Grant Thornton

Future proof your family business

FAMILY BUSINESS SURVEY 2023

CONTENTS

A message for our Family Businesses

Grant Thornton has a proud history of supporting family businesses in Australia for many years. We know and understand how family businesses have evolved over generations, responding to consumer trends, economic influences and globalisation. Family businesses are subject to the same headwinds as all businesses, but how they respond, adapt and grow, is what makes them unique.

When we embarked on the 2023 Survey, we wanted to do something different; we wanted to shine a light on the incredible family business sector and showcase the valuable work and sizeable contribution family businesses make to our economy.

Upon analysing the results, we realised the statistics told us a few stories about family businesses and leaving your legacy, succession planning, future growth and embracing diversity.

1 **Leaving your legacy**
There is a mindset shift between generations around whether they see themselves as owners or stewards. From the second to third generation, there is an opportunity for the family to discuss their involvement in the community and the impact they make. As the family moves from third to fourth generation, the focus moves to legacy.

2 **Succession Planning**
This continues to be one of the major concerns for family businesses in 2023. The challenges include maintaining family harmony, fairness and ensuring the business prospers.

3 **Future growth**
Family businesses are often known for their visionary and innovative approaches. By aligning their funding options and sustainability goals to resonate with their values, family businesses have significant potential to achieve long-term growth.

4 **Embracing diversity**
The potential for growth when it comes to diversity in family business is currently untapped. Similar to sustainability and Environmental, Social, Governance (ESG), there seems to be a disconnect with the terminology and how it can be implemented in family businesses to ensure future growth.

Our key takeaway from conducting this survey is, it's not all about the statistics – it's about the powerful family business stories.

We hope you enjoy the Grant Thornton 2023 Family Business Survey report. We're delighted to present our findings from family businesses in Australia, highlighting what makes them unique and the integral role they play in the wider economy.

OUR FAMILY BUSINESS SURVEY DATA REVEALED

Top five challenges for Australian family businesses are:

91% 1. **Improving cash flow**

86% 2. **Recruiting, retaining and upskilling family members and employees**

72% 3. **Succession planning**

70% 4. **Developing/launching new products**

69% 5. **Expanding into new markets**

What is interesting about the top two challenges is they can be linked to the current economic climate. Increasing costs, high inflation, increased interest rates and an uncertain future, are all factors derived from the current state of the economy, with predictions we could be heading into a recession.

Our survey results show that recruiting, retaining and upskilling employees was not important to businesses who forecasted a significant decrease in employee head count, or who are currently in the start-up phase.

Succession planning comes in at number three and is still an important issue for family businesses. The challenges of maintaining family harmony, fairness and ensuring the business continues to prosper can be challenging, but it is clear succession continues to be a focal area for family businesses.

Succession planning is considered of greater importance for non-principal decision makers, members of the owning family, the second, third and fifth generations and over 45 year-olds. Therefore, it's not the concern of the owners themselves but the people around them. This indicates it is the uncertainty of the future or the unknown that causes the deeper concern.

Australia has a clear focus on growth, looking to develop new products, and expand into new markets but family businesses are not really considering research and development grants to assist them in achieving these goals, which indicates there is a need for education and support in relation to available government grants.

LEAVING YOUR LEGACY

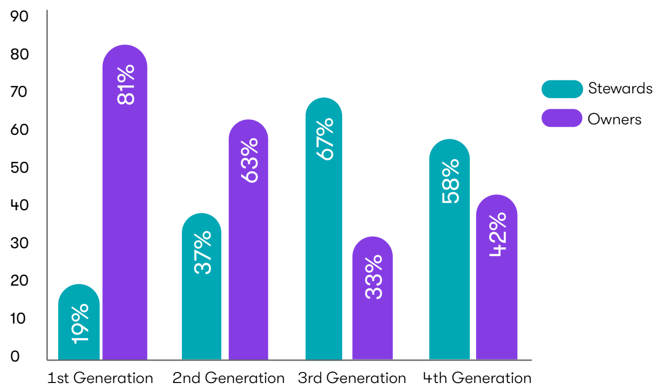
Stewardship versus ownership – it is a shift in the mindset, values and attitude of a family, but is it a mindset from the start, or does it evolve as the business evolves?

