Pitcher Partners

Business Radar

Understanding the businesses that drive Australia's economy

Full Report

Second Edition, 2021

Contents

About the report

Pitcher Partners' Business Radar is an independently commissioned research study into Australia's middle-market businesses. More than 400* business leaders and owners participated in the study, which investigated the key challenges, opportunities and trends relevant to the middle-market, as well as the state and drivers of business confidence and sentiment.

Since the inaugural Pitcher Partners' Business Radar report released in 2020, businesses around the world have faced the impact of the COVID-19 pandemic. It has affected industries in different ways and highlighted or exacerbated latent issues among Australia's middle-market businesses.

The first edition of the report focused on a broad cross-section of areas impacting middle-market businesses. Those findings were used to inform the design of the questionnaire for this second iteration, which explores in more detail the greatest opportunities and challenges of the past year.

* A sample size of n=400 was targeted to enable robust analysis.

The research

In early 2021, Pitcher Partners commissioned Forethought to develop a second edition of its Business Radar report, a research study into Australia's middle-market businesses.

Beyond confidence and global trends, the survey explored strategic planning, decision-making, staff challenges and organisational management practices in family and non-family owned and operated businesses, as well as the opportunities capitalised on by middle-market businesses throughout the height of the COVID-19 pandemic.

This report sets out the findings from our quantitative research with commentary from Pitcher Partners' experts.

As Australia's preeminent advisors to the middle-market, Pitcher Partners' firms intimately understand the organisations and the owners and leaders that drive this segment.

The survey findings, along with our knowledge of, and long history working with, Australia's middle-market businesses, are shared to help business owners and leaders understand sentiment across the market; what's driving decision-making; and what business owners should be aware of at a micro and macro level; to continue to drive growth across their organisation. Each section of the report includes an overview of the key themes uncovered in the research, along with actionable insights to guide businesses.

2020: The year of challenge, change and opportunity

One of the key findings detailed in the first edition of the Business Radar report was that global geopolitical and macroeconomic events did not impact confidence levels amongst middle-market business owners and leaders. While some of these events eventually filtered down to affect the middle-market, it was not a significant consideration for many businesses in the market segment. Arguably, the events of the last year have changed this. The COVID-19 pandemic has impacted businesses across many sectors and reinforced the importance of businesses understanding what is going on beyond their immediate organisation or industry.

When research for this second edition of the report was gathered, Australia was moving on from the height of the COVID-19 pandemic. The economy was recovering quickly, and business and consumer confidence had reached all-time highs, despite the nation's continued vulnerability through exposure to global events and intermittent domestic lockdowns in most states.

Strong self-belief and confidence in the future are two of the many factors influencing the confidence of middle-market managers and leaders. The strength of Australia's economy in 2021 has buoyed business confidence but business owners and leaders can still be better prepared for the uncertain future. This report outlines key factors to consider and address.

The engine room of the economy

As the engine room of Australia's economy, the middle-market produces just under 25% of Australia's revenue ($645b) and one-fifth of the nation's net tax revenue.

The middle-market is rich with successful businesses that drive economic growth, deliver vital products and services, and provide employment to millions of Australians. To remain sustainable, these businesses need to proactively deal with their unique challenges and be working in an economic environment that encourages business growth and investment.

AUSTRALIA'S MIDDLE-MARKET BUSINESSES...

CONTRIBUTE 25% OF AUSTRALIA'S TOTAL REVENUE **($645B)**

TYPICALLY EMPLOY **20–200** STAFF

CONTRIBUTE **1/5** OF NET TAX REVENUE

HAVE AN ANNUAL REVENUE OF **$2M TO $500M**

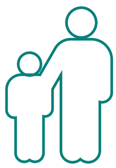
WITH A **GROWTH MIND-SET**

AND THE ABILITY TO **ADAPT QUICKLY**

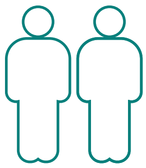
About the respondents

This report is based on a 15-minute online survey run with decision-makers and owners at 413 of Australia's middle-market businesses with annual revenue of between $2 million and $500 million.

TYPE OF BUSINESS

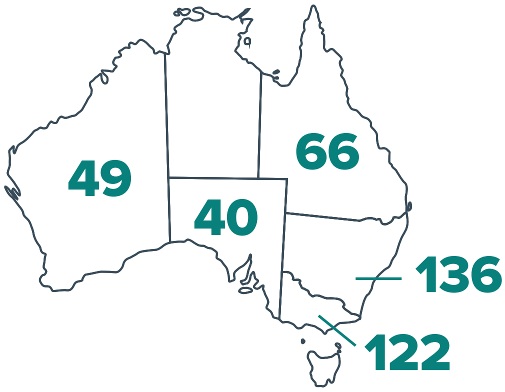


Family Business
153



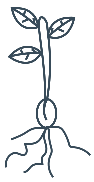
Non-Family Business
260

NO. RESPONDENTS IN EACH STATE



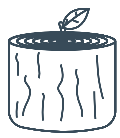
BUSINESS LIFE STAGE

Seed
37



Growth
175

Mature
193



Transition
8

Life stage	Definition
Seed	Has been in operation for less than two years, with focus on establishing the business model and reinvestment of profits
Growth	Is gaining traction in the market with a recent, consistent period of growth. Reinvests profits to support expansion
Mature	Has consistent and stable revenue and is working on a business-as-usual basis
Transition	The focus is on evolving the business model, or on selling or winding down the business

The data was weighted to Australian Bureau of Statistics (ABS) state and industry representation of middle-market businesses.

Riding the COVID-19 wave

The most impactful global trend on businesses over the past year has been the COVID-19 pandemic. One of the biggest challenges in 2020 was the realisation of how reliant businesses and countries have been on only one export market or parts of supply chains concentrated in single destinations. Lockdowns and restrictions highlighted the magnitude of supply chain risk in some organisations, while increasing geopolitical tensions left some industries dealing with rising tariffs and import and export bans. Like the other impacts of the pandemic, supply chain and trade tensions further highlighted the need for businesses to diversify.

While the pandemic presented many challenges, valuable opportunities also arose for people and businesses to pivot, address latent weaknesses and problems, and reach new markets. According to the research for this report, more than 40% of middle-market businesses felt that COVID-19 had a positive impact on their business, with 16% giving ratings out of 10 of between eight and 10.

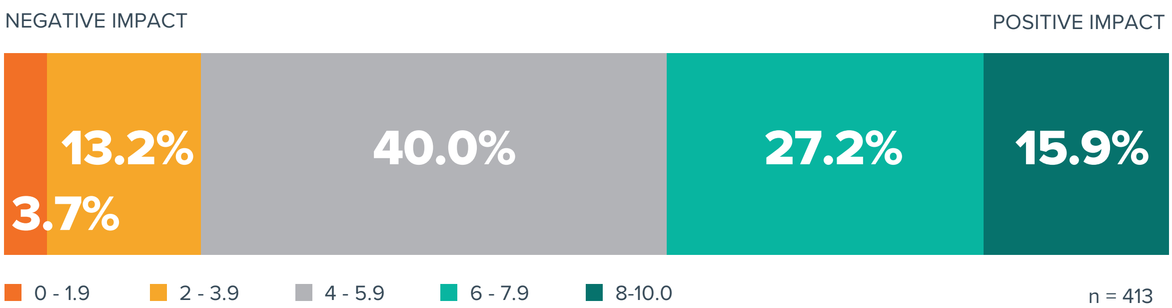
In the past year, businesses with the highest confidence in their current strength and future success (10/10) have been significantly more likely than other businesses to change their business structure (36.5% v. 18.9% and 34.8% v. 19.0%, respectively) and to adopt new revenue streams (24.5% v. 10.3% and 27.1% v. 9.6%, respectively).

Some of these businesses looked at pivoting markets all together, rather than focussing on how they could augment operations to serve existing customers within the limitations of COVID-19. Conversely, businesses that have not acted are likely to be less confident and to have assumed there were no pathways for growth.

For some businesses, the restrictions and lockdowns prompted adaptation and the motivation to try new ways of doing things. These included fast-tracking initiatives and planned changes, and capitalising on opportunities emerging from the pandemic. However, other businesses found the past year more difficult. Some of those were in sectors, like tourism and hospitality, which were heavily impacted by COVID-19 restrictions, while others had ongoing challenges brought to a crossroads. Regardless, the pandemic highlighted the importance of having plans in place to weather any storm.

Since the pandemic began, some businesses have increased their strategic planning frequency (44.2%) to better accommodate macroeconomic shifts, with almost 30% of these businesses engaging expert advice. Similarly, 62% of middle-market businesses intended to increase their focus on succession planning, with 67% planning to engage professional advice to do so. This is most pronounced in construction and property development businesses, where 39.5% of respondents have engaged an expert professional and 47.3% have implemented a succession plan.

IMPACT OF COVID-19 ON BUSINESS PERFORMANCE



Increased flexibility and autonomy

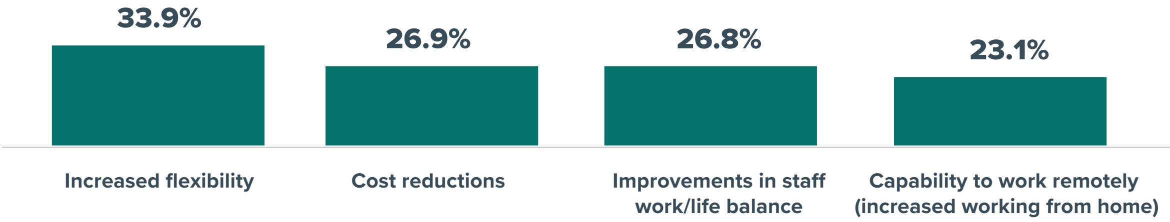
One of the key positives to emerge from the pandemic has been the increased flexibility and autonomy achieved through the need to adapt quickly to remote working arrangements. These arrangements also provided cost reductions and improved work-life balance across several industries that could operate remotely. These changes will assist middle-market businesses into the future as further opportunities to enable remote working emerge through the rapid uptake of technologies. Key opportunities include the ability to reduce real estate costs, access to a global talent pool, and increased employee engagement through a greater sense of freedom and autonomy.

It is important to note that these opportunities do not come without challenges but, when strategically managed, those challenges can provide companies with a glimpse of the future of work. Pitcher Partners' joint report with Bastion on hybrid working arrangements also investigates the opportunities emerging through remote working and technology. For example, the ability of people to work from home can provide greater work-life balance, which improves employee engagement. Another key opportunity for companies open to continuing with remote working arrangements, is access to a global talent pool as employers are no longer restricted to hiring talent within their home city or state.

OPPORTUNITIES ARISING DUE TO COVID-19*

What opportunities arose for your business because of COVID-19?*
Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

CHANGES THAT WILL ASSIST BUSINESSES IN THE FUTURE* (TOP 4)



Thinking about the changes you made in your business, which of the following do you think will best assist your business in the future, especially if facing another event similar to the pandemic?* (Top 4)
Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

Businesses with the highest confidence in their current strength and future success are significantly more likely than those with lower confidence to have optimised their capability to enable remote working (41.0% v. 18.3% and 35.1% v. 19.2%, respectively) and have increased overall productivity (40.7% v. 17.1% and 39.9% v. 16.9%). Confidence also plays a key role in the technological capabilities of organisations, as outlined in the Pitcher Partners Digital Transformation Report, which says it helps if business owners and leaders measure their digital capabilities and chart a path to continuously improve their organisation's capabilities.

The capability to work remotely is seen by respondents as the most common opportunity accessed by the professional and administrative services industries (29.3%). The COVID-19 pandemic also enhanced decision-making capability and speed – a change that will assist businesses into the future (21.1%). Decision-making capabilities and speed were likely to have improved throughout the early stages of the pandemic due to the need for businesses to quickly pivot to ensure business continuity and consistent revenue despite restrictions. For example, some businesses may have been considering establishing an online store long before the pandemic but hadn't yet actioned their plans. Further, it shows that to realise change, a business does need to have every step figured out. There will always be ambiguity, but COVID-19 has shown that taking action and adjusting as needed is better than not taking action at all.

