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Family Business Focus

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A Special Report

Family firms are the bedrock but face challenges

It is vital that measures are put in place to greater support indigenous businesses

MIMI MURRAY

With heavy focus often placed on foreign direct investment, it's sometimes forgotten that family firms are the economic and social bedrock of Irish society, with in excess of 75 per cent of them contributing to more than 50 per cent of Ireland's GDP, while employing 50 per cent of workers across the country.

They are also present in towns, villages and cities, and in all sectors including retail, farming, animation, food production, engineering, manufacturing, logistics, financial services and technology.

But they face numerous challenges. Due to the current global, political and business environment, there is more uncertainty in the international business and international tax landscape. Therefore, the Irish economy needs to ensure measures are put in place to greater support Irish indigenous family businesses.

Robert Murphy, tax associate director at Grant Thornton explains a number of the challenges.

"The attraction and retention of key staff in a near full-employment economy is a significant challenge. Family businesses are having to look at new and innovative ways to attract and retain staff. The advent of Brexit is another major challenge. This has renewed the focus for family businesses to seek and develop new markets overseas or diversify product offerings, as well as supply chain inputs," he says.

"However, finding and growing these markets involves a certain lead time and investment, as often supply chains can take time to adapt and be developed. The introduction of new regulations such as GDPR also impacts family businesses by adding additional compliance obligations to smaller companies which have less resources to deal with the often complex issues which can arise."

Meanwhile, given the pace of change, family businesses need to ensure they are being proactive in the digitalisation of their businesses, for example, in online sales platforms or automation.

"Digital transformation of the world of work, product/services offerings and IT security are significant challenges for family businesses in order to stay competitive and relevant. If implemented effectively and if fit for purpose, they can have positive impacts for family businesses by reducing inefficiencies and potentially labour costs. In order to achieve this, the technology must be relevant to the business and embraced by those who work there," Murphy says.

For a number of family firms, imitation of brand is a major issue, according to Dr Eric Clinton, associate professor of entrepreneurship at DCU National Centre for Family Business.

"If an Irish family business has a certain brand image, colour or wording and is imitated by a big international competitor, this can cause problems for the smaller business.

"As well as this, appetite for risk within a family business may vary, with a young, well-educated professional having a greater appetite for risk than the current generation, who may not share that appetite.

Succession planning

"Integration of the next generation and succession planning is something family businesses are not always good at, mainly because they don't do it that often. The tenure as CEO in a non-family business is three to four years; in a family business that is 23 years. It's usually the elephant in the room that nobody wants to talk about," Clinton says.

Indeed, succession seems to be a key issue impacting on family businesses, with a focus on capital gains tax, Olivia Lynch, partner at KPMG Private Enterprise, says.

"The timing and execution of this decision is significant to maintain and build on a successful family business long term. Tax policy acknowledges that without relief, the cost of passing on a family business to the next generation could be prohibitive. 'Retirement Relief' provides relief from CGT on the passing of a family business to the next generation. This relief can be availed by someone who has reached the age of 55 and meets the necessary conditions.

"Once a person reaches the age of 66, this relief is capped where the market value of the business exceeds €3 million. While there is no requirement for someone to actually retire in order to avail of Retirement Relief, the age-related conditions could lead families to consider the decision either too early, if they want to do so before the age of 66," she says.

"The decision is unique to each family and their business, and adjustments to the current restrictions in tax policy in this area could greatly assist families when they come to making it.".

There is a need to ensure the skills base reflects not just the current business demands but the challenges of future growth in existing and new markets

There are numerous Government initiatives that can help family businesses, as well as tax policy improvements which could be made to improve the tax environment for family businesses and would also encourage entrepreneurial spirit.

"Improvements could be made to certain tax reliefs such as Capital Gains Tax Entrepreneur Relief to increase the lifetime threshold from €1 million, given our UK counterparts offer a limit of £10 million. Improvements could also be made to CGT Retirement Relief, which is having a limiting factor on some business transfers, or Capital Acquisition Tax Business Asset Relief to aid succession of family businesses," Robert Murphy says.

Meanwhile, a large number of State and EU supports are available but State agencies need to be more engaged with family businesses at a local level to make the best use of these resources and to promote entrepreneurship within communities, he adds.

Talent base

Skillnet Ireland is one Government initiative that can help family firms with their staffing needs.

"For success, all businesses need a highly skilled and motivated talent base to thrive and remain competitive. However, skills are highly dynamic and subject to obsolescence, meaning a persistent focus must be maintained by family businesses on the development of their workforce," Tracey Donnery, executive director at Skillnet Ireland says.

"There is a need to ensure the skills base reflects not just the current business demands but the challenges of future growth in existing and new markets.

"In practical terms, businesses could engage with one of the Skillnet Ireland networks and seek their support in identifying the knowledge, skills, abilities and other competencies their company requires, and how to develop their team or any new-role profiles that a digitised workplace demands," she adds.

Integration of the next generation and succession planning is something family businesses must give careful consideration to. PHOTOGRAPH: ISTOCK

The top 5 trends in family firms

1 The challenge of the 100-year life

Ken McCracken, head of family business at KPMG Ireland says the senior generation in family business will, on average, live longer than at any time in history. "So what effect will this have on the transfer of ownership and leadership from the senior generation to the next generation? Allied to this is what the senior generation will do if they ever retire in order to have a meaningful life. What roles could they have in their own family business – possibly as an ambassador, or in the wider family business community as a mentor, perhaps?"

2 Sustainability

Angela Ruttledge, co-owner of Woodstock Cafe in Phibsborough, Dublin 7 says sustainability starts at home. "As we try to do our best for our children and protect their future, we start looking at living in a more sustainable way. We are learning for ourselves and teaching our children about how to minimise the damage that we are doing to the planet. Sometimes they are teaching us. The more we learn, the more it affects the way we think about our whole business. At the moment, we are very focused on encouraging people to eat more plant-based foods, on reducing the waste we produce as a food business, and on recyclable and compostable packaging. We are actively engaged with our suppliers – many of them family businesses too – and everyone is talking about this."

3 Non-family leadership

Dr Eric Clinton, associate professor of entrepreneurship at DCU and director of the National Centre for Family Business believes there is a willingness to engage non-family in senior leadership roles. "As long as they can understand and respect what the family are trying to achieve through being in business together."

Ken McCracken says there are two types of family business. "Family-first family businesses and business-first family businesses. The second reduces things like nepotism and altruism – you're not entitled to work there just because you have the family name. It's about integrating non-family too."

