everyone focused on a common goal? In the best family businesses, the families spend a lot of time and energy dealing with these questions."

The dangers of conflict

Divergence of perspectives can lead to disagreement, and this can further fester into conflict, which can be the undoing of the family business model. The most serious disadvantage, according to the family business members questioned for this report, is the potential for conflict between family members. Over the years, there have been numerous examples of serious quarrels in family businesses, perhaps the most notorious being the murder of Maurizio Gucci, third-generation head of the luxury goods business. In March 1995, Mr Gucci was shot dead outside his offices in Milan. Then in 1998, his ex-wife Patrizia Reggiani was convicted of ordering the killing and sentenced to 29 years in jail. During the trial, it emerged that Ms Reggiani had been furious at her ex-husband's business decision to sell a 50 per cent stake in the Gucci company to a third-party investor.

Which of the following do you think are the most important disadvantages of the family business model? (Family business members only)

Graph 8



There are many potential sources of conflict, including sibling rivalry, succession, the misalignment of strategic objectives and internal power struggles. Equally, conflict can arise between members of the family that are involved in the business and those that are more distant.

To some extent, conflict is inevitable in family business – just as it is in any other kind of organisation. But the danger in a family business context is that the disagreement occurs not just between individuals who work together, but who share other aspects of their lives. For this reason, conflict in family business can be far more pernicious and difficult to solve than in other companies.

Conflict resolution

The key issue with conflict in a family business is not how to avoid it – as some degree of friction is inevitable in any family – but how to address and resolve it. An important first step is to keep family and business disagreements separate, to ensure that family squabbles do not spill over into the work environment and to ensure that there is some downtime from the businesses so that a normal home life can be enjoyed. This is clearly easier said than done – according to our survey, the difficulty separating home and work life is the second biggest disadvantage of the family business model.

"You need to set very clear expectations about issues that can be talked about in family business meetings and those that cannot," says Mr Keyt. "Sometimes you have to accept that a particular family conflict will never be resolved and that is fine. The family can still have a very successful business as long as the conflict is not brought into the business."

One approach taken by many family businesses is to establish a family council that meets regularly to discuss goals for the business and provides an opportunity to air issues or disagreements before they deteriorate into conflict. Mr Fievet points out that, in some countries, the business will draw up legal family agreements to provide guidance on what is expected of family members. "A legal family agreement will typically contain rules around issues such as selling shares or leveraging against them," he says. "You need someone with vision to implement this type of agreement, someone who has the multi-generational aspect of the business in mind."

Sometimes, however, the family members are unable to resolve disputes on their own. In this instance, third-party mediation, using an external consultant who is able to provide an independent perspective, becomes essential.

Mr Kibblewhite adds, however, that external management can be a powerful means of preventing conflict from arising. "You can't eliminate conflict, but the presence of external management can prevent certain episodes from occurring," he says. "The key is to have the governance in place that gives the company the flexibility to bring in external management when it is needed."

The danger of nepotism

The reality for most family businesses is that the family will run the business. Often, they will be the best-qualified individuals for the job. They may have grown up in the business and have a deeper understanding of it than outsiders, which makes it difficult to find strong alternative candidates from elsewhere. The recruitment of family members can also help to keep down human resources costs, as family members will typically stay in the business for longer and may accept a reduction in compensation or dividends during difficult economic times.

But as the business grows, external employees will inevitably form part of the mix. This can be extremely beneficial as it brings new ideas to the business and helps to create a more diverse combination of skills and perspectives. There is also research to suggest that family-owned businesses attract greater loyalty and commitment from employees than other companies, in part because employees feel part of an extended family.

Problems arise, however, when nepotism occurs, and qualified and suitable employees are overlooked for key positions in favour of family members. This remains a relatively common problem. According to a 2007 survey by accountancy firm PricewaterhouseCoopers, almost two-thirds of North American family businesses award family members a role in the company without measuring them against external candidates.

According to the Economist Intelligence Unit survey, the potential for nepotism to have an adverse effect on recruitment and retention was seen by respondents as the third most serious disadvantage of the family business model. There are several consequences of nepotism in the family business. Most obviously, performance in the firm can suffer as the most suitable leader is not chosen to run the business. A second problem is that the existence of a glass ceiling in an organisation can de-motivate ambitious non-family employees and ultimately encourage talented individuals to further their career goals elsewhere.

