KPMG

Private Enterprise

EFB EUROPEAN FAMILY BUSINESSES

Irish family business barometer

Succession top of mind as business families eye their legacy

kpmg.ie/privateenterprise

2019

Welcome

Welcome to the Irish family business barometer, a collaboration between European Family Businesses (EFB) and KPMG Private Enterprise.

This year, our annual survey received 1,613 responses from family businesses in 27 countries across Europe, including Ireland. We are encouraged to find that Ireland's business families remain positive about the future for their companies and their families at a time of rising economic and geopolitical uncertainty.

Family businesses are responding to an uncertain, changing world by prioritising innovation, sustainability, overseas expansion, training and education, and diversification. Sustainability is taking on greater importance for the overwhelming majority of family businesses as well. This suggests to us that family businesses are determined to stay highly relevant and intensely competitive, adapting and thriving in a fast-changing world.

At the same time, many respondents are preparing for one of the most significant periods for any family business: succession. These family businesses are deeply involved in determining how to transfer ownership, management and governance responsibilities to the next generation and secure the future of both the business and the family. Inevitably, there will be challenges to overcome—but we are confident family businesses will do so and lay the foundation for decades of continued success.

We would be delighted to discuss any of the issues raised in this report with you. See **kpmg.ie/privateenterprise** for more.

Table of contents

Executive Summary

Key Findings

Business families are a critical part of the Irish economy, a fact that is often overlooked by pundits, analysts and market watchers. Family businesses have long been part of Ireland's economic and social fabric, and they will continue to be so for many years to come.

The KPMG Irish family business barometer has been compiled as result of research carried out among family businesses across Europe by European Family Business (EFB) and KPMG Private Enterprise. The report examines the important issues facing Ireland's family businesses this year. In addition, the report shares the perspectives of family businesses on a range of key matters, from overall business confidence and business priorities to succession and beyond and compares and contrasts Irish attitudes with those of their European counterparts in a number of important areas.

Remaining confident in an uncertain world

In a world of widespread geopolitical, trade and economic uncertainty, Ireland's family businesses remain confident and upbeat.

More than half (57 percent) report rising turnover in the prior year, while another 39 percent said turnover remained steady. Business confidence is also exceptionally strong: 91 percent of respondents are confident or very confident about their business's outlook for the next 12 months. This is well ahead of both Portugal (78 percent) and the Netherlands (67 percent) which had the highest level of confidence elsewhere in Europe. Furthermore, just 1.5 percent of Irish respondents expressed pessimism in relation to the year ahead in comparison to 9 percent across Europe. This perhaps surprisingly high level of optimism is likely reflective of the extraordinary levels of resilience in the Irish business community, including family businesses.

Innovation tops the priority list

Fostering innovation, diversification, entering new geographic markets, and developing their workforces' skills are top priorities for Ireland's family businesses. The overwhelming majority of respondents (98 percent) say becoming more innovative is very important—or extremely important—to their business over the next two years.

This focus on the future is also driving family businesses (98 percent) to make diversification a priority. This is an indication that family businesses are recognising that their core business, even as it continues to thrive, may not provide the foundation for growth over the long term. As customer needs change, business competition grows more intense, and technology continues to disrupt industries, moving into new products and

services could enable family businessesto sustain strong growth and stay competitive.

Entering new geographic markets is also a very high priority for 96 percent of Irish family businesses. This reflects both the export led nature of Ireland's economy and the drive to find new markets prompted by Brexit.

Family businesses are also committed to ensuring their employees are equipped with the knowledge and skills needed to thrive in a rapidly changing work environment where technology and data are pervasive and competition in increasingly global. In our survey, 95 percent of respondents said that educating and training their workforce was a key priority over the next two years. This may be an indication of a strong appreciation for the role that Ireland's skilled workforce has played in moving the country up the value chain.

This willingness to embrace and adapt to change is of course a hallmark of many family businesses, many of which have survived and thrived through decades—and even centuries—of social and economic change. This capacity to evolve has served family businesses well for many years, and it will continue to do so in the years to come.

Very encouragingly, in light of current developments around climate change, 98 percent of Irish family businesses say sustainability is important or extremely important to their company's strategy. Irish family businesses clearly understand the imperative to respond to climate change as well as the requirement for businesses to meet consumer and stakeholder demands in relation to the environment.

Competition a cause for concern

The main worry for Irish family businesses (95 percent) is increased competition, with the war for talent (79 percent) and increased tax rates (72 percent) high on the list of concerns.

This is in marked contrast with the findings of the European survey which placed the war for talent first with declining profitability in second place, followed by changes in regulation and increased tax rates.

The Irish results likely reflect the fact that many of them trade in highly competitive overseas markets. As fears over a European recession grow and nations start to look at their budgets and plan for a potential downturn, business families are wary. They will be looking for signs of regulators' moves to improve tax transparency, update audit regulations or even raise tax rates, all steps that could have a significant impact on the family business and the family's wealth.

