KPMG

Family Business Australia

MIDDLE MARKET ADVISORY

# KPMG and Family Business Australia Survey of Family Businesses 2008

## Final report

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# Introduction

This is the fourth annual survey of family businesses, conducted by Deakin University's Family Business Research Program in partnership with KPMG and Family Business Australia (FBA). The purpose of the survey is to gain a greater understanding of family owned businesses – how they operate, what makes them unique, how they view themselves compared with non-family owned businesses and the challenges that they are facing – both business related and family related. The survey has been conducted with financial support from KPMG and fully endorsed by Family Business Australia (FBA).

The first survey was conducted in 2005 and over the past 4 years the survey questionnaire has been modified and refined. The survey questionnaire and the results were developed, managed and analysed by Linda Glassop, Pauline Hagel and Dianne Waddell from the School of Management and Marketing, Deakin University, Melbourne, Australia. The project was endorsed by Deakin University's Ethics Committee and executed by Deakin's Computer Assisted Research Facility (DCARF) to ensure the privacy of participants.

Prior to the survey being conducted, input was provided by a number of family business operators to ensure that the correct emphasis was given to each topic area. The survey was distributed to 5,536 businesses nationally and completed by 1,080 respondents, representing a 19.5 percent response rate which provides a very robust sample size. The survey contained 70 questions covering a range of topics including business concerns, business approach, capabilities, business performance, ownership, board of directors, chief executive officer, business practices, organisation values and the nature of the family business. This document is a summary of the survey findings.

KPMG has been proactive in the development of the survey questionnaire and fully embraces the project. With their continued financial support, the research team has been able to include additional topics and increase the response rate which has improved the credibility of the data. Both Dominic Pelligana and Edwina Ogilvie have contributed extensively and provided invaluable feedback. Our thanks go to those family businesses who participated in the focus group and the valuable feedback they gave. Philippa Taylor, Chief Executive Officer of FBA, has endorsed the survey, encouraged FBA members to participate and assisted with the compilation of participants. Our thanks go to those family business operators who gave their valuable time to provide insight into the key issues and challenges facing family businesses.

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# Executive summary

## Family businesses regard themselves as having an edge over competitors due to the strength of the relationships they have with their customers, suppliers and employees. They believe that they outperform their competitors particularly in the areas of customer and employee retention.

A couple of factors no doubt influence this finding. Almost three quarters (72 percent) of family businesses believe that family harmony makes a contribution to the business as does the family brand (59 percent). Many believe that family businesses have an edge because of the commitment and passion that they bring to their business.

### Challenges

Topping the list of challenges are growing profitably (61 percent), economic stability (48 percent), government regulation (46 percent) and employee issues (42 percent).

Every business has its challenges and family businesses are no different in this regard. Topping the list of challenges are growing profitably (61 percent), economic stability (48 percent), government regulation (46 percent) and employee issues (42 percent). The issue of profitable growth has been a consistent theme with it being the number one concern for the past 3 years. Government regulation has also consistently featured in the top three concerns. In terms of economic stability, the environment has changed considerably since the previous survey and it isn't surprising that it is of great concern given that this is external to the business and completely outside of the control of the family business. The decreasing availability, and increased cost of finance, brought about by the sub-prime mortgage crisis in the US, coupled with soaring fuel prices and media coverage predicting doom and gloom all combine to make family businesses less confident about their future business prospects. Given the current economic climate, the importance of having well developed business plans, sound business practices and the right people in place has become more important than ever.

### Planning and performance

In terms of business planning and measuring performance, the results indicate that the larger the business the better that they tend to do both.

In terms of business planning and measuring performance, the results indicate that the larger the business the better that they tend to do both. In terms of a business plan, overall less than half (48 percent) cover accounting and finance with 41 percent covering sales and marketing and only 24 percent having regard to risks and contingencies. For businesses with turnover exceeding $15 million, these numbers increase considerably with 62 percent covering accounting and finance and 56 percent including sales and marketing in their plan. Overall, just over two thirds evaluate financial performance rising to 83 percent for those who have turnover greater than $15 million and 39 percent evaluating internal business performance which increases to 55 percent for those with turnover above $15 million.

### Contribution to the economy

What about the contribution that family businesses make to the economy? They are typically well established entities that collectively employ a large number of people nationally. Nearly half (42 percent) of the businesses surveyed employ between 20 and 199 employees with a further 5 percent employing 200 or more people. Family businesses are in it for the long haul – thirty six percent of respondents run a business that has been established between 29 and 58 years with a further 17 percent established prior to 1950. More than a third of respondents (38 percent) have annual turnover of between $5 million and $15 million with a further 30 percent have turnover exceeding $15 million. They are concentrated on the eastern seaboard with 31 percent having their head office in Victoria, 24 percent in New South Wales and 16 percent in Queensland and are predominantly in manufacturing and retail trade (both 18 percent of respondents) followed by construction and wholesale trade, also both 14 percent of respondents respectively.

