Family Business Survey 2023

Transform to build resilience

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Family businesses in New Zealand have shown huge resilience over recent years and remain an integral part of the economy. However, factors such as demographic changes, the evolution of technology, and environmental considerations are changing the business landscape, and family businesses need to adapt and transform in order to remain relevant and resilient. We surveyed 52 key decision-makers in family businesses across New Zealand to understand what their current priorities are and what they're planning for in the future.

Building resilience

Only 35% of business leaders surveyed said they will focus on improving their digital capability over the next two years, while 17% said they are actively working on reducing their carbon footprint. To ensure that long-term resilience is built into their governance, business operations, and reputational decision making, family businesses need to look at the risks to their business and develop strategies that take into account changing legislation, technology evolution and new ways of working. Family businesses must step up their game by clearly demonstrating their efforts in areas that are important across generations – for example; their purpose and meaning, their investment in sustainable business practices, their focus on creating an inclusive workplace or their investment in new technologies – to build resilience and secure their legacy.

Most family businesses in New Zealand will need to transform as they navigate the changing world around them. They must evolve and improve policies and practices, revisit their priorities, and communicate visibly and consistently with diverse stakeholders about the actions they are taking. In this report, we take a look at four important areas – governance, workforce, sustainability and technology – where resilience can be built to ensure family businesses remain competitive.

What did we learn?

Despite current market uncertainty, over two thirds of businesses in New Zealand expect to grow over the next two years, and the majority have clear governance and a company purpose in place. However, only 50% believe that they can lead in sustainable business practices, and just 35% will be focussed on improving their digital capability over the next two years.

69%

Expect to see growth over the next two years

52%

Feel they have strong digital capabilities

90%

Have some form of governance policy in place

50%

See the opportunity to lead in sustainable business practices

80%

Have a clear company purpose

Owen Gibson
Partner, Family Business Leader, Wellington

Anand Reddy
Partner, Family Business Leader, Auckland

Damian Tuck
Partner, Family Business Leader, Auckland

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The family-owned business sector is critical to the New Zealand economy, and we congratulate PwC on producing this report. We know from our experience at ANZ that family-owned businesses tend to have a long-term view of their operations which can contribute to greater economic stability. By prioritising sustainability, community involvement and building long-term relationships with customers, suppliers and employers, family owned businesses in New Zealand will continue to thrive.

Lorraine Mapu, Managing Director Business and Agri, ANZ New Zealand

Sustainability and climate change

35%

of family businesses have an agreed and communicated ESG strategy

29%

have a person or team responsible for ESG

2%

say they are putting a lot of focus on ESG

17%

say they are actively working on reducing their carbon footprint

While the results of the 2023 Family Business Survey were collected before the Auckland Floods and Cyclone Gabrielle, they show that only 35% of family businesses in New Zealand considered themselves advanced or on the way to advancing a clear ESG strategy. While larger businesses, such as banks and insurers are now mandated to disclose their climate strategy, family businesses are yet to make sustainability and climate change a priority as part of their broader ESG approach.

The importance of sustainability and climate change planning and reporting has increased in recent years, with investors, customers, employees and regulators pushing for more transparency and accountability in these areas. This means that businesses, including family businesses, need to take their approach seriously to ensure they are resilient to changing trends and regulation.

Being proactive

As banks and insurers turn their focus to climate reporting, there are significant benefits for family businesses in changing their game now. Already we are seeing pull factors from banks that are offering significantly better rates of lending to companies that can prove their sustainability and climate change credentials. Over the next few years, we are likely to see this approach widen, not only to encourage a proactive approach to sustainable practices, but to discourage apathy in this area. Family businesses may well find in a couple of years that they are actively penalised by banks and insurers for not having the appropriate policies and actions in place.

This is in part because Climate Reporting Entities – the banks and insurers – will soon be asked not only to account for their own emissions (Scope 1 & 2), but for those of their supply chain (Scope 3). Organisations will need to provide information on their own greenhouse gas emissions to inform bank and insurer disclosures. With only 17% of family businesses actively working on reducing their carbon footprint, many will benefit from focussing on this now, so they can respond to their bank or insurer down the line.

More broadly, we are seeing much stronger signals from offshore investors requiring businesses in New Zealand to be very clear on their ESG strategy and ambitions. This includes environmental factors, such as emissions, energy efficiency, and water use, as well as wider ESG issues, including ethical supply chain (labour conditions and modern slavery risk), diversity and inclusion, governance and transparency. Going forward we expect these issues will have a direct impact on access to capital.

Building resilience

Beyond the incentives provided by investors and underwriters, climate change risk is becoming increasingly important for family businesses to understand for their own resilience. Physical climate change impacts, such as supply chain security and asset and property damage, is a clear risk for many businesses, and not just in sectors such as food and fibre where the impact is already visible. Family businesses also need to be aware of transition risks such as changing capital costs, consumer sentiment, and demand. Companies that lag behind their competition run the risk of becoming obsolete in the face of change and need to develop mitigation strategies accordingly.

