

Bridging the gap:

Handing over the family business
to the next generation

Next Generation Survey

15 April 2014



Introduction

In the PwC 2012 Family Business Survey we looked in detail at the qualities that make family firms different from public or listed companies. Those who run family businesses believe they have qualities that give them a distinct competitive advantage.

Their ability to take a longer view and make decisions quickly, their commitment to jobs and their local communities, and an approach to business based on trust and personal relationships are distinctive qualities that make family businesses stand out.

The survey also highlighted another characteristic that is unique to this type of business, and which can make or break the family firm: the transition from one generation to the next. As one of our respondents said, “Some family firms may withstand the storms of the economic crisis but collapse at the first dispute among family members.” In other words, the family can break the business, just as much as the business can break the family.

In our latest survey we look specifically at the issue of succession. How family firms are planning for this, how the next generation are preparing for it, and the challenges all family firms need to face in implementing the transition.

As we conducted the research, it became clear that these challenges present themselves, in many cases, in terms of ‘gaps’ – the generation gap between the current generation and the one in waiting; the credibility gap the next generation may face, as they attempt to establish themselves; and the communications gap that can open up between parents and children whatever age they are, even in the most successful businesses.



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Global Middle Market Leader



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The rest of this report looks in more detail at each of these issues. We’ve also talked face-to-face with a number of young people across the world who are in the process of taking over their family firms, to explore how they have bridged these gaps, and ensured that their own business is fit for the future.

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The 2012 PwC Family Business Survey

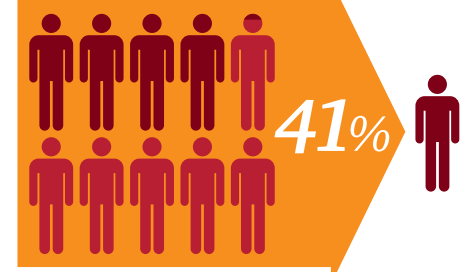
In the 2012 survey we identified three key issues for the family firm: scale, skills, and succession. Scale, because the family business often finds it harder to access the capital and capabilities it needs to grow, especially overseas. Skills, because these companies can struggle to attract the best talent, given that they're not always in a position to offer their staff stock options, even at a senior level. And succession, because only 12% of family firms make it to a third generation, and the moment of transition often proves to be the moment of truth as well.

In 2012, 41% of our respondents said they intended to pass on the management of the business to the next generation, a further 25% said they intended to pass on the ownership just not the management, but more than half of them were unsure whether their children had either the skills or the enthusiasm to do this successfully. In some cases the children in question were

completely unaware of their parents' concerns. We concluded that some family businesses could be seriously underestimating how difficult the process of succession might be, and there might be a larger gap between the generations than either of them anticipated. That's why we decided to run an additional survey this year, focusing on the next generation in particular, and exploring how that gap might be bridged.

12%

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From Baby Boomers to Millennials: The generation gap

The transition from one generation to another has always been a potential fault line in the family firm, but never more so than now. The world has changed out of all recognition in the last 30 years, and the pace of change can only accelerate in response to global megatrends like demographic shifts, urbanisation, climate change, and new technology.

Businesses in all sectors face bigger challenges now – competition is more intense, business life is more complex, product lifecycles are shorter, and family firms, in particular, may find it difficult to keep pace, especially with new technology. Finding the cash needed to invest in new IT is one factor, since family firms often don't have the same access to capital, academia or R&D as their listed peers do, but the generation now running family firms may not be familiar with using new technology, or see the value in acquiring it.

Their children, on the other hand, may be 'digital natives' who run their lives on their devices. In this as in so much else, they've been brought up in a very diverse world, and enjoyed a very different upbringing from their parents. They often have different attitudes to work, and being rich appears to be far less important to them than having a rich range of experiences. In the case of those who stand to inherit a family business, the wealth generated by the firm has funded both a comfortable lifestyle and an expensive education, leaving the next generation with much broader expectations, and a much looser connection to the business that made all this possible in the first place. As a result, the next generation are much more likely to assert their own choices than their parents were.

Our survey suggests this is particularly marked for first generation businesses handing over for the first time, at the point where a start-up venture becomes a family firm. Those taking over under these circumstances are far less enthusiastic about the prospect – 20% of these respondents likely to take over the business say they're not looking forward to running the business one day, compared with 8% for respondents as a whole. At the other extreme, those in the third or fourth generation are much more likely to feel they have to 'be their parents': the longer a family firm has been established, the more pressure each new generation feels to continue the legacy. The weight of history can be very strong.

“[It's a challenge] bringing in fresh ideas and getting them accepted. The older generation don't always think that ideas are good and that is the right way to go.”

Doing it their way: How the next generation are planning for change

There's no doubting the ambition of the next generation who have decided to go into the family firm: 86% of our respondents want to do something significant and special when they take over, and 80% have big ideas for change and growth. Some want to launch new products or ventures, or make changes to where and how the business operates; others want to invest in new technology, and explore new approaches to marketing using social media.

“My brother and I are working together on internationalising and diversifying the business.”

“Social media is a substantial opportunity for a business like us.”

These plans will typically require a much more aggressive business strategy, and sometimes some painful changes, especially in relation to staffing:

“A lot of people evolved with the company and are still there when they really shouldn't be. If they were in any other company they wouldn't be. So if I were to change anything it would be HR issues.”

In many cases these new strategies will go hand in hand with plans to professionalise the internal workings of the organisation. Indeed 'professionalise'

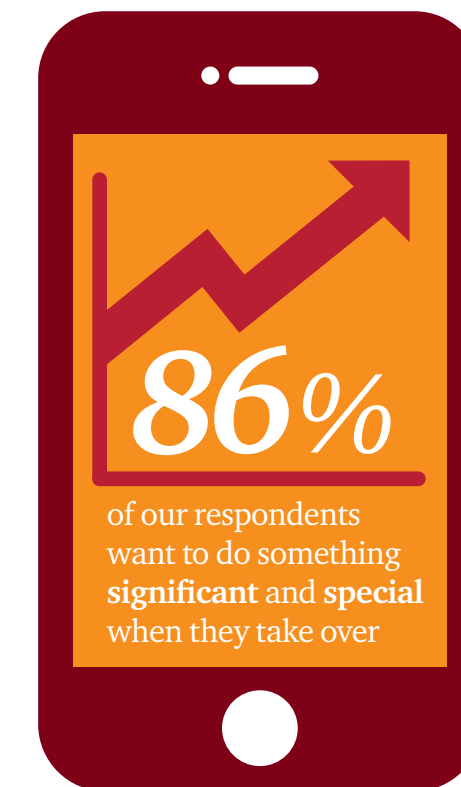
“Mobile technology is really going to change our business.

