

The values effect

How to build a lasting competitive advantage through your values and purpose in a digital age





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7 key insights

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John Dillon

Entrepreneurial &
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Leader, PwC Ireland

Foreword

2019 PwC Irish Family Business Report

We believe family businesses – built around strong values and with an aspirational purpose – have a competitive advantage in disruptive times. There is an enormous opportunity for family businesses to start generating real gains from their values and purpose, by adopting an active approach that turns these into their most valuable assets.

We are delighted to present our 2019 Irish Family Business Report following a survey in late 2018 of almost 130 Irish family businesses. The research is part of PwC's latest Global Family Business Survey of almost 3,000 firms in 53 territories, our largest and most comprehensive survey to date. The research was first conducted by PwC Ireland in 2002, and was subsequently developed into a biennial PwC global survey.

This year, the theme of the research is harnessing values to drive purpose and build lasting legacy. While this theme has never been more relevant, it is also a logical progression from our 2016 survey in which we examined the need for greater focus on medium term strategic planning to enable more family businesses to achieve their objectives over the longer term.

The current study reveals that the Irish family business sector is in good shape, with the majority of family firms ambitious for the future. 86% of Irish survey respondents anticipate expanding their businesses over the next two years, and this is consistent with the responses from their global counterparts. However, uniquely in Ireland, the potential impact of Brexit looms large as a challenge for the sector. Over half of Irish respondents identified the fall-out from Brexit as the biggest challenge, compared to only 20% in other EU countries.

Since the survey was conducted, a key disruption continues to be Brexit, which is, and will be, an increasing concern as developments unfold in the UK.

For example, 84% of Irish family business leaders scored attracting and retaining key talent and improving profitability as very important in the next two years, and this represents a considerable shift upwards from 2016 levels. Being more innovative also scored much higher than in 2016. This essentially confirms that many companies have finally emerged from a long lasting recession with the confidence to adopt a more expansionary approach.

Significantly, the sense of vulnerability to digital disruption is felt more strongly by Irish companies (40%) than it is globally (30%), and this is an area which will require greater focus in the immediate term.

The 7 key insights for Irish family businesses, based on the research findings are:

1. Agree family 'values' for better

business: Living the values needs to be real and done consistently. The study highlights that family businesses with a clear sense of values and purpose have increased revenue and profitability, but more work needs to be done to articulate these in writing.

80%

believe that a clear sense of values and purpose led to increased revenues and profits

2. Document 'purpose' for long-term

success: 60% of Irish family businesses have a documented vision and purpose statement compared to 68% globally. In our experience, the family without a common purpose does not flourish to the same extent as those that have identified and documented their business purpose.

35%

have the family values and purpose for the company articulated in written form

3. Have a 'fit for growth' strategy: It pays to plan ahead and yet 64% of Irish family businesses still do not have a formalised strategic plan, which compares with 51% for their global peers. The research indicates that those with good strategic plans have higher growth performance.

64%

still do not have a fully costed, formalised and documented mid-term plan

4. Step-up digital capabilities: Irish firms feel more vulnerable to digital disruption (40%) than their global counterparts (30%), but they are not prioritising it as a challenge to the same extent. Four out of ten expect to have taken steps in terms of digital capabilities in the next two years, compared to 57% of their global peers. Digital transformation requires new technical demands new technical skills, and many Irish family businesses can do more to embrace emerging technologies for long term sustainability.

54%

believe that they are vulnerable to cyber-attack

5. Greater focus on succession and NextGens: Just 18% of Irish family businesses have a formalised succession plan. Half confirmed that they would have a management/ownership transfer in the next five years, but one in three have not involved the next generation in their preparations for change. NextGens can also play an important role in ensuring the business is digitally fit for the future.

50%

confirmed that management/ownership transfers will happen in the next 5 years

6. Promote diversity: Ireland scores somewhat better on gender diversity than the overall global result, with an average of 25% of Irish family business board members being women compared to 21% globally. A number of studies have indicated that an organisation that appreciates the value of diversity is more likely to attract and

25%

of board representation are female



retain engaged staff, and foster creativity and entrepreneurship, which in turn should help to drive the business forward. And of course, in the context of recognising the importance of values, having a diverse and inclusive organization is not only good for business but is the right thing to do.

7. Think about private equity as a source of funding: A third of respondents confirmed that they expect to be involved in a merger or acquisition in the next two years. But the source of funding for significant business growth may be changing. While bank credit and internal resources continue to be the main sources of finance for family businesses, there is growing recognition of the potential to access private equity, with 36% of Irish businesses confirming that they would consider bringing in private equity to help fund the business.

36%

would consider using private equity to help fund their business

We believe that the time has come for family businesses to view values, purpose and legacy through a lens that may be quite different to how they may have been viewed previously.

The current landscape for family businesses provides compelling reasons to adopt a more proactive approach to getting more return from a common set of values. It also recognises that fundamentally, values represent the “social capital” of a business and, as with other forms of capital, it is necessary to consider what constitutes an appropriate return on capital and how this may be achieved.

This report would not have been made possible without the contribution of Irish family business owners / managers who generously gave their insight, and time, to participate in the survey, which is greatly appreciated.

At PwC, our Entrepreneurial & Private Business team remains fully committed to working with Irish family enterprises to assist them in realising their full potential.

We hope you find our report interesting.

Key survey respondents findings: 2019 PwC Irish Family Business Report

80% believe that a clear sense of values and purpose led to increased revenues and profits

70% grew their businesses over the last year

86% are planning for growth in the year ahead

58% ranked Brexit as their biggest challenge

52% are concerned about key skills

64% do not have a fully costed, formalised and documented mid-term plan

40% feel they are vulnerable to digital disruption, compared to 30% globally

54% believe that they are vulnerable to cyber-attack, compared to 40% globally

40% will have taken steps to gear up digital capabilities in the next two years, compared to 57% globally

83% do not have a formal succession plan that is properly documented and communicated

50% confirmed that management/ownership transfers will happen in the next 5 years, but 34% have not involved NextGens in preparing for change

25% is the average female representation on Irish family boards, compared to 21% globally

36% would consider using private equity to help fund their business, compared to 39% globally





1

Agree family
values for better
business

80%

of Irish family businesses said that having a clear set of values and purpose increased revenue and profitability; 79% said that it made the business more attractive to potential joiners

79%

of Irish family businesses confirmed that they had a clear sense of agreed values and purpose, but just 35% articulate these in writing

A clear sense of agreed values benefits family businesses in many ways.

The values of an organisation are the operating beliefs and principles that guide behaviour among not just the leadership but also its employees. These concepts are often manifested in the organisation's culture.

They affect not just what you say but also what you do. For example, the family might collectively agree on some of the following: the need for community investment, trust and cohesion among family members and employees, the respect with which people should be treated, the environmental quality of the output, the need for honesty with customers or any number of other values. Genuinely held values become ingrained in everyday practice: the deals made, interaction with suppliers, products and services launched, and ways of managing and motivating employees.

Organisations that are managed with strong values, a clear purpose and an eye for legacy are more likely to build trust and loyalty among staff, suppliers and customers, and will have greater resilience during downturns. This is why family businesses are often viewed as more trustworthy than other organisations.

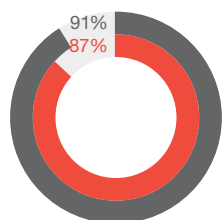
This research reveals that eight out of ten Irish family businesses have a clear sense of agreed values and purpose, which is the same as the global response rate. But just over a third (35%) had the family values and mission for the business articulated in writing, well behind their global peers at 49%. This is a missed opportunity to create value.

