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Diversity

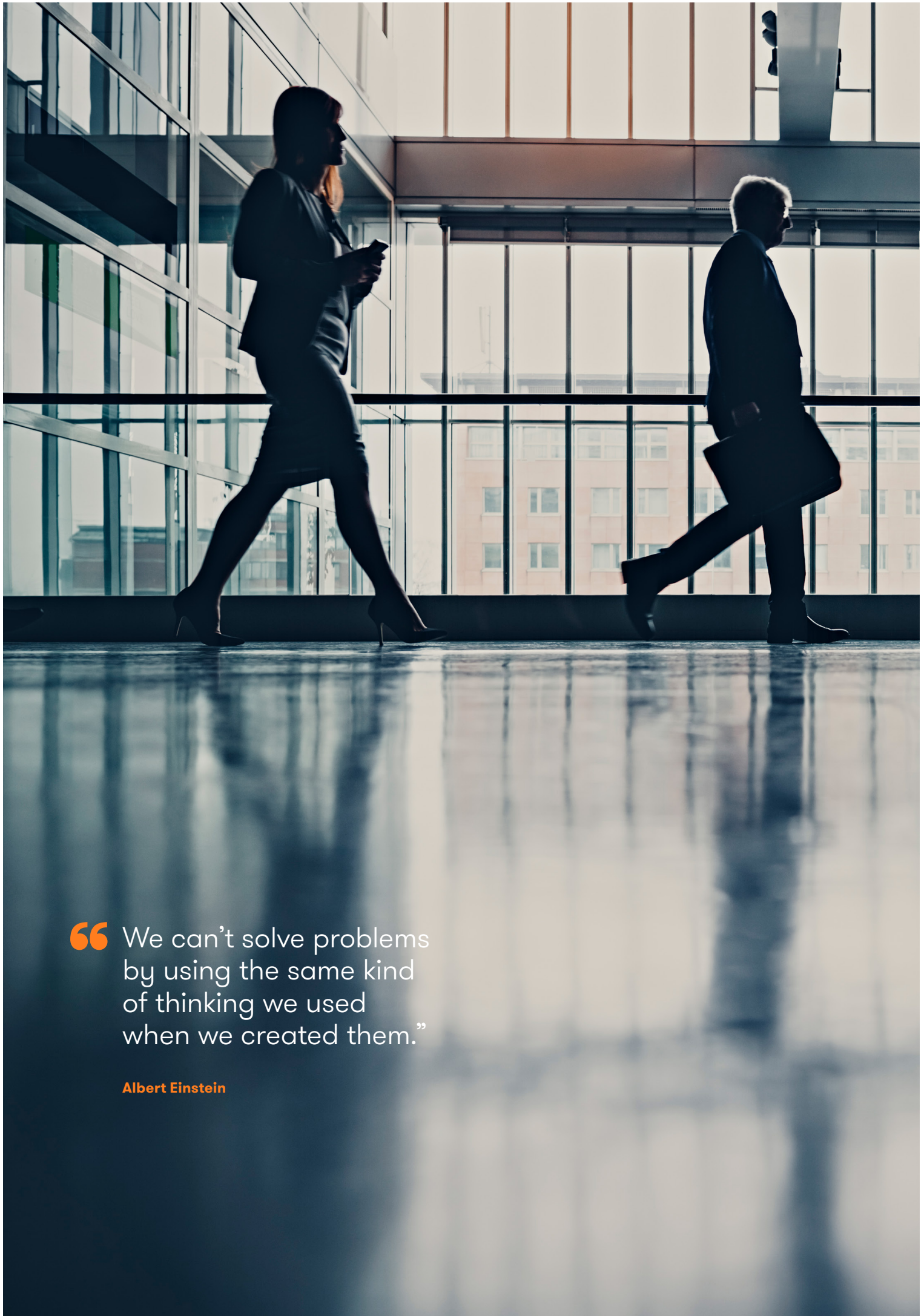


Growth

Diversity of Thought in Family Businesses

July 2017





“ We can’t solve problems
by using the same kind
of thinking we used
when we created them.”