We already see a lot of on-line shopping coming through the mobile app.”



is a word that comes up again and again: one respondent talked about the importance of “showing professionalism from the most menial to the most important of tasks”.

The Rigby Group is a good example of a UK family business which has made significant changes to its structure and processes, to help it achieve its ambitious growth plans:



Name	Steve Rigby, COO
Sector	Technology, airports, aviation, hotels, and property
Market	UK
Founded	1975

Steve Rigby: Gearing up for growth

Steve Rigby is Chief Operating Officer of the Rigby Group, which is a £2 billion company based in the UK.

It has five separate divisions focusing on technology, airports, aviation, hotels, and property, and over 6,000 employees. Rigby Group won the Family Business category in the UK Private Business Awards in 2013, and they will be sponsoring the award this year.

Rigby Group was founded in 1975, and probably the biggest single change it's been through since then was the successful disposal of its distribution arm in 2012, which PwC advised them on. Before that, the business was tightly focused on technology, but the disposal gave the group new impetus and new ambition, as well as the financial resources to make those ambitions a reality. Entering the Family Business award was a deliberate decision – a way of marking a step-change in the firm's evolution both internally and externally - and having emerged the winner the company is moving forward with even greater confidence, and making changes that will allow them to invest in new growth opportunities.

As Steve says, “We’re now much more evenly spread between our five divisions, and we’ve reorganised and renamed some of our subsidiaries so that everything is under the Rigby name. We think we have a real chance to become not just a major technology business, but a significant player in regional airports too. And that’s closely linked to our plans for our property division, much of which involves developing sites near our airports. For example, we’re currently working on a £300m commercial development at our Coventry airport. Our hotel business is already the largest boutique operator in the Midlands and South West, and we want to grow to at least 500 beds over the next three to five years.”

But there are also new challenges after such a successful disposal: “We need to make sure that our aspirations do not get ahead of us, and that we manage our debt effectively. We need to look at how much equity we apply to each business, the management structure, and the systems and controls we need to put in place. We also need to be more disciplined about how we bring through the next generation - succession planning is a delicate matter, and needs a lot of time and thought.”

Unlike many of his peers in other family businesses, Steve joined the firm straight from school: “My brother James and I have been in the business for twenty years and our roles have naturally evolved to suit our skills – James is very operational, I am more financial, while my father Peter is very much a sales lead. But did we plan it this way at the start? Probably not.’ With the next generation in their mid-teens Steve recognises the need for a more structured succession process: ‘We need to be more structured about

how we manage training and career development, to make sure they have the skills the company needs. I think external advisers and non-exec directors can be very helpful in that process. It’s important to deal with issues like voting rights, so you can avoid conflict, and ensure the family works together in a cohesive way. And it’s vital to set clear goals and communicate them, so that everyone understands where you want the business to go – both the family and the rest of the management team.”

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Education matters

Many of the next generation we spoke to have taken business degrees (14%), or management and training courses (34%), and they're now looking to apply what they've learned to the family firm.

They want to implement more rigorous processes, especially around disciplines like finance and budgeting; they want to clarify roles and responsibilities, and document them better; and they want to update their IT systems to take account of digital technology and the opportunities this is opening up.

"I would change the company structure; I would introduce a much better defined management structure with clearer remits and responsibilities."

"I would pay more attention to risk management."

"I would change the way we report sales and financial information through the company."

"I would put a larger emphasis on long-term strategy, and developing business plans based on that strategy."

Governance is a recurring issue too: the next generation realise that they can only achieve greater scale and fulfil their growth ambitions if they have a more professional approach to reporting and performance management, and effective oversight. In many cases both formal Boards and new family councils are being established as part of this process.

But the next generation's grand designs for growth hinge on their ability to carry them through, and that, in turn, depends on them achieving credibility, both inside and outside the firm.

"I would put a larger emphasis on long-term strategy, and developing business plans based on that strategy."

"I would change the company structure; I would introduce a much better defined management structure with clearer remits and responsibilities."



Preparing to succeed: Closing the credibility gap

“You have to work maybe even harder because of the family name.”

Credibility is by no means a given – bearing the family name is certainly not enough on its own, and many of the next generation think it can even work against them. 88% say they have to work even harder than others in the firm to ‘prove themselves’, especially with their colleagues and employees, but also with customers who may have been dealing with their parents’ generation for many years. This issue is most marked for those in the second generation, faced with the challenge of taking over from the founder: 72% of these respondents see this as a significant concern compared with 57% of those in later generations.

“Being the boss’s son is always a challenge in terms of acceptance.”

“High expectations that were placed on me from day one, in that everybody expected me to hit the ground running and have a thorough knowledge of aspects of the job that I obviously did not and could not have mastered yet.”

“You have to work maybe even harder because of the family name.”

