KPMG and Family Business Australia Family Business Needs Survey 2005

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Foreword

This national survey identifies issues and trends that are considered important to the success of Australian family businesses. The survey is fully endorsed and supported by Family Business Australia (FBA), who considers it an excellent vehicle to canvas members and non-members on their concerns and to update their information database.

The survey was designed and managed by Linda Glassop, Yuen Ching Ho and Dianne Waddell from the Bowater School of Management and Marketing, Deakin University, Melbourne, Australia. We would like to thank Elvira Luca for her research assistance with the design of the survey questionnaire and Lakmal Abeysekera for data entry.

KPMG contributed both financial support and constructive feedback for the project.

The following is a detailed report which includes more critical analysis and follows a synopsis which was presented in August 2005 at the Family Business Australia National Conference, Adelaide, South Australia.

PART A – SURVEY SUMMARY

1 Introduction

Family businesses comprise a significant part of the world economy yet comparatively little research is done to identify their needs or aspirations. It is startling to note that:

- Family businesses account for up to 80% of worldwide enterprises;
- In the USA, family businesses account for 50% of the labour force;
- In Western Europe, family businesses represent between 75% and 95% of all registered corporations;
- In the UK, 73% of all businesses are identified to be family businesses; and
- In Australia, family businesses employ over 50% of the private sector workforce and represent 67% of businesses nationwide (Smyrnios and Walker, 2003).

However, modern business management and family businesses have often been addressed as separate entities with little similarity – more of an aberration with disparate views on how businesses can be managed. If these family businesses are considered, it is usually hidden amongst issues relating to small or medium sized enterprises (SMEs). Therefore, is it any wonder that there are disappointing results when attempts are made to compare or transfer ideas?

It is true that family businesses are a distinct form of organization as they often challenge the fundamental and basic principles of management. It is also true that family businesses are considered an exception rather the rule, even though statistics would suggest otherwise. What is important is to not only accept their differences, but to also recognise their similarities, as it is through a thorough understanding of their complexity that we can proffer a holistic approach which is imperative for family businesses in order to survive to the next generation – if they choose to do so.

There are many challenges to be faced by proprietors and their families that are not evident in other businesses, such as using non-family board members, dealing with the management of succession, the application of new technologies, unique taxation and legal matters, and of course the question as to whether joining a family business is an opportunity or obligation. Is it any wonder that only a third of Australian family businesses are passed on from the first to the second generation and only about 15% go into the third generation (Waddell, 2005)?

Needless to say, as their success (or otherwise) impacts on the way of life of so many individuals it is important that their unique characteristics and special circumstances be understood. Only then would any disparity between family businesses and modern business management be resolved so that a mutual synergy should exist.

The Family Business Needs Survey for 2005 investigated:

1. The contribution of family led businesses to the Australian economy;
2. The relationship between governance structure (family and non-family members) and organisational performance (growth and longevity);
3. Human resource practices related to family members (performance appraisal, remuneration);

4. Inter-generation planning practices (estate planning, succession planning); and
5. The degree of business professionalisation (business practices utilised).

As a result of this project, it has

1. Provided an instrument that will allow research investigation on an annualbasis;
2. Provided initial data sets that highlight key issues facing family business survival; and
3. Provided a substantial data set that can be utilised by a range of researchers and practitioners.

This report has been divided into three main sections.

Part A provides a summary of the findings and describes the profile of respondents to the survey, together with providing a synopsis of the raw data for quick reference which was published in August, 2005. Part A contains some demographic details and assists with clarifying practitioners views of 'what is a family business'.

Part B focuses on strategic priorities and challenges that family businesses have identified as being of major concern in the present economic climate. This section provides a clear understanding of the current needs of family businesses.

Part C contains an analysis of cross correlations of the data regarding Australian Family Business Practices. It looks at a broad range of issues (for example, governance, succession, family ethos) and offers some objective insight into the way family businesses are managed.

2 Methodology

Utilising an alliance with Family Business Australia (FBA), and financial support from KPMG, a multi-faceted survey instrument was designed, implemented and analysed by Deakin's Bowater staff.

The target for the survey was organisations of all sizes and industries across all states of Australia. The survey was distributed to around 4,980 family businesses during June 2005, the list of which was provided by FBA. This list included both members and non-members of the Association, but did not include any publicly listed companies.

The survey was a detailed 4 page survey and contained 44 questions under 9 sections: Personal Background; What Family Business means to you; Business Details; Business Background; Management Details; Family Business Issues; Succession Issues; and Planning Issues.

As usual with such surveys, the mail out included a covering letter explaining the purpose of the project and confirmed the endorsement of FBA and support of KPMG. The letter also advised participants that the survey had been endorsed by Deakin's Ethics Committee.

By the cut-off date, there were 492 completed questionnaires and 107 returned to sender unopened. A subsequent 43 surveys were received but were not included in the analysis.

Data was entered and analysed via SPSS for Windows. The correlations in this report were specifically requested by FBA and KPMG. The data has considerable potential for further analysis and extrapolation. A preliminary synopsis was presented at the Family Business Australia National Conference in August 2005.

The data presented in this report, primarily, utilises means. A large range of question items asked participants to indicate their response on a sliding scale from 1 to 7. The mean scores noted herein reflect the degree to which the issue is relevant to the respondent's business, where 0 refers to not applicable and 7 refers to very important. Thus, a mean score of 3.5 refers to the mid-point. Below the mid point suggests that the item is not very important, and above the mid point suggests that the item is important. A mean score above 5.25 indicates that the item is very important to the respondent.

3 *Australian Family Businesses – At a Glance*

Respondent's background:

- 84 per cent were Australian-born with 30 per cent between the ages of 50 and 59 years and 31 per cent having a university degree.
- 35 per cent of respondents were first generation businesses and 31 per cent from the second generation.
- 88 per cent identified dominant 'ownership' by the family as being characteristic of their family business, as distinct from dominant 'management' by family (68 per cent).
- 89 per cent of respondents stated that a de-facto partner was not included as 'family'.

Business details:

- 31.9 per cent of respondents are based in NSW, with 23.9 per cent in South Australia and 20.9 per cent in Victoria.
- 38 per cent operate in the Wholesale and Retail trade.
- 38 per cent also operate in Manufacturing and Distribution trade.
- 52 per cent had increased their number of employees in the past year.
- 45 per cent intended to increase their employees over the year.
- 34 per cent have a turnover of between $1 million and $5 million per annum.
- 38 per cent have between 10 and 49 full-time employees.
- 44 per cent have less than 5 part-time or casual employees.
- 83 per cent established the business themselves.
- 32 per cent established the business in order to 'be their own boss'.

Management details:

- 60 per cent have a current Board of Directors.
- 25 per cent have two family members on the Board.
- 40 per cent have non-family as 'high level managers'.
- 38 per cent have family members only on their Board.
- 20 per cent undertake formal performance appraisals for family members working in the business.
- 37 per cent undertake such appraisals for non-family members of the business.

Succession planning:

- 30 per cent plan to retire within five years; 27 per cent between five and ten years.
- 68 per cent of business-owners have not chosen a successor.
- 34 per cent do not have a formal succession plan.
- 33 per cent intend to pass on the business to the next generation.
- 16 per cent intend to sell the business.
- 54 per cent intend to develop a formal succession plan.
- 27 per cent of family businesses are undecided about their exit strategy.
- Only 1.5 per cent of family businesses plan to close their business when they retire.

Family involvement in the business:

- 41 per cent had two generations involved in the business; 16 per cent had one generation.
- 29 per cent had the first generation holding the most senior management position; 45 per cent as CEO.

Highest ranking family business concerns:

- Balancing short-term and long-term business decisions.

- Maintaining the loyalty of non-family members.
- Availability of willing and able successors.

Lowest ranking family business concerns:
- Finding outside buyers for the business.
- Including non-family members on the Board of Directors.
- Setting up a workable Board of Directors.

Highest ranking family issue concerns:
- Balancing family concerns with business interests.
- Compensating family members involved in the business.
- Maintaining family control of the business.

Lowest ranking family issue concerns:
- Buying out family members not involved in the business.
- Dealing with rivalry among potential successors in the family.
- Developing a family constitution.

Family business challenges:
- Greatest challenge – increasing profits.
- Least important – international competition.

Level of professionalism:
- 34 per cent do not have a workable Family Council or governing body.
- 33 per cent do not have a written Family Constitution.
- 25 per cent do not have a written and up-to-date succession plan for key business roles.
- ‘Having current financial procedures’ was rated as very important by family businesses.
- ‘Regular performance evaluation from a financial perspective’ was also rated as very important.
- Having a written Family Constitution, even if they had one, was considered as least important to family businesses.

