MIDDLE MARKET ADVISORY

KPMG and Family Business Australia Survey of Family Business Needs 2007

ADVISORY

AUDIT ▪ TAX ▪ ADVISORY

Contents

Foreword 2

Introduction 3

Defining a family business 4

Profile of survey respondents 6

Family business challenges 9

Governance of family businesses 11

Business planning 12

Succession and estate planning 13

General management practices 15

Human resources practices 17

The authors 19

References 20

Contact us 21

Foreword

This is the third 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 successfully conducted in 2005. In 2006, the survey instrument was amended and extended in response to feedback sought from interested practitioners and academics. In 2007, the survey was intentionally limited to members of Family Business Australia (FBA) so that specific feedback could be given to the professional organisation about the concerns of their members. This survey was a replication of the 2006 survey to facilitate the identification of trends or variations in responses.

The questionnaire used in this survey was managed and analysed by Linda Glassop, Pauline Hagel and Dianne Waddell from the Bowater School of Management and Marketing, Deakin University, Melbourne, Australia. Assistance was given by Judy Hagemann, Deakin University, in the efficient distribution of the questionnaire and collation of responses.

KPMG has again contributed both financial support and constructive feedback for the research and areas for further investigation have been identified. Edwina Ogilvie, Marketing Manager at KPMG, has continued to support the project and her efforts have been helpful in the development of the survey instrument.

FBA has again fully endorsed the survey and Philippa Taylor, the Chief Executive Officer, was supportive in changing the database to have FBA members only. This facilitated a comparative study of members views, which adds to the value of the results for the organisation.

The following report extends the data and analysis provided in the August 2007 synopsis which was presented at the Family Business Australia National Conference, Canberra, ACT.

Introduction

It is well documented there are many challenges facing family businesses not evident in other businesses. Such challenges include compensating family members involved in the business, maintaining loyalty of non-family members, family values and governance issues 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 percent 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 to identify the challenges that they face.

Family business research has been building since the 1980s, thus the research is becoming more rigorous (Sharma, 2004). But with only 129 articles on family businesses over a ten year period covering a broad array of topics (mostly by non-Australian authors), we are yet to clarify the distinctiveness of the field in general and, closer to home, what is important to know about family businesses and their success in an Australian context.

The KPMG and FBA Survey of Family Business Needs 2007 once again identifies trends and challenges that are considered important to the success of Australian family businesses. The survey, sponsored by KPMG and managed by Deakin University, was fully endorsed and supported by FBA, who considered it an excellent vehicle to canvas their members on their concerns and to update their strategic approach to family business issues.

This national survey investigates the current demographics of family businesses in Australia; the approach to governing the family business (by family and non-family members); human resource practices related to family members (performance appraisal, remuneration); inter-generation planning practices (estate planning, succession planning); and the degree of business professionalisation (business practices utilised). This report will focus on those challenges that are of greatest concern to Australian family businesses.

Repeating the template of the *KPMG and FBA Survey of Family Business Needs 2006* (Glassop, Hagel and Waddell, 2006), the questionnaire was distributed to around 500 family businesses of varying size, industry and business type. Data gathered included the following 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 present study aims to deepen our understanding of the challenges confronting Australian family businesses in order to glean context-specific insight into the needs and aspirations of these organisations.

Defining a family business

For Australian researchers, the social changes relevant to Australian families in general may be important as families become dispersed, multi-cultural and have mixed ties (blood related or not; single, married or de-facto relationships; and multiple marriages). Moreover, what effect does the changing nature of the family structure have on the long-term viability of Australian family businesses?

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 policy makers. Overwhelmingly, survey respondents perceive ‘ownership by family’ (94 percent) and ‘management by family’ (71 percent) as considerably more important than ‘family involvement’ (55 percent) or ‘potential generational transfer’ (39 percent) (refer Table 1). These findings are supported by the fact that 96 percent of the equity of respondent firms is held by family members. It would seem that family business wealth is considerable given that 30 percent of respondent firms estimate their annual turnovers to be in excess of $30 million (refer Table 7).