Creating brand equity

Considering how their sustainability story can help build brand equity, will support family businesses on this journey. The values and purchasing decisions of customers, particularly millennials and gen z, differ to those of previous generations, with a strong emphasis put on organisations with a clear purpose and sustainability credentials. With only 2% of family businesses putting a lot of focus on ESG as a whole, there are huge opportunities for organisations that prioritise their approach to sustainability and climate change and communicate this clearly and authentically to their customers, suppliers, stakeholders and wider community.

While ESG, and in particular, sustainability and climate change, may not have been a priority for family businesses in the past, this needs to change. Waiting to prioritise ESG until it becomes a compliance obligation is not a wise strategy. By understanding their position and developing mitigation strategies, family businesses can protect themselves against climate change risk and access new opportunities in the future.

Actions to consider now:

- Understand your exposure to climate change risk – including your emissions profile, your exposure to ethical supply chains and your workforce wellbeing risks
- Understand the story you want to tell and what you want your position to be
- Be true and authentic in the story you're telling

By developing and implementing the right sustainability measures, family businesses in New Zealand will continue to prosper, build resilience, and make a valuable contribution towards the long term prosperity of the country and the planet.

Andrew Jamieson
Partner, Sustainability & Climate Change
+64 21 711 641
andrew.x.jamieson@pwc.com

Annabell Chartres
Partner, Sustainability & Climate Change
+64 21 799 927
annabell.l.chartres@pwc.com

Governance

59%

of family businesses have only family members on the board

70%

see a high level of trust from family members, dropping to 45% in younger generations

40%

of boards do not have representation from another industry or background

62%

of boards have no members under 40

Family businesses have always been an important part of the economy in New Zealand, and they continue to play a vital role in the country's growth and development. However, governance is still not regularly a focus for family businesses, and is often viewed as a legal requirement rather than a contributor to business success. With changing demographics, regulatory landscapes and market trends, family businesses need to be aware of the challenges and opportunities that lie ahead and adapt their governance to build resilience in their business.

Family and corporate governance

The 2023 Family Business Survey results show that there is a high level of confidence within family businesses towards the board, particularly among members of the same generation. However, this tends to be lower with professional management or when generational differences arise. Family businesses in New Zealand have smaller boards and more tightly controlled governance structures than their global counterparts. Nearly 60% of boards in New Zealand have only family members represented, compared to around 50% in Australia and 30% globally. While this may enhance the high levels of confidence between family members, it can also create challenges. Family businesses must be prepared to adjust and respond to the evolving values and drivers of the next generation of family members, employees, and customers.

To do this, family businesses need to start thinking about their long-term goals and strategies, both for the family and the business. Developing a long-term family strategy will help to clarify and communicate the family values and purpose – framing up long-term family and intergenerational goals. Starting with the family commitment, this can then be filtered down into a clear set of values and a purpose for the business, helping to ensure that everyone is on the same page and working towards the same goals. It's important to maintain clear and separate family governance and corporate governance structures and to identify a person responsible for each.

Getting the governance structure right

The line between corporate governance, which involves managing the company and creating wealth, and family governance, which focuses on family dynamics and relationships, appears to be less clear here than elsewhere. In New Zealand, 52% of family businesses have identified a person responsible for corporate governance, compared to 68% in Australia, indicating a relatively lower emphasis on corporate governance. Family governance is also a lower focus in New Zealand, with 37% identifying a person responsible for family governance, as opposed to 47% in Australia. However, having these roles in place will aid better decision making through clearly defined responsibilities, helping to build and retain confidence in those running the business.

Upskilling family members

Beyond the board, wider family involvement in the business should also be considered through a strategic lens to enable clarity, understanding and confidence for all family members. There should be clear policies around how family members are brought into the business and trained for their roles, considering the needs of the business and the availability of positions. This will create an environment where family members can thrive, and allow professional management to succeed in supporting the overall family goals.

Family members should be provided with the right training and support to build up their skills for a role as a manager or director, and this should be considered through education, upskilling outside the company and professional training on the job. With clearly defined succession paths, professional management can play an important role in providing this training and support, creating clarity for the management team and a pathway to success for the family member.

Enhancing reputation

One of the biggest drivers of success for family businesses is reputation. Many family businesses in New Zealand still have the family name on the door and are intensely passionate about the family and business brand and reputation. Governance discussions should focus on how to protect the brand and the family name in a world where perceptions are changing, and where new generations may have different values and priorities. Having a clear set of family values and goals, as well as a well articulated business purpose – that takes into account diversity, equity and inclusion (DEI), and environmental, social and governance (ESG) factors – will help to enhance the reputation of the family brand and build longer-term resilience into the business.

