GLOBAL FAMILY BUSINESS

THE NEW ERA OF GLOBAL FAMILY BUSINESSES

BANCA BT TRANSILVANIA

BANCA BT TRANSILVANIA®

CONTENTS

INTRODUCTION

70%

“

*Around the world, **FAMILY** business are accountable for over **70%** of global GDP. These are not a **SECONDARY** concern of the business world – family business is **MOST** of the business world.*

RADU MAGDIN

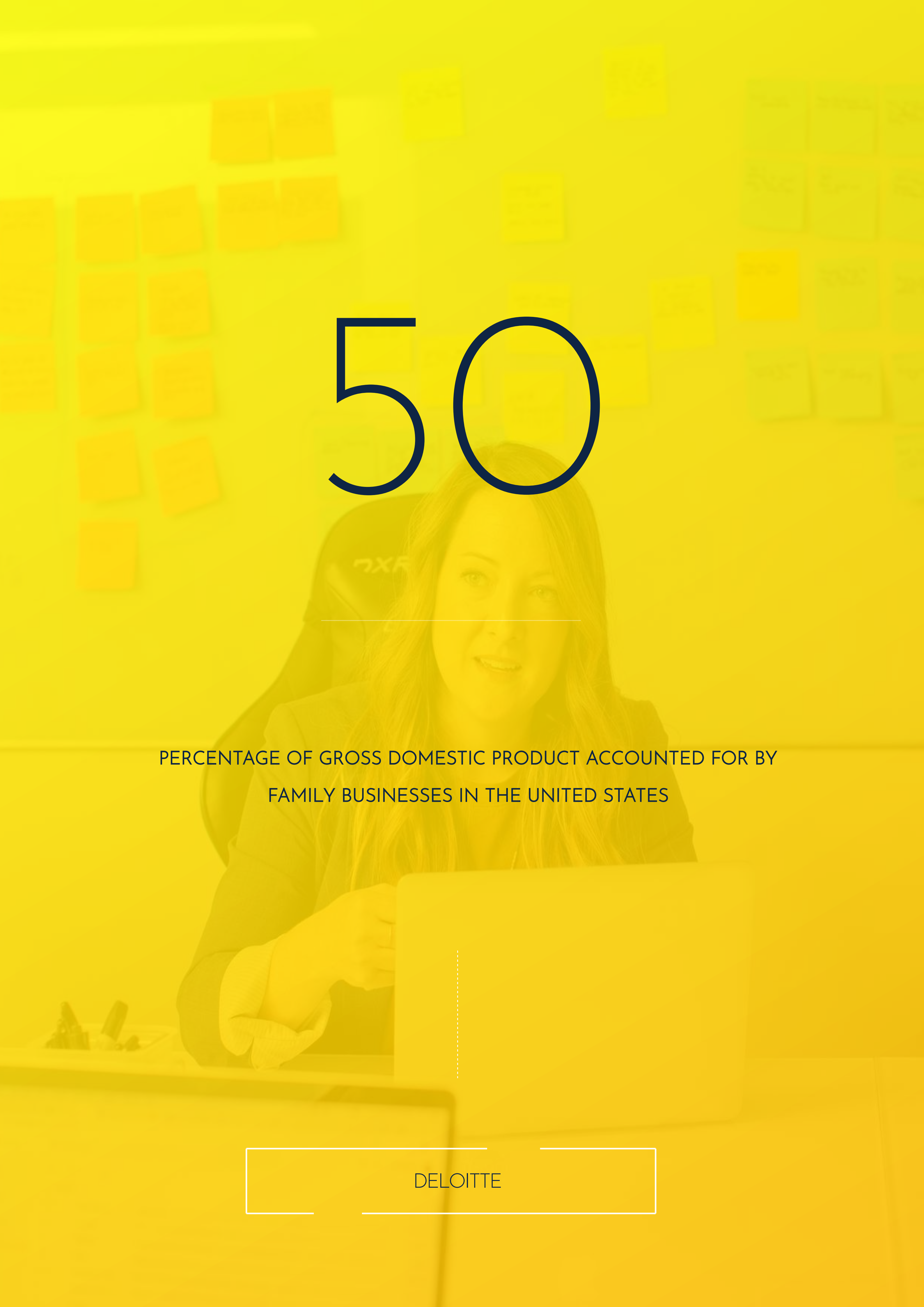
FAMILY BUSINESS

In an era otherwise characterised by the tides and ebbs of globalisation, family businesses stand with a vital role in the global economy - *and perhaps even more so than historically done*. These enterprises, implicitly rooted in tradition and, at least to some extent, family values, have perpetually evolved to thrive in an ever-changing ecosystem. One aspect of family businesses that exemplifies this almost inherent adaptability is their expansion into the global arena, which helped a very particular segment of family business re-establish itself. This report will delve into the importance of this global family businesses and explores how they contribute to economic growth, cultural preservation and sometimes, in the context of new generations at the helm, sustainable development. At the heart of family businesses lies a strong sense of tradition, values and heritage – *with the implicit survivorship bias very much highlighted*. These core principles are often passed down through generations, in no small part by example, creating unique corporate cultures that distinguish family businesses from their public corporate counterparts. When these businesses expand globally, they carry these values with them, often fostering a strong sense of identity and personalised ethics that transcends borders as easy as financial capital itself. This infusion of tradition and values into different markets can inspire employee loyalty, build trust with customers and cultivate long-lasting, even if personalised, relationships with stakeholders. This agility is often rooted in their family-driven decision-making processes, which may prioritise long-term success over quarterly profits. As these businesses venture into global markets, they often continue to leverage their inherent flexibility, making them resilient in the face of uncertain circumstances. This fundamentally adaptive nature often allows family businesses to navigate cultural nuances, regulatory challenges and shifting consumer preferences more effectively than larger and sometimes more hierarchical corporations. Needless to say, in a rapidly changing world, this juxtaposition of tradition and innovation can present its own set of challenges. However, global family businesses often strike a delicate balance between the two. The tradition they bring to new markets can create a unique selling proposition, sometimes successfully appealing to customers seeking authentic experiences in a globalised world. Simultaneously, these businesses embrace innovation to stay competitive, adopting modern technologies, sustainable practices and efficient management techniques to a greater extent than usually given credit for.

While global family businesses bring numerous advantages, they also face challenges unique to their structure. Striking a balance between centralised decision-making and local autonomy, addressing potential family conflicts and in no small part adapting to unfamiliar business environments while retaining what is often highly personalised management can be complex undertakings. However, these challenges are hardly insurmountable - *and many family businesses are successfully navigating them to achieve sustainable growth and global impact*. As such, the significance of global family businesses would be difficult to understate.

PROPORTION OF BUSINESSES WITH A TURNOVER OVER USD 1 BILLION
WHICH ARE FAMILY BUSINESSES, SELECTED REGIONS

MCKINSEY



50

PERCENTAGE OF GROSS DOMESTIC PRODUCT ACCOUNTED FOR BY FAMILY BUSINESSES IN THE UNITED STATES

DELOITTE

EMERGING MARKETS ASPECT

In the often intricate tapestry of the global economy, emerging market family businesses have surfaced as powerful and dynamic players on their own terms. These enterprises, rooted in both the particulars of family business and the complexities of emerging markets, are crafting their own narratives of success, resilience, and growth – sometimes re-writing the otherwise Western-centric business playbook by adding new ideas and new approaches that may in fact be better adapted to the emerging future of the global economy.

As such, emerging market family businesses may be defined by their duality : they inherit the general ethos of family values and intergenerational wisdom, while operating in what can often be high-stakes, rapidly changing environments of emerging markets. With this in mind, it may be said that it is this synergy that shapes the character, resilience and adaptability of what become global family businesses.

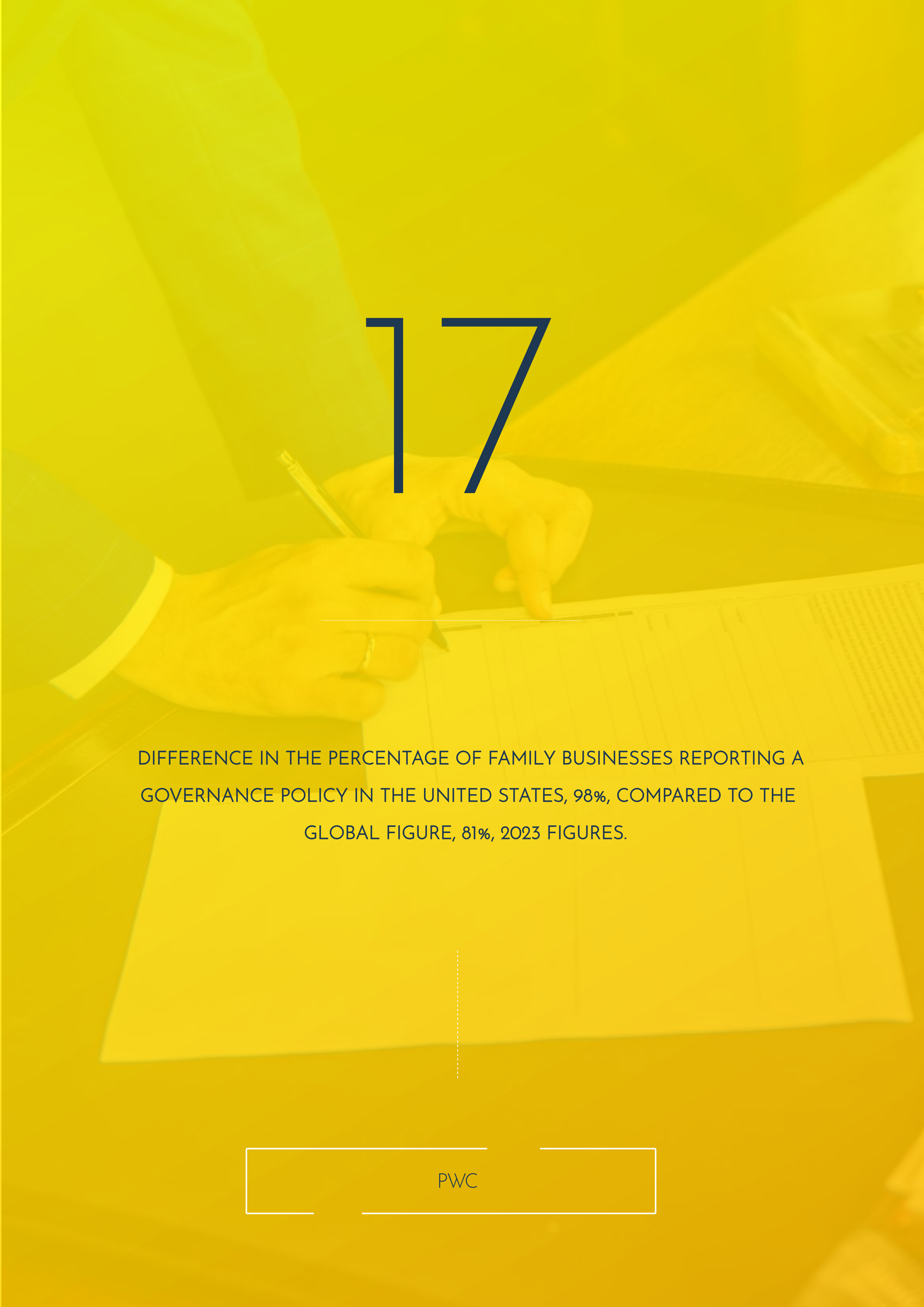
This journey of an emerging market family business to a global family business is not without its trials. Operating within emerging economies can present an array of challenges, from regulatory complexities and sometimes inadequate infrastructure to what may be called fluctuating political landscapes. These businesses must often navigate these obstacles while upholding the values and traditions that underpin their identity. Needless to say, more often than not it is precisely these adversities that forge their mettle.

These businesses must deftly manage the interplay between nepotism and meritocracy, fostering an environment that rewards competence while respecting lineage to an extent to which Western business might find particular. However, this challenge, when overcome, can yield a workforce committed not just to a paycheck, but to a shared vision built on interwoven bonds of family and bonds of personal loyalty.

Emerging market family businesses employ a range of strategies to manage this in their ever-evolving landscapes. One common tactic is focusing on always embracing innovation while remaining anchored in tradition privately. When successful, this means harmonising the lessons of the past with the trends of the present, allowing these enterprises to unlock novel solutions that resonate with local customers and global partners alike.

Practically, this often translates into using the motivation of family bonds to seek technological edges wherever possible.

Cognizant of the above, the future of emerging market family businesses is, quite simply, promising. Globalisation continues to reshape consumer behaviour, technological disruptions are the new norm and as these businesses scale up, the intricacies of corporate governance, talent retention, and succession planning grow more complex. Yet, they have demonstrated their ability to navigate uncertainty and their continued success is a testament to their resilience, which, in itself, may easily out-weight any disadvantages in the long-run.



17

DIFFERENCE IN THE PERCENTAGE OF FAMILY BUSINESSES REPORTING A GOVERNANCE POLICY IN THE UNITED STATES, 98%, COMPARED TO THE GLOBAL FIGURE, 81%, 2023 FIGURES.

PWC

As such, emerging market family businesses may be seen as an honest testament to the power of synergy : blending time-honoured values with the personal aggressiveness to always seize opportunities in ever-changing markets. As they adapt, innovate and sustain their legacies, these businesses show the path forward for both local economies and the global business community. Their journey is a testament to the spirit of entrepreneurship, tenacity and, in no small part, the profound impact that a single family can have on the world.

ASIAN FOCUS

Asia, however much a continent of heterogeneous cultures, languages and histories, is also home to a rich tapestry of family businesses that have both withstood the test of time and become some of the most important contemporary businesses in the world. These businesses have played a significant role in shaping the region's economic landscape, both in terms of the oft-mentioned *chaebols* as well as much smaller businesses which underpin the region's economies to an often greater extent than in what is usually referred to as 'the West'. The history of some Asian family businesses, such as Toyota, can be traced back to over a century, with some spanning multiple generations and industries These enterprises frequently began as small-scale endeavours, nurtured by an entrepreneurial spirit and a commitment to the well-being of the family.

Over time, they diversified their offerings, expanded into new markets, and embraced technological advancements – *and in many cases surpassed Western rivals.*

While Asian family businesses are known for their resilience, they have encountered a plethora of challenges along their respective journeys. Inheritance and succession issues, for example, may sometimes pose significant hurdles. Striking a balance between family members' aspirations and business needs can be complex and many businesses, in particular in emerging markets, don't actually have formal succession plans in place. That said, it may be said that many have trained their successors from an early age with a dedication and commitment that eschew common stereotypes about the second generation and third generation rich.

In no small part this is because the complexity of the businesses they are to run cannot be underestimated. Inherently global from conception and often more digitally-focused than Western rivals, Asian family businesses simply cannot be run by anybody but the best that the business world has to offer – *and the first generation and second generation have simply ensured that their inheritors are the best.*

As such, Asian family businesses often stand as living legacies, weaving together generations of wisdom, values and entrepreneurial zeal. Their stories resonate well beyond business metrics, showcasing the power of heritage in shaping thriving businesses that not only weather challenges but thrive in an ever-changing world.

24

PERCENTAGE OF FAMILY BUSINESS IN ASIA-PACIFIC WHICH REPORT A ROBUST SUCCESSION PLAN IN PLACE

PWC

GLOBAL FAMILY BUSINESS

A look at the impact of family business from a global perspective with a focus on multi-national companies.

- FAMILY BUSINESS IN THE 3RD WAVE OF GLOBALIZATION
- GROWTH OF HNW FAMILY BUSINESSES

38

"*In the context of the* **THIRD WAVE OF GLOBALIZATION**, *the Chinese economy grew* **38 TIMES** *over the past 4 decades. It is difficult to overestimate what* **EXTRAORDINARY** *times we are living through.*

RADU MAGDIN

OVERVIEW

Globalisation has undergone multiple phases of development, with each wave reshaping the world's economic landscape. As we find ourselves at the tail-end of the Third Wave of Globalisation, family businesses, far from anachronistic, have emerged as central actors in this dynamic narrative, not only being shaped by trends but shaping trends. Family businesses he world over have embraced the opportunities and challenges of global expansion, contributing to the changing dynamics of the global economy. This report delves into the growth of family businesses in the context of the Third Wave of Globalisation, exploring how these businesses are carving a sizeable niche for themselves on the global stage.

Roughly, the First Wave of Globalisation translates into the expansion of European trading empires and the international movement of goods, people and ideas across borders that they brought The Second Wave of Globalisation, which unfolded in the late 20th century and approximately corresponding with the decline and fall of the former Soviet Union, saw the rise of multinational corporations and the integration of economies through technological advancements of the Third Industrial Revolution. The Third Wave of Globalisation, the era we are currently traversing, is defined by digital connectivity of the Third Industrial Revolution, technological disruption and the emergence of new economic centres of power. In this new global landscape, family businesses possess a unique set of qualities that position them as formidable actors. Their longevity, rooted in intergenerational continuity and investment close to home, offers a long-term perspective that aligns well with the demands of the Third Wave of Globalisation. This quality is especially valuable in an era characterised by rapid technological change and shifting consumer behaviours, as well as regionalisation.