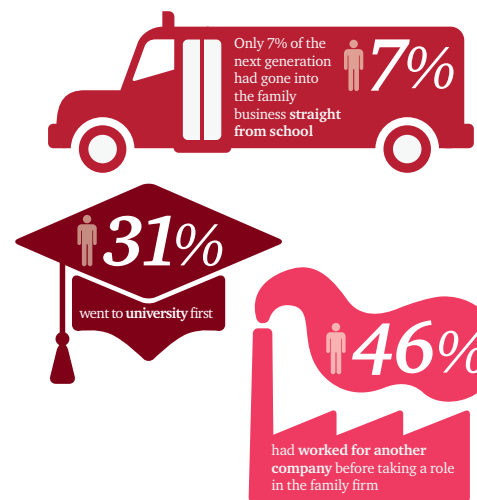
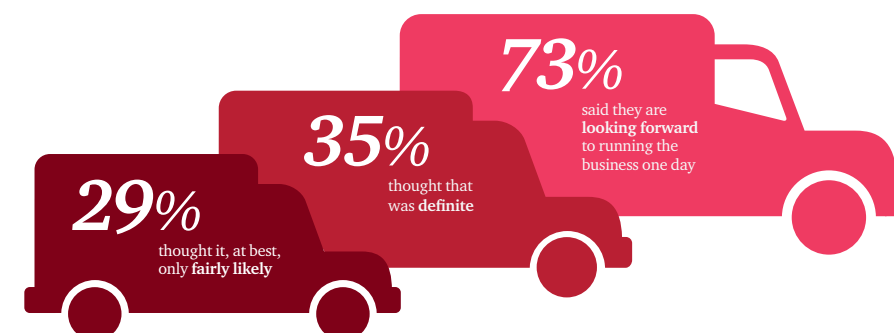
As many of our respondents observed, it’s not easy to establish your authority with people who may have known you since you were at primary school, or who see your position in the firm as dependent solely on being the ‘boss’s child’. In fact, 59% of those we spoke to consider gaining the respect of their co-workers to be the single biggest challenge they face, and many of the other issues they cited are closely related to this, including understanding the complexity of the business (44%), being asked to take on a job they feel unable to do (18%), or taking on responsibility too early (9%).



“[It’s a challenge] having to fly on your own without a safety net, spreading your wings and keeping the family reputation going, making the correct decisions, and maintaining the growth of the business.”

“Trusting your own decision-making I think is a big challenge - you have to have the confidence to make decisions. And if you get them wrong you’re going to have full responsibility for getting them wrong.”

The next generation may be working harder than ever before to prove that they have earned their place not just inherited it, but even so, promotion to CEO is no longer automatic. In our experience, a growing number of family businesses are prepared to make tough decisions when it comes to succession, and even those who have invested their whole careers in the family firm can find that when the time comes, they don’t get the job. In our survey, 73% said they are looking forward to running the business one day, but only 35% thought that was definite, and as many as 18% thought it only fairly likely, 9% not very likely, and 2% not likely at all.



So how are the next generation ensuring that they are prepared to succeed – in both senses of the word?

Our survey suggests that an increasingly common option is to seek work experience outside the family firm. Only 7% of the next generation that we spoke to had gone into the family business straight from school, as their parents and grandparents typically did. 31% went to university first and 46% had worked for another company before taking a role in the family firm, and in almost all cases this was with the support and agreement of their family.

For some we spoke to this was part of a long-term plan to prepare for the moment when they take over the family business; others, by contrast, had initially intended to forge a different career entirely, but changed their minds later and came back to the family firm, realising when they did so that they now had useful experience to share.

These two stories from Germany are a perfect example:

Dr Dominik von Au is a Senior Manager at PwC Germany and Managing Director of the INTES Academy for Family Business.

He recently interviewed two rising stars who have taken up the challenge of leading their family's business into its next phase of growth, both of whom gained experience outside the family firm.

“I was looking for external experience in our industry.”

The value of outside experience: A German perspective

Marie-Christine Ostermann is Managing Partner of Rullko Großeinkauf, a fourth-generation grocery wholesaler which is one of the top three in its sector in Germany. Although there was no pressure from her parents to go into the family business, she knew from a young age that she wanted to take over the business one day, and planned her career to make

sure she was well prepared. She completed a banking apprenticeship at Commerzbank, followed by a business degree at the University of St Gallen. This included a thesis on wholesale retailing which gave her a broad theoretical knowledge which she then applied at discount supermarket Aldi.

“I was looking for external experience in our industry. After the trainee programme at Aldi, I became an area director and soon I was managing up to six supermarkets and around 70 employees. That gave me confidence and experience in food retailing, and I decided it was the right time to move back to our own company. Looking back, this external period was perhaps too short, so I was glad to take on the national chairpersonship of the young entrepreneurs association. I was able to earn respect by chairing the association and that strengthened my position in the family business.”

When she joined the family firm Marie-Christine knew that it would be important to learn how it worked from the ‘bottom up’: “I wanted to learn exactly what was involved in each part of the business, so I rolled my sleeves up and carried boxes. The employees soon recognised that I was not afraid of hard work. After that, I took on a management position next to my father. My father had told the employees at an early stage that I was to be his successor, and it was important that our roles were clearly defined. Good communications were vital too, so that we always spoke with one voice. I remember one situation in which my

father overruled me under pressure from employees. When we clarified the situation, he went back to the employees and told them that he had made a mistake and supported my original decision. This was really helpful in establishing my authority.”

Marie-Christine’s sister was also a key part of the succession planning process, even though her career has taken a different path, outside the family firm: “My sister will also participate in the company’s success in the future. We are a family company, so it’s important for me that she is involved.”



Moritz Ritter

Moritz sits on the junior advisory board of the famous Ritter Sport chocolate company, and two other companies in the group. Unlike his father, who was expected to go straight into the family business, Moritz had the freedom to choose his own path, and opted to train as a computer scientist, before doing advanced research in robotics at the Fraunhofer Institute: “A generation ago, things were very different. Back then, the company more or less dominated family life, it was very much the focus and it limited my father considerably. He wanted to spare me and my siblings from that constraint.”

He still found his way to the family company. Not the famous Ritter Sport company, but the ambitious Ritter Energie- und Umwelttechnik, which was set up in the wake of the Chernobyl nuclear disaster in 1986, which devastated the Ritter Sport hazelnut crop in Turkey. This inspired Moritz’s father to start looking for sustainable alternatives to nuclear energy, and 25 years later the business is a leading supplier of renewable energy technologies.