Albert Einstein

Have we lost sight of gender diversity as a growth strategy?

It is clear from our 2017 survey of Australian Family Businesses that a significant number of family businesses see increased gender diversity in leadership as important. Unfortunately, it is equally clear that there are serious limits to what family businesses are prepared to do to make it a reality.

In this year's survey we asked family businesses whether or not increasing women in leadership is a focus for them and what initiatives are in place to encourage more female leaders. And perhaps more critically, we asked family businesses if they see diversity at the top as a growth strategy for the future.



When we reviewed the results of our survey it was unsurprising that 87.72% of the family businesses that responded had a male CEO. What was surprising was 57.41% said there were no barriers preventing their business from having a gender-diverse leadership team. If there are no barriers to women ascending the leadership ladder, it's difficult to explain how 66.67% of family businesses could report that women comprised a minority of their leadership team and that 15.79% reported having no women in leadership positions at all.

Certainly respondents see a trend towards greater diversity with 41.4% expecting women to make up more than half of their leadership team by 2020. However, there is also a strong sense that many may see this change as inevitable rather than something that will require committed cultural change.

The concept of setting gender diversity targets for leadership roles is almost completely absent, with fewer than 2% of respondents reporting having such a benchmark in place. This is in spite of the fact many theorists see setting a gender diversity target as demonstrating commitment to change and a vision for the future.

Around the world the trend towards greater gender diversity in leadership is also progressing slowly. Research from the [Grant Thornton International Business Report](#) reveals that, globally, the percentage of women in senior management teams has risen from 24% in 2016 to 25% in 2017.

While most acknowledge the importance of diversity as a concept, it seems many Australian family businesses do not see gender diversity as a strategy for future growth. Rather the benefits of gender diversity are perceived as being employee morale, performance and productivity (47.37%), marketing and customer service (26.32%), and employee creativity (26.32%).

Respondents were overwhelmingly positive about the outlook for their businesses with 75.93% expecting growth in the next three years. Tellingly, most businesses forecasting growth also reported having leadership training and mentoring programs in place.

Are Australian family businesses not taking gender diversity seriously? Or are they not aware of the benefits of gender diversity in a leadership team or the broader principles of diversity of thought?

Our report looks at the benefits of diversity of thought and why it is being underestimated as a potential growth strategy.

25%

Women in senior management has risen in 2017 (up from 24% in 2016)



87.72%

Family businesses that responded have a male CEO



<2%

Respondents have gender diversity targets in place



57.41%

Open to having a gender-diverse leadership team



47.37%

Employee morale, performance and productivity (perceived benefit of gender diversity)



66.67%

Women a minority in their leadership team



26.32%

Marketing and customer service (perceived benefit of gender diversity)



15.79%

No women in leadership positions



26.32%

Employee creativity (perceived benefit of gender diversity)



41.4%

Expecting women to make up more than half of their leadership team in 2020



75.93%

Respondents expecting growth in the next three years

The power of diversity

The business world, as we know it, has changed and business as usual is no longer enough. For businesses to grow we need innovation. We need to encourage our teams to challenge the status quo. Great leaders have always been defined by certain skill sets, such as vision, confidence and enthusiasm. But the current era demands something more. The new leader must be team orientated, empathetic and intuitive. They must be able to harness the essence of diverse thinking, and share it with employees to develop and capture ideas and solutions that will move the company forward in new directions.

Albert Einstein said “we can’t solve problems by using the same kind of thinking we used when we created them,” which is why diversity of thought is such a key management strategy.

What is diverse thinking?

Diversity of thought is shaped by our culture, background, experiences and personalities. Having a leadership team with diverse thoughts leads to innovation and strategic growth.

Diversity of thought is far broader than just gender diversity. Our survey has touched on one aspect of diversity but the issues uncovered have implications for other forms of diversity as well. Family businesses have great intentions, but for the most part are not serious enough to set metrics and initiatives to achieve diversity of thought.

