KPMG

Family Business Australia

MIDDLE MARKET ADVISORY

KPMG and Family Business Australia Survey of Family Businesses 2009

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Introduction

Many family businesses share characteristics that set them apart from other enterprises.

The most obvious is that the ownership and management of the typical family business solely or largely rests with one or more members of a single family. It is a definition that allows for considerable variation in business structures and styles. For example, a partnership or company may consist of two or more families who share decision making responsibilities. Nevertheless single-family involvement is the dominant family business paradigm. Some listed public companies — including a few very large and successful ones such as News Corporation — are controlled or dominated by family shareholders and continue to exhibit some of the defining characteristics of the private family company.

It is important to recognise that family enterprises have tended to develop structures and business arrangements that reflect the dynamics of family ownership and management and that set them apart from businesses with different ownership and management characteristics.

Broadly defined, family business is the dominant business form in Australia, accounting for around two thirds of all businesses operating in the country. And while most family businesses are relatively small affairs, a select group of privately held family companies are major players in key sectors of the economy. It is no exaggeration to suggest that family business is a vital contributor to the overall health of the national economy.

This report explores the behaviour and performance of family businesses over the past 12 months, with particular emphasis on their response to the emergence of adverse economic and financial conditions during this period. It is based on a survey of 613 family businesses conducted in June 2009. Respondents were drawn from all main sectors of the economy and represented businesses of various kinds and sizes.

For the first time we also surveyed a number of non-family businesses to allow a comparison of findings between family and non-family businesses. The formal survey was supplemented by two face-to-face family business focus groups held in Melbourne and Brisbane during July 2009.

In considering the results of the survey, it became apparent that the functioning of family businesses could be examined under three broad headings. These headings also align with important attributes of the typical family business.

Structures & mechanisms

Family businesses deal with a set of circumstances unique to themselves. Such issues concern the accumulation and preservation of business assets and wealth in a different manner than their non-family counterparts. There is also a poignant need to address issues associated with ownership, management and governance of the family businesses. Our report reviews these and related matters in the context of recent economic events and business trends.

Strength & resilience

Family enterprises are often thought to possess qualities that make them particularly resilient to adverse business conditions. Our report tests this proposition, examining how well the sector has weathered the so-called global financial crisis and subsequent economic downturn and how it views its' prospects.

Growth & progression

Family businesses have a far greater emphasis on passing wealth to future generations and on issues of generational succession. Here we look at how family business plans for generational transition have been affected by the changed business conditions, at the ambitions for the next generation, and at how family businesses view conditions over the coming 12 months.

Our report is published for the benefit of family-owned and managed businesses. We trust it will also prove useful for those doing business with family enterprises and those advising and financing them.

This document is published jointly by KPMG and Family Business Australia. The resources and expertise of Bond University's *Australian Centre for Family Business* has also been instrumental in developing our survey insights.

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AUSTRALIAN CENTRE FOR FAMILY BUSINESS

Executive summary

Family businesses in Australia have again demonstrated their resilience and flexibility in the face of recent adverse economic and financial events.

This is the key, underlying finding of the latest *KPMG and Family Business Australia Survey of Family Businesses 2009* jointly sponsored by KPMG and the sector's peak organisation, Family Business Australia. Broadly defined, family businesses account for around 70 percent of all businesses in Australia. Their ability to respond quickly and effectively to the emergence of difficult business conditions has been a factor in Australia's ability to avoid the worst of the global financial crisis and economic recession.

Our survey examines the performance of more than 600 respondent family businesses under three broad headings that explain their essential characteristics.

Structures & mechanisms

Building and preserving an enterprise for the benefit of the current and future generations of a family distinguishes family entities from other business models. This dynastic dimension extends strategic concerns beyond purely commercial considerations. It influences business structures, the treatment of employees and customers, the management of finances and attitudes to growth. Thus it is unsurprising that respondents to this year's survey are particularly concerned about balancing family concerns with business imperatives, retaining family control and ownership, and fairly compensating those family members with active business involvement.

