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4th Edition of the European Family Business Barometer Determined to Succeed

This is a synopsis of the full report which can be accessed www.europeanfamilybusinesses.eu or www.mafe.org.mt. MAFE can be contacted on info@mafe.org.mt.

European Family Business (EFB) and KPMG International have once again joined forces to deliver insights into how the European family business community is fairing and how it perceives its business performance and prospects for growth. This year the clear message that is coming out is that family businesses continue to be highly optimistic about the future and despite the challenges they are focused on pursuing new business opportunities to continue to grow their business.

Family businesses across Europe including Malta, continue to face tough challenges, but their determination to succeed and ability to adapt to market changes, brings confidence for the future and are ready to take on the new opportunities that come along. This fourth edition of the European Family Business Barometer survey prepared by EFB and KPMG, shines a light onto the confidence levels of family businesses, the challenges they face and the changes they need to overcome.

The survey shows a largely positive outlook with a number of tough market challenges to be faced. On top of the agenda are increased competition, the 'war on talent' and declining profitability, all three have been mentioned by over a third of respondents. These challenges have been indicated by over a third of family business as being the top priorities that are perceived to be the challenges that could limit their potential for growth and inevitably influence strategic decision making with regards to the direction of the business.

Confidence in the Future

The European family businesses' overwhelming confidence in the economy and an improvement in all their major business performance indicators, including turnover, staff numbers and foreign operations, provide a solid basis for a positive outlook for the future.

Confidence in market conditions among family businesses is continually on the rise as 75% of respondents indicated that they are optimistic in their forecasts, although one must say that smaller businesses are slightly less optimistic.

At the same time business performance indicators remain positive. The future of family businesses is not about survival, it is about continued sustainable growth. The findings of the survey reflect the rise in companies' confidence in the future and positive trends in all the major business performance indicators, with 58% of respondents that they had an increase in turnover and 26% that they have maintained turnover. At the same time growth can be generated as a result of different actions not least through overseas markets. Almost 75% of companies are already operating beyond their national market and of those 58% have increased their activities abroad.

Facing Up to Challenges and Issues

While family businesses are consistently optimistic about their future there are a number of significant issues that they have to manage. The highest concerns relate to competition mentioned by 37%, recruiting and retaining talent 33%, and profitability 32%.

An increasing trend for family business is their capability to attract the right people with the right skill set required. In 2013 this did not even feature among the worries but since last year it has become the second highest concern for family businesses. Difficulty to compete for the best talent may prove to be a limitation factor on the performance of family businesses.

Decline of profitability is still one of the biggest concerns but for the first time in two years is not the number one family business issue. High competition and labour costs are likely to have had an impact on this outlook.

The future success of family businesses is dependent on their ability to meet and adopt to the challenges they have ahead. The types of reform most requested are in the areas of more flexible market regulation, reduced no-wage labour costs, and a reduction of the administrative burden each mentioned by 25% or more of the respondents.

Family Businesses at the Cross Roads

A natural desire to keep the business within the family means owners have to make decisions relating to when and how to transfer management and ownership to the next generation. Passing on management 26%, ownership 15% and governance (ultimate control) of the business 15% within the family are the most popular option for families in business. An emerging trend over the past two years is that of selling their companies. Although this is still small, it is worth exploring why this trend is developing.

Family Business' Keys to Success

Family businesses are well aware of what makes them strong and helps them to succeed even in challenging market conditions. They have two key differentiators which help them to withstand difficult times and competitive threats: as a 'family' they place a high value on their unique values and characteristics; and as a 'business' they realise that a timely succession plan and implementation is their main key to success. The key strengths and advantages of a family business are seen to be: fast and flexible decision making 71%, long term perspective 63%, and shared values and ethos 51%.

Passing on the business is not something to be taken for granted as there are a number of requirements to make it happen. The survey respondents consider that gaining experience outside of the family company 56% and to be properly trained for their future responsibilities in the family business 54% are the most important aspects for successful continuity.

The future for Family Business

When setting goals and objectives companies seem well aware of the major drivers of their success placing profitability 59% at the top, followed by increased turnover 37%, move/export to new markets 23%, increase innovation 23%, diversify into new products, attract new talent 21%.

Family businesses are influenced not only by business and market conditions but also a series of critical success factors. Family businesses place the highest importance on having good governance structures and processes in place 85%, preparing and training a successor before leadership succession takes place 82% and maintaining family control of the business 80%.

To achieve the above family businesses have indicated the following mechanisms and practices as being some of the important practices to be in place: formal Board of Directors 63%, Shareholder's agreement 48%, Family council 23%, succession plan for CEO 22%, family constitution 19%.

Conclusion

This research shows that family businesses set challenging business goals but are not always fully prepared and equipped to achieve these goals. Put more simply, the priorities for family businesses must be to: develop a robust business strategy, apply strong governance mechanisms and maximise the competitive advantage offered by unique business strengths found in family businesses.