As with the 2005 and 2006 surveys (Glassop, Ho and Waddell, 2005; Glassop, Hagel and Waddell, 2006), those persons considered to be part of the ‘family’ are spouses and children (75 percent and 73 percent, respectively) and parents and siblings (57 percent and 54 percent, respectively), while more distant relatives are less inclined to be included as ‘family’ (less than 16 percent) (refer Table 2). Marriage and blood ties are deemed important, with 8 percent or less of respondents opting to include de-facto, step-relatives and in-laws as ‘family’ members.

Sixty-six percent of family businesses have two generations involved in the business in a paid capacity (refer Table 2). The positions held by family members indicate, overwhelmingly, a predominance of males in the positions of CEO (64 percent male and 5 percent female) and Chairperson (35 percent male and 2 percent female) (refer Table 4). While the management team of family businesses includes non-family members (44 percent male and 28 percent female), non-family members on the Board is less frequent (22 percent male and 4 percent female) (refer Table 5).

Table 1: Characteristics that identify a family business

Family business characteristics	2006 Percentage	2007 Percentage
Dominant ownership by family	94	94
Dominant management by family	71	71
Family involvement	62	55
Potential generational transfer	47	39
Other	2	2

(Respondents could select more than one category)

Table 2: Relationships that can be included as 'family'

Family members	2006 Percentage	2007 Percentage
Children	77	75
Spouse	69	73
Parents	48	57
Brothers and sisters	51	54
Nieces and nephews	22	24
Grandparents	20	21
In-laws	13	20
Cousins	23	16
Aunts and Uncles	15	16
De-facto	9	8
Step-relatives	7	7
Relatives of in-laws	3	2

(Respondents could select more than one category)

Table 3: Generations involved in the family business in paid and unpaid capacity

	2006 Percentage		2007 Percentage	
Generations involved	Paid	Unpaid	Paid	Unpaid
First	45	13	47	15
Second	67	9	66	7
Third	36	2	40	3
Fourth	14	3	17	3
Fifth	8	1	3	0

(Respondents could select more than one category)

Table 4: Positions in business held by family members

	2006 Percentage		2007 Percentage	
Positions held	Male	Female	Male	Female
Director	70	41	71	28
CEO	64	5	64	5
Member of board	35	17	36	15
Chairperson of board	34	2	35	2
Management team	34	20	34	18
General manager	30	7	32	5
Owner/manager	21	8	33	9

(Respondents could select more than one category)

Table 5: Positions in business held by non-family members

	2006 Percentage		2007 Percentage	
Positions held	Male	Female	Male	Female
Director	14	3	15	2
CEO	8	0	8	0
Management team	38	23	44	28
General manager	21	5	17	3
Chairperson of board	12	0	11	0
Member of board	22	3	22	4
Owner/manager	2	1	4	1

(Respondents could select more than one category)

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 general business employment practices.

Respondent personal profile

Of the 122 replies received, slightly more than half were over 50 years of age (53 percent) and Australian born (94 percent). Respondents were predominantly first (30 percent) and second (38 percent) generation with just half (52 percent) having a university or postgraduate degree as their highest level of education. Notably, the majority (85 percent) work more than forty hours per week (refer Table 6).

Table 6: Hours worked in the business

Hours worked	2006 Percentage	2007 Percentage
10 - 39	23	15
40 - 69	69	78
70 or more	8	7

Respondent business profile

Sixty-five percent of respondent family businesses have their Head Office located in New South Wales/ACT and Victoria, with 'Manufacturing' (20 percent), 'Wholesale' (21 percent) and 'Construction' (19 percent) being the predominant business sectors.

The data confirms that family businesses are not just small enterprises. Seventy percent of respondents estimate an annual business turnover of more than $5 million, with thirty percent having more than $30 million (refer Table 7). All businesses were private enterprises, with 80 percent being proprietary limited. Twenty-seven percent of these businesses commenced trading before 1950.

Ninety-seven percent have Australian-based markets (30 percent local, 33 percent state and 34 percent national) (refer Table 8). Interestingly, the primary source of funds is retained earnings (49.3 percent), with less reliance on loans of various kinds (38.2 percent) (refer Table 9).