Mind the expectations gap

A further problem associated with the combination of family members and outsiders within a business is that there may be a gulf between the expectations of each group. For example, family members may be primarily focused on building an asset for the next generation, and this highly long-term focus may be at odds with the shorter-term career and financial goals of some non-family employees. The leadership of the family business must work carefully to ensure that the objectives of family members and outside employees are aligned as closely as possible, and that the company as a whole benefits from the goals and motivations of its various constituents.

Governance and leadership

There is a common perception that family businesses lack the more rigorous governance associated with companies that have more widely distributed ownership. Recent scandals, such as the fraud-related collapse in 2003 of the family-controlled Italian company Parmalat, and the more recent fraud at Satyam, a family-controlled Indian business, have done little to address this criticism.

Yet from a governance perspective, family businesses can have important advantages. A close network of family leadership can lead to fast and effective decision-making, while the combination of ownership and control removes the agency problems associated with manager-led firms. Moreover, stable and long-term leadership helps to ensure careful stewardship of the company's assets – both for the family members and outside investors.

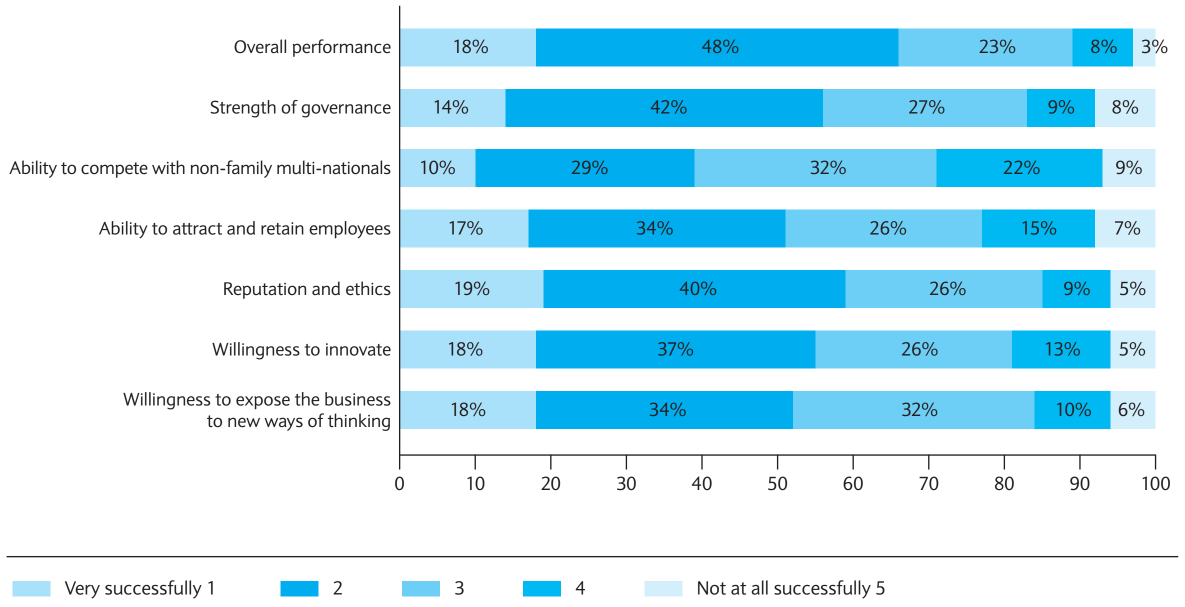
There are numerous governance problems associated with family businesses, however. For example, they may be reluctant to bring in independent non-executive directors, preferring to retain oversight of the business within the family arena. Decision-making – while often faster and more efficient than in non-family companies – may lack rigour and primarily serve the interests of the close family network, rather than the business as a whole. There can also be a reluctance to take difficult decisions: family pet projects or assets may be preserved when more rational evidence points to the need to cancel or sell them; while concern to prevent conflict or avoid upsetting individual family members may lead to altruistic behaviour that is not in the best interests of the business.

Overall, family business members questioned for our survey do not consider weak corporate governance to be an issue. Asked about the disadvantages of the family business model, problems with governance are towards the bottom of the list, and the majority of family business respondents think that their business model performs well on governance compared with listed companies. Yet the view among survey respondents from outside the family business universe is rather different and only a minority of 36 per cent thinks that family businesses compare well on governance with non-family businesses.

"Family business owners often play down the importance of governance but they do so at considerable risk," says Mr Gordon. "Good governance helps to ensure that better decisions are taken both in the business, through a well constituted board, and among the owners concerning policies that affect the family."

