KPMG and Family Business Australia Family Business Needs Survey 2006

Linda Glassop, Pauline Hagel, Dianne Waddell

Bowater School of Management and Marketing
Deakin University, Melbourne, Australia

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Foreword

This is the second national survey conducted by Deakin University's Family Business Research Program to identify issues and trends that are considered important to the success of Australian family businesses.

The inaugural survey was conducted successfully in 2005. For 2006, the survey instrument was amended and extended in response to feedback sought from interested practitioners and academics.

The questionnaire used in this survey was designed and managed by Linda Glassop, Pauline Hagel and Dianne Waddell from the Bowater School of Management and Marketing, Deakin University, Melbourne, Australia. The team would like to thank Judy Hagemann, Deakin University, for her assistance with the layout and distribution of the questionnaire.

KPMG has, once again, contributed both financial support and constructive feedback for the research and the team values their ongoing commitment to the project. Our liaison with Edwina Ogilvy, Marketing Manager at KPMG, has made the process more efficient.

The survey was fully endorsed and supported by Family Business Australia (FBA) who used the previous results to canvas members and non–members about their concerns. Philippa Taylor, the Chief Executive Officer, was proactive in highlighting the importance of the research to the members and gathering further responses.

The following is a detailed report that extends the data and analysis presented in the synopsis that was presented in August 2006 at the Family Business Australia National Conference, Hamilton Island, Queensland.

Linda Glassop

Pauline Hagel

Dianne Waddell

PART A—SURVEY SUMMARY

1 Introduction

Family businesses comprise a significant part of the Australian economy, yet comparatively little Australian research has been done to verify their contribution, identify their needs, aspirations and challenges (AIM 2004; Glassop, Ho and Waddell 2005). For example, using the publicly available data from the Australian Bureau of Statistics (2005a and 2005b), the authors estimate that around 79,300 family businesses fail each year, thereby destabilising Australia's social and economic fabric.

Establishing the importance of family businesses is difficult because of problems in categorising and defining them (Barrett, Walker, Dunemann, and Rajapakse 2005; Basu 2004; AIM 2004). It is estimated that approximately 67% of Australian firms are family owned and operated and have an estimated wealth of A$3.6 trillion (Smyrios and Walker 2003). Basu (2004) concludes that family business comprises half of all Australian businesses, and The Australian Institute of Management (AIM 2004) claim that family firms account for 40 per cent of Australia's public sector output and 50 per cent of employment growth. However, very little is known about family businesses and why their survival rate is so low (only 17% of firms make it past the third generation).

The difficulty in researching family businesses is heightened because family businesses take many forms, ranging from sole traders, private companies to public companies. Family businesses range in size from small, medium or large businesses in terms of employees and turnover. Family business owners define family business by the degree of family ownership, family management or family involvement (Glassop, Ho and Waddell 2005). The findings from the *KPMG and Family Business Australia Family Business Needs Survey 2005* suggest that family ownership is the most important identifier of a family business with 84 per cent of respondents nominating this as the most important descriptor compared to family management (52%) or family involvement (50%) (Glassop, Ho and Waddell 2005). The distinctive characteristic of family businesses is that they are both an economic and a social unit (Basu 2004).

Even with the differing estimates of the economic contribution of family businesses, the impact of family business must be considerable. It is of concern that there has been little recognition or investigation into the nature of family businesses and the subsequent economic and social affect to Australian society.

Leveraging data collected in a previous national survey conducted by Deakin University's Family Business Research Program (FBRP) in 2005, an improved questionnaire was designed, developed and delivered to over 4,000 family businesses of varying size, industry and business type. Data gathered included the follow categories of practice:

- Defining a family business
- Family business challenges
- Governance of family businesses
- Business planning
- Succession and estate planning
- General management practices
- Human resource practices

The 2006 questionnaire was again sponsored by FBA and KPMG. It is expected that the results will provide further information in order to focus on specific key issues for the target group, together with providing unique data for those offering services to the industry.

In summary, the project has provided:

1. an improved instrument that will allow for ongoing research;
2. an additional data set that extends our understanding of key issues facing family business survival; and
3. data which reflects the interests and concerns of 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. For quick reference, it includes the synopsis of the data that was published in August, 2006. Part A contains some demographic details and assists with clarifying practitioners' views of 'what is a family business'.

Part B focuses on challenges identified by Australian family businesses as being of major concern. These challenges include those of 'growing profitability', 'balancing different interests' and 'regulatory challenges'.

Part C contains an analysis of the data on the practices of Australian family businesses, by business turnover. It looks at a broad range of issues (for example, governance, business planning, succession and estate planning, human resources practices) and offers some further insight into the way family businesses are managed.

2 Methodology

In an alliance with Family Business Australia (FBA), and with financial support from KPMG, a survey instrument was designed and administered by the staff of Deakin University's Family Business Research Program.

The target for the survey was organisations of all sizes and industries across all states of Australia. The questionnaire was distributed by postal mail to 4,298 family businesses in May 2006, from a list provided by FBA. This list included both members and non–members of Family Business Australia, but did not expressly include any publicly listed companies.

The questionnaire contained 48 questions under five sections: Respondent's Background; Business Details, Family Involvement in the Business; Family and Succession Issues, and Operational Issues.

As usual with such questionnaires, the mail out included a covering letter explaining the purpose of the project and confirmed the endorsement of FBA and the 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 373 completed questionnaires and 162 returned to sender unopened.

Data was analysed using SPSS for Windows. Descriptive data is reported in the form of percentage counts or means. For some items cross–tabulations by the size of the business are reported. For sections in the questionnaire about business, family and operational issues, respondents were asked to rate each item on a scale of 1 to 7. In these cases, a rating of 7 meant that the item was "very important" to the respondent. Results from the analyses of these items are reported in the form of means. Items relating to business and family issues and challenges were analysed using principal components analysis. Details of this process are reported in Appendix 1.

The data has considerable potential for further analysis and extrapolation. A preliminary synopsis was presented at the Family Business Australia National Conference, Hamilton Island, Queensland, in August 2006.

3 Australian Family Businesses—At a Glance

Respondent's background:

- 84 per cent are Australian–born with 33 per cent between the ages of 50 and 59 years.
- 39 per cent are first generation and 28 per cent represent three or more generations.

Business details:

- 31 per cent of respondents are based in NSW/ACT, with 28 per cent in Victoria and 20 per cent in South Australia.
- 42 per cent operate in the Wholesale and Retail trade and 32 per cent in Manufacturing.
- 47 per cent have a turnover of more than $5 million per annum.

Family involvement in the business:

- 29 per cent have three generations involved in the business.
- The average number of family members involved in the business is 2.4 males and 1.7 females.

Top three business challenges:

- Growing profitably.
- Balancing different interests.
- Regulatory challenges.

Governance of family businesses:

- 39 per cent have a Family Assembly and 28 per cent have a Family Council.
- 17 per cent have a Family Constitution.

Business planning:

- 76 per cent have a strategic business plan.
- 28 per cent have a technology risk plan.

Performance evaluation:

- 92 per cent evaluate financial performance.
- 35 per cent evaluate environmental performance.

Succession and estate planning:

- 26 per cent plan to retire within five years and 35 per cent between five and ten years.
- 78 per cent do not have a formal succession plan, but 35 per cent are in the process of developing one.

