

How the world's largest family businesses are responding to the Transformative Age

Insights from the 2019 EY and University of St. Gallen Global Family Business Index

#EYFB500

Center for Family Business



Universität St.Gallen



EY

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Who are the FB500?

The 2019 EY and University of St. Gallen Global Family Business Index provides significant insights into the world's largest family-owned businesses, ranked by revenues. The largest family-owned businesses in the world include many global household names. The chances are your closet contains shoes and clothes made by one of the firms in this Index; your family eats and drinks products from one of the firms in this Index; we stay in hotels run by a firm in this Index; our homes are heated and our vehicles powered by energy firms in this Index; our finances are managed by firms in this Index; our cities are developed by real estate firms in the Index. Family-owned firms are core to the global economy, and their health and growth vital to every country's economic well-being.

This is the third edition of the EY and University of St. Gallen Global Family Business Index, which ranks the 500 largest family-owned companies by revenues. Unlike some published indices, we only include firms with a significant family ownership in which the second generation or more is actively involved in running the business. Founder-managed companies that include many of the largest tech companies may be considered eligible, but for us they are entrepreneurial companies that have not yet developed into family-run enterprises until the second generation becomes involved.

Executive summary

This year we see little change in the geographical distribution of the FB500, although there is a substantive rise in Germany-based firms and a slight reduction in American firms. There is a significant increase in the number of technology firms making the Index. New entrants this year tend to be younger, smaller and more likely to be publicly listed.

For the first time since we published the Index, we include data on board composition and characteristics. Both new and existing firms have boards comprising a majority of non-family members. Most board members are male and diversity at the board level is lower than the Fortune 500. However, the total revenue represented by these 500 family firms has grown by 9.9% over the last Index, compared to 0.06% in the Fortune 500, underlining the extraordinary success of family-owned firms in their ability to compete effectively.

Visit familybusinessindex.com to access the Index and data visualization tools to search and analyze the data.

To learn how EY can help accelerate growth for your family business, visit us at ey.com/familybusiness

The Family Business Index is a global ranking of family-owned businesses by revenues. Companies that have not published accounts in the last 24 months are excluded from the Index. The business must be run by the second generation or more. One or more family members must be involved in the running of the business, i.e., be a part of either the board of directors or executive leadership.

To meet our criterion of a family business, the family should have substantial ownership of the business. Private companies where the family controls more than 50% of the shares and voting rights or public companies where the family holds at least 32% of the shares and voting rights are included.

Sources used to publish the Index include proprietary data, filed and published company data, and specialist databases, including Bloomberg, Capital IQ, Orbis, BoardEx and EY Knowledge.