20%

ABSOLUTE INCREASE IN THE PROPORTION OF GDP ATTRIBUTABLE TO TRADE BETWEEN 1989 AND 2021

WORLD BANK

90%

OF BUSINESSES IN THE U.S., IN ABSOLUTE NUMBERS, WHICH ARE TO AN EXTENT A FAMILY BUSINESS

U.S. CENSUS BUREAU

59%

PERCENTAGE OF THE TOTAL FDI IN ASIA-PACIFIC WHICH IS OWNED BY ASIAN COUNTRIES

THE ECONOMIST

40

THE NUMBER OF TIMES EXPORTS, IN BOTH GOODS AND SERVICES, ARE HIGHER IN 2023 THAN IN 1913

WORLD BANK

PROPORTION OF RESPONDENTS WHICH REPORT TRUSTING A BUSINESS
OF A CERTAIN TYPE, 12-COUNTRY AVERAGE, 2023

EDELMAN

Expanding globally obviously came with its own set of self-evident challenges, yet many family businesses rose to the occasion. Many family businesses form strategic alliances and partnerships with local businesses to bridge gaps in expertise and market knowledge. One of the defining traits of family businesses is their agility. This characteristic often allows family business to react adequately to changing market conditions, thereby gaining a competitive edge over what are sometimes more bureaucratic organizations. As they expand across borders, this agility allows them to pivot and adjust to new environments with remarkable agility.

This, in turn, means that family business is often better adapted to utilise the set of difficulties and challenges that the Third Wave of Globalisation brought to local economies in order to develop, grow, access finance and internationalise. Thus, the Third Wave of Globalisation, which has ushered in an era of unprecedented connectivity and opportunity - both by lowering costs of the connectivity and enabling the democratisation of the technology to foster it – may in fact give the seemingly traditional family business a competitive advantage. Family businesses, with their combination of tradition, resilience and adaptability, are intrinsically well-positioned to, fundamentally, monetise globalisation and these continuing opportunities.

By embracing technological advancements, forging global partnerships and preserving their core values, family businesses are demonstrating that they are not only very much up to speed in the business world but thrive in the changing global landscape.

25

TRILLION CONSTANT 2000 USD DIFFERENCE IN GLOBAL GDP BETWEEN 2000 AND 2016

UNITED NATIONS

25%

MINIMUM PERCENTAGE THAT EACH GLOBAL REGION IS CONNECTED IN GDP WITH OTHER REGIONS

MCKINSEY

70%

REDUCTION IN THE COST OF OCEAN FREIGHT TRANSPORT BETWEEN 1920 AND 1990, CONSTANT USD

IMF

37

THE PERCENTAGE OF BUSINESS WITH A TURNOVER OVER 1 BILLION, GLOBALLY, WHICH ARE EMERGING MARKET FAMILY COMPANIES

MCKINSEY

GROWTH OF HNW FAMILY BUSINESSES

Over the past three decades, the global landscape has witnessed the remarkable rise of high net worth (HNW) family businesses, to an extent propelled by the ongoing Third Wave of Globalisation. These enterprises, characterised by their seemingly dichotomous, unique blend of familial values and global acumen, have played an increasingly influential role in shaping economies, industries and international business dynamics.

The Third Wave of Globalisation, marked by technological advancements and unprecedented interconnectedness, has provided family businesses with a fertile ground to expand their operations beyond national borders. As barriers to trade and communication continue to erode, these businesses have capitalised on the opportunities presented by a more open and interconnected global market, turning local success into global competitiveness – *and more often than not immense wealth*.

Quite simply, global trade volumes were about 40 times as large in 2017 relative to 1913. Much of that increase came with the Third Industrial Revolution, as the Western assembly line became a vast, intricate global supply chain under the auspices of close to absolute American economic hegemony. While this did not make 'the world flat' as was the common hyperbole of the period, the interwoven effect of economic and financial globalisation with the IT revolution created a vast scope for the growth of international trade. This vast expansion of global trade in turn allowed the best and brightest of emerging market family business to scale-up to a degree previously hard to conceive – both in terms of integrating into global supply chains as well as in terms of the exposure had to rapidly growing domestic markets.

71%

PERCENTAGE OF GDP HELP BY THE TOP 10% OF HOUSEHOLDS, 2021 FIGURES.

WORLD BANK

40

TIMES WORLD TRADE IS LARGER, IN ABSOLUTE TERMS, IN CONSTANT 2017 USD, IN 2018 THAN IN 1913

WTO

60%

PERCENTAGE OF EXPORTS GLOBALLY WHICH MULTINATIONALS ARE RESPONSIBLE FOR

MCKINSEY

COMPARATIVE RETURNS, IN EUROPEAN MARKETS, FROM AN EUR 1000 PORTFOLIO INVESTED IN EITHER NON-FAMILY BUSINESSES OR FAMILY BUSINESSES

That, in turn, allowed some family businesses to turn themselves into vast global conglomerates in the span of a few decades – becoming the high net worth family businesses that dominate so many emerging markets.

Partially, the rise of high net worth family businesses on the global stage can be at least correlated with their endogenous ability to foster enduring relationships. The emphasis on personal connections and trust that characterises family businesses has been instrumental in building partnerships and networks that transcend cultural and geographic boundaries. These relationships have facilitated access to markets, resources and knowledge, accelerating their international growth despite unstable environments. Needless to say, the expansion of global high-net-worth family businesses has brought its own opportunities and challenges. On one hand, their global footprint has allowed these businesses to access new markets, diversify risks and capitalise on regional strengths, be it low-labour costs in one country or an R&D edge in another. At the same time, operational management across different STEEPLED environments requires a deep understanding of local regulations, cultural nuances and geopolitical dynamics that will naturally stretch the capacity of even the best of family units.

That said, the Third Wave of Globalisation has not only facilitated the global growth of high-net-worth global family businesses but has also witnessed their significant contributions to job creation, innovation and economic development in their respective countries as well as abroad. In some cases, in particular in East Asia, it can be honestly said that some of these family businesses represented nothing less than a national strategy.

71%

PERCENTAGE OF FAMILY BUSINESSES WHICH REPORT DOUBLE-DIGIT GROWTH IN THEIR LATEST FINANCIAL YEAR, 2023 FIGURES

PwC

137%

PERCENTAGE INCREASE OVER THE BASE IN AVERAGE WEALTH FOR THE NORTH AMERICAN REGION SINCE 2000

CREDIT SUISSE

60%

PERCENTAGE OF EMPLOYMENT IN THE UNITED STATES ACCOUNTED FOR BY FAMILY BUSINESSES

DELOITTE

19

PERCENTAGE OF FORTUNE 500 COMPANIES WHICH WERE FAMILY OWNED, IN 2022

CORNELL UNIVERSITY

REGIONAL
FOCUS

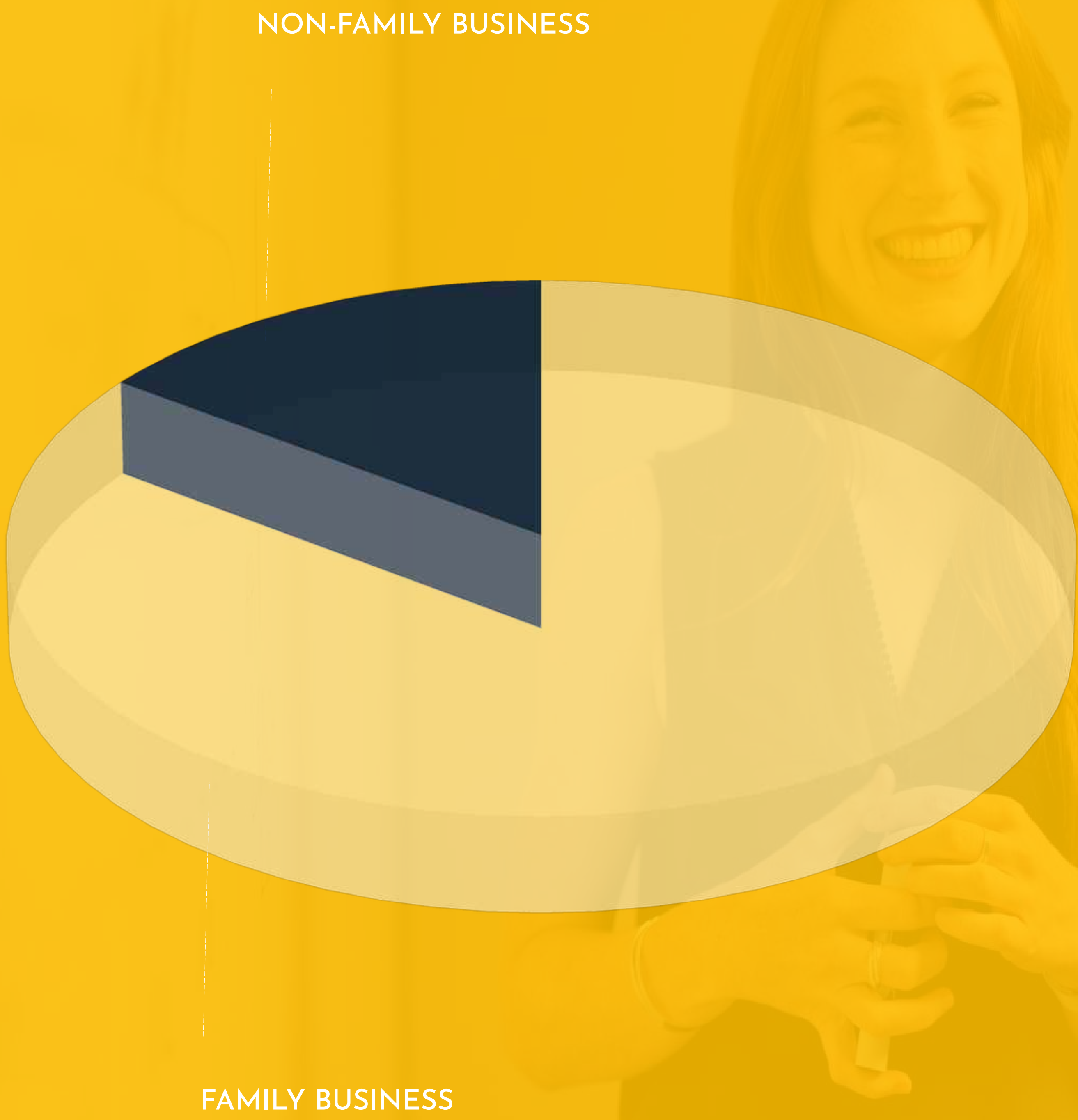
A look at family business from a regional perspective, with a focus on capital structures and choices between equity finance and debt finance.

- OVERVIEW
- CHINA
- NORTH AMERICA
- ASIA PACIFIC
- SOUTH AMERICA
- EUROPE
- AFRICA

1.5

Since 1990, over **1.5 BILLION** *have been lifted out of poverty.* **FAMILY BUSINESS** *has been at the forefront of this global transformation and are in many respects its unsung heroes.*

RADU MAGDIN



PROPORTION OF GLOBAL NUMBER OF COMPANIES WHICH ARE FAMILY BUSINESSES (GOLD) AND WHICH ARE NON-FAMILY BUSINESSES (BLUE), WHEN THE METHODOLOGY INCLUDES INFORMAL BUSINESSES AT THE WORLDWIDE LEVEL

BOTERO ET AL 2015

OVERVIEW

Family businesses are a global phenomenon, contributing substantially to economies worldwide. At least to an extent, each region offers a unique perspective on how family enterprises thrive, shaped by cultural, historical and in no small part economic factors. Needless to say, covariance is also present : despite the regional differences, family businesses everywhere confront common challenges, from succession planning to threats to globalisation and the need for constant innovation. Family business' ability to navigate these challenges while preserving their core values and traditions will determine their continued success and lasting impact on the global business landscape.

North America, particularly the United States, boasts a robust presence of family businesses. From the oft-lionised small "mom-and-pop" shops to large multinational corporations, family-owned enterprises are deeply ingrained in the American entrepreneurial spirit and the cultural fabric of the country. These businesses contribute significantly to the U.S. economy, accounting for a substantial portion of GDP and employment, upwards to 60% by Deloitte's estimates in 2014. Notable examples include Walmart, Ford or Koch Industries, which continue to thrive under family leadership. Europe has a rich history of family businesses, with many of them dating back several centuries. Countries like Germany, Italy and Switzerland are quite renowned for their family-owned Mittelstand companies, which are often quiet world leaders in niche industries.

Furthermore, these family businesses play a crucial role in preserving a culture of craftsmanship and cultural heritage that is by some estimates central to their respective countries' national culture.

Asia, a diverse and highly heterogeneous region, is home to a wide spectrum of family businesses. From the sprawling conglomerates of South Korea's *chaebols* to the traditional family-owned shops that line – and often light-up – the streets of many Asian cities, family businesses play a pivotal role in the region's economic landscape. Asian family business are worth their very own study in itself but it suffices to say that in many respects the Asian economic miracle is often the economic miracle of family businesses. Looking further South, Australia and New Zealand have vibrant, fairly traditional, family business sectors, with many prominent companies still under family ownership. These businesses wield considerable influence on their local economies and communities. Like their counterparts in other regions, family businesses in what may be roughly called Oceania grapple with the challenge of balancing growth and innovation while preserving their own cherished family legacies and values.

Latin America is another region where family businesses thrive, spanning various sectors such as agriculture, manufacturing, and services – examples including JBS SA, Marfrig Global Foods or Votoranim. These businesses often navigate unique challenges, including political instability and economic volatility but may otherwise be said to play vital roles in the socio-economic fabric of their nations.

7.28

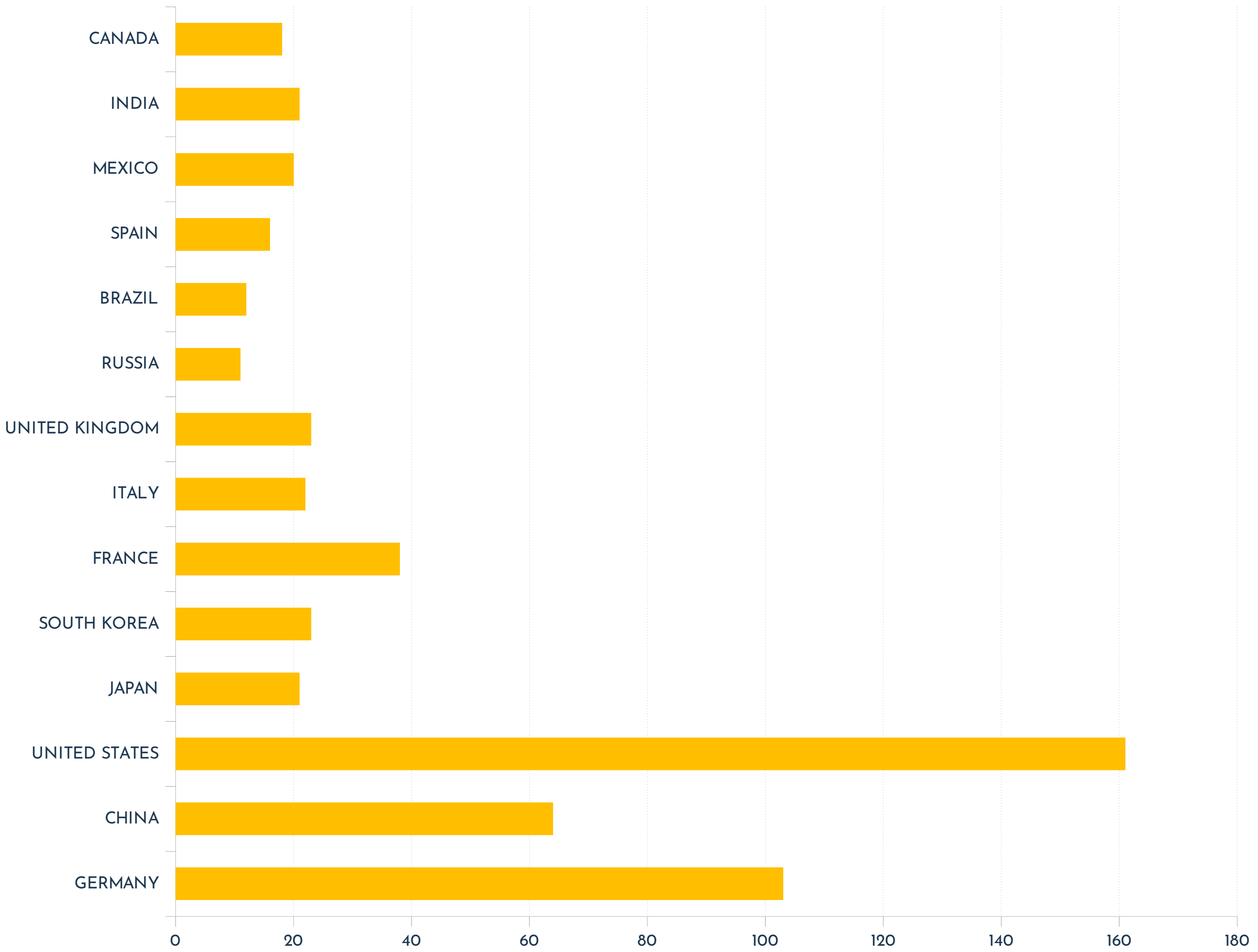
TRILLION GENERATED BY THE LARGEST 500 FAMILY BUSINESSES GLOBALLY

UNIVERSITY OF ST. GALLEN

Meanwhile, in the Middle East and Africa, many family businesses have deep historical roots – *indeed, being the region with the first truly global family businesses* – and have played crucial roles in the development of their respective countries, however much a matter of shifting borders. These businesses contribute significantly to economic growth and employment outside of state-owned enterprises.