## Leadership

What does the typical CEO look like in a family business? Leadership, it seems, is male dominated, mature and brings a great deal of experience to the job. Eighty three percent of CEOs are male with the majority (54 percent) having worked in the family business for between 11 and 29 years. As well as the leadership on a day to day basis being male biased, oversight of the 'bigger picture' of the business is sadly lacking a female perspective with less than 25 percent of family businesses having women on their Board of Directors.

Within 5 years, a third of CEOs are planning to step down from the business but only 17 percent of them have planned for what is going to happen after they leave.

Chief Executive Officers are typically baby boomers with around one third (32 percent) being aged between 46 and 55 with almost an equal number (31 percent) aged between 56 and 65. Within 5 years, a third of CEOs are planning to step down from the business but only 17 percent of them have planned for what is going to happen after they leave. Given the commitment and contribution they have given to the business over many years, they would seem to be putting it all at risk by not having a succession plan in place. The reason for not having a succession plan in place by 36 percent of respondents is that no likely successor had been identified yet but over half (53 percent) believed that the successor would be recruited from within the business. Succession planning is clearly a difficult issue and involves a complex set of emotional, financial, business and family considerations that need to be grappled with in order to come up with a plan that makes sense and meets the needs of all of those who will be impacted. As well as having all of the responsibilities that come with being CEO, more than half (55 percent) are also the Chairman of the Board. With such a workload, it isn't surprising 33 percent of CEOs are devoting between 50 and 59 hours per week to the family business. A further 16 percent are working between 60 and 69 hours per week.

## Governance

The role of a board of directors is to act as an independent body removed from the day to day operations of the business that can make strategic decisions about its future, evaluate performance and risks and hold management accountable for its actions. In the absence of a board, the CEO and management are responsible for all decisions, both strategic and operational, and given their day to day responsibilities and associated pressures it is understandable if they aren't able to focus on the longer term needs of the business, nor can they objectively evaluate its performance, financial position and ultimately its value. The importance of an effective board to the long-term success of the business cannot be overstated and yet only 37 percent of respondents have a board of directors in place. Of those who do have a board in place, their ability to adopt an objective and arm's length view would have to be questioned since 75 percent of the members are working in the business. Added to this is that three quarters of boards do not undergo any type formal assessment either using internal or external resources.

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While family businesses have some advantages over their non-family counterparts, the lack of formal planning and governance structures will inevitably hinder the performance of the business and could even put the business at risk particularly in these uncertain economic times. While growing profitably is the biggest challenge for family businesses, putting greater structure around the business and its operations along with effective planning and governance could go a long way in helping family businesses maximise their value and balance the competing needs of family and the business.

# Challenges for family business

As in previous years, the survey looked into the challenges faced by Australian family businesses. Findings from the survey provide confirmation of the importance of the 10 main challenges identified in the 2007 survey (Glassop, Hagel, and Waddell 2007).

Growing profitably (61 percent) and economic stability (48 percent) are significant challenges for Australian family businesses (refer Table 1). With the recent changes in both the global and local economic environment, in particular rising petrol prices and interest rate fluctuations, it is not surprising that Australian family businesses have concerns. Government regulation (46 percent) and tax/insurance (36 percent) issues are also a challenge. The survey invited respondents to make additional comments outside of the set questions. One of the themes that came through very strongly was that government regulation is regarded as complex and costly and places an unreasonable burden on family businesses. For those businesses that operate in multiple states, the complexity is increased due to the need to comply with many different regulations.

*"We are becoming very concerned about the future of our business which is in its third generation. The industry that we are in is shrinking and we are finding it increasingly difficult to compete particularly due to the many increases in the cost of doing business over the past couple of years. Added to that is the economic uncertainty, the difficulty in finding committed and capable staff and the burden of compliance costs on our business".*

*Survey respondent*

While there are a number of external factors that are outside the control of the family business, management practices are something that is directly within their control. Thus, employee issues (42 percent), operational concerns (28 percent), professional management practices (26 percent) and funding issues (25 percent) represent secondary challenges. With regard to families specifically, succession (29 percent), balancing different interests (15 percent), and family-management issues (15 percent) are not pressing business challenges. Surprisingly, environmental issues (17 percent) are not a concern despite the current drought, the debate regarding sustainability and pressures to address global warming.