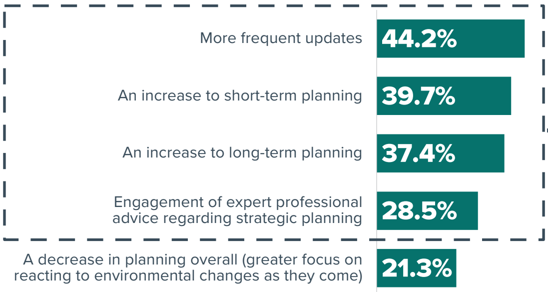
Changes across the states driven by COVID-19

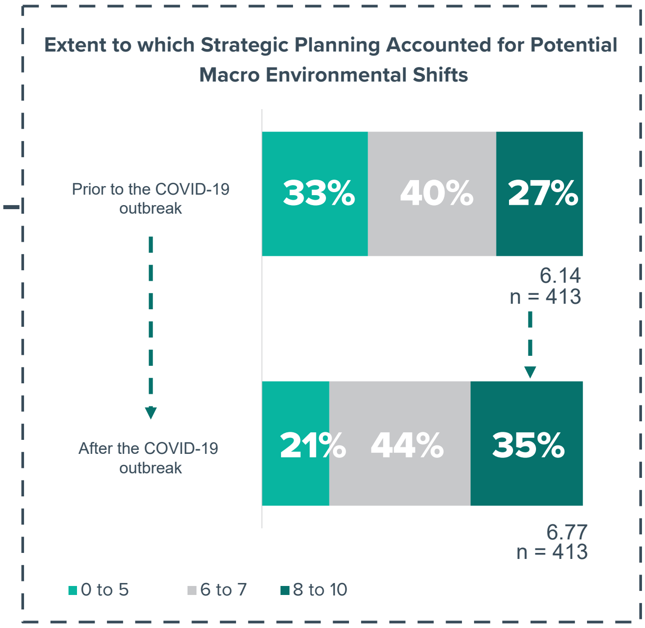
Across all states surveyed, the biggest change due to the pandemic was the increase in flexible working arrangements. The second biggest change in Queensland and New South Wales was achieving work-life balance, while South Australia, Victoria and Western Australian respondents noted a supportive culture. The smallest change noted by respondents across all states was offering opportunities for remuneration advancement. This change is to be expected given many businesses were focused on managing the impacts of the pandemic through serving customers, adapting business models and expanding to new markets. For many businesses, it was not a commercially viable time to make radical changes to remuneration structures or offer significant pay rises to staff.

Embracing new revenue streams during COVID-19

Businesses with the highest confidence in their current strength and future success were significantly more likely than those with lower levels of confidence to have changed their business structure (36.5% v. 18.9% and 34.8% v. 19.0% respectively) and adopted new revenue streams (24.5% v. 10.3% and 27.1% v. 9.6%, respectively) throughout the pandemic.

CHANGES TO STRATEGIC PLANNING PROCESS SINCE COVID-19*

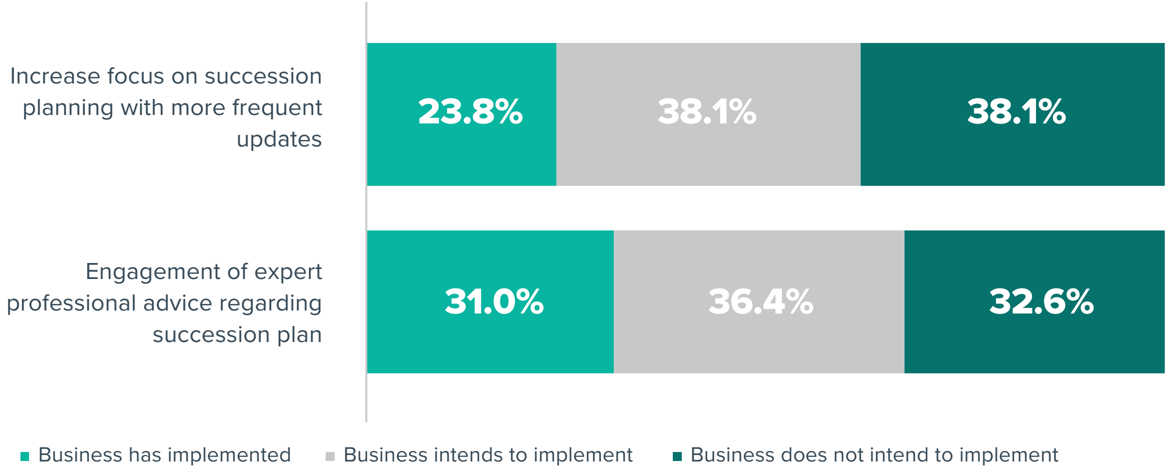




How has your strategic planning process changed since COVID-19?*
To what extent did your business' strategic planning account for potential macro environmental shifts:
Note that a score of 0 indicates a low extent, while a score of 10 indicates a high extent

Businesses with 20 to 200 employees were most likely to have increased short-term planning and engaged expert professional advice (42.6% and 31.1%, respectively).

COVID-19 IMPACT ON ENGAGEMENT WITH SUCCESSION PLANNING



Thinking about how COVID-19 has impacted your organisation's engagement with succession planning, has your business made or intends to make any of the following changes?

Post-pandemic, 62% of middle-market businesses intended to increase their focus on succession planning, with 67% planning to engage professional advice for this process.

Key insights for businesses

- Since the start of COVID-19, businesses have increased planning frequency to better accommodate macro shifts, with almost 30% engaging expert advice.
- The ability to work remotely provided autonomy and flexibility to business owners and leaders and their employees. It also provided further opportunities to businesses post-pandemic, including reduced real estate costs, access to a global talent pool in some industries and improved digital capabilities.
- The urgency of the pandemic demonstrated that businesses have the capability to make decisions quickly when necessary. It highlights that acting with ambiguity present is okay as businesses can course correct along the way. This is important as opportunities can be missed due to the inertia of overanalysing and not acting.
- The move to rapidly find new revenue streams underlines the need for business not to be reliant on one market, which can be a weakness. Diversification will be even more crucial to business sustainability in the future.

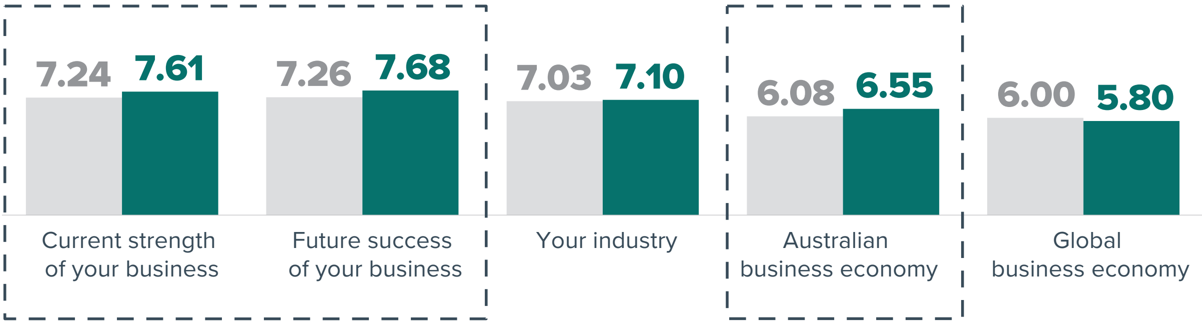
Confidence levels grow despite a challenging year

Research in the first edition of the Pitcher Partners Business Radar report found that middle-market business owners were defined by their confidence, adaptability, growth mindset and self-drive and determination. These attributes remain strong in private and family-owned businesses, with many remaining confident in their organisations, industries and domestic economy despite the challenges presented for many by the COVID-19 pandemic.

The most recent research revealed increasing confidence in current business strength and the future success of business, industry, and the Australian economy. Confidence levels around the global economy declined slightly.

The strengthening confidence may not be surprising as the research was gathered at a time when middle-market business owners and leaders may have felt particularly bullish. In February, many businesses had weathered the worst of the pandemic and Australia's economy was recovering much faster than expected. To some extent, government support packages, announced in the 2021 federal and state budgets, underpinned strong levels of confidence. It is likely that these factors and the traditionally bullish nature of middle-market business owners and leaders drove the growth in confidence.

MIDDLE-MARKET BUSINESS CONFIDENCE ON A 10-POINT SCALE (10: HIGHLY CONFIDENT)



Fieldwork Dates

Fieldwork 1: October 2019

Fieldwork 2: February 2021

■ Fieldwork 1 ■ Fieldwork 2

State of the states

Many businesses did not let the COVID-19 pandemic go to waste; using their inherent ability to pivot and adapt and capitalise on new opportunities like selling online and addressing supply chain risks. Confidence levels across the states remained largely consistent despite Australian state restrictions and lockdowns in 2020 and 2021.

As detailed in the table below, respondents in all states surveyed had relatively high confidence in the future success of their businesses. South Australia's average rating of 8.38 on a 10-point scale was notable. Similarly, confidence in the current strength of respondents' businesses was relatively strong, averaging 7.61. Again, South Australia was the most confident while Western Australia had the lowest average at 7.09. The weakest category of confidence in all states was the 12-month growth prospects for the global economy, which had an average rating of 5.80.

It would not have been surprising to see confidence levels reflect the differences in how each state managed the COVID-19 pandemic, but many of the federal and state government support measures were still in place when the survey was conducted. These measures, and a possible boost in confidence through surviving 2020, may have buoyed confidence levels. As with any data encapsulating business and economic confidence, it takes time for the effects to filter through and impact businesses and individuals. In the coming year, these confidence levels may differ between states as the prospect of continued lockdowns and restrictions on trading influence where businesses choose to invest in growth.

CONFIDENCE LEVELS ACROSS STATES ON A 10-POINT SCALE (10: HIGHLY CONFIDENT)

State	Future success of business	Current strength of business	12 month growth prospects - Industry	12 month growth prospects - Australian business economy	12 month growth prospects - global business economy
NSW	7.69	7.66	7.20	6.46	5.63
QLD	7.29	6.97	6.81	6.05	5.40
SA	8.60	8.35	7.48	6.95	6.05
VIC	7.35	7.44	6.92	6.71	6.09
WA	6.70	6.58	6.18	5.51	5.18
Overall	**7.68**	**7.61**	**7.10**	**6.55**	**5.80**

Larger and mature stage businesses are most confident

The research revealed that larger businesses typically had greater confidence in their current success, future success, and industry. As outlined later in this report, this may be due to the maturity of larger businesses and the confidence instilled through having a long-term strategic plan. Mature and larger businesses also typically have the resources to weather economic uncertainty and the scale to be a desirable credit risk to lenders should the need for further funding arise.

Large businesses have decision-making structures that enable them to pivot and implement new strategies, although it is important to note that the bureaucracy that can naturally emerge in larger organisations can make change slow. The need for efficient decision-making throughout the height of the COVID-19 pandemic may have helped businesses overcome some of this bureaucracy.

Federal Government measures, like the JobKeeper Payment scheme, Cash Flow Boost and temporary full expensing measures, helped many businesses remain operational and solvent but confidence was higher in larger, rather than smaller, middle-market businesses.

CONFIDENCE LEVELS ACROSS LARGE AND SMALL BUSINESSES ON A 10-POINT SCALE (10: HIGHLY CONFIDENT)

Confidence in	200+ employees	Fewer than 20 employees
Current strength	8.03 (7.81)	6.65 (6.88)
Future success	8.13 (7.64)	6.95 (7.11)
Industry	7.42 (7.34)	6.27 (6.80)
Domestic economy	6.90 (6.07)	5.13 (5.20)

Note that figures in brackets represent confidence levels from the first edition of the Business Radar.

