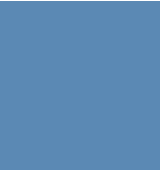




2022

**FAMILY
BUSINESS
SURVEY**





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Introduction

Welcome to Kreischer Miller's 2022 Family Business Survey. As part of our commitment to family businesses, we conduct a survey about every three years to identify key trends in family business organizations throughout the Greater Philadelphia region. We focus our survey on areas of succession, next generation development, governance, owner readiness, and employment.

In our last survey, conducted in 2019, we saw positive trends in advance planning for succession, emergency plans, and estate planning, as well as movement toward more formalized board structures. Developing the next generation of leaders, however, remained an area for improvement. These trends were in contrast to our 2015 survey which was themed "A Perfect Storm," as so many family business owners indicated that they were planning for their exits but had not done much to prepare the business for them. That survey saw low numbers of family business owners who had taken any meaningful steps in the areas of succession planning, retirement planning, or next generation development.

The completion of our 2022 survey is coming at a time when the impact of the pandemic has seemingly begun to diminish and instead labor participation and rising costs due to inflation have become the new challenges facing family businesses.

Our survey indicates that family businesses have continued to stay attentive in preparing their retirement and estate plans. We noted that just over 70% of respondents indicated they had a clear financial retirement plan and 76% had drafted an estate plan. While some progress has been made in the area of buy-sell agreements (54% have them in place today as compared to 46% three years prior), the companies that do have them have made an effort to keep them contemporary. In fact, 71% had updated their buy-sell agreements within the past three years. A new question on our survey this year inquired about how informed the owner is of knowing the value of their business. An astonishing 75% responded that they knew the current value. Given the high percentage of owners who had engaged in estate and retirement planning, this should hopefully come as no surprise; given most family business values represent a disproportionate amount of a personal balance sheet and therefore critical in mapping out estate and retirement planning needs.

Introduction

Continued

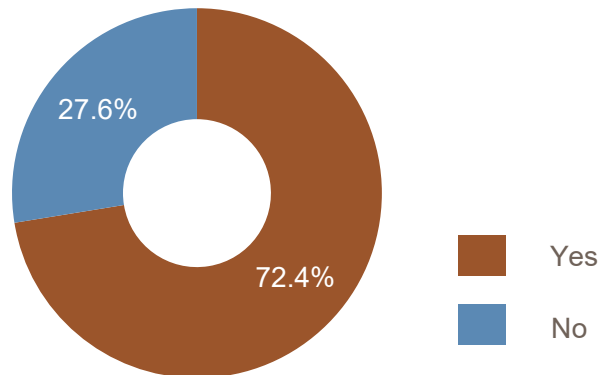
However, there are still business projects that have been placed on the back burner. In particular, the documentation for companies with emergency plans has plummeted. Recent survey results indicate that less than 30% have a written plan in place. This is in sharp contrast to the 53% that had plans in place only three years prior. We further noted spottiness within areas of governance. Over 54% of respondents still continue to operate without any type of board structure, 83% do not have an active family council, and less than 25% have a family employment policy in place. Another area of ongoing concern – next generation development. Only 39% of family businesses have made formal investments in the development of the next generation. This statistic goes virtually unchanged from three years ago where only 37% had development plans in place.

What is troublesome is that nearly 64% of these family enterprises intend to have family involvement at some level going into the future. Yet, when it comes to arming the next generation with the tools to succeed, they continue to fall short. Lack of development programs and governance can put family-run businesses at a disadvantage. Take companies that utilize some type of board structure as an example. Whether it's fiduciary or advisory in nature, most family businesses that have eventually put one in place will comment that they wish they had taken the steps to implement one sooner. The same goes for family employment policies. Most family employment policies that are created, have been so as a reaction to a situation gone completely awry and only after a costly lesson has occurred, rather than proactively and thoughtfully put in place.

When asked what these businesses viewed as their largest challenge facing the business – the top response was the one answer in their control – their leadership succession (26.4%). This is compared to the other top challenges that included labor market, managing growth and rising costs. Despite these challenges, family business outlook remains relatively positive, with an average outlook score of 8.0 on a scale of 1 to 10. We believe this optimism says something about the integrity and resiliency of family businesses – attributes that were put to the ultimate test these past two years. When asked about the most significant thing they learned about their company during the pandemic, the top three answers (accounting for nearly 76% of the responses) were adaptability, employee loyalty and resiliency. Three characteristics that make up the heart of family businesses in our Greater Philadelphia region!

Leadership & Succession

Have you identified the future key leaders of your organization?



54.1% of respondents indicated they have a management succession plan in place, and **91.5%** revealed that family members and management are aware of the plan.

Of the respondents who have a plan in place:

44.7%

indicated their plans include **both family and management**.

34.0%

indicated their plans include **management only**.

19.2%

indicated their plans include **family only**.

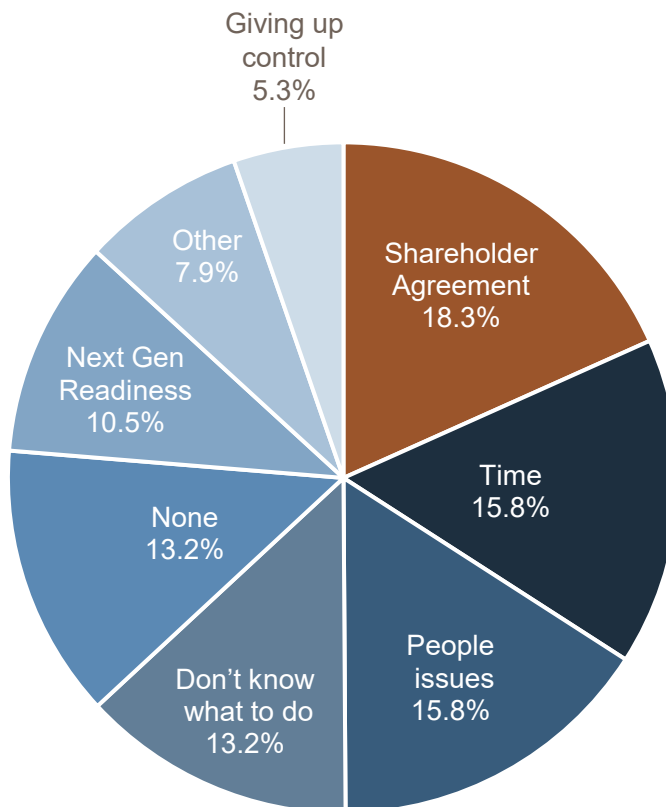
2.1%

indicated their plans include **neither family nor management**.

Leadership & Succession

Continued

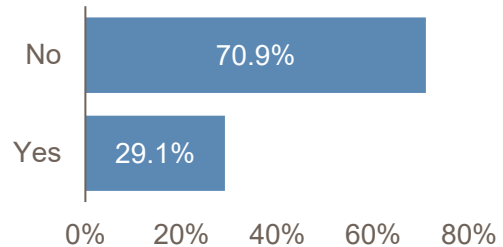
45.9% of respondents indicated that they **do not** have a management succession plan in place. They revealed that **the biggest obstacles in creating one** have been the following:



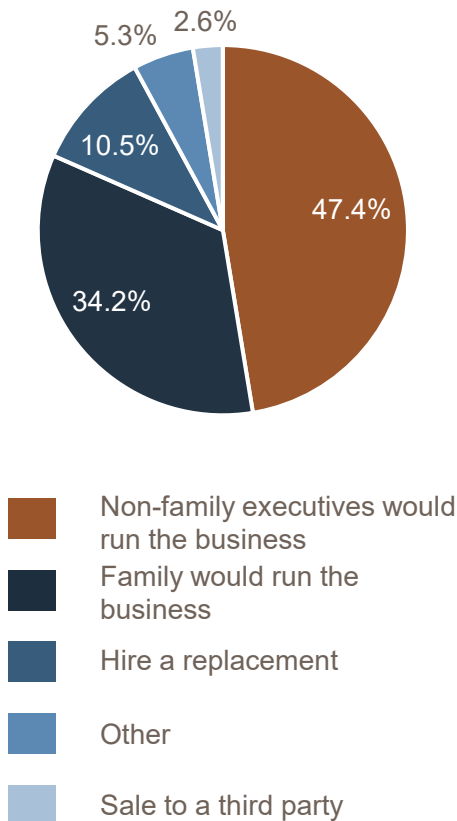
Leadership & Succession

Continued

Do you have a written emergency plan to protect your business in the event of unforeseen circumstances involving the owner or another key shareholder?