**Table 1: Major business concerns—by business turnover**

| Business concern | Overall percentage | Percentage by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| Growing profitably | 61 | 63 | 62 | 59 |
| Economic stability | 48 | 46 | 51 | 46 |
| Government regulation issues | 46 | 46 | 48 | 44 |
| Employee issues | 42 | 34 | 44 | 47 |
| Tax/insurance issues | 36 | 36 | 40 | 31 |
| Succession planning | 29 | 36 | 27 | 24 |
| Operational issues | 28 | 28 | 25 | 33 |
| Establishing professional management practices | 26 | 23 | 27 | 28 |
| Financial/funding issues | 25 | 28 | 24 | 24 |
| Environmental issues | 17 | 16 | 17 | 18 |
| Balancing different interests | 15 | 18 | 14 | 11 |
| Family-management issues | 15 | 17 | 14 | 13 |

***KPMG insight***

*With the emergence of a less favourable economic environment, growing profitably may become a greater challenge for family businesses. With tightening conditions, it is vital that family businesses position themselves as best they can to insulate themselves from any further decline (in the economic environment), paying particular attention to the financial management and governance of their business. It has become more important than ever to do both financial forecasts and scenario planning (best and worst cases). This is to understand how, in an economic downturn and with limited access to funding, the business and its financial position may be impacted. This scenario planning will also test the business' strategy and the need for additional experienced views and advice at board level.*

# Strategic approach

## Strategic approach refers to the basic strategic orientation of businesses towards their product or market environments according to three strategic types: ‘defender’, ‘prospector’ and ‘analyser’.

Defenders and prospectors tend to adopt opposite approaches (Blumentritt and Danis, 2006). Defenders pursue narrow product market domains, are focused on improving efficiency in existing operations and rarely make adjustments to their technology, structure or methods of operation. Prospectors search for new opportunities, are flexible in operations and structure and act to bring about change in their environments. Analysers fit between the two by operating in both stable and changing product markets. Among businesses of all sizes, the biggest group identified were analysers (72 percent), followed by prospectors (17 percent) and then defenders (11 percent) (refer Table 2). For businesses with more than $15 million in turnover, almost one quarter are prospectors which indicates that they have greater focus on innovation.

***KPMG insight***

*The results of the survey indicate that larger family businesses have a greater focus on innovation. While some may perceive that such businesses are better positioned to pursue product innovation through greater resources (financial and otherwise), it is likely that they have grown to such a size because they are innovative. Some businesses may not have the funds readily available for product innovation, however there are many government grants available as well as tax concessions on research and development that family businesses may be eligible for and these should be explored.*

While some may perceive that such businesses are better positioned to pursue product innovation through greater resources ... it is likely that they have grown to such a size because they are innovative.

**Table 2: Key business approach—by business turnover**

| Strategic stance | Overall percentage | Percentage by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| Analysers | 72 | 72 | 75 | 66 |
| Prospectors | 17 | 17 | 15 | 24 |
| Defenders | 11 | 11 | 10 | 10 |

The strategic choices that business owners make are important factors for determining business success. Survey respondents were asked a range of questions relating to: the state of their industry, environmental turbulence, their strategic approach, core capabilities and business performance relative to competitors. The responses to these questions provide a greater understanding of how family businesses perceive themselves and their position within the industry they operate in.

Industries have been classified according to four criteria: ‘start-up’ reflects the emergence of a new industry, ‘growth’ refers to an industry that is experiencing vibrancy, ‘maturity’ equates to industry stability, and ‘in decline’ refers to an industry that is losing its viability. The majority of family businesses (58 percent) consider their industry to be in a mature state, however, 35 percent are enjoying a growing marketplace (refer Table 3).

**Table 3: State of the industry—by business turnover**

| State of industry | Overall percentage | Percentage by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| In the start-up phase | 0 | 1 | 0 | 0 |
| Growing | 35 | 30 | 35 | 40 |
| Mature | 58 | 61 | 57 | 55 |
| In decline | 7 | 8 | 8 | 5 |

### *KPMG insight*

*Just over a third of family businesses are in growing industries which means that there is great potential for them to increase the size of their businesses and become market leaders in their chosen industry. To realise growth potential it is essential that the business has a strategic plan that is well thought out and has the buy in of all key stakeholders. In addition, it's important to have the appropriate debt and equity structures in place to support such growth plans.*

## External influences

Environmental turbulence refers to factors outside the organisation that have a major influence on the success or otherwise of the business. The 2008 survey looked at three turbulence factors: the marketplace, technology and competition. Family businesses agree that they are operating in an environment with strong competitive turbulence (refer Table 4). Technological change appears to also be a prominent factor influencing family businesses.