Confidence levels in mature businesses grew significantly between the research timeframes of the first edition and the current edition of this report.

CONFIDENCE LEVELS AMONGST MATURE BUSINESSES BETWEEN 2019 AND 2021 ON A 10-POINT SCALE (10: HIGHLY CONFIDENT)

Confidence in	First edition report research (late-2019)	Current edition report research (early-2021)
Current strength	6.85	7.59
Future success	6.92	7.73
Domestic economy	5.50	6.69

Respondents with the highest confidence in their business' current strength (a rating of 10 on a 10-point scale) were much more likely to be owners or CEOs; have more than $250m in annual turnover and 200+ employees; have systematic and ongoing strategic planning processes in place; and have engaged in succession planning particularly during their seed stage.

RESPONDENTS WITH THE HIGHEST CONFIDENCE (10/10 ON A 10-POINT SCALE)

Respondents	10/10 confidence	Less than 10/10 confidence
Owners, Partners, CEOs	37.7%	12.8%
$250+ million turnover	22.3%	13.4%
200+ employees	32.9%	20.9%
Have systematic, ongoing strategy planning processes	50.6%	34%
Have engaged in succession planning	63.7%	37.5%
Did initial succession planning in seed phase of the business	12.3%	5.2%

While the height of the COVID-19 pandemic in 2020 challenged businesses, it also presented opportunities for diversification and commercial decisions that may otherwise have been delayed. The confidence levels uncovered in the research indicate middle-market businesses maintained their bullish nature. However, with forward-looking confidence and the economic recovery, now is not the time for businesses to become complacent. Continuing to move ahead and capitalising on new growth opportunities should be top of mind. Supporting this growth, should be identification and application of what can be taken forward from COVID-19, to better prepare for future challenges. In the words of the immortal Winston Churchill: Never let a good crisis go to waste!

Key insights for businesses

- Middle-market businesses maintained their traditionally bullish nature with business confidence increasing significantly. This may have been due partly to a strong sense of accomplishment in getting through 2020.
- Middle-market business confidence in the Australian economy increased, while confidence in the global economy decreased. This may be due to middle-market businesses being most attuned to the local economy, as they operate largely in domestic markets. A strong sense of accomplishment for getting through 2020 may have made middle-market business owners feel more confident.
- Businesses with more than 200 employees typically had greater confidence in their current success, future success, and industry. This may be due to the maturity of larger businesses and the confidence instilled through having a long-term strategic plan, established decision-making structures, resources to weather economic uncertainty and the scale to be a desirable credit risk to lenders.
- The pandemic showed businesses that challenges could also be turned into opportunities to address latent problems, expand into new markets, and implement change that would have otherwise remained on the proverbial back burner.
- Confidence is subjective and based on perceived strength and success, so it can provide additional benefits to have an independent party provide an external perspective that challenges the status quo and ensures business confidence is well-founded.

Global trends impacting middle-market businesses

One of the key characteristics common across the middle-market gleaned from the first edition of Business Radar, is the tendency for private and family business owners and leaders to focus only on trends in their business and industry, rather than taking global trends into account too. However, the businesses researched have capitalised on the pandemic as an opportunity to flex and adapt through changing business structures, exploring new channels to market, shaking up supply chains and developing new revenue streams.

COVID-19 the most impactful global trend

More than half (55.1%) of respondents in the hospitality and tourism sectors, saw the pandemic as the most impactful global trend. These two sectors, with retail, have been most affected by lockdowns restricting their ability to trade.

However, while these sectors were heavily impacted by the pandemic, some businesses were able to find new avenues for growth and reach new customers.

Technological advancement remains a priority

Technological advancement remains the second most impactful trend for middle-market businesses and was cited as the most impactful by businesses that adopted mid-to-long term strategic planning. This suggests that middle-market businesses saw technological advancements as a means of increasing profitability through new strategies like developing new channels to market.

However, just over one in four (26.2%) of the respondents, who saw technology as a key impact, adopted mid-to-long-term strategic planning that improved their ability to take advantage of new technologies as soon as possible. This suggests a reactive adoption of technology, rather than a proactive adoption. This behaviour may be explained by the 41.8% of businesses from the manufacturing industry, which had been heavily impacted by technological advancements in recent years.

The Federal Government has acknowledged the need for Australia's manufacturing sector to support innovation and strengthen domestic supply chains. The Government's $1.3 billion Modern Manufacturing Initiative will invest in businesses making advances across six national manufacturing priorities. The priorities include, resources technology and critical minerals processing, food and beverage, medical products, recycling and clean energy, space, and defence.

Throughout the pandemic, some businesses invested heavily in updating manufacturing technology to increase efficiency and competitive advantage.

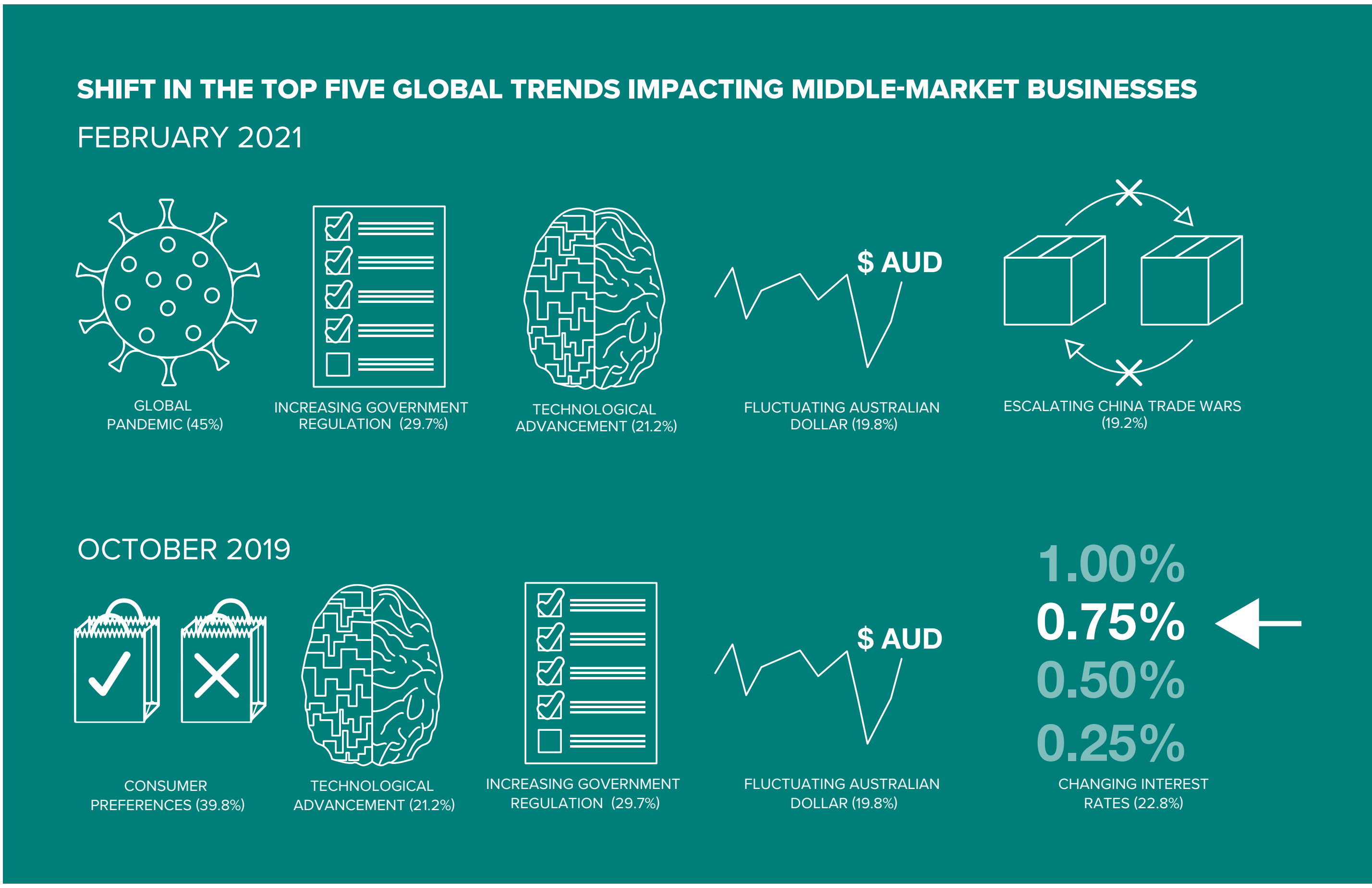
Investing in new ways of doing things can be a significant outlay for businesses so it is crucial for those investments to yield the desired results. It is important to measure the success of these new investments and make changes as needed to ensure the resources invested return long-term value to the business.

Consumer preferences

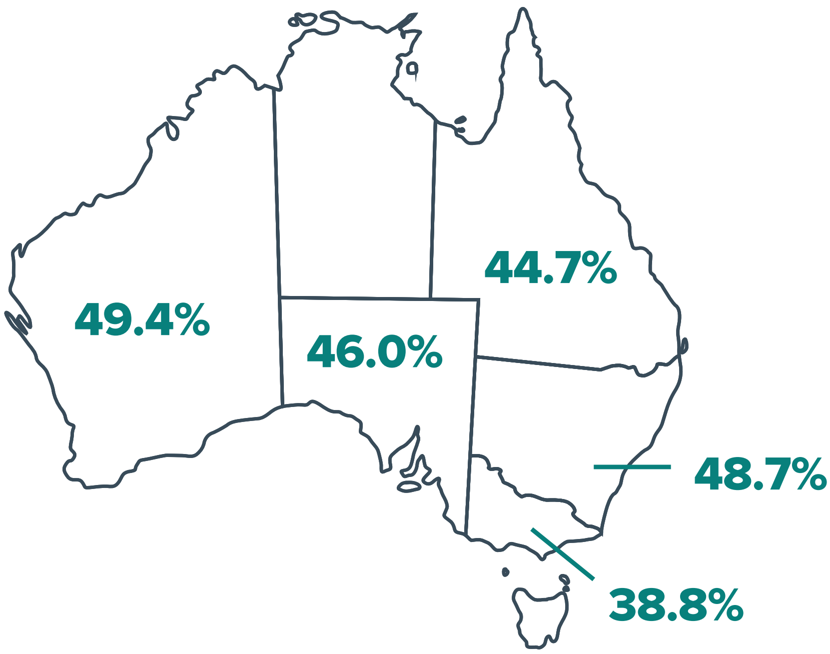
Consumer preferences are no longer in the top five factors impacting middle-market businesses. This may represent a shift of focus towards internal operations and budgets (not by choice, but necessity) to weather the uncertainty brought about by the COVID-19 pandemic. This shift occurred in a time of adversity, but it is now particularly important for businesses to return focus to their customers – the lifeblood of any business – to ensure their offering meets their needs and expectations.

Shifting global trends

Since the inaugural Pitcher Partners Business Radar report, consumer preferences, which rated among the top five for 40% of respondents, dropped out of the top five global impact trends, to be replaced by the COVID-19 pandemic. As outlined in the graphic below, increasing Government regulation, technological advancement and the strength of the Australian dollar remain in the top five global trends impacting middle-market businesses.



PERCENTAGE OF MIDDLE-MARKET MOST IMPACTED BY PANDEMIC



Key insights for businesses

- As expected, middle-market businesses ranked the COVID-19 pandemic as the most impactful global trend.
- Increasing Government regulations and technological advancement also remain priorities.
- Many businesses invested in technology to improve their manufacturing capabilities.
- Investing in digital marketing and establishing strong online sales channels is helping businesses reach new customers.
- Although the pandemic required quick decisions and a focus on business continuity, middle-market businesses need to ensure they are engaging with the lifeblood of their business – their customers.

