

Securing the future Family Business Survey 2014



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*Family businesses are strong and focused on growth.
The question is how will they achieve that growth?*

Welcome to the Family Business Survey



Family businesses are the foundation for the Canadian and global economy. Your entrepreneurial spirit drives innovation and productivity and your health is critical to ensuring stability worldwide. In order to better understand your challenges and opportunities, we surveyed more than 2,300 family business owners and managers in 42 countries – our largest Family Business Survey since we launched the initiative in 2007.

This year's Canadian results are largely positive and tell a specific story: family businesses are strong and focused on growth. The question is how will they achieve that growth when they're faced with a global shortage of skilled talent, increasing regulation and competition and a digital landscape that's changed the game for all businesses?

At the same time, the majority of this year's Canadian respondents are second-generation owners. They're baby boomers looking for the best opportunity for exit but they haven't put the necessary effort into succession planning and professionalizing the business to ensure long-term survival.

It's an important time in the life of Canada's family businesses and we're committed to helping you meet these challenges and achieve the success you're looking for.

A handwritten signature in a cursive script that reads "Saul".

Saul Plener

National Leader, Private Company Services, PwC

Executive summary

The role of family businesses in the Canadian economy can't be overstated. According to research from the University of Alberta, family businesses generate approximately 60% of Canada's Gross Domestic Product, employ six million people in Canada, create 70% of all new jobs in North America and account for 55% of all charitable donations .¹

In this report, we share the insights of family business leaders from across the country to offer a window into the state of family businesses today, their challenges and the qualities and values that set them apart.

One of the objectives in conducting this survey was to create a resource for family businesses around the world to learn from each other about what's working and what's not. The report offers global benchmarks and insights that we hope will serve as a tool to help you achieve your goals.

"As your business grows, your issues become more complex. Professionalization means putting structures in place to help you innovate better, diversify more effectively, export more and grow faster."

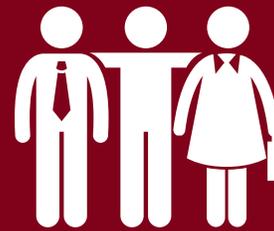
Key findings include:



Canadian family businesses continue to grow: Sixty-seven per cent of Canadian respondents achieved topline growth in the past 12 months (up from 60% in 2012) and 85% plan to grow in the next five years. But with a tendency of being conservative with risk and spending, will this limit their ability to achieve next-level growth?



Professionalizing all aspects of the business is critical to staying ahead: It means putting processes in place to govern how the family interacts with the business – including establishing an infrastructure for decision-making and formal channels for communication. In stark contrast to their global counterparts, only 21% of Canadian respondents see professionalizing their firm as a key challenge over the next five years. In this technologically driven and volatile economy, will this challenge their ability to compete?



Attracting top talent is a major concern for Canadian respondents: Sixty-eight per cent of Canadian

respondents, compared to 49% globally, say that staff recruitment is their biggest concern for the year ahead. Family businesses can struggle to compete with the share options and structured career paths offered by major multinationals. As boomers retire in Canada, the significant demographic shift and push towards professionalization will add another wrinkle to this issue.



Canadian baby boomer family business owners are looking to exit:

We're predicting a highly competitive buyer's market between 2018 and 2025. If second-generation family businesses opt to sell, and 27% are looking to do just that, they may not be able to get the value they anticipated or earned if they haven't made a solid succession plan.

1. University of Alberta. "Alberta Business Family Institute". [<http://business.ualberta.ca/centres/family-business>]. October 2014.

Performance

Forecasting growth

Family businesses are making the most of the economic recovery and pushing forward. For Canadians, this is in part due to the financial systems and political stability that allowed Canada to navigate through post-2008 volatility better than their global counterparts. As such, 67% of Canadian respondents and 65% of family businesses surveyed globally achieved growth in the last year.

The overwhelming majority of Canadian and global family businesses (85%) are planning to grow steadily over the next five years. Only 9% of Canadian family firms aim to grow quickly and aggressively compared to 15% of global family businesses. Ambitions are highest among respondents in BRIC countries (Brazil, Russia, India and China), the Middle East, Africa and Asia Pacific—all emerging markets that are themselves in growth mode.

