Today and beyond:
The next generation challenges the status quo of family business

PwC’s Global NextGen Survey 2022
(Malaysia report)
May 2022
About the survey

PwC’s Global NextGen Survey 2022 is an international market survey among next-generation members in family businesses. The goal of the survey is to understand what NextGens' views are about the key issues of the day, what role they currently play and how their roles should change and grow. The survey was conducted online in collaboration with The Family Business Network (FBN). There were 1,036 interviews in 68 territories, between 8 October and 12 December 2021.

In Malaysia, 48 interviews were conducted during this period. A majority of the Malaysian respondents were from the second generation (71%) and third generation (19%). 75% have leadership roles.
Growth and expansion are priorities

The Malaysian NextGen survey results reveal that close to 71% of next generation Malaysian family business leaders (vs 65% of their global counterparts) see achieving **business growth as a priority** for the family business in the next two years. For NextGens, there is value in being able to demonstrate that they have what it takes to sustain and build on the legacy that was passed on to them, while bringing the business to the next level.

More than half (54%) of Malaysian NextGens are already involved in working towards achieving growth in their family business.

Among Malaysian NextGens, **growth** as a priority is followed by **talent management** (67%) as the need to attract and retain talent continue to be fundamental in staying competitive in this volatile marketplace.

**Expanding into new sectors or markets** comes next (60%) as the pandemic has hastened the need to grow the family business' capabilities in different areas while harnessing digital as a differentiator.

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**From your own personal point of view, what would be your priorities for the company over the next two years?**

<table>
<thead>
<tr>
<th>Priority areas</th>
<th>Global</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieving business growth</td>
<td>65%</td>
<td>71%</td>
</tr>
<tr>
<td>Talent management - attracting/retaining the best young talent</td>
<td>48%</td>
<td>67%</td>
</tr>
<tr>
<td>Expanding into new sectors or markets</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>Upskilling the digital capabilities of our workforce</td>
<td>56%</td>
<td></td>
</tr>
<tr>
<td>Adopting new technologies</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>Ensuring we offer the right products and services</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>Reconsidering our asset allocation and investments</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>Improving the working conditions/practices of our employees</td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td>Investing in innovation and R&amp;D</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>Increasing our focus on investments for sustainability and impact</td>
<td>34%</td>
<td>33%</td>
</tr>
<tr>
<td>Reducing the organisation’s environmental impact</td>
<td>29%</td>
<td>24%</td>
</tr>
<tr>
<td>Supporting local community via increased investment or activities</td>
<td>19%</td>
<td>29%</td>
</tr>
<tr>
<td>Increasing our focus on privacy and cybersecurity</td>
<td>13%</td>
<td>15%</td>
</tr>
</tbody>
</table>

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Where NextGens align with the current generation

### Expanding into new sectors/markets

<table>
<thead>
<tr>
<th>Priority</th>
<th>NextGen (%)</th>
<th>Current Gen (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanding into new sectors/markets</td>
<td>60%</td>
<td>59%</td>
</tr>
</tbody>
</table>

Comparing the Malaysian NextGens and the current generation of family business leaders, we note **two overlapping priorities** among their respective top 5 lists of priorities.

Their responses are almost aligned in terms of **expansion into new sectors/markets** as a priority in the next two years. This demonstrates an eagerness to explore new possibilities especially with the brightening consumer outlook amidst the reopening of the economy during the time the survey was conducted, between October - December 2021.

We believe this trend may well continue with Malaysia's current transition to the endemic phase, marked by the reopening of international borders and relaxation of standard operating procedures (SOPs).

Interestingly, the current generation is slightly more open than the NextGen to **adoption of new technologies**. A possible disconnect between generations may be present in the area of change and succession planning (details in the section 'Strengthening the family business legacy through effective talent management'). This may present itself as a challenge, impacting views on innovation and adoption of new technologies.

Multiple challenges will continue to demand the attention of family businesses especially on the back of the pandemic. Opportunities are there for NextGens who can take the lead in rethinking their growth strategy while striking a balance in building on the legacy that previous generations have created.
ESG practices yet to gain significant traction

There is growing evidence that ESG has become a critical component of investment decision-making yet it appears that Malaysian family businesses have yet to catch a ride on the ESG wave. Only 29% of Malaysian NextGens feel they are personally engaged currently in increasing their business’ focus on investments for sustainability and impact. Their global counterparts are clearly leading in this space at 72%.