Strategic planning and decision-making

For private and family business owners in the middle-market, strategic planning and decision-making are critical factors underpinning sustainable long-term growth. Business owners and leaders approach strategic planning and decision-making in individual, different ways ranging from formal long-term planning to ad hoc decision-making.

The responses indicate that developing planning habits and mindsets, and having formal strategic planning processes in place, is a key competitive advantage in any industry. Businesses that reported higher levels of success during COVID-19 had strategic plans and processes that could be triggered automatically to adapt to changes.

Almost two out of every five respondents (38.5%) were more likely to engage a professional advisor to play a role in the strategic planning process and establish effective governance processes and systems. Of the remaining respondent businesses, only 23.5% engaged a professional advisor for this process. Since the pandemic began, those businesses with a formal mid to long-term strategic planning process have been significantly more likely than ad hoc decision-makers to implement short-term planning (45.5% v. 30.2%) and update these plans frequently (49.4% v. 33.9%).

Importantly, businesses that have been through the process and integrated strategic planning as a keystone habit, understand it entails revisiting and revising plans. Strategic plans are not always the perfect roadmap and may need to deviate in response to the immediate environment. Those businesses that make strategic planning a habit found that reconsidering their strategic plans allows for the development of more agile, short-term thinking that leads to more readily adopting technological advancement, cost reductions, and the ability to embrace new workforce culture and flexibility opportunities. In short, strategic plans cannot be treated like Google Maps. Instead, these should give strategic direction for effective commercial decisions, whether in the short, medium, or long-term, that allow for pivots to occur as circumstances and information change.

The impact on confidence levels

Middle-market businesses with low confidence in their current strength are twice as likely to make ad hoc decisions as businesses with high confidence (33.9% v. 15.8%). In contrast, more than 84.2% of businesses with high confidence had a strategic plan in place, with 52.5% planning for the mid to long-term. This shows that confident businesses have a strategic approach to decision-making. The Pitcher Partners Digital Transformation Report and Pitcher Partners Radar for Growth podcast series also highlighted the importance of having a formal long-term strategic plan. Outside the reasons outlined above, habitual strategic planning can proactively grow and improve business and strategically target new markets. For example, a long-term strategic plan could help a business scale quickly through targeting business customers first before selling directly to consumers. The Keep Cup story, as heard in our Radar for Growth podcast series, is a prime example of how this approach can underpin growth.

A long-term approach to strategic planning enables a business to remain focused on their long-term goals. Like any journey, setting a destination, so you know when you have arrived, is crucial and provides a platform from which growth-focused businesses can set their sights on the next level of growth. Remaining agile, flexible, and adaptable to change course when necessary or important can often yield even better results, without losing sight of the journey's end.

Confidence in current strength of business	Have a formal, mid to long-term strategic plan in place	Have a formal, short to mid-term strategic plan in place	Tend to make strategic decisions in an ad hoc manner
High Business Confidence	52.5%	31.7%	15.8%

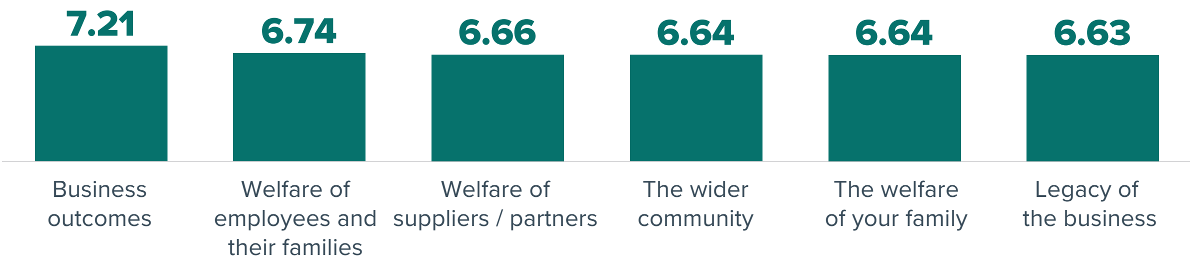
Note that high confidence levels were identified by scores between 8 and 10 /10.

Decision-making factors

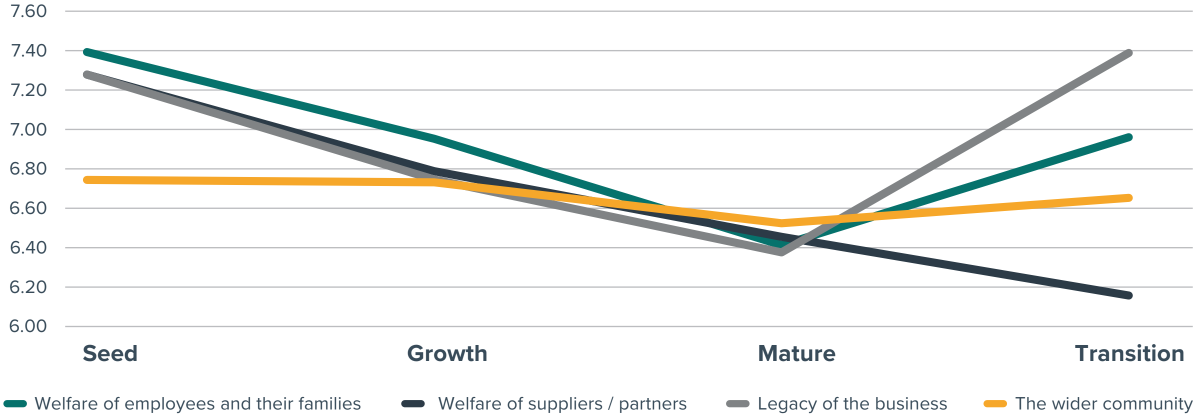
Non-commercial decision-making factors, like the welfare of employees and their families and the wider community, have a similar impact on decision-making but business outcomes are cited as the factor which has the biggest impact. Interestingly, the impact of the welfare of employees and their families and business legacy decreases as businesses mature. This highlights how any enterprise may be susceptible to the risk of losing sight of the importance of people. Once a business reaches a new stage of growth and goes through the transition stage, these factors resurface as key impacts on decision-making. These trends indicate that when a business is in its early stages, employees and suppliers are key to establish the initial systems and processes for growth.

When businesses with effective systems and a long-term strategic plan reach a certain scale, the factors that were important in the early stages have a smaller influence on decision-making. This is consistent with the findings of the first edition of this report, which found that business owners were focused on local factors rather than macroeconomic trends. The uptick in the impact of non-commercial areas, as the business transitions and looks toward succession planning, indicated when business owners and leaders began to think about their legacy.

IMPACT OF BUSINESS DECISION-MAKING FACTORS ON A 10-POINT SCALE (10: HIGH IMPACT ON DECISION-MAKING)



IMPACT OF NON-COMMERCIAL BUSINESS DECISION-MAKING FACTORS ON A 10-POINT SCALE (10: HIGH IMPACT ON DECISION-MAKING)



Note: Transition is a small sample size (n=8).

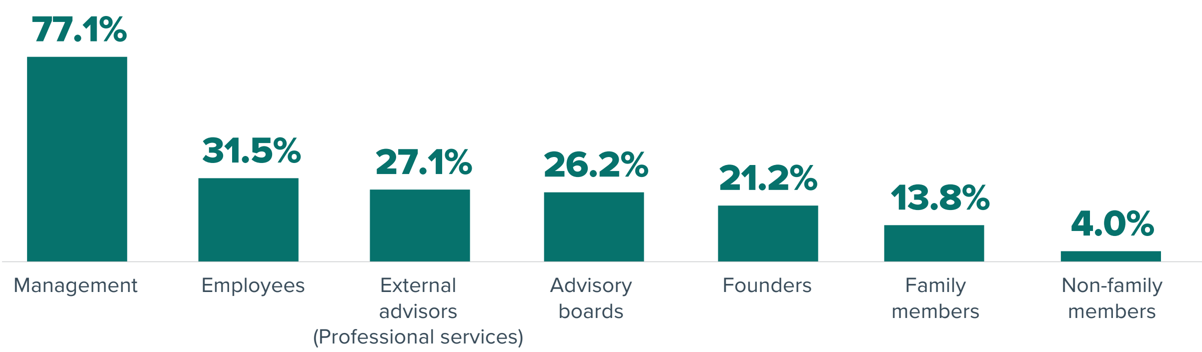
The welfare of suppliers had the most impact in the construction and property development industries (7.34). By contrast, the welfare of the wider community strongly impacted the professional and administrative services industries (6.97).

Involvement in strategic planning and decision-making

A quarter of middle-market businesses involved external advisors and advisory boards in their strategic planning processes. The parties involved in strategic planning and decision-making varied according to the business size and maturity level. Most businesses did include management in the process. Businesses with 200+ employees were most likely to involve advisory boards (37.8%) and least likely to involve family members (8.7%).

There are pros and cons to each method and source of advice in strategic planning. For family businesses, the focus should be on eliminating bias in decision-making through ensuring independent input to decisions. This ensures the family priorities and the commercial business imperatives are each considered and prioritised. Similarly, in non-family-owned businesses, ensuring decisions are objective is critical. External independent oversight can be valuable in this process.

INVOLVEMENT IN STRATEGIC PLANNING*



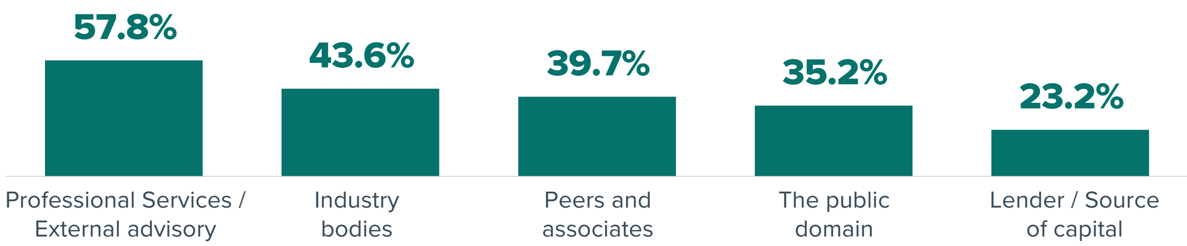
Who is typically involved in the strategic planning process?*
Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

INFORMATIONAL INPUTS TO STRATEGIC PLANNING AND DECISION-MAKING

The key sources of information sought by businesses in the strategic planning process were external advisory professionals, industry bodies, peers and associates. Businesses with more than $250 million in annual turnover were one of the most common groups to seek strategic planning information from industry bodies. The fact that 70.6% of the respondents engaged with these organisations for information indicates that larger organisations may have more in-house capability to undertake strategic planning.

Engagement of external advisors for information grew with business size, increasing significantly as businesses grew beyond 20 employees, but slowing as businesses grew beyond 200 employees. This is likely an indication of in-house capabilities for strategic planning, as above. Seeking information from an external advisor can be an effective way to test your thinking. It can also ensure you have not missed anything in the planning process due to focusing too much on local industry and microeconomic factors – as respondents to the first edition of this report indicated. An external advisor can also leverage their broader understanding and expertise around business, industries, and macroeconomic factors. Sharing their knowledge with business owners and leaders provides another layer of value and insight for stronger strategic planning and decision-making.

INFORMATION SOURCES FOR STRATEGIC PLANNING*



Where does your business source information / data from to inform your strategic planning?*
Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

Across Australia's states, middle-market businesses are relatively consistent in the sources they use to seek input in their strategic planning. Around half of the respondents in each state seek advice from an external advisor, as outlined in the table below. The key difference across the states is South Australia where 52.5% of respondents seek advice from the public domain, the highest of any state.