Twenty-eight percent of respondents have established formal family councils. A third of the surveyed businesses possess a board or other formal governing body. A further 43 percent say they rely on less formal structures.

These concerns give rise to a variety of structures and governance processes. For example, only 28 percent of respondents have established formal family councils. A third of the surveyed businesses possess a board or other formal governing body. A further 43 percent say they rely on less formal structures.

Understandably, family members, who are predominantly male, tend to dominate boards and management teams. Formal ownership and management succession planning remains a less considered option in many family firms, although over half engage in estate planning in respect of senior family members.

Our survey confirms that family businesses are now embracing the need to plan for growth and success. Almost 90 percent of respondents say they possess some kind of strategic business plan.

Strength & resilience

Resilience is a widely claimed strength of the family business model. Our latest survey results generally confirm this belief.

Many family businesses appear to have shrugged off credit and finance constraints. Thus 36 percent of respondents claim the availability and increased cost of finance has had no effect on their businesses over the past year. A further 35 percent report only a small impact. Despite this favourable result, 28 percent of businesses say they have cancelled investment projects and 46 percent have deferred them. Demand side factors appear to be behind many of these cancellations and deferrals. Employment levels are another good guide to business performance and sentiment. More than half our respondents had made no change in their employee numbers over the previous 12 months — 13 percent actually added to their workforces. Most expect to at least maintain current workforce numbers in the year ahead.

Of course, the resilience of family business no doubt also reflects the resilience of the Australian economy. Nearly 60 percent of our respondents believe the economy has already reached the bottom of the economic cycle. Forty-five percent believe the government's program of stimulus has been positive in providing a short-term relief from the financial downturn and nearly 40 percent believe the effect has been neutral. There is little confidence that the stimulus will yield medium or long-term business benefits. However, overall expectations for family business prospects are good.

Nearly 60 percent of our respondents believe the economy has already reached the bottom of the economic cycle. Forty-five percent believe the government's program of stimulus has been positive in providing a short-term relief from the financial downturn and nearly 40 percent believe the effect has been neutral.

Growth & progression

Seemingly unfashionable, conservatively managed family businesses often prove well placed to withstand and adapt to adverse conditions. They are, in their own typically low-key manner, highly progressive enterprises. Nothing in our latest survey challenges this assertion.

Freed of the pressure to meet short-term financial targets, family businesses can also take a more measured approach to longer term growth and prosperity. So despite more than half our survey companies expecting negative or very low revenue growth over the next 12 months, a third of them believe they are well prepared to respond to change over the same period and a further 61 percent say they are 'moderately well prepared'. Respondents rank increasing customers and sales as their most important business challenge.

A little more than 40 percent of the current business owners we surveyed plan to pass on the business to their children or other family members. A perhaps surprising 20 percent intend to eventually sell the business to other owners or employees. To put this in perspective, a clear majority of those surveyed do not expect any transfer of ownership to occur within the next 5 years — for many owners succession appears to remain out of sight and out of mind. When they have thought about it, many are concerned about the abilities of potential successors, or about whether these potential successors are actually interested in continuing the enterprise. Forty five percent of respondents already have someone from the next generation working in the business.

Forty-five percent of respondents already have someone from the next generation working in the business.

Structures & mechanisms

"Family firms promote and facilitate open channels of communication, decentralisation and informal decision making, loosely coupled decision linkages, flexible job descriptions, processes and procedures."

Professor Guido Corbetta
Bocconi University
Italy

Structures & mechanisms

Focusing on key family business issues

Family business is a broad church. The degree of variation between individual family enterprises can be at least as great as the differences between family business as a class and non-family business. Nevertheless, to a greater or lesser extent, most family businesses find themselves grappling with similar issues. The qualities typically associated with family enterprises arise from their responses to these matters.