Table 7: Approximate annual business turnover

Business turnover	2006 Percentage	2007 Percentage
Less than $5 million	34	30
$5 million to less than $30 million	29	39
More than $30 million	36	30

Table 8: Average percentage of sales from each market

Markets served	2006 Percentage	2007 Percentage
Local	30	30
State-based	27	33
National	35	34
International	8	3

Table 9: Source of business funds (average percentage from each source)

Source of funds	2006 Percentage Mean	2006 Percentage Std. dev.	2007 Percentage Mean	2007 Percentage Std. dev.
Retained earnings	52	37.9	56	49.3
Bank overdraft	10	19.4	8	15.9
Bank loans	20	27.5	19	26.6
Loans from family members	5	16.1	4	11.6
Funds venture capital	0	4.8	0	0.0
Other sources	1	7.9	1	7.7
Loans from solicitor, other advisor, silent partner	1	9.4	0	0.9

Employment practices

The number of employees noted by respondents indicates that the majority are medium to large businesses (60 percent have more than 20 full-time employees) or small enterprises (30 percent have 5 to 19 full-time employees), with the balance (10 percent) being micro enterprises (1 to 4 employees or non-employing) (refer Table 10).

Respondents were asked to indicate employment trends. Interestingly, 65 percent have increased full-time employees, while 58 percent had no change to employment numbers over the last year (refer Table 11). For those firms that increased their employee numbers, around half (54 percent) added one to four full-time employees, while around the same number (58 percent) added one to four part-time employees. For the small number of firms that decreased their level of employees in the past year (12 percent full-time and 9 percent part-time), 79 percent reduced employee numbers by less than five full-time employees and 56 percent reduced by less than five part-time employees.

Respondents were also asked about employment intentions for the next twelve months. Only 5 percent of respondent family businesses plan to decrease their full-time employees and 3 percent plan to decrease their part-time employees, while 10 percent did not know their intentions (refer Table 12).

Table 10: Number of employees

Employees	2006 Percentage Full-time	2006 Percentage Part-time	2007 Percentage Full-time	2007 Percentage Part-time
None	2	13	2	4
1 - 4 (micro enterprises)	12	41	8	43
5 - 19 (small enterprises)	31	24	30	24
20 - 199 (medium enterprises)	38	19	49	21
200 or more (large enterprises)	17	3	11	8
Don't know	0	0	0	0

Table 11: Change to the number of employees in the past 12 months

	2006 Percentage		2007 Percentage	
Changes past 12 months	**Full-time**	**Part-time**	**Full-time**	**Part-time**
Increased employees	53	47	65	54
Decreased employees	20	10	12	9
No change occurred	27	42	22	36
Don't know	0	1	1	1

Table 12: Planned changes to the number of employees in the next 12 months

	2006 Percentage		2007 Percentage	
Plans for next 12 months	**Full-time**	**Part-time**	**Full-time**	**Part-time**
Increased employees	43	28	52	40
Decreased employees	8	6	5	3
No change occurred	43	60	40	50
Don't know	6	6	3	7

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 family business. These issues and challenges are categorised into ten underlying themes. The themes are listed in order of importance, based on the overall mean. In addition, the results are compared by business turnover (refer Table 13).

Table 13: Family and business issues considered important – by business turnover

Family and business issues*	2006 Overall mean	2007 Overall mean	2007 Overall mean by business turnover		
			Less than $5 million	$5 to less than $30 million	More than $30 million
Growing profitably	6.0	6.0	6.1	5.9	6.0
Balancing different interests	5.0	5.1	5.1	5.1	5.0
Regulatory challenges	5.0	5.0	4.7	5.1	5.2
Establishing professional business management	4.0	4.7	4.4	4.9	4.8
Planning succession	4.5	4.7	4.5	4.6	5.1
Future directions	4.3	4.2	4.2	4.3	4.1
Exiting by retirement	4.2	4.2	4.2	4.1	4.3
Managing family relationships	3.7	4.0	3.8	4.0	4.1
Selling the business	3.9	3.6	3.7	3.8	3.4
International growth	3.1	3.1	3.0	3.3	3.1

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

The three most important concerns to family business managers are growing profitably, balancing different interests and regulatory challenges. These were also the top three themes from the 2006 survey and of the same magnitude of importance. The three least important themes for 2007 were the same as those for 2006.