His father’s request to join the company came at a time when Moritz became a father himself and topics like



sustainability and the continuity of his family’s legacy gained new significance. “I said ‘Yes, I’d be happy to come on board. I want to do my bit in continuing the company’s development’.” Having several years’ experience behind him was also a great help in establishing his credibility: “My career path outside of the family company meant I wasn’t just ‘the junior’, as I had already gained my own experience outside the company. Nonetheless, stepping into a role with a great deal of responsibility was very intense. But my father was a reliable backup who stood by and supported me during the initial period.”

Moritz is now involved in the management of Ritter Energie- und Umwelttechnik. It’s a cause that Moritz is really committed to, and where his scientific education can be put to good use: “Yes, energy supply is a topic that I care a great deal about personally. People are prepared to wage wars over oil or operate highly risky technologies like atomic energy on a huge scale. The demand for energy is therefore huge. My motivation and drive is satisfying this demand with truly excellent, sustainable high-tech solutions. I am particularly excited by our subsidiary Ritter XL Solar, which has specialised in solutions for industrial heating processes.”



“A generation ago, things were very different.”



The two case studies from Germany capture many of the advantages of coming later to the family firm, which were identified by respondents to our survey. Others cited the importance of getting exposure to new ideas and new ways of thinking and operating:

“[I wanted] to gain some new ideas before coming into the family business... we are introducing some new good ideas here now [as a result].”

This process can be especially valuable for family businesses, which can struggle to keep pace with innovation – in 2012, 62% of the respondents to the Family Business Survey cited the need to innovate as one of their greatest challenges.

Some family businesses are addressing this challenge in a different way, by bringing the ‘outside in’ and hiring external managers to run the firm. This makes it easier to fill any skills gaps, and alleviates the pressure on members of the next generation who might not want to join the firm. This approach is generally more common in larger family businesses, and it needs both thought and planning: the next generation may not be active in running the firm, but they will still be shareholders and custodians of the business, and they need to prepare for that role and understand the skills it demands. This can be daunting for young people with little business experience.

Working elsewhere is only one of the ways the next generation is preparing for succession. Even those who’ve had senior positions in other companies are usually happy to start by taking a more junior role within the family firm, to ensure they have the right range of skills and experience – 55% have gone through a development programme of this kind, in some cases pre-planned and structured, in others more informal. Others have employed coaches or mentors to support them, in some cases without their parents’ knowledge, so as not to undermine their credibility.

“There is [a development plan with] a time frame of ten years, I have a consultant mentor, with a highly structured programme, and goals and targets that I have to reach to get to director level.”

Name	Mark Jago, CEO
Sector	Car dealerships
Market	New Zealand
Founded	1985

Getting the call: Mark Jago of North Shore Toyota



North Shore Toyota is one of New Zealand’s largest and most successful car dealership chains.

Founded in 1985 by Bob Jago, it’s now run by his son Mark, who’s taken an interesting route to the role.

North Shore Toyota has been through two major phases of growth – first in the early years, when Bob Jago acquired dealerships from Fletcher Challenge as they restructured their group, and then more recently, when the company took the bold decision to buy an additional dealership in 2010.

As Mark says, “We actually started the negotiations right at the height of the global financial crisis in 2008, which was a good and a bad thing. Obviously, the business that was selling really had to sell. We probably still paid a little too much for it, but it has added scale to our business.”

As this suggests, Mark was already running the company by then, but it hadn’t always been that way.

Working overseas
After university, he trained as an accountant in Auckland, and when he qualified in 1998 he could have made the decision to join the family firm, but both he and his father felt the time wasn’t right: “I didn’t feel like I had much to add – I was just a newly qualified chartered accountant, and I really wanted to travel and work in the UK. Secondly, I didn’t think that Dad wanted to hand over the reins at that point, so I spoke to my partner at work and told him I was thinking of heading overseas, and he said ‘do it, that’s what I would do.’”

That stint overseas lasted rather longer than Mark expected, and though he had always planned to return to New Zealand, it was nine years before he actually returned, in 2005. But he doesn’t regret it: “I had some fantastic experiences during that time, both in employment and otherwise. I built up a lot more confidence in myself and I took advantage of some pretty amazing opportunities.” He wasn’t sure, initially, if his long-term future lay with the family business, but as luck would have it, shortly before he was due to leave London, the CEO of Toyota New Zealand raised the issue of succession with Mark’s father: “My father was coming up to 60 and was looking to retire, and as far as Bob Field, the then CEO of Toyota New Zealand, could see there was no succession plan in place. So he was the one who suggested to my father that I might be an ideal candidate, being a

chartered accountant with experience overseas, and given that I was coming back to New Zealand anyway. So my father called me and asked me what I thought. So that’s how it came about – on a phone call at about 10 o’clock at night in London.”

Learning the ropes
But Mark didn’t step straight into his father’s shoes, and nor did he want to: “By mutual agreement, I went through an apprenticeship at North Shore Toyota, if you want to call it that. I started by working for the operations manager, who was on the point of retiring as well. Even though I had worked in the business in Christmas holidays and as a student, you’re only exposed to a small part of the business that way. So working for the ops manager I got a much better handle on the complexities of the business.”

But it wasn’t just about learning the day-to-day running of North Shore Toyota; it was also about establishing the authority and credibility he would need to run it himself. Mark was very aware that many of the employees started by seeing him as ‘the boss’s son’, but with nine years’ experience behind him he had the confidence to handle that: “There were people who said, ‘Oh here comes the boss’s son, and you better do it because he’s the boss’s son’, but you just call those people out and say, ‘Look, I am here to complete a task to assist the company, you can either help me or not.’”



“In today’s environment you have to nurture people, both your employees and your customers. We train our salespeople that it’s all about personalising our service to the customer. For example, in our service business we can now offer specific appointment times, and pick up the car if it suits them. We have a lot of parents, for instance, who really like the flexibility that gives them as a customer.”

