The ‘Missing Middle’
Bridging the strategy gap in family firms
# Contents

1. Going for growth ................................................................. 04
2. Diversification ................................................................. 06
3. Digital and innovation ....................................................... 08
4. What makes family businesses different .............................. 11
5. Succession planning and family involvement ....................... 13
6. The ‘Missing Middle’ ........................................................ 19
7. Professionalising the business ............................................ 22
8. Gender balance ............................................................... 24
9. The lasting legacy ............................................................ 25
10. Survey methodology ....................................................... 26
We are delighted to present our 2016 Irish Family Business Survey of over 100 participating firms. The research is part of PwC’s 8th Global Family Business Survey of over 2,800 firms in 50 countries, and is our largest and most comprehensive family business initiative yet.

In 2012, the dominant themes were skills, scale and succession - in other words the practical day to day challenges. By 2014, this had evolved to focus on the need to professionalise: to sharpen up processes and institute robust governance for both the business and the family. Although progress is being made, this agenda is far from complete. For example, just one in seven Irish family businesses have a robust, documented succession plan.

Having an effective succession plan is critical in terms of creating the conditions for the next generation to be successful. This year’s survey shows that more Irish family businesses continue to have ambitious growth plans than their global peers, with over nine out of ten planning to increase sales in the next five years.

However, Irish family businesses are struggling more with innovation than their global counterparts. In benchmarking themselves against non-family businesses, half of Irish respondents believed family businesses to be less open to new ideas; the global equivalent is significantly lower, at 34%. Similarly, less than a third of Irish respondents believed that family businesses are prepared to take on more risks than non-family businesses, by comparison with the global average of 40%. On diversification, almost 80% of Irish survey respondents expect the majority of new revenues to come from existing markets and products. When it comes to digital, just over half say that they have a strategy that is fit for the digital age.

This year we see a more fundamental shift: from the short term and the tactical, to the medium term and the strategic. Successive surveys, both Irish and global, show us that family businesses are not achieving their projected growth targets. The challenge is in the middle: having a strategic plan that links where the business is now to the long term and where it could be. That is what we call the ‘Missing Middle’.

Family firms may lack the skills to develop a robust strategic plan, and may not even know what such a plan needs to look like. Likewise, some family business owners assume that ‘thinking in generations’ means that the medium term will somehow look after itself, but it won’t.

What is clear is that family firms remain a vital part of Ireland’s economy and are a primary driver of job creation. We’re committed to working with family businesses to help them tackle the challenge of the ‘Missing Middle’ and to support them in securing the long term future of their businesses.

We hope that you find the report interesting.

Paul Hennessy
Family Business Leader
PwC Ireland
1. Going for growth

Going for growth with ambitious plans

The survey highlights that Irish family businesses had a strong business performance over the last financial year with nearly three-quarters (71%) experiencing sales growth. Their global counterparts experienced more subdued growth with 64% reporting a sales increase last year.

Looking forward, Irish family businesses are confident about growth with 91% expecting sales increases over the next five years; nearly one in five (18%) say that they will grow aggressively in the next five years. However, successive surveys show us that only a small proportion of Irish and global family businesses actually achieved their very ambitious growth targets. For example, many struggle to find or develop the skills they need and others are hampered by a lack of funding. In Ireland, 59% (Figure 11, Page 12) say that they find it hard to recruit and retain top talent compared to 48% globally. Others find themselves mired in family disputes which absorb the family’s time and energies.

Figure 1: Growth aims over the next five years

- Grow quickly and aggressively
- Grow steadily
- Consolidate
- Shrink

2016 Ireland
- 73% Grow quickly and aggressively
- 18% Grow steadily
- 9% Consolidate
- 2% Shrink

2016 Global
- 70% Grow quickly and aggressively
- 15% Grow steadily
- 13% Consolidate
- 2% Shrink

2014 Ireland
- 76% Grow quickly and aggressively
- 10% Grow steadily
- 11% Consolidate
- 3% Shrink

2014 Global
- 70% Grow quickly and aggressively
- 16% Grow steadily
- 13% Consolidate
- 2% Shrink

2012 Ireland
- 63% Grow quickly and aggressively
- 14% Grow steadily
- 17% Consolidate
- 6% Shrink

2012 Global
- 69% Grow quickly and aggressively
- 12% Grow steadily
- 16% Consolidate
- 3% Shrink
Financing – own capital is key

In Ireland, over a third (37%; Figure 11, Page 12) feel that it is harder for family businesses to access capital compared to other businesses. Finance is a recurring issue for family businesses and is an area of concern flagged consistently in our family business surveys. Among those Irish family businesses expecting to grow by 10% or more, the vast majority (92%) will rely, at least in part, on their own capital to fund growth (Global: 76%).

This may suggest a greater preference by Irish family businesses to finance growth themselves rather than relying on banks or external investors who might want a measure of control. It may also be the case that some family businesses are forced to draw on their own resources because other types of finance are either unavailable or too expensive. As John Dunne, partner PwC Irish Family Business Practice, points out, “Making the decision to go to the capital markets for funding, or to look for other private investment, is also a complex process with significant implications for the owners of the business. Family firms need to ensure that their funding is on the right terms and that its source is secure if circumstances change. This is an important element of the strategic planning that is needed to achieve desired growth levels.”

Figure 2: For those planning to grow more than 10% annually for the next five years, how do you plan to finance this future growth?

<table>
<thead>
<tr>
<th></th>
<th>Ireland</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own capital</td>
<td>92%</td>
<td>76%</td>
</tr>
<tr>
<td>Bank loan</td>
<td>42%</td>
<td>63%</td>
</tr>
<tr>
<td>Equity financing</td>
<td>13%</td>
<td>35%</td>
</tr>
<tr>
<td>Debt financing/capital</td>
<td>19%</td>
<td>31%</td>
</tr>
<tr>
<td>Other</td>
<td>15%</td>
<td>14%</td>
</tr>
</tbody>
</table>
2. Diversification

The report highlights a lack of emphasis by Irish family businesses on diversification. For example, Irish firms expecting to grow by more than 10% anticipate that growth will primarily be achieved through expanding their core business in existing markets (94%) coupled, to a lesser extent, with growth in new markets (44%). Global family businesses, on the other hand, expect greater reliance on growth in new markets, sectors and acquisitions. Over three-quarters (78%) of responding Irish family business expect to earn the majority of their revenue in five years’ time from existing products/services.

