11th Global Family Business Survey 2023

Australian findings

Optimism, but businesses need to transform to secure legacies

pwc

Family businesses aiming for even greater growth

Australian family businesses report stronger performances than their global counterparts, and they're more bullish about their future growth, too. Our Family Business Survey 2023 found more than three quarters of Australian family businesses experienced growth in 2022 and more than four out of five are positive about their growth aims for the next two years.

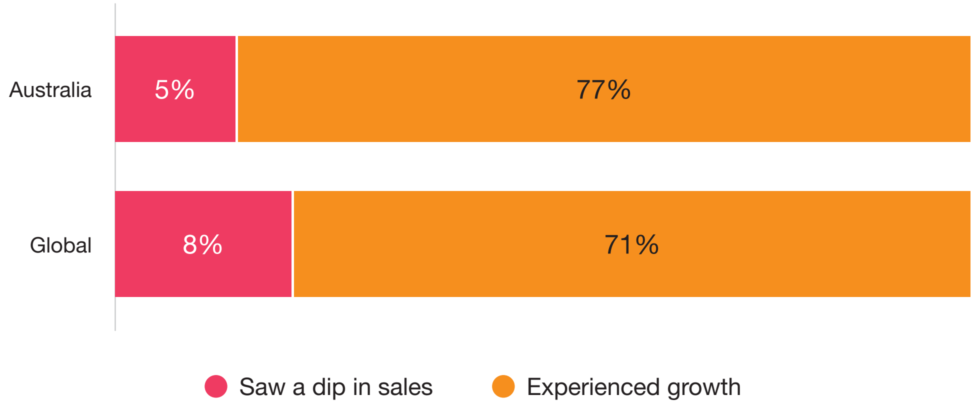
So, why are they optimistic? And how can they meet these goals?

We interviewed key decision-makers in family businesses across Australia to explore their wins, and to uncover what challenges and opportunities lie ahead. Plus, we analysed how family businesses can achieve their goals and secure their legacies by looking at three key stakeholder groups: family, customers, and employees.

While the Australian picture is mostly one of optimism, our survey identifies a number of emerging challenges for family businesses. There's a real need for businesses to get family governance right to ensure it doesn't derail growth goals, intergenerational succession or preparing for an exit. Businesses also need to focus on Environmental, Social and Governance (ESG) strategy and Diversity, Equity and Inclusion (DEI), or risk falling short on growth. Because it's proven that having an integrated ESG strategy increases access to finance, improves talent retention, and leads to value creation. Failing to address these areas risks stymying growth prospects and curtailing value potential. In other words, family businesses need to act now.

77%

experienced growth and only 5% saw a dip in sales (versus 71% of global family businesses who reported growth, while 8% shrunk).



Significantly, these results aren't just higher than the global average – Australian businesses are also improving on previous years (63% of Australian businesses experienced growth, and 16% saw sales fall when we last held the survey in 2021, albeit during the pandemic).

Australian family businesses have higher growth ambitions, too:

85%

expect to grow in the next two years (almost 10% higher than the global response).

28%

expect to grow 'quickly and aggressively' (14% globally).

Given that more than 2,000 family business leaders from across 82 territories globally participated in our survey, it seems Australian businesses have good reason to feel confident.

Australia's (comparatively) smoother economic landing

There aren't many places you'd rather be doing business than in Australia right now. Economic headwinds are being seen around the globe, with many countries feeling the effects of supply-side shocks and geopolitical tensions. We're not immune to imported woes (such as has been seen in the US and UK), but Australia has shielded itself from the most damaging blows and Australian businesses are sitting on relatively strong economic foundations. Inflation appears to have passed its peak although still sitting high with interest rates reflecting these market conditions. Business confidence remains resilient, with 58% of Australian CEOs saying that delaying deals is not something they're considering in the next 12 months (**PwC Australia's CEO Survey**).

Yes, uncertainty and volatility are causing worldwide challenges in 2023. But Australian family businesses report being in a better place than their global counterparts for dealing with current conditions. Much of this is due to the fact 75% of Australian family businesses have the ability to change course at short notice thanks to their liquidity (versus 58% of family businesses globally), allowing them to adapt – even thrive – during economic uncertainty. (Although, it's worth noting that the economic climate affects family businesses differently depending on their size and industry, and there will be winners and losers.)

What else are they telling us?

Australian businesses are generally more confident in their capabilities than their global peers. The exception is when it comes to leading the way in sustainable business practices, with many Australian family businesses admitting ESG and DEI are not yet areas of focus.

