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## Family businesses: Sustaining performance

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## Introduction

“Family businesses” have been a key focus of research at Credit Suisse. This dates back to 2007, when we launched the CS Family Business Index of listed family companies exhibiting best in class financial characteristics. Since then, we have continued to publish articles on the topic with reports such as “The Life Cycle of UK Family Businesses” and more recently the “Asian Family Business Report.” Our analysis not only focuses on a substantial proportion of the corporate sector and in turn the source of wealth creation, it also identifies an economic sector that delivers consistent excess stock market returns.

In the light of the credit and Eurozone crises, we believe that it is important to cast the spotlight on the family business model – not simply because these businesses are potentially a vital engine of economic recovery, but because the business model they employ (longer-term focus, good corporate governance and emphasis on the importance of product quality) is arguably the antidote to some of the structural failings uncovered by the financial crisis.

With this in mind, we have conducted new and proprietary research to help better understand the impact of family businesses on economies, and to also illustrate the issues and challenges that they face in the current environment and how they are managing them. To do so, we have conducted a survey of international member businesses of the Family Business Network International. The analysis presented is based on respondents from 280 companies across 33 countries. The survey reflects the contemporary macro issues as well as structural ones such as sustainability and governance and the human capital challenges of succession and talent management.

The results highlight a number of key themes across large and small, listed and non-listed family businesses.

Family businesses have to date coped relatively well in the current hostile environment with close to 60% reporting revenue growth of 5% or more in the prior year. This robustness appears supported by their long-term, ‘quality first’ approach, particularly in the longer generation firms. At least three quarters of respondents see a long-term perspective as key to success; most have a long-term payback approach to investment and focus on an internal rather than external financing model to fund future growth.

As much as supporting them through the current difficult environment, our own research highlights that their model has paid off consistently over time for both family members and outside investors. The cash flow returns that listed family businesses have generated have been superior to the wider listed sector. In turn, this has driven the stock market outperformance of family businesses. Indeed, our CS Family Business Index has now outperformed the market over the last five years by 8%.

Where succession is concerned, families are sticking together – there is a strong desire to pass the business on to the next generation and they highlight the need to plan early, conscious of the large proportion of family businesses that struggle to navigate past the first generation. The family business accounts for most of the family’s wealth in the companies surveyed. Governance issues and talent attraction and retention are of course risks for businesses where succession and retaining ownership are at the heart of the model.

Finally, sustainability – financially and socially – is a key issue for family businesses. The survey highlights that 72% of businesses led by the second or a higher generation reported that they had a strategy related to environmental, social and governance issues. In fact, we find elsewhere that listed family businesses tend to have good ESG (Environment, Society and Governance) scores on average, if governance can be a weaker point. Of course, the generational interests and focus of family businesses should indeed be aligned with such sustainable thinking. However, in that regard their thinking is itself aligned with the growing focus of all investors.

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# A diverse universe

We surveyed nearly 280 family businesses<sup>1</sup> from the Family Business Network across 33 countries, though European businesses were dominant. Many of these (33%) are fourth-generation businesses or older. On average, our respondents were representatives from large companies that tend to operate in the industrial, discretionary and materials sectors.

Our survey audience comprised members of the Family Business Network (FBN). The Family Business Network is the world's leading network of business-owning families, promoting the success and sustainability of family business. The role of the FBN is to articulate the positive role of family business and its contribution to the economy and society. The FBN works to create opportunities for sharing best practice through national, regional and international programs and events. The FBN also seeks to provide a thorough understanding of the micro and macroeconomic frame-

work of family business and to promote the longevity of family business worldwide. Founded in 1990 as a federation of family business associations, the FBN has grown to 30 national associations. The network is composed of 5,500 family business members (owners, leaders and next-generation successors). Members include medium and large-scale companies in 50 countries across five continents.

Family businesses – those where a family has enough ownership to give it significant control – span a vast range of sizes from very small up to enormous global enterprises. And they include both listed and unlisted enterprises. We believe that all types of family business are highly relevant to the economy and of interest to investors, since the behavior of smaller and unlisted family businesses also gives insights into the activities of listed ones.

We received almost 280 partly or fully completed surveys from Family Business Network members. In some cases, the responses to some questions were missing or inconsistent. To resolve

<sup>1</sup> There is no widely accepted definition of what constitutes a family firm and different ownership levels have been applied in past studies. Families can maintain their control or influence on firms by using control enhancing devices (such as dual class shares) and through managerial involvement. Our Family Business Index uses a minimum ownership level of 10% to distinguish between family and non-family businesses. For the purposes of this survey we do not assess the extent of family control or involvement among survey respondents. However, there are very strong indications of family influence, including affiliation to the FBN, second or later generations in control (86% of respondents), and the business representing the majority of the family's wealth (92% of respondents).





Figure 1

**Respondents by regional group**

Source: Credit Suisse. Note: figures exclude blank responses

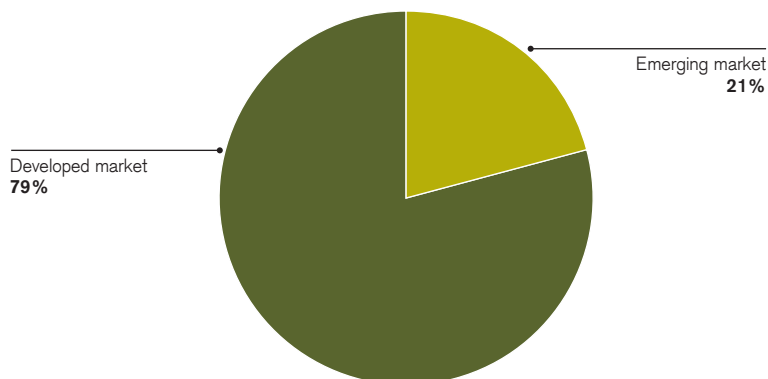


Figure 2

**Most respondents were “older generation” companies**

Source: Credit Suisse. Note: figures exclude blank responses

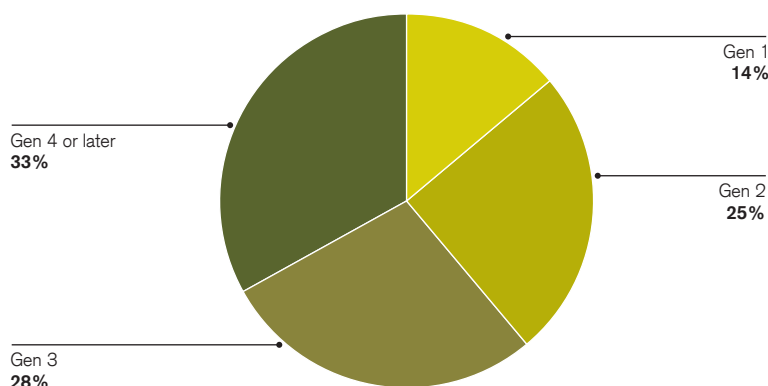
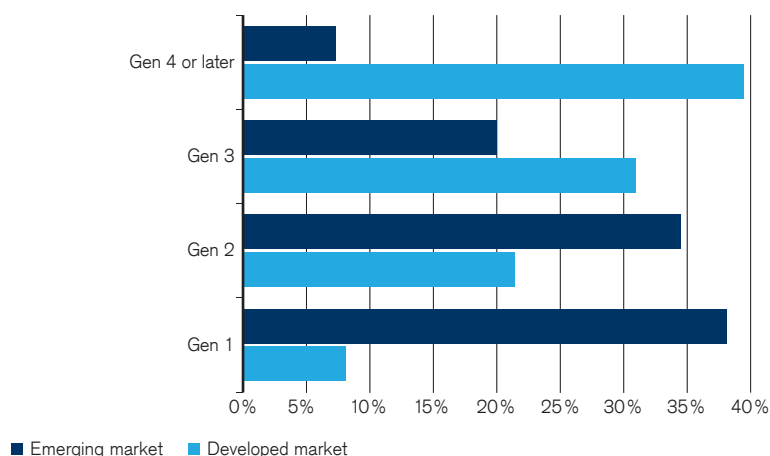


Figure 3

**Generational representation consistent across regions**

Source: Credit Suisse. Note: figures exclude blank responses



this problem, we recomputed the results, but excluded missing or inconsistent answers. In the vast majority of cases, it did not significantly alter the meaning or the value of the results.

Emerging markets are well represented with 55 companies, or 21% of respondents (Figure 1). In the developed world, respondents tend to come mostly from Europe, with the US underrepresented. More specifically, countries with the greatest number of respondents were the UK, Belgium, Germany, Switzerland and the Netherlands – all countries with a long history of family business involvement in the economy. In emerging markets, respondents came from Eastern Europe, Latin America and Asia; however, we did not receive any replies from Chinese companies.

The breadth of the questionnaire submitted by us to the Family Business Network permits the dissection of the results across a range of factors such as generation, size, location and sector. We show the majority of the results here, and will make a pdf file containing the full set of responses to our questions available through the Research Institute (upon request).

The following trends stand out. In terms of age, the businesses we surveyed are relatively mature – 33% are now fourth generation (or older). The benefit of this from the point of view of the survey is that older family businesses are likely to have experienced the full range of challenges associated with “the life cycle of the family business” and may thus provide more in-depth responses to our survey. Only 14% of the companies surveyed were first generation, 25% were second generation and 28% were third generation (Figure 2). Also, in terms of generation it appears that “younger” family businesses are more prevalent in the emerging world (Figure 3). There appears to be very little difference across generations when we break down the sample of family businesses according to whether they are listed or not.



On average, the family businesses captured in our survey are large: 42% have 1,000 or more employees, 24% have 250–1000 employees, 23% have 50–249 employees, and the remaining 11% have 1–49 employees (Figure 4). Intuitively, most of the larger companies are fourth generation (or older), and close to 30% of the smaller companies are first generation. In this context, our sample is dominated by larger, older companies.

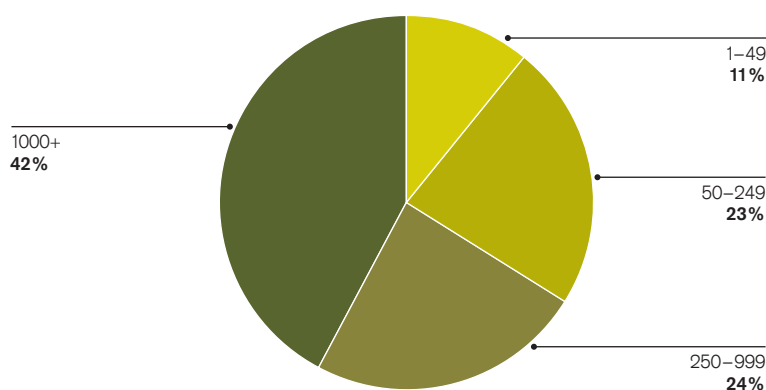
We also managed to gather data on sector representation. Figure 5 shows that the greatest presence is in the industrial, consumer discretionary and materials sectors. Compared to the universe of listed companies (based on the MSCI World), the industrial and materials sectors are overrepresented in the sample, while the information technology (IT) and financial sectors are relatively underrepresented. Seventy-four companies in our sample say that they operate in several sectors.

The report is structured as follows. We begin Chapter 2 with an analysis of what appear to be the drivers of the family investment philosophy, and then in Chapter 3, we provide an update on the performance of listed businesses subject to significant family control. We then turn in Chapter 4 to some of the management and governance issues that face family businesses throughout their life cycle. Chapter 5 tackles the increasingly important issues of sustainability, while Chapter 6 focuses on philanthropy and family wealth.

**Figure 4**

#### 42% of sample companies have more than 1,000 employees

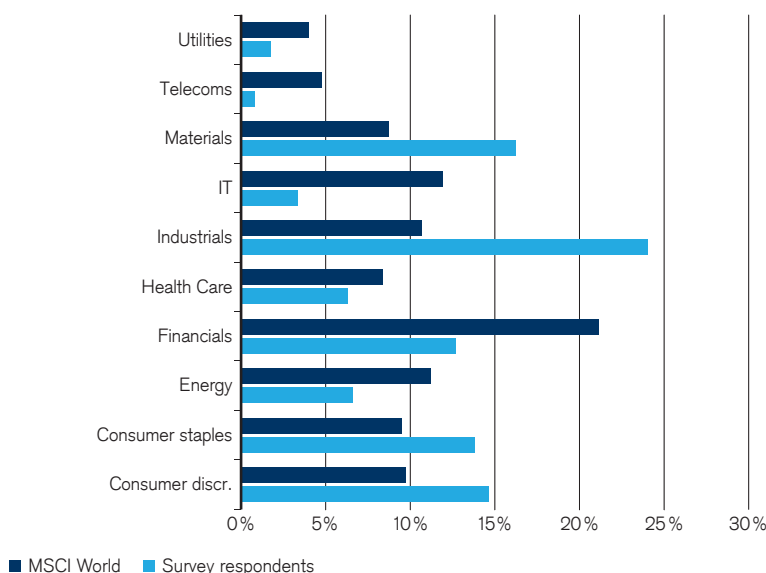
Source: Credit Suisse. Note: figures exclude blank responses



**Figure 5**

#### Sector representation of businesses sampled

Source: Datastream, Credit Suisse. Note: figures exclude blank responses; MSCI shares are market-cap weighted, % figures show the number of companies per sector. If a firm is active in multiple sectors, we weight the sectors so that they equal one.