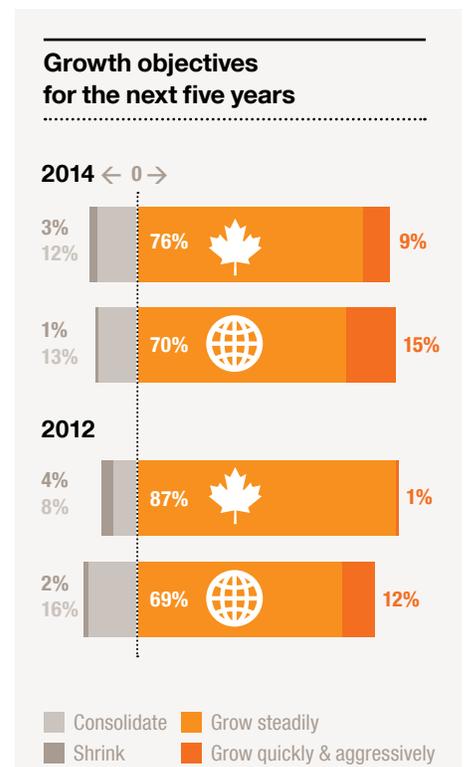
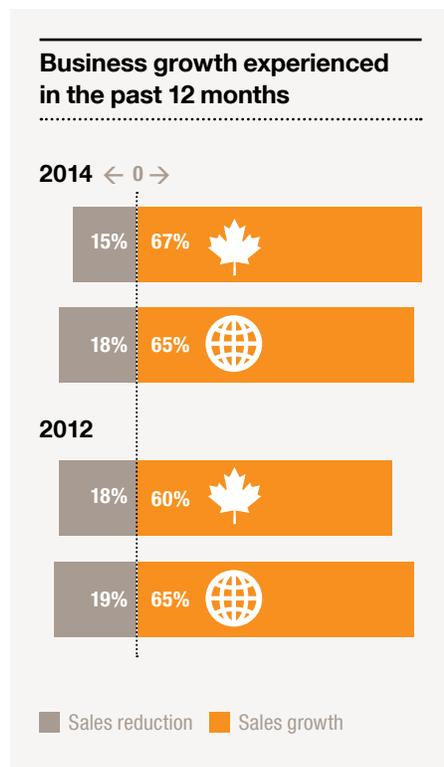
Only 12% of Canadian businesses are selling into foreign markets, which may account for their more conservative growth expectations. This hasn't changed since 2012. Canadian leaders continue to be risk averse when it comes to expanding into international markets—a characteristic that separates them from 25% of their global counterparts that are exporting.

That said, of those Canadian family businesses planning for growth, 100% are positive they'll achieve it. They should be prepared however, that growth won't necessarily result in the big financial wins they've experienced in the past. Rather, in order to be in a position to continually innovate, they'll have to invest additional revenue in capacity and capability. It's a necessary step to compete in this technologically-driven, fast-paced business environment.

Key issues facing Canadian family businesses

"Finding quality talent to grow our business [is a key challenge]. Engineering and construction talent [is particularly difficult], as there's a shortage in our market. So, it's very competitive...for that talent pool."

3rd generation family business

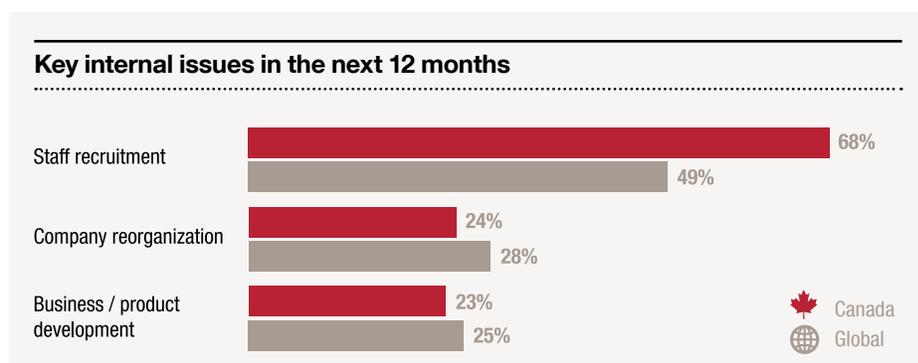


Challenges

The fight for top talent and the importance of professionalization

Staff recruitment remains the top challenge cited by the majority (68%) of Canadian respondents. This compares to 49% among international family businesses and reflects the demographic shift taking place in Canada as boomers are planning their exit from the workforce. This is happening at a time when the need for sophisticated leadership has never been greater. While aging populations are a worldwide phenomenon, the concern is amplified in Canada, a country projected to age more rapidly than most. According to the Department of Finance Canada, the ratio of the elderly to working-age population is expected to nearly double over the next 20 years.²

The talent challenge is compounded for family businesses that can sometimes struggle in the marketplace with respect to compensation. These are the same businesses that are used to having family members as strategic leaders and don't want to release control to non-family members they don't know and don't trust.