That sort of open communication has stood him in good stead since, not least with his father: “There were situations early in my days as General Manager when I had made a decision, and told the staff what we were doing, and some of those staff went to Bob and disagreed with me, but he supported me and stood by my decision, even though he did sometimes ask me in private what my reasoning was. He was pretty good in that respect – he allowed me to find my own feet and make my own mistakes, while making sure those mistakes didn’t affect the business. That said, I think it was difficult for him to hand over in the early stages – I’ve often joked with him that this business is his third child. In fact that’s a good analogy. It’s like handing over your baby, and until you’re sure that someone else is going to look after that child as well as you could, you’re always going to be looking over your shoulder and saying, ‘Oh I wouldn’t do that, I would do it this way.’”

Being the second generation of the same family to run the company can raise issues other CEOs wouldn’t face, but there are definite advantages too: “I could probably have a more open conversation with my father than an external CEO could have. Blood is

definitely thicker than water, but that works both ways – he might actually be harder on me than he would be on an external CEO, but he is also a great mentor, and can see the job both as a shareholder and someone who’s done it himself. For example, we recently had a meeting with Toyota New Zealand’s senior management team, and my father came along, not as the manager of the business, but as its shareholder. So I was talking operationally to Toyota New Zealand, and Bob, my father, was talking about the return on his investment. We made it very clear that they were two different things.”

Keeping pace with change
Perhaps the greatest challenge Mark now faces is to ensure that North Shore Toyota keeps up with the pace of change in the market, and in business life in general: “It’s a different world to the one my father faced when he started out. Part of the reason why I went overseas was because I couldn’t see myself working in the car industry – it was then a very insular industry, dominated by the entrepreneurs who had started their own businesses. How they ran their businesses was different back then, simpler I guess. But today, our business is run more like a corporation than a small family business.”

And digital technology is changing the game too: “Now you could literally buy a car on your smartphone. Do many people do that? Not at the moment, no. But in time they will. It’s very different from how it used to be in my father’s day. He can’t understand why we need to be on Facebook, and in a way he’s right, since you’d never actually sell a car on Facebook, but you certainly do need a presence. People live on their smartphone these days. So I think I have brought in some new thought processes that are different to what Dad would have done. We’ve also invested in new ventures that complement that core business. For instance, we have two Firestone tyre operations and a rental car agency. But I’m very aware that you have to focus on your core business: if you take your eye off the ball for too long you will miss opportunities or, even worse, the business will miss you.”





It's good to talk: Addressing the communications gap

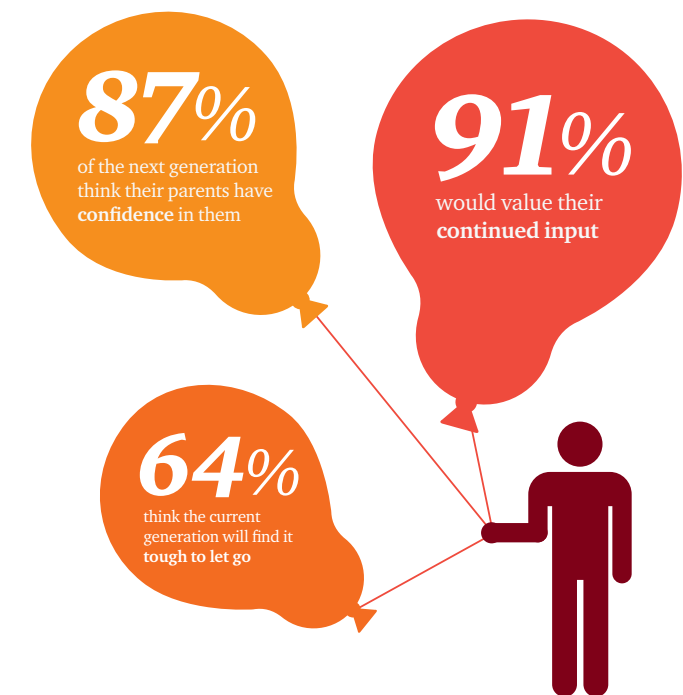
"Sometimes when I have a different opinion, it is difficult to express it, since my father is the boss, and we act according to his decisions, even if I don't agree."

Family firms are no different from most families – there can be expectations and assumptions which are never voiced, but which can lead to misunderstandings, or even outright conflict if they aren't brought into the open. This can be particularly toxic in a business context, especially when the current and next generation have dramatically different ideas about the future of the firm, but do not – or cannot – discuss them. In our experience, this lack of clarity is an issue for a surprisingly large number of family businesses.

For example, there's a tendency for some in the older generation to overestimate how well they have run the business, while underestimating their children's capacity to do this as competently as they did. The older generation often complain that their children aren't sufficiently entrepreneurial and aren't prepared to put in the long hours they

did to build the business, while down the hall their children are wishing their parents would embrace the possibilities of new technology, and be more receptive to new ideas. This sort of impasse can slow down decision-making, and lead to the phenomenon of the 'sticky baton', where the older generation hands over management of the firm in theory, but in practice retains complete control over everything that really matters.

Even in businesses where the relationship between the generations is good, there can still be tensions or 'no-go' areas, especially in relation to succession planning. This is borne out by some of our survey findings: 87% of the next generation think their parents have confidence in them and 91% would value their continued input, but as many as 64% think the current generation will find it tough to let go.



"The generation that is still in the company doesn't know how to give up."



"There has been no discussion of succession, it's not something that gets talked about with my father."

"I wasn't sure how the whole succession thing would work out, because at that stage my uncle and my father owned the business and there was no agreement tabled or even discussed in the early years."

"It's still my father's business and everything is absolutely his decision. He will judge when the time [for succession] is right and no one else will say when that will be. It is not up for discussion so that will be a challenge."

There's another complicating factor here: our survey suggests that the time between the succession points in family businesses is lengthening. This is partly because those currently in charge had their children later in life, and partly because the recession has made many of them wary of handing over the business until economic circumstances are easier, or their successors have the experience their parents believe they need (which may not always be the view of the children themselves).

This can leave the next generation in almost permanent limbo. We've come across more than one business where the next generation are in their sixties, and the father is still running the show in his eighties. This is an extreme example, but the basic phenomenon is common enough: the nature of the family business model is such that the owners rarely fully 'retire'; even those who genuinely want to let go can find it hard to do so, and this can lead to frustration on both sides.

