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Family business survey 2012

Findings for Finland

November 2012



Jigsaw Research



pwc

Agenda

Key findings at a glance

Overview

Main Findings:

A. Performance and Challenges

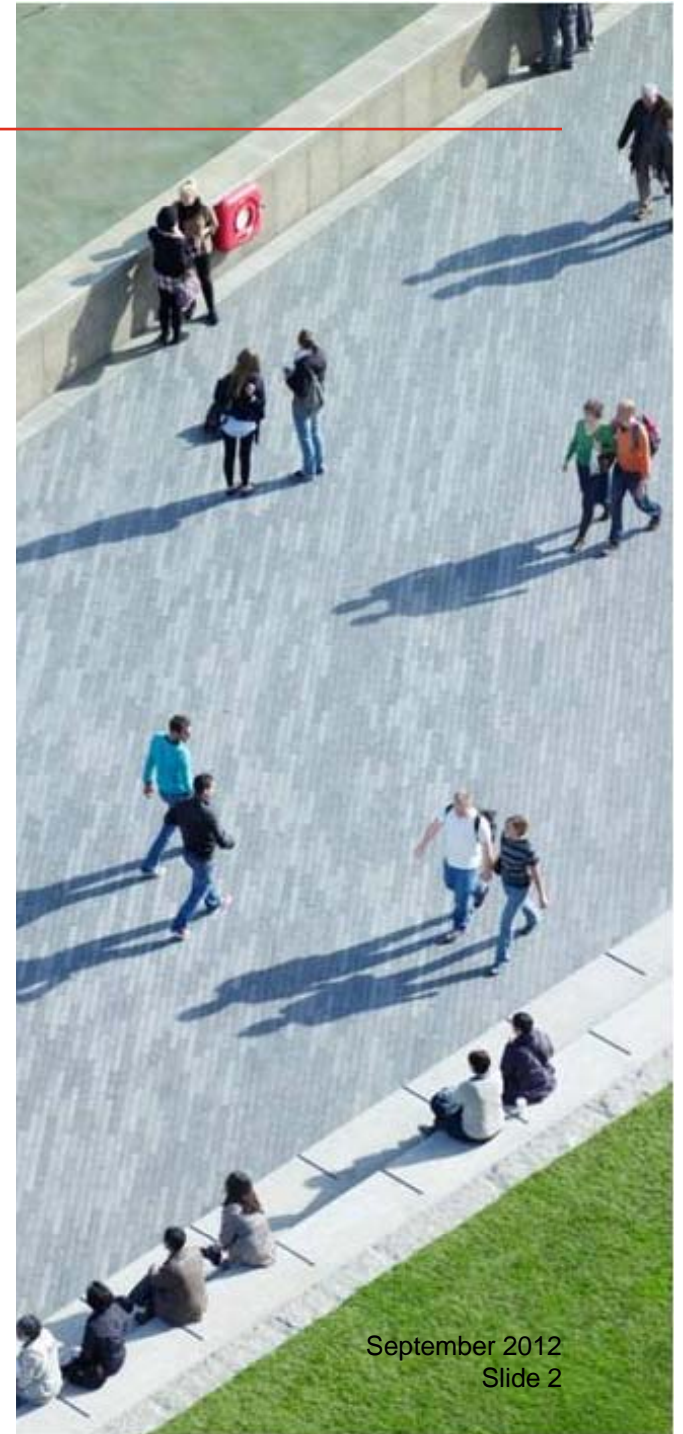
B. Internationalisation

C. How family businesses differ

D. Family involvement and succession planning

E. Role of Government and Society

Conclusions



Key findings at a glance

Family Businesses in Finland have performed well over the last year and are bullish about growth over the next five years. 70% have grown in the last 12 months and 94% are aiming to grow over the next five years (compared with 81% globally)

The key challenge to growth will be attracting the right skills/talent, the general economic situation and the need to innovate

Family businesses believe they hold some key advantages over non-family businesses including: long term commitment, commitment, a responsible attitude towards employees and agility/speed of decision making

But they recognise the disadvantages too: issues to do with succession, taxation and access to capital/funding, attitudes to growth, risk and change and the difficulty of 'gambling' with family assets

Key findings at a glance (continued)

Family Businesses in Finland believe they play a vital role in their country's economy especially in terms of adding stability to a balanced economy and creating jobs.

They tend not to believe that their government recognises the importance of family businesses, and there is a feeling that more needs to be done to help family businesses including accessing finance and generally removing some of the perceived (unfair) advantages enjoyed by corporations

Some believe that family businesses will need to float/merge or adopt more corporate behaviour in order to survive and thrive in the years ahead

Three in ten will pass ownership of the business down but will employ non-family management

Methodology



Close to 2,000 interviews conducted across 30 markets



50 interviews conducted

On average, interviews took over 27 minutes to complete

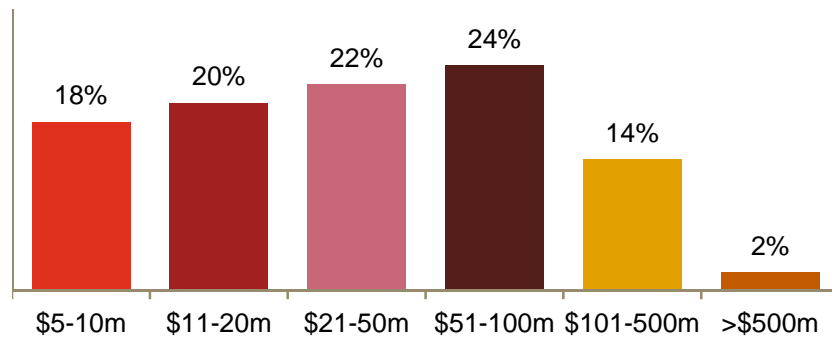
Interviews conducted between the 25th June and 9th August 2012

Throughout the report global data is shown in red font in brackets. Arrows to the left of these figures show whether the local market is significantly higher or lower than the global average

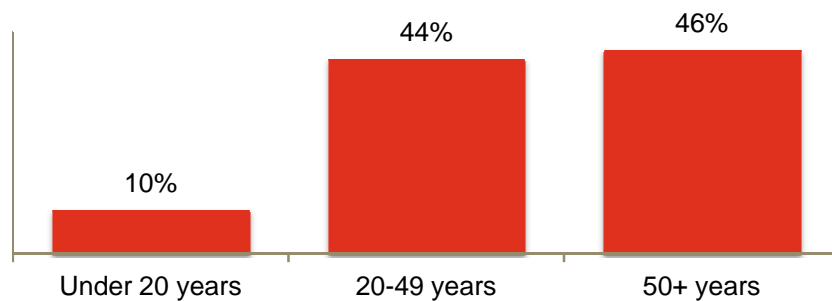
Sample profile

Sample profile: Business

Turnover (US\$)