A comparison of the importance of these themes based on 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.** This theme includes concerns about profit and sales growth and the need for planning. This was the most important concern for all family business managers, regardless of the size of the business. The 2006 survey also found this to be the most important theme to respondents.
- **Balancing different interests.** This theme captures such concerns as how to balance the interests of the family and the business, deal with family issues and resolve conflict between family members. It was the second most important theme on average. However, for firms with an annual turnover of more than $30 million, regulatory challenges and succession planning were marginally more important than balancing different interests.
- **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 to firms with an annual turnover below $5 million. The 2006 survey also found that the size of the business was associated with the importance of regulatory challenges.

- **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 or governing body. Compared to the 2006 survey results, this theme was of more importance overall to respondents regardless of their size. However, it was more of a concern for businesses with an annual turnover of less $5 million.
- **Planning succession.** Family business firms differ in the importance they place on this theme based on size. Notably, the larger firms were more concerned with succession planning than the smaller firms. The 2006 survey revealed a similar result with succession planning being more important to the largest firms.
- **Future directions.** This theme was the sixth most important on aggregate. This theme refers to finding a direction for the business and the challenge of moving into new markets. Interestingly, it was of similar importance to all businesses, regardless of their size.
- **Exiting by retirement.** This theme includes issues of retirement planning, estate planning and the transfer of ownership. Unlike the 2006 survey, the 2007 data reveals no relationship between size of the business and the importance of this challenge to family businesses.
- **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. Both the 2006 and 2007 surveys reveal a positive relationship between the importance of this theme and business size.
- **Selling the business.** This theme includes the need to find a buyer and make a financial evaluation of the business. In common with the 2006 survey data, this theme was found to be more important to the smaller firms than larger firms. While the differences based on business size were not significant, the results do provide some further confirmation that there is a negative correlation between business size and the importance of this theme to family businesses.
- **International growth.** In both the 2006 and 2007 survey, this was the least important theme overall. Its level of importance is consistent with the fact that only three percent of the businesses surveyed in 2007 report sales from international markets.

Governance of family businesses

Family businesses are unique because the owners and managers of the business generally reside within the same family unit. In this regard family businesses are considered to be both social and economic entities (Glassop and Waddell, 2005).

To manage the boundaries between the different roles that family members take up, certain governance structures are recommended to interlink the three primary systems: the owner system, the business system and the family system (Gersick, Davis, McCollom Hampton, and Lansberg, 1997). These governance structures include: a formal board of directors (BOD) or governing body, a shareholder assembly, an executive management team, a family council, a family assembly and a family constitution. Good governance practices help to ensure that the business is kept on an appropriate and successful course.

The 2007 survey provides insight into the members of Family Business Australia. These organisations are familiar with best family business practice and so it is of considerable concern that less than 50 percent of these informed businesses have the recommended family-to-business governance mechanisms in place (refer Table 14). While adoption percentages tend to increase for larger firms, where more formal practices might be expected, less than one-quarter of these larger businesses have a family constitution and family council in place.

Sound business management practices appear to be in place for nearly half of all businesses as noted by the presence of a formal BOD or governing body. Businesses with turnovers of less than $30 million indicate a tendency towards informal governance. The relative absence of formal governance practices for small-to-medium businesses is at odds with these businesses reporting growth as their major business challenge. Without the wherewithal to steer growth, growth ambitions would appear to be misplaced.

Communication within the family unit appears to be being considered with around 40 percent of all businesses reporting the use of a formal family assembly. This implies that 60 percent of all businesses do not have a formal family communication process. The need for a formal family communication process might not be deemed necessary by businesses that have only first and second generation family members. However, formal communication processes need not be onerous. When a formal family communication process is installed, family members can rely on the fact that everyone is equally informed, thereby enhancing family harmony.