4 Trust

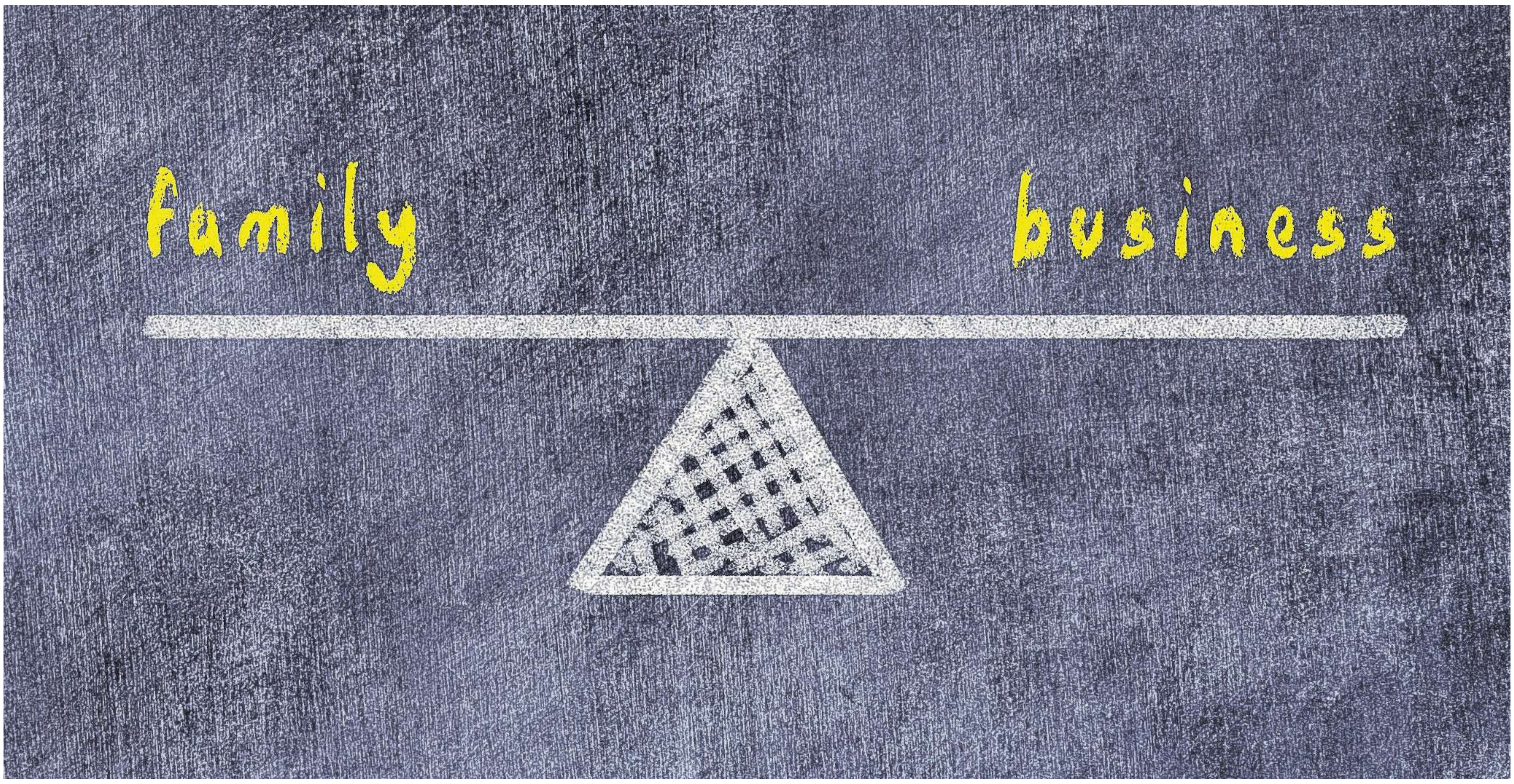
"Statistics suggest that in first- and second-generation family businesses, only one-third of family businesses will survive, says Dr Eric Clinton. "In second- and third-generation family businesses, only 12 per cent will survive. That's not always down to an economic reason, and is often to do with family issues, emotions, or disagreements. If trust breaks down, then emotions can become involved, especially between the current generation and the next generation, sibling partnerships or even cousin consortiums – cousins may not know each other that well, therefore the levels of trust may not be there."

5 Attracting talent

Olivia Lynch, partner, KPMG Private Enterprise says: "A significant challenge that can face many family businesses in Ireland as they experience successful growth is the ability to attract and retain executive and managerial talent. It can be extremely challenging for family businesses to compete with public companies, which tend to have more options available to them to offer equity participation. The KEEP [Key Employee Engagement Programme], a share-option scheme for SMEs, was a welcome introduction to assist SMEs and family businesses in addressing this challenge. It has been acknowledged that the uptake of the relief was much less than expected and following the recent public consultation, we would be hopeful that this relief would become more accessible for family businesses."

MIMI MURRAY

'The senior generation in family business will, on average, live longer than at any time in history.' PHOTOGRAPH: ISTOCK



Getting good value from a family business

Ensuring family and business values align is vital to success and longevity of a firm

DAVE PHILLIPS

Family business is big business in Ireland. According to DCU's National Centre for Family Business, about 75 per cent of Irish firms are family businesses, and they contribute more than 50 per cent of the country's GDP, as well as about 50 per cent of employment.

But family businesses have their own set of complications, especially as the business grows. Much of this can stem from how family values and business values interact with one another throughout the life of the business.

"We've done some research around imprinting in family firms," says Dr Eric Clinton, director of the National Centre for Family Business, DCU. Imprinting originally stemmed from avian biology and later moved to developmental psychology – the theory looks at the mechanisms through which basic values and behaviour are passed from one generation to the next.

"That theory has moved into the business world – we have looked at multigenerational family firms to see how behaviours and, fundamentally, values, have become imprinted. We found that this imprinting, and the generation of values, happens in what we refer to in the research as a sensitive period," says Clinton.

"Sensitive periods happen in everyone's personal life, examples could be the death of a parent, illness, or starting a new job – these periods inform how we behave in our lives. The same thing happens in a family business," says Clinton.

A lot of the sensitive periods happen at the early stages of the business, but things happen in multigenerational family firms throughout generations which dictate the values the family stands for, he explains.

"You could have a third-generation business which has to deal with a supply crisis, or industry decline, or indeed a non-family member coming into the business. These periods can very much change the orientation of the family when it comes to values."

Five generations

Established in Donegal in 1866, Magee is a family business whose well-known brand of design, weaving, and tailoring has sustained through five generations.

"I am the youngest of three siblings and we are now all in the family business working with Dad, so it is a real family feel," says Rosy Temple, sales development manager at Magee.

"We have key values that have remained a constant part of who we are for over 150 years, like a sense of honest integrity – to our suppliers, employees and customers. Alongside this comes our commitment to quality – in the sometimes fickle world of fashion, it is easy to succumb to a mantra of cheap, bad-quality clothing to drive volume. This has never been our style, we have always worked to bring long-lasting quality in everything we do," says Temple.

A rich story of heritage and tradition often conveys an important message to customers – one of the reasons more family brands are on shelves is that there is a strong appetite for them.

"Just look at your local shops and you see that increasingly the family brand is coming to the fore. As a small nation, we have had many scandals regarding sourcing and traceability of product," says Clinton. "In surveys of consumers, we want local, green, Irish products. These family firms are seeing the benefit of promoting their values to the customer. So family values can often have a beneficial impact on business values."

"A crucial point is whether you are a 'family-first' family-business, or a 'business-first' family business. The ones that are multi-generational will tend to have a 'business-first' approach," says Clinton.

One of the benefits of working with family is that we are all on the same page when it comes to making sure that there is a successful family business to pass on to the next generation

When it comes to multigenerational businesses like Magee, the business and family values work symbiotically. "I don't think there is much of a distinction between our family and business values," says Temple.

"One of the benefits of working with family is that we are all on the same page when it comes to making sure that there is a successful family business to pass on to the next generation. There is an inherent understanding that longevity is hugely important – we are not about making a quick buck, but about making a sustainable future available for decades to come."

While the informality that can exist in the early stages of a family business can be helpful in encouraging the business to grow, formal structures of employment are useful when it comes to expanding the business across generations.

"Many of the successful multi-generational firms have worked hard on the 'family' side of things," says Clinton. "That might be setting out policies for next-generation involvement – some family business may have a policy to say that in order to be involved, you must first work for five years outside the family business, or you must have a professional education in an area that can contribute to the family business. Often, the recruitment of family members must be done through a non-family board."

Succession plan

In looking toward the next generation of Magee, that shift is already being considered as to how family and business values may be passed on.

"The sixth generation are little children right now," says Temple, "so we have no idea if they will join or not and will not be putting them under pressure to do so.

"We must plan for two situations, one where there is interest in joining, and one where there is not. We'd like to hope that some of them will, and in that event, it is up to us to have agreed on a clear succession plan which is well structured.

"Succession in any family business, be it a farm or clothing business, will never be straightforward, but the lack of a succession plan without knotty decisions clarified and made is a disaster waiting to happen. We can't emphasise enough how important it is to tackle the future now."

■ **'A crucial point is whether you are family-first family-business, or a business-first family business. The ones that are multi-generational will tend to have a business-first approach.'** PHOTOGRAPH: ISTOCK

Who is out there to support family businesses that are facing challenges?

SANDRA O'CONNELL

It's easy to see how family firms face particular challenges on top of the already difficult task of commercial survival.

Between half and three quarters of the GDP in every open economy is estimated to come from family-owned businesses, and yet on average only 12 per cent survive to the third generation, supporting them makes sense. But where do they turn?

"All businesses need support at different times and stages but family businesses have specific issues they need to address, in terms of having to both manage the business as well as the family dynamic," says Catherine Moroney, head of business banking at AIB.

Sometims subtle tensions arise simply from trying to maintain the family business ethos that helped establish the business while it grows and scales into something much larger and more 'corporate'.

Families also need support recognising when the time has come to create a family charter, or constitution, which lays out clearly the rights and obligations of family members both in relation to shareholdings and governance, as well as practical matters relating to in-laws.

The younger generation may struggle to feel heard, let alone take the reins, particularly with a founder who is reluctant to go. "Letting go can be very challenging, especially for someone who is very good at what they do," says Moroney. "The key is to have all these conversations early, before conflict arises."