General management practices:

- 74 per cent have financial policies and procedures.
- 9 per cent use facilitators for conflict management, communication with family members and change management.
- 25 per cent seek advice for human relations.

Human resources practices:

- 17 per cent formally appraise family members and 39 per cent formally appraise non–family members.
- 9 per cent have a formal mentoring program for family members and 10 per cent have a formal mentoring program for non–family members.

4 General Responses

- **Respondent profile:** The majority of respondents are Australian born (84%), with just over half between the ages of 40 and 69 (54%) and a small number over the age of 70 years (4%). Respondents are primarily from first and second generation family businesses (39% and 33%, respectively), although 12 per cent represent four or more generations. Around 44 per cent of respondents have a university qualification, and, not surprisingly, 81 per cent work more than 40 hours per week. Under half of the respondents (44%) are members of Family Business Australia.

- **Business profile:** The majority of respondents (79%) have their head office in the Eastern states of Australia and operate in manufacturing and wholesale/retail trade (74%). Interestingly, 47 per cent have annual business turnovers in excess of $5 million, 42 per cent are medium to large employers (20 or more employees), but only 6 per cent of these family businesses operate on an international basis. The survey includes mainly private firms (98%), with propriety limited being the most dominate form of ownership (77%). An average debt to equity ratio of 1:1.48 reflects a conservative borrowing profile. Family businesses appear to opt for self–managed superannuation funds for family members (52%), but overwhelmingly utilise a managed fund for non–family employees (91%). Interestingly, around half (42%) increased their number of full–time employees and approximately half (39%) plan to increase employee numbers in the forthcoming year.

- **Family involvement in the business:** It is not surprising that business ownership is the key characteristic for defining ‘family business’ (93%), given that most business equity is held by family members (97%). Blood and marriage ties continue to be the basis for considering members of the ‘family’, while more distant relatives (de facto, step, in–law) are less likely (13% or less) to be considered ‘family’ where the business is concerned. It is interesting to note that family businesses have a male family member in the position of CEO (62%) while very few have family females as CEO (6%). A few family females hold director (39%) and management team (18%) positions.

- **Business challenges:** The challenges facing family businesses were found to fit into ten main categories. The three most important challenges to all family businesses were those of growing profitably, balancing different interests and regulatory challenges. However, the importance of some categories varied by the size of the business. There was a positive relationship between the size of the business and the importance of challenges such as planning succession, establishing professional management, managing family relationships and international growth.

- **Governance of family businesses:** Less than half (39%) the family businesses surveyed have adopted the recommended family–to–business mechanisms (Family Council 28%, Family Constitution 17%and Family Assembly 39%). A Family Constitution is utilised by very few firms (17%), but more frequently by large firms (46% when annual turnover exceeds $50 million). Overall, less than half (41%) have a formal BOD or Governing Body, but, not surprisingly, this increases considerably (90%) for those firms with an annual turnover exceeding $50 million.

- **Business planning:** The most commonly used plans within the businesses surveyed were strategic business plans (76%) and sales and marketing plans (67%). Approximately 50 per cent had a manufacturing and operations plan. The least commonly used plans were those for human resources (34%) and technology contingencies (28%).

- **Succession and estate panning:** Around two–thirds (61%) of respondents plan to retire in the next ten years, with the majority (60%) opting to either sell the business or pass it on to the next generation. Less than a quarter (22%) of respondents claim to have a formal succession plan and the majority (62%) have not yet chosen a successor. Around three–quarters (72%) of respondents note that a will exists for senior family members.

- **General management practices:** It is not unexpected that the larger the organisation, the more likely it will be to use formal procedural management practices. For example, large family businesses are leaders in implementing performance evaluation mechanisms. The only exception is with environmental performance measures where they are below the average (35%), and just in front of businesses with the smallest annual turnover (30% as compared to 22%). As small businesses are generally below the average in each category it would be prudent to suggest that as the business grows in annual turnover, the more likely these businesses will adopt performance evaluation methods. On average, both sales and marketing (73%) and financial policies (74%) and procedures are the most commonly used with information technology being least likely. Of the 70 per cent of businesses that utilise the services of external facilitators, the around one–third require assistance with strategic formulation and planning (29%) and identifying problem–solving (16%). There appears a clear demarcation as to the use of external advisors. The functions of accounting, legal, insurance and financial are very much in demand by all businesses regardless of their size. Whereas the other areas of technology, marketing and human resources are less likely to attract the use of external advisors.

- **Human resources practices:** This aspect of business practice is of most interest in that it highlights the disparity of treatment between family and non–family employees. Sixty–six per cent of businesses implement some form of individual performance appraisal for family employees whereas 89 per cent appraise non–family employees. Contrary to anecdotal evidence, there appears little data to support the contention that businesses are mentoring either family or non –family employees. If mentoring is occurring it is of the informal style. Forty–four per cent of family employees do not receive a management development program and, if they do, it will be either informal (22%) or a mixture of both (22%). Documentation of business/family values, a key distinctive characteristic of family business, is prepared by less than half of the respondents (48%).

5 Defining a Family Business

Prior to the industrial revolution business enterprises were seen as synonymous with households and families (Barrett, Walker, Dunemann, and Rajapakse 2005). It is therefore surprising that academic commentators suggest that the domain of family business studies “has struggled with a need to define its boundaries and source of distinctiveness” (Zahara and Sharma 2004:331). Current estimates of family–based business entities are around 65 to 80 per cent world–wide (Flören 1998), indicating that family businesses are the norm, and non–family business enterprises are the exception. However, a great deal of business research tends to ignore family business (Zahara and Sharma 2004). Identifying the differences between family and non–family businesses is critical for raising awareness of unique family business matters and gaining the attention of public policymakers.

While Craig and Lindsay (2002) believe that family involvement is what defines a family firm, overwhelmingly survey respondents perceive ‘ownership by family’ (93%) and ‘management by family’ (67%) as considerably more important than ‘family involvement’ (53%) or ‘potential generational transfer’ (39%) (refer Table 5–1). These findings are supported by the fact that 97 per cent of the equity of respondent firms is held by family members (refer Table 5–2). It would seem that family business wealth is considerable given that 15 per cent of respondent firms estimate their annual turnovers to be in excess of $30 million (see Section 7).

As with the 2005 survey (see Glassop, Ho and Waddell 2005), those persons considered to be part of the ‘family’ are spouses and children (74 % and 70%, respectively) and siblings and parents (42 % and 40%, respectively), while more distant relatives are less inclined to be included as ‘family’ (less than 16%) (refer Table 5–3). Marriage and blood ties are deemed important, with 7 per cent or less respondents opting to include de facto, step–relatives and in–laws as ‘family’ members.

Sixty–five per cent of family businesses have two generations involved in the business in a paid capacity (refer Table 5–4) with, on average, 2.4 males and 1.7 females (refer Table 5–5). The positions held by family members indicate, overwhelmingly, a predominance of males in the positions of CEO (62% male and 6% female) and Chairperson (28% male and 2% female) (refer Table 5–6). While the management team of family businesses includes non–family members (29 % male and 17% female), non–family members on the Board is less frequent (14% male and 2% female) (refer Table 5–7).

