Great expectations
The next generation of family business leaders

88% *of next gen family business leaders want to leave their stamp and do something special with the business*

52% *of next gen family business leaders are worried that they will need to spend time managing family politics*

268 *interviews with family business next gens in 31 countries*

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"We are as professional and ambitious as any other company, but we are also value-driven, which means we can communicate to both employees and consumers in an emotional way without it sounding artificial. That's because our culture stems from our family rather than anonymous owners no-one knows. That builds loyalty inside the firm, and is very attractive to talented people outside. That's a huge advantage."

Christian Weber
CEO, Karlsberg Brauerei, Germany

Contents

The next generation of family business leaders

We've been running an international Family Business Survey for over a decade and in 2014 we added our first-ever survey of leaders-in-waiting. We asked them about their personal ambitions, their plans for the future of their business, and the unique challenges of being the 'boss's child'. That survey[1] identified three key gaps that the next generation face: the generation gap between their experience, and that of their parents; the credibility gap, which they have to surmount if they're to establish themselves; and the communications gap, which can arise both within the firm, and within the family.

Two years on, what does the picture look like? It's certainly changed, and broadly for the better. The next gens' confidence has risen, their horizons have widened, and their preparation for senior roles has improved. But some of the issues are more challenging too, both inside the firm, and in the wider business landscape. Much of this comes down to the central theme of expectations – what the next gen expect of themselves and their business, and how they expect global trends to evolve, as well as the views of the current generation, which also need to be taken into account, especially in relation to the always sensitive issue of succession. Both the current and next generation have a significant responsibility to play their part in the succession journey. And unless there is a clear understanding about their respective expectations and how the next generation can prepare and equip themselves for their future role, the future success and sustainability of the business could be put at risk.

In previous studies we've talked about the critical success factors for family businesses: the 3 'S's: skills, scale and succession. These are as relevant for the next gen to be successful as they are for the current gen. And now, we think there is a fourth to add that will be critical for the next gen as they adapt to today's business environment – stakeholders. Across all businesses we see stakeholders becoming increasingly important in determining business success.

The theme of expectations will be our focus in this report. As well as the survey findings, we have rich insights from in-depth interviews with next gens across the world, and input from our own expert practitioners, which we hope will help the next gen realise their ambitions and make their 'great expectations' a reality.

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1. Bridging the gap: Handing over the family business to the next generation, PwC, 2014. www.pwc.com/nextgen

Confidence, skills, preparation: The next gens' expectations of themselves

For our survey, we talked to over 250 next gens across the world, from those just starting as trainees in the family firm, to those at board level with more than a decade of experience behind them. Just under half of the respondents had always planned to work for the family firm, and this figure hasn't changed since the last survey. What has changed, however, is how they're going about doing that.

In our 2014 survey we talked a lot about the value of working outside the family firm, both to gain useful experience and bridge the credibility gap, and it's interesting to see that 70% of the next gens we spoke to this year have done this at some point before they joined the family firm. In many cases this is encouraged by their parents as part of a structured development plan – 43% of the respondents who worked for another company before joining the family business did so with this in mind.

As Paul Hennessy, Leader of PwC's Family Business Services in Ireland says, "working in another company can give next gens valuable experience, and it can also help them develop what we often call 'non-family objectivity' – in other words, a more objective view of the challenges their own family firm is facing, which is really hard to achieve for those who have been in the business a long time."

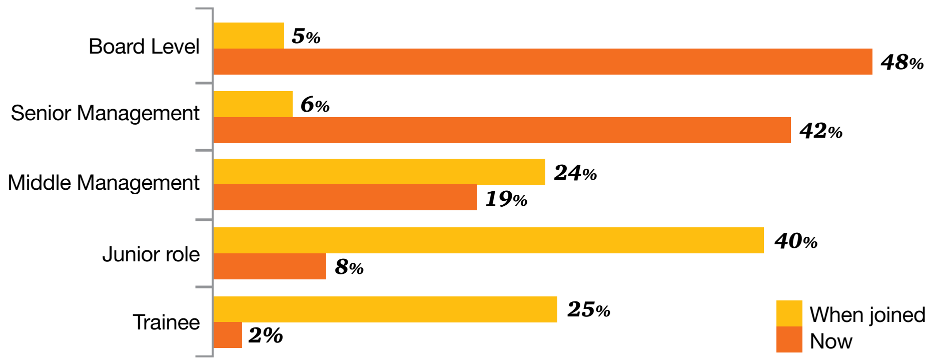
What next gens do immediately before joining the family business

Question: What did you do before you started working for the family business?
Base: 268 next gens

"Being a member of the family, you can sometimes lack objectivity, and the risk then is that you are led too much by the heart and not enough by the head. You have to be analytical, and you have to be objective, so you make the right investments and decisions for the business, not just for the family."

Pilar Martínez-Cosentino
Deputy General Manager, Grupo Cosentino, Spain

Majority of next gens start in a junior role but work their way up to a senior level over time



Question: Which of the following best describes your job level when you first started working for the company on a full time basis?
Base: 268 next gens

From our work with next gens, we're also aware that a growing number are doing a short spell in the family business, usually immediately after university, followed by a longer stint elsewhere, before finally returning to the firm. As Jonathan Flack, PwC's US Family Business Co-Leader, observes, "This can give next gens the best of both worlds: they gain a sense of what working for the family business will be like in practice, from its culture and environment to the strategies and issues it faces. They can then use that insight to ensure they get the right sort of experience in another role elsewhere, and develop the specific skills the family firm really needs."

This is another trend we're observing in our work with family firms. Many talented next gens are becoming much more selective about the role they take on and this is where the first of the four critical success factors come in – skills. They want a job which matches their skills, and where they can excel. They don't want to take a role (even a senior role) simply to 'make up the numbers', especially if it's in an area where they know someone else would do a better job. In other words, they have a deeper and more nuanced understanding of what running the family firm is going to mean in the coming years, and they're asking themselves what they have to offer that would help take the business forward. This is leading them to ask for a much clearer career path at a much earlier stage. This demand for clarity is a very real issue and perhaps shows itself in the fact that fewer next gens feel they have a clear career path in this year's survey than in 2014 (44% compared to 50%). But it's impossible to underestimate how valuable this can be. Christian Weber, CEO of the fifth-generation Karlsberg Brauerei, a brewing company based in Germany, is a great example: he took a very sophisticated and methodical approach to career planning, drawing up his own personal development proposal to present to his father, and that careful preparation has really paid off. You can read Christian's full story on page 7.

Christian's story also reflects another trend we're seeing: a much greater acceptance of the value of career planning from some of the current generation. Paul Hennessy, Leader of PwC's Family Business Services in Ireland, has certainly seen this: "The current gen may have been expected to 'muddle through' when they joined the firm, but many of them want something more structured and supportive for their children."

Arjan Stephens

The four 'P's: People, planet, profits – and passion

Arjan Stephens was named one of Business in Vancouver's 'Top 40 under 40' in 2012. He's the second generation of the Nature's Path organic foods company, a business he says was "founded on a hope and a dream and a $1,500 loan", and is still driven by those same values 30 years later, now it's turning over $300m a year and selling into over 50 countries.

"We want Nature's Path to be a sustainable business in every sense – both financially and environmentally. My parents' vision was always to leave the earth better than they found it, which is why we still work to the triple bottom line: people, planet, and profit." There's another 'p' too, which is passion. "My parents had this enormous passion to make organic food accessible to everyone. I remember growing up, seeing them struggling to get the business off the ground, going with them to trade shows, and helping with really basic things like sticking labels on boxes."

But Arjan didn't originally intend to follow his parents into the business at all. After a degree in history, Arjan was looking at the possibility of a Masters when a conversation with his mentor proved to be a lightbulb moment: "He said to me, 'Your parents are doing great things with the business, and they're not doing all that just in order to sell it to the highest bidder. They'd much prefer to get their family involved – why don't you give it a try?' So I did. I started in operations, then product management, and somewhere along the line I found I had the same passion for the business that my parents had. I could see how what we were doing was translating into a better future for people and the environment, and I really wanted to be part of that."

After an MBA in Chicago, Arjan returned to the business full time, and took on his first solo project – setting up a new factory in Mississauga, Ontario. "We had to get this plant off the ground in six months, and we had less than a $1 million budget, but it proved to me that if you have a dedicated, experienced team who can rise to a challenge you really can make things happen. Since then I've worked on our new export business to the UK, and then on sales, innovation, and our strategic plan."

That plan was developed during the economic downturn. It was a tough time for the business, because consumers were spending less on premium food products, and at the same time the price of organic commodities was rising. "But because we're a family business we could take a longer view and stay true to our values. We basically said, look, we believe in organics no matter what. And because of that, consumers know that our brand is authentic – that we stand up for what we believe. That set us up for the new strategic plan and the next phase of growth, and we basically doubled in the last five to six years."

Since then Nature's Path has expanded beyond its core category of breakfast products with the acquisition of Que Pasa Mexican Foods. "This was a significant change in direction, and it was also a challenge integrating it into our business and aligning everyone to it, and communicating it. That's part of the much bigger challenge of making sure you reinforce your values as you grow. How you stay nimble, and entrepreneurial, and pioneering. When you grow from $10 million to say $100 million you probably still know all your team members and have the same family atmosphere. But when you get to $300 million, you suddenly have 600 employees, some of them 4,000 miles away. How do you ensure that the working culture is still what you want it to be?"

So what's the next road for Nature's Path, and how is the digital revolution affecting their business model? "The thing about digital is that you can't afford to be complacent, because sooner or later someone will come up with an idea and suddenly the whole market has changed. Organic food was the disruptor once so I know what that means. One thing we're looking at is customisation. Lego have done it, and Nike have done it – allowing consumers to create their own personalised versions of their products online. In theory we could do it too – customised granola mixes, for example. But at the moment the sums don't add up. It would cost too much to be a competitive option for people. We're innovative in other ways too. I'd really like to adapt our business model by starting up an incubator for other entrepreneurs with similar values, which would sit alongside our main business. We could mentor them, and give them start-up funding, and if they're successful we could either buy them out or spin them off. I'm really interested in doing that."

"I have good 'hard' knowledge in finance, business, and the law, but I could probably do with more soft skills."

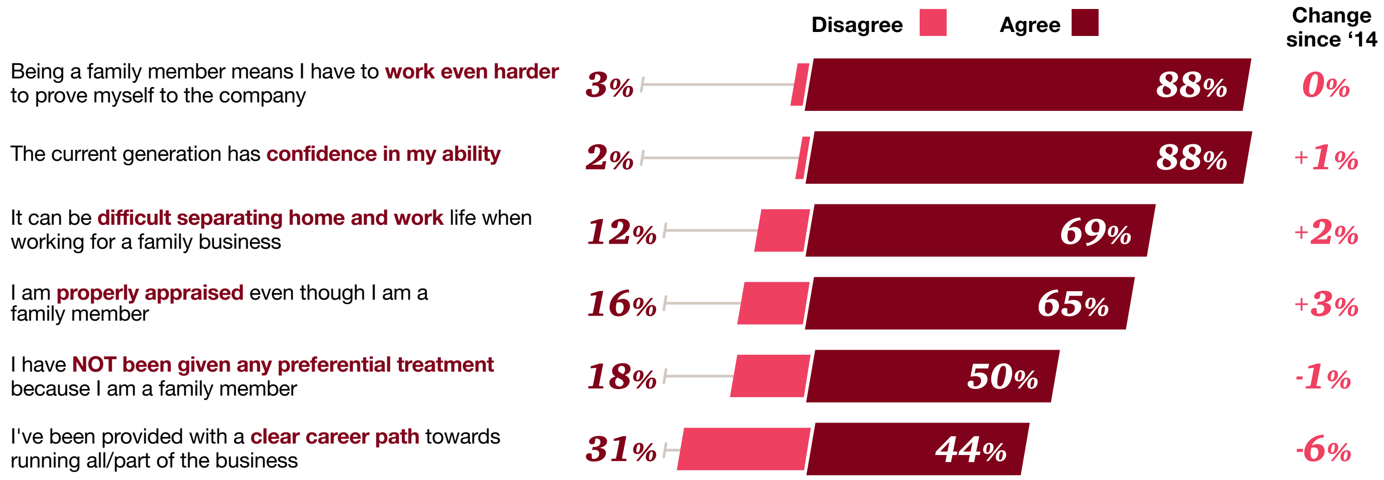
Jakub Dzik
Member of the Management Board, Impel Group, Poland

Another important trend is the increase in the number of next gens attending directors' meetings long before they have a formal seat on the board – 80% of our respondents attend board meetings and many are doing so to 'watch and listen', so they can get an understanding not just of the company's issues, but of how boards work, and governance in practice. This will be especially valuable to those still in junior or middle management roles. Networking is another really useful way to build confidence and develop personal and 'softer skills': "When it comes to career planning," says Clare Stirzaker, PwC's UK Family Governance specialist, "we find that families want their next gen to better understand the world of business by joining external network groups. Gaining perspectives from others and building a network of their peers can be a really effective way to learn and contribute to their family business."

In other respects, the challenges of being a next gen have not changed much – and have probably always been a feature of this particular business model.

Many next gens feel they have to work harder than other people to prove themselves – it's another example of the 'credibility gap', and one which can actually get more acute as next gens rise through the ranks.