Family businesses that are willing to professionalize, offer competitive salaries and an equity position to top talent, benefit long-term from skills and experience that can help them succeed. Individuals joining a family business need to understand that if they can prove performance and build trust, they will be well rewarded financially and also professionally.

Company reorganization (24%) and business development (23%) were up significantly from 2012 (8% respectively) as top internal challenges cited by Canadian respondents. These findings reinforce the need to professionalize. Family businesses are divesting units that aren't adding value and creating new departments to meet new consumer demands. They're trying to maintain their existing market share while finding ways to innovate and compete.

2. Department of Finance Canada. "Archived—Economic and Fiscal Implications of Canada's Aging Population" [<http://www.fin.gc.ca/pub/eficap-rebvpc/report-rapport-eng.asp>]. October 2014.

"Dealing with some of the regulatory issues is getting more and more challenging in our industry"
2nd generation family business

Externally, 49% of Canadian family businesses cite market conditions as the top concern, down from 57% in 2012 and significantly lower than their global counterparts at 63%. This isn't surprising given the fact that Canada emerged from the global recession much stronger than other nations.

Government policy was cited by about a third of both Canadian and global respondents as a top challenge. This too, is to be expected in today's heightened regulatory environment, which has made compliance a top of mind issue for business leaders around the world.

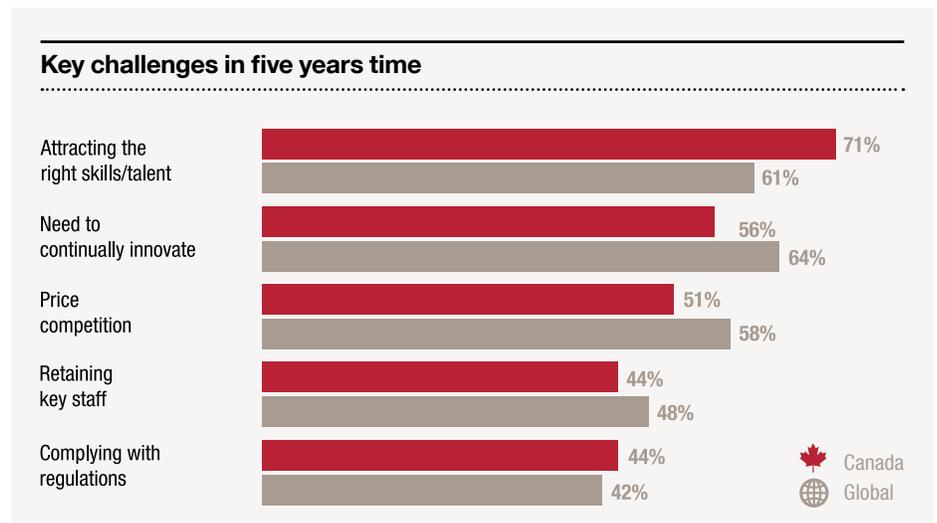
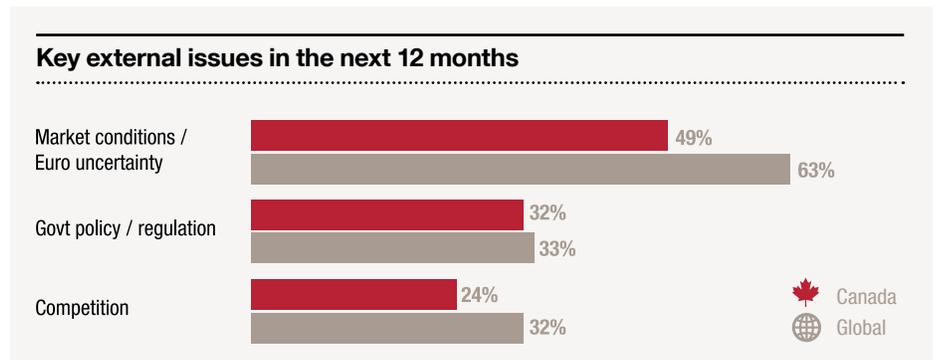
Competition was listed as the third top challenge by 24% of Canadian respondents, down significantly from 36% in 2012. Unpacking this finding reveals a confidence based on past performance and the expectation that what has worked well to this point will continue to work going forward. It's important to remember that in today's changing digital landscape, competition can come from anywhere—and quickly. Business is increasingly defined by change and what has worked well in the past may not in the future.

Looking forward to the next five years, attracting the right talent remains the number one concern for 71% of Canadian family businesses, followed by the need to continually innovate (56%) and price competition (51%). Global respondents prioritized their concerns a little differently, with the need to innovate the top focus area for 64% of respondents, followed by attracting the right talent (61%) and price competition (58%).

