

Great expectations

The next generation of family business leaders



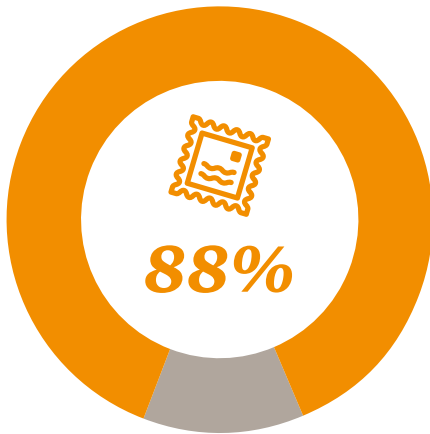
The world's next generation of family business leaders are more confident, better prepared for senior roles and more ambitious than they were when we spoke to them two years ago.

But while many of the old challenges remain—such as skills, succession and scale—two issues stood out this time around. One is how next gens are dealing with the challenges and opportunities of digital disruption, and the other is professionalisation—both of the business and of the family.

New challenges and opportunities facing the next generation

In Australia, these issues are top of mind for family businesses. Confidence in growth has dropped, as companies look for new ways to build wealth amidst weakening economic conditions. And following the end of the mining boom, we are in the midst of a national conversation about the importance of innovation, ideas and growth.

The next generation of leaders will need to drive these transformations to evolve the family business and maintain competitive advantage. It's important that current owners listen and engage with what they have to say.



want to leave their stamp on the family business and do something special with it



have gained experience outside the family business



are optimistic about managing the business one day

Time to jump across the digital divide

Next gens are more likely than either the current generation or CEOs of globally listed companies to rate digital technology as the trend most likely to transform their business.

But they are struggling to convince their parents that the business needs to do more on digital. Almost one-third think family businesses are slower than other types of businesses to keep up with new technology, and 40% said they had experienced frustration trying to get new ideas accepted by family members.

“It’s understandable the current generation is cautious about making big investments in digital considering how fast technology is changing. However, standing still is not an option” says Stuart Morley, Head of PwC’s Family, Business and Wealth team.

In situations like this, it can be useful to work with external advisors or an independent advisory board who have the skills and expertise to bridge the generation gap and guide both generations on their digital journey.

But it’s vital to have a plan for how the business can use digital – and other disruptive trends – to drive growth. However only 41% of next gens think their business has a strategy fit for the digital world, which means 59% don’t.

More worrying is that 72% of next gens don’t believe their business is at risk of digital disruption. Either there is a dangerous degree of denial going on, or they honestly believe they are nimble enough to adapt.

In any case, what’s missing is a clear sense from both generations of what the digital challenge – or opportunity – is, and how the business is going to respond. A holistic strategy that allows for appropriate investment in digital innovation, while protecting the revenues that have helped the business grow to date, is required.

“ Digital is playing a significant role in shaping the business environment. The trick for family businesses is to harness the qualities that make them different, such as their unique ownership structures.”



Stuart Morley
Head of Family, Business and Wealth, Private Clients

“ 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.”



Tim Slattery
Slattery Asset Advisory & Slattery Auctions

Professionalise the business, professionalise the family

The next generation is increasingly seeing the value of professionalising the family business. Nine out of ten agree that having non-family members in key positions is a positive thing, up from eight in the last survey in 2014. And of the next gens that don’t expect to be managing the business in the future, 83% think it will be run by non-family professionals.

When it comes to embracing the need to professionalise the family, however, we are seeing less progress. This is understandable, considering family dynamics can be highly complicated, full of emotions and politics. In fact, over half of the next generation are concerned about dealing with family politics in the future.

Yet it’s just as important as business strategy. “After all, family businesses often don’t fail for business reasons, but for family reasons. The most successful family businesses strike a balance between professional management, responsible business ownership and a healthy family dynamic – particularly when it comes to handling next generation issues,” says David Smorgon, Executive Chairman of PwC’s Family, Business and Wealth team.

Next gens have a lot of different expectations about what they want to do in the business, or even whether they want to be part of it at all. And as the number of family members and in-laws grows, so too does the risk of misunderstanding and conflict.

These challenges need to be considered early and regularly, and in a structured and consistent way.

Professionalising the family means managing roles and relationships on a commercial basis. It’s about establishing accountabilities and responsibilities, and ensuring ongoing, transparent communication. A family constitution is a good place to start, as it helps identify many of the core issues within the family and provides a mechanism for dealing with them.

But there also needs to be a culture of openness and a willingness to deal with conflict. Next gens must feel safe to express their views, knowing that whatever comes up will be dealt with fairly and constructively.



60%
have non-family
members on the
company’s board

“ We get together as a family every couple of months to specifically talk about work.”



Mitchell Symes
Executive Director, Credit Repair Australia

So where to next?

- *Discuss the impact of digital on the business with company decision makers and the Board, and create a digital strategy.*
- *Have a comprehensive, robust and well-documented succession plan.*
- *Develop a family constitution as soon as possible.*
- *Spend time focusing just on the family, rather than the 'family business'.*

PwC's Private Clients Family, Business and Wealth team are dedicated to helping families find positive outcomes for their personal, family and business objectives.

www.pwc.com.au/privateclients

Contacts



David Smorgon OAM
Executive Chairman
Family, Business and Wealth
Private Clients
david.smorgon@pwc.com
(03) 8603 1368



Stuart Morley
Head of Family, Business
and Wealth
Private Clients
stuart.morley@pwc.com
(03) 8603 0280



Sue Prestney
Partner
Family, Business & Wealth
Private Clients
sue.prestney@pwc.com
(03) 8603 1201



Michael Dean
Partner
Family, Business and Wealth
Private Clients
michael.dean@pwc.com
(02) 8266 5427



About the survey

In January and February 2016, PwC spoke with more than 260 next generation members working in family businesses, across 31 countries.

© 2016 PricewaterhouseCoopers Consulting (Australia) Pty Limited. All rights reserved.

PwC refers to PricewaterhouseCoopers Consulting (Australia) Pty Limited, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors. Liability limited by a scheme approved under Professional Standards Legislation.

WL127036881