How the next generation are treated in the family business



Question: How much do you agree or disagree with each statement on a scale of 1-5?
Base: 268 next gens

Caroline Lubbers

Empowering women: The key to achieving positive change

Caroline Lubbers is unusual in that she comes from a family business on both sides. Steelmaking on her father's, and hotel and hospitality on her mother's. And it's both sides that inspire her in business.

"My mother was the only daughter in a family of seven, so she was used to a very masculine environment, right from her childhood. She's a very strong personality, like a lot of my other female relatives, so our family has never had a problem with female leadership. It's very normal and natural for women to be in charge, and I've never felt that being a woman would hinder me in any way, or prevent me from managing the business myself one day. But female leadership is different than male leadership. My mother used to tell me about when she started out in business, and how she was the only woman among many men. Things have changed since then, but I think women still need to find their own leadership style, and have the confidence to follow that through. One of the things I want to do, personally, is help inspire women to do that, both inside our firm, and outside. Part of it is about accepting that it's good for men and women to have different goals and priorities in life. Not better, just different."

Caroline started her own career outside the family business, choosing instead to get experience abroad in a different industry, before returning to her family's sector by working for Hilton in Italy. She then became a marketing manager in her family firm, the Hotel Theatre Figi in the Dutch city of Zeist, where she now has a role on the family board, as well as a social enterprise business of her own. "When I joined the family business one of my biggest challenges was to keep a professional relationship with my family, and to make sure we kept personal issues out of our decision-making. But that isn't always easy: balancing the personal and professional is a tough one for me because I'm passionate, engaged and ambitious, and I like to achieve results, but I'm also a member of the family, and I feel a sense of responsibility and commitment to them. It's all about setting the right boundaries."

Digital technology is transforming the leisure and hospitality sector – it started with online booking, then there was TripAdvisor, and now, with the advent of AirBnB, the whole business model is changing. Caroline agrees that "the biggest challenge the business is facing is to stay relevant. Yes, everyone is talking about AirBnB but there are other huge opportunities out there, especially in how we engage directly with our visitors. The market is being changed by its consumers rather than the other way round – in other words, what people are demanding of us. We're involving our younger generation family members in exploring this for us – they are 'digital natives' and they're much closer to this new technology than my uncles are."

Technology may be changing how the Hotel Theatre Figi reaches its customers, but its values and principles are the same as they've always been. "We are lucky in that we can take the long view, and focus on the profitability of the firm in the long term. And at the same time, I think every family business should aim to reinvent itself with each new generation – keeping the core values but adapting your products or services to what the market wants. We also have a strong social conscience as a family, and this is what has inspired me to work with the cocoa industry to help achieve a more sustainable production system and supply chain. Doing this worldwide has proved to me yet again how important women's leadership is. Together with an NGO, I am setting up an international network of women working in cocoa and chocolate. Because empowering women is, and has always been, the best way to achieve real, positive change."

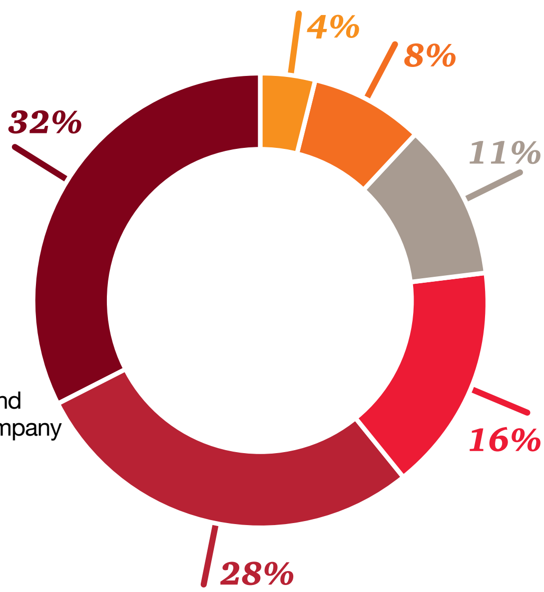
"One of the biggest challenges that I faced was earning the respect of other people. A lot of people might think 'You're only here because your dad's the boss', and while that might be true in terms of getting the job in the first place, once you're in the role you have to work three times harder than anybody else because the spotlight is always on you. And other people don't see the hours that we put in outside the office, they don't see us working weekends."

Gavin Symes
Executive Director, Credit Repair Australia

In many cases it's not just their fellow employees the next gen need to convince, but members of their immediate and wider family as well. This tension between the personal and the professional is tough, and the same issue plays out at a family level, as well as for individuals. Over 90% of the next gens we spoke to have or expect to take on a governance role in the business one day, and many are taking courses to learn what professional ownership entails. But it isn't just about business governance: next gens who are hoping to run the business one day know they will need to professionalise the way the family governs itself too, as part of that task.

Next gens' expectations of their future role in the business

- I hope to be **managing the company** one day but it's **not yet agreed**
- I expect to be **managing the company** one day and this has been **agreed**
- **I expect** to take on a **senior role** in the company but don't expect to manage it
- **I am already in a senior role** and don't expect to manage the company
- Other
- Don't know



Question: Which one of the following statements best describes your possible future role in the company?
Base: 268 next gens

"When we changed one of the company's systems it was an uphill battle for the majority of the change process. The way in which it was handled wasn't the way I felt it should have been handled and eventually it became apparent that I was, in fact, correct. I couldn't express how I really felt on that occasion as the nature of the company doesn't really allow me to do so."

Aged 30
1st-generation family business, Austria

"It will be hard to lead my colleagues. Especially those who have been here for years. They will need to look at me in a different light."

Aged 34
3rd-generation family business, Brazil

Christian Weber

Managing your own transition: The importance of planning

Karlsberg Brauerei is a successful German brewing company with 1,400 employees and annual revenues of around €400m. Christian Weber is the CEO now, but there was a time when it looked like he might have taken a very different course.

Christian was educated in the UK, and started his career at major multinationals like Nestlé and Heineken, where his time included spells working abroad. He was open-minded about returning to the family business, but equally open to other possibilities. Then, in 2009, everything changed. A major transformation of Karlsberg turned it back into a 'pure' family business by dissolving a joint venture and cross-shareholding. "Suddenly, a career at Karlsberg looked a lot more attractive, and I started having discussions with my father about what that might look like."

The result was a two-page paper in which Christian set out his plans in detail, setting out why he thought it would be better if he joined as successor in a role with overall responsibility, rather than taking charge of a division. His father agreed, and over the next few months Christian established himself in the business, and his father gradually took a less active role. "I worked hard to learn the business, and establish productive relationships within the company. Our ethos at Karlsberg is to 'lead by sharing responsibility', and I made a point of not second-guessing experienced managers. It was also a good time to join as we were making a lot of operational changes after the transformation, so everyone was receptive to new ideas and new ways of doing things. Within a year my father was coming into the office much less, which was a good way of signalling to people that they needed to talk to me about everyday decision-making."

Christian's father still has a strong presence in the business, all the same: "He is my most trusted and most valued sparring partner, and I can talk to him about everything from strategy to HR issues. So he still has a huge influence on the company, but indirectly, rather than by running it himself." The wider family has an important indirect influence too. There are four family members on the seven-person board, and 25 family shareholders. "When we hold our shareholders meetings the families, the children, and the next generation – everyone comes. The board updates them on what's happening in the company, providing information and context, and allowing space for discussion. Governance mechanisms like this are an important anchor for family businesses."

Christian's arrival has also coincided with changes in the brewing industry that have led to a change in the company's management style: "In the past, whoever was quickest won. Making fast decisions and implementing them quickly was the key to success. Today, anyone can be fast, but the real differentiator is good ideas. My job is to nurture those ideas, and create a culture where innovation can flourish. That's about having the right people in the right roles."

Christian is also aware of the potential for digital disruption in the brewing industry. For us, the most important areas will probably be communication on the one hand and planning on the other. How will we supply the restaurateurs of the future before they even place an order?"

A family business can have real advantages in this brave new world: "We are as professional and ambitious as any other company, but we are also value-driven, which means we can communicate to both employees and consumers in an emotional way without it sounding artificial. That's because our culture stems from our family rather than anonymous owners no-one knows. That builds loyalty inside the firm, and is very attractive to talented people outside. That's a huge advantage."

Ten golden rules for ambitious next gens

PwC has a number of initiatives supporting next gens. For example, in 2013 the INTES Academy for Family Business, a consultancy for training and owner-strategy, became a wholly-owned subsidiary of PwC Germany. It's the market leader in this field and offers comprehensive support in the development and execution of succession plans, as well as a broad range of education programmes and events specifically for next gens.

We also work with other experts in the field, and one of them is Juliette Johnson. She set up her own family business consultancy in 2013, after a long career working with family companies, and helping them manage the challenges and tensions of being both a family and a firm. She's worked across many sectors, and in many different markets, so she knows what makes these companies different, as well as what makes them the same. We asked her to give us her top ten golden rules for next gens, as they contemplate a career in the family.

1. Get outside experience first

These days, it is less expected that next gens will go straight into the family business after school, like many of their parents did. The older generation are actively encouraging them to get outside experience first, and I think that's a very good idea. It means you can make a more informed decision before joining and then come to the family firm with valuable skills. It will help manage the assumption that you're only there because of your family name.

2. 'Try before you buy'

When you're at university, and in your first jobs, try to keep your links with the family business. Keep in the loop about how it's developing, and the trends and issues it's dealing with. Gain experience in the holidays. Find ways to 'connect without committing' – in other words, get some experience of what it's like to work there, the culture, and the sort of role you might aspire to eventually. Internships in college vacations are a great example.

3. Only take a role you're suited for

The last thing a next gen needs is any suggestion that it's 'jobs for the boys' (or girls, for that matter). Make sure there's a transparent recruitment process, and a clear job to fulfil. And the role should always be something the business needs, not something dreamed up just to get you involved. Make sure your role is clear from the start and is well understood in the business.

4. Be aware of your own behaviour

You need to understand that you'll be under scrutiny from your fellow employees – it may not be fair, but it's a fact, and you'll just have to manage it. For example, they won't invite you for a drink if they want to moan about the boss, and some will try to befriend you purely for their own ends. And it's tough juggling all those different hats – employee, owner, heir apparent. So be aware of how people perceive you but, don't let it hold you back. Develop your own 'brand' and work ethic.

5. Don't put pressure on yourself

Just because you're a family member it doesn't mean you have to progress to the top and make it onto the board, any more than if you were working in another type of business. Ambition is great, but the bigger and more complex the business gets, the more challenging this aspiration can become. Don't let the family name create unrealistic expectations (either yours or anyone else's).

6. Insist on a proper appraisal

Too many next gens I've worked with have never had a proper appraisal in their family firm, though arguably there's even more need for it in their case. How can you grow and develop if you don't receive honest, balanced feedback? I've seen many family bosses who give their children mainly negative criticism – either out of fear of favouritism, or because they assume they already know the positive things, when in fact they've never actually articulated them.

7. Handle change with care

Some of the next gens I've worked with just want to emulate their parents; others aspire to make big changes. But if you're in the latter camp, you'll need to manage that sensitively. Family firms pride themselves on their quick decision-making, but there will be personal factors in play if you want to change something your parents spent their lives building. Even relatively small changes – like bringing in new systems – need to be approached with tact, and a strong business case. Different generations often have very different risk profiles depending on the stage of their careers and their lives and this often causes a lot of tension.

8. Communicate, communicate, communicate

Obvious, I know, but the challenges of balancing the personal and the professional make it even more important to be able to talk openly and honestly about business issues. Succession is the most obvious one – many of the older generation just don't want to think about this, either because they're not ready to let go, or because it entails making choices between their children. But these issues need debating and they need planning for, and the longer you leave it, the harder it will become.

9. Make sure succession is a process, not an event

I know the PwC Family Business Survey[2] has covered this many times, but it's worth saying again. Succession needs to be planned a long time ahead. That gives you, your family and the rest of the business time to adjust and prepare for the transition. It's an important period where you can make sure you have the skills you need, and plug any gaps with a proper development programme.

10. Enjoy it!

If the conditions are right, working in your own family business can be the most amazing opportunity. You can be part of something you really care about, become a guardian of it, and perhaps, one day pass it on to your own kids. It doesn't get much better than that.

2. Up close and professional: The family factor, PwC, 2014
3. Investing in women-led Fortune 1000 companies, Quantopian, 2015;
   Women in business: the value of diversity, Grant Thornton, 2015; Credit Suisse Gender 3000, 2013.

The confidence question: Female next gens

The gender gap in all businesses continues to make the headlines, whether that's a gap in pay, a gap in participation, or a gap in the numbers of women on boards. And all this is despite the fact that study after study has proved that companies with female leadership actually outperform those run by men.[3] So where do family firms fit in? What's the representation of women in these businesses, and how do the female next gen feel about the prospect of leadership? The good news here is that 30% of the women we interviewed have a seat on the board, which is noticeably higher than the global average for public companies, albeit still significantly lower than the 55% of male next gens in the same positions. Likewise, over half of the women we spoke to disagreed that their gender would be a barrier to them running the family business, compared to other types of company, and nearly the same number said that their firm recognises the value of having women in key positions.

Women in family businesses clearly have a lot to play for; the irony is that the one thing standing between them and success is the (lack of?) confidence that they can achieve it. And it's not so much their family's confidence that's at stake here; it's their own.

There is a widespread perception among our female survey respondents that their brothers and male cousins are expected to take over. Forty-five percent of women agreed that the next generation of men is more likely to run the business, and only 21% of women say that it's been agreed that they will manage the company one day, compared with 31% of men.