4 General Responses

- **Background:** the majority of respondents were Australian born (84%) between the ages of 50 to 59 (30%) with 31% having a university degree. Thirty-five percent were from the first generation and 31% from the second. Notably, as a positive reflection as to the longevity of family businesses, 7% are representative from the fourth generation and 7% are representative from the fifth or more generations of family businesses.

  Respondents identified dominant ‘ownership’ by the family (88%) as being characteristic of their family business as distinct from dominant ‘management’ by family (68%). Also, 89% stated that a de facto partner was not included in their definition of ‘family’.

- **Business Details:** The majority of businesses came from Wholesale and Retail Trade (38%) and Manufacturing and Distribution (38%). The majority had increased the number of employees in the past year (52%) but 45% intended to increase their employees over the next 12 months. Turnover for 34% of respondents was between \$1m to \$5m per annum. Significantly, 66% of participants serve the local market with only 34% venturing to international shores.

  The majority established the business themselves (83%) in order to ‘be their own boss’ (32%).

- **Management Details:** Approximately 60% have a current Board of Directors with 25% having two family members on the Board. Although 40% have non-family as ‘high level managers’, 38% have family members only on their Board.

  Only 20% undertake formal performance appraisals for family members whereas 37% undertake such appraisals for non-family members of the business.

- **Family involvement in the business:** Forty-one percent had two generations involved in the business and 29% had the first generation holding the most senior management position (45% as CEO).

5 Significant Responses

- **Business Concerns:** Of highest concern to respondents is 'balancing short-term and long-term business decisions' (mean = 5.55) with 'maintaining the loyalty of non-family members' being the second highest business concern (mean = 5.34). 'Including non-family members on the Board of Directors' (mean = 2.94) and 'finding outside buyers for the business' was of least concern (mean =2.51).

- **Family concerns:** 'Balancing family concerns and business interests' was definitely of paramount concern (mean = 5.59) with 'compensating family members involved in the business' coming a long way second (mean = 5.08) on their list. 'Buying out family members not involved in the business' was of least concern (mean =2.32).

- **Succession Issues:** Approximately 57% of respondents were going to retire within ten years, but 68% had not chosen a successor. Although 33% consciously intended to pass on the business to the next generation, 16% intended to sell the business.

- **Challenges:** Increasing profits was definitely the greatest business challenge (mean = 6.09) with 'increasing customer base/sales/turnover as second most important challenge. 'International competition' (mean = 2.92) was the least important for family businesses.

- **Level of Professionalism:** Thirty-four percent do not have a workable Family Council and 33% do not have a written Family Constitution. A quarter of the respondents did not have a written and up-to-date succession plan for key business roles. Where evidence did exist, family businesses considered 'financial procedures' as the most important (mean = 5.83) with regular performance evaluation from a financial perspective also very important (mean = 5.53). Having a written Family Constitution, even if they had one, was considered as least important (mean = 1.44).

6 *Defining a Family Business*

Statistics on family businesses are limited mainly because family businesses are so difficult to categorise and define. Waddell (2005) compared The Australian Family Business Survey of 1993 (Institute of Chartered Accountants), which determined that family business is the largest form of business ownership in Australia and represents 83% of all business enterprises, with that of Basu (2004), who believes that “over two thirds of all world-wide businesses are owned or managed by families” and “around half of all businesses in Australia are family businesses”. The Australian Institute of Management (AIM) (2004) states that “the wealth of family and private businesses is estimated at $3.6 trillion” and that “family firms generate 50 per cent of Australia’s employment growth, account for 40 per cent of Australia’s private sector output, and are a seedbed for innovation and the formation of large companies”.

The difficulty in defining a family business is heightened because family businesses can take many forms, ranging from sole traders to private companies to public companies. Hence, when talking about family business, you could be referring to the sole trader dealing with organic produce to an IT organisation employing hundreds of staff.

Basu (2004) thinks that “while ordinarily, in non-family businesses, the business and family domains remain separate; the key distinctive characteristic of family businesses is that family members work together for economic purposes. In other words, the family is not merely a social unit but also an economic unit.”

Craig and Lindsay (2002) believe that “family involvement in the business is what makes the family business different … researchers, however, cannot seem to agree as to what constitutes ‘family involvement’ in a business so that it can be defined as a family business” and that family business is “… a business that is governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition that is controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families”.

The 2005 survey results appear to support Barrett, Walker, Dunemann and Rajapake’s (2005) suggestion that a family business is an elusive concept. When respondents were asked what characteristics identified a family business, 84.0% overwhelmingly perceive ‘ownership’ as more important than ‘management’ (52.2%) or ‘involvement’ (50.5%) by family members. The notion that family businesses are characterised by their ‘potential generational transfer’ received only 43.1% acceptance.

Table 6-1: Relationships that can be included as ‘family’

Spouse	74.0%	In-laws	22.6%
De Facto	10.9%	Relatives of in-laws	4.3%
Parents	57.4%	Nieces and nephews	24.1%
Grandparents	27.7%	Aunts and Uncles	16.4%
Siblings	75.7%	Step-relatives (eg stepfather/son)	8.3%
Cousins	21.3%		

Also, of considerable interest was the issue of who is, or can be, a family member. It was not surprising that spouse (74.0%) and siblings (75.7%) were favoured, but de facto partners (10.9%) and step-relatives (8.3%) may have some concern if they intend to be considered as part of the family business (see Table 6-1).

Table 6-2: Reasons for commencing own business (where applicable)

To be own boss - independence	32.4%	Gap in the market	3.0%
Financial reasons – to make money	10.0%	Frustration in previous employment	3.0%
Commercial opportunity – develop an idea/skill	8.3%	Difficulty in finding employment	1.3%
Provide a future for the family	9.2%	Other	9.6%
Continue family tradition	7.0%		

Of the respondents, 83.4% established the business themselves, whereas 16.2% took over an existing business. The reasons for doing this varied with wanting to be their own boss being the most popular reason (32.4%) (see Table 6-2).

Forty percent of businesses had two generations involved in the business (see Table 6-3) with 28.4% having the most senior position being occupied by the first generation (see Table 6-4), of this 45.2% were titled CEO (see Table 6-5).

Table 6-3: Number of generations involved in the family business

Generation	Percentage Involved
One	16.2%
Two	40.9%
Three	7.7%
Four	2.1%
Five or more	1.3%
No response	31.8%

Table 6-4: Number of generations holding the most senior management position

Generation	Percentage in Most Senior Position
None	3.0%
First	28.4%
Second	19.8%
Third	11.1%
Fourth	3.2%
Fifth or more	2.1%
No response	32.4%

Table 6-5: Most senior position held by a family member

CEO	45.2%	Chairperson of Board	7.5%
General Manager	33.4%	Member of Board	0.2%
Director	27.1%	Other	2.3%
Owner/manager	13.9%		

7 Profile of Survey Respondents

This section of the report is purely descriptive as it is a breakdown of the profile of the survey respondents.

Of the 492 replies, half were 50+ years of age (50.7%) (see Table 7-1), Australian born (84.2%) and married (84.0%). They were predominantly first (35.1%) and second (30.8%) generation (see Table 7-2) and 30.7% had a university degree as their highest level of education (see Table 7-3).

Table 7-1: Age of respondents

Respondent Age	Percentage
20-29	3.7%
30-39	15.5%
40-49	24.6%
50-59	30.2%
60-69	20.5%
70+	4.5%

Table 7-2: Generations represented

Generation represented	Percentage
First	35.1%
Second	30.8%
Third	19.1%
Fourth	7.6%
Fifth or more	7.4%
No response	1.7%

Table 7-3: Highest level of education

Incomplete secondary	8.6%	Trade Qualifications	16.4%
Secondary	17.5%	University degree	30.7%
Post-secondary	12.2%	Post-graduate degree	14.3%

Seventy-seven percent had the south-eastern states as their Head Office (see

Table 7-4) with ‘Manufacturing and Distribution’ (38.4%) and ‘Wholesale and Retail Trade’ (37.5%) being the predominant business sectors (seeTable 7-5).

Of interest is that 33.7% served the international market with 33.7% having an annual business turnover of $1 million to $5 million (see Table 7-6). Also, 77.6% of respondents are incorporated Companies, 13.6% are Trusts, 4.7% are Partnerships and 2.5% were sole traders or other corporate structures (see Table 7-7).

