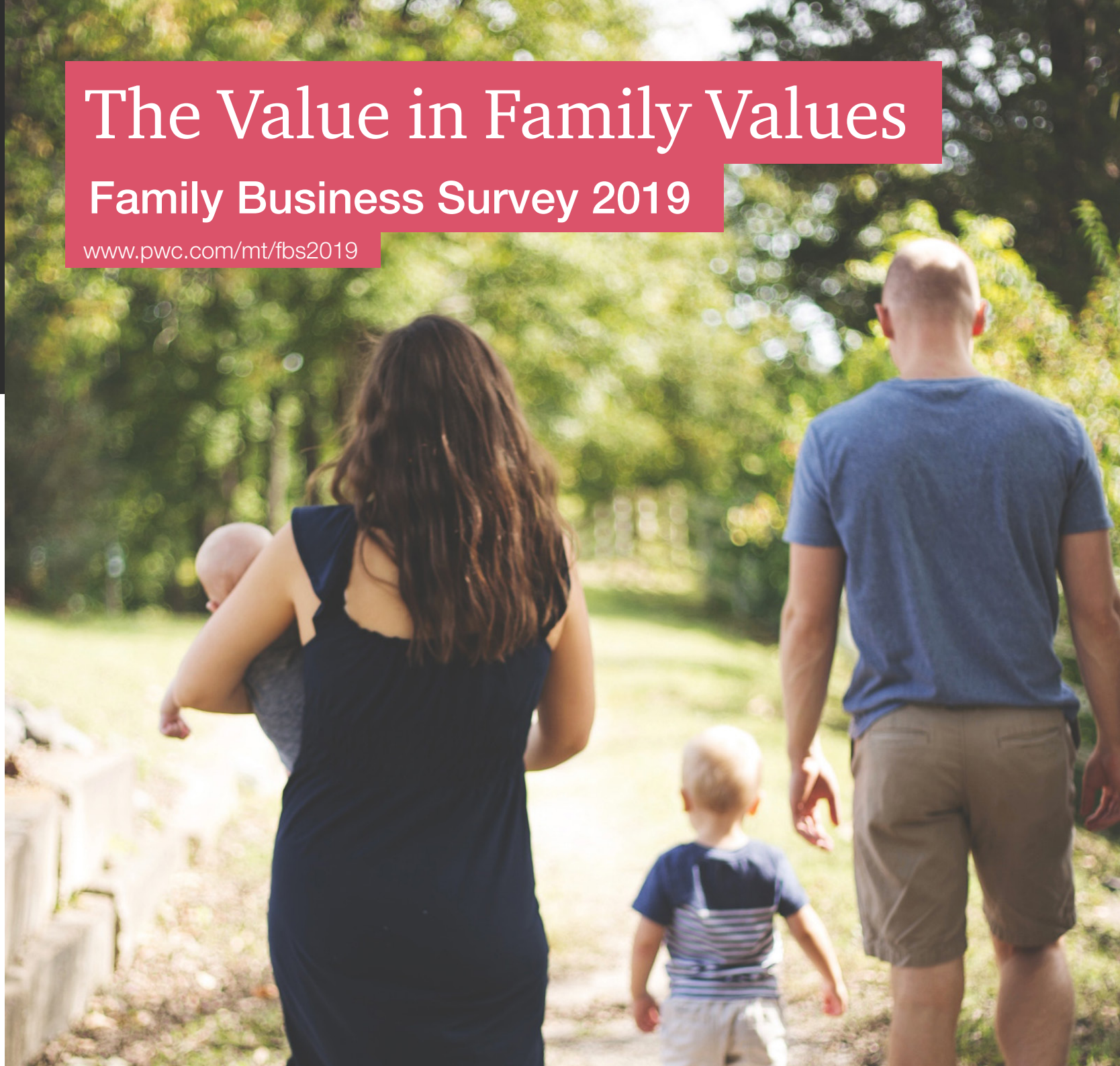


# The Value in Family Values

## Family Business Survey 2019

[www.pwc.com/mt/fbs2019](http://www.pwc.com/mt/fbs2019)



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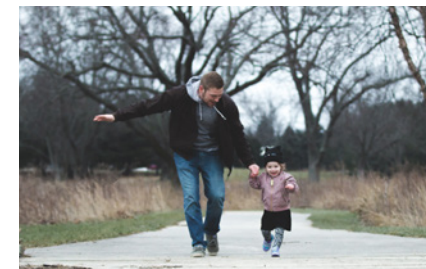
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# Foreword





## Introduction by our Territory Senior Partner

PwC Malta is pleased to publish another edition of the Family Business Survey (FBS). This has become a bi-annual tradition and this year we focus on research that we conducted with a wide range of local family businesses towards the end of 2018. This year's survey highlights that local family businesses are experiencing growth and are also optimistic about future growth in the coming years. Our findings emphasise that future growth cannot be easily projected, since there are many key challenges to address such as the need to innovate and accessing the right employee skills.

Accessing the right skills is not only a concern amongst local family firms but also a recognised threat on the minds of family businesses globally. This report looks into the aspects that organisations need to consider, including family businesses, to be successful in attracting and retaining talent in the future world of work. With the ongoing changes in the business environment, family firms must keep up with the way employment strategies are changing. Family businesses need to enhance their people experience to be better equipped to succeed in the war for talent and enhance their investment in training to reskill and upskill their workforce.

In facing the challenge of innovation, family firms need to ensure they are being effective to stay ahead in the digital age. The majority of family businesses in Malta foresee that they will have to make significant steps in terms of their digital capabilities in the next two years. Besides the recognised need for development in innovation, 39% of local businesses still feel vulnerable to digital disruption. The threat of current and emerging competitors, specific technologies like artificial intelligence and the lack of understanding of digital disruption are on the minds of family firms both locally and globally. Therefore, family firms need to ensure that embracing digital disruption is high on their agenda.

**“Family businesses need to enhance their people experience to be better equipped to succeed in the war for talent and enhance their investment in training to reskill and upskill their workforce.”**

- David Valenzia, Territory Senior Partner, PwC Malta

In considering the success of family businesses in the future world of work, focus on the concept of profit with purpose needs to be emphasised. This FBS highlights the changing expectations stakeholders have for businesses. Stakeholders are holding businesses accountable for the impact they have and the role they play in societies, environments and economies. There is a strong call for action for businesses to be sustainable in their approach and to consider the needs of all stakeholders not simply shareholders.



Family businesses are at an advantage in this area as 93% of local respondents agreed to having a clear sense of values and purpose. Findings highlight that instilling a sense of purpose and values could enhance returns, the reputation and resilience of the organisation. If values and purpose are incorporated in the family firm's strategic plans they could result in well-guided and more informed decisions in this ever-changing business world, possibly resulting in a competitive advantage over other firms. These characteristics will also help achieve the lasting legacy the majority of family firms wish to have.

Our survey highlights that the next generation leading family firms could drive significant changes in many of these aspects. Next gens are seen to prioritise areas such as professionalisation, supporting communities and understanding the fast-paced changes in technology. This sheds light on the importance of well thought-out transitions. However, only 9% of local family businesses have a formalised and well-communicated succession plan. This remains a key area for improvement in preparing for the future of family firms.

Family businesses need to adopt a mindset of profit with purpose, leveraging their strong values to enhance their reputation, legacy and resilience in an ever-changing business environment. These values will guide businesses to be sustainable in their approach and take well-informed decisions in the interest of all stakeholders.

Family businesses continue to face challenges both locally and abroad but remain a resilient pillar in economies. This year's survey highlights unique characteristics of family firms that can be leveraged to gain a competitive advantage and succeed in the evolving future business environment. We hope that you gain valuable insight from this edition of the FBS.



**David Valenzia**  
Territory Senior Partner, PwC Malta



Sustaining growth

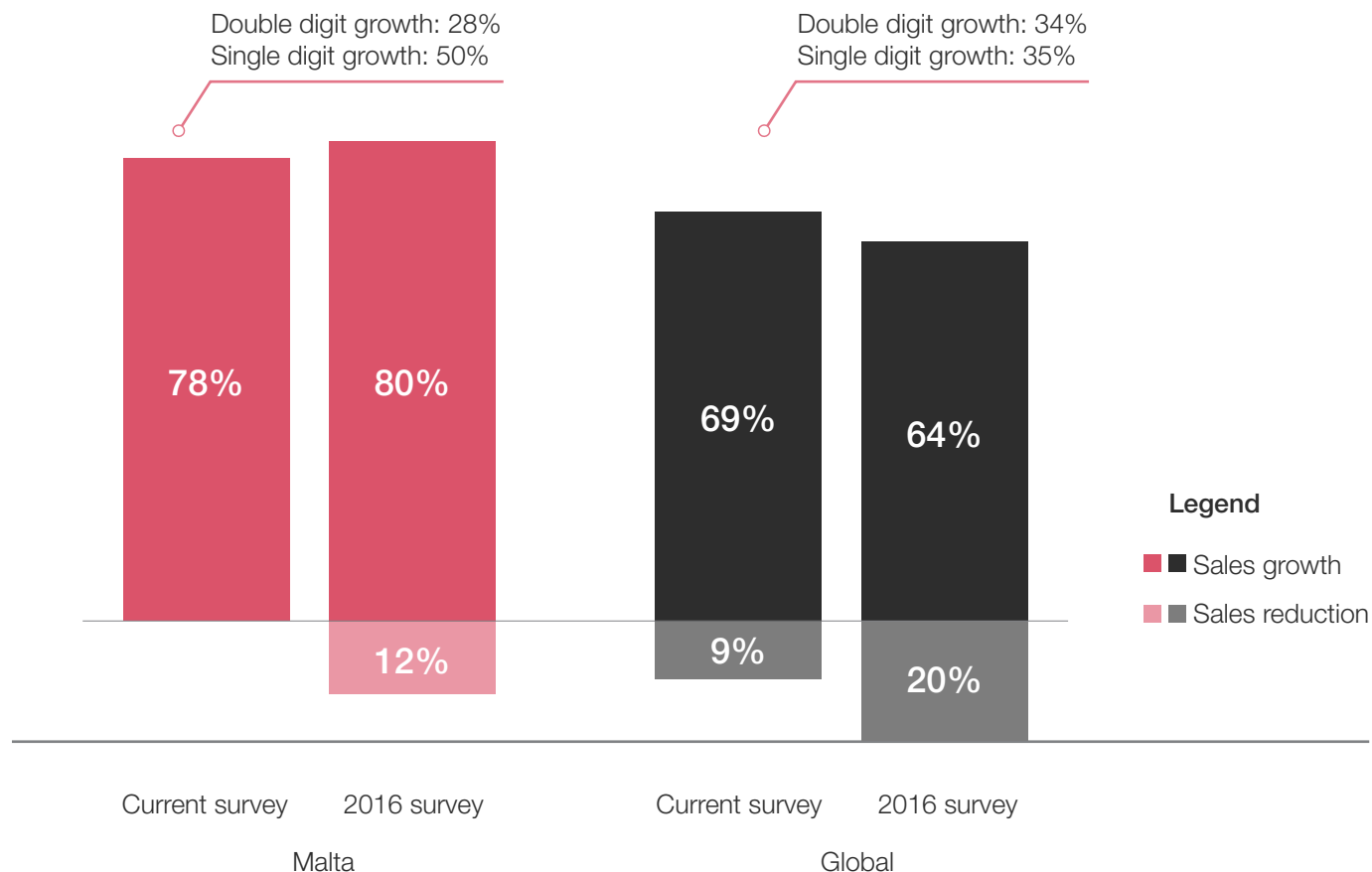


# Current performance

Growth among Maltese family businesses is similar to that recorded in the 2016 survey. 28% of respondents recorded double digit growth over their previous year comparative. A distinct difference compared to 2016 results is that no respondents recorded a reduction in sales. The remainder retained the same level of performance as recorded in the 2016 survey. This is promising given that family businesses are a key pillar and driver of the local economy.