The research highlights the clear benefits of having agreed values and purpose. For Irish businesses with 10% or more annual growth, 91% had a clear sense of agreed values and purpose, compared with 75% among those with a lower growth rate.

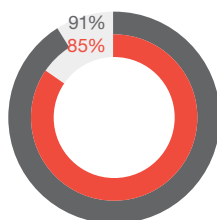
Irish family businesses also saw greater benefits than their global peers across all areas as a result of having a clear set of values and purpose. For example, 80% of Irish businesses said that having a clear sense of values and purpose directly increased their businesses' revenue and profitability, compared with a global response rate of 70%. Other benefits included improved business reputation and staff retention, increased brand awareness, recruitment and creating competitive advantage, all of which scored more highly among Irish respondents than with their global peers.

Chart 1.1. For those who had a clear sense of values and purpose, what impact did these have on the business?

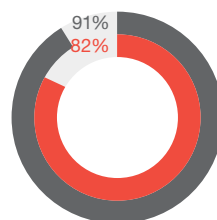
● Ireland 2018
● Global 2018



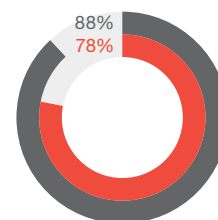
Improved the business's reputation in the market and with customers



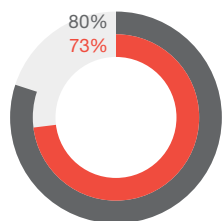
Made the business a happier place for employees to work



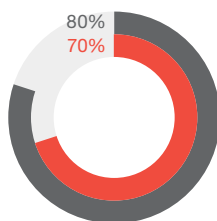
Improved the business' staff retention



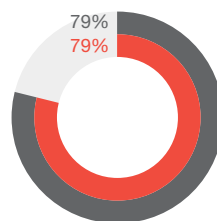
Increased sustainability



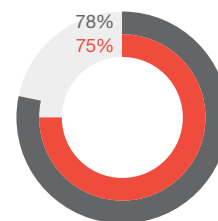
Increased brand awareness



Increased the business's revenue and profitability



Made the business more attractive to potential joiners



Created a competitive advantage

Embedding values

As decision making grows more complex during an accelerated pace of change, family businesses need more than ever to implement guidelines and tools to embed their values as a way to make better decisions. Indeed, living up to agreed values and purpose is the best risk management

system a family business can put in place.

One longstanding Irish business that clearly recognises the value of its values is Musgrave.

“Successful family businesses invariably promote robust, well understood values that inform everything they do. This is because strong values serve to set these businesses apart, requiring colleagues to think and act differently towards each other, their brands and the business as a whole.

We’re tremendously proud to be a sixth generation family business. Our family structure and our values have made possible many of the investment decisions that have sustained our business over the past 140 years.

Our Musgrave values are about long-term stable relationships, not being greedy, honesty, working hard and achievement. They impact everything from governance, to how we work with suppliers and how colleagues around the business work with each other.

At the heart of the Musgrave brand is a simple, inspiring purpose that clearly defines what we do and why we do it – growing good business.

Growing is important because ultimately growth is what drives a living, breathing organisation. But good business, underpinned by a strong set of values and doing the right thing, will help sustain this growth for the long term.

At Musgrave, our values bind us together in delivering on our purpose.”

**Chris Musgrave, Vice Chairman and Family Shareholder,
Musgrave Group plc.**



Insight:

Five principles for getting value from your values

By John Dillon, Leader, PwC Entrepreneurial & Private Business

1 **Be specific** about your values: name them, write them down and act on them. Do this with the full involvement of family members. This will strengthen not only your family unity but help you make better decisions for the family business. Align your values to your stated purpose as a family owned enterprise.

2 **Communicate** your values internally and externally to stimulate your potential family business advantage. Many family businesses have values, but they don't always talk about them. You can't get value from your values if you don't communicate and live them - and do it consistently.

3 Develop business principles and **a code of conduct** that brings your values to life. This helps build trust and credibility internally and externally and open doors for new business partners, customers and talent.

4 Put values at the forefront of your recruitment efforts and embed them within all your people. Displaying your values in a real way gives people a sense of your **culture**, and is a good way to attract and retain the best talent for your business.

5 Focus on value creation along this entire value chain, ensuring that you work according to **shared ethical standards**. Your values have a mutually reinforcing impact beyond your own business, and can help develop and sustain lasting business relationships.



Irish family businesses rank behind their global peers when it comes to documenting their purpose

Our research reveals that 60% of Irish family businesses had a documented vision and purpose statement (Global: 68%). In our experience, a family business without a well-defined common purpose is unlikely to reach its full potential.

Family businesses need to be clear about what will make them stand together for the next 20-30 years and into the next generation.

The purpose of an enterprise is its reason for existence: the expectations held on the products and services provided, why those create value and what the business will do with the value created. The family originally founded or acquired

the business for a purpose, and unless that has changed, the business is still here to realise that purpose. If the original purpose is no longer relevant, or needs to be adjusted to accommodate, say, a community or social purpose, it should be redefined so that the revised purpose is now evident.



2

Document 'purpose' for long-term survival



Insight:

Five principles for pursuing purpose

By Ger O'Mahoney, Consulting Partner,
PwC Entrepreneurial & Private Business

1 Purpose defines your **'licence to operate'** beyond generating revenue. Be clear on the problems your business is committed to solving, and the kind of value you want to generate for your customers, employees, stakeholders and society. Purpose clarifies, simplifies and energises your organisation.

2 **Define the link** between your products and services and the company's purpose.

3 **Focus on real and sustainable value creation** according to your defined purpose along the entire value chain. Consider the impact on your business model and leave room for necessary adjustments.

4 Apply and monitor Corporate Social Responsibility (CSR) principles and **define key non-financial performance indicators** that support you better in long-term decision making to achieve your goals and support your family business brand.

5 **Communicate** your defined purpose internally and externally, as well as what you are doing to achieve it. This will help you align and unify various stakeholders, strengthen your employer branding and bring your competitive advantage to life. Customers relate to, and engage more, with purpose driven enterprises.

3

Have a 'fit
for growth'
strategy



Irish family businesses remain in robust health, with levels of optimism about future growth being high.

Almost three out of four businesses (70%) said that they had experienced sales growth in the last year and, when compared with the 22% who reported growth back in 2009, this indicates how far Irish business has come since the onset of the recession. The pace of this growth, however, was behind global growth, with only 25% of Irish respondents reporting double digit growth compared to 34% globally. This may be a sign that Brexit is holding back activity in Ireland or could be indicative of other structural constraints, such as availability of finance, skills, infrastructure, etc.

70%

of Irish respondents grew their businesses by at least 3% over the last year, including 25% who achieved double digit growth.

Looking to the future, a large majority (86%) of Irish family businesses plan to expand their businesses in the next two years, with one in six (15%) planning fast and aggressive growth. However, when you compare projected growth with actual growth achieved in recent years, the survey

highlights a results gap.. In 2016, nine out of ten (91%) Irish family businesses projected sales growth over the following five years but, in 2018, only 70% said that they had achieved sales growth in the last year.