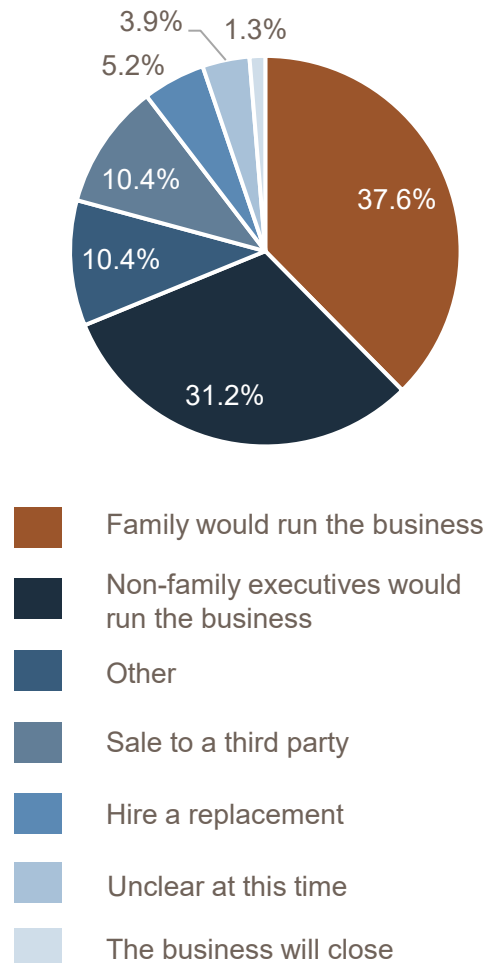


If yes, the key provisions of the plan:



*No respondents indicated that they would close the business.

If no, the likely scenario if an unforeseen circumstance occurs:



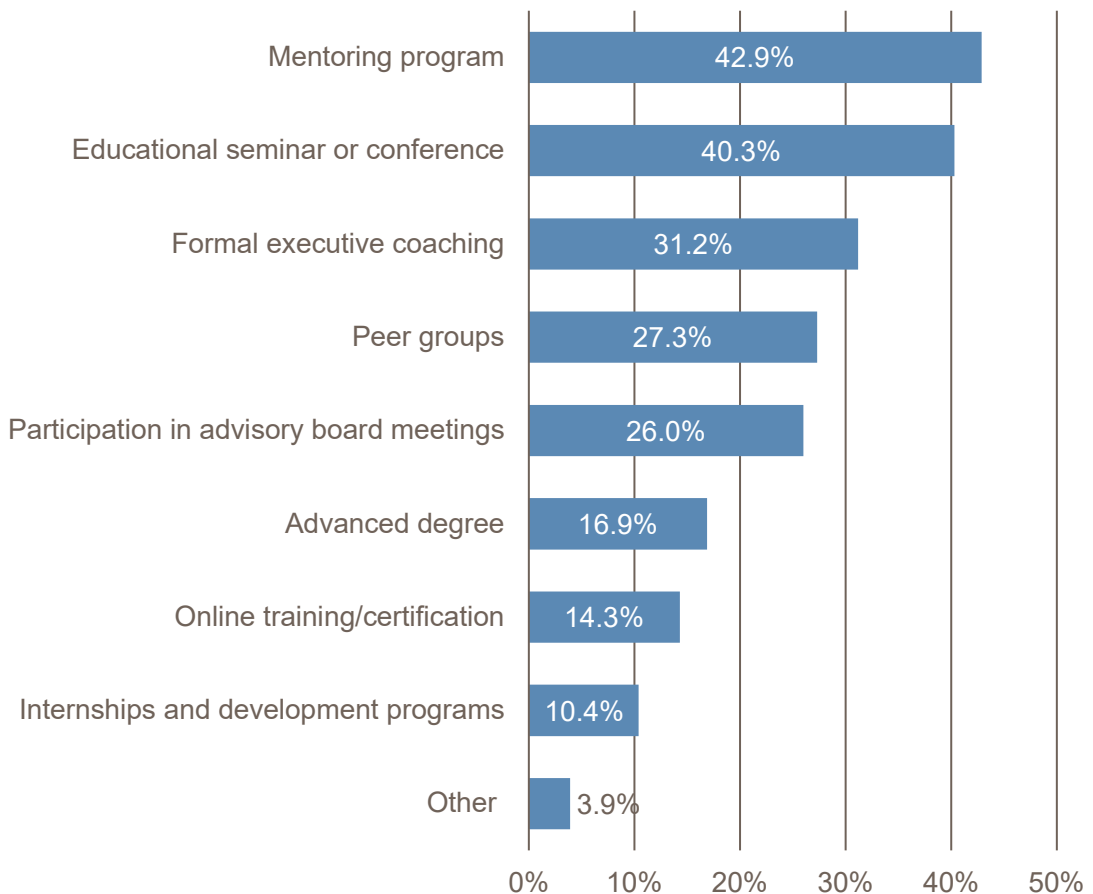
Next Generation

39.0%



of respondents have a formal development and mentoring plan for their next generation leaders.

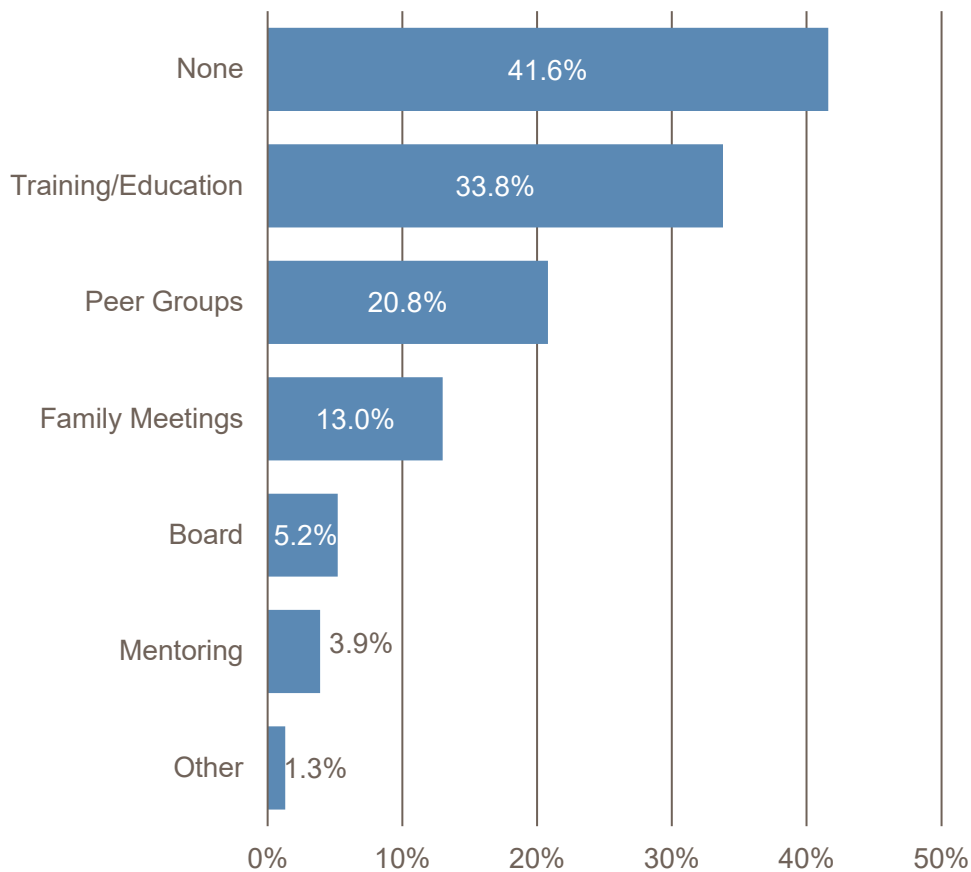
Of the 39.0% that have a formal plan, following are the types of development activities:



Next Generation

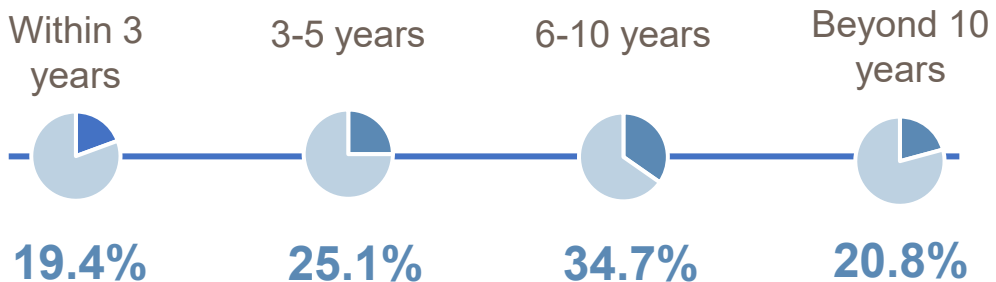
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Following are the types of intergenerational activities families engage in:

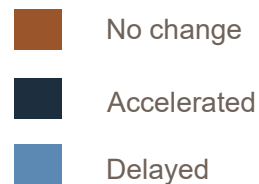
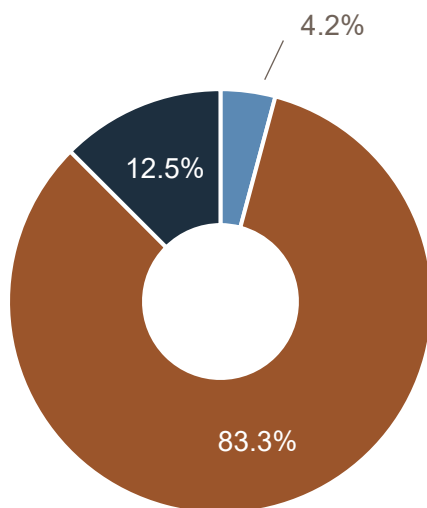


Exit & Retirement

What is the time horizon for the senior generation's transition plan?



How has this timeline changed as a result of the pandemic?



Exit & Retirement

Continued

What is the likely transition plan for the company?



52.7%

Transfer to
family members



8.3%

Form an ESOP



18.1%

Sell to a
third party



4.2%

Sell to the
management team



15.3%

No transition
plan



1.4%

Other



Exit & Retirement

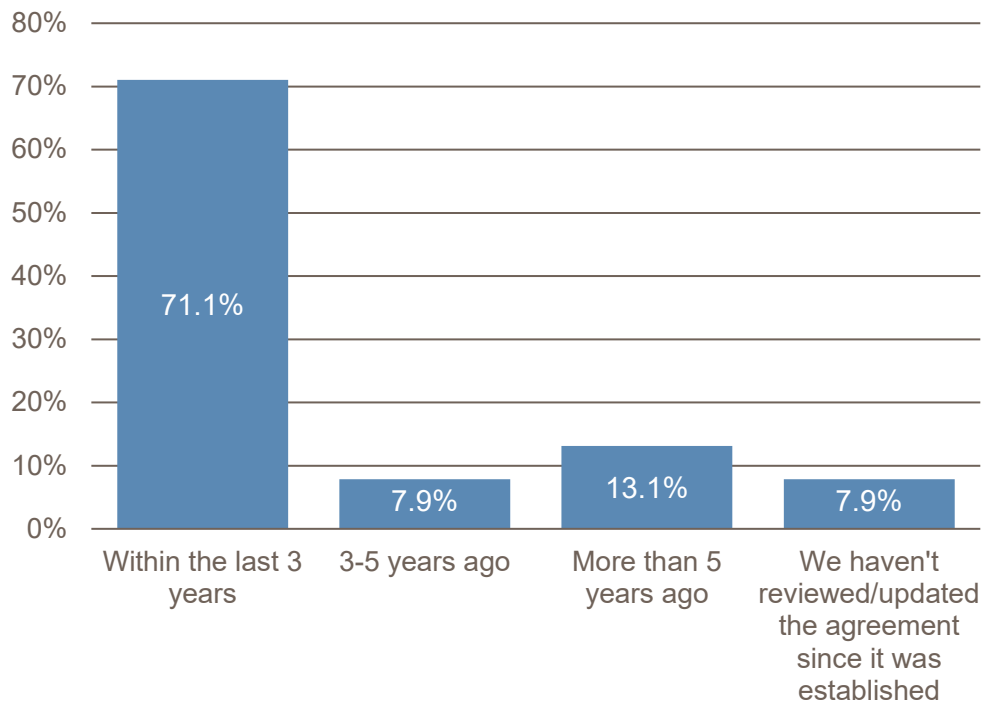
Continued

54.2%



of respondents have a buy-sell agreement, while **45.8%** do not.

When was the last time you reviewed/updated your buy-sell agreement?



Exit & Retirement

Continued

70.4%



of respondents indicated the senior generation has a clear financial retirement plan, while **29.6%** indicated they do not.

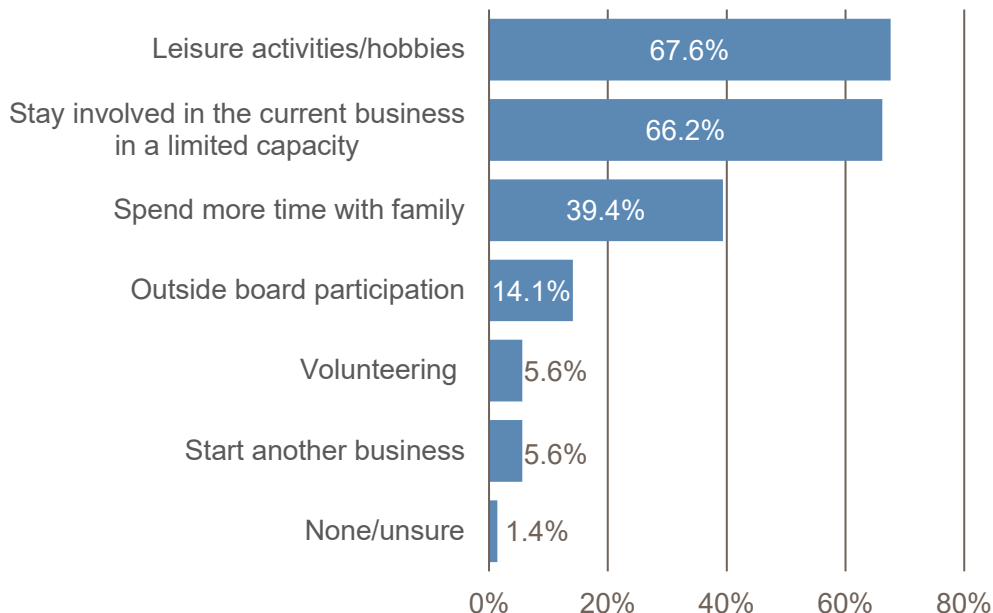
76.1%

of respondents indicated that the senior generation has an estate plan.

77.8%

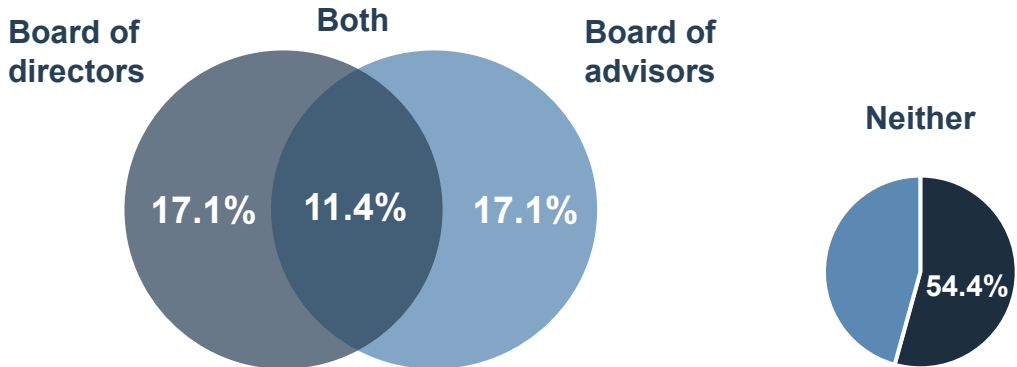
of these respondents indicated that the estate plan is clear to other family members as it related to the business stock.

What is the senior generation's plan for life after they exit the business?

