

Regenerative family enterprises

**Australian family businesses are
resilient but ready for change**

August 2022

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**STEP PROJECT
GLOBAL CONSORTIUM**
FOR FAMILY ENTERPRISING

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Foreword



Robyn Langsford

Partner in Charge
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I am delighted to bring you KPMG's latest report which delivers a unique perspective on Australian family businesses.

Our report highlights three common characteristics that drive family business performance and continuity across generations, including:

- transgenerational entrepreneurship
- the ability to build and maintain family socioemotional wealth
- adopting a holistic approach to strategy and performance.

These three key success factors compliment each other and, when combined, they enable family businesses to reinvent themselves, stay competitive and drive multi-generational success.

Our Australian report was compiled in conjunction with KPMG's recent global Family Business survey, *The regenerative power of family businesses – Transgenerational entrepreneurship*. KPMG's global survey is the latest collaboration between KPMG Private Enterprise and the STEP Project Global Consortium and seeks to explore the secrets behind the regenerative power of family businesses and their ability to sustain performance and growth from generation to generation.

In an increasingly complex and uncertain geopolitical landscape, amid growing economic uncertainty, family businesses in many ways are the drivers of change in Australia. Progressive, innovative and agile - they are building the long term foundations of our nation.

My thanks to all our clients who completed the survey. I look forward to witnessing their continued transformation of our economic landscape and Australia as a country.

Foreword



Associate Professor Chris Graves

Special Advisor
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KPMG Australia

If there's one thing the last two years have taught us, it's the importance of being resilient! In general terms, resilience is the ability to bounce back after being challenged, hard-pressed, stressed and stretched to breaking point! Like me, I suspect your personal resilience has been challenged due to the effects of COVID-19 – isolation, sickness, strain associated with maintaining the family routine, and perhaps the loss of a family or friend. But what about the resilience required of business families to meet the dual challenges of working together in business (i.e., family + business)?

Power of family businesses, highlights the foundations of family business resilience – and its power to regenerate – through cultivating an entrepreneurial orientation that keeps ahead of the competition during times of uncertainty.

As an academic who has researched family businesses for nearly two decades and worked with KPMG on a number of surveys at a local level, the chance to directly compare Australian family businesses to their global peer group is truly valuable and unique.

This report highlights the key insights that the data comparison offers to family businesses in Australia. Overall, the sector is in a strong and vibrant position but there are challenges ahead and within the data there are indicators of where attention could be paid to further strengthen the resilience of your family business.

Those focus areas include leadership style, diversity in decision making, non-financial performance measurement and cultivating a risk tolerant culture that encourages business regeneration.

Entrepreneurial orientation is a cornerstone of family business regeneration and a key strategy that families can use to avoid the shirt-sleeves to shirt-sleeves in three generations phenomenon.

From the data, Australian family firms would do well to follow their international counterparts in fostering an entrepreneurial spirit across generations. How the current and NextGen can work together to foster future growth and position Australian family businesses for the challenges that lay ahead during these uncertain times should be a key question at the Board room table.

Australia has and needs a strong family business sector - the time is now to plan for their future and their continued contribution to Australia's economic and societal success.

Learning from our global peers

The events of the last two years have tested the strength and resilience of family businesses globally. This has coincided with transformation of business operations, driven by technological innovation, and transitional generational changes in ownership and orientation.

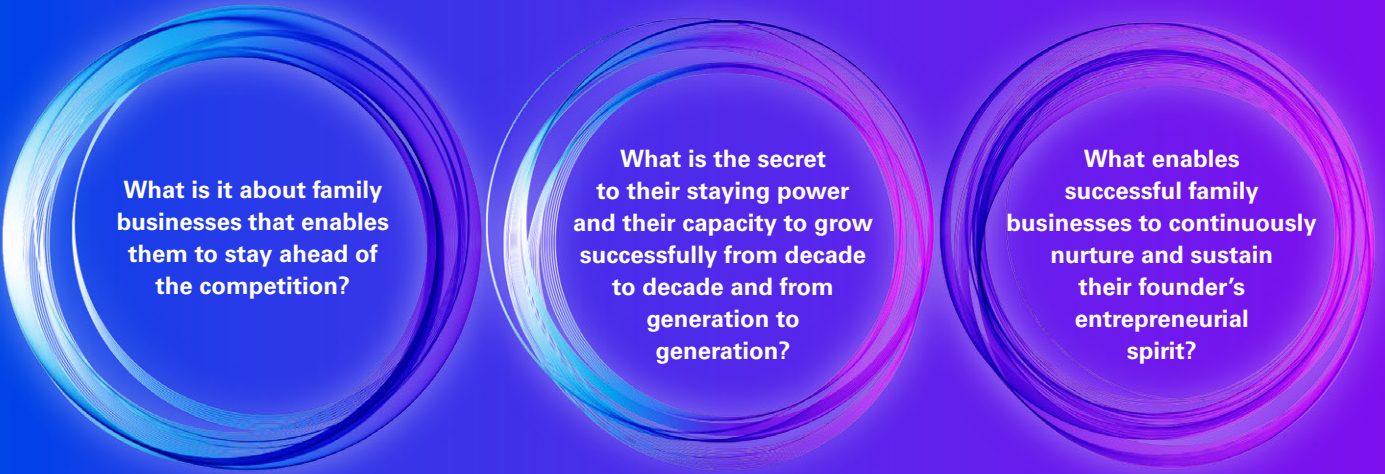
Both ownership and management have been impacted by existential risks, such as climate change and societal shifts towards greater inclusion. Business owners and managers are now responsible for understanding the impact of their activities on their workforce and communities.