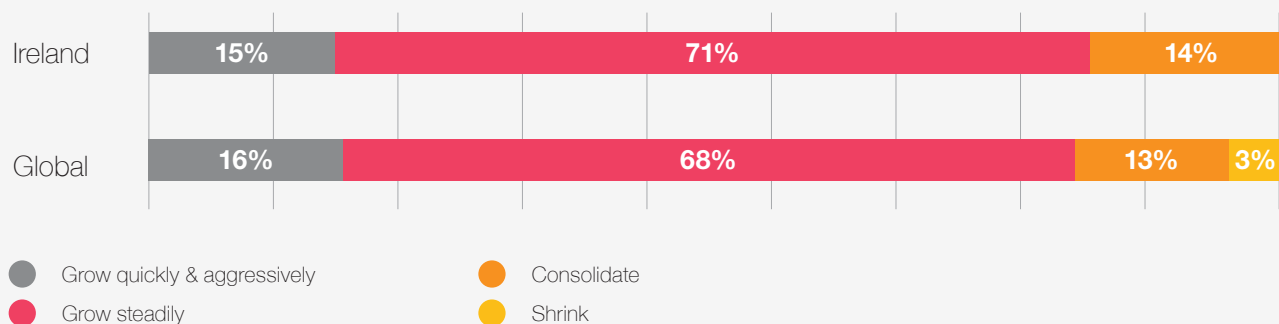
This confidence is against a background of Ireland's economy continuing to show robust performance, with almost full employment for the first time in ten years and an economy that has grown faster than the European average for the last number of years. However, in the context of our small open economy, there are clear challenges, most notably Brexit, which is likely to cause a major disruption if a no-deal outcome materialises. Other challenges include geopolitical risks such as the changing tax landscape and rising protectionism, while fluctuating oil prices and an urgent need to address climate change may increase the future cost of doing business. Nevertheless, our exports remain strong and consumer spending is holding up to date.

25%

of Irish respondents achieved double-digit growth over the last year.

Future Growth

Chart 3.1: Growth aims over the next two years

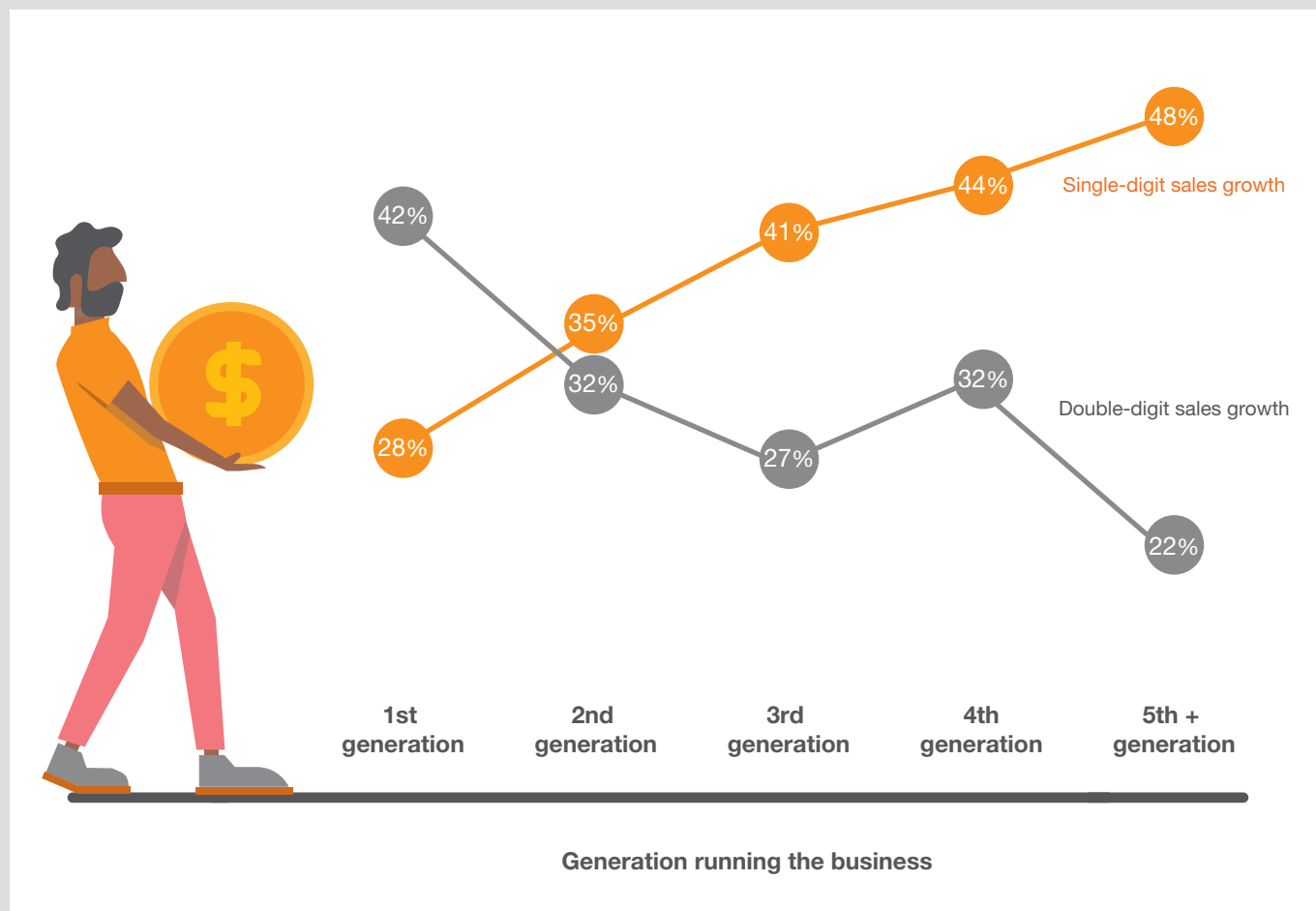


In our experience from speaking to family businesses around the world, organisations showing the strongest growth and the greatest optimism about the future tend to be first generation businesses. As businesses move into later stages of maturity, more tend to report single-digit rather than double digit growth.

86%

plan for growth in the year ahead with 15% planning to grow quickly and aggressively

Chart 3.2. Growth rate by generation running the business (global family businesses)



Source: PwC Global Family Business Survey 2018

Values, purpose and having a clear strategic plan are critical for sustaining growth

64%

of Irish family businesses do not have a formalised strategic plan (Global: 51%)

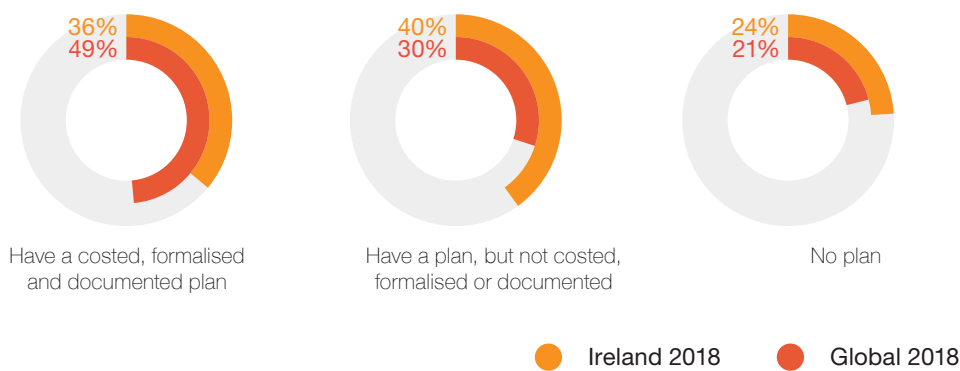
Reconciling optimism with the prevailing concerns may seem challenging. A big insight that emerges is that those family businesses that are actively pursuing their values and purpose and nailing down a clear strategic plan are leading the way. Specifically, respondents who said they had delivered 10% or more annual growth tend to have consistent attributes. For example, in Ireland 91% of respondents who reported double digit growth said they had a clear sense of agreed values and

purpose, compared to 75% of those that had lower growth. 47% of the higher growth businesses intend to make significant strides in digital capabilities, compared to 38% of businesses with lower growth. And 41% of double digit growth businesses had a fully costed, formalised and documented strategic plan, compared to 34% of the lower growth group. These statistics highlight that it pays to take an active approach to values and purpose, and to formalise the strategic plan for the business.