Company age



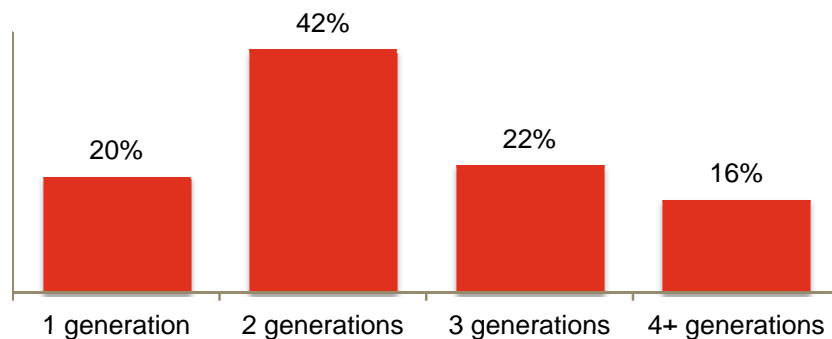
Sector

Mix of sectors:

- Manufacturing: 38%
- Wholesale: 16%
- Construction: 10%
- Business activities : 10%
- Hotels and restaurants : 6%
- Transport: 6%
- Others: 5% or less

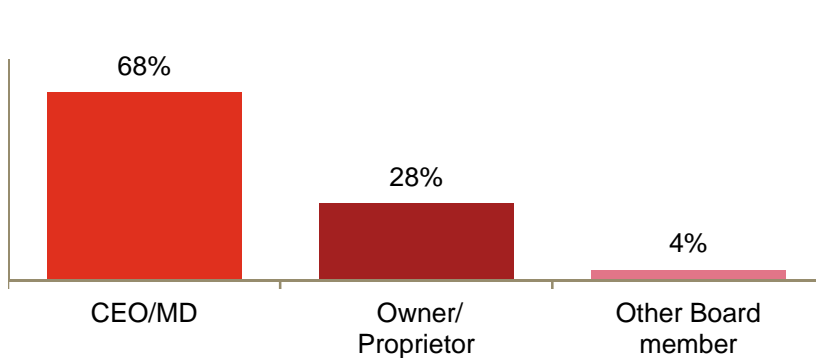


Number of generations

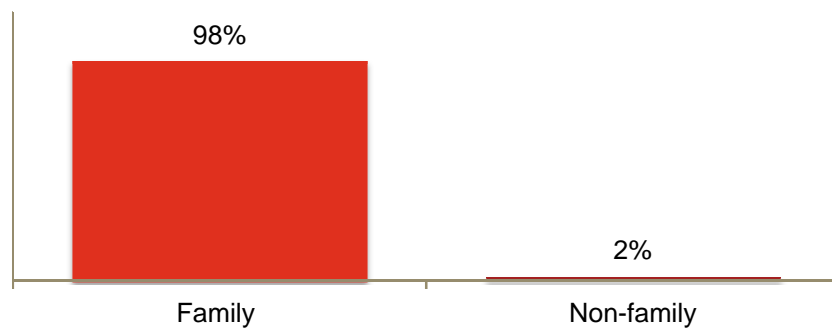


Sample profile: Respondents

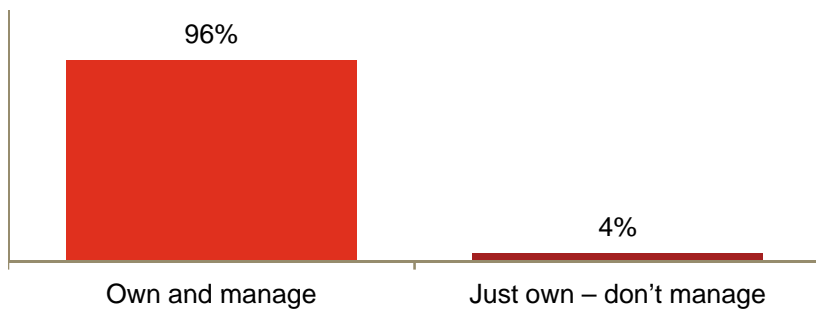
Role



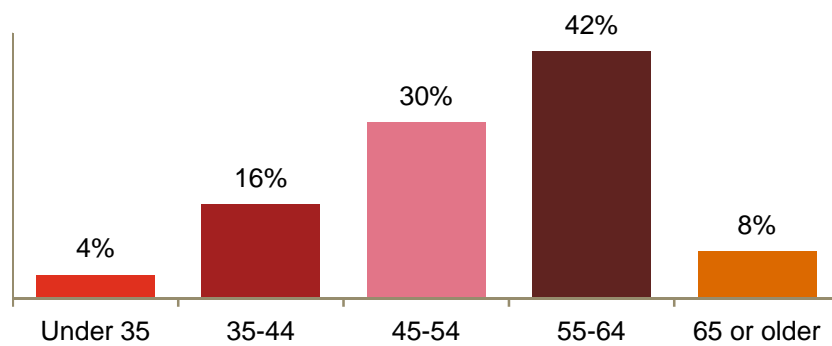
Family member?