"The generation that is still in the company doesn't know how to give up."

One of the challenges all those in the next generation face is to manage the transitional phase, when their parents are still involved, even if not in charge.

This case study is a good example of how families can balance 'influence' and 'control'.

Name	Mark Whitby, MD
Sector	Tourism
Market	Australia
Founded	1989

Balancing influence and control:

Mark Whitby of the Alivio Tourist Park

Mark Whitby is the Managing Director of his family’s 7-hectare tourist park in the middle of Canberra.

The business was purchased by his parents in 1989, and the site has recently gone through a major A\$9m revamp which increased capacity from 500 to 850 beds, as well as a rebranding under the Alivio name. But that’s only the start: the family see great potential to expand the business across Australia: “We’re looking to make it a national brand - over 30 to 40 years we hope to buy 10 or 15 properties, branding them all under the Alivio name.”

When you have such long-term ambitions, it can be a huge advantage to be a family business. As Mark says, they work to a very different timeframe from a typical public company: “We look at strategic decisions over a 30 or 40 year horizon. We ask ourselves where do we want to be, and what we have to do to get there. We’re not trying to look after shareholders in the short term, so we can reinvest all profits we make if we want to. It does give us a different perspective.”

Mark has run the business for two years now, but he didn’t go into the family firm straightaway, and there was no pressure for him to do so: “I went to university and then spent five years with the Department of Health and Ageing, and that gave me really good experience. It was probably four years into that career that I decided I wanted to get more involved with the family business.” Since then he’s done a whole host of roles, but there was no formal development plan as such – “It

kind of evolved over time. But as a family, we strongly believe that there’s no such thing as entitlement: if you’re going to get a job in the family company you have to earn that job.”

Now, as Managing Director, Mark sees ‘professionalising’ the business as one of his most important tasks: “My parents’ generation worked very hard to build the business, and I’m the next generation coming through, trying to professionalise it and bring it to the next level, so we can go on to new goals. The biggest changes in that respect have been in how we deal with the finances and the budgeting. That’s a lot more formalised than it used to be. We’re also looking at our governance structure, and at setting up a board or advisory committee, as well as a family charter which would help us manage how relationships work, and how shareholders work, and how everyone communicates. It’s a bigger business now, and we need to treat it like one.”



There have been other, more personal, challenges too, as the business has transferred from one generation to the next: “The main issue is managing expectations – I’m young and enthusiastic and very driven, and I have to square that with my parents’ goals, so that we can run a business that gives me everything that I want to aspire for but also gives them comfort and safety as they get older, knowing that what they’ve worked so hard to create isn’t going to be risked. In practice, that meant spending time defining our roles, understanding who was responsible for what, how much control I was going to have to make decisions, all those kinds of things. What we want is the right balance between influence and control, so that my parents still have a say about what type of company we are, without getting into the day-to-day detail on every issue, especially as they get older and aren’t so close to what’s happening on the ground. It’s a hard mix, in a family business, but it’s worth working at it to get that balance right.”

As in so many other aspects of a family business, good communication is vital to achieve this balance: “It all comes back to that. My father and I are very

direct communicators – we don’t tend to beat around the bush too much – which has its benefits and its challenges. That’s something that helps in a family business - it can be a bit harder in a public company to have really open and frank discussions and still see someone the next day. But what’s important is that we both want the best outcome for the business. I see myself as a protector of what my parents achieved in the past, and a visionary for what we’re trying to do in the future.”

“We look at strategic decisions over a 30 or 40 year horizon. We ask ourselves where do we want to be, and what we have to do to get there. We’re not trying to look after shareholders in the short term, so we can reinvest all profits we make if we want to. It does give us a different perspective.”



Speaking with one voice: Communications within the firm

“You have to have very clear documentation as to what the roles of the individual members are.”

The older generation have a key role to play in supporting their children to establish their authority within the firm, but it's one that relies on good communication on both sides.

Marie-Christine Ostermann's case study is a good example of how this issue can arise, and what to do if it does. She relates how her father overruled her on a particular occasion, under pressure from employees, but once the two of them had discussed the situation he went back to the staff and supported her original decision. Many of our survey respondents had similar anecdotes of their own.

Clearly it's better to prevent such a situation arising in the first place, and that's all down to good communication, and complete clarity about roles, delegation, and day-to-day responsibilities.

“You have to have very clear documentation as to what the roles of the individual members are.”

Many of our respondents also believe that having good communications skills is even more important in a family business. Working with people you're related to isn't always easy, and while it can offer some distinct advantages, there can also be sensitivities that wouldn't arise in another type of company. This means the next generation need to develop both business intelligence and emotional intelligence if they're going to succeed: as one of our interviewees said, “a family business is different to a public company – there's always an emotional angle.”

“You have to be careful how you say things and in what way, so that no one gets offended, more so than in a normal company.”

“You have to be careful how you say things and in what way, so that no one gets offended, more so than in another company.”

This is one reason why governance is so important in the family firm – arguably even more so than in any other type of business of comparable size. There are a number of structures that can help formalise the way the business works, and ensure that family members can play a positive role, whether they work in the firm or not. In the 2012 survey, 79% of our respondents had some sort of mechanism like this in place, ranging from shareholders' agreements (49%), to family councils (29%) or constitutions (19%), entry and exit provisions (28%), or the ability to call in a third-party mediator should the need arise (24%). 32% had also established formal measures for assessing performance – always a potential flashpoint in the family firm – and it's interesting that in this year's next generation survey, 68% of those we talked to said that they are properly appraised.



Avoiding conflict: Communications within the family

Those who run family businesses have to operate on two different but related levels – as managers within the business, and as members of the family. Many of the next generation worry whether they will live up to the family's expectations and don't find it easy to deal with relationships that are both professional and personal, and achieve a better work/life balance. This will always be difficult when work and home overlap to the extent they do in a family business. Likewise 90% felt a responsibility to hand over the business in good shape to their own children, and many felt a particular duty to the firm's employees.