There are resources which can help, including Dublin City University's Centre for Family Business and the Northern Ireland Family Business Forum, at Ulster University.

■ **The younger generation may struggle to feel heard, particularly with a founder who is reluctant to go.**

These bring together academic research with practical assistance from banks, accountancy firms and law practices, and provide family businesses with an invaluable opportunity to hear from their peers.

"It can be really helpful to hear from others in the same situation," says Moroney. "And because they are non-competing, family businesses can be really open about the challenges they face."

Succession planning is a perennial concern, says Ian Smyth of Ulster University, who runs the NI Family Business Forum. A HR specialist, he comes from a family business background himself, so understands the issues first-hand.

"The challenge is often being able to get an effective handle on whether or not the next generation has the right skills and abilities to take over."

It's an issue given added texture by the fact although Northern Ireland was cushioned somewhat from the last recession, very many Gen Zers will still have seen their parents struggle to keep the family business going, and the sacrifices many made to do so. They may be reluctant to follow suit, particularly as they "have more appreciation of work-life balance", Smyth says.

Layered on top of that is the current political situation, including, in the North, the suspension of policy making, and uncertainty around Brexit. "There is also a sense that foreign direct investment and the multinationals get all the supports, but not SMEs," he says.

It can help therefore to know that there are commercial supports available. Energy provider Energia, for example, has a number of campaigns which can help bring down overheads, including a Cash for Kilowatts promotion that provides grant support for the installation of energy efficient solutions.

Businesses by now know what they need to do to become more energy efficient, but the capital outlay required is often simply too prohibitive, says Alan Mulcahy, Energia's head of sales.

To help, Energia will carry out an audit of the business, find out what annual savings it would make by switching over to new lighting, design and install a solution and take your old one away, for a contract that runs over three to five years.

"You continue to pay the 100 per cent of your old bill for the term, and once the installation is paid off, the new lighting system, and the savings, are yours," he says.

There are soft supports available too at FamilyBusiness.ie, a website and consultancy based in Cork but offering a country-wide service to family firms. SFA Skillnet Network is a particularly helpful resource that provides tailored, subsidised training.

This is invaluable because talented and ambitious people can be put off by the fact that their voice will never carry the same sway as those whose name is over the door and Skillnet training can be a way of ensuring managers feel invested in and developed. The peer learning element is invaluable too, providing an opportunity to find out how other family businesses faced and overcame similar challenges.

A business family cut from the same cloth

Siblings forged separate careers, but Magee 1866 wove an attractive spell

Family Focus

DANIELLE BARRON

Rosy Temple, sales and marketing manager with Magee 1866 Home and Clothing, works with her father Lynn and her siblings Charlotte and Patrick in what is now a fifth-generation family business. From humble beginnings at the Ardara Homespun market in the 1860s, nowadays it encompasses a mill, retail outlets, a website and a wholesale business, with a team of more than 140.

It's obvious the Magee business of designing, weaving, and tailoring is in Temple's blood, but does this mean when it came to choosing her own career she felt pressured to follow in her ancestors' footsteps? Not so, she says.

"We certainly weren't put under any pressure or obligation by my dad, and I think that attitude conversely almost made us interested. We all went off and did our own thing in our 20s with very different careers but came back of our own free will," she says.

"That sense of perspective gave us the opportunity to realise what an amazing business we did have at home. My brother and sister's kids are technically the sixth generation but we are applying the same attitude – while we would absolutely love it if they became involved, there is no pressure."

And while working with family members can lead to tension either at home or in the office, Temple and her siblings appear to have found a formula that works.

"We do work together on a day-to-day basis but I think what's key is that we all have very distinct responsibilities and look after different aspects of the business together with non-family members of a very strong team."

Indeed, Temple stresses the importance of remembering there are other, non-related, members of the team with equally valid insights. "It is about all of us working together, not with the family off having private chats that no one is allowed be part of," she says.

Crucially, Temple and her siblings also know when to down tools, although she admits it is easy to fall into the family business tradition of talking shop outside the office.

"My dad would certainly have done that with his own father back in the day, but for me I find it seriously unproductive. It is also important for our mother, who doesn't work in the business, so that her home doesn't just become another office," she says.

"I am really black and white about it, that work is at work and not at the kitchen table. I am very adamant about that."

This strategy must be working, because Temple says she and her family spend a lot of time together once they leave the office.

"We are all quite different people but we all get on very well outside work and the key to that is that we have a number of shared interests outside work – I might go cycling with my dad or mackerel fishing with my brother.

"So, while it sounds mad that we would see each other in the office all week and then choose to do things together at the weekend, it's really important for having that work-life balance in a family business."

Back at work, it also helps that Temple, her siblings and her father are "broadly on the same hymn sheet" as to what direction the business is taking.

"Obviously, there are robust conversations, which is a nice way of describing family arguments – on a day-to-day basis we will have debates and there might be a difference of opinion within the family as to how we do certain things but as a whole we are on the same page, we all want to adhere to the values of proper quality and sustainability. Arguments and day-to-day stuff don't matter when we all agree on the key values," she says. And with so many different strands to the Magee 1866 brand, there are undeniably many difficult and complex business decisions to be made. Tradition is important, but change is necessary for the survival and growth of a family business, says Temple.

"Unlike working for a public company, or a big corporate, it's not just about the next quarter but more about the longevity and ensuring that the family business is viable to pass on to the next generation. We have survived by being able to adapt and make the necessary changes.

"Change is always uncomfortable but as a family business you've got to be able to embrace it so that it is there for the next generation."

■ Rosy Temple, above and left with her brother Patrick, father Lynne and sister Charlotte. Working away from the family business gave the siblings a sense of perspective.

Diversity is key for Magee

An appreciation of diversity helps keep Magee 1866 current. "For us it really is key," says Rosy Temple.

Just four decades ago, the brand would have been strongly associated with an older demographic, she says. Now it marries the company's iconic textiles heritage with cutting-edge design and tailoring that appeals to a much younger customer base too. "The diversity of our market is reflected in our team," she says. The business employs 140 people. Ensuring there is clarity about roles, clear demarcation lines and good governance all helps it to attract, recruit and retain talent right up the organisation through to its senior management team.

This is significant, as family businesses traditionally struggle to get and keep good people. Many talented, ambitious individuals are put off by concerns about having to navigate the family dynamic. At Magee, good governance structures ensure "non-family members don't feel the decisions are made over the dinner table at the weekend, and just announced on Monday morning," Temple says. Introducing flexible working measures where possible also helps to attract and retain as diverse a cohort of people as possible, in particular in areas such as IT. In terms of gender, the workforce is evenly split. "When it comes to recruitment, we have always been very open and progressive," Temple says.

Corporate governance is crucial for family firms

Having good principles in place is essential to drive profitability and avoid disputes

BARRY McCALL

Corporate governance is one of those terms that gets bandied about from time to time without much of an attempt to explore its full meaning. Indeed, many people, even at senior levels in business, confuse governance with management. But the two could hardly be more different.

Management is involved with the day-to-day running of an organisation while corporate governance sets the framework and parameters within which that activity takes place. Where adequate standards of corporate governance are not in place or are circumvented or ignored, bad things are almost guaranteed to happen.

And this principle applies to organisations across all sectors – public and private sectors, charities, not-for-profits, NGOs, sporting authorities and, of course, family businesses.

"Good corporate governance, and documenting it, is essential to help build shareholder value, drive profitability and avoid disputes," says Edward Evans of law firm Beauchamps.

"Internal boardroom governance matters to family businesses as it does to any business," adds Ken McCracken, head of family business with KPMG in Ireland.

"It's as important for family businesses as it is in any business," says AIB head of business banking Catherine Moroney.

"The purpose of it is to facilitate the prudent management of the business and help it succeed. No business wouldn't want that. It also helps to make a business sustainable as new people from outside or family members are brought into the business. It ensures that happens properly. It's about well-managed growth aligned to the purpose of the business. If you want a business to be purposeful, profitable and sustainable you need to govern the business well and use tried-and-tested and proven business practices."

UCD professor Niamh Brennan is one of Ireland's foremost experts on the subject. "Corporate governance is important for every business," she agrees. "But family businesses have aspects to them that make corporate governance particularly challenging. The most obvious is the family business intertwine."