Thus a business can be an extension of a family, embodying its values and reinforcing its sense of identity. Its strategic concerns can extend beyond strictly commercial considerations to include a desire to preserve and enhance the business for the benefit of future family generations. Family concerns can influence the structure of the business, its treatment of employees and customers, the management of its finances and its attitudes to growth. Our survey asked respondents to rank the importance of a selection of these concerns. Figure 1 summarises their responses.

Figure 1: Rank the importance of the following family issues to your business.

	Mean
Balancing family concerns and business interests	3.85
Maintaining family control of the business	3.63
Compensating family members involved in the business	3.47
Resolving conflicts among family members	3.32
Preparing and training a successor	3.14
Selecting a successor	3.02
Selecting family members for positions in the business	2.95
Maintaining a role for the exiting senior family member	2.90
Informing family of business issues	2.84
Distributing ownership among family members	2.65
Formalising the family role	2.55
Setting up a family foundation	2.46
Dealing with rivalry among potential successors in the family	2.31
Equity among family members including step-relations (blended families)	2.29
Rivalry among family members	2.27
Establishing a family constitution	2.17
Buying out family members not involved in the business	2.06

Note: 1-5 scale, where 1 = very low importance and 5 = very high importance

There are also interesting generational differences in how business owners rank the importance of some of these issues (Figure 2).

Insight

In general, the family component of a family business becomes more difficult to manage as the business moves from one generation to the next. Therefore learning how to manage the family component early on in the evolution of the family business, through the use of family councils, family constitutions, boards and the like, will pay dividends down the road.

In general, the family component of a family business becomes more difficult to manage as the business moves from one generation to the next.

Figure 2: Rank the importance of the following family issues to your business.

	Generation		
	First	Second	Third
Rivalry among family members	2.11	2.59	2.38
Preparing and training a successor	2.95	3.42	3.59
Maintaining a role for the exiting senior family member	2.75	3.16	3.24
Buying out family members not involved in the business	1.84	2.33	2.62
Establishing a family constitution	2.04	2.42	2.38
Informing family of business issues	2.69	3.01	3.34

Note: 1-5 scale, where 1 = very low importance and 5 = very high importance

It requires little thought to recognise that reconciling differing interests and aspirations within a family, and ensuring orderly management and ownership succession, can greatly facilitate the conduct of a family business. In recent years, we have observed that more families are adopting increasingly formal and sophisticated family and business governance structures to deal with these matters.

Deciding on governance structures and mechanisms

We asked survey respondents about their adoption of family governance and selected business structures and practices in their respective businesses. Their responses are tabulated in Figure 3.

Only a third of respondent businesses (34 percent) reported using a formal board of directors or similar governing body. A somewhat higher 43 percent said they utilised an 'informal' board or governing body. Only 28 percent had established a formal family council, however the same proportion reported possessing some kind of formal mechanism for informing family members about business matters.

Where family councils were being used, their meeting occurrence was regular, with 70 percent utilising this mechanism on a weekly, monthly or quarterly basis. Formal feedback to family members was exercised on an even more frequent basis with 76 percent utilising this either weekly, monthly or quarterly.

Insight

These ad hoc collections of advisers, friends and/or family members are commonplace in family business and can often be formalised to enhance their effectiveness.

There is plenty of scope for variation in these arrangements and practices. For example, a family could possess a family council comprising only business active family members that makes decisions for the whole family who own equity in the business, including decisions about the family business. However, the business itself could possess its own board of directors and executive team, some members of which may not be family members.

Likewise, family members could hold shares in the family business in their own names, or via a family trust, which in turn would have its own governance arrangements. We suspect that the distinctions between family and business are often blurred, even though the business will generally be a distinct and separate legal entity. The lack of effective governance structures in family business to help sort out issues over the control and management of the family business can all too easily give rise to unnecessary intra-family conflict.

Figure 3: Which of the following structures and practices are in place in your business?