Family role in business



Age



Main findings

A

Organisation performance and challenges

Finnish family businesses more bullish than average about growth



70%: Sales Growth

65%: Sales Growth

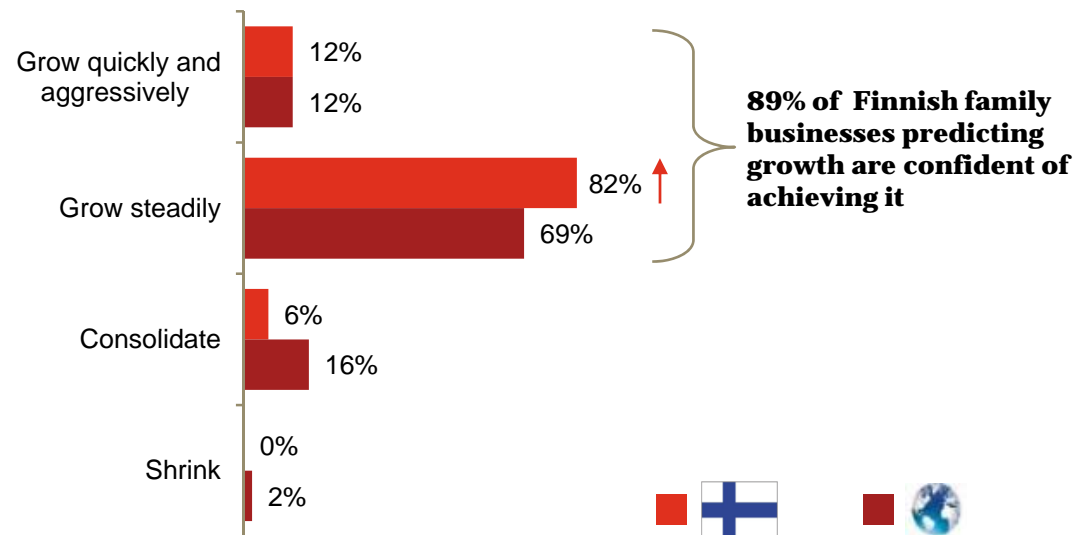
20%: No Change

15%: No Change

10%: Reduction

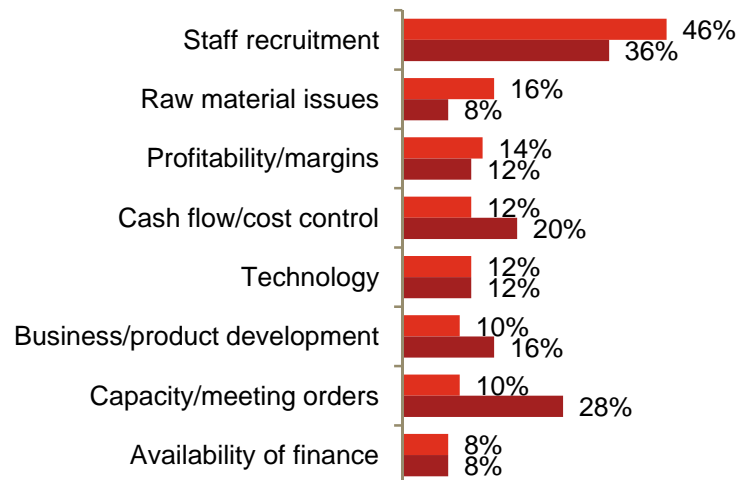
19%: Reduction

Growth Aims (Next five years)

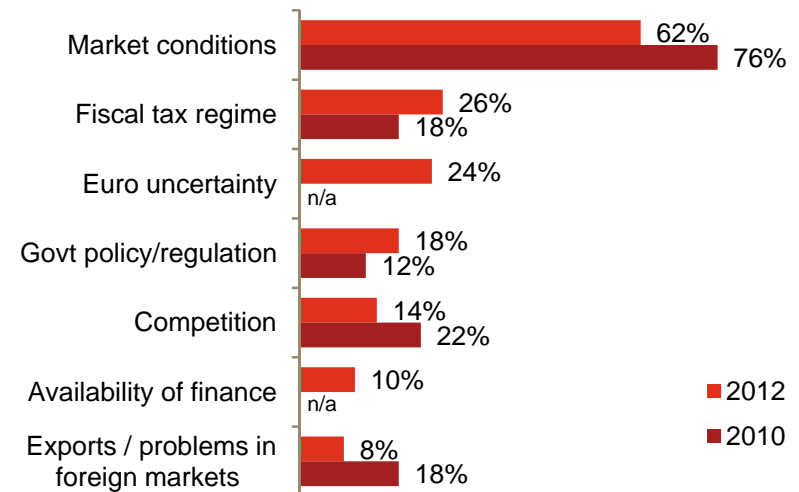


As in 2010, the key issues facing family businesses in Finland are staff recruitment and market conditions

Key internal issues in next 12 months



Key external issues in next 12 months



“The cost of workforce in Finland, labour union benefits are paid from our own pockets. Motivation of people to work in Western Europe is low.”

(Riku Isohäätä, President, Häätä Oy)

“General economical situation. Changes in taxation, for example rise in alcohol tax and how much. Taxation generally. Cost of materials.”

(Henri Klimscheffskij, Entrepreneur, Active People Oy)

“The biggest challenge is to find capable sales staff. The coping of current staff in an ever changing environment, one has to learn and embrace things fast, information ages very quickly and thus becomes redundant.”

(Mika Hakanpää, Managing Director/Owner, Rauhala Yhtiöt Oy)

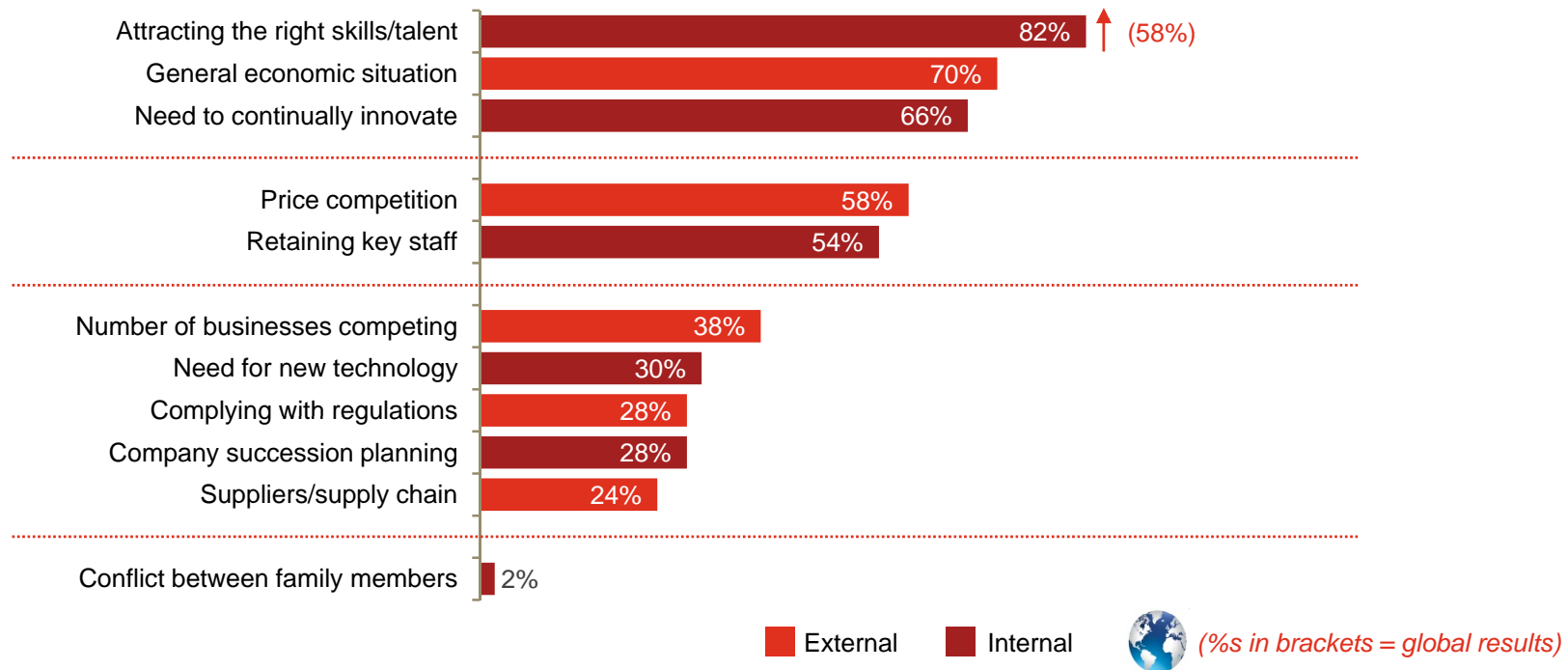
“Situation in EU, financial crisis and it's affects to investments and value of money. If Finland separates from EU, how it's going to affect.”