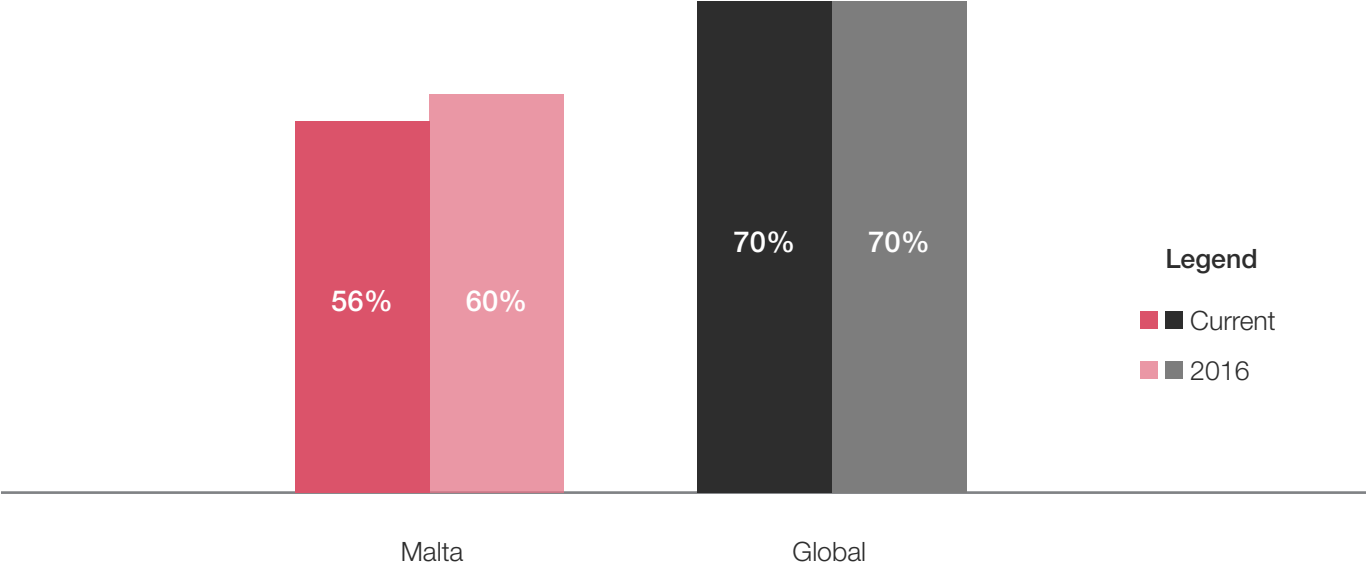
## Growth in the previous year comparative



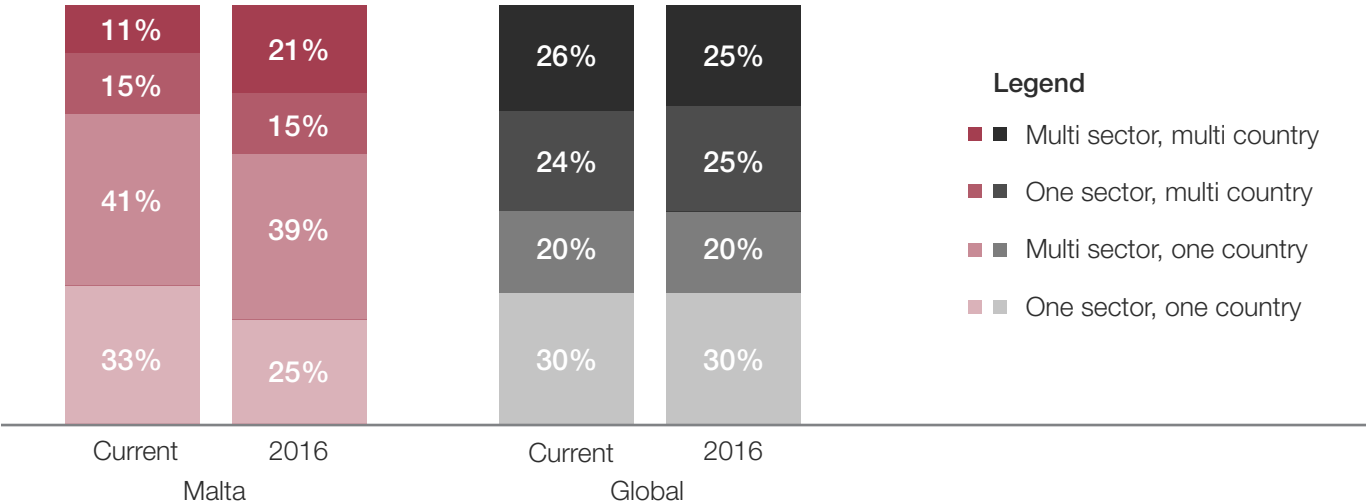
PwC's latest Global Family Business Survey (the global survey) highlights key behaviours that have been identified amongst family businesses which recorded a 10%+ growth. In fact, the growth seen in local family businesses could be linked to some of these behaviours. 84% of global respondents with double digit growth were found to have a clear sense of agreed values and purpose as a company therefore, the growth in local family businesses could stem from the fact that more than 90% have a clear sense of company and/or family values. Additionally, the majority of growing family businesses were found to be taking steps to improve their digital capabilities in the global study. This is also true for local family businesses since 54% of family businesses in Malta feel they would have made significant steps in terms of digital capabilities in the next two years.

In contrast, the growth identified amongst local family businesses does not seem to be originating from international sales, as the percentage of family businesses in Malta currently exporting their goods or services has declined from 60% to 56% when compared to the previous local survey. These figures remain lower than the global average of 70%. Results also indicate that current growth is mainly generated internally given that Maltese family businesses are less diversified, compared with both the 2016 survey results and other global family businesses. In fact, the percentage of Maltese family businesses operating in one sector and one country increased from 25% to 33% currently. Additionally, the percentage of Maltese family businesses working in multiple sectors and multiple countries has decreased by 10% from the previous edition of the local FBS.

### Any current international sales



### Family business diversification







## Strategic planning

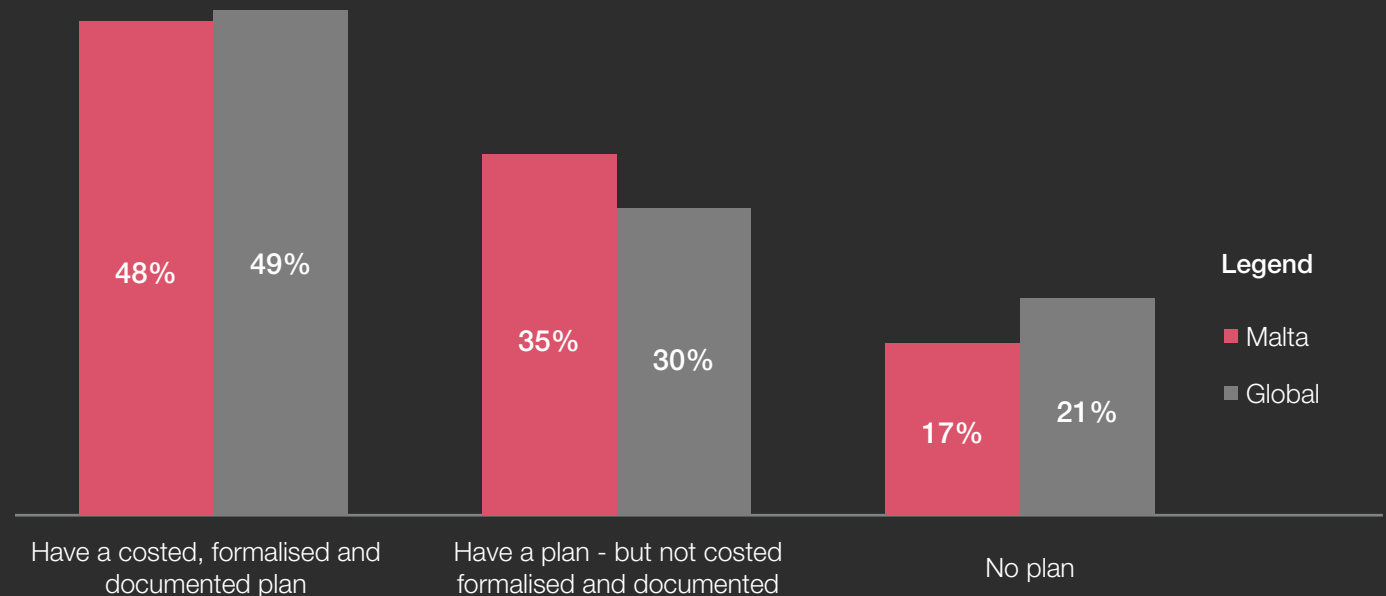
Strategic planning is often a challenge within family businesses. Despite the recognised benefits of planning, strategic plans are commonly missing in family businesses. This could be hindering family businesses from reaching their full growth potential. As highlighted in the previous edition of the local FBS, family businesses may be cautious with planning ahead due to fear that it may cause issues, especially when planning for succession. However, planning ahead will result in family firms being better equipped for future challenges.

PwC's global survey identifies three groups of respondents when discussing the presence of strategic plans in family businesses which are also visible amongst local respondents. The first group, making up 17% of total local family businesses that responded to the survey, were found to have no plan in place at all. This group is characterised as being more focussed on the everyday running of the business without giving much thought to where the business is heading. The second group makes up 35% of local respondents, those having a medium-term plan for the next 3-5 years. However, this plan is not costed, formalised and documented. Despite having a plan in mind, this group of respondents falls short of considering the costs and actions required to achieve the company's goals. These two groups were found to be more likely to fall behind their counterparts who have a strategic plan in place and who make up over half of the respondents. These agreed to having a costed, formalised and documented plan and are taking steps to translate their strategic vision into everyday actions that bring them closer to their desired results and strategic goals.

Among local respondents that have any sort of plan in place, 89% say the plan is embedded in their financial planning performance. In fact, 76% of respondents say their plan includes both financial and non-financial key performance indicators (KPIs) to measure the progress and success of the plan. Remaining respondents included 4% who have just financial KPIs, 4% who have just non-financial KPIs and 16% who presently do not make use of any KPIs.

80% of local respondents that have a plan in place stated that the plan was communicated internally which is relatively in line with global findings. Additionally, 67% of local family businesses with a plan have communicated the plan to stakeholders, which is higher than the global average of 53%.

### Have a strategic plan for the next 3 - 5 years



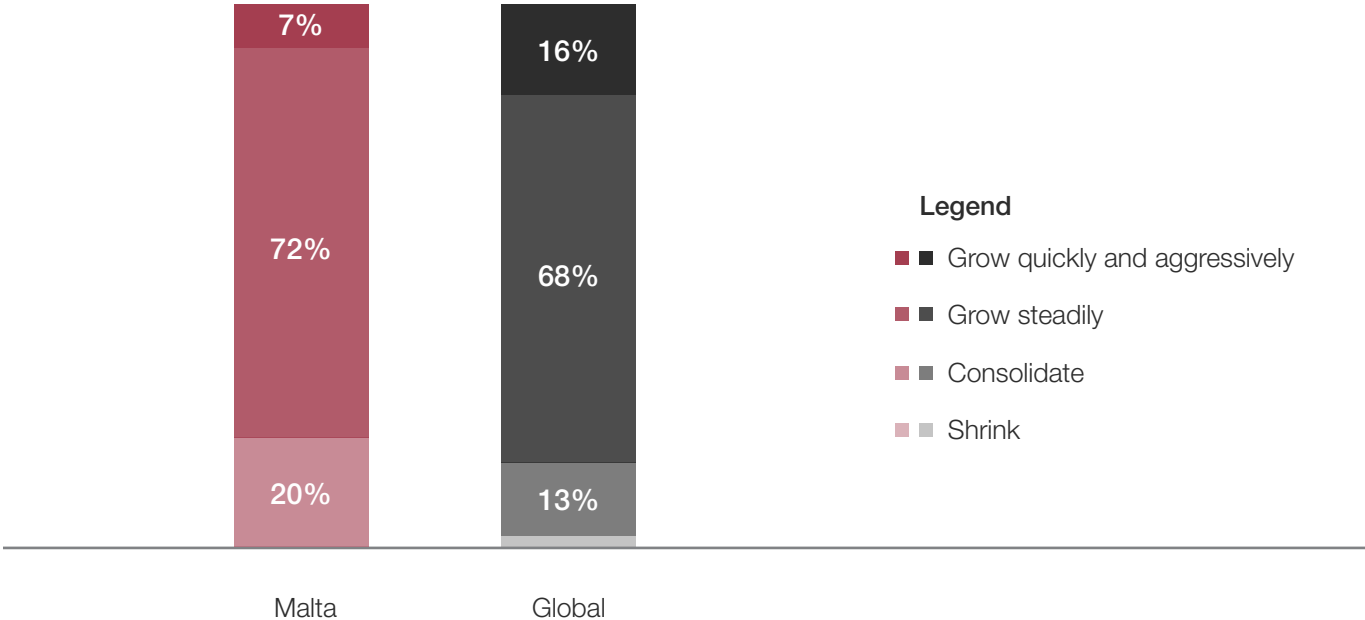
# Future plans and upcoming challenges

Local family businesses are optimistic about the future business environment with 80% expecting to grow over the next two years. This shows a slight increase in growth expectations when compared to results obtained in 2016 where 77% of family businesses in Malta expected to grow over the next five years. This optimism towards future growth is not aligned with results obtained in PwC's 2019 CEO Survey, which highlights the rise in pessimism of CEOs who project a decline in global economic growth and diminished confidence in their organisations' revenue prospects given threats to the ease of doing business. Having said that, when looking at the private-company results from the CEO Survey we see that CEOs are confident in their company's growth prospects in the next year.

Once again, this predicted future growth amongst local family businesses is not attributed to an increase in future international sales since there was a slight drop in expectations of international sales in the next five years among local family businesses. This is in line with results from PwC's 2019 CEO Survey which highlights how CEOs are more focussed on their local operations rather than looking to expand outside home markets. This may be linked to the significant uncertainty on trade and policy issues.

A point worth highlighting is the way local family businesses plan to grow in the next two years. Compared to global results, fewer local family businesses expected to grow quickly and aggressively with the majority preferring to grow at a steady pace. This indicates that although family businesses are confident about the growth prospects of their company there is a trend to tread cautiously. In fact, the global results suggest that many family businesses feel that growth over the short to medium term cannot be easily projected. This concern is linked to key challenges including the need to innovate to stay ahead, accessing the right skills and capabilities, the economic environment and domestic competition.