Eighty–one per cent of survey respondents indicate that they established the business themselves, whereas 18 per cent took over an existing business (refer Table 5–8). The most popular reason for doing this was: wanting ‘to be own boss’ (59%) and a desire ‘to make money’ (57%) (refer Table 5–9).

Table 5–1: Characteristics that identify a family business

Family business characteristics	Percentage
Dominant ownership by family	93
Dominant management by family	67
Family involvement	53
Potential generational transfer	39
Other	2

(Respondents could select more than one category)

Table 5–2: Family and non–family business equity

Ownership	Percentage
Family	97
Non–family	3

Table 5–3: Relationships that can be included as 'family'

Family members	Percentage
Spouse	74
Children	70
Brothers and sisters	42
Parents	40
Nieces and nephews	16
Grandparents	15
Cousins	15
In–laws	13
Aunts and Uncles	11
De facto	7
Step–relatives	5
Relatives of in–laws	3

(Respondents could select more than one category)

Table 5–4: Generations involved in the family business in paid and unpaid capacity

	Paid	Unpaid
Generations	Percentage	
First	56	12
Second	65	8
Third	29	3
Fourth	11	3
Fifth	5	1
Don't know	0	0

(Respondents could select more than one category)

Table 5–5: Average number of family members currently involved in the business

Gender involved	Mean Number
Males	2.4
Females	1.7

Table 5–6: Positions in business held by family members

Positions	Male	Female
	Percentage	
Director	66	39
Chief Executive Officer (CEO)	62	6
Management Team	30	18
General Manager	29	7
Owner/Manager	29	12
Chairperson of Board	28	2
Member of Board	25	14

(Respondents could select more than one category)

Table 5–7: Positions in business held by non–family members

Positions	Male	Female
	Percentage	
Director	10	2
Chief Executive Officer (CEO)	5	0
Management Team	29	17
General Manager	15	3
Chairperson of Board	6	0
Member of Board	14	2

(Respondents could select more than one category)

Table 5–8: Origin of business

Business origin	Percentage
Established the business	81
Took over existing business	18
Other	1

Table 5–9: Reasons for commencing own business

Reasons for commencing	Percentage
To be own boss – independence	59
Financial reasons – to make money	57
Providing future for family	51
Commercial opportunity – develop and idea or skill	33
Gap in market	26
Frustration in previous employment	20
Continue family tradition	11
Difficulty of finding employment	8
Other	2

(Respondents could select more than one category)

6 Profile of Survey Respondents

This section of the report provides a breakdown of the personal profile of survey respondents, together with the demographics of their family business and business employment practices.

6.1 Respondent personal profile

Of the 373 replies received, slightly more than half were over fifty years of age (58%) and Australian born (84%) (refer Table 6–1 and Table 6–2). Respondents were predominantly first (39%) and second (33%) generation (refer Table 6–3), with just under half (45%) having a university or postgraduate degree as their highest level of education (refer Table 6–4). Notably, the majority (81%) work more than forty hours per week and slightly less than half the respondents (44%) were members of Family Business Australia (refer Table 6–5 and Table 6–6).

Table 6–1: Age of respondents

Age group	Percentage
20 - 29	2
30 - 39	15
40 - 49	25
50 - 59	33
60 - 69	21
70+	4

Table 6–2: Respondent country of birth

Country	Percentage
Australia	84
Other	16

Table 6–3: Generation of respondent

Generation	Percentage
First	39
Second	33
Third	16
Fourth	7
Fifth or more	5
None	0

Table 6–4: Highest level of education

Education level	Percentage
Incomplete secondary	10
Secondary	21
Post–secondary	12
Trade qualification	12
University degree	27
Post–graduate	18

Table 6–5: Hours worked in the business

Hours	Percentage
10 - 39	19
40 - 69	73
70 or more	8

Table 6–6: Current member of Family Business Australia

FBA membership	Percentage
Yes	44
No	49
Don't know	7

6.2 Respondent business profile

Seventy–nine per cent of respondent family businesses have their Head Office located in New South Wales/ACT, Victoria and South Australia, with 'Manufacturing and Distribution' (32 %) and 'Wholesale and Retail Trade' (42%) being the predominant business sectors (refer Table 6–7 and Table 6–8).

The data confirms that family businesses are not just small enterprises. Forty–seven per cent of respondents estimate an annual business turnover of more than $5 million, with 15 per cent having more than $30 million (refer Table 6–9).

The main type of business is private enterprise (98%) (refer Table 6–10), with 77 per cent being propriety limited (refer Table 6–11). Ninety–four per cent have Australian–based markets (36 % local, 27% state and 31% national) (refer Table 6–12). Interestingly, the primary source of funds is retained earning (53%), with less reliance on loans of various kinds (36%), although some funding sources were unidentified (11%) (refer Table 6–13).

The predominate type of superannuation fund used for non–family employees is a managed fund (91%), while self–managed funds are used equally as much as managed funds for family employees (refer Table 6–14).

Table 6–7: Location of head office

State	Percentage
NSW/ACT	31
VIC	28
SA	20
WA	10
QLD	6
TAS	5
NT	0

Table 6–8: Business sector

Sector	Percentage
Manufacturing	32
Wholesale	21
Retail	21
Construction	10
Agriculture	8
Distribution	8
Property and Real Estate	6
Business Services	6
Professional Services	6
Transportation	5
Hospitality and Entertainment	5
Finance	3
Hi-technology Industries	3
Telecommunications	2
Fisheries	1
Resource Industries	1
Education	1
Other	4

(Respondents could select more than one category)

Table 6–9: Approximate annual business turnover

Turnover	Percentage
Less than $500K	9
$500k to less than $1 million	12
$1 million to less than $5 million	32
$5 million to less than $10 million	17
$10 million to less than $20 million	10
$20 million to less than $30 million	5
$30 million to less than $50 million	6
$50 million to less than $100 million	3
More than $100 million	6

Table 6–10: Type of business

Business type	Percentage
Private	98
Public	2

Table 6–11: Type of private business

Type private business	Percentage
Propriety Limited Company	77
Trust	12
Family Partnership	7
Sole Proprietorship	3
Other Partnership	1
Other	0

Table 6–12: Average percentage of sales from each market

Market	Percentage
Local	36
State-based	27
National	31
International	6

Table 6–13: Source of business funds (average percentage from each source)

Source of funds	Mean Percentage	Std. Dev.
Retained earnings	53.3	38.4
Bank loans	18.0	26.5
Bank overdraft	8.1	38.4
Loans from family members	6.5	17.7
Other sources	1.8	11.9
Loans from solicitor, other advisor, silent partner	.9	8.2
Funds venture capital	.6	5.0
Not identified	10.8	–

Table 6–14: Type of superannuation plan used

Superannuation plan	Family	Non-family
	Percentage	
Managed fund	46	91
Self-managed fund	52	5
Other	2	4

6.3 Employment practices

The number of employees noted by respondents indicates that the majority are medium to large businesses (42% have more than 20 employees) or small enterprises (36% have 5 to 19 employees), with the balance (22%) being micro enterprises (1 to 4 employees or non–employing) (refer Table 6–15).