	Yes %	No %
Formal board of directors/governing body	34.4	65.6
Informal board of directors/governing body	42.6	57.4
Business management team	68.7	31.3
Family council	28.1	71.9
Formal feedback to family members about business matters	43.1	56.9
Formal feedback to all shareholders or financial stakeholders about business matters	28.6	71.4
Financial performance evaluation	84.5	15.5
Manufacturing/operational performance evaluation	69.4	30.6
Customer performance evaluation customer feedback	66.0	34.0
Human resource performance evaluation employee feedback	60.6	39.4
Environmental performance evaluation	30.9	69.1

In terms of performance evaluation, the vast majority (85 percent) evaluated their financial performance, while evaluation of specific areas, such as operational, customer performance and human resources was evident in 60-69 percent of all respondents. Environmental performance evaluation was undertaken at a much lower rate, with only 31 percent of family businesses engaging in such activity.

When formal decision making and family feedback processes were in place, they tended to be utilised quite frequently (Figure 4).

Figure 4: Frequency of use of governance and feedback mechanisms.

	Weekly %	Monthly %	Quarterly %	Six-monthly %	Annually %	Ad hoc %
Formal board of directors/governing body	9.3	31.5	29.6	13.0	8.3	8.3
Informal board of directors/governing body	23.8	24.6	11.5	6.9	13.8	19.2
Business management team	47.4	35.4	5.3	2.9	1.9	7.2
Family council family members that represent the family to the business	29.3	22.8	17.4	5.4	9.8	15.2
Formal feedback to family members about business matters	36.4	24.5	14.7	2.8	8.4	13.3
Formal feedback to all shareholders or financial stakeholders about business matters	11.6	33.7	20.9	11.6	9.3	12.8
Financial performance evaluation	26.1	45.4	14.2	4.1	6.1	4.1
Manufacturing/operational performance evaluation	33.9	42.3	10.1	2.2	4.0	7.5
Customer performance evaluation customer feedback	33.3	27.7	16.9	3.8	7.5	10.8
Human resource performance evaluation employee feedback	23.5	24.0	16.3	10.7	12.8	12.8
Environmental performance evaluation	16.5	21.4	21.4	11.7	14.6	14.6

Some families go further by introducing additional formal family-to-business arrangements such as family constitutions, formal business succession plans and estate planning.

Some families go further by introducing additional formal family-to-business arrangements such as family constitutions, formal business succession plans and estate planning. However, as Figure 5 demonstrates, such arrangements remain relatively uncommon.

Insight

The reasons for these low rates of adoption are varied but they centre on the complex issues uncovered by developing such mechanisms, many of which can be difficult to resolve in the short-term.

Figure 5: What family-to-business mechanisms are in place?

	Yes %	No %
Family constitution	11.5	88.5
Succession plans for the CEO	19.3	80.7
Succession plans for other senior positions held by family members	18.4	81.6
Succession plans for other senior positions held by non-family members	11.6	88.4
Estate plans/wills for senior family members who have a stake in the business	57.5	42.5
Estate plans/wills for other family members who have a stake in the business	32.6	67.4

Where such mechanisms exist, it is reasonably likely that they would have been reviewed at some time over the past 12 months, probably in response to the unfavourable economic climate and uncertain outlook for the businesses concerned.

Figure 6: When were these family-to-family arrangements last reviewed?

	This year %	Last year %	Prior to last year %
Family constitution	40.0	28.6	31.4
Succession plans for the CEO	56.2	26.6	17.2
Succession plans for other senior positions held by family members	57.6	20.3	22.1
Succession plans for other senior positions held by nonfamily members	45.8	29.7	24.3
Estate plans/wills for senior family members who have a stake in the business	22.6	30.4	47.0
Estate plans/wills for other family members who have a stake in the business	21.0	30.2	48.8

The family as manager

Our definition of a family business requires that family members play a prominent role in the management of the enterprise. The nature of this role will depend on the size and structure of the business. Figure 7 shows that in the businesses we surveyed, key decision-making positions continued to be dominated by family members.

