Campden FB/Mishcon de Reya survey: final results

The Campden FB/Mishcon de Reya survey canvassed opinion from family businesses all over the world as to their views on the economic climate. The findings were released in September 2009 and are presented here:

Where is your family business based?

Asia-Pacific – 18.8%

Europe – 36.9%

North America – 35.6%

South America – 8.7%

What generation are you?

Founding – 24.7%

2nd – 29.5%

3rd – 21.9%

4th –15.1%

5th-plus – 8.9%

Are you a principal in the family business?

Yes – 78.8%

No – 21.2%

How would you rate trading conditions at present?

1 (very bad) – 12.8%

2 – 33.1%

3 – 38.3%

4 – 12.0%

5 (very good) – 3.8%

Have you had to lay off any staff in the past six months?

Yes – 54.1%

No – 45.9%

Has the current climate increased tension between active and passive stockholders in your family business?

Yes – 27.3%

No – 72.7%

Were there already tensions before the current economic crisis?

Yes – 22.3%

No – 77.7%

Have you seen an increase in opportunities to purchase companies in the last six months?

Yes – 64.3%

No – 35.7%

Are you actively seeking acquisitions?

Yes – 46.1%

No – 53.9%

If yes, are you looking to leverage your own capital or to buy in cash?

Leverage – 17.6%

Buy in cash or equivalent – 23.5%

A combination of leveraging and cash/cash equivalent – 55.9%

Other, please specify – 2.9%

Is your preference to:

Continue under the current ownership structure – 88.7%

Execute a management buyout – 3.2%

Effect a trade sale – 3.2%

Float the business – 4.8%

Have you planned for the possibility of selling the family business?

Yes – 21.3%

No – 78.7%

What is the likelihood of your family selling the business in the next 2 years?

Likely – 6.4%

Possible – 20.8%

Unlikely – 72.8%

Has the current economic downturn increased or decreased the possibility of the family selling the business?

Increased – 14.2%

Decreased – 15.7%

No change – 70.1%

Have you received an approach to buy your family business in the last 12 months?

Yes – 37.6%

No – 62.4%

What would be the principal reason for selling the family business?

No other family members willing/able to take over – 18.3%

The business is not sustainable under market conditions – 15.4%

Differences with the family between those individuals operating the business and those who are not – 9.6%

Industry consolidation – 12.5%

Receiving an offer you can't refuse – 63.5%

Which of following would you anticipate being the biggest drawback to a sale?

Getting the right price – 36.1%

Desire to create a legacy – 22.2%

The extended family losing the income stream – 7.4%

The unity that the business brings to the family – 18.5%

Desire to give the next generation more than just money – 40.7%

There are clear indications that the current turmoil is impacting on families' previously determined long-term strategies of whether to retain or sell their businesses. Families are also receiving conflicting advice from many different areas, and as a result are unclear about what they should be doing.

This survey is the first in a series that aims to provide families in business with ongoing intelligence regarding the influencing factors and attitudes of other families from around the world who manage their own businesses.

Family businesses are not immune to the effects of the recession, but the tough conditions have not made them more inclined to sell up, according to the results of the Campden FB/Mishcon de Reya survey into attitudes to the economic climate.

A majority of family business leaders said trading conditions are neither very good nor very bad, placing them exactly in the middle of the scale. However, the difference between the early to mid-point results and the final results seem to confirm that there has been some improvement in the economy since the survey began and business leaders are now both more confident and more likely to acquire new businesses.

Despite the challenging times – in which 54% of family businesses have made redundancies and 27% of families have seen an increase in tensions between active and passive shareholders – the majority of respondents said they had no plans to sell the business.

Jonathan Berman, partner in the Families in Business Group at Mishcon de Reya, said: "The survey results demonstrate a subtle, albeit definite, shift in mindset over the last three months away from pessimism to a more cautious optimism.

"What is clear is that, despite the current economic climate, there is an incredible sense of stability within family businesses with almost nine out of 10 respondents wishing to continue their business under its present ownership and with very few, less than 4%, expressing a desire to sell," Berman added.

When asked how they rate trading conditions at present, 38.3% rated them as neither very bad or very good but somewhere in the middle. However, the rest of the responses were weighted towards a more negative than positive view of the economy. The longer-term outlook taken by family businesses is considered to give them an advantage during downturns, but amid an economic climate that is the most hostile since the end of the second world war, even the most successful family businesses are struggling.