Likewise, family businesses, both formal and informal, are the backbone of many African economies, contributing significantly to job creation, wealth generation and often acting as spearheads of community development.

These businesses encompass a wide range of industries, from agriculture and manufacturing to services and retail – such as Pick n Pay Stores or the Mansour Group – and may be expected to grow further with the rise of the 'African consumer'. They often begin as small, sometimes credit-limited, family-run enterprises with aspirations to grow and make a meaningful impact on their communities. Many may be expected to further develop and impact the broader economy as economies become more integrated and internationalised, in particular in the context of the African Continental Free Trade Area.



NUMBER OF FAMILY BUSINESSES INCLUDED IN FAMCAP's 750 INDEX

CHINA

China's economic ascent over the past few decades has been nothing short of remarkable. Quite simply : *GDP per capita increase 21 times between 1978 and 2020 according to general estimates*. A significant part of this transformation can be attributed to the role of family businesses, which have been instrumental in driving innovation, job creation and economic growth.

Some family businesses have deep historical roots in China, with some tracing their origins back to dynastic eras – *while some have just started.* Today, they span a wide range of industries, from manufacturing and technology to real estate and retail, playing a pivotal, if often overlooked, role in China's economic growth and sometimes acting as its premier technological spearheads. Needless to say, access to financing is a critical factor for the growth and sustainability of family businesses in China. Very broadly speaking, bank lending conditions have historically been favourable for such enterprises in the past few decades. State-owned banks, often with government support, have provided capital to businesses in general, enabling them to invest in expansion, technology upgrades and internationalization effort - *sometimes explicitly so.*

Meanwhile, following the late 1990s wave of further liberalisation, China's equity markets, particularly the Shanghai and Shenzhen stock exchanges, have provided family businesses with an avenue to raise capital through initial public offerings (IPOs). Some family businesses have chosen to go public, allowing them to access a broader pool of investors and fund further growth.

While IPOs offer significant advantages, they also bring challenges – and perhaps more so for a family business. Family businesses must adhere to stricter regulatory standards, disclose financial information and face the pressures of public ownership while this shift from private to public can be particularly challenging for family businesses that value secrecy and autonomy. That said, several Chinese family businesses have successfully navigated the transition to public ownership and become global industry leaders, both by public offerings in China as well as abroad.

For example, Huawei, a family-owned telecommunications giant, has achieved international prominence. Its success demonstrates how family businesses in China can leverage the equity markets to fund research and development, global expansion and technological innovation. In turn, this has placed family businesses in China as a vital driving force behind the country's economic growth despite exposing them to sometimes negative media exposure.

As China continues to evolve, family businesses will face new challenges and opportunities in navigating financial markets, regulatory environments and, not least, global competition. It can nevertheless be said that their ability to leverage these resources and adapt to changing conditions will be crucial in shaping their continued success and contributions to China's economic landscape.

8.5

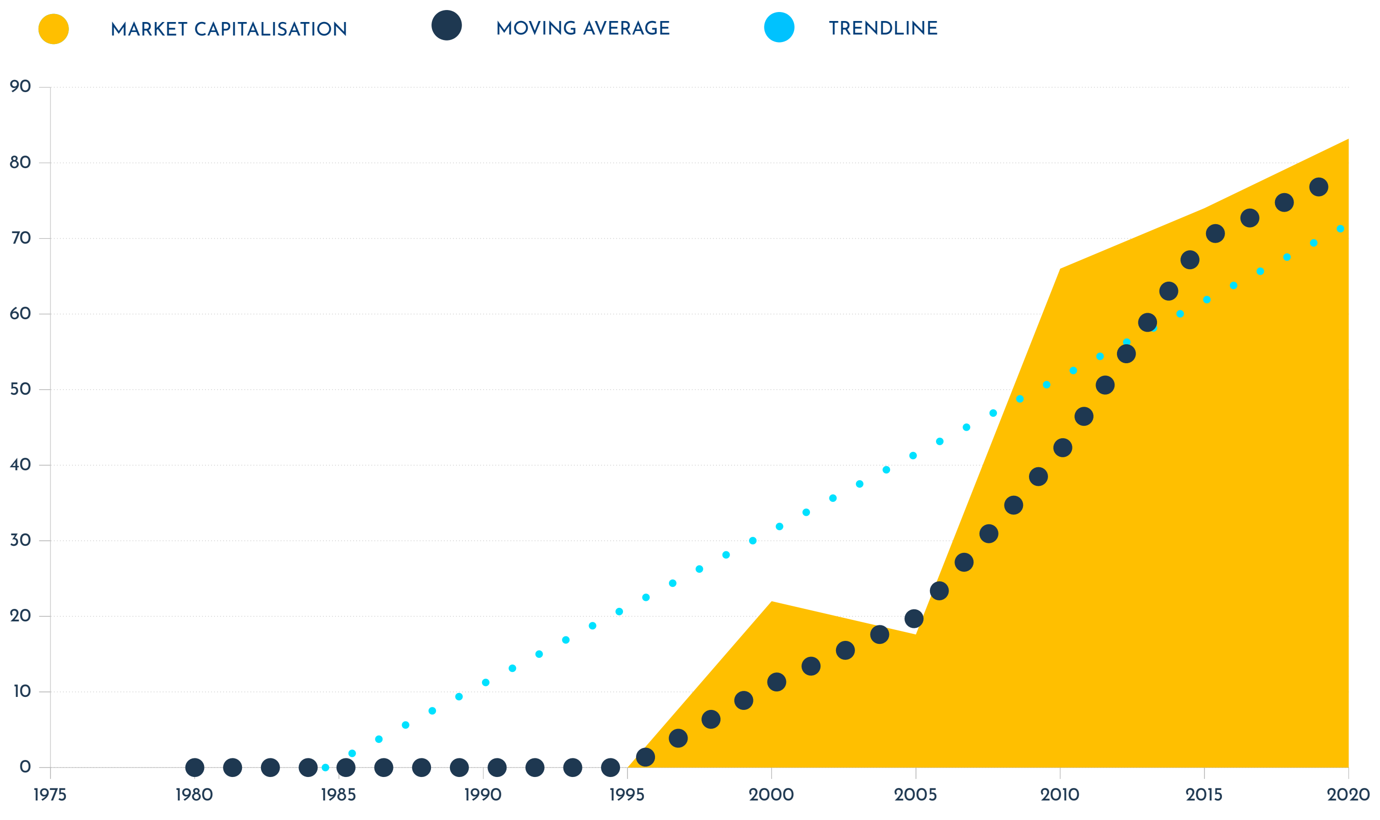
PERCENTAGE OF FAMILY BUSINESSES IN FAMILY CAPITAL'S 750 INDEX WHICH ARE BASED IN MAINLAND CHINA

FAM CAP INDEX

Capital structures, for family businesses and non-family businesses alike, can be quite complex in China. While the adoption in the 1980s of a German-blueprint of bank-led debt financing, the presence of government-guided state banks which may be directed to seek what may be called long-term developmental goals does add a significant degree of complexity for businesses seeking financing. Furthermore, the presence of state-owned enterprises (SOE) in many sectors of the economy might limit the degree of financing a potential private competitor or established business seeking to diversify might actually receive from the banking sector.

This was partially counterbalanced in the 1990s by the rapid rise of the Chinese equity markets but it needs to be mentioned that while their initial rise has been nothing short of meteoric, both main market indices have remained somewhat stagnant and the ratio of equity capital to debt capital remains, overall, well in the favour of debt.

This is reflected below. As it may be gleaned from the graph, Chinese equity markets did experience a spectacular boom in the mid-2000s but it was from a close to non-existent base. Once that mean reversion has been achieved, Chinese equities have actually remained below the average in Western countries. Overall, this suggests that China may remain a bank-focused economy for the near future.



MARKET CAPITALISATION OF LISTED COMPANIES AS A PERCENTAGE OF GDP, CHINA

WORLD BANK

NORTH AMERICA

North America, herein comprising of the United States, Canada, and Mexico, boasts a robust landscape of family businesses. For example, family business provides over 50% of employment in the United States and include in their ranks some of the most successful American brands - and, not least, North American success stories.

North America is home to a highly heterogeneous range of family businesses, spanning most industrial sectors, from manufacturing and retail to IT technology and services. Likewise, these businesses vary in size, with some being small, closely-held firms, while others are large, publicly-traded corporations. However, they all share a common thread of sorts — their roots in family ownership and management as well as the propensities which come with that.

Needless to say, access to bank financing is a critical factor influencing the success and growth of family businesses in North America. In the United States, for instance, community banks and larger financial institutions play a pivotal role in providing credit and capital to these enterprises, in particular state-focused businesses. Decades of favourable lending conditions, including competitive interest rates and flexible terms, have traditionally enabled family businesses to fund expansion, invest in technology and sometimes navigate economic downturns. Furthermore, government policies in North America, particularly the United States and Canada, often support family businesses through preferential lending programs, loan guarantees, and grants. These initiatives aim to stimulate entrepreneurship, job creation, and economic development.

For instance, the Small Business Administration (SBA) in the United States offers a range of loan programs that benefit family-owned enterprises, in particular the family businesses that are categorised as small and medium enterprises (SME) but may one day join the ranks of the great business families.

While bank lending and self-financing are, almost intrinsically, a primary source of capital for family businesses, some aspire to access equity markets through initial public offerings (IPOs) or secondary offerings, with few legal contexts available that may match countries such as the United States or Canada. Going public can provide these enterprises with a very significant financial capital inflow, allowing them to fund expansion plans, lower debt, adjust WACCs or invest in R&D. IPOs also offer liquidity options for family owners looking to transition to new opportunities.

Self-evidently, transitioning from private ownership to public listing can be a complex process for family businesses. It involves adhering to sometimes stringent regulatory requirements, disclosing financial information and in no small part navigating the pressures of public ownership.

Furthermore, maintaining the balance between preserving family values and meeting the expectations of public shareholders may be said to at times present a unique challenge – but one that family business in North American has been handling successfully for decades more than in most other places.

26

PERCENTAGE OF FAMILY BUSINESSES IN FAMILY CAPITAL'S 750 INDEX WHICH ARE BASED IN THE UNITED STATES, CANADA OR MEXICO

FAM CAP INDEX

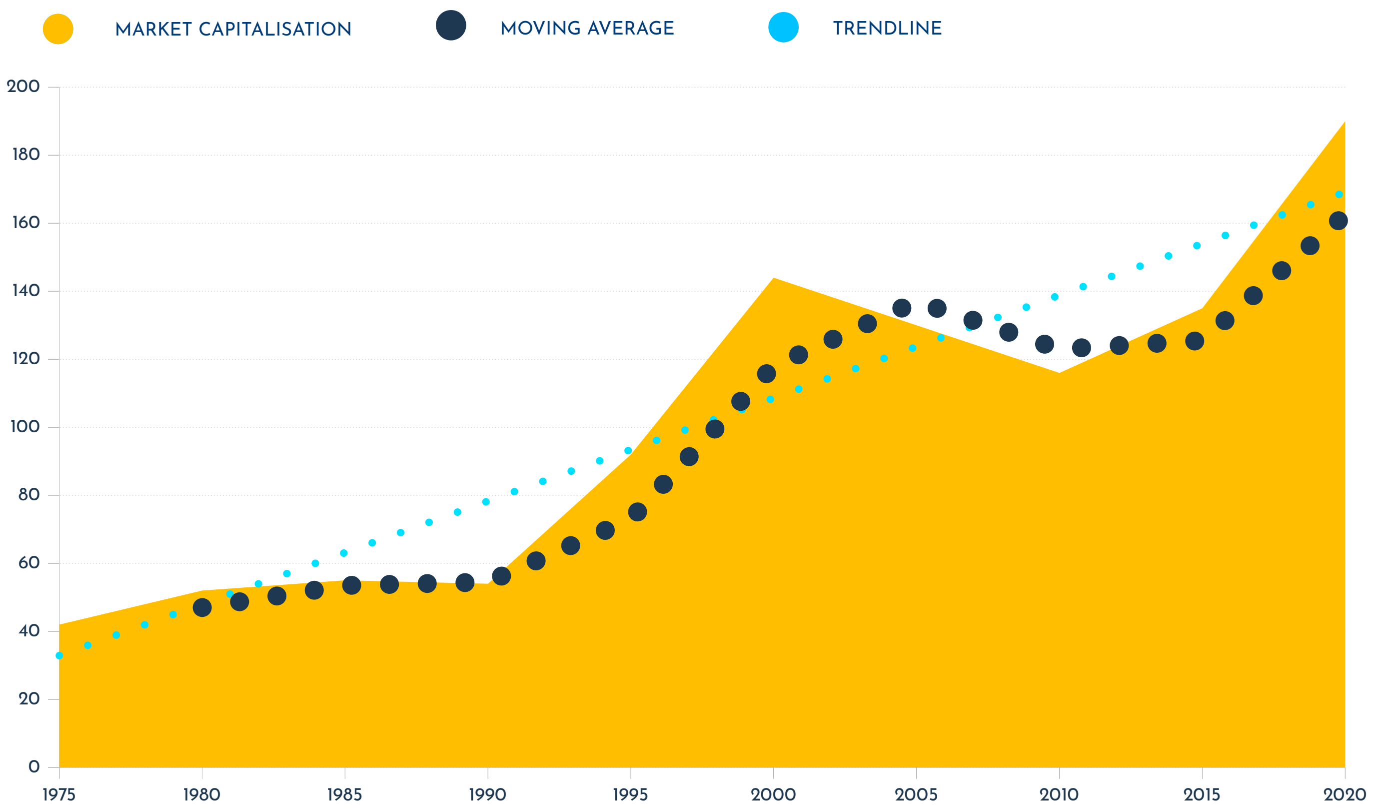
As they continue to evolve and face new challenges, the availability of financing and the ability to tap into equity markets will be instrumental in shaping their future success and their contributions to the vibrant business landscape of North America.

As it may be seen from the graph below, family business is the United States also face a close to unique debt and equity financing context, as market capitalisation as a percentage of GDP is close to double that observed in China or more or less any other large economy.

That has historically meant that many family businesses could embark on the journey to an IPO in the knowledge that they would be accessing the greatest pool of capital currently available in the world, namely U.S. markets, available for American, Canadian and Mexican businesses alike.

After the financial liberalisation of the late 1980s in the United States, as well as the period of historically low interest rates, the U.S. market became both the largest and one of the most international in the world, perhaps the premier destination of global capital.

Furthermore, as mechanise and services markets continue to integrate in the NAFTA area, it may be duly expected that financial integration continues as well, giving further access to businesses from Mexico and Canada to the world's largest stock markets



MARKET CAPITALISATION OF LISTED COMPANIES AS A PERCENTAGE OF GDP, NORTH AMERICA

WORLD BANK

ASIA - PACIFIC

Family businesses have been an integral part of the economic landscape in the Asia Pacific region, here referring to Asia Pacific minus China, for generations. It may be said that family businesses bring with them an unique blend of tradition, resilience and entrepreneurial spirit. That said, some of these businesses often grapple with the challenge of securing financing for their operations and growth in a manner that might be quite familiar to Japanese businesses in the 1950s, South Korean businesses in the 1970s and Chinese businesses in the early 1990s. In the context of sometimes underdeveloped, or at the very least heterogeneously developed, equity markets, for many family businesses in the Asia Pacific, bank debt capital remains the go-to source of financing. Banks offer a range of loan options, such as term loans, working capital loans and lines of credit. These loans serve as a lifeline, providing the necessary funds for daily operations, expansion and innovation – *and sometimes a whole new start*. Lending conditions associated with bank debt capital vary significantly across the region and depend on several factors. Creditworthiness is a paramount consideration but a strong credit history, a well-maintained balance sheet, and a duly demonstrated ability to meet financial obligations can lead to more favourable lending terms. If any of the above is lacking, collateral is another critical factor in securing bank debt capital in the Asia Pacific. Banks often require tangible assets as security against loans. For family businesses, this may involve pledging real estate, equipment, or other valuable assets and the availability and quality of collateral can impact the size and terms of the loan.

Cultural nuances can also potentially play a role in lending conditions. In many Asian cultures, relationships (oft-referred to as "*guanxi*") are crucial in business transactions and building trust and personal connections with bankers can actually lead to more favourable lending conditions. Self-evidently, it is essential to strike a balance between cultivating relationships and maintaining financial integrity.

Many successful family businesses in the Asia Pacific opt for a hybrid approach, combining bank debt capital and equity capital to lower WACCs and meet their financial requirements. Generally, bank debt provides stability and flexibility for day-to-day operations, while equity capital fuels ambitious growth and innovation plans. Navigating the complex world of raising equity capital often requires engaging financial advisers and investment bankers. These experts can help family businesses identify suitable investors, negotiate favourable terms and ensure they retain a competitive edge in their respective industries. Bank debt capital and equity capital are two essential sources of financing for family businesses in the Asia Pacific. Lending conditions for these sources are shaped by various factors, including creditworthiness, collateral availability, cultural dynamics and government policies. Successfully securing financing requires a strategic approach, strong relationships and a thorough understanding of the business's financial health and growth potential. By carefully evaluating their financing needs and exploring diverse funding options, family businesses in the Asia Pacific can position themselves for long-term success in a dynamic and competitive business environment.

