

Overview of Family Business Relevant Issues

Country Fiche Malta

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1 Introduction

The family business is a vital force in today's local economy. It ranges in size from the traditional, small, corner business to dynamic organisations employing a large number of people. Family businesses are a mainstay in the Maltese economy. To this end, the issue of family businesses is a popular topic in public and policy discussions. However, there is no specific differentiation made between family businesses and non-family businesses.¹ Generally, the bulk of family businesses in Malta fall under the SME category.

The content of these discussions mainly address the unique challenges, priorities and constraints faced by the family business in today's ever changing business environment. All family businesses are facing a new business environment brought about by changes in consumer demand, higher standards and regulation, and increased competition. Generally, topics open for discussion fall under the following categories – Ownership Succession, Conflict, Management Succession, Business Growth Constraints and the Family Business Management Team.

As such, no differentiation is made between family businesses of different size classes. Family businesses are classified by size according to the same specifications as non-family businesses.

¹ Since family businesses are so common in Malta, when policy makers discuss issues concerning SMEs, family businesses are included in discussions.

2 Understanding of “family businesses” in the national context

A family business is defined as a company owned, controlled and operated by members of one or several families. There exist no local official definitions of a family business specifying the level of involvement of family members in ownership, board of directors and/or management and/or staff, relationship between business and private life or the presence of ‘familiness’.

Companies owned and operated by a single person without any employees are referred to as sole traders and may also be considered to be a family business. Companies owned by a single person, but eventually managed by employing more than one person (sole proprietor) may also be referred to as family businesses.

There are currently no legal regulations referring to family businesses. To this end, no official legal definitions of a family business exist.

As previously mentioned, most family businesses in Malta are classified as SMEs and hence fall under SME public and policy discussions. Consequently, family businesses are very much equated to SMEs. Due to the country’s small size, very few organisations in Malta qualify as large enterprises. As such, there is no ‘typology’ of family businesses in Malta, but the majority (around 95%) of private business enterprises in Malta are classified as micro-enterprises, many of which are considered to be family owned businesses.

3 Importance of family businesses for the national economy

Family businesses are a mainstay of the local economy. Consequently, the family business is a vital force in today's Maltese economy. Family businesses cover a broad range of industry sectors and range in size from micro, small and mid-sized owner-managed companies to large corporate concerns. Industry sectors represented by family businesses include Agri-business, Automotive, Construction and Engineering, Financial Services, Food Processing, Hospitality and Leisure, Manufacturing, Technology and Transport & Distribution. Micro-enterprises employ the majority of workers in Malta and account for approximately 45% of total employment, whilst small and medium sized firms each accounted for slightly over 20% of private sector employment. The remaining 15% of the gainfully occupied in the private sector were employed in large firms. Micro, small and medium sized enterprises generate an annual average added value of around 55% of the local economy. Seeing that many of these organisations may be considered to be family businesses, the local economy depends heavily on the continuity and success of family businesses.

As such, there is no official information available on the size class of local family businesses. However, it is a known fact that the majority of micro, small and medium sized enterprises in Malta are family businesses. Although very few local organisations are classified as large-scale enterprises, there is evidence that a few large-scale enterprises are considered to be family businesses.

No specific changes in industries, legal forms, sizes or enterprise age classes were recorded over time.