Globally and locally, family businesses are recognised as having many attributes that help them to withstand these challenges and remain competitive in the markets that they operate.



But being a ‘family business’ is not enough, understanding the unique attributes that make their model successful and being deliberate in maximising these attributes is increasingly important as shown in the recent survey of 2,439 family business leaders conducted by the STEP Project Global Consortium and KPMG Private Enterprise, released in May 2022.

THE SURVEY – THE REGENERATIVE POWER OF FAMILY BUSINESS: TRANSGENERATIONAL ENTREPRENEURSHIP – SOUGHT TO ANSWER THE FOLLOWING QUESTIONS:



What is it about family businesses that enables them to stay ahead of the competition?

What is the secret to their staying power and their capacity to grow successfully from decade to decade and from generation to generation?

What enables successful family businesses to continuously nurture and sustain their founder's entrepreneurial spirit?

With a broad response across 70 countries, the survey offered the opportunity to compare family business responses at a country level with their global and regional peers.

The following shares the knowledge gleaned from our research and the implications for family businesses in Australia.

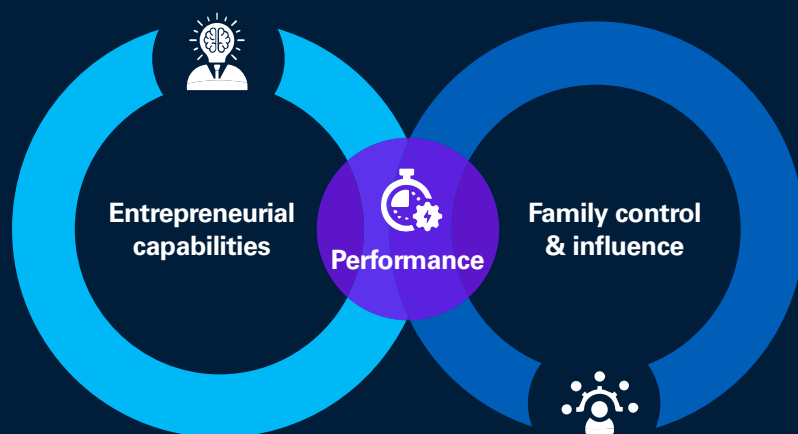
The 'secret sauce' of family business success

We compared global and Australian family businesses to understand the 'secret sauce' of success. What can Australian family businesses learn from their global counterparts? What ingredients should they add to their own 'secret sauce'?

KEY FINDINGS

Our survey identified three main ingredients – **high entrepreneurial orientation, strong holistic performance** with alignment to the founder's vision and the family's capacity to influence success by having a deep **emotional attachment** to the business, based on a strong identification with the business as family owners.

Their formula for success



**Strong entrepreneurial capabilities + the family's positive influence
= strong business, social and family performance**

Within each of these three factors, the following fuelled regenerative power and performance:

- keeping the founder's entrepreneurial spirit alive
- encouraging the next generation to be proactive, innovative and calculated risk-takers
- reinforcing the emotional value of owning and managing the family business beyond financial wealth
- embracing a motivational style of leadership
- making business and family success equal priorities.