Consistent with findings from other countries, family business management and governance positions of Australian family businesses are still dominated by male family members, particularly in the positions of CEO, owner/manager and board chair, where the presence of a male family member was found in over 80 percent of respondents.

The position of director saw the most equal gender balance, with 30 percent of family business directors being female. Naturally, management positions (both general managers and members of the management team) comprised the largest proportions of non-family members.

Insight

It is in these circumstances where maintaining equity (and the perceptions thereof) between non-family and family members can become a significant challenge.

Family company boards typically remained small with an average composition of 2.5 family members and 1.5 non-family executive members. Non-executive board members were split 1.7 family and 2.0 non-family.

The presence of appropriately qualified non-family, non-executive directors on the boards of at least some family companies would appear a welcome development. These individuals potentially bring valuable experience and new perspectives to the business without jeopardising ultimate family control.

Figure 7: Who holds the key positions in the business?

	Family male %	Family female %	Non-family male %	Non-family female %
CEO	85.23	12.12	2.65	0.00
Director	65.63	30.14	3.94	0.28
General manager	74.30	10.61	12.29	2.79
Owner/manager	82.16	16.43	1.41	0.00
Management team	47.76	21.39	19.90	10.95
Board chair	81.66	12.23	6.11	0.00
Member of board	69.92	18.05	9.77	2.26

The position of director saw the most equal gender balance, with 30 percent of family business directors being female.

Planning for success

Our survey suggested that a high proportion of family businesses now accept the need to plan for growth and success.

Just under half the family businesses had a business risk plan and an even lower 34 percent admitted to possessing a technology contingency plan.

Just under 90 percent of family businesses said they possessed some kind of strategic business plan. This was considerably higher than the 78 percent of non-family businesses that reported having similar plans. When it came to the existence of separate business risk and technology contingency plans, the picture changed. Just under half the family businesses had a business risk plan (59 percent for non-family businesses) and an even lower 34 percent admitted to possessing a technology contingency plan (35 percent for non-family respondents). Eighty nine percent of family businesses had reviewed their strategy plans during the previous 2 years.

Insight

The existence of these business plans highlights the commitment of family business to the long term, with a focus on ensuring the survival of the business and the ultimate intentions for generational transfer.

Our focus groups largely reaffirmed the emphasis on planning and forecasting, particularly as a means of adapting to current uncertain conditions.

"Involving management in the process of goal setting is increasingly important in these conditions".

"Accurate forecasting is more critical and that's where our managers need to step up. They need to polish up their crystal ball and their dartboard, it's becoming that important".

"The danger is that if the industry is changing, and you're not concentrating on working on the business because you're busy working 'in' it, you run the risk of being left behind".

Focus group participants

Strength & resilience

"Resilience, synonymous with flexibility, hardiness, toughness and spirit, is an excellent descriptor for the average family business. The notion of resilience encompasses the many advantageous attributes of family firms, which contribute to their worldwide success as a business model. "

Professor Ken Moores
Founding Director
Australian Centre for
Family Business
Bond University

Strength & resilience

Weathering the financial crisis

In general, our survey confirmed that family businesses were coping reasonably well with trying economic conditions, particularly when it came to issues of financing. They also appeared to be doing somewhat better than their non-family counterparts.

Nearly 60 percent of our business respondents believed Australia had hit the bottom of the economic cycle or was already in an upward phase. Family businesses were slightly more optimistic than non-family entities in this regard. However 41 percent of family businesses and 45 percent of non-family businesses thought we were still in the downward leg of the cycle.

Nearly 60 percent of our business respondents believed Australia had hit the bottom of the economic cycle or was already in an upward phase.

Figure 8: Where in the economic cycle is the Australian economy now?