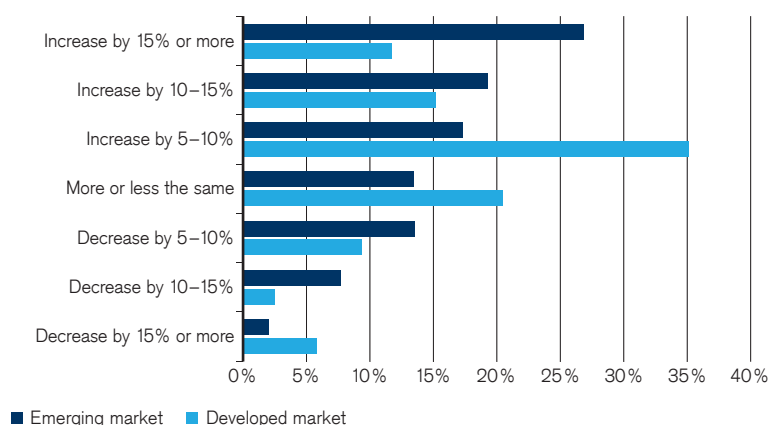
# The long view

The financial literature addressing the characteristics of family businesses presents a model of companies not influenced by considerations of near-term profitability, pursuing instead a long game of “patient capital.” Our survey allows us to test this perception in the real world and judge its success in the context of economic stresses.

Figure 1

## Performance in the last financial year in comparison to the previous year

Source: Credit Suisse. Note: figures exclude blank responses



## The image of the family business investment philosophy

Financial research and studies written about family firms elsewhere (sourced below) have pointed to the following key characteristics that afford them a competitive advantage:

- A streamlined management structure between owner and manager allows an agile and swift decision-making process to confront shocks and challenges to the business.
- The long-term perspective and investment time horizon of family owner-managers (compared to non-family executives and shareholders) is the key to success.
- The choice to invest in a geographical market or product that might not be profitable in the short to medium term, but immensely beneficial to the firm





Figure 2

### Factors considered important to the ongoing success of the business

Source: Credit Suisse. Note: figures exclude blank responses

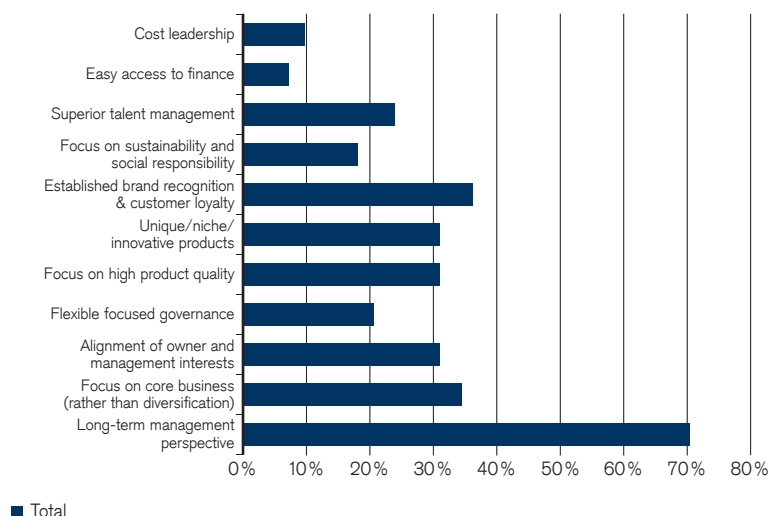


Figure 3

### Factors considered important to the ongoing success of business by generation

Source: Credit Suisse. Note: figures exclude blank responses. Young companies refers to 1<sup>st</sup> and 2<sup>nd</sup> generation companies, Mature companies refers to generations 3 and 4.

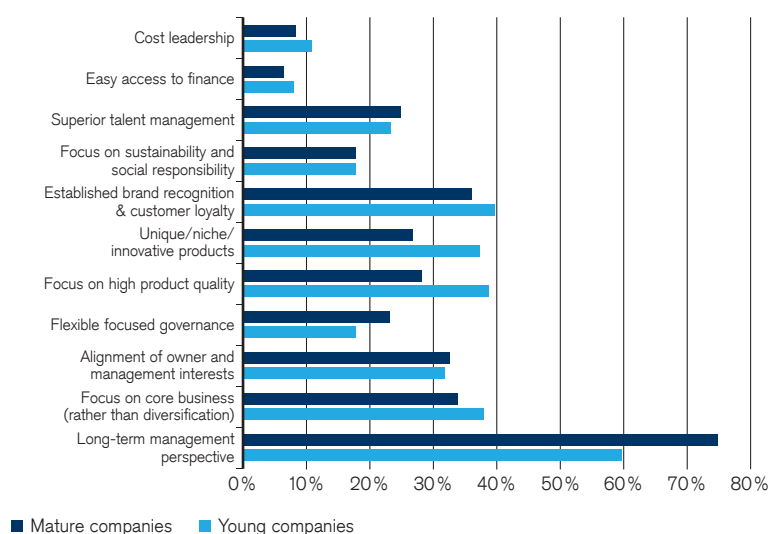
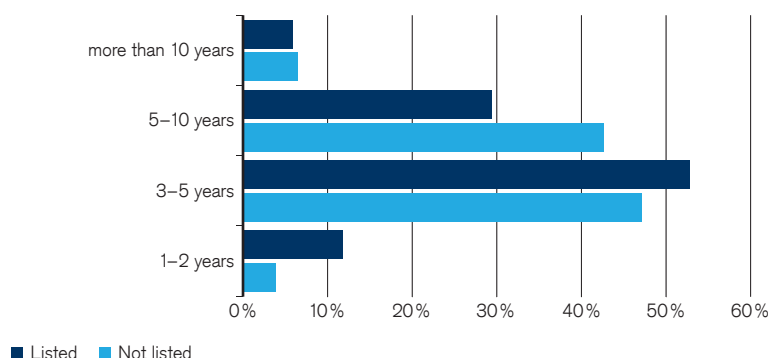


Figure 4

### Typical time horizon for the payback on a new investment

Source: Credit Suisse. Note: figures exclude blank responses



in the long run, can be out of reach for businesses with alternative ownership patterns.

- A family firm may not have shareholders to whom senior executives must continually justify near-term earnings, capital expenditure and investment. As a result, the business can see through the volatility and normalize decisions over a longer period of time.

- The leverage and fiscal characteristics of family and non-family-owned businesses typically differ. The former adopts a more conservative balance sheet structure.

How does this fit with the profile emerging from the survey?

### Robust performance in tough times

Firstly, the model does appear to be holding up well. In the midst of the tough economic climate, the majority experienced material revenue increases in the 12 months to June. In fact around 60% developed market companies saw increases of above 5%. More than 10% of the companies recorded increases in excess of 15%. In contrast, in the last 12 months overall revenues of European listed corporates have fallen by 1%. The performance of emerging market companies in the survey was even stronger if perhaps less surprising (Figure 1). Is the suggested long-term focus playing a role? The survey suggests it does.

### A long-term perspective drives success

The survey asks companies to rank the key success factors of their businesses. Figure 2 shows the overall breakdown of responses. It reveals that family businesses have a clear strategic focus. Three factors stand out, namely a long-term management perspective (70%), focus on the core business (34%), and establishing brand and customer loyalty (36%).

If we consider the generational split, the emphasis on the long term perspective becomes more marked in the most mature companies versus the less mature. The difference in the score for the long-term perspective for the fourth versus first generation businesses is over 10% (Figure 3).

It is also worth noting that the alignment of owner and management interests (33%) scores well. However, this poses the question of whether the alignment of these interests also benefits minority shareholders – a consideration examined elsewhere in this report.

### Investing for long-term returns

A longer-term perspective should clearly influence the investment decision-making process. To examine the foresight of family businesses' investment decisions, the survey records responses on the payback periods companies demand for invest-

ment. As Figure 4 shows, the most common average payback period is 3–5 years, with 48% of respondents answering this question. However, nearly 40% are prepared to stretch their horizon to ten years. We cannot benchmark this against the overall corporate sector, though the split of listed and non-listed companies in our sample reveals a marked difference.

Unlisted companies are comfortable with longer payback periods. While the sample is confined to family businesses, it does perhaps allude to the role the public markets play in influencing investment decisions and this might play out more widely for non-family businesses in the overall corporate sector – this being one of the points advanced in other financial literature.

If the long-term focus is more pronounced in the non-listed sector, the generational split reveals a similar pattern (Figure 5). Businesses with greater longevity appear comfortable with longer payback periods, whereby a significant proportion are willing to accept a payback period that is greater than ten years. More specifically, companies that place the greatest emphasis on long-term thinking accept the longest payback periods on their investment.

### Financing growth

The length of time horizon for investment and payback is consistent with the financing model that family businesses pursue to fund growth. The survey asked companies to rank their preferred financing method for growth on a scale of 1 to 7 (with 7 being most preferable). Retained earnings are the most popular option across all business sizes (Figure 6).

Note also the high rankings for family self-financing for smaller businesses, which is itself another form of internal financing. It may of course be that funding externally and the costs involved mean that funding through internal means better aligns cost and benefits. However, as we show elsewhere, it seems consistent with a more conservative approach to leverage in general.

External providers may not share the same long-term time horizon as the family businesses themselves. However, as we show elsewhere, we consider this to be consistent with a more conservative approach to leverage in general, which is typical for these companies.

### Does the model pay off?

A legitimate question, of course, is whether a longer payback period and such a financing model is in itself a good thing. Does it reflect a less disciplined approach to the cost of capital? Accordingly, does it affect value creation or does it enhance profitability? We are of the latter opinion, based on the cash flow analysis we present in Chapter 3, which shows that family businesses have a track

Figure 5

### Typical time horizon for the payback on a new investment

Source: Credit Suisse. Note: figures exclude blank responses

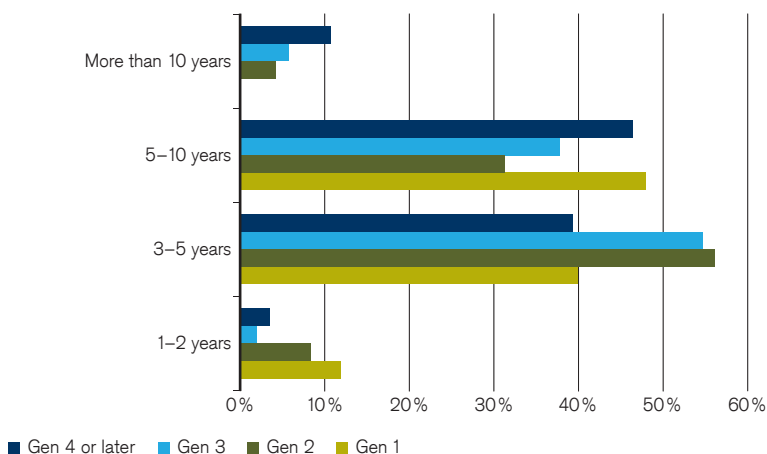


Figure 6

### Preferred financing options (by company size)

Source: Credit Suisse. Note: figures exclude blank responses

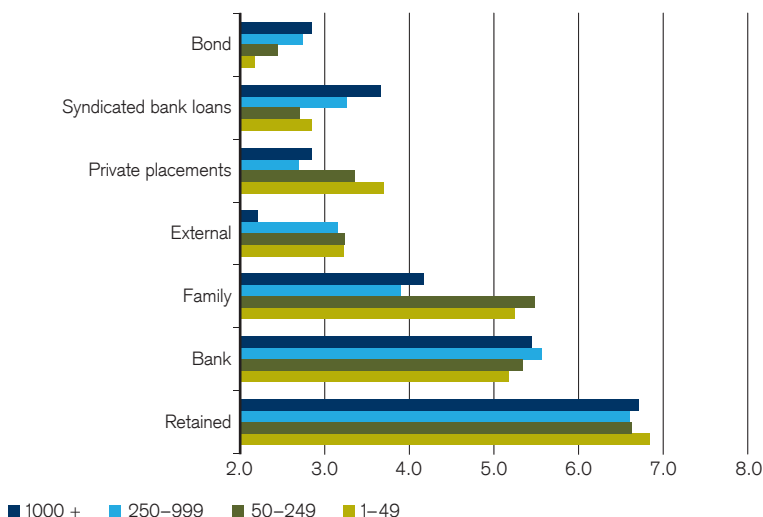


Figure 7

### Euro crisis is not a specific concern

Source: Credit Suisse. Note: figures exclude blank responses

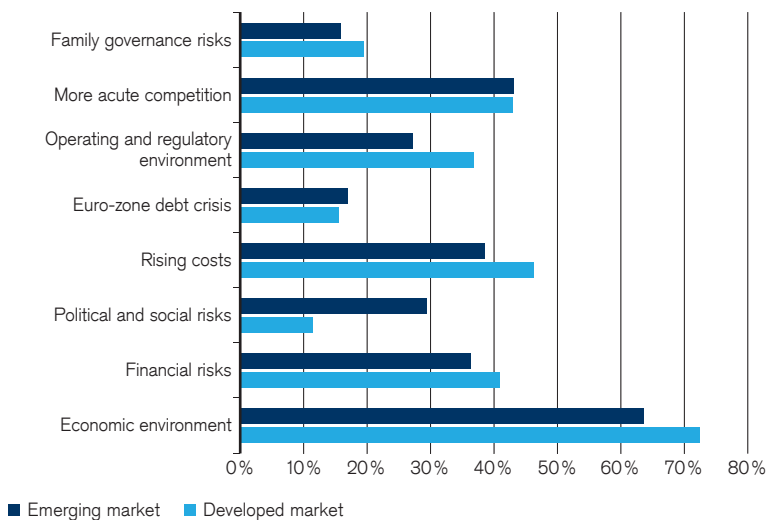




Figure 8

### Younger businesses seem to have greater difficulty accessing finance

Source: Credit Suisse. Note: figures exclude blank responses. Young companies refers to 1<sup>st</sup> and 2<sup>nd</sup> generation companies, Mature companies refers to generations 3 and 4.