“[You have] a responsibility to employees also, to continue running the company in a profitable, successful manner. If you don't there's a lot more than you that's going to be affected.”

The greatest – and often unspoken – issue here is the possibility of conflict. It's ever-present in any family firm, but a particular risk for firms that have gone through more than four or five generations, because the number of family shareholders can then reach up to 200 people, which creates huge potential for faction and dispute. No surprise, then that 22% of our interviewees have concerns about working with family members and the same number are worried about understanding the family dynamic. One respondent went so far as to say his greatest challenges are “Family, family, family, and the market.”

“[You have] a responsibility to employees also, to continue running the company in a profitable, successful manner. If you don't there's a lot more than you that's going to be affected.”

In a recent BBC radio programme on the family business, Nigel Nicholson, a professor of organisational behaviour at the London Business School, discussed exactly this issue: “If you look at biology, kinship holds us together - in other words love is the centripetal force within the family that contradicts the centrifugal force of conflict and difference. Sibling conflicts are there because you're occupying the same space and you're competing for resources and attention. And parent-child conflict is there because parents want to control the fate of their genes through their children, more than their children want their parents to control them.” In some cases, and there are some high-profile examples, this can lead to ‘game-playing’ by the parents, to see which of their children is competent enough – or ruthless enough - to take over. That's when the unique character

of the family business can become extremely destructive. As the presenter of the programme, the BBC Economics Editor Robert Peston, observed, “Given that family firms combine two of the most powerful things in the world – blood and money - it's amazing that they don't go very badly wrong more often.”

But it doesn't have to be that way. Kinloch Anderson is an example of a company that's survived into its sixth generation, and is still thriving.

Name	Deirdre Kinloch Anderson OBE
Sector	Clothing
Market	UK
Founded	1868

A strategy for longevity: Deirdre Kinloch Anderson of Kinloch Anderson

“We believe we have to be there in our own right, on the basis of our own ability, not our name.”

Deirdre Kinloch Anderson married into the family firm.

Her husband Douglas is the fifth generation of the Kinloch Anderson family to run the family Highland Dress and Scottish clothing business, which started as a tailor’s shop on Edinburgh’s George Street in 1868.

Renowned in the 19th century as Scotland’s premier civilian tailors, they then developed into military tailoring for all the Scottish regiments. In 1903 the company first supplied the Royal Family – to King Edward VII. In the 1960s they expanded into ladies’ clothing primarily for export and in 1979 they won the Queen’s Award for Export making 100,000 skirts a year.

The firm now has four divisions: Retail, Manufacturing and Wholesale, Corporate, and Brand Development. In the 1980s the Kinloch Anderson Manufacturing Units in Edinburgh and Ayrshire made skirts and other clothing items for many other brands as well as for their own. Today kilts, skirts and specialist clothing items are made in their Edinburgh premises whilst arrangements are in place in Japan, Taiwan, Korea and China for high-end manufacturers to produce Kinloch Anderson merchandise made under licence. Peter Kinloch Anderson, one of Deirdre’s sons, lives in Shanghai as Director of Brand Development for China and the Far East, where there are

over 300 Kinloch Anderson shops and concessions in department stores and shopping malls.

Issues like control and quality are vital in a licensing arrangement, which makes this a challenging role in a challenging market, but like Deirdre, Peter finds the family name a real business advantage. As she says, “From a sales perspective it’s a huge plus factor to have the name of Kinloch Anderson, but you still have to have the knowledge, you have to earn the respect, and you don’t get that unless you have proved you are able to do the job in your own right.” And she would know: her own involvement in the business began in a sales role, followed by a stint as retail manager, and then she ran the corporate division, and became a director in 1995. And she has clearly loved every minute of it, even documenting her insights in a book entitled *A Scottish Tradition*: “We’re a lifestyle brand, we put our life into it – and we get a fantastic life out of it. The people we meet, the places we go, the travel and the contacts. For example, in Korea we work with another wonderful family business, so it’s a family business working with a family business internationally, and that has helped us



to proceed successfully and with mutual understanding.”

Deirdre’s daughter-in-law, Jo, handles the media, PR and promotion, and her daughter Claire’s works in sales and marketing – both are covering a maternity leave. Actually it’s an ideal opportunity for them to spend some time with the company without a long term commitment, in order to make sure it works well for all parties concerned. Her son John is CEO. “The new generation are the best for modern technology. Everything changes so fast. But the stimulus and excitement of change is what motivates the next generation.”

So what is the secret of Kinloch Anderson’s success, both as a business and as a family? From a business perspective, it’s clear that the company has been able to reinvent itself with each generation, as its approach to manufacturing proves. And that appetite for innovation is still alive and well: the company is exploring the possibilities of online retail, developing a new venture with Brooks Brothers in New York, and launching its own whisky range to capitalise on its strong Scottish brand. And all of these decisions have been made for the long term: “If you’re into five or six generations, that sort of legacy leads to longer-term thinking – not just next year or two years’ time. We think more in terms of developing the business, rather than just simply profits. It’s a strategy for longevity.”

As for the family, there are clear definitions of roles, and no-one gets a job they haven’t earned: “We believe we have to be there on the basis of our own ability, not our name. And when we’re in business together we need to work in a business relationship and not as father, son, mother and daughter. Actually we work really well together.”

The shareholding structure is very clear too: even though it’s such an old business, there are very few shareholders. In fact, Douglas’s father bought back many of the shares, to ensure that there would always be a majority shareholder, able to set strategy and make decisions. And the same will happen in the sixth generation, with Deirdre’s son John taking the controlling stake. But because there is clarity about the future, there are very few disagreements: “We don’t really have family squabbles about the business. Most family tensions arise over money – when the shares get spread out over the family who might want to take their money out and then begin squabbling. We’re not going to have that. According to statistics only 1% of UK family businesses are into the sixth generation. So we’re really something special, and highly motivated to keep it that way.”



Conclusion

PwC has been working with family businesses across the world for many years, and our experience is borne out by the findings of this survey: succession can be a make-or-break moment even for a highly successful family firm, and bridging that gap requires clarity, communication, and above all, thorough planning.