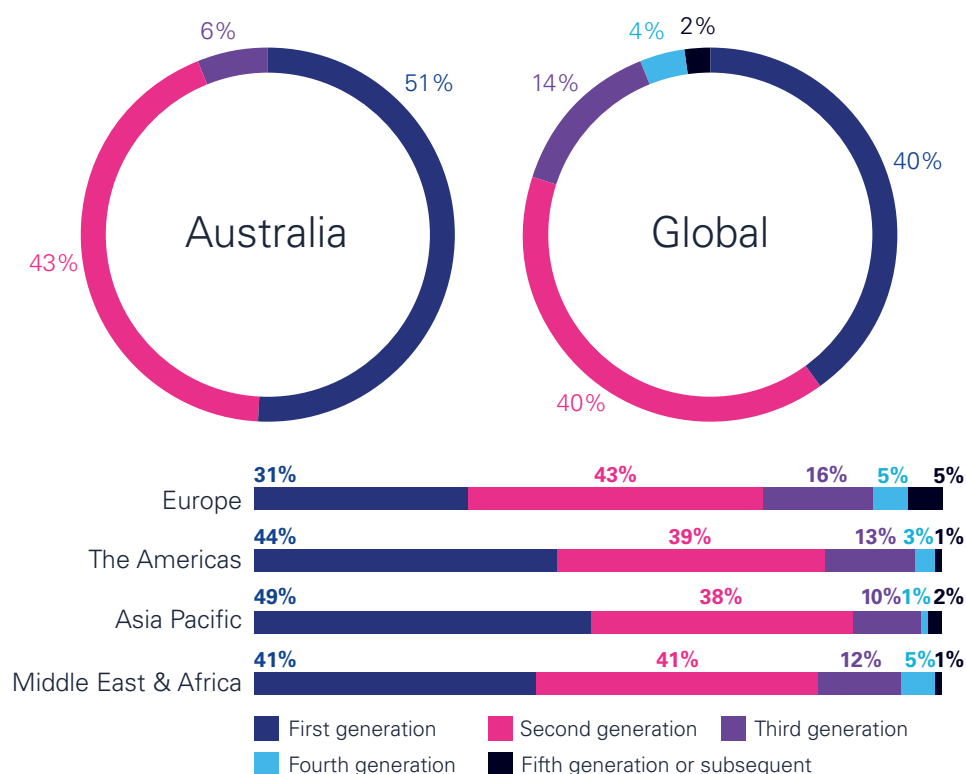
What follows is an examination of how Australian businesses compared to their Global peer group as part of the study and what learnings family businesses and family enterprises in general may derive from this comparison.

Demographic differences

For nearly twenty years, KPMG in Australia has compiled data from across the family business sector. Gradually, over that time, there has been a steady transition of the management, control and ownership of Australian family businesses from first to second and subsequent generations

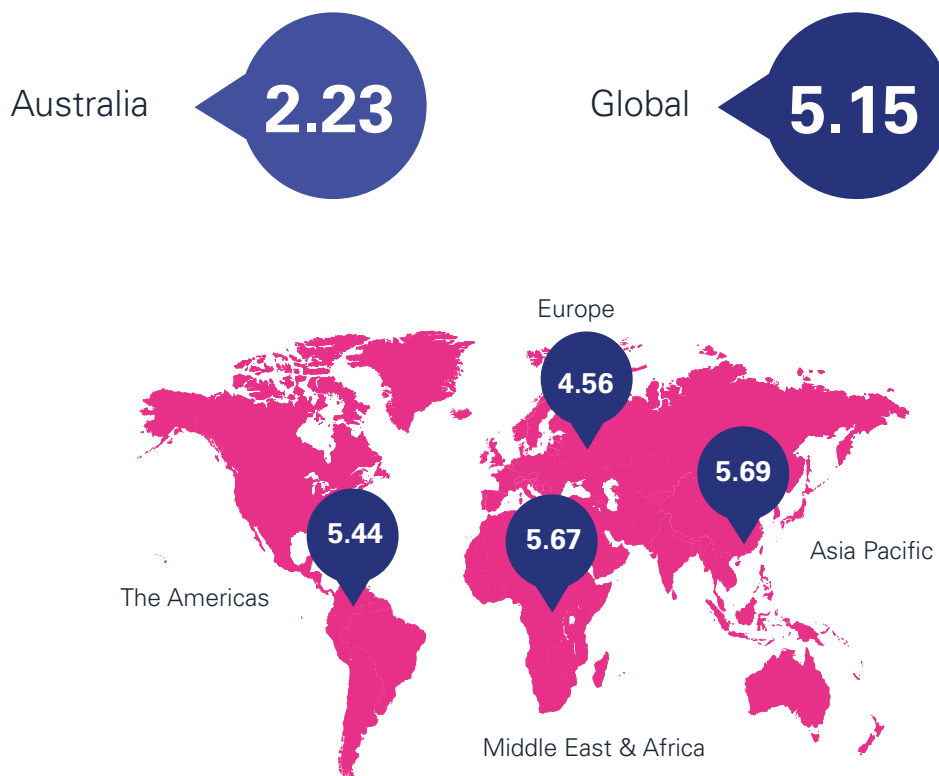
However, in line with other surveys of family businesses, the percentage of survey respondents, in Australia, representing the first generation of owners was higher as a percentage than the global peer group at 51 percent compared to 40 percent of the Global cohort. The lowest percentage were those representing European family businesses at 31 percent, which coincided with the highest percentage representing third generation and above at 26 percent.

WHAT GENERATION IS CURRENTLY MANAGING THE BUSINESS?



Accordingly, it was not surprising to see both that the level of family involvement, represented by number of individuals in the family that had ownership of shares, was lower at 2.23 (on average) than the Global peer group average of 5.15 and that the number of businesses where only one generation was active in the business was higher at 75 percent compared to 65 percent globally.