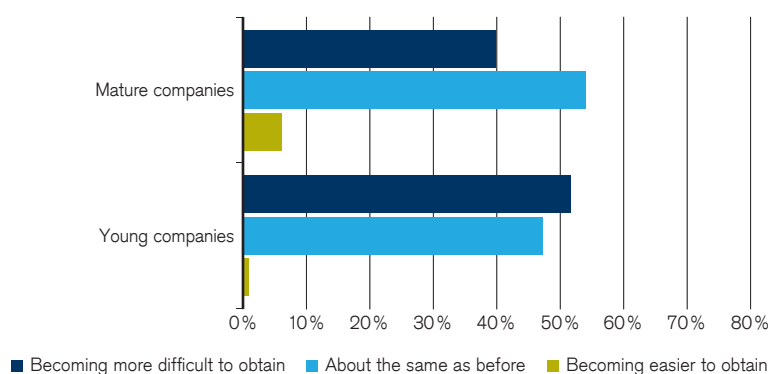


Figure 9

### Quarterly euro area loan flows to non-financial corporates (total maturity, EUR m)

Source: European Central Bank, Eurosystem Data Warehouse

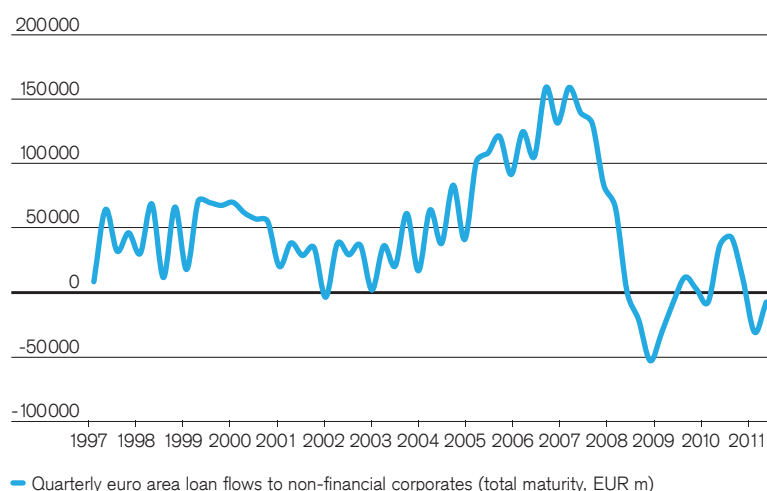
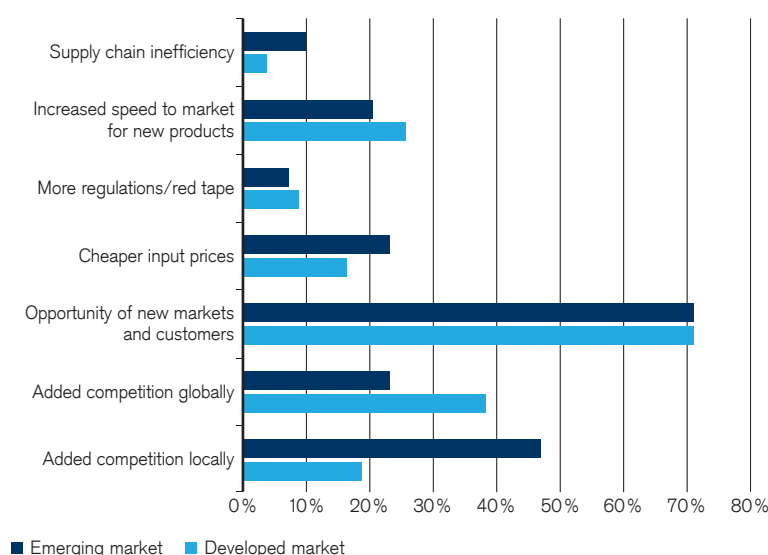


Figure 10

### Impact on business of the rise of emerging markets

Source: Credit Suisse. Note: figures exclude blank responses



record of generating superior returns relative to the cost of capital when viewed against the broad corporate sector. Patient use of capital pays off for owners and external shareholders.

### Challenges, risks and opportunities

Obviously, this patient long-term capital model entails a wide range of ongoing risks, challenges and opportunities in the current environment, i.e. weak global activity, dysfunctional capital markets, growth in emerging economies and substantial technological changes. The survey allows us to analyze how family businesses see these factors in terms of their significance and how they are positioning themselves for this (Figure 9).

Figure 7 shows the factors that pose the biggest challenges to their model. Not surprisingly, the hostile economic environment emerges as the most significant factor. This is most acute for larger companies. However, it is perhaps surprising that the Eurozone debt crisis per se is not singled out as a major factor. This is perhaps consistent with the long-term perspective that shines through in other sections of this report.

### Coping with the credit crunch

The rather sanguine view of the debt crisis in Europe itself may stem from that fact that our respondents do not voice any intense concerns about financing conditions. When asked to compare the accessibility of external financing today compared with the situation before the financial crisis (Figure 8), most of our family business respondents report that the availability of finance is “about the same as before.”

We find that these results vary little in terms of the size of the business, although we note that there is a difference when it comes to the generation of the business. The more mature companies register the least difficulty compared to younger generation businesses. It may well be that the latter have lower cash reserves, fewer sources of financing within the family and less well established banking relationships. That said, the responses for these younger generation businesses do not flash a red warning light in any sense.

It is worth noting that the perception that finance is not difficult to access if required, particularly among older generation businesses, is by no means a common feature across the corporate sector. Conditions in general are tight. The flow of loans to financial corporates in the Eurozone has declined, reflecting a severe squeeze in liquidity supply, and contrasts sharply with the plentiful supply until late-2008.

Why is it so? It is a function of these older generation businesses' actual requirements and their appeal to the external credit provider. We show in Chapter 3 that family businesses are typically com-



panies with lower levels of gearing relative to their peer group. If their risk profile is lower in balance sheet terms, we argue that their long-term planning horizon serves the interests of debt holders due to their lower cash flow volatility and the defensive nature of their business. Moreover, the greater the longevity of ownership, the more visible these attributes should be.

### Emerging markets: Opportunities and threats

The survey shows that family businesses are willing to invest through the downturn when opportunities present themselves. The growth in emerging markets is just such an opportunity. We noted earlier that emerging market companies, in particular, are experiencing the greatest revenue growth. By implication, this offers opportunities for firms outside of the region as well as within it. Figure 10 confirms this perception, with respondents viewing the major impact of emerging markets as an opportunity for new markets and customers.

However, it is a double-edged sword. Growth in emerging markets represents an opportunity as well as a threat. However, developed market companies are very conscious of the competitive risk they pose, both globally and in their own market.

### Technological changes

Finally, in addition to managing the economic risks, the corporate business model is challenged by the development of new technology. Family businesses are no different. When firms were asked how market trends will affect their company, innovation and the use of new technologies were high on the list for both developed and emerging market businesses (Figure 11) and also for the larger firms within the group. Moreover, when asked as to how new finance is likely to be employed, an emphasis on new innovation is the overwhelming response.

How they are responding to this challenge is less clear. Implicitly, they have integrated this awareness into the efficiency of their business. When they were asked what they had done to improve efficiencies in the last three years (Figure 12), focus on better knowledge management was the most important factor.

But when asked what impact new technology and specifically social media had on their business and the way in which the next generation would manage the firm, while seen as relevant to their outlook, we were a little surprised that the responses did not show higher scores (Figure 13). A large number of companies believe that it will have little impact. With social media being arguably the most significant structural change influencing the development of markets – whether B2B or B2C – it is crucial that their models respond to this challenge.

Figure 11

### Likely impact of changing market trends on business

Source: Credit Suisse. Note: figures exclude blank responses

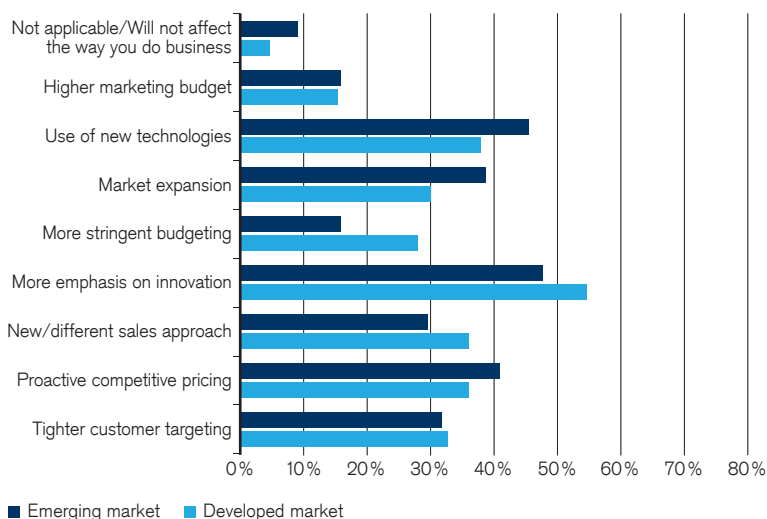


Figure 12

### Steps taken to improve efficiencies in the past three years

Source: Credit Suisse. Note: figures exclude blank responses

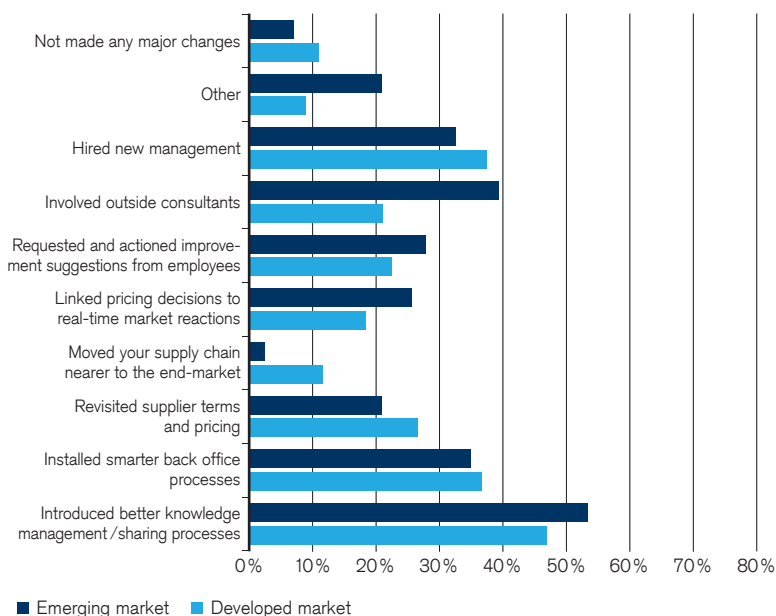
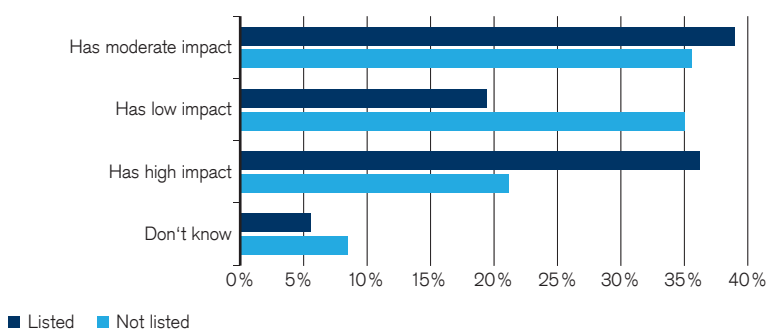


Figure 13

### Impact of new technology (including) social media on business

Source: Credit Suisse. Note: figures exclude blank responses

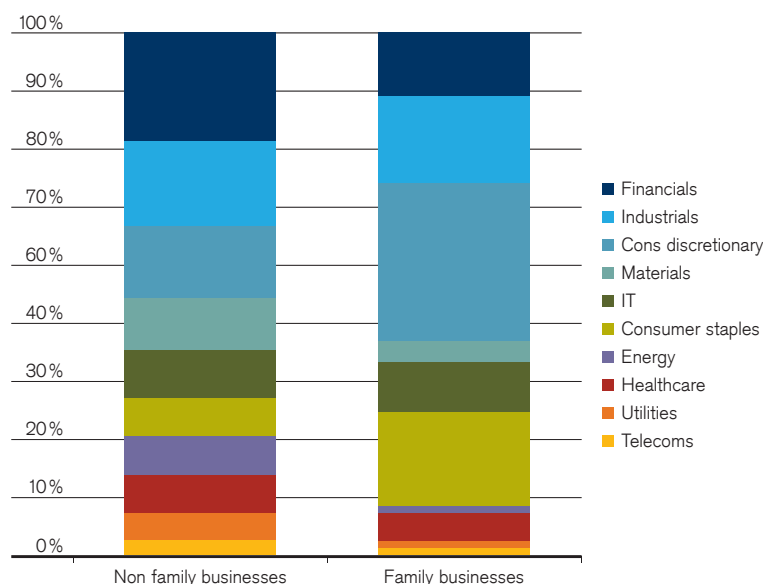


# Maintaining performance

The Credit Suisse Family Business Index illustrates how a combination of best-in-class financial metrics and family ownership can deliver an equity market outperformance for investors. Our analysis also demonstrates the superior operating performance that has been delivered by family businesses relative to the global average.