## Growth aims over the next 2 years



Learn more about the survey at [www.pwc.com/gx/en/ceo-agenda/ceosurvey/2019/gx.html](http://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2019/gx.html)

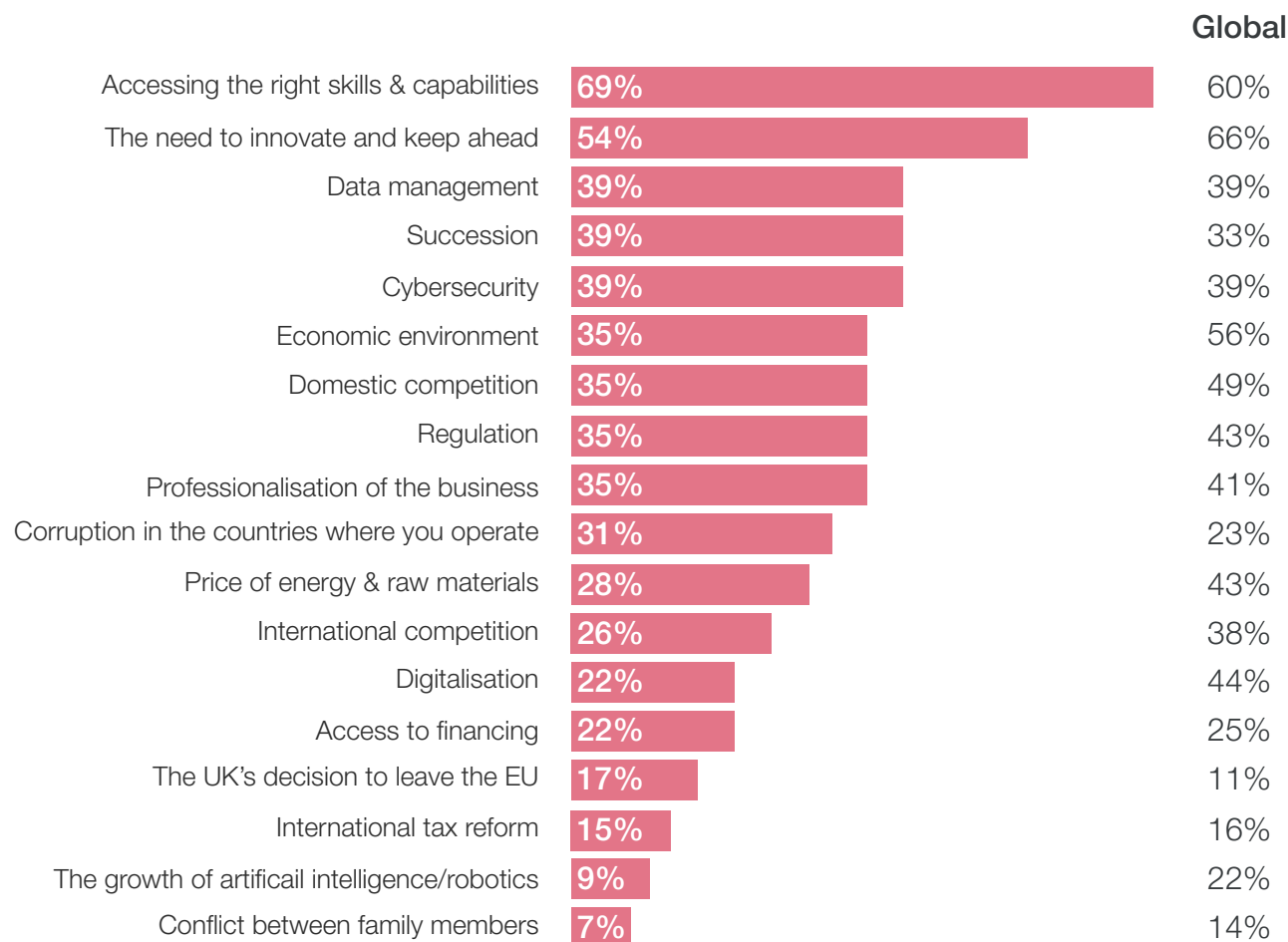


Locally, the top five key challenges faced by family businesses include accessing the right skills and capabilities (69%), the need to innovate to keep ahead (54%), data management (39%), succession (39%) and cybersecurity (39%). All similar challenges to those highlighted in the 2016 survey. In fact, attracting and retaining talent, improving profitability and being more innovative are the key personal and business goals for the next two years amongst local family businesses. Other goals include the desire to professionalise the business and also achieve work-life balance. In terms of changes expected amongst local family businesses, only 13% of Maltese family businesses expect to change their business model over the next two years.

Having said that, evident upcoming changes include plans to bring in non-family members with 56% of respondents saying they will bring in professional expertise from outside the family. Additionally, we foresee significant steps being taken in terms of digital capabilities with 54% of family businesses in Malta foreseeing they will take significant steps in terms of digital capabilities in the next two years.



## Key challenges over the next 2 years (top 2)



## Important personal & business goals (top 2)



## Likely true of business in 2 years (top 2)

56%

Will have brought in experienced professionals from outside the family to help run it

54%

Will have made significant steps in terms of digital capabilities

28%

Will have been involved in buying or merging with other domestic companies







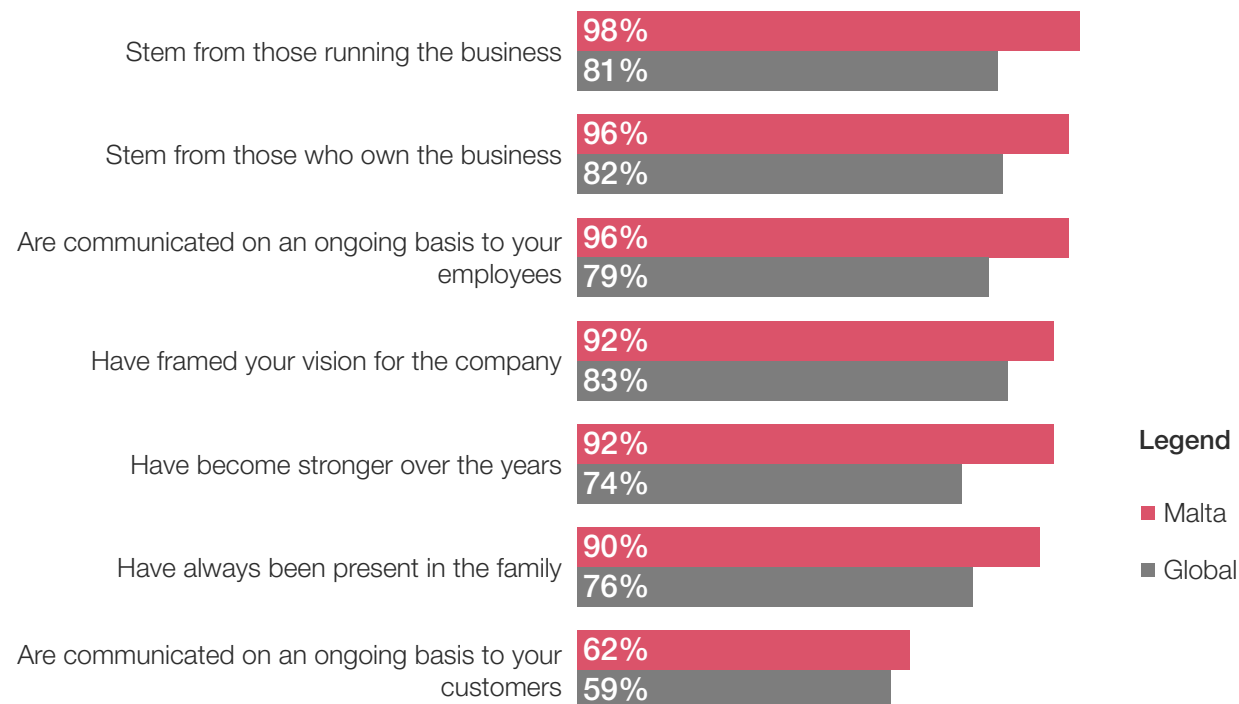
Profit with  
purpose

# Values and purpose

Expectations for businesses have changed tremendously with many, especially the millennial generation, believing businesses should be contributing to society at large. Generations Y and Z are choosing the companies they work for and the products they buy based on these expectations. Organisations are taking steps to establish the motive behind their enterprise and assess how their products and services impact and add value to the world we live in. An organisation's purpose could vary from, helping employees earn a living and using profit to improve environmental or societal issues to using innovation to improve the world. In fact, PwC's latest Next Gen Study highlights that next gens fully believe businesses should be a "force for good" and go beyond maximising profit. It is also emphasised that the generation of wealth is what will allow them to make their beliefs a reality. With next gens coming into family businesses we are likely to see this quest for purpose strengthen.

Within family businesses this quest for purpose often stems from the reason the family originally founded the business. It is then up to the generation running the firm to understand their role in realising this purpose. In fact, local family businesses with a clear sense of agreed values and purpose feel these stem from those running or owning the business. Interestingly, while 96% agree that the values and purpose of the family business are communicated frequently to employees, only 62% agreed that they are communicated on an ongoing basis to customers.

## Would say that values and purpose...



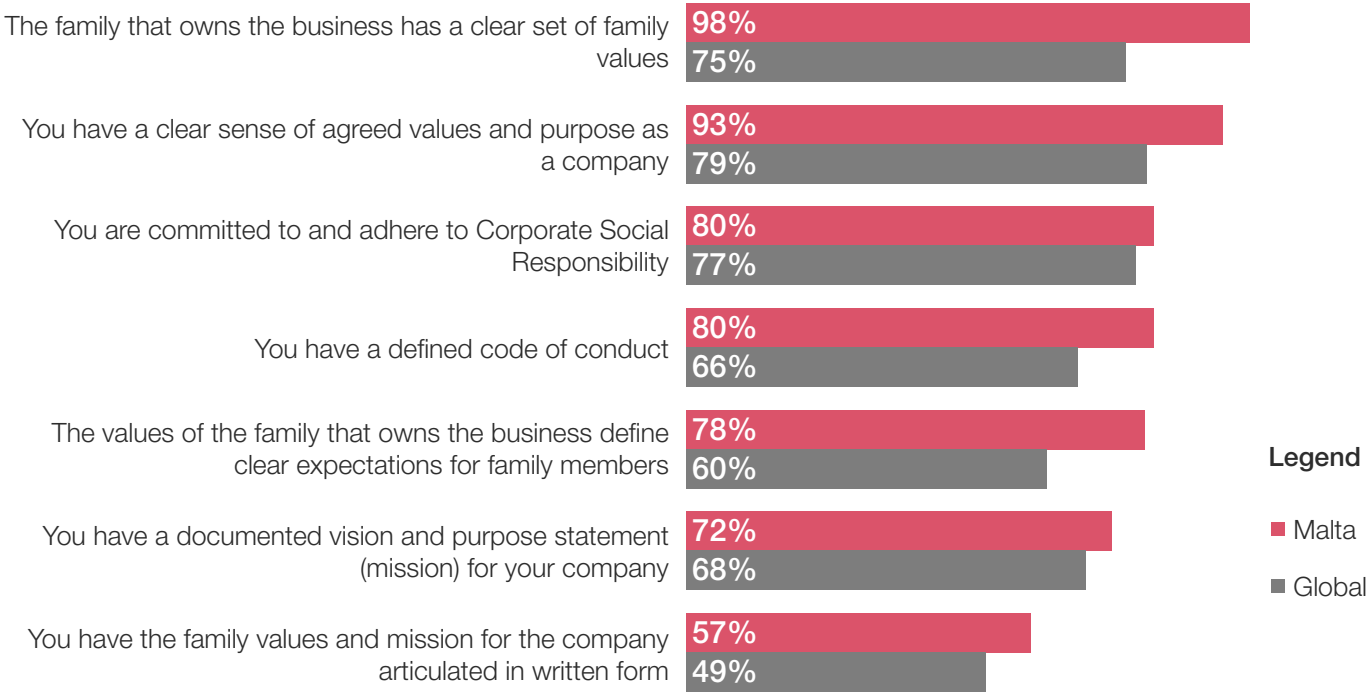
Learn more about the study at [www.pwc.com/gx/en/services/family-business/next-gen-study.html](http://www.pwc.com/gx/en/services/family-business/next-gen-study.html)



The purpose of an organisation goes hand in hand with the values of the business. Together they can be considered as a unique asset of the family business, creating a competitive advantage and enhancing the relationship of the business with all stakeholders. The global survey defines these values as the “operating beliefs and principles that guide behaviour among not just the leadership but also its employees”. Family businesses are often known to have a shared set of values. In fact, 93% of respondents locally agreed their company had an agreed set of values and purpose.

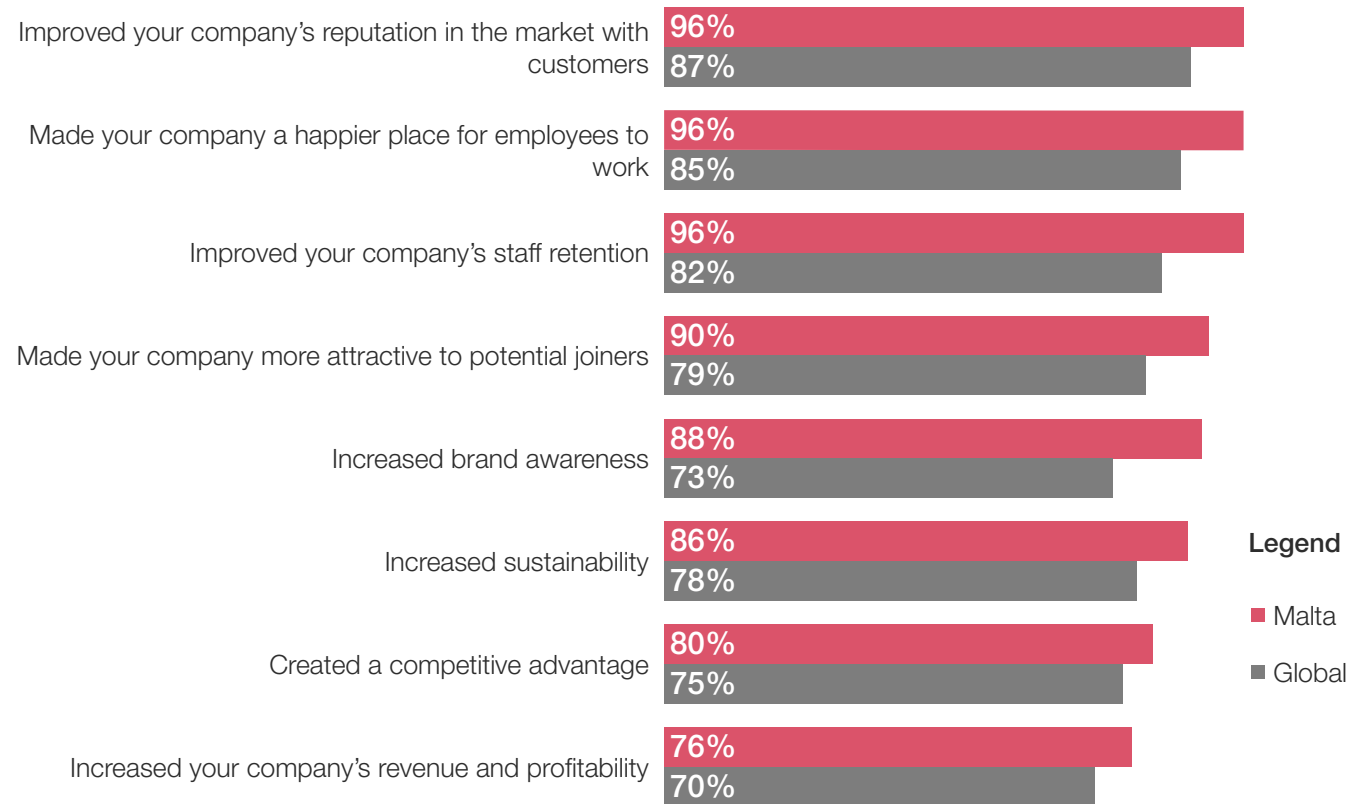
The global survey highlights how family businesses who are clear about their value and purpose and who incorporate these factors in the company’s strategic plans see better returns and show more resilience. Findings indicate that the majority of family businesses believed their values gave them an advantage over non-family businesses. If values are understood and championed, leaders and employees have more guidance on the complex decisions needed in the ever-changing business world. Locally those with a clear sense of agreed values feel strongly that these benefit the company in many ways, notably in areas of business reputation, work environment and staff retention. As a result, over 90% agreed that the company’s values and purpose have influenced the vision of the company and have been given more importance in recent years.