Respondents were asked to indicate employment trends. Interestingly, 42 per cent have increased full–time and part–time employees or encountered no change to employment numbers over the last year (39% and 46%, respectively) (refer Table 6–16). For those firms that increased their employee numbers, around one–third (33%) added five or more full–time employees, while around one–quarter (26%) added five or more part–time employees (refer Table 6–17). For the small number of firms that decreased their level of employees in the past year (19% full–time and 12% part–time), 78 per cent reduced employee numbers by less than 5 full–time employees and 67 per cent reduced by less than five part–time employees (refer Table 6–18).

Respondents were also asked about employment intentions for the next twelve months. Only 8 per cent of respondent family businesses plan to decrease their full–time employees and 7 per cent plan to decrease their part–time employees, while 6 per cent did not know their intentions (refer Table 6–19).

Table 6–15: Number of employees

Employees	Full-time	Part-time
	Percentage	
None	4	11
1 - 4	18	47
5 - 19	36	26
20 - 199	34	14
200 or more	8	2
Don’t know	0	0

Table 6–16: Change to the number of employees in the past twelve months

Changes past 12 months	Full-time	Part-time
	Percentage	
Increased employees	42	42
Decreased employees	19	12
No change occurred	39	46
Don’t know	0	0

Table 6–17: Extent of increase in the number of employees in the past twelve months

Increase past 12 months	Full-time	Part-time
	Percentage	
1 - 4 employees	67	74
5 - 9 employees	13	13
10 - 15 employees	10	3
15 or more employees	10	10

Table 6–18: Extent of decrease in the number of employees in the past twelve months

Decrease past 12 months	Full-time	Part-time
	Percentage	
1 - 4 employees	78	67
5 - 9 employees	6	23
10 - 15 employees	7	7
15 or more employees	9	3

Table 6–19: Planned changes to the number of employees in the next twelve months

Plans for next 12 months	Full-time	Part-time
	Percentage	
Increased employees	39	30
Decreased employees	8	7
No change occurred	47	57
Don't know	6	6

7 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. The following are some selected quotations:

- **Generational transfer:**
    - "2nd generation builds on first! Usually stay on too long leaving the 3rd generation to either sell or salvage what's left".
    - "We have a practice of buying out family members not in the business with each new generation."
- **Survival:** "In business 30 yrs next yr—competition from China, India, Korea wiping out many SME in SA. As we see it we will be hanging in as long as we can but can see no future for our children industry".
- **Regulatory burden:** "Cost of compliance—business, production accounting—are big costs to family business a lot of which has been imposed from big listed companies doing the wrong think by shareholders and the community".
- **Family issues**: "The biggest issue I face is trying to keep negative family problems out of the workplace. There must be a formal process of resolution so that you can move on and enjoy your work without stress".
- **Limitations of family ownership:** "Family ownership/management can limit ability of business through lack of skills, perspectives and experience".
- **Valuing the business:** "Where do we find a formula to value a family business? Building + Land is no use".
- **Experience of family business:** "It's a long hard slog with little rewards" and "The process [of evaluation] is ongoing…circumstances constantly change—which makes it fun".
- **Value of the Survey:** "Very good questions makes you think about what we haven't got in place".

PART B—CHALLENGES FOR AUSTRALIAN FAMILY BUSINESSES

The *KPMG and Family Business Australia Family Business Needs Survey 2006* sought to identify the importance of different challenges faced by family businesses.

Findings from the survey provide noteworthy progress in understanding the issues deemed most important to family businesses. These issues include increasing profits, balancing different interests and dealing with regulatory changes.

8 Family Business Challenges

Family business managers were asked to rate the importance of a range of family and business issues and challenges faced in the running of the business. Analysis of the responses to these questions revealed ten underlying themes. Details of the analysis are provided in Appendix 1. The themes are listed in order of overall importance, based on the overall mean (refer Table 8–1).

Table 8–1: Family and business issues considered important—by business turnover

Family and business issues*	**Overall mean**	**Business Turnover**				
		Less than $1 Million	**$1 to less than $5 Million**	**$5 to less than $10 Million**	**$10 to less than $50 Million**	**More than $50 Million**
		Overall mean by business turnover				
Growing profitably	6.0	6.0	5.9	6.1	6.1	6.0
Balancing different interests	5.0	4.9	5.0	5.1	4.9	5.1
Regulatory challenges	5.0	4.8	5.0	5.2	5.0	4.8
Planning succession	4.5	4.0	4.3	4.7	4.8	5.1
Future directions	4.3	4.2	4.3	4.4	4.2	4.2
Exiting by retirement	4.2	3.9	4.1	4.4	4.3	3.9
Establishing professional business management	4.0	3.1	3.7	4.4	4.7	5.1
Selling the business	3.9	4.0	4.1	4.0	3.8	2.7
Managing family relationships	3.7	3.2	3.5	4.0	4.0	4.5
International growth	3.1	2.8	3.0	3.2	3.3	3.5

* Items that formed these 10 themes were rated on a 7 point scale: 1 = not at all important and 7 = very important

The most important concerns to family business managers are: growing profitably, balancing different interests and regulatory challenges. The least important, overall, are selling the business and managing family relationships and international growth. However, a comparison of the importance of these themes to the size of the business reveals some differences in their importance. These differences are described and discussed for each theme. The themes are discussed in descending order of overall importance in the following text.

- **Growing profitably**. Regardless of the size of the business, this was the most important concern for all family business managers. This theme includes concerns about profit and sales growth and the need for planning.

- **Balancing different interests**. This was generally the second most important theme for respondents, again, regardless of size. It includes items to do with the need to balance the interests of the family and the business, deal with family issues, and resolve conflict between family members.
- **Regulatory challenges**. This theme includes concerns about meeting regulatory requirements, and dealing with tax and operational issues. This was a concern for all sizes of business but was less important, marginally, to both the smallest and largest businesses. Presumably, some regulations may not apply to small businesses. Alternatively, their affairs may not be as complex to manage because of their small size. For the largest firms, regulatory challenges may be of less importance because their size means they have the resources and processes to deal with these challenges and have developed expertise in doing so. Further research is needed to clarify these findings.
- **Planning succession**. Family business firms differ in the importance they place on this theme based on size. Notably, the smallest firms differ from larger firms in that they are the least concerned about issues of selecting, preparing and training a successor or having willing and able successors. The mean results suggest that there is a positive correlation between size and the importance of succession issues. That is, the larger the business, the more important these concerns become.
- **Future directions**. This theme refers to finding a direction for the business and the challenge of moving into new markets. Interestingly, it was equally important to all businesses, regardless of their size.
- **Exiting by retirement**. This theme was the sixth most important on aggregate. It includes retirement planning, estate planning and the transfer of ownership. These concerns are least important to the smallest and largest firms. It may be that, for the smaller firms, it is more obvious who the successor will be and, therefore, issues of retirement are of lower concern. This interpretation is consistent with the finding that Planning Succession was least important, also, to the smallest sized firms. This same relationship, however, may not hold for the largest firms. They are concerned about Planning Succession but less concerned about retirement. Again, this may be because they have estate plans in place, retirement of an owner will not jeopardise the continuance of the business and retirement is less likely to result in a transfer of ownership of the business.
- **Establishing professional business management**. This category includes concerns such as the need to include non–family members on the Board of Directors, including non–family members in making strategic decisions and setting up a workable Board of Directors. There are notable differences in the importance of this theme by business size. While it is, on aggregate, only the seventh most important theme, it is the second most important factor for the largest–sized firms. Again, there is a positive correlation between business size and the importance of this theme. That is, the larger the firm, the more important the need to establish professional business management.
- **Selling the business**. This theme includes the need to find a buyer and make a financial evaluation of the business. Not surprisingly, it is more important to smaller firms than larger firms. The results suggest a negative correlation between business size and the importance of this theme.
- **Managing family relationships**. This theme includes issues to do with establishing a family constitution, distributing ownership between family members, formalising roles of family members and ensuring equity between family members. The results indicate a positive correlation between the importance of this theme and business size. That is, it is more important for larger sized businesses. Presumably this relationship holds because

larger firms tend to have more family members involved. Therefore, issues of managing family roles and relationships become more critical and complex.