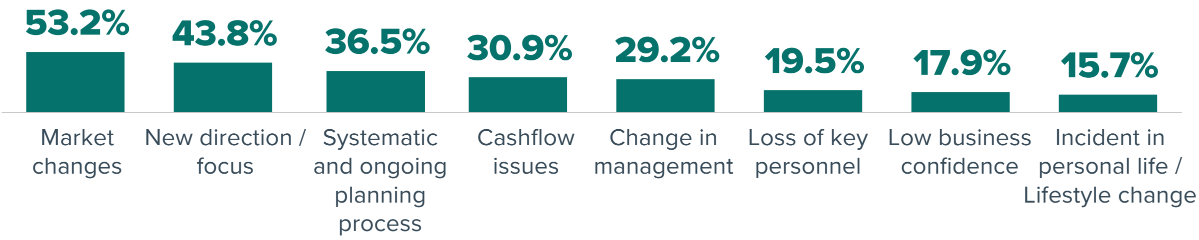
INFORMATION SOURCES FOR STRATEGIC PLANNING ACROSS STATES

	Professional Services / External advisory	Peers and associates	Industry bodies	The public domain (e.g. Australian Financial Review, online)	Lender / Source of capital
NSW	64.0%	41.9%	40.4%	33.1%	24.3%
QLD	51.5%	33.3%	40.9%	27.3%	13.6%
SA	62.5%	32.5%	35.0%	52.5%	22.5%
VIC	52.5%	49.2%	49.2%	29.5%	26.2%
WA	65.3%	30.6%	42.9%	32.7%	14.3%

Triggers to strategic planning

Looking at the triggers to strategic planning is a good way for businesses to benchmark where they may be in their business life cycle. It can also provide a reference point for times when a business should revisit its strategic plan to ensure everything is moving in the right direction. The most common triggers for strategic planning were changes in the market and business direction, while systematic and ongoing planning processes were most likely to trigger strategic planning in businesses with 200+ employees (50.3%) and $250m+ in annual turnover (60.5%).

TRIGGERS OF STRATEGIC PLANNING*



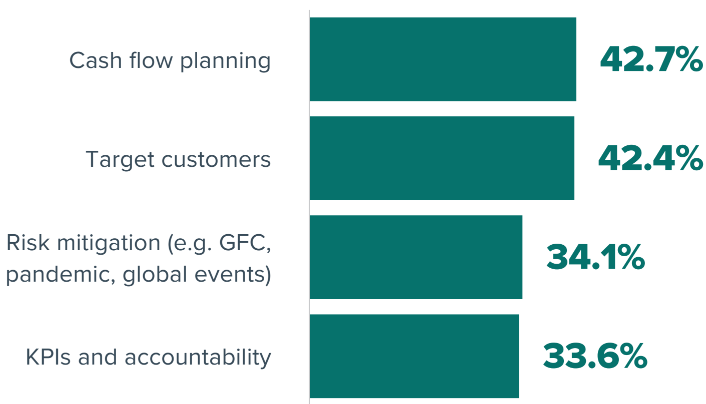
What triggers strategic planning in your business?*
Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

Areas covered in strategic planning

Cash flow planning and customer strategy are key areas respondents most covered in strategic planning. Businesses with more than 200 employees were most likely to include organisational structuring and resource requirements (44.4% and 38.9%, respectively) while businesses with annual turnover greater than $250 million were most likely to cover organisational structure, KPIs and business continuity in their strategic planning (55.8%, 52.5% and 49.0% respectively). These areas indicate how a business' focus changes as it matures and grows. Just as key decision-making factors change, as outlined earlier in this report, a business' strategic planning process and focuses need to adapt as the business evolves.

Smaller businesses, those with fewer than 20 employees, focused most on the business' vision and risk mitigation, with scenario planning and analysis a focus for just 5.41% of these businesses. Getting the business up and running without too much focus on the long term is a primary focus for early-stage businesses.

AREAS COVERED IN STRATEGIC PLANNING* (TOP 4)



Which of the following areas are covered by your business' strategic plan?* (Top 4)
Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

Approach to strategic planning

Larger businesses, with systematic and ongoing strategic planning processes in place, adopted new revenue streams and experienced increased demand for their products and services due to the COVID-19 pandemic. This revenue growth and increased demand could be attributed to larger businesses having the systems established to easily scale and meet customer demand, while also having the resources to establish new revenue streams, whether through digital marketing or establishing new sales channels.

OPPORTUNITIES REALISED DUE TO COVID-19 BY BUSINESSES WITH SYSTEMATIC AND ONGOING STRATEGIC PLANNING PROCESSES IN PLACE

	200+ employees	Less than 200 employees
Adopted new revenue streams	25.7%	10.9%
Increased demand for goods and services	35.5%	16.8%

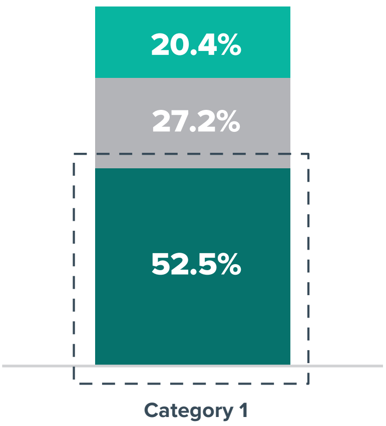
Of the businesses, which had a formal, longer-term strategic plan in place (52.5%), up to half have increased short-term planning since the COVID-19 pandemic (45.5%) with more frequent updates (49.4%). In contrast, a third of respondents still considered their business' approach to strategic planning to be ad hoc.

Those businesses that became more strategic planners throughout the pandemic not only experienced revenue growth, as outlined above, but were also better equipped to take advantage of opportunities presented by the pandemic. The businesses with mid to long-term plans were more likely to reference the following as opportunities out of COVID-19:

- Flexibility (30.9% v. 14.1%)
- Improvements to work-life balance (28.9% v. 10.6%)
- Cost reductions (28.7% v. 15.3%)
- Improvements to technology (24.6% v. 13.9%).

These opportunities, coupled with government support measures and grants, provided businesses with several ways to strengthen their businesses and ensure future growth. Some government grants – like the Victorian Government's Small Business Digital Adaptation Program that provided businesses with a rebate for up to 12 months of access to digital products from a pre-approved list of suppliers – offered businesses the opportunity to try different technologies without direct financial cost. As we found in our Digital Transformation Report, trying new technologies can help businesses become more sophisticated in their approach to digital technologies.

APPROACH TO STRATEGIC PLANNING



When compared to the more ad hoc decision-makers, those with formal strategic plans expect to be more prepared for the future by improvements in work-life balance (32.9% v. 15.0%) and culture (18.5% v. 9.1%), as well as access to financial advice (14.8% v. 3.2%). Middle-market businesses with less confidence in their current strength were twice as likely than businesses with high confidence (33.9% v. 15.84%) to make strategic decisions in an ad hoc manner They are also more than five times more likely not to have a strategic plan in place (10.2% v. 2.0%).

Strategic planning across the states

The time horizons on which middle-market businesses focus their strategic planning is largely consistent across Australian states. The notable exception is Western Australia where 26.5% of respondents said they tended to make decisions in an ad hoc manner. This was the highest proportion of the states, followed by Queensland on 19.7%. There may be several explanations for the anomaly in Queensland and WA, like their economic reliance on commodity prices that can mean that decision-making must be able to respond to changing circumstances more readily. They could also have a higher percentage of younger business than other states.

Victoria had the highest proportion – almost 60% – of respondents with a formal, mid to long-term strategic plan in place. The high proportion of businesses in Victoria with a formal long-term plan may have helped businesses mitigate any loss in confidence while dealing with the most severe state restrictions and lockdowns in 2020.

APPROACH TO STRATEGIC PLANNING AND CONFIDENCE LEVELS ON A 10-POINT SCALE (10: HIGHLY CONFIDENT) ACROSS STATES

	Have a formal, mid to long-term strategic plan in place	Have a formal, short to mid-term strategic plan in place	Tend to make strategic decisions in an ad hoc manner, according to environmental factors at the time	Future success of business	Current strength of business
NSW	50.7%	33.8%	15.4%	7.69 (7.23)	7.66 (7.34)
QLD	57.6%	22.7%	19.7%	7.29 (6.91)	6.97 (6.67)
SA	57.5%	32.5%	10.0%	8.60 (7.21)	8.35 (6.99)
VIC	59.8%	24.6%	15.6%	7.35 (7.55)	7.44 (7.70)
WA	46.9%	26.5%	26.5%	6.70 (7.32)	6.58 (6.97)

Note that figures in brackets represent confidence levels from the first edition of the Business Radar.

Strategic planning, governance and success

Businesses that have experienced a highly positive impact due to COVID-19 are significantly more likely than other businesses to have:

- Confidence in their decision-making efficiency (8.38 v. 6.91 on a scale of 10)
- A formal short to mid-term strategic plan in place (37.7% v. 23.8%)
- Improved decision-making speed (7.83 v. 6.04)
- A professional advisor involved in strategic planning (38.5% v. 23.5%)
- Increased engagement with professional advice regarding strategic planning since COVID-19 (39.7% v. 25.0%)
- Strategic planning triggered by a new business direction or focus (53.6% v. 40.7%) and lifestyle changes (22.8% v. 13.4%).

As expected, respondents who indicated their business performance improved at least slightly due to the pandemic were from industries that maintained their revenue or experienced increased demand. These industries included construction, education and training, health care and social assistance, IT and software development, manufacturing, professional, scientific, and technical services. These businesses also invested in high-level, strategic planning on a regular basis and had strong governance frameworks in place.

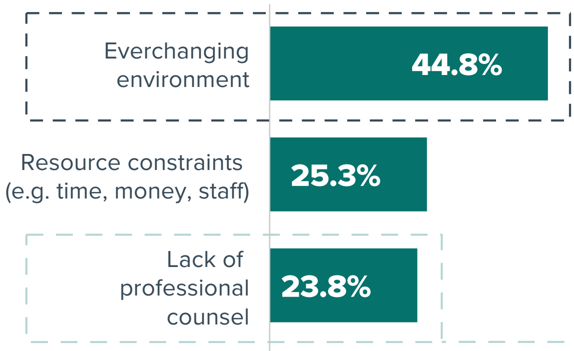
Barriers to planning

For businesses that tend to make decisions in an ad hoc manner rather than formulate formal, strategic plans, the everchanging environment is the most common barrier to establishing a long-term plan. For 23.8% of respondents, a lack of professional counsel was a barrier with 30% of respondents more likely to engage in strategic planning if they had access to professional advice. In an era where access to information is plentiful, it's crucial for businesses to ensure they find an advisor who is a fit in helping them reach the immediate and long-term objectives.

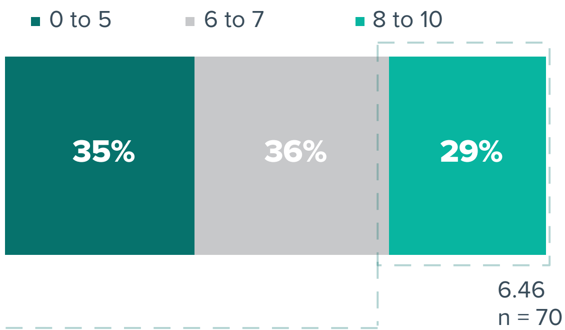
While the process of finding an advisor is perceived as a barrier by some businesses, it should be seen as an opportunity to achieve the business' long-term goals and objectives. Early-stage businesses or those running on tight profit margins may not think they have the money to access an advisor. However, as with other business investments, owners and leaders may find the return on investment from external advice pays long-term dividends in driving the business' growth. There is value in receiving an outsider's perspective to broaden the inputs for effective planning and decision-making.