Just as tellingly, only 77% of women agree the current generation has confidence in their ability, compared with 93% of men. Are women right to be so diffident, or are today's young women still tricked by the sort of self-doubt that can undermine everything they could otherwise achieve? Forty-four percent of our female respondents hope or expect to manage the company one day compared to 67% of male respondents.

All next gens face 'perception challenges' as they come into the family firm – both men and women. They feel they're under much greater scrutiny, and can struggle to gain the respect of their more experienced colleagues, especially if there's any suggestion that their position hasn't been earned. This can be an even bigger challenge for women, who can face all the usual issues of sexism in the workplace, as well as the added burden of a point to prove. There can also be deeply ingrained (and often unconscious) assumptions about family roles in family firms, which can 'leak out' into how the business is run, and jobs are assigned.

So what's the answer? Mentoring and leadership development training can help, and it's useful to have solid experience outside the family firm, to enhance credibility. Caroline Lubbers, a third generation currently working in her family business in the Netherlands, demonstrates how creating and joining networks that focus on empowering women is, and has always been, the best way to achieve real, positive change. You can read her story on page 5.

Revolution or evolution?: Next gens' expectations of their business

The next gens of 2016 are well prepared, confident, and ambitious – both for themselves and for their companies.

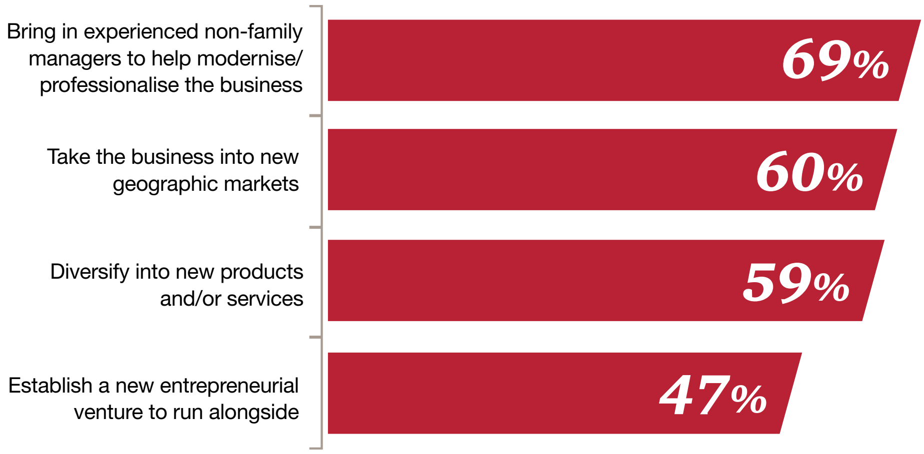
The survey respondents want to be more than just 'caretakers': they do want to take care of the business and hand it over in good shape, but many of them would also like that business to look very different. Not just bigger and stronger, but more international, more diversified, and more modern. The second of our critical success factors – scale – features here as this brings its own set of challenges.

New generation, new ideas

The next gen are exploring new ideas, new markets, new locations, and even new business models. Look at Mark Lee, of the Singapore-based clothing company, Sing Lun Holdings: "I had big plans and big ideas when I came to the business. I looked at the business we had, the segments we were in, and the trends that were happening in the wider world, where I thought the next wave of our growth could come from. Back in 2000 we were manufacturing conventional clothes in Singapore, Malaysia, and Sri Lanka. Now, we're focusing on making technical performance sportswear in Vietnam and Cambodia. My father would have called his business an apparel manufacturing company; but now we're in the sportswear and lifestyle supply chain management business."

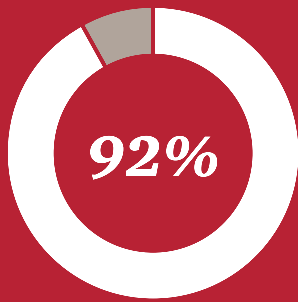
And he has an important piece of advice for other next gens: "One thing I've learned is that you have to drive change fearlessly, if you're going to continue to grow. Not doing this is the single biggest barrier to success – you cannot meet the needs of an evolving market if you're not prepared to evolve yourself. As to where the next disruption will come from in our market – who knows?." You can read the rest of Mark's story on page 13.

The key things next gens would like to implement

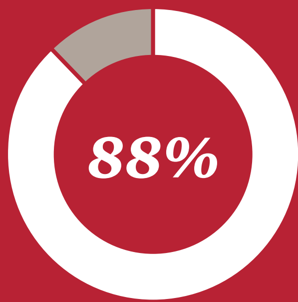


Question: If you were running the business today which (if any) of the following would be key things you would like to implement, to ensure the success of the business going forward?
Base: Base: 193 respondents (all expecting/hoping to manage/be in a senior role in the future)

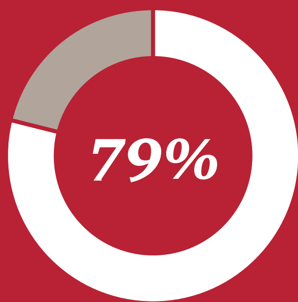
Taking over the business: Plans and expectations



I feel a responsibility to hand over a sound business to the generation after me
(90% in 2014)



I want to leave my stamp and do something special with the business
(86% in 2014)



I have lots of ideas about how to take the business forward
(80% in 2014)

Question: How much do you agree or disagree with each statement on a scale of 1-5?
Base: 268 next gens

Symes Family

Gavin Symes, Kiersten Symes and Mitchell Symes

A 'people business': Living the family values

Credit Repair Australia was set up in 2003 by Richard Symes. He'd previously had a business manufacturing snack foods, but when the company went into voluntary administration he found himself with no-one to turn to. That's when he had the idea of setting up a business to support other people in the same situation by negotiating with credit providers, helping people consolidate their debts, and coming up with alternatives to bankruptcy. As his son Gavin puts it, "Dad set this up out of the boot of his car, and now we have 165 employees, and we've supported 150,000 Australians get back on track. We've helped thousands of those people, at absolutely no charge, and that's something that we're all really proud of."

Richard's three children all work in the company now, and while Credit Repair Australia is talking full advantage of digital and prides itself on being innovative with new technology, it remains what it was at the start: a people business. As Mitchell Symes says, "We're dealing with people; we're not dealing with numbers or data or anything else – we're dealing with people. In our family, we've been brought up to believe that life is about giving value to others, so whatever value we can create for other people, will give us value in return. And everyone else in the company is inspired by the same passion."

Mitchell works at the 'front end' in customer service, sales and marketing, Gavin in operations and customer support, and Kiersten in HR and training. But they've all had to work their way up. As Kiersten says, "Our father doesn't believe in free rides – I started in filing and scanning, then moved to reception, and Mitchell began doing data entry, answering phones, doing the hard slog. So none of us were thrown into the business at a senior level; we've had to really work our way up. As part of our career progression we have had to be open to receiving constructive feedback. That comes from the way that we've been raised."

So what's it like being the children of the boss – are they treated any differently? "One of the biggest challenges that I faced," says Gavin, "was earning the respect of other people. A lot of people might think 'You're only here because your dad's the boss', and while that might be true in terms of getting the job in the first place, once you're in the role you have to work three times harder than anybody else because the spotlight is always on you. And other people don't see the hours that we put in outside the office, they don't see us working weekends." Mitchell agrees: "I think we're held to a higher standard than other people, and actually we hold ourselves to a higher standard too, because it's our family business, and we live and breathe it every single day."

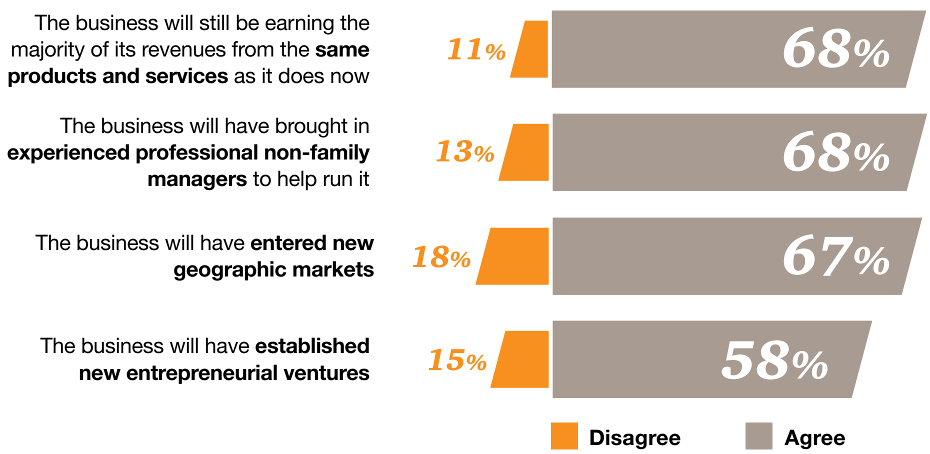
Some next gens are – like Mark – also considering new products and services, but here the pull of the past is very strong. As the chart on page 10 shows, 59% would like to diversify their product portfolio, but looking at the chart below, 68% believe their firm is unlikely to make this change, even a decade ahead. This may explain why 47% are looking to set up a parallel venture, alongside what the main business is doing.

Abhimanyu Munjal, of the India-based Hero Group, is a good example. His family business started out in auto components in the 1950s, but now it's empowering its next gens to set up their own ventures under the group umbrella. And that's exactly what Abhimanyu has done: "The family has faith in us and gave us the freedom to create something of our own, as long as we meet certain criteria in terms of investment returns, and so on. So I went to my family, and asked them for money to set up a 'next generation' approach to financial services. They considered it, and reluctantly agreed, and that's how Hero Fincorp was born. Since then, I've been involved in every part of the business from designing the strategic plan, to hiring every single employee. And in the last four years we have been incredibly successful." You can read the full story on page 21.

"I think if I had a magic wand I would probably go outside of our core businesses. I don't think that we have maximised our full potential yet."

Aged 38
2nd-generation family business, Nigeria

Where next gens see their business in 5-10 years' time



Question: How likely is it that the following statements will be true of your business in 5-10 years time?
Base: 268 next gens

New products, new thinking: The power of innovation

Mark Lee is a classic example of the sort of new thinking you see in the best and brightest of the next gen. He started his career in a big local technology company, CSA Group, and was a Microsoft Product Manager back in the 90s, and only made the decision to join the family clothing firm when it was starting an IPO process, in 1999. The Sing Lun Holdings business had been set up by Mark's grandfather in 1951, as a textile trading business, and Mark's father then took it into apparel manufacturing.

Mark began his career at Sing Lun by running the IPO process, and since then he has quadrupled the company's turnover from $48 million in 1999, to $235 million in 2015. Sing Lun now has more than 6,000 workers, with product development centres, manufacturing sites, and sourcing offices in six countries across Asia, and market-leading customers as diverse as The North Face, Under Armour, Oakley, Timberland, Puma, Nautica, and SuperDry.

So how has Mark done this – what's his secret? The short answer is that he's changed not only what the company does, but where and how they do it.

"I had big plans and big ideas when I came to the business. I looked at the business we had, the segments we were in, and the trends that were happening in the wider world, where I thought the next wave of our growth could come from. Back in 2000 we were manufacturing conventional clothes in Singapore, Malaysia, and Sri Lanka. Now, we're focusing on making technical performance sportswear in Vietnam and Cambodia. My father would have called his business an apparel manufacturing company; but now we're in the sportswear and lifestyle supply chain management business."

That meant expanding both up and down the value chain, with new expertise in design and development, and a much bigger involvement in how Sing Lun transports and distributes what they make. "In other words, we've changed our segment, our product range, and our entire client base. That's entailed some major changes internally too, both in how we work, and the skills we need. It was a risk – of course it was – and we knew that we wouldn't make much money in the first few years. But my father had built an incredibly sound financial basis for the company, and that gave us the stability to go in a new direction. Cashflow management is still a priority – that's a great lesson my father taught me."

Mark says his father was a great example in many other ways too: such as spending money when necessary for the investment for the future, and being open to new ideas. "My own priorities as CEO are very clear: I have to make money for our shareholders, run the business on a sustainable basis, and attract the talent we need for the future. I'm very much aware that family businesses aren't always as aggressive as they need to be in attracting talent from outside. But we won't become a half-billion-dollar company without constantly grooming our next generation of leaders. Today's young people have a very different outlook, and want different things from their careers. I'm learning how to adapt to their working culture, and also to reshape business practices to appeal to them. Thinking of ourselves as a lifestyle company rather than a manufacturer is a big part of that."

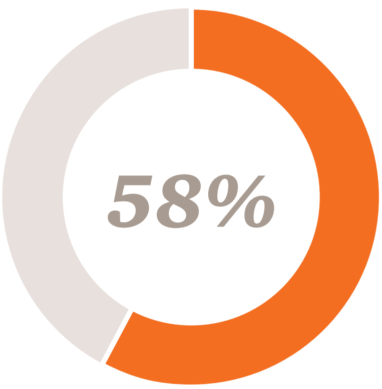
And what does the future hold – how will digital, in particular, affect what Sing Lun does? Mark is very clear: "One thing I've learned is that you have to drive change fearlessly, if you're going to continue to grow. Not doing this is the single biggest barrier to success – you cannot meet the needs of an evolving market if you're not prepared to evolve yourself. As to where the next disruption will come from in our market – who knows? Some trends you can predict – like how 3D printing is changing products like shoes, or the rise of wearable tech, which is a big focus for us right now. But others still surprise you – no-one in our sector predicted how dominant Korea would become, for example, in the supply of apparel for major brands worldwide. And digital is already changing how traditional stores like Macy's or Walmart manage their sourcing and distribution, which could mean we need to change our own business model too. However, I embrace it: a big part of my job is going out there and discovering best practices, not just within our industry, but in companies in every sector, and every part of the world."