These top three responses are all tied to the need to professionalize – and specifically in Canada – to take a risk on talent. Given that 43% of Canadian respondents are between the ages of 45 and 54, they have to be willing to make the investment in talent now. This will allow them to innovate and compete to have a valuable business to transition when they're ready to exit. It's a virtuous cycle but many family business leaders are missing those connections.

21%

Only 21% of Canadian family business leaders see the need to professionalize as a key challenge in the next five years.





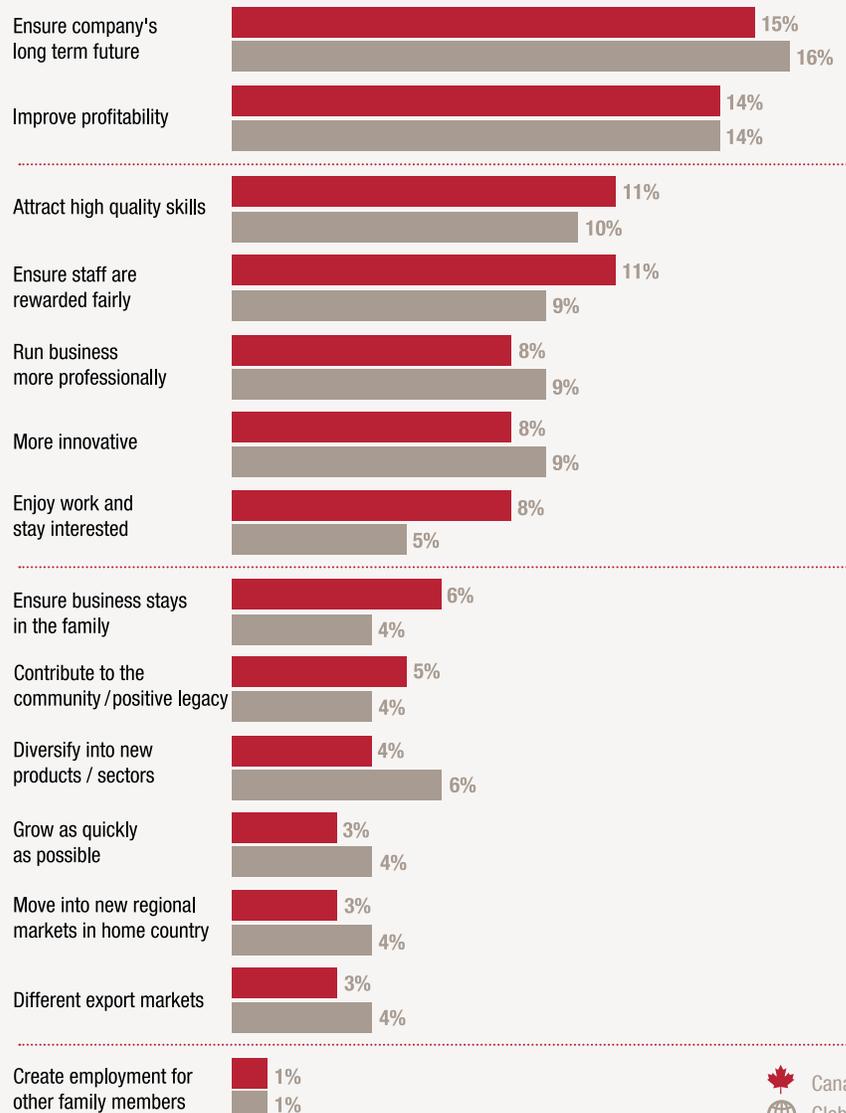
For the first time, we asked respondents about their personal and business goals. Ensuring the long-term future of the business (15%), improving profitability (14%) and attracting high quality skills (11%) were the top objectives.

Yet, only 21% of Canadian respondents have professionalization on their radar over the next five years compared to 40% of global respondents. In order to stay current and give consumers the options they want, Canada's family businesses must create a platform for long-term growth. This requires investing in people, systems and processes today.

"What is going to happen with the economy, if the economy goes into the toilet then the business goes."

1st generation family business

Importance of personal and business goals over the next five years



*Increased internationalization is predicted.
12% of sales today are accounted for by international sales
— Canadian family businesses expect international sales to
rise to 19% within five years.*

Internationalization

What to expect when going global

Average percentage of sales coming from international buyers		
	Currently	Expected in five years
	12%	→ 19%
	25%	→ 32%

Canada's family businesses continue to focus on domestic growth but they're starting to recognize the need to look beyond national borders for new opportunities. Currently, Canadian family business leaders report that international markets account for 12% of sales and they're looking to grow this to 19% in five years time. Not surprisingly Canadian respondents are looking largely to the US (47%), China (12%), Mexico and Brazil (9%) as potential markets.