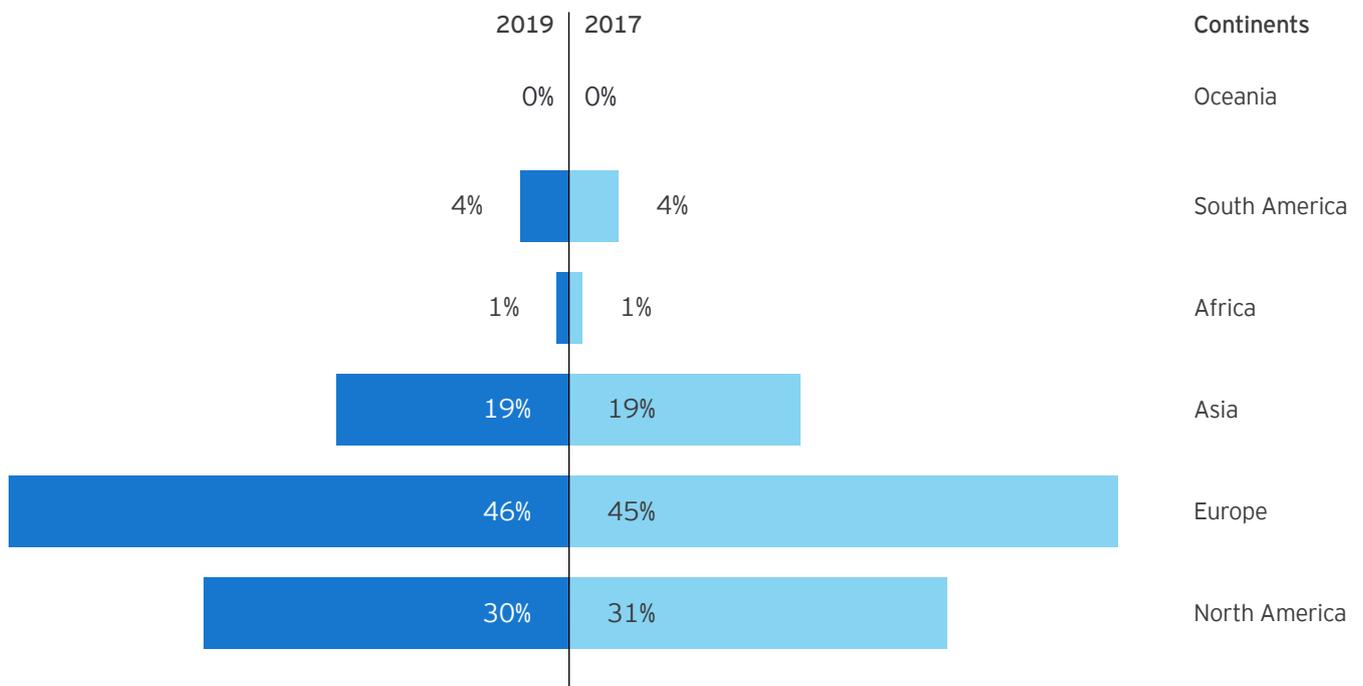


Where are the largest firms distributed?

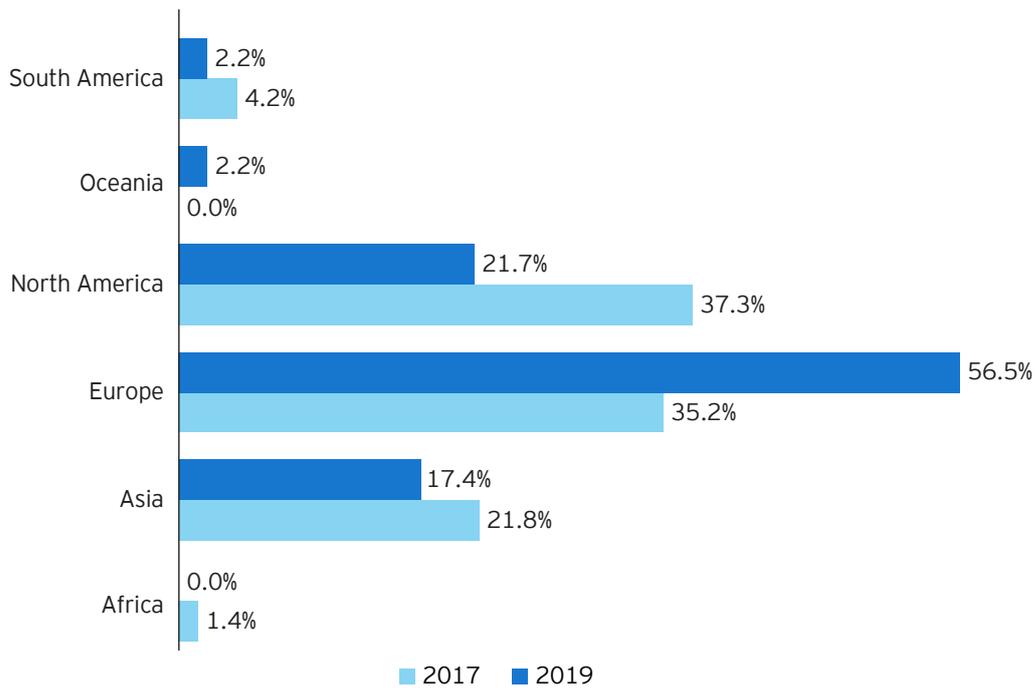
There is no significant shift in the geographic distribution of the world's largest family businesses between this edition and the 2017 Index. There are two companies headquartered in Oceania, as in 2017; Africa continues to be home to four firms; South America sees a slight reduction from 22 companies in 2017 to 20 this year; Asia has 94 firms as in 2017. The number of firms in the Index

from Europe increases from 224 in 2017 to 230 this year, boosted particularly by new entrants from Germany; while North America sees a slight decline from 154 firms in 2017 to 150 this year, driven mainly by drops in the United States.