Table 7-4: Location of headoffice

Location of head Office	Percentage
NSW	31.9%
SA	23.9%
VIC	20.9%
WA	11.6%
QLD	4.3%
TAS	5.7%
ACT	1.5%
NT	0.2%

Table 7-5: Business sector

Wholesale & Retail Trade	37.5%	Transportation	6.6%	High technology Industries	2.3%
Manufacturing & Distribution	38.4%	Business Services	5.8%	Telecommunications	1.3%
Agriculture & Fisheries	9.2%	Professional Services	4.9%	Resource Industries	0.9%
Construction	7.5%	Hospitality & Entertainment	4.7%	Education	0.9%
Property & Real Estate	7.5%	Finance	3.0%	Other	9.2%

Table 7-6: Approximate business turnover

Less than $500K	9.6%	$20 million to $30 million	2.6%
$500K to $1 million	11.7%	$30 million to $50 million	5.1%
$1 Million to $5 million	33.7%	$50 million to $100 million	4.9%
$5 million to $10 million	15.4%	More than $100 million	4.3%
$10 million to $20 million	10.4%	No response	2.3%

Table 7-7: Type of business structure

Company	76.1%
Trust	13.6%
Partnership	7.7%
Sole proprietor	1.9%
Other	0.6%

The number of employees varied with 37.2% having 10-49 full-time employees and 43.6% having 5-9 part-time/casual employees (see Table 7-8). The trend in employment over the next 12 months identifies a decline compared to the previous year with 44.8% of businesses intending to expand as compared to 51.6% in the previous 12 months (see Table 7-9).

Table 7-8: Number of employees

Number of employees	Full-time	Part-time/Casual
None	3.0%	13.6%
Less than 5	16.3%	43.6%
5-9	18.5%	15.3%
10-49	37.2%	21.0%
50-250	18.7%	5.8%
250 +	6.2%	0.6%
No response	0.9%	1.3%

Table 7-9: Employment trends

Number of Employees	Increased no. of employees over the past 12 months	Intention to increase the no. of employees in the next 12 months
1 – 5	30.7%	24.8%
6 – 10	5.1%	2.7%
11 – 15	2.1%	1.7%
16+	4.8%	2.1%

8 Sample Quotes from Open-Ended Questions

Participants were asked to elaborate upon the issues and challenges important to them with regard to the family business. These are the key themes and some choice quotes:

- **Building/maintaining harmony in the business** – **'**Maintaining harmony between family members with different views'; 'Not letting family differences interfere with business decisions'; 'Working happily together'; 'People being drama queens'; 'Family not just blood'

- **Succession** – 'Training family to understand, appreciate and participate'; 'Turning potential willing successors into able successors'; 'Younger generation lacking enthusiasm, entrepreneurship/commitment'; 'Entrepreneurship, which the business was founded on is lacking within 2nd generation family members'.

- **Founder retaining a role past retirement -** 'Allowing the founder to continue to work in the businessas long as I'm enjoying it & adding value'.

- **Founder not leaving** – '1st generation well past retirement yet active in day-to-day operations of business preventing new people from being hired'.

- **Family expansion -** 'Little thought given to complications brought into the business through the family expanding'; 'Others steal our ideas'.

- **Lack of government support** – 'over taxed and over regulated'.

- **Professionalism whilst retaining family values/flavour** – 'Creating a professional business whilst maintaining family values'; 'Managing business to keep focussed on business issues without personality or family roles interfering'.

- **Roles/input of spouses in business** – 'Keep wives out of the day-to-day operations'; 'Spouses of family members should have no influence or rights in affairs of the business'; 'Sometimes we're the statue, other times we're the pigeon'.

- **Roles of family not active within the business need to be clearly defined and maintain good communication** – 'Rules for the family members not involved in the business so that they know its operating structures & returns'.

- **Work life balance** – 'Having more time for golf'; 'Starvation of time'; 'Enjoy, enjoy'.

PART B – PRIORITIES FOR AUSTRALIAN FAMILY BUSINESSES

The KPMG and Family Business Australia Family Business Needs Survey for 2005 sought to examine the priorities of family business managers that pertained to the family, the business, and the family business.

Findings from the survey provide noteworthy progress in understanding the issues deemed most important to family businesses, such as balancing family concerns and business interests, balancing short-term and long-term business decisions and increasing profits.

The results of the cross-tabulations indicate that family-management issues, such as estate and succession planning, appear to become somewhat more important once financial and operational issues are addressed.

The survey also reveals that responses are not significantly influenced by size of business (as indicated by business turnover), which generation's hands the business is in, and the type of business structure. Details of the findings are noted in the following sections.

9 Family Issues

Family business managers were asked to rate the importance of a range of family issues pertinent to their running of the business.

'Balancing family concerns and business interests' was of paramount concern (mean = 5.59) with 'compensating family members involved in the business' coming in second (mean = 5.08) on their list. 'Buying out family members not involved in the business' was of least concern (mean = 2.32).

Table **9-1** presents the issues noted as significant by respondents.

9.1 Balancing family concerns and business interests

Respondents to the survey noted that trying to balance family and business concerns was a key issue for them. Broadly, the literature reveals that areas of conflict can be related to issues of capital structure, risk-taking, procurement and allocation of resources, and reward systems within the business.

Responses were not significantly differentiated by business size, nor the type of business structure. However, from a generational perspective, respondents from businesses that were in their fourth or more generation ranked this issue second (mean = 5.20), with the need to maintain family control of the business attaining a higher mean (mean = 5.22) (see

Table **9-1**).

Family business founders play an important role in whether or not the balance between the family and the business is achieved as they are the ones who set the strategic tone and culture of the business. Also, it has been suggested by family business researchers and consultants that sometimes, only a neutral non-family member can balance the interests of the different factions within the family unit.

This could signal an increasing trend to appoint non-family members in executive management positions as the business evolves through different size (turnover, number of employees) and generations.

Table 9-1: Family issues considered important by family businesses– by generation

Family Issues	Overall	First	Second	Third	Fourth +
1. Balancing family concerns and business interests	5.59	5.59	5.90	5.51	5.20
2. Compensating family members involved in the business	5.08	4.96	5.42	5.00	4.78
3. Maintaining family control of the business	5.05	4.88	5.20	4.97	5.22
4. Preparing and training a successor	4.78	4.85	4.69	4.80	4.71
5. Selecting a successor	4.59	4.53	4.64	4.72	4.53
6. Resolving conflicts among family members	4.40	4.10	4.88	4.36	4.09
7. Informing family of business issues	4.31	4.20	4.43	4.47	4.20
8. Equity among family members, including female members	4.09	3.70	4.46	4.03	4.51
9. Maintaining a role for the founder in the business after retirement	3.91	4.16	4.31	3.13	3.50
10. Formalising the family role	3.84	3.62	4.07	4.23	3.52
11. Selecting family members for positions in the business	3.82	3.56	4.28	3.97	3.37
12. Distributing ownership among family members	3.74	3.83	3.78	3.84	3.43
13. Dealing with rivalry among family members	3.33	3.00	3.88	3.31	3.14
14. Setting up a family foundation	3.02	3.24	3.01	2.83	2.74
15. Developing a family constitution	2.96	2.64	3.12	3.54	2.68
16. Dealing with rivalry among potential successors in family	2.93	2.80	3.10	3.00	2.91
17. Buying out family members not involved in the business	2.32	1.85	2.60	2.97	2.11

* The mean reflects the degree to which the issue is relevant to the respondent's business and is scaled from 0 – 7, where 0 refers to not applicable and 7 refers to very important.

9.2 Compensating family members involved in the business

The issue of compensating family members involved in the business was found to be the second most pressing concern for participants overall.

Responses were not significantly differentiated by the type of business structure, nor generation. However, from a business size perspective, respondents from businesses that had turnovers of between $20 and $50 million, and greater than $50 million only ranked this issue fifth (mean = 5.00) and sixth (mean = 5.02) most important respectively (see Table 9-2).

Table 9-2: Family issues considered important by family businesses – by business turnover

Family Issues	< $1m	$1 - $5m	$5 - $20m	$20 - $50m	$50m+
1. Balancing family concerns and business interests	5.54	5.59	5.65	5.64	5.47
2. Compensating family members involved in the business	4.70	5.26	5.17	5.00	5.02
3. Maintaining family control of the business	4.25	5.44	5.04	5.14	5.23
4. Preparing and training a successor	3.79	4.74	5.15	5.43	5.35
5. Selecting a successor	3.66	4.43	5.05	5.31	5.51
6. Resolving conflicts among family members	4.10	4.37	4.66	4.44	4.28
7. Informing family of business issues	3.64	4.19	4.47	4.72	5.32
8. Equity among family members, including female members	3.42	4.06	4.25	4.08	5.00
9. Maintaining a role for the founder in the business after retirement	4.25	5.44	5.04	5.14	5.23
10. Formalising the family role	2.90	3.63	4.31	4.11	5.23
11. Selecting family members for positions in the business	2.92	3.93	4.02	4.22	4.37
12. Distributing ownership among family members	2.96	3.76	4.02	4.17	4.37
13. Dealing with rivalry among family members	2.27	3.25	4.08	3.83	3.60
14. Setting up a family foundation	2.31	2.85	3.56	3.33	3.53
15. Developing a family constitution	1.81	2.73	3.61	3.72	3.86
16. Dealing with rivalry among potential successors in family	1.99	2.76	3.52	3.53	3.58
17. Buying out family members not involved in the business	1.63	2.25	2.73	2.75	2.77

* The mean reflects the degree to which the issue is relevant to the respondent's business and is scaled from 0 – 7, where 0 refers to not applicable and 7 refers to very important.