	Family Business	
	Yes %	No %
On a downward cycle	41.13	44.85
At the bottom of the cycle	43.44	40.61
On an upward curve	15.17	14.55
At the top of a curve	0.26	0.00

Insight

These different perspectives of the economic cycle stem from the flexibility of family businesses in their strategies and decision-making processes. Many family firms are focussing on maximising the opportunities which present themselves during an economic downturn, rather than passively lamenting the fact that their businesses are caught up in a downward cycle.

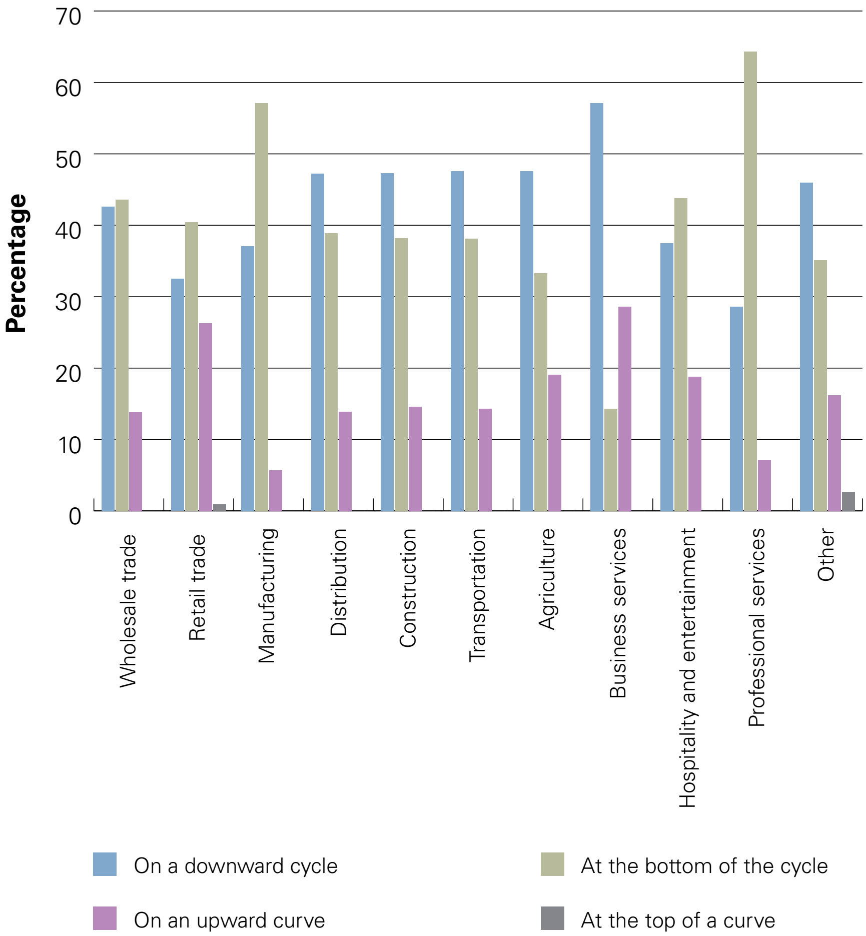
Another interesting comparison arose when we examined the generational response to this question (Figure 9). Here third generation family businesses were at odds with their first and second generation counterparts, with only a quarter of the third generation believing we were still in the downward leg of the cycle and two thirds believing we had reached the bottom.

Figure 9: In your opinion where is the Australian economy in the economic cycle?

	Generation		
	First %	Second %	Third %
On a downward cycle	43.24	41.94	25.00
At the bottom of the cycle	39.38	46.24	67.86
On an upward curve	16.99	11.83	7.14
At the top of a curve	0.39	0.00	0.00

Unsurprisingly, opinions on economic conditions varied between industry sectors. Retailers were the most optimistic, with 26 percent of respondents from this sector considering the economy to be on an upward curve (Figure 10). The effects of the Australian Government's stimulus measures and recovering consumer confidence no doubt contributed to this result. Respondents from the distribution, construction, transportation and agriculture sectors were more pessimistic. For business services, the mix of services probably reflected the breadth of the sector and its reliance on the performance of other sectors.