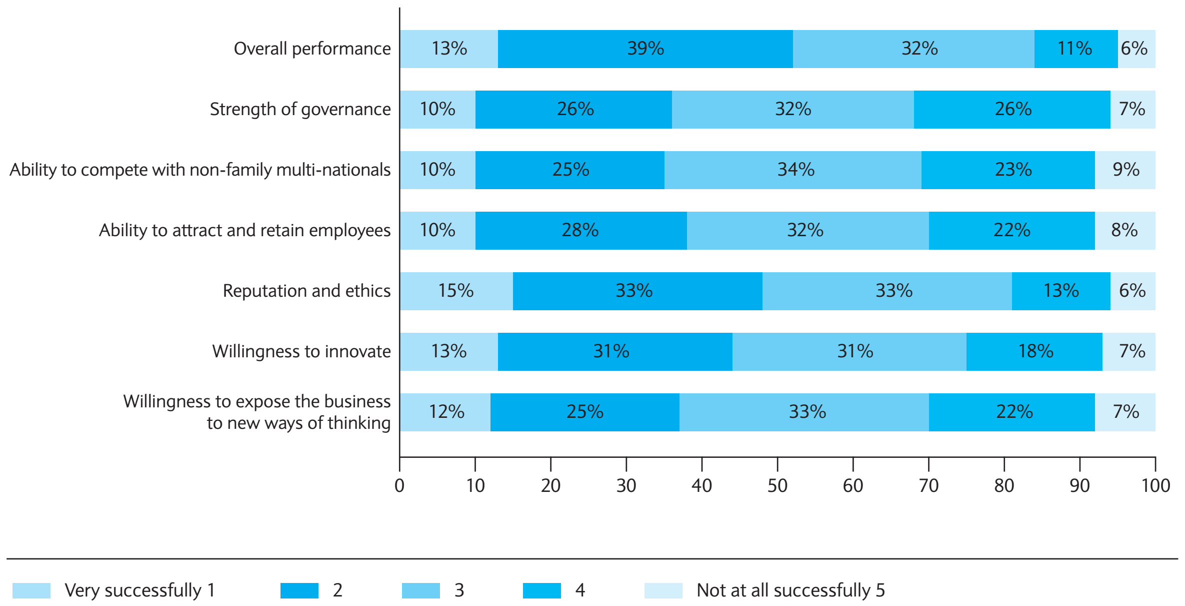
Compared with listed, non-family companies, how well do you think family businesses perform across the following areas? (Family business respondents)

Graph 9



Compared with listed, non-family companies, how well do you think family businesses perform across the following areas? (Non-family business respondents)

Graph 10



The role of leadership

Good leadership is a crucial part of governance and, among the survey respondents, it is seen as one of the most important characteristics of a successful family business. “Culture and leadership is probably even more important in a family business than it is in a large listed company,” says Mr Fievet of Barclays Wealth. “If you have one very strong individual who is driving the family in a certain direction, that’s going to help with cohesion and ensuring that goals and objectives are shared. Infighting in large organisations means death over time, infighting in family businesses can be lethal very quickly.”

> “Culture and leadership is probably even more important in a family business than it is in a large listed company”

Traditionally, leadership in family businesses has tended to come from within the family. This is not always a bad thing, according to Mr Miller. “Family members often have the opportunity to be apprentices at a very early age,” he says. “They get to see how that business is run and how values are imparted within the family. They can learn the ropes better than any outsider by absorbing very intimate knowledge of how the business is run.”

An early apprenticeship and deep knowledge of the business is not always enough to ensure strong leadership, however. While founders may be highly motivated and entrepreneurial individuals, their descendants may lack interest or be reluctant to take the reins, they may come from an excessively small talent pool, or there may be family conflict that prevents a smooth transition. “In some cases, the impact can be terribly negative,” continues Mr Miller. “When family succession works, it is fantastic, but when it doesn’t, it is terrible.” The key, he concludes, is simply to get the best leader, whether they are a family member or not.

Choosing leaders can be a challenge for many families, according to Mr Gordon. “These are very hard decisions,” he says. “Leadership is complicated in a family business because the family is involved. There are strong emotions that come with making decisions involving family members. The whole process of moving from one generation to another needs a lot of reflection. You need to be able to step back and take a 35,000 ft perspective.”

Growth and change at the Nuqul Group

The Nuqul Group was established in 1952 by Elia Nuqul as a small food importer and distributer. Today, it is one of the Middle East's leading manufacturers of fast-moving consumer goods and construction materials. Headquartered in Amman, Jordan, the Nuqul Group is a conglomerate of 30 regional and global companies operating in nine countries with over 5,000 employees. The business is wholly family-owned by Mr Elia Nuqul, and his sons Ghassan and Marwan.