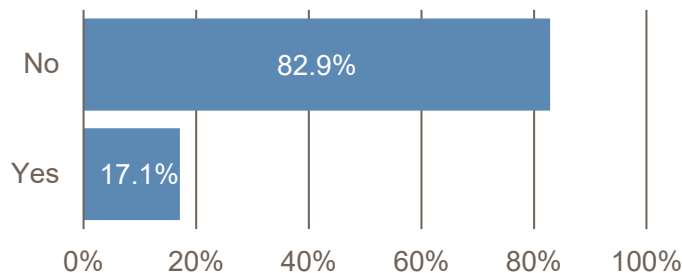


Governance

Do you have a board of directors or board of advisors?



Do you have an active family council?



26.1% of respondents indicated that their companies have a **diversity, equity, and inclusion (DEI)** policy.

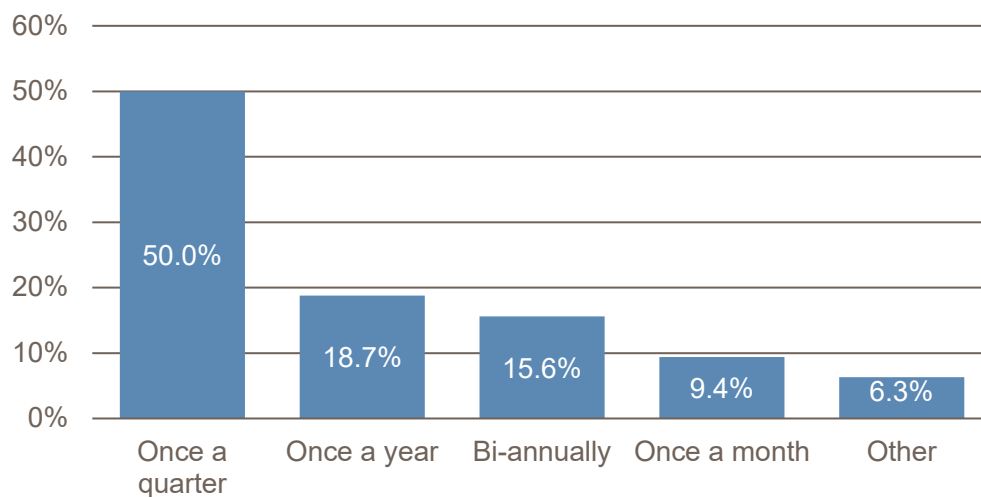


58.0% of respondents indicated that their companies have adopted **environmentally friendly policies**.

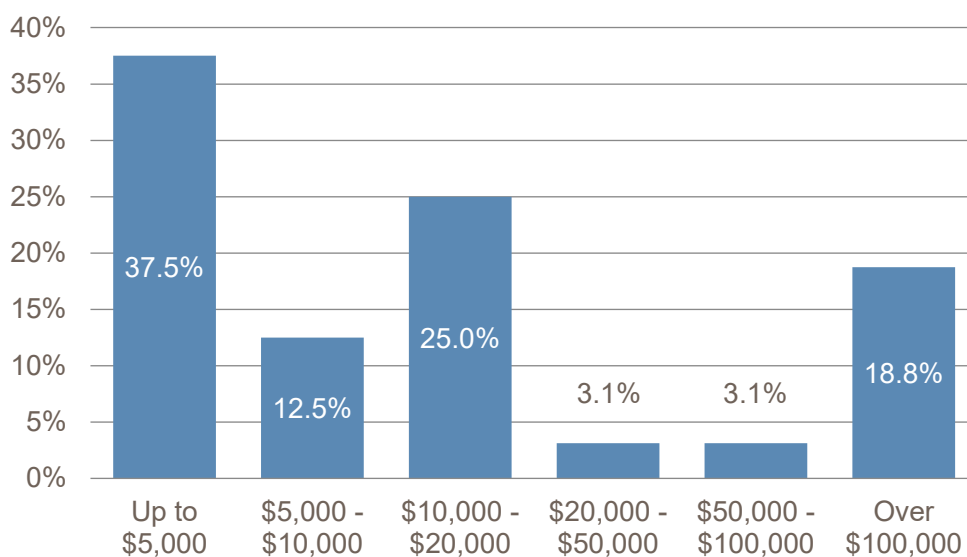
Governance

Continued

How often does your board meet?



What is your average annual compensation per board member?



Governance

Continued

What committees does your board have?



- One respondent indicated that they have a committee for new product development with third parties.
- **34.4%** of respondents **do not have formal board committees.**

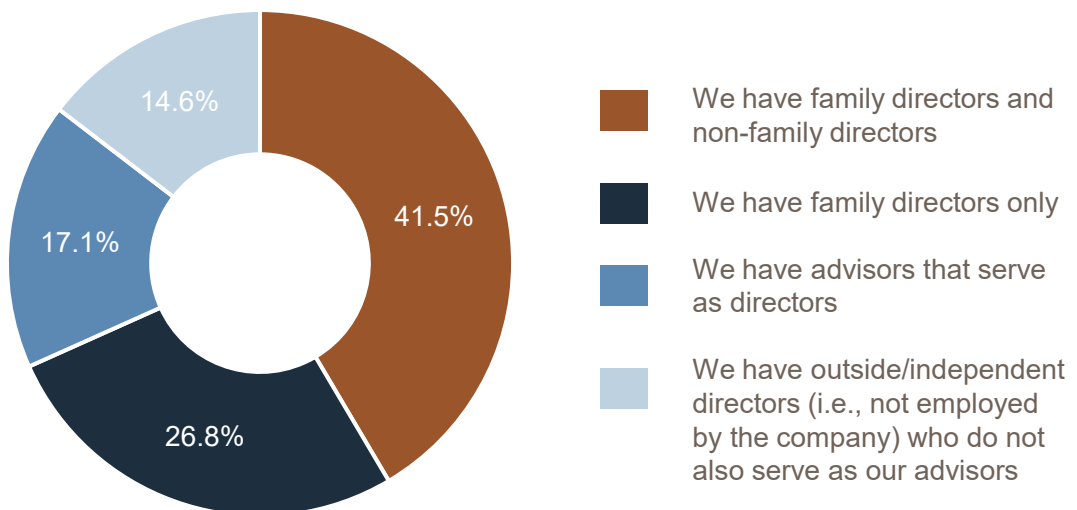
Governance

Continued

How many board members do you have?

- **28.1%** of respondents have ≤ 3 members
- **40.7%** of respondents have **4 to 5** members
- **28.1%** of respondents have **6 to 7** members
- **3.1%** of respondents have > 7 members

Describe the composition of your board.

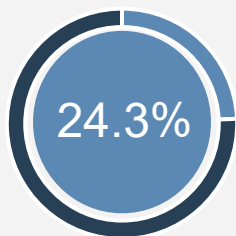


*No respondents indicated that they have non-family directors only.

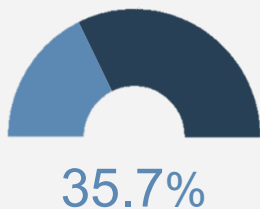
Employment, Ownership & Compensation

How many family members work in your business?

- **67.8%** of respondents employ **1 to 3** family members in their business.
- **25.8%** employ **4 to 7** family members in their business.
- **4.8%** employ **8 to 10** family members in their business.
- **1.6%** employ **more than 10** family members in their business.



of respondents have a family employment policy in place.



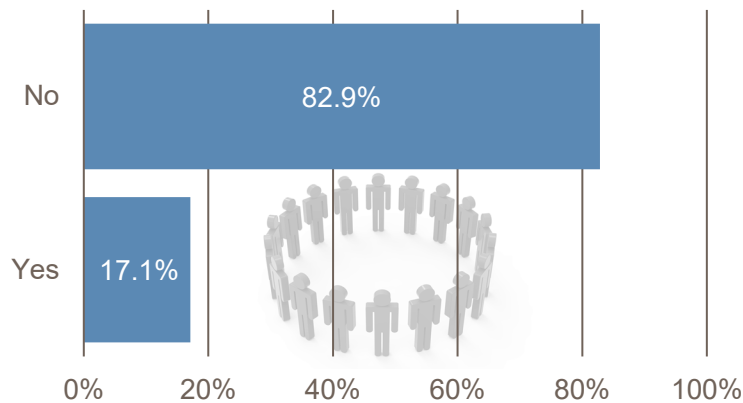
of respondents require family members to work outside the business before entering the family business.



