

Kin in the game

PwC Family Business Survey 2010/2011 Irish supplement

Globally, we've talked to more than 1,600 business owners and managers. This report explores the Ireland results and how family businesses are dealing with the economic downturn, what challenges they're facing and how they are preparing for the future.



Forward



This supplement to the PwC Family Business Survey reviews the results of the research that was carried out with the participants in Ireland, covering a broad range of business sizes and sectors. We wanted to learn how they have coped with the economic environment, what challenges they are facing and how they are preparing for the future. We also thought that family businesses would welcome the opportunity to compare their own experience with those of their peer groups, both in Ireland and around the world, and find out what they are doing to thrive.

Over the past few months we have talked to more than 1,600 family business owners and managers in a wide range of sectors in 35 countries as we completed our second global Family Business Survey – the largest of its kind ever conducted. The survey explores the important issues that affect family firms, including the corporate challenges they face, such as ownership, succession planning, conflict resolution as well as the regulatory changes that are highest on their list of priorities.

The last survey was conducted in 2007 and, whilst the past two years have been a struggle for survival for many Irish companies, the results of this survey show that the longer-term, generational perspective of family businesses has served them well throughout the economic downturn.

We would like to acknowledge and thank the businesses that participated in our survey for the time and assistance that they provided. We hope you find the results useful in helping you rebuild for the future.

At PwC our **Private Company Services** group is devoted to serving family businesses and other privately-owned companies, and the owners behind them. Contact details for key members of this practice group are set out at the back of this report. We would be delighted to examine the findings of this report with you and to discuss their implications in the context of your own business.



Paul Hennessy
Private Company Services
PwC

Fending off challenges and investing in the future

Not surprisingly given the economic turmoil, family businesses in Ireland reported a decrease in their operating growth, with 70% stating that their operating profit had decreased in the past 12 months. Demand for the products and services provided by family businesses has contracted sharply since the onset of the financial crisis with over a third of respondents reporting a significant reduction in the demand for their products and services. When we carried out the same survey in 2007, 71% of companies surveyed reported either a modest or significant growth in demand for their products and services over the previous 12 months.

If we compare these results to the global survey, Ireland's family businesses seem to have been suffering more than average – almost half of family firms in the global survey of 35 countries said they had seen significant or modest growth in demand over the past year.

However, there are some small signs that growth is returning with 22% of companies reported growth in demand for their products and services. One key finding emerges from the survey – 70% of the business owners surveyed believe that being part of a family business has helped them through the economic crisis.

Given these challenging conditions, we have outlined below the key business challenges that companies expect to face in the coming year, both from an external and internal perspective. In addition, we also explore the key areas of investment for Irish family businesses.

Fewer companies are seeing growth in demand for their products and services

Q. Looking back over the past 12 months, how would you describe the demand for your company's products and services compared to the previous 12 months?

Figures show the sum of those that answered "modest growth" or "significant growth"

22% Ireland - 2010

vs

71% Ireland - 2007

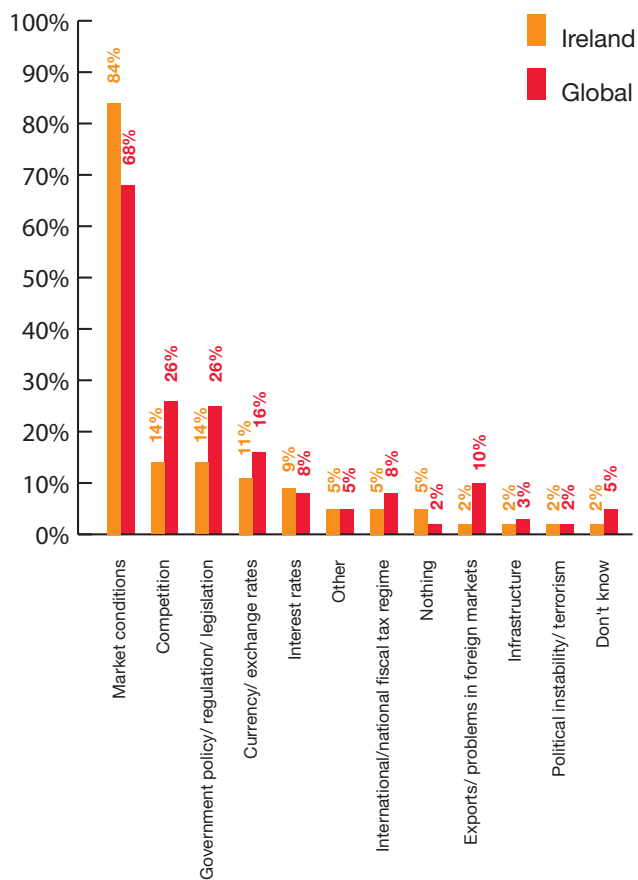
External challenges

84% of Irish respondents believe that the key external challenge facing their business is the state of current market conditions, which remain challenging for Irish family businesses.

