Poor strategic planning, not economic headwinds, will hold Irish family businesses back from growth

The findings from PwC's 2016 Global Family Business Survey are here. The survey highlights slow progress on strategic planning, despite ambitious growth plans. Family businesses have more to do on leveraging digital and are struggling to recruit and retain key talent. Succession planning and professionalising the business remain areas of key focus.

The relative strength of economic recovery in Ireland was evident in the fact that nearly three-quarters (71%) of Irish family businesses expanded over the past year by comparison with 64% of their global peers, according to a new PwC global survey of over 2,800 family businesses in 50 countries including Ireland.

The sector has ambitious plans to continue this steady growth path over the next five years, despite the uncertainties of Brexit and other global economic and geopolitical head-winds. 91% of Irish family businesses plan to expand (Global: 85%) and around one in six have consistently told us over the last six years that they plan aggressive growth.

However, the report warns that family businesses' growth outlook could be curtailed by the organisation's own lack of strategic planning rather than economic factors or other external concerns. In fact, many issues now facing family businesses come back to a lack of strategic planning - the 'missing middle'- including having a strategic plan that links where the business is now to the long-term and where it could be. This results in many families not being able to turn early promise into sustainable success. For example, in Ireland our surveys tell us that since 2012 around one in six family businesses are not achieving their growth ambitions.

While some family firms are managing strategic planning well, many are caught between the deluge of every day issues and the weight of inter-generational expectations. PwC found that in survey to survey, areas such as succession, diversification, digital, cyber security and innovation are not being tackled as well as they could be.

Paul Hennessy, PwC Ireland Family Business Leader, said: "It is clear that family firms are a vital part of our economy and are a key driver of job creation and growth. Overall, the performance of Irish family businesses and outlook for growth remain strong. There has been some progress on succession planning, but less so on strategic planning. Having ambition to grow, without a strategic plan of how to get there, is just an aspiration. Not only is it limiting their ambition to expand and grow, it could also expose them to additional risks for which they have not effectively planned."

In two successive surveys, family businesses in Ireland have made on average around a quarter of their sales overseas with ambition to raise that to almost a third. Yet international sales still remain at 25%. At the same time, an overwhelming majority (94%) of those planning to grow aggressively plan to grow their business in existing markets in the next five years with less than half (44%) expecting growth in new countries.

With Brexit being front of mind for many business leaders, 82% of responding Irish family businesses expected the exit by the UK from the EU to have a negative impact on their business over the next two years (UK: 38%; Global: 15%). Nearly a quarter (24%) reported having already taken measures as a result of the UK vote to leave the EU, and a further 35% are planning to take measures.

Kevin O'Connor, Managing Director, Colourtrend commented: "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."

Maura McAdam, DCU Centre for Family Business; Paul Hennessy, PwC Family Business Leader; Rachel O'Connor, Business Development Manager, Colourtrend and Eric Clinton, Director, DCU Centre for Family Business.

More to do on Digital

The survey highlights that many Irish family businesses have more to do to leverage the opportunities from digital, including better customer engagement, but also to safeguard against the perils of a cyber-attack. Nearly half (45%) say that keeping pace with digital and new technologies is one of their key challenges, yet only a quarter think their business is vulnerable to digital disruption. Just one in two believe they have a strategy that is fit for the digital age and a similar proportion have discussed the threat of digital disruption at Board level.

Rachel O'Connor, Business Development Manager, Colourtrend, said: "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."

Less than half (45%) believe that their business is prepared for dealing with a data breach or cyber-attack. Just one in five recognise that cyber security is a key challenge facing their business in the next five years.

Teresa McColgan, Tax Partner, PwC Ireland Family Business Practice, added: "The next generation play an important role in creating the family business's future. The majority of family businesses believe that they are not vulnerable to digital disruption, and just over one in two think they have a strategy fit for a digital world. In our experience, they underestimate the opportunities and potential risks of digitisation. 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. Listening to the next generation as change agents for the digital transformation might prove fruitful."

Other key findings in the survey include:

Succession: Half (49%) of Irish family businesses have no succession plan at all and only 14% have a plan that is robust, documented and communicated. Only 18% of family firms have a succession plan for all senior executives.
Strategy: Over a third (36%) have family and business strategies that are not aligned. Having the family values and business visions on the one page is important for the long term survival of the business.
Innovation: 58% identify innovation as a key challenge to keep ahead in the next five years (Global: 64%). Yet half of respondents report that family businesses are less open to new ideas compared to non-family businesses, a result that is much higher than the global average (34%). Less than a quarter (23%) rated the need to be innovative as 'very important' over the next five years, well below the global average of 32%.
Professionalisation: A quarter (26%) does not have procedures in place for dealing with family conflict, a statistic that has deteriorated over the last two years (22%). Three out of five respondents say that they will bring in non-family professionals to help run the business.
Skills: 57% say that their ability to attract and retain the right talent is a key challenge over the next five years, up from 43% in 2014. 59% believe that they need to work harder than non-family businesses to recruit and retain top talent, which is significantly higher than their global peers (48%).
Finance: Over a third (37%) say that they find it harder to access capital than their non-family business counterparts. An overwhelming majority of those planning aggressive growth (92%) say that they will use their own capital to fund growth, a much higher percentage than their global peers (76%).
Geopolitical concerns: Over three-quarters (79%) report political and economic stability as more important than growth potential when considering new export markets.

John Dunne, Partner, PwC Ireland Family Business Practice, said: "This year's results highlight that Irish family businesses are still struggling with succession. There's no point having detailed plans for business continuity, if the single most significant risk to this is not addressed. A managed succession process can be a rallying point for the family, allowing it to reinvent itself in response to changing circumstances, but without a plan it is the most obvious 'failure factor' for the family business."

Eric Clinton, Director, DCU Centre for Family Business, said: "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."

The report finds that a more uncertain economic environment means that for many family businesses, ensuring the company stays in the family is possibly not as important as it once was. Just over a third (36%) plan to pass on management and ownership to the next generation; Just a quarter (24%) will pass on ownership but bring in professional managers. Irish family businesses are more likely to sell or float their business than global family firms (Ireland: 26%; Global: 17%).

Many have an active gender programme

According to the survey, half of Irish family businesses report having an active gender programme in place.

Maura McAdam, DCU Centre for Family Business, added: "I would say that family businesses are very gender aware. 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."

Find the full report here.