Other than being in a better financial position, this finding could suggest that the business may have developed formal policies to address such concerns in line with the need to better manage the growth of the business.

In general, compensation management in family-owned businesses can be contentious as, on one hand, there is the notion that family members who work for the business, should be paid less to reduce the firm's payroll costs. Alternatively, some argue that family members should be paid more because they are related to the business owners. Further, sometimes the compensation paid to a family member is motivated more by tax considerations than anything related to relative worth.

The mission of a good compensation plan is to keep everyone involved in the business working for what is best for all (Aronoff and Ward, 1997). Designing such a plan forces business owners to communicate their most fundamental goals clearly to all employees, owners, and family members. With clear, open, and informed understanding of these matters, family members should experience fewer conflicts over money.

9.3 Maintaining family control of the business

The third key concern of family business managers surveyed was ensuring that control of the business was retained by the family.

Responses were not significantly differentiated by the type of business structure. As the business grows bigger however, the issue of selecting a successor (mean = 5.51) was deemed more important than maintaining family control of the business (mean = 5.23) (seeTable 9-2).

Moreover, from a generational perspective, respondents from businesses that were in their fourth or more generation ranked this issue as most important (mean = 5.22), compared to respondents from first generation businesses who ranked this issue fourth (mean = 4.88) (see

Table **9-1**).

The high ranking of this issue is not surprising given that family control offers advantages such as management independence from shareholder pressure; long-term perspectives; a deep understanding of the business by the owner-managers; and strong motivation and personal commitment to the business (Kets de Vries, 1993). Indeed, research has found that family control is associated with higher business performance.

Family business managers have to be mindful however that full family control, wherein there is a lack of separation of ownership from management, may cause family businesses to suffer from 'cloudy financial vision' (Kets de Vries, 1993).

10 Business Issues

Family business managers were asked to rate the importance of a range of business issues pertinent to their running of the business (seeTable 10-1).

Of highest concern to respondents is 'balancing short-term and long-term business decisions' (mean = 5.55) with 'maintaining the loyalty of non-family members' being the second highest business concern (5.34). 'Including non-family members on the Board of Directors' (mean = 2.94) and 'finding outside buyers for the business' was of least concern (mean = 2.51).

Table 10-1: Business issues considered important by family businesses – by generation

Business Issues	Overall	First	Second	Third	Fourth +
1. Balancing short-term and long-term business decisions	5.55	5.47	5.71	5.42	5.54
2. Maintaining loyalty of non-family members	5.34	5.09	5.64	5.38	5.37
3. Availability of willing and able successors	4.87	4.78	4.98	4.90	4.88
4. Determining the financial value of the business	4.79	5.06	4.91	4.14	4.56
5. Getting assistance from outsiders to resolve business problems	4.55	4.52	4.77	4.53	4.42
6. Involving non-family managers in making strategic decisions	4.28	4.12	4.21	4.57	4.57
7. Changing from family management to professional management	3.33	3.21	3.91	3.24	2.55
8. Defining the role of the board of directors	3.30	3.01	3.72	3.46	3.03
9. Establishing a workable board of directors	3.27	3.02	3.78	3.29	2.94
10. Including non-family members in the board of directors	2.94	2.67	3.13	3.20	2.97
11. Finding an outside buyer for the business	2.51	2.58	2.54	2.20	2.48

* The mean reflects the degree to which the issue is relevant to the respondent's business and is scaled from 0 – 7, where 0 refers to not applicable and 7 refers to very important.

10.1 Balancing short-term and long-term business decisions

Family business managers who responded to the 2005 survey indicated that a key priority was to balance short-term and long-term business decisions.

Responses were not significantly differentiated by the type of business structure and the generation involved. However, business size distinguished the responses. For example, businesses that reported turnover of between $20 to $50 million, deemed 'maintaining loyalty of non-family members' more important (mean = 6.25) than 'balancing short-term and long-term business decisions (mean = 5.42). This is in direct contrast to businesses who reported turnovers of less than $1million, who ranked 'maintaining loyalty' fourth (mean = 4.22), and the latter issue first (mean = 5.24) (see Table 10-2).

Table 10-2: Business issues considered important by family businesses – by business turnover

Business Issues	< $1m	$1 - $5m	$5 - $20m	$20 - $50m	$50m+
1. Balancing short-term and long-term business decisions	5.24	5.64	5.66	5.42	5.74
2. Maintaining loyalty of non-family members	4.22	5.35	5.82	6.25	5.81
3. Availability of willing and able successors	4.06	4.88	5.13	5.43	5.26
4. Determining the financial value of the business	4.69	4.92	4.94	4.83	3.98
5. Getting assistance from outsiders to resolve business problems	4.44	4.37	4.76	4.97	4.83
6. Involving non-family managers in making strategic decisions	3.15	4.04	4.93	5.64	5.00
7. Changing from family management to professional management	2.32	3.12	4.11	4.33	3.56
8. Defining the role of the board of directors	1.92	3.01	4.05	4.64	4.37
9. Establishing a workable board of directors	1.95	2.90	4.08	4.47	4.47
10. Including non-family members in the board of directors	1.63	2.35	3.88	4.44	4.44
11. Finding an outside buyer for the business	2.84	2.60	2.69	1.72	1.69

* The mean reflects the degree to which the issue is relevant to the respondent's business and is scaled from 0 – 7, where 0 refers to not applicable and 7 refers to very important.

A focus on short-term performance is understandable given the turbulence within both the national and international economic and regulatory environments. However, financial markets, as well as employees and all other stakeholders, place a real value on a firm's future.

It has been recommended that companies should think in different 'time horizons' when setting strategy, establish proper organisational processes that monitor their health and change the nature of their dialogue with stakeholders (Davis, 2005).

Davies (2005) advises that thinking about health (a robust and credible strategy; innovative products, services and processes, a fair reputation with customers, regulators, governments, and other stakeholders; and the ability to attract, retain, and develop high-performing talent), as opposed to short-term performance, helps management teams understand how to look after companies today in a way that will ensure that they remain strong in the future.

10.2 Maintaining loyalty of non-family members

A second key priority was for family business managers to maintain loyalty of non-family members working in the business.

Responses were not significantly differentiated by generation. Differences by business size were discussed in section 10.1 When we consider the type of business structure, we see Partnerships regarded this issue less of a priority (mean = 4.37) than Companies (mean = 5.54) and Trusts (mean = 4.16) (see Table 10-3).

Highly qualified non-family members may be reluctant to accept a job in a family business, nor demonstrate commitment to the organisation, because they are not members of the controlling family and perceive limited career opportunities. Other concerns of non-family members could include: how decisions will be made, nepotism, and fairness of compensation and work-load.

Pine and Houston (1991) provide guidelines for fostering loyalty of non-family members, including: treating non-family members with the same commitment and neutrality as family members, demonstrating that non-family members will be supported and defended, and setting a good professional example among all employees of the business.

Table 10-3: Top 5 business issues considered important by family businesses – by business structure

Business Issues	Company	Partnership	Trust
1. Balancing short-term and long-term business decisions	5.53	5.66	5.67
2. Maintaining loyalty of non-family members	5.54	4.37	5.06
3. Availability of willing and able successors	4.95	4.86	4.69
4. Determining the financial value of the business	4.79	5.40	4.80
5. Getting assistance from outsiders to resolve business problems	4.61	4.57	4.51

* The mean reflects the degree to which the issue is relevant to the respondent's business and is scaled from 0 – 7, where 0 refers to not applicable and 7 refers to very important.

10.3 Assistance from outsiders to solve business problems

Another key priority of family business managers is the need to access assistance from outsiders to solve business problems. 'Outsiders' are usually accountants, lawyers and family business advisers.

The need to seek assistance from outsiders is not uncommon in small and founder-managed businesses owing to resource pressures. For example, businesses that reported turnover of less than $1 million ranked this issue as more important (mean = 4.44) than businesses with turnover of more than $1 million (mean = 4.37) (see Table 10-2).

Given that enterprise growth can be limited when the business's managerial resources are insufficient to adapt to environmental changes, or to take advantage of new product and service opportunities, openness to outsider assistance is an important consideration for family business managers.

11 Business Challenges

Broadly, the results of this survey suggest that family businesses are not unaware of the need for succession planning and formalising the business, but they are struggling with more fundamental issues such as profitability and growth.

Increasing profits was definitely the greatest business challenge (mean = 6.09) with ‘increasing customer base/sales/turnover as second most important challenge. ‘International competition’ (mean = 2.92) was regarded as the least important business challenge for family businesses. Table 11-1 presents a ranking of business challenges by respondents to the survey.