4 Characteristics of family businesses

By and large, national family businesses take the legal form of private business enterprises which are generally classified as micro, small and medium sized enterprises. As a rule, the bulk of family businesses in Malta are classified as micro enterprises and are defined as having fewer than 10 employees, and an annual turnover of not more than 2 million Euros (which is similar to businesses in general). Micro-enterprises thus comprise a diverse type of firms ranging from one-person businesses to cooperatives. Whilst some of these micro-enterprises offer very traditional services or craft products, many others are fast-growing high-tech organisations. A key characteristic of Maltese family businesses is that family members are generally represented in senior management and new recruitment. They are not solely profit maximisers but they also pursue other important objectives such as maintaining or enhancing the lifestyle of the owners, and providing employment for family members in the management team. Generally, less than one third of family businesses survive the transition from first to second generation ownership. Of those that do, about half do not survive the transition from second to third generation ownership. The vast majority of local family-owned SMEs were set up during the past 30 years and in the vast majority of cases the head of the family had very little formal training. This has now changed and in the past few years, more and more companies are being set up by young entrepreneurs - including women - who are highly qualified. Family businesses are taking in this new generation, which are very conversant with the latest ICT gadgetry. Younger family members are coming into family businesses with modern ideas and concepts. Unfortunately, many local family businesses are performing much worse than management-led companies. Businesses have to adapt to change, whether proactively or reactively. Yet only a small percentage of family-owned businesses are planning to launch new products or services over the coming years. This is due to the local closed mentality of most family businesses that believe that since their business has done well up to now, there is no reason to look at something new and risk losing what they have.

Family businesses are a mainstay of the local economy, yet many of these businesses are today at crossroads, facing unique threats and challenges. Some have grown significantly over the past 40-50 years and are facing the challenge of coping successfully with the separation between family ownership and sound business management. Others are seeing their traditional business in decline and are looking for new niches at which to direct their capital and energy. All are facing a new business environment brought about by changes in consumer demand, higher standards and regulations, and increased competition.

The last few years have seen a significant growth in the complexity and challenges facing Maltese family businesses. These challenges come at a critical moment when a number of family owned businesses are passing through generational transitions. There is, in consequence, a greater appreciation of the unique issues which these companies face arising from the nature of their ownership.

Controlling costs, a number of concerns relating to strategy, and improving cash flow are the most common management priorities faced by local family businesses. Consumer sophistication, EU membership and social changes are leading to demand for higher standards, supplemented by increased regulation. This evolutionary process is pushing up costs, particularly for the larger and more established company. Against this, the barriers to entry into business have been decreasing. Smaller competitors are more nimble and their lesser visibility may make them less prone to regulatory

enforcement. Many local family businesses are concerned that this is perhaps creating an uneven playing field where quality and hence cost is concerned. Economic liberalisation is fully opening our economy to the impacts of globalisation. As in most other developed economies, Malta is shifting more towards services. Increased consumer spending is being directed at activities such as travel, leisure and entertainment, communications and financial services. Older businesses, often in importing/trading, property and/or incoming tourism, are seeing their margins squeezed. As a result many family businesses are increasingly focusing on strategic issues such as – should we import or produce, are we in the right businesses, should we be looking overseas, should our company be an importer or retailer etc? Above all, building on our existing strengths, how can we do differently and better than which we do today? Traditional comfort zones have disappeared. Many older businesses will have to adapt, or will find their strength eroded. Improving cash flow is also a high ranking concern.

Availability of finance is a constraint for family owned businesses universally, but the cash flow complaints often voiced in Malta are perhaps the result of a locally emphasised syndrome. Contributory factors would include business conducted on a barter basis; capital expenditure projects financed by working capital; and undue levels of trade credit taken across the economy, including unreasonably long periods of credit taken by Government.

There is evidence that concerns over the availability and quality of management and staff are growing in importance across family owned businesses in Malta. There is moreover a broad realisation that such issues are likely to assume added significance in the future.

Many family business owners find it difficult to address issues relating to retirement, illness, incapacity or death. As a result they make succession planning a low priority or put it off to an undefined future time. However, the importance of early planning cannot be overstated since it greatly increases the likelihood that family business owners will meet all of their financial, wealth planning and tax management objectives.