When Ghassan Nuqul joined the business in 1985, he set himself a mission: to put in place a more structured approach to running the business. "My father is a great entrepreneur—a risk-taker, determined and charismatic, and had achieved so much, but I knew that in order to take the company to the next stage we would need to professionalise the management of the business," he explains.

Since that time, the Nuqul Group has been on a journey that has left virtually no area of the business unchanged. The company has worked on a major decentralisation initiative, helped to establish clear operating procedures and a management structure across the business, and appointed a board with independent directors—a rarity in the region. The process was driven by the Nuqul family, but senior managers have played a key part in the process. The goal was to achieve the highest principles of corporate governance and, eventually, an initial public offering.

Over time, the Nuqul family's relationship with the business has changed. They now see their priority to be good owners of the business, rather than just good managers. "We realised that if we wanted to continue to grow, we would need to hire the very best people in the business, to be the employer of choice in the region, and to do that we had to make sure that the senior positions of management were available to anyone whether they were a family member or not," says Mr Nuqul.

The board of the company now includes family members, senior managers and two independent directors. They work on the principle of what they call "NIFO" (Noses In, Fingers Out), a term they use to reflect their view that the board is involved in the business on an as-needed-basis.

"We have launched many new business investments, the group has had its fourth year of double digit growth and we have hired many excellent new employees. I think it's fair to say that the whole group has been re-energised."

The Nuqul Group has grown rapidly in the past five years. Mr Nuqul believes that this growth would not have been possible without the ongoing professionalisation of the business and opening up management to non-family members. "The effect has been extraordinary," he says. "We have launched many new business investments, the group has had its fourth year of double digit growth and we have hired many excellent new employees. I think it's fair to say that the whole group has been re-energised."

Succession planning

Most family business experts agree that succession – the process of passing the business from one generation to the next – poses one of the greatest risks to the success of a family business.

The Institute of Family Business in the US makes this point clearly in a recent report. "The major problem which will prevent family businesses from successful transition into the next generation isn't estate taxes, it's not competition from the Wal-marts of the world, it's not the lack of reasonably sound financial planning, and it's not the lack of industriousness or work ethic of today's successor generations. It's the epidemic behaviour exhibited by senior generation or founding generation business family members who refuse to let go of the companies they helped build."

According to the Economist Intelligence Unit survey, clear succession planning is the most important ingredient for a successful family business. Given that succession is such a key issue, it is surprising how little attention is paid to this question. In a recent survey by PricewaterhouseCoopers, almost half of all responding companies due to change hands within the next five years had no succession plan in place.

Part of the reason why succession is not dealt with is that owners can be weighed down with the pressures of running the business on a day-to-day basis. But perhaps more important are the psychological and emotional issues associated with succession. Some business leaders find it difficult to let go of the reins and there can be a reluctance to confront difficult decisions that relate to the uncomfortable topic of death. "Family business owners know that they have to make a succession decision and that is not easy," says Mr Miller.

"They know intimately their children's strengths and weaknesses and they may prefer one child more than another. No matter what decision they make, they know there is likely to be criticism from a loved one. Another reason they delay appointing a successor is the power they retain in the family. As long as they have not made a decision, they will have a lot of people being nice to them."

Mr Miller believes that careful advance planning can be very helpful. "If the family can set up the ground rules well in advance, this can be a great help to structure the issues concerning family involvement and succession," he says. "If you know from a young age what hurdles you're going to have to clear before you are considered to be a manager, you would not take it so personally when you are ruled out."

Financial independence for family members is an important question that needs to be dealt with when addressing the issue of succession. "One of the difficult questions in succession is: how do you assure financial independence for family members so that they are not beholden to the jobs and working in the family company," says Mr Gordon. "It's about separating ownership and management so that the owners can have more financial freedom to pursue their own careers independently from the family firm, and so that they are not reliant on the family firm for their jobs, where they might squeeze out talent."

Amin Nasser, who runs the family business practice in the Middle East for PricewaterhouseCoopers, says that succession challenges are currently prevalent in the region. "We estimate that there are roughly 5,000 medium to large families in the Middle East with net assets of about US$600bn," he says. "These family companies run 75 per cent of the private sector economy and hire 70 per cent of the labour in the GCC. Most of these businesses are unstructured, with no formal holding company structure in place and control being exercised entity by entity. The continuity of these family businesses becomes a major concern when there is a generational change or when the founder of the business passes away. If the change is not properly managed, it could result in the destruction of the family wealth. In recent years we have seen many families that have either split up or are in the process of splitting up as a result of these problems and conflicts between the family members."