Table 11-1: Business challenges considered important by family businesses – by generation

Business Challenge	Overall	First	Second	Third	Fourth +
1. Increasing profits	6.09	6.11	6.08	5.93	6.26
2. Increase customer base/sales/turnover	5.97	6.12	5.84	5.92	5.89
3. Business growth	5.72	5.76	5.82	5.65	5.48
4. Business/strategic planning	5.53	5.45	5.60	5.56	5.57
5. Balancing family and business	5.01	4.94	5.24	4.96	4.61
6. Operational issues	4.83	4.71	4.98	4.81	4.77
7. Regulatory requirements	4.79	4.75	4.76	4.89	4.88
8. Move into new markets	4.77	4.97	4.74	4.44	4.66
9. Tax issues	4.55	4.59	4.44	4.73	4.43
10. Retirement planning	4.28	4.42	4.29	4.11	3.97
11. Succession planning	4.17	4.25	4.37	4.11	3.79
12. Family issues	3.91	3.59	4.34	4.19	3.52
13. Estate planning	3.83	4.04	3.88	3.58	3.56
14. Change business direction	3.54	3.57	3.65	3.14	3.58
15. Transferring ownership	3.50	3.78	3.59	3.13	3.14
16. International competition	2.92	2.99	2.79	2.70	3.26

* The mean reflects the degree to which the issue is relevant to the respondent’s business and is scaled from 0 – 7, where 0 refers to not applicable and 7 refers to very important.

11.1 Increasing profits and growing the business

Respondents indicated that increasing the profitability of their business was the most pressing priority, followed by ‘increasing customer base, sales, and turnover’. The third most important priority was ‘growing the business’ (see Table 11-1).

Responses were not significantly differentiated by the type of business structure and generation. However, business size distinguished the responses. For example, businesses that reported turnover of more than $50 million ranked “Increasing profits’ as their most important business challenge, (mean = 6.05), but only ranked ‘Increasing customer base/sales/turnover’ as fourth most important (mean = 5.55). This is in contrast to businesses who reported turnovers of less than $1 million, who ranked this latter issue first (mean = 6.20) (see Table 11-2).

Table 11-2: Business challenges considered important by family businesses – by business turnover

Business Challenge	< $1m	$1m - $5m	$5 - $20m	$20 - $50m	$50m+
1. Increasing profits	6.08	6.11	6.10	6.03	6.05
2. Increase customer base-sales-turnover	6.20	5.98	5.95	5.75	5.55
3. Business growth	5.69	5.70	5.78	5.57	5.72
4. Business/strategic planning	5.37	5.43	5.59	5.69	5.81
5. Balancing family and business	4.95	5.12	5.27	4.71	4.05
6. Operational issues	4.27	4.82	5.13	5.14	4.95
7. Regulatory requirements	4.63	4.70	4.93	4.94	4.81
8. Move into new markets	4.54	4.78	4.91	4.66	4.83
9. Tax issues	4.44	4.61	4.72	4.63	4.12
10. Retirement planning	4.10	4.45	4.49	4.00	3.74
11. Succession planning	3.27	4.05	4.54	4.77	4.93
12. Family issues	3.36	3.88	4.31	4.14	3.70
13. Estate planning	3.28	3.99	4.0	4.23	3.58
14. Change business direction	3.27	3.46	3.83	4.29	3.00
15. Transferring ownership	2.91	3.54	3.95	3.17	3.63
16. International competition	1.95	2.99	3.32	3.50	3.12

*The mean reflects the degree to which the issue is relevant to the respondent's business and is scaled from 0 – 7, where 0 refers to not applicable and 7 refers to very important.

PART C – AUSTRALIAN FAMILY BUSINESS PRACTICES

12 Integrating the Family Ethos

Family businesses differ from other businesses inasmuch as the business and the family, while being separate entities, are entwined. The business is not the business without family members, and the family's attention is naturally directed towards their business.

Difficulties can occur if the link between the family and the business is not managed effectively. It is recommended by a number of leading authors on family business management, that certain family-business structures be put in place to appropriately and effectively manage various communication channels between the family and the business (Gersick et al 1997).

Survey respondents were asked to indicate the degree to which they had adopted certain family business structures – family assembly, family constitution, family council and family values – as recommended in the family business literature for managing the link between the business and the family.

Overall, we see a relatively low to poor adoption rate for these family business structures – family assembly (mean = 2.98), family constitution (mean = 1.44), family council (mean = 1.72) and family values (mean =3.62) – except for the articulation of family values (see Table 12-1). It is of interest to note the high number of Australian family businesses that have none of these family business structures – family assembly (16.0%), family constitution (32.6%), family council (34.3%) and family values (15.8%). No previous Australian research exists to know whether this adoption rate has declined or in fact increased over time.

Further research is needed to understand why Australian Family Businesses are reluctant to include these family-to-business mechanisms and whether their absence contributes to the high rate of family business failure.

Table 12-1: Integrating the family ethos – by generation

The degree to which … are present	**Overall**	**First**	**Second**	**Third**	**Fourth +**
Family Assembly	2.98	2.57	3.36	3.07	3.24
Family Constitution	1.44	1.25	1.53	1.78	1.30
Family Council	1.72	1.49	1.95	1.97	1.56
Family Values	3.62	3.72	3.56	3.73	3.47

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.50+ and High presence =5.25+

12.1 Family Assembly

A Family Assembly is a formal mechanism with a dual function. A Family Assembly is a means for the family to convey to officers of the business their desires about how they want the business to operate and for officers of the business to convey information to family members about the business' performance and any concerns. Glassop (2005:32) suggests that a Family

Assembly " is [typically] comprised of all persons constituting a family across the generations together with any extended family members such as in-laws."

A formal communication mechanism, such as a Family Assembly, ensures that the voice of all family members is being heard and that the business adequately conveys information about its progress and/or concerns to all family members and not just a select few.

The degree to which Australian family businesses have adopted the use of Family Assemblies is relatively low (mean = 2.98) (see Table 12-1). This does not suggest that Family Assemblies are of little value to Australian Family businesses, but, rather, that they may have been adopted in an ad-hoc or informal fashion.

From a generational perspective we see that the adoption rate is slightly higher for second (mean = 3.36) and fourth generation (mean = 3.24) family businesses, indicating that as the family grows larger, Family Assemblies may be an effective communication forum (see Table 12-1).

As the business itself grows larger, however, we see a marked increase in the adoption rate, especially for businesses with turnovers of $50 million or more (mean = 3.86) (see Table 12-2).

Table 12-2: Integrating the family ethos – by business turnover

The degree to which … are present	<$1m	$1 - $5m	$5 - $20m	$20 - $50m	$50m +
Family Assembly	2.66	2.89	2.97	2.81	3.86
Family Constitution	1.00	1.13	1.70	1.66	2.60
Family Council	1.01	1.72	1.78	1.86	2.84
Family Values	2.71	3.50	3.88	4.06	4.81

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

Businesses with high annual turnovers tend to have more formal business processes operating. Thus, the use of a formal mechanism for communicating with family members has been included more often in these family businesses.

The type of business structure – Company, Partnership, Trust – appears to make little difference to the adoption rate for Family Assemblies.

The low adoption rate of Family Assembly forums by Australian family businesses is of considerable concern. The ongoing harmony between family and business cannot be guaranteed by good will alone. The absence of Family Assemblies may contribute to the high fail rate of family businesses.

12.2 Family Constitution

Glassop (2005:32) explains that a Family Constitution "… is a pivotal document that articulates the desires of the family vis-à-vis the family business. Thus, the Family Constitution can play a central role for focusing family members, shareholders, management and employees on the fact that the business is a family affair." A family constitution is a formal document that conveys family views about matters such as hiring, firing and rewarding family members, transfer of equity, and so on.

The degree to which Australian Family Businesses have a written Family Constitution is very poor (mean = 1.44) (see Table 12-1). This suggests that Australian family businesses either see little to no value in a Family Constitution or may not be aware of the advantages that a Family Constitution can bring to the effective management of the business and family harmony.

From a generational perspective we see that the adoption rate for a Family Constitution is slightly higher for second (mean = 1.53) and third generation (mean = 1.78) family businesses, indicating that as the family grows larger, a Family Constitution may be an effective way to communicate familial desires about the running of the family business.

As the business grows larger, however, we see an increase in the adoption rate for a Family Constitution (see Table 12-2). Businesses with \$5-\$20 million and \$20-\$50 million turnover still have a low adoption rate (mean = 1.70 and 1.66 respectively), even though it is higher than small businesses (mean = 1.00). Businesses with a turnover of \$50 million or more show a marked increase in the adoption of a Family Constitution (mean = 2.60). Larger businesses tend to have more formal business processes operating, indicating that the use of a formal mechanism for articulating family desires has been included in more of these family businesses.