Typically, a family business owner's first choice for the new leader is the next generation of the family. However, only a relatively small number of successors in Maltese family businesses have any degree of work experience outside the family firm. Some European countries have developed an informal network whereby the chosen successors and other members of the next generation are exchanged for 1-2 years at a time with other family businesses. This programme exposes members of the next generation to different businesses, industries and leadership styles and allows them to build confidence in their own management skills away from the direct influence of their immediate family. A structured family business candidate exchange network does not exist in Malta, and may be difficult to attain given our small size. But our family businesses need to identify suitable alternatives to further the development of their future leaders. Only a small number of Maltese family businesses consider the formal learning and development needs of family members working the business. Formal education of potential future successors requires added emphasis. While more businesses than not nowadays recognise its critical importance, tertiary education is sadly still neglected within a number of Maltese business families, at their risk. Non-family members are rarely selected as actual successors (circa 25%) due to a number of common causes. In spite of these difficulties, the reliance of family businesses on non-family members within management has increased significantly in the last two decades. This reliance is mostly marked in the larger family groups, and in businesses which have moved beyond the founder's children in their ownership succession. Sibling

rivalry is also a powerful phenomenon that has destroyed many families and their businesses. Just as conflict always exists in families, it always exists in family businesses. The main causes of conflict or tension in Maltese family businesses comprise of the following:

- Decisions around who can and cannot work in the business
- Performance of family members actually involved in the family business
- Discussions about the future strategy of the business
- Setting the remuneration level for family members actively involved in the business
- Family members actively involved in the business not consulting the wider family on key issues
- Deciding between the reinvestment of profits in the business and the payment of dividends

Many overseas successful family businesses that have survived for generations have created Family Councils to deal with family and ownership issues such as those mentioned above. Yet only a minority of Maltese family businesses have a Family Council, which is disappointing given the role that Family Councils can play in resolving conflict and acting as a strategic sounding board for the family business management team.

Unfortunately, not much information is readily available on different types of family businesses with regard to ownership structure, management structure, staff structure, aims/objectives of the company, interaction between entrepreneurial and social life.

When family members work together, emotions may interfere with business decisions. Conflicts may arise as relatives could see the business from different perspectives. Family members who are partners could well see capital expenditure and other investments as foregone profit distribution.

In some family companies, daily operations are hampered by family conflicts which may result in a high turnover of non-family personnel. This makes the role of the manager much more complicated as the conflicts between relatives must be reconciled for the benefit of the business.

The issues are not all negative. If proper structures are in place, family businesses provide some very important advantages (if properly handled) over other businesses. Family is more likely to share the same work ethics and beliefs as to how things should be done. This will give the owner-manager an extra sense of purpose and the business a competitive edge.

Building a lasting family business enterprise means that family members are also more likely to put in the extra effort and hours required to make the business a success.

Strong personal and family ties result in a situation where family members will be more likely to stick together in hard times and show the determination needed for the business to succeed. Finally, family members might be more willing to make financial sacrifices for the sake of the business's success, for example, through accepting lower pay than they would normally get elsewhere, or deferring wages during cash flow bottlenecks.

In a nutshell, the strengths of the family business include strong culture, shared identity, less senior management staff turnover, sensitivity to the business, long-term perspective, increased responsibility, faster decision making and a clear and defined history. On the other hand, weaknesses include favouritism, lack of succession/retirement/strategic planning, family conflicts spilling over into the business, reluctance to recruit the best person if they are outside of the family, lack of professionalism and a reluctance to change.

5 Institutional actors and their strategies, policies and initiatives

As such, there are no institutional actors specifically devoted to family business strategies, policies and initiatives in Malta. As previously mentioned, local family business strategies, policies and initiatives are discussed and dealt with in the context of micro, small, medium and large sized enterprises. The main local institutional actor responsible for such strategies, policies and initiatives is Malta Enterprise. Malta Enterprise is a government agency responsible for the promotion of foreign investment and industrial development in Malta. Its mission is to sustain Malta's overall competitiveness to create the right environment for successful enterprise in Malta. It offers assistance and advice to those who seek to learn more about the multitude of business and investment opportunities available on the island. Likewise, Malta Enterprise offers investors the best possible service before, during and after they decide to do business in Malta.