Figure 3: For those planning to grow more than 10% annually for the next five years, what areas will play a big role in growth?

<table>
<thead>
<tr>
<th></th>
<th>Ireland</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing core business in existing markets</td>
<td>94%</td>
<td>85%</td>
</tr>
<tr>
<td>New countries</td>
<td>44%</td>
<td>52%</td>
</tr>
<tr>
<td>Acquisition/s</td>
<td>25%</td>
<td>45%</td>
</tr>
<tr>
<td>New sectors</td>
<td>35%</td>
<td>41%</td>
</tr>
</tbody>
</table>
According to the survey, international sales currently account for a quarter of Irish family business turnover, and are predicted to account for 30% in five years’ time. But as similar numbers were returned in our 2012 and 2014 surveys, anticipated international sales increases are not being achieved. Given the very uncertain business and geopolitical environment, economic and political stability was the single most important factor in deciding on export markets.

Overall, the message is clear: whether it’s growth, diversification or internationalisation, the ambitions of family firms remain constant but are not being fully realised. Something is holding these businesses back. In our view, that missing piece is a robust strategic plan that links the future with the here and now, and you can read more on this in Section 6 of this report.

“Internationalising the business is critical to achieving the growth strategy. It’s a priority for Colourtrend to target new markets. A challenge for small businesses is that you have limited resources. You need to make smart decisions about where and how you invest. It’s important that you look at your route to market, your distribution channels and that you develop a network of potential partners. It’s critical that you understand your unique selling points.”

Rachel O’Connor
Business Development Manager, Colourtrend

---

**Figure 4: Future direction of the business in five years’ time**

<table>
<thead>
<tr>
<th></th>
<th>Ireland</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will earn majority of revenue from same products/services</td>
<td>78%</td>
<td>72%</td>
</tr>
<tr>
<td>Will bring in non-family professionals to help run the business</td>
<td>61%</td>
<td>61%</td>
</tr>
<tr>
<td>Will establish new entrepreneurial ventures</td>
<td>41%</td>
<td>54%</td>
</tr>
<tr>
<td>Will sell in new countries</td>
<td>36%</td>
<td>44%</td>
</tr>
</tbody>
</table>

**Figure 5: International sales – average % of all sales**

<table>
<thead>
<tr>
<th></th>
<th>Ireland 2016</th>
<th>Ireland 2014</th>
<th>Ireland 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Now</td>
<td>25%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>In five years’ time</td>
<td>30%</td>
<td>30%</td>
<td>26%</td>
</tr>
</tbody>
</table>

**Figure 6: Important factors when deciding on export markets**

<table>
<thead>
<tr>
<th></th>
<th>Ireland</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic/political stability</td>
<td>79%</td>
<td>73%</td>
</tr>
<tr>
<td>Size/growth potential</td>
<td>62%</td>
<td>61%</td>
</tr>
<tr>
<td>Proximity</td>
<td>47%</td>
<td>36%</td>
</tr>
<tr>
<td>Language/culture</td>
<td>37%</td>
<td>26%</td>
</tr>
</tbody>
</table>

78% say that majority of revenue will come from the same products/services
3. Digital and innovation

From our work with family businesses we see that family firms have struggled to change and find it hard to innovate. Less than a quarter (23%) of Irish family businesses scored the need to be innovative over the next five years as ‘very important’, a much lower response rate than the 32% of global family businesses acknowledging that need.

And yet, the majority (58%) of Irish family businesses rated the need for continual innovation to keep ahead as being a top challenge in five years’ time (Global: 64%). Judging from some areas of the research, one might believe that family firms are well positioned to make a success of innovation. But is this really true? Over half (57%; Figure 12, Page 12) tell us that family businesses are able to re-invent themselves with each new generation, a number that has increased steadily over the last four years (from 42% in 2012). At the same time, half (Figure 12, Page 12) of Irish family businesses say that they are less open, than non-family businesses, to new thinking and ideas compared to a third (34%) globally. Only 31% of Irish respondents (Figure 11, Page 12) believe that family businesses are willing to take more risks than non-family businesses (Global: 40%). Difficulty with innovation is also a common observation anecdotally amongst non-family CEOs and senior managers who’ve been brought in from outside. And the next generation also see this as a real challenge for the future success of the family firm, while acknowledging that they often struggle to make the case for change.

“Having a culture of innovation is vital. We are constantly innovating at Colourtrend and have invested heavily in R&D, including partnering with Universities. Our Innovation Forum has been a key initiative involving many of our people to put forward new ideas. We have a strong 63 year history of innovation with half of our revenues today being generated from products introduced in the last 5-10 years.”

Rachel O’Connor
Business Development Manager, Colourtrend
So what makes innovation a challenge for family businesses? One answer may be skills. Over half (57%) of Irish family businesses ranked the ability to attract and retain the right talent a key challenge in five years’ time (Figure 10, Page 10). This has been a key issue since 2012. It’s impossible to identify the ‘right’ people and skills without a clear strategic plan. This sets out the future direction of the business, and that in turn, will determine the range of skills and experience needed to achieve it.

**More opportunities from digital**

The ability to drive new technology is also important to enable innovation. Nearly half (45%) of Irish family businesses say that keeping pace with digital and new technology (Figure 10, Page 10) is a key challenge, up from 30% two years ago. The majority (61%) claim to understand the benefits of digital and have a realistic plan for measuring digital success (similar to global levels). Just over half (55%) of Irish family businesses believe that digital is integrated with their business culture and that they have a strategy fit for the digital age (53%). Perhaps most telling of all is that just one in four say they feel vulnerable to digital disruption, and only half (53%) have discussed this at Board level. As one family business leader said: “Every business is vulnerable in some way to digital disruption, and those who think they are immune will soon find out that this is not the case.” Less than half (45%) believe that their businesses are prepared for a data breach or cyber attack.