Our family business survey shows the shift in mindset often occurs as the family business transitions from second to third generation. During this transition, it is important both family businesses and advisors understand the shift in mindset – as well as what the family will focus on – within each generation. The family vision can only be achieved when they understand the mindset shift.

What is the difference between stewardship and ownership?

Ownership is a state of control over an asset and doesn't necessarily look at growth beyond being owners, however being an owner means you still lead and care for an organisation. In contrast, stewardship means caring for a resource that is not fully possessed but nurtured as it endures and grows with the intention to be shared with future generations.

Our survey indicated the shift from owner to steward often occurs as the business transitions from second generation to third generation. **67 per cent** of the third-generation family businesses consider themselves a steward, compared with only **37 per cent** of the second generation. **58 per cent** of fourth generation family businesses consider themselves stewards.



How does the focus change as the mindset shifts from owners to stewards?

The third generation has a strong focus on community impact, which speaks solidly to what family businesses are about – helping and working in the community, for the benefit of the community.

The fourth generation puts emphasis on carrying on the legacy of the family business – looking beyond responsibilities of themselves and taking on the commitment to ensure the next generation have enough tools in their kit to maintain and continue more than just a business.

What does this mean for your family business?

The survey results show that as a family is moving from the second to third generation, there is an opportunity for discussing their involvement in the community and the impact they wish to make. As the family moves from third to fourth generation, the focus shifts to legacy and they look to diversify beyond the business. At this stage families begin to consider creating wealth outside of the business, philanthropy options, and discussing what legacy looks like for them.

Family governance is not set and forget – it's important the family meet on a regular basis and have an annual review of the business structure, vision and their impact on the community. When a family business does transition from one generation to the next, a family governance review and realignment is essential. It is important that all family members are on the same page and there is strong communication through the generations to ensure the longevity of the family business.

SUCCESSION PLANNING

Succession continues to be a key priority for family businesses.

72% of family businesses rated succession planning as important for their business in the next 24 months, including **46 per cent** that rated it as very or extremely important.

56% of family businesses led by a family member aged over 55 considered succession planning as very or extremely important.

81% of family businesses have, or are working on, a plan for succession.

Succession is a key topic for family businesses, with **43 per cent** currently formulating a succession plan, and **38 per cent** already implementing a plan. Only **15 per cent** of family businesses have no plans in place for succession.

Given the complexities of succession, the process of developing and implementing a plan can take a number of years, so it is advisable to start the process well in advance of any potential succession event.

What factors drive the sale of a family business?

It is often unexpected factors that drive a sale of a business, including financial distress, illness or shareholder disputes. It could also be when the business is approached by a potential acquirer with a strategic interest in the business and prepared to pay an attractive valuation. Being prepared for a potential sale is good business sense, even if the intention is the business will be passed to the next generation of your family.

According to our survey results, many family businesses are thinking about taking steps to prepare for a potential sale, given the benefits of that process, even if the business remains within the family.

Half (**50 per cent**) of family businesses consider preparing for a sale/exit of the business to be important to them. From an industry perspective, those in those in the health and aged care sector (**69 per cent**), professional services (**64 per cent**), and financial services (**56 per cent**) sectors are most likely to be prioritising preparing for a sale of the business.

Family businesses in decline noted that **78 per cent** are currently preparing for a sale of the business. In terms of timing, almost two thirds (**63 per cent**) of business owners are anticipating a sale will occur in a 1–5 year period, which provides time for preparation to be undertaken to not only maximise the value of the business, but also the prospects of a successful transaction.

How can businesses be prepared for a sale or create a succession plan?