18

PERCENTAGE OF FAMILY BUSINESSES IN FAMILY CAPITAL'S 750 INDEX WHICH ARE BASED IN CHINA, INDIA, SOUTH KOREA, INDONESIA OR JAPAN

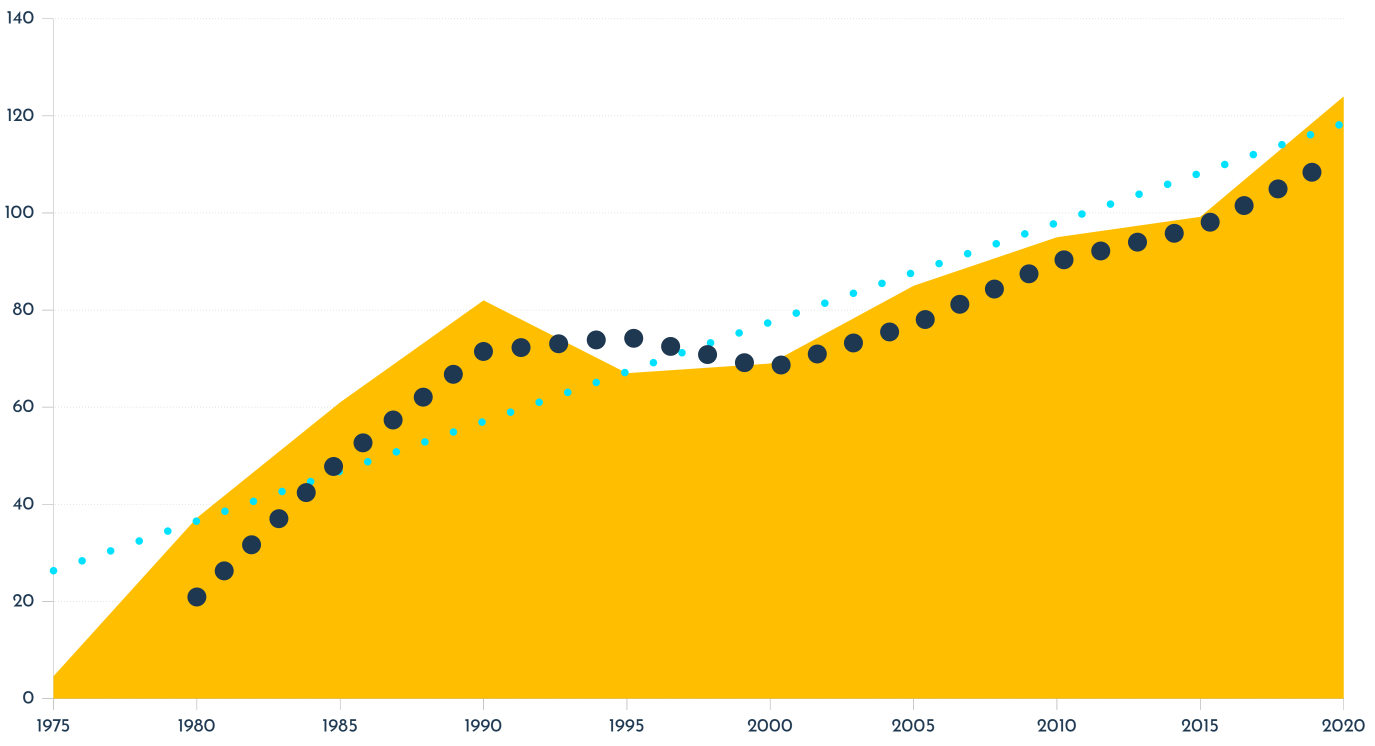
FAM CAP INDEX

Capital structure in the Asia Pacific region, with the mention that the figures below being inclusive of China, reflect the financial cycles the region has experienced. During the initial expansion Eastwards, or Western-wards depending on one's perspective, U.S. and European investors created the first market booms in the 1980s and 1990s, flooding the area with financial capital.

Afterwards, after the Asian Financial Crisis, both equity capital and debt capital became somewhat scarce as capital markets entered what may be called an extended bear market. During this time, many businesses including family businesses tended to focus on debt capital and move their balance sheets towards that.

Nevertheless, the Chinese economic miracle as well as rapidly growing economies such as Indonesia and Vietnam almost wholly changed the narrative as time progressed.

Today, Asia Pacific is one of the most dynamic capital markets in the world, both for international investors as well as, perhaps most notably, intra-regional investors in what is one of the most well-integrated regions in the world. While the number of unicorns might be dwarfed by the likes of Silicon Valley, the availability of capital is not something that most businesses, family and otherwise, need worry about



MARKET CAPITALISATION OF LISTED DOMESTIC COMPANIES AS A PERCENTAGE OF GDP, EAST ASIA AND PACIFIC, AS A PERCENTAGE OF GDP

WORLD BANK

SOUTH AMERICA

In South America, the economic landscape is punctuated by the resilience and dynamism of family businesses through what may otherwise be loosely termed dynamic business cycles. These enterprises, often deeply entrenched in the region's economic fabric, frequently engage in the strategic use of financial instruments to sustain and expand their operations. Within this context, family businesses navigate the intricacies of bank debt capital and equity capital, with an eye on lending conditions as well as sometimes volatile exchange rates — a key determinant of their financial stability and growth trajectory.

Bank debt capital is the lifeblood of many family businesses in South America. It encompasses an array of financial instruments, including term loans, revolving credit facilities, and lines of credit. These instruments serve as a bedrock, facilitating working capital needs, supporting growth initiatives and no less importantly managing operational cash flows. Lending conditions associated with bank debt capital are inherently multifaceted. Creditworthiness, a sometimes somewhat amorphous metric, is dependent on factors such as credit history, liquidity positions and debt servicing capability, themselves highly heterogeneous across the region and across different family businesses.

As such, collateral, often comprised of tangible assets such as future production of raw materials or fixed assets, is often instrumental in determining lending conditions. The quality and quantity of collateral can sway the size and terms of loans.

Furthermore, it may be said that, to an extent, the pursuit of equity capital has gained some traction among South American family businesses seeking rapid expansion and strategic business development. Equity capital entails issuing ownership stakes to external investors, often including venture capitalists, private equity entities or angel investors. Above the capital infusion itself, this approach may bring on-board a more diversified strategic vision as well as more industry expertise.

Lending conditions for equity capital focus on slightly different considerations when compared to bank debt, in no small part because it carries greater risk. Investors scrutinise elements such as market potential, management prowess and competitive positioning somewhat more harshly, focusing on potential short bets as well. As such, family businesses in South America keen on securing sometimes scarce equity capital must negotiate valuation propositions, equity dilution considerations and exit strategies to, sometimes, a greater extent than family businesses elsewhere.

Needless to say, a pragmatic approach for many South American family businesses involves harmonising bank debt capital and equity capital to optimise their financial architecture. Bank debt can provide liquidity stability for ongoing operations and serves as a fiscal buffer for market fluctuations, while equity capital fuels what could be aggressive growth and development pursuits.

3

PERCENTAGE OF FAMILY BUSINESSES IN FAMILY CAPITAL'S 750 INDEX WHICH ARE BASED IN BRAZIL, ARGENTINA OR CHILE

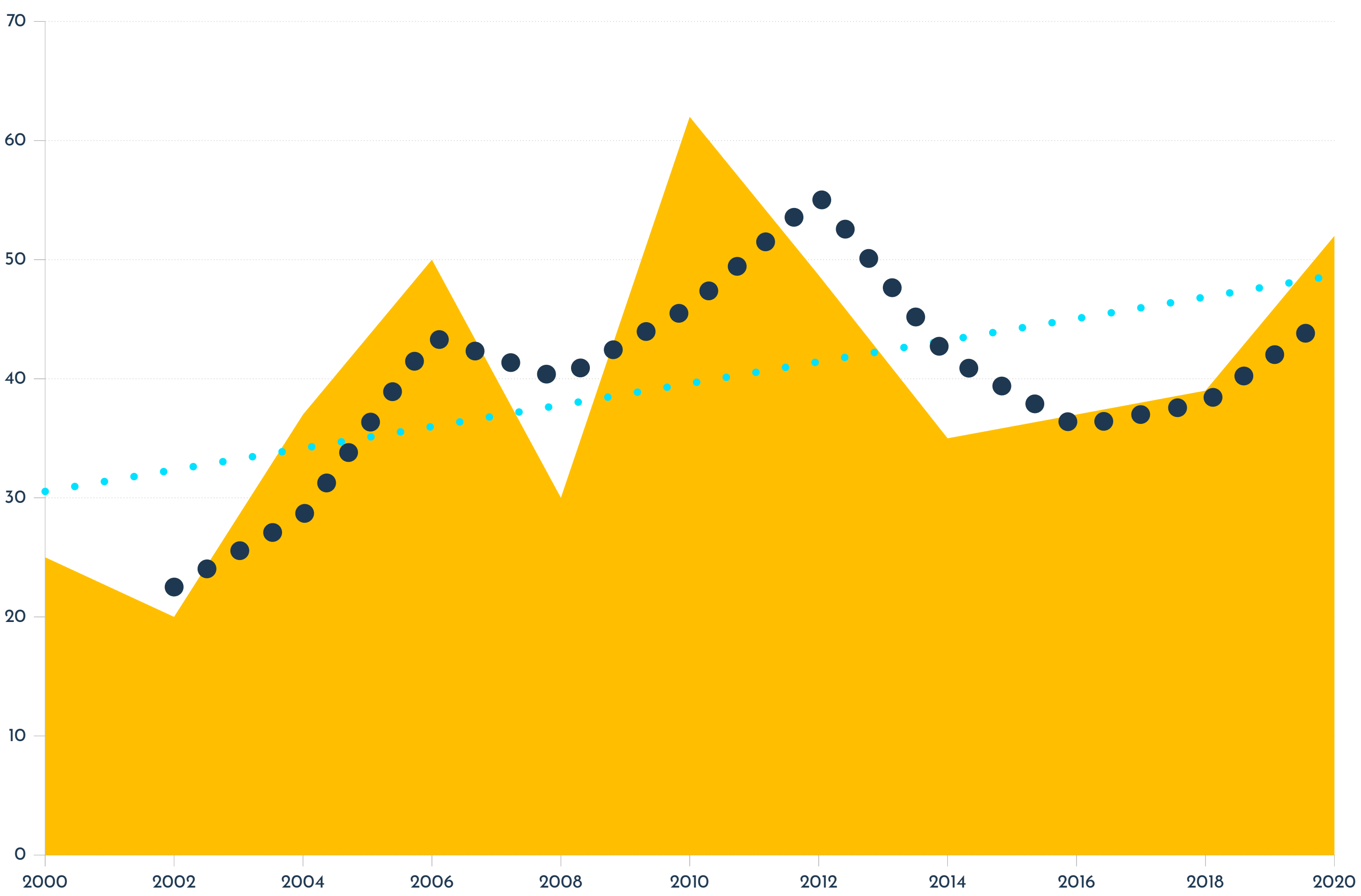
FAM CAP INDEX

South America's capital markets are partially a reflection of the cycles of South American economies themselves and while family businesses are regarded as numerous in South America, at least in relative terms, there are relatively few in the global top 750, amounting to less than 3%.

Partially, this is a matter of choice, with South America not lacking in family businesses which may, if they would choose to do so, one day challenge the world's great business families. However, it may also be partially due to the structure of capital in South America, with relatively underdeveloped equity markets which are often dominated by commodity exporters and sometimes risk-adverse lending conditions in debt markets.

This is, in turn, reflected in the graph below, showing the degree to which South American equity markets are correlated with the commodity boom and the assumable crowding-out effect of large-cap commodity exporters in terms of capital requirements.

Nevertheless, family businesses may access non-public capital in the form of family loans and South America's own networking-based capital solutions as conditions further develop, leaving the ground open for a future growth in capital markets.



MARKET CAPITALISATION OF LISTED DOMESTIC COMPANIES AS A PERCENTAGE OF GDP, LATIN AMERICA, AS A PERCENTAGE OF GDP

WORLD BANK

EUROPE

European family businesses, here defined as including the United Kingdom, are a well-established aspect of the region's economic landscape, contributing to job creation, innovation and overall economic stability. Furthermore, it may be said that Europe has a rich history of family businesses, with many of them dating back several centuries. Countries like Germany, Italy, and Switzerland are renowned for their family-owned Mittelstand companies, which are often world leaders in niche industries.

The financial health of these businesses is often contingent on strategic financing decisions that encompass the utilisation of bank debt capital and equity capital. Bank debt capital remains the cornerstone of financing for many European family businesses, to an extent including the United Kingdom despite its American-model focus on equity markets. As a rule of thumb, European businesses have somewhat more well-developed financial markets for both debt capital as well as equity capital relative to emerging markets. As such, diverse financial instruments such as term loans, revolving credit facilities and trade finance lines provide crucial funding for daily operations, expansion endeavours and liquidity management, to an extent a crucial advantage for European businesses, family owned as well as not. Lending conditions for bank debt capital hinge on multifarious economic parameters. Creditworthiness, a linchpin metric, is adjudged based on factors encompassing credit history, liquidity positions and debt servicing capability. Family businesses that showcase robust financial discipline, reliable cash flows, and a history of prudently managing their debts are primed to access preferential lending terms.

Furthermore, they show both the benefits of debt capital – stability, consensus and to an extent the very values that created the European economic miracles of the late 1950s and 1960s – as well as its inherent limitations : compared to America, Europe simply doesn't have the same number of global success stories. To an extent, this is changing : the pursuit of equity capital has increased to some degree among European family businesses seeking expansive growth opportunities and fresh strategic perspectives.

Lending conditions for equity capital pivot on slightly different axis compared to bank debt. Investors may duly scrutinise variables such as market potential, management capacities and competitive positioning. Family businesses keen on procuring equity capital must meticulously navigate negotiations surrounding valuation dynamics, equity dilution considerations and potential exit strategies.

European family businesses exhibit financial astuteness by adeptly navigating the realms of bank debt capital and equity capital. Lending conditions, driven by factors ranging from creditworthiness and collateral dynamics to regulatory environments and investor sentiment, exert substantial influence on the outcome of financing endeavours. Success in securing and deploying capital demands a nuanced understanding of these conditions, ensuring that family businesses remain resilient and prosperous within Europe's complex economic landscape.

33

PERCENTAGE OF FAMILY BUSINESSES IN FAMILY CAPITAL'S 750 INDEX WHICH ARE BASED IN GERMANY, AUSTRIA, ITALY, DENMARK, FRANCE, THE UNITED KINGDOM, SPAIN OR SWITZERLAND

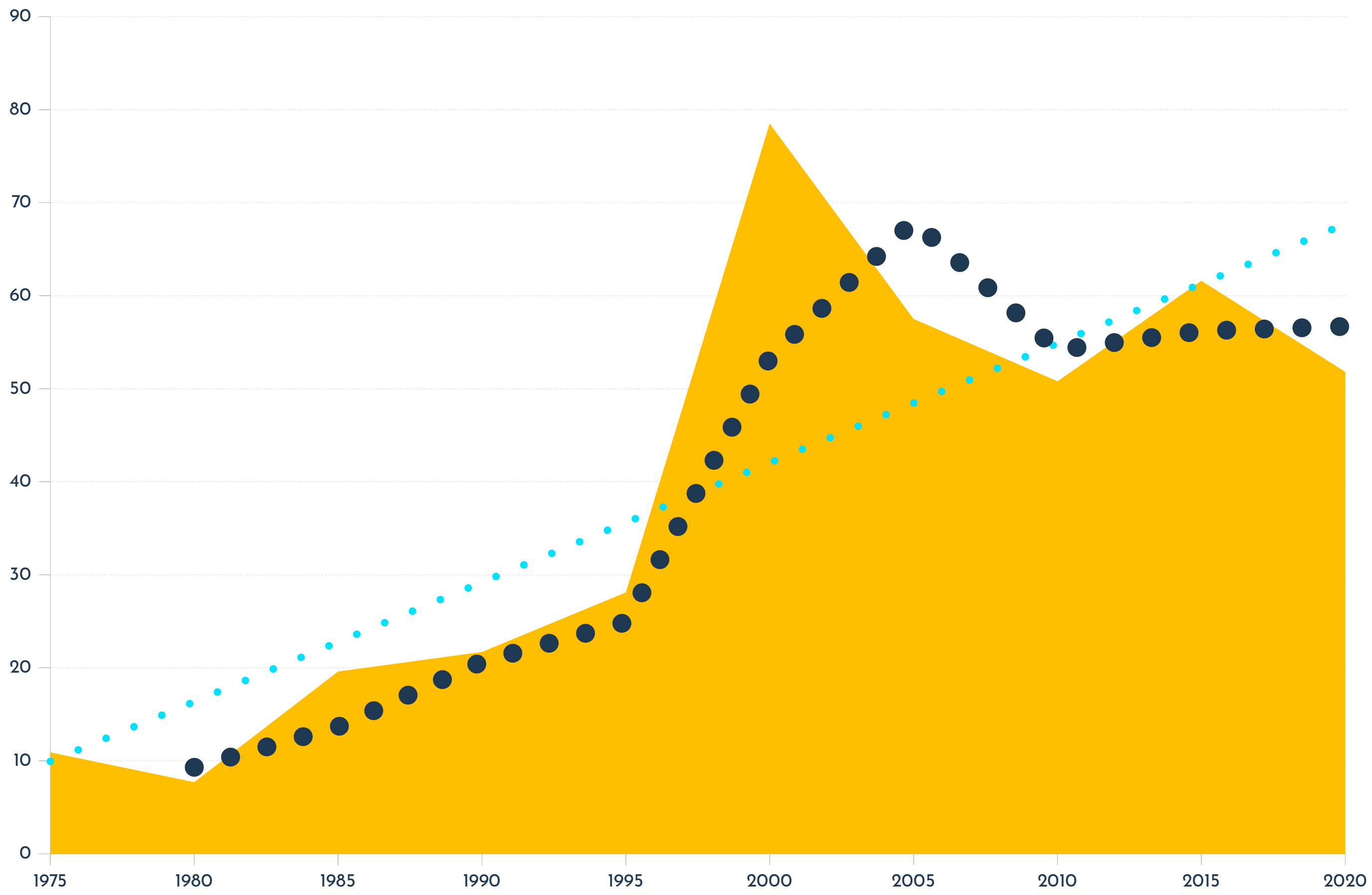
FAM CAP INDEX

Traditionally, the European business world, including European family businesses, have focused on bank capital. This is a natural continuation of the situation during the 1950s and 1960s when Europe's reconstruction was in no small part financed by bank loans and equity markets were almost non-existent for most companies.