The relative absence of a family constitution (17 percent) and family council (21 percent) for these Australian family businesses is worrisome. History is littered with many family businesses that fail to transition to the third generation. A family constitution, and the family council that manages its translation into the business, help to ensure that the values, beliefs and desires of the family are kept in mind and not lost under the pressure of day-to-day decision-making.

Table 14: Use of family-to-business governance mechanisms – by business turnover

Whether these governance practices are used…	2006 Overall percentage	2007 Overall percentage	2007 Percentage by business turnover		
			Less than $5 million	$5 to less than $30 million	More than $30 million
Business management team	89	92	82	95	97
Formal board of directors/governing body	52	47	21	43	77
Formal family feedback (family assembly)	42	38	41	28	48
Formal shareholder feedback (shareholder assembly)	38	36	8	41	56
Family council	32	21	22	19	24
Family constitution	22	17	16	14	22
Business risk plan	41	38	37	51	50
Human resources plan	43	37	23	35	55
Technology contingency plan	31	29	21	22	48

(Respondents could select more than one category)

Business planning

Respondents to the 2007 survey were asked about their planning practices in nine areas (refer Table 15). The likelihood that businesses had plans in each of these areas mirrored the results from the 2006 survey. The importance of strategic business and sales and marketing plans for businesses, regardless of size is consistent with the findings of the main challenges facing family businesses. Firms, regardless of size, are concerned about 'growing profitably'. Clearly, effective strategic and sales and marketing planning is important for firms to achieve their growth and profitability targets.

The difference between firms in their planning practices is much greater for planning in the functional areas including finance, information technology, manufacturing and human resources. The results for the 2007 survey indicate that the larger the firm, the more likely they are to use plans in all nine areas compared to smaller firms. This failure of many smaller firms to have information technology, manufacturing, risk management, human resources and technology contingency plans is a concern given the potential impact of these areas on these firms' ability to achieve their strategic and sales goals.

Table 15: Management planning – by business turnover

Whether these planning practices are used…	2006 Overall percentage	2007 Overall percentage	2007 Percentage by business turnover		
			Less than $5 million	$5 to less than $30 million	More than $30 million
Strategic business plan	82	82	79	80	88
Sales and marketing plan	73	69	63	69	77
Finance plan	65	60	53	55	74
Information technology plan	46	53	34	58	69
Manufacturing/operations plan	55	51	33	50	66
Asset management/maintenance plan	43	44	37	41	55
Business risk plan	41	38	37	51	50
Human resources plan	43	37	23	35	55
Technology contingency plan	31	29	21	22	48

(Respondents could select more than one category)

Succession and estate planning

Ongoing business performance and viability require effective succession planning. Succession planning is required to protect the sustainability of the business (Chua, Chrisman and Sharma, 2003), and estate planning is critical to the maintenance of family wealth as the transition to the new generation occurs. Given the importance of succession planning, the practices of Australian family businesses as revealed through this survey, suggest some cause for concern.

Succession planning

The retirement plans of respondents from the 2006 and 2007 surveys are compared in Table 16. While a similar number plan to retire within ten years (57 percent in 2007 compared to 60 percent in 2006), overall the 2007 respondents plan to be in the business for a longer time period. This difference is consistent with the fact that the respondents to the 2007 survey are younger overall than those in the 2006 survey.

Further, the younger age profile of the 2007 respondents may account for the reduced likelihood that a successor to the family business has been chosen. As noted by CPA Australia (2004) in their *Small Business Succession and Exits* report, the relative age of the business owner is a motivating factor for having a succession plan. In this year's survey, only 31 percent of respondents have chosen a successor compared to 38 percent in 2006.

Overall, the failure of businesses surveyed across both years to have chosen a successor (for the CEO or other senior positions) or to have a formal succession plan suggests some risk to the longer term family involvement in the businesses. While 70 percent of the respondents to the survey state that they aim to pass on the business to the next generation (refer Table 17), their succession practices, as revealed in this survey, suggest some failure to adequately plan for this eventuality.