He adds, however, that there is a growing recognition of the need to decouple management from ownership in order to address these issues. "Some families are beginning to appreciate that their main role in the family business is to build clarity of vision or strategy, and to become 'active' owners even when they are passive in management. A significant amount of families quarrel about the competence of family members working in the business or about who should be allowed to work in the business"

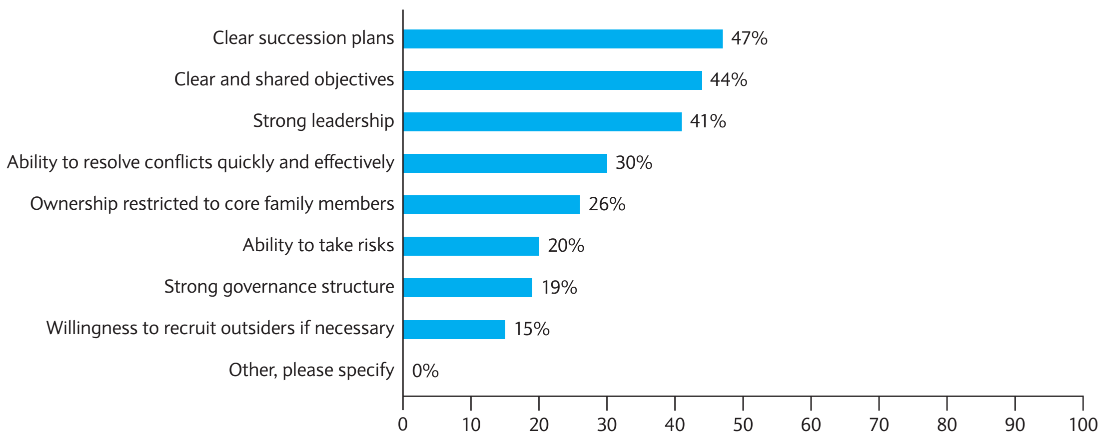
Increasingly, family businesses are recruiting senior management from outside the family, says Mr Keyt. "The family needs to ask whether it can continue to turn out talent that can run these businesses as they grow," he says. "And the answer for many is no. External management has been growing over the past decade in US family firms. Maybe 10 to 15 per cent of family businesses in the US now have non-family senior management. "

Mr Kibblewhite of Barclays Wealth believes that family ownership, when combined with professional management, can be a powerful model. "Family businesses often go through a transition from being owner-managed to bringing in professional management," he says. "When you have the long-term nature of the shareholder in combination with experienced professional management – who may not be from the family – that's when you get the real benefits."

This combination of family ownership and external management is a characteristic of many of the world's most successful family businesses. Research from the Loyola University of Chicago into what makes for successful external management in a family-owned business concluded that non-family chief executives who act as if the company is just a business are more likely to fail. "The chief executives who succeeded understood that they were working in a family business, that they needed to understand the family and that they needed to work with family stakeholders," says Mr Keyt.

Which of the following characteristics do you think are most important to be a successful family business? (Family business members only)

Graph 11



Looking beyond the family at Warburtons

Warburtons is the UK's leading independent baker and one of the UK's top five grocery brands. The roots of the business go back to 1876, when Thomas and Ellen Warburton opened their first grocery shop, later a local bakery, in Bolton. Members of the Warburton family have run the business for most of its 130-year history, as the business has extended its reach across the UK. Jonathan Warburton, one of the fifth generation of the family, is current Chairman, and his cousin Brett is Director of the business.

In 2005, after a decade of strong growth when turnover went from about £50m to more than £300m, the family decided that they were ready for a chief executive from outside the family. For Jonathan Warburton, this decision was a natural evolution for the business. "The decision was no more sophisticated than the normal progression of change that takes place in a growing business, whether family or public," he says. "Although the business was doing very well and growing steadily, we realised that it was time to look for new management to take the business to the next stage. At the same time, as a family we thought that it was more important to be good owners rather than managers. It was a board decision driven in part by the non-executive directors."

Mr Warburton says that the goal of the recruitment process was to find the best person, regardless of whether they were connected to the family or not. The company considered hiring a new chief executive from outside the company, but this idea was rejected on the grounds that an external candidate would not understand and support the values of the business. Instead, the company promoted Robert Higgonson, finance director of the company.

According to Mr Warburton, the biggest challenge has been remembering that the family was no longer running the company. "At the outset, there was a natural temptation for us as family members to feel that we know better," he says. "But we have to remember that Robert is responsible for running the business on a day-to-day basis."