It pays to plan ahead. In our experience, mid-term strategic planning – over a three-to-five year time frame – is often the biggest piece of the puzzle missing for family businesses. A quarter (24%) of Irish family businesses reported that they did not have a strategic

plan at all for the next 3-5 years. Four out of ten have a plan in mind, but it's not well advanced. Together, these groups represent about two-thirds (64%) of Irish family businesses, and as a whole, they are at risk of not achieving their full growth potential.

Chart 3.3. Does your organisation have a strategic plan for the next 3-5 years?

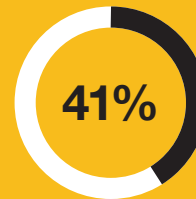


The remaining third (36%) are those with a formalised and documented strategic plan. They will be more likely to have high-growth

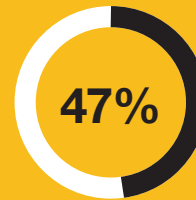
businesses and be more successful in other areas.



Chart 3.4. Behaviours of Irish family businesses with 10% + growth



have a fully costed, formalised and documented strategic plan
(vs. 34% for lower growth businesses)



are aiming to make significant steps in terms of digital capabilities
(vs. 38% for lower growth businesses)



are aiming to earn the majority of revenues from new products or services
(vs. 13% for lower growth businesses)



have a clear sense of agreed values and purpose as an organisation
(vs. 75% for lower growth businesses)



have a robust, formalised and communicated succession plan
(vs 18% for lower growth businesses)

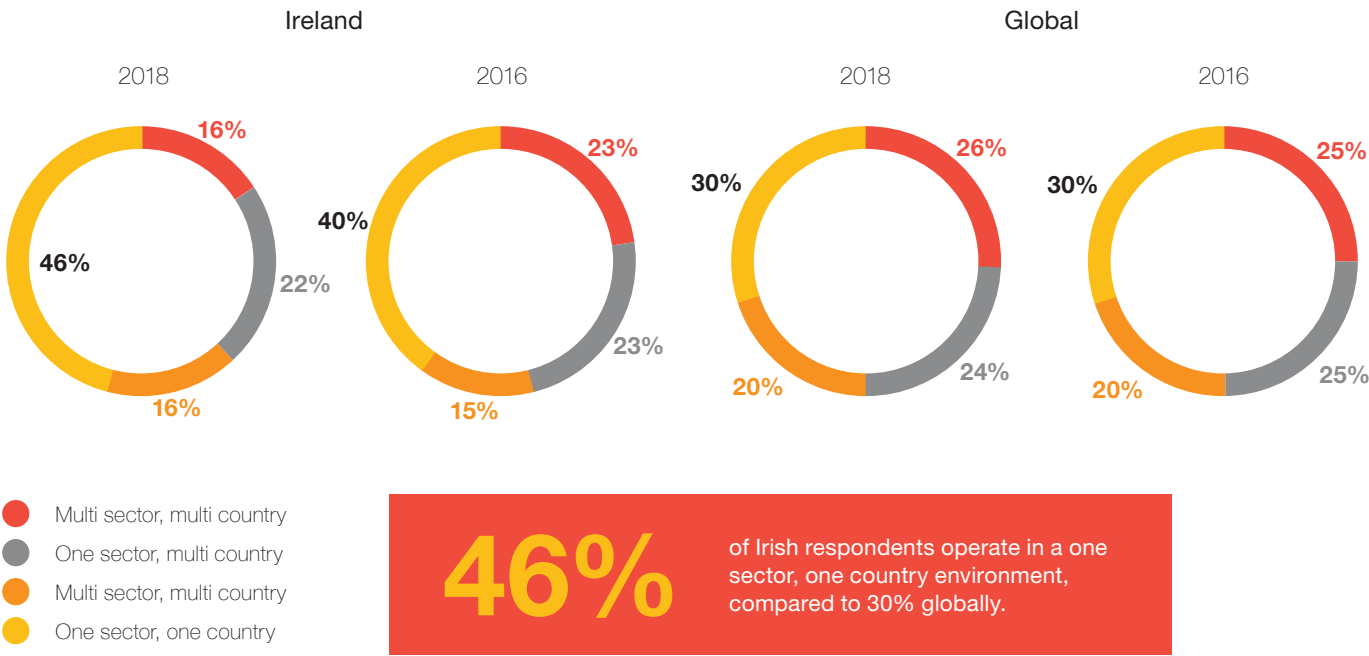
Irish firms can do more to internationalise their businesses

The survey highlights that when you look at how global family businesses operate, Irish firms can do more to internationalise their businesses, and given Brexit, now may be a time for greater focus on diversifying into foreign markets. Nearly half (46%) of Irish family businesses

currently operate in only one sector and one country, compared to less than a third (30%) globally. Foreign sales currently account for an average of 17% of all turnover for Irish family businesses (Global: 26%) and this is expected to increase to 23% in five years' time (Global: 33%).

Which statement do you think best describes how diversified your business is?

(% who said their business operates in one or more sectors / countries)



It is disappointing that the survey also reveals that less than a quarter (23%) of Irish family businesses scored 'internationalisation' as one of their top 2 business and personal goal compared to 37% globally. Less than one in three (29%) reported that they would be selling their goods and services in new countries in two years' time, compared to 38% globally. Overall, international competition was scored as a greater challenge for global respondents than

for Irish family businesses, perhaps because the global businesses are already tackling diversification head-on, have less dependency on a single overseas market and recognise the hurdles to a greater extent. The lower Irish response is of some concern in the context of Brexit, particularly given the fact that it was recognised as such a major challenge by the Irish respondents.

Brexit a key challenge for Irish family businesses

As in previous years, there is widespread recognition of challenges that may hold up future growth. Aside from Brexit, about which concern is significantly stronger in Ireland than in other territories, Irish family businesses were less concerned about many challenges than their global counterparts. Top of the Irish list is Brexit, with over half (58%) saying that the UK leaving the EU is the key challenge facing their organisations, compared to just one in ten (11%) of global family businesses. Other key challenges in

Ireland include accessing key skills (52%), the need to innovate and stay ahead (51%) and the overall economic environment (50%). When respondents were asked about their own business and personal priorities for the next two years, attracting and retaining the right talent and improving profitability were the most urgent (84%), well ahead of being more innovative (64%) and professionalising (55%) and internationalising (23%) their businesses.

