# HOW TO BUILD SUCCESSFUL FAMILY BUSINESSES

Irish family businesses remain a dynamic and resilient sector, contributing more than 50% of Ireland's GDP and significant employment, writes **Maura Duffy FCA**.

Too often, accountants are perceived as being there to ensure compliance with regulatory filings. Our role has fundamentally changed, however. Rather than just preparing accounts and dealing with regulatory compliance matters, our role is to provide advice on all aspects of business – helping clients to build stronger businesses and assist with their eventual exit.

Business owners rely on accountants more than any other type of advisor. They are the 'ideas people' and we ensure they reap the rewards of their labour. Having a successful business is the most likely way to become professionally accomplished and personally wealthy for many people. Business owners are demanding and will pay well for high-quality advice. As so many critical business decisions are entwined with the financials of the company, entrepreneurs depend on their accountants to navigate the possibilities and rely on their advice. Based on my experience working with family businesses, chartered accountants should focus on the following key areas.

### 1. KNOW YOUR CLIENTS

This means that you have a deep knowledge of their businesses, the personalities involved, the family dynamics and the exit strategy they want. Discuss with them their most important business objectives, which will normally include the following: profitability, productivity, customer service, employee retention, core values, growth, maintaining financing, change management, marketing and competitive analysis.

### 2. BUSINESS PLAN

Irrespective of the company's stage of development, have a business plan and a set of goals that are reviewed and updated when necessary. Having a plan will help businesses build a successful strategy. When business planning, be alert to changes in the market and customer behaviours. Also, remember that marketing is an essential part of strategy formulation.

Good data and analysis will inform the strategic direction the business owners take. Do not rely on historical data only, it needs to be linked with live information (see IT resources below) and plans for the future. Involve staff in the process of gathering information and opinions to inform future strategy. Communicate the strategy to staff in a manner they understand, and update them on implementation milestones. Remember that strategies evolve and require a degree of flexibility to be successful and they should also take account of changes in markets, customer behaviours and a host of other factors – some of which are discussed further on.

### 3. COMPLIANCE

Compliance is the bread and butter of our industry, but it is unlikely to win clients in the long-term. That said, failure to meet expected compliance standards is the quickest way of losing clients. Treat compliance matters with importance so that returns are filed on time and correctly. By dealing with compliance issues, your practice also has the opportunity to showcase its professionalism and core values in the hope of achieving higher quality work in the future.

### 4. STAFFING

Small and medium-sized business have limited resources to grow compete with plcs and for talented people. Having professionalised systems and processes will help businesses hire top talent but be warned – processes must be accurately documented to comply with external legislation. HR policies should therefore be formalised.

Strategic plans should also be shared with key staff. In doing so, you will have a better chance of maintaining key personnel which will ultimately ensure that vital knowledge is not being lost to competitors and instead, being retained within the business.

### 5. INFORMATION TECHNOLOGY

Keep on top of the latest technology advances to reduce costs and run the business. Online accounting is already changing the face of the accountancy profession and this will no doubt continue as more and more businesses make the sensible switch.

Like all new technologies, online accounting brings both opportunities and challenges. It creates an opportunity for practices to work with their clients and although there are other ways of doing this, online accounting encourages clients and their accountants to work in parallel with live information to aide decision-making. More importantly, this approach can transform the value of the service offered to clients – rather than low-profit book-keeping, firms can offer a range of services that add value and increase fees, making it mutually beneficial to clients and practices.

There are a number of benefits when delivering this service through the cloud but for the end user specifically, it offers simplicity and ease of use combined with 24/7 access, reduced IT and administration requirements, genuine scalability and low start-up costs.

**6. FAMILIES**

Keeping it professional when you work in a family business is always a challenge. As previously mentioned, people are a vital resource and it is important that key staff do not feel alienated or passed over for opportunities. Family members becoming involved in the long-term future of the business should:

- Work somewhere else first. They will get invaluable training, improve their business judgement and build confidence;
- Create separate boundaries immediately. On day one, when they return to the family business, set a boundary between family time and work time;
- Define their role and career path;
- Make sure they have a clear understanding of their job description and the role they fill;
- Be transparent about expectations and goals for the future;
- Seek independent feedback from existing and trusted key members of staff;
- Participate in the standard review process, supplement outside evaluations or employ a coach; and
- Have a back-up plan and prepare a Plan B, just in case the family business experiences tough times.

**7. SUCCESSION AND EXIT STRATEGIES**

Run your business as though you want to sell it tomorrow. Keep everything up-to-date and so that you can capitalise on it. Only one in 10 Irish businesses has a succession plan that is robust and properly documented. Succession is not a retirement plan or a tax plan – it should be about future-proofing the business. The early stages of the plan should set out what you want from succession and allow for open discussions with business partners and family members. You should also structure the management succession by holding family business meetings and preparing a family constitution. The business should also have a constitution setting out what key staff can become, while shareholders should be considered when opportunities occur to sell the business. In summary, the completed plan should incorporate:

“JUST 30% OF FAMILY BUSINESSES SURVIVE INTO THE SECOND GENERATION. 12% ARE VIABLE INTO THE THIRD GENERATION AND ONLY 3% OF ALL FAMILY BUSINESSES OPERATE INTO THE FOURTH GENERATION OR BEYOND.”

- A strategic plan for the business;
- Income protection and pension plans;
- An exit retirement strategy;
- A taxation strategy; and
- A shareholders' agreement.

**8. INTERNATIONALISE THE BUSINESS**

Taking a proactive approach to internationalisation makes businesses more robust and potentially more successful, with a greater client base and more scope to expand. Accountants who build their network with government agencies such as the IDA and Enterprise Ireland provide their clients with access to specialisms that could assist with research and costs.

Businesses can obtain an internationalised grant, which is designed to assist with research and exploring business opportunities in international markets. This grant can provide financial assistance for costs associated with research, salaries, overheads, foreign travel, consultancy fees and trade fair shows.

**9. CAPITAL INVESTMENT**

Maintaining the ability to finance operations allows a business to prepare for long-term projects and address short-term needs, such as payroll and creditor payments.

Belonging to a bank that is familiar with your financial status and history can be extremely helpful when it comes to planning for the future, but remember – building a relationship with your bank means establishing trust on both ends. There is also an opportunity to avail of better terms from banking institutions competing for new business, so do your homework. Finance can also come from the following channels:

**Equity from founders, families and friends:** there are tax incentive schemes to encourage investments in business such as the Employment Investment Incentive Scheme (EIIS) and the Seed Capital Scheme (SCS).

**Business angels:** individuals who invest in new businesses for a share in the start-up. They also contribute to the growth of the business by sharing their expertise and personal network. Halo Business Angel Network (HBAN) is a joint initiative between Enterprise Ireland and InterTradeIreland, and is responsible for the development of business angel syndicates. Business angels typically invest between €20,000 and €250,000.

**Venture capital:** private equity provided by professional investment firms, usually investing in early-stage or expanding businesses with high growth potential with the expectation of a profitable return on sale or floatation of the business.

**State aid:** can be obtained from Enterprise Ireland, county and city enterprise boards, and the European Investment Fund which provides grants and various supports to businesses.

**CONCLUSION**

The challenges and uncertainty facing families in business have never been greater. Various statistics are quoted but it appears that, in general, just 30% of family businesses survive into the second generation. 12% are viable into the third generation and only 3% of all family businesses operate into the fourth generation or beyond.

Given the risks family businesses take, it is critical that advisors focus on supporting, advising and building sustainable family-run businesses throughout the island.

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