

Family Businesses in the Irish Services Sector

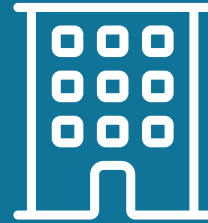
DCU Centre for Family Business
May 2017



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Key findings for family businesses in the services sector



There are more than
48,000
Irish family businesses



340,000
people are employed by
Irish family businesses



€52.4bn
is generated in annual revenues
(49% of total revenues generated
by Irish businesses)



Exports by Irish family
businesses are in excess of
€1.75bn



Irish family businesses are especially
prominent in the Wholesale and Retail
Trade sector and the Hospitality sector

Introduction

Family businesses are an important form of business organisation in most developed economies. International research on the prevalence and effectiveness of family-business ownership has shown that many public businesses are family controlled.

Family businesses account for as much as one-third of the S&P 500.

Anderson and Reeb, 2003.¹

However, publicly listed businesses in Ireland and the UK are much less likely to be controlled by a family than those in other parts of Europe – just one-quarter of listed businesses in Ireland are family controlled, versus more than 60% in France, Germany, and Portugal (Faccio and Lang, 2002).² There is also evidence that in Western Europe, family businesses report profits that are 16% higher than those of non-family businesses (Maury, 2006)³.



For generations, the heartbeat of Ireland has been driven by family businesses.

An Taoiseach Enda Kenny

Speaking at the launch of the DCU Centre for Family Business

¹ Anderson, R. and Reeb, D. (2003), Founding-Family Ownership and Firm Performance: Evidence from the S&P 500, *The Journal of Finance*, 58(3), 1301-1328.

² Faccio, M. and Lang, L.H.P. (2002), The Ultimate Ownership of Western European Corporations, *Journal of Financial Economics*, 65(3), 365-395.

³ Maury, B. (2006), Family ownership and firm performance: Empirical evidence from Western European corporations, *Journal of Corporate Finance*, 12(2), 321-341.



This research highlights the importance of family businesses to the Irish economy. In particular, Irish family businesses are an important source of employment. Over the period 2004 to 2012 the number of family businesses has increased and both revenues and exports have grown.

However, the data also highlights their relatively small size, 84% are micro businesses – and lower revenues and exports per business, when compared to other Irish businesses in the services sector.

Family businesses face challenges that are different from other businesses, like preparing the next generation for management and leadership roles, managing family/business conflict, developing appropriate governance structures, and integrating professional non-family members into the business.

It is critical that family businesses learn how to deal with these issues if they are to sustain across generations. DCU's Centre for Family Business is working with Irish family businesses to support them in their growth ambitions.

Dr Eric Clinton
Director of the DCU Centre for Family Business

01 The Growing Importance of the Services Sector

The services sector is of vital socio-economic importance in developed economies. The CSO's Annual Services Inquiry reports that in Ireland's services sector, during the period 2004 to 2012:

- > Revenues grew by €65.5bn, a 46% increase.
- > Employment grew by 128,000, a 19% increase.
- > Exports more than tripled, to €66.7bn.

For Irish family businesses, the data shows that for the same period (2004 to 2012):

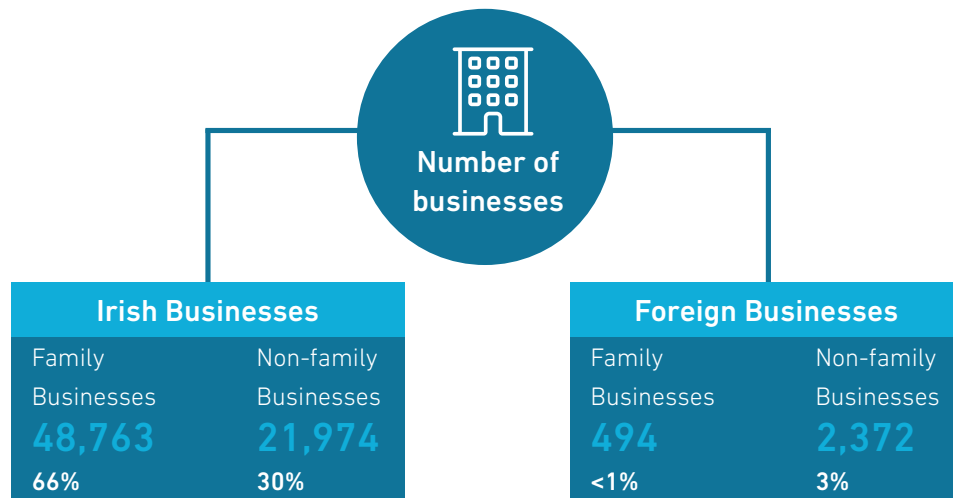
- > The number of businesses increased by 6,830, a 16% increase.
- > Revenues grew by €12.4bn, a 31% increase.
- > Employment increased by 92,000, a 37% increase.
- > Exports increased by €613m, an increase of more than 50%.