(Arto Okkonen, Owner, Imagon Oy)

Family businesses in Finland are more likely than the rest of the world to view attracting the right skills/talent as a key challenge for the future



Key challenges in five years' time



Main findings

B

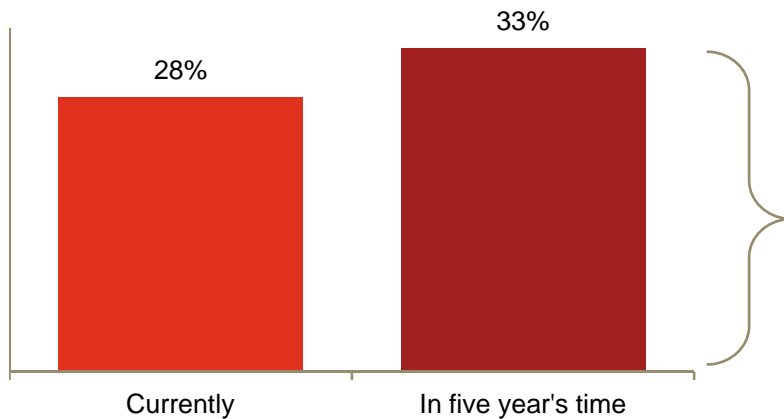
Internationalisation

Increased internationalisation is predicted in Finland – in line with predicted increase across all markets. 28% of sales today are accounted for by international sales (to rise to 33% of sales)

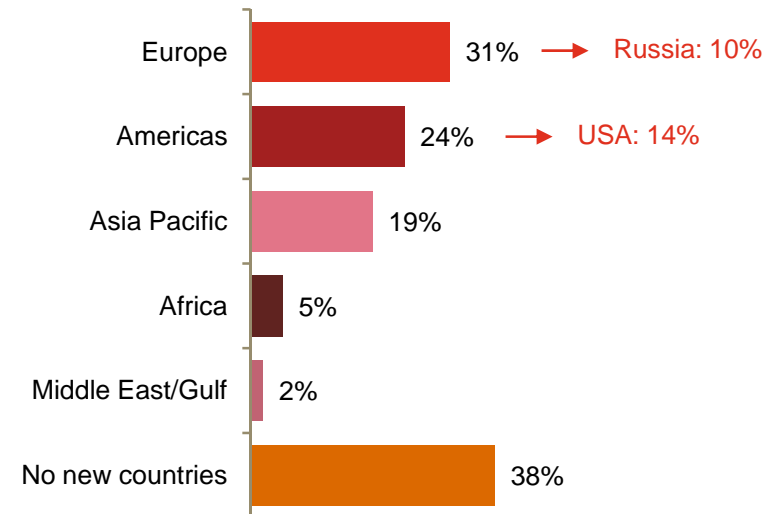
**A relatively high proportion (38%) will not add new markets.
The rest will expand further largely in Europe, the Americas and Asia Pacific**



**Avg. % of sales = International
(based on all i.e. all exporting and non-exporting businesses)**



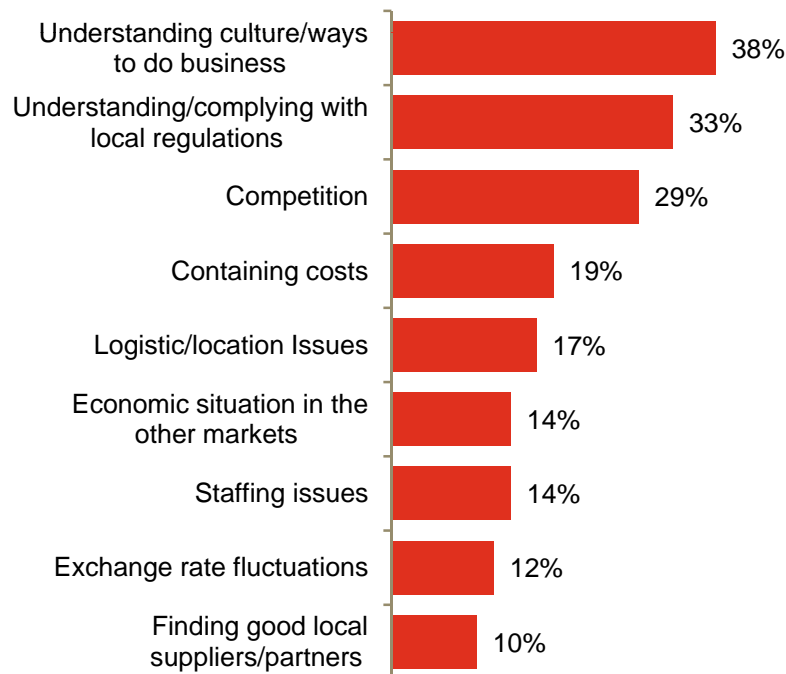
New countries/regions in five years?



A number of factors around internationalisation are seen as challenging including understanding local cultures / regulations and the level of competition in international markets



Biggest challenges of international operations



“Finding trustworthy collaborators, local participation and matters that are to do with local authorities”
(Jussi Mälkiä, Owner, Aura Mare Oy)

“Differences in legislation. Operating in many places is hard work. We operate in 50 countries and they all differ from each other. Learning local cultures and habits. Also financial legislations and taxation varies from country to country”
(Second Generation family business)

Main findings

C

How family businesses differ

Family businesses identify a number of positive differences over non-family businesses

**Long-term thinking /
Longevity**

***“Long term planning and commitment to the business.
Patience.”***

(John Hartwall, Chairman of the Board, K. Hartwall Oy Ab)

**“Face” –
reputation = commitment**

***“Commitment to staff & industry. Family business is more
trustworthy, they always have face & reputation of family to
keep.”***

(Fifth Generation family business)

**Human & responsible towards
employees**

***“Family business are creating jobs and hiring more staff, when
big companies are moving elsewhere”***

(Ilpo Martikainen, Chairman of the Board, GENELEC Oy)

Agility / Flexibility

***“Making decisions is easy when there is only you to decide.
Flexibility and reacting to situations, you can react
immediately.”***