The type of business structure appears to make little difference to the use of a Family Constitution, although Partnerships have a very low adoption rate (mean = 1.17) and Trusts are slightly higher (mean = 1.61) than Companies (mean =1.44).

The low adoption rate for a written Family Constitution by Australian family businesses is of some concern given the high fail rate for family businesses. A Family Constitution ensures that the family's wishes are instituted in the business and can transcend generations.

12.3 Family Council

A Family Council "… comprises a group of family members that operate within the business. The Family Council plays the role of interpreting the Family Constitution and ensuring that the desires of the entire family are instituted in the way the business operates, often through specific policies" (Glassop 2005:33)

The degree to which Australian Family Businesses have installed a Family Council is poor (mean = 1.72) (see Table 12-1). This suggests that Australian family businesses either see little to no value in having a Family Council or may not be aware of the advantages that a Family Council can bring to interpreting the desires of the family and contributing to the effective management of the business.

From a generational perspective we see that the use of a Family Council is slightly higher for second (mean = 1.95) and third generation (mean = 1.97) family businesses, indicating that as the family grows larger, a Family Council may be an effective operational mechanism for implementing/overseeing family desires about the running of the family business (see Table 12-1). Family businesses with four or more generations report a lower adoption rate (mean = 1.56) for a Family Council, but slightly higher than first generation family businesses (mean = 1.49).

As the business grows larger, however, we see an increase in the use of a Family Council. Businesses with \$1-\$5 million and \$5-\$20 million turnovers have a low adoption rate (mean =

1.72 and 1.78 respectively), even though it is higher than small businesses (mean =1.01) (see Table 12-2). Businesses with a \$20-\$50 million turnover show a higher adoption rate (mean = 1.86), and businesses with \$50 million or more turnover have the highest adoption rate (mean = 2.84). Again, we see that larger businesses, who tend to have more formal business processes operating, indicate that the use of a formal mechanism for instituting family policies has been included in more of these family businesses.

The type of business structure appears to make little difference to the use of a Family Council, although Partnerships have a very low adoption rate (mean = 1.36) and Trusts are slightly higher (mean = 2.00) than Companies (mean =1.73).

The low adoption rate of a Family Council by Australian family businesses is of great concern given the evidence about high fail rates for family businesses. Family Councils are an effective means for maintaining family business harmony.

12.4 Family Values

The degree to which Australian family businesses have clearly articulated their core Family Values is reasonably good (mean = 3.62), although there is still room for improvement (see Table 12-1). This suggests that Australian family businesses believe that the values that underpin their family be clearly conveyed to business stakeholders.

From a generational perspective we see that the writing of Family Values is much the same irrespective of the number of generations operating in the business (see Table 12-1).

As the business grows larger, however, we see a positive correlation with the adoption of written Family Values, with businesses that have a turnover of \$50 million or more reporting the highest adoption rate (mean = 4.81) (see Table 12-2). Larger businesses tend to have more employees than smaller businesses, thus the conveying of Family Values to non-family members may increase in importance as the number of employees grows.

The type of business structure appears to make little difference to the adoption rate for written Family Values.

The good adoption rate for written Family Values by Australian family businesses demonstrates that family businesses believe that it is important for all members of the business to be aware of the Family's Values. However, the lower adoption rate by smaller businesses and the overall average adoption rate may suggest that Family Values are not seen as an intangible asset worthy of attention and management.

13 Governance of Family Businesses

The governance of any business is important for ensuring that the business has a clear direction, stays on that direction and manages its regulatory and tax requirements. The governance structure of a business typically includes a forum for updating shareholders (shareholder assembly), a governing body that is representative of the shareholders (for example, a Board of Directors) and an executive management team.

Australian family businesses were asked to rate the effectiveness of these governance structures, together with answering various other questions about they way they operate.

Overall, we see that Australian family businesses rate the effectiveness of their Executive Management Team highly (mean = 5.07), but show some concern about the functioning of the Board of Directors/Governing body (mean = 3.56) (see Table 13-1). Shareholder Assemblies appear to be of little importance to Australian family businesses (mean = 2.28).

From a generational perspective, the picture does not change much (see Table 13-1), although, as the business grows, these business structures appear to be operating more effectively (see Table 13-2).

Table 13-1: Governance – by generation

The degree to which … are present	Overall	First	Second	Third	Fourth +
Regular Shareholder Assemblies	2.28	2.15	2.22	2.67	2.28
Functional Board of Directors/Governing Body	3.56	3.14	3.70	4.26	3.52
Effective Executive Management Team	5.07	5.12	5.13	5.42	4.69

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

Table 13-2: Governance – by business turnover

The degree to which … are present	<$1m	$1 - $5m	$5 - $20m	$20 - $50m	$50m +
Regular Shareholder Assemblies	1.40	2.00	2.68	3.44	3.14
Functional Board of Directors/Governing Body	1.98	3.15	4.48	4.44	5.33
Effective Executive Management Team	3.79	4.95	5.67	6.22	5.77

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

13.1 Shareholder Assemblies

Public companies are, by law, required to have annual general meetings to inform shareholders of business progress and solicit votes on various matters. Private companies are not formally required to hold formal shareholder meetings.

In family businesses, shareholders may or may not actually work in the business. Keeping shareholders abreast of their investment is, therefore, paramount to ensuring that they stay committed to the business and retain their investment. Withdrawal of capital is a difficult matter for any business to overcome. And, even if capital is not at risk, an unhappy shareholder might consume a significant amount of management time.

Overall, family businesses report a very low attention to formally managing shareholder interests (mean = 2.28) (see Table 13-1). And, as the family size grows, it appears that only when the business itself grows do formal Shareholder Assemblies grow in importance (see Table 13-1 and Table 13-2). Of interest, 28.4% of respondents report that they have no Shareholder Assembly.

Perhaps this is indicative that larger family businesses have external investors that need updating. Or, perhaps shareholders themselves only become interested when there is more investment at stake. Further research is needed to understand why Australian family businesses pay little attention to updating shareholders.

13.2 Board of Directors/Governing Body

A Board of Directors (BOD) or Governing body represents shareholder interests in stewarding the business. Such structures may include executive and non-executive members and shareholder and non-shareholder members. Most importantly, BODs are coming under heavier public and shareholder scrutiny, increasing their need for openness. Corbetta and Salvato (2004) suggest that the public and market will increasingly favour those businesses that involve outside directors.

Significantly, 66.3% of Australian family businesses that are Companies advise that they have a Board of Directors, while 33.7% do not. The presence of a BOD, however, increases to 74.4% for businesses with $5-$50 million turnover and then 88.1% for businesses with a turnover of $50m or more.

This does not suggest, however, that Companies without a BOD do not have some form of governing body. Australian family businesses that are Companies report that their BOD/Governing body is very effective (mean = 5.31); although, this result does leave room for improvement.

Of those Companies with a formal BOD, 30.4% report that they meet monthly, 25.5% meet quarterly, 6.9% meet bi-annually, 17.8% meet annually and 19.4% report that they meet, in the main, in an ad-hoc fashion. The reason for the infrequency of BOD meetings for 44.1% of Australian family businesses requires further research.

Alarmingly, 58.8% of Companies with a formal BOD report that they have NO non-family members on their boards, although this decreases to 48.1% for businesses with a turnover of $20-$50 million and 18.9% for businesses with a turnover of more than $50 million (see Table 13-3).

Interestingly, of the 37 Australian family businesses in the current survey with a turnover of more than $50 million, 18.9% (7) have NO non-family members, 13.5% (5) have one non-family member, 27.0% (10) have two non-family members, 16.2% (6) have three non-family members, 10.8% (4) have four non-family members and 13.5% (5) have more than five non-family members on their Board of Directors (see Table 13-3).

Table 13-3: Number of members on company board of directors

Number of Members on Board of Directors	Family Members	Non-Family Members
Zero	2.8%	58.8%
One	14.2%	17.6%
Two	41.5%	11.8%
Three	21.1%	5.3%
Four	12.6%	4.1%
Five or more	7.7%	2.4%

Once a business exceeds $50 million turnover, the number of non-family members on the BOD increases dramatically. Indeed, 67.6% of Australian family businesses with a turnover of $50 million or more have more than one non-family member on their BOD when compared to 21-26% for businesses with turnovers of $5 to $50 million, and 6-10% for businesses with less than $5m turnover. This strongly suggests that the presence of non-family members on Boards contributes to business growth. Unfortunately, Australian family businesses rate the inclusion of non-family members on their Board as a low priority (mean = 2.94) (seeTable 10-1).

It is also significant to note that Partnerships rate their BOD/Governing body as being less functional (mean = 1.72) than Trusts (mean = 3.45) or Companies (mean = 3.82).