AD HOC DECISION-MAKERS:

Barriers to Formal Strategic Planning



Likelihood to implement formal, mid-to-long term strategic plans in place with access to expert professional advice



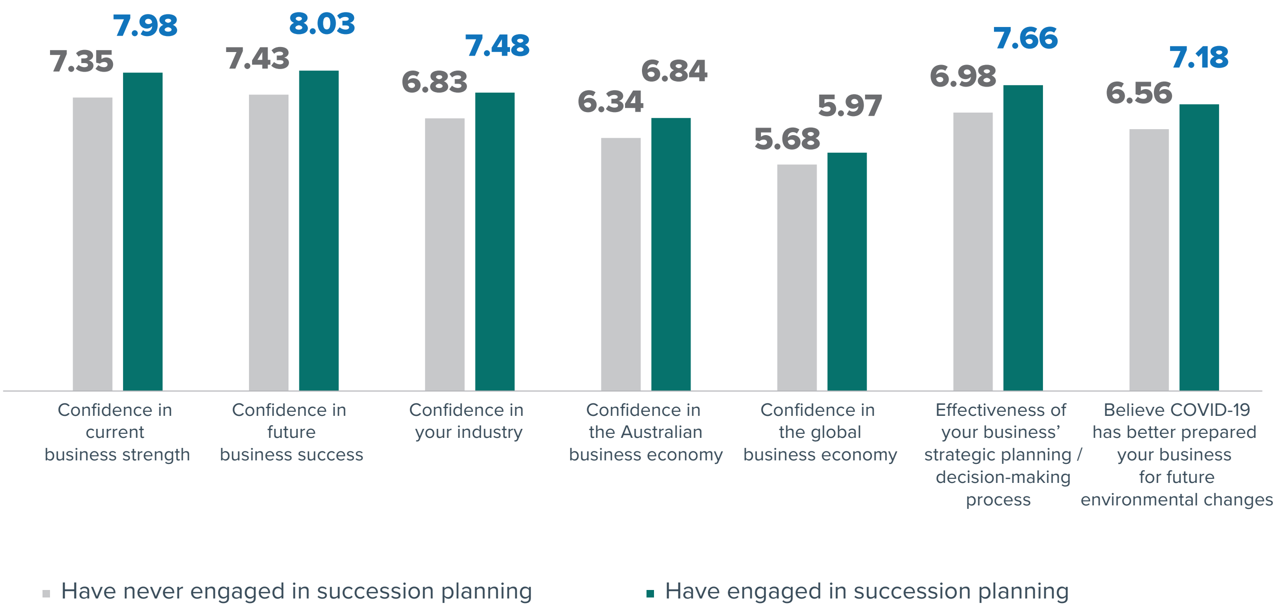
Note: a score of 0 indicates a low likelihood, while a score of 10 indicates a high likelihood.

Succession planning and confidence

As mentioned, engaging in formal short to mid-term, or mid to long-term, strategic planning increases confidence. Businesses with longer-term planning often engage in succession planning (47.7% v. 31.7%) and are significantly more confident about their businesses, the effectiveness of their decision-making processes, and their future success. They also believe that COVID-19 has prepared them better for future environmental changes. Businesses that have engaged in succession planning are also significantly more confident about their industry and the Australian business economy. As mentioned before, businesses that have been through strategic planning have integrated the strategic planning process as a keystone habit because they know it makes them more agile and able to take advantage of opportunities. Their confidence in their industries and the economy reflects their ability to intercept and utilise opportunities in any environment. After all, luck is preparation meeting opportunity.

Businesses that engage in long-term strategic and succession planning also tend to shift their focus to their legacy and impact on the community, as outlined earlier in this report. This demonstrates that with broader, longer-term considerations, decision-making can be improved as business time horizons increase and decisions are no longer driven solely by day-to-day operations.

MIDDLE-MARKET BUSINESS CONFIDENCE ON A 10-POINT SCALE (10: HIGHLY CONFIDENT)



Has your business ever engaged in succession planning?
Note: Significance testing was conducted between groups at the 5% level of significance. Blue indicates that it was significantly higher than the previous wave.

Including succession in strategic planning enables both family and non-family businesses to see their organisation's future and what will happen once the current management changes. It helps to provide the 'North Star' to guide the ship.

Engagement with succession planning

More than half of middle-market businesses said they have never undertaken succession planning. Part of this is definitional as succession planning conjures up exit planning or something coming to an end. Succession-focused activities, like business continuity planning and future proofing, are part of the remit of succession planning, however, some businesses view these as strategic planning because those activities are crucial to making them opportunity ready.

BUSINESS THAT HAVE NEVER ENGAGED IN SUCCESSION PLANNING

COVID-19 represented the biggest disruptive global event since World War II, but some businesses still opt to operate with a shorter-term focus and no strategic or succession planning. While that may fit less mature businesses and certain industries, it highlights that world events are not a strong trigger for strategic planning. Instead, as outlined earlier, market changes and setting a new direction or focus for the company are the biggest triggers to strategic planning. This also aligns with the middle-market businesses' tendencies to focus on their industries and microeconomic factors rather than global macroeconomic developments.

When a business engages with planning, the immediate priorities are typically cash flow and other short-term objectives before succession is considered. Businesses may be better placed in the long term if they engage in succession planning earlier as it can often lead businesses to ensure their short, mid and long-term decisions align with one long-term vision – no matter who is leading the company.

Succession engaged businesses

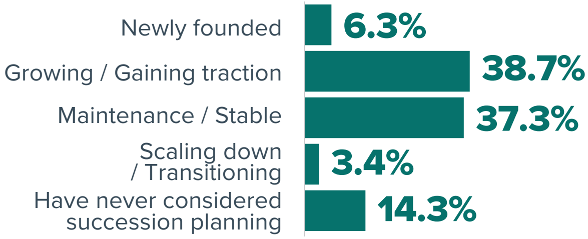
Most middle-market businesses first consider succession planning in their growth or mature stage, with the most common trigger being market changes. Businesses that engage in succession planning are significantly more likely to have strategic planning triggered by systematic and ongoing processes (46.4% v. 29.5%). As mentioned before, they are more likely to be confident in their current strength, future success, industry, the Australian economy and their decision-making effectiveness. These factors further emphasise that businesses, which have engaged in succession planning, may feel more confident because they have covered their bases, unlike businesses that still have succession planning on their to-do list.

For many middle-market and family-owned businesses, succession planning is part of strategic planning as business owner's personal and business affairs often have some degree of overlap. As Pitcher Partners has seen in the middle-market businesses it works with, and through other resources like the Radar for Growth Podcast series, succession planning can be hallmarks of businesses that are superior strategic planners and better performers in many other aspects of their operations.

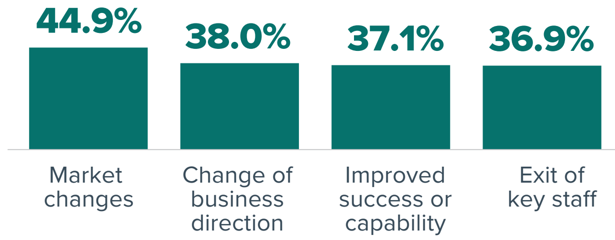
Businesses that had engaged in succession planning, were significantly more likely to have been presented with the following opportunities that arose during the COVID-19 pandemic:
- Increased workforce flexibility (31.3% v. 22.3%)
- Improvements to staff satisfaction (20.6% v. 6.4%)
- Improvements in technology (29.5% v. 10.6%)
- Ability to streamline operations (22.3% v. 4.6%)
- Cost reductions (29.9% v. 18.0%).

Of course, a business may naturally go through cultural change as a new generation of leadership begins steering the business. But when such changes are guided by an overarching succession plan, which is partly based on the business' strategic plan, a business can chart a more stable and consistent path to long-term growth. This is especially beneficial when family members have had input and agreement, as mentioned earlier in this report, so there are not the sudden changes in direction that can often accompany a change of leadership.

LIFE STAGE WHEN SUCCESSION PLANNING WAS FIRST CONSIDERED



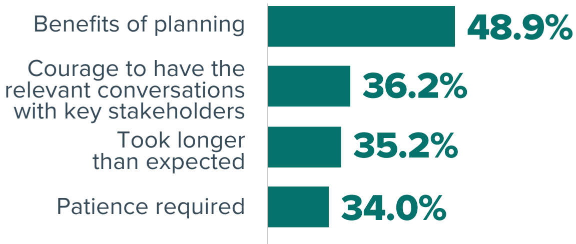
TRIGGERS FOR SUCCESSION PLANNING * (TOP 4)



Considerations for succession planning and learnings from past events

Developing the business for continuity post transition is key in succession planning. After going through a succession event, nearly half of middle-market businesses recognise the benefits of having a plan in place – again, especially when family members and management have been included in the strategic planning and overarching vision creation for the business.

HAVE EXPERIENCED A SUCCESSION EVENT: KEY LEARNINGS* (TOP 4)



MOST IMPORTANT CONSIDERATIONS WHEN CONSIDERING SUCCESSION* (TOP 3)

Business development for transition (54.9%), sale readiness (44%) and business legacy (37.9%) are most important to larger businesses with more than 200 employees. Similar to our findings in the first edition of this report, businesses that are ready to embrace opportunities have a competitive advantage, especially if growth by acquistion or exiting the business through trade sale or an IPO is part of their long-term strategy.

In Victoria, for example, 41.3% of businesses say sale readiness is their most important consideration in succession planning while 27% are focused on their business legacy. Other opportunities that emerged throughout the pandemic include merger and acquisition activity. As referenced in Pitcher Partners Dealmakers Report, in the second half of 2020 dealmaking activity was at a high and provided another avenue for succession and growth for opportunity-ready businesses.

Professional isolation

The first edition of this report found that many business owners can feel isolated. This comes from the level of responsibility from, pressure associated with, and the intensive time involved in, owning and leading a business. For some, taking a step back from the business to connect with their peers can seem difficult to accommodate within a busy schedule. For others, there is the feeling that there is no one they can turn to. This tends to be based on the belief that no one will ever understand their business or context as well as they do. They often fail to see how people around them – even trusted, external advisors with experience across business contexts – can help. The owners and leaders who feel more connected and less isolated on the other hand, can leverage their connections and experience greater success through regular liaison with objective and trusted external parties.

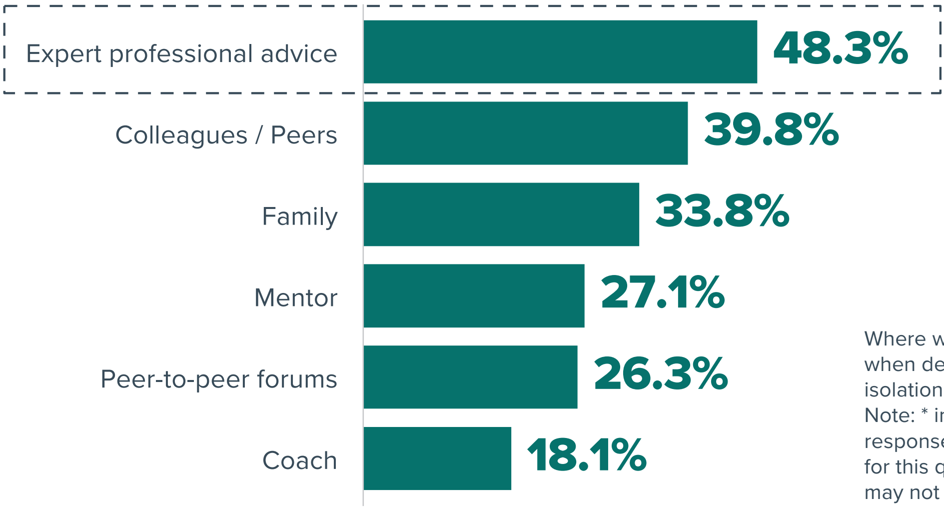
DEGREE OF PROFESSIONAL ISOLATION EXPERIENCED IN DECISION-MAKING (10: HIGH DEGREE)

To what degree do you experience professional isolation in decision-making – i.e. pressure to make the right decisions, but no one with shared experience to talk to?