The reason for this narrow focus is clear: cost of exploration, the proximity of a now improving US economy and domestic success. Still, it's a limiting strategy and one that has the potential to put future growth at risk. That can be mitigated with professionalization and having the right people with global experience at the table helping to set strategy.

Conversely, global family businesses see internationalization as a key to growth and survival. Overseas markets currently account for 25% of sales and that number is expected to jump to 32% in five years. Larger and more ambitious global respondents are particularly focused on overseas expansion.

Where's this increase in international sales expected to come from?		
Americas	75%	→ 47% US
		→ 9% Mexico
		→ 9% Brazil
Europe	21%	
Asia Pacific	21%	→ 12% China

Moving beyond the family to take on the world

The Woodbridge Group

Name	Bob Magee, Chairman
Sector	Chemical / manufacturing
Market	Global
Founded	1978



The Woodbridge Group, a multi-business chemical/manufacturing company that converts urethane chemicals into automotive parts, is on a renewed path to growth. Bob Beamish and Bob Fitzhenry purchased the business from their then employer—Monsanto—in 1978. The Woodbridge Group has since grown from one location with 350 employees to 64 facilities in 18 countries with 9,000 employees. Annual sales have increased significantly from \$26 million to \$1.5 billion.

While the Beamish family remains as the single largest shareholder, they rely on a team of professional managers to run the day-to-day business. First and second generation family members continue to be an integral part of the strategic decision making process and hold active positions as Directors of the company. Chairman Bob Magee has been with the company since its Monsanto days and took over as president and CEO in 1999. “We became a family business with professional management and leadership capacity almost overnight. As soon as we got out from under some corporate bureaucracy, we were able to make decisions more quickly, found our success in the automotive sector and our growth took off.”

Over time, as much as Mr. Magee enjoyed the family culture, it did show some drawbacks, including a reliance on internal talent versus tapping a more diverse pool of people from outside the company with a proven track record of global competitiveness. “During my time as leader, we drove diversification of both our geographical presence and of our product offerings. Expanding into global markets forces you to become more sophisticated. I quickly saw the benefit of being open to new ways of doing things and to the benefits of a culturally diverse team.”

Fast-forward to the economic collapse of 2008 and it became clear that in order to survive the downturn, and thrive beyond it, The Woodbridge Group would have to professionalize its team and processes. “The downturn was doubly difficult for Canadian companies because in addition to dealing with the recession, our dollar was no longer a competitive advantage. For the first time in its history, The Woodbridge Group had to lay off a significant percentage of its workforce in order for it to survive on the global stage.

“*The company and the industry were growing in sophistication faster than some of our people could. That’s a hard thing to admit in a family culture where everyone is your friend, but it was also necessary to help ensure we were competitive.*”

At the same time, as a large organization with operations around the world, the business had become increasingly complex. “It was impossible to know everyone and to ensure processes were consistent,” says Mr. Magee. “In our first 10 years it was easy, but with people offshore, we could no longer count on osmosis for learning. We needed training, standard processes and systems across functions.”

In order to win, the company needed to upgrade all of its teams, starting with the senior leadership team. Post-recession, it was competing against \$20-billion-plus global competitors. “I remember telling our people, we just made it to the automotive

Olympics—are we going there to participate or are we going there to win? The company and the industry were growing in sophistication faster than some of our people could. That’s a hard thing to admit in a family culture where everyone is your friend, but it was also necessary to help ensure we were competitive,” says Mr. Magee. “We went shopping for talent in companies that were much larger than ours, and for people who knew the value of standard processes and how to manage from a distance.”

They started at the top with the leadership team, and demonstrated the improvements in decision making and profitability to the rest of the company. The HR group communicated the strategic plan to employees, their role in achieving objectives and, most importantly, the need for managers at all levels to build capacity in their teams. The message was clear: job security is only possible if you’re operating at your best. And to do that, you need to surround yourself with the most highly skilled people.

The push to professionalize and build skilled teams across all levels has made The Woodbridge Group stronger. Sales are up and performance has improved thanks to the adoption of new, more effective business processes [like Lean Manufacturing] and the implementation of metrics to measure performance and build accountability into the changes.

Lasting legacies

How family businesses differ

Family business leaders take pride in what they do and identify several key behaviours as advantages over non-family businesses. For example, 80% of Canadian respondents agree that family business plays an important role in job creation, that they measure success beyond just profitability, and that they're committed to retaining staff even in bad times. They agree their culture and values are stronger (75%), they're more entrepreneurial (71%), make decisions faster (73%) and take a longer term approach to decision making (65%) than non-family businesses. Global family businesses share many of these positive beliefs but to a lesser degree.