Geographic distribution of 2017 and 2019 Index firms



Geographic distribution of 2019 Index new entrants



“Overall, there are fewer new entrants in the 2019 Index than there were in 2017,” says Professor Thomas Zellweger, Chair of the Center for Family Business at the University of St Gallen.

“The most significant shifts are the addition of 11 new German firms this year and significantly fewer new US firms, 7 compared to 49 in 2017.”

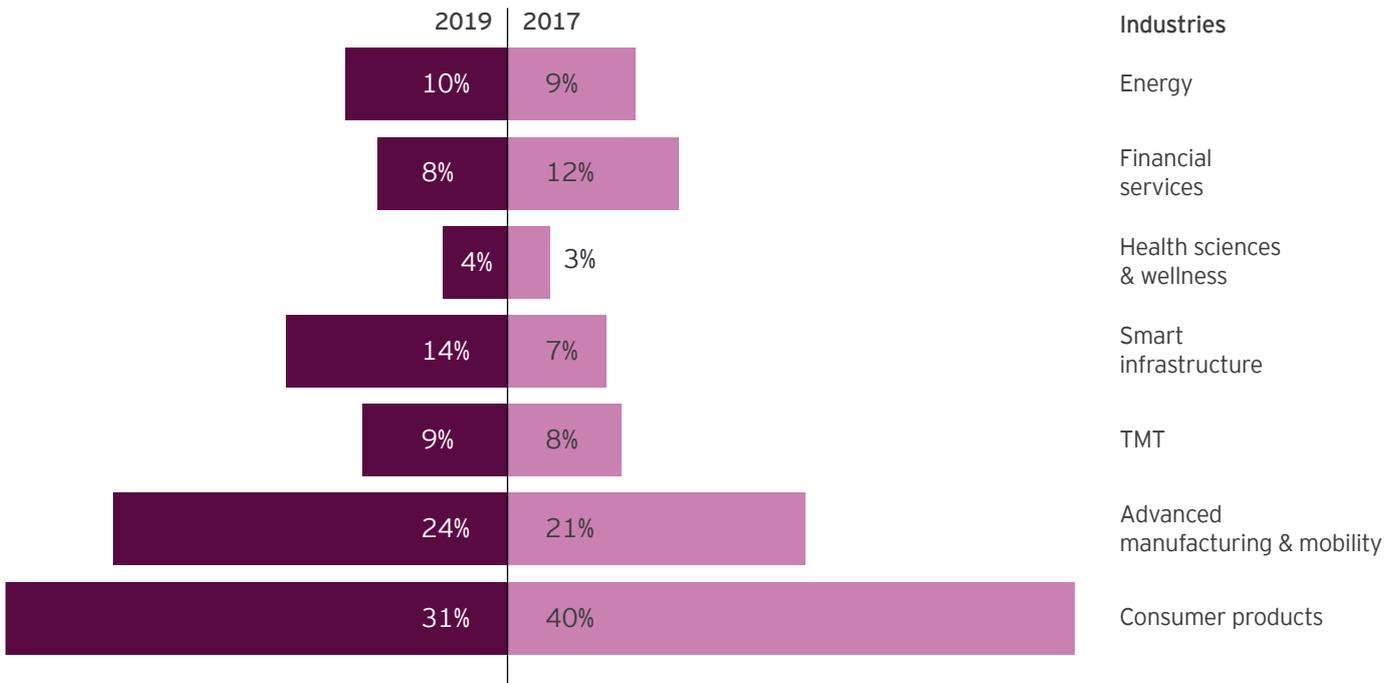


The rise in technology-enabled industries

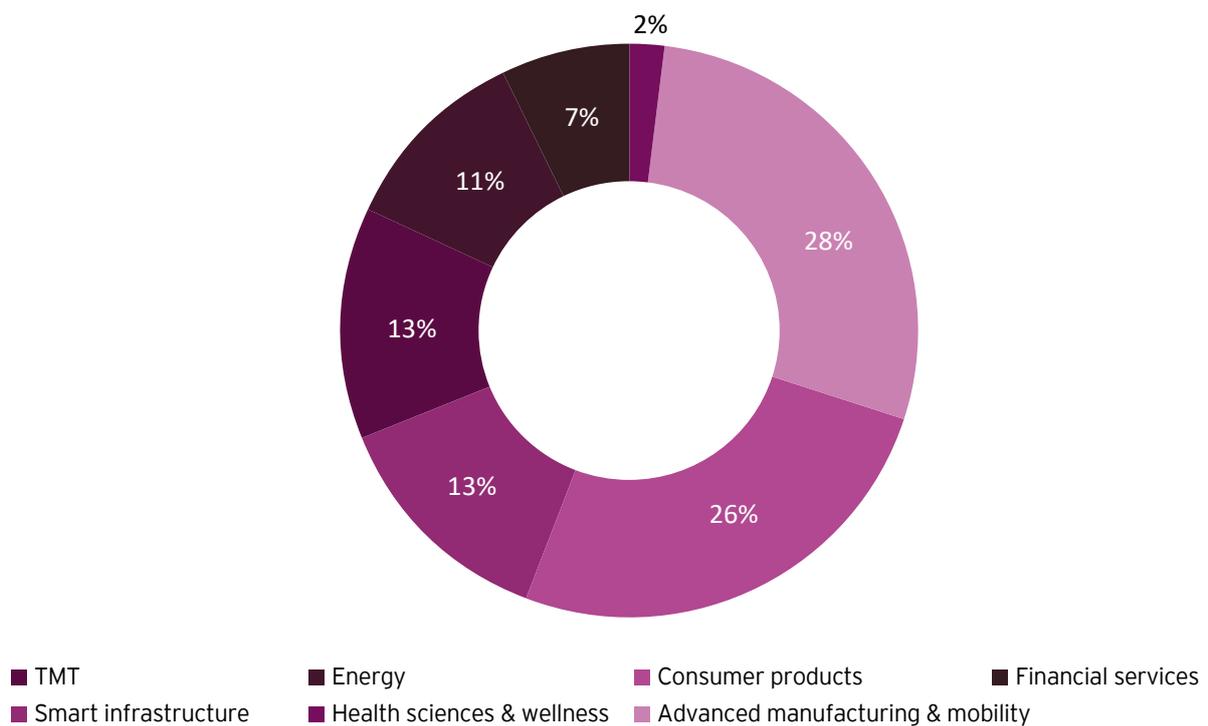
Unsurprisingly in this age of transformation, the Family Business Index this year sees significant increases in family businesses that are leveraging new technologies. This year, 68 firms operate in smart infrastructure (compared with just 35 in 2017) and 122 firms are in advanced manufacturing and mobility (compared with 103 firms in 2017).

By contrast, we see a lower showing of firms in financial services (40 firms this year compared with 61 firms in 2017) and consumer products and retail, down 22% from 202 firms to 157 this year. For all that, there are more family businesses operating in consumer products than in any other industry market, with just under one in three (31%) of all Family Business Index companies operating in consumer products.

