

Succeeding through succession

Leadership transition for private business owners

Let's Chat Series

As private business owners mature, there is a need to create succession plans that build value and talent, and drive growth.



Using succession planning to build value and talent

12%

family businesses around the world that make it to the third generation

15%

family businesses across the globe that have a succession plan in place

Succession planning is a risk and opportunity that businesses need to get right.

According to the Papua New Guinea (PNG) Government's SME Policy 2016, PNG has approximately 49,500 registered small and medium sized businesses, most of which are family-owned or privately-held. With big growth ambitions, these businesses are also considered as the backbone of the economy, contributing to economic growth and creating employment opportunities.

Despite their vision for growth and vital economic role, many family firms do not stay in business long enough to achieve their goals. The findings of the PwC Family Business Survey 2016 reveal that only 12% of family businesses across the globe make it to the third generation. In addition to that, only 15% of these companies have anything resembling a succession plan in place.

Indeed, succession is a breaking point for family businesses. Whether business owners are looking to transition leadership to the next generation or sell the business in the future, it is important to build a pipeline of leadership.

In fact, effective succession planning is most valuable for family firms, as the business at stake represents a large amount of the owner's personal wealth and in most cases, their life's work. Additionally, the transition of the business ownership often comprises the owner's retirement plan.

On the other hand, if the owner is looking to eventually sell the business, it is important to note that prospective buyers will be looking for a leadership pipeline.

"Having a strong leadership team in place is what will allow the new business owner to unlock the value of the business – and prospective buyers know this. They will pay a better price if the company has already developed a succession plan," says Stephen Beach, Partner, Private Clients.

To help family firms and privately-held businesses build their leadership pipeline, we have created a six-step approach to develop new leaders.

Create job descriptions.

Key employees in family firms and privately-held businesses usually juggle multiple roles. As such, it is important to document job descriptions to help the team and future employees understand the skills required to step into the role.

“When we ask private business owners to put a job description together and write it down, they struggle,” says Michael Collins, Director, Private Clients. “It is important for a private business to ensure everyone understands their roles and responsibilities, and how these contribute to the organisation achieving its goals.”

Identify the skill sets necessary to achieve your growth ambitions and create roles to develop employees.

Many business owners do this intuitively, but that approach does not sustain a business for long-term significant growth.

“We want private business owners to quantify and qualify what the roles are because this will help them build a development plan for employees and the business,” says Beach.

It is important that private business owners understand the skill sets they need for their company to grow. This can help them determine if they need to bring in external support or develop people internally.

Identify high potential talent.

Create an objective checklist of necessary competencies, which could include leadership capability, innovative thinking, effective communication skills and the level of leadership the company needs.

“This is best done through a panel interview, which allows employees to present their competencies in an interactive manner,” says Collins.

Provide your future leaders with the right professional development, training and experience.

“As with any on-the-job training, we recommend the use of job shadowing, mentoring and coaching up-and-coming talent,” says Beach.

As relationships with customers and suppliers form a critical part of the business, getting the future leadership of the business involved in those relationships is a good way to train and build capacity. This may include being involved in negotiating agreements and contracts, prospecting for new customers, and handling customer complaints. Future private business owners should also walk the floor and get to know employees.

Put together a board of trusted advisors that are not part of the business or family system.

As the family grows, tensions with the future direction of the business could come along the way. One way to address this issue is to set up an advisory board.

An advisory board is usually comprised of lawyers, accountants, and industry representatives who bring professional expertise and objectivity around the family’s needs and the best interest of the business. An advisory board has no emotional attachment so they can help private business owners make that all-important decision of who should take over - the next generation or a professional management team.



For example, in many cases, children who want to carry on the family business may have built the necessary skill sets within the business or may have experience working outside the business (five years is a recognised best practice on this front) and therefore, are able to transition into private business owners. But if the current private business owners or family members don't want to be involved or are not capable of doing so effectively, then that's the time to bring in a professional management team. An advisory board can help take the emotion out of that potentially charged decision.

Come to agreement about the long-term mission and vision of the company.

Make sure the next leadership team understands and fosters the mission and vision of the business, and implements strategy that would enable the business to achieve its long-term goals. Documenting this is very important not only for their understanding, but also for creating transparency within the business.

With a clear company mission and vision, people know their roles and responsibilities and they have become capable of

continuing once the current leadership leaves. Customers and suppliers gain confidence that the business is not going away – and even better, that it's in good, capable hands. There will also be no cultural confusion and no dip in return.

Succession planning is critical to any family-owned or privately-held businesses, but many private business owners are neglecting this. Whether business owners are looking to transition leadership to the next generation or sell the business in the future, having a leadership pipeline is critical to success.

Come Think With Us

We understand that developing a succession plan can be difficult as emotions could be involved. This is why we have Come Think With Us (CTWU) sessions to help private business owners objectively create a succession plan. CTWU is a confidential and informal two to three-hour brainstorming session that brings together private business owners and PwC advisors.

Through one of these sessions, we can help family firms and private businesses develop an effective yet easy-to-implement succession plan that allows the owners to complete tasks at their own pace.

If you'd like to have a CTWU session with us, please contact our Private Clients team.

www.pwc.com/pg/privateclients

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