The high level of concern regarding potential tax rates increases can perhaps be explained given respondents were surveyed ahead of Minister Donohoe's Budget 2020 announcement in October, and is likely reflective of the uncertainty felt by many at that time.

Succession on the mind

Over the next five to 10 years, the world will experience a significant transfer of wealth between generations as the senior generation hands over control of the family business and other assets to the next

generation. Not surprisingly, succession is on the minds of Ireland's family businesses.

According to this year's survey, 23 percent of respondents plan to pass ownership of the business to the next generation, and 42 percent plan to pass on management responsibilities as well.

Notably, respondents feel that dealing with the emotional fallout of relinquishing ownership is the greatest challenge (87 percent) they face in handing over the reins. Just 37 percent of European respondents say this as the major challenge, and this may reflect the fact that many of the Irish respondents are founders with a very strong attachment to their businesses.

The great majority (90 percent) expect to name a family member as the next CEO where the business remains in family ownership.

The KPMG Irish Family Business Barometer highlights a number of interesting findings relevant to family businesses at all stages of growth. From driving innovation to generations working together and the appointment of non-family CEOs, we hope you find these insights useful in your business and we would be delighted to further discuss any aspect of this report with you.

Olivia Lynch

Olivia Lynch
Partner,
KPMG Private Enterprise

Ireland's family businesses

remain positive in an uncertain world

Trade wars, geopolitical uncertainty, recession fears, rising populism, Brexit and the climate crisis: in decades past any one of these could have triggered economic slowdowns and rampant business pessimism. Yet today, facing all of these issues, Ireland's family businesses remain positive about the future. Many of these families and their businesses have weathered crises over decades and sometimes even centuries of trade, booms and busts. Their confidence sends a powerful message to the wider business community: we will get through whatever comes our way.

Business confidence is improving: 56 percent of respondents feel confident about their family business's economic outlook over the next 12 months. Very encouragingly, a further 35 percent feel very confident about the year ahead. These results made Irish respondents far and away the most positive of those surveyed in Europe with 91 percent either confident or very confident about the next 12 months.

Turnover remains strong

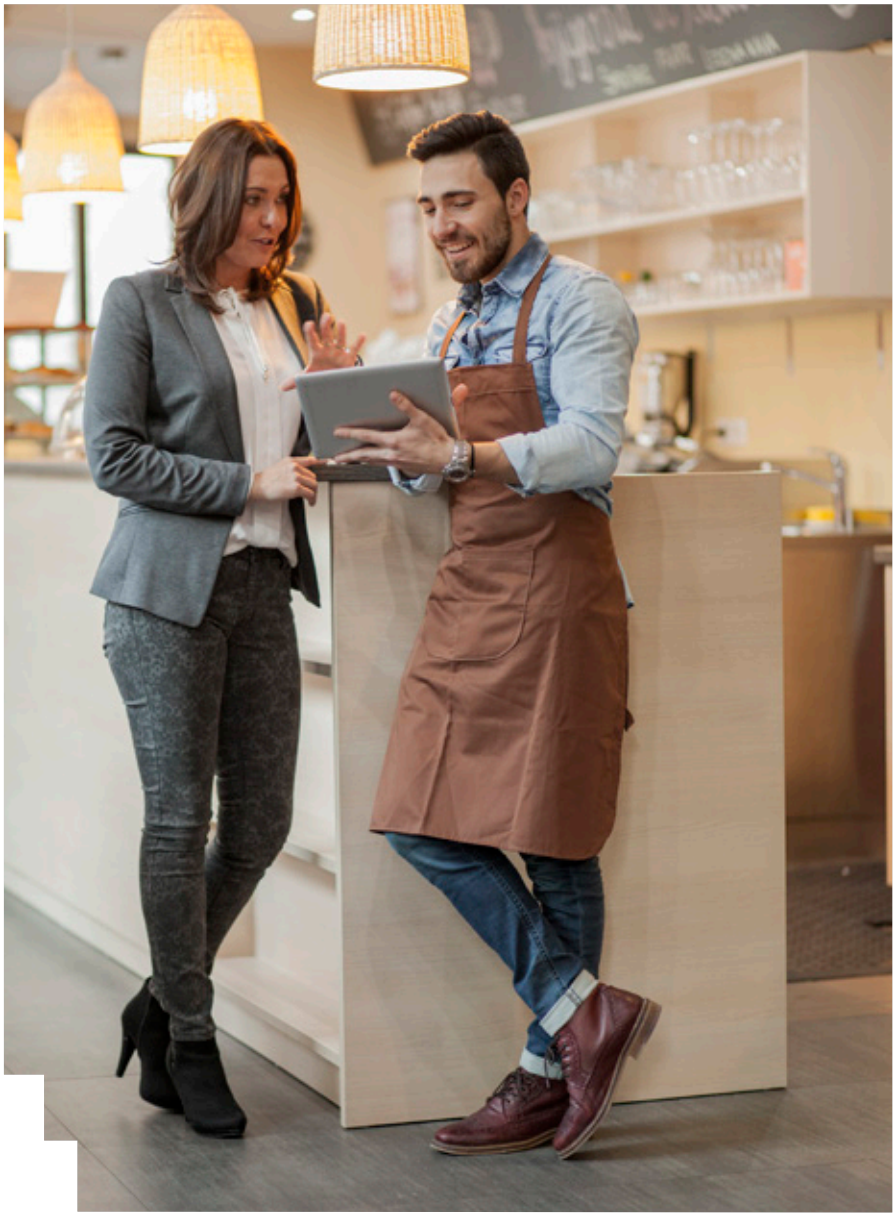
One of the factors driving business confidence among Ireland's family businesses is the fact that turnover remains strong. Fifty seven percent of respondents report that turnover increased over the past 12 months while 40 percent said turnover remained steady over the last year.