“‘The digital strategy is a challenge that lots of companies face. Having a digital strategy is a huge competitive advantage and can help you make smart decisions and see trends early. There are also huge benefits from digital marketing as you can interact with your customers in a whole different way. Cybersecurity is also a concern and investing in a digital strategy helps with that.’

Rachel O’Connor
Business Development Manager, Colourtrend
Other challenges for family businesses

Like other businesses, family businesses face a myriad of challenges, both short and long-term. In the light of Brexit, the changing tax environment and other external geopolitical risks, it is not surprising that Irish family businesses are concerned about market conditions, competition and exchange rates. Other longer term challenges not already mentioned and which are core to family businesses include professionalising the business and succession planning. These specific areas are dealt with at Sections 5 and 7 of this report.

Significant challenges over the next five years will include the need for both continual innovation and regulatory compliance while keeping pace with digital and new technology. It is clear that business sector competition is regarded as the key challenge faced by family businesses in the longer term. In terms of respondents’ personal and business goals over the next five years, many want to ensure the long term future of the business, improve profitability, continue to enjoy work and stay interested and ensure that the business stays in the family.

Figure 10: Key challenges facing your business in five years’ time:

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Ireland 2016</th>
<th>Ireland 2014</th>
<th>Global 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition in your sector</td>
<td>63%</td>
<td>n/a</td>
<td>56%</td>
</tr>
<tr>
<td>Need to continually innovate to keep ahead</td>
<td>58%</td>
<td>66%</td>
<td>64%</td>
</tr>
<tr>
<td>Ability to attract and retain the right talent</td>
<td>57%</td>
<td>43%</td>
<td>58%</td>
</tr>
<tr>
<td>Having to comply with regulators</td>
<td>50%</td>
<td>45%</td>
<td>42%</td>
</tr>
<tr>
<td>General economic situation</td>
<td>49%</td>
<td>53%</td>
<td>54%</td>
</tr>
<tr>
<td>Keeping pace with digital and new technology</td>
<td>45%</td>
<td>n/a</td>
<td>47%</td>
</tr>
<tr>
<td>Need to professionalise the business</td>
<td>36%</td>
<td>28%</td>
<td>43%</td>
</tr>
<tr>
<td>Market instability in countries you operate in</td>
<td>32%</td>
<td>n/a</td>
<td>38%</td>
</tr>
<tr>
<td>Succession planning within your company</td>
<td>32%</td>
<td>37%</td>
<td>34%</td>
</tr>
<tr>
<td>Increasingly international environment</td>
<td>28%</td>
<td>27%</td>
<td>36%</td>
</tr>
<tr>
<td>Containing costs</td>
<td>24%</td>
<td>43%</td>
<td>36%</td>
</tr>
<tr>
<td>Political instability in countries you operate in</td>
<td>22%</td>
<td>n/a</td>
<td>33%</td>
</tr>
<tr>
<td>Supply chain</td>
<td>22%</td>
<td>27%</td>
<td>25%</td>
</tr>
<tr>
<td>Cybersecurity threats</td>
<td>22%</td>
<td>n/a</td>
<td>24%</td>
</tr>
<tr>
<td>Conflict between family members</td>
<td>8%</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>Corruption in countries you operate in</td>
<td>4%</td>
<td>n/a</td>
<td>23%</td>
</tr>
</tbody>
</table>
Despite tough economic conditions and the accelerating pace of change, the family business sector in Ireland continues to be vibrant, successful and ambitious. These firms are a vital part of our economy, offering stability, a commitment for the long term and responsibility to their communities and employees. It is clear that family businesses offer the counterbalance to the short-termism of many public companies. Many believe that they have stronger cultures and values. The vast majority (80%) of Irish family businesses believe that they offer stability to the wider economy; 87% believe they look after their staff better and 73% believe they see success in broader terms than simply profit and growth. Likewise, well over half (63%) say that they take a longer-term perspective on decision-making and a similar proportion say that they make those decisions faster than their peers. Many also reported having an enduring entrepreneurial spirit. However, they also think that family businesses need to work harder to recruit and retain top talent.

But the absence of any significant change from survey to survey in areas like succession, globalisation, digital and innovation are causes for concern. Despite the extraordinary longevity of some individual family firms, the average life-span across the sector globally is three generations. Typically, only 12% globally make it that far and the number getting past four generations falls to as low as 3%(1). In some cases in Ireland, selling the business may be a conscious choice and a mark of success; but, for many, not surviving the transition to the next generation may be a sign of a family firm not achieving its long-term ambition.

Note 1: A study of management practices, carried out by National Bureau of Economic Research Family Business Alliance; October 2016.

63% say decision making is faster than in non-family businesses
### Figure 11: How family businesses differ from non-family businesses - % agreeing with statement

<table>
<thead>
<tr>
<th>Measure success differently – more than just profit and growth</th>
<th>Ireland 2016</th>
<th>Ireland 2014</th>
<th>Global 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>73%</td>
<td>71%</td>
<td>72%</td>
</tr>
<tr>
<td>Stronger cultures and values</td>
<td>71%</td>
<td>69%</td>
<td>74%</td>
</tr>
<tr>
<td>Decision making is faster/ more streamlined</td>
<td>63%</td>
<td>60%</td>
<td>71%</td>
</tr>
<tr>
<td>Take a long term approach to decision making</td>
<td>63%</td>
<td>70%</td>
<td>55%</td>
</tr>
<tr>
<td>More entrepreneurial</td>
<td>49%</td>
<td>43%</td>
<td>61%</td>
</tr>
<tr>
<td>Take more risks</td>
<td>31%</td>
<td>35%</td>
<td>40%</td>
</tr>
<tr>
<td>Need to work harder to recruit/retain top talent</td>
<td>59%</td>
<td>n/a</td>
<td>48%</td>
</tr>
<tr>
<td>Find it harder to access capital</td>
<td>37%</td>
<td>n/a</td>
<td>32%</td>
</tr>
</tbody>
</table>