Other key challenges noted were competition, government policy, including regulation, legislation and public spending as well as currency/ exchange rates.

This marks a shift from the survey results in 2007, where the main external challenge for the family businesses surveyed was product competition, generally driven by customer expectations and demands as well as pricing.

Fig 1: Responding companies believe that the main external challenges they will face in the next 12 months will be market conditions, competition as well as government policy/regulation/legislation/ public spending



Internal challenges

Irish family businesses still see cash flow and controlling cost as their greatest internal challenge. The recruitment of key skilled staff is a concern for 27% of the family businesses surveyed, perhaps indicating that the downturn has taken its toll on the availability of talent for Irish family businesses. Many companies are considering a move from short-term bonus arrangements to more sustainable incentive plans that more closely mirror their key business drivers in order to attract, retain and motivate employees.

Investment priorities

After a period of retrenchment, it is encouraging to see Irish family businesses looking to the future and ways of creating growth. We found that 70% of companies are planning to invest in marketing and 61% in sales activities. Other key areas of investment in the coming year are Human Resources and training, web/e-enablement as well as IT infrastructure.

Fig 2: Responding companies believe the main internal challenges they will face in the next 12 months are cash flow/controlling costs, recruitment of skilled staff/labour shortages and issues concerning the re-organisation of their companies.

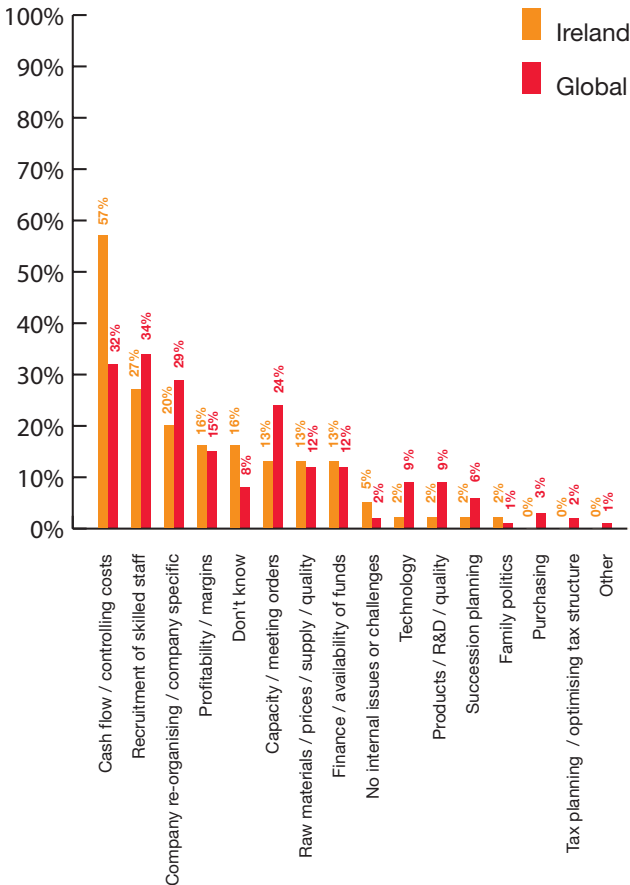
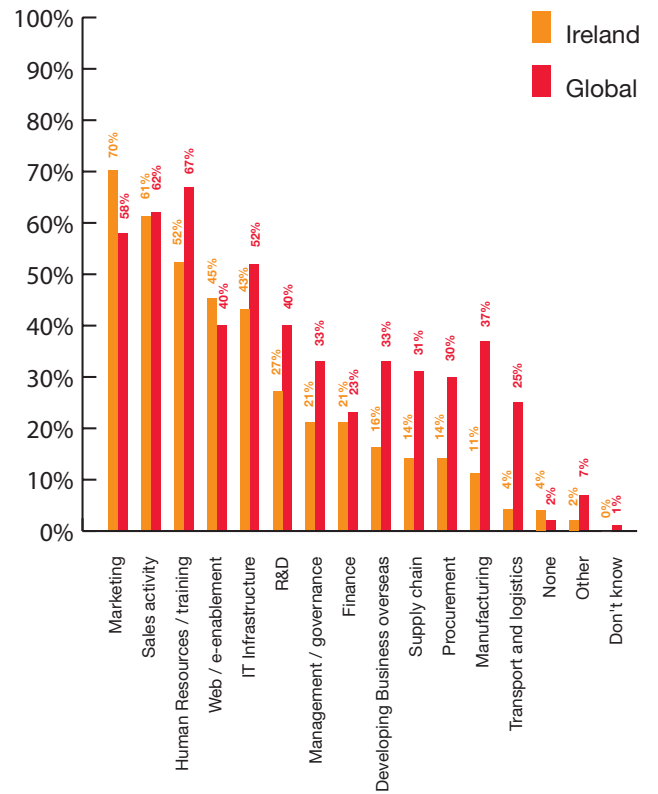