13.3 Executive Management Team

The day-to-day running of a business is in the hands of the Executive Management Team. Typically, the Executive Management Team represents each business function and meets at monthly intervals to review progress and resolve issues. The effectiveness of the Executive Management Team influences the effectiveness of the business as a whole.

Survey respondents were asked to rate the degree to which they felt their Executive Management Team was effective. Overall, family businesses report that their Executive Management Team is highly effective (mean = 5.07), although room for improvement is evident (see Table 13-1).

Surprisingly, fourth generation family businesses report that their management teams are less effective than first and second generation family businesses. By the time the fourth generation is in place, one would expect that the Executive Management Team was well established and thus functional. Further research is needed to understand what might be contributing to this result.

Not surprisingly, large family businesses with more than $50 million turnover report that their Executive Management Teams are very effective. It is interesting to note that as a business moves from being a small business ($1-$5 million turnover) to a larger business, the effectiveness of their Executive Management Team increases markedly. This confirms that the

Executive Management Team is pivotal in directing business growth. Given that business growth was identified by survey respondents as a significant business challenge (mean = 5.72) more attention to increasing the effectiveness of the Executive Management Team appears warranted.

Partnerships (mean = 3.67) and Trusts (mean = 2.75) report that their Executive Management Teams are less effective than Companies (mean = 5.31). Given that family trusts are becoming more popular, an increased focus in this area appears necessary.

14 Management Planning

Planning is an important facet for every business, and family businesses are no different in this regard. However, because of the informality of communication between family members, planning in a family business may not be as formal as it might be in non-family businesses. Smyrnios and Walker (2003) confirmed this view in their 2003 survey when they found that 33.5% of family businesses did not have a written business plan when compared to 19.6% of non-family businesses.

In the current survey, respondents were asked to rate the degree to which the business had a written annual business plan, written annual plans for each function of the business and a written technology maintenance and contingency plan.

The present research indicates that only 13.4% of family businesses have no business plan (mean = 0). This appears to be a significant improvement from the 2003 survey.

Overall, we see that the adoption of a written business plan (mean = 3.89), written functional plans (mean = 3.47) and written technology plan (mean = 4.40) is reasonably good, indicating that family businesses are, perhaps, seeing the value of formalising their aims and objectives for the business (see Table 14-1).

Table 14-1: Management planning – by generation

The degree to which … is present	Overall	First	Second	Third	Fourth +
Business Planning	3.89	4.15	3.67	3.78	3.96
Functional Planning	3.47	3.54	3.37	3.66	3.33
Technology maintenance and contingency planning	4.40	4.51	4.40	4.51	4.08

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

Table 14-2: Management planning – by business turnover

The degree to which … is present	<$1m	$1 - $5m	$5 - $20m	$20 - $50m	$50m +
Business Planning	2.69	3.63	4.42	5.17	5.05
Functional Planning	2.44	3.12	4.01	4.60	4.60
Technology maintenance and contingency planning	3.56	4.17	4.88	5.11	5.29

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

14.1 Business Planning

Having a business plan and having a *good* business plan may be a different thing. In the current survey, respondents were asked to indicate the degree to which they had a written annual business plan.

The present study reveals only an average presence of annual written business plans (mean = 3.89) (see Table 14-1). This is a problem given that respondents also indicate a significantly high concern with increasing profits (mean = 6.09), increasing turnover (mean = 5.97) and business growth (mean = 5.72) (see Table 11-1). Further, respondents rated 'balancing short-term and long-term business decisions' as the most significant business issue (mean = 5.55) (see Table 10-1). The use of business planning as a tool to address business challenges and objectives appears to be absent in a significant number of family businesses.

Interestingly, first generation businesses show a higher use of formal business planning (mean = 4.15) than second generation businesses (mean = 3.67). Although, as more generations are involved in the business, the incidence of formal business planning tends to increase (see Table 14-1).

The adoption of written annual business plans appears to be quite strong the larger the business. Small businesses show a relative absence of business planning (mean = 2.69), while larger businesses with turnovers ranging from \$5 million to more than \$50 million show a higher degree of formal business planning (mean = 4.01 to 4.60), although not widespread amongst all businesses (see Table 14-2).

Not surprisingly, Companies and Trusts are more likely to have business planning (mean = 4.03 and 4.16 respectively) when compared with Partnerships (mean =2.75).

14.2 Functional Planning

Functional planning refers to the degree to which family businesses have written annual pans for each function; for example, sales and marketing, operations, finance, human resources and technology (Glassop, 2005:34).

Overall, Australian family businesses report a moderate degree of presence for functional plans (mean = 3.47) (see Table 14-1). These results vary little between generations (see Table 14-1). However, again we see that the larger the business, the more likely we are to see formal planning mechanisms in place (see Table 14-2).

Partnerships (mean =2.31) and businesses with a turnover of <\$1 million (mean =2.44) show significantly less than the average.

14.3 Technology Planning

Today, businesses are becoming more and more reliant on technology. Effective business management means protecting technology as a vital business asset. Planning for the maintenance and replacement of technology, together with planing should a disaster occur is, therefore, vital to uninterrupted business operations.

Survey respondents were asked to rate the degree to which the business had a technology maintenance and contingency plan present. Overall, Australian family businesses report a moderate degree of technology planning (mean = 4.40), although there is certainly room for improvement (see Table 14-1). This result varies little between generations (see Table 14-1).

Again we see that the larger the business, the more likely we are to see formal planning mechanisms in place with businesses that have a turnover of $50 million or more showing high adoption levels (mean = 5.29) (see Table 14-2**).**

The type of business structure indicates no real difference with the adoption of technology planning, although Partnerships (mean =3.69) are slightly below the average.

15 Succession Planning

For a business to continue undisturbed, key roles must be protected. One way to protect these roles is to ensure that a successor is ready at hand should the need arise. To use an analogy from the theatre, all roles in a play have a 'double' or understudy to ensure that if one actor is unable to participate in a particular performance, then the performance can still go ahead undisturbed by the absence – "the play must go on!".

The present study highlights a major concern for Australian family businesses inasmuch as only 17.7% of survey respondents stated that they had a Succession Plan, although 53.9% do have the intention to develop a Succession Plan (see Table 15-1)! This concern is further emphasised by 68.2% of respondents noting that they have not selected a Successor (see Table 15-1).

Table 15-1: Succession planning

	Have a Succession Plan	Intention to Develop a Plan	Chosen a Successor	Designated Successor	
Yes	17.7%	53.9%	30.5%	Family	19.4%
No	33.5%	16.6%	68.2%	Non-Family	6.4%
No response	48.8%	29.4%	1.3%	No Response	74.2%

The lack of attention to Succession Planning is alarming given that 29.6% plan to retire in the next 5 years and a further 26.7% in the next ten years (see Table 15-2). It is not surprising to note that of those family businesses that have chosen a successor, around 75% have identified their successor as a family member (see Table 15-1).

Table 15-2: Succession planning – years to retirement

Years to retirement	Survey Respondents
0-5 years	29.6%
5-10 years	26.7%
11-15 years	14.5%
15 + years	28.4%
No response	0.9%

Survey respondents were also asked what their exit plan might be (see Table 15-3). Alarmingly, 33.0% of Australian family businesses plan to hand their business to the next generation. This may explain why Succession Planning is relatively low, and why 'availability of willing and able successors' is rated as a key business issue (mean = 4.87) (see Table 10-1). This is a disturbing finding, indicating that the link between incumbent and future generations in family businesses is tenuous. The high response of 27.5% for undecided might be that it is too early to determine, and the 19.2% that didn't answer the question may have not considered exiting (see Table 15-3). Further research is needed to clarify these issues.

Table 15-3: Succession planning – exit plans

Exit Plan	Survey Respondents
Pass on the business to the next generation	33.0%
Undecided	27.5%
Sell the business on the open market	15.8%
Sell the business to employees or management	7.0%
Pass on the business to other family members(s)	6.0%
Close the business	1.5%
No response	19.2%

Succession Planning is also regarded as a business challenge of lower priority (ranked 11th) than operational issues (see Table 11-1). This is surprising given research findings that only one third of family businesses survive into the second generation, and only about 10–15% make it into the third generation, with poor Succession Planning attributed as the primary source of the problem (Miller, Steier and Le Breton-Miller, 2003).

In more detail, we see that the first (mean = 4.25), second (mean = 4.37) and third (mean = 4.11) generations regard the issue of Succession Planning as more important than respondents in their fourth or more generations (mean = 3.79) (see Table 11-1). Athough , as the family business grows in size (as indicated by turnover), the importance of Succession Planning appears to increase. Family businesses with $50 million or more turnover rank the challenge of Succession Planning more highly (mean = 4.93), when compared with smaller firms (busineses with less than $1 million in turnover – mean =3.27) (see Table 11-2).