Actions to consider now:

- Think about your long-term goals and strategies for both the family and the business
- Put clear and separate family governance and corporate governance structures in place
- Create a succession plan that takes into account education and upskilling for family roles
- Develop and clearly communicate your values and purpose

With these governance measures in place, family businesses in New Zealand can continue to thrive and contribute to the country's growth and development.

Owen Gibson
Partner, Family Business Leader, Wellington
+64 21 599 818
owen.d.gibson@pwc.com

New technologies

35%

of family businesses will be focused on improving their digital capability over the next two years

52%

believe they have strong digital capabilities

17%

are very advanced in how they respond to data or privacy breaches

10%

actively protect and consistently communicate about how they use private data

The Covid years had a positive impact on the implementation and use of technologies in the workplace, and the 2023 Family Business Survey shows that 52% of family businesses in New Zealand believe they have strong digital capabilities, compared to 42% globally. While digital transformation has clearly occurred over the past three years, that transformation is far from complete, as the newest wave of technologies make it easier for businesses to operate – enabling them to streamline processes, increase efficiency, and reduce costs.

35% of family businesses say they will be focused on improving their digital capability over the next two years. Yet, the pace of technological change is increasing, and businesses that fail to keep up risk being left behind. New technologies that are already impacting the way we work include AI, blockchain and the metaverse. Family businesses will need to really focus their digital efforts, creating a culture of innovation and a willingness to experiment with new technologies, if they want to increase resilience and stay competitive.

Embracing the potential of AI

The emergence of AI, blockchain, and the metaverse presents a paradigm shift in the way we do business, and as these technologies continue to evolve, family businesses need to think about how they can leverage them. AI is already transforming the way businesses operate, enabling them to automate tasks that were once considered impossible. From data analysis to customer service, AI has the potential to revolutionise every aspect of business.

AI also enables businesses to make data-driven decisions. By analysing large volumes of data, AI algorithms can identify patterns and trends that are difficult for humans to detect, which enables businesses to make informed decisions based on data rather than intuition. The technology is already available and becoming increasingly accessible to businesses of all sizes. We're already seeing the possibilities through ChatGPT and other AI programmes and we expect the evolution of these technologies to happen at speed, creating opportunities far beyond our existing capabilities.

Creating efficiencies through Blockchain

Blockchain is another technology that is changing the way we do business and should be on the agenda for family businesses to understand. It provides a secure, transparent, and decentralised way of recording transactions, making it ideal for use in industries such as finance and supply chain management. For instance, blockchain technology can be used to track the movement of goods in a supply chain, enabling businesses to identify the source of any issues, such as delays or quality problems quickly.

Blockchain also enables businesses to reduce costs by eliminating the need for intermediaries. Traditionally, intermediaries such as banks and lawyers have played a key role in transactions, however, blockchain technology enables transactions to be carried out directly between parties, reducing the need for intermediaries and the associated costs. Family businesses need to consider not only how blockchain can support their business transactions, but also the way in which it could potentially disrupt the way they currently operate.

Connecting with customers in the metaverse

In the metaverse, family businesses will be able to create virtual environments where employees can work collaboratively. This could enable them to save on office space and reduce travel costs, as well as use the metaverse to deliver training and education programs, allowing employees to learn in a virtual environment.

Most family businesses build confidence with their customers through their brand and reputation, and the metaverse should also be considered as a new way to connect with their customers to generate brand loyalty. Family businesses will be able to create virtual storefronts where customers can browse and purchase products, and it will also be a platform for virtual events and experiences to build brand awareness and engage with customers in new and exciting ways.

While these technologies may seem somewhat futuristic, they are already here, and are moving quickly toward being accessible tools for all businesses globally. Family businesses in New Zealand need to start exploring these technologies and identifying how they can be used to streamline processes, reduce costs, and improve customer satisfaction, which requires a deep understanding of these technologies and their potential applications.

Family businesses also need to be aware of the potential risks associated with these technologies. For instance, AI algorithms can be biased, leading to unfair or discriminatory outcomes, and blockchain technology is not immune to cyber attacks. Family businesses need to ensure that their systems are secure.

Actions to consider now:

- Understand these new technologies and start thinking about how they can support your business
- Be aware of the potential risks and your exposure to those risks
- Be prepared to adapt in a rapidly changing technological landscape

AI, blockchain, and the metaverse are set to transform the way we do business. These technologies provide all businesses with new opportunities, however, they also come with new risks and challenges. Family businesses need to start exploring these technologies now and be prepared to respond, to build resilience in this fast-changing digital environment.