What she's referring to is the entanglement of family matters and interests and business matters which can frequently cause problems for all concerned. "Family disputes are a particular problem," Brennan notes. "The family business intertwine means that things might be done informally, but formality is absolutely critical. You must have formal board meetings with proper minutes. This ensures that the directors carry out their fiduciary duties to run and manage the business with due care and skill."

■ 'Family businesses have aspects to them that make corporate governance particularly challenging.' PHOTOGRAPH: ISTOCK

"If something goes wrong, you've got to be able to demonstrate that business was conducted properly. That's where good corporate governance comes into its own

Particular challenges

But family businesses can face particular challenges when it comes to governance. Among these is the need for clarity in relation to what family members want from the business. "The board, especially non-family, must be clear about what success means for the family; or to put this another way, the overall return on investment that the family want," says McCracken. "This is likely to be a combination of economic returns and other, non-financial, returns on investment to which the family attribute value. The family shareholders need to clarify what they mean by success and the board then has to help the company achieve it. This is very different from other types of business that tend to focus only on economic returns."

Evans agrees. "It can often stretch resources and finding the time to build such governance, while trying to run the business, can be difficult. It also requires families to work together, professionally, to agree policies, procedures, and so on."

And needs change as time goes by. "If the business is in expansion mode it may have to raise finance and this introduces potential challenges," Brennan points out. "If a family business raises finance from a venture capital investor, a condition might be a seat on the board. That may create some difficulties. Family businesses tend to be reflective of the value system of the family. Families are very conscious of their good name. Venture capital may not have quite such a feeling for the family name."

"In the early generations, family businesses often do not need or want much by way of formal governance," McCracken notes. "But as the business grows, and ownership changes as it passes down the generations and the family become demographically more complex, the demand for some level of formal governance increases. Successful, multi-generational family businesses have one thing in common – they are well organised, or, to use another description, they are well governed."

The potential for damaging disputes increases over time, according to Moroney. "In the early stages of family business, it is inextricably linked with family," she explains.

"As the business grows it makes absolute sense to have a clear line of separation between family interests and business interests. It can be vital to the health and wealth of the business, as disputes can lead to value destruction. Good governance can make the difference between having an inter-generational family business and not. Disputes can destroy a business. If family members agree on the rules early on while everyone still gets on, it is best. If you want to bring in outside equity you will get a much better price if you can demonstrate best practice in corporate governance."

"Early-stage companies need to set out simple, flexible but clear corporate governance norms but can often lack the knowledge or experience to do this," says Evans. "Growing businesses then have to deal with a range of family and interpersonal challenges while also looking to the next generation to help and become part of the businesses growth. Clear lines of responsibility and reporting are very important for this stage. Mature family businesses will also have intergenerational issues and may also be in sale or transition mode with some founders or family members exiting. Clear exit rules and how to deal with transition are key here."

Relevant advisers

But help is available in overcoming these challenges. "A clear and common sDet of agreements can be put in place, with outside assistance from relevant advisers," Evans points out. "This can be right-sized for the stage and resources of any family business."

McCracken advises family firms to research what other successful business families have done. "Work out what works for you, based in your family's traditions and your aspirations for the future," he says. "This takes time because each family will need a bespoke solution. There are no best practices. In fact, beware best practices – best-practice statements are most often excessive generalisations from selected examples leading to complex family businesses being reduced to facile slogans that are falsely presented as universal laws."

Niamh Brennan sums up the importance of good governance. "If something goes wrong, you've got to be able to demonstrate that business was conducted properly. That's where good corporate governance comes into its own."

Family Business Awards honour best companies

BARRY McCALL

Ballymaloe House, Dawn Meats, Sysnet, P&G Cards and Flahavan's were among the winners at the inaugural Energia Family Business Awards held in Dublin in May. The awards were established to celebrate the contribution of family-run businesses in shaping the Irish business landscape and the economy generally.

With more than 200 entries received, the awards saw strong representation from across all sectors and businesses at different stages of development. "The range of business sectors represented in the award submissions shows our economy is diverse and fit for the future," says Energia head of sales Alan Mulcahy.

"At Energia, we partner with businesses all across the island of Ireland and are committed to the communities they serve. The volume and quality of the entries received augurs well for the future of the Family Business Awards as does the deserved recognition of innovative Irish businesses."

■ The Team from P&G Cards (Athleague), winners of Retail and Wholesale Family Business of the Year, with Kevin Doherty of Davys. PHOTOGRAPH: PAUL SHERWOOD

Evidence

According to Family Business Ireland director and chairperson of the awards judging panel JJ O'Connell, the awards are very timely in acknowledging family businesses. "They are the backbone and fabric of Ireland's economy," he says. "Despite their importance, the historical failure to transfer from one generation of ownership to the next generation of ownership is a significant issue for the economy. Some 72 per cent of family-owned businesses in Ireland cease to trade five years after the death of the founder. Only 13 per cent make it to the next generation. The successful companies, the ones we celebrated in the awards, are the families that have both a plan and a process."

In his role as a judge, O'Connell says he was looking for clear evidence of such a succession process being in place. "We were looking for businesses that had transferred from one generation to the next and where the new generation had improved performance, enhanced capability and brought the business forward. The great thing is that the founders had enabled that to happen by going beyond themselves as entrepreneurs and businesspeople."

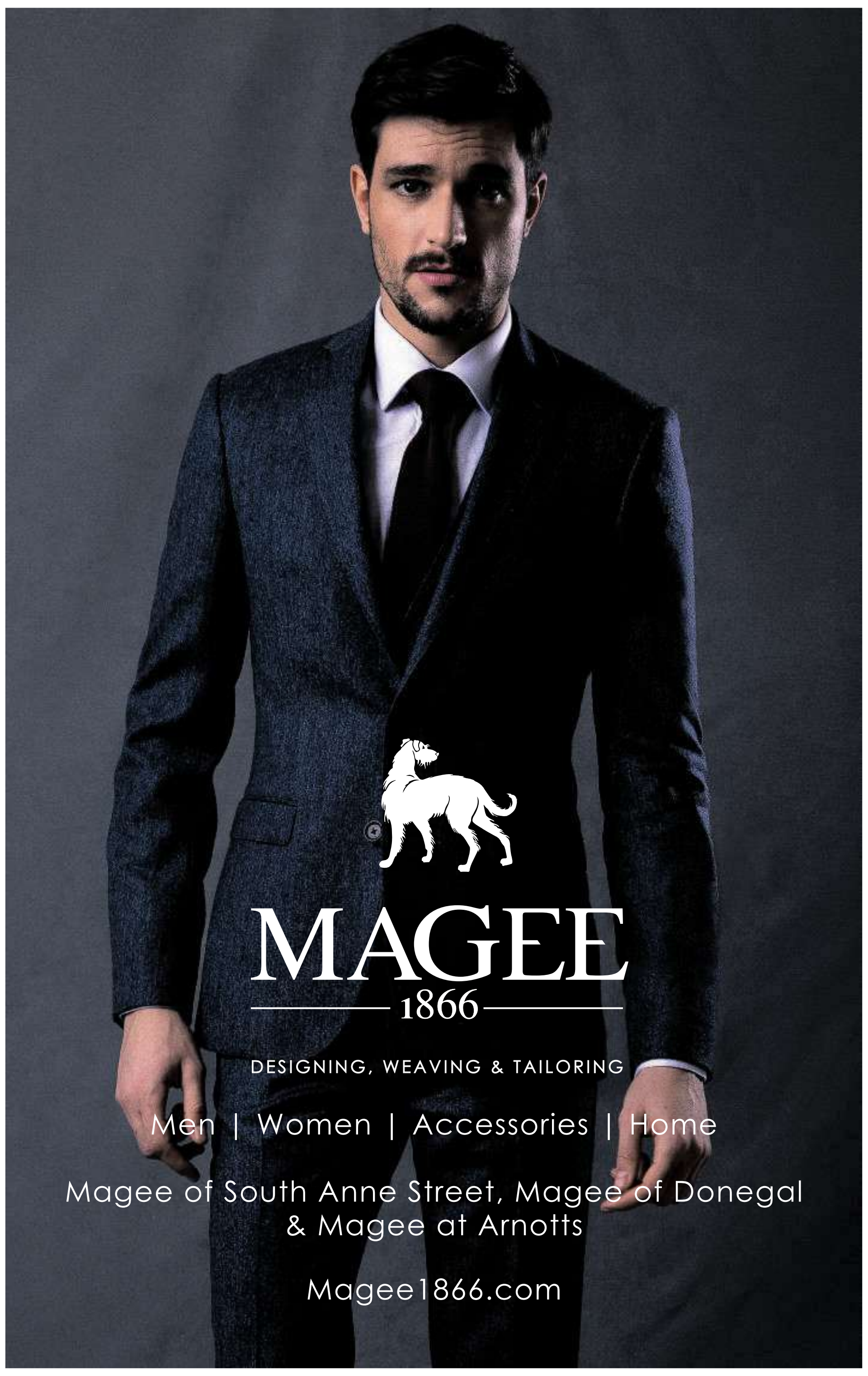
Recognising achievements like this is very important, he adds. "To enable far greater numbers of family businesses to continue to trade over many years, there needs to be a greater awareness of the importance of family business succession planning. The inclusion of family business succession planning within the Action Plan for Jobs was an important step in prioritising the issue of succession planning."