**Figure 1**  
**Sector weights in the broad family universe**

Source: Credit Suisse



## Analyzing the performance of family businesses

In order to begin to investigate the performance of listed family businesses, we examine the constituent companies in the CS Family Business Index universe. We performed a backtest on all 225 constituents, with a control for sector bias. For this purpose, we constructed an equally weighted index. In addition, we constructed a benchmark index based on the actual sector weights mirrored in the broad family universe.

We do this to eliminate any sector or regional biases in the underlying family business universe. It is necessary since almost 45% of companies featured in the broad family universe are active in the consumer sector, whereas only 1% operate in the energy sector (see Figure 1). Indeed, the Family Business Index is characterized by a sector composition that is significantly different from those found in global equity benchmarks, such as the MSCI World Index.



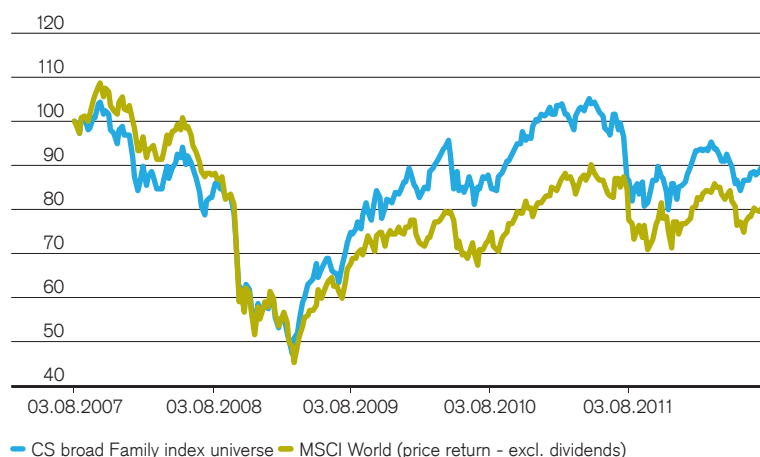


**STOCK EXCHANGE**

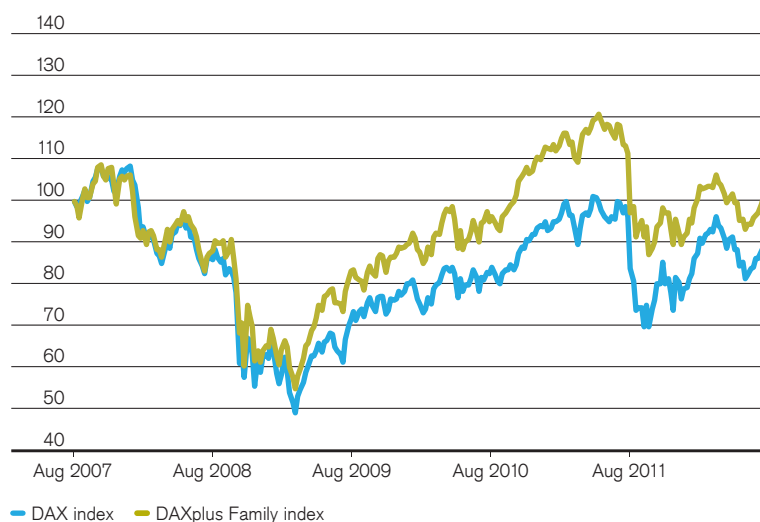


**Figure 2****Backtested performance of the broad family universe against the benchmark**

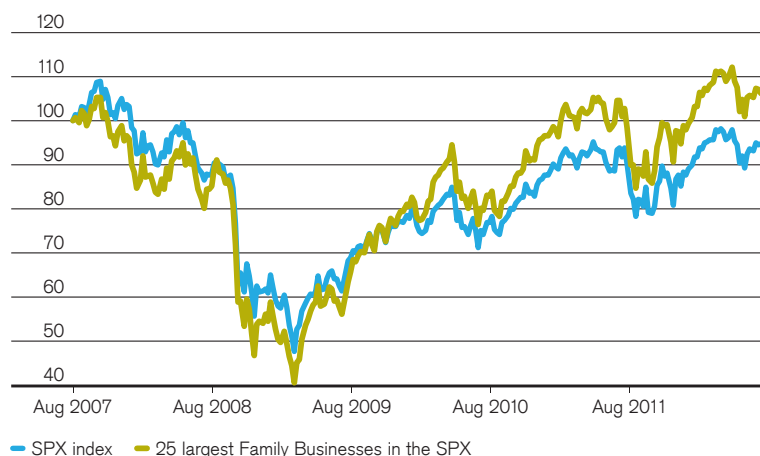
Source: Credit Suisse

**Figure 3****The DAXplus Family Index versus DAX**

Source: Datastream, Credit Suisse

**Figure 4****Performance of the 25 largest family businesses in the S&P500 versus benchmark**

Source: Datastream, Credit Suisse



As we illustrate in Figure 2, our back-test shows that the broad universe of family-owned businesses outperforms the MSCI World index. Family businesses also outperform our control sample (the sector-weighted benchmark), albeit to a lesser degree. However, this is sufficient to imply that the outperformance of family businesses is simply attributable to sector, country, or weighting biases.

**Digging deeper: Disentangling the effect of family ownership, size, and sector-specific effects**

Another way to examine performance attribution is statistical analysis using regression analysis.<sup>1</sup> We found that family ownership does indeed exhibit a positive and statistically significant effect on the 5-year total returns of companies. The significant effect of family ownership market capitalization vanishes as soon as market capitalization is included as an explanatory variable.<sup>2</sup> In other words, larger companies fared better than small firms during the credit crisis, and this effect has helped to support the relative performance of our family index, in which large companies are well represented.

The strong link between family ownership, size, and performance is confirmed by an analysis of stock markets in Germany and the United States. The DAXplus Family 30 Index tracks the 30 largest German and international family businesses listed on the Prime Standard. Over the last five years, it outperformed the DAX by more than 10% (see Figure 3) due to the strong performance of companies such as Adidas, Fresenius, Henkel and Volkswagen. Similarly, on an index basis, the 25 largest family-owned businesses in the S&P 500 Index outperformed the benchmark by almost 15% over the last five years (Figure 4).

**Do family businesses add value?**

From an operating point of view, we use our HOLT database to further examine the operating performance of family businesses. HOLT's proprietary CFROI (cash flow return on investment) metric is used as a proxy for a company's true economic performance and, hence, its ability to generate value. It is an indicator of whether a company uses its resources effectively over time. In order to determine whether family businesses create wealth over time, we calculate the aggregate CFROI for the CS broad family universe and compare this with that of the MSCI World (excluding banks).

The results are very impressive indeed (see Figure 5). Since the early 1990s, family business have consistently achieved a return above their discount rate (Figure 6), which always exceeded the wealth creation ability of the global equity market, here measured by the MSCI World (excluding



banks). Importantly, it shows that the stock market performance of family businesses is not random, but supported by fundamentals.

We also looked at individual CFROI contributions and found that the aggregated CFROI is not explained by a handful of outliers, but by a broad list of companies, including Wal-Mart, Roche, Carrefour, and AP Moller-Maersk. Asset growth and shareholder return was particularly strong in the years leading up to the credit crisis (Figure 7), which is also reflected in these companies' average stock market returns discussed above (see Figures 2–4). In addition, family businesses historically post lower net debt-to-EBITDA ratios, a measure of a company's leverage, which enables it to take on additional debt to grow its assets (Figure 8).

### Superior cash flow for family businesses

If the excess returns on investment that family businesses generate underpin their outperformance in stock-market terms, we believe this opportunity can be maximized with a valuation consideration. The Credit Suisse Family Index ("Powered by HOLT" – Credit Suisse's proprietary cash-flow-based valuation framework) aims to combine the characteristics of family-owned businesses with the selection criteria from Credit Suisse HOLT's scorecard to select the "best-in-class" family businesses. The scorecard analyses valuation, operational performance and forecast and price momentum to highlight the most attractive names. Since its inception five years ago, the CS Family index has outperformed the broad market benchmark by about 8%. A diverse range of names such as Schindler, News Corp, Reckitt Benckiser, and Richemont were among the companies that performed well since the last rebalancing.

Figure 5

### CFROI of family businesses versus all businesses

Source: HOLT, Credit Suisse

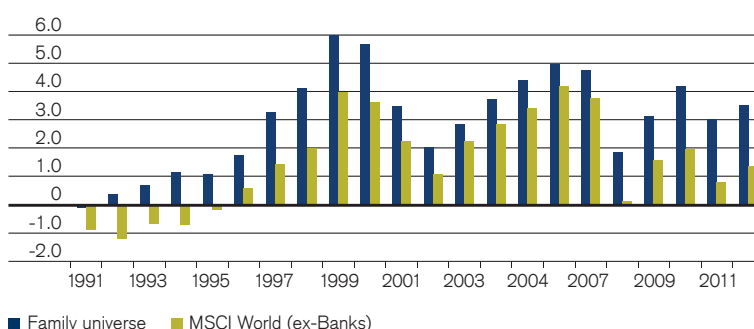


Figure 6

### CFROI versus discount rate of family businesses

Source: HOLT, Credit Suisse

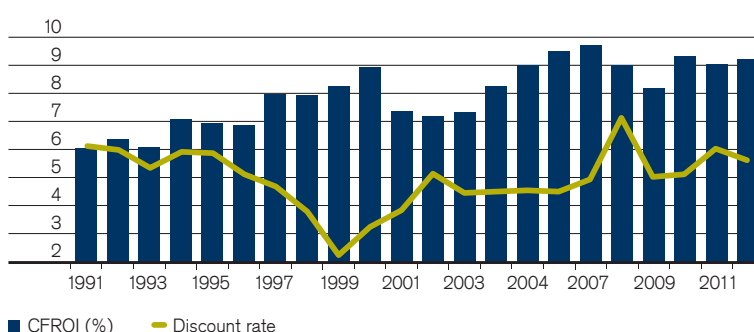


Figure 7

### Asset growth of family businesses

Source: HOLT, Credit Suisse

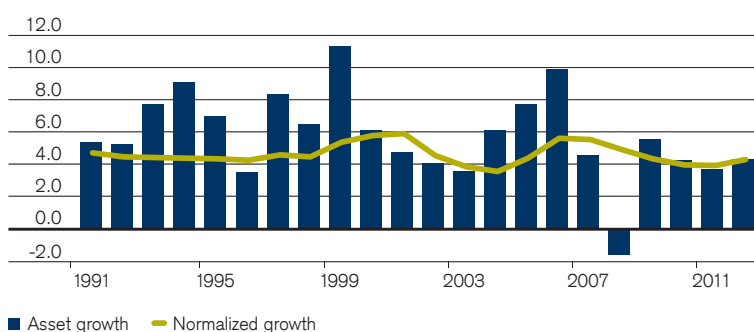
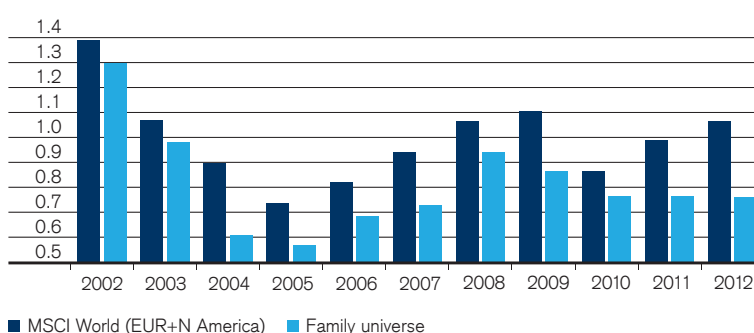


Figure 8

### Leverage of family vs. non-family businesses

Source: HOLT, Credit Suisse



<sup>1</sup> We limited our sample of observations to 1,500 companies included in the MSCI World where data was available, which restricts the number of eligible companies from the broad family universe to 73. We use this sample throughout the report since it also permits the analysis of data based on environmental, social, and governance-related metrics.

<sup>2</sup> The positive effect of size on return is robust, even if the fixed effects for countries and sectors are considered.



# Life cycle of the family business

This chapter continues the analysis of the previous “investment philosophy” chapter, but with greater emphasis on management issues. This section examines the factors that distinguish the family business by taking the lifecycle aspect into account. We investigate whether family businesses are dynamic, or outdated and inward-looking. Our findings support the view that a long-term outlook and the family brand are differentiating factors. Nonetheless, these businesses face several challenges, such as succession and agency costs, as well as family feuds.

We have developed a framework for looking at the life cycle of a family business (see our publication “The life cycle of UK family businesses” published in April 2008) and examining the issues that affect family businesses at every stage of development. We identify four key stages in the evolution of the family business, which are entrepreneurship, growth, governance and maturity (Figure 1). We “test” these stages by comparing them with the views expressed by the respondents in our survey.

As our respondent companies are mostly later generation rather than younger generation firms, our analysis focuses on the growth, governance and maturity phases.