Family businesses agree that they are operating in an environment with strong competitive turbulence.

**Table 4: Source of environmental turbulence—by business turnover**

| Source of turbulence | Overall percentage | Mean by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| Competitive turbulence | 3.8 | 3.7 | 2.8 | 3.9 |
| Technology turbulence | 3.6 | 3.4 | 3.3 | 3.4 |
| Market turbulence | 2.8 | 2.8 | 2.8 | 2.8 |

* Items were rated on a 5 point scale: 1 = strongly disagree and 5 = strongly agree

### *KPMG insight*

*Family businesses, like most Australian businesses, operate in a very competitive marketplace. Those best able to compete will be the ones that are the most professionally run, with formal policies and procedures that encompass all aspects of the business including strategic planning and an effective board of directors. Without such measures in place, the long-term profitability and viability of the business may be compromised.*

# Planning and performance

## Planning is one of the keys to business success and its value shouldn't be underestimated. Without a clear plan for the business, it is easy to lose focus on what is really important to the business and the family to achieve.

It seems that family businesses still have some way to go from a formal business plan perspective. The trend is certainly that the larger the business, the more likely they are to have formal business plans covering the various functions. In businesses with an annual turnover of less than $5 million, 48 percent of formal business plans cover accounting and finance however this figure increases to 62 percent of businesses with an annual turnover of $15 million or more. Formal business plans across all turnover categories most commonly cover accounting and finance, sales and marketing, and human resource management. Research and development is least likely to be included in formal business planning across all turnover categories (refer Table 5).

The trend is certainly that the larger the business, the more likely they are to have formal business plans covering the various functions. In businesses with an annual turnover of less than $5 million, 48 percent of formal business plans cover accounting and finance.

**Table 5: Business planning—by business turnover**

| Formal business plan | Overall percentage | Percentage by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| Accounting and Finance | 48 | 42 | 43 | 62 |
| Sales and Marketing | 41 | 33 | 37 | 56 |
| Manufacturing/ Distribution/Operations | 38 | 27 | 37 | 50 |
| Human Resource Management | 37 | 30 | 31 | 52 |
| Strategic Business Direction | 33 | 26 | 27 | 48 |
| Information Technology | 31 | 26 | 22 | 47 |
| Business Risks and Contingencies | 24 | 21 | 22 | 29 |
| Technology/Asset Management | 23 | 19 | 22 | 29 |
| Research and Development | 12 | 10 | 10 | 18 |

### Business operations

Business operations are those ongoing recurring activities involved in the running of a business for the purpose of producing value for stakeholders. The area with the highest level of formalised operating procedures is accounting and finance (54 percent). Once again it is evident that businesses with a turnover of more than $15 million have more formal processes in place (68 percent). This trend is replicated when considering human resources management (66 percent), manufacturing/distribution/operations (60 percent), sales and marketing, and information technology (50 percent) (refer Table 6).

**Table 6: Operating procedures—by business turnover**

| Formal procedures | Overall percentage | Percentage by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| Accounting and Finance | 54 | 44 | 52 | 68 |
| Human Resources Management | 49 | 38 | 44 | 66 |
| Manufacturing/ Distribution/Operations | 46 | 34 | 46 | 60 |
| Sales and Marketing | 38 | 33 | 33 | 50 |
| Information technology | 34 | 29 | 26 | 50 |

While most businesses focus on accounting and finance and sales and marketing in their business plan, not including key areas such as human resources and businesses risks and contingencies may prove detrimental to the business.

The most common area for formal documentation of work practices is job descriptions (77 percent), with large businesses in excess of $15 million recording the highest use (89 percent). Formal job descriptions are far more commonly implemented when compared to flow charts (44 percent) and processes for encouraging multi-skilling (28 percent).

***KPMG insight***

*Having a business plan in place that covers all aspects of the business is extremely important, without a documented plan it is very difficult to assess the progress of the business other than anecdotally. While most businesses focus on accounting and finance and sales and marketing in their business plan, not including key areas such as human resources and businesses risks and contingencies may prove detrimental to the business.*

*Equally, having formal and documented procedures in place for all aspects of the business is crucial for a professionally run and well managed business to mitigate risks in uncertain times.*

## Performance assessment

In terms of assessing performance, the most commonly evaluated area is financial, with an overall percentage of 69 percent. Although, in firms with a turnover of less than $5 million, only 58 percent formally evaluate their financial performance compared with 83 percent of firms with a turnover of $15 million. The second most common area for evaluation is internal performance (39 percent), and again this is common across all turnover categories, with the percentage increasing as turnover increases (29 percent, 36 percent and 55 percent respectively) (refer Table 7).