Research by Family Capital shows that as sustainability becomes more important to investors in the past decade, the market capitalisation of family businesses have begun to trail that of non-family businesses.

As investors increasingly focus their attention on non-financial outcomes like ESG metrics and commitments, family businesses will need to rethink their value and purpose to their stakeholders in this volatile environment.

Evidently, there is a premium placed on purpose among Malaysians, as shown in PwC’s research from our 2021 Hopes and Fears survey, where 85% of Malaysians say they want to work for an organisation that will make a positive contribution to society. While not a family business-specific survey, sentiments observed among the respondents are indicative of how ESG can be a winning formula for success in this environment. This is an opportunity cost for family businesses who are not already investing in it.

NextGens are in a unique position to lead the conversation on sustainability, and their interest could also attract younger family members into the business.

63% of Malaysian NextGens feel they are moving too slowly on sustainability and need to do more.

But only 31% have a developed and communicated sustainability strategy which informs all their decisions.
Upskilling NextGens to become stronger leaders

The COVID-19 pandemic has undeniably been a catalyst for key changes in family businesses.

Perhaps the most profound change is in the area of upskilling and additional education. 42% of Malaysian NextGen respondents feel that the pandemic shone a light on this, compared to 28% of their global counterparts.

Top 3 areas of upskilling for Malaysian NextGens (similar to their global counterparts)

- 54% Financial investments
- 50% Leadership development/soft skills
- 50% Business model innovation

67% & 26% of Malaysian NextGens have a degree qualification or higher in Business/Commerce and Mathematics/Finance respectively which indicates that they have the foundational knowledge necessary to grow their capabilities in these areas.

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While having the right background and aptitude is crucial in earning NextGens their place in the family business, what’s become more critical is the need for the right attitude and mindset to continue capturing opportunities for the family business in this new normal. The pandemic has certainly pushed NextGens out of their comfort zone to challenge themselves and strengthen their involvement in the family business.

38% of Malaysian NextGen respondents (vs 43% of global respondents) believe that the pandemic has brought forward or increased the involvement/engagement of NextGens in their family business.

In addition, 17% of Malaysian respondents believe that they were given the chance to lead specific projects, which may not have come about if it weren't for the pandemic. We also observed stronger communication between NextGens and current generation leaders (40%) due to the pandemic, which could be an indication of greater levels of collaboration and cohesion as the family business adapted to new ways of working.

In staying agile to the needs of their workforce, 54% of NextGens believe that they have taken the required initiatives to adopt flexible working practices in the post-COVID-19 world.

Seeking lifelong learning opportunities can further empower NextGens to use their knowledge to further develop or professionalise the business. Of course, learning also happens outside the ‘classroom’, for instance, through networking sessions with peers. Joining tailored programmes such as PwC’s NextGen Academy is one way future leaders can immerse themselves in experiential learning, in addition to gaining insights from academics and business practitioners.
When it comes to strengthening the family business legacy, **managing talent** is a crucial part of the equation.

As shared earlier, 67% of the Malaysian NextGen respondents see it as a key priority in the business. With a proper talent management strategy in place, family businesses will be able to enjoy better employee retention, attract the right fit for the organisation, and benefit from better teamwork and alignment in achieving the vision of the business.

In addition, family businesses need to also consider how their succession plan addresses the recruitment of external talents as these talents bring different dynamics to the business. While external talents may be able to constructively challenge management with their perspectives, often, they may not be familiar with the culture, structure or goals of a family business. This could be a setback especially if external talents perceive that they can't access similar career progression opportunities to those in the family, making them less likely to join a family business.

Another difficult aspect of succession is in terms of the ability or readiness of the current generation to retire, a view held by 69% of Malaysian NextGens.

In order to continue being attractive to talents, both from a hiring and retention perspective, family businesses can consider adopting a more people-centric company culture by investing in upskilling programmes for their employees, while looking into updating workplace policies such as flexibility arrangements, or benefits.
To avoid inertia, NextGens need to rise to the challenge to become the leader their family and business need - either from an ownership or management perspective, or both.

Winning the confidence of the current generation and demonstrating that the business will thrive in your hands will take effort. The world is changing, and the business techniques of the past will no longer be enough.

**So what does it take?**

Firstly, earn the right to challenge the status quo and to discover the growth opportunities that will secure your family legacy. It takes what we call a community of solvers: people coming together with different skills to deliver success.