## Entrepreneurship

Establishing the business or entrepreneurship is the first crucial stage in the life cycle of a firm. In many countries, family firms represent the domi-

Figure 1

### The life cycle of a family business

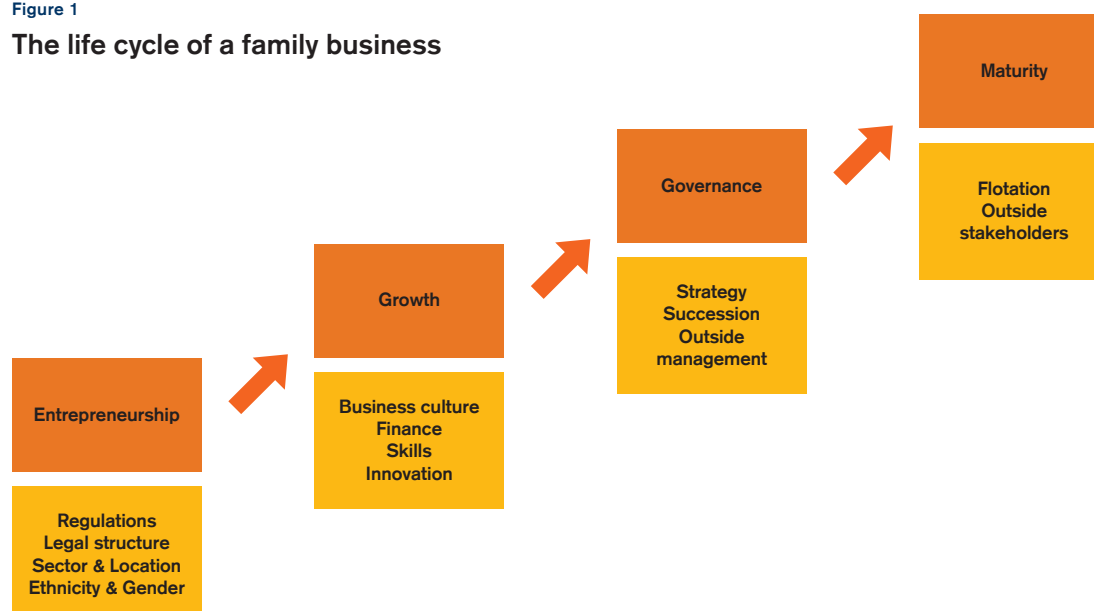


Figure 2

**Focus of expansion plans (by company size)**

Source: Credit Suisse. Note: figures exclude blank responses

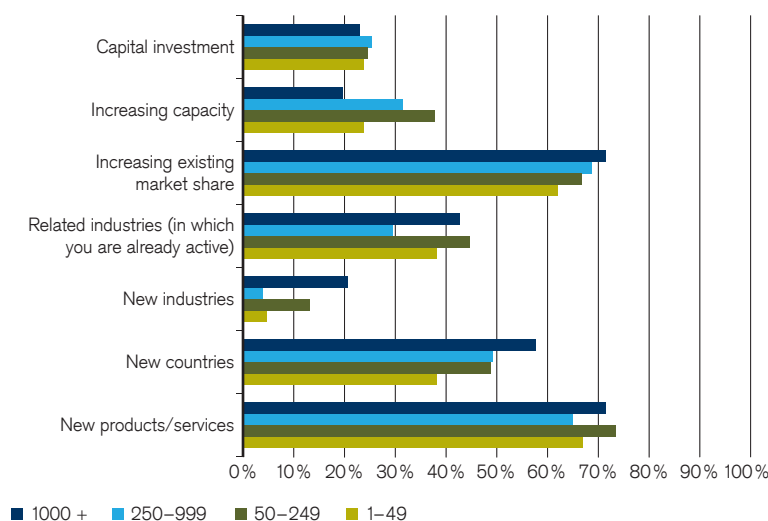


Figure 3

**Focus of expansion plans (by the generation in control)**

Source: Credit Suisse. Note: figures exclude blank responses

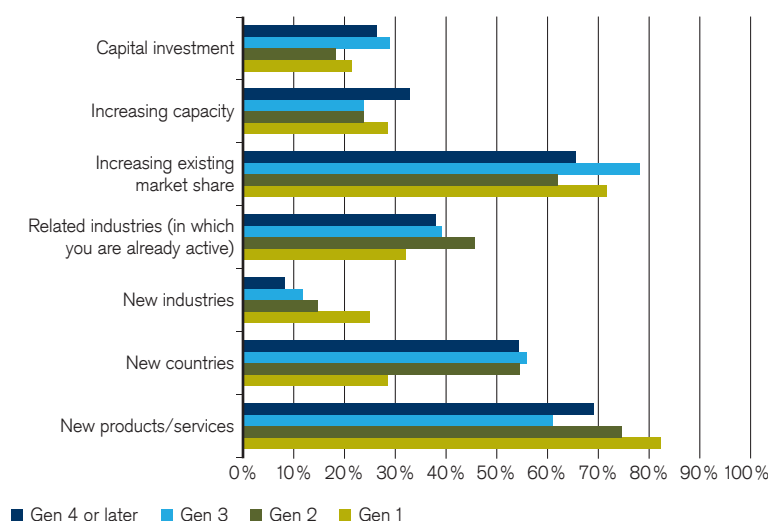
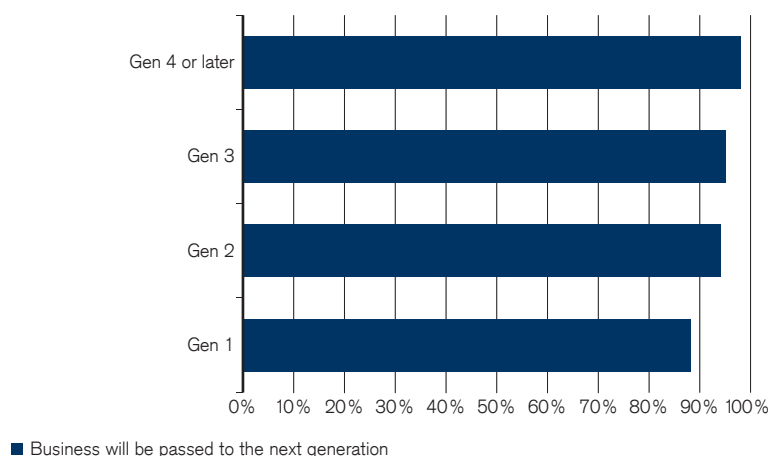


Figure 4

**Intention to pass business to the next generation**

Source: Credit Suisse. Note: figures exclude blank responses



nant organizational structure, especially among small and medium-size enterprises. In the entrepreneurship stage, the family structure can give the business a distinct advantage over a non-family firm. The family is often a principal provider of labor during the startup and expansion phases of a business. In addition, other positive factors emphasized in the literature are the greater commitment of family members compared to non-related employees, as well as more harmonious labor relations, the long-term management perspective (the business will be passed down to the next generation) and the availability of financing through the family<sup>1</sup>.

**Growth**

Quite often, a business is very successful in terms of profits, yet remains small in size. In some cases, businesses go through phases of rapid expansion. This can take many forms, including expanding the customer base, introducing new products, and selling to new locations. Several elements can contribute to a period of high growth, including innovative products, the availability of finance, a business culture that fosters business-first goals and attracting skilled employees.

There is also an ongoing debate on the effect of the family business culture on a company's willingness to take risks and innovate. Family firms are perceived as more risk averse and their managers are seen as less likely to be pioneers. In addition, some researchers argue that they are less likely to have export and internationalization strategies in place. In stark contrast to this, other research shows that family businesses initiate and implement more new ideas than non-family businesses<sup>2</sup>.

Our findings support the more dynamic interpretation – that family businesses are keen to expand and develop new ideas. All the respondents in our survey have expansion plans in place. New products and services, along with increasing market share, are the main focal points for the businesses in our sample (Figure 2). Larger family companies are more likely to focus on expansion in new countries and new industries than smaller family firms. In contrast, smaller firms are more likely to focus on increasing capacity.

More than 50% of respondents plan to expand into new countries, providing further evidence of their dynamism. Emerging market companies are also fairly dynamic, with almost 48% of them planning to expand into new countries and 75% planning to introduce new products and services. First generation companies are more likely to choose new products and are less likely to expand into new countries, a choice that is more popular among older firms (Figure 3). In addition, first generation companies are more than three times more likely to choose expansion into new industries than fourth generation companies.



## The family is a valuable brand

The family-based brand can inspire a higher level of customer loyalty and can be a valuable intangible asset. Many of the world's most established brands (e.g. BMW, Samsung, LVMH and L'Oréal to name a few) are partly controlled and managed by families. Moreover, the creation of a corporate identity around the family can help motivate family members, as well as strengthen internal and external relationships (e.g. clients). Studies show that family-based brand identity has a positive effect on the performance of small and medium-sized family businesses measured in terms of growth and profitability<sup>3</sup>. According to one study, the level of family involvement tends to lead to a sharper ethical focus, which is associated with a better financial performance<sup>4</sup>. Our survey corroborates this; it finds that customer loyalty and brand recognition is the second most important factor for the success of a business.

## Governance: The family firm is not without governance problems

In the aftermath of the credit crisis, corporate governance has rightly taken a very prominent role and family businesses have received a lot of scrutiny. In public firms, the interests of the owners and managers of a firm are not always aligned, which can give rise to "agency costs." These can be substantial as the owner must set up monitoring mechanisms to ensure that managers do not take excess risks, as well as compensation mechanisms to ensure that managers are properly rewarded. These do not exist in many family businesses because the manager often has a substantial stake in the business.

Family firms can also have self-control problems as owners-managers' favoritism towards other family members can lead to the latter free-riding at the expense of the firm. Disciplining family members is difficult because it puts a strain on family relationships. The firm needs to have governance mechanisms in place to deal with these eventualities.

However, governance issues do not appear to be a problem for our respondents. About one-third of companies in our sample have not made any changes to family governance in the last three years. And for those who have, including new family members in the business was the main reason, followed by the need for new skills.

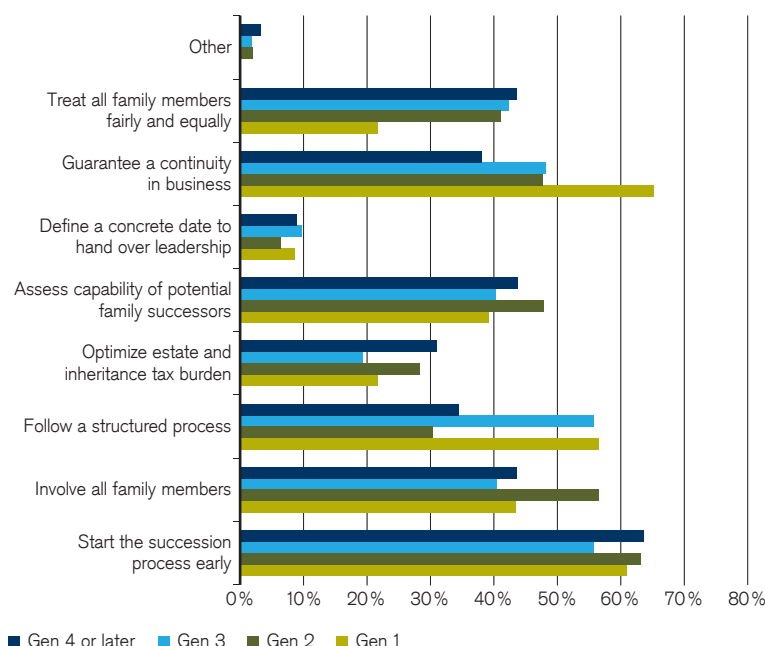
## Successful successions: A matter of careful organization

The issue of passing the business down to the next generation is one of the most important steps in a family firm's life cycle. A poorly executed succession can lead to a poor performance; moreover, it can cause a split within the family. Studies show that relatively few first generation family firms sur-

Figure 5

## Relevant factors for a successful transition

Source: Credit Suisse. Note: figures exclude blank responses



vive the transition to the second generation, and even fewer of these evolve to successive generations. In addition, CEO successions can have a very negative impact on the company when the successor is drawn from the family, whereas companies have been shown to fare better if the successor is not related to the family<sup>5</sup>.

This problem is due to the relative complexity of successions and factors such as planning, timing, successor choice and family relationships. Among the factors cited as causing succession failure are: the family is not interested in running the business, the lack of a credible succession plan, significant dependence on a manager-owner and the owner-manager's unwillingness to let go.

Our survey results show that continuity is a priority. The vast majority of respondents in the survey declared their intention to pass the business down to the next generation (Figure 4). The incidence was higher for older businesses that have already been through one or several transitions. Yet the transition of ownership from the first to the next generation is a challenging time, with frequent disputes among siblings about dividing up the previous generation's controlling stake. Our survey corroborates this assertion, with only 22% of first generation firms regarding the fair and equal treatment of family members as their foremost concern in a transition, compared to around 40% of older generation firms (Figure 5).