**Table 7: Performance evaluation—by business turnover**

| Formal evaluation | Overall percentage | Percentage by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| Financial performance | 69 | 58 | 66 | 83 |
| Internal business performance | 39 | 29 | 36 | 55 |
| Customer performance | 33 | 25 | 31 | 42 |
| Human resource performance | 28 | 20 | 24 | 41 |
| Environmental performance | 11 | 6 | 9 | 20 |

## Performance compared with competitors

Respondents were asked to rate their capability (relative to their three major competitors) in four key areas: information technology, marketing, technology and management (including human resources management). Australian family businesses rated themselves as having relative competence across all four capabilities (refer Table 8). While it may have been expected that the sophistication of these core functions may increase by size of business, that was not the case with there being almost no variance by turnover.

**Table 8: Capability in core business functions—by business turnover**

| Core capability | Overall mean | Mean by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| Information technology | 3.7 | 3.4 | 3.4 | 3.8 |
| Marketing | 3.5 | 3.4 | 3.5 | 3.6 |
| Technology | 3.5 | 3.5 | 3.5 | 3.5 |
| Management | 3.5 | 3.5 | 3.5 | 3.5 |

* Items were rated on a 5 point scale: 1 = strongly disagree and 5 = strongly agree

Family businesses see themselves as outperforming their competitors across a range of measures, especially the retention of customers and suppliers.

Various measures are often utilised to evaluate the performance of a business. Family businesses were asked to evaluate their performance over the last three years relative to their major competitors (refer Table 9). Family businesses see themselves as outperforming their competitors across a range of measures, especially the retention of customers and suppliers. Profitability appears to be better than competitors along three measures: return on investment, return on sales and sales growth. Interestingly, family businesses report that they perform as well as their competitors when it comes to employee turnover.

**Table 9: Business performance—by business turnover**

| Performance measure | Overall mean | Mean by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| Retention of major customers | 3.7 | 3.7 | 3.7 | 3.7 |
| Retention of major suppliers | 3.7 | 3.6 | 3.7 | 3.8 |
| Return on investment | 3.4 | 3.2 | 3.3 | 3.5 |
| Return on sales | 3.4 | 3.3 | 3.4 | 3.5 |
| Sales growth rate | 3.4 | 3.2 | 3.4 | 3.6 |
| Relative market share | 3.4 | 3.2 | 3.4 | 3.6 |
| Cash flow | 3.3 | 3.2 | 3.3 | 3.4 |
| Sales percent from new products | 3.2 | 3.2 | 3.2 | 3.2 |
| Employee turnover | 2.7 | 2.8 | 2.7 | 2.7 |

* Items were rated on a 5 point scale: 1 = much lower than competitors and 5 = much higher than competitors

### *KPMG insight*

*One of the things that seems to set family businesses apart (from other businesses) is their ability to establish and maintain long term working relationships with both customers and suppliers. This is a great strength that should be capitalised on. However, from a risk perspective, it's important that the business isn't dependent on a small number of either customers or suppliers as in the event of the (customer's or supplier's) business experiencing difficult times, there will likely be a flow on effect which may negatively impact the family business. In terms of key customers, it's also important to regularly seek feedback from them on the performance of the business and their satisfaction in order that the relationship remains effective and mutually beneficial. From a supplier perspective, reviewing agreements and terms on an annual basis is prudent.*

## Succession planning

According to survey respondents, 34 percent of CEOs are likely to step down within 5 years, and an equal number between five and ten years. This is consistent with the fact that forty-three percent have been in the role for more than twenty years. It is clear that more than one-third of family businesses are close to changing the baton.

Alarmingly, 83 percent of family businesses do not have a succession plan in place for the CEO. The primary reason for not having a succession plan is that a likely successor has not yet been identified, it is too early to plan with almost 30 percent of respondents stating other reasons. (refer Table 10). However, it is believed by 53 percent of respondents that the successor CEO will be recruited from within the business. Furthermore, 43 percent of respondents believe that the likely successor will be a member of the owner's or major shareholder's family.

In terms of key customers, it's also important to regularly seek feedback from them on the performance of the business and their satisfaction in order that the relationship remains effective and mutually beneficial.