02 The Number of Family Businesses

In 2012, there were 73,603 businesses in the Irish services sector, 96% of which were Irish-owned (Table 1). Of the 70,737 Irish-owned businesses, 69% (48,763 businesses) were family businesses.

Table 1: Number of businesses in the services sector, 2012



Source: CSO Annual Services Inquiry data, 2012

03 Revenues of Family Businesses

In 2012, Irish family businesses in the services sector generated €52.4bn in sales, accounting for 49% of the revenues generated by Irish businesses (Table 2).

However, the average revenue per family business is less than half that of other Irish-owned businesses.

Table 2: Revenues in the services sector, 2012

	Revenues	Revenues per business (avg)
Irish Businesses		
Family Businesses	€52,400m (25%)	€1,075,000
Non-family Businesses	€54,000m (26%)	€2,456,000
Foreign Businesses	€102,200m (49%)	€35,644,000

Source: CSO Annual Services Inquiry data, 2012.

04 Exports by Family Businesses

Irish family businesses account for 20% of total exports by Irish businesses in the services sector (Table 3). Average exports per business are much lower (€36,000) in Irish family businesses than in Irish non-family businesses (€315,000).

Table 3: Exports in the services sector, 2012

	Exports	Exports per business (avg)
Irish Businesses		
Family Businesses	€1,757m (2.5%)	€36,000
Non-family Businesses	€6,920m (10.5%)	€315,000
Foreign Businesses	€58,067m (87%)	€20,260,000

Source: CSO Annual Services Inquiry data, 2012

05 Employment in Family Businesses

Of the 785,000 full- and part-time jobs provided by the services sector, 353,000 are in family businesses (Table 4). Despite outnumbering non-family businesses by 2:1, Irish family businesses accounted for just over 43% of employment in Irish businesses in the services sector. That is, family businesses are on average smaller (7 employees, compared to 12.3 employees in other Irish businesses).

Most Irish family businesses in the services sector are micro (84%) or small (14%) businesses, with just 2% categorised as medium-sized (51-250 employees) or large (250+ employees). In contrast, a larger percentage of Irish non-family businesses are medium-sized (16.4%) or large (4.5%) (Table 5).



In absolute numbers, there are 17 times as many large Irish non-family businesses as family businesses.

Table 4: Employment in the services sector, 2012

	Total numbers employed	Employment per business (avg)
Irish Businesses		
Family Businesses	339,460 (30%)	7
Non-family Businesses	271,119 (24%)	12.3
Foreign Businesses	514,473 (46%)	61.1

Source: CSO Annual Services Inquiry data, 2012

Table 5: Employment distribution in the services sector, 2012

Size range (number of employees)	Irish Family Businesses	Irish Non-family Businesses	Foreign Businesses
Large (250+)	0.1%	4.5%	5.1%
Medium (51-250)	1.8%	16.4%	16.7%
Small (10-50)	14.3%	42.8%	49.4%
Micro (<10)	83.8%	36.2%	28.7%
Total	100%	100%	100%