Fig 3: The top investment opportunities for responding companies over the next 12 months are marketing, sales activity as well as Human Resources / training.



Handing over the reins - ownership and succession planning

A quarter of the family businesses surveyed are due to change hands within the next 5 years, with the vast majority of these expected to remain in the family.

However, it is worrying that 61% of these companies do not have a succession plan in place. Careful planning is essential to ensure a smooth transition. A good succession plan outlines how the succession will occur and what criteria will be used to judge when the successor is ready to assume control.

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Fig 4: Nearly three quarters of respondents who anticipate their companies changing hands over the next 5 years expect their business to stay in the family.

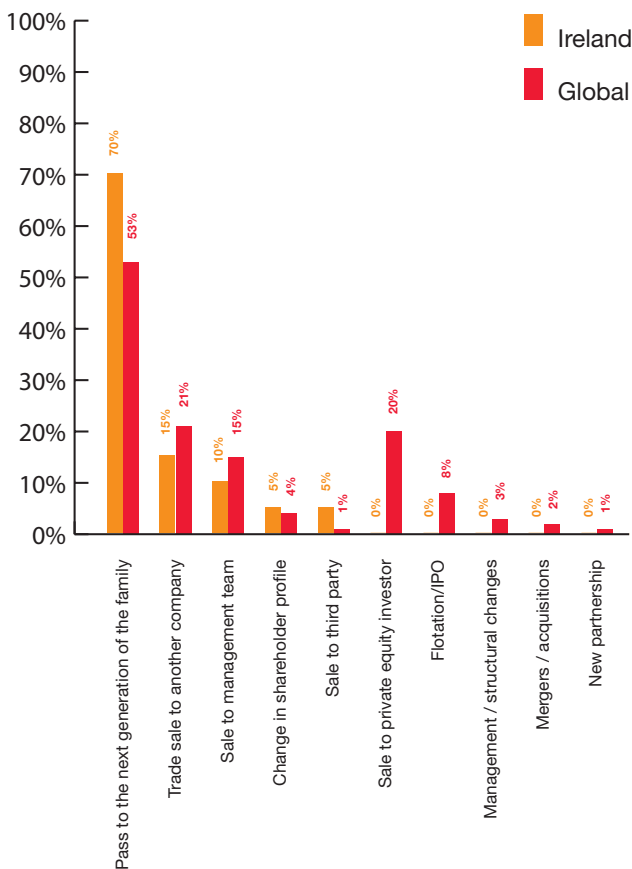
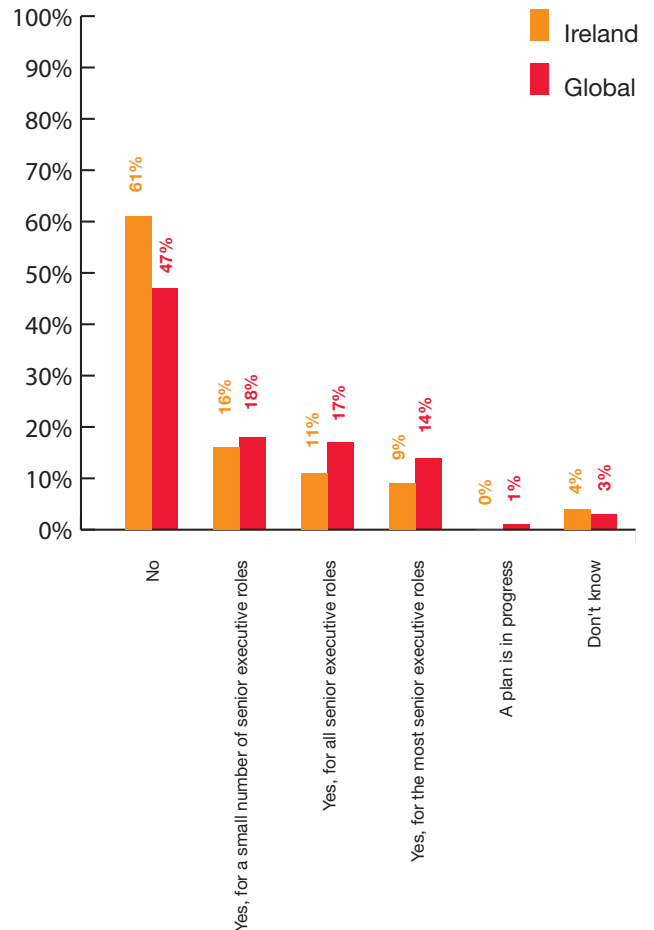