1. **Reimagine business success and build the foundations of sustainable growth.**

ESG is becoming pivotal to business growth—and, as NextGens, you can take the lead in building an ESG strategy. You now have many more options for acquiring the new skills you’ll need to address these challenges. For example, you can learn what developing a net-zero strategy entails, how to decarbonise your business footprint, how to link executive pay to ESG goals, and what impact your business has on others.

2. **Don’t be afraid to take a different path.**

Opportunities are there for those who invest time in developing a growth mindset. Platforms such as PwC’s Marketplace are available for organisations looking to transform their business digitally, providing access to an array of business tech and academic solutions to address their most pressing digital challenges.

Taking a wider lens to transformation, a new book by PwC’s Paul Leinwand and Mahadeva Matt Mani, Beyond Digital: How Great Leaders Transform Their Organizations and Shape the Future, sets out seven leadership imperatives that are essential to shaping a company’s future. As its title suggests, these initiatives go further beyond digital initiatives. The first is to reimagine the company’s place in the world: what unique value does your company create? And what capabilities allow you to create that value better than anyone else? You, as NextGens, are well-placed to speak up and take action.
3. Articulate and negotiate a generational contract.

Though family businesses have been more willing to talk about succession as a result of the pandemic, the stages and conditions of succession are often unclear. Based on the survey findings, Malaysian NextGens opine that succession planning is still a rather sensitive topic. 69% of Malaysian NextGens believe that the ability or readiness of the current generation to retire is a difficult aspect of succession, as they perceive that the older generation may not be willing to hand over the reins to them.

This begs the question 'are they truly ready to challenge the status quo?'. Evidently they'll need to prove themselves by putting their hand up to take on more leadership responsibilities. Currently, 75% of Malaysian NextGens are already in a leadership role. Earning one's stripes is only one part of the solution. Having an ongoing conversation about what will drive growth in the future and your role in achieving it is key. Equally important is the need for a clear understanding of what you need to do, as NextGens, to win the trust and confidence of the current generation.

4. Hone your leadership skills.

These extraordinary times require new types of leaders. While you may be aware that learning and upskilling is a lifelong journey, it's also worth noting that leadership today requires a different set of capabilities, which benefits from being cultivated early. It’s an opportunity to reflect on whether you want to create yourself in the image of the older generation in order to be recognised as a potential leader, or to chart your own path to success.

In a nutshell, if family businesses are to succeed in a rapidly changing environment, they need visionary leadership.

It’s time to reimagine what success means — and you, as NextGens, have the foresight to lead the way. You know the path the business must follow; it’s up to you to become the leader your business needs. Be yourself. Be different. Drive change.
Whom we spoke to

**Current Job Role / Position**

- Leadership role: 75%
- Shareholder/beneficiary: 29%
- Intrapreneur: 23%
- Employee/intern: 17%
- Governance role: 17%
- Entrepreneur: 17%
- Other: 2%
- Not engaged yet: 6%

**Age**

- Prefer not to say: 21-26
- 4.0%: 21-26
- 38 or older: 27-37
- 35.4%: 21-26

**Gender**

- Female: 30.2%
- Male: 69.8%

**NextGen generation**

- 2nd generation: 71%
- 3rd generation: 19%
- 4th generation: 2%
- 5th+ generation: 2%
- Don't know: 6%
Whom we spoke to

**Turnover (sales) (US$)**

<table>
<thead>
<tr>
<th>Turnover (US$)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $20m</td>
<td>34%</td>
</tr>
<tr>
<td>$20m-50m</td>
<td>14%</td>
</tr>
<tr>
<td>$51-100m</td>
<td>11%</td>
</tr>
<tr>
<td>$101-500m</td>
<td>34%</td>
</tr>
<tr>
<td>$501m-$1bn</td>
<td></td>
</tr>
<tr>
<td>More than $1bn</td>
<td>6%</td>
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</tbody>
</table>

**Sector**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Manufacturing &amp; Automotive (IM&amp;A)</td>
<td>33%</td>
</tr>
<tr>
<td>Consumer Markets (CM)</td>
<td>19%</td>
</tr>
<tr>
<td>Financial Services (FS)</td>
<td>33%</td>
</tr>
<tr>
<td>Energy, Utilities, Resources (EUR)</td>
<td>2%</td>
</tr>
<tr>
<td>Technology, Media, Telecomms (TMT)</td>
<td>2%</td>
</tr>
<tr>
<td>Health Industries (HI)</td>
<td>2%</td>
</tr>
<tr>
<td>Agriculture &amp; Farming</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
</tbody>
</table>
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