(Henri Klimscheffskij, Entrepreneur, Active People Oy)

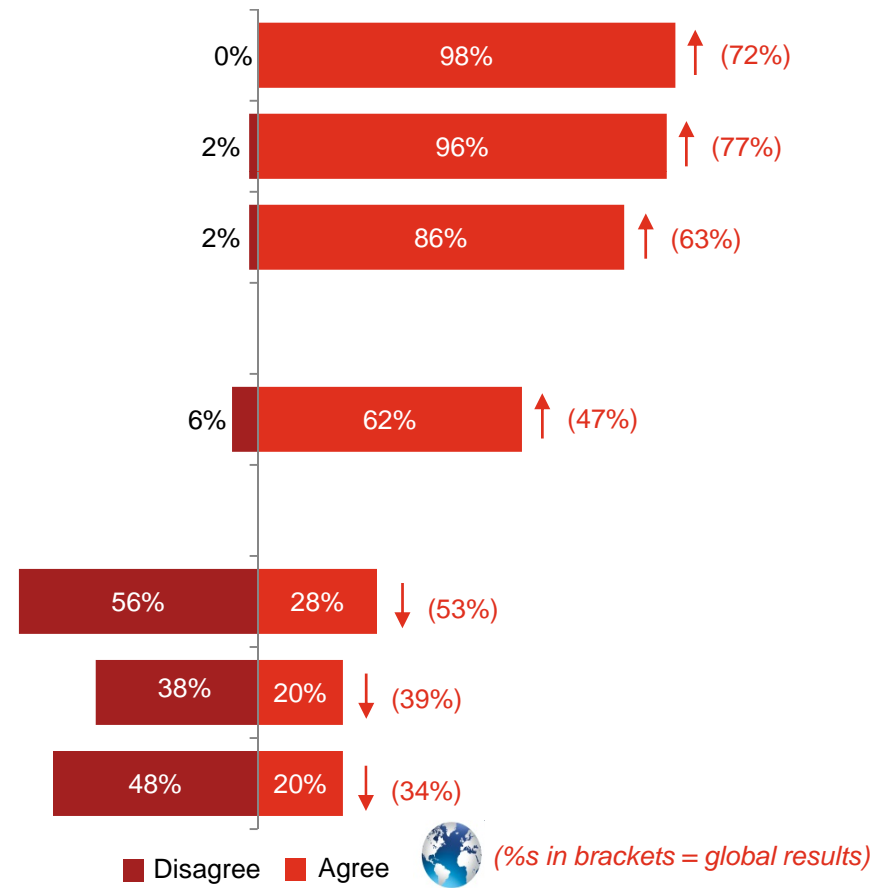
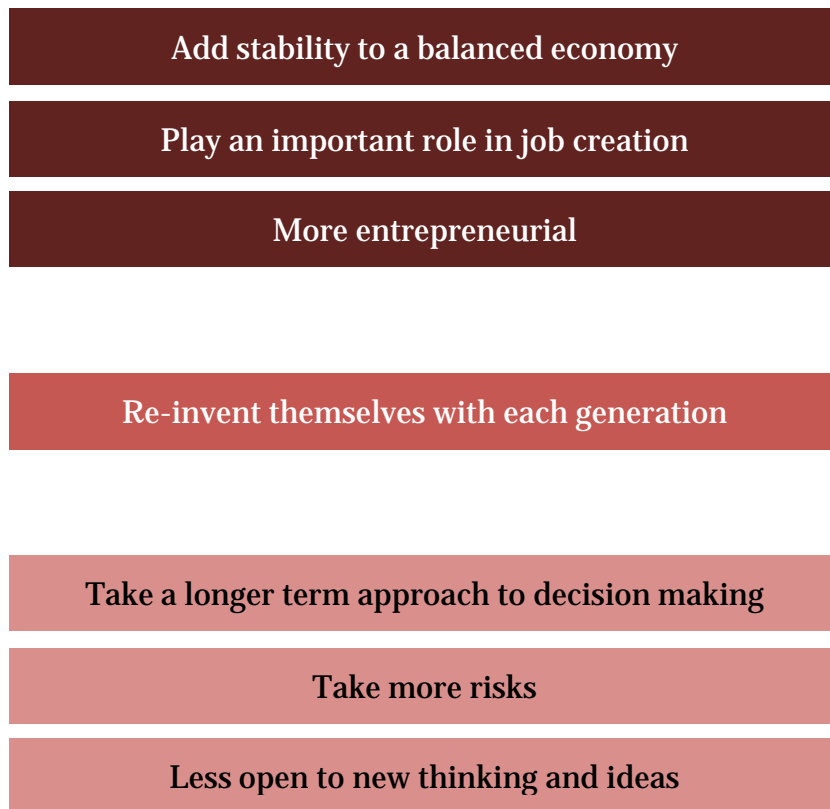
Add value to local community

***“Continuity and longevity, being faithful to the area we operate
in and not leaving; we integrate with the local area.”***

(Second Generation family business)

... and are in agreement about some key positive differentiators when prompted

Agreement with statements about family businesses



...but recognise the downsides too

Succession – ensuring continuity

“Continuity (so the company stays in the family). Flexible and easy changeover to the next generation without costing the company too much.”

(Third Generation family business)

Taxation (esp. in relation to succession)

“Transfer to next generation is expensive in Finland. Taxation of owning family business is higher than other companies.”

(Third Generation family business)

Financing / Funding

“As a normal family company getting/finding capital is harder. (than a public owned company)”

(Hannu Kananen, Chairman of the Board/Owner, Front Capital Oy)

Gambling with personal assets

“Owners of small family businesses have to always use their house and summer cottages as a deposit”

(Juhani Kotilainen, Owner/CEO, Helsingin Kukkatoimitus Oy)

Family businesses recognise the need for external management input at a certain point

74% have non-family members on the board

28% have non-family staff who have shares



A further 8% are likely to offer shares to non-family in the next five years



| | | |
|-------------|---------|---------|
| UK | 146.916 | 127.467 |
| SWITZERLAND | 0.72398 | 0.62814 |
| AUSTRALIA | 1.63664 | 1.45085 |
| CANADA | 1.77868 | 1.57677 |
| DENMARK | 1.71296 | 1.51850 |
| NORWAY | 7.89700 | 7.07502 |
| SWEDEN | 8.66137 | 7.75983 |

Servizio fisso Euro
Fixed fee Euro

Unpredictability of legislation regarding tax & succession is of key concern; many expect the situation to worsen

New differences in five years' time



- Many think there won't be any **new** differences emerging over the next five years
- Others talked about issues that will affect non-family businesses too e.g. globalisation, new technology
- However, some did predict some new differences emerging:

2017?