Strong international activity

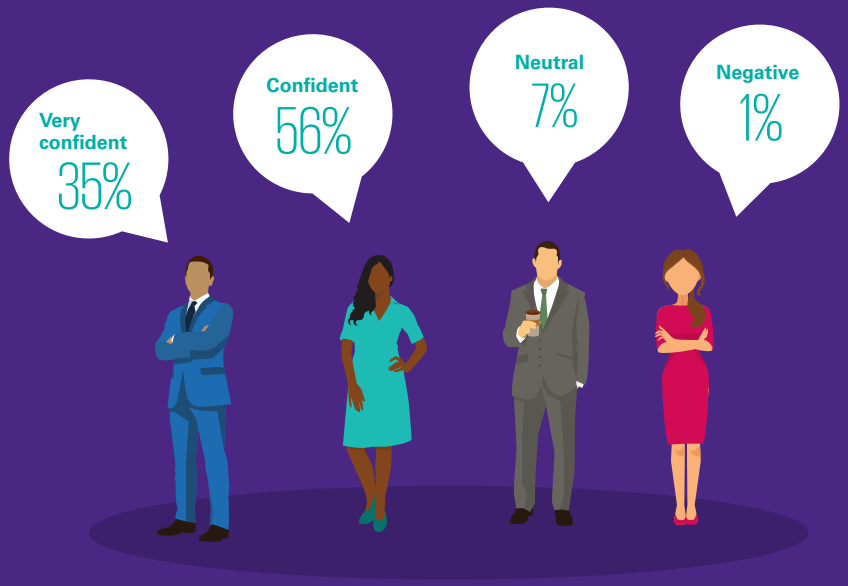
Almost half (48 percent) of family businesses surveyed report increased international activity over the past 12 months, international activity remains an important part of many family businesses' strategy moving forward; 96 percent of respondents said that geographic expansion was a key objective over the next two years.

"The high level of confidence exhibited by Irish family businesses is firmly rooted in reality. It's based on rising or stable turnover levels and a strong commitment to international growth and innovation. This augurs well for the Irish economy in the face of growing uncertainty in the years ahead."

Olivia Lynch
Partner, KPMG Private Enterprise



How do you feel about your family business' economic perspective for the next 12 months?



Ireland

Europe

Competitive Pressure

Increased concerns

Increased competition emerged as the leading area of concern for Ireland's family businesses (95 percent). This is unsurprising given Ireland's open economy and the high level of dependence on exports of many Irish firms.

The next most pressing concern was the war for talent (79 percent), a reflection of the recent rapid growth in Ireland's economy which has led to skills shortages emerging in many key sectors.

Brexit

Brexit has also been causing currency instability ever since the referendum result in June 2016 and this will remain a concern until a final trade deal is reached between the UK and the EU.

The overall impact of Brexit continues to be a source of unease for many family businesses with 35 percent of respondents saying it had already had a negative impact over the past 12 months. That figure rises to 43 percent for those who believe Brexit will have negative impact over the next 12 months. Interestingly, 10 percent of respondents indicate it may have a positive effect.

Meanwhile, while political uncertainty was cited as an area of concern by 69 percent of UK respondents and 51 percent of respondents across Europe, it was an issue for just 29 percent of Irish family businesses. This sanguine outlook mirrors Ireland's political landscape to a certain extent. There has been no populist surge worthy of mention and centrist parties continue to dominate the political landscape.

Financing:
keeping it in the family

Organic re-investment is important to both Irish and European family businesses, with 53 percent of Irish respondents and 49 percent of European respondents indicating the retention of profits as an attractive financing option for their business.

One area that differs between Ireland and Europe is bank financing and debt. There seems to be a reluctance by Irish family businesses to take on bank debt compared to European peers – 13 percent versus 41 percent.