The importance of efficient wealth transfer should not be understated, O'Connell argues. "In 2018, Forfás looked at private wealth in Ireland. There is between €250 billion and €300 billion in the country. This is the first time there has been real wealth in the country and the majority of it is owned by people in their 40s, 50s and 60s. There is now a clear recognition that efficient transfer of that wealth is required. But taxation and other issues can make it problematic. Family conflicts, poor business structures, taxation, poor planning and other issue can present challenges."

"[Family businesses] are the backbone and fabric of Ireland's economy

But things are improving. "Four years ago, PwC looked at this and found that only 10 per cent of family businesses had a proper plan in place for the future. Their most recent report found that 18 per cent of them had a plan. That is still too low but is a very significant improvement in just four years and is evidence of increased awareness of the need for proper planning.

"That's where the awards come in. They are a celebration of the role of family business in the economy. They highlight the best-in-class and-best structured businesses and allow other companies to benchmark themselves against the best there is in the country."



Making a success of succession in family firms

Planning early and putting formal agreement in place is key to good outcome

MIMI MURRAY

Succession continues to be the dominant question facing Irish family firms.

Regardless of market conditions or industry, any firm with family involvement faces the inevitable intra-generational question at some point, Ian Smyth who runs NI Family Business Forum and is a lecturer in human resource management at Ulster University, says.

"Whilst a true figure is difficult to accurately pinpoint, around 75 per cent of private-sector companies are recognised as being family firms and 50 to 60 per cent of those intend to hand over to the next generation in some way, which marks the succession issue as critical for private-sector growth in many ways," he says.

"What complicates this issue, versus non-family firms, is the idea of effective endowment – specifically any non-financial capital or psychological attachment to the firm that the family owner wants to retain, maintain and keep within the family."

Planning early for succession then is vital, but not something that Irish family firms are very good at, as only somewhere between 10 per cent and 18 per cent make it to the third generation. "Given the continued difficulty in acquiring and retaining talent across the board, this sharpens considerably when thinking about talent available within the family when the goal is family handover," Smyth adds.

Disconnect

The statistics on having a formal succession plan are dismally low, with only 18 per cent of Irish family businesses with a formal plan in place.

Why then, if 53 per cent of family businesses want to pass the business on to the next generation, is there such a disconnect between the aspiration of continuing the legacy and the reality of achieving this aspiration, Catherine McElhinney, PhD student at UCD, asks.

"Because while planning always involves an element of uncertainty, the addition of family throws an added layer of complexity with emotions, expectations and desires, often creating a resistance against the need to plan for the future."

So how are businesses finding their next-generation leaders?

The desire to keep the business in the family is a strong motivator and results in the next generation often being groomed for senior management and leadership roles, McElhinney says.

"While traditionally, family members joined the business early in their career and worked their way through the business to understand it from the bottom up, rapid advances in industry and increasing globalisation of the economy has led many businesses to believe that continued success depends on their future leaders gaining experience outside of the family business," she says.

Institutionalised

"This will enhance their skillset, help them gain knowledge and understanding of wider industry workings and to bring new thinking and expertise back to the family business. This external experience allows next-generation leaders to avoid becoming 'institutionalised' by the family business by gaining perspective on how other businesses operate whilst also strengthening their credibility and ability against possible accusations of nepotism," she says.

The main issue to be considered is whether or not there is someone within the family with the ability, skills and interest to take over the business, Shaun O'Shea, partner at law firm Beauchamps, says.

"Experience shows that a better outcome is achieved where family members are consulted and where there is early and consistent communication between family members. It is also very important that succession intentions are discussed and clearly mapped and recorded. We would also strongly recommend the establishment of some form of family forum to address and manage any conflict or potential conflict that might arise," he says.

"Key skill requirements are a major concern for any business and in this regard a family business is no different and again we would strongly recommend that a family business charter or constitution is put in place and those skills are clearly identified in it. Admission of new family members into a business, if not handled correctly, can result in the departure of experienced, skilled executives."

> "The addition of family throws an added layer of complexity with emotions, expectations and desires, often creating a resistance against the need to plan for the future"

Opportunities

In terms of opportunities for new entrants into this market, Ian Smyth says: "We are seeing a lot of opportunity within the tech sector for co-preneurial family firm start-ups, for example, husband and wife teams. They are developing really interesting and innovative firms that are perhaps more lean and agile as they are small by nature, but with the innovation and opportunities to scale more rapidly, and as a result take more risks, perhaps more than in a traditional family firm.

"That said, the research shows that family firms always outperform their non-family counterparts, so for a new entrant to start off as a family firm, they have a prime advantage."

However, the concept of a family business will change dramatically over time, with technology being the key determining factor, according to family business consultant Paul Keogh. "To understand how technology will change the concept of family businesses, we must look at who are the new tech entrepreneurs. More often than not, these new tech companies are not started by what we would describe as the traditional 'founder', who builds a business and encourages his/her children to join.

Traditional

"The new tech companies are started by techies that want to build a business and sell it and keep 'inventing' new tech products and sell them. The founders are often college friends with like-minded skills, not family. The main exception to this would be Stripe, which was started by brothers Patrick and John Collison. I am guessing that they are far too young to be thinking about the next generation.

"This is not to say that family businesses are on the way out but they will remain very much in the traditional industries you see today – construction, started by a skilled tradesperson, agriculture and agri products, fashion, services businesses such as pubs, garages, shops, hotels, and leisure.

"The problem for the future of these traditional industries is that they come with long and often very anti-social hours. The current generation in Ireland may not be prepared to work these hours, favouring a more flexible work-life balance," Keogh says.

■ 'Any firm with family involvement faces the inevitable intra-generational question at some point.' PHOTOGRAPH: ISTOCK

Family Focus Research, engagement and education at DCU's family business centre

Established in 2013 by Dr Eric Clinton, the National Centre for Family Business at DCU engages with international family business associations and projects in order to support family businesses in Ireland with informed and innovative evidence-based research.

The centre aims to provide the family business community in Ireland with practical managerial and business insights, informed by lessons from best practice in family business management.

"We do three things: we research, we engage and we educate," says Clinton. "First and foremost, it is a research centre. We research best practice internationally and inform family businesses here about it. We offer solutions for the current and next generations of family businesses in Ireland."

Engagement involves regular conferences and other events. "We engage with over 1,500 family business of all different sizes and stages of development, from some of the smallest to the very largest firms in the country," says Clinton.

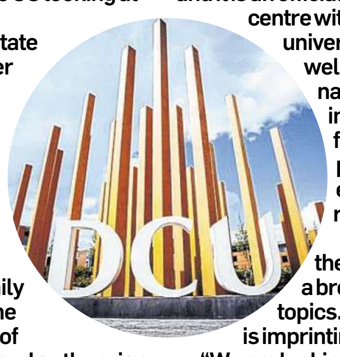
"We run 10 to 12 events every year. We held our national conference in the DCU All Hallows campus earlier this year with 140 people in attendance. We had a number of very good keynote speakers including Caroline Keeling (right) of Keeling Fruits and Chris Musgrave of the Musgrave Group.

"We also had Grant Dennis of the Dennis Family Corporation from Australia, who shared some very interesting insights about the growth and evolution of his family business since it was founded by his father. We also organise a lot of practical events such as seminars and workshops."

The educational strand sees the centre provide a number of different programmes for family business. "We have undergraduate programmes in areas such as bringing new products and services to the market through a family business or a spin-out company. We offer a number of executive education programmes as well."