### Figure 12: Strengths and weaknesses of family business – % agreeing with statement

<table>
<thead>
<tr>
<th>Support employment even in bad times</th>
<th>Ireland 2016</th>
<th>Ireland 2014</th>
<th>Global 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>87%</td>
<td>76%</td>
<td>74%</td>
</tr>
<tr>
<td>Add stability to a balanced economy</td>
<td>80%</td>
<td>72%</td>
<td>77%</td>
</tr>
<tr>
<td>Support family community initiatives/not for profit</td>
<td>74%</td>
<td>43%</td>
<td>66%</td>
</tr>
<tr>
<td>Re-invent themselves with each generation</td>
<td>57%</td>
<td>48%</td>
<td>57%</td>
</tr>
<tr>
<td>Less open to new thinking/ ideas</td>
<td>50%</td>
<td>47%</td>
<td>34%</td>
</tr>
</tbody>
</table>
5. Succession planning and family involvement

Nearly two-thirds (64%) of Irish family business owners revealed that they have no plans to pass on management of their business to the next generation. The survey further reveals that half of Irish family businesses have no succession plan of any kind, and only 14% have a plan that is robust, documented and communicated. Succession for family businesses is key to longevity and it is vital that there is a plan and that the next generation is bought-in to the plan.

The most obvious potential ‘failure factor’ for the family firm is the succession process. In this business model, the transition from one generation to the next is potentially divisive. There is no point in having detailed plans for business continuity, if the single most significant risk to this is not addressed.

Irish family businesses are less likely than their global counterparts to pass on ownership and bring in professional management (24% compared to 34% globally). They are more likely to sell or float the business (26% compared to 17% globally).

“Succession is a milestone for many family businesses. It’s a process that many family firms don’t go through very often. Internationally, the average tenure for owners/managers of family businesses is 23 years compared to 3 or 4 years for FTSE 500 companies. Succession needs to happen early. In my experience of dealing with over 1,500 family businesses, the one thing family businesses want to know is how to be multi-generational - how to pass on the business better than it was received. Having options for the next generation is important.”

Eric Clinton
Director, DCU Family Business Centre
Figure 13: Future ownership plans for the business

- 2016 Ireland: 36% Pass on management to next generation, 26% Pass on ownership but bring professional management in, 14% Sell/float, 15% Don’t know/other
- 2016 Global: 39% Pass on management to next generation, 34% Pass on ownership but bring professional management in, 10% Sell/float, 17% Don’t know/other
- 2014 Ireland: 31% Pass on management to next generation, 25% Pass on ownership but bring professional management in, 15% Sell/float, 25% Don’t know/other

Figure 14: Succession plans in place

- Yes, all senior executives: Ireland 2016 18%, Ireland 2014 16%, Global 2016 16%
- Yes, most senior executives: Ireland 2014 10%, Ireland 2014 15%, Global 2016 18%
- Yes, small number of senior executives: Ireland 2014 22%, Ireland 2014 13%, Global 2016 21%
- No succession plan in place: Ireland 2014 49%, Ireland 2014 55%, Global 2016 43%

Figure 15: Have a robust, documented and communicated succession plan in place

- Yes: Ireland 2016 14%, Ireland 2014 15%, Global 2016 15%
- No: Ireland 2014 86%, Ireland 2014 85%, Global 2016 85%
Five ways the current generation can support the next one

_Teresa McColgan, Tax Partner, PwC Irish Family Business Practice._

There are five key things the current generation can do to make sure that the next generation has the best chance of succeeding:

1. **Plan ahead**
The single most important success factor for succession is a good plan. That starts with detailed career and development planning for the next generation (“next gens”), so that they can get a wide range of experience and acquire the right skills. If possible, find ways for them to work outside your home market, as well as outside the family firm. This will help build their credibility if they do eventually decide to come back to the family business.

2. **Make it an opportunity, not a burden**
Many of the next gens are excited about the chance to work in the family firm and take it over one day. But make sure that they don’t feel expectation as a burden, and have the chance to make a free choice about their own future.

3. **Give them the chance to build something of their own**
Nearly half of those questioned in PwC’s next gen Great Expectations survey (www.pwc.com/nextgen) said that they would like to set up new entrepreneurial ventures to run alongside the main firm. Such ventures can be a wonderful way to give next gens their own area of responsibility, where they can learn, explore new ideas and gain vital skills. And who knows - those new ventures could evolve into the future for your firm.

4. **Understand where and when to let go**
Almost all next gens say that they would welcome continued support from their parents when they take over, and many talk with feeling about the mentoring they’ve received and the lessons learned. But there’s a fine balance between being there to help and never letting go. It’s an understandable wrench to step back from a business you’ve run, and in many cases built - 61% of next gens in Great Expectations acknowledge this as a challenge in their own family. So spend time discussing the exact shape of your future role, and find yourself something else to do beyond the business, so you won’t constantly be tempted to ‘just show up’.

5. **Address family governance**
One positive role the current generation can play is in relation to family governance. We all know how dangerous conflicts and misunderstandings can be in family firms, and 52% of next gens in our Great Expectations survey said that they were worried about the prospect of dealing with ‘family politics’. The older generation are ideally placed to help manage this, through both their experience and the ‘gravitas’ of age. So if your family firm hasn’t yet got to grips with family governance, or could benefit from a proper family constitution or family council, why don’t you take on this task yourself, so the next gens can concentrate on running the business.
Aligning family and business strategy

Over a third (36%) of Irish family businesses reveal that their family strategy and business strategy are not aligned. Every family has to find a way to reconcile the personal and professional, but the succession process can bring these two dimensions into direct conflict, with both the family and the firm at risk. Consequently, a well-managed succession process can be a rallying point for the family firm, allowing it to reinvent itself in response to changing circumstances and find new energy for growth, diversification and professionalisation.