**Table 10: Primary reason for not having a succession plan**

| Reason | Percentage |
|---|---|
| No likely successor identified yet | 36 |
| It is too early to plan | 27 |
| Selecting a successor is too difficult | 8 |
| Other reason | 29 |

### *KPMG insight*

*Succession planning is certainly an issue for family businesses. There are a myriad of practical, financial and emotional issues that need to be addressed which can be very confronting and potentially raise unrelated and unresolved issues within the family and the business. It is a process that requires patience and commitment from all key family members as it is a process that needs to occur over time. While it may be a difficult exercise to undertake, the consequences of not having a succession plan in place can be extremely damaging to both the family and the business.*

*"At the time of the survey, succession planning isn't as big an issue for us as it has been in the past. We have just recently transferred ownership from the second generation to the third. It has been a big issue for us in the past and continues to be for others in our industry. We sought professional advice five years ago and achieved a great outcome".*

*Survey respondent*

# Governance

The importance of an effective board of directors is a vital component in the long term success of any business. The role of the board is to act as an independent body, which is at arm's length from the day to day operations of the business and to oversee the business from both strategic and operational perspectives. In addition, their role is to ensure that the business is run in line with agreed objectives and goals and in accordance with the plans for the business.

Leadership in family businesses is very male dominated. As well as women being under-represented on boards, 97 percent of chairpersons are male.

Only 37 percent of respondent family businesses have a formal board of directors or governing body and there is little to no difference by the size of business. In terms of the composition of the board of directors, they comprise four members with 2.8 working in the business, 2.6 family members and 0.9 females (refer Table 12). On average, with greater than 50 percent of board members working in the business, it is difficult to see how they could objectively perform the role of independent directors given their day to day involvement (in the business).

Leadership in family businesses is very male dominated. As well as women being underrepresented on boards, 97 percent of chairpersons are male. In addition, 55 percent of Chairpersons are also the CEO who is a family member. The lack of women on boards puts family businesses well behind the corporate world. In addition, most likely family boards are being deprived of a different perspective that female board members could bring.

Family businesses consider improving business performance to be the most important reason for establishing a board or governing body (33 percent), followed closely by improving governance (26 percent).

Family businesses consider improving business performance to be the most important reason for establishing a board or governing body (33 percent), followed closely by improving governance (26 percent) and because it is a legal requirement (24 percent). Addressing risk management (7 percent) and communication issues in the family business (9 percent) do not appear to be important drivers for establishing a board or governing body.

**Table 11: Formal family-to-business governance mechanisms—by business turnover**

| Family-to-business mechanism | Overall percentage | Percentage by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| A Shareholder Assembly/Meeting | 16 | 13 | 16 | 18 |
| A Family Assembly/Meeting | 7 | 6 | 5 | 10 |
| A Family Council | 5 | 3 | 3 | 8 |
| A Family Constitution | 4 | 1 | 3 | 9 |
| A Family Office | 3 | 5 | 7 | 6 |

**Table 12 : Members on the Board or Governing Body**

| Kind of member | Mean number |
|---|---|
| Working in the business | 2.8 |
| Family member | 2.6 |
| Shareholder in the business | 1.7 |
| Not working in the business | 1.2 |
| Female | 0.9 |
| Total members | 4.0 |

A large proportion of family business boards or governing bodies (75 percent) don't have formal assessment and of those that do formally assess board members, only 15 percent are assessed by someone outside the business with 8 percent assessed by someone inside the business.

Family businesses are often accused of lacking professionalism, preferring informal, rather than formal, management approaches. From a family business perspective there are several practices that are critical: governance mechanisms, human resources policies, estate planning and share ownership transfer.

Family-to-business mechanisms, such as a constitution or family council, provide a formal link between business matters and family affairs. The value of formal governance mechanisms in this regard ensures that communication is facilitated between the family, the owners and business managers. Overwhelmingly, Australian family businesses utilise informal communication mechanisms as evidenced by the small percentages who have formal mechanisms in place (refer Table 11). Given that around 40 percent of family members do not work in the business the potential for miscommunication is obvious.

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### *KPMG insight*

*Having a board of directors/advisers independent of the business's day-to-day operations is essential in order to assess the performance of the business and to hold the CEO and senior management accountable for its success or otherwise. Independent directors will also bring different skillsets and perspectives to the table and can leverage their experience and networks from other boards. In addition, they will bring greater objectivity in decision-making and can challenge the CEO where it could be difficult for a family member to do so. Having the CEO on the board means that that individual may well be placed in a position where they have to assess their own performance or that of a close family member. This situation can be mitigated by appointing an independent chairman or having a majority of independent directors.*

*In the same way that employees are assessed on their performance so to should a board. This is to ensure that the board has the right mix of skills and experience, and provides the appropriate level of oversight of the business's activities and is effective.*

## Family policies

To avoid the perception of nepotism, the treatment of family members within the family business needs to be seen as appropriate. This can be facilitated by having formal HR policies and practices specifically focussed on family members. Less than 10 percent of family businesses have formal policies in place for family members (refer Table 13). Given that family members hold positions of power in the business, this is concerning and such practices could well feed the perception of nepotism. This statistic is, perhaps, indicative of the fact that only 37 percent of family businesses have a formal human resources plan (refer Table 5).