Big picture, Australian family businesses are saying:

52%

Feel they have strong digital capabilities (versus 42% globally).

77%

Can adapt quickly to shifting conditions (55% globally).

50%

See an opportunity to lead in sustainable business practices (64% globally).

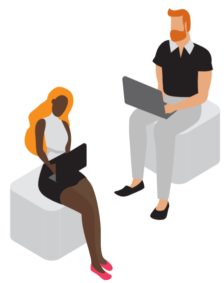
85%

Have a clear company purpose (79% globally).

Integrating purpose and priorities

The top three priorities (with equal ranking) for Australian family businesses over the next two years are:

Introducing new products or services



Protecting the core business

Expanding into new markets

And while we take our hats off to Australia's ambitious family businesses, there's a real need to add ESG and DEI strategy to this list of priorities. Stakeholder expectations around ESG are rising. Meanwhile, **our research** shows that integrating ESG considerations into your strategy improves access to finance and boosts talent retention, while also paving the way for long-term value creation in deals, divestment and growth.

In a **separate study** of more than 5,000 consumers from 2021, four out of five said that they are more likely to buy from companies that share their values, which gives considerable weight to ESG and DEI priorities. But the Family Business Survey respondents don't ascribe nearly the same importance to ESG or DEI: only one in five say that minimising the company's impact on the environment is a priority; a third admit that they put little energy, resources or investment into ESG issues. Even fewer prioritise the company's social responsibility or its performance on diversity.

It is encouraging to see that 50% of family businesses in Australia see an opportunity to lead on sustainability, up from 36% in our 2021 survey. Yet less than 10% of surveyed family businesses put significant amounts of focus, energy, investment, or resources into ESG. In short, Australian family businesses need to lift their game when it comes to sustainability practices, to position themselves for the opportunities that may come with them.

Three key lenses for growth: Family, Customer, Employee

1. Family: Getting governance right for succession or exit

Australian private and family businesses are experiencing a **once-in-a-lifetime intergenerational succession event** as owners retire, sell up, or pass the baton onto the next generation, and businesses need to get these transfers right. It's no surprise then that 80% of Australian business owners indicated that protecting their business, as an important family asset, is the top priority.

When it comes to governance, however, Australian businesses seem a little shortsighted. 86% of surveyed business owners say they have some form of governance policy in place within the business (versus 81% globally). But when you drill down, only half (50%) have a shareholders' agreement, less than a third (27%) have a family constitution or protocol, and just 15% have a family employment policy (versus 27% globally). This lack of formal governance affects how the business is run and perceived. Strong governance could go a long way towards increasing trust, reducing risk and, ultimately, generating growth opportunities.

One visible way Australian family businesses have room for improvement is the composition of their boards, which are dominated by men, those aged 40+, and family members:

40%
Have no women on the board (global: 31%).

71%
Have no one aged under 40 years on the board (global: 57%).

49%
Have only family members on the board (global: 36%).

Where Australian family businesses are getting it right is with working relationships among family members. Trust between family members is high (80% report 'full trust'), with more than two thirds (69%) of businesses saying family members regularly communicate about the business, and 66% agreeing there's family alignment on the direction of the company (versus 59% globally).

Three key lenses for growth: Family, Customer, Employee

2. Creating confidence among your customers

Almost half (47%) of Australian family businesses achieved double-digit growth during the past financial year, while a comprehensive 94% of respondents see growth as important because it enables them to invest in their company's future. In fact, growth is the (joint) number one goal most likely to be set by Australian businesses. The other goal? Customer satisfaction.

Fitting, really, given that growth and customer satisfaction are intrinsically linked. In 2023, however, both goals require businesses to have strong ESG credentials and here Australian family businesses are lagging:

90%	17%	28%
Do not have an agreed and communicated ESG strategy.	Have a person or team responsible for ESG (versus 43% globally).	Have taken a public stance on important social, political, and environmental issues.

Most family businesses admit that barely any attention, energy, investment, and resources are dedicated to ESG considerations, while issues relating to diversity and reducing value chain dependencies also sit low on the agenda.

In a nutshell, there's a risk that private businesses may fail to meet consumer and public expectations around sustainability and other ESG practices, jeopardising their social license to operate and, ultimately, their legacy.

Sustainable business practices are achievable. Already, Australian family businesses demonstrate an interest in (select) social responsibility activities, with 68% of those surveyed contributing to their local community, and 48% engaged in traditional philanthropy or grant-based giving.