HOW MANY INDIVIDUALS IN THE FAMILY (ON AVERAGE) OWN SHARES?



What was also striking was the significant male gender bias of CEOs at 94 percent compared to the Global average of 81 percent and the representation in the Americas at 75 percent.

Putting this analysis in context of the survey, helps us to compare the responses of the Australian cohort with their peer group and suggest what Australian family businesses may learn from their Global peer group to help sustain their family business' success into the future.

In short, based on this cohort, one would expect the survey responses to be a greater reflection of the 'founder', as 'patriarch' with a distinct focus on the 'operating business' as the main source of growth and concentration.

To some extent this overview proved accurate, but it also highlighted the potential areas for focus to ensure the future sustained performance of the business.

Entrepreneurial Orientation

Previous research conducted by [the STEP Project Global Consortium 2019 Global Family Business Survey](#) suggested that the continuity of the ‘entrepreneurial spirit’ within the family business was vital for sustained business success and enabling competitive advantage.

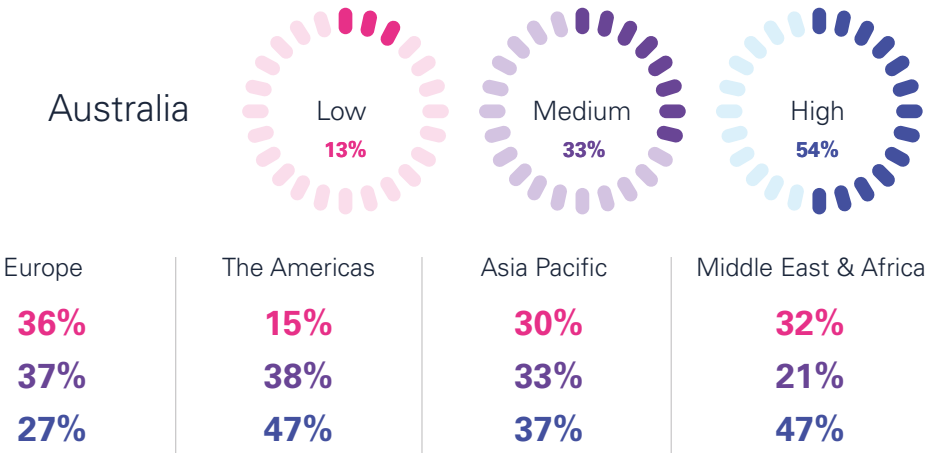
At the founder level, the first-generation owner, the entrepreneurial orientation that started the business typically remains vibrant as the business grows and expands. But how does this manifest as the family business changes ownership and management?

More specifically, our respondents were asked to consider:

- To what extent does the family business invest in new products, services and processes?
- How willing are they to find and develop untapped markets?
- How forward thinking is the business in seeking out new opportunities? Do they lead, rather than follow others, in the competitive environment?
- How willing was the business to take measured risks?

In keeping with the founder prevalence, over half of Australian respondents identified as having a high level of entrepreneurial orientation, this being greater than all other regions - the next highest entrepreneurial orientation being the Middle East and The Americas (47 percent).

WHAT IS THE OVERALL LEVEL OF ENTREPRENEURIAL ORIENTATION IN YOUR FAMILY BUSINESS?



However, there is much to unpick from the detail. For entrepreneurial orientation, the survey measured *the level of willingness* to innovate, proactively lead and influence markets and embed risk-taking as a necessary element of success. When broken into these three separate component parts, Australian family businesses were 'well rounded' without a higher orientation towards one or other facet, as compared to their global peers.

Across each of these three separate factors Australian survey respondents demonstrated

- relatively low levels of risk-taking in their business compared to global peers
- significantly less pro-activity than their peers in the Americas
- low levels of innovativeness.

But as an overall orientation, the cohort exhibited a strong emphasis on each aspect which, in combination, provided the high level of entrepreneurial orientation suggested.

For Australian respondents, risk-taking is the predominate driver with the highest level of orientation to this factor. Being bold and having a propensity to pursue higher risk projects with the chances of very high returns. It is quite possible that entrepreneurs see themselves as 'taking risks' by the very nature of starting and building a new business.

This is borne out by the survey's number of first and second generation businesses with fewer family owners. These close ties and alignment to the business founder are often key factors to a risk-taking mindset.

For these family businesses, they must consider what 'risk taking in future generations' means. It may be less about growing the business, and more about changing the nature of the business, through 'digital transformation' and/or diversification into new ventures and assets.

It will require family businesses to understand how their business model will be affected by 'digitisation' and changing consumer behaviour.

To do so may require a different set of skills from those of the founder, potentially encouraging greater diversity at a board level and an adjustment to the leadership style of the CEO and family as whole.