This low relative attraction of bank debt could potentially be explained as a hangover from the Irish financial crisis of a decade ago and should be viewed in conjunction with the high number of respondents seeing 'equity or loan financing from external partners' as attractive (59 percent in Ireland compared to 18 percent in Europe). An openness to using third party capital to grow family businesses is encouraging and could help Irish companies reach their full potential, however the role of banks in supporting Irish business should not be understated.

Irish family businesses also appear much more open to considering IPO or capital markets as a potential source of funding with 37 percent considering it an attractive option, compared to 8 percent of European respondents.

"The growing number of companies that are open to taking on third party capital is a welcome finding and reflects the growth ambitions of Irish family business."

David O'Kelly
Partner, Deal Advisory

Responses when asked how attractive the following financing options are:

Ireland

- 53% Retention of profits
- 13% Bank financing (debt)
- 24% Personal/family equity or loan financing
- 60% Industrial alliances
- 59% Equity or loan financing from external partners
- 37% Capital markets (IPO/bond)

Europe

- 49% Retention of profits
- 41% Bank financing (debt)
- 31% Personal/family equity or loan financing
- 26% Industrial alliances
- 18% Equity or loan financing from external partners
- 8% Capital markets (IPO/bond)

Innovation

remains the key priority

"It's a myth that family businesses are stuffy traditionalists afraid of change. Family businesses are absolutely focused on innovation. The fact that they can evolve from generation to generation is testament to this."

Ryan McCarthy
Partner, KPMG Private Enterprise

Fostering innovation and developing their workforces' skills are top priorities for Ireland's family businesses, according to our survey.

Ninety-eight percent of respondents said "becoming more innovative" was a very important or extremely important priority for their business over the next two years.

Almost the same number (95 percent) felt that educating and training their workforce was a key priority for their business. This push for workforce learning reflects a welcome ambition to ensure family businesses' workforces are equipped for the future of work, acquiring the skills needed to be productive in a world of ubiquitous technology and data and a global marketplace.

Ninety eight percent of respondents overall also believe that diversification into new products or services would be a priority over the next two years, and 96 percent cited geographic expansion as a key objective over the same period.

Overall, Irish businesses are more likely than their European counterparts to be focused on innovation, developing their people, diversification and geographic expansion. While this could suggest that Irish family businesses have greater growth ambitions and are more willing to embrace dramatic change, it may also reflect the fact that these companies have to look beyond a small domestic market for growth and are therefore faced with greater competitive challenges.

"Innovation and workforce training are inextricably linked. Family businesses need the right people to drive innovation; investing in training and education helps them develop people with the skills and knowledge needed to unleash creativity and spark new ideas that can drive business growth."

Camilla Cullinane
Partner, KPMG Private Enterprise

How important are these key priorities over the next 2 years?

Looking forward:
investment plans

Ireland's family businesses intend to concentrate their investments over the next year on three main areas: their core business (37 percent), innovation and technology (26 percent), and international expansion (18 percent). Rounding out the list are people development (12 percent) and diversification (6 percent). Once again, this suggests that Ireland's family businesses see innovation as a critical component of achieving profitable growth going forward.

In the next 12 months, what do you plan to invest in?

Succession

on the mind as a generation readies to cede control

Succession is an important and often challenging subject for any family business. Being confronted with the reality of transferring business control to the next generation, and then stepping away from the business, is one of the most difficult moments for any family business' leader. Some wrestle with the transfer until the very end. Not surprisingly, the decisions that arise around how to pass on management, oversight and ownership of the family business can generate extensive and passionate discussion, as decision makers navigate the interests of both the business and the family itself.

We expect succession to continue to be a critical topic for family businesses across Europe and around the world over the next five to 10 years. During this period, the world will see one of the largest ever intergenerational transfers of wealth take place. Globally, US$15.4 trillion is expected to be transferred by 2030; US$3.2 trillion of which will be transferred in Europe. Needless to say, business families will be spending more and more time determining how best to pass that wealth to the next generation.

"Older family businesses still have family members in charge, but this may become less common in the future. Families may begin to feel the need for outside expertise to help them navigate a complex and constantly changing environment."

Ken McCracken
Family Business Consulting,
KPMG Private Enterprise

[1] Wealth-X, A Generational Shift: Family Wealth Transfer Report 2019.

According to this year's survey, 23 percent of respondents say they intend to pass ownership of the business to the next generation—and 42 percent plan to pass on management responsibilities to the next generation. One third of respondents (33 percent) say they plan to transfer oversight responsibilities to the next generation, perhaps indicating the senior generation's desire to keep a close watch on things.

The family business successions to come may not simply be a matter of passing the baton to a daughter or son. While 98 percent of Irish family businesses currently have a family member as CEO, those who feel a family member will occupy that role in the years to come falls to 90 percent. This may indicate that as family businesses grow larger in an ever more complex business environment, the families behind them are recognising the need for a robust executive leadership, even if that comes from outside the family. Bringing in a non-family CEO can also be a way to defuse tensions among family members, especially for older businesses.