## Agreement with statements





## Would say that values and purpose...



# Gender equality

Recent headlines on gender pay gaps have shone a spotlight on gender balance in organisations worldwide. Representation of women in Maltese family businesses is slightly higher than results collected globally however, female representation remains fairly low. Women average a quarter of board members in Maltese family businesses and make up circa 28% of the management team. Additionally, just over a quarter of next gens working in the business are women.

## Presence of women in the business

25%

Malta

21%

Global

Average % of people on the board who are women

28%

Malta

24%

Global

Average % of people on the management team who are women

26%

Malta

23%

Global

Average % of next gen working in the business who are women



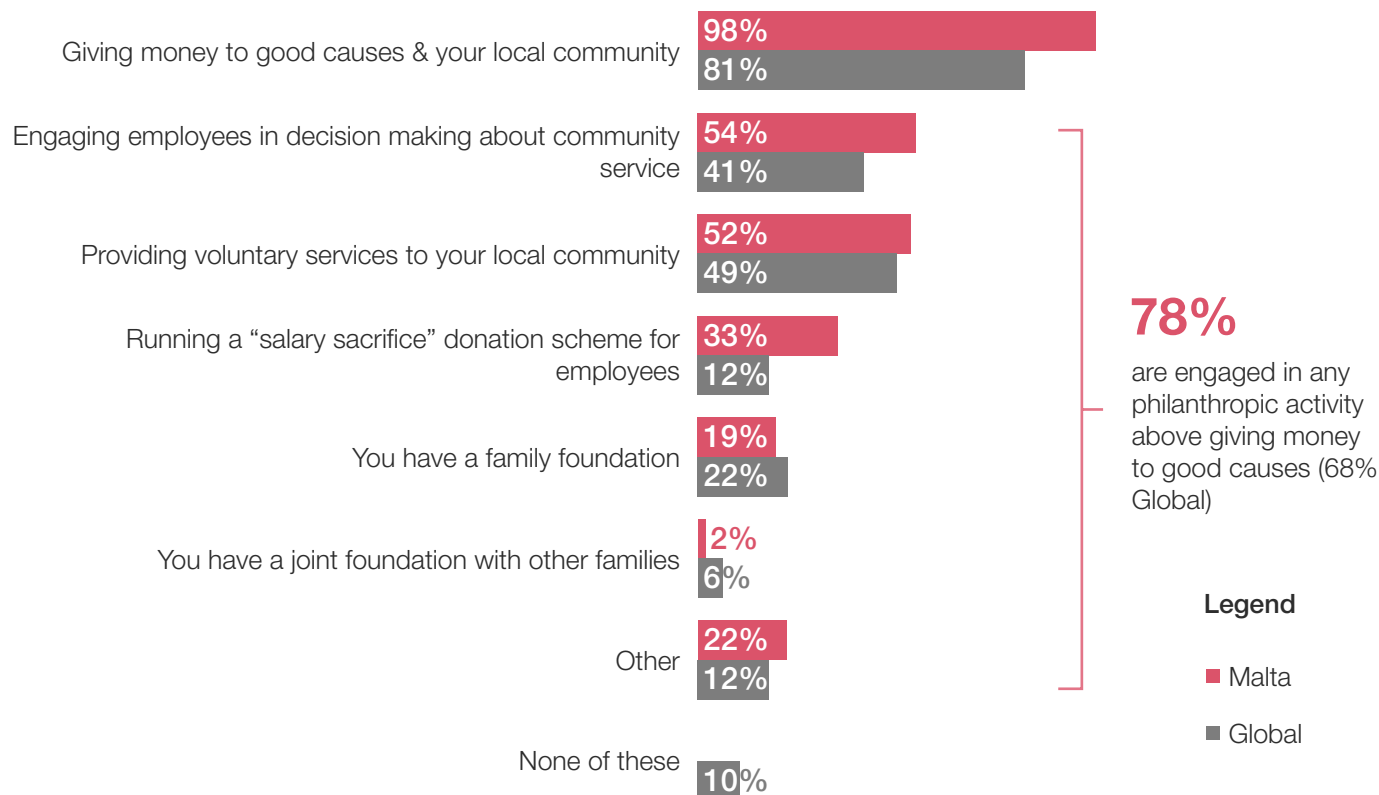


# Philanthropy work

A vast majority of Maltese family businesses are engaged in philanthropic activities. In fact, 98% agreed to giving money to good causes and the local community. Besides this, 78% are engaged in philanthropic activity which goes beyond giving money to good causes, exceeding the global average of 68%. Such activities include involving employees in decisions about community service and providing voluntary services to their local community. Less popular philanthropic activities adopted by local family businesses included running a 'salary sacrifice' scheme and setting up a family foundation.

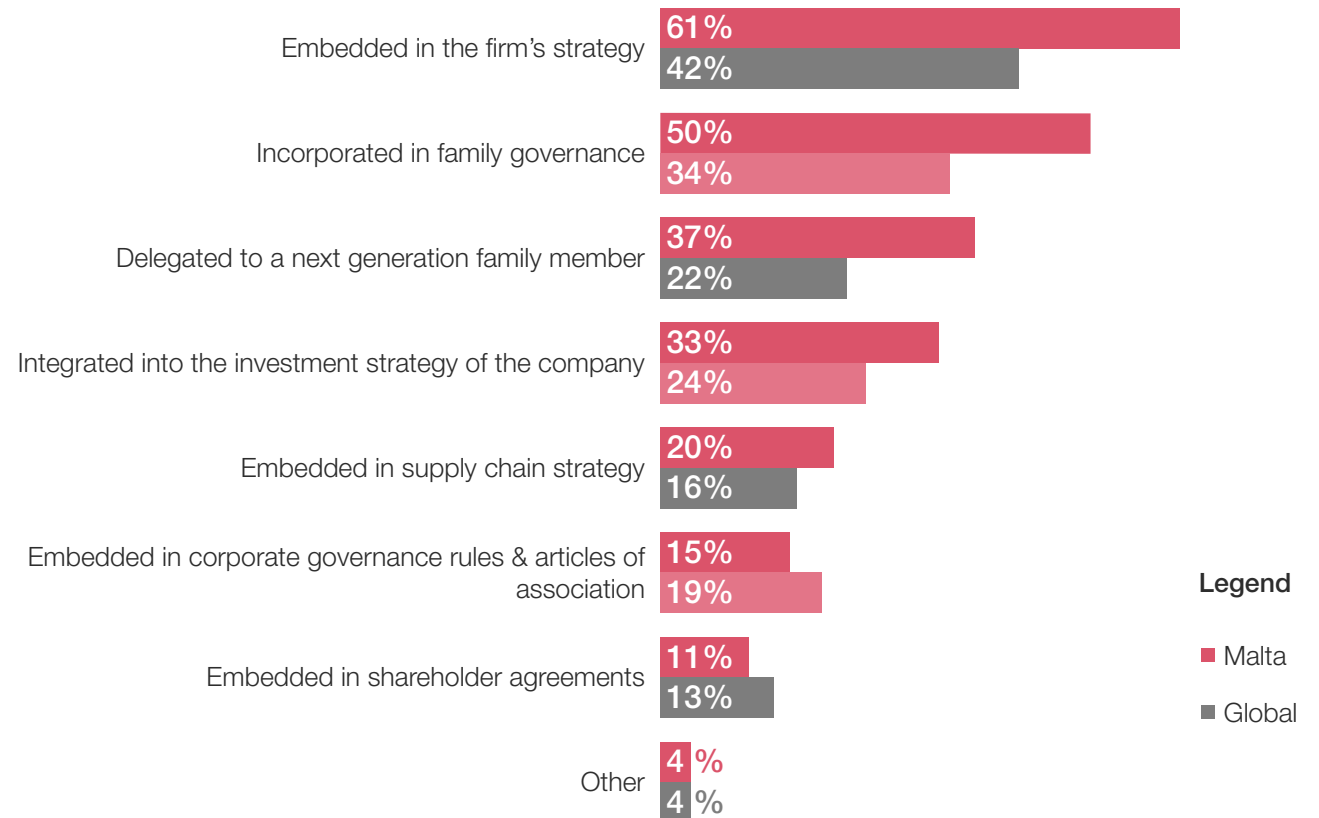
This high percentage of involvement of local family businesses in philanthropy work is expected to grow further given findings from PwC's latest Next Gen Study. The study emphasises that the next generation wants to ensure activities that support communities and particular causes are a key focus for the family business rather than one-off initiatives. In fact, next gens were found to give importance to ensuring that the support given to these causes was "targeted and measured" and aligned to the values of the family business. In line with this expectation, local family businesses were found to use a variety of methods to ensure philanthropic activities occur.

## Engaged in any philanthropic activities?



In fact, 61% said philanthropy is embedded in the firm's strategy while 50% said philanthropic activities were incorporated in family governance. From those local respondents that were involved in philanthropy, 20% try to measure the success or impact of their activities. The most common methods include customer and employee feedback as well as reports on philanthropic activities.

## Methods used to ensure philanthropy occurs



## Measuring the success/impact of philanthropy



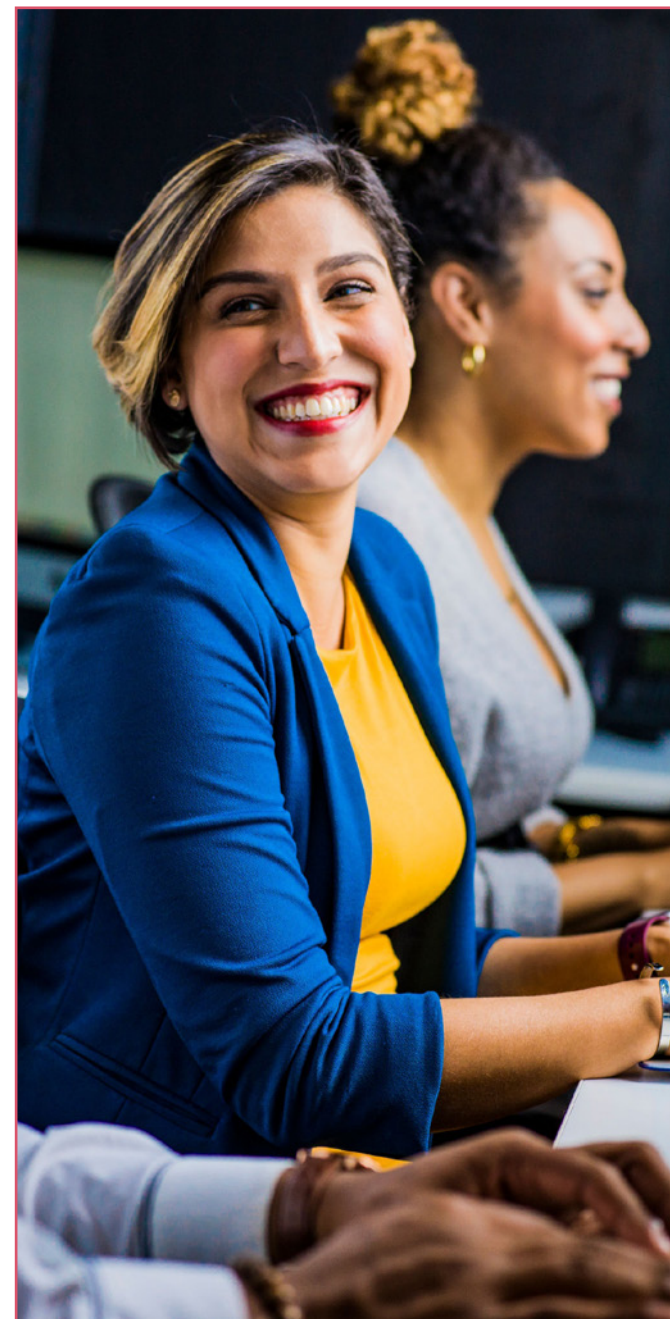
**20%**

try to measure success or impact of their activities (29% Global)

### Legend

■ Malta

■ Global





# The quest for sustainability

Corporate social responsibility (CSR) has evolved from a business buzzword to an international call for action from all organisations. CSR incorporates the concept of going beyond simply focussing on shareholders needs and instead considering a wider range of stakeholders. This concept requires entities to consider social and environmental issues as they carry out their operations and in relations with all stakeholders. To stay in the local context CSR tends to be defined as community and philanthropic work not the full suite of the impact of the business on the environment, its employees and its integrity.