KEY QUESTIONS TO CONSIDER

- How is your business looking for new untapped opportunities?
- Are you exploring new products and services to meet future market needs?
- Is your company investing in Research & Development (R&D)?
- Think also about the fact that there is a shift in Australian demographics. As the census 2021 results showed recently, millennials have exceeded baby boomers for the first time. In this generation, women are particularly 'digitally savvy'. How are you capturing this innate talent within your family to inspire technological innovations?

Leadership styles and adaptation

All leadership styles have their place in driving performance – depending on the stage of the family, the lifecycle of the business and market disruptions. What is important is capacity and ability of the leader to change their personal leadership style when necessary to maintain momentum in business performance and positive family engagement.

Survey respondents were asked to choose their preferred or more prevalent leadership style:

A transformational leadership style can transform or change the basic values, beliefs and attitudes of followers so that they can perform beyond expectations.



authoritarian – paternalistic and reflected in authoritarian, instructional, and hierarchical behaviour



transformational – changing the basic values, beliefs and attitudes of teams, leading to them being willing to perform beyond expectations



charismatic – inspiring and motivating teams who have trust in the leader, a sense of collective identity and empowerment

Australian respondents identified transformational leader as the prevalent leadership style (50 percent), followed by authoritarian, with charismatic being relatively low (globally, charismatic was the second preference).

In contrast, the survey respondents from Europe had the lowest level of authoritarian leadership as a preferred style, perhaps as a consequence of the larger percentage of survey respondents being from second and subsequent generations. The nature of authoritarian style of leadership being to some extent a product of the drive and centrist perspective of first generation entrepreneurs.

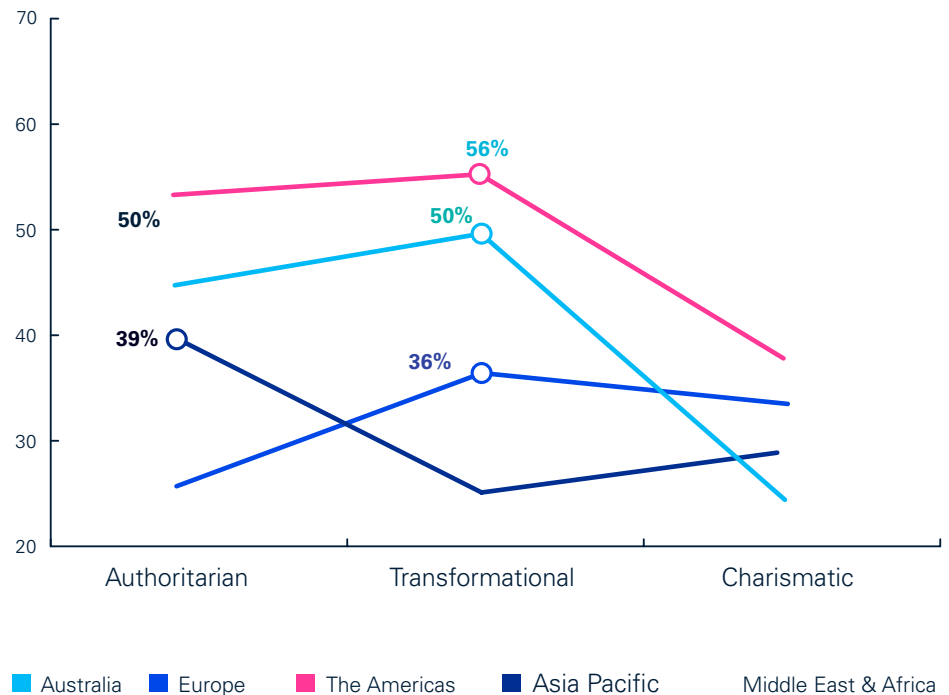
At a global level, a transformational leadership style was the overall preference of CEOs across all regions. Companies led by transformational leaders typically deliver good financial results as well as social and environmental progress, while also building the family's loyalty and identification with the business.



Of Australian respondents identified **'transformational leader'** as the prevalent leadership style. A transformational leadership style typically delivers **'high performance'** in family businesses.

Our view is that for most family businesses, there is insufficient focus by the leader/s on adopting and adapting their leadership style for their family dynamics. With a greater emphasis on family leadership, the overall impact on business performance is greater in the long term.

WHAT IS THE PREVALENT LEADERSHIP STYLE IN YOUR FAMILY BUSINESSES?



Is our leadership style still relevant to our business' future?

The survey highlights that underperforming businesses may need to consider whether it is time to revitalise the leadership of the family business. It is important to note this does not necessarily mean a new leader. It could be:

- a renewed or different perspective on leadership
- investment in developing leadership capabilities and self-awareness
- expanding or contracting the leadership group - as it relates to the family – and the family's role
- the family reflecting and recognising what leadership is really all about and the style that is required
- the family needing to adapt to leadership / having a leader.