A good leader is one who knows how to stimulate diversity of thought in their team. Professor Scott E Page has used mathematic models showing that “diversity trumps ability”. To be truly innovative - and inclusive - businesses must focus on harnessing employees’ different viewpoints and opinions. We need to set targets, develop our people and have diversity of thought as a strategy for growth.

What is it businesses need to consider to ensure they have the diversity of thought they require in their leadership team?

1. Consider what skills your leadership team needs to ensure your business has future growth.

A clone of your current CEO is not necessarily what your business requires to grow further. In many cases they have done an extraordinary job growing the business and setting a strong framework. But as industries change, businesses need to keep evolving and the next leader may require a different skill set. Often businesses don’t invest the time to think what that may be.

2. What diversity is required to ensure challenging conversations?

It is important your leadership team reflects your customer base. For example, we have seen some retailers moving to online stores. To implement such a shift it is important your leadership team isn’t made up solely of retailers, but also includes technology specialists and staff with a background in social media and marketing. Including leaders with different experiences and different backgrounds, you can ensure your leadership team will have the kind of challenging conversations that lead to bold new ideas.



“A mixed-gender team brings a broader range of input, help and consideration to bear on big, strategic issues. It’s a vital part of putting your team in a position of strength.”

Francesca Lagerberg

Age diversity in your leadership team is also critical, particularly in the social media and marketing space. You need to understand your younger customers and your customers of the future. This can be challenging for experienced leaders who have run successful businesses a certain way, only to find themselves being educated by young professionals with new perspectives.

3. Set metrics to ensure diversity of thought is achieved.

There is a big difference between good intentions and measurable goals. Once you agree on the diversity you require in your leadership team, ensure your business is held accountable.

4. Invest in leadership development to grow your leadership team and retain high performers.

In analysing the skill sets required for the future, it is important to understand this doesn’t necessarily mean bringing new leaders into the business.

Many family businesses have incredible existing talent within their own ranks. They have often been in the business for a long period of time and believe in the family and business’ values. It is essential family businesses have structured development plans in place that can harness their team’s strengths and also develop areas of weakness.

Francesca Lagerberg sums up gender diversity with “the old-world is being challenged in a way that it’s never been challenged before and risk has become a much more significant factor in decision making. A mixed-gender team brings a broader range of input, help and consideration to bear on big, strategic issues. It’s a vital part of putting your team in a position of strength.”

The time has come for family businesses to consider what diversity of thought in their leadership team requires, set measurable targets and develop their team.

Diverse thinking versus self-orientation

Why are we not considering diversity of thought in family businesses – in particular gender diversity – as a growth strategy? Our survey results showed we are improving slowly and by accident, rather than through a concerted strategic approach. We must ask ourselves, why is this the case? Is diverse thinking being confused with self-orientation? Let's explore further.

The retail sector is an industry where self-orientation has held businesses back. Many retail CEO's started their careers with bricks and mortar retail. As retail increasingly moved online, many traditional retailers resisted the call from less experienced – and frequently younger – leaders to take a greater interest in digital retail.

This is self-orientation in action. Senior retailers who did not understand online retail resisted the move towards a greater digital presence and losing control of their organisation. Their fear blinded them to the opportunities that diverse thinking offered to expand into new and lucrative territory.

The critical ingredient to incorporating diverse thinking and minimising self-orientation is trust.

Trust is made up of four components. What is particularly noteworthy about the trust formula is that self-orientation can undo everything. Trust can be defined as:



Self-orientation

Relates to our caring and is revealed in our focus – ourselves or the group

In our trust equation, increasing the value of the factors in the numerator (credibility, responsibility and intimacy) increases the value of the trust. But increasing the value of the denominator (self-orientation) decreases the value of the trust. Self-orientation – which sits alone in the denominator – is the most important variable in the trust equation. In family business – built on a culture of family values – how can trust play a role?