The centre has its origins in Clinton's won research. "I did my PhD in the area of entrepreneurship in family business and spent time in the US looking at it," he explains.

"Lots of the state universities over there have centres for family business. Ireland is probably about 20 years behind the US in terms of support for family business. It is the dominant form of business in Ireland so there is a need for support – that was the motivation for establishing the centre.



"I was a faculty member and I said to the university authorities that there was a gap there," he adds. "We are the University of Enterprise, after all.

"We now have a staff of 12 and it is an official research centre within the university which is well-recognised nationally and internationally for policy and practitioner-based research."

Research at the centre covers a broad range of topics. One of these is imprinting.

"We are looking at how behaviours become imprinted across generations and the long-lasting impact of a firm's history to both individual and organisational outcomes. We are also looking at the big topic of succession.

"That's something we are not very good at in Ireland and we don't do it very often. The typical term of a family business CEO is 23 years by comparison to four years in other firms. People struggle to give up the thing that has been their passion for most of their lives."

Another research topic is trans-generational entrepreneurship. "We are looking at how some family businesses constantly reinvent themselves generation after generation and continue to succeed.

"We are looking at how they do that. How they manage the paradoxical tension which family businesses are built on, how they embrace tradition yet manage change."

BARRY McCALL

Nearly 30% of firms considering a non-family CEO

It is not always necessary to have a family member in a leadership role

DAVE PHILLIPS

■ Twenty nine per cent of Irish family businesses consulted in the Family Business Barometer report said they are considering the appointment of a non-family CEO.

Passing the baton in a family business can be a complex and contentious issue, but whether a business is growing in scale or planning for the next generation, the question of leadership is one that needs to be addressed.

Recent findings from the Family Business Barometer, an annual survey of European family businesses conducted by KPMG, reveals the majority (76 per cent) of Irish family firms intend passing the business to the next generation.

"Leadership is a vital aspect of any business. However, the added dimension in a family business is whether they feel it is necessary to have a family member in a leadership role," says Ken McCracken, head of family business consulting at KPMG.

"If so, how do the family balance this desire with the needs of the business? Especially if the talent in the gene pool does not exactly match the needs of the business," he says.

Keeping it in the family is certainly not a given, with 29 per cent of Irish family businesses consulted in the Family Business Barometer saying they are considering the appointment of a non-family CEO.

Whether choosing a family member, or looking outside the family, businesses facing this decision can expect a unique set of challenges.

"Picking a leader for a family business is much harder than in a non-family business," says Paul Keogh, a family business consultant who has more than 30 years experience working with family firms in Ireland and around the world.

"For years, the eldest son was the automatic choice, irrespective of ability to lead. This is still the basis for selection in China and many parts of Asia. Up until recently, in many family businesses, the sons were encouraged to join the business and the daughters to follow less demanding roles until they got married. This is also changing," says Keogh.

"Deciding which child to pick can be very difficult and the most qualified to lead the business does not always get the job. Many family businesses also find it hard to face up to the possibility that none of their children might be able to run the business – this might be seen to the world as a slight on the family name."

To navigate through these difficulties, many family businesses have introduced a more formal structure to employment, rather than passing on a leadership role automatically.

> **"In many family businesses, the sons were encouraged to join the business and the daughters to follow less demanding roles until they got married. This is changing**
> Paul Keogh, Family Business Consultant

"Family members should work outside the business for at least five years and should be at least at middle-manager level before being accepted into the family business," says Keogh, who points out an unhelpful trend of next-generation family members working while travelling as a way of garnering experience.

"This is not management development. They need to work their way up an organisation from trainee to manager to feel any sense of achievement before joining the family business.

"Equally important, they should never join the family business straight at director level," says Keogh. "Leadership positions should be advertised and an independent selection committee put in place. Family members should apply like everyone else and get the leadership job on ability and experience."

Formal structure

The establishment of a formal structure for employing and designating leadership roles is echoed in much of the research around family businesses, as is the need for professional training and education for would-be leaders.

Ian Smyth is a lecturer in human resource management at Ulster University, and a founding member of the NI Family Business Forum.

"Some of the research we have conducted at UU points to the development of learning capital in the next generation to be an absolutely critical component of the succession dilemma," he says.

"Whether it's the next generation spending time away from the firm before they actually join, gaining a qualification to legitimise their learning, to getting a mentor to help develop their career – this is vital."

Another finding of KPMG's Family Business Barometer report was the potential for inter-generational clashing in family businesses, as senior generations are living and working longer, and younger generations struggle to establish their positions.

The longer working life of the senior generation in the firm can result in a beneficial, gradual exchange of leadership roles if structured well. But if unstructured it can also lead to conflict and complications.

"Conflict occurs when there isn't clarity around people's roles, responsibility and authority in the business. For a firm to grow and become more 'professional', decisions need to be made with the business first," says Smyth.

"But all too often, family comes first which leads to emotional attachment and the inevitable conflict that comes from it. Worse is when family members feel they should have a say in running the firm when they have neither an ownership stake or are responsible for the day-to-day management of the firm."

"To avoid this, firms need clarity, professionalism and clear communication," says Smyth, who points to the benefits of creating a family business charter.

"When family businesses put in place clear guidelines for family involvement in the firm, this can help to avoid a lot of those awkward situations that can come about when clarity is in short supply.

"This governs everything from what it takes to join the firm, what is expected of you if you take a leadership role, what being a shareholder means, and also what it means if you are a family member that has an emotional stake in the firm, but no ownership or management responsibility."

Whether keeping leadership in control of family members or looking outside the family to fulfil leadership roles, it seems clear that family businesses who prioritise the business over family have a better chance of seeing the firm successfully pass on to a new generation.

"The best family business owners and managers aren't afraid to hire beyond their skillset, and their ceiling should be the next generation's floor in many ways," says Smyth.

Family Focus Love and (mostly) peace at Woodstock Cafe

Sisters Angela Ruttledge and Michelle Moloughney, and Michelle's husband Liam, co-own Woodstock Cafe in Phibsborough, Dublin 7, a restaurant that has been in operation since 1993.

It was first opened by the girls' mother 26 years ago but has been brought to the next level by the sisters in recent years. Rutledge joined the restaurant 10 years ago.

She explains some of the challenges faced by small, family-run businesses.

"When my mum first opened the business, there was no culture of eating out in Ireland. It was about fulfilling a need – feeding lunch to people in the workplace. In the last 25 years we have become so good at hospitality in this country and eating out. Back then, there was no website, payroll system, no social media. In a way, it has become more difficult as there are more things to do.

"My sister and her husband left professional careers so they could have more flexibility to bring up their kids, and have a better work-life balance. Ten years ago, they convinced me to join them. Since then, it has gotten harder and harder – firstly there was the recession, and now there is never enough staff to keep up with your hopes and ambitions for expansion. It's a very difficult industry to work in and very little cream anymore, you have to fight for stuff.

"In terms of working with family, it can bring out the child in you, and sometimes there's a lack of barriers. We vent but you get straight on to the next point. I am the meat in sandwich between husband and wife as well as sister and sister. But then you are so much more loyal to each other than you might be to an employer. Family comes first, and the job will get done. "Succession planning is not something we have thought about. All Michelle's children have worked in the restaurant and some like it more than others. It's invaluable experience for them.

■ Angela Ruttledge of Woodstock Cafe in Phibsborough: "You are much more loyal to each other than you might be to an employer".

"The Government has not made it easy for the restaurant trade. They are constantly pushing the button on things that are going to make it more difficult for small businesses to survive, like the VAT rate of 13.5 per cent – our turnover is not elastic enough to take that, so we are absorbing it at a time when there are huge wage inflations. Also, trying to find staff – chefs and kitchen porters – is very difficult. More needs to be done to help small family businesses," Rutledge says.

– MIMI MURRAY

Family business in not just in the blood

Family firms that get diversity and inclusion right can benefit massively

SANDRA O'CONNELL

■ It is important to demonstrate that you can develop talent as well as recruit it. PHOTOGRAPH: ISTOCK,

Diversity can help foster business success but family businesses, by their nature, need to take a proactive approach to ensure they don't promote purely on the basis of bloodlines.

"What you find commonly in family businesses is that they might need a specialist skill set but people feel they will never have shares and never have influence whereas, if they go to a PLC, they might not only get shares but end up running the company," says Catherine Moroney, head of business banking at AIB.