"At the outset, there was a natural temptation for us as family members to feel that we know better"

Since the transition, Mr Warburton has remained the conduit through which family members express their thoughts and concerns, and through which decisions taken by Mr Higgonson are relayed to family members. "Part of my job [as chairman] is to keep other family members in the loop, so that they understand and are informed about plans and decisions as they evolve, are fully briefed and up to date, know what's happening, and feel included. Also, there is a challenge for Robert in that he has to deal constantly with three family members who are very knowledgeable and experienced and care very much about the business success. In fact, Robert has made a great success of the job."

What about the future? There are numerous Warburtons in the next generation and, although Jonathan is still in his 50s, he knows that they need to think about the next generation and their role in the business. "I would love it if one of my children was interested enough to want to join and work in the business," he says. "But it's clear that none of the managers will want to work for them if they are not up to the job, irrespective of their surname."

The family business and society

Family businesses have a reputation for being strong supporters of the communities in which they operate.

"Family businesses tend to have a close relationship with their local community. They often see their relationship with the community as a two-way street," says Mr Gordon. "Many family firms understand that they have benefited from the skills of the employees in the community and they want to give something back. They have a tendency as benefactors of the community that goes beyond the business itself."

The importance of this relationship with the community becomes particularly apparent in difficult economic times when cut-backs become necessary. "In difficult times, family businesses pay a lot of attention to the likely impact of the downturn on their employees and communities," says Mr Keyt. What you see is that family businesses tend to be slower to lay off people in a downturn than non-family business because there is this emotional connection. Often, family members will take pay cuts to keep the business alive and many businesses will suspend dividends if necessary. For a public company, this would send signs of panic, so being a public [non-family] company can make it difficult to do what makes sense from a business perspective."

This close connection with the community can make tough decisions even more difficult, according to Mr Kibblewhite. "Making the kind of decisions regarding staffing levels that are likely to be made in 2009 and 2010 is disproportionately hard for the family business," he says. "There's a tendency that they will hold on to people during a recession for longer than they should, unless they have the rigour of management. That's why you tend to see family businesses giving a lot to the community while they can."

The geographical scope of a company's business is an important influence on its engagement with the community, according to Sir Ian Wood, Chairman of the Wood Group. "I think one of the most important determinants of a company's relationship with the community is whether it is a local, national or international company," he says. "Clearly a local business that is owned and run in Aberdeen with the family living in the local area is very different from the small office of a major centralised US corporation in Aberdeen. It's much easier to lay off people 5,000 miles away, rather than in your local town, when you know them and see them every day."

Philanthropy

Another key aspect of the relationship of the family business with society is its role in philanthropic endeavour. There has long been a strong link between family businesses and philanthropy, dating back at least to Victorian family business founders, such as Jesse Boot and George Cadbury. This is a theme that also resonates in the survey, in which the ability to help others was seen by family business members as a more important motivation to amass and protect wealth than a range of other factors, including the enjoyment of making money and the ability to increase social status.

The ability to help others was seen as particularly important among older family business members in the survey. Almost two-thirds of those respondents over 50 saw it as important or very important, compared with one-half of those below that threshold. It was also more prevalent among respondents from Asia-Pacific than those from either Europe or North America. Sixty-one per cent of those respondents from Asia-Pacific cite the ability to help others as being an important motivation, compared with 55 per cent from North America and 42 per cent from Europe.