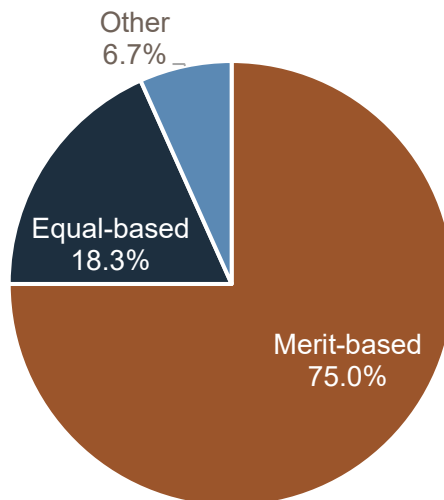
On average, respondents require **3-5 years** of outside experience before a family member can work for the company.

Employment, Ownership & Compensation *Continued*

Do you utilize a compensation committee to provide input on family member compensation?

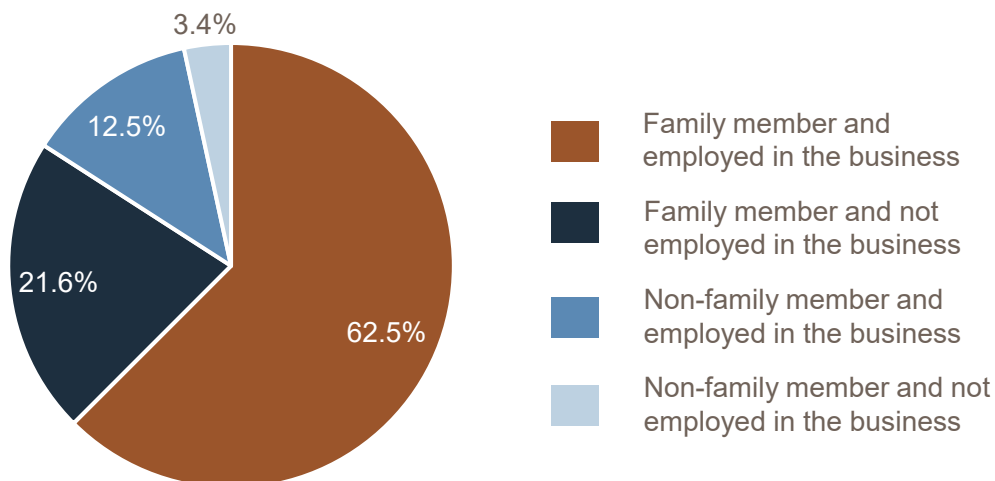


What is your compensation philosophy for family members?

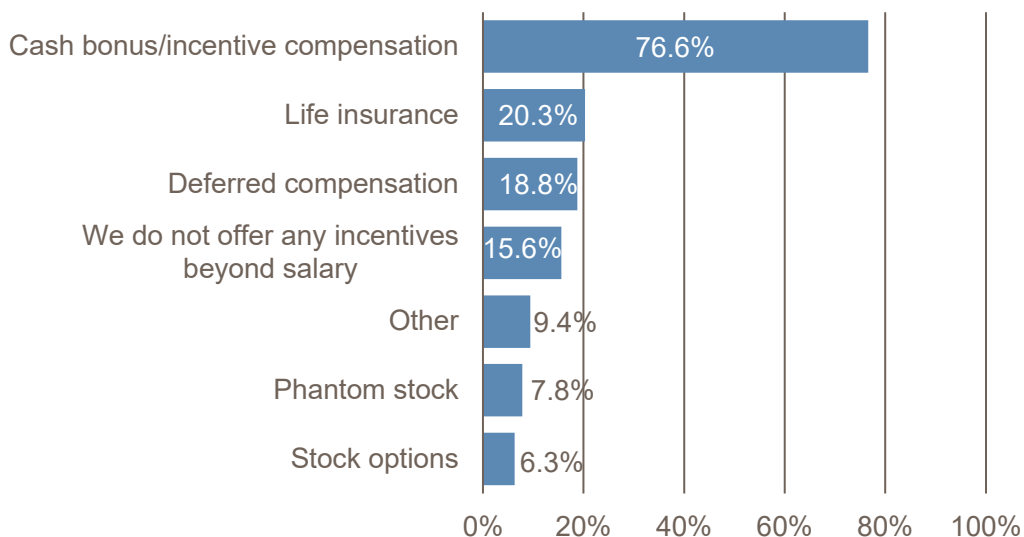


Employment, Ownership & Compensation *Continued*

What is your philosophy on stock ownership?



Which forms of compensation besides salary do you offer for your non-family executives?



Employment, Ownership & Compensation *Continued*

37.5%



of respondents indicated their company has a defined strategy to attract, retain and grow talent.

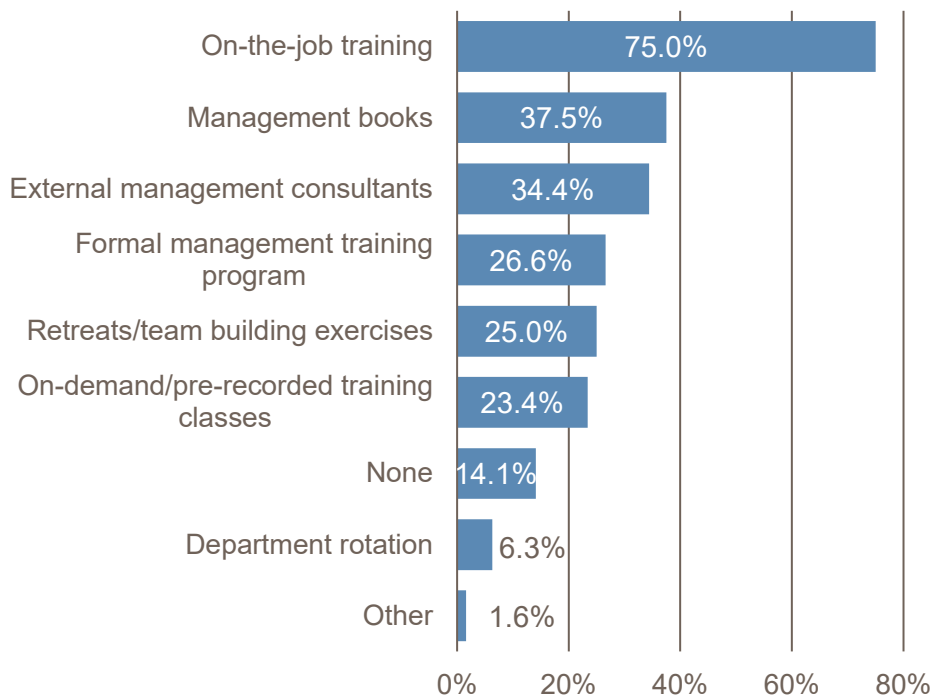
What special programs or policies apart from compensation and standard benefits packages does your business have in place to attract and retain non-family employees?



*respondents were able to select more than one answer

Employment, Ownership & Compensation *Continued*

Which resources do you provide for your managers?



Employment, Ownership & Compensation *Continued*

On a scale from 1 to 4, with 1 being disagree completely and 4 being agree completely, please rate your agreement with the following statements.

- | | |
|-------------|--|
| 3.19 | Our company's mission is clearly communicated and understood by employees at all levels of the organization. |
| 2.95 | Our employee value proposition has been clearly communicated to all employees. |
| 2.81 | Potential career growth opportunities are clearly communicated and understood by both family members and non-family members. |
| 2.54 | Our company's succession plan has been clearly communicated to all parties involved and affected. |

Please note: This data is represented by weighted averages of respondent rankings.