<sup>1</sup> Zellweger et al. (2010); Sirmon et al. (2003)

<sup>2</sup> Donckels & Fröhlich (1991); Gudmundson et al. (2003)

<sup>3</sup> Craig et al. (2007)

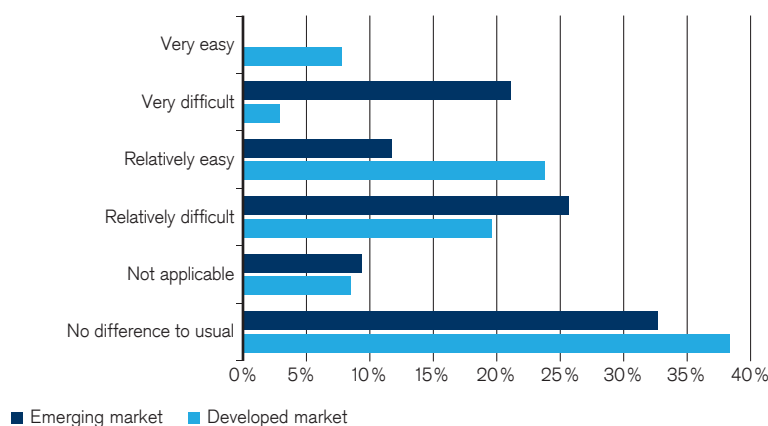
<sup>4</sup> O'Boyle et al. (2010)

<sup>5</sup> Wang et al. (2004); Bennesen et al. (2006)

Figure 6

### Degree of difficulty in attracting senior non-family executives

Source: Credit Suisse. Note: figures exclude blank responses



In our sample, over 65% of the first generation firms surveyed cited business continuity as the most relevant factor for a successful transition. Many companies set up during the post-WW2 entrepreneurial boom are now led by individuals entering their twilight years, who are looking to pass full control to their children. This demographic transfer of leadership poses many problems surrounding the continuity of business focus and differing styles of management. The initial commitment of the founder to all aspects of the business naturally diminishes and evolves with each generation, as the family expands and a separation of ownership and management occurs. This, of course, leads to other problems.

### Outside management can bring benefits

The presence of outside, independent executives can be important in mitigating the adverse effects of altruistic behavior. However, family firms do not always employ these executives because it results in some loss of control over the business. At the same time, outside directors might be less motivated because family members could be unwilling to compensate them with equity.

The two key reasons why non-family employees leave family-owned firms (due to their ownership model) can be summed up as limited growth opportunities and family conflict. In the current market, around 21% of companies surveyed claimed that they were finding it relatively difficult to attract senior non-family executives (Figure 6), with the problem more pronounced in emerging markets (with 22% finding it very difficult).

We also asked respondents what measures they employed to “bind” non-family executives to the firm; 75% stated that they offered greater levels of involvement and shared decision-making (Figure 7), while, somewhat tellingly, a much smaller sample claimed that they treated these non-family executives on a par with family members (39%) or offered them compensation above the industry standard (33%). Treating non-family executives in the same way as family members, however, is a much more popular choice for smaller businesses, while deferred compensation packages are popular among larger and listed businesses (Figure 8).

Figure 7

### Measures employed to “bind” senior non-family executives to the firm

Source: Credit Suisse. Note: figures exclude blank responses

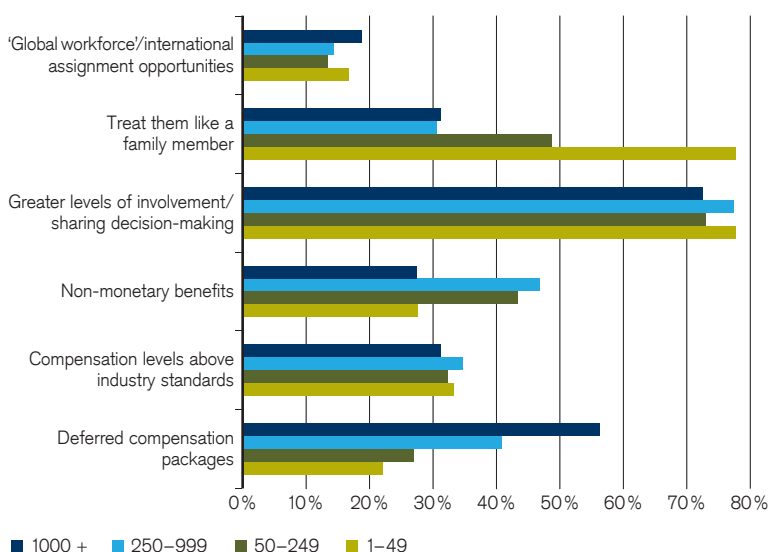
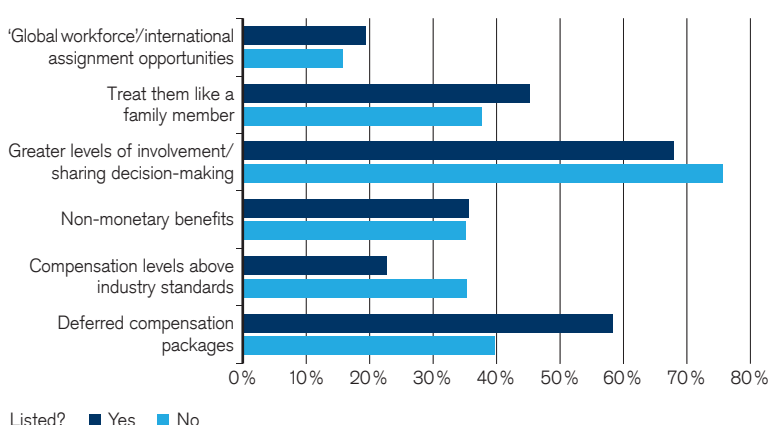


Figure 8

### Measures employed to “bind” senior non-family executives to the firm (listed vs. non-listed businesses)

Source: Credit Suisse. Note: figures exclude blank responses







# Building sustainability

In the aftermath of the credit crisis, sustainability – financially and socially – is a key issue for family businesses. The survey highlighted 72% of businesses led by the second or a higher generation reported they had a strategy related to environmental, social and governance issues. In fact, we find elsewhere that listed family businesses tend to have good “ESG” scores on average, if governance can be a weaker point.

Within Credit Suisse, sustainability has long been one of the three pillars of our Megatrends framework. In 1987, the United Nations’ Brundtland Commission put sustainability in the context of sustainable development, which it defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” Twenty-five years later,

addressing environmental, social and governance (ESG)-related issues are an integral part of corporate decision-making.

With a tradition in long-term stewardship, family businesses are seemingly predestined to fulfill these requirements. However, critics also frequently point to the fact that family control can be a source of conflict between family and non-family stakeholders, therefore complicating corporate governance. In this section, we investigate how family businesses perceive these issues, and compare their answers to the actual ESG performance of family businesses.

Figure 1

## Majority of companies have an ESG-related strategy

Source: Credit Suisse. Note: figures exclude blank responses

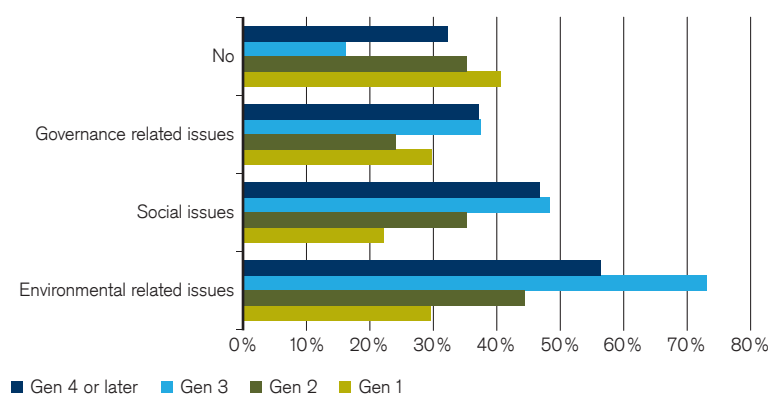
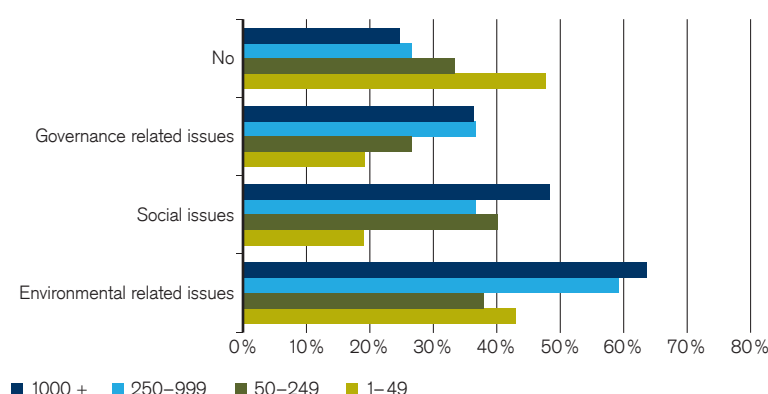


Figure 2

## Smaller businesses lag behind in terms of sustainability

Source: Credit Suisse. Note: figures exclude blank responses



## Management focus on environmental issues

We find that family businesses take sustainability seriously. When asked if they had put in place a defined ESG-related sustainability strategy, most family businesses said that they had done so (Figures 1 and 2). On average, family businesses pay the greatest attention to issues related to the environment, followed by social and governance-related issues. Over 72% of businesses led by the second or a later generation reported that they had an ESG-related strategy, while only 59% of first generation businesses had established one. Further, 75% of businesses with a workforce of more than 1,000 employees said that they had implemented a strategy, whereas only two-thirds of smaller businesses confirmed this.

## Across the board, family businesses undertook significant steps to make their operations more sustainable

We also asked companies whether they had taken any steps in the last three years to make their business processes more sustainable. Almost 79% of respondents stated that they had taken some action (Figures 3 and 4). Choices that figured prominently among the positive responses were investing in green technologies (cleantech) and the introduction

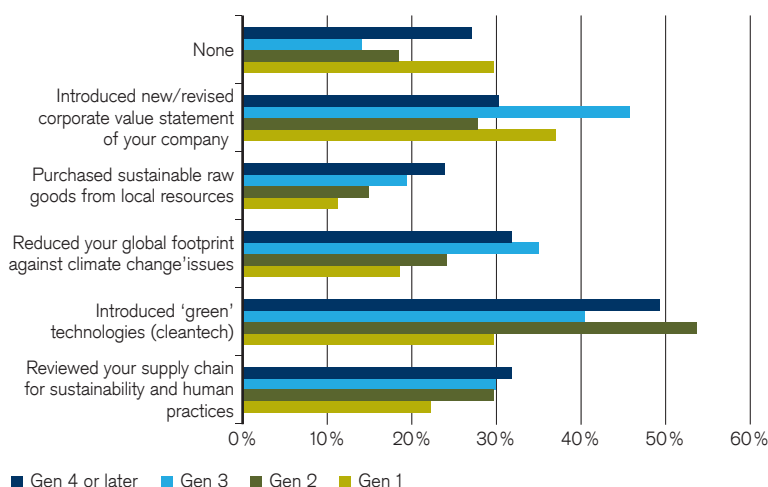




Figure 3

### Cleantech receives the most attention in the last 3 years

Source: Credit Suisse. Note: figures exclude blank responses



or revision of a corporate value statement. Confirming our previous finding that managing ESG-related issues received more attention in larger and older generation businesses, we found that these respondents had also been more active in making their businesses more sustainable over the last three years.

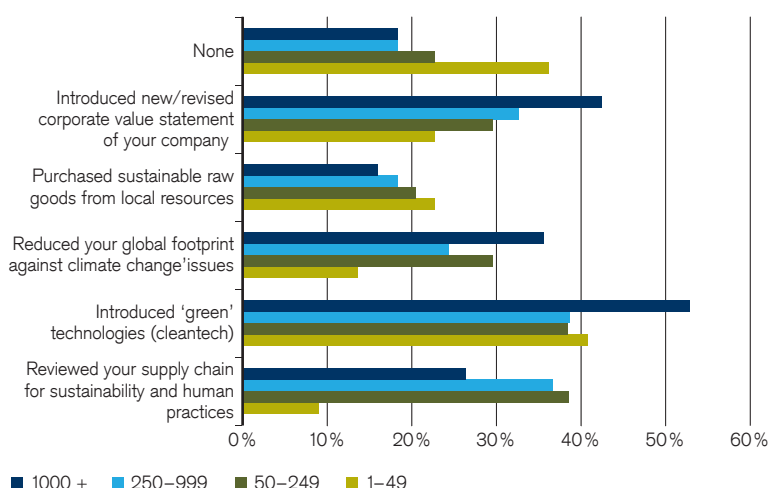
### Family businesses acknowledge intangible value as a source of competitive advantage

In our survey, family businesses also acknowledge that the successful management of these issues can translate into a competitive advantage. In particular, respondents point to their superior ability to handle issues related to corporate governance, employee health and safety, and local community relations. Figure 5 shows that corporate governance, environmental criteria and sustainable value chains are important issues for family businesses.

Figure 4

### Larger companies are more responsive to implementing sustainable practices

Source: Credit Suisse. Note: figures exclude blank responses



### Listed companies are more involved in managing ESG issues

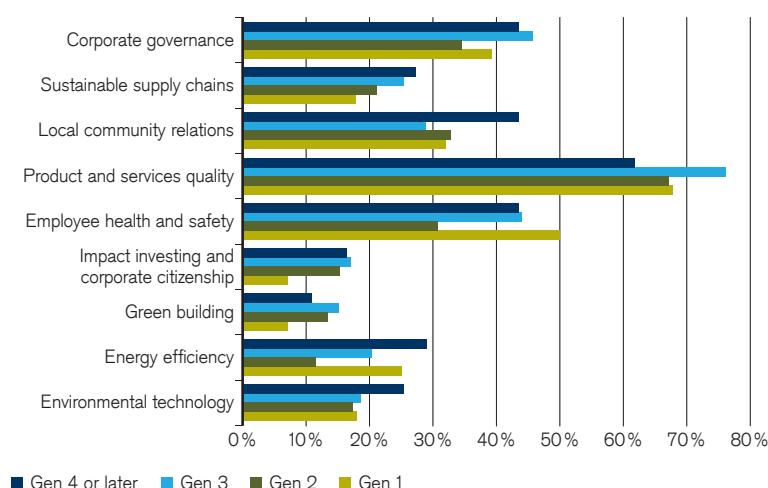
We are not surprised at the finding that family businesses listed on a stock exchange are more active in establishing managerial capability to deal with sustainability (see Figure 6). The pressure on publicly listed companies to conduct their business in a sustainable and responsible way has increased steadily in recent years.