Interestingly, 32% of Canadian respondents and 38% of global respondents agree they take more risks than other companies. Twenty-eight percent and 36% respectively also believe they're less open to new thinking and ideas.

This contrast may reflect generational differences and a fear of losing the attributes they take such pride in as they grow and become more professional. One way to overcome this fear is for family business owners to become board members. This means having a strong mandate and direction within the family and educating themselves on what growing and sustaining a business looks like as a larger organization.

We saw a 20% drop in Canadian respondents reporting a strong sense of responsibility to support community initiatives, down from 91% in 2012. This could be because, generally, as companies expand, new-offices should be given a mandate to stay front and centre in their community in a manner of their choosing. In this way, philanthropy expands with the business.

What sort of legacy would you like to leave?

"[I'd like to] Leave a foundation that my family can use as a platform to grow on, and in the process of doing so conserve a good name in our community, the community we share a city with."

1st generation family business

"It would be the ongoing success of the business. I don't want it to fail when I depart, I would like it to continue."

2nd generation family business

"I hope for the business to carry on growing and giving a good living to the employees."

2nd generation family business

Succession

Are you ready for the future?

Around the world, the next generation is very involved in their family business. Sixty per cent of Canadian family businesses and 55% of global family businesses have next-generation family members working in the company.

All Canadian family businesses surveyed have family members employed as senior executives in the company, compared to 93% globally. The next generation is also well represented at the C-level with 43% of Canadian and global respondents reporting they have next generation senior leaders.

In Canada, just over half (55%) have family members working in other roles and 33% have family members who own shares but don't work in the business, compared to 49% and 48% globally.

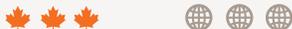
60%

of family businesses in Canada have next generation family members working for the business.

33%

of family businesses in Canada have non-working family member shareholders.

Family involvement in the business



Family-members working as Senior Executives within the company

100% **93%**

Family-members working within the company, but not Senior Executives

55% **49%**

Family members don't work for the company, but have shares

33% **48%**

Family members don't work for the company, or have shares, but are recompensed in other ways

36% **18%**

'Next generation' family involvement in the business



Next-gen family-members working as Senior Executives

43% **43%**

Next-gen family-members working within the company, but not Senior Executives

37% **28%**

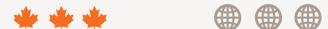
Next-gen family members don't work for the company, but have shares

13% **23%**

Next-gen family members don't work for the company, or have shares, but are recompensed in other ways

16% **7%**

Non-family involvement in the business



Non family-members on the board

39% **65%**

Non family staff have shares

23% **34%**



Of those, are likely to offer shares to family in the next five years

20% **18%**

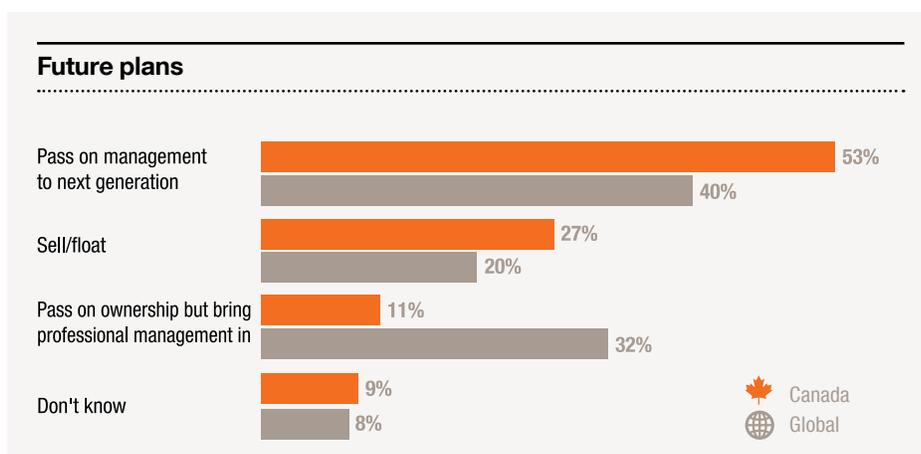


When asked about anticipated changes in the next five years, 53% of Canadian and 40% of global family business plan to pass ownership and management on to the next generation. Only 11% of Canadian respondents, compared to 32% globally, plan to pass on ownership to the next generation while bringing in professional management.

Interestingly, more than one quarter (27%) of Canadian family businesses are planning to sell, either to another company, private equity investors or the management team. This compares to 20% for global respondents.