"In the past, whoever was quickest won. Making fast decisions and implementing them quickly was the key to success. Today, anyone can be fast, but the real differentiator is good ideas. My job is to nurture those ideas, and create a culture where innovation can flourish."

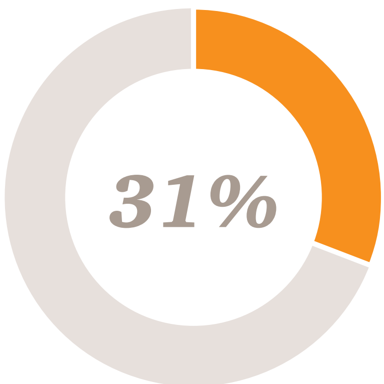
Christian Weber
CEO, Karlsberg Brauerei, Germany

The survey results also capture a recurrent tension in many family firms: 58% believe that family firms reinvent themselves with each new generation, but only 31% believe these firms are more prepared to take risks than other types of business.

But family firms can – and do – reinvent themselves: Sabrina Chong is a next gen who's helping to transform her family's Singapore-based beauty business with her father's support: "We need to be insecure, especially in a fast-moving consumer goods market like beauty products. Digital is transforming the business model of our industry, and especially the role of the distributor. So if you don't adapt, you won't survive." Sabrina puts much of her family firm's success down to being quicker and smarter than the competition: "Things can move at a faster pace in a family firm – proposals can get debated and approved faster, and the board and management work together as one." You can read the full case study on page 15.



say family businesses reinvent themselves with each new generation



believe family businesses tend to take more risks than other types of businesses

Question: How much do you agree or disagree with each statement on a scale of 1-5?
Base: 268 next gens

"My great-grandfather always said 'Tradition is not about worshipping ashes but keeping the fire burning'. Therefore, we must not rely on what worked in the past but be innovative."

Aged 32
2nd-generation family business, Austria

"There is a clash of ideas: those I bring to the table and those we currently have."

Aged 25
2nd-generation family business, Mexico

"I feel we're not focusing enough on the long term."

Aged 40
3rd-generation family business, Italy

"The difficult part is getting out of the comfort zone. If something is going well, the default mentality is to improve on it rather than make changes."

Aged 25
2nd-generation family business, Mexico

Sabrina Chong

Changing their stripes: Reinventing the beauty business

Luxasia is Asia's leading distributor and retailer of beauty products, with a string of joint ventures with some of the world's biggest beauty companies, including LVMH, Coty, Elizabeth Arden, and Yves Rocher. The company was started 30 years ago, and now two of the founder's children work in the firm – his son Alwyn, and his daughter Sabrina.

Sabrina Chong started out practising as a lawyer at Baker & McKenzie but after several years in corporate law, she wanted to expand her skillset into finance. Juggling work and study was already tricky with the long hours as a corporate lawyer, but she wanted to learn the ropes of the business. So when her father offered her the chance to work in the family firm, she agreed and split her time for two years between work at the law firm, the family business and getting her Masters in Accounting. After the two years, she fell in love with the beauty industry and decided to join the family business fulltime to expand the business.

Some family firms are finding it a challenge to adapt to change and embrace the potential of digital technology, but you can't say that of Luxasia. "We are constantly reminded that we need to be insecure, especially in a fast-moving consumer goods market like beauty products. Digital is transforming the business model of our industry, and especially the role of the distributor. We have a huge advantage being located where we are because it gives us access to many dynamic markets. Not just China but India and the rest of South-East Asia. We offer international brands a proven platform to reach these consumers who are avid for their products. That said, the old-style distributors in our region are struggling. So if you don't adapt, you won't survive. I believe the answer is to integrate either vertically or horizontally, and we've decided we have to do both – increasing our platform geographically and integrating downwards, into owning our customers and channels."

There's a conventional retail aspect to that strategy, with the upmarket Escentials store chain, but increasingly it's a digital platform as well. Luxasia has invested in various beauty-related technology companies, strengthened its systems, invested in training and education and upskilled its talent, to enable it to add value to its partners and consumers. Sabrina believes their family business model has actually helped them make these bold decisions. "Things can move at a faster pace in a family firm – proposals can get debated and approved faster, and the board and management work together as one. The beauty of a family business is the trust you have – the ability to be completely open with each other. We get the whole leadership team together several times a year to brainstorm ideas and challenge ourselves on the strategy and direction. My father is very open to those new ideas – he's always up to date with the latest technology, and constantly challenging us to come up with new ways of doing things."

So does Sabrina see herself taking over from her father one day? "At the moment, the more important task is getting our teams aligned towards where the company is going, and ensuring that we protect our values as we grow. It's about who's best for the job, and that might well be an external leader. The company has always been professionally managed and we are upscaling our teams as we push forward with our expansion plans. It's about meritocracy – that's the only way the company is going to be a success. You can't put a family member in a CEO role unless they're the best person to take that role. But am I ambitious? Of course I am, and I want to leave a legacy for my children. But that legacy doesn't have to be in the form of the business, because who knows what it will look like in 10 or 15 years' time. The more important legacy is the values we have as a family – that's the best gift we can pass on."

But not all family firms manage to adapt quickly, and there can be a tension between respecting the processes (and the products) of the past, and seizing the opportunities the next gen see for the future. Finding a balance between those two things has always been a challenge in family firms, but that challenge is probably sharper now than ever before, given the pace of change. And that, in turn, brings issues like skills into much sharper focus.

Finding and retaining skilled and experienced people is a concern for all businesses, and again featured strongly in this year's PwC Global CEO Survey.[4] In our own survey, 74% of next gens said a skilled, educated, and adaptable workforce is a business priority, and rank it at number one, which is virtually identical to the score accorded by respondents to the PwC Global CEO Survey (75%).

Talent is an important agenda for the next gens, because, as Mark Lee of Sing Lun Holdings observes, it can be a particular challenge for family firms: "I have to attract the talent we need for the future. I'm very much aware that family businesses aren't always as aggressive as they need to be in attracting talent from outside. But we won't become a half-billion-dollar company without constantly grooming our next generation of leaders. Today's young people have a very different outlook, and want different things from their careers. I'm learning how to adapt to their working culture, and also to reshape business practices to appeal to them. Thinking of ourselves as a lifestyle company rather than a manufacturer is a big part of that."

On the one hand, many employees are drawn to the special culture of the family business, which can be a significant competitive advantage. As Christian Weber of Karlsberg Brauerei says, "We are as professional and ambitious as any other company, but we are also value-driven, which means we can communicate to both employees and consumers in an emotional way without it sounding artificial. That's because our culture stems from our family rather than anonymous owners no-one knows. That builds loyalty inside the firm, and is very attractive to talented people outside. That's a huge advantage."

The flipside of this is that recruitment can be harder at the very senior levels. Family firms often struggle to match the options and benefits offered by multinationals, and some potential external CEOs are wary of the issues that working within a family dynamic can generate. Why is this especially relevant for next gens? Because professionalising the business is very high on their list of priorities, and 69% want to achieve that by attracting experienced managers from outside.

The professionalisation agenda

We explored the issue of increasing professionalisation in detail in our main Family Business Survey two years ago.[5] This covers everything from organisational processes and systems, to corporate governance and reporting, to a complete overhaul of the business model to make it more modern and streamlined. We have also looked at the importance of good corporate governance in a number of our previous surveys, and it remains an important priority for family businesses in general, and next gens in particular. As Siew Quan Ng, PwC's Asia Pacific Entrepreneurial and Private Clients Leader says, "Good governance can really help next gens feel prepared for entering the family business and develop the confidence to meaningfully participate in family and business discussions. They take real comfort from knowing how distinctions are drawn between family and business matters, and from having a clear framework which provides for their education and development."

"Recruitment is a big topic and is very challenging. We are just a little company and it is hard to convince good and qualified people to become part of the team. We're a good company but it's hard to prove that to outsiders sometimes."

Aged 36
1st-generation family business, Germany

"There are many processes that can and should be improved. We can formalise and document certain processes better."

Aged 27
2nd-generation family business, Peru

"We are a very thin organisation and don't have enough qualified individuals. We need to obtain a better qualified level of management."

Aged 50
1st-generation family business, Canada

"Your business has to keep evolving, but what gives you your identity should always be the same, especially in a family firm. That's what unites us as a family and as a business – the values and principles we all believe in."

Henry Herbert, Retail Director, Hobbs House Bakery, UK

4. The 19th Annual Global CEO Survey, Redefining business success in a changing world, PwC, 2016
5. Up close and professional: The family factor, PwC, 2014

Simon Brand

The family tree: Growing a logging business in New Zealand

The Brand Logging forestry business was founded 31 years ago by Tony and Kerin Brand in the Canterbury area of New Zealand's South Island. Simon Brand is the eldest son and his brother and sister also work in the business.

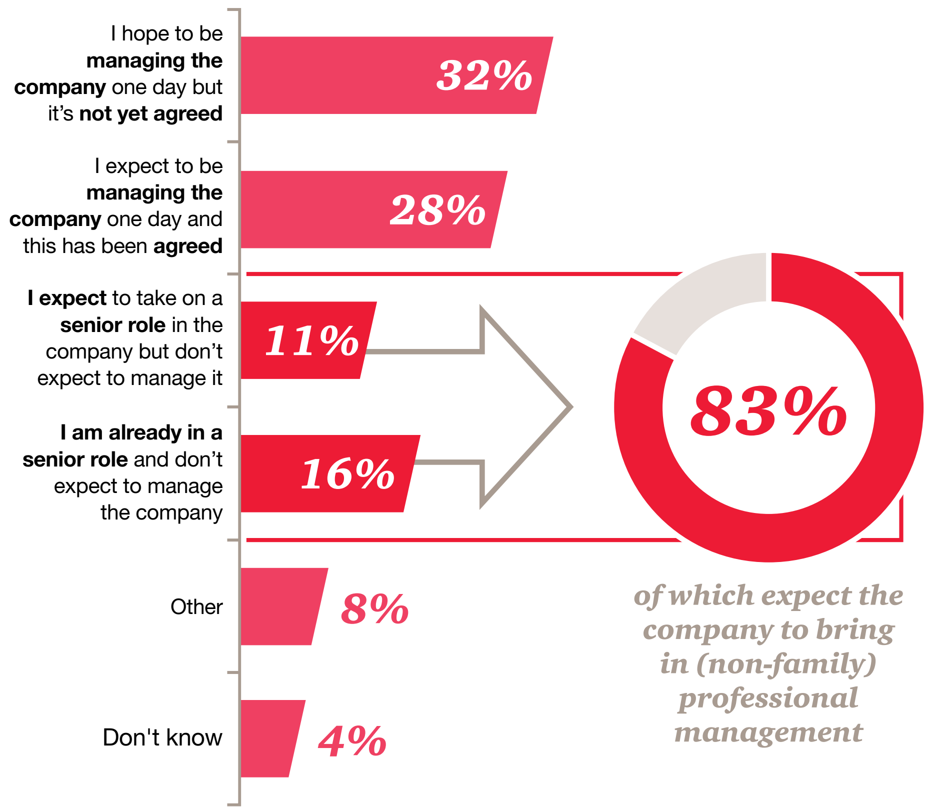
Simon always wanted to work in the family business: "I never really thought of doing anything else. Even as a kid, I used to help out in the school holidays. And this is the sort of business where it's actually better to start early, rather than do something different first. You need the respect of the guys on the team, and you won't get that unless you've got the same experience they have. Starting so young means I probably had to grow up quicker than other people, but that's a very small negative to set against many, many positives. And the longer I work with Dad, the more I learn, both about the logging and financial side of things."

As this suggests, Simon's father still takes a very active role in the business, but the two of them have developed a good working relationship: "At the end of the day he has the final say, but most of the time we try and work things out between us. For example, if we were looking at buying a new machine or pricing the next contract we would always go through that together. I think that's one of the advantages of being in a family business – you tend to have a similar way of thinking about most things."

What about his brother and sister – do they see things the same way too, especially when it comes to who's going to take over when their father retires? Simon admits that there were times when the three of them had to work together to identify where each of them fit within the business, "but I like to think I've worked hard to get where I am now. They know I'm going to run it one day, but the idea is that we'll all get shares. The challenge there is establishing how much the business is worth, so everyone gets a fair deal, including our parents – with a private business, valuations can be tricky to pin down. The most important thing is to avoid having money issues rip the family apart, but I don't think it would ever come to that."

As for wider business trends, you probably wouldn't think forestry was much affected by digital technology – it's more about logging than logging on. But think again: as Simon says, "one of our current machines can now be operated remotely, and there's potential for growth in this field for us. We also have cutting tools that use digital technology to divide logs into the exact size required. That's made us more productive, but it brings new challenges too. It changes the Health & Safety issues we have to manage, for example. It's not just about digital though – we spend a lot of time monitoring trends in our sector, and what other companies are doing. You can't afford to be left behind. But that's one of the things I enjoy about what I do. The more I learn about this business, the more I like it."