Survey respondents were also asked to indicate the degree to which they had Succession Plans for key organisational roles, irrespective of whether a family member occupied the role or not.

Overall, Australian family businesses report a low level of Succession Planning for key business roles (mean = 2.19) (see Table 15-4). Thus, Australian family businesses appear to be highly exposed to disruption should the occupant of a key business role be unexpectedly absent.

Table 15-4: Succession planning – by generation

The degree to which the business has …	Overall	First	Second	Third	Fourth +
Written and up-to-date succession plans for key roles	2.19	2.21	2.13	2.27	2.25

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

When we view the presence of Succession Planning across different generations, we see no evidence that the presence of Succession Planning for key roles increases in importance as more generations become involved (see Table 15-4).

However, as the business grows in size (as indicated by turnover), we see that the presence of Succession Planning increases (see Table 15-5). Businesses with $50 million or more turnover show a medium to high level of Succession Planning (mean = 3.10) for key roles, when compared with smaller businesses of, say, $1-$5 million turnover (mean = 2.42).

The type of business structure makes little difference to the presence of Succession Planning for key roles, although Partnerships appear to have significantly less focus on such planning (mean = 1.47) than Trusts (mean = 2.08) and Companies (mean = 2.31).

Table 15-5: Succession planning – by business turnover

The degree to which the business has …	<$1m	$1 - $5m	$5 - $20m	$20 - $50m	$50m +
Written and up-to-date succession plans for key roles	1.20	1.98	2.64	3.19	2.95

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

This poor attention to Succession Planning by Australian family businesses is quite alarming given that survey respondents rated several factors as important:

- Succession Planning is a key business issue (mean = 4.17) (seeTable 11-1);
- 'Availability of willing and able successors' is of considerable concern (mean = 4.87) (see Table 10-1);
- 'Selecting a successor' is a key priority (mean = 4.59) (see
- Table **9-1**); and
- 'Preparing and training successors' is deemed critical (mean = 4.78) (see
- Table **9-1**).

From what is known about Succession Planning in the literature, the process is often stalled by the availability of willing and able successors and/or the incumbent leader, who often has difficulty dealing with succession because of a number of psychological barriers.

Given that succession is the means by which a family can retain control and ownership of its business, it would be prudent for Australian family business owners and operators to view the issue of Succession Planning as a business challenge of greater import.

16 Estate Planning

Estate planning refers to the degree to which family members have a plan in place to manage the distribution of family assets upon their retirement or demise.

In 2003, Smyrnios and Walker (2003) found that around 95% of family business owners had drawn up a legal will, however, approximately 45% had not reviewed or updated their will within the last two years. While the present study did not delve into as much detail about Estate Planning as Smyrnios and Walker, survey respondents were asked to rate the degree to which all family members had written and up-to-date Estate Plans.

Table 16-1: Estate planning – by generation

The degree to which …	Overall	First	Second	Third	Fourth +
Family members have written and up-to-date estate plans	2.46	2.18	2.61	2.81	2.51

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

Table 16-2: Estate planning – by business turnover

The degree to which …	<$1m	$1 - $5m	$5 - $20m	$20 - $50m	$50m +
Family members have written and up-to-date estate plans	1.75	2.42	2.79	2.63	3.12

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

Overall, we find that Estate Planning in Australian family businesses is low (mean = 2.46). Of interest, 23.2% of respondents report that they have no Estate Plan. While the first generation appears to be the worst with Estate Planning, it is alarming to see the low attention to this important facet of managing a family business by third and fourth generation businesses, when assets have been in the family for multiple generations (see Table 16-1).

Estate Planning tends to be more prevalent, however, the larger the business, with businesses that have a $50 million or more turnover showing the highest incidence of Estate Planning (mean = 3.12) (see Table 16-2).

Clearly, more in-depth research is needed on this topic.

17 Performance Evaluation

Understanding how a business is performing is essential to making good business decisions. Thus, Australian family businesses were asked to rate the degree to which they evaluated their business from a financial, customer and employee perspective.

Overall, Australian family businesses report a high degree of performance evaluation for their businesses across financial (mean = 5.53), customer (mean = 4.25) and employee (mean =3 .88) dimensions (see Table 17-1). Although, employee and customer evaluations rank considerably lower than financial evaluations.

Table 17-1: Performance evaluation – by generation

The degree to which … are present	Overall	First	Second	Third	Fourth +
Performance evaluation from a financial perspective	5.53	5.78	5.31	5.50	5.46
Performance evaluation from a customer perspective	4.25	4.57	4.04	4.29	3.90
Performance evaluation from a employee perspective	3.88	4.19	3.78	3.93	3.41

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

Interestingly, business performance evaluation appears to be more heavily utilised in first generation family businesses, with fourth generation businesses generally ranking below second and third generation businesses (see Table 17-1).

Table 17-2: Performance evaluation – by business turnover

The degree to which … are present	<$1m	$1 - $5m	$5 - $20m	$20 - $50m	$50m +
Performance evaluation from a financial perspective	4.66	5.51	5.81	6.17	6.02
Performance evaluation from a customer perspective	3.41	4.23	4.56	4.64	4.81
Performance evaluation from a employee perspective	2.72	3.86	4.28	4.64	4.71

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

Not surprisingly, the larger the business, the more likely we are to see performance evaluation practices (see Table 17-2). Although, customer and employee evaluation is still considerably below that of financial evaluation for large businesses.

When we consider the type of business structure, we see Partnerships with moderately less focus on performance evaluation than Trusts and Companies.

What may be of interest for Human Resource management, is that formal performance appraisals are more likely to be implemented for non-family employees as compared to family members (see Table 17-3); a fact that would most likely be noticed within the organisation and could cause concern. Of interest is that around 35% of respondents didn't answer these questions. This may suggest that the use offormal performance appraisals is not very wide-spread.

Table 17-3: Formal performance appraisals

	Family Employees	Non-Family Employees
Yes	19.8%	37.1%
No	44.6%	26.9%
No Response	35.6%	36.0%

18 Formal Management Practices

The presence of formal policies and procedures in certain areas of the business allows employees to be aware of how the business itself should run, thereby ensuring its continued and smooth operation.

Survey respondents were asked to rate the degree to which certain operational artefacts – business policies, financial procedures, human resource procedures, process maps and operational procedures and seeking external information – were present in the family business.

Overall, Australian family businesses report a high degree of formalisation of their business practices – policies (mean = 4.11), financial procedures (mean = 5.83), human resource procedures (mean = 4.45), process maps and procedures across the value chain (mean = 2.95), role and competency profiles (mean = 3.84) and seeking external information (mean = 5.00) (see Table 18-1). It is of some concern however, that process maps and operational procedures appear to be rated the lowest, indicating a low focus on quality management.

Table 18-1: Formal management practices – by generation

The degree to which … are present	Overall	First	Second	Third	Fourth +
Business Policies for each function or division	4.11	4.29	4.12	3.96	3.99
Financial Procedures	5.83	5.93	5.74	5.85	5.79
Human Resource Procedures	4.45	4.43	4.54	4.49	4.37
Process maps and procedures across the value chain	2.95	2.85	3.24	2.82	2.84
Role and competency profiles for all positions	3.84	3.90	3.89	3.98	3.45
Seeks external information (customer, competitive)	5.00	5.18	4.76	5.03	5.00

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

Interestingly, business policies appear to be more prevalent with first and second generations, than third and fourth generation family businesses (see Table 18-1). Financial and human resource procedures appear to have a high degree of presence for all family businesses, irrespective of the generation, as do process maps and procedures across the value chain. All generations of family businesses are active in seeking external information and using role and competency profiles (position descriptions).

Not surprisingly, the larger the business, the more likely we are to see formal management practices (see Table 18-2). Turnover and employee numbers tend to be positively correlated, indicating that as employee numbers increase formal management practices become necessary.

When we consider the type of business structure, we see Partnerships with moderately less formality than Trusts and Companies.

Table 18-2: Formal management practices – by business turnover

The degree to which … are present	<$1m	$1m - $5m	$5 - $20m	$20 - $50m	$50m +
Business Policies for each function or division	2.60	3.95	4.72	5.43	5.10
Financial Procedures	5.23	5.75	6.12	6.25	6.24
Human Resource Procedures	2.59	4.35	5.15	6.14	5.67
Process maps and procedures across the value chain	2.27	2.61	3.31	4.14	3.81
Role and competency profiles for all positions	2.57	3.72	4.51	4.60	4.62
Seeks external information (customer, competitive)	4.20	5.21	5.02	5.58	5.29

* The mean reflects the degree to which the business artefact is present in the organisation and is scaled from 0 – 7, where 0 refers to no presence and 7 refers to a high degree of presence. Poor presence < 1.75, Low presence = 1.75+, Medium presence = 3.5+ and High presence =5.25+

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