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PwC urges family firms to manage succession as only 12% makes it to a third generation

Family businesses need to prepare for succession at least five to seven years ahead to ensure a smooth transition in passing on the business to the next generation.

Family and privately owned firms make up 30% of the world's businesses and contribute between 70-90% of global GDP. Bridging the three key gaps—***generation***, ***credibility***, and ***communication***—would help them to sustain wealth by putting in place a workable succession plan. This allows the business to be successfully handed over from the baby boomers to the millennials.

Sira Intarakumthornchai, CEO of PwC Thailand, said that moving from one generation to the next can make or break a family-run business.

"The risks of getting it wrong have never been greater," Sira said.

"Only 12% of family firms globally make it to a third generation and just one percent beyond the fifth. This makes succession a priority for every family business."

According to PwC's Bridging the gap: Handing over the family business to the next generation, the next generation is ambitious, with 86% wanting to do something significant, and 80% having big ideas for change and growth. This ranges from launching new products and ventures to making changes to where and how the business operates and investing in new technology to explore social media.

Even so, 88% of next generation family business members that were surveyed said they struggle to be taken seriously and defend themselves from accusations of nepotism. According to the findings, nearly 60% also found getting the respect of their co-workers to be the biggest challenge.

PwC's Next Generation Family Business Survey 2014 is based on a survey of more than 200 next generation family members who are likely to take charge of family businesses with an annual turnover of more than $5 million in 21 countries. "The transitions for many are rarely easy, but the good news is they can be sure that the business will be passed on smoothly if they start working on bridging the generational differences, closing the credibility gap, and communicating within the family members to sort out succession as early as possible," Sira said.

Passing the baton

"Thai family businesses can take some guidance from how their global counterparts have passed on the baton from one generation to another," Sira said. Thai family businesses have played a key role in driving Southeast Asia's second-largest economy with a business turnover of almost 30 trillion baht. Of listed companies in Thailand, family-owned and managed businesses account for as much as 50.4% of the total.

Sira said while many Thai family businesses expect to see steady growth in the years ahead, obstacles to that growth remain strong as they struggle to keep pace with major world trends. The most important examples are demographic shifts, rising urbanisation and changing consumer behaviour in Asia, where more than 70% of firms are family-owned.

Globally, promotion to CEO is no longer automatic for the next generation. The study showed that 73% said they were looking forward to running the business one day, but only 35% thought it was sure to happen. Nearly 30% thought it was only fairly likely at best.

Based on the study, the current generation isn't always confident that their children are ready and able to take over, which explains why more family firms are bringing in CEOs from outside the company.

"As many as 41% of our respondents said they intended to pass on the management of the business to the next generation. Another 25% said they only intended to pass on the ownership and not the management," he said.

“What’s more interesting is that more than half of the people we surveyed say they were unsure whether their children had either the skills or the enthusiasm to take over the business successfully.”

Hard to let go

The PwC study found that 87% of respondents believed their parents have confidence in them to take over the business and 91% would appreciate continued advice about the business from their parents.
But a surprising 64% of millennial children believe their parents will have a hard time letting go of the family business.

Sira said as different opinions and expectations between generations make it difficult to plan succession in family businesses, this has led to many of the current generation handing over the business only in theory, but in reality they are keeping control over everything that matters.

According to the study, 22% of the next generation are concerned about working with family members.

“Problems with communication are perhaps one of the most difficult issues to deal with when you’re in a family business,” Sira said. “When the current and next generations see things differently, have different views over the future of the firm but don’t or won’t discuss it, this can eventually be very damaging to the business.”

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