- **International growth**. This was the least important theme overall, consistent with the fact that only six per cent of the businesses surveyed reported sales from international markets. It is the least important for the smallest sized firms and the most important for the largest firms. This relationship is not surprising as the largest firms are more likely to have international operations and to seek international sales.

PART C—AUSTRALIAN FAMILY BUSINESS PRACTICES

9 Governance of Family Businesses

Governing a family business requires differentiating between three primary systems: the owner system, the business system and the family system (Gersick, Davis, McCollom Hampton, and Lansberg 1997). The family–to–business mechanisms that facilitate the relationships between these three systems include:

- A Board of Directors (BOD) or Governing Body that manages the relationship between the business and the owners.
- A Family Council that manages the relationship between the family and the business.
- A Family Constitution that sets out family desires vis-à-vis the business and guides the Family Council and BOD or Governing Body.
- The Executive Management Team who oversee the business under the guidance of the BOD or Governing Body.
- A Shareholder Assembly that provides owners with a forum in which to convey their needs and express concerns to the BOD or Governing Body (as the shareholders representative).
- A Family Assembly that provides all members of the family with a forum in which to voice their desires and raise issues regarding the family business to the Family Council (as their representative), irrespective of whether members work in the business.

The implementation of formal governance structures for family businesses does not install a bureaucratic system of ‘committees’. The family business governance system defines the boundaries between each of the three systems, thereby channelling communication constructively and ensuring that everyone that has a stake in the business has a forum within which to express any concerns.

The *KPMG and Family Business Australia Survey of Family Business Needs 2005* identified a low adoption rate for family–to–business mechanisms (Glassop, Ho and Waddell 2005). In the present survey, less than 41 per cent of Australian family businesses have only some of the family–to–business mechanisms recommended in the family business literature (refer Table 9–1). The presence of family–to–business mechanisms increases slightly for businesses with an annual turnover of more than $5 million and more so for businesses with an estimated annul turnover of more than $50 million.

Surprisingly, a formal BOD or Governing Body is used by only 41 per cent of Australian family businesses, and only increases markedly when annual turnover exceeds $5 million. Not surprisingly, 90 per cent of those family businesses with an annual turnover exceeding $50 million have a formal BOD or Governing Body. Clearly, formal business management becomes increasingly important as business wealth grows.

Family business use of an Executive Management Team is high with a 77 per cent adoption rate. However, a marked increase occurs when family businesses have an annual turnover of $5 million or more. This is not surprising given that these large family businesses will generally have more staff and more complex business arrangements.

The informality of family business is, perhaps, indicated by the low adoption of Shareholder Assemblies (32%). With 97 per cent of business equity being held by family members (refer Table

5–2), it is not surprising that a formal forum for shareholders might seem redundant for some family businesses. The increase in adoption rate by large firms is perhaps a reflection of a widening shareholder body that often comes with multi–generational family businesses.

Of interest is that Family Councils (28%) are used more frequently than Family Constitutions (17%). This is surprising given that the primary role of a Family Council is to interpret the family's desires (usually documented in a Family Constitution). Where annual turnover is more than $50 million, the use of a Family Council appears to be more prevalent.

Alarmingly, only 17 per cent of family businesses have a Family Constitution in place. Tracey (2000:196) states: "A Family Constitution [is] an expression of high principles and a user's manual. It should define the family's shared values and describe the mechanisms through which the family and the business will make good decisions. Over time, and especially over generations, the document should grow in stature." Businesses with annual turnovers of more than $50 million tend to be multi–generational enterprises; hence it is no surprise that 46 per cent of these large businesses have a Family Constitution, although, the adoption rate is still low. Where annual turnover is less than $50 million, the use of a Family Constitution is only 10 to 20 per cent. Guiding family involvement in the family business would appear to be a low priority, although conversely 'establishing professional management' and 'managing family relationships' have been identified within the top ten family business challenges (refer Section 8).

Family Assemblies appear to be used more frequently than Family Councils or Family Constitutions indicating a higher reliance on broad family communication mechanisms. Around 45 to 55 per cent of family businesses with an annual turnover of more than $5 million have a Family Assembly. However, with the adoption rate hovering at around 50 per cent for these large family businesses it is a concern that formal communication forums don't appear to grow in concert with family wealth.

Table 9–1: Use of family–to–business governance mechanisms—by business turnover

Whether these practices are used…	**Overall Percentage**	**Business Turnover**				
		Less than $1 Million	**$1 to less than $5 Million**	**$5 to less than $10 Million**	**$10 to less than $50 Million**	**More than $50 Million**
		Percentage by business turnover				
Executive management team	77	56	66	89	94	97
Formal Board of Directors/Governing body	41	15	26	49	58	90
Family Assembly	39	19	17	47	43	52
Shareholder Assembly	32	4	43	31	34	52
Family Council	28	28	25	23	23	53
Family Constitution	17	10	9	20	19	46

(Respondents could select more than one category)

10 Business Planning

Planning is an important activity 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.

In the current survey, respondents were asked whether or not the business had plans in nine main areas. The most commonly used plan was a strategic business plan (refer Table 10–1). The least commonly used was a technology contingency plan. Regardless of the size of the firm, at least 75 per cent of businesses have a strategic business plan. Similarly, at least 60 per cent have a sales and marketing plan. However, for most types of plans, there is a positive correlation between the size of the business and the likelihood of using plans. For example, smaller businesses are much less likely to have human resources and technology contingency plans than larger sized businesses.

The results on the general importance of strategic business and sales and marketing plans are consistent with the findings related to business challenges in Section 8 of the report. Among the most important challenges to businesses, regardless of size, are 'growing profitably' and determining 'future directions'. However, it is a concern that smaller firms are less likely to have plans in areas that might impact on their profitability and growth such as in manufacturing and operations, information technology and human resources planning.

Table 10–1: Management planning—by business turnover

Whether these planning practices are used…	**Overall Percentage**	**Business Turnover**				
		Less than $1 Million	**$1 to less than $5 Million**	**$5 to less than $10 Million**	**$10 to less than $50 Million**	**More than $50 Million**
		Percentage by business turnover				
Strategic business plan	76	74	64	73	88	97
Sales and marketing plan	67	59	54	74	84	79
Manufacturing /operations plan	52	39	44	52	64	74
Finance plan	60	48	51	65	76	71
Information technology	41	37	27	40	54	65
Asset management maintenance	39	21	34	41	50	55
Business risk plan	38	36	33	37	40	50
Human resources plan	34	29	21	37	43	63
Technology contingency plan	28	26	11	31	34	59

(Respondents could select more than one category)

11 Succession and Estate Planning

One of the keys to business longevity is to ensure that the business is able to transition from one generation to the next. Research findings suggest that only one–third of family businesses survive into the second generation, and only about 10 to 15 per cent make it into the third generation (Smyrnios and Walker 2003). Poor succession planning is attributed as the primary source of family business transition problems (Miller, Steier and Le Breton–Miller 2003). Succession and estate planning protect business roles and family wealth as transition occurs.