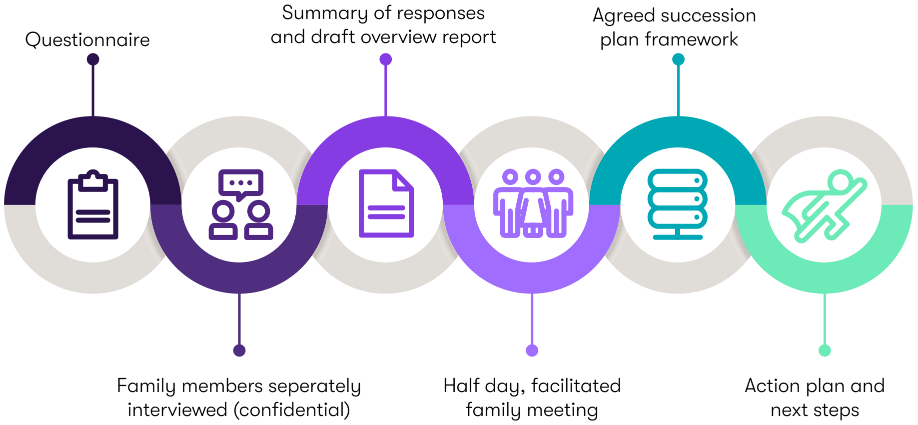
Succession planning is essential for family businesses no matter what stage in the business journey. A documented succession plan is critical to ensure the family members in your business are on the same page when it comes to commercial goals. When deciding a successor, there should be consideration around selling strategy and if that serves as a better option long term.

50% of family businesses consider preparing the business for sale as important.

45% of family businesses considering a sale expect to sell their business in under two years.

59% of those who consider themselves as stewards of the business do not consider preparing for sale to be important.

Our process to creating a succession plan



FUTURE GROWTH

Funding

With many family businesses expecting to grow, there is a need to consider how this growth will be funded. From the survey, **53 per cent** of family businesses say that accessing funding in the next 24 months is important for their business.

Family businesses in the growth or hyper growth phase are most likely to consider accessing funding to be important in the next 24 months, as are those family businesses with revenues that are growing moderately or significantly. Larger companies are more likely to be seeking funding for growth, with over **60 per cent** of companies with revenues over $50m considering accessing funding to be important for their business.

Acquisition

Family businesses are traditionally seen as being more conservative and risk averse than other corporates. However, **47 per cent** of family businesses are considering an acquisition in the next 24 months, with the most popular acquisition drivers being growth in scale of the business, extension of product or services, geographical expansion, and strengthening or repositioning of their brand. Larger companies and higher growth businesses are more likely to be prioritising acquisitions, with nearly **70 per cent** of family businesses with revenues over $100m or over 300 employees considering an acquisition to be important for their business in the next 24 months.

Innovation, research & development

Innovation is critical to the long-term and sustainable success of family businesses within the increasingly competitive Australian economy. We have seen recent innovation trends across family businesses to develop or adopt new technologies for digital business transformation, and the development of new or improved goods or services to satisfy changing consumer preferences and growing sustainability expectations.

The survey covered a broad range of industries and life stages and identified there was no clear correlation between the need to improve cash flow and business innovation. Further, there was also no clear link between accessing government support, including the R&D Tax Incentive or Government Grant programs and the need to improve cash flow.

64 per cent of family businesses reported that improving cash flow is very important to facilitating business growth, regardless of their current business life stage – particularly for businesses in the start-up, growth and hyper growth phase.

In contrast, most family businesses surveyed (between **50 per cent** and **72 per cent**) noted accessing government support was deemed generally not important, regardless of current business life stage. It was also deemed particularly not important in businesses operating for longer than 51 years (between **73 per cent** and **75 per cent**).

As a result, we often see family businesses are not recognising the opportunities to improve cash flow by utilising applicable government support. For example, the R & D Tax Incentive allows for eligible R & D entities to capture Australian – based eligible R & D activities across a wide range of industries, particularly within family businesses.

Family businesses who are very optimistic about Australia's economic outlook regard the development of new products (**67 per cent**) and expansion into new markets (**60 per cent**) as very important to growing the business.

This is particularly shown in family businesses in the start-up and hyper growth phases, and in sectors with strong industry associations and memberships including the manufacturing, arts and recreation, and retail and consumer product sectors. The emphasis on innovation within family businesses is also dependent on the generation of ownership, as the importance on developing new products, expanding into new markets and investing in R & D increases as older generations within family businesses pass the torch to younger generations (i.e. second, third and fourth generations).

Innovation and sustainability

Family businesses are known for their long-term thinking and ability to innovate. Whether it's adapting their products to be sourced from the community or for a more circular alternative, family businesses have cared about longevity in their practices. The sustainability landscape is always evolving. Whether it be mandatory reporting requirements for climate related matters, pressure for businesses to consider their overall impact on their people, the environment and the community, or the ability to create full life cycle products, there is an increasing demand to ensure businesses have a point of differentiation and leave a positive impact. These factors increase the significance on the relationship between innovation and sustainability as businesses need innovation to meet sustainability standards, and are embracing sustainability as a key driver of innovation. Given the continued focus on sustainability, we would expect sustainable innovation and R & D to flourish within family businesses as they find opportunities to create new products and expand into new markets.