The differences across responses are a function of age and size. There are active and inactive owners and each new generation will have more inactive owners. It's important to prepare the next generation to work with professional management and to be more outward looking with respect to how to build the business. This will help continue the momentum toward professionalization with family ownership responsibilities.

Less than one quarter (23%) of family businesses in Canada have awarded non-family staff shares in the company, and only 20% plan to in the next five years. A greater amount of global respondents (34%) have offered shares to non-family employees, but fewer plan to do so in the future (18%).



Canada's family businesses are slowly coming to understand that in order to attract the skilled and committed talent they will need to ensure the long-term health of the business, they have to be willing to rescind some ownership. It's the best way to attract, retain and engage talent. Most successful non-family professionals have an equity stake in the companies they're helping lead.

When it comes to decision-making at the board level, family businesses in Canada are much less likely to have non-family members on the board than in other countries.

This is about learning to trust people outside the family. It's a mark of good leadership to be able to take in different opinions and use that information to make the best decision for your organization while staying true to your values. Most advisers/board members will want the best for the business and the family because they see the benefit

to the community and the economy. One way to start is to have non-family advisory board members with no formal decision making to get used to having a second and third opinion.

Family businesses cite their focus on the long term viability of the business as a top priority, yet they've largely not prioritized succession planning. Only 20% of Canadian and 16% of global family businesses have a robust, documented succession plan in place. Less than 20% of all respondents have a plan in place for all key senior roles.

Bottom line: everybody needs to do a better job and take their cue from larger public companies that have procedures in place to identify and develop future leaders. Again, this points to the need to professionalize processes—in this case, the HR function. Often, family businesses wait for someone to grow into the role or for someone with the skills and competencies to show up.



Even though 88% of Canadian respondents and 83% of global respondents have at least one procedure in place to deal with conflict, it's a pervasive issue globally and few family businesses have the ability to deal with it effectively. Many rely on shareholder agreements but these don't address many of the issues around family dynamics that lead to conflict.

Only 12% of Canadian family businesses have a family constitution, compared to 22% globally. A family constitution creates the foundation for why the business exists, how it'll grow, what the family's role will be in the business and what the role the business will play in the family. It creates a road map for the next generations and for professional management and perhaps most importantly, it creates the opportunity to have the conversations that need to happen.

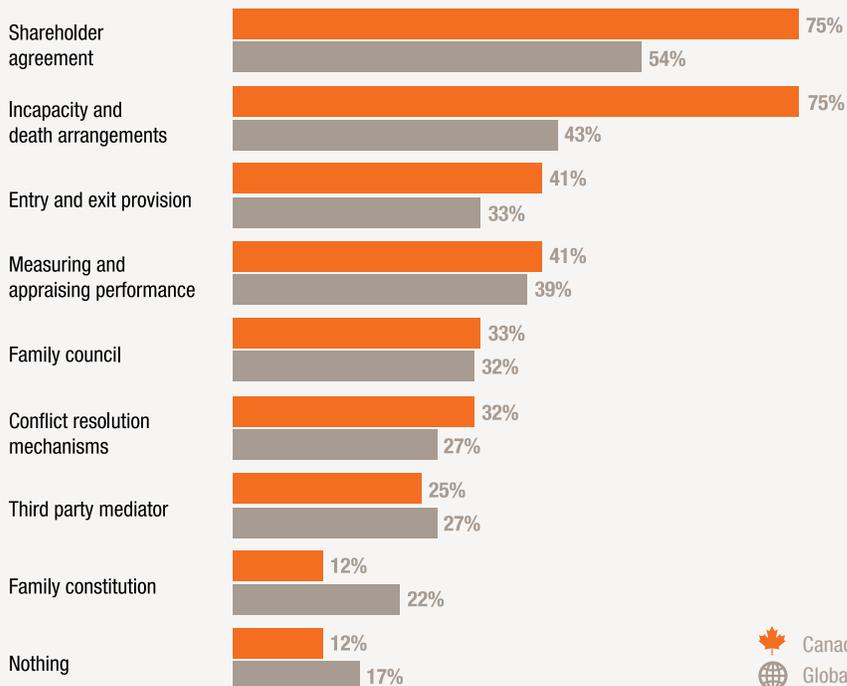
88%

of Canadian family businesses have at least one procedure or mechanism in place to deal with conflict.