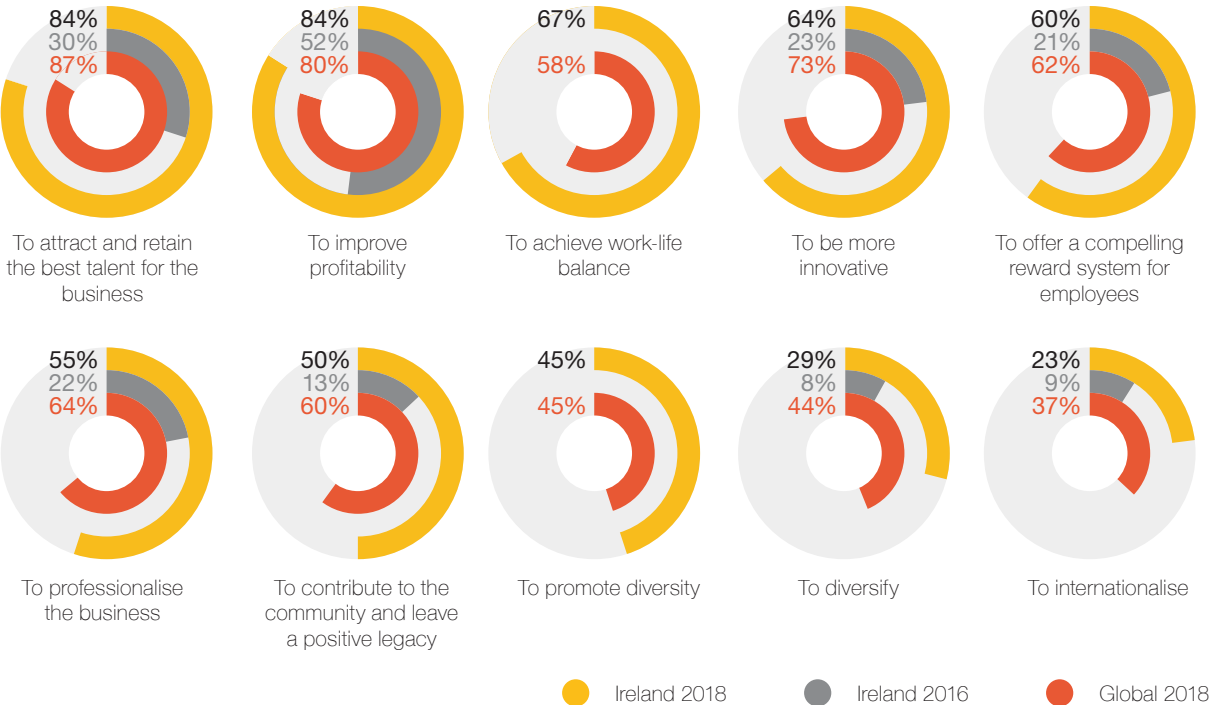
58%

concerned about Brexit

52%

concerned about accessing key skills

Chart 3.6. Personal and business goals scored as ‘very important’ in the next two years





Insight:

A focus on Brexit

By Owen McFeely, Consulting Lead,
PwC Entrepreneurial & Private Business

With the potential of a Hard Brexit never greater, the need for Irish family businesses to make strategic decisions related to their sourcing policies, as well as market expansion choices, beyond the UK is of critical importance.

Whilst focusing on the day to day running of the organisation is essential, taking a longer term view and positioning your business to win in new and challenging environments will be a key driver of future success.

Undertaking appropriate strategic analysis along with clear definition of your customer proposition will clearly position your business to win in 2019 and beyond.

5 must do actions to take now:

- 1 Analyse your existing supply chains** to identify key risks as well as potential competitive opportunities
- 2 Understand your competitor landscape** and ways to gain advantage through repositioning your organisation for growth
- 3 Engage with key customers** to understand their specific Brexit related needs and ways in which you can support them
- 4 Consider the need for contingency planning** which will minimise any supply chain delays on your business
- 5 Finally, undertake financial modelling** to understand the impact of Brexit on your business. Consider areas such as potential sterling devaluation, reduced UK revenues, increased costs driven by tariffs and new customs requirements and cash flow implications

Doing nothing is not an option



4 Step up digital capabilities



Leveraging the digital agenda is not just about IT. It is about a changed mindset, involving all of the business, needing specialised skills, and often demands a cultural shift

One of the more concerning findings of the survey is that, while Irish family businesses report higher levels of vulnerability to digital disruption and cyber-attack than their global counterparts, they are less likely to rank the issues, particularly digitalisation, as key challenges.

40%

feel they are vulnerable to digital disruption compared to 30% globally, and 25% in 2016.

For example, only 26% of Irish respondents ranked digitalisation as one of their top concerns, compared to 44% of their global peers. They are less concerned about data management (Ireland: 27%; Global: 39%), and less than one in ten (8%) see the growth of artificial intelligence and robotics as a challenge compared to 22% globally. Irish family businesses are almost as concerned about cybersecurity (36%) as their global counterparts (39%) and these concerns have escalated since our 2016 survey. (Ireland: 22%).

Chart 4.1. Key challenges facing your business over the next two years

	Ireland 2019	Ireland 2016	Ireland 2014	Global 2019
The UK's decision to leave the EU	58%	-	-	11%
Accessing the right skills and capabilities	52%	57%	43%	60%
The need to innovate to keep ahead	51%	58%	66%	66%
Economic environment	50%	49%	53%	56%
Domestic competition	47%	63%	-	49%
Regulation	41%	50%	45%	43%
Cybersecurity	36%	22%	-	39%
Prices of energy and raw materials	34%	-	-	43%
Succession	28%	32%	37%	33%
International competition	27%	28%	27%	38%
Data management	27%	-	-	39%
Digitalisation	26%	45%	-	44%
Professionalisation of the business	25%	36%	28%	41%
Access to finance	20%	-	-	25%
International tax reform	15%	-	-	16%
Conflict between family members	12%	8%	10%	14%
The growth of artificial intelligence/robotics	8%	-	-	22%
Corruption in countries where you operate	2%	4%	-	23%

54%

of Irish businesses felt vulnerable to a cyber-attack, compared to 40% globally

Are Irish family businesses doing anything about digital transformation? It seems that Irish family businesses will make less progress than their global counterparts on digitisation, but will put more of a priority into their people agendas. For example, in the next two years, four out of ten (40%) say they will have taken significant steps in terms of digital capabilities, compared to well over half (57%) of their global counterparts. The same proportion of Irish respondents (40%) will have brought in experienced professionals from outside the family to help run their businesses compared to 53% globally. And just 14% will have significantly changed their business models compared to 20% globally.

The fact that Irish businesses have ranked the need to access the right skills and capabilities, and to innovate to keep ahead, as two of their top three priorities, provides a complimentary opportunity to align this with a digital agenda, and up-skill their people and talent at the same time.



One group that recognises the importance of investment in IT, and digitalisation of business processes where possible, is Horkans, whose business now includes four garden and lifestyle centres, eleven Petworld stores and two online stores. Horkans.ie and Petworlddirect.ie . As fourth generation CEO John Horkan puts it.

“We needed to invest in digitalisation in order to ensure that the business is fit for purpose for the future. At Horkans our Core Purpose is “to help you live life better through your garden and with your pets”, and with over 90 years of knowledge and expertise we have a huge opportunity to inspire our customer and the wider community to use their garden to enhance their lifestyle and wellbeing. But with a poor IT and digital infrastructure we did not have the time to do this effectively. As a business determined to give the best service and advice to all our customers, we were struggling to meet expectations in the context of companies like Amazon who have raised the bar on what customers now require. We are delighted that our new digital platform is now fit for purpose and also has the capability to accommodate new development.

Our fundamental principle in designing our platform was putting our customer at its centre. Integrating our systems and automating our business processes has freed up staff time, and our customers can engage with us directly, online or a combination of both. The benefit of this is twofold - it gives time back to the customer, and it also enables us to spend more time analysing our data from a strategic perspective, so that we can continue to anticipate and meet customer needs – a better focus than processing paperwork to meet compliance and bureaucratic obligations.

We are very conscious of cyber-security as a big risk, and managing this and building in protection was part of our IT investment strategy. But it’s not all about the IT investment – it’s also about good communication and ensuing that we have a strong control framework. While the system facilitates having up to date policies and controls clearly accessible on a consistent basis, communication and training are really important to ensure that everybody understands their role and responsibilities, and how these are linked to our values and purpose.”