Sectoral distribution of 2017 and 2019 Index firms



Sectoral distribution of 2019 Index new entrants



The majority of new entrants into the Index this year operate in Advanced manufacturing & mobility, while consumer products is the second-largest source of new entrants.

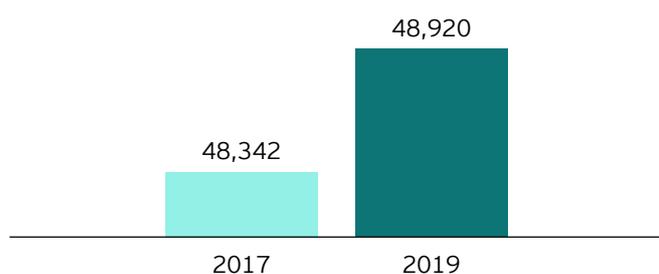
Key characteristics of family firms in the Index are sustained

An analysis of the “average” firm shows little significant change between 2019 and 2017. Average employee numbers have risen slightly; average firm age has dropped a little, from 80.38 years in 2017 to 79.92 years in 2019; average revenue has risen to about US\$14.96b in 2019 from US\$13.62b in 2017; and on average, 51% of the Index’s family firms are public compared with 48.6%

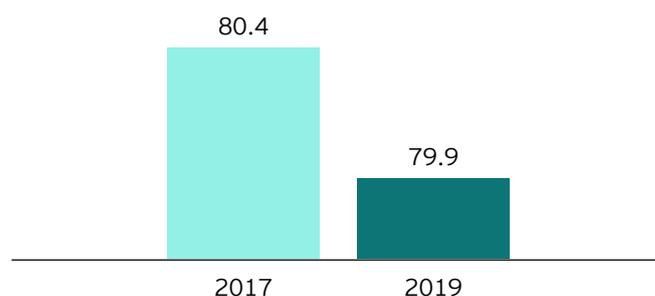
in 2017. “It is not surprising that when we are analyzing the very largest family companies in the world, average characteristics will not change dramatically year-on-year,” says Marnix van Rij, EY Global Family Business Leader. “Analysis of new entrants is where we see more trends.”