Fig 5: Does your company have a succession plan for key senior roles?



Falling out and making up

Whether it is positive or negative, emotion is always involved when it comes to decision-making in a family business. Occasional conflict is a fact of life but in a family business it can be deeply divisive and sometimes destructive. The majority of businesses that we spoke to said they didn't experience a great deal of tension. Any arguments that do arise tend to centre around recurring themes, such as the future strategy of the business and the performance of family members actively involved in the business.

Only 23% of the companies who reported conflicts have introduced procedures for dealing with disputes between family members. This is a worrying statistic when you consider the damage that a family feud could cause. Of those that had procedures in place, a third party mediator was a popular option, followed by shareholder agreements and consultations with family members to deal with disputes.

Fig 6: Causes of tension in a family business

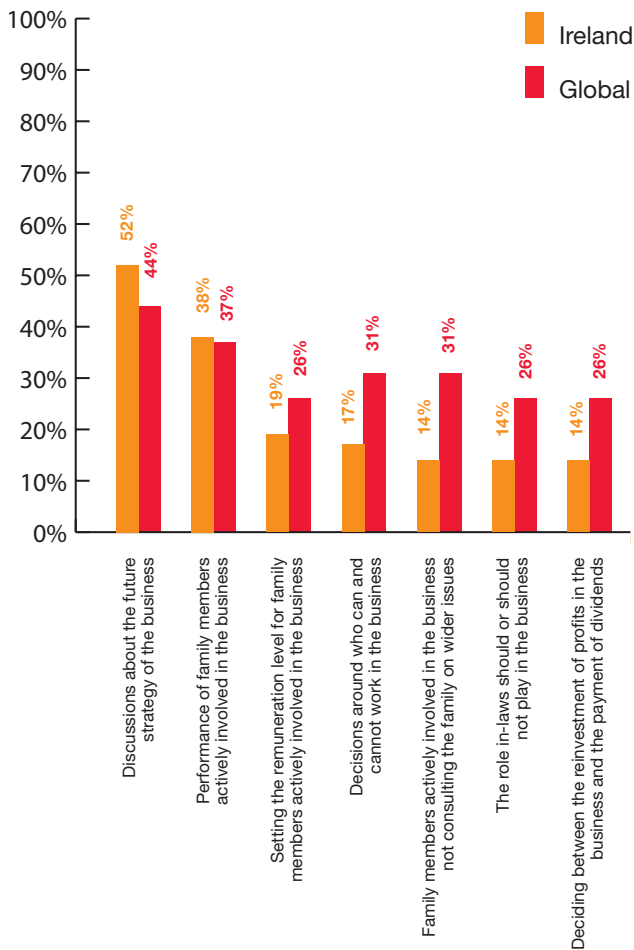
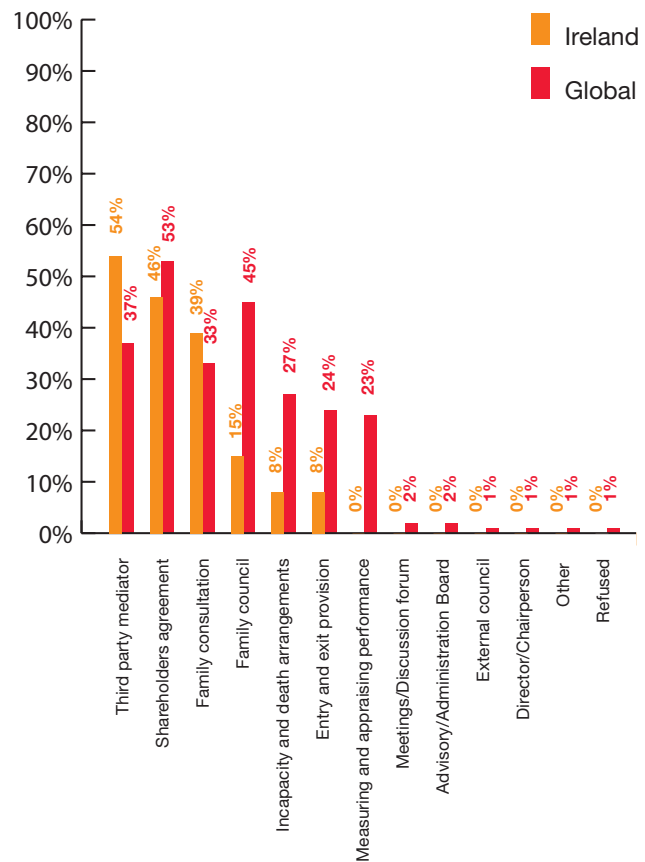