The downturn has already claimed some high-profile victims. Arcandor, the 128-year-old, family-owned German retailer, filed for insolvency in June due to the pressure caused by the economic environment. Two of the most successful Saudi family businesses, the Saad Group and Ahmed Hamad Algosaibi and Brothers Company, have been forced into debt restructuring talks, had their ratings removed and turned against one another as their business flaws were exposed by the crisis.

The reaction of the two Saudi families does not appear to be representative of the family businesses in our survey; however, a significant minority, 27.3%, said they had seen an increase in tensions between active and passive shareholders since the crisis began.

Tony Morton-Hooper, private client partner at Mishcon de Reya, said: "Family businesses may well experience greater levels of internal and external conflict in the current economic environment. Assessing and managing the risk of such conflict is therefore more important today than before. It also means businesses need the most suitably experienced advisors to assist them and they need to be healthily sceptical about the advice they receive."

Family businesses are traditionally seen as less likely to lay off staff when compared with non-family companies, but 54% of respondents said they had let go of staff in the past six months. This suggests that when trading conditions are as tough as they have been, family companies, like all businesses, will do what they need to in order to survive.

But although they may be struggling, families are very reluctant to sell. Eighty eight percent said their preference was to continue under the current ownership structure. "Despite the current economic climate, there is an incredible sense of stability within family businesses with almost 9 out of 10 respondents wishing to continue their business under its present ownership and with very few, less than 4%, expressing a desire to sell," commented Berman.

Whether or not families intend to sell, planning for the possibility of doing so is vital. If they are forced to sell, having not planned will only make a difficult situation even worse. The survey results suggest this is an area that needs addressing by family companies as 78% said they had not planned for the possibility of selling their businesses.

The Bancroft family are one case where a lack of contingency plan left them significantly disadvantaged when Rupert Murdoch bought the family publishing business in 2007. No sale contingency plan meant the family was split over whether to sell Dow Jones & Co and when they eventually did sell, was at a time when the business was not as profitable as it could have been.

The experience of the Bancrofts and others like them may make families even more reluctant to sell, as 72.8% said it was unlikely they would sell their business in the next two years. The effect of the recession on this seemed minimal according to the results, with 70% stating the recession had caused no change in their view of selling up.

Despite not wanting to sell their own businesses, families are open to purchasing new ones, and the recession has provided the perfect opportunity to do so. Sixty four per cent of respondents claim to have seen an increase in opportunities to purchase companies while 46% said they were actively seeking acquisitions, suggesting family businesses are not as conservative as is sometimes believed.

"Whilst it would appear that a significant number of respondents are considering acquisitions, we are surprised this figure is not higher for this type of business given the current stage of the economic cycle," said Berman. "Recently publicised 'big deals' may be comparable to the 'mega deals' that heralded the end of the last two recessions and these are clearly opportunistic times."

Of those who were seeking acquisitions, the most common way to buy was through a combination of leveraging and cash/cash equivalent. This is typical of businesses throughout this recession, as cash has become a valuable commodity so they are more willing to take on some debt if they can get it.

Although less likely to sell, even family businesses can be bought for the right price. Sixty three percent said the principal reason they would sell would be if they received an offer they couldn't refuse. This is perhaps unlikely in the current climate, but once again illustrates that families are realistic about business and will sell up if it makes financial sense.

And family businesses themselves are looking attractive in the downturn – 37% said they have received an approach to buy their business in the last 12 months. Recessions have traditionally been seen as potentially a good opportunity for acquiring businesses, and this response suggests family-run companies are looking like a good investment.

Some of the results of the survey have subverted traditional views of family businesses; they are looking for acquisitions, they will sell if the price is right and they will lay off staff in order to survive. However, other responses re-enforce some classic family business traits, but none more so than when asked what would be the biggest drawback to selling the business – 40% said it was the desire to give the next generation more than just money.

The results have also been analysed from a geographic perspective and reveal: the global nature of the recession; why family businesses in the Asia Pacific region are more actively seeking acquisitions; and why families in North and South America are more likely to sell their businesses than anywhere else.

The Campden FB/Mishcon de Reya survey ran from May to August 2009, spanning a period of continuing economic uncertainty for businesses across the globe. Respondents came from five continents and were typically CEOs (in their second generation and above) of family businesses with revenues in excess of €/$100 million.

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