John Horkan, CEO and family shareholder, Horkans.



Insight:

Five principles for building a digital legacy

By Ronan Fitzpatrick, Digital Director, PwC Ireland

1 Accept the reality that, thanks to the digital revolution, **the world is different** from the one you have experienced in the past as a family business founder and owner. You might have to rethink your assumptions about the way your business creates value.

2 Remember that customers generate revenue, employees drive the experience. Digitisation can be used to make it easier to do business with your customers and to empower employees to bring higher customer satisfaction. **Maximise the human and machine relationship in customer experiences.** This also frees up your employees for additional value add.

3 **Use your data as an asset** to drive customer loyalty but **exercise caution over its security.**

4 **Recognise that the next generation in your family business** can play an important role in ensuring you are digitally fit-for-purpose – and so ensure your legacy in a rapidly changing world. **Accept that you need help. What better way to get help than from the next generation members of your own family?**

5 **Empower your next generation family members,** let them experiment and let them gain experience outside your business. Inculcate the family's values and those of the business into the new digital business you are building. Don't assume that by adopting digital strategies you somehow need to change your family or business values.

5

Greater focus on succession and NextGens



It's a significant time for NextGens. Over the next five years many of them will take on the management, governance and/or ownership of their family businesses.

The transition from one generation to the next, is exciting, and can lead to prosperous development of the business if handled well. But it's not without its challenges, and successful transition is not something that happens overnight.

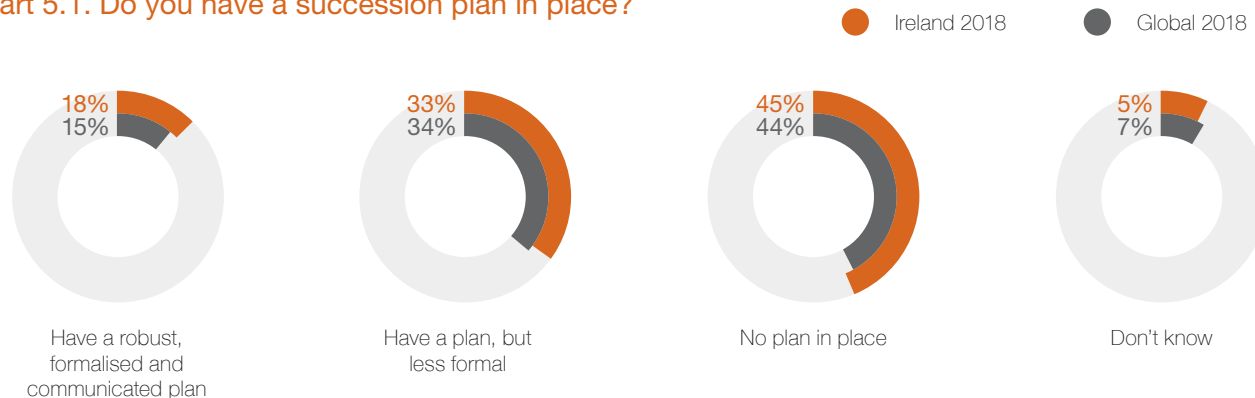
Earlier in this report we talked about the importance of articulating purpose, values and strategy for the business. These are important for any business but, for a family business, continuity depends on similar attention being paid to the purpose, values and strategy of the family itself,

and ensuring that those of the business and the family are aligned in the succession process. Call it what you will - succession, intergenerational transition, continuity planning – it is a process not an event, and the likelihood of success depends on these issues being properly discussed, agreed, documented and communicated, and plans implemented accordingly.

18%

of Irish family businesses have formalised succession plans, up from 10% in 2014 and ahead of global counterparts (15%)

Chart 5.1. Do you have a succession plan in place?



Irish family businesses have improved slightly, in terms of having robust, documented and communicated succession plans, over the last four years, and they are ahead of their global counterparts. But they still have a long way to go. Irish respondents are also ahead in terms of encouraging the next generation family members to get external experience and education. The survey results suggest that ownership and/or management transfers to NextGens will happen more quickly in Ireland than globally, but Irish family business leaders need to do more to involve the NextGens in the preparation for these changes.

The family business legacy will be determined to some extent by the way in which NextGens are encouraged to be involved. They need to be empowered and enabled to do the jobs allocated to them. It's also important to recognise the contribution that NextGens can make, particularly in this time of rapid changes in technology and ways of doing business, while ensuring that they are provided with the relevant support and guidance on issues about which they have less knowledge.

Interestingly, 72% of Irish family businesses reported that NextGen family members are expected or encouraged to gain experience outside of the family business (Global: 69%).

A similar proportion (72%) is expected or encouraged to be business graduates (Global: 59%). Respondents recognise that no organisation has a monopoly where innovation is concerned, and that it's better to learn from a broad base of experience.

50%

of Irish respondents said that the management/ownership handover to the Next Generation will happen within the next 5 years (Global: 40%)

According to the survey, nearly two-thirds (63%) of Irish family businesses have NextGen family members working in the business, with more than half of those working in the businesses being on their leadership teams.

69%

of those with a succession plan, stated that the plan had been discussed with other family members (68% globally).

Just over half (53%) of Irish family business leaders plan to pass on management and/or ownership to NextGens. And half (50%) confirmed that these management/ownership transfers will happen within the next 5 years (Global: 40%). Yet one in three (34%) who have made these decisions have not yet involved their NextGens in preparations for these changes (Global: 30%).

Interestingly, a third of our Irish respondents (36%) say they will not pass on the leadership and management or ownership to a NextGen (Global: 32%), indicating perhaps that many look beyond blood relations to match the skills fit for leadership – or are planning a different exit.

“Magee 1866 is a 5th generation family company with myself, two siblings and our father, Lynn, involved in different sectors of the business. Dad never put us under any pressure to join, but all three of us have by choice come back to work in Magee 1866. We have each previously worked in other diverse sectors, from engineering to the Irish Army to Christie’s Auction House in London.

I do think it is vital to have at least five years of exposure in other professional environments before returning to a family business. It gives you vital time to learn your own strengths and indeed weaknesses. Crucially, it allows the family member to return with a specific skillset to bring to a particular area of the business, like sales or operations. It is key to have a well-defined role, and I think this also promotes a better mutual respect between family and non-family employees in the business.”

Rosy Temple, Sales Development Manager, and family member, Magee 1866.



Insight:

Five principles for a forward-looking legacy

By Teresa McColgan, Tax Partner & NextGen Lead,
PwC Entrepreneurial & Private Business

1 Thinking about the family business legacy – and how the family can and should continue it – can often boil down to simply thinking about succession. But there is much more to think about. Legacy should involve a plan for leadership succession, board succession and ownership succession, all combined. Pulling all this together into a comprehensive, **formalised 'continuity plan'** really helps.

2 Build this up as your **forward-looking, mid-term strategic plan** for the business. Remember that the focus is broader than simply planning how you transition to the next generation and how they become the new managers of the business.

3 It's important to emphasise that **leadership succession is best handled through long-term strategy**, not tactically at the time when the successor is needed. When planned over five to 15 years, the family can find a variety of candidates – family and non-family – and give them training and opportunities to grow.

4 Board members with **broad industry perspectives** can prove helpful when navigating the vast amount of change that businesses are faced with today.

5 An ownership succession involves looking at the most effective ownership structure for the business and revisiting it regularly to determine whether adjustments or improvements should be made. **It is a continuous process rather than a one-off event.** It is something the leadership of a family should continually assess.