However, most family companies will elect to appoint a family member as CEO when there's little to distinguish between family or non-family candidates, or there's no added value to bringing in an "outsider."

What are you considering?

The drive to preserve and sustain the culture at the heart of the family business is deeply ingrained, and not something most families would tinker with lightly.

Family businesses beginning to adopt formal mechanisms

Over the years, a variety of structures, practices and documents—e.g., family offices, formal boards of directors and family constitutions—have been suggested as a means to assist families with the management and governance of the family business, including succession. Yet family businesses seem remarkably reluctant to adopt these measures.

Only one quarter (26 percent) of family businesses overall report having a shareholders' agreement while just 19 percent have a formal board of directors. Sixteen percent have established a formal advisory board but only 12 percent hold structured family gatherings, while just 5 percent of Irish family businesses have a family office.

This relatively low adoption of various governance structures is somewhat surprising, although the results may reflect respondents' differing interpretation of what these terms mean. The fact remains that companies of all sizes benefit from and require proper governance, and family businesses are no exception. However, many family businesses may not wish to put a family constitution in writing, preferring instead to act according to unwritten constitutions comprising various norms, traditions and precedents.

But the absence of formal mechanisms is worrisome, nevertheless. Boards are especially valuable to a business, providing the oversight, sober reflection and independent perspective companies need to remain true to their values, achieve their objectives, and avoid unnecessary risk. To run a business without such oversight seems to invite trouble, even it is has worked well enough until now. Every family business should invest the time and resources to establish more formal governance practices.

Succession planning raises a number of challenges

When it comes to transitioning management or governance of the family business, respondents say the biggest challenges lie in training a successor to take over the business (32 percent) and managing family conflicts related to the succession (37 percent).

"Every business can benefit from formal governance structures and family businesses are no different. Boards, family constitutions and family offices all help to ensure high standards of governance and reduce the risk of the business being damaged by internal family conflicts."

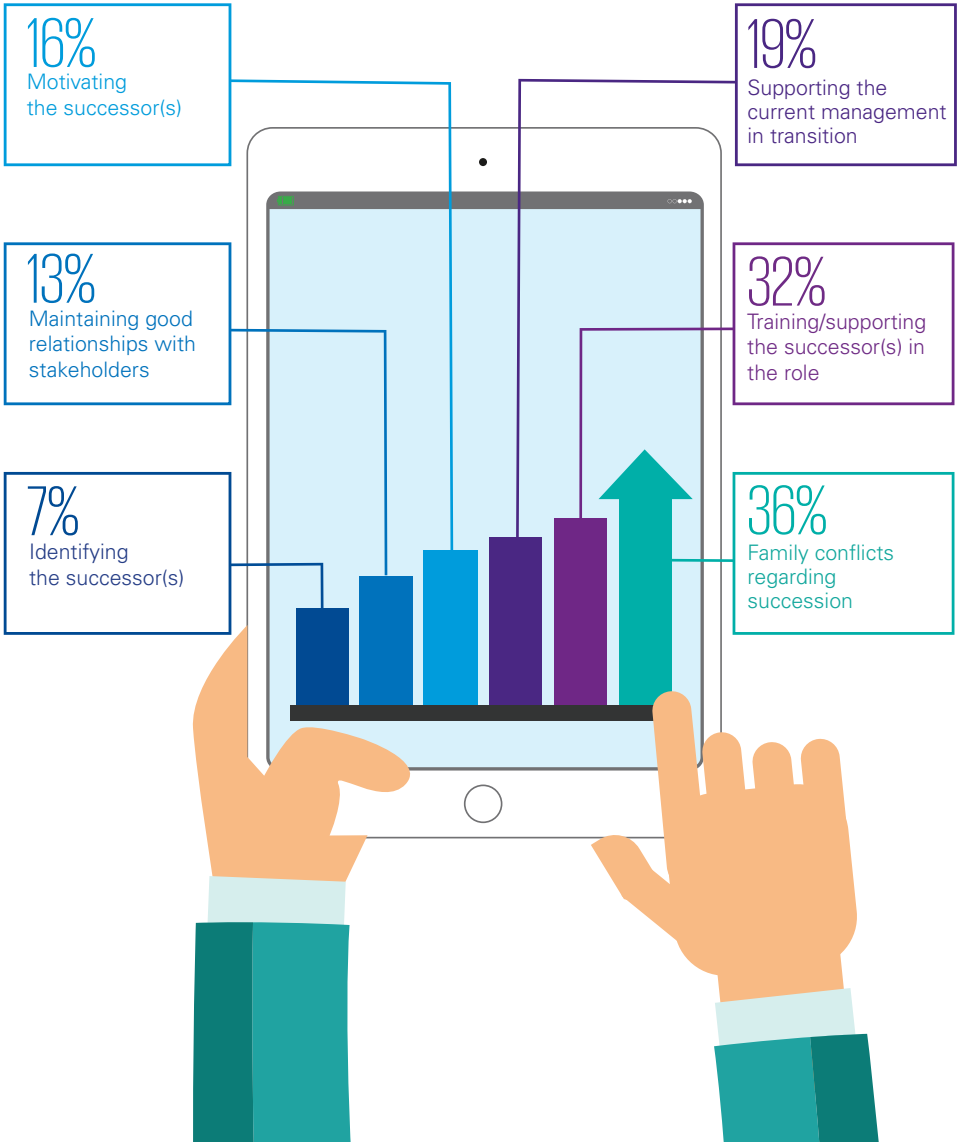
Francis Hackett
Chairman of Legal Services, KPMG in Ireland