Malta Enterprises boasts a team of experienced specialists aligned to specific sectors in order to ensure maximum support to existing clients and also prospective new clients. Their primary role is to assist such clients through the various phases of their set-up in Malta or their expansion process.

In addition to its central investment promotion function, Malta Enterprise has the task of promoting the country's external trade by helping companies in Malta to develop new export markets.

Malta Enterprise also maintains regular contacts and business relationships with various local and international business associations such as chambers of commerce, federations of industry, business bodies as well as diplomatic missions to ensure that it offers the best possible service to its clients. In addition, Malta Enterprise has excellent relations with international business and trade promotion organisations. Malta Enterprise has a strategy to maintain these strong links for information sharing, knowledge management and the organisation of joint business events.

Malta Enterprise is enabled by the Malta Enterprise Act (ME Act) to support the development of enterprise in Malta. Malta Enterprise has developed a new set of incentives for the promotion and expansion of industry and the development of innovative enterprises. These incentives are presented in the following templates.

	Explanation
institutional features	
name of the actor	Malta Enterprise
nature of the actor	<input checked="" type="checkbox"/> government <input type="checkbox"/> employers' organisation <input type="checkbox"/> support service provider (information, advice, education) <input type="checkbox"/> research centre <input type="checkbox"/> network/family business specific organisation (including interest groups/representative organisations/lobbies) <input type="checkbox"/> others, namely:
address	Malta Enterprise Enterprise Centre Industrial Estate San Gwann SGN 3000 - Malta
telephone	Tel: (+356) 2542 0000 Fax: (+356) 2542 3401
web-page	www.maltaenterprise.com
e-mail	info@maltaenterprise.com
content based features	
name of the strategy/initiative/ regulation	Micro-Enterprise – Reinvestment Tax Credit
type	<input type="checkbox"/> fiscal regulation/tax law <input type="checkbox"/> labour law/social security law <input type="checkbox"/> company law <input type="checkbox"/> awareness raising measures <input type="checkbox"/> corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar <input type="checkbox"/> education/training measures <input type="checkbox"/> information/advice <input type="checkbox"/> business transfer support instruments <input checked="" type="checkbox"/> financial support <input type="checkbox"/> marketing <input type="checkbox"/> networking <input type="checkbox"/> others, namely:
objective	The projects are expected to improve the efficiency and effectiveness of the business. This may include the setting up of a new activity, of a change in the product, or the production process.
initiation	2005 - 2009
contents/description of the initiative/measure	Micro Enterprises that re-invest profits derived from their trade or business in an approved project shall be entitled to a tax credit. The scheme shall apply to profits earned during the year 2005 and subsequent years up to 2009, provided the approved project shall be completed within three years. The relative tax credit is earned in the year of assessment during which the respective approved investment is undertaken. The tax credit represents the value of tax that would have been paid if the profits were not re-invested.

	Explanation
user based features	
eligibility criteria/target group	A firm, or a company deriving eligible profits chargeable under article 4(1)(a) of the Income Tax Act and that satisfies all of the following 3 conditions: i) turnover not exceeding Euro582,500; ii) employing three to ten employees (three of whom must be full-time employees); iii) registered as an FSS payer under the Final Settlement System (FSS) Rules.
Promotion tools/information strategy	The target group is generally made aware of the incentive through promotional media such as TV, Radio and the Internet.
source of funding	<input type="checkbox"/> EU-funds <input checked="" type="checkbox"/> national funds (governments) <input type="checkbox"/> membership fees <input type="checkbox"/> others, namely:
costs for participants/members	None
performance based features	
evolution	The efficiency or effectiveness of the activities will be monitored in the form of number of participants and the effects of participation. This initiative/measure is particularly suited to foster family businesses because the majority of family businesses in Malta are classified as micro enterprises.