6

Promote diversity

Irish family businesses told us, aside from the challenge of Brexit, top of the list for our family businesses is people.

The top ranked challenges family businesses are currently facing, outside of Brexit, are accessing the right skills & capabilities and the need to innovate to keep ahead. Across many Irish markets and sectors there is a war for talent. Creating more inclusive and diverse organisations have never been higher on the people agenda.

It is crucial that family businesses map the skills they need for their business to continue to deliver their purpose and build their lasting legacy. To recruit a new mix of skills they will firstly need to reflect on their current organisational make-up and values, and consider the strategies required to be a more diverse and inclusive family enterprise. It may also be time to update recruitment models to make sure they reflect both the growth strategy and values of the business. Ultimately they will need to persuade potential recruits that, along with an attractive and rewarding career path, there are significant benefits to joining the business.

Family businesses have a great people track record: loyal workforce, great local reputation and good links into their communities. They need to think carefully how they can use it to their advantage.

45%

scored 'promoting
diversity' as very
important

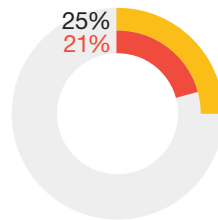


Nearly half (45%) of Irish family businesses scored promoting diversity as ‘very important’ over the next two years – a similar result to that of the global respondents (45%). No doubt that having a diverse and inclusive organisation is good for business, leading to better decision making and better business performance. This survey finds

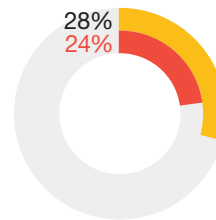
that Ireland is doing better than our global counterparts in many areas concerning the participation of women in family businesses, having proportionately more women on Irish boards and management teams as well as more NextGen women working in their family businesses than reported by global respondents.

Chart 6.1.% women on the team

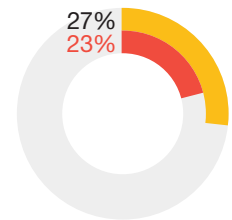
● Ireland 2018 ● Global 2018



% on the board
who are women



Average % of the
management team who
are women



Average % of next gen
working in the business
who are women

“A family business wishing to attract the best talent should ensure that they have representation from all walks of life. To obtain top skills and talent, family businesses should retain and develop women to empower them to overcome institutional challenges. Family businesses who achieve this will become a force to be reckoned with.”

Maura McAdam, Professor of Management, DCU National Centre for Family Business Director of Research



Insight:

Four principles for building a diverse and inclusive organisation

By Stephanie Good, Diversity & Inclusion Lead,
People & Organisation Consulting, PwC Ireland

Building a robust diversity and inclusion strategy, which ensures that everyone has an equal seat and voice at the table, enables your organisation to actively shape, both perception, and reality. When people from different backgrounds and with different points of view work together, the most value is created – for employees, customers and society. There is no ‘quick fix’ solution to diversity. Broad and sustainable progress across the entire organisation will only be achieved by combining a laser focus on leadership diversity, with substantive action, that drives an inclusive talent culture and talent systems from day one and from the ground up. This means establishing critical interventions that work throughout the whole talent lifecycle. Demonstrable and sustainable progress can only be achieved through a comprehensive change management approach that tackles behavioural, process and cultural transformation.

1 Diversity is more than gender – building a diverse and inclusive culture will ensure your family business is a destination of choice for top talent.

2 Uncertainty remains – take the first steps. For family businesses, the first step in building a diverse culture can start with the integration of NextGens into the business.

3 Expectations are growing – organisations that aren’t making diversity and inclusion a priority, are at risk of not achieving their full competitive advantage.

4 Mandatory reporting is going to become the norm – Although it is not yet clear when gender pay gap reporting will officially begin, draft legislation was published by the Irish government in June 2018. At the outset, reporting will likely only apply to businesses with 250 employees or more but over time the threshold will reduce. Taking action on diversity and inclusion in your business now is the best way to minimise the risk.



7

Think about
Private Equity as a
source of funding



More than a third of Irish family businesses would consider private equity

One in five (21%) Irish family businesses expect to be involved in a merger or acquisition with another Irish business in the next two years. Over one in ten (12%) expect to be involved in a similar transaction with a business outside of Ireland.

The survey highlights that the funding for

these activities may be changing. Family business leaders have traditionally viewed private equity investors as not necessarily compatible with their long-term strategies and values. But it looks like this is changing. While 74% of respondents continue to rely on banks for funding, more than a third (36%) of Irish family businesses reported that they would consider private equity. One in ten said they would consider venture capital.

Chart 7.1. Which of the following sources, if any, do you currently use to help fund the business?

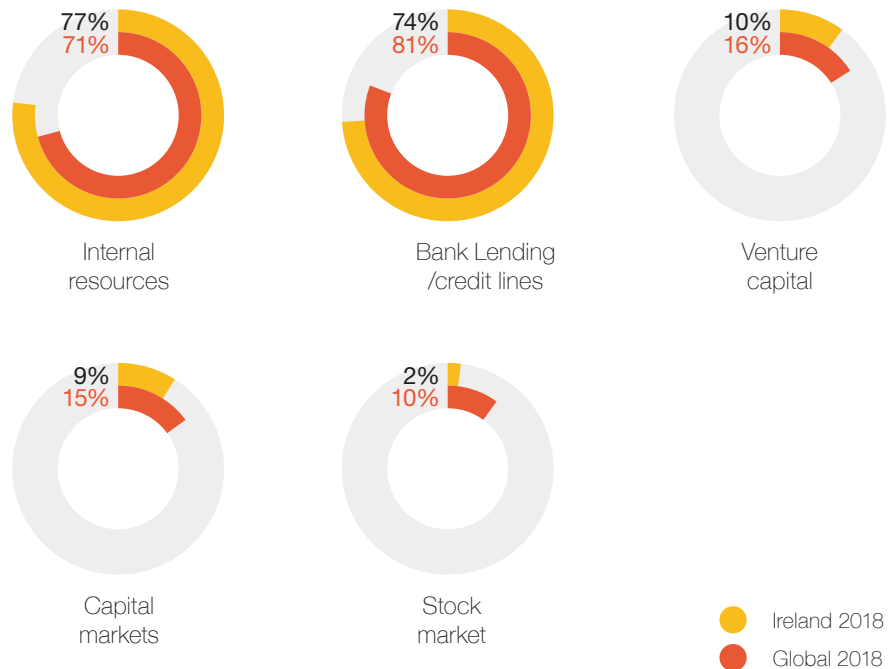
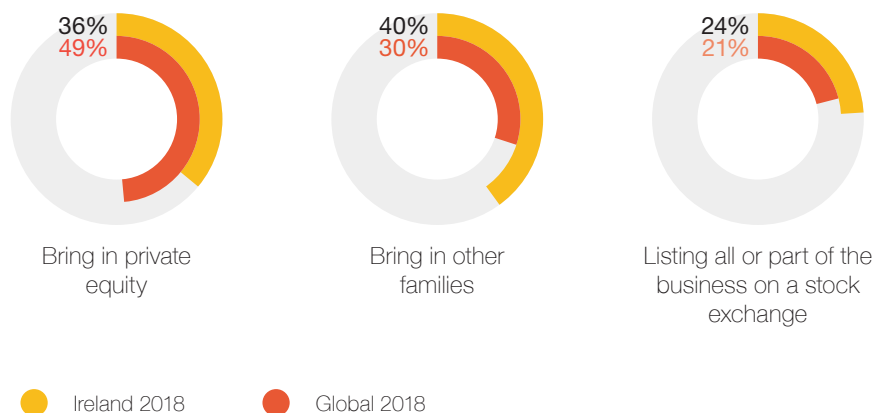


Chart 7.2. What actions would you consider, if any, to help fund the business?