Increased uncertainty re taxation (seen as detrimental towards family business)

May become even harder to transfer to the next generation for various reasons

Difficulty in getting staff including family who want to continue with the business

"I cannot of course predict how the Finnish legal system and taxation will change, but it might become a serious question of whether it will be viable to start or have companies in Finland any longer if you cannot reap the benefits of your hard work."

(Mika Hakanpää, Managing Director/Owner, Rauhala Yhtiöt Oy)

Main findings

D

Family involvement and succession planning

Two-thirds of family businesses in Finland have non-working family member shareholders

100% have family members working as Senior Executives within the company



(92%)

48% have family members working within the company, but not as senior executives

68% have family members who don't work for the company but have company shares



(48%)

2% have family members who don't work for the company or have shares, but are recompensed in other ways

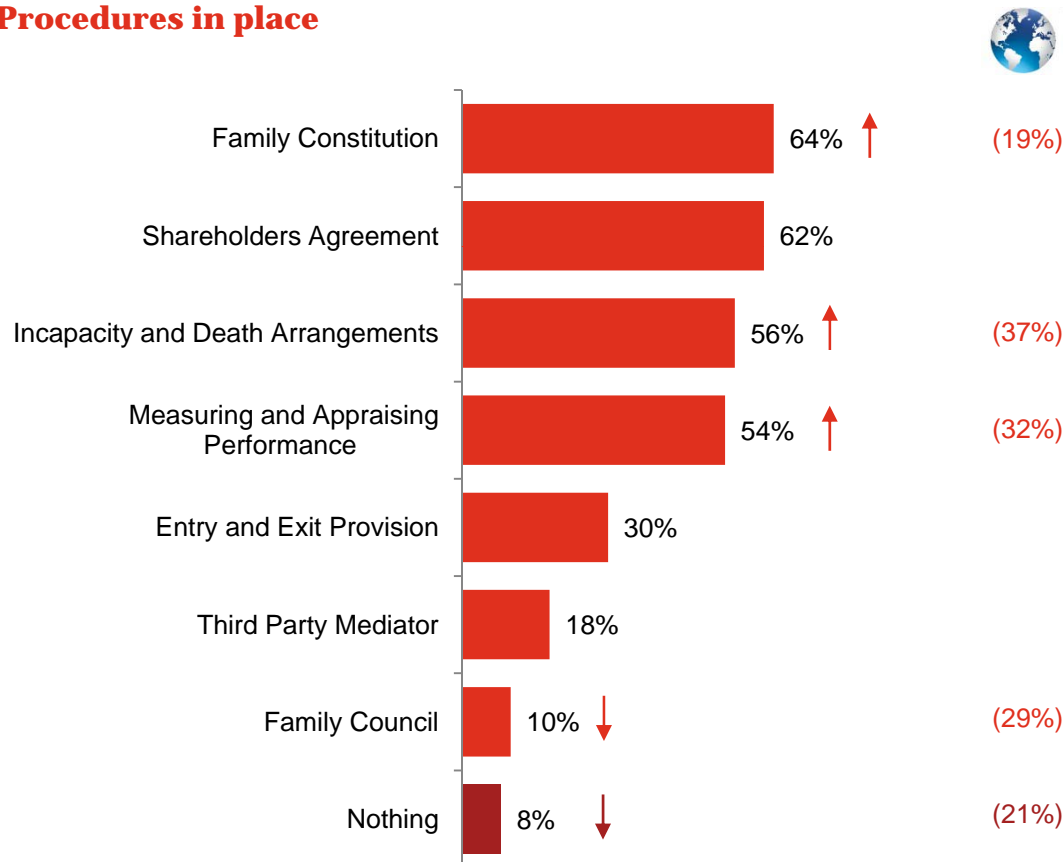


(14%)



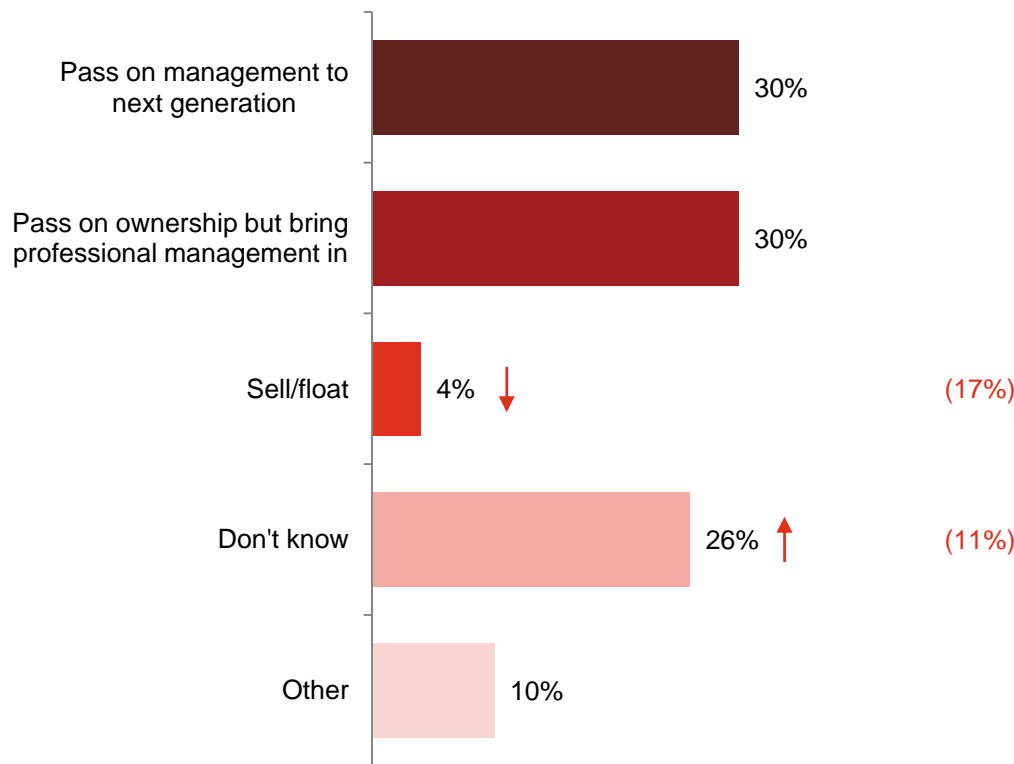
A number of procedures are adopted to deal with family member issues/conflict and only 8% currently have no procedures in place (compared with 21% globally)

Procedures in place



Finnish family businesses appear to be much less likely to sell or float the business but over a quarter don't know

Future plans



Sample sizes too small to quantify answers to whether there were any concerns about passing the business down, although

- Around a third had no concerns about either passing on the management to the next generation or passing on the ownership (not management)
- The main concerns mentioned in relation to passing on management was that the next generation wouldn't have the required skills/aptitude or wouldn't want to get involved