That model was continued well into the 1970s and 1980s, with significant changes in the capital structure of European businesses and European family businesses only occurring as the European Union provided the single market and moved towards a single currency : moving from an average market capitalisation as a percentage of GDP of about 30% all the way to 80% between 1995 and 2000.

Despite this, most businesses and family businesses remained focused on bank-provided debt capital to a significant degree - with Europe's market capitalisation as a percentage of GDP lower, on average, than both North America, Asia Pacific and China itself.

This may change in the future, as the need to compete globally encourages more to embark on mass automations, mass digitalisation and investment – all of which require the sort of funding that equity is ideal for. For now, nevertheless, debt remains core to businesses' capital structure in Europe, with the moving average of market capitalisation as a proportion of GDP actually in slight decline.



MARKET CAPITALISATION OF LISTED COMPANIES AS A PERCENTAGE OF GDP, EUROPEAN UNION

WORLD BANK

AFRICA

Africa remains a continent of immense economic potential, driven in no small part by its entrepreneurial spirit and the proliferation of family businesses. However, a significant proportion of these enterprises face daunting challenges when it comes to securing capital for growth and sustainability and, in the context in which a significant part of Africa's, and Sub-Saharan Africa in particular, business if often informal and family-based.

For many African family businesses, securing bank debt capital remains a formidable challenge, not necessarily with great hyperbole, because banks require collateral, credit histories and a demonstrated ability to meet financial obligations. Compounding the problem, informal businesses, which constitute a substantial portion of African enterprises, frequently lack the formal documentation and track records that traditional lenders demand. This leaves them on the outskirts of the banking system, unable to access the capital they need to expand and thrive.

Informality is a pervasive issue in many African economies, with up to half of the economy and often a majority of employment being informal. With a significant number of businesses operating in the informal sector this means businesses often face difficulties in accessing bank debt capital due to their lack of formal registration, financial statements, and credit histories. Naturally enough, many banks are risk-averse and require robust financial information, making it challenging for informal businesses to meet these relatively stringent lending conditions.

Addressing this, governments in various African countries have recognized the importance of the informal sector and are taking steps to tackle the financing gap. Initiatives such as micro-finance programs and financial inclusion campaigns aim to provide access to capital for informal businesses. While these efforts are highly commendable, there is still some work to be done to ensure that these businesses can access the capital they need on fully equitable terms.

In contrast to traditional bank debt capital, equity capital can offer a lifeline to informal African family businesses. Equity investors, including angel investors and impact investors, often place less emphasis on formal documentation and more on the potential for growth and impact. This provides an avenue for informal businesses to attract capital that might otherwise be out of reach. Impact investing, in particular, has gained some notable traction in Africa as investors seek to support businesses that generate positive social and environmental outcomes. Many impact investors are willing to work with informal businesses, providing what is loosely called patient capital and mentorship to help them formalise their operations and access additional financing sources in the future. As such, African family businesses face a sometimes delicate balancing act when it comes to financing. While bank debt capital remains a critical part of the financial landscape, informal businesses must for better or worse explore alternative financing options, including equity capital and impact investing. By leveraging these sources of capital, informal businesses can embark on a path toward formalisation, making them more attractive to traditional lenders in the long run.

0.5

PERCENTAGE OF FAMILY BUSINESSES IN FAMILY CAPITAL'S 750 INDEX
WHICH ARE BASED ON THE AFRICAN CONTINENT

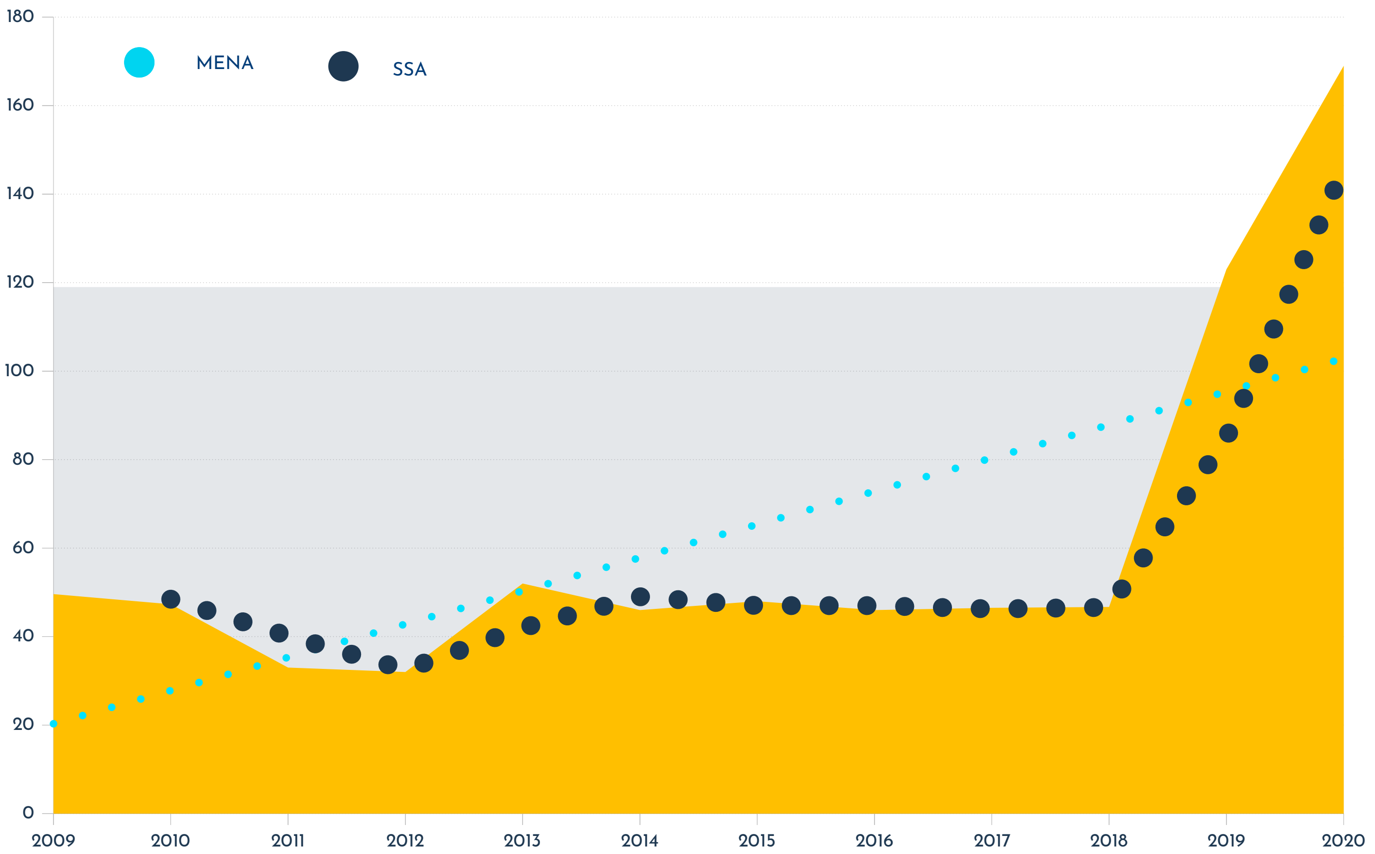
FAM CAP INDEX

Capital structures across the African continent can vary significantly. While many North African, meaning the MENA-region, have both well-established banking sectors as well as fairly open equity markets, businesses in the SSA region often face a scarcity of both.

This often creates a double trap : underdeveloped banking and equity means that many businesses do not have significant incentives to fully formalise and accept the structures of a wholly legalised company.

This, in turn, means that many actors in the banking and investment sectors do not necessarily consider the market is there for them to expand significantly enough as to change the incentives of the businesses in questions. This is not necessarily the case with Northern Africa or the MENA region, where the entry of large commodity exporters into local stock-markets has rocketed valuations from a market capitalisation as a proportion of GDP of around 50% towards 180%.

This apparently leaves two almost completely heterogeneous situations : a dearth of financing on one hand and a bounty of financing on the other. The solution is, perhaps, self-evident for MENA investors looking to diversify and SSA's many family businesses looking to expand.



MARKET CAPITALISATION OF LISTED COMPANIES AS A PERCENTAGE OF GDP, MENA REGION AND SSA'S 10 YEAR MEAN.

WORLD BANK

TRENDS IN FAMILY BUSINESS

A look at general global trends in family businesses, focusing primarily on large multi-national companies.

- DIGITALISATION
- CAPITAL STRUCTURE
- SUPPLY CHAIN RE-OPTIMISATION
- TAX RE-OPTIMISATION
- SOCIAL RESPONSIBILITY
- CYBER-SECURITY

7%

While ***91%*** *of family business surveyed said that their* ***ABILITY*** *to earn and maintain trust improves their bottom line, only* ***7%*** *have agreed upon and communicated an* ***ESG*** *strategy. This is an area that can be effectively improved upon.*

RADU MAGDIN

1

DIGITALISATION

In the wake of the SARS-CoV-2 virus outbreak, the world witnessed a close to seismic shift in its economic landscape. Perhaps among the most affected were family businesses, what may be called the backbone of economies worldwide. As these enterprises grappled with an unprecedented crisis, their unique dynamics, resilience, and adaptability were put to not insignificant tests : as the pandemic swept across continents, family businesses faced the abrupt halt of operations due to 'lockdowns', travel restrictions and sometimes even disruptions in financing working capital needs.

Supply chains were more often than not disrupted, leading to production delays, inventory shortages and sometimes increased costs. Indeed, businesses dependent on imports and exports, as many large-cap businesses are, found themselves caught in a web of logistical challenges. Furthermore, the economic impact of the pandemic resulted in reduced consumer spending and lowered demand for most classes of goods and services, creating significant cash-flow problems for some businesses and in particular family businesses in the context in which family businesses, sometimes lacking the deeper pockets of equity-driven large corporations, struggled to maintain cash flow, cover overhead costs and sometimes even service debts. Many faced the painful decision of laying off employees or implementing pay cuts. Perhaps poignantly, while some family businesses were quick to embrace digital tools and e-commerce, others struggled to transition from traditional "brick-and-mortar" operations.

This "digital divide" was particularly evident among some well-established businesses that had not previously invested in online platforms. Nevertheless, adaptation was always in any true family business' blood : in the face of adversity, family businesses displayed remarkable resilience by pivoting their business models. Distilleries shifted to produce hand sanitizers, textile manufacturers began making masks and protective gear and restaurants switched to take-out and delivery services. This adaptability allowed many to stay afloat and maintain their workforce.

In that sense, the SARS-CoV-2 pandemic thrust family businesses into a fast-forward digital revolution, altering businesses' trajectories and redefining traditional identities. Digitalization, once considered a choice, became an imperative for survival and growth – not necessarily a long-term problem as much as a short-term, operational and tactical, issue.

As the world continues to grapple to some extent with the ramifications of the global pandemic, and in no small the changes it has ushered in, family businesses that harness the power of digital tools and embrace a culture of innovation are poised to thrive in an evolving economic landscape.

Cognizant of that, the SARS-CoV-2 pandemic may have been a marker on a journey towards a digitally transformed future which is not just about technology — it's a testament to the resilience, adaptability and determination of family businesses to navigate through uncertainty and emerge stronger than ever before.

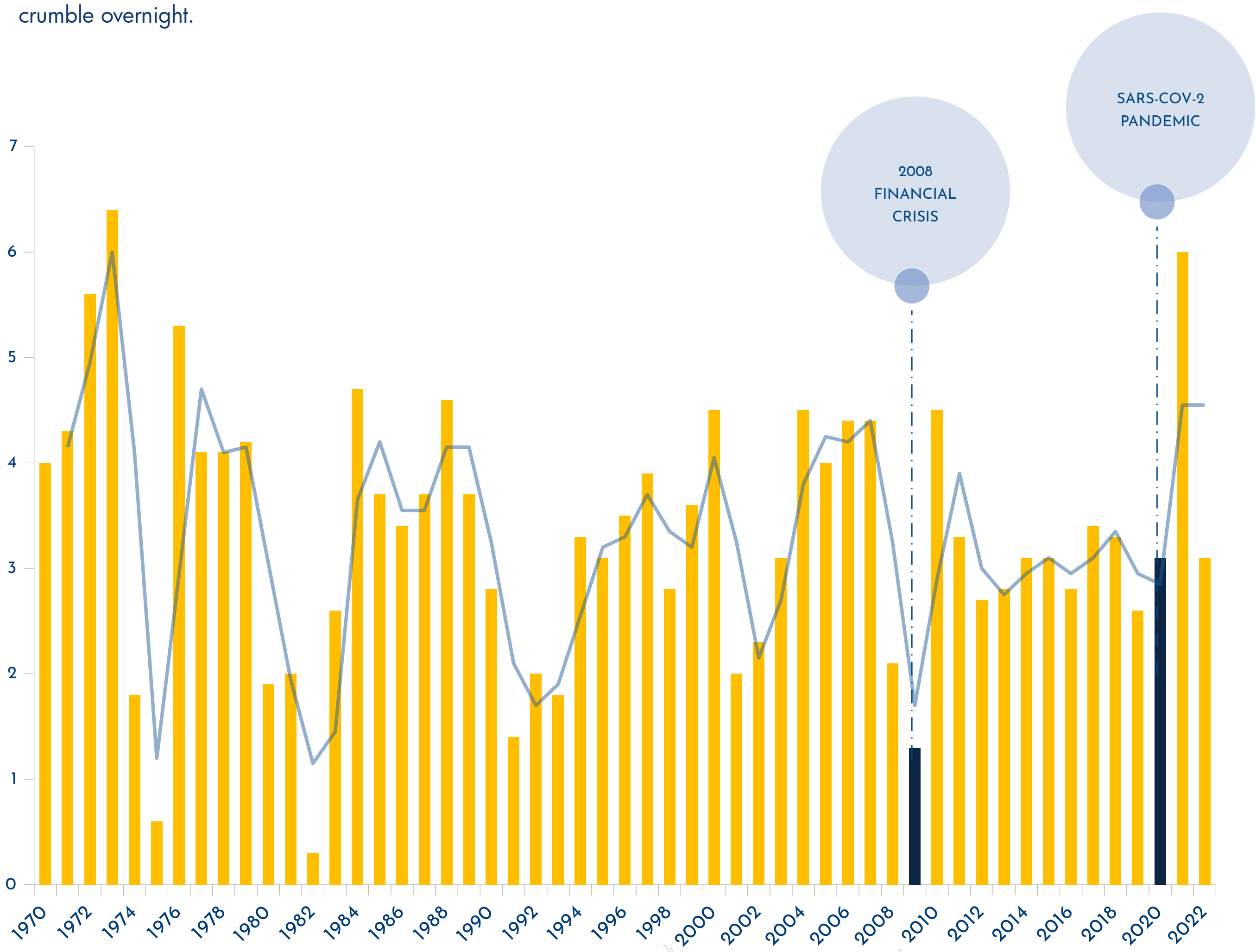
That said, the exogenous shock need not be underestimated.

In recent economic history, meaning the post 1970s global economic landscape, negative growth in global GDP has only occurred during the Financial Crisis of 2008 and during the SARS-CoV-2 pandemic.

That, for better or worse, means many family businesses which didn't have either the deep equity capital of public listed companies or access to credit lines were summarily taken out of business by events they couldn't control : expansion plans became disastrous overnight, optimum working capital needs became a recipe for bankruptcy in less than normal times and many saw their life's work crumble overnight.

Furthermore, while many family businesses in the Western world could access government financing, emerging market family business rarely could count on such largesse.

Nevertheless, overcoming these challenges sometimes left the family businesses that survived in a better position : they moved forward in terms of technology, capital management became more resilient and, at least anecdotally, families themselves have been brought closer together in the face of adversity.



YEAR ON YEAR GROSS GDP AT CONSTANT USD GROWTH, GLOBAL LEVEL. DARK BLUE REPRESENTS NEGATIVE VALUES.