Fig 7: Third party mediators, shareholder agreements and family consultation are the most common measures that family businesses use for resolving conflict



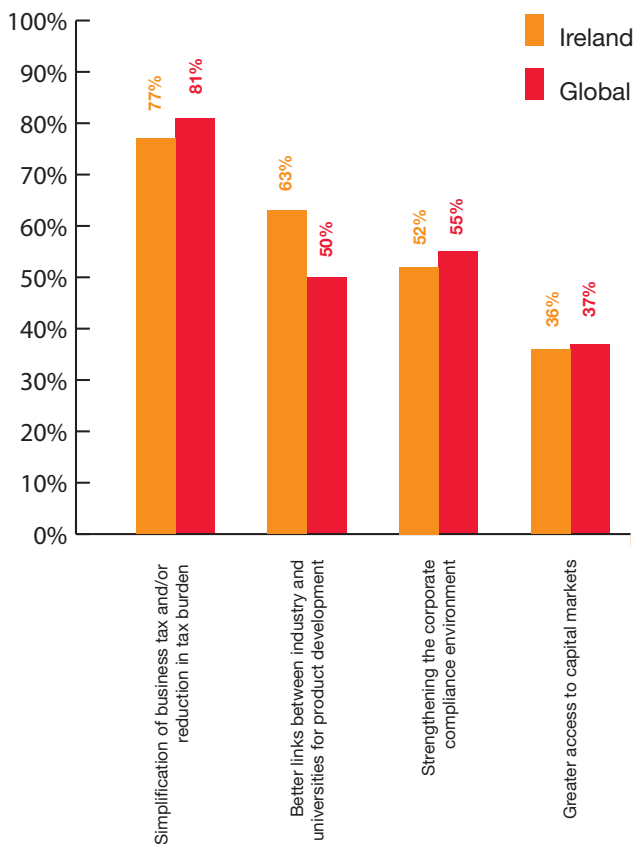
Dealing with regulation

As market conditions remain challenging, the vast majority of Irish family business owners would like to see a simpler tax regime and/or a reduction in their tax burden. 77% of those surveyed also believe that the government initiatives that are already in place to help companies survive and develop are insufficient.

Well over half of the companies surveyed would like to see better links between industry and universities for the purposes of product development. Only 36% of respondents are concerned with getting greater access to the capital markets.

Over half of the family businesses in our sample would also like to see the corporate governance environment strengthened, which may be due to the ongoing effects of the collapse of the banking system in 2008.

Fig 8: Simplification of business tax and/or reduction in tax burden tops the list of changes that family businesses would most like to see



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