To do this effectively, family businesses need to develop, implement and communicate a robust succession plan, and should do so as early as possible before the actual handover. This is even more important now, when many more people are having children later in life, which can mean that the next generation may not yet be ready to take over by the time the current owners would like to retire.

Succession planning is also very important where there are some family members working in the business and some not, which is the case for many families. A quarter (26%) of Irish family businesses have next generation family members who do not work for the business but have shares. Teresa McColgan, Tax Partner PwC Family Business Practice, points out that: “In many instances, issues like ownership and entitlement may not even have been discussed or considered, which means different people are making different assumptions about the future. We spend a lot of time with family businesses to work through a fair way forward, but the earlier this process can begin, the better for the continued success of the business, as it can prevent conflict and help the family become more unified for the future.”. This is very important when you consider that 26% of Irish respondents said that they had no procedure in place to deal with family conflict (global: 18%).

“We are very open about succession – a lot of people internally and externally have been involved in the plan. In particular, we have engaged with outside consultants, which has been a very important part of the process.”

Kevin O’Connor, Managing Director, Colourtrend

58% have non-family on the Board
Figure 16: The family and business strategies are completely aligned (% in agreement)

<table>
<thead>
<tr>
<th></th>
<th>Ireland 2016</th>
<th>Global 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>64%</td>
<td>69%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>21%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Figure 17: Next generation involvement in the family business

<table>
<thead>
<tr>
<th></th>
<th>Ireland</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior executives</td>
<td>58%</td>
<td>58%</td>
</tr>
<tr>
<td>Junior/middle management</td>
<td>34%</td>
<td>39%</td>
</tr>
<tr>
<td>Don’t work for the company – but have shares</td>
<td>26%</td>
<td>36%</td>
</tr>
<tr>
<td>Don’t work for the company – recompensed in other ways</td>
<td>22%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Figure 18: Non-family working in family businesses

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-family on the Board</td>
<td>58%</td>
<td>63%</td>
<td>65%</td>
<td>65%</td>
</tr>
<tr>
<td>Non-family share ownership</td>
<td>22%</td>
<td>30%</td>
<td>33%</td>
<td>34%</td>
</tr>
</tbody>
</table>
Ten steps to effective succession planning
– Secrets to successful succession...

John Dunne, Partner, PwC Irish Family Business Practice.

1. Get experience outside the family firm
As the business landscape becomes more complex, it is vital to bring a broad range of experience to the task of leadership. So develop a career plan with the next generation that involves working outside the family business, to allow them to acquire the specific skills the family firm needs.

2. Develop a strategic plan for the medium term
The next generation often sees the succession process as an opportunity to modernise the business, and there may indeed be a need to do this. But it’s important to make changes in the context of longer term objectives, which is why it’s vital to have a strategic plan, developed jointly by both the current and incoming generations and in consultation with all the shareholders.

3. Broaden the decision-making process
As the business passes from one generation to the next, it’s important to create an organisational structure which isn’t dependent on one single individual. Decisions need to be made collectively, and with proper information and preparation.

4. Strengthen the role of the Board
The Board has a key role to play in overseeing the succession process, and in ensuring that family members are only offered positions they are properly qualified to fill. Becoming a member of the Board is a useful way for the retiring generation to make an invaluable ongoing contribution.

5. Clarify what the retiring generation will do
The current generation needs to have a clear plan for their life after retiring. This will prevent misunderstandings, or the temptation to interfere. Taking on roles outside the family business – in the community, for example – can be both worthwhile and rewarding.

6. Start early
It’s vital to start the process as early as possible. Everyone needs to know what to expect, and what the timetable is, to avoid misunderstandings and unspoken tensions that could lead to outright conflict. This is especially important for family members who are going to be taking executive roles in the future. Our advice is always to transfer shares during the current generation’s lifetime.

7. Communicate, communicate, communicate
Decisions need to be made by a process of consultation and discussion, not dictated by the owner. Everyone with a stake in the future needs to have a say in it.

8. Do your homework
Make sure that you know the tax and legal implications of your succession plans. Depending on your circumstances and jurisdiction, some approaches may cause difficulties which may not be obvious until it’s too late.

9. Invest in education
The people who are going to be running the business need the right expertise to do that, but ownership demands specific skills too. Make sure all current and prospective shareholders are educated to become professional and competent owners.

10. Diversify your wealth
If the retiring generation rely entirely on the firm to provide a retirement income, that can put a disproportionate strain on the business. It can also make it harder for the older generation to ‘let go’, because their lifestyle is at stake. So build assets outside the family firm from an early stage.
6. The ‘Missing Middle’

More to do on strategic planning

What’s becoming clear – both from the survey results and from our work with owners of family businesses - is that the sector’s challenge with the succession process is just one example, albeit a vital one, of a much wider issue. Family firms are proud, and rightly so, of their willingness to take the long-term view, including their ability to think in terms of generations, rather than years, or even months. At the other end of the scale, family firms are as good as any other type of business at dealing with the everyday: the nuts and bolts of running a business. The challenge is in the middle: having a strategic plan that links where the business is now, to the long-term vision of where it could be. What is needed is a plan that looks beyond the next twelve months to a five to ten year horizon. That is what we are calling the ‘missing middle’, and is the reason why some Irish family firms fail to turn early promise into sustainable success.

Succession planning is a major factor in addressing the ‘Missing Middle’ and, as discussed in Section 5, half of Irish family businesses do not have a succession plan. Succession planning is essential to ensure that the aims of the owners and the family and the objectives of the firm are properly aligned over the medium to long term. Strategic planning and succession planning are inextricably linked.