Source: CSO Annual Services Inquiry data, 2012

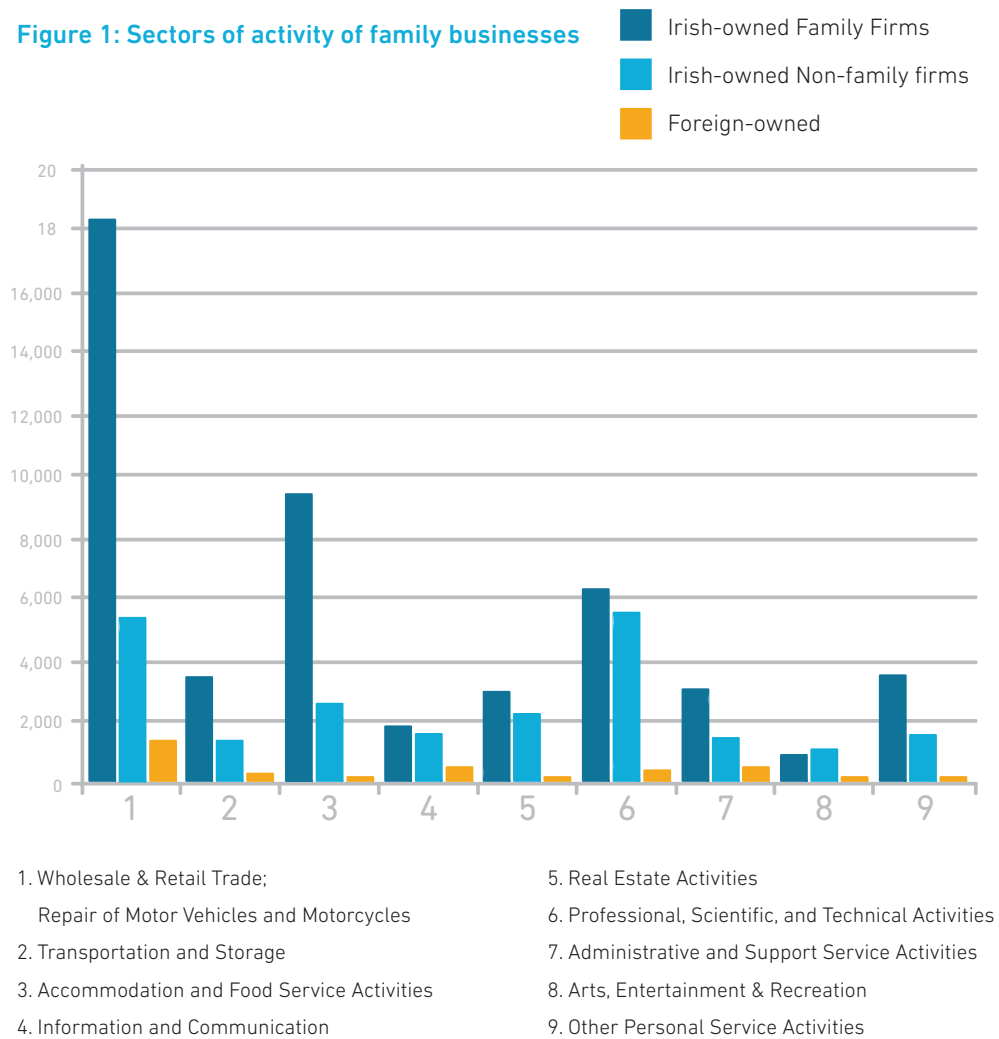


06 Sectors of Activity

More than half of Irish family businesses are in the Wholesale and Retail Trade sector or the Accommodation and Food Services sector (Fig 1). These two sectors account for more than one-third of all businesses in Ireland's services sector. Other categories with strong family-business representation include the Transportation and Storage sector, the Administrative & Support Services sector, and the Real Estate Activities sector.

Irish family businesses in the Wholesale and Retail Trade sector generated €38.6bn in revenues in 2012. Hospitality (Accommodation and Food Services) was the second largest sector in revenue for Irish family businesses (€4.8bn), followed by the Transportation and Storage sector (€2.4bn) and Administrative and Support Services sector (€2.3bn).

Figure 1: Sectors of activity of family businesses



Source: CSO Annual Services Inquiry data, 2012

07 Changes in the Services Sector: 2004 to 2012

The total number of businesses in the services sector declined over this period. In 2004 there were 88,600 businesses in Ireland's services sector: 42,000 Irish family businesses, 43,500 Irish non-family businesses, and 3,100 foreign-owned businesses.