Expectations for future in the business



Question: Which one of the following statements best describes your possible future role in the company?
Base: 268 next gens

As the chart above shows, there are a significant number of next gens who fully intend to take an active, and indeed senior, role in their family firm, but expect the company to bring in professional managers at the highest level. Our experience suggests that, in some cases, this is because the next gens recognise that their own skills aren't the ones the company needs in an operational role, but they are still keen to make a contribution at a board or supervisory level. As Sabrina Chong of Luxasia observes, "It's about who is best for the job, and that might well be an external leader. It's about meritocracy – that's the only way the company is going to be a success. You can't put a family member in a CEO role unless they're the best person to take that role." Jakub Dzik, of the Polish outsourcing group Impel, agrees: "I would love to run the whole business myself one day, and that's what we're working towards, but it's not an absolute certainty. I would accept it if there came a time when an external professional was the best option for the business, and in those circumstances I'd look to take a role on the supervisory board. I have a friend who has a good motto: 'sometimes it's better to be a rich owner than a poor manager'." Other next gens may prefer to set up their own business, or pursue a career elsewhere, but still want to be professional owners, offering proper and scrupulous oversight to the executives in charge.

There certainly seems to be a major shift underway, as more and more next gens acknowledge the value of new talent from outside. Ninety percent of our survey respondents agree that having non-family members in some key positions is a good idea, up from 80% in 2014.

"Getting strong, more experienced senior management [is a challenge]. Because I think the business has become more professional and it requires more experienced people. I think customer expectations have become higher and you need to be able to deal with that."

Aged 46
2nd-generation family business, Ireland

Tim Slattery

Buying out, not handing on: A different take on succession

Slattery Asset Advisory & Slattery Auctions is an Australian auction house and valuation practice, helping big organisations sell and manage assets like cars, trucks, heavy plant, industrial equipment, and aircraft. Pat and Ros Slattery started the business in 2000, with a very small team in one office in Newcastle, New South Wales, and it's since grown to operations across four states. Three of Pat and Ros' six children are now involved in the business, all of them with different skills, and all of them with experience of working outside the family firm first.

"It was the youngest of the kids, James, who was the first to show interest in joining the firm," says Tim Slattery, who is now a Director. "But now there are three of us. My brother Paddy, who was in the military, has a natural talent for organisation and operations, while James has the most experience in the nuts and bolts of running an auction business, as well as a real aptitude for client relationships and business development. My background is in the law, which has been useful for dealing with specific legal issues, but it's got a much wider relevance too – the law teaches you to analyse problems, identify which issues need to be addressed, and then prioritise them. That's useful for any firm. These days I work closely with our CFO, as well as taking on marketing and IT."

The moment of transition for Slattery Asset Advisory & Slattery Auctions was in 2012, when the three brothers bought the business from their parents. "It was a decision that evolved over time – my brothers and I wanted to pursue a more aggressive growth strategy, and reposition the brand in the market, but we understood that, at their stage in life, Pat and Ros were probably not as keen as we were to take on that degree of risk. So we started by talking to our parents about the future of the company and if they felt it was the right time for us to step up whilst giving them more free time and, importantly, relief from the stresses of running a business. Both Mum and Dad were receptive to the proposition and I think the greatest gift Dad ever gave us was being willing to hand over the business at that comparatively early stage, unlike some other family firms I've seen, where the transition has failed because the founder of the business wasn't actually prepared to let go."

The next step in the process was to engage an independent valuer to come up with a fair market value for the firm. "We thought that was essential – as a family business everyone is naturally emotionally invested in the business and it is important that issues such as inheritance, whilst it may be distasteful, are addressed and no one is left feeling there was any favour shown."

Pat and Ros took control of the process of proposing the transition to the other siblings and their spouses over a large family lunch. This ensured everyone had an opportunity to voice an opinion in an open forum. "The three of us who were taking the business forward felt it was important to have a clear distinction between those of us working in it, and the others who weren't. Otherwise there's a risk that those outside won't be as committed to the firm's strategy as those who developed it. Looking back, I think the key success factor in the whole transition process was honesty, and sometimes it was brutal honesty. We dealt with it all openly and constructively with a view that no concerns should be left to fester."

Managing relationships that are both personal and professional is one of the big challenges facing any next gen, and Tim recognises that there are challenges as well as advantages in working with family. "When I first joined, we had some issues around hierarchy to resolve. But it was resolved fairly quickly and after the three of us bought the business we established a three-way 'co-CEO' approach. We have equal shareholdings, equal responsibilities, and equal status. You won't find a structure like that anywhere other than a family firm, but it works for us, partly because we know each other so well. That means you can predict what the others will think about any given issue, and that gives you the freedom to make decisions, knowing what the boundaries are. And if there are real disagreements, we have an independent Executive Director and our CFO on the board, and our father is there to break any deadlock. Though he's never actually had to do that yet."

"I think the challenge for family businesses is in professionalising decision-making. If there are talented people in the family, great, they should join, but it shouldn't be expected, and you should only be given a senior role if you are qualified to do it. That's the sort of business I want us to be – I have fought hard for that, and I am proud to have helped develop robust policies and processes that make us a stronger organisation which can be an example to others."

Emma Antolín
Director of Corporate Responsibility, Grupo Antolín, Spain

The important point to note here is that bringing in professional managers isn't an event, it's a journey. It's often a very successful way to lead the business forward to growth, diversification, and international expansion, but once that process begins, it's unlikely that family members will be in the majority on the management team in the future. As Paul Hennessy, Leader of PwC's Family Business Services in Ireland, observes, "Doing this is harder than most family businesses expect. A lot of them are enthusiastic about starting the process, but become less so when they realise the full implications down the line. That in itself can create tensions and conflicts. In our experience, the best way to look at it is as part of the transition from being a 'family business' to a 'business family', which we explored in the main Family Business Survey in 2014". [6]

6. Up close and professional: The family factor, PwC, 2014

Abhimanyu Munjal

Managing expectations: Living up to being a 'Hero'

The Hero Group is one of India's best-known brands, with a proud history that goes back to the 1950s, when Abhimanyu Munjal's grandfather started a business making bicycles. By the 1980s, Hero was the biggest bike maker in the world, and caught the eye of the Honda management, when they were looking for a joint venture partner to help manufacture motorcycles.

Abhimanyu Munjal takes up the story: "They wanted local knowledge and technical know-how; what they didn't expect to find was an Indian business that was already more advanced in 'Just In Time' manufacturing processes than they were. When they came to our factory they found no inventory. We didn't store finished goods, and we didn't store raw materials. They told us this was 'Just In Time' – as far as my grandfather was concerned, it was just smart business practice. And that's why they gave us the contract, even though we weren't the biggest player. The first motorbike rolled off the production line in 1984, and today we are the largest manufacturer of two-wheelers in the world, making about 6.8 million motorcycles a year, and we're well on the way to becoming a global brand."

There are five members of the current generation working in the Hero Group, and the family has empowered each of them to come up with their own idea for a business, to sit under the Hero umbrella.

"We were all given that chance, the family has faith in us and gave us the freedom to create something of our own, as long as we meet certain criteria in terms of investment returns, and so on."

As a result Hero has become extremely diversified, from renewable energy, to education, to electronics, as well as the original motorbike business, and – in Abhimanyu's case – financial services.

"After university in the UK, I worked for two international banks for a couple of years before joining Hero in 2007. But it then took me five years to find my passion. I started with an idea for an insurance business, which didn't work, then I was in the auto components division for a while, but I knew it wasn't my real niche. So I went to my family, and asked them for money to set up a 'next generation' approach to financial services. They considered it, and reluctantly agreed, and that's how Hero Fincorp was born. Since then, I've been involved in every part of the business from designing the strategic plan, to hiring every single employee. And in the last four years we have been incredibly successful."

There's clearly an advantage having the Hero name behind the business, but there's a big responsibility too: "It's scary sometimes, how much one wrong decision can dilute the brand. People think it's easy for people in our family, but there's so much more riding on everything you do, and it would be a much bigger deal to fail as part of the Hero Group than to fail as a small independent start-up. The outside world looks at you very differently too, and they're watching your every move so you're juggling a huge number of different expectations – your family's, your employees', and the external world's as well."

But being part of a successful family business has enormous advantages too: "The fast decision-making, the nimbleness, the agility of the company are all major positive factors, as is the engagement your employees feel because they're part of 'the family'. But on the other hand, change management is a challenge – the family may be reluctant to do things differently because they've been doing it that way for 30 years. But life is dynamic. It's not the same as it used to be. Our generation wants to go digital, use more technology, take more risks. But family firms are good at taking risks. And in many ways it's easier for our generation because technology is a fantastic enabler, which makes it easier to do business at a lower cost. That's why I love what I do: success is the most addictive drug in the world. There's nothing like it."

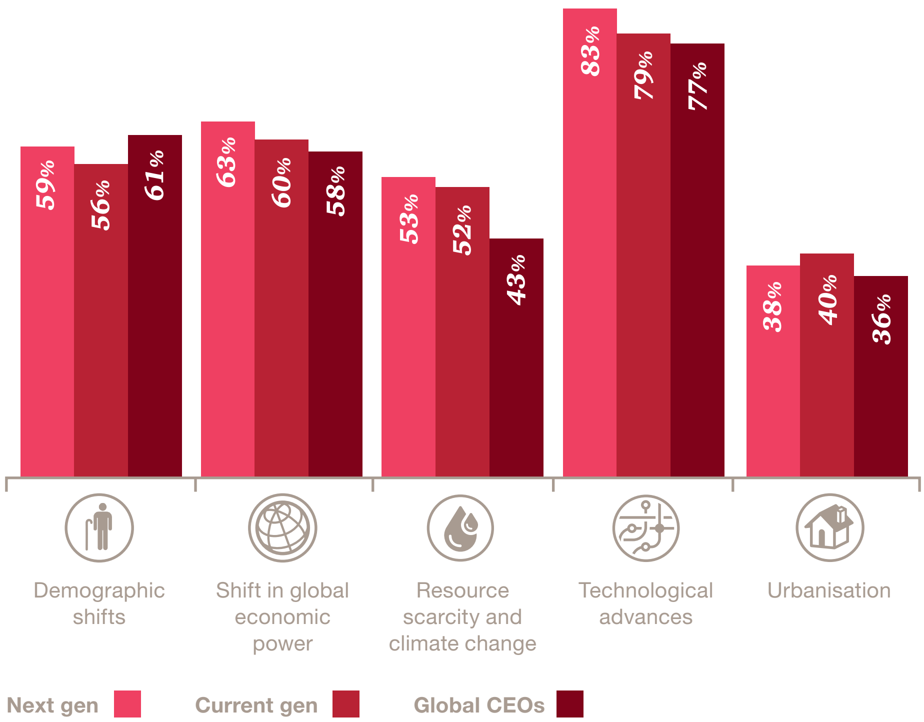
Inside out: Next gens' expectations of the wider world

The world the family business is operating in has changed out of all recognition from the one the current generation encountered when they first started work. The next gen will need to understand these challenges, and have the skills and strategies to deal with them.

In recent years, PwC has been tracking the five global megatrends in studies such as the annual PwC Global CEO Survey, and we, in turn, have incorporated these trends into our discussions with family businesses. In this year's Next Gen Survey we asked our respondents which of the five trends they expect to have the most significant impact over the next five years, and the answers are shown below. These are very closely aligned with the last main Family Business Survey in 2014, and with the responses to this year's PwC Global CEO Survey.

It will come as no surprise that technological change is so far ahead of the rest. Like all other corporate leaders, the next gens know that this will be vital to business survival and success in the future, and yet they also know that they probably face greater issues with this than their peers in more conventional companies.

Global trends that will transform business over the next five years



Question: What are the top three global trends which are likely to transform your business the most over the next five years?
Base: 268 next gens

"I see our competitors implementing [digital technology] and doing well, but nothing is happening at our end. I've suggested this many times, but it simply seems to be ignored."

Aged 31
2nd-generation family business
Switzerland

"We are a little bit behind the curve on technology and to bridge the gap would be a challenge."

Aged 30
2nd-generation family business, USA

"The older generation don't understand the digital aspects of the business world at the moment, and they don't see the value in investing in IT infrastructure and social media, but I do."

Aged 44
3rd-generation family business
South Africa

"There is a lot more technology now and there is a lack of resources available to smaller businesses to source that type of technology."

Aged 42
2nd-generation family business, Kenya

"We are digitalising the whole of our production process. We're investing in technology and operational systems. We're diversifying our channels of distribution and content that we offer. In general, we are looking at implementing new business models."

Aged 30
2nd-generation family business, Brazil

Sharing the learning: Opportunities after the family firm

Most of the next gens we've talked to this year have worked outside the family firm to gain experience, which helps them to build a senior career inside. Not so Emma Antolín, the second generation of the hugely successful Spanish auto components company, Grupo Antolín. She's an unusual case of a next gen who's had a rewarding career at a senior level with her family business, but is now looking at applying what she's learned in a role outside the firm.