With an increasing focus on the medium to long term, including professionalising the business and more robust succession plans, it is not surprising that Irish family businesses are looking for outside capital to fund the business.

Over the coming decades, trillions of dollars of wealth will be passed down from one generation to the next in the largest transfer of wealth in history. PwC estimates that globally, over the next few years, more than 350,000 family and private businesses will change hands as owners retire.

Those seeking to maximise growth often need a partner who offers more than money; helping to improve governance and procedures, adding a more challenging board member, expanding the network and eventually helping prepare the business for a successful exit or succession. The survey suggests that an increasing number of family businesses are starting to view private equity as a smart choice.



Insight:

Family business and private equity - a new perspective

Ken Tyrrell, Deals Partner, PwC Entrepreneurial & Private Business


1 Family businesses consistently deliver long-term, sustainable growth, underpinned by their focus on values and profit with purpose.

Yet the research we have undertaken over the last 14 years shows us that they don't always achieve the growth they aspire to. It also shows that **attitudes to leverage** – the taking on of debt – within the business **can be polarised**. A company's decision to take a prudent approach to debt is entirely understandable when the economy is coming out of a period of global recession. But are family businesses now ready for a period of more ambitious growth and a **refresh of views on fundraising**? Specifically, could it be time to look at the benefits of private equity in family businesses?

2 For many family business owners, there is an eternal triangle of conflict formed by the **desire to diversify outside the business**, the need to raise

capital for growth and the unwillingness to lose control. This trifecta might be fuelled by concerns that divergent views will lead to family conflict and challenges over how to recruit and keep important talent.

3 Historically, when we have asked family businesses how they might raise funds for diversification and growth, private equity would have been very much a 'minority sport.' But we are seeing a **shift of attitude on both sides**. On the private equity side, several global private equity houses are renewing their focus on the family business sector and carving out teams with the right skills and experience for the space.



2019 PwC Irish Family Business Survey: Conclusions

Our PwC Irish Family Business Report 2019, sets out a clear theme that harnessing values to drive purpose and build a lasting legacy has real value potential. It takes effort, formalisation and consistent action to bring this to life in a meaningful way.

At a time when Brexit and other uncertainties loom large, Irish Family Business owners remain confident and are predicting growth in their businesses. Keeping pace with a changing consumer, a move to greater digitalisation and a broader social contract will be important strategies to develop in the years ahead. Funding models may have to adapt to cater for future expansion plans and a move away from traditional sources of finance.

Managing through these challenges and retaining talent and family unity is not easy. A greater focus on formalised strategic planning, a recognition of the need to step up digital capabilities and a push for greater diversity – with a set of shared values and a defined purpose at the core for your family and your business – will help plan for the next generation.

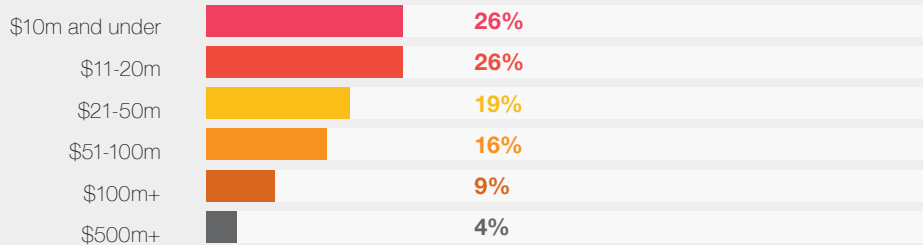
Theme	Key insight/ message	Implications for Irish family businesses
1 Values	Agree family values for better business	<ul style="list-style-type: none"> • Ensures family values are fully understood and communicated • Builds greater trust and loyalty with employees, suppliers, customers and stakeholders • Delivers greater growth potential
2 Purpose	Document 'purpose' for long-term success	<ul style="list-style-type: none"> • A family business needs a clear purpose to survive and succeed • Will strengthen employer brand • Defines your reason to exist
3 Growth	Have a fit-for-growth strategy	<ul style="list-style-type: none"> • Align family purpose with business vision • Formalised plans are needed to align goals, challenges and resources • Build in resilience for disruption
4 Digital	Step-up digital capabilities	<ul style="list-style-type: none"> • Promotes innovation and talent management • Reduces vulnerability to digital disruption, cyber risks, and competition
5 Succession	Greater focus on succession and NextGens	<ul style="list-style-type: none"> • Ensures you get the best people with the right skills • Encourages NextGens to get experience outside the family business • Facilitates recognition of value that NextGens can bring in digital age
6 Diversity	Promote diversity	<ul style="list-style-type: none"> • Promoting diversity makes for better decision making • Diversity is more than gender, with inclusion being crucial
7 Funding	Think about private equity	<ul style="list-style-type: none"> • Private equity provides an alternative source of funding and can bring additional • Private equity can change the dynamic of the business and culture, and can bring additional sectoral expertise • Private equity presents new, and different, perspectives and challenges

Ireland— representation details

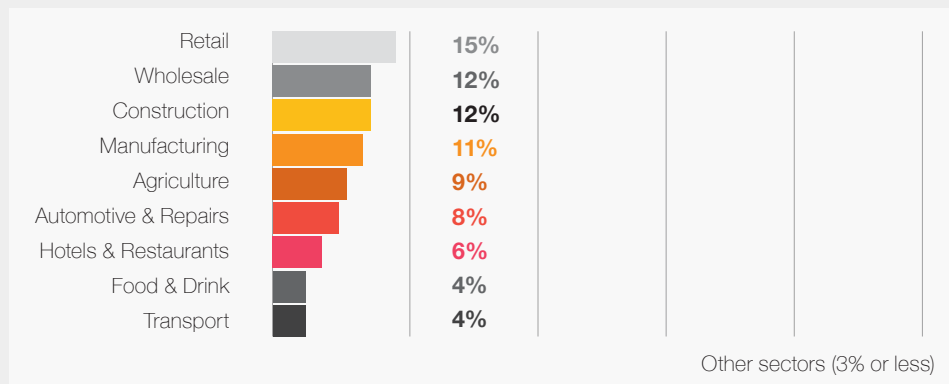
Methodology

An initiative of the Irish firm, this is the 9th PwC Global and Irish Family Business Survey. Globally, executives from over 2,900 family firms have participated in 53 countries. In Ireland, it represents the views of 129 owners/managers of family businesses across all key industry sectors.

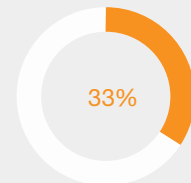
Turnover:



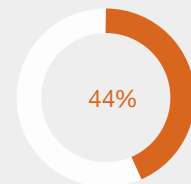
Sector:



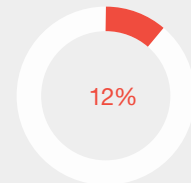
Number of generations:



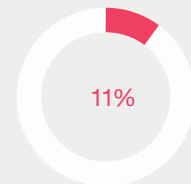
1 generation



2 generations



3 generations



4+ generations

Entrepreneurial & Private Business

We get that you want someone with you for the journey. Across the country, we work with entrepreneurial, family and private businesses to help solve important problems and achieve their growth potential.

We can help you spot opportunities for growth, manage risk, save money and create value, and will

work with you to put all the pieces together. We are focused on building long term relationships, based on honesty, trust and commitment, and helping our clients through the ups and downs.

We are your PwC.

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