Interestingly, while a significant number of European respondents (32 percent) said it would be difficult or extremely difficult to find a successor, just 7 percent of Irish respondents believed this will be the case. This may be a function of the comparative youth of many Irish family businesses which in turn means there will be a smaller pool of potential successors within the family to choose from.

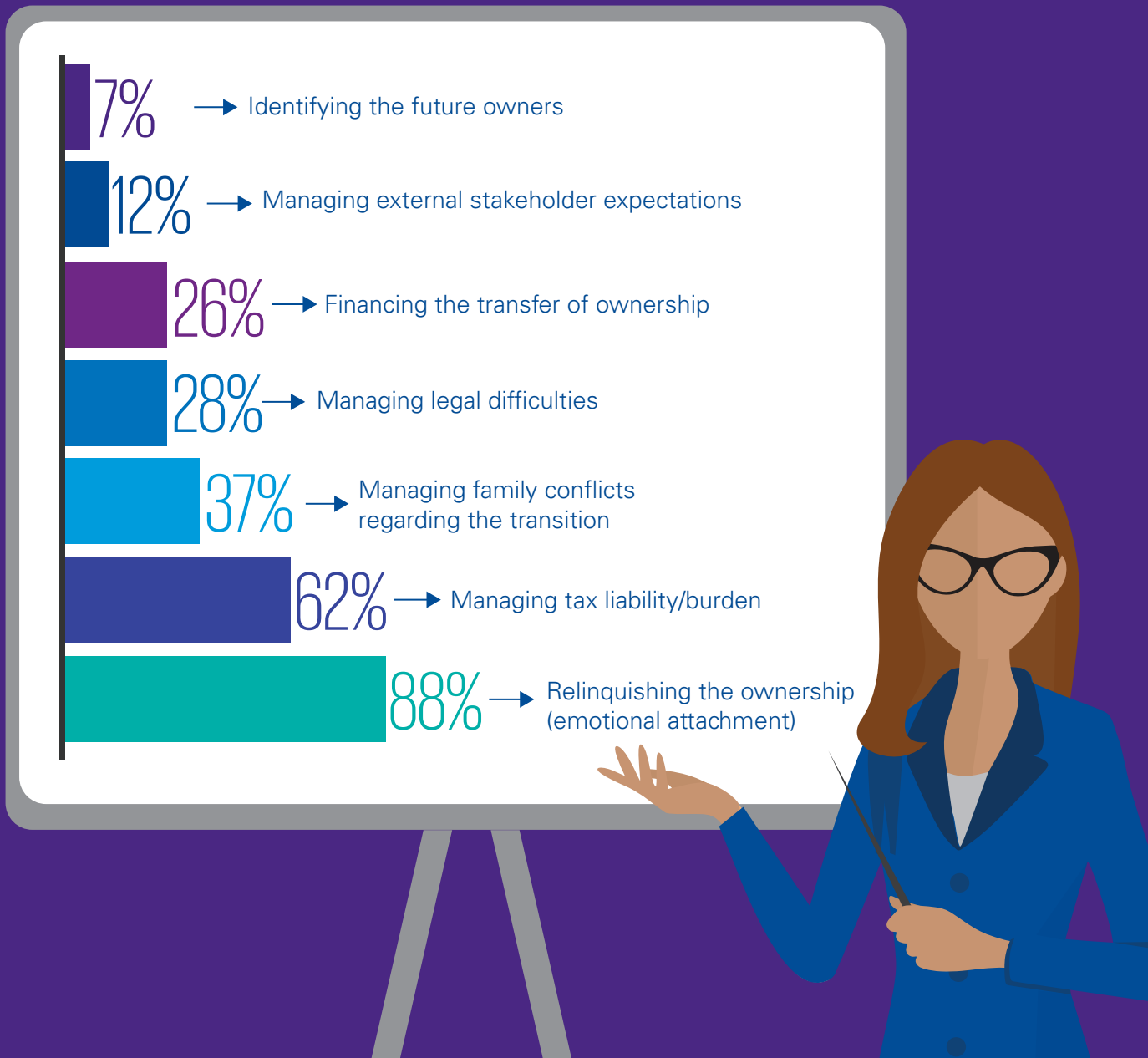
Ownership succession poses a different set of challenges for Ireland's family businesses. The greatest challenge, according to a significant majority (88 percent) of respondents, is dealing with the emotional fallout of relinquishing ownership. Just 37 percent of European respondents felt the same way.
This may again be a reflection of the relative vintage of the companies with founders and second generation owners more likely to have strong emotional attachments.