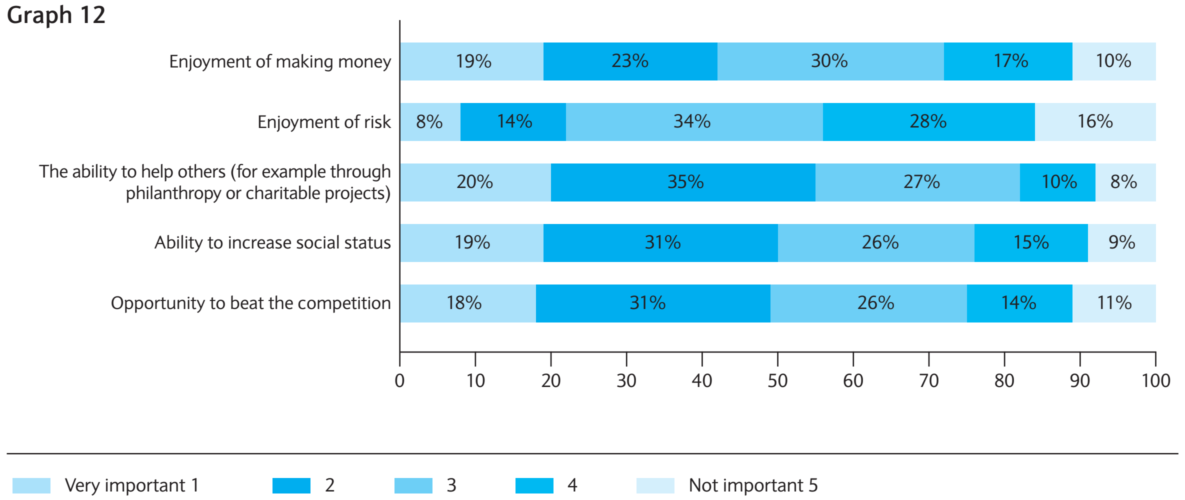
As one of the fastest-growing regions for high-net worth individuals in the world, philanthropy in Asia is showing rapid development. Development philanthropy, whereby foundations support microcredit initiatives or community work, is particularly common in the region. Leading philanthropists in Asia include Li Ka-Shing, the Hong-Kong based Chairman of Hutchinson Whampoa, who has pledged more than US$1bn to philanthropic causes, and Anil Agarwal, Chairman of Vedanta Resources, who pledged US$1bn in 2006 to set up an elite university in India.

Mr Nasser of PricewaterhouseCoopers says that philanthropic values are also strong in the Middle East. "Philanthropy is deeply rooted in the Arab world and many families support initiatives involving the underprivileged," he says. "Such families are beginning to formalise their charitable activities by developing strategic plans, programmes, funding and sustainability."

Sir Ian Wood is not convinced, however, that family businesses in general are more generous than other companies. "In the first instance, many family businesses are too preoccupied with survival and looking after managing the day-to-day business," he says. "More generally, I am not sure that family companies are always as generous and philanthropic as bigger companies, which are more aware of their relationships with government, and with political and community bodies."

When creating and protecting your wealth, how important are the following motivations? (Family business members only)

Graph 12



Philanthropy among family businesses has traditionally been seen as strongest in the US, but recent research suggests that family businesses in other regions may in fact be more generous – depending on the basis for measurement. A recent UK survey by the Charities Aid Foundation found that donations by the largest 100 UK family foundations amount to 0.07 per cent of GDP, exceeding the figures for the US (0.04 per cent) and for the rest of Europe (0.02 per cent).

Top five largest UK family foundations by giving (2006)

1. Wellcome Trust (£324.7m)
2. Gatsby Charitable Foundation (£53.8m)
3. Wolfson Foundation (£38.1m)
4. Garfield Weston Foundation (£37.8m)
5. Leverhulme Trust (£29.6m)

Source: Family Foundation Philanthropy, Charities Aid Foundation

Donors in Europe differ in their approach to evaluating the impact of their donations, according to Etienne Eichenberger, Founder of Wise, a group advisor to wealthy families on their philanthropic aspirations. "I think there is a more statistical approach to evaluating donations in UK," he says. "And this certainly is a good thing—we can get more transparency, clearer visibility. I would say in Europe that donors probably pay more attention to qualitative aspects of their donations. So as well as measuring how many people get jobs from a particular training programme, for example, they are also very concerned about how people enjoyed their training," he says.

Mr Eichenberger notes that there is a big drive by family business owners to have their next generation involved in philanthropy. "It's not just an end in itself, but a means to an end," he says. "It helps younger people to become associated with philanthropy from an early stage. Parents want the younger generation to learn the importance of good works."

Partnering for philanthropy at the Wood Family Trust

The John Wood Group has its origins as a wholly-owned family business, but in 2002 it carried out a successful initial public offering on the London Stock Exchange. Today, it is a FTSE 100 international energy services company with revenues of US$4.4bn, although the Wood family retains a 24 per cent stake in the company.

In March 2007, Sir Ian Wood, Founder and Chairman of the company, established The Wood Family Trust with the aim of "developing and supporting individuals to become independent, contributing and caring members of society". The Trust holds £50m and, in its first year, donated £2.4m to charitable projects around the world, including a £372,670 grant for the Youth and Philanthropy Initiative in Scotland and £374,000 to a programme called Global Xchange, which was established by Voluntary Service Overseas to promote youth exchanges.

"For a long time I have thought that you can't have the advantages of trading as a global business and not have some responsibility for what happens in the rest of the world"

"For a long time I have thought that you can't have the advantages of trading as a global business and not have some responsibility for what happens in the rest of the world," says Sir Ian. "I've had this idea for many years, but it was only really possible after we went public in 2002. This was the first time the family had serious funds. Also I am now 66 and as Chairman of Wood Group I have a little bit more time to think about broader issues."