WORLD BANK

2

CAPITAL STRUCTURE

The era of prolonged low interest rates, roughly starting with the 1970s and becoming commonplace in the 1990s in the Western world, and becoming a cornerstone of post-financial crisis monetary policy under the auspices of quantitative easing, is gradually coming to an end. Central banks worldwide have undergone shifts toward tighter monetary conditions as economies recalibrate from the disruptions caused by the 2008 Financial Crisis and the SARS-CoV-2 pandemic. While this transition may bring about a host of changes across sectors, its impact on family businesses is of particular significance.

Family businesses, often considered the backbone of many economies, have developed in an ecosystem fundamentally shaped by historically low interest rates for close to 30 years. These rates facilitated borrowing, enabling family enterprises to access capital for expansion, innovation and succession planning. As the cost of borrowing rises for many, these businesses could face financial implications that ripple through their operations.

Quite simply, rising interest rates could translate into higher borrowing costs and lower credit availability for family businesses which tend to focus on debt capital to a higher degree than other businesses. While most debt issued, particularity in the West, isn't actually due for another few years, it may be expected that if present conditions continue, some family businesses may have difficulty with roll-overs. As such, those highly reliant on credit to fund their operations, invest in new projects, or manage cash flow might find themselves facing increased financial burdens. This could be of particular consequence for small and medium-sized family businesses with limited access to capital markets.

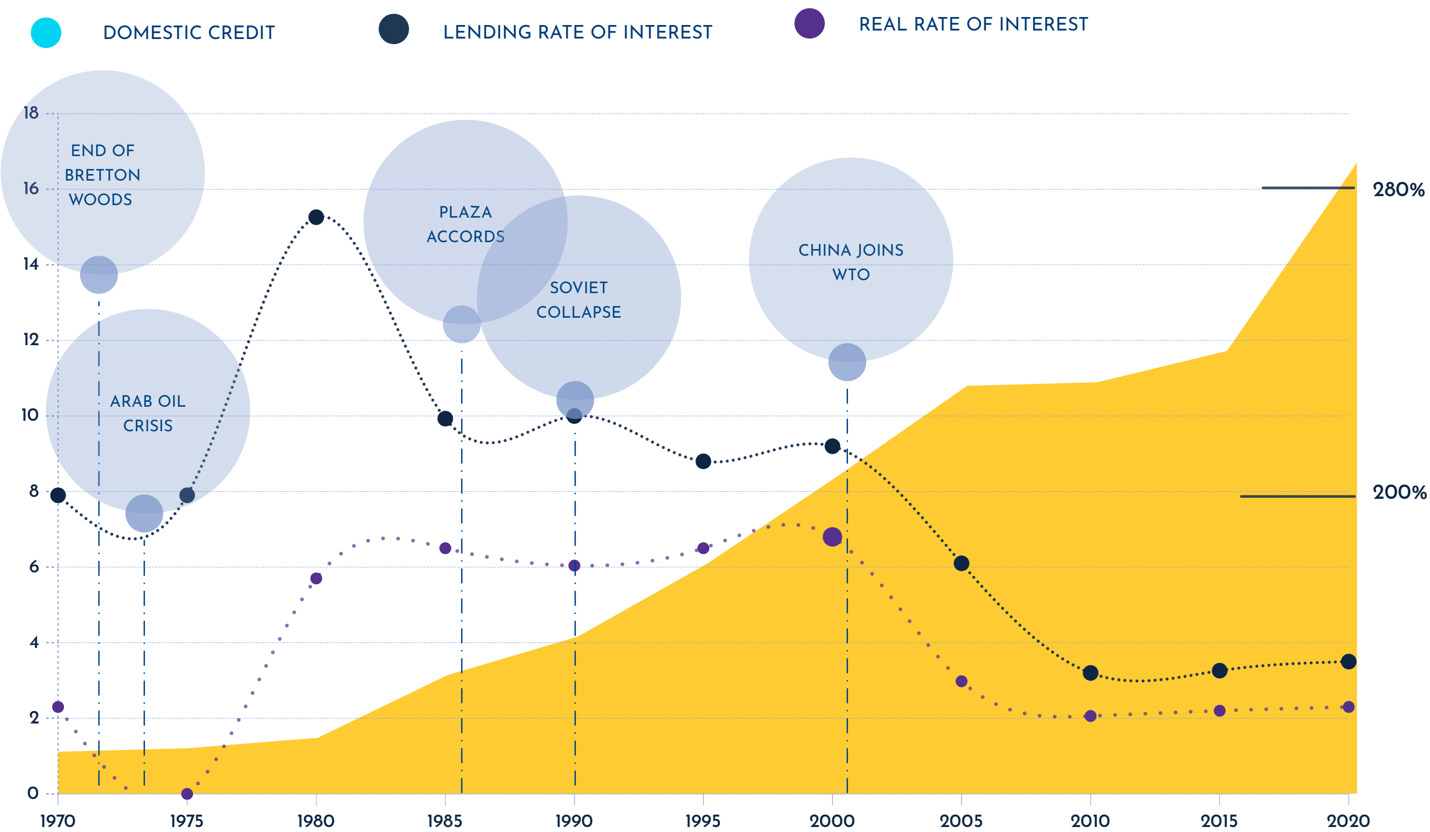
However, the impact of rising interest rates on family businesses is not solely negative. Historically, family businesses have showcased resilience and adaptability during economic shifts. As borrowing becomes costlier, these enterprises might explore alternative funding methods or adjust their business models to optimise efficiency and resource allocation. Additionally, the changing interest rate landscape could prompt family businesses to focus on enhancing operational efficiency. Streamlining processes, reducing overhead costs and optimising supply chain management could become paramount in maintaining profit margins amid potentially higher borrowing costs. Furthermore, succession planning within family businesses could also be influenced by the evolving interest rate environment. As the cost of capital shifts, the timing and methods of transferring ownership and management to the next generation might be recalibrated to ensure financial sustainability and continuity. While challenges such as higher borrowing costs and potentially constrained growth prospects exist, these family businesses, and global family business in particular, are no strangers to navigating complexities. Through adaptability, innovation and prudent financial management, family businesses have the potential to weather the changes brought about by shifting interest rate dynamics and continue contributing to economies worldwide, provided careful management.

Using U.S. businesses as an example, we can look at the supply of domestic credit to the economy for the past 50 year to quickly grasp the situation to which family business leaders must grapple with.

For close to a generation, the supply of credit has been on a rapidly rising trend : the post Bretton Woods financial context has meant that most have had to purchase U.S. debt to participate in the global trade system while the global economy itself has meant that U.S. companies can use that funding to reach new markets well beyond domestic shores. In other words : a nearly ideal situation which both large public companies as well as family businesses have benefited from to a degree that would be difficult to overestimate, at least from the perspective of a struggling emerging market company.

That period is duly coming to an end, even if slowly, due to rising interest rates and an ongoing recalibration away from U.S. debt that comes with trade regionalisation. In turn, that means that the financial environment that all of these businesses operated in for decades is also changing.

That need not be a bad thing : cheap credit has often been blamed for many economic excesses, including the financial crisis of 2008. However, it is not wholly clear that all businesses, including family businesses, are fully prepared for the new world of potentially permanently higher interest rates and tighter lending conditions.



U.S. LENDING RATE AND THE REAL RATE OF INTEREST WITH A SCALE ON THE LEFT AND THE PROPORTION OF PRIVATE BANK LENDING AS A PROPORTION OF GDP IN THE UNITED STATES, WITH A SCALE ON THE RIGHT.

WORLD BANK

3

SUPPLY CHAIN RE-OPTIMISATION

After the 1970s, namely the twin forces of the Third Wave of Globalisation and the Third Industrial Revolution, the global economy may be regarded intricately connected through complex supply chains. Family businesses, which form a significant portion of the business landscape, have not been immune to the impact of these interconnections. The SARS-CoV-2 pandemic unveiled the vulnerability of these supply chains, highlighting how disruptions can reverberate across industries and continents, affecting family businesses in sometimes significant ways. Supply chain disruptions can manifest in various forms, be it transportation bottlenecks or production problems due to shortages of components. For family businesses, which may often operate on slightly lower margins and with sometimes more limited resources compared to relatively larger corporations, such disruptions as experienced by many during the pandemic can be challenging. The dependence on just-in-time (JIT) production methods, the norm in most cases for businesses after a certain volume, while efficient in normal circumstances, can leave businesses exposed when faced with unplanned disruptions. Many family businesses encountered difficulties, which sometimes translated into inventory shortages and an inability to meet customer demands. This can potentially result in lost sales, eroded customer trust and in no small part a dent in the bottom line. In some cases, family businesses might have even faced contract penalties due to their inability to fulfil commitments. Furthermore, supply chain disruptions can amplify financial challenges for family businesses. Operating on tighter budgets, they may struggle to absorb the increased costs associated with alternative sourcing or expedited shipping.

The geographical scope of supply chain disruptions adds another layer of complexity. Family businesses that rely significantly on global suppliers might find themselves with exposure of geopolitical tensions and trade conflicts which may very well be well outside of the scope of their day-to-day considerations.

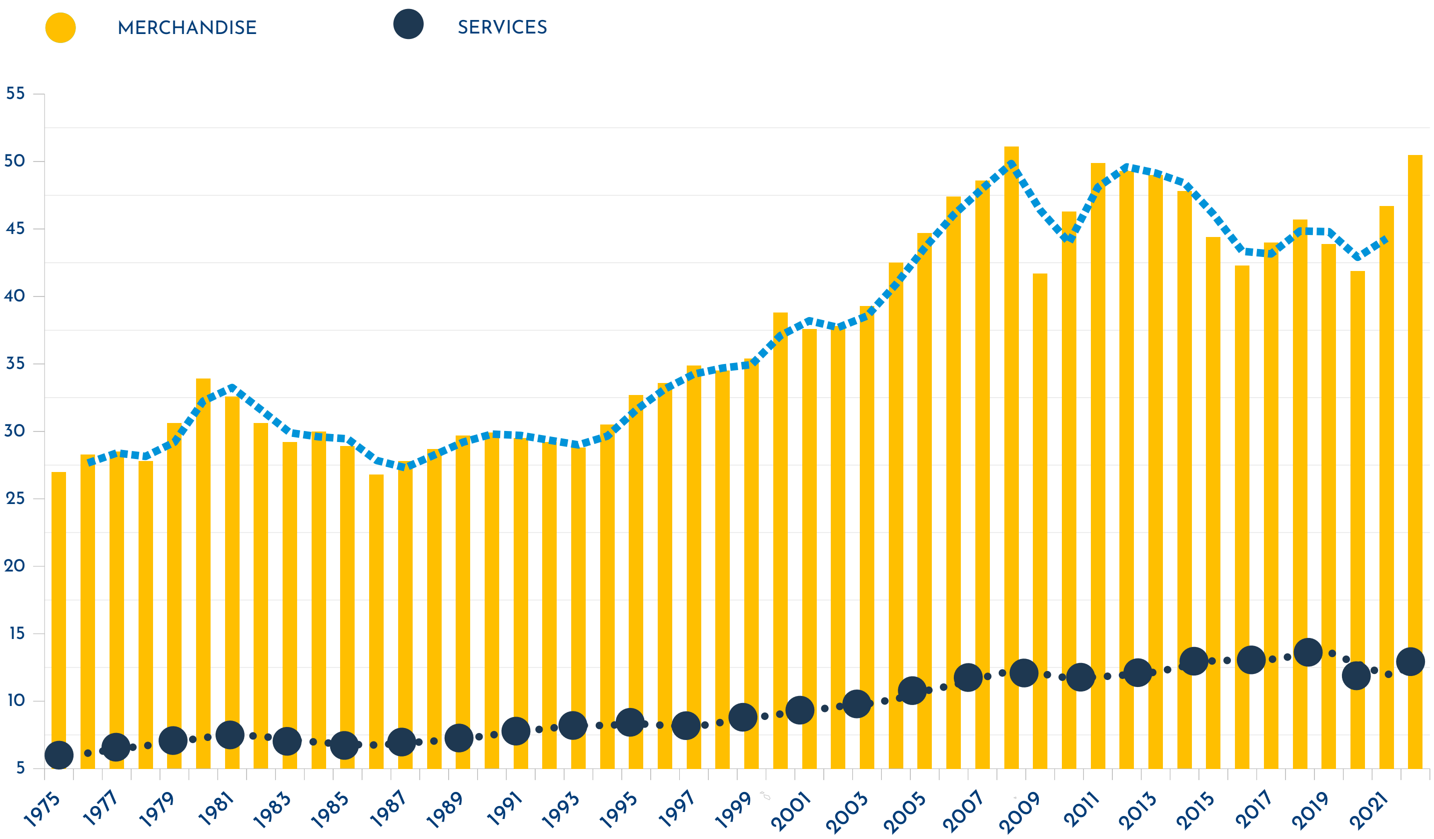
Yet, amidst the challenges, family businesses have displayed remarkable resourcefulness. Many have taken proactive steps to diversify their supply chains, seeking local or regional alternatives to mitigate risks, partially due to the pandemic disruptions and partially due to trade tensions. The pandemic has driven home the importance of resilience over efficiency, prompting family businesses to consider stockpiling critical components or raw materials to cushion against future shocks and this seems to have, at least anecdotally, pushed forward initiatives developed during the earliest days of trade disputes between the United States and China.

Additionally, some family businesses have seized the disruption as an opportunity for innovation. They have explored new business models, such as direct-to-consumer sales or digital platforms, to reach customers more effectively while circumventing traditional supply chain bottlenecks. Moreover, the disruption has underscored the value of collaboration within family business networks. Sharing insights, challenges, and best practices with peers has enabled family businesses to collectively navigate supply chain complexities and share strategies for risk mitigation.

Switching over to the macroeconomic level, the supply chain disruptions caused by the SARS-CoV-2 pandemic have been overstated in the popular media, at least to an extent, because the effect was confounded with previous trade disruptions.

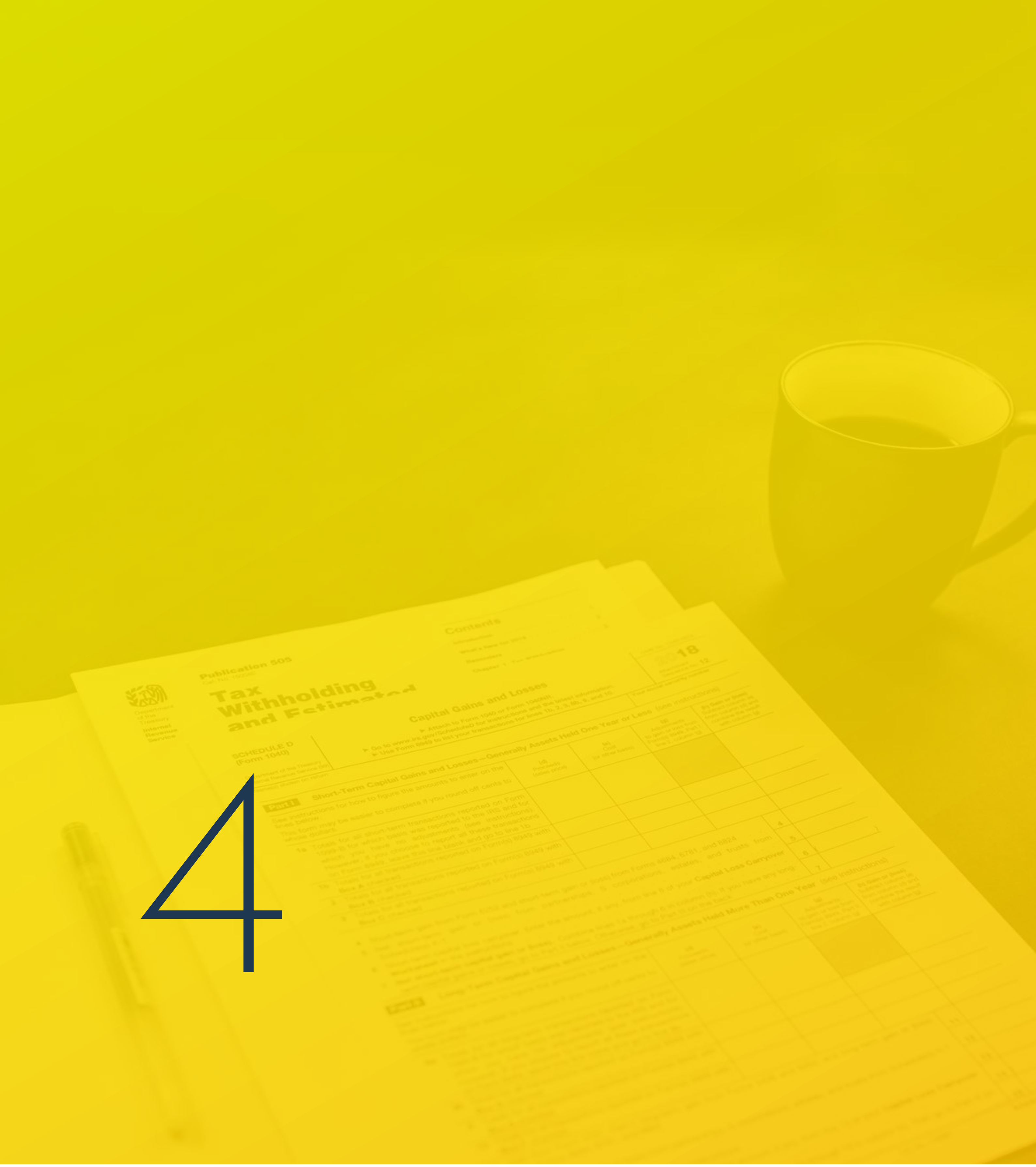
Globally, merchandise trade as a proportion of GDP has kept its historical increase and is actually higher than it was before the SARS-CoV-2 pandemic. Trade in service as proportion of GDP, globally, did suffer a slightly higher drop, perhaps in a counter-intuitive manner, but may otherwise be said to have weathered the storm quite well. Needless to say, with the widespread adoption of just-in-time production methods, any exogenous shock to the intricate web of global supply chains would tend to ripple thought the system and produce exponential impacts.