Characteristics of 2017 and 2019 Index firms

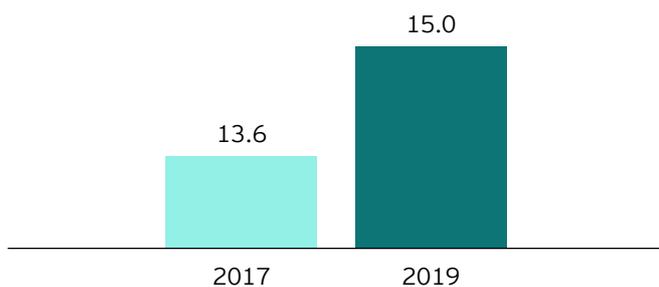
Average number of employees



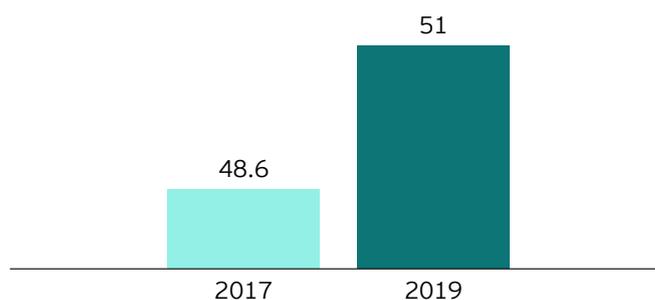
Average age of family businesses



Average revenues in US\$b



Percent of public firms



Characteristics of existing firms and new entrants in 2019 Index

Average number of employees



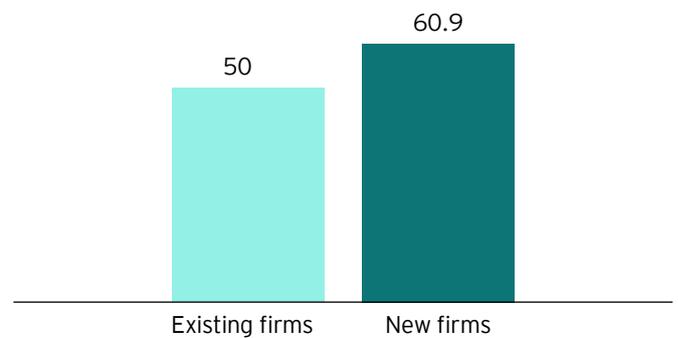
Average age of firms



Average revenues in US\$b



Percent of public firms



New entrants into the Index

As you would expect, new firms in this year's Index are smaller, younger and, interestingly, more likely to be public than existing firms in 2017. However, we find statistically weaker differences between new entrants and existing firms in 2019 compared with the differences in 2017, after taking into consideration the