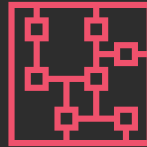
CSR initiatives are generally conducted voluntarily within organisations. However, recent EU legislation is calling for organisations of a certain size to disclose non-financial and diversity information in their annual reports. Such non-financial information includes a description of the entity's position, policies and impact on environmental, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters.

Despite the requirement being limited to a particular sector of businesses, many organisations across the EU have taken on this initiative voluntarily. This is less so in the case of Maltese entities where reporting of sustainability related information is still in its infancy. Organisations are publishing information of a non- financial nature such as reporting on CSR activities and issuing sustainability reports. The perceived burden of taking on this initiative is offset by many potential benefits. Such initiatives increase market confidence, enhance loyalty towards organisations and enable entities to meet the new expectations of stakeholders who demand organisations to be accountable for their actions.

This is the direction the business world is heading and organisations need to be prepared not only to meet potential future regulatory requirements but also current stakeholder expectations. The United Nations Development Programme has initiated the Sustainable Development Goals (SDG), which are a universal call to action to end poverty, safeguard the planet and ensure peace for all people. The goals focus on areas such as climate change, innovation and economic inequality among others. On the same lines, PwC has established 11 principles to be adopted by organisations to realign economies and societies. The principles include leveraging emerging technologies while focusing on humanity, considering societal outcomes alongside financial ones, balancing the responsibility to shareholders with those of stakeholders and focussing on life-long learning and reskilling in the workplace. PwC has also developed the Total Impact Measurement and Management framework to guide organisations on ways to transform to succeed in the future. The framework enables organisations from all sectors to establish how their activities contribute to the economy, environment and society. These initiatives emphasise that all businesses have a key role to play in fostering sustainable prosperity and should be proactive in rewiring the business to deliver on profit and purpose.

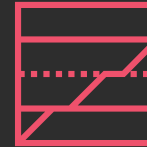
## Principles

1



Rewire business so that it delivers on profit and purpose

2



Measure and report on societal outcomes – not just financial ones

3



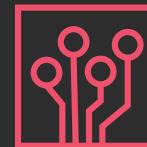
Balance responsibilities to shareholders with those of stakeholders

4



Pay attention to communities, not just averages

5



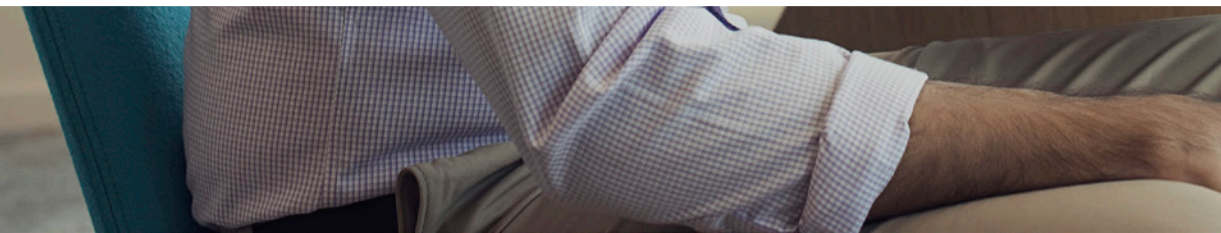
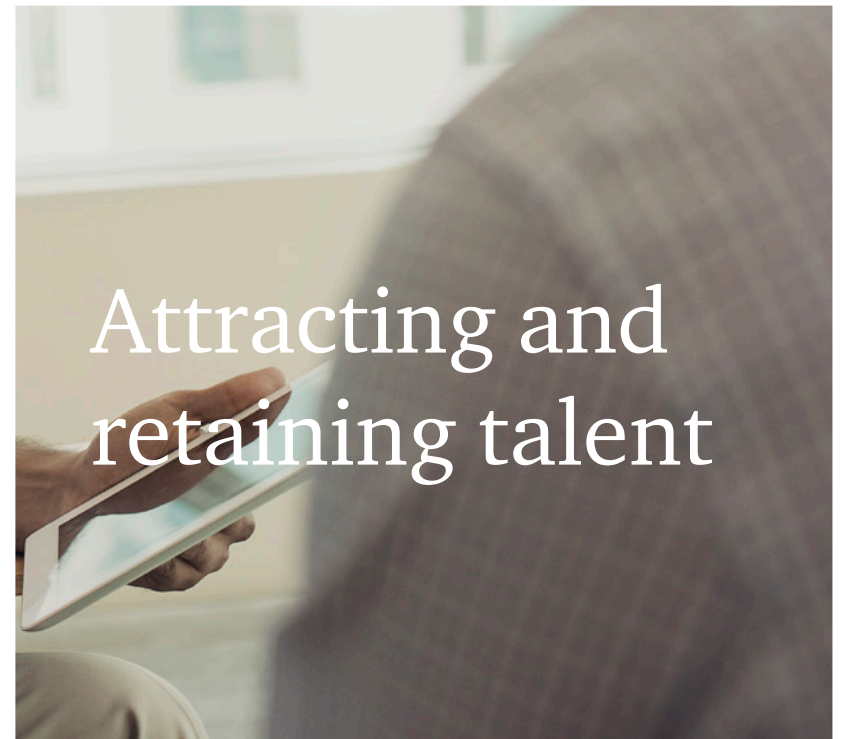
Use – and manage – technology while keeping our focus on humanity

6



Protect people, not jobs

Read more at  
[www.pwc.com/commonpurpose](https://www.pwc.com/commonpurpose)





Attracting and retaining the best talent for the business is the most important goal cited by 91% of local family businesses. In the latest HR Pulse Survey, conducted amongst local organisations through a joint exercise by PwC Malta and the Foundation for Human Resources Development (FHRD), the retention of key talent remains a top HR priority. This is similar to results obtained in previous editions of the HR Pulse Survey indicating the ongoing challenge of talent retention. Skilled workers are not only challenging to retain but also to attract. In fact, local family businesses say that a key challenge for them in the next two years is gaining access to the right skills. This is a challenge worldwide as the availability of key skills forms part of the top ten threats among CEOs in every geographical region according to PwC's 2019 CEO Survey.

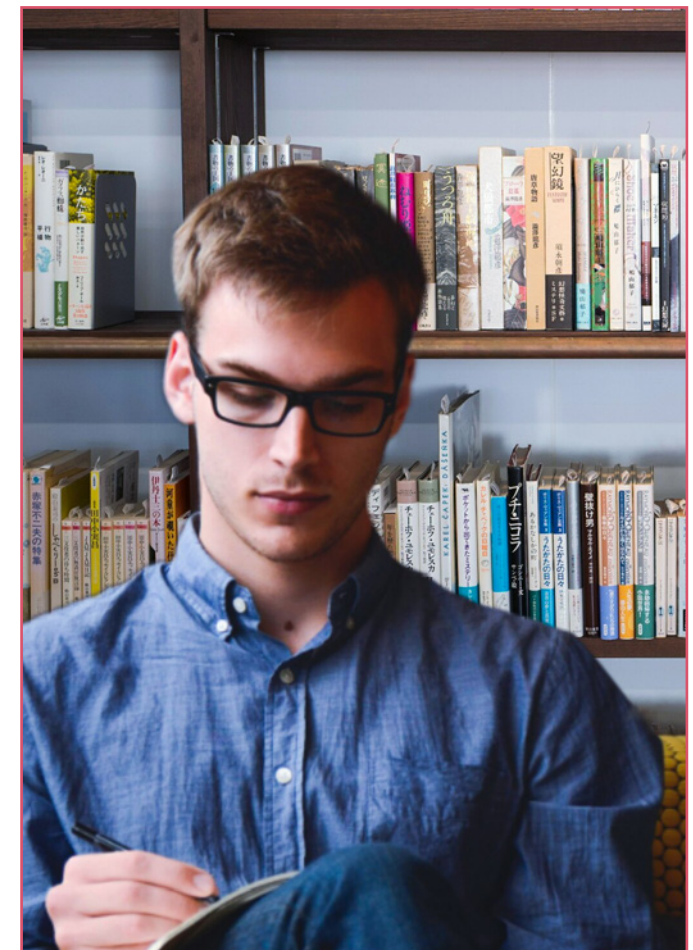
## Attracting and retaining the best talent for the business is the most important goal cited by 91% of local family businesses.

Local family businesses struggle with finding long-term employees as candidates are moving away from the idea of finding a job for life. Additionally, although local family businesses aim to be selective with new recruits this has become a challenge due to a limited pool of candidates. These challenges could be linked to the changing expectations of the workforce and the local scene in Malta. However, family businesses also have unique characteristics which influence a candidate's decision to apply and remain with family businesses. For example, a common perception is that family businesses offer limited career progression since top posts may be filled with family members. In order to change these perceptions and attract and retain talented workers, family businesses need to work on their employer brand and adapt their HR strategies to meet the needs and expectations of the future workforce.

To be successful in attracting and retaining talent in the future world of work family businesses need to consider a number of factors. Firstly, ensuring the right people experience to build a positive employer brand. Employer brands are critical in succeeding in the increasingly competitive war for talent as it differentiates one company from another. PwC suggest five key imperative actions to secure an organisation's future people experience in a recent report. These include tackling worker 'burnout', building social resilience, enhancing adaptability, supporting 'intrapreneurship' and providing autonomy. Working on these factors will help family businesses build an employer brand that authentically represents their unique family values.

Organisations need to embrace digital disruption to capitalise on opportunities brought about by new technology. This is especially relevant for local family businesses since one of the key challenges highlighted in this year's FBS was the need to innovate to stay ahead. The faced-paced developments in the world of work require organisations to develop their workforce to ensure future organisational success. While the development of digital skills is important, organisations must look to go a step further by reskilling and upskilling their workforce and promoting skills such as creativity and analytical skills. Family businesses are not immune to the need to upskill and reskill to prepare for the future of work. Given that many local family businesses have expressed the need to invest further in training, this may be a key area that requires further consideration if family businesses wish to attract and retain talent in a changing world of work.

Furthermore, with the increased on-going changes to the dynamics of the work environment organisations and their people need to be equipped to embrace change. Change can be especially difficult in family businesses if practices have been passed down from past generations or if employees have been with the firm for long periods. Therefore, if local family businesses are looking to attract and retain key talent they must embrace change effectively to keep up with employment trends.



Learn more about people experience here:

[www.pwc.com/gx/en/services/people-organisation/publications/create-a-competitive-advantage/success.html](http://www.pwc.com/gx/en/services/people-organisation/publications/create-a-competitive-advantage/success.html)