Despite their generosity, family businesses tend to be relatively private about their commercial dealings and often don't want their philanthropic contributions to be made public. This can be a major hurdle when it comes to communicating their ESG credentials to stakeholders, although the next generation of family business owners may be better at recognising the chance for value creation here.

PwC's Global NextGen Survey 2022 highlights that the NextGen places greater importance on reducing environmental impact and promoting social responsibility and sustainability, compared to the current generation. NextGen's leadership in family enterprises will be crucial to driving and delivering on these priorities, hence reinforcing the value to be derived from a strong family governance plan.

Our research shows ESG is core to value creation, and those businesses that lead on ESG can enjoy greater shareholder returns. Meanwhile, businesses with strong ESG ratings are more appealing to investors, and private equity – a key funder and buyer of family and private businesses – is channeling investment towards those with ESG credentials. A robust ESG strategy should include performance measurements for financial and non-financial targets, as well as targets for DEI and social impact.

Three key lenses for growth: Family, Customer, Employee

3. Foster employees’ faith in the business

Employees’ faith in the business is a key priority for almost a quarter (23%) of businesses. Most respondents (80%) feel it’s essential for employees to have full confidence in the business, and yet only 43% think they’ve achieved this.

It’s surprising, then, that almost two thirds (64%) of Australian family businesses admit to not dedicating ‘very much’ effort to attracting and retaining talent. Are businesses underestimating the extent of investment that’s required to keep their people happy? Or are they simply hoping their employees remain loyal regardless? (Afterall, family-owned businesses are known for their above-average proportion of long-serving employees).

Staff want to work for an organisation that makes a positive contribution to society - such as an organisation that leads on ESG - meaning powerful storytelling is vital for winning the war for talent. So too is a first-class employee value proposition. We recently surveyed 1,800 workers from organisations right around the country, and found that remuneration and wellbeing top the list of things they value most from their employers, while 38% of all respondents revealed they plan to quit their jobs this year. This tells us that employee value propositions are falling short of the mark, but despite this, almost half of all executives say they have no plans to re-imagine theirs.

Whatever the reason, Australian businesses can’t afford to be complacent. (Especially, given the tight labour market right now). Businesses can foster employees’ faith by:

Embedding accountability:

Less than half (48%) of surveyed Australian businesses say their leadership encourages a culture of accountability, although a further 42% are on the way to achieving this.

Communicating your purpose and performance:

More than three quarters (76%) of Australian family businesses give staff updates on the progress of performance against goals, which is marginally higher than the global response (74%), but there’s still room for improvement.

Walking the talk on DEI:

Only a third (31%) of surveyed businesses have a person or team responsible for diversity, equity and inclusion, while just 7% are focused on improving their performance on diversity.

Offer staff incentives:

Just two thirds (65%) of family businesses offer staff incentives at all levels (or are working towards it).

No regrets actions for Australian family businesses

Short-term: 6-12 months

1 Communicate your current ESG activity

Communicate your ESG activity if you are already engaging in this space, then start to develop a broader long term plan. This is a quick win in starting to meet consumer and employee expectations around sustainability and ESG.

Toby Kent
PwC Private, ESG Leader
toby.a.kent@au.pwc.com

Medium-term: 1-3 years

2 Board diversity

Take stock of the composition of your board and consider its Diversity, Equity and Inclusion (DEI), there are fundamental benefits attributed to a diverse environment. Engaging the NextGen could be a solution that delivers a variety of enhancements to your business.

Martina Crowley
Financial Advisory People & Quality Managing Partner
martina.crowley@au.pwc.com

