

## Press release

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Contact: Isabel Box  
Press & Communications  
Tel: + 32 2 302 25 51  
Mobile: + 32 485 31 79 63  
E-mail: [ibox@deloitte.com](mailto:ibox@deloitte.com)

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### **Next generation family business leaders are adopting a more open attitude to partnerships, but struggle to put it into practice**

**Family businesses prefer acquisitions over joint ventures and alliances to drive growth**

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**Next generation family business leaders are more open to developing non-traditional business partnerships than older generations, but in reality still choose acquisitions over joint ventures and alliances, according to a new study from Deloitte Private: Next-generation family businesses: Exploring business ecosystems. To thrive in today's dynamic, complex business ecosystems, many family-owned businesses will need to shift their mindset to take a more expansive view of the kinds of business relationships they can use to gain market share. Engaging more widely can, for example, help family businesses develop a digital strategy faster, which according to this report and the [Deloitte Global Private survey](#) almost 40 percent do not have or are still working on.**

Eighty-nine percent of survey respondents, 575 current and future family business leaders in 52 countries, see the added value of business ecosystems, but struggle to participate in them and preserve their identity as a business as well as their cohesion and values as a family. Encouragingly, 65 percent have increased their interaction with third parties over the past three years. The surveyed leaders value asset and intellectual property (IP) ownership, which makes acquisitions, not partnerships, the most frequent type of expansion to leverage the business ecosystems.

#### **Ecosystems offer opportunities for innovation**

A large majority (89 percent) of the survey respondents agree that business ecosystems enable their organisation to innovate beyond its individual capabilities. Yet when asked about their actual participation in innovation projects, more than half (53 percent) said that they rarely or never partnered with other organisations during the past three years, pointing to a lingering reluctance among at least some family-owned businesses to engage with external parties. Further, 32 percent of the respondents said that their businesses would only work on new services and/or products with organisations with which they already had a long-standing relationship.

#### **Interactions are on the rise**

Sixty-five percent of next-generation family business leaders have increased their interactions with third parties over the past three years. Excluding direct customers and suppliers, family businesses interact most frequently with customers of their customers, with 47 percent of respondents saying that they do so on a weekly or monthly basis. Interestingly, 42 percent of respondents say that they also interact with competitors on a weekly or monthly basis. This could be an indication that family businesses are participating- intentionally or not – in broader business ecosystems than they have traditionally been used to.

## **Acquisitions to access innovation**

Acquisitions were the most frequent type of business combination that respondents undertook over the last three years (46 percent). They also expect to engage more in acquisitions than any other type of combination over the next three years. The reasons given by respondents for undertaking business combinations were varied, but most were linked to achieving growth, efficiencies of scale and innovation.

Nikolaas Tahon, Managing Partner Deloitte Private: *"The study also found that family businesses place a high value on owning intellectual property (IP), with 63 percent of respondents saying that owning IP was "very" or "fairly" important to their organisation. In business ecosystems participants do not necessarily have to own assets or IP. Since competencies are brought together and the risk is shared, participants can reap the benefits of the assets without actually owning them."*

## **Digital awareness is low**

Twenty-six percent of survey respondents have a strategy for digital transformation solidly in place; another 35 percent said that their digital strategy is fairly recent. Almost 40 percent did not have a digital strategy or said that they were still working on it.

The next generation of leaders are more aware of the impact of digitisation than the other family members active in their business and have some work to do in educating them about the value of digital technology. However, since the majority of respondents (52 percent) said they were only "somewhat aware" of digital technology, they may also wish to invest more time and effort in exploring the uses and implications of digital technologies themselves.

## **Outward-facing mindset required**

More than half of the survey respondents believe that they need to change the approach of their business to collaboration, mergers and acquisitions (M&A), and alliances, either to some extent (53 percent) or substantially (17 percent). *"To fully exploit the opportunities presented by modern business ecosystems, next-generation family business leaders should consider adopting a flexible, outward-facing mindset that allows for variation in the types of relationships they pursue,"* said Nikolaas Tahon. *"Most of the leaders are aware of the need for change, even though some may not yet realise the extent to which changes might be needed. They would do well to consider how their business model can work effectively in an evolving business ecosystem, without neglecting the history and traditions embedded within the family."*

## **About the Next-generation family businesses report**

From January 8 to February 28 2018, Deloitte Private polled 575 next-generation family business leaders (out of which 27 Belgian business leaders) in 52 countries through an online survey. "Next-generation" leaders were considered to be those who have taken over the leadership of their business within the past three years, or who are expected to do so within the next three years.

Of the family companies that participated in the survey, 51 percent had an annual revenue of less than €50 million, 33 percent made between €50 million and €250 million, and 16 percent had an annual revenue exceeding €250 million.

Only 11 percent of the companies were established less than 20 years ago. Almost 36 percent were established between 20 and 49 years ago, 37 percent were established between 50 and 100 years ago, and 15 percent were established more than a century ago.

The majority of the respondents (53 percent) represented the second generation of family business leaders, 29 percent represented the third generation, and 18 percent the fourth generation or more.

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