That said, and cognisant of the survivor bias that is self-evident, family businesses have weathered the shock very well. More pertinently for many is the ongoing wave of '-friend-shoring' that is re-organising supply chains across the globe. More often than not, it is part optics : some final assembly might move from China to ASEAN countries but Chinese businesses are more than happy to have increased their exports of higher-value unfinished goods to these countries. For a small family business, however, this might nevertheless make a significant impact and it remains unclear the extent to which smaller family businesses with less access to credit to re-work production will have been impacted.



TRADE IN MERCHANDISE, GOLD, AND SERVICES, DARK BLUE, AS A PERCENTAGE OF GLOBAL GDP

WORLD BANK



4

TAX RE-OPTIMISATION

High budget deficits, exacerbated by economic challenges like the SARS-CoV-2 pandemic, have placed many governments under considerable pressure to re-evaluate their fiscal policies. Quite simply, many governments are reaching the upper limit on their borrowing capabilities and with that comes the need to optimise finances.

One area that often undergoes significant scrutiny during such times is the tax code. Changes in tax laws can have profound implications for businesses, including family businesses, touching on various aspects of their operations, finances, and strategic planning. One of the most direct impacts on businesses stems from changes in corporate tax rates. Governments may opt to increase these rates or eliminate known loopholes as a means of increasing revenue, at least in the short run. While such increases may help address budget deficits, they can simultaneously reduce the profitability of businesses and internal revenue available for development. Generally-speaking, higher corporate taxes often translate into fewer funds available for investments, expansions or employee compensation.

Furthermore, the global nature of many businesses makes them susceptible to changes in international tax laws, which have historically been an opportunity for tax optimisation. In an effort to curb tax avoidance, many governments may tighten regulations related to transfer pricing, withholding taxes and the taxation of foreign profits. These changes can significantly affect the cost structure and tax liabilities of multinational corporations, family business and non-family business alike.

At times compounding the issue, many family businesses rely on various deductions, business grants and tax credits to reduce their tax liabilities. In the face of structurally higher budget deficits and declining fiscal leeway, governments may scale back or eliminate some of these incentives. The impact of this may be felt primarily by relatively smaller family businesses, as opposed to multi-national family businesses, and in some cases might require reworking the entire business model for some low-margin enterprises

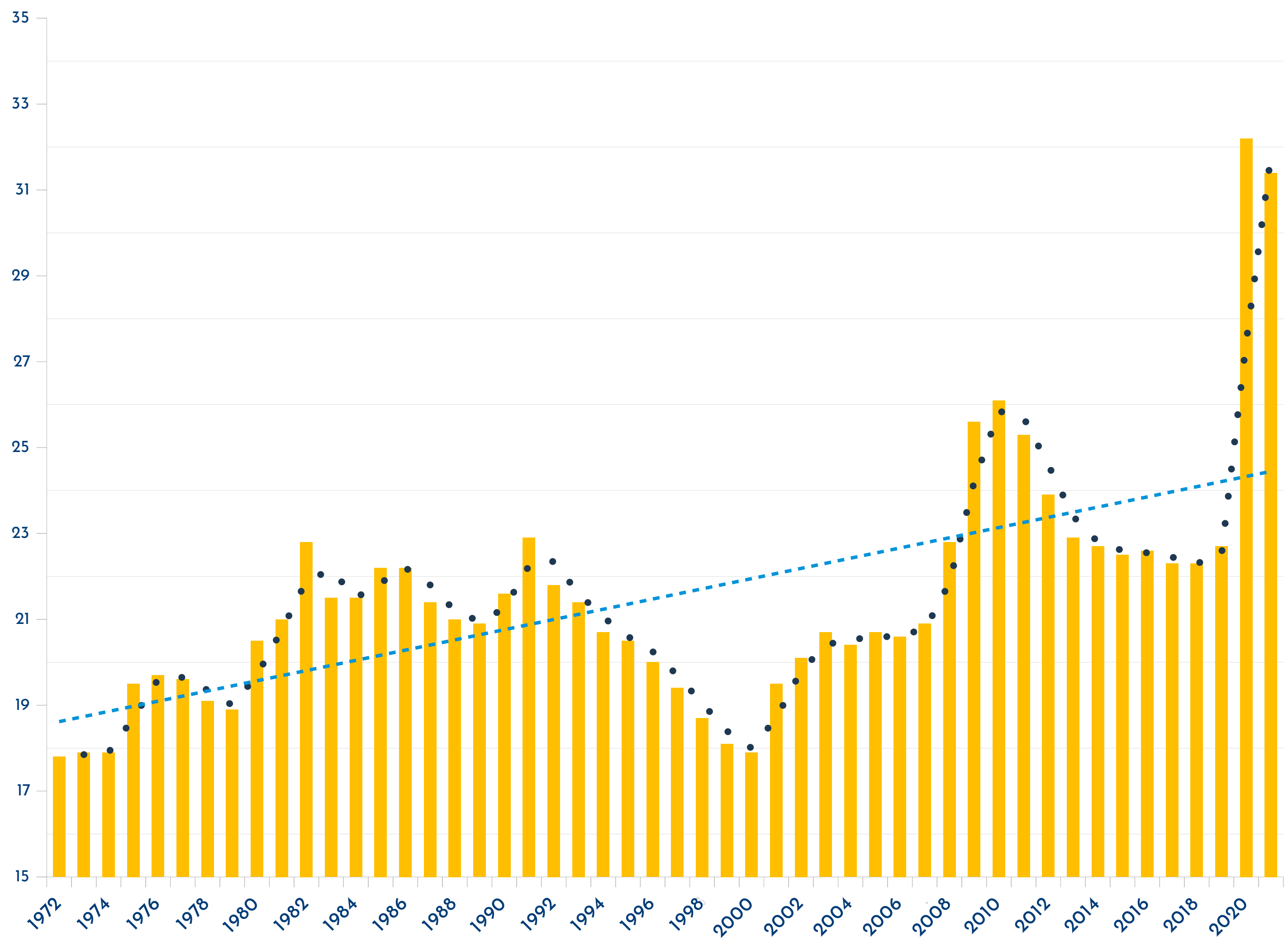
Moreover, as tax laws become more complex, businesses may experience an increased compliance burden. Meeting the requirements of sometimes intricate tax regulations demands resources in terms of time, expertise and more often than not technology. This shift in focus towards greater compliance can divert attention from core business activities. Furthermore, potentially frequent changes in tax laws as governments adjust gradually to new fiscal constraints can introduce uncertainty into the business environment. Uncertainty, in turn, can affect strategic decision-making. Businesses may become more cautious in their approach to investments, mergers and acquisitions and capital allocation, waiting for a stable tax environment. As such, tax law changes driven by high budget deficits may represent a multifaceted challenge for many businesses. To navigate this shifting landscape successfully, businesses must stay informed, engage with relevant stakeholders and in no small part adopt a proactive approach to tax planning and compliance. Adapting to evolving tax regulations becomes essential to maintain financial stability and competitive advantage in an ever-changing tax environment.

What is, however, a near certainly is that the tax environment of not only low taxes but permissive tax compliance is duly coming to an end.

Quite simple, persistent budget deficits almost everywhere in the developed world, carried out during the otherwise, historically-speaking, boom years, have left most governments with significant debt burdens just as onerous pension outlays and healthcare expenses are expected to start shifting government deficits higher.

There is little way around such matters except to attempt to inflate away debts, a poor choice when cognizant of the bond market's reaction of a recent short-lived UK government or to increases revenues while optimising spending. In the context of a fairly low growth rate which is kept partially down by the same factors which are raising expenses – an ageing population, an exhaustion of any 'low-hanging fruits of extensive growth – then it stands reasonable to expect that businesses will face a steep curve of ever higher taxes as well as cancelled grants and investments.

Each business will face their close to unique situation when it comes to tax optimisation but it would hardly be an overstatement to say that many are re-organising post-haste.



GOVERNMENT EXPENSES, AND THE MOVING AVERAGE, AS A PROPORTION OF GDP, UNITED STATES

WORLD BANK

5

SOCIAL RESPONSIBILITY

Family businesses have long been recognized for their contributions to the global economy, often characterised by their values, commitment to the community and long-term perspective. Over the years, a significant shift has occurred within the world of family businesses, particularly in the second and third generations: the emergence of social responsibility as a central theme. This transformation reflects a broader societal trend, pronounced among what in the West is called Generation Z and Generation Y, where businesses are expected to do more than focus on generating shareholder value : they are now encouraged to actively engage in social and environmental issues under the broader scope of corporate responsibility.

As family businesses transition from the first generation to the second and third, there is often a shift in perspective towards such matters and this seems to show-up in multiple surveys. The younger generations tend to be more attuned to societal challenges, environmental issues and the importance of have been called "ethical business practices". This shift in mindset, in turn, has led to a growing emphasis on social responsibility.

In that sense, it may be said that second and third-generation family business leaders recognize the significance of their businesses within the community somewhat better. They see themselves not just as economic entities but as stewards of the community's well-being. Consequently, many family businesses are actively involved in community development initiatives, philanthropy and charitable giving.

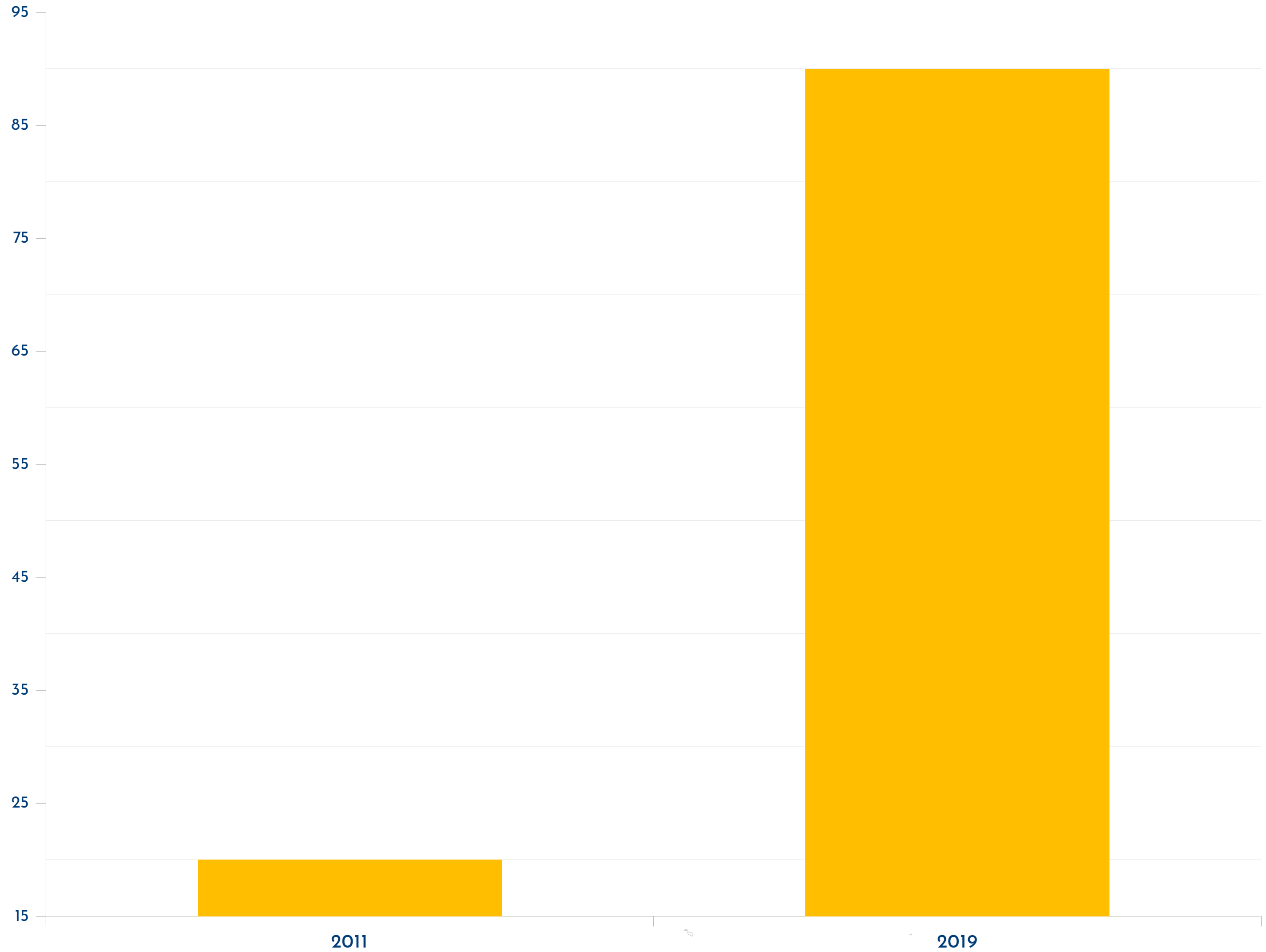
Furthermore, environmental sustainability has gained prominence as a key aspect of social responsibility. Younger generations within family businesses are often more concerned about the long-term environmental impact of their operations and this has led to them advocating for initiatives such as reducing carbon footprints, adopting sustainable supply chain practices and investing in renewable energy sources. In the pursuit of social responsibility, family businesses are increasingly adopting ethical business practices, at least to the extent of a fairly general definition. This includes fair labour practices, responsible sourcing and transparency, to the extent reasonably possible, in operations. Many second and third-generation family businesses have formalised their commitment to social responsibility through CSR programs, encompassing a wide range of activities, from employee voluntarism to partnerships with non-profit organisations and support for education as well as healthcare initiatives. Consequently, a challenge coming over the horizon for second and third-generation leaders is to strike a balance between maintaining profitability in what may become difficult environments and commitments to social responsibility. This may require innovative business models that integrate profit and purpose.

Additionally, family businesses, particularly those run by the latter generations, are increasingly turning to impact investing. This involves allocating capital to projects and ventures that generate both financial returns and positive social or environmental outcomes.

That said, the shift seems here to stay. The emergence of social responsibility as a central theme in family businesses, even if predominately in the second and third generations, reflects a broader shift in the business world towards more ethical, sustainable and community-focused practices, perhaps in response to greater generational focus.

Needless to say, there are several detractors to this shift, primarily focusing on the similar popular wave of CSR present during the 1990s in the Western world, but, in statistical terms, it looks here to stay irrespective of this : the percentage of companies in the S&P 500 which have publishes social responsibility reports went from 20% in the early 2010s to close to 95% at the later part of the decade.

In other words, for better or worse, the next generation in family businesses which tend to support these measures are very much in line with general trends and, perhaps co-variant with the general public opinion.