While the survey showed there are varying degrees of understanding as to what an Environmental, Social, Governance (ESG) and sustainability strategy is, it is clear that when family businesses put their mind to ESG and sustainability, they often see opportunities for innovation.

62% of family businesses believe an ESG and sustainability strategy has an extremely positive impact on their business. It is likely that more family businesses would see this as important, albeit under a different banner than ESG and sustainability.

52% of these same businesses regard expanding into new markets as very important, highlighting the connection between innovation and sustainability in the minds of family businesses.

There are opportunities to supercharge a business' investment in sustainable innovation and R & D by accessing government support, including the R & D Tax Incentive and a broad range of Government Grant programs. These programs are designed to incentivise innovation and therefore, act as a measure to support businesses to take up more eco-friendly practices and develop more sustainable products.

ESG and sustainability

Family businesses have a long history of sustainability, driven by their focus on longevity and stewardship as they pass down ownership from generation to generation. They are natural innovators, equipped with the ability to think long-term, and continually evolve to succeed within their communities – this essence lies at the heart of sustainability. However, there is a sense of negativity among family businesses when it comes to the ESG and sustainability landscape.

Survey results shed light on the need to simplify the corporate jargon, box-ticking exercises, and risk assessments to focus on the authenticity that family businesses bring to the sustainable business landscape.

Despite this, family businesses are thriving in the ESG and sustainability space in various ways:

1. A significant **59%** of surveyed businesses expecting notable revenue growth are acting on their ESG and sustainability strategies. This demonstrates their willingness to embrace sustainable practices for long-term success.

2. Females are leading the charge in understanding the positive impacts of sustainability. Approximately **60%** of women in family businesses recognise the benefits of sustainable strategies, while **42%** of males believe sustainability has no impact. This gender divide highlights the importance of diverse perspectives in shaping sustainable approaches.

3. Family governance frameworks play a pivotal role in the success of these businesses. About **68%** of family businesses acknowledge the importance of aligning family values and interests with long-term business goals. This ethos of nurturing businesses to thrive for generations is a key pillar of sustainability.

4. Overall, **66%** of family businesses consider ESG and sustainability moderately important. Certain industries, such as Technology & Media Communications and Arts & Recreation, display particularly high levels of commitment to sustainable practices.

However, certain obstacles prevent family businesses from fully developing their ESG and sustainability strategies:

34% **Perceived cost and unknown cost-benefit**
Concerns about initial investments and uncertain returns hinder progress.

33% **Low strategic priority**
Some businesses prioritise short-term goals over long-term sustainability.

31% **Lack of clarity and understanding**
Misconceptions about sustainable practices hinder their adoption. Lack of government policy and regulation.

26% **Lack of government policy and regulation**
The absence of supportive policies can impede progress.

23% **Resourcing, skills, and experience**
Some businesses lack the expertise needed to implement sustainable strategies effectively.

Family businesses play a significant role in the ESG and sustainability landscape, recognising the potential benefits for revenue growth and positive impacts. The engagement of women in driving sustainability highlights the value of diverse perspectives, and by focusing on product development, market expansion, and family governance, family businesses position themselves as pioneers in sustainability.

Nonetheless, government support and attention are essential to facilitate fast-tracked sustainable innovation and development, ensuring that our economy thrives without undue burdens. By overcoming these challenges and through conversations with skilled advisors, family businesses can continue their legacy of sustainability for generations to come.

EMBRACING DIVERSITY

Diversity of thought can be brought into a family business beyond daily operations via non-executive Directors or an Advisory Board. This can ensure your family business is having challenging conversations and ensuring all matters are considered so the business can prosper.

A great example can be looked at through the lens of a childcare business, which is an industry that is predominantly made up of female employees. By introducing non-executive Directors or an Advisory Board, you can introduce a perspective from another gender, but also diversity of thought from people with different backgrounds, experience and expertise.