11.1 Succession planning

More than half the survey respondents (61%) noted that they plan to retire in less than ten years (refer Table 11–1). This is not surprising given that around half (58%) are aged over fifty years (refer Table 6–1). However, with the majority of family businesses having no formal succession plan (78%) and not yet chosen a successor (62%), these family businesses would appear to be at high risk (refer see Table 11–2 and Table 11–3).

The question of succession appears ambiguous given that the same number of respondents indicate that their exit plan is to either pass the business to the next generation or sell it (60%) (refer Table 11–5). With around a quarter (26%) of family businesses indicating that they have a succession plan for the CEO and other senior positions held by family members (23%), longevity of these family businesses appears doubtful (see Table 11–4).

Table 11–1: Years to retirement

Retirement timeframe	Percentage
Less than 5 years	26
5 to 10 years	35
11 to 15 years	13
16 or more years	12
Undecided	14

Table 11–2: Chosen a successor

Chosen a successor	Percentage
Yes, family member chosen as successor	33
Yes, non-family member chosen as successor	5
No, haven’t chosen a successor	62

Table 11–3: Existence of formal succession plan

Succession plans	Percentage
Yes, have a formal succession plan	22
No, but in process of introducing a formal succession plan	35
No immediate plans for a succession plan	33
No intention of introducing a formal succession plan	10

Table 11–4: Use of succession planning

Succession plans	Percentage
Succession plans for the Chief Executive Officer (CEO)	26
Succession plans for other senior positions held by family members	23
Succession plans for other senior positions held by non-family members	28

(Respondents could select more than one category)

Table 11–5: Exit plans

Exit plans	Percentage
Pass on the business to the next generation	60
Sell business on the open market	38
Sell business to employees, management or other owners	22
Pass on the business to other family member(s)	15
Bring in a partner	8
Publicly list the business	5
Close the business	3
Other	4

(Respondents could select more than one category)

11.2 Estate planning

Having a will in place ensures that family wealth is dealt with appropriately when a family member dies. It is, therefore, positive to note that around three–quarters of senior family members (72%) have a will in place (see Table 11–6); although this is considerably less than the 95 per cent noted by Smyrnios and Walker in 2003. Of considerable concern, however, is that less than half of the family businesses surveyed (48%) claim that wills exist for other family members that have a stake in the business. The protection of family assets appears to be a relatively low priority. More research is needed to understand the problems with establishing and maintaining wills.

Table 11–6: Use of estate planning

Estate plans	Percentage
Estate plans (wills) for senior family members who have a stake in the business	72
Estate plans (wills) for other family members who have a stake in the business	48

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12 General Management Practices

Management practices are very much the 'hot topic' in business circles. Yet it is often forgotten that family businesses require similar policies and procedures and that they are not exempt from the responsibility of establishing effective and efficient processes to ensure success (Glassop 2005). The disparity in treatment between family and non–family business has been identified and is receiving recognition that changes are required. Also, the activity of consultants or change agents is becoming more prevalent and there is an absence of indicators as to their success or otherwise.

Tom McKaskill, Professor of Entrepreneurship at Swinburne University states: **"**there is no substitute for learning the basics of business. This includes subjects such as basic marketing, cash management, cost management, performance evaluation, legal obligations and people management" (McKaskill 2005). It would be indicative of family businesses to excel in what they want to do but are unskilled in establishing procedures to support administration of the business.

12.1 Performance evaluation

There is little doubt that organisations must use performance measurement to stimulate improvement in outcomes and assist in the formulation, implementation and evaluation of future strategic intents (Stewart and Mohammed 2001). Performance evaluation in practice is by no means straightforward and demands considerable thought in its design and implementation. Performance measures should be designed to answer the primary question "How are we doing?" Performance measures are systematic quantitative or qualitative assessments over time of what an organisation is doing, how well it is going, and what the effects of its activities are. It is unlikely that any single kind of measure can adequately 'capture' an organisation's performance. The devising and implementation of performance evaluation requires considerable work and resources. Accurate, relevant and timely data will serve no purpose unless it is actually used (Caiden 1998).

It is not unexpected then that the larger the organisation, the more likely it is the leader in implementing performance evaluation mechanisms. Businesses with an annual turnover exceeding $50 million are far in excess of the average in each category (refer Table 12–1). The only exception is with environmental performance measures where they are below the average (35%), and just in front of businesses with the smallest annual turnover (30% as compared to 22%). These small businesses are below the average in each category and it would be safe to suggest that as the business grows in annual turnover, the more likely these businesses will adopt a range of performance evaluation methods.

In particular, it is not surprising that 'financial performance' is the most commonly used means of performance evaluation; although businesses with an annual turnover of less than $1 million (16%) do not use this method.

Manufacturing/Operational performance is undertaken primarily by organisations with an annual turnover exceeding $1 million (all above the average). By comparison, there is a dramatic reduction in frequency in businesses will a small annual turnover (56% as compared to the average of 76%).

Organisations with an annual turnover of more than $50 million are most likely to use customer feedback mechanisms (82%) followed closely by those businesses exceeding $1 million annual turnover. Businesses with less than $1 million annual turnover are below the average, but there is not the large variation as identified in other evaluation practices. It is this category that such small businesses are the closest to the average (other than financial methods).

Businesses with less than $1 million annual turnover are less concerned about their employee feedback than they are about customer feedback (52% as compared to 63%). Large organisations on the other hand, with an annual turnover exceeding $50 million, value employee feedback more than feedback from their customers.

Although environmental performance is the least likely to be implemented, it is of interest that this is the only category in performance evaluation where businesses with the largest annual turnover do not 'lead the way'. More than half of businesses (52%) with an annual turnover between $10 million and $50 million have environmental performance measures, whereas their larger counterparts have only 30% (second only to businesses with less than $1 million annual turnover).

Table 12–1: Performance evaluation practices—by business turnover

Whether these evaluation practices are used…	Overall Percentage	Business Turnover: Less than $1 Million	$1 to less than $5 Million	$5 to less than $10 Million	$10 to less than $50 Million	More than $50 Million
		Percentage by business turnover				
Financial performance	92	84	86	98	99	100
Manufacturing/Operational performance	76	56	75	88	87	82
Customer performance (customer feedback)	73	63	74	70	76	82
Human resource performance (employee feedback)	68	52	66	72	71	85
Environmental performance	35	22	33	34	52	30

(Respondents could select more than one category)

12.2 Policies, procedures and processes

Procedures provide useful information to policy makers about the preferences of those who stand to be affected within the business (West 2004). More importantly, procedures serve as cues for the accommodation of interests and the resolution of conflict. For example, the desirability of concise, accurate and complete flowcharts, as an integral part of data collection for a business, is a well established fact (Anderson 1965).