Sir Ian decided to focus the activity of the trust on Sub-Saharan Africa, and likens his approach to venture philanthropy. "If you are going to give away money, you need to make sure you give it away properly to try and create systemic and sustainable change. And that's not that easy, particularly in Sub-Saharan Africa. We are not just looking for a good cause but trying to decide who we can work alongside to achieve our objectives on the ground."

An important goal of the Trust is to help the organisations with which it partners to improve their capacity and performance. Rather than simply provide funds, the Trust sees itself as an active partner that lends support and helps organisations on the ground to become more effective. "We're not about giving people the fish but teaching them how to catch fish," says Sir Ian.

Sir Ian has recently been pursuing a new approach in Africa that focuses on value chains. Rather than simply provide funds via tools such as microfinance, he believes that greater thought needs to be given to the ways in which the output from economic activity reaches the end customer. "People tend to look at specific parts of the chain," he says, "but it's only by looking across the whole value chain that long-term systemic change will result."

Closer to home, the Wood Family Trust is financing a Youth and Philanthropy Initiative in partnership with the UK Philanthropy Institute, with plans to roll the scheme out in 50 schools across Scotland. Over an eight-week period, teams of teenagers select, analyse and champion a local charity they believe best addresses the social needs in their neighbourhood. The winner gets £3,000 to donate to their chosen charity. "We have spent quite a bit of time visiting local schools where they are running the projects and it's amazing to see the results," says Sir Ian. "It's particularly interesting with some of the private schools where the students are often less exposed to the social problems around them. I think they have really benefitted from this programme."

Conclusion

Rumours of the death of the family business model have been greatly exaggerated. Despite the ongoing globalisation and liberalisation of financial markets, family businesses continue to play a vital role in the world economy. Indeed, the recent sharp downturn in international stock markets, coupled with concern among some commentators about the shortcomings of the Anglo-Saxon model of shareholder ownership, are likely to lead to a revival of interest in the family business as an organisational form.

Although family businesses differ widely in their objectives and motivations, it is clear that a large proportion have certain attributes in common. More often than not, family businesses have a long-term focus, steady leadership, and a strong identity and vision shared by a close network of family members.

At a time of great uncertainty in the global economy, these are attributes to be cherished. Unlike listed companies, which may have grown rapidly in boom years and geared up balance sheets to maximise gains, family businesses have typically avoided these excesses. And as boom turns to bust, family-controlled companies have the opportunity to benefit from their stability, conservative approach and foresight.

Yet just because family businesses possess certain characteristics that should play to their strengths in a downturn, the strong performance of the sector is far from assured. Academic research that compares performance of family businesses with other organisational models is inconclusive at best. If they are to make the most of their advantages, family businesses must also overcome a host of thorny issues, including succession, family conflict and nepotism. In order to meet these challenges, they should consider the full range of tools available to them, including a greater separation of ownership and control, and wider use of external management. After all, it takes more than a long-term perspective and steady leadership to guarantee sustained growth or strong profitability.

Methodology

Written by the Economist Intelligence Unit (EIU) on behalf of Barclays Wealth, the report examines the motivations, characteristics and perceptions of family businesses around the world, with special emphasis on how they are dealing with the challenges of today's economic environment.

It is based on two main strands of research: a global survey of more than 2,300 mass affluent (with up to £1 million in investable assets), high net worth (with up to £10 million in investable assets) and ultra high net worth individuals (with up to and in excess of £30 million in investable assets) and a series of in-depth interviews with experts on family businesses. Among these 2,300 respondents, almost 300 were family business members within a family business.

Please note that in some cases percentages used in the report may not equal 100, either because survey participants were asked to select three choices or because neutral or 'don't know' responses have not been included.

Survey demographic

The 2,300 respondents were recruited from EIU databases of individuals around the world.
The survey was undertaken between March and April 2008 by the EIU.

Geography: Canada, the United Arab Emirates, Hong Kong, India, Monaco, Spain, Singapore, Switzerland, the United Kingdom and United States were each represented by 100 respondents. Additional respondents were generated from elsewhere in the world (30 per cent North America; 30 per cent Europe; 30 per cent Asia-Pacific; 5 per cent Latin America; 3 per cent Middle East; 2 per cent Africa).

Net worth: 40 per cent between £500,000 and £1 million in investable assets; 40 per cent between £1 million to £10 million; 10 per cent between £10 million and £10 million; and 10 per cent have more than £30 million.

Legal note

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