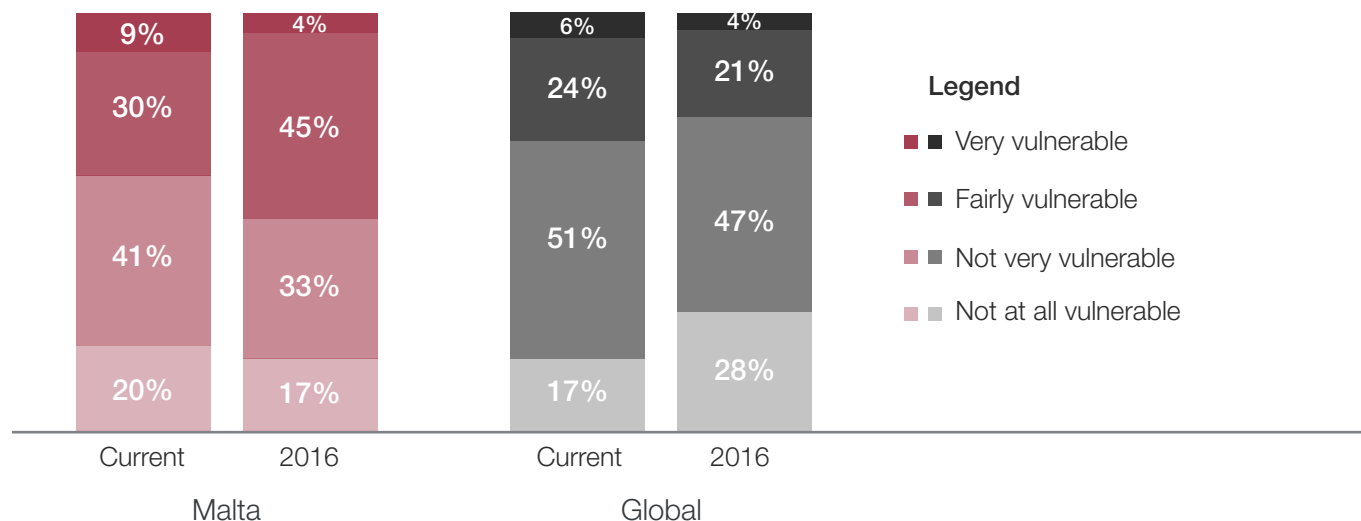


The digital age

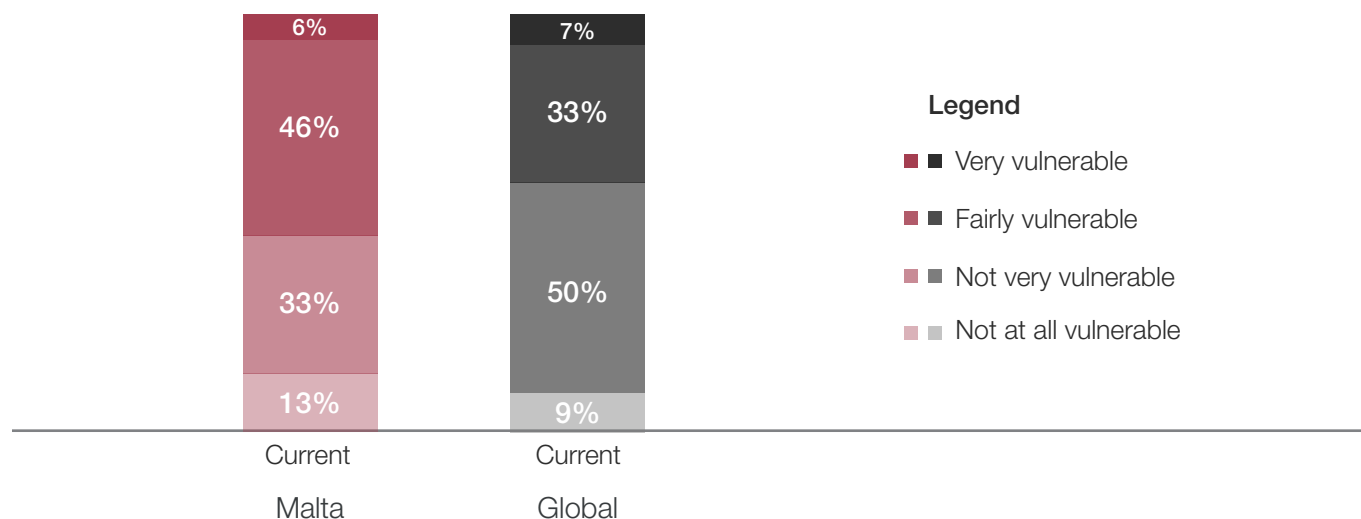
Digital disruption remains a current issue amongst family businesses. Globally, 80% of respondents recognised digitalisation, innovation and technology together as a key challenge. Additionally, 54% of local respondents state that they would have stepped up digital capability in the next two years. This may be partly linked to the fact that 39% of family businesses in Malta feel vulnerable to digital disruption. Additionally, local family businesses feel more vulnerable to cyber-attacks when compared to global results.

When discussing threats from digital disruption, global responses fell into three categories. The first is the threat from current or yet to emerge competitors. Family businesses are concerned about large multinationals challenging the way they sell their products and manage their supply chain. They are equally worried about new entrants, of any size, with the skills and funding to disrupt the market and being digital from the outset. There is also a common fear of managing to stay ahead in the market, keeping up with changing consumer behaviour and the move to e-commerce and data driven strategies. Increasingly, respondents also mentioned the fear that traditional strengths of family businesses would be undervalued in a price-led market place.

## Business vulnerability to digital disruption



## Business vulnerability to a cyber-attack



The second threat is directly related to specific technologies. Artificial Intelligence was mentioned as the foreseen key disruptor. This is in line with PwC's 2019 CEO Survey, where 85% of CEOs agreed that Artificial Intelligence would have a significant impact on the way they do business in the upcoming five years. Technology was highlighted as more of a threat than an opportunity however, some respondents recognised technology as a means to get ahead. The impact of technology on jobs was also mentioned as a concern for family businesses especially the worry of having the right skills sets and leadership skills. Digital technology plays a key role in minimising the challenge of finding the right people to ensure the organisation remains competitive and creates a need to find new talent who have the right digital skills.

The third category is the lack of understanding of the threat from digital disruption. A sizeable proportion of respondents interpret digital disruption to be a security threat. Therefore, many mention fear of cyber security, vulnerability to cyber crime, reputational threats from social media, banking fraud and/or systems outages when discussing digital disruption. Others have a more general fear of being left behind but lack the ability to get ahead.

Younger generations joining their families' businesses are already seen to have a key role in digitally transforming the business if empowered to do so. They are giving importance to areas such as digitisation and innovation. In fact, it is encouraged to involve the next gens due to their understanding of the fast-paced changes happening with digital technology. Ultimately, embracing digital disruption is a necessity for all firms – family businesses and others alike – as no firm is immune to this challenge.

**“There are so many different technologies coming up in terms of whether you communicate via an app or any other medium. Obviously we have challenges to make sure that we adapt and keep up with those changes.”**

1st generation FBS respondent

**“All our systems are online so if there are any issues there we are at a standstill. The internet, our ERP system, our orders, everything is digital. In extreme cases, when we have issues with the internet, everyone is in a panic here.”**

2nd generation FBS respondent

**“There's lots of competition going on that is online. That could be a major disruptor. It becomes more of a challenge from year to year. It will affect demand and prices could be cheaper from alternative sources.”**

3rd generation FBS respondent





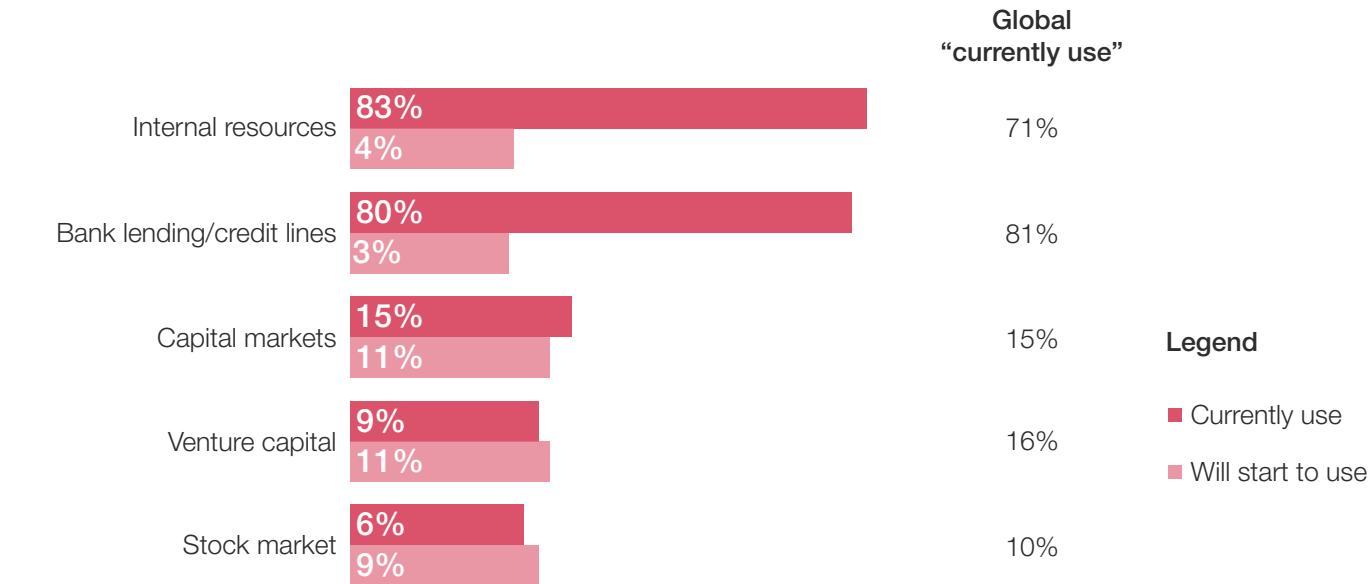




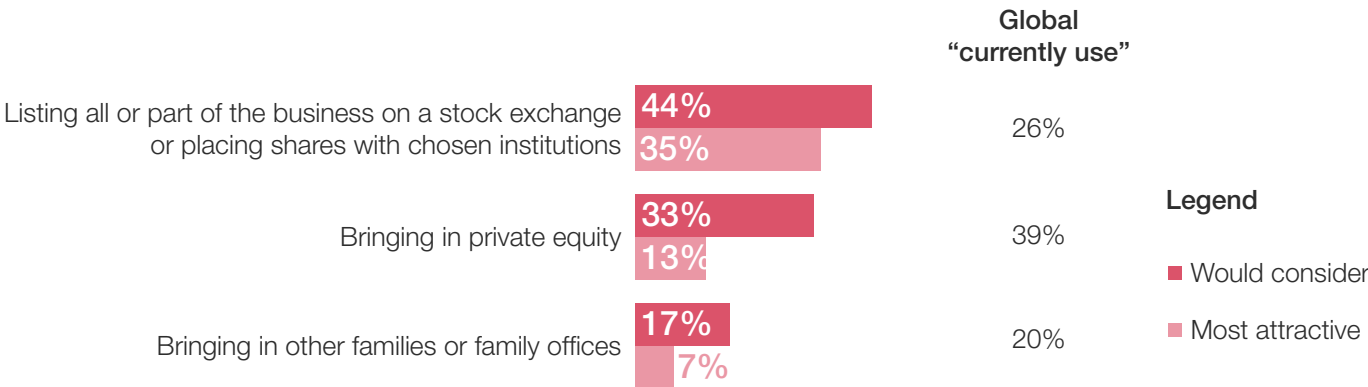
When discussing the sources used to help fund family businesses locally, internal resources (83%) and bank credit (80%) are the most common sources of funds. Results also indicate an increase in the expectations of local family businesses to start using sources such as capital markets (11%), venture capital (11%) and stock markets (9%). In fact, results indicate that 2 in 5 Maltese family businesses consider listing on a stock exchange or placing shares with chosen institutions. These results highlight a shift in the mentality of funding in local markets as more businesses are considering alternative means of financing to bank lending.

The data also shows that bringing in private equity (33%) and bringing in other families or family offices (17%) are considered less when compared with the global average. Given the findings in the global survey, the percentage of family firms engaging with private equity is set to increase in coming years. Trends indicate a convergence in the interests of family firms and private equity. Family businesses are increasingly noticing the added value they can gain from a partner who could advise on governance, challenge the Board, bring in a new perspective and help with significant transitions such as succession. Private equity investors have concurrently increased their focus on family businesses given the stability of these businesses, which are often undervalued. The change in attitude by both parties is powerful in predicting how the financing of family businesses is set to transform in coming years.

### Sources used/will use to help fund the business



### Actions that would be considered to help fund the business





The next  
generation



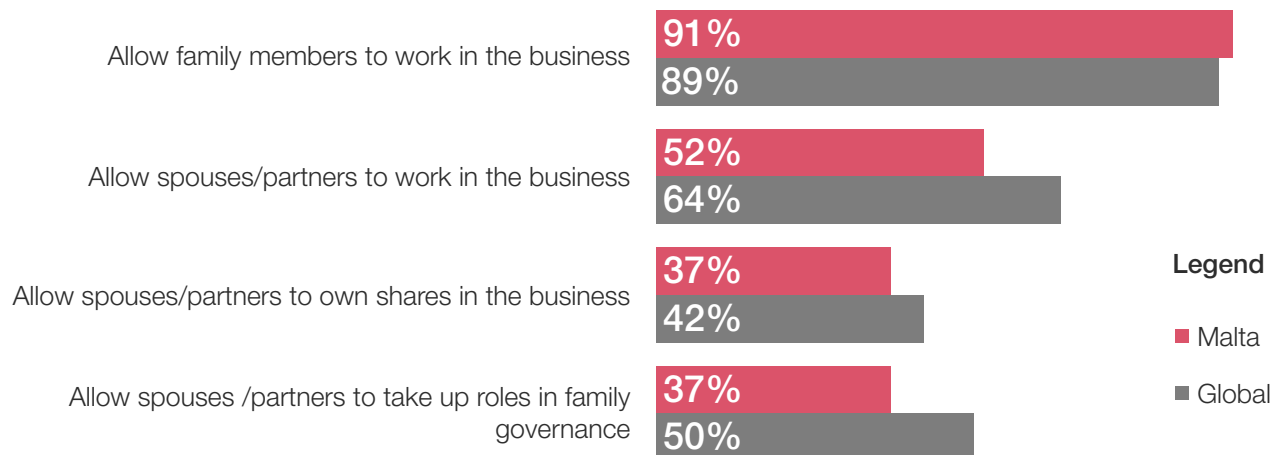


# Expectations for family members

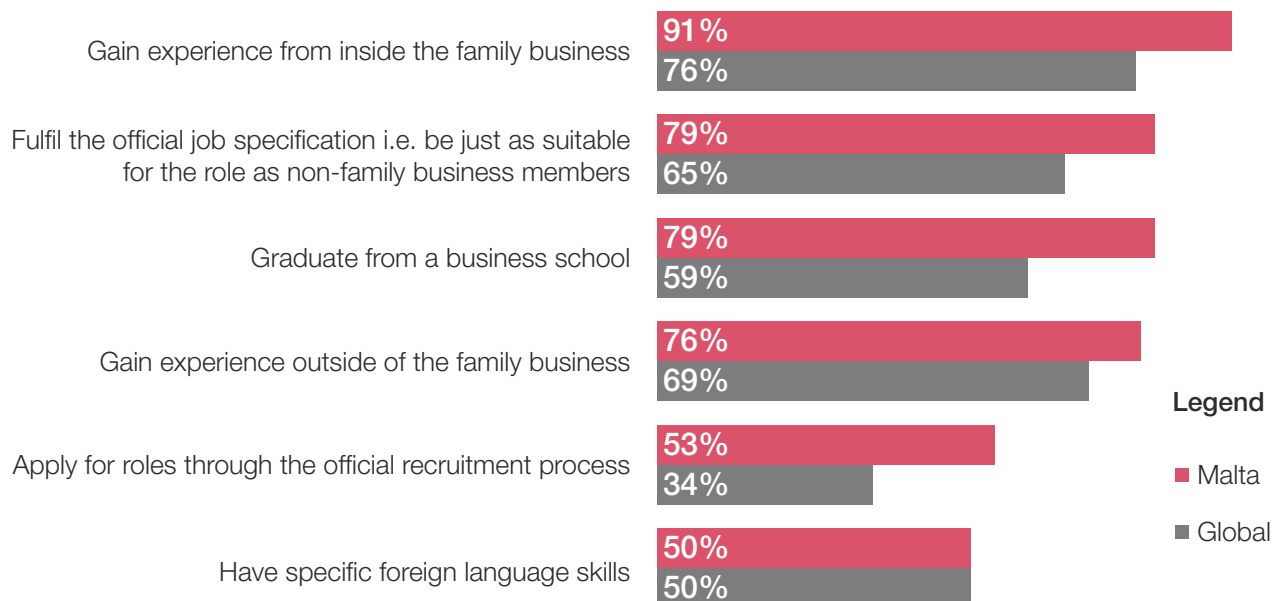
A popular discussion point concerning family businesses is the involvement of family members in the business. From results obtained locally, it is common practice to allow family members to work in the business. 52% of respondents also allow spouses/partners to work in the business, which is slightly lower than the global average of 64%. Additionally, more than a third of local respondents allow spouses/partners to own shares or take up governance roles in the family business.