Employment, Ownership & Compensation *Continued*

74.7%

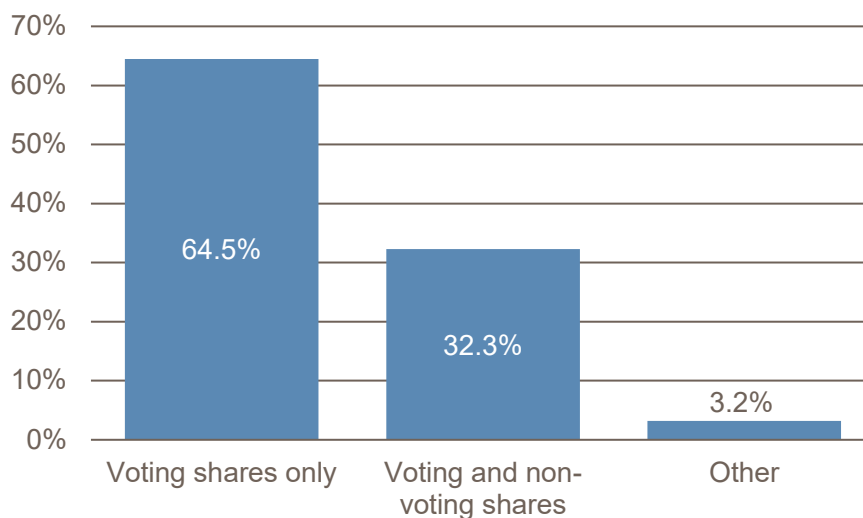


of respondents know the current value of their family business.

How many shareholders own your business?

- **71.0%** of respondents have **1 to 3** shareholders.
- **19.4%** have **4 to 7** shareholders.
- **4.8%** have **8 to 10** shareholders.
- **4.8%** have **11+** shareholders.

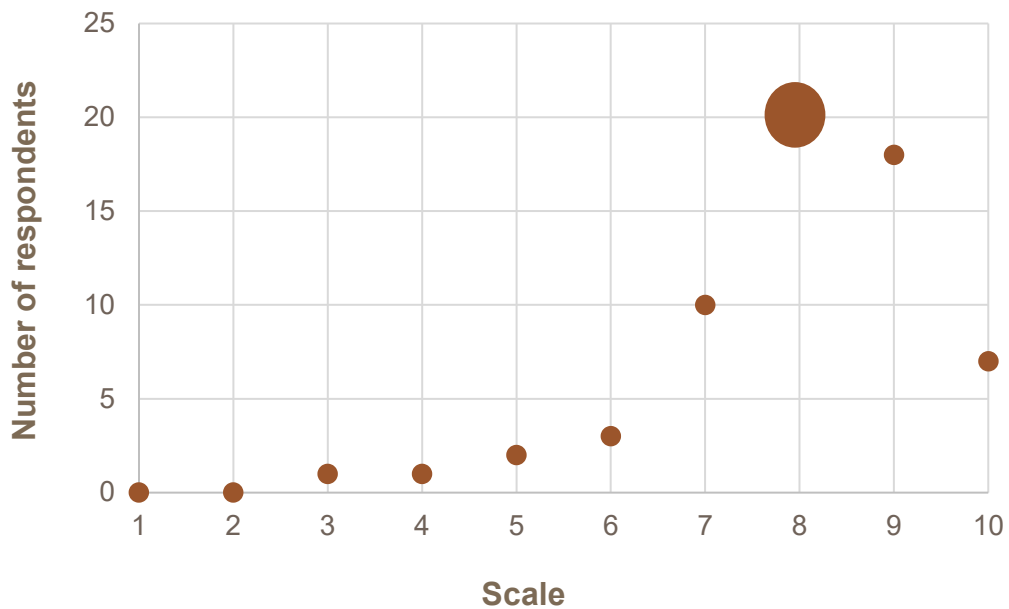
What is the capitalization of your business?



External Factors & Future Outlook

What is the future outlook for your family business?

On a scale of 1 to 10, where 1 was extremely negative and 10 was extremely positive, the average score was **8.0**.



External Factors & Future Outlook *Continued*

On a scale from 1 to 10 with 1 being no or very little and 10 being tremendous, rate the impact each of the following issues currently has on your family business.



5.13 Next generation having the talent to run the business.



3.19 Disputes among family members.



4.56 Understanding of work style among generations.



3.16 Lack of clarity on the financial transition of the business.



4.03 Lack of clarity on the succession plan for running the business.



2.74 Senior generation having enough money to retire.



4.03 Ineffective communication among family members.

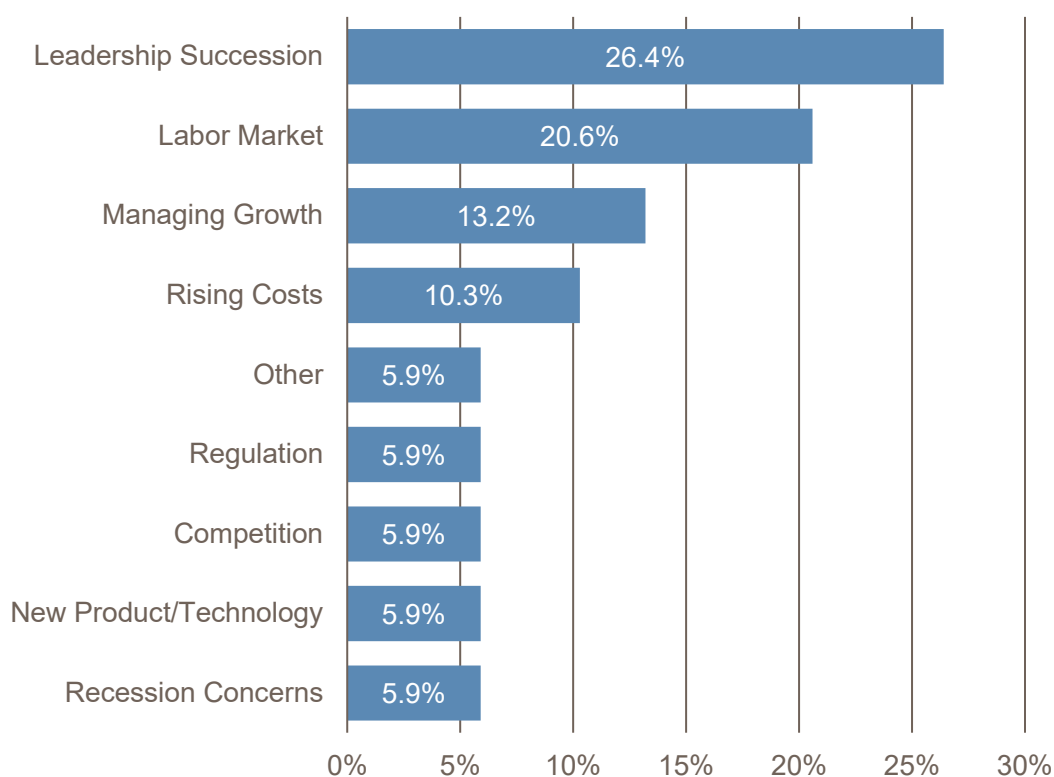


2.56 Lack of clarity on pay and ownership among family members.

Please note: This data is represented by weighted averages of respondent rankings.

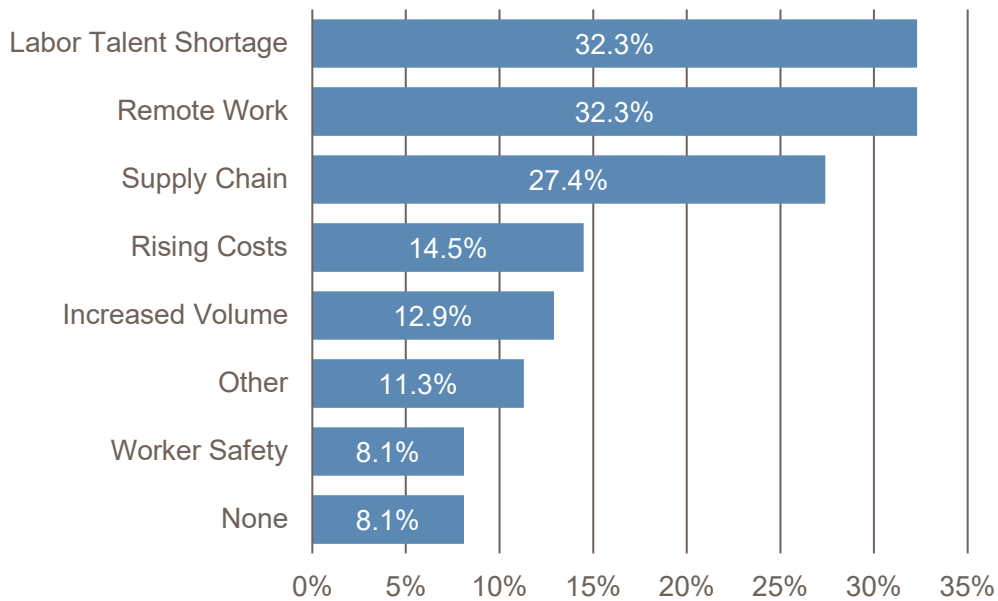
External Factors & Future Outlook *Continued*

What is the largest challenge facing your business in the next 5 years?