By 2012, the number of businesses had declined by 17%, to 73,600 businesses in total: 48,800 Irish family businesses, 22,000 non-family Irish businesses, and 2,800 foreign-owned businesses.⁴

The number, employment, revenues, and exports of **Irish family businesses** increased over the period 2004 to 2012 (Table 6). During this time, Irish family businesses in the services sector:

- > Increased in number by 6,830, or 16.3%.
- > Employed an additional 92,074 staff, an increase of 37.2%. In 2012, each Irish family business employed an average of 7 staff, compared to an average of 5.9 in 2004.
- > Increased revenues by €12.4bn, or 31%. In 2012, average revenue per Irish family business was €1.1m, an increase of 12.7% compared to 2004.
- > Increased exports by €700m, or 53.6%.

For the same period (2004 to 2012), **non-family Irish businesses**:

- > Decreased in number by 21,616, or 49.6%.
- > Employed 39,690 fewer people, a drop of 12.8%. However, average employment per businesses is higher in 2012. In 2012, each Irish non-family business employed an average of 12.3 staff, compared to 7.1 in 2004.
- > Revenues decreased by 9.4%. In 2012, revenue per business was €2.5m, which is 80% higher than the 2004 average.
- > Increased exports by €1.9bn, or 37.2%. In 2012, average exports per business were €315,000, which is 172% higher than the 2004 average.

While the number of non-family businesses fell, the number of family businesses rose.

Family businesses are typically smaller in terms of employees, revenues, and exports.

⁴ There were year-on-year variations over this period, with the most significant increases in 2008 and the most significant decreases in 2010.

Table 6: Services sector: 2004 – 2012

	2004	2012	Percentage Change
Number of businesses	88,656	73,603	-17.0%
Irish: Family Businesses	41,993	48,763	16.3%
Irish: Non-family Businesses	43,590	21,974	-49.6%
Foreign Businesses	3,133	2,866	-8.5%
Employment	657,814	785,592	19.4%
Irish: Family Businesses	247,386	339,460	37.2%
Irish: Non-family Businesses	310,809	271,119	-12.8%
Foreign Businesses	99,619	175,013	75.7%
Revenues	€143,400m	€208,600m	45.5%
Irish: Family Businesses	€40,000m	€52,400m	31%
Irish: Non-family Businesses	€60,000m	€54,000m	-9.4%
Foreign Businesses	€43,400m	€102,200m	135%
Exports	€20,200m	€66,800m	230.7%
Irish: Family Businesses	€1,100m	€1,800m	53.6%
Irish: Non-family Businesses	€5,000m	€6,900m	37.2%
Foreign Businesses	€14,100m	€58,100m	312%

Source: CSO Annual Services Inquiry data, 2004, 2012



08 What is a Family Business?

The CSO Annual Services Inquiry defines a family business as: an enterprise where one family holds more than 50% of voting shares, and/or one family supplies a significant proportion of the senior management and effectively controls the business, and/or a family or a family relationship influences the enterprise, and the latter is perceived to be a family business.

Data Sources

This report draws on information gathered by the Central Statistics Office (CSO) in its Annual Services Inquiry to quantify the contribution of family businesses to the services sector in Ireland.⁵

The data spans the years 2004 to 2012. This was the most recent data available at the time of the analysis. All figures are national estimates, based on sample data relating to service-sector businesses that participated in the CSO's Annual Services Inquiry (ASI).

ASI data is collected by the CSO by means of survey. Sample size during the period under study (2004 to 2012) varied year-on-year from a minimum of 8,222 businesses to a maximum of 15,284 businesses.

⁵ Although data used in this report is collected by the CSO its analysis and interpretation is the sole responsibility of the Centre for Family Business. The Centre for Family Business, for their part, have attempted to ensure accuracy and completeness of the information contained in this publication. No responsibility can be accepted, however, for any errors and inaccuracies that occur.

What Is the Services Sector?



Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles



Transportation and Storage



Accommodation and Food Service Activities



Information and Communication



Real Estate Activities



Professional, Scientific, and Technical Activities



Administrative and Support Service Activities



Gambling and Betting Activities



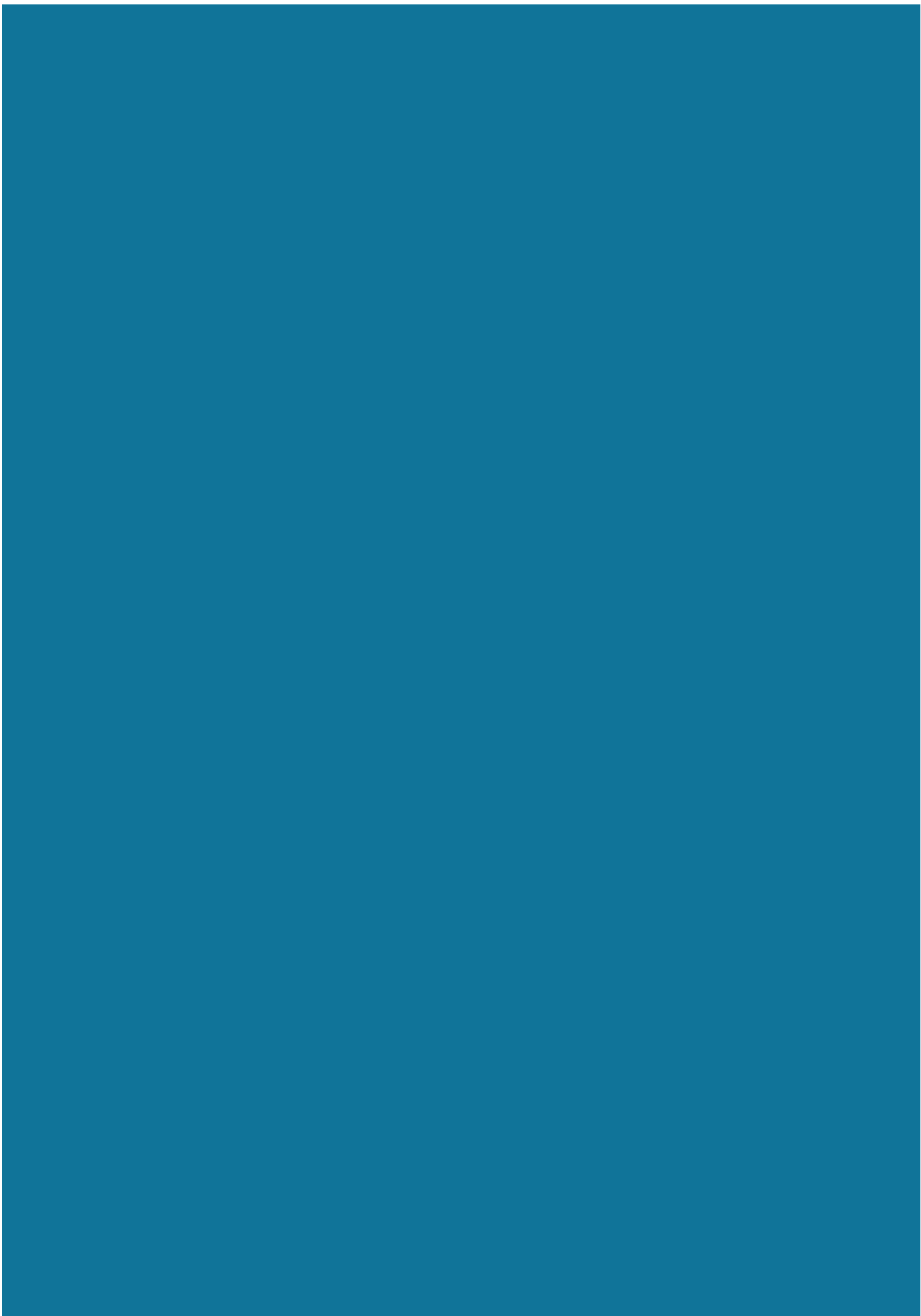
Sports Activities and Amusement and Recreation Activities



Repair of Computers and Personal and Household Goods



Other Personal Service Activities



Information on DCU Centre for Family Business

W: dcu.ie/centre-for-family-business

E: familybusiness@dcu.ie