The research found that three in every 10 decision-makers experienced a high degree of professional isolation in decision-making, with one in two seeking support from professional advisors.

Seed-stage businesses have the largest concentration of decision-makers experiencing a high degree (8-10) of professional isolation (69.6%). However, they are more likely than other businesses to seek support from family (42.1%) rather than professionals (29.5%). There are many factors that could drive this decision for seed-stage businesses, including financial resources and professional networks that are not yet to the level of mature-stage businesses.

SOURCES OF SUPPORT WHEN DEALING WITH PROFESSIONAL ISOLATION*



Where would you seek support, when dealing with professional isolation in decision-making?* Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

How key decision-makers operate

As main decision-makers, those experiencing high levels of professional isolation are more likely to take actions directly, albeit with the support of professionals and experts. Decision-makers experiencing a high degree (8 – 10/10) of professional isolation, reported being significantly more likely than those with lower levels of professional isolation to:

- Be the main decision-maker in their business (71.0% v. 50.6%)
- Involve an external advisor in strategic planning (38.7% v. 21.9%)
- Look for a personal relationship with an external advisor (36.9% v. 25.7%)
- Source information for strategic planning from their lender (33.8% v. 18.4%)
- Seek support from a mentor (35.9% v. 23.2%) or coach (30.6% v. 12.5%) when dealing with professional isolation.

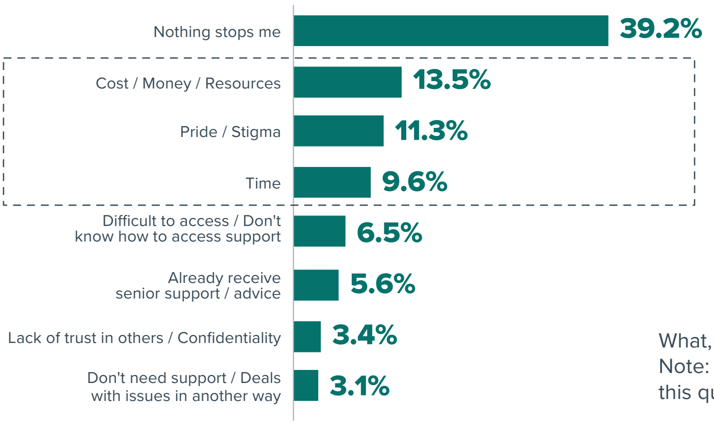
A lender may use financial pressure to encourage respondents to devise a strategic plan that assures the lender’s investment and the future of the business.

Businesses that have professional advisors on their boards recognise their high value, as the independent perspective brings a more holistic view and pressure tests thinking.

Barriers to seeking support

While most business owners and leaders feel there are no barriers to seeking the support, they cite the need, cost, stigma of seeking help and time as the most common hurdles to overcome. For key decision-makers who are not seeking help and advice, the research is a valuable reminder that many people in the same position often face the same barriers to seeking support.

BARRIERS TO SEEKING SUPPORT*



"Concerns about costs."

"Lack of time."

"Fear of being judged."

"I don't want people to think I don't know what I'm doing."

What, if anything, inhibits you from seeking support?*
Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

Professional isolation and confidence

Decision-makers who experience a high degree of professional isolation, are significantly more likely to be confident in their current business strength (8.48 v. 7.22), industry (8.23 v. 6.59), future success (8.50 v. 7.31), decision-making (8.23 v. 6.83), the Australian economy (7.83 v. 5.97) and the global economy (6.94 v. 5.29). This indicates that, while professional isolation can be difficult to deal with, it can generate a degree of confidence in business owners and leaders not experienced by other people in a business. It is important to note that confidence can be misplaced if a business owner or leader is blind to what may be actually occurring. Such scenarios can lead to complacency and unwittingly expose the business to greater risk. It is, however, important to remember that having a sounding board to test ideas, along with diversity of thought in teams, can produce better outcomes.

There is a growing body of evidence that shows diversity in thought and knowledge contribute to better decision-making.

Key insights for businesses

- A quarter of middle-market businesses involve external advisors and advisory boards in strategic planning, and more than half report having a strategic plan.
- The goal with a strategic plan is to have a primary direction, but with the ability to pivot quickly.
- Middle-market businesses with less confidence in their current strength are twice as likely to make strategic decisions in an ad hoc manner than businesses with high confidence (33.9% v. 15.84%).
- Companies that make decisions in an ad hoc manner are five times more likely not to have a strategic plan (10.2% v. 2.0%).
- Not having a strategic plan can contribute to ad hoc decision-making, which can reduce business confidence. Middle-market businesses that don't have a strategic plan in place should be looking to do so to assist with effective decision-making and ensure they are opportunity ready.
- Key decision-makers within middle-market businesses continue to feel a sense of professional isolation. Seeking support from peers, advisors, family, and other helpful sources could alleviate some pressure and provide the opportunity to test ideas.
- The involvement of strategic advisors and advisory boards in strategic planning helps instil confidence in the business and their future success. Engaging expert advice can ensure objectivity in decision-making and bring a broader understanding and expertise around business, industries, and macroeconomic factors.

People challenges

Consistent with the first edition of this report, staff retention is a challenge for half of the businesses surveyed, with remuneration perceived to be the largest contributor to staff turnover (34.5%). Staff attraction and retention were the most common challenges for businesses with 200+ employees. This aligns with opportunities for development being the strongest contributor to turnover in businesses with more than $250 million in annual turnover (52.2%).

The Federal Government has recognised the need to ensure people and businesses have the skills they need, with a further 163,000 higher education places funded in areas such as digital technology and degrees necessary to drive improvement in sectors such as aged care through its JobTrainer fund. This presents an opportunity for middle-market businesses to capitalise on this funding by having their people access further education through one of these newly funded places.

Interestingly, the top turnover mitigation strategies respondents identified included work-life balance initiatives, to increase employee satisfaction and flexibility, which is a departure from remuneration being perceived as the top contributor to staff turnover. This indicates a potential misalignment between the perceived and actual culture of an organisation, where business owners and leaders may not have a full picture of an employee's experience in the workplace.

Amongst the respondents, the 27% of middle-market businesses that report no staff challenges are most likely to include human resource requirements in their strategic planning and implement employee satisfaction programs. This highlights how in-depth strategic planning that considers resource requirements, business continuity, and product and service enhancements can facilitate employee buy-in and reduce staff acquisition and retention challenges.

Addressing turnover and providing an attractive workplace

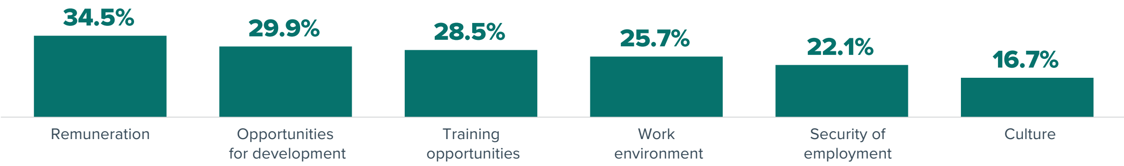
Decision-makers saw having a supportive culture and employment security as the most important factors to employees. Businesses with less than 20 employees (19.73%) placed particular importance on providing secure employment.

MOST IMPORTANT FACTORS TO EMPLOYEES

In your opinion, how important are the following to your business' employees?

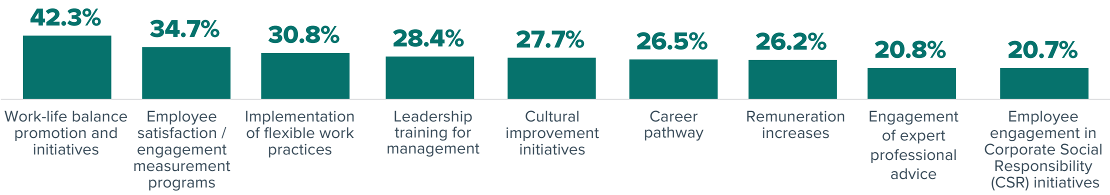
Career opportunities for employees were seen as a priority for 13.3% of employers in South Australia and 11.2% in Western Australia. Quality of management was notably important in Victoria (8.2%). Training and development opportunities were key in Queensland (12.3%).

CONTRIBUTING FACTORS TO TURNOVER RATE*



What factors have contributed to having a higher turnover rate?*
Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

STAFF TURNOVER MITIGATION STRATEGIES*



What steps is your business taking to actively mitigate staff turnover?*
Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

Businesses with 200+ employees were most likely to measure employee satisfaction (48.2%) and have flexible work practices (44.2%). Similarly, leadership training increased with business size, as more than two in five businesses with annual turnover of more than $250 million engage in training, compared to one in five businesses with lower turnover (<$10m).

Victorian businesses (30.8%) and middle-market businesses throughout Australia with more than 200 employees (38.2%) were most likely to seek expert advice to mitigate staff turnover. Engaging this external advice, especially for feedback programs, can give business leaders a more accurate indication of the perceived versus actual culture in their organisation.

More than half of businesses (55.2%) with staff retention problems were most likely to have experienced staff redundancy challenges (23.2%) and faced challenges in upskilling staff (24.4%) due to COVID-19. They recognised that remuneration (33.0%), training opportunities (31.7%), and development opportunities (29.0%) were the largest contributors to turnover. However, those businesses have been the most likely to implement cultural improvement programs (32.7%) and engage professional human resources advice (27.7%) to mitigate staff turnover.

Other longer-term opportunities to address upskilling challenges included hiring people who have finished courses funded by the Federal Government's JobTrainer Fund. The Fund provides low or no-fee places for people to upskill in important areas such as digital capabilities and critical industries such as aged care. While it may not be a direct path to addressing upskilling challenges, it highlights the importance for organisations to engage with tertiary education and training institutions to attract the next generation of talent to their business.

The pandemic and people

Just like commercial business challenges that may have been exacerbated by the COVID-19 pandemic, latent people challenges may have come to the forefront as working environments changed rapidly. Many businesses only look at employee satisfaction once a year in the review cycle, where a more ongoing approach to employee satisfaction may be more fruitful and reduce surprises and issues going undetected for too long. Importantly, strong leadership is always key for businesses, but the COVID-19 pandemic highlighted the importance of authentic and transparent leadership. This is especially important when it comes to communicating the company's long-term vision and supporting the welfare of employees and their families through challenging and uncertain times.

In 2020, throughout the height of the COVID-19 pandemic in Australia, 44.5% of businesses with staff acquisition problems were the most likely to be impacted by human resources management challenges (11.6%), faced difficulties with upskilling staff throughout the pandemic (26.2%), saw new customers as an opportunity (20.0%), changed business structures (30.9%), and adopted a stronger customer orientation and focus on agility (29.5%). This differs from those businesses who don't perceive staff challenges in their businesses. Those businesses tended to balance their focus between customers and inner workings as they were engaged in more strategic planning and implement employee satisfaction initiatives.

Key insights for businesses

- Staff retention has been a challenge for half of the businesses surveyed, with remuneration perceived to be the largest contributor to staff turnover (34.5%).
- Staff attraction and retention are the most common challenges for businesses with 200+ employees.
- Businesses that consider human resources requirements and staff engagement initiatives in their strategic planning processes, tend to report fewer staff turnover challenges.
- Middle-market businesses that can effectively gather and act on employee feedback are uniquely placed to address staff acquisition and retention challenges, given their relative size for changes to occur faster than in larger organisations.