Sustainable investment commonly refers to an investment approach that integrates ESG criteria explicitly into the investment process with the aim of improving the long-term risk-adjusted return. At Credit Suisse, sustainable investments are part of the Responsible Investment and Philanthropy Services (RI&PS) framework. In the financial industry, taking ESG issues into account is increasingly the norm and sustainable assets under management (AuM) have been steadily increasing.

Figure 5

### Origins of family business competitiveness

Source: Credit Suisse., Note: figures exclude blank responses



### How do investors measure sustainability?

Best-in-class screening is often used by investors to assess whether companies are sustainable. It seeks to identify intangible value by ranking a company against a competitive set of peers. In this context, intangible value refers to a company's managerial capability to handle its most relevant ESG-related issues. A high score indicates that a company has a sound managerial capability to handle the risks as well as the opportunities associated with ESG.

### Are family businesses sustainable?

In order to assess the ESG performance of family businesses, we compare them to non-family peers – both in terms of intangible value and their involvement in controversy. We used the Credit Suisse Family Index universe for this, although we could identify only 75 listed family companies from this universe for which there is good quality ESG data.



Please also note that this sample of listed companies differs from the selection of family businesses surveyed in this report.

In assessing ESG performance, we rely on the external ratings provided by MSCI ESG. Its Intangible Value Assessment (IVA) rating measures a company's exposure to ESG-related risks and opportunities. Ratings are assigned on a categorical scale from AAA (best) to CCC (worst).<sup>1</sup>

Figure 7 depicts the cumulative frequency of companies for each IVA rating. Since IVA is a best-in-class rating, companies in the MSCI World are symmetrically placed across the rating spectrum, with the greatest frequency in the middle of the range (BBB), illustrated by the reference lines. It is worth noting that a large number of family businesses are clustered within the three highest ratings (AAA to A), while the mid-range appears relatively empty. This is probably best explained by the fact that when companies decide to address the issue of sustainability, they often do so with a high level of commitment. On the other hand, smaller businesses, in particular, tend to neglect the importance of sustainability, which explains their lower ESG performance scores.

### Family businesses care about the environment, but the challenges for corporate governance remain

Whereas the previous section provided an overview of overall ESG performance, we now consider the performance of family businesses in terms of the individual ESG components, which are environment, society, and corporate governance (Figure 8). For this purpose, we conducted a statistical test to analyze the relationship between family ownership and the intangible value related to the environment, society, or corporate governance. This enables us to test whether the general perception that corporate governance is complicated by family ownership has any relevance. Secondly, we can also analyze the survey's findings according to which family businesses deem themselves better able to deal with the risks and opportunities associated with the environment.

We found that there is a positive correlation between family ownership and environmental performance, which is also statistically significant. That said, we also found evidence which shows that the weaker scores for corporate governance are due to family ownership, which underscores the fact that significant challenges remain in this particular area.

<sup>1</sup> It is designed as a best-in-class rating, whereby companies are rated in relation to their industry peers. Within each competitive set of industries, the MSCI has identified a set of industry-specific criteria. Each company is assessed in terms of its exposure to these issues and its capability to handle them. The Impact Monitor rating evaluates whether companies act in line with global conventions and standards, such as the Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact.

Figure 6

### Listed companies are more actively involved in sustainability

Source: Credit Suisse. Note: figures exclude blank responses

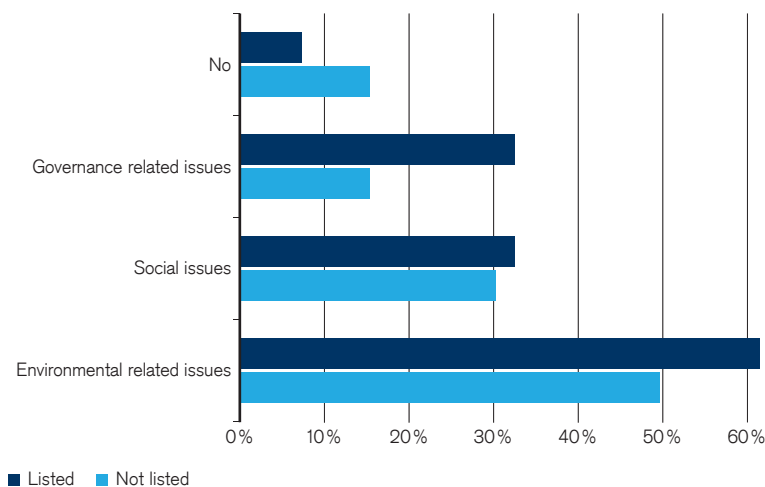


Figure 7

### Many family businesses have high scores for intangible value

Source: Credit Suisse

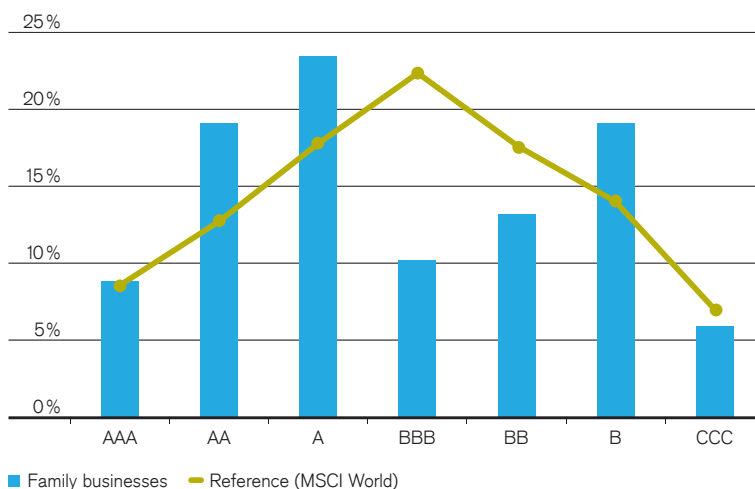
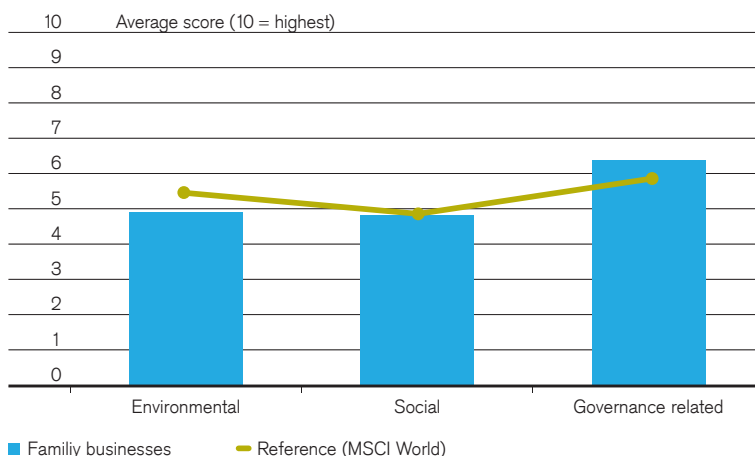


Figure 8

### Family businesses are also prone to controversy

Source: Credit Suisse



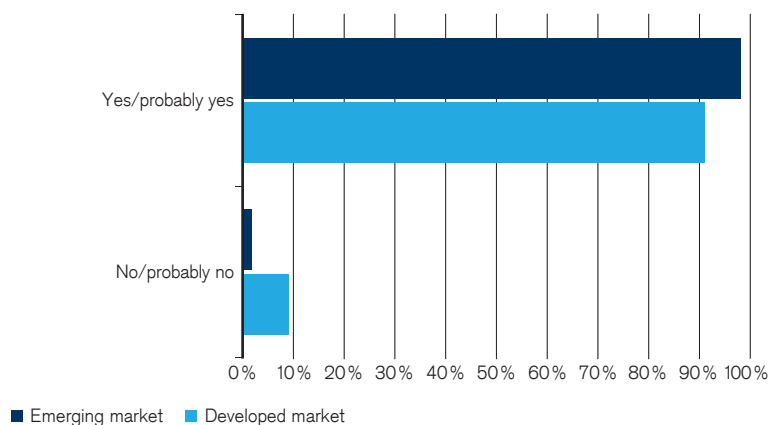
# Growing and providing wealth

Over two-thirds of family businesses have not set up a family office, yet over 60% are engaged in philanthropy/impact investing, with a special emphasis on education.

**Figure 1**

## The family business represents “most” of the family’s wealth

Source: Credit Suisse. Note: figures exclude blank responses



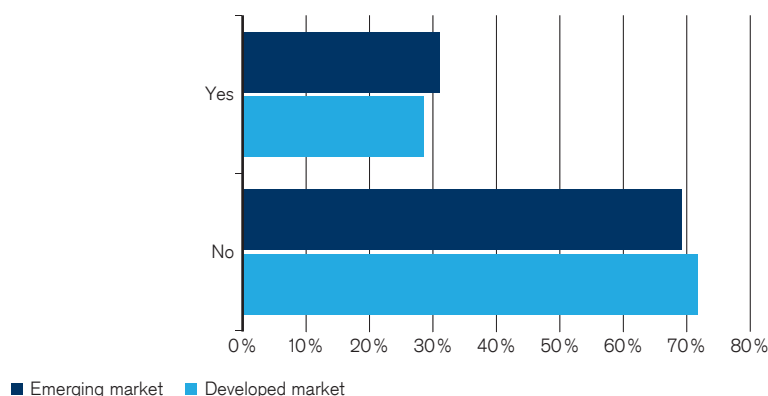
One of the cultural differences between family businesses in the Anglo-Saxon world and those in the “Rheinish” region or Continental Europe is the tendency for entrepreneurs in, say, the UK (see Credit Suisse’s report “The Life Cycle of UK Family Businesses”) to sell their businesses, as opposed to the European approach of keeping the business “in the family.” These differing approaches of wealth release and wealth retention have multiple economic and investment implications.

The results of our survey show that in the vast majority of cases, the family business remains “within the family” and, importantly, represents the majority of the family’s wealth (Figure 1). This applies to both listed and unlisted family businesses. One interpretation of this situation is that the diversification of wealth is not a motivating factor for family businesses that choose to list the company on a public exchange.

**Figure 2**

## A small number of respondents have set up a family office

Source: Credit Suisse. Note: figures exclude blank responses



## Family finances

The majority of businesses in our survey are advanced in terms of generation (third, fourth or older), though relatively few companies in our survey have family offices (a family office is a private company that manages a wealthy family’s investment and trusts). At almost 29%, the percentage of family businesses in both the emerging markets and the developed markets that have set up a family office is not significant (see Figure 2). Globally, this percentage is slightly higher for listed family businesses (37%) than for non-listed ones (26%), and we note that there is very little difference in the establishment of family businesses across generations.



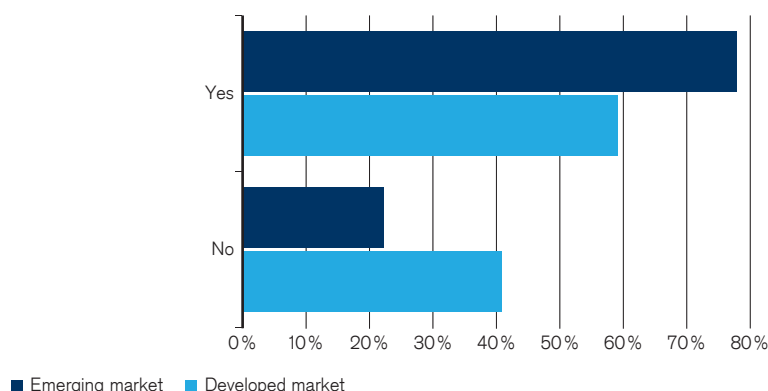




Figure 3

### A significant number of family businesses are engaged in philanthropy

Source: Credit Suisse. Note: figures exclude blank responses



The results show that relatively few family businesses have set up formal family offices, although growth in the establishment of family businesses has picked up considerably in recent years, and we suspect that, in many cases, families undertake investment activities, but in a less formal way than the establishment of a family business.

Keeping the family's wealth within the family via the family business is a key means of saving. In the Credit Suisse Wealth Report 2011, we analyze the three key reasons for saving: precautionary, life cycle and bequest. The bequest motive, which historically tends to play a more important role as wealth rises and in the high net-worth family bracket, appears to be a significant factor here.

### Philanthropy and Impact Investing

On the other hand, if family businesses are less active on the family office front, they tend to be much more active in the area of philanthropy. Nearly 80% of family businesses in the emerging world and 59% of those in the developed markets are engaged in philanthropy and impact investing (Figure 3), with larger and older family businesses more likely to engage in philanthropy/impact investing.

Impact investing is a new trend. As we outlined in a recent flagship Credit Suisse Research Institute publication ("Investing for Impact" from January 2012), more investors and entrepreneurs than ever are proactively investing their capital in solutions designed to generate a positive social or environmental impact, while also having the potential for some financial return.