KEY QUESTIONS TO CONSIDER

- What is my natural leadership style? (This may require receiving insights from others.)
- How impactful is my leadership style? Where/how might I adapt my natural style to achieve better outcomes? (Or why is my style not working?)
- What / who is part of the transformational change that I am leading:
 - To what extent is it the business and employees?
 - To what extent is it 'the family'?
- Has the potential of new leaders been identified and tested? How are you preparing your next gen leaders to take future leadership roles?
- Do you understand the full range of skills available to the family business?

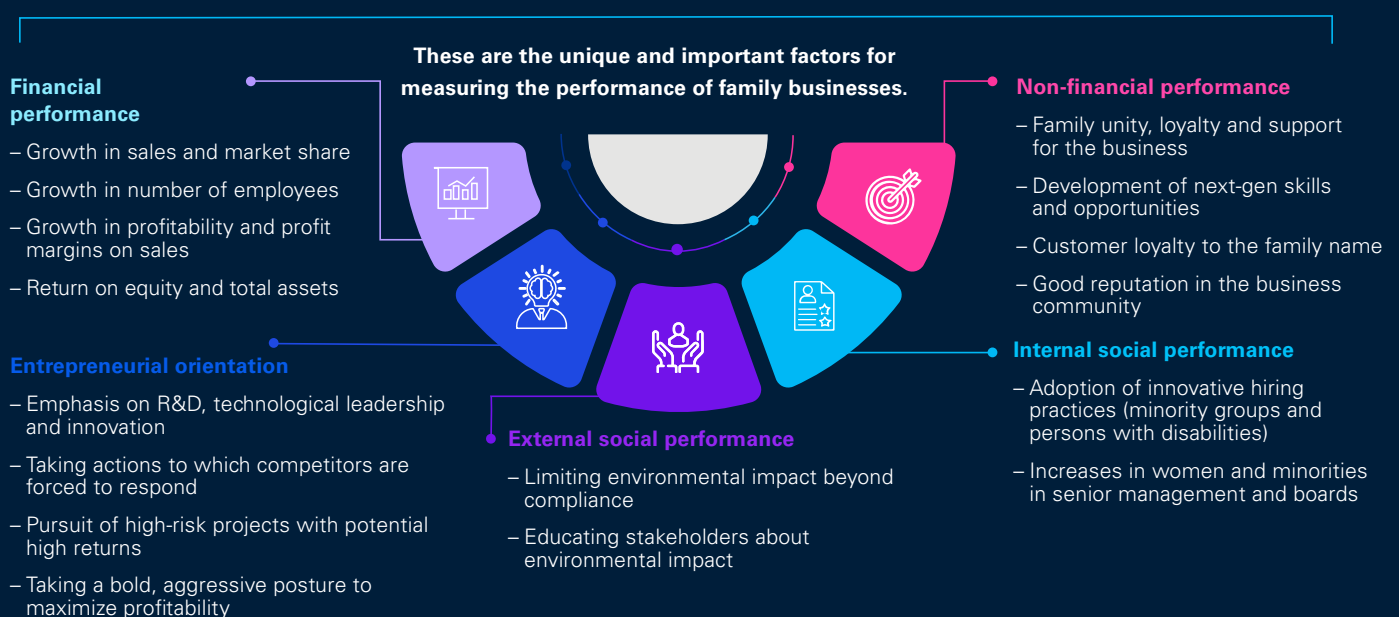
Measuring family business performance

What we see as important – but feel is often overlooked – is family businesses answering the question: what does success ‘look and feel’ like in your family business? It is a question that is not constrained by reference to financial performance – to a large extent that speaks for itself – but should include the more emotive elements that made successful family businesses incredibly resilient and durable.

The ‘family business factor’ or ‘secret sauce’ that continues to allow family businesses to thrive is not measured by financial performance alone. The inherent worth to a family of its association with a successful business offers significant benefits both socially, psychologically and economically.

The Global survey highlighted how important it was to have a ‘holistic’ view of performance.

STRIVING FOR PEAK PERFORMANCE



There is now a much greater emphasis on a business' social performance (e.g. environment impact, supporting marginalised groups, increases in the number of women in leadership roles). To a large extent, and to a greater or lesser degree, an awareness of Environmental, Social and Governance (ESG) issues have long played an important part in sustaining family businesses through difficult times.

The interplay between the business and its impact on the external community through local employment, environmental footprint, for example, carry great weight and reputational risk is carried not just by the brand of the business but by the name of the family as well.

It is in this area that the survey has unveiled some potential weaknesses for Australian family businesses compared to the results of their global peers.

In the realm of external social performance, Australian survey responses indicated the lowest

level of performance other than respondents in the Middle East and Africa. Similarly, internal social performance (e.g., demonstration of diverse hiring practices) was also poor with the lowest recorded level of performance as compared to the four main geographic regions. To some extent, this may be explained by the male gender bias at the CEO level and the fact that ESG awareness may be less profound at the level of the first generation of business owners.