The firms that manage succession well are those that plan many years ahead. Ideally, that preparation should begin five to seven years in advance, and be accompanied by ‘sensible conversations’, if possible facilitated by an independent adviser, who can help the family address roles, responsibilities, and timings. This allows both the business and the incoming generation to assess any skills gaps that might need to be filled. One German family firm, for example, has put in place a seven-year development plan for the next generation, covering capabilities, languages, and experience. The latter included time spent working abroad in one of the firm’s overseas subsidiaries.

So here’s a checklist of issues to consider, whether you’re the generation running the business now, or the one hoping to inherit it:

For the current generation

- Do you intend to pass your business to your children, and if not, do they know what your plans are?
- Do you believe your children are ready and able to take over, and if not, have you discussed with them what they need to do?
- Have you had an open discussion about when you want to step down, and who will be running the business after that?
- Are you giving your children the support they need to establish their authority, both in private and in public?

For the next generation

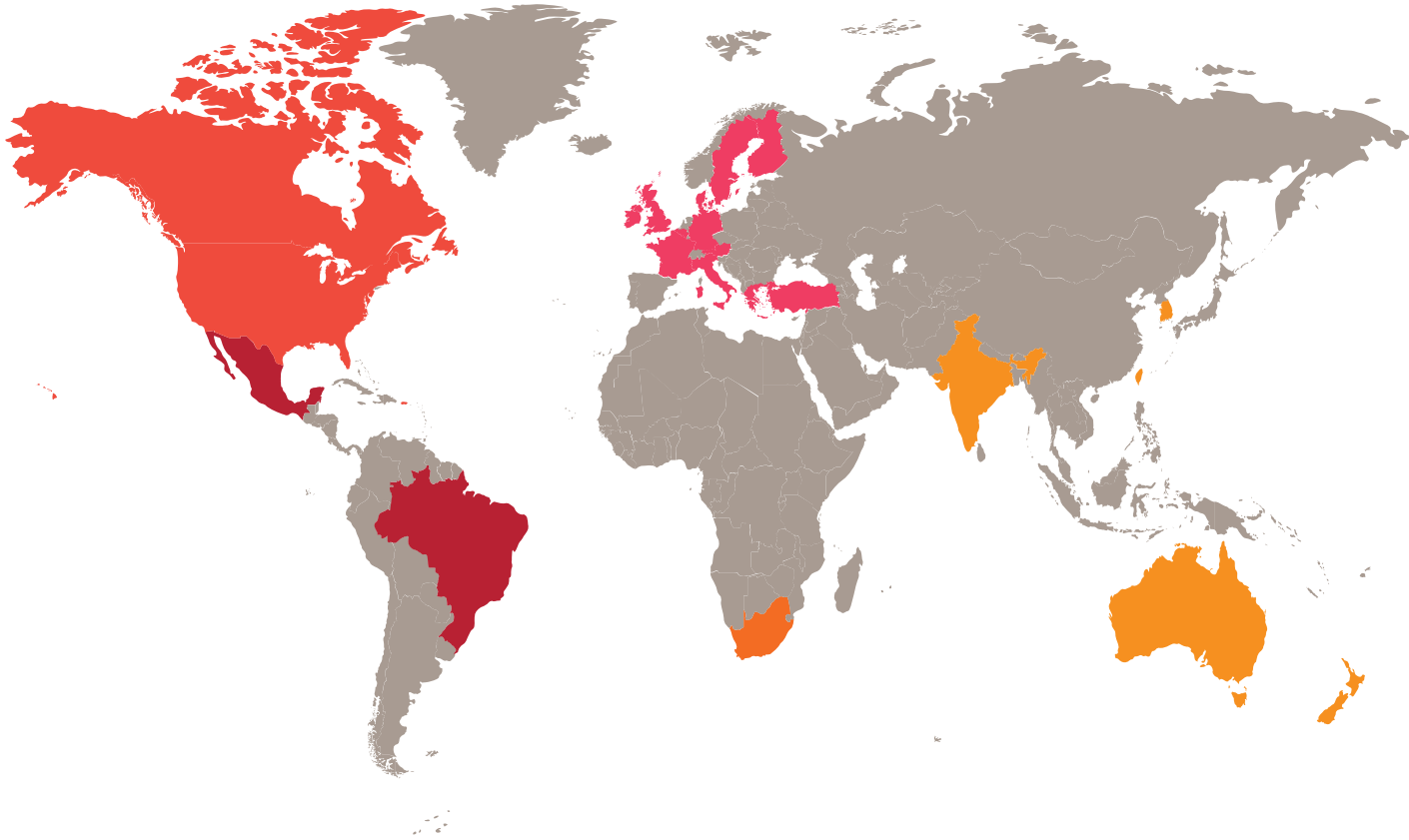
- Have you been through a process to identify the skills and experience you need?
- Do you have a development plan to fill these gaps?
- Have you had an open discussion with your parents about who is going to take over, and when?
- Have you shared your plans for the future of the business with your parents?

Ideally, both generations should be able to answer positively to all four questions. If you can say yes to no more than two, then it’s time to take action to bridge the gap.

Definitions

Survey methodology
207 semi-structured interviews were conducted with next generation members of family businesses in 21 countries, with a focus on those with a sales turnover of over \$5m. The companies were drawn from a range of sectors, and most of the sample also took part in the 2012 PwC Family Business Survey. The interviews were conducted between 3rd February and 14th March 2014 by Kudos Research in London. The results were then analysed by Jigsaw Research.

207 interviews conducted in 21 markets



North America	Latin America	Western Europe	Middle East and Africa	Asia and Pacific
Canada 9 USA 4	Brazil 27 Mexico 1	Austria 1 Belgium 6 Finland 10 France 2 Germany 5 Ireland 14 Italy 19 Malta 25 Sweden 6 Switzerland 6 Turkey 13 UK 16	South Africa 22	Australia 4 India 3 Singapore 3 New Zealand 11

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