	Explanation
institutional features	
name of the actor	Malta Enterprise
nature of the actor	<input checked="" type="checkbox"/> government <input type="checkbox"/> employers' organisation <input type="checkbox"/> support service provider (information, advice, education) <input type="checkbox"/> research centre <input type="checkbox"/> network/family business specific organisation (including interest groups/representative organisations/lobbies) <input type="checkbox"/> others, namely:
address	Malta Enterprise Enterprise Centre Industrial Estate San Gwann SGN 3000 - Malta
telephone	Tel: (+356) 2542 0000 Fax: (+356) 2542 3401
web-page	www.maltaenterprise.com

	Explanation
institutional features	
e-mail	info@maltaenterprise.com
content based features	
name of the strategy/initiative/regulation	EUREKA
type	<input type="checkbox"/> fiscal regulation/tax law <input type="checkbox"/> labour law/social security law <input type="checkbox"/> company law <input type="checkbox"/> awareness raising measures <input type="checkbox"/> corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar <input type="checkbox"/> education/training measures <input type="checkbox"/> information/advice <input type="checkbox"/> business transfer support instruments <input checked="" type="checkbox"/> financial support <input type="checkbox"/> marketing <input type="checkbox"/> networking <input type="checkbox"/> others, namely:
objective	This project should lead to the development of innovative products, processes and services based on advanced technologies that have a world-wide market potential.
initiation	2005
contents/description of the initiative/measure	Financial support is provided to enterprises carrying out collaborative R&D projects with partners from the EUREKA network. Through EUREKA, enterprises collaborate to create products, processes and services in areas of advanced technology; as well as projects of innovation, research and technological development.
user based features	
eligibility criteria/target group	<p>The aid is available to enterprises that aim to carry out a research project in collaboration with other enterprises from EUREKA member states.</p> <p>These projects must have ready-to-market results, representing a significant advance in their particular sector. Enterprises may benefit from part-financing up to EURO 150,000 over a period three years.</p> <p>Cluster Projects must have long-term, strategically significant industrial initiatives. They usually have a large number of participants and aim to develop generic technologies of key importance for European competitiveness, primarily in Information and Communication Technologies (ICT), but also in Energy and Biotechnology.</p> <p>Enterprise participating in Cluster Projects may receive part financing up to EURO 75,000 per annum over a period of five years.</p>

	Explanation
user based features	
Promotion tools/information strategy	The target group is generally made aware of the incentive through promotional media such as TV, Radio and the Internet.
source of funding	<input checked="" type="checkbox"/> EU-funds <input checked="" type="checkbox"/> national funds (governments) <input type="checkbox"/> membership fees <input type="checkbox"/> others, namely:
costs for participants/members	None
performance based features	
evolution	<p>The efficiency or effectiveness of the activities will be monitored in the form of number of participants and the effects of participation.</p> <p>This initiative/measure is particularly suited to foster family businesses because it is available for any enterprise classification.</p>

	Explanation
institutional features	
name of the actor	Malta Enterprise
nature of the actor	<input checked="" type="checkbox"/> government <input type="checkbox"/> employers' organisation <input type="checkbox"/> support service provider (information, advice, education) <input type="checkbox"/> research centre <input type="checkbox"/> network/family business specific organisation (including interest groups/representative organisations/lobbies) <input type="checkbox"/> others, namely:
address	Malta Enterprise Enterprise Centre Industrial Estate San Gwann SGN 3000 - Malta
telephone	Tel: (+356) 2542 0000 Fax: (+356) 2542 3401
web-page	www.maltaenterprise.com
e-mail	info@maltaenterprise.com
content based features	
name of the strategy/initiative/regulation	Innovative Start-Up Grants