Managing the tax implications of the family business' handover is another key concern surrounding ownership succession: 62 percent of respondents see this as a key challenge. This highlights the continuing need for reform of the Irish tax system to facilitate the handover of family businesses from generation to generation.

How difficult do you think the following will be considering the transition of the family business management and governance?



How difficult do you think the following will be when considering the transition of family ownership?



Generational
alignment

Generational conflict is nothing new: each generation often sees the world through very different lenses. Europe's family businesses aren't immune to the phenomena—though according to our survey, the families surveyed seem to be of similar minds in many ways.

Overall, a solid proportion of respondents feel aligned or extremely aligned on their business' future direction on a range of areas: corporate social responsibility (64 percent), financing growth (56 percent), new products and services (56 percent), business strategy (48 percent), family involvement (44 percent), succession (38 percent), and leadership style (35 percent). Alignment is greatest around corporate social responsibility, financing future growth and new products and services.

If experience is anything to go by, these levels of alignment will likely increase as time goes by and the younger generation grows older and more experienced. Of course, in the longer term, with Keynesian inevitability, the current generations will be replaced by new ones with a consequent drop alignment levels, albeit temporary.

Our advice? Succession is a process, not an event. No matter how well they think things are going, the senior generation should make a concerted effort to bring the next generation into the business at an earlier point. The senior generation needs to relinquish some control and allow the next generation to find their role or place within the business; this enables the next generation to find their footing while the senior generation is still around to support, advise and guide them. That said, the senior generation should take care to listen to the ideas and concerns of the next generation with an open mind, and not dismiss those ideas and worries too casually. Instead, engage with the next generation, bridge the gaps, and work together to address and alleviate the next generation's concerns about the business and their place in it.

Sustainability

moves towards centre stage

Sustainability is definitely on the minds of Ireland's family businesses with 98 percent saying it is important or extremely important to their company's strategy. This puts Irish businesses ahead of the European average of 89 percent.

Looking in more detail at views across Europe, the results show that sustainability takes on even greater importance the larger the family business. While 45 percent of family businesses employing under 50 people say sustainability is very or extremely important to their strategy, 66 percent of those with 1,000 people or more say the same.

That's not to say smaller family businesses take a dimmer view of sustainability; it may reflect the fact that they simply don't have the time or resources to focus on the issue.

"No one can deny the rising importance of sustainability to businesses of all kinds across Europe, not only family businesses—and not simply because many companies are required to report on sustainability matters. If you're a family business of any size, especially one focused on the consumer market, you can be absolutely certain that sustainability is important to your customers. If you're not focused on sustainability, you should be."

Mike Hayes
Partner, Global Head of Renewables
KPMG in Ireland

Committed

to the European project

With Europe's 2019 elections now past and a new European Commission and EU Parliament taking shape, Ireland's family businesses are eager to see politicians make a priority. Fifty-three percent feel the EU's key priority should be completing the single European market. Sixteen percent believe the EU's main priority should be taking the lead on championing global free trade.

Given the importance of sustainability to many family businesses' strategy, it is rather surprising to see only 22 percent of Irish respondents say the EU's priority should be leading on climate change. Few respondents expressed interest in the EU regulating the digital economy, either: a mere 6 percent felt this area should be a top priority for the EU.

Finally, just 3 percent of Irish family businesses feel the EU's top priority should be ensuring the education system is preparing students for the jobs of the future. This may be a reflection of the strong economic orientation of the Irish education system.

"Europe's business families know what they want the European government—and by extension, Europe's national governments—to focus on. They want to see the single European market completed. They understand that the single market is essential to the ongoing, long-term success of their businesses and the European economy overall."

Darius Movaghar
Senior Policy Advisor,
European Family Businesses (EFB)

Striding
confidently towards tomorrow

Family businesses have long played a key role in Ireland's economy, and over time they have demonstrated the long-term perspective needed to thrive in all conditions. They have, in many cases, seen it all. And we can use their experience as a guide to what's to come, and how to navigate the challenges that arise.

Ireland's family businesses still see cause for optimism in the short term, and other companies should use their confidence as an inspiration. At the same time, family businesses are also sending a clear signal on what they believe will be important to ensure they can continue to grow and succeed over the long term: focusing on innovation, investing in upgrading the skills and education of their workforce, and expanding beyond the core business on which their success has been built on.