Amongst the involvement of family members, 63% of Maltese family businesses have next gen family members working in the business. These members form part of leadership teams, Board of Directors, Senior Executives or simply work in the business but not in a senior role. An interesting figure that exceeds the global average of 29%, is that amongst local respondents 43% said that next gens are not working in the business but are shareholders. Next gens working in the family business are largely expected to gain work experience from within the family business. Having said that, 79% also expect next gen family workers to graduate from a business school and 76% want next gen family workers to gain experience outside of the family business. Furthermore, next gen family workers are slightly more likely than the global average to be required to be just as suitable as non-family candidates (79%) and to apply via the official recruitment process (53%).

## Family and spousal involvement in the business



## Expectations for next gen family workers

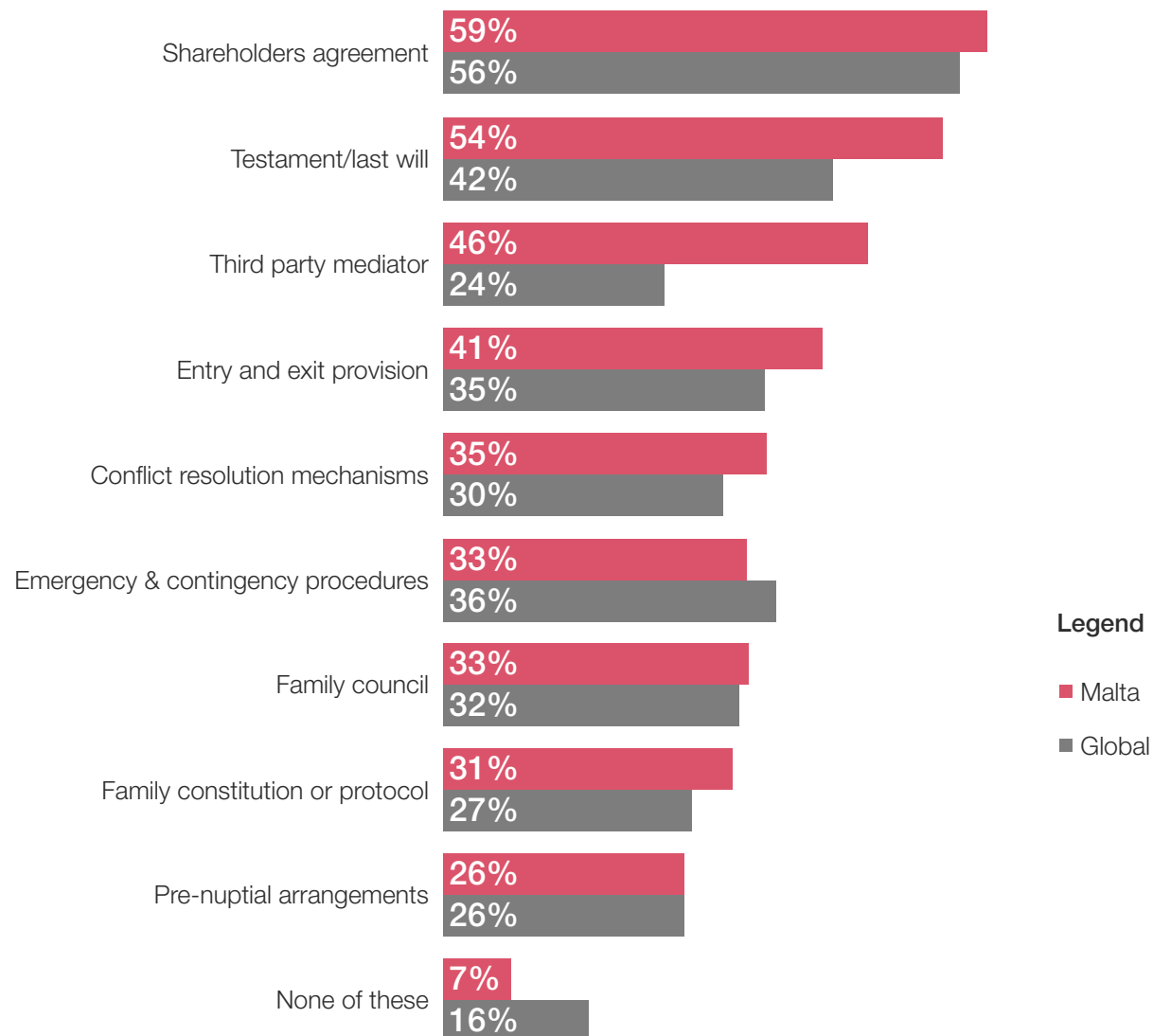


# Professionalisation

Family businesses are often characterised as being less professional in their approach due to practices such as nepotism. However, next gen family members are taking steps to improve this perception. This is especially so when next gen workers have furthered their education in business. Business degrees and work experience outside of the family business broadens their views on key areas within business such as finance, human resources and marketing. Therefore, it is common that upon the involvement of these next gen workers in family businesses new ideas are introduced and the quest to become more professional in processes and strategies is recognised. In fact, PwC's latest Next Gen Study states that the experience and education gained by next gens results in them prioritising areas such as professionalisation. When asking about the policies and procedures in place within local family businesses, 93% identified with having some form of policy/ procedure in place which is higher than the global average of 84%. A shareholders agreement was the most common policy present in local family firms.



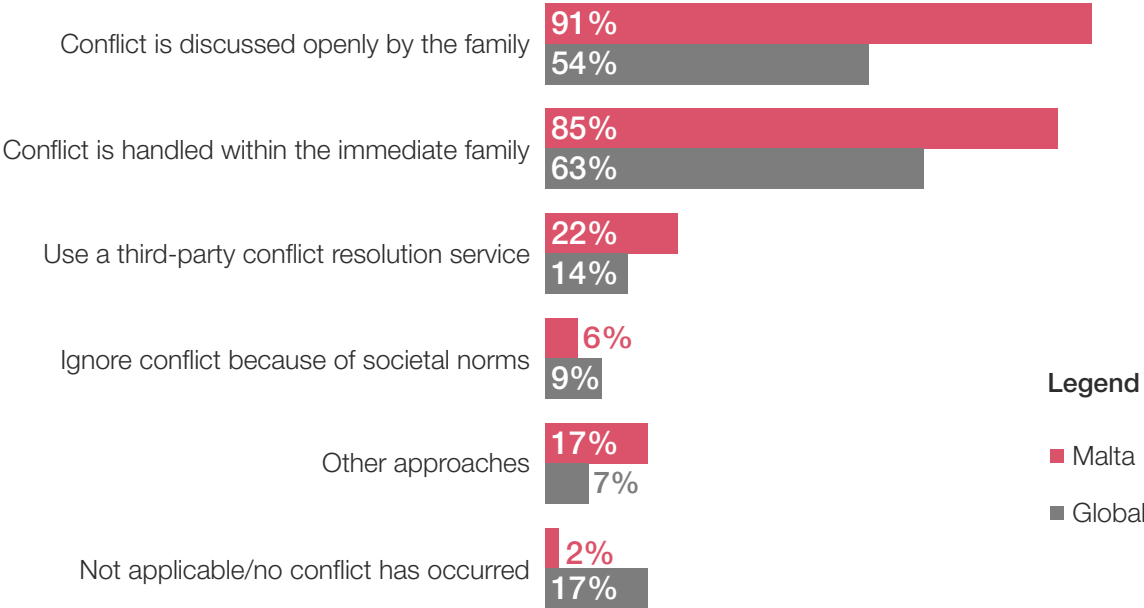
## Policies and procedures in place



Another aspect of professionalising a family business is considering how to manage family conflict. This is especially important locally given the high percentage of family members involved in family businesses. The most common approaches to managing family conflict amongst local respondents include discussing conflict openly by the family (91%) and managing conflict within the immediate family (85%). Interestingly, more than a fifth of respondents use a third-party conflict resolution service.



### Approaches used to handle family conflict



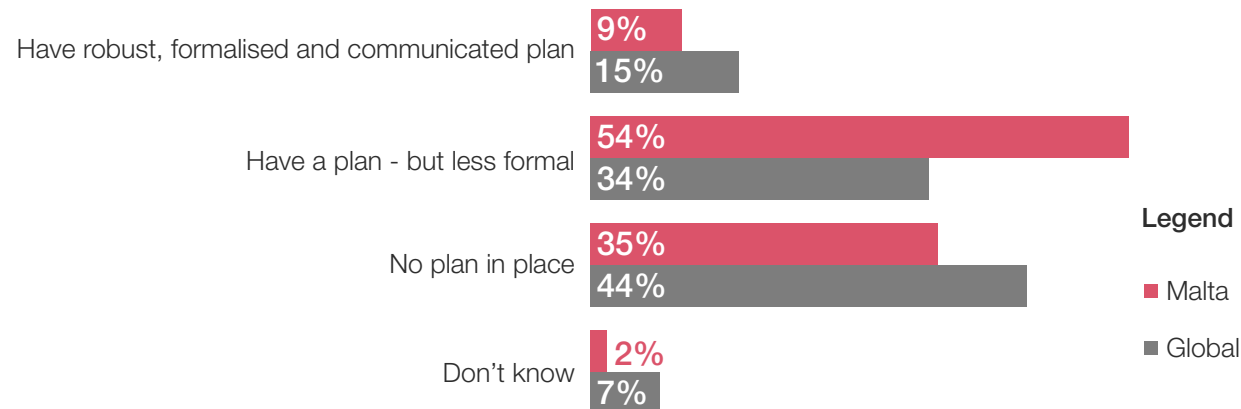


# Succession planning

The global survey states that the next three to five years will see a large transfer of wealth as a record amount of family businesses worldwide are set to undergo a generational transition. This emphasises the often-stated importance of a succession plan. Continuity through thought-out business transitions is of invaluable importance when considering the longevity of a family business.

Having said this, only 9% of Maltese family businesses have a robust, formalised and communicated succession plan in place. This is lower than the 20% result obtained in 2016. The majority of local respondents have an informal plan in place but a staggering 35% did not have any succession plan. Among those with a plan, 82% say key people within the business are aware of the succession plan and 71% say the plan has been discussed with other family members. Despite these high figures, 29% of those with a plan have yet to discuss it with other family members.

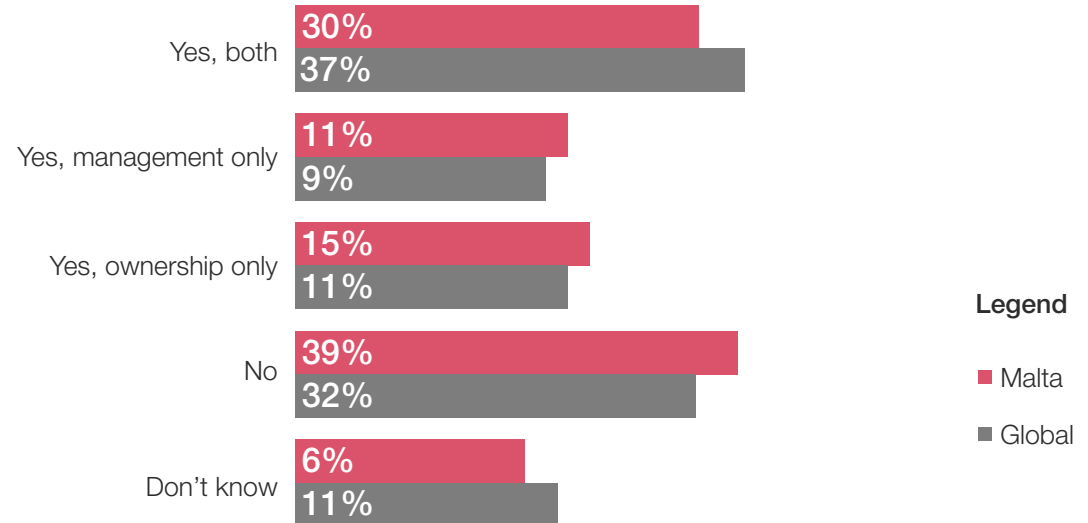
## Have a succession plan in place?