**Table 13: Family policies—by business turnover**

| Family policies | Overall percentage | Percentage by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| Performance review of family members | 9 | 7 | 7 | 14 |
| Remuneration of family members | 8 | 6 | 5 | 13 |
| Induction of family members | 7 | 5 | 6 | 9 |
| Training and development of family members | 6 | 4 | 6 | 9 |
| Recruitment of family members | 5 | 3 | 3 | 9 |
| Management development of family members | 5 | 4 | 3 | 8 |
| Promotion of family members | 4 | 3 | 4 | 7 |
| Mentoring of family members | 4 | 2 | 3 | 7 |

### *KPMG insight*

*For any business, having the right people in the right jobs plays a key role in its success. To achieve this, it is essential that all jobs have position descriptions and salary ranges and that an appropriate recruitment process is undertaken to select the best candidate. In addition, performance and salary reviews should occur regularly and further training needs identified. Without having appropriate HR policies and procedures in place for all staff members, whether family or non-family, the business may not be equipping itself with the best resources.*

# The family factor

The survey data indicates that family members directly involved in the business represent around 60 percent (3.6 members) and family with no direct role in the business represent approximately 40 percent (2.3 members) (refer Table 14). Larger businesses tend to have more overall family members; this is not surprising as they generally are multi-generation businesses.

**Table 14: Family involvement—by business turnover**

| Number of family members | Overall mean number | Mean number by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| Senior management team | 2.5 | 2.5 | 2.4 | 2.6 |
| Other business role | 1.1 | 1.0 | 1.1 | 1.2 |
| Not working in the business | 2.3 | 2.0 | 2.1 | 2.9 |
| Total family members | 5.9 | 5.5 | 5.6 | 6.7 |

Around 60 percent of the senior management team are family (2.4 members) who are typically shareholders. As the firm size increases, the size of the senior management team grows and the presence of family members on the senior management team decreases to around 50 percent (2.4 members).

Business ownership is indicated by shareholding which can be by individuals and companies and/or trusts. The larger the business, the more shareholders there are. On average there are 6.7 shareholders for smaller firms and 14 shareholders for the larger firms. Furthermore, the prevalence of family companies and/or trusts also increases marginally as business size increases. This may indicate that companies/trusts might be a more useful vehicle for managing family ownership as the business grows in size (refer Table 15). Generally, there is no difference in the pattern of shareholding distribution relative to business size.

Generally, there is no difference in the pattern of shareholding distribution relative to business size.

**Table 15: Shareholding by type of shareholder—by business turnover**

| Shareholder type | Overall percentage number | Percentage by business turnover | | |
|---|---|---|---|---|
| | | Less than $5 million | $5 million to less than $15 million | More than $15 million |
| Individuals that belong to the same family | 72 | 75 | 72 | 69 |
| Family owned companies or trusts | 22 | 19 | 23 | 24 |
| Non-family individuals | 4 | 5 | 3 | 5 |
| Non-family owned companies or trusts | 2 | 1 | 2 | 2 |
| Other | 0 | 0 | 0 | 0 |

Securing family wealth is facilitated by ensuring that family assets are appropriately dealt with in the event of a family member's demise. Importantly, 66 percent of respondents report that family shareholders have a will. However, securing family wealth requires all family shareholders to have clear directions for the distribution of their assets.

According to 40 percent of respondents, keeping the family business in the family is an important factor for family business continuity (refer Table 16). However, only 10 percent of family businesses have a formal policy pertaining to share transfers. There appears to be a disparity between desire and practice.

***KPMG insight***

*It is well documented that members of a family business have a number of overlapping rights and responsibilities, including management, ownership and directorships. This often leads to a lack of delineation between the respective roles which is exacerbated as more family members/generations enter the business. This heightens the need for agreements documenting the rights and obligations of shareholders, separate from those of employees and directors and the role family plays.*

Keeping the family business in the family is an important factor for family business continuity.

## The contribution of family

This survey has, for the first time, attempted to pinpoint the factors that bind a family to its business. Family involvement means more than ownership and participation in business affairs. The effect 'family' has on business operations extends to understanding the goals and aspirations of family members (is it intended that the business remain in the family?), what social capital do family members bring to the business (relationships, networks), the human resources they bring to the business (effort, time), how the family brand is managed (reputation) and the degree of family harmony (conflict). It is clear that being a family business does matter. Family relationships are not always harmonious; however, the degree of conflict within a family represents a measure of family cohesion as well as a measure of how much family issues distract from business matters. The majority of respondents (72 percent) agree that family harmony is important to the family business. The branding of the business as a family business is seen as positive to business operations (59 percent), although some respondents were undecided as to the virtue of the family brand (27 percent) (refer Table 16).