Figure 10: Australia's position on the economic cycle by industry sector.



When we asked respondents to rate how their own family businesses were weathering the financial storm, 71 percent reported no impact, or only a small impact resulting from the decreasing availability and increased cost of finance. Nineteen percent reported a moderate effect and 9 percent a severe one. Non-family firms were somewhat more likely to have experienced issues with the availability and cost of finance.

When we asked respondents to rate how their own family businesses were weathering the financial storm, 71 percent reported no impact, or only a small impact resulting from the decreasing availability and increased cost of finance.

Figure 11: What, if any, has been the impact on your company of decreasing availability and increased cost of finance?

	Family business?	
	Yes %	No %
No impact	36.39	28.57
Small impact	35.11	37.50
Moderate impact	19.34	21.43
Major impact	9.16	12.50

Our focus groups threw some light on these responses. They felt family businesses were more likely to be conservatively financed (i.e. lower geared) than their non-family peers and benefited in current circumstances from their long-term, 'patient capital' approach to business.

"We circle the wagons. In a family firm there is more commitment because we all have vested interest. We also have the flexibility to make quick changes".

"Many big businesses have fallen over in recent times despite their [apparently sound] governance structures and processes. Perhaps the banks have realised that family businesses are not as bad as they once thought".

Focus group participants

Twenty-eight percent of family businesses reported having cancelled major projects during the past 12 months and 46 percent had deferred projects.

Despite these optimistic figures, twenty eight percent of family businesses reported having cancelled major projects during the past 12 months and 46 percent had deferred projects. The corresponding figures for non-family firms were 33 and 50 percent. Demand factors are likely to be behind many of these cancellations and deferrals, as is an understandable reluctance to increase credit exposures during periods of greater-than-normal uncertainty. Amongst focus group participants, the general agreement was that these cancellations were likely due more to businesses being 'cautious' about spending, rather than attributed to the unavailability of finance.

Insight
This demonstrated resilience stems from the greater flexibility and agility of family firms, combined with the greater importance placed on long-term success rather than the short-term returns.

Changing financier agreements

Just on a third of all respondents had experienced changes in the terms and conditions of their loans and credit lines with banks and other financiers. Of these, 33 percent suffered increased credit restraints and 14 percent higher interest rates. Perhaps surprisingly, 25 percent said they were paying lower interest rates than a year ago.

Twelve percent reported changing their financiers while the same proportion had sought additional sources of finance. While acknowledging that the availability of credit was an issue that had undoubtedly been gaining attention and concern in big business, the focus groups did not want to overstate the issue

"Most banks are lending money, but they're taking a lot more property as security".

"If you're an established business with an established relationship, they [the banks] may not be taking you to task. But if you're just starting up, or if you don't have that long-term relationship, then that is a different scenario. That's where the money is getting tighter".

"We get so much reporting about the American situation. The availability of credit really is an issue over there. Their media is really doom and gloom. There is a lack of availability (of credit) and it is difficult for anyone to borrow money. The same is not the case in Australia. The banking system is different here. The way the global financial crisis has hurt America hasn't affected us here".

Focus group participants

Among our family business respondents, 41 percent said directors or principals had given personal guarantees to their primary financier. The corresponding figure for non-family entities was just less than a quarter. However, contrary to what many business people might think, in our survey it paid to be small when it came to keeping existing financial agreements in place. Figure 12 shows what happened in this regard.

Figure 12: Have changes been made to agreements with your financiers over the past 12 months?