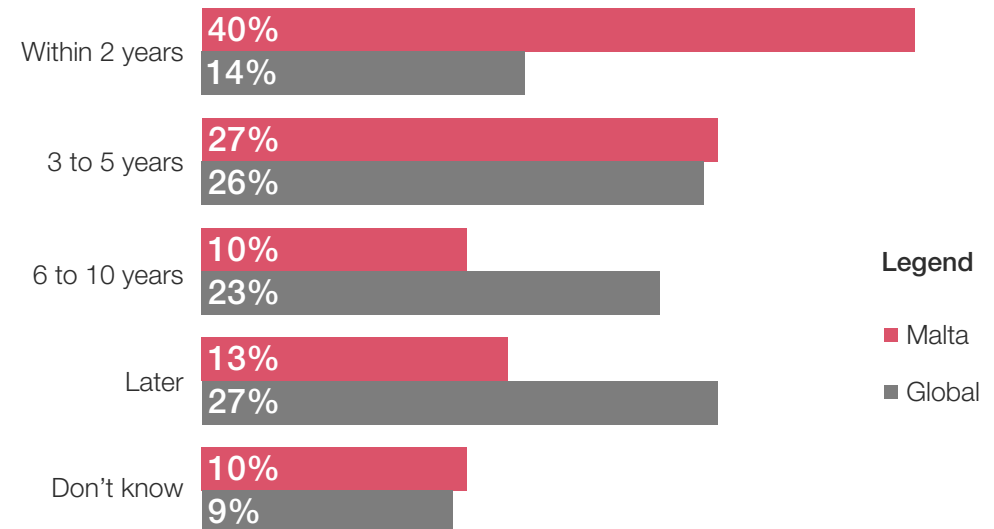
When discussing succession plans, 56% of local respondents plan to pass on management and/or ownership to the next gen. This percentage rises to 71% when the next gen is already working for the business. However, 20% of those planning to pass the family business onto the next gen have not involved the next gen in these plans. Among those passing on the business, 40% say it will occur within two years while 13% say it will happen in over 10 years.



## Passing on management/ownership to the next generation?



## When will this occur?





# 💡 The Malta Family Business Act

A family business, as stipulated under the Family Business Act, could either be a set up in the form of a public limited liability company, a private limited liability company, a registered partnership, a trust or other registered forms.

A family business can qualify to be registered under the Family Business Act if certain conditions are satisfied, for instance, in the case of:

- a. A public limited liability company, whose shares are listed on a regulated market or traded on a multilateral trading facility, the majority of the shares (including the rights) should be held directly or indirectly by at least two owners who are family members within the same family unit.
- b. A limited liability company, all the shares should be held directly or indirectly by at least two owners who are family members within the same family unit and at least one family member has to be formally involved in the general governance, proper administration and management of the company.

Shares which are held by individuals who are not family members, including employees who have been in continuous full time employment with the family business for over 3 years, shall be disregarded if the aggregate value of the shares does not exceed 5% of the issued share capital of the company in the case of non-family members, and 10% in the case of employees. Similar conditions apply where the family business is set up in the form of a registered partnership, a trust or other forms.

The Family Business Act has been enacted, by means of Act XLVIII of 2016 and aims to address financial issues family businesses are faced with, and issues arising at the time of transition of the business from one generation to another. The legislation provides a number of benefits to family businesses to assist them to operate their businesses more efficiently.

During 2018, the Family Business Act was amended to include some clarifications such as that a business shall only be eligible to benefit from any incentive, benefit or scheme if it is duly registered as a family business.

A registered family business can benefit from a number of incentives, as indicated below:

## Incentives & Benefits

- Where an individual transfers a family business as a going concern to another family member and part of the transfer involves a transfer of immovable property, duty on the first €500,000 of the value of the property is reduced from 5% to 3.5%;
- When an individual transfers shares / interest in a partnership, trust or foundation to family members, no duty is charged on the first €150,000;
- Loan guarantee of up to €500,000 per business for the purpose of acquiring the business;
- Micro invest eligibility of a maximum tax credit of €70,000 over a 3 year period;
- Legal, Notarial and Accountancy advisory services up to €2,500 over a five year period for the purposes of assistance in the succession or business transfer of a family business;
- Education and training for owners and their employees of up to €1,000 p.a. per family business;
- Arbitration of up to five sittings amounting to €2,500 with the purpose of establishing the fair value of the business;
- There is a positive consideration of lease renewal when a family business occupies industrial government premises or land on lease or emphyteusis;

- Investment Aid 2014-2020 – The Incentive Guidelines for Investment Aid 2014 – 2020 specify that in the case of acquisition of assets of an establishment (which was entered into under market conditions) only the costs of buying the assets from third parties unrelated to the buyer will be taken into consideration for tax credits purposes. However, where a member of the family of the original owner, or an employee, takes over a small enterprise and the mentioned family is in possession of a family business certificate the condition that the assets be bought from third parties unrelated to the buyer shall be waived.





# Lasting legacy

Many family businesses define success not just in terms of financial wealth but also give importance to factors such as the family legacy. Globally, when family businesses were asked what they wished their legacy would be, the majority had different wishes for the family, community and the business. For the family, many wished to be a well-respected, honourable employer with happy and secure employees. Respondents also wished that core values were upheld and that family members and employees will live a good life and thrive as a result of the business. Respondents also wished their legacy would be associated with the way they had benefitted society in a positive way and not taken advantage of it. In terms of the legacy of the business, respondents wished to endure and remain a sustainable player in the market, face and overcome challenges and sustain a reputation of quality products and services. Family businesses also come with a sense of responsibility to pass the business to next gen in a better shape than it was inherited.

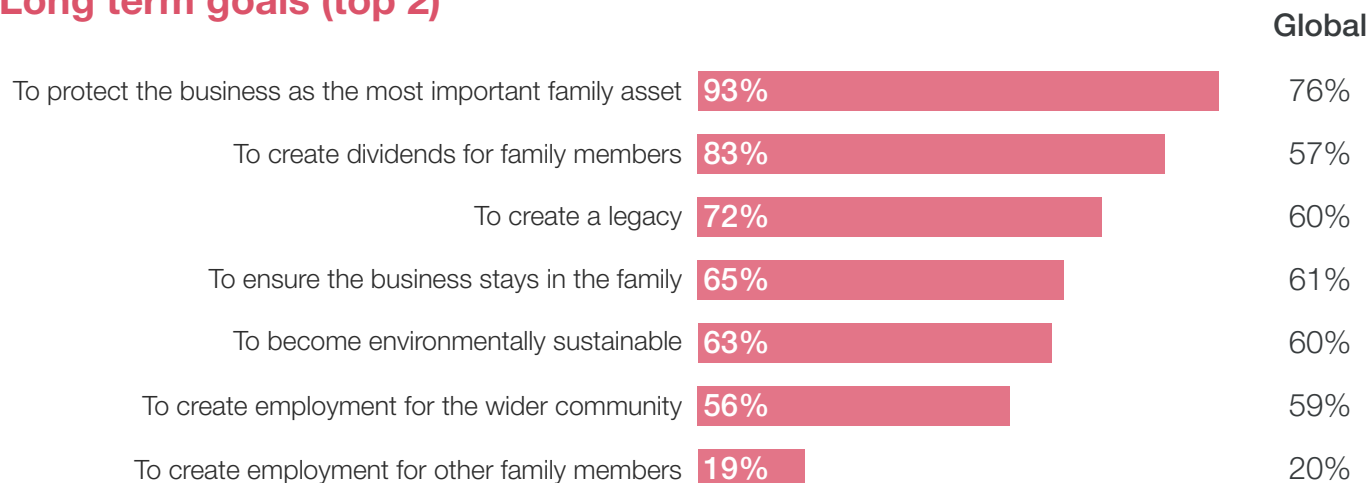
**“That the business continues to flourish and retain its core values of integrity and honesty.”**

2nd generation FBS respondent

**“An improvement on what my father started. I would like to grow the company into something much more than it is today.”**

2nd generation FBS respondent

## Long term goals (top 2)



**“That the company thrives for future generations and that it carries on in the way it started and has improved over the years.”**

1st generation FBS respondent

When local family businesses were asked about their long-term goals, 93% stated that they wanted to protect the business as the most important family asset. Other top goals for the next five years or longer included creating dividends for family members (83%), building a legacy (72%) and ensuring the business stays within the family (65%). The societal responsibility of businesses was also recognised amongst the top long term goals as local family businesses showed interest in becoming environmentally sustainable and creating employment for the wider community.

**“That the family carry on the business in a good environment, in other words there is no conflict in the family. To leave a good honest reputation in the community, that when the community look at our company, they can see it has a good reputation, and is a company they can trust in.”**

2nd generation FBS respondent







This edition of the Family Business Survey sheds light on the many changes going on in the scene of family businesses. Interestingly, we see how trends in the business environment have influenced family businesses equally. Changing expectations of stakeholders, the evolving world of work and the speed of technological developments have all had a significant impact on the challenges and opportunities of family businesses.

These changes have required family firms to become proactive in preparing for the future world of work. More importance has been given to the challenge of attracting and retaining talent yet more needs to be done to keep up with the changing expectations of the workforce. Family firms also plan to step up their digital capabilities however, many still associate digital disruption to threats rather than opportunities. We also see increased professionalisation in family firms as more next gen family workers gain business degrees and experience outside the family business.

Another change among family firms is the growing quest for purpose. Values and purpose have been present in family businesses for a while but it is only until recently that organisations have noticed the value in values. We have seen how the changing expectations of stakeholders have put pressure on organisations to give importance to societal, environmental and economic issues and add value to all three aspects. Stakeholders are holding organisations accountable for their impact on the world we live in to the extent that the purpose of an organisation influences the products we purchase and the entities we choose to work for.

This trend could put family businesses at the forefront if their purpose and values are made clear and incorporated in their strategic plans. If values and purpose are seen as unique assets, family businesses can leverage their values to distinguish themselves from other firms resulting in a unique competitive advantage. Involving the next generation in this journey could also add value since they understand critical concepts such as the impact of digital disruption and the importance of purpose.

Leaders of family businesses need to ensure they are well placed to succeed in an increasingly complex business environment. Making this vision a priority will ensure family businesses secure a lasting legacy that is fit for the future.





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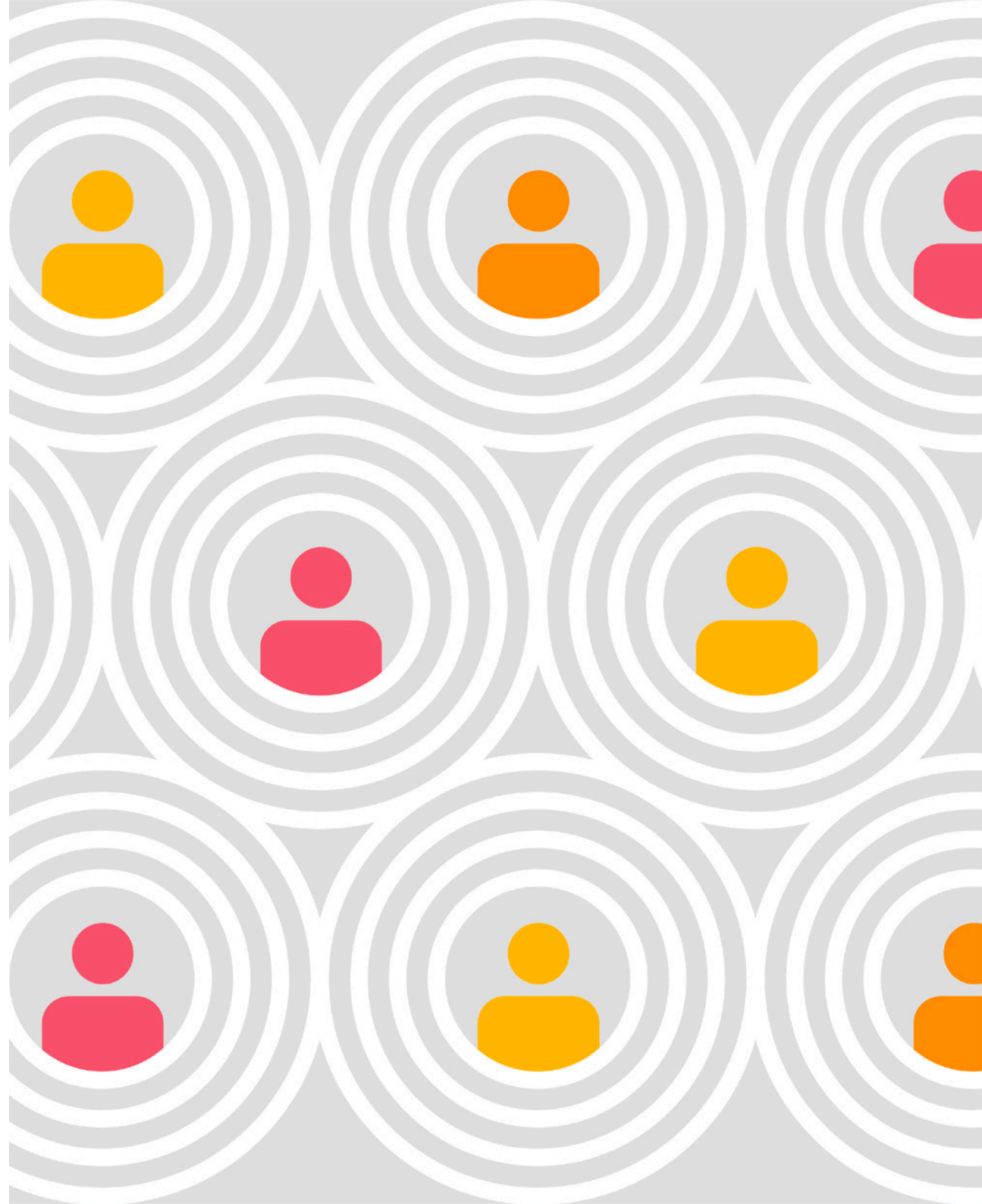
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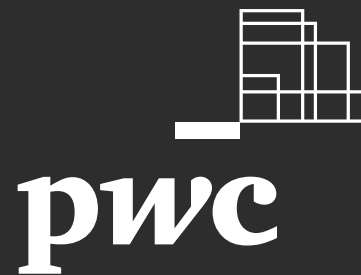


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