Family and business goals are aligned according to 48 percent of respondents; although twenty-two percent suggest they have difficulties with goal alignment. Of concern is that 30 percent of respondents are undecided as to whether family and business goals are aligned. The use of family resources within the business yields a dichotomous result: 35 percent of respondents claim that business success is not reliant upon family resources, whereas 41 percent of respondents appear to rely on family resources. The cause of this divergence is not apparent and requires further investigation. (refer Table 16).

Continuity of the family business is a clear aim for 40 percent of family businesses; although surprisingly thirty nine percent are undecided as to the future of the business, while 11 percent of respondents do not expect the business to remain in family hands. The use of family networks does not appear to be a contributing factor to business success with 82 percent of respondents disagreeing that family networks yield business opportunities (refer Table 16).

**Table 16: The contribution of the family to the business**

| Formal business plan | Disagree | Neutral | Agree |
|---|---|---|---|
| | Percentage | | |
| Family harmony | 10 | 18 | 72 |
| Family brand | 14 | 27 | 59 |
| Goal alignment | 22 | 30 | 48 |
| Family continuity | 11 | 39 | 40 |
| Family resources | 35 | 24 | 41 |
| Family networks | 82 | 13 | 5 |

***KPMG insight***

*Family businesses bring a passion and energy to their businesses that is truly unique. Their shared vision and values which are typically an extension of the family's culture and values can give them a competitive edge that would be difficult to replicate in a non-family owned business. To take full advantage of this edge, it is vital that the goals of the business and the family are truly aligned. Without this being in place, the business is unlikely to achieve its full potential but worse still, such misalignment can lead to conflict in both the business and the family. Having an appropriate governance framework in place that separates how family and business issues are dealt with, along with effective communication will assist in alignment of goals and overall harmony.*

Family involvement means more than ownership and participation in business affairs.

*"Family businesses have a different culture to non family businesses. In our business, this culture is an extension of our family's own ethics and personality. It influences the type of people we employ and the way we care for them. It also affects the way we do business with our clients."*

*Survey respondent*

# About the respondents

## Business profile

The majority of respondents to the survey had their head office location on the eastern seaboard with almost one third based in Victoria (31 percent), 24 percent in New South Wales and 16 percent from Queensland. Ten percent of respondents had their head office in either South Australia and Western Australia, 6 percent from the Australian Capital Territory and 3 percent from Tasmania. The predominant forms of industry that these businesses are involved in are manufacturing and retail trade (18 percent) followed by wholesale trade and construction (14 percent). In terms of the size of the businesses, the majority had turnover under $15 million with almost one third having turnover of more than $15 million (refer Table 17).

**Table 17: Approximate annual turnover**

| Annual turnover | Percentage |
|---|---|
| Less than $5 million | 32 |
| $5 million to less than $15 million | 38 |
| More than $15 million | 30 |

Forty-two percent of businesses have between 20 and 199 staff, with 36 percent having between 5 and 19 staff (refer Table 18). Most of the businesses (42 percent) were founded in the period 1980 to 1999, with 36 percent founded in the period 1950 to 1979.

**Table 18: Number of employees**

| Employee number | Percentage |
|---|---|
| 1 to 4 (micro enterprises) | 17 |
| 5 to 19 (small enterprises) | 36 |
| 20 to 199 (medium enterprises) | 42 |
| 200 or more (large enterprises) | 5 |

## Personal profile

Of the 781 replies to the question on respondent gender, 83 percent of respondents identified themselves as male. Of the 1,030 respondents who provided their position, 61 percent were CEOs. Twenty-one percent of respondents were a member of the senior management team, followed by fourteen percent who held the position of Chairperson. Only 4 percent identified themselves in another position within the business.

The most common age group of respondents was 46 to 55 years (32 percent) followed closely by 56 to 65 years (31 percent). In terms of education level of respondents, 1,004 respondents replied to the question on highest level of education, 23 percent were undergraduate degree qualified, with twenty-two percent having gained a secondary education. Most respondents have worked in the business between 11 to 29 years (55 percent). Almost a third (32 percent) has worked in the business for 30 or more years. Eighty-three percent of the respondents said they work 40 hours or more a week. A significant number of respondents (33 percent) said that they worked 50 to 59 hours a week.

# The Authors

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