Internal social performance includes proactive engagement with staff on work conditions and workplace culture. Attention to this area is important in context of current tight labour markets and the need to retain staff. It may also be more critical dependent upon the industry in which the family business operates – service industry businesses with a high level of customer interaction being one obvious example.

KEY TAKEAWAY

A FOCUS ON THE BUSINESSES' SOCIAL PERFORMANCE WILL ENHANCE FUTURE FINANCIAL PERFORMANCE.

To dismiss the relevance of non-financial performance measures, particularly in view of their external optics would be unwise. Now, more than ever, all businesses are being held to higher standards by their customers, suppliers and their communities – successful family businesses continue to work hard to fulfill their social contract.

STRONG FINANCIAL PERFORMANCE COMES FROM PAYING ATTENTION TO NON-FINANCIAL PERFORMANCE

KEY QUESTIONS TO CONSIDER

- Have you thought about the linkage between strong non-financial performance and financial performance in your business?
- What factors are you measuring?
- Should you broaden out the measurement of performance to include external and internal social dimensions?

Family engagement and commitment

We have known for some time that the extent of a family's positive influence on the business is a critical component for strong business performance. In KPMG's 2018 Family Business survey, [*The Balance for Success*](#), families that exhibited a high level of socioemotional wealth (SEW) were more likely to retain the business in the family and less likely to seek to exit or close their business.

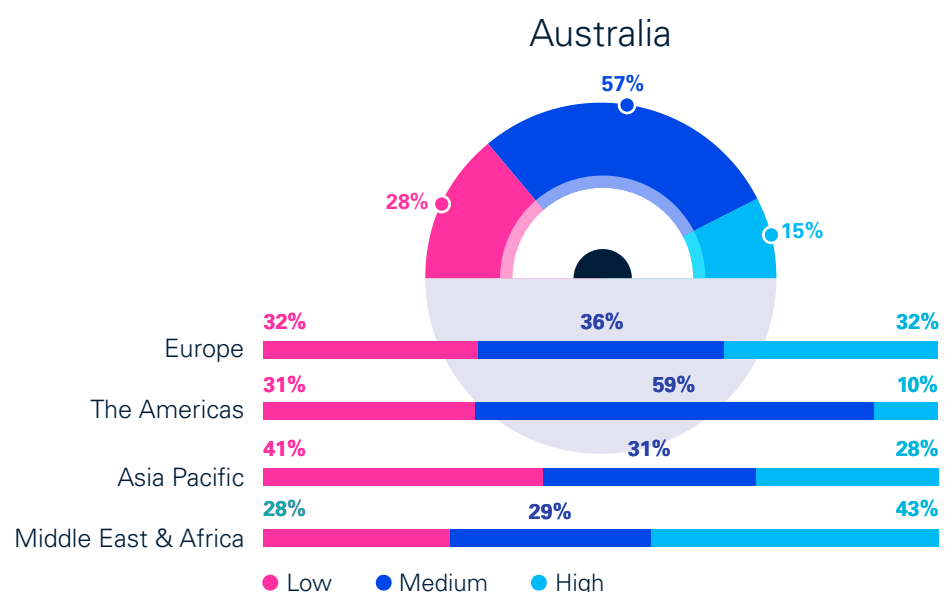
For families that are looking to maintain an inter-generational family business – the majority of our survey respondents – paying attention to the value of the family's SEW is critically important.

A key characteristic is that these families place equal focus and investment (time, energy, commitment) to both the business and the family.

We would suggest that if family control and influence is not handled with care by the family, the ability for the family to create and foster a positive identification with the family business and an emotional attachment is greatly diminished.

Pleasingly, from an Australian perspective, close to three quarters of respondents had a medium to high level of social emotional wealth (i.e., the emotional value that the family derived from owning and managing the business). This result was the highest of all regions, on par with the Middle East and Africa. With this strong foundation, family businesses should reinforce this competitive advantage by continually investing time and energy to the family's emotional attachment to the business.

WHAT IS THE OVERALL LEVEL OF SOCIO EMOTIONAL WEALTH IN YOUR FAMILY BUSINESS?



The predominate socioemotional connection with the business was through family control and influence – i.e., control in terms of majority ownership, strategic decision making, and direction of the business. Again, it is worth reflecting on the low numbers of family members (average 2.23) with an investment in the equity of the family business and a small number of participants as owners compared to global peers, the capacity to set solid foundations through well designed governance infrastructure that cascades, is a great advantage that Australian family businesses should seek to exploit.

KEY QUESTIONS TO CONSIDER

- How well are your family members connected to the business?
- What are the ways you can keep family members engaged to build your SEW?
- Remember the census results – your next gen family members are naturally more literate in technology – how can you bring them in to educate you and embed their respect and attachment to the business?