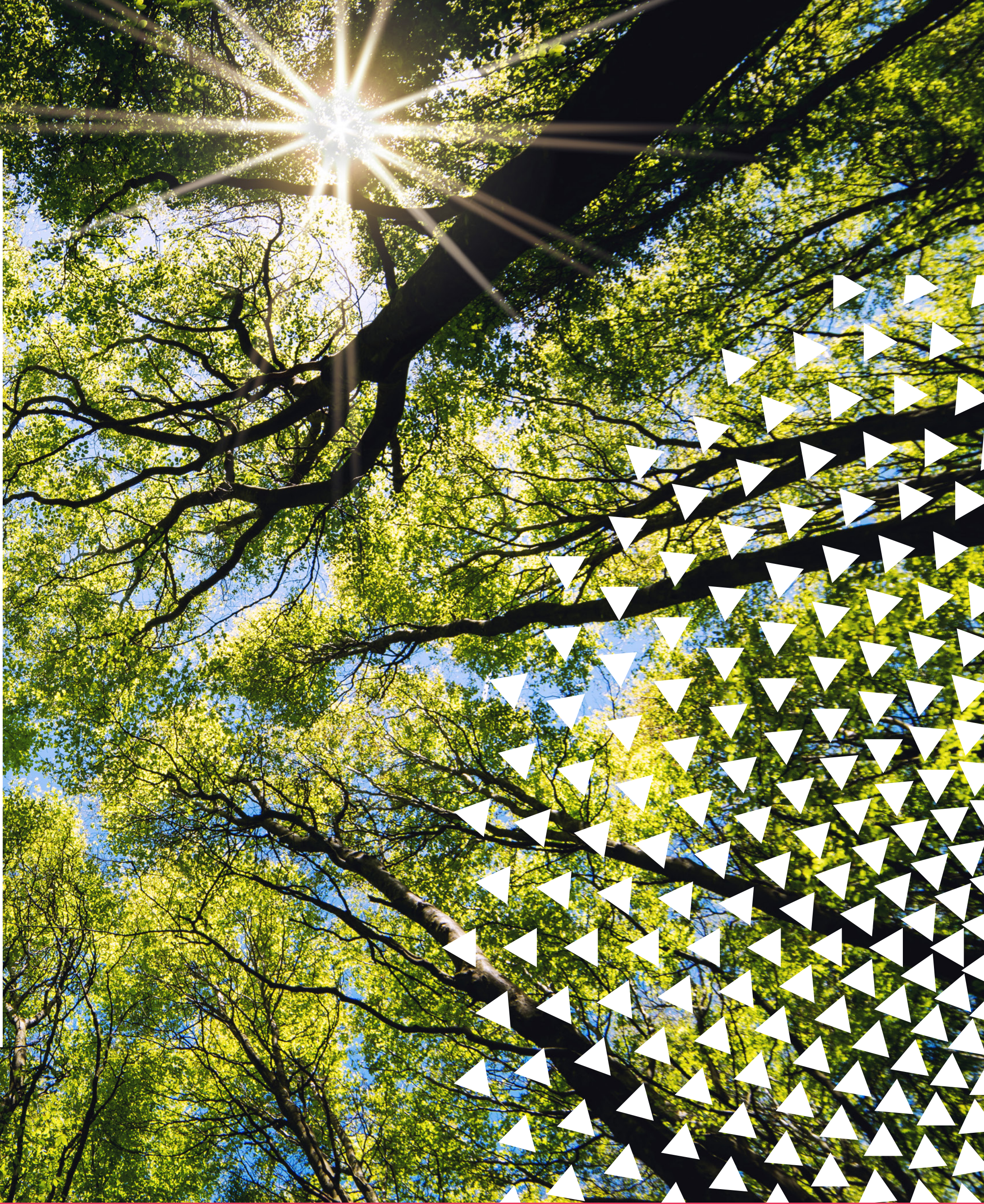
Long-term: 3-5 years

3 Transformation and value creation

More than four out of five respondents were positive about their future growth aims. Ensure you have aligned your business strategy to your long term goals for succession or exit by acting now. Get focused on being in the best financial shape, implementing growth strategies, and understanding the potential funds available to support growth.

Nick James
PwC Private, Markets Leader
nicholas.james@au.pwc.com

The message from this year's survey is clear: Australian family businesses have told us they're optimistic about growth. What's needed now is for family businesses to make transformative changes to prioritise family governance, ESG and DEI to best position themselves for growth.



About the Family Business Survey

PwC's Family Business Survey 2023 is an international market survey of family businesses. The goal of the survey is to get an understanding of how family business leaders perceive their companies and the business environment. The survey was conducted online in collaboration with the Family Business Network International (FBN). The survey conducted 2,043 interviews in 82 territories between 20 October 2022 and 22 January 2023. Australia contributed 88 responses.

This year's survey uses a model developed by **Sandra J. Sucher**, a Harvard Business School professor of management and author, **Shalene Gupta** (The Power of Trust), to assess whether family businesses are doing the right things in today's world to build trust.

The model identifies four pillars of trust:

1. **Competence** (is the company good at what it does)
2. **Motive** (whose interests is the company serving)
3. **Means** (is the company using fair means to achieve its goals)
4. **Impact** (what is the tangible impact the company has, as opposed to the impact it claims to have)

PWC200721703