Family businesses have endured precisely because of their skill at anticipating the need to evolve with the times, and all companies—and countries—should learn from their example. Ireland and the rest of the world face many significant economic, environmental and social changes, and it is time to be bold and evolve.

Methodology

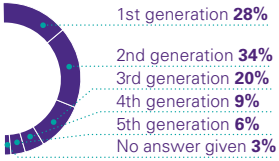
The *Irish family business barometer* is based on the results of an online survey. In total, 1,613 completed questionnaires were received during the period 13 May 2019 to 19 July 2019. TThis is the eighth survey of its kind to be conducted measuring trends among European family businesses, including Irish family businesses. In Ireland, we achieved the highest response rate to date and are delighted to share unique perspectives on how the views of Irish family businesses compare to our European counterparts across a number of key themes and issues.

This year's questionnaire was developed with the support of the SPRING team (EU-funded project, Erasmus+ KA2 Knowledge Alliances, www.euspring.eu).

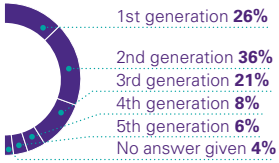
Respondents' profiles

1. Which generations of your family are currently involved in the following roles within your family business:

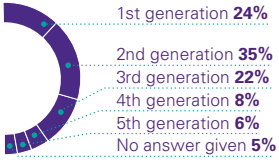
1.1 In ownership?



1.2 In governance?

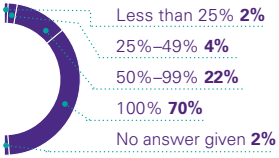


1.3 In management?

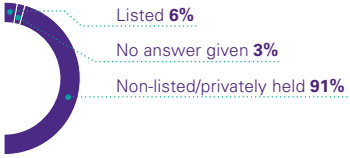


2. Concerning the ownership structure of your business:

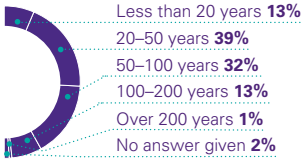
2.1 What is the percentage of the family's ownership?



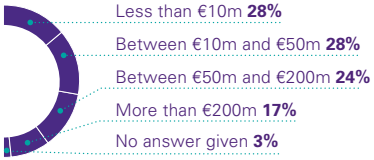
2.2 What is your family business?



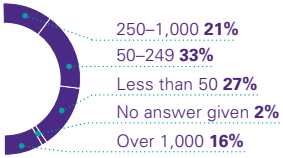
3. How long has your family business been operating with family ownership?



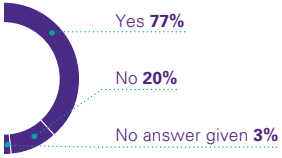
4. What is the approximate annual turnover of the family business?



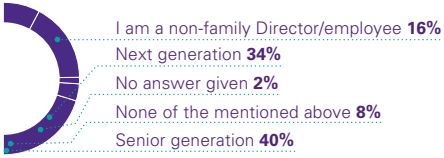
5. Approximately, how many people do you employ (the equivalent of full-time employees)?



6. Are you a family member?



7. Which generation do you represent in your family business?



We trust that these results have provided an insightful look into the family business community.

KPMG Private Enterprise and European Family Businesses (EFB) look forward to continuing this project and shedding more light on this important sector for Europe. We hope that you will continue to contribute to our survey.

Responses from the following countries have been analyzed:

- Andorra
- Austria
- Belgium
- Bulgaria
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Greece
- Italy
- Ireland
- Luxembourg
- Malta
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Serbia
- Slovakia
- Spain
- Switzerland
- Turkey
- United Kingdom

Contacts

For more insights about family businesses, please feel free to contact us:

Kieran Wallace
Head of Private Enterprise
t: +353 1 410 1932
m: +353 87 744 1932
e: kieran.wallace@kpmg.ie

Olivia Lynch
Tax Partner
t: +353 1 410 1735
m: +353 87 744 1735
e: olivia.lynch@kpmg.ie

Ryan McCarthy
Audit Partner
t: +353 1 410 2330
m: +353 87 744 2330
e: ryan.mccarthy@kpmg.ie

Camilla Cullinane
Tax Partner
t: +353 1 410 1169
m: +353 87 744 1169
e: camilla.cullinane@kpmg.ie

David O'Kelly
Deal Advisory Partner
t: +353 1 410 1606
m: +353 87 744 1606
e: david.okelly@kpmg.ie

Francis Hackett
Chairman of Legal Services
t: +353 1 700 4462
m: +353 87 050 4462
e: francis.hackett@kpmg.ie

Ken McCracken
Family Business Consulting
t: +353 1 410 1528
m: +44 777 811 0832
e: ken.mccracken@kpmg.ie

kpmg.ie/privateenterprise

Produced by: KPMG's Creative Services. Publication Date: November 2019. (5655)