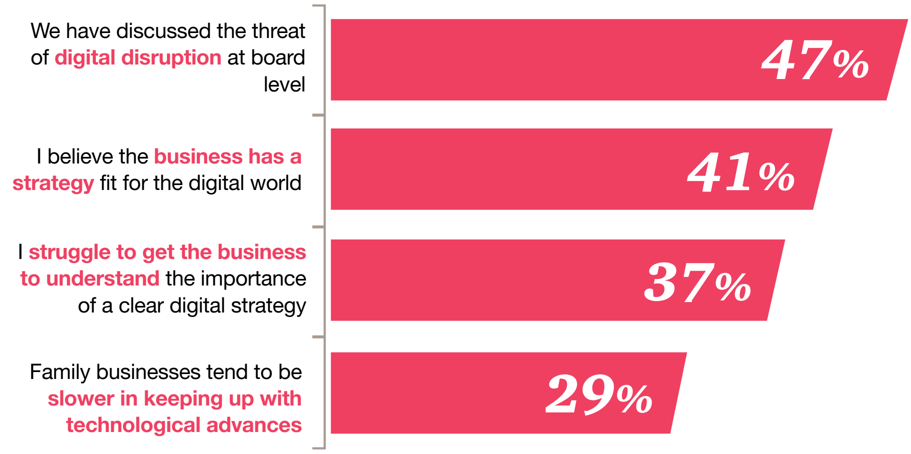
"There are two branches to our family, and we've established a protocol such that the President role rotates between them. It makes the succession process much easier, and everyone knows where they stand. I'm Director of Corporate Responsibility, and a lot of the work I've done in the last few years has been about setting up internal corporate structures – board committees, corporate governance, ethics policies and the like. I think what we have now could be a good model for other family firms, and I'm attracted to the idea of helping them to do that, because I know it's an area where family firms sometimes struggle."

So how has Emma's career evolved? After university she worked for an HR consultancy in Madrid, but her family encouraged her to take a role in the business. "It took a lot of persuading, but in the end I agreed. To be honest, it was hard at first, but thankfully that didn't last, and I've very much enjoyed my different roles both as an employee and a shareholder in the company. I also have a seat on the board of directors, like my sister Maria Helena who also has a role in the business. There are four members of the Antolín family on the board as well as independent directors. In the last few years we have also set up the sort of board committees that you would expect in a company this size. We have 28,000 employees in 26 countries, and we're one of the world's leading manufacturers of car interiors. Everything from cockpits, to seats, door panels, carpets and lighting."

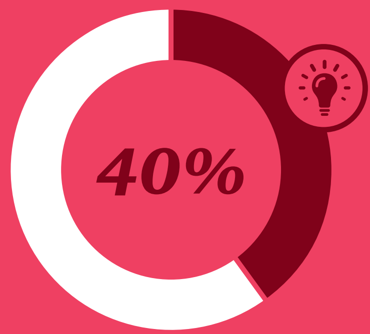
For Emma, corporate responsibility isn't just about how the company organises itself inside; it's also about the way it conducts itself in the wider world, and how it engages with its stakeholders. "Ethical behaviour should be integral to the way every company operates on a day-to-day basis. It has to be a proactive part of the decision-making process. The same applies to transparency. The way you achieve that is by setting an example from the very top of the company, so that every employee lives according to those standards. There are so many more sources of information now, and young people are looking not just at the price of what they buy, but how it's been sourced, and how well the workers who made it have been treated. More and more of our customers are adding issues like human rights to their procurement tenders, and I think that's a good thing."

If Emma does pursue a career outside, she will still continue to be a director of Grupo Antolín, so what are her hopes for the family firm? "I think the challenge for family businesses is in professionalising decision-making. If there are talented people in the family, great, they should join, but it shouldn't be expected, and you should only be given a senior role if you are qualified to do it. That's the sort of business I want us to be – I have fought hard for that, and I am proud to have helped develop robust policies and processes that make us a stronger organisation which can be an example to others. I believe, the key to success is the perfect combination of the strength of a well-structured professionalised company, and the family values of commitment for the long term. If we can maintain that combination, Grupo Antolín will always be a family firm."

The importance of digital in the business



Question: How much do you agree or disagree with each statement on a scale of 1-5?
Base: 268 next gens



Sometimes feel frustrated getting ideas accepted by the current generation

Question: How much do you agree or disagree with each statement on a scale of 1-5?
Base: 268 next gens

Digital: Springboard or stumbling-block?

Digital is an area where the generation gap still lingers. Many next gens struggle to convince their parents that the firm needs to do more on digital: 29% believe that family firms are slower than other types of business to keep up with new technology, and 40% confessed to some degree of frustration in trying to get new ideas like this accepted by the current generation. It can, admittedly, be hard to quantify the potential returns from investing in technology, not least because the sums involved are so high, and the landscape is changing so fast. It's easy to see why the current generation would be wary of spending a lot of money on systems that might be superseded within a few months. This is where external advisers or the supervisory board can really help bridge the generation gap: outsiders may well be seen as more objective, and can help both generations work together to map out exactly how digital could affect the business, and what they can do to limit the risks and capitalise on the opportunities. In our experience, this is what family firms find most challenging: once they have a plan, they're usually more than capable of executing it.

But it is vital to have a plan (and a map, for that matter). Of our survey respondents, 41% said they believed their firm had a strategy fit for the digital world, which means as many as 59% do not. Likewise, 37% struggle to get their business to understand the importance of having a clear digital strategy, and only 47% have ever discussed the threat of digital disruption at board level, and most of those are the larger businesses and those with outsiders on the board. So when only 28% of our next gens told us their business is vulnerable to digital disruption, our natural response was to wonder about the rest. Are the other 72% really as well-prepared as this would suggest, or is there a dangerous degree of denial in play here? From our experience, we fear the latter. Some respondents believe their sector is immune from digital disruption, and it's true that industries like construction are relatively less exposed than, say, retail or financial services:

But you only have to look at Simon Brand's experience to see that no sector is completely immune. His family runs a logging business in New Zealand, but even though felling trees might seem a very long way from the digital revolution, the sector is being transformed by the advent of highly sophisticated precision cutting machines, which in turn is changing working practices in areas like Health & Safety. And while internet coverage may be slower in some emerging markets, this doesn't solve the problem, merely postpones it, and probably not for that long.

In our view, what's really changed in the two years since we last ran the Next Gen Survey is the attitude of the current generation. They may still have reservations about where, how and what to invest in digital, but they no longer question whether they should do it: they know they must. In that respect, they may very well be the very first generation of family business owners to know that change isn't just likely when their children take over, but absolutely certain. As Jonathan Flack, PwC's US Family Business Co-Leader, says, "Most next gens have been saturated in new technology all their lives, so it's no surprise they expect it to play a significant role in shaping their family business."

Dominik von Au, Managing Director of the INTES Academy for Family Business and Director of PwC Germany, agrees: "It's no longer enough to develop a successful business model and then expect that to work for every new generation. Owners, management and staff face new challenges, and only those who accept that change is now the norm in business will be able to keep up and shape the digital transformation. That means real innovation, disruptive business models and new ways of working."

Jakub Dzik

The human factor: Hard and soft skills

Jakub Dzik is the son of the founder of the Impel Group, one of Poland's five largest employers, with up to 60,000 people working either as subcontractors or employees. When Impel started, Poland was only just emerging as a modern economy – as Jakub says, "there was no VAT, no real legal framework, and state-controlled companies employed huge numbers of people and no-one knew how to behave on the free market."

Impel started out as a cleaning and security company, but has evolved from that into an international outsourcing business, offering facilities management, a range of property services, catering, accounting, payroll, and IT services. As this suggests, IT is a real strength: "We've used SAP for some time, and the challenge there is being better at data analytics. Not so much collecting more data as working out which data is more important. I'd also like to look at developing a portal for customers where they can see all their contracts and management information in one place, and the information is visualised for them."

Jakub joined the firm in 2009, after a law degree, and since then has taken various roles in the legal and financial departments. He's been on the management board of the security division for three years, and has just recently joined the holding company board as well. Is there anything he would have done differently, to prepare for these roles? "I would have studied something different at university – the law is not very practical, as it is taught in Poland. I have good 'hard' knowledge in finance, business, and the law, but I could probably do with more soft skills. In terms of things I'd change, I think I'd have pushed for a more senior role earlier. I am cautious by nature, and I came here with a huge amount of respect for some of the managers, many of whom have been here more than 20 years. In those circumstances you sometimes worry about making a decision – you think, 'what if I'm wrong, what if the money could have been spent better on something else, what if the acquisition is a bad idea and sets us back instead of taking us forward?' But looking back, I think I was worrying too much and I could have progressed faster."

Is Impel's success down to the fact that it's a family business? "Some of it, undoubtedly. I'm very proud of what we've built. And I think we have greater decision-making capacities and flexibility as a family firm. The challenge is the human factor—for example, we are more cautious when it comes to making decisions that affect our workforce, especially if it means losing jobs. It takes longer to work through the decisions on something like that – it takes longer to make those changes. But that's the right thing to do. My ambition is that we continue to be a responsible and ethical company, and one that pays fair wages to its workers."

Outsourcing has changed hugely as a sector, in recent years – does Jakub see further change ahead? "The business environment is changing all the time, and maybe the business models we have developed up til now will no longer be valid. What should always stay the same is our values: how we deal with our customers, how we respond to their needs. I would love to run the whole business myself one day, and that's what we're working towards, but it's not an absolute certainty. I would accept it if there came a time when an external professional was the best option for the business, and in those circumstances I'd look to take a role on the supervisory board. After all my responsibility is not only to the family, but also to all the people who create Impel and call the company 'their business'."

Gender: A digital divide?

Given the perception that 'gadgets are for guys', it was intriguing to find that the female next gens we interviewed were more aware of the challenges of new technology than the men.

They're particularly attuned to the risk of not embracing digital – 37% feel that their business is vulnerable to the threat of digital disruption, compared with only 24% of men, and 44% say they struggle to get the firm to understand the importance of having a clear digital strategy, as against 34% of the men. There seems to be a degree of frustration, too, in the fact that 36% agree that family firms tend to be slow to take up new technology, with only 27% of men saying that.

The challenge, it seems to us, is for female next gens to turn these very real concerns from the negative to the positive. Instead of warning about the risks, start talking about the opportunities, and exploring what these might mean in practice. It's worth observing, in this context, that only 68% of women say they have lots of ideas about how to take the business forward, compared with 84% of men. There's clearly a lot more women could do to get on the front foot here.

Those who advocate having more women on boards say that this gives a business a richer and more balanced understanding of the company's customers and that, in turn, can enhance its competitive advantage. Women need to have the courage of their convictions, and turn their digital disquiet into digital drive.

"We are working on the possibility of starting to use Amazon as a tool and not see it as a threat but as a stimulus."

Aged 32
1st-generation family business, Peru

"We sell huge capital equipment so you can't create a platform like Uber for that; it is possible to use technology to build better machines more efficiently but you'd still need a lot of factory space and a lot of capital, so we're not that vulnerable."

Aged 26
2nd-generation family business
South Africa

"We are not hugely reliant on the digital era – the business is very hands-on. Most business is done over the phone line. As long as we have got a phone line we'll be OK."

Aged 38
3rd-generation family business
New Zealand

"We are a manufacturer and distributor of automotive vehicles. We don't sell directly to end users. Digital disruption can affect up the value chain but most of the vulnerability (that I can see) lies in the end user retail space."

Aged 44
5th+ generation family business, Taiwan

Henry Herbert

Innovation and identity: Hobbs House Bakery

We talked to Henry Herbert, who's Retail Director of Hobbs House Bakery, a fifth-generation business started by his great-great grandfather, which is still making handmade artisan bread in the Cotswolds nearly 100 years later.

What are the special challenges of being part of such a long-established firm?
If you're running any business, particularly a family business, it's really important to keep growing and diversifying. It's about reinventing, it's about innovating – looking for new ideas, keeping ahead of the curve. Digital is a big part of that – there's online shopping now, the high street is changing, and bakeries like us are on Instagram and Twitter and Facebook. People like engaging with brands that way – they want to be able to buy our bread online so we're looking at ways we can do that. It's about embracing change, rather than shunning it.

So innovation is really important?
Absolutely – there's always something you can do better. You have to be open to new ideas, wherever they come from, whether that's someone who's been in the business for two weeks or 20 years. You need to focus on the idea, not where it came from. Another thing that's really important is identity – which in some ways is the opposite of innovation. Your business has to keep evolving, but what gives you your identity should always be the same, especially in a family firm. That's what unites us as a family and as a business – the values and principles we all believe in.

How do you see the future – both for you and the business?
One of the things the younger members of the family really thrive on is looking ahead and planning how our business will look in the future. But to make that happen we need the experience and support of those who've already been there and done it. Succession is a really big issue for us at the moment – we want to have a successful generational handover that can keep the business thriving and healthy. Looking further ahead, I really hope that I'll be running the business one day, but with my family by my side. That's what it means to be a family firm.