Review governance arrangements

Australian family businesses stand-out as outliers to global counterparts in two key areas that could, if not considered, derail future growth and lead to entrenched 'authoritarian' styles of leadership.

In 2018, the [KPMG Enterprise and Family Business Australia \(FBA\) survey](#) found that 28 percent of respondents had a family charter/constitution or code of conduct – and this was down from 31 percent in 2015.

The trend continues in 2021 – with our survey [“Australian Family Businesses – Transition, Diversity and Entrepreneurship”](#) showing that only a minority of family businesses in Australia have family boards and only eight percent have formed a separate 'family council' compared to nearly a quarter of family businesses globally.

Family businesses that adopt at least one family governance mechanism (formal family meetings, family constitution, family council or family assembly) are more likely to exhibit higher levels of Entrepreneurial Orientation compared to family businesses that have no family governance mechanisms in place. It's time for Australian family businesses to move governance and estate planning to the top of the agenda.

In Australia, with the survey respondents representing primarily first generation family businesses, with male CEO's, future success may depend upon the willingness of the founder to embrace the idea of having a board structure.

With an ever increasing proportion of successful family businesses in Australia now moving into second and third generation ownership, or involvement in the business, getting governance arrangements right should be a key priority.

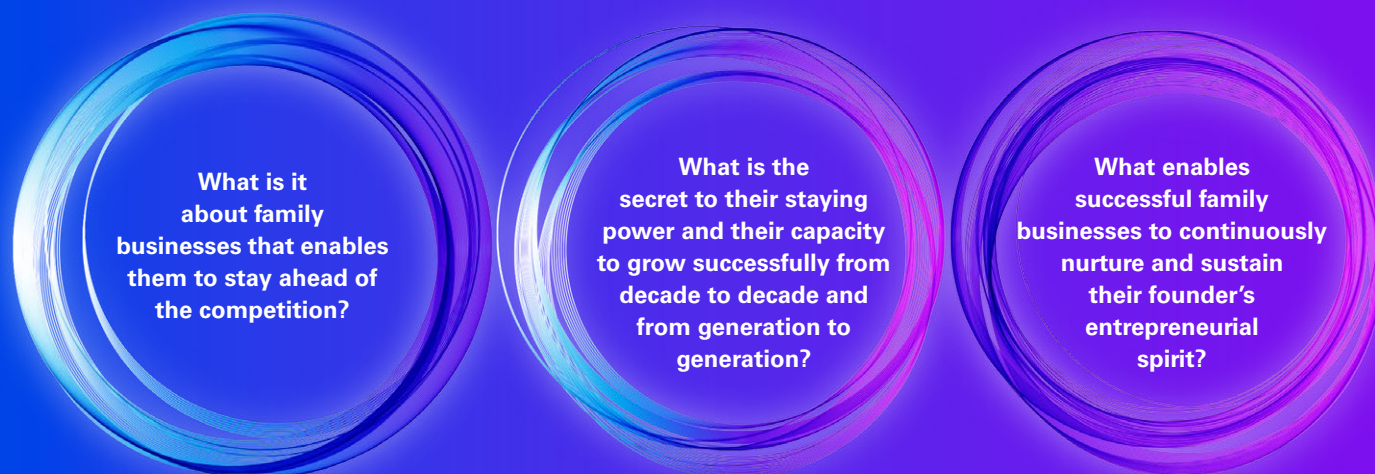
In context of how this affects the make-up of the family business secret sauce, good governance can offer a diversity of views, the encouragement to think more broadly and the capacity to manage experimental risk-taking.

KEY QUESTIONS TO CONSIDER

- What is stopping you from forming a family board or 'family council'?
- Experimental risk-taking is key to innovation, what governance do you have around this?
- Is an authoritarian style of leadership slowing you down?

Committing to change

Globally, the survey posed three questions



Families who continued to remain competitive and forward thinking have the following distinct characteristics:

- they consciously sustained entrepreneurial ambition and flair
- they had an adaptive approach to leadership and governance that allowed for measured risk-taking
- they cultivated a deep commitment to the business from the family itself, exhibiting a high level of 'socioemotional' wealth
- they recognised the value of both strong financial performance and the importance of 'non-financial' measures, such as broad diversity and inclusion.

The Global survey shows that family businesses continue to be resilient with an impressive power for regeneration. Cultivating an entrepreneurial orientation, they succeed in staying ahead of the competition, even in uncertain times.

By comparing Australian family businesses with their global counterparts, we see that the sector is in a strong position but there are challenges to face and gains to be made.

5 key actions

To stay on the front foot, Australian family businesses should focus on 5 key actions:



By learning from their global counterparts and fostering an entrepreneurial spirit, Australian family businesses will continue to thrive for generations to come.

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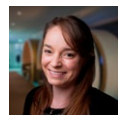
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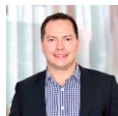
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