Table 16: Existence of formal succession planning

Succession planning	2006 Percentage	2007 Percentage
Yes, have a formal succession plan	29	25
No, but in process of introducing a formal succession plan	37	32
No immediate plans for a succession plan	29	34
No intention of introducing a formal succession plan	5	9

Table 17: Exit plans

Exit plans	2006 Percentage	2007 Percentage
Pass on the business to the next generation	74	70
Sell business on the open market	30	25
Sell business to employees, management or other owners	16	18
Pass on the business to other family member(s)	19	20
Bring in a partner	8	8
Publicly list the business	5	5
Close the business	2	0
Other	5	6

(Respondents could select more than one category)

Estate planning

The successful generational transfer of the family business can be affected by the extent and quality of estate planning that has occurred. Of primary importance is whether estate plans (wills) have been made for those family members who have a major stake in the business. The evidence from both the 2006 and 2007 survey suggests that Australian family businesses are relatively well prepared in this regard with 76 percent of respondents from the 2007 survey reporting that wills have been prepared for family members with a major stake in the business. However, only 49 percent report having done estate planning for other family members with a minor stake in the business. This low level of estate planning is a concern given that disruptions to family harmony can occur over relatively minor matters.

General management practices

Performance evaluation

Evaluating the performance of any business system is important for ensuring that the strategic direction and operational goals of the business are on target. It is not surprising, therefore, that financial performance evaluation tops the list with a 91 percent adoption rate (refer Table 18). Money is the life-blood of all business entities and the absence of formal monitoring mechanisms exposes a business to economic vagaries. Formal evaluation methods are less likely to be used in other areas of the business (e.g. operations, customers, employees), however business success comes directly from the performance of the operations and relationships with customers and employees. Performance monitoring practices focused on financial control alone would appear to be a case of 'the tail wagging the dog'!

The evaluation of family businesses in terms of environmental performance (35 percent) is relatively low when compared with other areas. However, the 2007 survey reveals that large businesses with a turnover of more than $30 million have placed environmental performance on their priority list with around 60 percent of respondents reporting that they have environmental evaluation methods in place. The current Australian drought has possibly reminded these businesses of their reliance on the environment.

Table 18: Performance evaluation practices – by business turnover

Whether these evaluation methods are used…	2006 Overall percentage	2007 Overall percentage	2007 Percentage by business turnover		
			Less than $5 million	$5 to less than $30 million	More than $30 million
Financial performance	96	91	83	95	94
Manufacturing/operational performance	82	74	59	81	81
Customer performance (customer feedback)	71	63	58	61	71
Human resource performance (employee feedback)	72	67	56	70	75
Environmental performance	33	35	30	23	59

(Respondents could select more than one category)

Policies, procedures and processes

Establishing formal policies, procedures and business methods could be considered bureaucratic. However, these business practices provide clarity, predictability and guidance to employees about accepted behaviours by establishing the rules of engagement. In this way everyone knows how the business system should operate. Understanding the business system enables the business system to be monitored and continuously updated.

Large family businesses report the widespread use of formal policies and procedures (refer Table 19). The more employees involved in the business the more communication is deemed necessary, hence the use of policies and procedures. Once a business has more than $5 million per annum in turnover, formalisation of the business system tends to become necessary. Given the current regulatory requirements surrounding the management of people (e.g. OH&S, equity and Work choices) it is a concern that businesses with a turnover of less than $5 million per annum are less likely to have human resources policies and procedures in place.

Table 19: Use of policies and procedures – by business turnover

Whether these policies and procedures are used…	2006 Overall percentage	2007 Overall percentage	2007 Percentage by business turnover		
			Less than $5 million	$5 to less than $30 million	More than $30 million
Financial	81	75	67	73	85
Sales and marketing	78	73	64	73	79
Manufacturing and operations	78	69	59	67	83
Human resources	71	63	38	66	81
Information technology	56	63	47	56	87
Whether this practice is used…					
Flow charts for manufacturing/operations	43	43	41	66	77

(Respondents could select more than one category)

Human resources practices

Corbetta and Salvato (2004:119) suggest that family firms have been plagued with a "one size fits all" approach to establishing professional management rather than looking at the different needs or different family firm configurations. Given that with each passing generation, the number of family members involved in the management of the business may increase (Ward, 1997: 324), "there is an awful lot of emotion that surrounds a family business" (Grant Dennis, quoted in Craig and Moores, 2002:63).