- Sell to private equity investors: 4%
- Sell to other company: 2%
- Sell to management team: 2%

The main reason given for not passing the business down was that the next generation wouldn't be ready in time to run the company



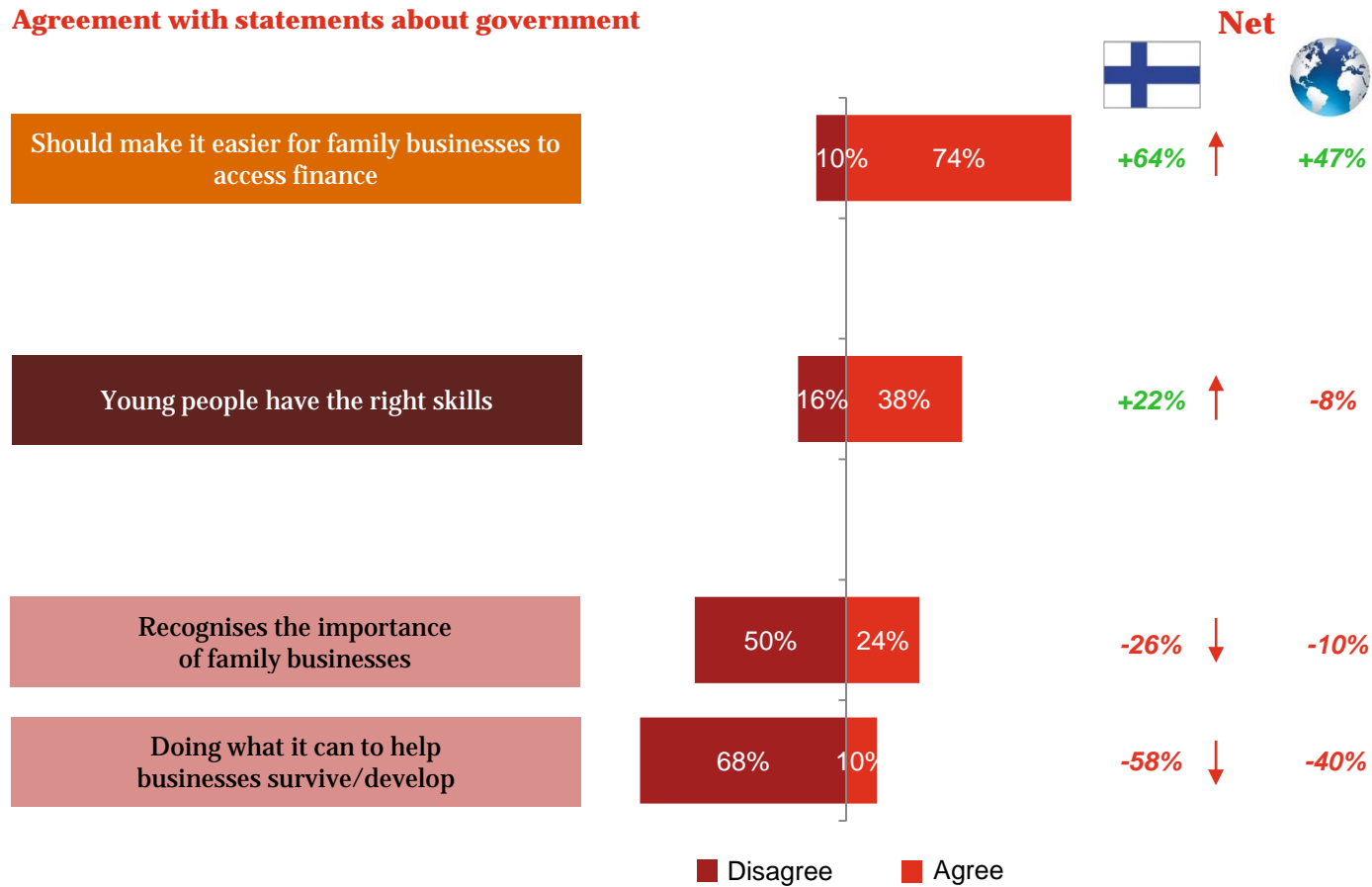
Main findings

E

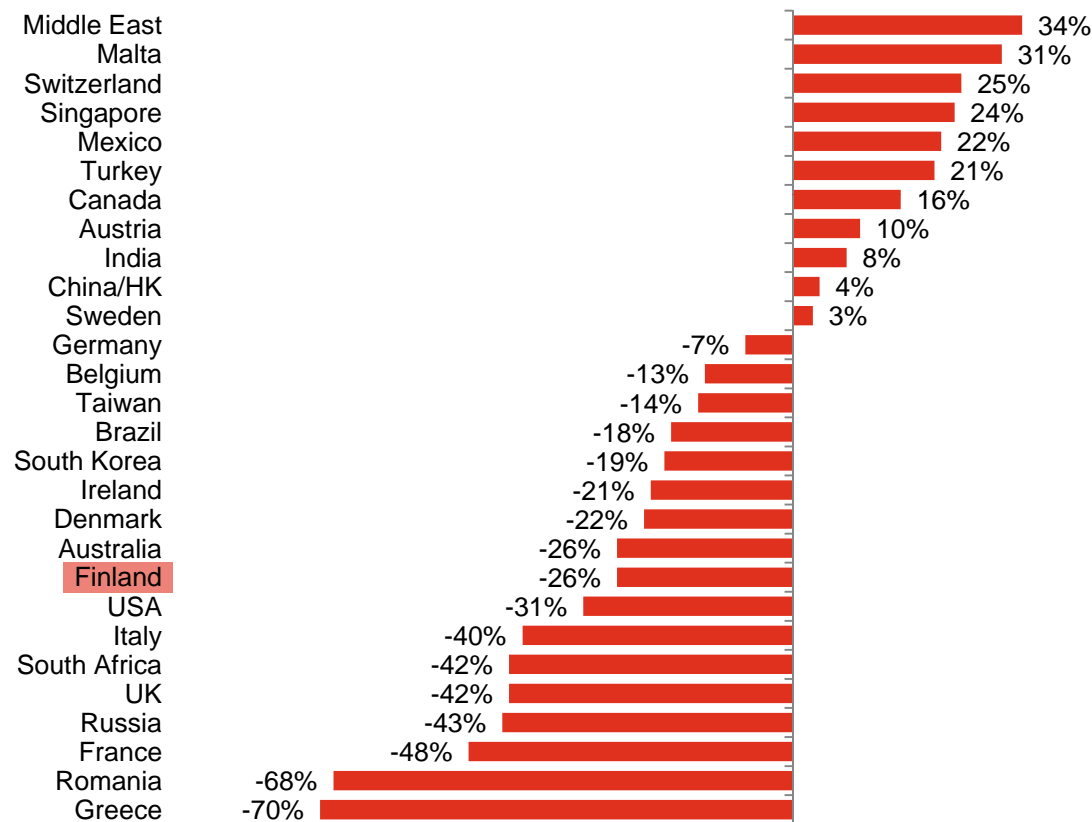
The role of Government and Society

Family businesses in Finland feel strongly that government should make it easier to access finance and do more to recognise the importance of their sector.