Only 53% have a business plan fit for the digital age
Strategic planning – failing to plan means planning to fail

Some families are doing strategic planning well, but others are caught between the challenge of the everyday and the weight of inter-generational expectations. While some are fully aware that this is an issue - for example, only half (53%) believe that they have a business plan that is fit for the digital age - many lack the skills to take on the task and may not know where to start. But a strategic plan is not the same as a business plan, and a plan that isn’t documented, communicated, managed and monitored isn’t a plan at all.

“Family firms are good at executing a plan once they have one – they can follow a ‘roadmap’ and generally do that very well. It’s getting that map together in the first place that is the challenge. In Ireland we have seen this happen many times, both in relation to specific issues like implementing digital technology, and more widely in terms of strategic planning. In fact, you can often find family businesses that have plans covering specific issues – like technology – but no overall strategy linking them all together. There has to be one clear strategic plan, covering all aspects of the business, which is explicitly aligned to the family’s long-term objectives and plans. That has to start with vision and values: you need a shared vision of the objectives and agreed values to guide the decision-making process required to get there. Without these two elements, planning processes invariably flounder.”

Paul Hennessy
Family Business Leader, PwC Ireland

“The strategic plan and business plan must align. Succession needs to be clear, it needs to be communicated and it needs to have a process. The involvement of the next generation at an early stage is very important.”

Eric Clinton
Director, DCU Family Business Centre

“The succession plan is important in planning for the future. It sets out the requirements of the roles, skill competencies, development needs and timelines. It is constantly evolving and not limited to the Managing Director role. It’s also important for the team to know that we are planning for the future.”

Rachel O’Connor
Business Development Manager, Colourtrend

“Having a strategic plan is a given. You need a roadmap, as otherwise how do you know when, or if, you will get there.”

Kevin O’Connor,
Managing Director, Colourtrend
1. It’s about the ‘what’ not the ‘how’
A strategic plan is about setting your business goals over the medium term, and deciding the direction of the firm. A business plan is about the specific actions you need to take in the next twelve months, to make the strategic plan a reality. So having a good business plan is crucial, but it’s only half the answer.

2. Stand in the future and look back
Where do you want to be in three years? In five? Be absolutely clear about what the future looks like, and then work out what you need to do to get there – from your products and services, to your balance sheet, your working culture and your organisation.

3. Stand in the present and look around
Take a long hard look at the business as it is right now. Do you have a genuine competitive advantage? Are your ambitions realistic? What needs to change? Techniques like SWOT analysis can help you get an objective view of where you are internally, and you can also use PESTLE (political/economic/social/technological/legal/environmental analysis) to identify the external factors at play in your market. Porter’s five forces analysis is another useful way to assess issues such as the threat of new competitors entering your sector, or the likelihood of new game-changing products or services.

4. Invite input
Take a long hard look at the business as it is right now. Do you have a genuine competitive advantage? Are your ambitions realistic? What needs to change? Techniques like SWOT analysis can help you get an objective view of where you are internally, and you can also use PESTLE (political/economic/social/technological/legal/environmental analysis) to identify the external factors at play in your market. Porter’s five forces analysis is another useful way to assess issues such as the threat of new competitors entering your sector, or the likelihood of new game-changing products or services.

5. Be prepared for change
A rigorous planning process should challenge the way you’re operating today, and test its fitness for the new phase. It is doesn’t do that, it’s not doing its job. So be open to different alternatives, and new approaches, and accept that you may need to adapt your own personal role, as well as the way the business operates.

6. Set a timescale
A good strategic plan is like an itinerary – it’s about when you plan to reach the milestones along the way, as well as the final destination.

7. Assign responsibilities
The CEO and Board must take ultimate ownership of the plan, but specific elements need to be owned and driven by appropriate managers, supported by the budget and resources they need to succeed.

8. Translate the strategic plan into a business plan
Move from the strategic to the tactical by turning the first phase of the plan into a programme of action and implementation over the next twelve months.

9. Measure, monitor and adapt
As you implement the plan, assess how well it’s working, and whether it needs to be fine-tuned. Use objective KPIs to evaluate progress. Consider assigning responsibility to one person, perhaps a Board member, for monitoring and achieving the plan.

10. Communicate, communicate, communicate
Don’t just share the strategic plan, but the progress you’re making against it. This builds a shared sense of commitment, energy and sense of direction.
In 2014, our survey’s main theme was the professionalisation of the family business. This year’s results show that this area is still a challenge and more needs to be done. Over a third (36%) of Irish family businesses say that the need to professionalise the business is a challenge, up from 28% last year (Figure 10, Page 10). Every firm will eventually reach the point when it has to professionalise the way it operates, by instituting more rigorous processes, establishing clear governance and recruiting skills from outside.

This year’s survey also shows that not much progress has been made to establish processes to ‘professionalise’ the family. While some improvements have been made in areas like third party mediation and family Constitutions, other areas have fallen back, such as shareholders’ agreements, entry and exit provisions and conflict resolution provisions. At the most basic level, better processes and a clearer division of roles and responsibilities frees up time and space for the senior team to think and plan more strategically.

### Figure 19: Procedures/mechanisms in place to deal with family conflict:

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Ireland 2016</th>
<th>Ireland 2014</th>
<th>Global 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders’ agreement</td>
<td>50% ▼</td>
<td>58%</td>
<td>53%</td>
</tr>
<tr>
<td>Incapacity and death arrangements</td>
<td>39% ▲</td>
<td>38%</td>
<td>40%</td>
</tr>
<tr>
<td>Measuring and appraising performance</td>
<td>35% ▲</td>
<td>33%</td>
<td>40%</td>
</tr>
<tr>
<td>Third party mediator</td>
<td>32% ▲</td>
<td>20%</td>
<td>29%</td>
</tr>
<tr>
<td>Entry and exit provision</td>
<td>22% ▼</td>
<td>26%</td>
<td>30%</td>
</tr>
<tr>
<td>Conflict resolution mechanisms</td>
<td>20% ▼</td>
<td>21%</td>
<td>29%</td>
</tr>
<tr>
<td>Family Council</td>
<td>15% ▲</td>
<td>13%</td>
<td>34%</td>
</tr>
<tr>
<td>Family Constitution</td>
<td>11% ▲</td>
<td>7%</td>
<td>24%</td>
</tr>
<tr>
<td>None of these</td>
<td>26% ▲</td>
<td>22%</td>
<td>18%</td>
</tr>
</tbody>
</table>

26% have no conflict resolution mechanisms in place, behind the global average (18%)
The use of a ‘family office’ as a dedicated resource to manage and centralise the family financial and personal affairs is an emerging development, particularly in the UK where some family companies may be more established. An official ‘family office’ dealing with the affairs of family members, whether they are or are not fully involved in the family business can be a way of ensuring that the required processes and procedures are in place. It can also provide a meeting point, keeping issues away from the dinner table!