The altruistic instincts of parents towards the wellbeing of their children can result not only in rivalry between siblings as well as between the short-term interests of the siblings and their immediate families and the long-term interests of the business (Lubatkin, Schulze, Ling and Dino, 2005). Such altruism may be asymmetric and reflect the "juxtaposition of economic and non-economic goals in family firms" (Steier, Chrisman and Chan, 2004). This section of the report examines some human resource practices and the differential treatment between family and non-family employees. The present survey again notes a positive correlation between business size and the importance of human resource practices. That is, the larger the firm, the more important the need to establish professional human resource management. This is not surprising given that "as the family business grows, it's dependence on non-family managers increases because there are only a limited number of family members willing and able to be involved in management" (Chua, Chrisman and Sharma, 2005:103).

Individual performance appraisals

The survey data highlights a disparity in the treatment between family and non-family employees. Twenty-six percent of family businesses do not implement any form of individual performance appraisal for family employees (refer Table 20). Comparably, only five percent of family businesses do not appraise non-family employees.

Of those businesses that have formal performance appraisal, more non-family members (40 percent) are required to undergo the procedure than family employees (21 percent). If there is a mixture of both formal and informal appraisal, once again it is the non-family employee who is more likely to be assessed (32 percent as compared to 22 percent for a family employee). Where performance appraisal is informal, family employees are the majority (31 percent), but followed closely by non-family employees (23 percent).

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

Table 20: Types of performance appraisal

	2006 Percentage		2007 Percentage	
Appraisal types used…	Family	Non-family	Family	Non-family
Formal performance appraisal	20	49	21	40
Informal performance appraisal	32	24	31	23
Mix of formal and informal	19	22	22	32
Don't appraise	29	4	26	5

Mentoring programs

Contrary to anecdotal evidence, there appears little evidence that businesses are mentoring either family or non-family employees (refer Table 21). If mentoring is occurring, it is of the informal style. The numbers are similar for formal mentoring programs in that only seven percent of family employees are mentored as compared to nine percent of non-family employees in such a manner.

Table 21: Types of mentoring program

	2006 Percentage		2007 Percentage	
Mentoring program used…	**Family**	**Non-family**	**Family**	**Non-family**
Formal mentoring program	7	8	7	9
Informal mentoring program	27	27	23	23
Mix of formal and informal program	23	26	16	18
No mentoring program	43	39	54	50

Management development programs

Family employees are less likely to be the recipients of a management development program (refer Table 22). Thirty-nine percent of family employees do not receive such a program, for those who do, it will be either informal (25 percent) or a mixture of both (25 percent). Non-family employees on the other hand are slightly advantaged where 70 percent will be involved in a management development program, but with a mixture of informal and formal programs (28 percent).

Table 22: Types of management development program

	2006 Percentage		2007 Percentage	
Management development program used…	**Family**	**Non-family**	**Family**	**Non-family**
Formal management development program	14	17	11	17
Informal management development program	24	29	25	25
Mix of formal and informal program	26	25	25	28
No management development program	36	28	39	31

Work practices

Eighty-eight percent of respondents use job descriptions for both key and other roles within the business (refer Table 23). Multi-skilling is also practiced by the majority (68 percent) of family businesses. Documenting business/family values, a distinctive characteristic of family business, is undertaken by less than half the respondents (54 percent).