It's all relative

Across family businesses, confidence in the current strength and future success of the business has increased significantly (7.64 v. 7.24 and 7.70 v. 7.16, respectively on a 10-point scale) since the first Business Radar report. Within family businesses, non-family members had higher confidence in the business than family members (7.74 v. 6.96 and 7.75 v. 7.01, respectively). This indicates that employees may observe the success of the business but not always be privy to the stress and risk of ownership that rests on family's shoulders. This pressure on family business owners can increase feelings of professional isolation, with family decision-makers most likely to experience professional isolation (45.2%).

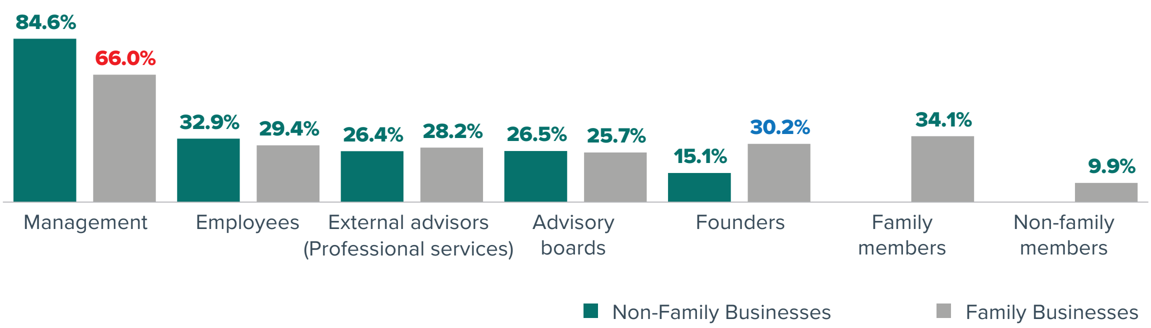
Family businesses with no staff challenges were most likely to make decisions without family bias (68.7%) and have no barriers to non-family members achieving executive positions (61.6%). This highlighted the need for family-run businesses to be mindful of overt family bias in decision-making, hiring and internal promotion.

While it may be top of mind, two in five business owners and leaders in family businesses recognised that family influences clouded their decision-making. Involving non-family members in decision-making to reduce this unconscious, family bias was a strategy for almost 60% of these decision-makers. Further, non-family members were significantly less likely to recognise the involvement of expert professional advisors and the implementation of quotas on family members in decisions as strategies taken to reduce family influence. This may indicate that measures taken to make decision-making in family businesses more objective may often not be recognised by non-family members.

Strategic planning and decision-making in family businesses

Fewer than 10% of family businesses included non-family members in strategic planning, and management was significantly less likely to be involved in planning than founders and other family members. There are also some key differences in where family businesses source external support for strategic planning compared to non-family businesses. These sources can affect the objectivity of decision-making, so it is important to ensure external support is accessed by family businesses to mitigate bias in strategic planning and decision-making, rather than fuel further bias.

FAMILY V. NON-FAMILY BUSINESSES: INVOLVEMENT IN STRATEGIC PLANNING*



Note: Significance testing was conducted between Family and Non-Family businesses at the 5% level of significance.
Blue indicates that the Family businesses result was significantly higher and Red that it was significantly lower.
Who is typically involved in the strategic planning process?*
Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

Family businesses were significantly more likely than non-family businesses to source information from their lender (29.0% v. 19.3%) and significantly less likely than non-family businesses to adopt mid to long-term strategic planning (44.9% v. 57.6%). This could be due to the strategic plan for a family business being largely covered in a family's succession plan, where the next generation of family business leaders is identified and pathway to change is outlined. In any case, family business owners should ensure they vary their information sources to ensure decisions are driven with an objective, holistic view.

Within family businesses, family members were more likely to describe strategic planning as implementation of formal short to mid-term plans (40.4% v. 21.3%) while non-family members focused more on formal mid to long-term plans (54.9% v. 32.9%). These findings could be the result of family and non-family members having different ideas of what constitutes a short or long-time horizon. For example, family members may consider their long-term plans across several generations, while non-family members may consider only the long-term to incorporate the next five or 10 years.

Beyond cash flow planning and customer strategy, family businesses were most likely to include resource requirements (34.4%) and organisational structure (33.4%) in their strategic planning. However, non-family businesses were most likely to include KPIs with accountability and risk mitigation (37.1% and 36.1% respectively).

Family succession planning

Family run businesses were significantly more likely to have engaged in succession planning than non-family businesses (49.7% v. 36.1%) as the next generation of leadership for the company will likely come from within the family. At this point, leaders within a family business need to train the younger generation of the family to take over, which is something that's not often an issue for non-family businesses. Further, the birth or death of a family member can trigger a succession event. To ensure the business impacts of these events are managed effectively, family businesses also need to consider how changes in family dynamics and structure may impact the business and its future.

Family businesses and staff challenges

Family businesses with no staff challenges were most likely to make decisions without family bias (68.7%) and have no barriers to non-family members achieving executive positions (61.6%). However, family businesses were significantly less likely than non-family businesses to implement employee satisfaction measurement (27.8% v. 39.4%) and have flexible work practices (24.9% v. 34.8).

Within family businesses, more non-family than family members saw job satisfaction as an important part of providing an attractive workplace (10.7% v. 4.9%), but family members placed greater emphasis on the importance of quality management (8.8% v. 5.4%). These differing priorities highlight that the expectations of both family and non-family members within a family business need to be addressed to ensure culture challenges do not grow into deeper organisational issues over time.

Family bias in decision-making

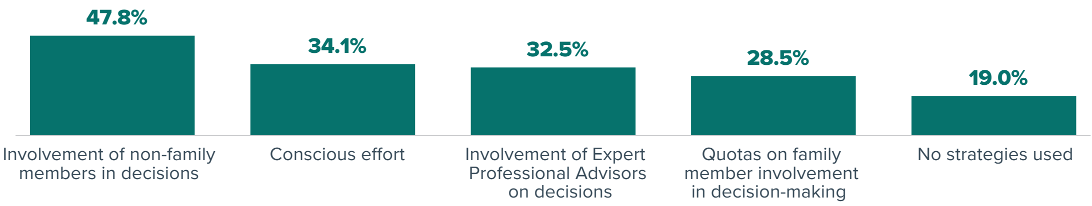
Two out of five decision-makers in family businesses recognised that family influences clouded their decision-making, so they involved non-family members to reduce unconscious family bias. When bias is present in family business decision-making, the business can be exposed to risk if the family's priorities aren't balanced with the commerciality of the business. It also leaves family-owned businesses open to a lack of progress through the “stalemate” that conflicting interests can present.

Some family businesses included external parties such as their lenders and advisors in the decision-making process. The involvement of expert professional advisors was most common in Victorian family businesses (44.4%).

DECISIONS ARE USUALLY MADE WITH THE BEST INTERESTS OF THE BUSINESS IN MIND

As a family run business, when making decisions (e.g. hiring, promoting, cost management etc.) do you feel that...

STRATEGIES FOR REDUCING UNCONSCIOUS BIASES AND INFLUENCE IN DECISION-MAKING*



What strategies do family members use to reduce unconscious biases and influence in decision-making?*
Note: * indicates multiple responses were allowed for this question, so these results may not sum to 100%.

Non-family members were significantly less likely to recognise the involvement of expert professional advisors as an effective strategy to mitigate bias (24.4% v. 42.2%). Instead, non-family members preferred to implement quotas on family member involvement in decisions to reduce family influence (17.0% v. 42.2%).

The 40% of businesses that recognised family influences their decision-making were significantly more likely to:

- See treating business assets as family assets as a barrier to non-family members achieving executive positions (43.2% v. 15.1%)
- Involve non-family members in decision-making to reduce unconscious bias (59.3% v. 40.2%)
- Have strategic planning triggered by a change in management (48.7% v. 20.2%)
- Make ad hoc decisions (35.0% v. 18.6%)
- Have engaged professional advice regarding strategic planning since COVID-19 (40.2% v. 23.7%), being more likely to engage advice regarding financial pressures (46.9% v. 21.5%)
- Have a clear transition path in place for the next generation (78.6% v. 46.7%), intend to increase focus on succession planning due to COVID-19 (48.6% v. 24.0%) and consider family transitions the most important succession consideration (26.4% v. 11.9%).

Key insights for businesses

- Family and non-family members within a family business recognise that family bias can influence decision-making which may not generate optimal results for the business.
- Family businesses should employ a range of strategies to mitigate bias in decision-making, these could include quotas or the involvement of external advisors or lenders.
- Family businesses with no staff challenges are most likely to make decisions without family bias (68.7%) and have no barriers to non-family members achieving executive positions (61.6%). This highlights the value of efforts to actively reduce family bias in decision-making.
- Beyond cash flow planning and customer strategy, family businesses are most likely to include resource requirements (34.4%) and organisational structure (33.4%) in their strategic planning.

About Pitcher Partners

Australian statistics		
120+ partners	1,400+ people	6 independent member firms

Pitcher Partners specialises in working with middle-market businesses in Australia, including privately owned, government owned and not-for-profits.

Access the resources and depth of expertise of a major firm, but with a personal approach. Our clients receive the highest level of personal service and attention. That's the difference.

If you require high technical standards, matched with a personal understanding and involvement in your affairs, reach out to a Pitcher Partners advisor.

Our commercial services to businesses

Financial essentials
Accounting and Business Advisory Services
Audit, Risk Management and Assurance
Internal Audit
Recovery, Turnarounds and Insolvency
Tax advice and Compliance
Planning and growth
Business Consulting and Commercial Advice
Business Performance Improvement
Business Structuring
Corporate Finance
Corporate Governance
International Business Advisory
Investment Advisory Services
Succession Planning
Superannuation Services
Tax Advisory
Technology and IT Consulting
Valuations

Private wealth services
Estate Planning
Family Office Management
Investment Advisory Services
Philanthropy Services
Succession Planning
Superannuation Strategies
Tax Advice and Compliance
Industry specialisations
Agriculture
Food and beverage
Government and the public sector
Health and aged care
Hospitality
Manufacturing
Not-for-profit
Professional services
Property and construction
Retail

About Forethought

Forethought is an internationally-awarded consultancy. We draw on our evidence and advisory practices to provide business decision-makers with smart solutions and the confidence to act.

Evidence
We are truth and opportunity seekers, triangulating multiple sources of data to investigate, unpack and solve business challenges.

Our established analytics practice works in tandem with experts from a range of industry teams, including B2B and B2C sectors to deliver data-driven strategy that links to commercial outcomes and is anchored in your industry context.

Advisory
Recognising that most transformational insight is meaningless without the organisational capability to implement change, experts from our advisory practice provide frameworks and toolkits for effective implementation.

This is supported and governed by strong measurement capability to keep the business on track.

Making business *personal*

Gavin Debono *Melbourne*
Partner
p. +61 3 8610 5331
e. gavin.debono@pitcher.com.au

Ashley Davidson *Melbourne*
Partner
p. +61 3 8610 5327
e. ashley.davidson@pitcher.com.au

Michael Dundas *Sydney*
Partner
p. +61 2 8236 7788
e. michael.dundas@pitcher-nsw.com.au

Julie Strack *Perth*
Executive Director
p. +61 8 9322 2022
e. strackj@pitcher-wa.com.au

Robert Prince *Perth*
Executive Director
p. +61 8 9322 2022
e. princer@pitcher-wa.com.au

Cole Wilkinson *Brisbane*
Partner
p. +61 7 3222 8444
e. cwilkinson@pitcherpartners.com.au

Kylie Lamprecht *Brisbane*
Partner
p. +61 7 3222 8437
e. klamprecht@pitcherpartners.com.au

Andrew Beitz *Adelaide*
Principal
p. +61 8 8179 2800
e. andrew.beitz@pitcher-sa.com.au

Peter Lawrence *Newcastle*
Partner
p. +61 2 4911 2000
e. peter.lawrence@pitchernewcastle.com.au

Adelaide Brisbane Melbourne Newcastle Perth Sydney

bakertilly NETWORK MEMBER

pitcher.com.au