When family and business are mixed, it's easy for roles to become blurred and for business conversations to be held in the wrong forums. In a corporation, significant decisions would require a business plan, cash flow forecast, detailed budget and a review of the pros and cons. In a family business these ideas could be raised at the kitchen table, on the go or in the midst of a heated discussion. Without having formal family governance there is a far greater chance of new ideas being perceived as self-orientation.

In some cases the incumbent generation show very tough love to the next generation. They want to ensure there is no perception of favouritism. They can also be very protective – they don't want the next generation to have the stresses they have and don't want them to fail. This once again shows a lack of trust in their skills.

In order to decrease the influence of self-orientation and increase the level of trust within a family business, it is important businesses see the value in:

1. Family governance

In a family business, it is important management meetings are separated from directors meetings which are separated from the family council. All meetings have different roles. The management meeting is operationally focused, while directors meetings are strategic and big picture. The family council is designed to keep the family informed, ensure wealth outside the business and facilitate philanthropy.

When proposing a business idea it is important a business plan is presented to the right forum.

2. Business Case

Family businesses have the ability to be agile, but we also frequently find more mature businesses are very risk averse – despite their founders often having risked everything when they started their business! They want to build wealth, not put everything on the line again. So for an idea, a new direction or business diversification to be considered, a well thought out business plan needs to be presented.

3. Develop the next generation

It is critical a structured learning and development program is in place for the next generation, including coaches and mentors. This guidance will provide the expertise – and confidence – to put forward a business case which demonstrates careful thought about how to best provide the business a return on investment.

Today's leaders need to be able to find creative and innovation ways to solve problems. Diversity of thought plays an important role and ensures leaders are challenging themselves and one another to find new solutions. Agility and culture are significant advantages for family businesses, but it is still important ideas are presented in the correct forum and with the right structure to ensure the best odds of success. This level of professional rigour will help break down the barriers of self-orientation and increase trust within family businesses.



Case Study

Australian CEO

I am a third-generation family member of a multigenerational international business. The business was started by our grandfathers. We now have a business across a few continents. We hold a family assembly every two years and it is usually attended by most of the members.

Our family has discussed gender diversity and diversity of thought for many years and some positive steps have been made, but it is a long-term journey. Our delay in addressing the issue was initially due to our culture. Historically, when ladies in the family are married, their priorities change. So daughters were never invited to join the family business; this is not uncommon in Eastern cultures. In saying that, the family always saw huge value in the daughters receiving a good education and in recent times some have embarked on successful careers. Two daughters are now members of the family council.

Times have changed and any family business that wishes to grow needs diversity of thought in their business.

We are not ready to set gender diversity targets; although it would make our family and business more accountable. Some family members still have difficulty coming to terms with the subject of diversity. It is important for any family to build the foundations for successful gender diversity and ensure a positive experience for all stakeholders, because if it is a negative experience, it will be very disruptive.

The family and businesses have already seen the benefits of diversity including quality of decision making, better emotional intelligence and greater objectivity. Our family enterprise is spread across the globe and maintaining contact and growing a business in so many locations is no easy feat.

Historically we have invested in the manufacturing sector. We have begun to diversify investments into other sectors including IT and services. We are introducing diversity of thought, but age diversity and gender diversity are our focus going forward.

Young women in many multigenerational families have begun to see a meaningful career within their family rather than seek alternative options.

Our family is taking small steps, but I know we are heading in the right direction. I am a firm believer that gender diversity is the key to family business growth and all families should begin to embrace the changes in a positive manner.

So where to next?

- Review your leadership team and their successors – do you have diversity of thought in your leadership/future leadership team?
- Have you considered the skill sets your business needs for the future?
- Do you need assistance with diversity of thought in your business?
- Do you have governance in your family business to ensure your next generation have an opportunity to put forward strategic ideas?

Grant Thornton's Family Office Services team are passionate about helping family businesses achieve their full growth potential.



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