Table 23: Use of work practices

Types of work practices used…	2006 Percentage	2007 Percentage
Job description for key roles	83	88
Job description for other roles	80	88
Cross/multi-skilling of employees	70	68
Flow charts for manufacturing/operations	43	61
Written statement about business/family values	55	54

(Respondents could choose more than one)

The authors

Linda Glassop is a Lecturer in Management and HR 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 re-engineering, information systems, quality management and managing change. Linda moved into an academic career fifteen years ago, and has taught undergraduate and postgraduate students for nine 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 a Doctorate on the nature of change in 2007 (PhD, *Deakin*). Linda is author of the book *Rethinking Causality: pattern as the science of change* (Heidelberg Press, 2007), 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 and HR 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 has taught in the areas of Quality Management, Change Management and Strategic Management. 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 is a Fellow of the Australian Organisation for Quality (AOQ).

References

Chua, J.H., Chrisman, J.J. and Sharma, P. 2003 'Succession and Non succession Concerns of Family Firms and Agency Relationship with Non family Managers', *Family Business Review* XVI(2): 89-107.

CPA Australia (2004) *Small Business Succession and Exits*, Small Business Survey Program, CPA Australia, Melbourne.

Corbetta, G. and Salvato, C. A. 2004 'The Board of Directors in Family Firms: One Size Fits All?', *Family Business Review*, XVII: 119-134.

Craig, J. and Moores, K. 2002 'How Australia's Dennis Family Corp. Professionalised Its Family Business', *Family Business Review*, XV(1): 59-69.

Glassop, L., Hagel, P. and Waddell, D. (2006) *KPMG and Family Business Australia Survey of Family Business Needs 2006*, Deakin University, Melbourne, Australia.

Glassop, L., Ho, Y.C. and Waddell, D. (2005) *KPMG and Family Business Australia Survey of Family Business Needs 2005*, Deakin University, Melbourne, Australia.

Lubatkin, M.H., Schulze, W.S., Ling, Y. and Dino, R.N. 2005 'The Effects of Parental Altruism on the Governance of Family-Managed Firms', *Journal of Organisational Behaviour*, XXVI: 313-330.

Steier, L.P., Chrisman, J.J. and Chua, J.H. 2004 'Entrepreneurial Management and Governance in Family Firms: An Introduction', *Entrepreneurship Theory and Practice*, Summer: 295-303.

Ward, J.L. 1997 'Growing the Family Business: Special Challenges and Best Practices' *Family Business Review*, XI(4): 323-337.

Contact us

For further information about this survey or to find out how KPMG can assist your family business, please contact:

National Partner in Charge
Graeme Matthews
03 9288 6685
gcmatthews@kpmg.com.au

Adelaide
Peter de Cure
Partner
08 8236 3133
pjdecure@kpmg.com.au

Albury
Peter Tobin
Partner
02 6022 0131
ptobin@kpmg.com.au

Brisbane
Bill Noye
Partner
07 3233 3253
wnoye@kpmg.com.au

Cairns
Robert Ince
Senior Manager
07 4046 8888
rince@kpmg.com.au

Darwin
Peter Chilman
Partner
08 8982 9000
pchilman@kpmg.com.au

Gold Coast
David van Herwaarde
Partner
07 5577 7545
dvanherwaard@kpmg.com.au

Hobart
Matthew Wallace
Partner
03 6230 4037
mgwallace@kpmg.com.au

Launceston
Nigel Briggs
Partner
03 6337 3711
nbriggs@kpmg.com.au

Melbourne
Dominic Pelligana
Partner
03 9288 6386
dpelligana@kpmg.com.au

Perth
Rob Kelly
Partner
08 9263 7320
rkelly@kpmg.com.au

Sunshine Coast
Bruce Swan
Partner
07 5444 7999
bswan@kpmg.com.au

Sydney
Brett Mitchell
Partner
02 9335 7398
bmitchell@kpmg.com.au

Wollongong
Peter Fitzgerald
Partner
02 4225 2126
pfitzgerald@kpmg.com.au

For further information about Deakin University's Family Business Research program please contact:

Deakin University
Linda Glassop
Lecturer
Bowater School of Management and Marketing Deakin University
03 9244 6768
linda.glassop@deakin.edu.au

kpmg.com.au

December 2007. VIC11526MMA.