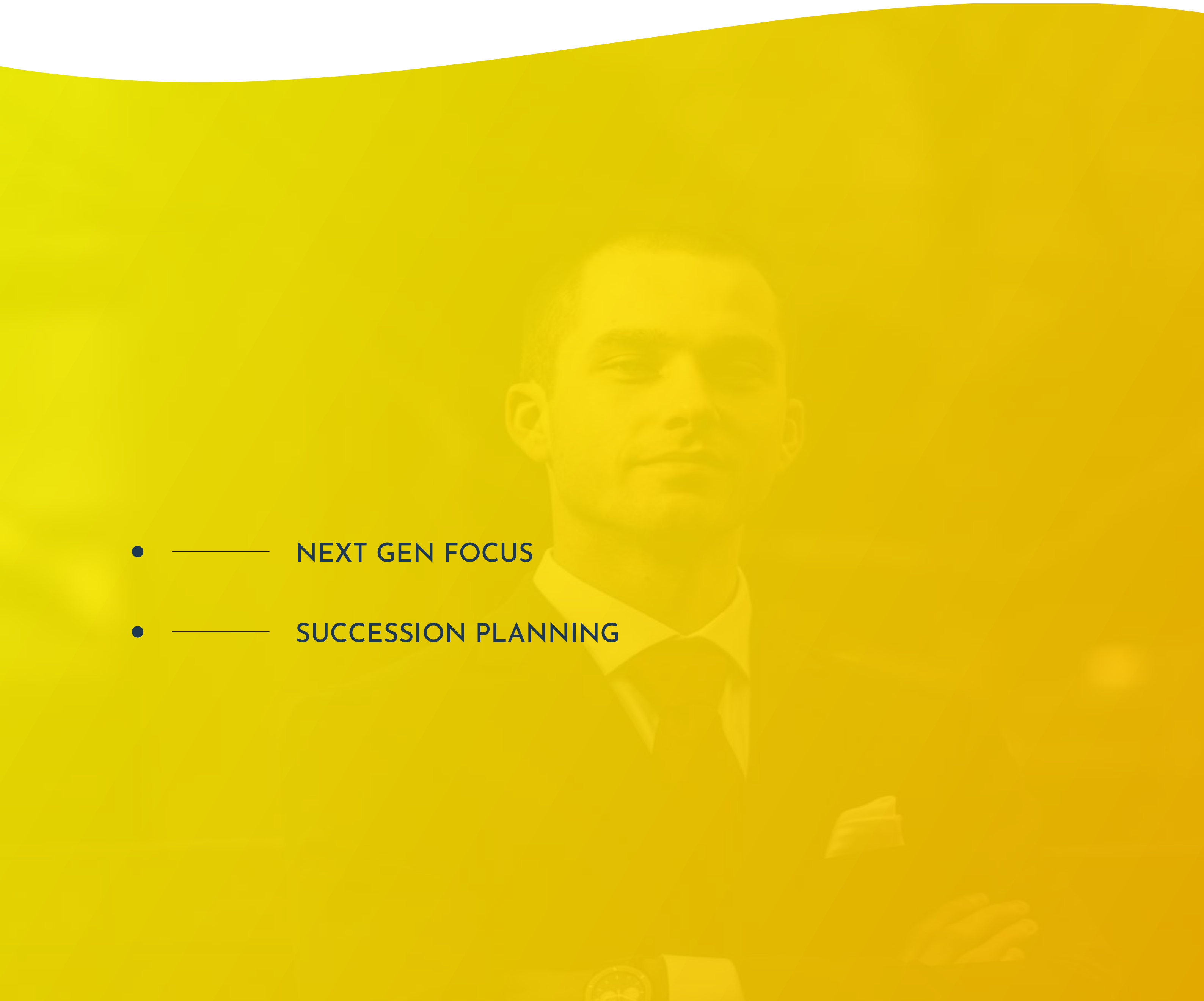


PERCENTAGE OF COMPANIES IN THE S&P500 WHICH PUBLISHED A SOCIAL RESPONSIBILITY REPORT

HARVARD BUSINESS SCHOOL

NEXT GENERATION

A look at the next generation of family business leaders as well as succession best practices



- NEXT GEN FOCUS
- SUCCESSION PLANNING

35%

Entrepreneurship is rare enough that it transcends differences such as **GENDER** *yet* **35%** *of female respondents in PwC NextGen survey say that male counterparts are more likely to be expected to* **LEAD.** *It would be a loss when talking about employees : for a multi-generational* **FAMILY BUSINESS** *it feels almost ominous.*

RADU MAGDIN

1

NEXT GEN FOCUS

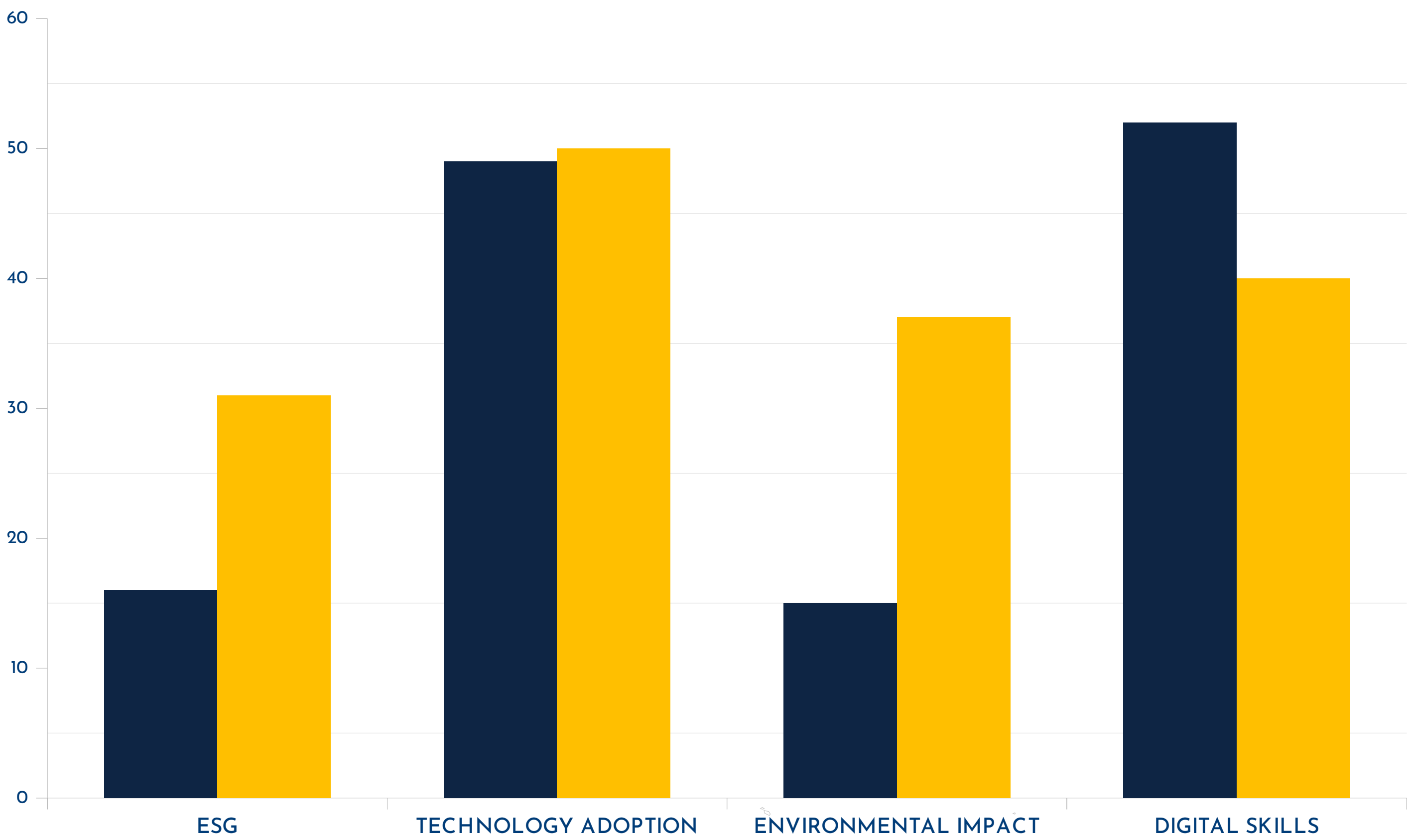
NEW PRIORITIES

As a rule of thumb, most next generation business leaders surveyed by PwC and others do not necessarily exhibit any propensity towards a whole-scale break from past practices. However, there is a pronounced shift away from growth – which older generations usually cite as their first priority – towards environmental and social governance goals (ESG), which Next Gen members report as their priority, alongside the somewhat more direct goal of managing one's environmental impact. This may be tempered when actually in leadership but the shift is difficult to overestimate : expect future business leaders to talk about social responsibility and, for better or worse, actually mean it.

22%

GENERATION GAP AMONG BUSINESS LEADERS ON INCREASING FOCUS ON ESG

PwC



RESULTS FROM PWC'S NEXTGEN FAMILY BUSINESSES SURVEY ON SELECTED ISSUES, WITH RESPONSES AMONG THE CURRENT LEADERSHIP GENERATION AND THE NEXT GENERATION ON THE DEGREE TO WHICH EACH ISSUE IS REGARDED AS IMPORTANT OR HIGHLY IMPORTANT

PWC

72

PERCENTAGE OF NEXT GEN WHO EXPECT TO BE PERSONALLY INVOLVED IN INCREASING THEIR BUSINESS' FOCUS ON SUSTAINABILITY

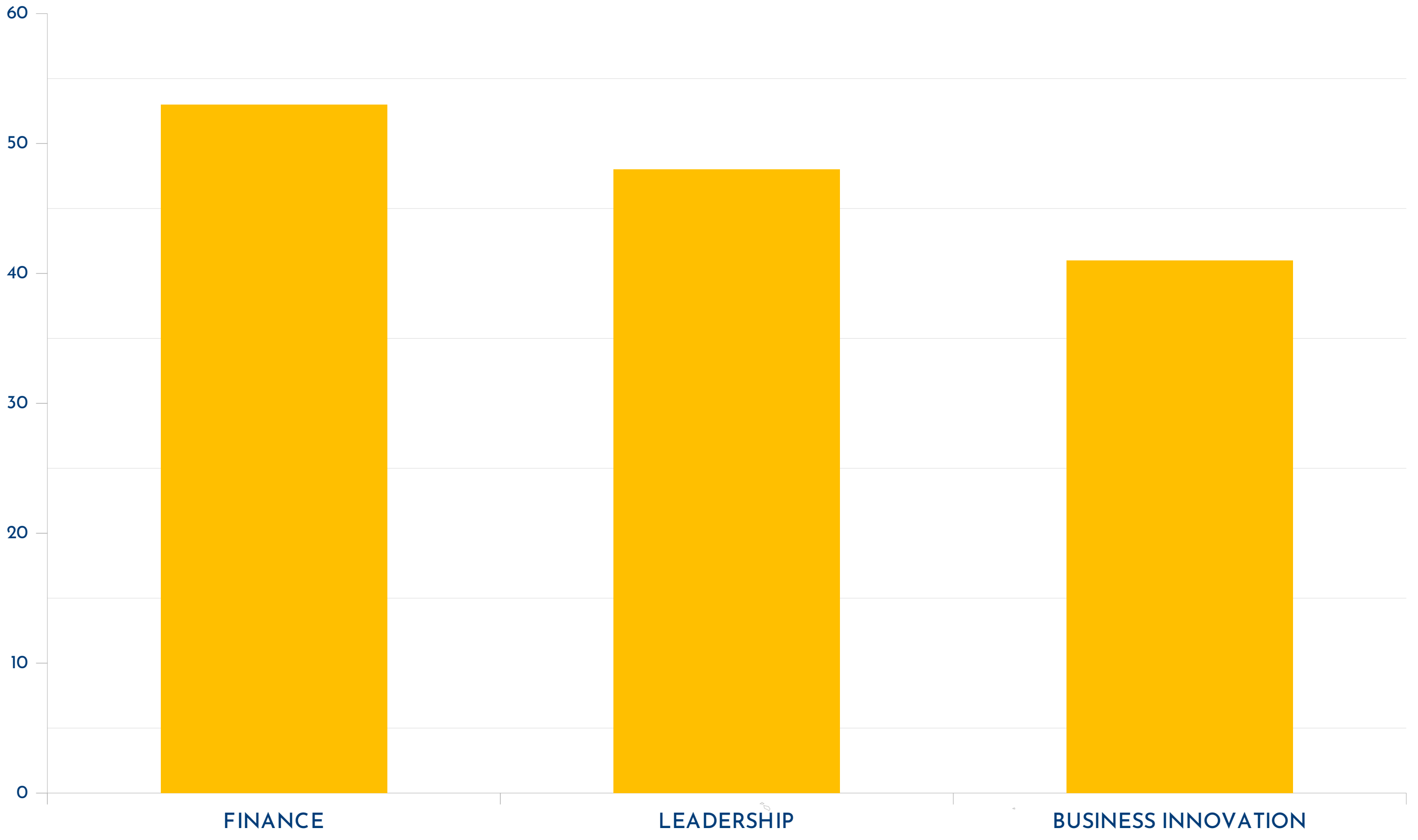
NEW SKILLS

Each generation will have a mix of skills natural to their own temporal context but the particular qualities of a successful business-leader are ultimately rare enough that they transcend minor differences, such as age or gender. That said, most family businesses report that the Next Gen waiting to take the reins are well prepared for them, even if 45% of the latter also report that they find it difficult to prove themselves as a leader or board member. Meanwhile, with a further push towards digitalisation and AI adoption on the not-far-of horizon for most businesses, Next Gen leaders might find themselves with the opportunity to prove themselves nonetheless.

17%

PERCENTAGE OF NEXT GEN FAMILY BUSINESS LEADERS WHO HOLD AN MBA OR A PhD

PwC



RESULTS FROM PWC'S NEXTGEN FAMILY BUSINESSES SURVEY ON WHAT NEXT GEN RESPONDENTS BELIEVE THEIR SHOULD TRAIN IN BEFORE ASSUMING LEADERSHIP

PWC

61

PERCENTAGE OF NEXT GEN WHO SAY THAT THEIR BUSINESS HAVE A SUCCESSION PLAN IN PLACE

2

SUCCESSION PLANNING

COMMUNICATION

WHY OVERLAPPING CATEGORIES OF FAMILY MEMBERS, STAKEHOLDERS AND SHAREHOLDERS SHOULD BE BROUGHT ON BOARD

Succession planning for family businesses is a multifaceted process that goes beyond merely transferring ownership or leadership from one generation to another. It involves addressing emotional, financial and organisational aspects that can be complex, delicate – *and highly consequential*. The presence of family dynamics, personal relationships as well as a shared history adds layers of non-economic complexity to the process. Therefore, it is often imperative to adopt a holistic approach that considers the interests and concerns of family members, stakeholders and shareholders alike. Simply, family businesses are to an extent particular in that they intertwine personal and professional lives to an uncommon degree. The involvement of the aforementioned family members in the succession process is thus vital as they may bring not only a sense of tradition and history but also emotional investment in the business's future. Involving family members allows for a more effective transition by at the very least addressing their aspirations, concerns and roles within the company.

Meanwhile, stakeholders encompass employees, suppliers, customers and the broader community in some cases. They are often unmeasured but essential contributors to the business's success and stability. When they are included in the succession process, it may help deliver a transition that minimises disruptions and maintains trust.

Likewise, shareholders are typically invested in the business financially and, however much these categories overlap, their core interests often revolve around the return on their investments. Involving them in the succession process ensures that their financial interests are protected and that the transition does not negatively impact the business's value, perhaps also allowing family members to voice concerns as shareholders and not as relatives.

TRAINING

WHY NEXT-GEN MEMBERS SHOULD BE INVOLVED IN THE FAMILY BUSINESS AT A YOUNG AGE AND TRAINED THROUGH-OUT THEIR LIVES

At its core, involving the next generation in the family business from a young age is about nurturing a sense of identity and purpose. Family businesses often have a distinct culture and set of values that have developed over generations.

By immersing the younger family members in the day-to-day operations, these values become more than words on woolly mission statements : *they become a way of life*. This early immersion fosters a profound understanding of the business's history, ethos and mission, hopefully instilling in them a sense of responsibility to carry this legacy forward. If nothing else, one of the most significant benefits of involving the next generation early on is the cultivation of a strong work ethic. By participating in the business from a young age, family members might witness the challenges and triumphs first-hand, gaining a deeper appreciation for the effort required to build and sustain a successful enterprise.

This work ethic becomes part of their personal self-conception, shaping their approach to both personal and professional endeavours. Knowledge transfer is another critical aspect of early involvement. In many family businesses, there exists a wealth of tacit knowledge — *insights, strategies and lessons learned through years of experience* — that can't be easily documented by a KMS. When the next generation participates in the day-to-day operations, they have the opportunity to learn directly from their experienced family members. This transfer of knowledge may help expertise built over generations not dissipate but instead continue to evolve and adapt to changing business landscapes. Not least, the infusion of new perspectives from the next generation can lead to creative solutions and modernization. They bring new ideas, technologies and approaches that ensure the business remains competitive in an ever-evolving marketplace. After all, it is this ability to blend tradition with innovation which is a hallmark of successful family businesses.

ESTATE PLANNING

WHY ESTATE PLANNING SHOULD INCLUDE ALL ASPECTS OF A FAMILY'S WEALTH, INCLUSIVE OF FINANCIAL WEALTH, NETWORKS AND CULTURAL CAPITAL

A critical factor in preserving family wealth – *be it financial wealth, networks or often overlooked cultural capital* – during a business succession lies in the establishment of a well-defined succession plan. This plan should outline the roles and responsibilities of family members involved in the business, the timeline and scenarios for transition and the mechanisms for handling potential conflicts.

As Deloitte recommends, SMART goals (Specific, Measurable, Assignable, Realistic, Time-related) might seem supercilious but, in what can only an emotional process, they may help. Furthermore, clarity and transparency are paramount, as they minimize ambiguity and reduce the risk of disputes which can easily erode wealth and significantly so. Furthermore, it may be regarded as important to acknowledge that family dynamics can pose challenges during a succession. Conflicts, personal rivalries and diverging expectations among family members can put family wealth at risk – *and ruin hard-won reputations.*

To mitigate these issues, engaging the services of family business advisers, legal advisers, tax advisers, bankers and mediator can be invaluable. These professionals can help navigate complex emotional and relational dynamics, facilitating productive discussions and consensus-building.

What might be regarded as full-spectrum estate planning is thus an essential component of preserving family wealth. In no small part, needless to say, this also involves structuring the distribution of assets, including equity in the business, in a tax-efficient manner that minimise the erosion of wealth through estate and inheritance taxes but, ultimately, each successful business leader knows that those assets are wholly tied with intangible assets which also needs to passed on unadulterated

BANCA BT TRANSILVANIA®

COPYRIGHT

WRITING STAFF

MATERIAL WAS WRITTEN BY RADU GHEORGHE MAGDIN, WHO RETAINS AUTHORSHIP RIGHTS

GRAPHICS

DATA

DATA LICENSED UNDER A CREATIVE COMMONS LICENSE WAS PROVIDED BY THE WORLD BANK, THE INTERNATIONAL MONETARY FUND AND THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT.

ECONOMETRIC ANALYSIS

ECONOMETRIC ANALYSIS AND STATISTICAL RESEARCH WAS PROVIDED BY SMARTLINK DATA STAFF

SMARTLINK COMMUNICATIONS

2 GARA HERASTAU

2ndt DISTRICT

BUCHAREST

BANCA BT TRANSILVANIA®