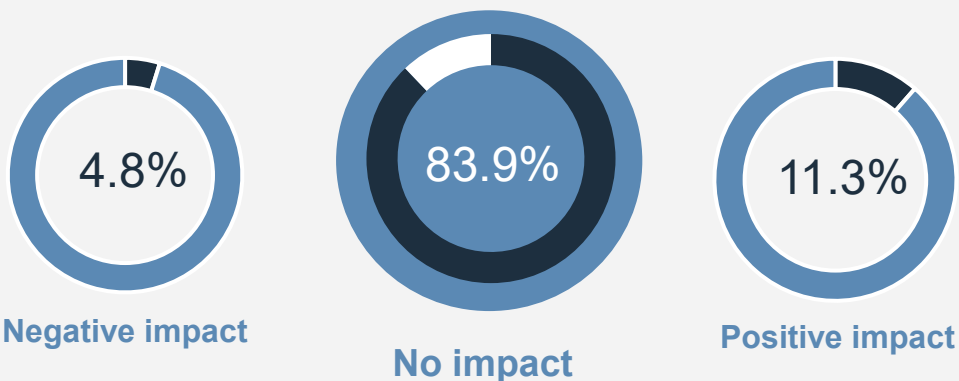


Impact of Pandemic

What new challenges has your company faced as a result of the pandemic?



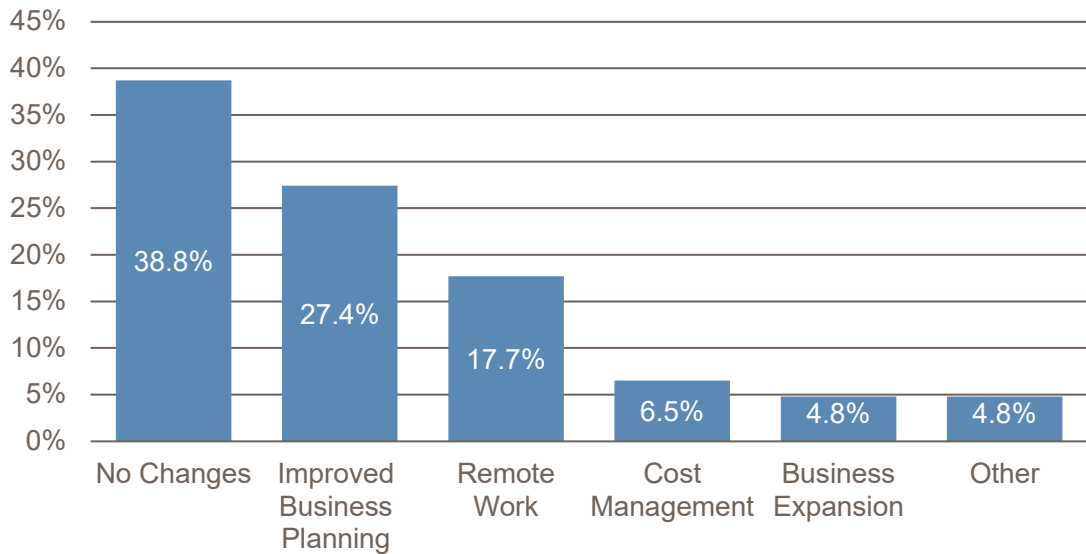
How has your access to capital been impacted as a result of the pandemic?



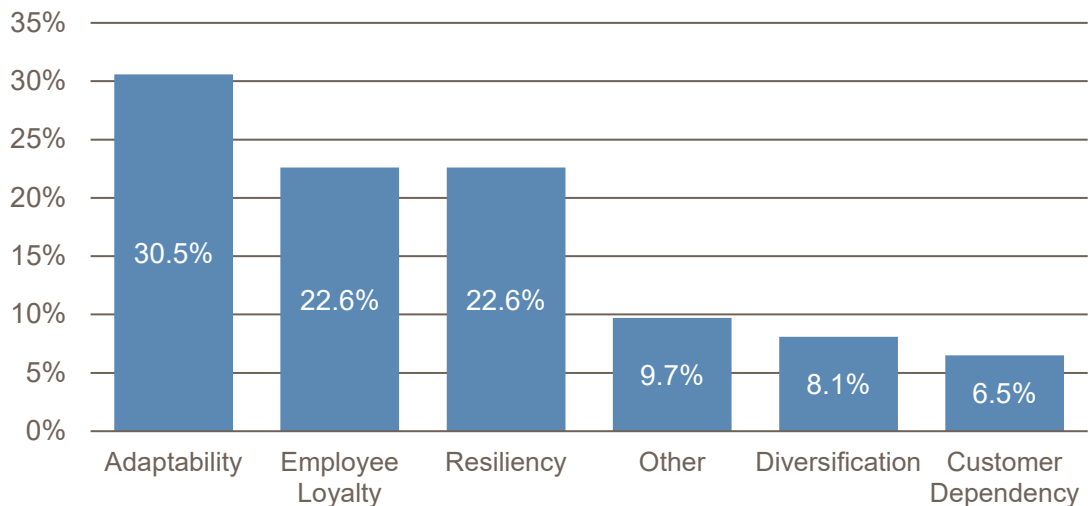
Impact of Pandemic

Continued

What long-term plans has your company faced as a result of the pandemic?



What is the most significant thing you learned about your company during the pandemic?



Methodology

What is your role in the business?

62.9% Owners



12.9% President or equivalent



19.4% CFO or equivalent



4.8% Other



What generation is your family business?