Businesses with more than $5 million in annual turnover are likely to exceed the average in all categories (refer Table 12–2). On average both sales and marketing (73%) and financial (74%) policies and procedures are the most commonly used with information technology (50%) being least likely.

Regarding sales and marketing procedures, businesses with less than $1million annual turnover are well below the average and this disparity represents the largest gap when comparing averages.

Interestingly, it is not the businesses with the smallest annual turnover that are the lowest adopters in all categories, businesses with an annual turnover between $1and $5 million are least likely to have human resource and information technology policies and procedures as compared to their other counterparts (40% and 30% respectively as compared to the average 57% and 50%). It is also worthy to note that it is this category of business, with 'medium' turnover are the least likely to use flow charts for manufacturing/operations, which are the most simplest of processes (31% as compared to the average of 46%).

This highlights the need for further research into the management of human resources and information technology by small to medium–sized businesses.

Table 12–2: Use of policies and procedures—by business turnover

Whether these policies and procedures are used…	Overall Percentage	Business Turnover: Less than $1 Million	$1 to less than $5 Million	$5 to less than $10 Million	$10 to less than $50 Million	More than $50 Million
		Percentage by business turnover				
Sales and marketing	73	57	66	78	89	85
Financial	74	65	62	75	90	97
Manufacturing and operations	61	58	61	77	85	87
Human resources	57	46	40	60	79	82
Information technology	50	44	30	55	68	81
Whether this practice is used…						
Flow charts for manufacturing/operations	46	37	31	53	58	70

(Respondents could select more than one category)

12.3 Use of external facilitators

The management consultancy industry is attracting more and more attention. In particular, the critical literature questions how a non–codified body of knowledge like 'consultancy' can become so apparently influential. The answering emphasis has been on the symbolic nature of consultant strategies and external facilitators as a powerful system of persuasion (Fincham 1999).

Of the 70 per cent of businesses that use the services of external facilitators, the majority (29%) require assistance with strategic formulation and planning with 16 per cent specifically identifying problem–solving as a category (refer Table 12–3). Perhaps caution should be used in drawing conclusions from this data as there may be overlap. For example, some may have included conflict resolution with the more general term of problem–solving thereby skewing the result. From the point of view of specific mention of family businesses, 9 per cent sought assistance with communication within the family.

Table 12–3: Types of external facilitators used

Whether external facilitators used for…	Percentage
Strategy formulation and planning	26
Problem–solving	16
Conflict management	9
Communication with family members	9
Change management	9
Competitive intelligence	7
Other	2
None	30

(Respondents could select more than one category)

12.4 Use of external advisors

All external advisors have experienced the frustration of seeing good projects fail to deliver the results because family businesses were unable to carry out their parts of the job (Schaffer and Siegal 2005). Nevertheless it is obvious that external advisors are the first 'port of call' when advice is required.

There appears a clear demarcation as to the use of external advisors. By far such functions as accounting, legal, insurance and financial are very much in demand by all businesses regardless of their size (refer Table 12–4). Whereas the other areas of business development—technology, marketing and human resources—are less likely to involve external advisors. Only 14 per cent of businesses with less than $1 million annual turnover use the services of external advisors for human resources which is well below the average of 25 per cent. This would be an important area to investigate particularly with recent federal government legislative changes to workplace practices. The question arises as to how these businesses are maintaining awareness of current issues and practices.

Advice on international expansion depends on the product or service of the business and their strategic intent. Nevertheless it appears that businesses with an annual turnover between $1 and $10 million are less likely to seek external counsel (8% and 5% respectively).

Table 12–4: Types of external advisors used—by business turnover

Whether these external facilitators are used…	Overall Percentage	Business Turnover: Less than $1 Million	$1 to less than $5 Million	$5 to less than $10 Million	$10 to less than $50 Million	More than $50 Million
		Percentage by business turnover				
Accounting	86	83	90	83	87	83
Legal	85	76	81	86	96	97
Insurance	84	74	80	88	92	94
Financial	74	67	71	75	79	91
Technology	45	47	41	41	47	57
Marketing	30	28	30	30	27	43
Human resources	25	14	22	22	31	51
International expansion	10	12	8	5	12	20
Other	3					
None	1					

(Respondents could select more than one category)

13 Human Resource Practices

Family businesses differ from other businesses due to the central role of the family, specifically the relationship and overlap between family members, business owners and business managers. The business does not exist without the family and the family's attention is naturally directed towards its business. This then creates difficulties when formalising procedures for the management of human resources whether it be for family or non–family members.

The family business literature recommends the overt use of family–to–business mechanisms such as family assembly, family constitution, family council and family values to support the family–business endeavour. Added to this, the findings of the *KPMG and Family Business Australia Survey of Family Business Needs 2005* reveal a low adoption rate for implementing human resource practices and it was the intention of this survey to gather further information for clarification (Glassop, Ho and Waddell 2005). No previous Australian research exists on the use of these practices for family businesses; therefore it is not possible to know the trends in their usage. Further research is needed to understand why Australian family businesses are reluctant to professionalise the workplace.

13.1 Individual performance appraisals

Much has been written about individual performance appraisal, but undoubtedly the primary purpose is the development of the individual employee whether the employee is family or non–family. In family businesses, the elements of the relationship between family and non–family employees, and how the relationship affects performance appraisal ratings, should be positive and constructive and lead to higher performance appraisal ratings (Schraeder and Simpson 2006). If employees feel the ratings are inaccurate or inconsistent, it is unlikely that employees will have confidence in such a performance system.

Efforts to improve the performance appraisal process should lead to greater commitment, regardless of whether family or non–family employees are being appraised (Miller and Thornton 2006). Care should be used in this respect as employees' perceptions about the treatment received from individual performance appraisal is likely to influence their expectations regarding career advancement, particularly if they are a non–family member of the business (Nurse 2005).

The survey data highlights a disparity in the treatment between family and non–family employees. Thirty–four per cent of family businesses do not implement any form of individual performance appraisal for family employees (refer Table 13–1). Comparably, only 11 per cent of family businesses do not appraise non–family employees.

Of those businesses that have formal performance appraisal, more non–family members (39%) are required to undergo the procedure than family employees (17%). If there is a mixture of both formal and informal procedures, once again it is the non–family employee who is more likely to be assessed (27% as compared to 17% for a family employee). Where the performance appraisal is informal, family employees are the majority (32%) but followed closely by non–family employees (23%).

These statistics give substantive evidence of differential treatment depending on the relationship of the employee to the family.

Table 13–1: Types of performance appraisal

Appraisal types	Family	Non–family
	Percentage	
Formal performance appraisal	17	39
Informal performance appraisal	32	23
Mix of formal and informal	17	27
Don't appraise	34	11

13.2 Mentoring programs

Mentoring programs are initiatives designed to encourage relationships that support learning and development of targeted employees (e.g., newly appointed, high potential employees and individuals from diverse backgrounds). Mentoring programs are generally established to create accountability for development and accessibility to developmental relationships. Mentoring programs vary in specific objectives, degree of structure, number of participants, associated training and education, and monitoring and evaluation methods (Kram 2005). Whether such programs are formal or informal, family businesses should be aware that attracting good staff, and retaining high performers, is more likely when the organisation has a formal mentoring program (Allen and O'Brien 2006).