	Explanation
content based features	
type	<ul style="list-style-type: none"> <input type="checkbox"/> fiscal regulation/tax law <input type="checkbox"/> labour law/social security law <input type="checkbox"/> company law <input type="checkbox"/> awareness raising measures <input type="checkbox"/> corporate governance codes, family governance, family protocols, family constitution, family council, family assembly or similar <input type="checkbox"/> education/training measures <input type="checkbox"/> information/advice <input type="checkbox"/> business transfer support instruments <input checked="" type="checkbox"/> financial support <input type="checkbox"/> marketing <input type="checkbox"/> networking <input type="checkbox"/> others, namely:
objective	<p>New enterprises need a mix of resources and support in order to flourish. Often, these are not readily available. Most start-ups require external guidance, assistance and financing.</p> <p>Through the Innovative Start-ups Programme, Malta Enterprise aims to provide innovative entrepreneurs with a host of services and incentives ranging from professional business advisory services to access to finance.</p> <p>The Innovative Start-up grant scheme aims to support innovative start-up enterprises that demonstrate a potential for job creation and economic growth, by part-financing certain costs incurred by these enterprises during the setting-up phase.</p>
initiation	2008 - 2013
contents/description of the initiative/measure	<p>This scheme provides cash grants cover 45% of eligible cost to innovative start-ups by providing part financing for:</p> <ul style="list-style-type: none"> i. the acquisition of tangible and intangible assets ii. internal capacity building to assist the business in achieving competitive market positioning. <p>The grant is available to enterprises enrolled in the Innovative Start-ups Programme and that have submitted a business plan approved by Malta Enterprise. Successful applicants may also benefit from other related incentives provided under the Innovative Start-ups Programme such as Start-up Advisory Services and Access to Finance instruments.</p> <p>The maximum grant under this incentive is capped at Euro15,000, however the actual value granted to a beneficiary will vary according to the level of innovation of the start-up.</p>

	Explanation
user based features	
eligibility criteria/target group	All Micro, Small and Medium sized Enterprises (SMEs) engaged in one or more of the activities identified below in section 2.1 are eligible to apply for aid under this incentive. A start-up enterprise is an enterprise in its initial five years. To benefit from this incentive, the enterprise must submit an application not later than three years after the enterprise was created. The cash grants provided through this incentive are only available to innovative enterprises participating in the Innovative Start-ups Program.
Promotion tools/information strategy	The target group is generally made aware of the incentive through promotional media such as TV, Radio and the Internet.
source of funding	<input type="checkbox"/> EU-funds <input checked="" type="checkbox"/> national funds (governments) <input type="checkbox"/> membership fees <input type="checkbox"/> others, namely:
costs for participants/members	None
performance based features	
evolution	The efficiency or effectiveness of the activities will be monitored in the form of number of participants and the effects of participation. This initiative/measure is particularly suited to foster family businesses because it is available for micro, small and medium sized enterprises which locally comprise the majority of family businesses.

6 Future issues

Many family businesses are today at crossroads, facing unique threats and challenges. Some have grown significantly over the past 40-50 years and are facing the challenge of coping successfully with the separation between family ownership and sound business management. Others are seeing their traditional business in decline and are looking for new niches at which to direct their capital and energy. All are facing a new business environment brought about by changes in consumer demand, higher standards and regulations, and increased competition. However, family businesses may benefit from a number of opportunities. An increased number of incentives targeted towards local SMEs are readily available both at a national level and EU level. Malta Enterprise provides incentives for foreign direct investors and local enterprises demonstrating commitment towards growth and increase in value added and employment. Enterprises engaged in sectors such as manufacturing, ICT development activities, Call Centers, Healthcare, Pharmaceuticals, Biotechnology, among others, may benefit from these incentives.

Socio-demographic changes may contribute positively towards the development of family businesses in the future as local family sizes continue to reduce. To this end, the business will not have to support and cater for a large number of family members. Nonetheless, such demographic changes may also have an adverse effect as new family member entrants into the family business may have to work twice as hard to support the ageing and retired family members.

Prospects regarding the public and policy framework for family businesses are a key area of discussion in today's local economy. This is true, because support for SME development is considered to be an essential pillar in the local enterprise and industrial development strategies, initiatives and policies.

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