Scott McLiver
Partner
+64 21 820 945
scott.mcliver@pwc.com

Workforce

86%

of family businesses are focussed on attracting and retaining talent

83%

say they have a clear company purpose

54%

have no women on their board

10%

are advanced in taking a stance on social, political or environmental issues

A good workforce strategy is essential for all businesses. However, family businesses in New Zealand face unique challenges that make these strategies even more crucial.

Aligning talent and business strategy

Family businesses often have a unique culture and values that they want to preserve and retain for future generations. Care is required to balance the need to adapt to the environment the business exists within, while preserving the core of what makes that family business unique. A well-designed talent strategy can help to ensure that existing staff and new hires share the values of the company, and aligns the workforce with the culture and vision of the family business.

With 86% of respondents in the 2023 Family Business Survey focussed on attracting and retaining talent, a thoughtful, tailored strategy should be a priority for many family businesses. This percentage is higher than Australia at 67%, and significantly higher than the global results at 28%. The survey was undertaken in October 2022, at a time of an acute skills shortage and a tight labour market. It's clear that family businesses were far from immune to the competition for top talent.

Planning for the future

Planning where and how to invest in talent is vital for businesses. Designing a talent strategy that considers what the company needs now and what skills it will need in the future will help to identify capability gaps and ensure any investment, including time and resources, aligns with the company's long term strategic goals.

Beyond building a robust workforce talent strategy, family businesses have the added challenge of succession planning and ensuring family members within the business have the right skills and experience to support successful intergenerational change. While the prevalence of family members in leadership positions is often seen as a strength, there is a potential risk that a family member may not be fully equipped with the skillset (technical, interpersonal, or mindset) to deliver in the role, especially as the business grows and evolves to meet the market. It is essential for family businesses to identify successors as part of their talent strategy, and develop their skills to fulfil leadership positions in the business. Without a well-planned strategy, family businesses in New Zealand risk damaging their culture when key individuals leave the business, or losing trust when underprepared family members step into leadership roles.

Communicating a clear purpose

While 83% of family businesses say they have a clear company purpose, the focus needs to be on translating this into a well articulated Employee Value Proposition (EVP). An EVP is essentially the experience of working at a company, including what the company stands for, its culture, rewards, and the unique benefits and experience that an employee will receive in exchange for their skills and experience. Family businesses can use their EVP to generate a sense of belonging and communicate the unique value of being part of a family-owned or family-run company. By clearly communicating what the company stands for and what it expects from its employees, family businesses can ensure that everyone is aligned to the same set of goals, leading to better performance, increased productivity, and a stronger sense of community and purpose.

A clear EVP can also help family businesses to differentiate themselves in the market. By leveraging their unique history and culture, family businesses can create an EVP that engages their existing workforce, resonates with potential candidates, and sets the business apart from its competitors. When thinking about the company purpose and EVP, family businesses need to consider what will resonate with the next generation of their workforce and customers.

Expectations of the next generation

Generational differences are a key theme for all businesses, not just family businesses, but the survey shows us that focus areas that are important to millennials and gen z don't feature as a priority for many family businesses in New Zealand. Only 10% of family businesses say they are advanced in taking a stance on social, political or environmental issues, and only 10% have a clear and communicated ESG (environmental, social, and governance) policy.

They also run the risk of being less attractive to the next generation when it comes to diversity in the workplace. 54% of family businesses have no women on their board, and 62% have no board members under the age of 40. Although these figures only cover board members, they can generate the perception, real or otherwise, of a lack of diversity in leadership, and therefore less focus on employing people with varying experiences, different backgrounds, and individual perspectives throughout the organisation. Family businesses must understand the expectations of the next generation to create resilience and build a sustainable pipeline for the attraction and retention of talent, as well as their future customer base.

Actions to consider now:

- Develop a talent strategy that aligns your workforce with the culture and vision of your family business
- Get really clear on your company purpose and ensure it is communicated, well understood and embraced throughout your organisation
- Consider the workforce skills your business will need in the future and develop clear succession planning that puts an emphasis on upskilling family members
- Understand the expectations of the next generation and what they value, such as broader ESG, diversity and inclusion, and taking a stance on social, political or environmental issues

Family businesses in New Zealand and around the world face unique challenges in today's economy. Attracting and retaining talent, upskilling, communicating company purpose, and addressing issues related to diversity and social responsibility are all essential for building resilience and generating long-term success for family businesses. They must be open to change and willing to adapt their business models to stay relevant in the modern world. By doing so, they can create a legacy that will survive for generations to come.

Erin Venter
Partner, Workforce
+64 27 592 1392
erin.l.venter@pwc.com

Phil Fisher
Partner, Workforce
+64 274 627 505
phil.j.fisher@pwc.com

Bridget Winstone-Kight
Director, Workforce
+64 27 776 0606
bridget.m.winstone-kight@pwc.com

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