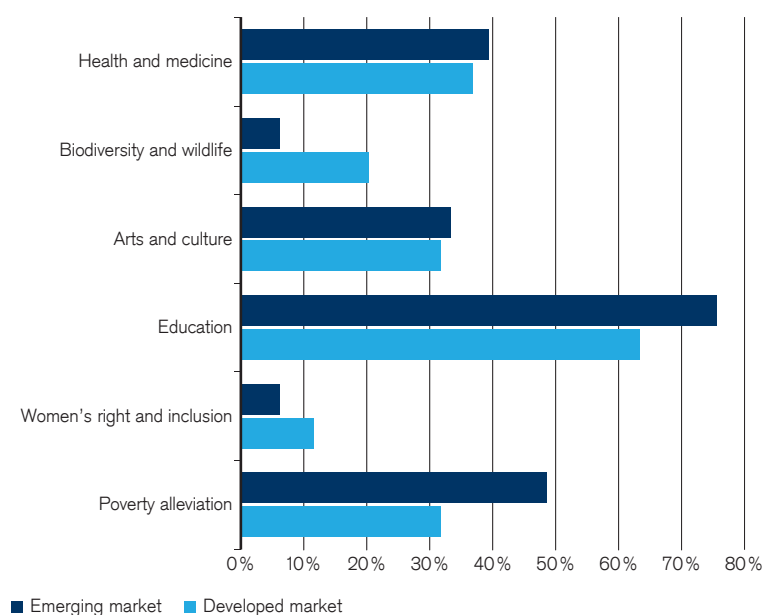
For example, a standard impact investment structure today will invest in enterprises that provide self-sustaining solutions to social problems, such as access to clean water, improved healthcare, or the provision of clean energy. Investing in these organizations has a direct and significant impact on those living in poverty, and in many cases it also offers a financial return. The potential of growing efforts to deliver entrepreneurial solutions to global problems is now greater than ever – as are the opportunities to channel private capital toward social and environmental issues.

The results of our survey provide some interesting details on the areas in which family businesses choose to focus their engagement in philanthropy and impact investing. Education is a clear priority, attracting the most attention in the developed and emerging worlds (Figure 4). This is followed by health and medicine and then arts and culture. The key (and perhaps understandable) difference between philanthropic/impact activity in the emerging and developed worlds is the much stronger focus of family businesses on contributing to alleviating poverty in the emerging world. In the developed world, there is a much greater focus on biodiversity and wildlife by family businesses, as compared to their emerging world counterparts.

Figure 4

### Education is a clear philanthropic priority

Source: Credit Suisse. Note: figures exclude blank responses





# Appendix I

## CS Family New Portfolio: Selected companies as of March 2012

SEDOL	NAME	BB code	RIC	Weight
5330047	DASSAULT SYSTEMES SA	DSY FP EQUITY	DAST.PA	2.50%
5076705	HENKEL KGAA	HEN3 GY EQUITY	HNKG_p.DE	2.50%
5253973	HERMES INTERNATIONAL SCA	RMS FP EQUITY	HRMS.PA	2.50%
7111314	INDITEX	ITX SQ EQUITY	ITX.MC	2.50%
2320524	LAUDER (ESTEE) COS INC -CL A	EL UN EQUITY	EL.N	2.50%
4057808	L'OREAL	OR FP EQUITY	OREP.PA	2.50%
4741844	MERCK KGAA	MRK GY EQUITY	MRCG.DE	2.50%
B03DQ41	NEWS CORPORATION INC	NWSA UW EQUITY	NWSA.OQ	2.50%
4846288	SAP AG	SAP GY EQUITY	SAPG.DE	2.50%
B11TCY0	SCHINDLER HOLDING AG	SCHP VX EQUITY	SCHP.VX	2.50%

# Appendix II

## QUESTIONNAIRE

1. In what country is your family centered or headquartered?  
\_\_\_\_\_
2. Which generation currently leads the family business?  
☐ Gen 1      ☐ Gen 2  
☐ Gen 3      ☐ Gen 4 or later
3. What is the number of employees in your enterprise (consolidated basis)?  
☐ 1–49      ☐ 50–249  
☐ 250–999      ☐ 1000 +
4. Is your family business, or any part or all of the business units in the family business, listed?  
☐ Yes      ☐ No
5. Which key sector(s) are you active in?  
☐ Energy (oil, gas, equipment, services, etc.)  
☐ Materials (metals, mining, chemicals, construction materials, packaging)  
☐ Industrials (machinery, construction, electrical equipment, conglomerates, trading)  
☐ Consumer staples (food & staples retailing, beverages, tobacco, personal products)  
☐ Consumer discretionary (autos & components, consumer electronics, luxury goods, textiles, apparel, hotels, restaurants, casinos)  
☐ Health Care (pharmaceutical, biotech, life sciences equipment, suppliers, distributors, services)  
☐ Financials (banks, insurance, real estate, financial services)  
☐ Information Technology (semiconductors, equipment, software, hardware)  
☐ Telecommunications (diversified, wireless)  
☐ Utilities (electricity, gas, water)
6. Does the business represent the majority of the family's wealth?  
☐ Yes/probably yes  
☐ No/probably no
7. Does your family have a family office?  
☐ Yes      ☐ No
8. How well did your company perform in the last financial year in comparison to the previous year (in terms of revenue growth)?  
☐ Decrease by 15% or more  
☐ Decrease by 10%–15%  
☐ More or less the same  
☐ Increase by 10%–15%  
☐ Increase by 15% or more

## CURRENT BUSINESS CHALLENGES

9. The following have been identified as the traditional success factors of family businesses. Which factors do you deem to be most important to the ongoing success of your business? (Please select top 3)  
☐ Long-term management perspective  
☐ Focus on core business (rather than diversification)  
☐ Alignment of owner and management interests  
☐ Flexible, focused governance  
☐ Focus on high product quality  
☐ Unique/niche/innovative products  
☐ Established brand recognition & customer loyalty  
☐ Focus on sustainability and social responsibility  
☐ Superior talent management  
☐ Easy access to finance  
☐ Cost leadership
10. In relation to current risks/challenges, which factors have caused you to make significant changes to your business model? (Please select top 3)  
☐ Political and social risks (e.g. corruption and social unrest)  
☐ Economic environment  
☐ Financial risks (e.g. market volatility)  
☐ Rising costs (e.g. input costs, labor costs, etc.)  
☐ Eurozone debt crisis  
☐ Operating and regulatory environment (e.g. difficulty in doing business, tax system, etc.)  
☐ More acute competition  
☐ Family governance risks (e.g. introducing an independent advisory board, etc.)
11. Has your business been impacted by the rise of emerging markets? (Please select top 3)  
☐ Added competition locally  
☐ Added competition globally  
☐ Opportunity of new markets and customers  
☐ Cheaper input prices  
☐ More regulations/red tape  
☐ Increased speed to market for new products  
☐ Supply chain inefficiency

## PROFESSIONALISM

12. What factors have motivated significant management structure changes? (Please select top 3)  
☐ New family members coming into the company  
☐ Non-family members coming into significant management positions  
☐ Family members leaving the company  
☐ Key non-family personnel leaving the company  
☐ The need to adapt to new business conditions  
☐ Financial constraints  
☐ New/different skills required  
☐ Globalization/regional expansion  
☐ Introduction of new/different products  
☐ No changes made
13. What factors have motivated significant family governance changes in the past 3 years? (please select all applicable)  
☐ New family members coming into the company  
☐ Non-family members coming into significant management positions  
☐ Family members leaving the company  
☐ Key non-family personnel leaving the company  
☐ Set up family office  
☐ Financial constraints  
☐ New/different skills required  
☐ Globalization/regional expansion  
☐ No changes made
14. What have you done to improve efficiencies in the past 3 years? (Please select the top 3)  
☐ Introduced better knowledge management/sharing processes  
☐ Installed smarter back office processes  
☐ Revisited supplier terms and pricing  
☐ Moved your supply chain nearer to the end-market  
☐ Linked pricing decisions to real-time market reactions  
☐ Requested and actioned improvement suggestions from employees  
☐ Involved outside consultants  
☐ Hired new management  
☐ Other  
☐ Not made any major changes
15. Does the family business engage in philanthropy/charity or impact investing?  
☐ Yes      ☐ No  
  
**→ If yes, which issues do your projects target?**  
☐ Poverty alleviation  
☐ Women's rights and inclusion  
☐ Education  
☐ Arts and culture  
☐ Biodiversity and wildlife  
☐ Health and medicine



**16. Does your business have a defined sustainability strategy across the three key sustainability categories? (Please select all applicable)**

- ☐ Environmental-related issues
- ☐ Social issues
- ☐ Governance-related issues
- ☐ No

**17. Have you taken any steps to make to your business processes more sustainable in the past 3 years? (Please select all applicable)**

- ☐ Reviewed your supply chain for sustainability and humane practices
- ☐ Introduced "green" technologies (cleantech)
- ☐ Reduced your global footprint against "climate change" issues
- ☐ Purchased sustainable raw goods from local resources
- ☐ Introduced a new/revised corporate value statement for your company
- ☐ None

**18. In terms of managerial capability to handle industry specific issues, where do you see your company ahead of its competitors? (Please select the top 3)**

- ☐ Environmental technology
- ☐ Energy efficiency
- ☐ Green building
- ☐ Impact investing and corporate citizenship
- ☐ Employee health and safety
- ☐ Product and services quality
- ☐ Local community relations
- ☐ Sustainable supply chains
- ☐ Corporate governance

#### GROWTH STRATEGIES

**19. If planning growth, in what area(s) do you plan to expand? (Please select all applicable)**

- ☐ New products/services
- ☐ New countries
- ☐ New industries
- ☐ Related industries (in which you are already active)
- ☐ Increasing existing market share
- ☐ Increasing capacity
- ☐ Capital investment
- ☐ No plans for expansion in place

**20. What impact does new technology, including social media, have on your business and, in particular, on the way in which the "new/next" generation wishes to manage the firm? (Please select 1)**

- ☐ Has a high impact
- ☐ Has a moderate impact
- ☐ Has a low impact
- ☐ Don't know

**21. How will changing market trends affect your company? (Please select top 3)**

- ☐ Tighter customer targeting
- ☐ Proactive competitive pricing
- ☐ New/different sales approach
- ☐ More emphasis on innovation
- ☐ More stringent budgeting
- ☐ Market expansion
- ☐ Use of new technologies
- ☐ Higher marketing budget
- ☐ Not applicable/will not affect the way you do business

**22. Which of the following are your major concerns when it comes to doing business in new/developing markets? (Please select top 3)**

- ☐ Supply chain issues
- ☐ Language and culture differences
- ☐ Accessing local skilled workforce
- ☐ Understanding local business rules/regulations
- ☐ Understanding local markets and customer needs/preferences
- ☐ Changing technologies
- ☐ Transfer pricing

#### PEOPLE MANAGEMENT

**23. Do you intend to pass your business to the next generation?**

- ☐ Yes
- ☐ No

**→ If yes, what are the most relevant factors for a successful transition? (Please select the 3 most relevant)**

- ☐ Start the succession process early
- ☐ Involve all family members
- ☐ Follow a structured process
- ☐ Optimize estate and inheritance tax burden
- ☐ Assess capability of potential family successors
- ☐ Set a specific date to hand over leadership
- ☐ Guarantee continuity in business
- ☐ Treat all family members fairly and equally
- ☐ Other

**24. In the current employment market, how easy/difficult is it to attract senior non-family executives? (Please select 1)**

- ☐ Very easy
- ☐ Relatively easy
- ☐ No different than usual
- ☐ Relatively difficult
- ☐ Very difficult
- ☐ Not applicable

**25. What measures do you employ to "bind" senior non-family executives to the firm? (Please select top 3)**

- ☐ Deferred compensation packages
- ☐ Compensation levels above industry standards
- ☐ Non-monetary benefits
- ☐ Greater levels of involvement/sharing decision-making
- ☐ Treat them on a par with family members
- ☐ "Global workforce"/international assignment opportunities

**26. Have you taken advantage of outsourcing/offshoring opportunities? (Please select all applicable)**

- ☐ Information technology
- ☐ Human resources
- ☐ Customer services
- ☐ Management consultancy
- ☐ Sales
- ☐ Greater use of remote working (employed staff)
- ☐ Expanded use of short-term contractors

#### FINANCING

**27. How do you judge the availability of financing relative to before the financial crisis (2009 onwards)?**

- ☐ Becoming more difficult to obtain
- ☐ About the same as before
- ☐ Becoming easier to obtain

**28. When considering financing options for the family business financing, which do you prefer? (→ Please scale in order of preference)**

- ☐ Retained profits/earnings
- ☐ Bank loans
- ☐ Family financing
- ☐ External equity
- ☐ Private placements
- ☐ Syndicated bank loans
- ☐ Corporate bond issue

**29. If required for restructuring the business, how will the additional finance be utilized? (Select all applicable)**

- ☐ New technology
- ☐ Support growth in current market
- ☐ Support investment into new markets
- ☐ Developing innovation/new products
- ☐ New staff
- ☐ Relocation
- ☐ Mergers and acquisition-related investment
- ☐ Mixed investments
- ☐ Not applicable
- ☐ What is your typical time horizon for the payback on a new investment?
- ☐ 1–2 years
- ☐ 3–5 years
- ☐ 5–10 years
- ☐ More than 10 years

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