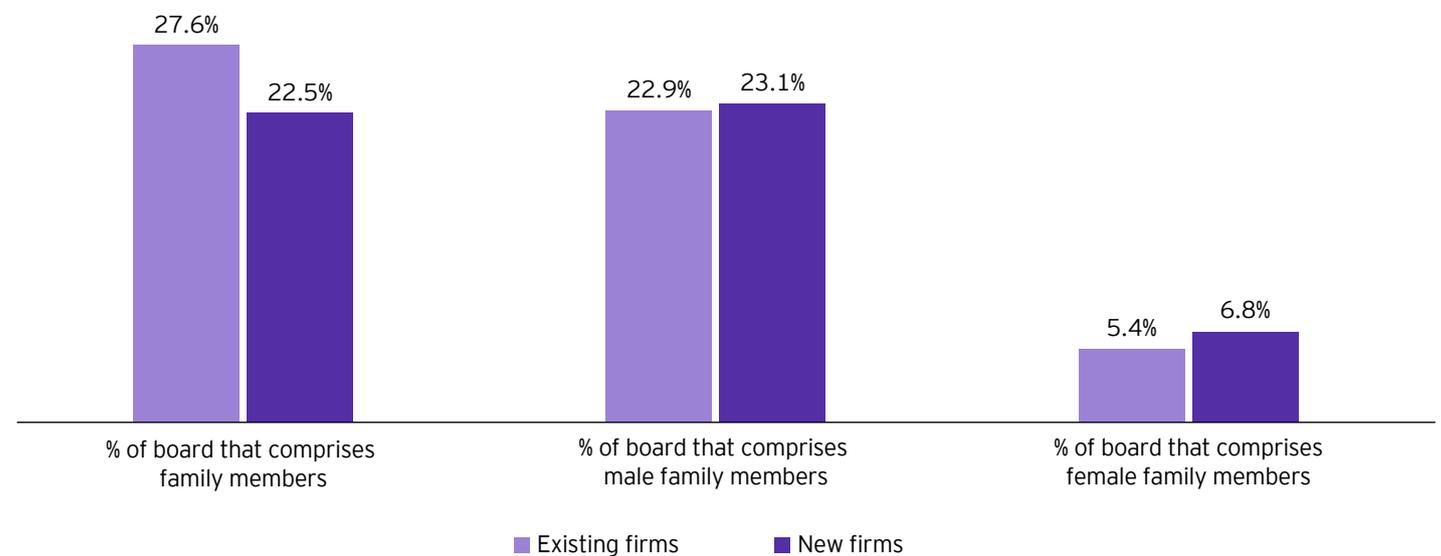
variances and the size of each sample. "This shows us that there is a convergence between new and existing firms with time, with new and existing firms having fewer differences across our Index," says van Rij.

Corporate governance: strong non-family input but still not enough diversity

In 2019, we report for the first time on the board composition and CEO profile of each firm to give us insight into corporate governance. For firms that also appeared in the 2017 Index, more than a quarter (27%) of board directors are family members, the balance being drawn from outside the family. In comparison, for new entrants into the Index this year, more than a fifth (22%) of

board directors are drawn from the family, with almost four-fifths (78%) comprising non-family members. "Newer, younger companies are more likely to harness the expertise and perspectives of external directors from outside the family," says van Rij, "but they also have less family members to draw from than family firms in the third or fourth generation."

Board structure analysis of existing firms and new entrants in 2019 Index



Family members operating in their company's boards are overwhelmingly male, with just under a quarter (23%) of boards comprising male family members compared to 5% female family members. "Interestingly, we see no major improvement in diversity

in new entrants to the Index," says Zellweger. "Just nearly 7% of board composition in these new entrants are represented by female family members." If we compare the participation of female family members in the running of their companies with the 20% female

directors of Fortune 500 companies, then female family members are significantly less likely to be active on the board.

In the 2018 EY Global Family Business Survey, in which 525 of the world's largest family businesses were interviewed, board

membership overall (including non-family members) comprised 16% women, a 20% increase on the 2014 survey. This suggests that family businesses may be better at harnessing female talent from outside the family than they are from engaging family members at the highest executive levels. (ey.com/us/familybusiness)

Gender diversity analysis in 2019 Index firms with family or non-family CEOs

Distribution of family CEO and female CEO in 2019 Index



More than half (55%) of the CEOs in the 2019 Index are non-family men, reflecting an increasing professionalization of the management of the world's largest family businesses, with 42% run by a male family member. New entrants this year are more likely to be led by a family member than older incumbents, with 56% having a family CEO. "This may reflect on a smaller and younger family business need to rely on family capital for growth," says van Rij, "while the very largest companies are more likely to utilize external sources of management."

Just 3% of the Index has a woman at the helm, nine drawn from the family and 8 from outside. New entrants are marginally more likely to have a female CEO (4% compared to 3% of existing companies) but the numbers are too small to show any significant trend. This

shows that family businesses are similar to Fortune 500 companies in CEO diversity: just under 5% of Fortune companies were run by a female CEO in 2018. Interestingly, diversity may be an area where smaller companies are more progressive. In the 2018 EY Growth Barometer survey of some 400 middle-market family businesses (with revenues under US\$3b), family-owned firms were significantly more likely, at 9%, than non-family firms (3%) to have a female CEO. (ey.com/growthbarometer/familybusiness)

"As we establish this benchmark of both corporate governance and gender diversity in the Family Business Index," says van Rij, "we will be able to track trends in the increasing participation of non-family members in the management of these businesses and, in time, we hope to see greater involvement of women in the future, too."

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