Contrary to anecdotal evidence, there appears little evidence that businesses are mentoring either family or non–family employees (refer Table 13–2). If mentoring is occurring, it is of the informal style. The numbers are similar for formal mentoring programs in that only 9 per cent of family employees are mentored as compared to 10 per cent of non–family employees in such a manner.

Table 13–2: Types of mentoring program

Mentoring program	Family	Non–family
	Percentage	
Formal mentoring program	9	10
Informal mentoring program	23	27
Mix of formal and informal program	16	19
No mentoring program	52	44

13.3 Management development programs

The use of management development programs is becoming more recognised as a means by which valued employees are rewarded. Management development programs require considerable investment and planning by businesses and inevitably bring expanded tasks and responsibility to senior levels of management.

There are some businesses that implement 'fast–track' programs which systematically identify the career development needs of the business and individuals that have the potential to benefit from professional development. Hence, it is understandable that large, traditionally structured organisations that operate in fairly stable environments will rely heavily on management development programs (Larsen, London, Weinstein and Raghuram 1998).

It would be of particular interest to Family Business Australia that family employees are less likely to be the recipients of a management development program (refer Table 13–3). Forty–four per cent of family employees do not receive such a program and, if they do, it will be either informal (22%) or a mixture of both (22%). Non–family employees on the other hand are slightly advantaged where 64 per cent will be involved in a management development program but with a mixture of informal and formal programs (50%)

Table 13–3: Types of management development program

Management Development program	Family	Non–family
	Percentage	
Formal management development program	12	14
Informal management development program	22	26
Mix of formal and informal program	22	24
No management development program	44	36

13.4 Work practices

Work practices and organisational features shape when, how and which decisions are made, underlying the unique character of the decision making process in family business. Decision making activities are not clearly identifiable in ongoing problem–solving actions but are embedded in complex work practices (Alby and Zucchermaglio 2006).

Three quarters of respondents use job descriptions for both key and other roles within the business (refer Table 13–4). Multi–skilling is also practiced by the majority (68%). Documentation of business/family values, a distinctive characteristic of family business, is prepared by less than half of the respondents (48%).

Table 13–4: Use of work practices

Types of work practices used…	Percentage
Job description for key roles	77
Job description for other roles	75
Cross/multi-skilling of employees	68
Written statement about business/family values	48

(Respondents could choose more than one)

The Authors

Linda Glassop is a Lecturer in Management Programs at the Bowater School of Management and Marketing at Deakin University, Melbourne, Australia. Linda lectures in Organisational Behaviour and Organisational Theory. Prior to this, Linda spent some twenty years in industry, working with multi–national corporations in a variety of management areas including business operations, business strategy, marketing, process reengineering, information systems, quality management and managing change. Linda moved into an academic career nine years ago, and has taught undergraduate and post–graduate students for seven Australian universities. Originally trained as an Accountant, Linda completed a Master of Business Administration (MBA, *Macq.*) in 1992, a Graduate Certificate in Higher Education (GradCertHEd, *UNSW*) in 1999, a Master of Philosophy in Commerce (MPhil, *ANU*) in 2000, and is currently writing up her dissertation using a systems theory approach to understand the concept of change (Deakin). Linda is co–editor of the book *Managing the Family Business* (Heidelberg Press, 2005), and author of the book *The Road to Quality: Turning Effort into Reward* (Prentice Hall, 1995).

Pauline Hagel is Senior Lecturer in Management Programs at the Bowater School of Management and Marketing at Deakin University, Melbourne, Australia. Pauline lectures in Strategic Management. She holds a PhD (Deakin), MBA (Monash) and Bachelor of Economics (La Trobe). Her PhD investigated the marketing of higher education in Australia and used conjoint analysis to understand the structure of students' preferences. Pauline has supported her teaching interests with work placements in several organisations including Siemens Ltd, Export Development Australia Ltd and the Australian Taxation Office. She is on the Advisory Board of the CPA Segment, Business Strategy and Leadership and is a member of several professional organisations including the Higher Education Research and Development Society of Australasia, the Australian and New Zealand Marketing Academy, the Australian and New Zealand Academy of Management and the Australian Society for Computers in Higher Education.

Dianne Waddell is an Associate Professor in Management Programs at the Bowater School of Management and Marketing at Deakin University, Melbourne, Australia. Dianne is responsible for the development, implementation and evaluation of postgraduate and undergraduate courses and teaches in the areas of Quality Management, Change Management and Strategic Management. These subjects are offered both on–campus and off–campus. She holds a PhD (Monash), Master of Education Administration (Melbourne), Bachelor of Education (Melbourne) and Bachelor of Arts (LaTrobe). Dianne has published and presented many papers on 'resistance to change', 'leadership', 'e–business', 'quality management', 'family business' and 'forecasting for managers'. Her publications include five books, *Contemporary Management* (McGraw Hill), *Organisation Development and Change* (Nelson–Thomson Learning), *E–Business in Australia: Concepts and Cases* (Pearson Publishing), *Managing the Family Business* (Heidelberg Press) and *E–Business Innovation and Change Management* (IDEA Publishing). Dianne has taught in both public and private education systems for many years, as well as presenting specifically designed industry–based courses. Dianne has held the position of Vice President of the Australian Organisation for Quality (AOQ).

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Appendix I

Item loadings on components – Family and Business Issues

Components are reported in the order in which they were extracted using Principal Components analysis with Varimax rotation. Together the 10 components accounted for 66.7 per cent of variance. The percentage of variance explained by each factor is shown in brackets.)

Component 1: Balancing different interests (11.5 per cent of total variance)
Establishing family constitution
Distributing ownership among family
Formalising family role
Equity among family members
Setting up family foundation
Rivalry among family successors
Rivalry among family members
Informing family of business issues
Selecting family members for business positions
Compensating family members
Buying out family members not in business

Component 2: Establishing professional business management (3.7 per cent of total variance)

Including non–family members in the board of directors (or governing body)
Involving non–family managers in making strategic decisions
Setting up a workable board pf directors (or governing body)
Changing from family management to professional management
Getting assistance from outsiders to resolve business problems
Maintaining loyalty of non-family members

Component 3: Planning succession (2.7 per cent of total variance)

Preparing and training successor
Availability of willing and able successors
Selecting a successor
Succession planning
Maintaining role for exiting senior family member

Component 4: Balancing different interests (2.3 per cent of total variance)

Balancing family and business
Balancing family and business
Family issues
Resolving conflict between family members

Component 5: Growing profitably (2.1 per cent of total variance)

Increasing profits
Increasing customers, sales
Growth
Planning

Component 6: Regulatory challenges (1.8 per cent of total variance)

Regulatory requirements
Tax issues
Operational issues

Component 7: International growth (1.5 per cent of total variance)

Expanding internationally
International competition
Raising capital

Component 8: Future direction (1.3 per cent of total variance)

Business direction
Move into new markets

Component 9: Selling the business (1.1 per cent of total variance)

Business issue—finding buyer
Business issue—financial business evaluation

Component 10: Exiting by retirement (1.0 per cent of total variance)

Retirement planning
Estate planning
Transferring ownership

One business issues item, ‘Importance of short–term versus long–term decision making’, failed to load above 0.40 on any component and was removed from the analysis.