1 in 5

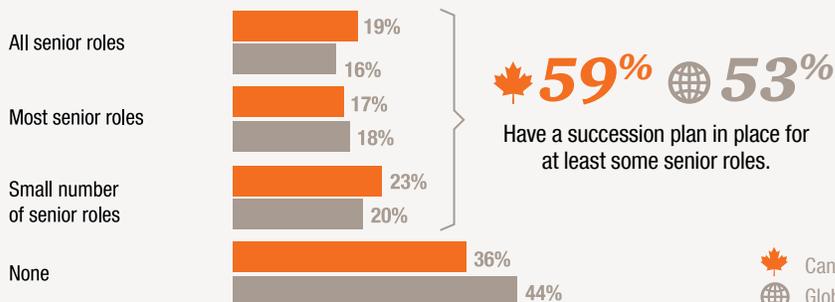
family businesses have a succession plan in place that's robust and documented.

Procedures to deal with conflict



Canada
 Global

Succession planning for key senior roles



Canada
 Global

Keeping pace with change

Moving to digital

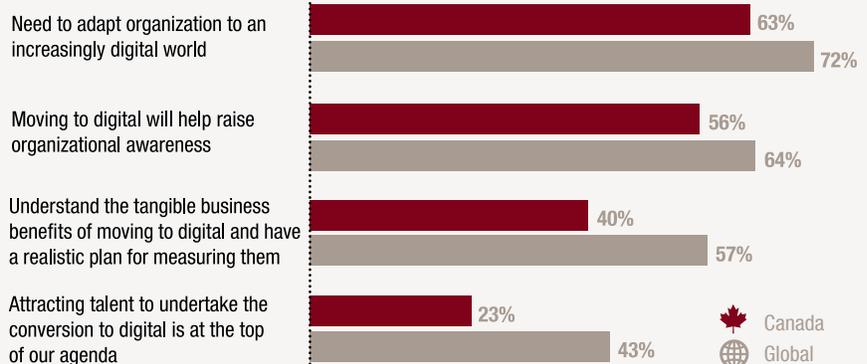
Although the majority recognize the importance of digital, Canadian family businesses are much less likely to say they understand the tangible business benefits of moving to digital and have a realistic plan for measuring them.

While family businesses agree we now live and operate in a digital world and they need to adapt their organizations to this new reality, Canadian family businesses aren't completely sold on how adopting new technologies will improve performance. Only 40% of Canadian respondents understand the tangible business benefits of moving to digital and have a plan for measuring them. This compares to 57% of global respondents. Less than a quarter of Canadian family businesses have made attracting talent to transition to digital a top strategic priority, compared to 43% of global family businesses.

Technology touches all industries and all functions within industries. Companies that don't become more forward thinking will fall behind competitors that have been quicker to benefit from the efficiencies digital tools can bring. Family businesses that are unsure of how to proceed, should consider engaging an independent third party to evaluate their technological needs and make recommendations that will scale with the business. They should also recognize the importance of hiring people who can implement and manage the systems.

The digital world

Percentage agreeing with the following statements about the digital world



Conclusion

Family businesses here in Canada and around the world understand that the business landscape is now defined by change and the need to innovate. They've identified three key trends that will shape how they grow their businesses: technological advances (Canada, 81%; global, 79%); demographic change (Canada, 71%; global 56%); and shift in global economic power (Canada, 52%; global 60%).

Each of these trends points to the need to professionalize all aspects of the business—the key theme that's emerged throughout this report. It's a new day for business, one that's full of opportunity for organizations with the right people and systems in place to seize them. For family businesses specifically, professionalizing the business is critical in order to build value and create financial stability and wealth for current and future generations.

Definitions

For the purposes of this survey, a 'family business' is defined as a business where:

1. the majority of votes are held by the person who established or acquired the firm (or their spouses, parents, child, or child's direct heirs);
2. at least one representative of the family is involved in the management or administration of the firm;
3. in the case of a listed company, the person who established or acquired the firm (or their families) possess 25% of the right to vote through their share capital and there's at least one family member on the board of the company.

Survey methodology

For this survey, 2484 semi-structured telephone and online interviews were conducted via Kudos Research in London with key decision makers in family businesses in over 40 countries worldwide between April 29, 2014 and August 29, 2014. This report takes into account the responses of 75 Canadian respondents. The turnover of participating companies was from USD\$5m to USD\$1bn. The interviews were conducted in the local language by native speakers and tended to average between 20 and 35 minutes. The results were then analysed by Jigsaw Research.



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Alicia Fowlie



Making a difference to you and your business

Entrepreneurs and business owners face a unique set of opportunities and challenges. Our Private Company Services group understands this. We're part of a global network of advisers who are committed to driving your success. We'll make a difference by connecting you to affordable solutions that help you navigate the road ahead, build value in your business and achieve the return you're looking for.

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