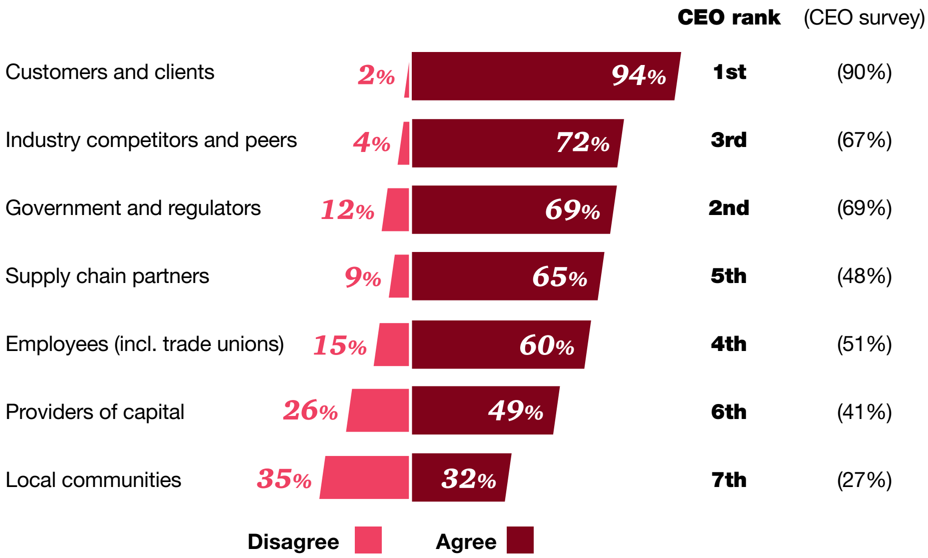
Outside in: How the world's expectations of business are changing

> ***"In many ways it's easier for our generation because technology is a fantastic enabler."***
>
> **Abhimanyu Munjal**
> CEO, Hero Group, India

This year's PwC Global CEO Survey[7] focused in particular on how public expectations of business are changing, and how this is having an impact on corporate decision-making. Stakeholder perceptions are especially important, and at the same time, the definition of 'stakeholder' is changing and widening, and will vary according to the type and sector of the business. It's perhaps to be expected that next gens are very much aware of this agenda, and their priority stakeholder groups closely match those identified by respondents to this year's CEO Survey.

As we discuss in the private company cut of the PwC Annual Global CEO Survey,[8] family-run companies have a business model built on trust, personal relationships, and strong values, and as stakeholder expectations change this could become a significant competitive advantage. This is why we've added stakeholders to our critical success factors. And as the next gen take charge, many of them will set a higher priority on 'giving something back'. As Malcolm Preston, our Global Leader in Sustainability and Climate Change says, "Next gens are generally more focussed than their parents in assessing the real impact of their business. They want to make money, but often in a responsible way. Typically they can play a key part in driving change in the business, and more broadly in respect of the family wealth. I see many next gens now wanting to focus their business on being

The degree of stakeholder influence on corporate strategy



Question: What impact, if any, do each of the following have on your business's strategy?
Base: 268 next gens

7. The 19th Annual Global CEO Survey, Redefining business success in a changing world, PwC, 2016
8. Private companies: Old-style strengths, new-style challenges, PwC, 2016

Learning, culture, trust, meritocracy: The 'Cosentino approach'

Pilar Martínez-Cosentino

Pilar Martínez-Cosentino is one of the third generation of people working in the Grupo Cosentino business, in the Almeria region of Spain. It started out as small workshop processing marble and natural stone from the local area, and now manufactures a range of surfaces for kitchens, bathrooms and other areas of the home, including 'Silestone'. The business has over 3,000 employees worldwide, and these days 92% of its sales are outside Spain, though the vast majority of its production is still based there.

There are thirteen people in the third generation of the Cosentino family, and nine work in the business, taking roles that reflect their particular experience. Pilar did a law and business degree, before working for two years at a law firm. Then in 2004 there was the opportunity to join the family firm, "It was good timing, as Grupo Cosentino was just starting the process of professionalising the company, and so I was offered the opportunity to take part in that. I started in the Legal Department and then I became Director of Strategic Planning, which gave me an excellent overview of the business, and the chance to contribute to the transformation of the company."

In the last few years that professionalising agenda has seen Grupo Cosentino focus on improving its corporate governance, and now it resembles public listed companies in its framework of Board and Executive Committees, and its use of independent experts, both on the board and in more informal advisory roles. It also has an established family protocol to manage the succession process, which is based on the principle of 'the best person for the job', whether that's someone inside the family, or from outside. "I'm a great believer in a meritocracy – it's a working culture I really believe in. Being a member of the family, you can sometimes lack objectivity, and the risk then is that you are led too much by the heart and not enough by the head. You have to be analytical, and you have to be objective, so you make the right investments and decisions for the business, not just for the family."

But there are clear advantages to the family business model too: "It gives us a competitive edge. Our people are part of what we're building together and we're not a hierarchical business – everyone is involved, and it's a very open and honest culture, because you won't get anywhere without trust. We also want Cosentino to be a company that learns. My father has a very strong personality, but he also has a very open mind and he wants to keep us learning and improving all of the time. That's part of the Cosentino approach."

Each time there's been a generational shift at Cosentino, the business has changed, but "the involvement of each new generation has always represented a positive change going forward. There have been challenges too – of course. For example, the previous generation are more used to making decisions based on intuition, while the new generation is more analytical, wanting plans and data before they decide. And while the new generation has huge respect for what's been achieved in the past, they see our future growth and direction slightly differently, so there's a tension sometimes. But it's a creative tension."

The Cosentino family also has an interesting and thoughtful approach to the way it manages its family affairs, which could be a model for other families: "We have a plan for the fourth generation, and it's not just for those who want to work in the business, it's for all of them. It's about what it means to be a 'Cosentino' – the sort of people we are. People who know different languages, who are culturally sensitive; who are aware how lucky they are, and feel a responsibility to give something back. And if they do want to join the business, they will have to meet specific criteria, and be prepared to work hard once they get here. That's the Cosentino approach in action."

responsible about how profit is made not just how it is spent, for example, on philanthropic projects. They want to optimise the impact of their business by reducing the negatives and improving the positives. This is a way for them to start to show leadership and initiative within the family boardroom, by building family values into the decision making process. It helps them to find the voice to eventually drive greater change within the business. Considering the total impact of a business is certainly a better way to measure business success – see pwc.com/totalimpact for more on this."

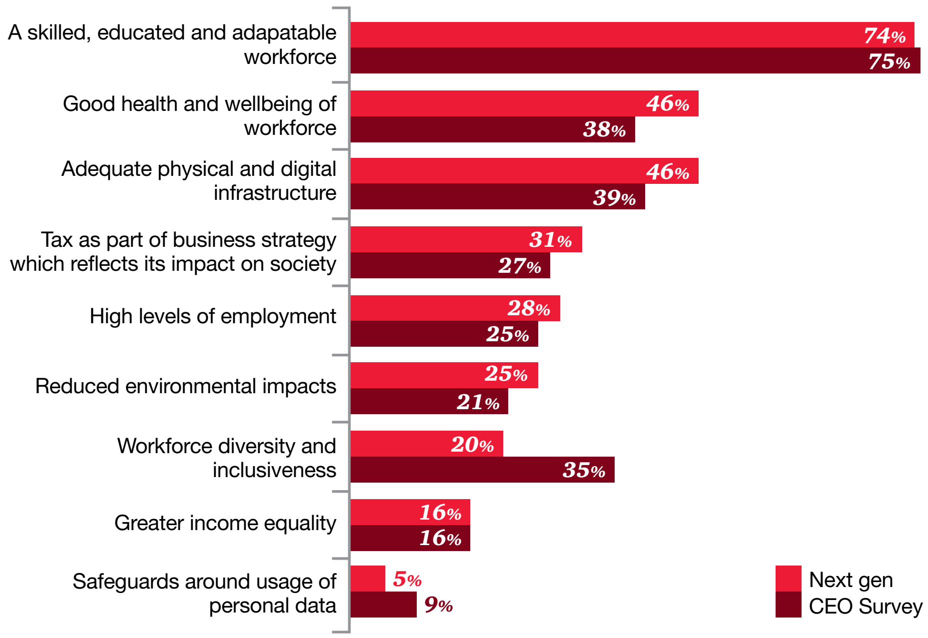
Arjan Stephens' family firm in Canada was built on the 'triple bottom line' right from the start. The Nature's Path organic foods company has always given equal priority to people, planet and profits, and remaining true to those values has been at the heart of its success. During the recession, consumers cut back on premium-priced foods, but Nature's Path remained true to its values: "Because we're a family business we could take a longer view. We basically said, look, we believe in organics no matter what. And because of that, consumers know that our brand is authentic – that we stand up for what we believe. That set us up for the next phase of growth, and we basically doubled in the last five to six years." You can read Arjan's full story on page 3.

In the new business landscape, trust is more important than ever before, and ever harder to build. As the corporate scandals of the last few years have proved, reputations that have taken decades – or generations – to build can be destroyed in days, or even hours. Emma Antolín, part of the second generation of the Spanish auto components business, Grupo Antolín, is typical of many of the next gens we've spoken to: "Ethical behaviour should be integral to the way every company operates on a day-to-day basis. It has to be a proactive part of the decision-making process. The same applies to transparency. The way you achieve that is by setting an example from the very top of the company, so that every employee lives according to those standards." You can read Emma's full story on page 23.

It's something of a paradox, but as the world becomes more global, consumers increasingly want a real relationship with the products or brands they buy – an emotional connection, or confidence in its authenticity. Clearly, family and private businesses could have a real advantage here, and this is reflected in the CEO Survey results: 58% of public company CEOs are concerned about public trust in business, but this falls to less than half for family firms. Many of these companies understand this instinctively – it's inherent to who they are. In Australia, for example, the Credit Repair Australia business established by Mitchell, Gavin and Kiersten Symes' father is still driven by the same desire to help people that inspired him to set it up in the first place: as Mitchell says, "We're dealing with people; we're not dealing with numbers or data or anything else, we're dealing with people. In our family, we've been brought up to believe that life is about giving value to others, and whatever value we can create for other people will give us value in return. And everyone else in the company is inspired by that same passion."

It's also interesting to compare the business priorities of the next gen with those of the PwC Global CEO Survey respondents in the chart below.

Key business priorities



Question: Which three areas do you think should be a priority for business?
Base: responses from 268 next gens

Tadd Tellepsen

A sense of purpose: Tellepsen Builders

We talked to Tadd Tellepsen, who is President of the Tellepsen construction group, which has been run by the same family for four generations.

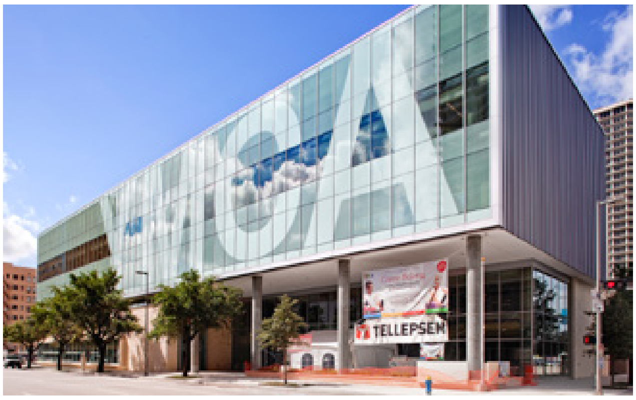
How did your family firm start?
The company was started by my great grandfather, who was a Norwegian immigrant who came over in the early 1900s, just like many, many, immigrants who came to Ellis Island. He made it down to Houston, and he founded our company in 1909.

Today, it's made up of four companies: a commercial construction company called Tellepsen Builders, a concrete construction company called Building Concrete Solutions, a heavy industrial petrochemical construction company called Tellepsen Industrial, and the fourth is an engineering company that does work in the plants for the petrochemical sector, and that's called Tellepsen Engineering.

Did you always intend to work in the family firm?
It wasn't set in stone, but my father always wanted us to work somewhere else first, rather than go directly into the family business. My mother's father sat me down one day, while I was working in Dallas, and said, "Tadd, I really think it's time you stopped fooling around and go into the family business. You've got a lot to learn and you don't need to be wasting time. Myself and my brothers all started at the bottom, the very bottom."

How is the family handling the succession process?
It's been a really interesting experience to be a part of a family-owned business which is going through succession planning. My father's still around, and he is of tremendous value to the company. One of the things that we have to be very conscious about, my father and me, is not getting into a 'Parent-Child' mode, but staying in a business mode. I think that's something that all family businesses have to figure out at some time. My dad's still the consummate leader of our organisation and he's having a ball – he's never had as much fun as he is now, and we don't want him to go anywhere. But, that said, I do have to develop my own management style, my own leadership skills. I can't be him. He says I have some great talents that he didn't have, but I'm not so sure about that, because he's a pretty special guy.

What do you think makes Tellepsen special?
Our values are the thing that I focus on the most – they're part of our fabric. The people who led the company before me believed in putting others first, from our employees and with the people who work with us, to our business partners, our subcontractors, and our customers. It's about building mutual trust and respect. I always remember my grandfather and my great-grandfather saying that it's important that our family and our company is involved in something much greater than ourselves. Our leadership team believes in that, and my family believes in it too – if you have as many advantages as we do, you have to give back to the community. We do think we're doing something special – for example, we're building facilities for cancer research. That's what it's all about, improving people's lives and having a sense of purpose.