1st Generation
30.6%

2nd Generation
35.5%

3rd Generation
19.4%

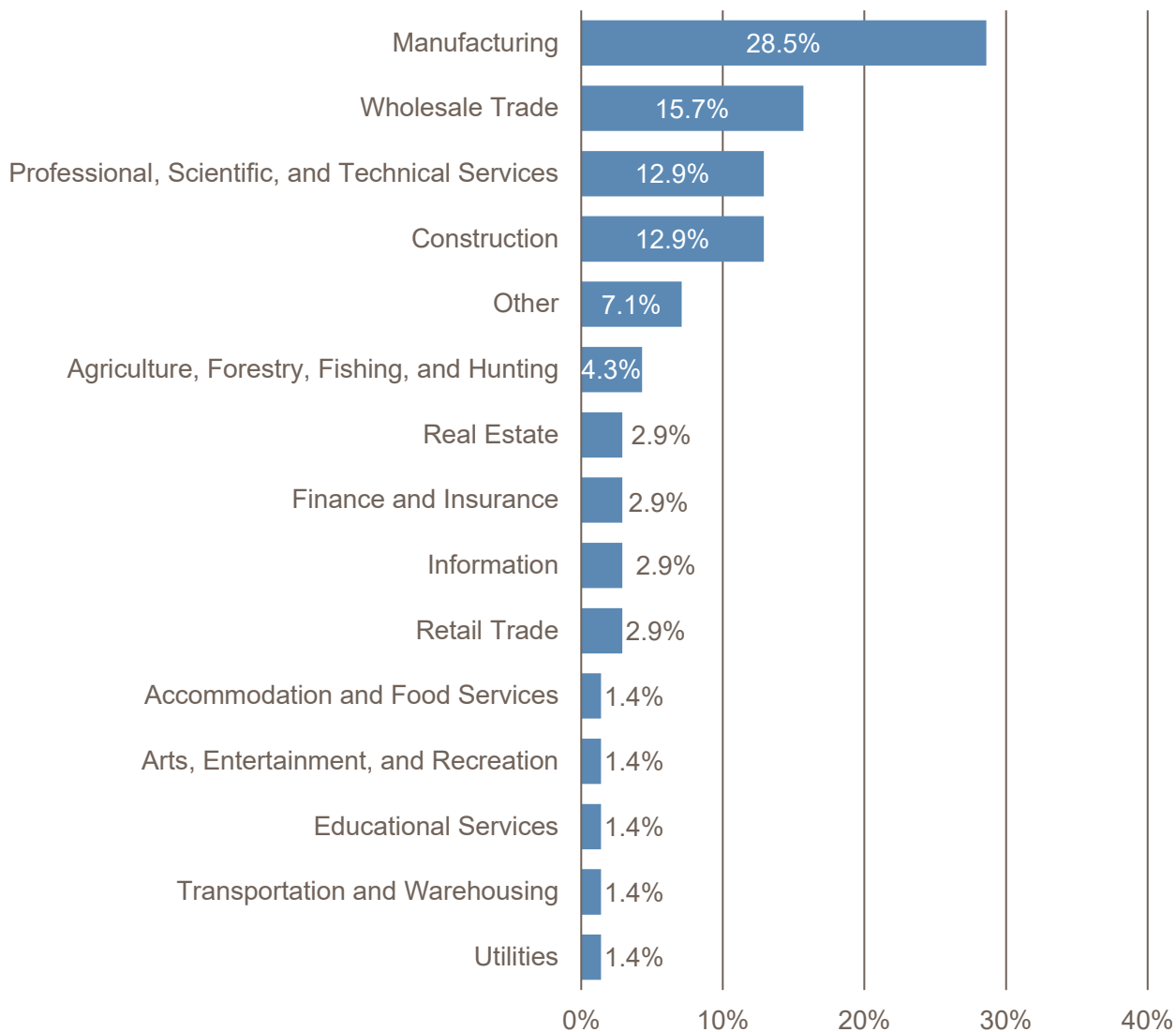
4th Generation
11.3%

5th Generation +
3.2%

Methodology

Continued

What is your industry?

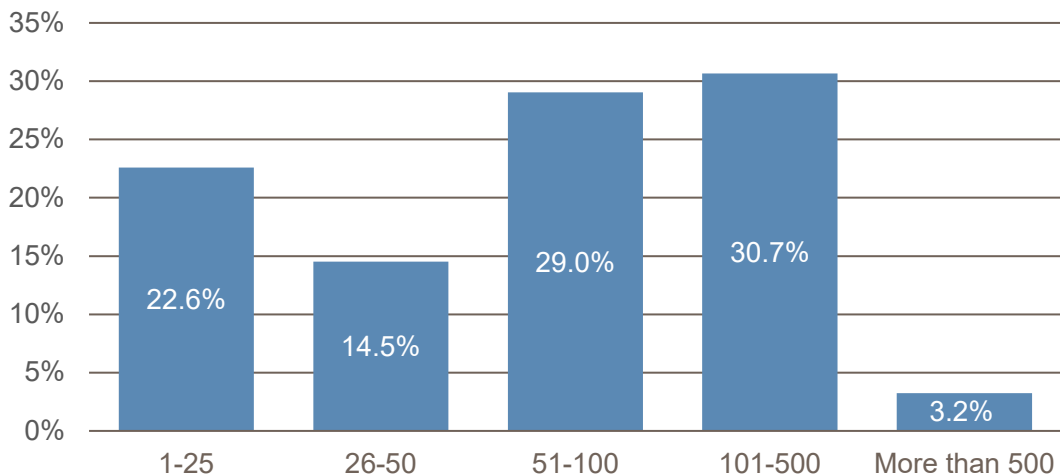


Methodology

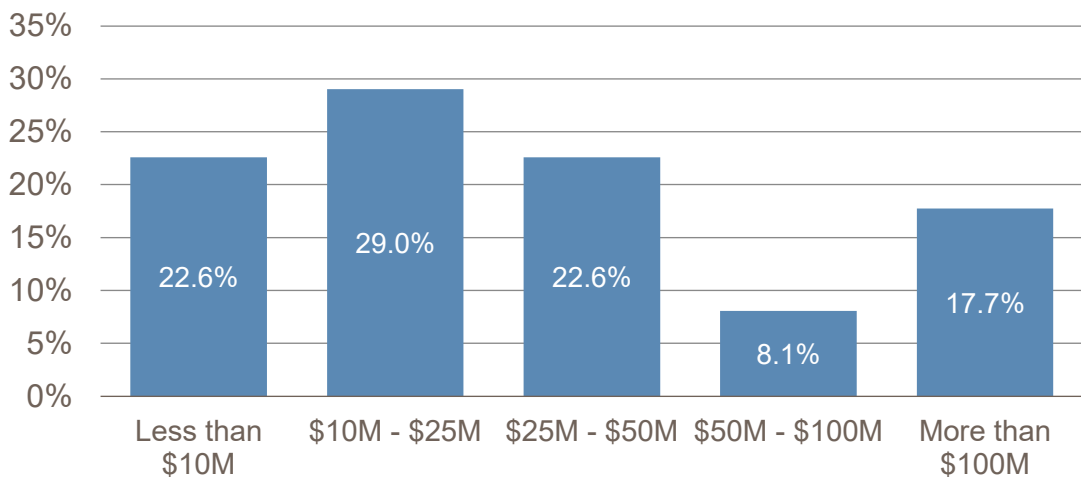
Continued



How many employees do you have?



What are your annual revenues/sales?



Acknowledgment

Thank you to **Delaware Valley Family Business Center** for helping us distribute this survey.



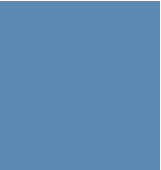
Since 1988, Delaware Valley Family Business Center has guided hundreds of business families, helping them flourish as individuals, families, and enterprises. **Learn more at www.dvfbc.com.**

Additionally, we would like to extend a special thank you to the **[Family Business Survey](#)** team at Kreischer Miller who helped prepare and execute the survey, analyze the results, and prepare the report. We greatly appreciate your significant contributions!

Fadillah Abdur-Rahim
Troy Brown
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Shana Strader

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Lisa Cattie
Galina Ivaniv
Lisa Pileggi
Vinita Weir



About Kreischer Miller

Kreischer Miller is a leading independent accounting, tax, and advisory firm serving the Greater Philadelphia and Lehigh Valley areas. We have built our firm to respond to the unique needs of family-owned and private companies, helping them smoothly transition through growth phases, business cycles, and ownership changes. The companies we work with quickly adapt and respond to changing market opportunities and challenges. That's why our focus is on being responsive, decisive, and forward-thinking. We're up to the challenge – always looking at the road ahead, not in the rear-view mirror.

The Center for Private Company Excellence is a community – live and virtual – created by Kreischer Miller exclusively for family-owned and private companies. The first of its kind, the Center for Private Company Excellence provides content, resources, tools, and information geared specifically toward the unique needs and issues of family and private companies, across the lifecycle of their organizations. It is also a forum for business owners and executives to interact and network with their peers as they address the challenges they face in improving their businesses. To learn more, visit www.kmco.com/cpce.



About Our Family-Owned Business Specialty Area

Integrated services and support for the needs of family-owned businesses

Family-owned businesses are often faced with the dilemma of planning and executing a transfer without a full understanding of the complexities involved and without the right advisory resources. Options that promise the solution to a complex family transfer abound in the marketplace, including family counseling, mediation, business valuation, estate planning, insurance and financial planning, business loans, and tax advice. Each of these options has its place, but family businesses have to piece together the elements of each and interpret how they will help address their unique situation. This process is often fragmented and lacks cohesion to really help family businesses solve the complex issues involved in a transfer.

At Kreischer Miller, we have worked with a large number of family businesses, helping them make successful transitions. Our experience and expertise in working with family businesses has allowed us to develop a unique, integrated process that blends family counseling, financial analysis, valuation, transaction structuring, compensation planning, corporate finance, taxation, and estate planning under an umbrella of business advice to the family.

These elements are presented in a cohesive framework to help family business owners reach an agreement that is fair and reasonable and can be executed in a way that does not jeopardize the family business nor destroy family relationships.

Our approach is advisory in nature, rather than focused on delivering a product. Our process is designed to provide expert advice on the transaction while educating the family about the process and how it will affect the individuals as well as the company. Our goal is to ensure that everyone involved understands the transaction to which they have agreed.

Core Services

- Succession planning
- Successor development
- Board structuring
- Buy-sell agreements
- Transaction structuring
- Family meeting facilitation
- Business valuation
- Estate planning
- Income tax planning
- Compensation structures
- Financing assistance
- Exit strategies

To learn more, visit www.kmco.com.

For More Information

To learn more about the results of Kreischer Miller's 2022 Family Business Survey, or to discuss your company's needs, please contact your Kreischer Miller professional or the author below.



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