Being able to demonstrate that your family business has the structures and processes in place to separate out the family from the business can be a vital carrot in encouraging outside talent in. Showing you don't just recruit but develop talent is important too, if fresh thinking, as well as skills, are to be replenished.

At senior levels, the possibility for staff to receive a shareholding can help, indicating you are willing to walk the talk. "Then the person coming in will say 'Wow, I can see this family has separated itself out from the business'. You have to show them," Moroney says.

It's in your interests to do so. "Diversity leads to better decision-making," she says. For a family business considering taking on external funding, such as private equity, it's important too.

"Equity investors are very astute at seeing where the talent lies and will have no problem where family members are driving and growing a business. Where they will have an issue is, as a minority shareholder, around the transparency of the decision-making process," she adds.

Being able to show good governance structures will help assuage such fears. In fact, it's why investors can be a very good thing in a family business, driving the governance side, Moroney suggests. "If it grows, everybody wins, the business, the investor and the family. But it's only a win-win if I, as an investor, can be sure the decisions are transparent and made in around the board and not the kitchen table."

> "Bringing high quality non-executive directors can add diversity as well as fresh thinking from other sectors

A family business that does this well will get a higher premium for its shares, she suggests. Equally, bringing high-quality non-executive directors can add diversity to a family business, as well as fresh thinking from other sectors.

KPMG's most recent European Family Business Barometer shows Irish respondents identify the war for talent as their second greatest concern after political uncertainty. That speaks volumes about the importance Ireland's family businesses place on diversity today, suggests Ryan McCarthy, partner with KPMG Private Enterprise.

"Family businesses are ambitious and have growth plans that often require additional expertise. They are very aware of the need to attract the best people with a working environment that values diversity of thought and diversity of background," says McCarthy.

In PwC's annual family business survey, 80 per cent of respondents recognise that diversity has a role to play in increasing profits, so the business case is well understood. But how to do it?

"Improving diversity and inclusion is a challenge for all businesses, not just family businesses, and there is no quick fix but there are massive opportunities for family businesses that get it right," says Owen McFeely of PwC's retail and consumer practice.

Part of the opportunity is that it enables you to access a greater talent pool. However, for it to thrive in your business, it must have both leadership commitment and critical interventions to drive it on.

It also requires champions within the organisation as well as practical initiatives such as having younger staff mentoring older ones on subjects such as technology or market trends, he suggests.

Unconscious bias training can help too, to winkle out our unthinking preferences in terms of the kinds of people we like to recruit and promote. Ensuring you have role models in the family business who are happy to talk to staff about how they feel their difference is valued is important. Diversity alone isn't enough, "it has to be about inclusion too", says McFeely.

■ Gabriel Moynagh: "You can cut out the small talk and get straight to the point when you are dealing with family members". PHOTOGRAPH: CHRIS BELLEW

Family Focus Sysnet, a secure family business

Established in 1989 by Tom Moynagh, Innovative Family Business Award-winner Sysnet provides cybersecurity solutions to more than two million customers around the world with annual sales of €28 million. Those statistics are all the more impressive given the company had sales of less than €400,000 as recently as 2005.

According to current chief executive Gabriel Moynagh, being a family business has been an important factor in that success. "My dad started the business with my mother in 1989 as one of the first IT shops in Ireland to provide support and services to companies around the country," he says. "He had worked with Digital in the US so had come from an IT background."

He attributes his own arrival into the family business to a need for "cheap human capital".

"I'm a zoologist and I had no interest in going into the business long-term," he recalls. "My most recent job had been working in an American amusement park when I got the call to come and join the company in 2004. There was a bit of a crisis as it had lost a few clients and I came in to help out. I had worked in the business doing holiday cover in reception and so on over the years, but I really didn't know the business."

The rapid growth phase for the business came about as a result of a chance telephone call in 2005. "A guy from Realex called me and asked me if I had heard of something called the CCI-DSX," says Moynagh. "I quickly Googled it and found it was the new cybersecurity standard being introduced by the global credit card industry."

The company gained first-mover advantage by getting itself accredited to the standard. "We became a qualified security assessor and this allowed us go into any merchant and put in cybersecurity controls and audit them for compliance to the standard. Our growth really took off in 2009 when we developed our own cybersecurity software solution for banks."

Family has been crucially important to the success of the company over the years.

"I might be the chief executive, but my sister is my assistant and treats the company like it is hers as well. There is that sense of shared responsibility which is very good. The problem is that you end up talking about the business at Christmas dinner. But there is no issue about calling family members at any time of the day or night to discuss the business – that would not be fair to other people."

Plain speaking and long-term thinking are other benefits.

"You can cut out the small talk and get straight to the point when you are dealing with family members. Also, being a private business majority-owned by the family means we can take a longer-term approach. We have an advantage over other businesses which might be private-equity-owned and have to hit certain targets and number each year. That allows us to be more client-centred and take more sustainable decisions."

The development of the software solution was a case in point. "I don't know if we would have decided to do that if we weren't a family business. We didn't go through an extensive cost-benefit analysis at the time. We just knew it was the right thing to do. That may not have been the case if there were other shareholders at the table and we would have missed out on the opportunity."

The are downsides, of course. "Sometimes, as a member of the family, you might not have as much respect for the hierarchy as you should do. My dad and I could get into screaming matches and that's not right."

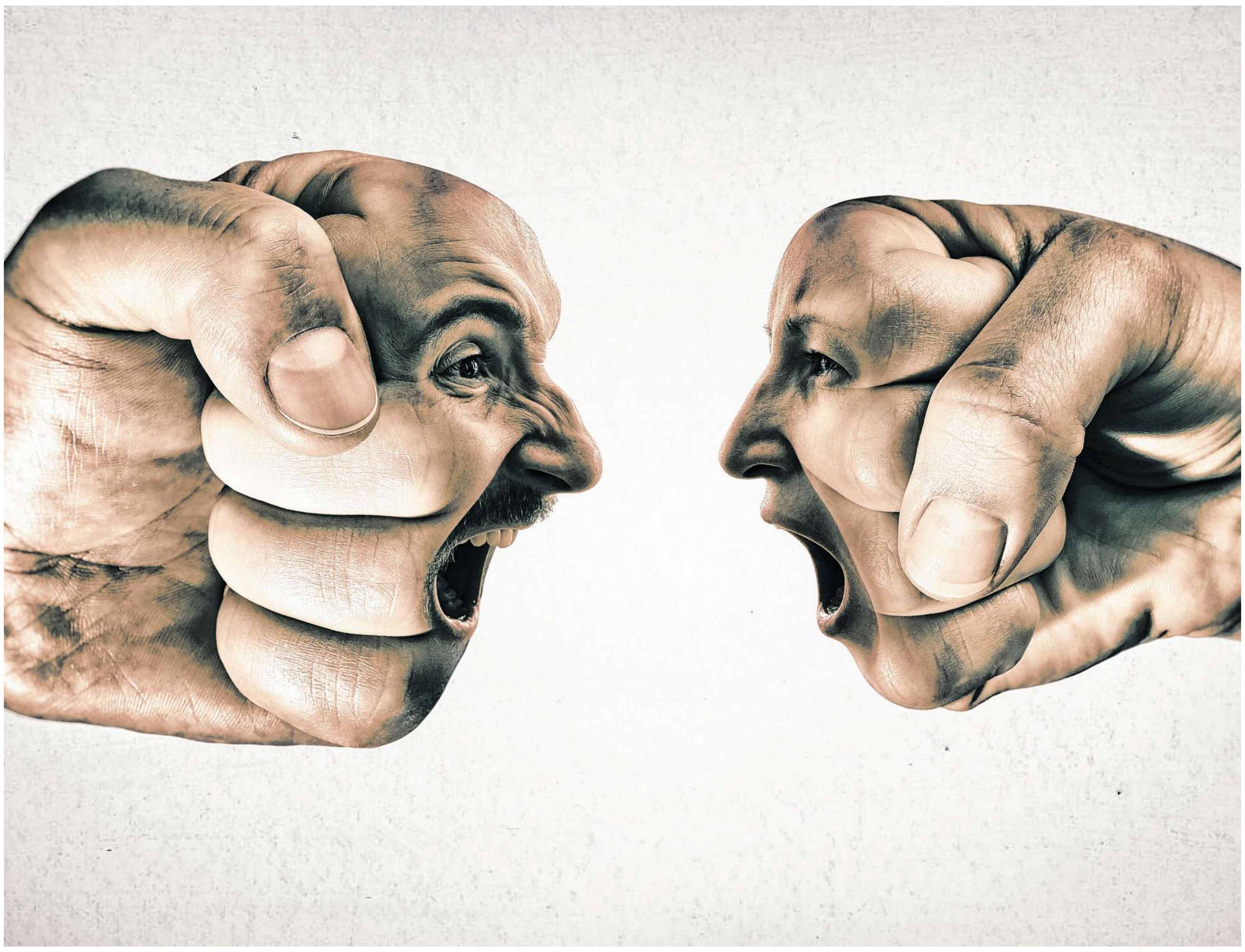
But that can be a positive as well.