View from the bridge: The expectations of the current generation

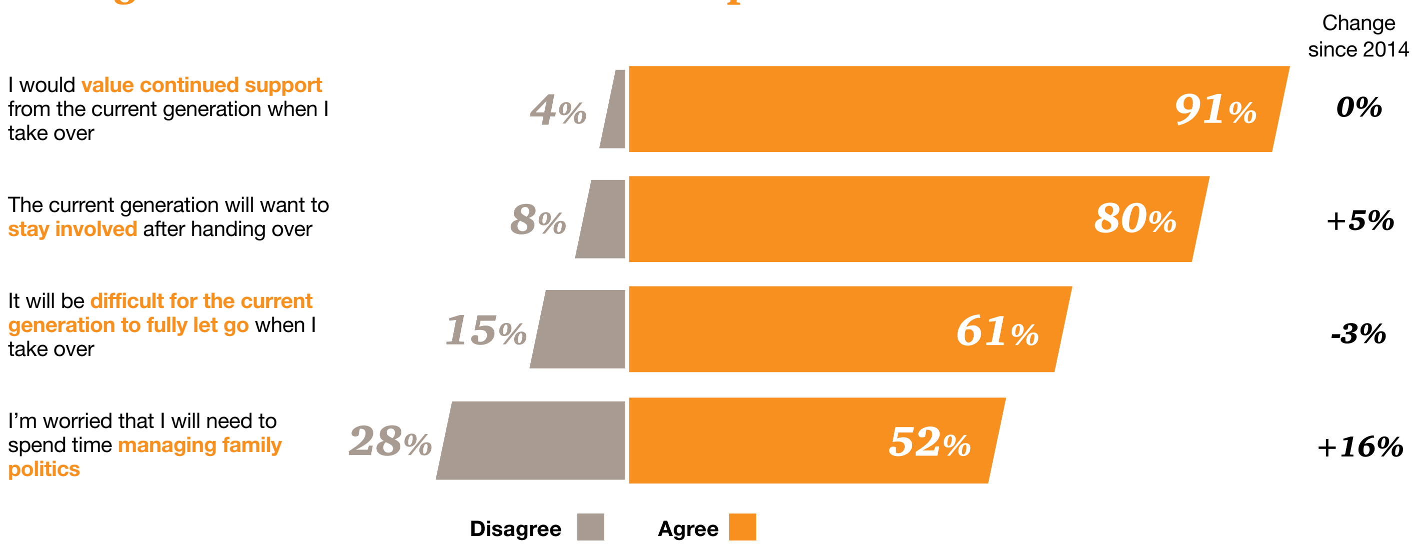
And finally, the last piece of the puzzle and another extremely important set of expectations: those of the current generation. How do they see their evolving role? What about the succession process? And how can they help with that other crucial element of the professionalising agenda: professionalising the family?

Those taking over family firms have probably always worried about the succession process – one of our critical success factors – about how their parents will adapt, and how they themselves will measure up. As the chart below shows, many of these concerns have not changed a great deal since our last Next Gen Survey in 2014. Next gens are still concerned about managing the succession process successfully, and about finding the best way to ensure that their parents still feel involved and able to contribute, but also make the transition they need to make to a more passive role.

There are undoubtedly some in the current generation who find it hard to let go – what we've referred to in the past as 'sticky baton' syndrome. In our experience, this is often combined with a reluctance to even discuss the process or timing of succession, which can cause friction in the family, and uncertainty in the business, and that's not good for either. We've worked extensively with family firms, helping them bridge this communications gap, and develop robust plans for the succession process. The key is to remember that succession is a process not an event: the next gen need to be fully prepared to take over, with their parents' support, and after the formal handover the parents can continue to offer help and guidance, as long as they accept they're no longer making the decisions. In his book, *Next Generation Success*, Harvard Professor John Davis emphasises how important it is for the current generation to 'let go in time': "While the preparation of the next generation is not entirely in your control, it depends significantly on your actions. Whether you are a parent, an elder in your family, or a leader of your enterprise, it is your obligation to help prepare the next generation… If you resist this, or poorly plan and execute the next generation's development, the results will probably be poor".[9] There's more good advice on this in Juliette Johnson's 'ten golden rules' on page 8.

Dominik von Au, Managing Director of the INTES Academy for Family Business and Director of PwC Germany, observes that of all the challenges a family-run business has to confront, the challenge of succession is the biggest and most important. But it is also at the heart of what being a family business means: "Is there anything better than the confidence of knowing that your dream for the business is shared by your own family and is carried on with the same passion? But succession can also be the

Taking over the business: Plans and expectations



Question: How much you agree or disagree with each statement on a scale of 1-5?
Base: 268 next gens

9. John A. Davis, The next generation success (Cambridge Family Enterprise Press, 2014)

moment when that dream fails. Many a great business person fails in the attempt to perpetuate his or her life's work. A shortage of skills, a lack of determination, insufficient preparation, and conflicts within the family – there are lots of reasons why succession can fail, and if it does, it can take the whole business down with it."

The Australian business Slattery Asset Advisory & Slattery Auctions is a good example of the value of managing the succession process properly, and over as long a period as possible. As Tim Slattery, one of the founder's sons, says, "I think the greatest gift dad ever gave us was being willing to hand over the business at that comparatively early stage. Unlike some other family firms I've seen, where the transition has failed because the founder of the business wasn't actually prepared to let go." There are six Slattery children, and three are now involved in the business directly. To avoid tensions between the siblings, the next stage in the process was to engage an independent valuer to come up with a fair market value for the business: "We thought that was essential – as a family business everyone is naturally emotionally invested in the business and it is important that issues such as inheritance, whilst it may be distasteful, are addressed and no one is left feeling there was any favour shown." You can read the rest of the story on page 19.

There's one stand-out figure in the chart on page 32, and that's the rise in the number of next gens who are concerned about the difficulties of managing family politics and disputes (up 16% from 2014). This is clearly a big issue, and often reflects the 'communications gap' we've discussed before. In many cases, this is being exacerbated by a difference in communication styles between the current generation and the more digital-savvy next gens. All family firms need robust family governance frameworks to address issues like succession, but this is even more important in families where there's a risk that issues aren't being raised, and expectations on both sides aren't being conveyed. As María Sanchíz, Family Business Leader, PwC Spain, observes, "Some family businesses have struggled during the financial crisis, and there can be very different visions of the future between the current generation and the next one, especially in relation to new markets, and new products and services, and how to finance growth."

We talked extensively about this family governance in the 2014 PwC Family Business Survey,[10] and we observed then that even though many businesses had made progress professionalising the firm, most still hadn't got to grips with the need to professionalise the family. And this is understandable, because it's usually much harder and it's a highly emotive subject. Family governance is the focal point of the ongoing tension between personal and professional, and in older family firms the number of family members can be very extensive, and many of them may have no direct role in the business, and little knowledge of its issues and needs. That concern was a key factor in the approach taken by Tim Slattery and his brothers: "The three of us who were taking the business forward felt it was important to have a clear distinction between those of us working in it, and the others who weren't. Otherwise there's a risk that those outside won't be as committed to the firm's strategy as those who developed it."

As the number of family members and in-laws grows, the risk of misunderstanding and conflict is clearly immense. This is why it's vital that next gens see the wider family as a stakeholder group too. In fact, they could be the single most important stakeholder group of all, and need managing with the same degree of care as any other. Mary Nicoliello from PwC Brazil observes, "The family can either

10. Up close and professional: The family factor, PwC, 2014

"Even if I took over immediately, I would still have the prior generation chirping in the background."

Aged 35
3rd-generation family business, USA

"The challenge [with succession] is establishing how much the business is worth, so everyone gets a fair deal, including our parents – with a private business, valuations can be tricky to pin down. The most important thing is to avoid having money issues rip the family apart but I don't think it would ever come to that."

Simon Brand
Operations Manager, Brand Logging New Zealand

"One of the things that we have to be very conscious about, my father and me, is not getting into a 'parent-child' mode, but staying in a business mode. I think that's something that all family businesses have to figure out at some time. My dad's still the consummate leader of our organisation and we don't want him to go anywhere. But, that said, I do have to develop my own management style, my own leadership skills. I can't be him."

Tadd Tellepsen
President, Tellepsen Construction Group, USA

be the greatest asset or the greatest point of weakness for family businesses. In recent years, business-owning families have increasingly seen the value of family governance to ensure family cohesion, and build a shared understanding of family values."

What the last bar on the chart on page 32 may be telling us – and it's a concern if this is true – is that the professionalisation of the business is actually increasing the risk of conflict within the family, by creating wider gaps between those who work in the firm and those who don't, and heightening the potential for tension as outsiders are brought in to take executive and board roles. As Stuart Morley, Family Business and Wealth Leader from PwC Australia, acknowledges, "the alignment of family, business and ownership is critical. The most successful families have a good balance between professional management, responsible professional ownership, and a healthy family dynamic. Communication is absolutely vital in ensuring alignment."

Facing up to the challenge of family governance is vital, because family businesses generally fail for family reasons, not business reasons: in other words, family friction can bring an otherwise viable venture to the point of collapse. Professionalising the family is about establishing accountabilities and responsibilities, and ensuring regular, transparent communication. It's also about learning to be good owners and shareholders as well as – or even instead of – good managers. In short, the transition from 'family business' to 'business family'. In this context we found it fascinating to hear from Pilar Martínez-Cosentino about the 'Cosentino approach', which other family firms could use as a model: "We have a plan for the fourth generation, and it's not just for those who want to work in the business, it's for all of them. It's about what it means to be a 'Cosentino' – the sort of people we are. People who know different languages, who are culturally sensitive; who are aware how lucky they are, and feel a responsibility to give something back. And if they do want to join the business, they will have to meet specific criteria, and be prepared to work hard once they get here. That's the Cosentino approach in action."

11. Family firm: A resilient model for the 21st century, PwC, 2012

Looking ahead

There's a lot of good news in this year's Next Gen Survey. Our respondents are more confident, more experienced, and have bigger ambitions. But many of the old challenges still remain. In the 2012 PwC Family Business Survey[11] we summed up the challenges facing family firms in terms of skills, succession, and scale, and these three factors are just as relevant for next gens four years later. And as we've discussed, there's also a new 'S' to add to the mix – stakeholders.

- Next gens need to develop their ***skills*** – both their technical and business know-how, and softer skills like teamwork and communications. Working outside the family firm is an ideal way to do this, and there's a lot of value in taking additional training and development courses too. And when they do join the family firm they need to ensure that the role matches their capabilities, and they develop any additional skills they may need to equip them for a more senior role, and for becoming an owner as well as (or even instead of) a manager.
- The ***succession*** process will always be a sensitive one, and a robust plan and framework are vital. It's reassuring to see that many more family firms are starting this process sooner, and managing it more effectively. The transition process needs to be planned as early as possible, and the next gen's training and development plans aligned with it. There's also no substitute for good communication, and this is the responsibility of both the current and the next generation; expert external facilitators can help here.
- ***Scale*** takes on new meanings in the context of the next generation: it's the scale of the business, and its strategy for the future, but it's also the scale of the next gens' personal ambition. From the business perspective, this means looking at new products and services, new markets, and even new business models, and understanding how digital could disrupt what the firm does now, and open up new possibilities in the future. For the next gens' personal perspective this is about ensuring that the firm is able to evolve and change, and if necessary re-invent itself, without losing touch with its values or the passion that founded it.
- As for ***stakeholders***, this is about the changing expectations of the world outside the firm, and managing the dynamic of the family. The next gen need to get to grips with family governance, especially as the business gets older and the family gets bigger.

We've been working with family firms for decades – in fact many of the current generation of family business leaders were next gens when we first advised them. We can bring all that experience to bear to help family firms manage both the personal and professional challenges they face. And we have specific services and support for next gens, from training and mentoring, to our Global Next Gen Club (page 39), where they can learn from others in the same situation, develop new skills, and build their own business networks.

The next gen have great expectations – we want to help make them a reality.

1. Family firm: A resilient model for the 21st century, PwC, 2012

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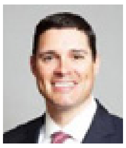

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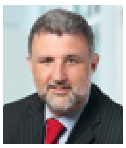

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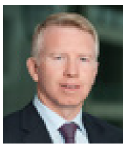

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"I want to contribute to our family business – it's good to feel you're part of your family history. But it's very difficult too, because if you go into the family firm you have to adapt to existing ways of doing things, and respect your relations' judgment. For example, I think we should be doing much more with digital, but my family don't see digital as a threat to our business in the long and medium term, which makes embracing innovation very hard."

Next gen, Brazil

"Financing expansion is challenging. Many board members would oppose it as they are focused on their dividends and this would reduce the money available for that. Not all of them are keen on re-investing into the company."

Next gen, Brazil

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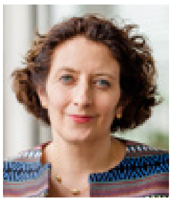

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About the PwC Next Gen Club

It's great to work for a family business, and even better to own one. But there can be tough times too, and the personal and the professional can sometimes collide. That's when you need someone by your side who's seen it before, and has experience and expertise to share.

Having worked with thousands of family firms across the world we've learned a lot about what makes them successful. And on the flipside, we've also seen and heard from you where the potential problems are. That's why we're bringing together the next generation of family business leaders across the world in a network designed for you, and by you. As you take on the management and ownership of some of the most exciting, dynamic and important companies in these markets.

The PwC Next Generation Club will be there with advice and support from others who've been through it, and are going through it.

The Next Generation Club is a programme of exclusive and exciting events. From one-to-one conversations, to personal and leadership development, insights and tailored projects. Giving you the opportunity to learn and to participate. Great experiences, solid support, and advice.

For any queries regarding the PwC Next Gen Club please get in touch with your country contact or Sarah Rodwell at sarah.r.rodwell@uk.pwc.com.

Survey methodology

The Next Generation Survey is a global market survey of next generation members working in family businesses.

268 Semi-structured interviews were conducted with next generation family members who work for the company and might manage the business / take on a key role one day.

Interviews were conducted between 14 January and 28 February 2016 by telephone and via an online survey in local language across

31 countries.

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