

Family and Business Strategy; Supporting NextGens



Teresa McColgan, a partner in PwC’s Family Business group and Ireland lead for PwC’s Global NextGen Club, an international network of young professionals, entrepreneurs and successors in family businesses. The club currently has more than 2,000 next-generation members from 26 different countries.

One of the defining characteristics of family businesses is the intention that ownership of such businesses will pass from one generation to another, ie they are cross-generational. This in turn means that their default strategic perspective is long term – the intention is to pass on a healthy business to the next generation. At the other end of the scale, family businesses can also be very effective short term strategists, where dominant ownership involved in management can identify opportunities and make key decisions quickly. The space in between – “The Missing Middle”, as identified in our 2016 Global Family Business Survey¹ - is where least strategic attention is paid by family businesses. And this is the period that is particularly important in the context of preparing the next generation for their future roles as owners and or managers of the business.

There are many issues that need to be considered in relation to any business, including

<ul style="list-style-type: none"> • Mission/Purpose • Values • Strategy • Resources • Ownership 	<ul style="list-style-type: none"> • Investment • Employment, leadership and reward • Conservation or expansion • Innovation • Technology
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But where that business is owned by a family, it can add new dimensions to the decision making process on these matters. For example, are there the skills in the family to run the business and if so, how should performance be measured and remunerated in a way that distinguishes the rewards appropriate to other family members who are owners but not actively involved? How should business expansion be financed – through third parties or from other family resources? Should in-laws be involved? The list goes on ...

¹ <https://www.pwc.com/gx/en/services/family-business/family-business-survey-2016.html>

Each family needs to determine its own rules for decision making on these issues. If a family business is to continue through a number of generations it does need to be a successful business, but managing this while preserving family harmony can be tricky. The first sentence of the Foreword to our book *The Owner Strategy*² says it all – “Business success cannot make up for family failure!”.

Having an owner strategy, leading to a family code of conduct or constitution, against which to sense check problems or decisions can be very helpful, and these are most effective when drawn up and agreed before the potentially contentious issues arise in practice.

What is apparent to us as business advisers is that it’s a very interesting time to be a NextGen, as the pace of change in technology and regulation, and the associated risks to business of not keeping up with those changes, means that there is growing recognition of the value that the next generation can bring to the business at a much earlier stage than applied for previous generations.

At the same time, those Next Gens are themselves recognising the value they can add and want to be allowed to do that, and are prepared to walk away from family businesses that are not willing to allow them the appropriate opportunities for them to contribute.

This is leading to an even greater need for appropriate support structures for business continuity in a family context, as the traditional models whereby NextGens were introduced to their family businesses may no longer be relevant. But while the practical business contributions that NextGens can make may be very different to those of the generation before them, and need to be accommodated, care is needed to ensure that they are provided with the support they need to make the transition.

But what we’re hearing in practice is that some families, in an effort to:

- recognise and welcome the transition to the next generation,
- demonstrate trust and confidence, and
- seek to retain NextGens in the business,

are taking quite a hands-off attitude far removed from what they may have regarded as an overly paternal approach by their own parents. And while many NextGens are comfortable with their skills in their relevant specialist areas, they are not prepared, and would welcome more support, for the more extensive role and wider responsibilities that go with being a family member involved in running all or part of the business.

So the challenge for the current generation is to have an effective owner strategy that recognises their cross-generational dimension and facilitates NextGen integration. We suggest that this should be approached as a joint process (family participants with external support) in three stages:

1. Assess the current situation – define where you are

² *The Owner Strategy in Family Business* by Peter May, Murmann Publishers in association with PwC

2. Consider the various elements of your owner strategy – where you want to go and how you're going to get there. This phase will involve consideration of a range of issues related to ownership, goals and values, business model, governance (business and family), and roles and people.
3. Implement the actions needed to make your strategy a reality.

Initiating and training NextGens in relation to ownership and/or management is a key part of the process, NextGens who are provided with opportunities to gain practical experience, inside or away from the family business, and who are supported by mentoring, will be given the best start to help them to make the transition to the next stage. Networking with other trusted NextGens can also be extremely useful, as the relationships developed can provide mutual layers of support – and potentially future business development opportunities!