**Figure 20: Usage of a ‘family office’**
(We describe a ‘family office’ as being a dedicated resources to manage the family’s financial and personal affairs)

**Figure 21: Elements managed by the ‘family office’**

<table>
<thead>
<tr>
<th>Service</th>
<th>Ireland</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting support</td>
<td>65%</td>
<td>55%</td>
</tr>
<tr>
<td>Managing/advising on investments</td>
<td>55%</td>
<td>56%</td>
</tr>
<tr>
<td>Legal affairs</td>
<td>45%</td>
<td>37%</td>
</tr>
<tr>
<td>Property management</td>
<td>19%</td>
<td>43%</td>
</tr>
<tr>
<td>Advising on strategic direction of the business</td>
<td>16%</td>
<td>27%</td>
</tr>
<tr>
<td>Co-ordination of philanthropic activity</td>
<td>10%</td>
<td>23%</td>
</tr>
</tbody>
</table>

“**The family plan and the business plan must align. Many families have their business plans but a lot of families need to work out how to manage the family, including what are the rules of engagement, working inside and outside the family, having proper family councils and shareholders’ agreements.”**

**Kevin O’Connor,**
Managing Director, Colourtrend

“**It’s important that the business is run according to the needs of the business, rather than the needs of the family. Running the business should be like running a Plc. We have non-family members on the Board and continually look to best practice. The important thing is that the business continues and that you have the passion to take it forward.”**

**Kevin O’Connor,**
Managing Director, Colourtrend

“**The family plan and the business plan must align. Many families have their business plans but a lot of families need to work out how to manage the family, including what are the rules of engagement, working inside and outside the family, having proper family councils and shareholders’ agreements.”**

**Eric Clinton**
Director, DCU Family Business Centre
8. Gender balance

Gender balance - getting diversity right

We are seeing that businesses in general are much more conscious about diversity because it just makes good business sense and is the right thing to do. It has also been proven that having better diversity leads to better business decision making and performance.

The survey suggests that gender diversity is also a top priority for Irish family businesses. Half of respondents reported to have an active gender equality program in place. Globally, three-quarters confirmed that female and male next generation are considered equally for leadership positions.

“On the whole I would say that family businesses are more gender aware than public companies. There is no doubt that gender diversity results in all around better financial performance. They see the benefits of better employee engagement and better employee satisfaction. If you accelerate women, you accelerate the family business.”

Maura McAdam
DCU Family Business Centre

“It is important to us that we have a balanced team. At Colourtrend we have have a good gender representation at Board and Management level, as well as throughout the organisation.”

Rachel O’Connor
Business Development Manager, Colourtrend

Figure 22: Respondents having an active gender equality program in place

![Figure 22: Respondents having an active gender equality program in place](image)

- 2016 Ireland: 51% Yes, 49% No
- 2016 Global: 54% Yes, 46% No

Figure 23: Regarding the next generation taking over, are female and male next generation considered equally for leadership roles?

![Figure 23: Regarding the next generation taking over, are female and male next generation considered equally for leadership roles?](image)

- 2016 Global: 25% Yes, 75% No
9. The lasting legacy

Several family business leaders in Ireland want to ensure that they have kept the family business growing and left it in a better state for future generations. There is a strong sense, based on the comments given to us as part of the research, that family business leaders want to leave a legacy of fairness, honesty and hard work and for the business to have been a good employer within the local community.

What is this legacy

For the family/community:

• Financial security for the next generation
• To keep the business in the family, to have kept the family business healthy for future generations
• To safeguard employment/continue to create jobs for the local community
• That the business is a good place to work

For the business

• For the business to have longevity, to keep growing and be profitable for generations to come
• To pass the business on in a better state than when they started
• For some, to have put in place processes and management adaptations that help to future-proof the business
• To leave a personal legacy of having been decent, hard-working, honest and proficient

Some comments received included:

“I’d like to maintain a happy, family run business. I’d like to make sure it continues to remain busy and successful. Keeping a good company ethos and local employment high in our region is also important for me as a lasting legacy.”

(2nd generation, Ireland)

“My goals for the business are to grow the business strategically over the next twenty years and have a successful transition over to the next generation. Also have a strong company locally so we can create local employment that would benefit the local economy.”

(2nd generation, Ireland)

“To have been proficient, fair and leave the business in a better way than when I acquired it. To leave it with a stronger footing with a diversity of sectors and clients. Just ready proofing so if the company is sold or handed to a management company that it is better than how I came across it.”

(2nd generation, Ireland)

“I hope that it continues to be a successful business that keeps its longevity and profitability. I hope the company maintains a strong working environment both in the industry it operates and for the staff that work there.”

(1st generation, Ireland)
This is the 8th PwC Global and Irish Family Business Survey. Globally, executives from over 2,800 family firms have participated in 50 countries. In Ireland it represents 101 interviews with the owners/managers of family businesses across all key industry sectors.