Agreement with statements about government



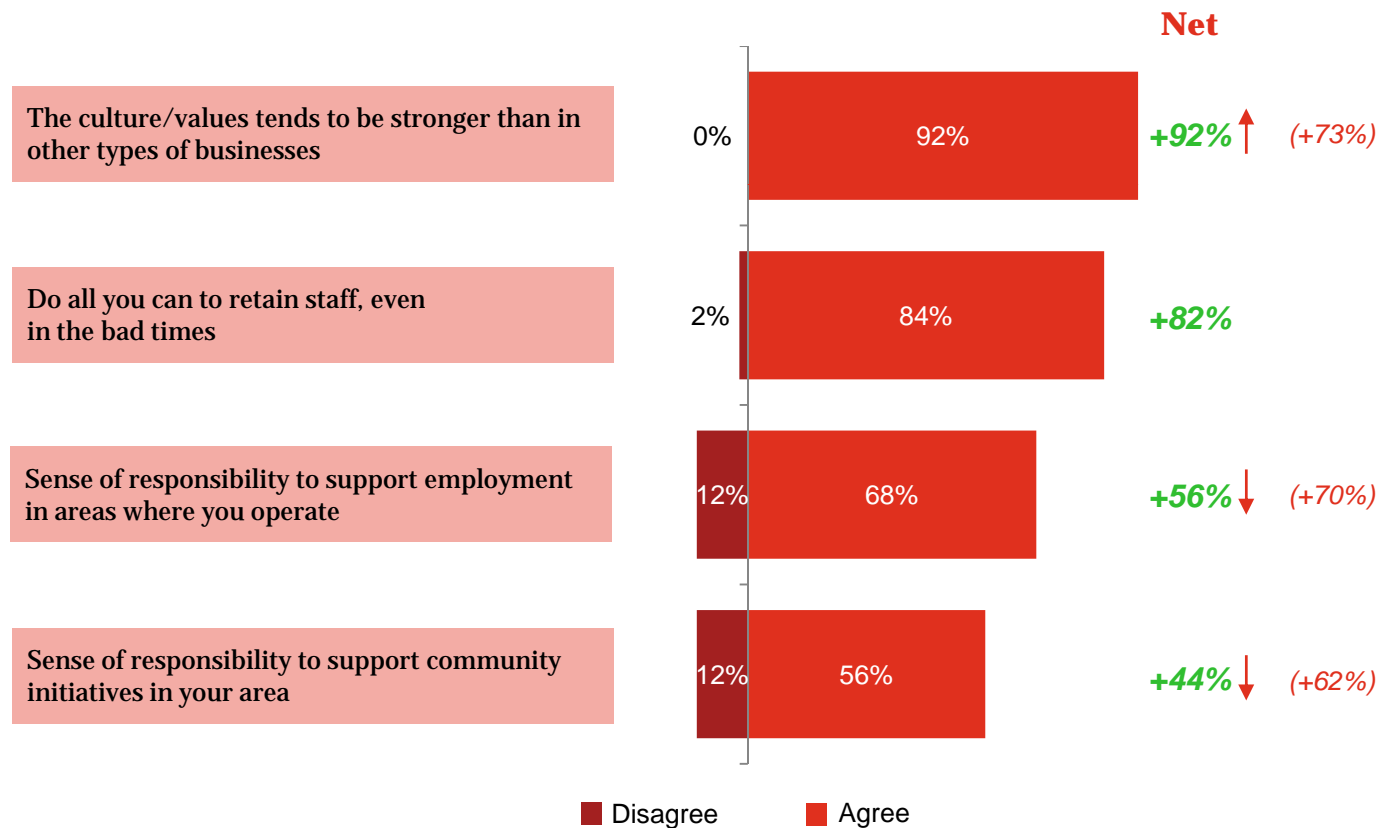
Finland is less likely than most countries to feel their government recognises the importance of family businesses



* Sample sizes low in some markets

Family businesses in Finland believe they have stronger values than other businesses and a strong sense of responsibility to staff. Opinions on supporting employment and the local community are slightly more mixed

Agreement with statements about family businesses and society



Many feel the tax situation in Finland is unfairly disposed toward family businesses; making succession, continuity & growth difficult & expensive; several look to Sweden or Estonia for fairer models

HOW CAN GOVERNMENT SUPPORT FAMILY BUSINESSES?

Many suggestions are general business suggestions and not specific to family businesses

General business issues

- Invest in business education
- Encourage entrepreneurship
- Make it cheaper and easier to employ people (especially young people)
- Remove uncertainty and increase consistency of tax legislation

Specific to family businesses

- Appreciate family businesses more – listen to their experience
- Reduce or ideally abolish tax on profits that remain within the company
- Reduce or ideally abolish inheritance tax and generally make succession easier for family businesses
- Provide tax relief or financial incentives for growing / new companies; reward innovation & growth
- Sweden and Estonia quoted by several as offering the type of taxation systems family businesses would like to see

“Concentrate in ways to get people to work. Lower labour costs, otherwise it's going to be too expensive to create new jobs.”

(Third Generation family business)

“Trust family businesses, they have better knowledge how to use their profits, not to take all funds from them via taxation and fees. Supporting investments and employment, for example easing taxation”

(Seppo Vikström, Chairman of the Board, Isku Yhtymä Oy)

“Consistency and transparency of tax legislation, continuity, at the moment you don't know what the next government is going to do”

(Heikki Palin, CEO, Palin Granit Oy)

“The first thing would be to change the inheritance tax to the Swedish model so that the company's assets are left to be unless the company is sold to an outsider, in which case the taxation comes to force”

(Janne Ylinen, Owner, Kokkolan Halpa-Halli Oy)

Conclusions

Finnish family businesses know they play an important role in the economy but do not think the government fully appreciates this. They believe there are some critical obstacles that threaten the long term competitiveness of family businesses.

It's clear Finnish family businesses want government to level the playing field by making it just as easy for them to access finance and removing the tax advantages enjoyed by corporations.

The need to attract the right skills and talent and to innovate were identified as key challenges in the years ahead – areas that government or other bodies could potentially help and support family businesses with.

Family businesses in Finland seem to be well placed in terms of the procedures they have in place to tackle family conflict although only 2% think family conflict will be a challenge over the next five years (possibly wishful thinking!)

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