"There has been a push-pull dynamic between myself and my dad which has really helped," Moynagh says. "If he hadn't been around, I might have run the business into the ground because I didn't respect things like cash flow enough or because I pushed my own ideas too hard."

BARRY MCCALL

Importance of agreeing a way to disagree

Pre-agreed legal procedures and family forums help solve conflicts and grievances



DANIELLE BARRON

We all joke about our "work family", but what if work actually was your family? With the prospect of normal family tensions spilling into the workplace, or business disagreements potentially affecting harmony at home, family businesses have the potential to be a hotbed of discontent.

Is conflict within family businesses something that is par for the course, or is it rare? According to Shaun O'Shea, partner at Beauchamps, there is greater potential for conflict when family members are working together.

"It is by no means par for the course, but it would be understating it to say it is rare. There are particular stress points such as transition of ownership and transition of management and control from one generation to the next, and this is where conflict most commonly arises," he says.

This can happen even after years of apparently harmonious working relationships, he notes.

"Disagreements can arise over many different issues, the most common being the future direction/strategy of the business, transition of control or ownership, the level of return to shareholders, and the involvement of family members in the business.

"These issues can arise at any time within the life cycle of a business."

Depending on its nature, this conflict may not be solved at a family dinner and may ultimately require mediation. While it isn't necessary to call in the lawyers immediately, in many cases it is the only option. Thus, having proper legal structures and legal agreements in place is worthwhile, notes O'Shea.

"While the hope would be that one has never to look at them, they are very useful if a dispute or issue arises as there is a pre-agreed procedure to follow," he says.

Family forums

The content of those documents will vary depending on the type and size of the family business, but O'Shea adds that in addition to a formal shareholders' agreement, it is also helpful to have informal structures such as family constitutions and family forums in place.

Family forums are critical for allowing grievances to be aired before they fester, continues O'Shea.

"The ability to have sufficient opportunities to discuss issues and to do so as early as possible before they become serious problems is important. One might be dealing with one's family in a business on a daily basis but that does not mean that you should dispense with the opportunity to have a formal forum where formal concerns and issues can be raised," he says.

O'Shea also suggests the drawing up of a family business charter. He says this serves to address a number of issues, including the purpose of the business, the structure of control of the business, the value from the business, and the contributions of the family members to the business.

A succession plan is another essential, and must take into account generational differences in approach, views and attitudes. "Succession is usually a significant issue in any family business, and it is important that the present owner addresses it well in advance of his or her retirement," says O'Shea.

"They need to consider and discuss with family members who should step into the key positions within the business.

" If existing family members are already within the business, and are interested in being in the business, it is very helpful to train and mentor these family members, with the ultimate aim of testing their ability to step into a leadership and management role," he says, adding that the family business charter must identify the relevant roles and the skills involved.

"An unqualified family member can have a significant financial impact on the business and ultimately may be responsible for it going out of business."

Family businesses, like any business, need advice, and O'Shea suggests the appointment, formally or informally, of a family adviser. Someone who knows both the family and the business is ideal, he says.

"There is no doubt that the family adviser can assume many roles including being a mere provider of advice or source of information, a trusted adviser and ultimately perhaps a family mediator," he explains. "For that reason, technical knowledge from a professional adviser to a family business is only one necessary ingredient, because it is also important that the adviser understands the family business and the family dynamic."

This individual can be invaluable in helping to resolve any disagreement that is not easily settled.

'Third-party mediator'

"If it is the case that a particular issue cannot be resolved internally and dialogue and progress has not proved possible, then I would recommend that a third-party mediator or trusted confidante of the whole family, as opposed to just one of the parties involved, be brought in to help," says O'Shea.

He adds that it helps if the particular person has mediation or dispute resolution experience as he or she can help guide the family through to a solution.

O'Shea has been involved in helping many family businesses through petty squabbles to complex disagreements.

He recalls one situation where a father left his successful business to two siblings but it became apparent after a short period of time that they could not work together.

"It was clear that if the situation was to remain as is, it would lead to the ultimate failure of the business. In this situation, as the business was primarily an asset-based one, it was possible for the business to be split in two. We put this in place and each sibling took a separate part of the business and went on to develop it with their own families."

■ Depending on its nature, conflict may not be solved at a family dinner and may ultimately require mediation.

Before reaching such a drastic conclusion, the proper protections and the best advice will protect most family businesses, says O'Shea.

"There is no doubt that if the family has robust and comprehensive documentation in place and has established a proper forum for discussion and resolution of potential conflicts, preferably with an independent, respected chairperson, it will assist an ultimate resolution of the conflict."

Solid governance structure helps fend off threats to family fortune

From geopolitical uncertainty to real estate bubbles, the world is full of risks to investment portfolios. Yet the biggest threat to a family losing its wealth over generations may be internal.

Fights over succession planning or individual investment decisions can pull a family and its hard-earned fortune apart. Here, wealth managers and multi-generational businesses share some of the most effective advice they've given on how a family can build a solid governance structure that will stand up against both external and internal threats to a legacy.

Amy Szostak is chief fiduciary officer and co-director of family education and governance at Northern Trust Global family and private investment offices: "We worked with one family who was struggling with the transition of decision-making power from G1 [first generation] to G2. The process of identifying a few shared values allowed the family's vision to reveal itself. As it turned out, their definition of success was to create an environment that supported G3 preparedness to serve on the family boards. With G3's ages spanning more than 30 years, the mission had to be flexible and customisable. We worked with the family to develop an education plan that would be reviewed annually and tailored to each G3 member's needs with guidance from each family unit.

"Today the family has successfully transitioned the leadership of the family enterprise to the second generation and has seven G3s serving in various roles in their governance structure."

Anthony DeChellis, chief executive of Boston Private Financial Holdings, says: "Often in large families with considerable wealth, there is a group usually older that winds up being stewards for the family. Resentment can grow, because some members who haven't been active participants find themselves in their 30s or 40s and not involved. Later, they'll find almost any reason to be critical.

"We advised one multi-generational family to set expectations about returns, because someone is going to go to a cocktail party and hear about some hedge fund up 40 per cent and say, 'Why aren't we making that?' Rather than defend yourself, say, 'This is the return we are aiming for; this is the risk we are taking. We may aim for larger returns with a portion, but the core portfolio is in conservative assets.'

"Family members need to understand strategy at a high level. It's more peaceful after that."

Matthew Fleming, head of family governance and succession at wealth management company Stonehage Fleming, says: "We have a UK-based client at the moment who is a successful entrepreneur. The client built up their business themselves and was concerned about its future and the relationship between the family and the business. They were worried about the impact of the business, which is a brand and quite cash-generative, on the motivation and values of their children. In their attempt to de-risk the intergenerational transfer, they were in danger of being so cautious and taking no risks at all that the lack of risk-taking might be a threat. There's reckless caution when you get so frightened of making a decision that you end up being more of a danger to the future of the family business.

"While we are helping this family recognise appropriate risks and putting mitigating strategies into place, we're also, when necessary, encouraging them to take the odd risk. You have to in order to develop and grow the business of the family." Willem Van Eeghen, former managing director of the Van Eeghen Group: "I think succession is different in every generation. The way we handled the hiring of [current Van Eeghen Group managing director and cousin] Jeroen was excellent.

■ Willem van Eeghen , former managing director of the Van Eeghen Group, says: "If no qualified candidates presented themselves, we'd look outside the family."

"We outsourced the hiring process. In 2011, the supervisory board sent a letter to the broader family and said I was about to retire in a few years. We also said if no qualified candidates presented themselves, we'd look outside the family. People had to send a cover letter and CV. They made a committee with an external head hunter with a HR person, and they did the preliminary assessment. The more objective you can make things, the better it will be."

This story appears in the Family Office special report from Bloomberg Markets