**In Ireland – representation details**

**Figure 23: Turnover**
- 31% €10m and under
- 16% €11-20m
- 18% €21-50m
- 24% €51-100m
- 11% €101m and over

**Figure 24: Number of generations**
- 27% 1 generation
- 10% 2 generations
- 11% 3 generations
- 11% 4+ generations

**Figure 25: Sector**
- 25% Manufacturing
- 19% Wholesale
- 11% Retail
- 11% Construction
- 8% Business activities
- 8% Automotive
- 11% Hotel/restaurants
- 11% Other

---

1. Going for growth
2. Diversification
3. Digital and innovation
4. What makes family businesses different
5. Succession planning and family involvement
6. The Missing Middle
7. Professionalising the business
8. Gender balance
9. The lasting legacy
10. Survey methodology
Appendix

About Colourtrend

Colourtrend was established sixty three years ago in Celbridge, County Kildare and is Ireland’s largest, 100% Irish-owned and operated, leading-edge paint company. Colourtrend operates at the forefront of paint technology offering pure acrylic decorative paint and customised industrial coatings that are designed to apply smoother and last longer.

Colourtrend continually invites designers to keep the brand up to date on trends and to help create a palette of over 1,500 shades, from classic to contemporary, from neutral to vibrant. Colourtrend has its own research and development team which brings new innovations to market resulting in the best quality water-based products that are kinder to the environment, in shades that are inspired by the Irish landscape.

The Colourtrend Collections are available through company-owned Colourtrend Stores and in over one hundred and fifty carefully selected independent paint retailers across Ireland and the UK.

In 1950 Ronan O’Connor left Ireland and went to the USA to find work. A few years later he brought home leading-edge paint technology and founded Colourtrend paints in an old famine workhouse in Celbridge, County Kildare. Kevin O’Connor, Colourtrend’s current Managing Director, took over from his father almost thirty years ago.

Colourtrend’s Irish heritage inspires them to translate the elusive and pied colours of the Irish landscape and create a colour collection of Ireland’s richest associations, from a luminous gorse bush to a brooding sky. The company recently underwent a major rebrand emphasising the company’s rich heritage and premium product line.

Colourtrend has been in a major growth phase over the last few years. Staff numbers have grown to over eighty-five with all manufacturing, research and development done onsite in their listed premises. Colourtrend is also pursuing exciting expansion opportunities in the UK, US and Chinese markets.
About DCU Family Business Centre

The Centre for Family Business (CFB) was established in 2013 and is a recognized research centre within DCU Business School, which supports Family Businesses by producing high quality academic research, and by providing professional development opportunities for multi-generational family businesses. Recognised nationally as the leading Centre for Family Business, CFB is developing an international reputation as a centre of research expertise on family business.

The DCU Centre for Family Business facilitates the translation of leading national and international research to Irish family business practitioners through an extensive engagement programme. This improves the knowledge, skills and abilities of Irish family businesses by offering rich insights on best practice for family business management. The engagement programme consists of: family business engagement in research projects; events, seminars and interactive workshops with educational, academic and practical aspects; digital engagement through quarterly e-newsletters, website and social media.

The DCU Centre for Family Business also provides a platform to enhance the competitiveness of Irish family firms, to offer insights into international best practice of family firm management and, ultimately, to help shape future policy in relation to this thriving sector.

The Centre helps address the unique challenges faced by family business in areas such as: managing the ‘family’ in the family business; family and business governance structures; planning for ‘next generation’ involvement in the family business; navigating the succession process; the role of entrepreneurship and innovation in family business success; women in family business.

The DCU Centre for Family Business is the Irish partner to the global STEP Project from Babson College, USA. The STEP (Successful Transgenerational Entrepreneurship Practices) Project explores entrepreneurial practices across multi-generational family firms by forming a unique fusion between family business practitioners and academic scholars to identify best practice in the management and sustainability of the family business.

Families are the dominant form of business organization worldwide—they play a leading role in the social and economic wealth creation of communities and countries. To achieve continued growth and continuity, they must pass on the entrepreneurial mindsets and capabilities that enable them to create new streams of wealth across many generations—not just pass a business from one generation to the next. The STEP Project refers to this practice as transgenerational entrepreneurship. The STEP Project has allowed Irish family businesses to engage with a global family business community across four continents.

This global network of family businesses has allowed Irish families to explore best practice for family business management, while also offering exciting international opportunities for next generation family members.
About PwC - supporting family businesses

At PwC, we know that the most successful family firms are those in which there is a good balance between professional management, responsible business ownership and a healthy family dynamic. We have a keen understanding of the unique subtleties of family business, and we have the tools, experience and focus to help family businesses optimise the positive forces in family enterprises, while anticipating and minimising any conflict. No matter what the size, industry or market, PwC’s advisers assist family businesses across the globe. From strategy and governance, to business transition and private wealth, to putting values in action, we have the tools, people and presence to help family enterprises build lasting value.
As Ireland’s leading professional services firm, we work with family businesses right around the country to help them add value to their organisations. This includes helping family firms develop sustainable businesses for the long term and position themselves for growth.

In particular, we help many families prepare for, and deal with, the issues that arise in relation to handing over to the next generation.

**Key contacts**

Paul Hennessy - Dublin  
+353 1 792 6012  
paul.hennessy@ie.pwc.com

Ronan Furlong - South-East  
+353 53 915 2421  
ronan.furlong@ie.pwc.com

Teresa McColgan - Dublin  
+353 1 792 8613  
teresa.mccolgan@ie.pwc.com

Anthony Reidy - Cork  
+353 21 425 4004  
anthony.reidy@ie.pwc.com

John Dunne - Dublin  
+353 1 792 6856  
john.a.dunne@ie.pwc.com

Ken Johnson - Mid-West  
+353 61 212346  
ken.m.johnson@ie.pwc.com
Pictured launching the PwC 2016 Family Business Survey (l-r) are: Rachel O’Connor, Business Development Manager, Colourtrend; Maura McAdam, DCU Family Business Centre; Kevin O’Connor, Managing Director, Colourtrend; Paul Hennessy, PwC Ireland Family Business Leader; John Dunne, Partner, PwC Ireland Family Business Practice and Eric Clinton, Director, DCU Family Business Centre.