76 per cent of responses from the current survey do not have a strategy in relation to gender diversity. This statistic consists of **41 per cent** having no actions or plans, **19 per cent** only being aware of gender diversity as a business opportunity, and **15 per cent** as taking action without a strategy. Therefore, in 2023 many family businesses still do not see diversity as a growth strategy.

Respondents who have a genuine interest in gender diversity are:

67% of people aged between 18 and 24 are interested in developing a diversity strategy highlighting the gender diversity dial will continue to move into the future.

60% of women in family businesses recognise the benefits of sustainable strategies, while **42 per cent** of males believe sustainability has no impact.

50% of businesses who have been operating 71-100 years are developing, embedding or realising a gender diversity strategy. This resonates with the shift in mindset from owners to stewards. As the business matures, business owners feel a genuine responsibility to benefit not just their own business, but to work closely with the community around them to create positive outcomes and a lasting legacy.

The top three perceived benefits of gender diversity are:

22% Staff performance, morale & culture.

16% Staff acquisition and retention.

13% Improved decision-making.

The survey highlighted that further education is required for businesses to understand the benefit of diversity and how it can effectively be achieved within family businesses.

Our survey showed that:

51% of businesses claim gender diversity is not important.

25% of businesses advised they had no barriers to gender diversity.

The three barriers family businesses are experiencing in achieving gender diversity are:

1. Lack of suitable candidates to employ
2. Low strategic priority
3. Competitive job market

All three barriers look at gender diversity from an employee lens. Particularly with such a competitive market, now is the opportune time for family businesses to approach diversity from a whole new angle and consider when hiring the next non-executive director or formulating your advisory board to ensure you are bringing diversity of thought to your business.

In summary

It was encouraging to see many business leaders complete our survey to provide insightful conclusions about family businesses in Australia.

We continue to challenge family businesses to think differently about what they consider standard in their operations by seeing diversity through a different lens from your governing Board rather than your everyday team, to understand what ESG practices you're already engaging with, or to consider that R & D spend can improve your cashflow into the future.

The results from the survey leave family businesses with strong call to actions based on our key themes:

1. Leaving your legacy – to understand the generations working in your family business and delve deeper into their mindsets around owners and stewards.
2. Succession planning – to start the facilitated conversation early and ensure your family business has a plan to transition to the next generation.
3. Future growth – family businesses have significant potential to achieve long-term growth by aligning their funding options and sustainability goals to resonate with their values.
4. Embracing diversity – think outside of the box when it comes to diversity in your family business to ensure future growth.

With the right external advice from your advisors, along with the passion and drive to run your business, you should be confident in the succession plan and growth for future generations.

About the survey

In May 2023, the Family Business Survey was sent to over 2,000 family businesses from across Australia. This 34 -question online survey took approximately 10 minutes to complete, and at the end of the survey period we received over 280 responses.

In the survey we asked family businesses about their company structure, demographics, how they operate and our key themes – leaving your legacy, future growth and embracing diversity. Participants in this survey included **43 per cent** from first generation businesses, **34 per cent** from second generation businesses and the rest are from third generation onwards. **59 per cent** were males. Median age of respondents were between 35 – 64 years. Over **57 per cent** of the businesses surveyed are over 30 years old.

Scan the QR code to receive further insights in relation to our Family Business Survey.

ABOUT GRANT THORNTON AUSTRALIA

Our family business consulting team works with family businesses and their owners and leaders on running, shaping and developing solid foundations for continued future business success. This includes everything from succession planning, to setting up governance structures that reflect the current situation and future growth and aspirations of the business.

Grant Thornton Australia is a member firm of the Grant Thornton global network – one of the world's leading independently-owned and managed accounting and consulting firms. With over 1,300+ people across five states, we have the scale to meet changing needs – while retaining the agility required to keep our clients one step ahead.

More than 62,000+ Grant Thornton people globally are focused on making a difference to clients, colleagues and the communities in which we live and work. Through this membership, we access global resources and methodologies that enable us to deliver consistently high-quality outcomes for owners and key executives.

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The terms we use
Language is a powerful tool. No single set of definitions can describe how every person experiences life, or how they define themselves. We acknowledge the diversity of self-identity and intersectionality, particularly within gender, culture, sexual orientation, disability and First Nations language groups. It is always our intention to be inclusive and respectful and we acknowledge that not everyone will identify with the terms we have chosen.

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