	What is the approximate annual turnover of your business?								
	Less than $500K %	$500K to less than $1 million %	$1 million to less than $5 million %	$5 million to less than $10 million %	$10 million to less than $20 million %	$20 million to less than $50 million %	$50 million to less than $100 million %	$100 million to less than $200 million %	$200 million or more %
Yes	23.5	24.3	33.0	41.0	32.7	31.6	50.0	42.1	57.1
No	76.5	75.7	67.0	59.0	67.3	68.4	50.0	57.9	42.9

Insight
Family businesses generally take a more conservative financing approach and long term are more likely to have a 'patient capital' financial outlook.

Responding to government stimulus

Most family firms have welcomed the Australian Government's various economic stimulus packages. Their gratitude is tempered by longer-term concerns about the benefit of such stimulus. Fewer than 10 percent of respondents believed the stimulus measures would be of long-term benefit to the Australian economy and just 16 percent felt they would be of even medium-term benefit (Figure 13).

Figure 13: How will the government's stimulus packages affect the Australian economy in general?

	Short term (6-12 months) %	Medium term (next 3 years) %	Long term (5 years+) %
Positive	44.3	15.9	9.3
Neutral	37.2	48.2	43.5
Negative	18.5	35.9	47.2

When it came to the effects of the government's initiatives on the respondents' own businesses, the results were even more remarkable. Just 6 percent of respondent businesses believed the stimulus would have a beneficial long-term effect on their enterprises. Nearly a third feared the consequences would be negative (Figure 14).

Figure 14: What effect will the economic stimulus measures have on your business?

	Short term (6-12 months) %	Medium term (next 3 years) %	Long term (5 years+) %
Positive	21.7	9.3	6.1
Neutral	57.2	64.3	62.4
Negative	21.2	26.4	31.6

Focus group participants were positive about the early impacts of the government spending, with many acknowledging that the stimulus had been instrumental in avoiding a more severe downturn in Australia.

Focus group participants were positive about the early impacts of the government spending, with many acknowledging that the stimulus had been instrumental in avoiding a more severe downturn in Australia. However these comments were tempered by concerns that the stimulus might have distorted normal market patterns.

"We happen to be in the fortunate position of catering to a section of the community that know nothing of the Global Financial Crisis (GFC) — females 15 to 35, fully employed and spending money like there is no tomorrow. With the $900 handout we've an overflow of people spending on apparel. It has been such an impact in the younger sector of the market that it throws into serious question what we do with our budget for the next autumn and winter because it has been a total distortion.

At this stage we think that if we get 85 percent next year of current sales, we will have done extremely well. We don't believe for a minute that unless there is another stimulus coming up of the same size could we ever reach the same figures again".

Focus group participant

Retailers generally enjoyed a short-term beneficial impact from the stimulus, though the scenario described above by one focus group participant was much more likely to be dependent on what retail sector was in question. Manufacturing and wholesale trade were more likely to have suffered negative consequences.

"Those of us catering to a mature market, to people who can remember what unemployment of 11 percent was like and what interest rates of 17 percent or more were like, they're going to save like crazy and not spend".

Focus group participant

Some focus group participants were more moderate in their response and expressed concern about the potential flow-on from higher unemployment.

"If there are further rises in unemployment we would have to put the brakes on all round. In this regard I am a little more conservative than anyone who thinks we've already hit the bottom and are bouncing back".

Focus group participant

Considering employment levels

So what do family businesses plan to do about their own employment levels?

Among the businesses we surveyed, more than half had made no change in employee headcount over the previous 12 months. Although 34 percent of the remainder had cut their workforces, nearly 13 percent had actually increased employee numbers. Looking ahead, nearly two thirds of respondents intended to retain full-time employment at current levels over the next 12 months. Sixteen percent planned to increase numbers with only 10 percent contemplating reductions. The picture was essentially similar for part-time and casual employees, with 70 percent planning to stay at present levels and 14 percent to increase them.

There were differences in employment intentions between different industry sectors, but possibly not as pronounced as might have been expected (Figure 15 and 16).

Figure 15: Employment intentions for the next 12 months — full time.

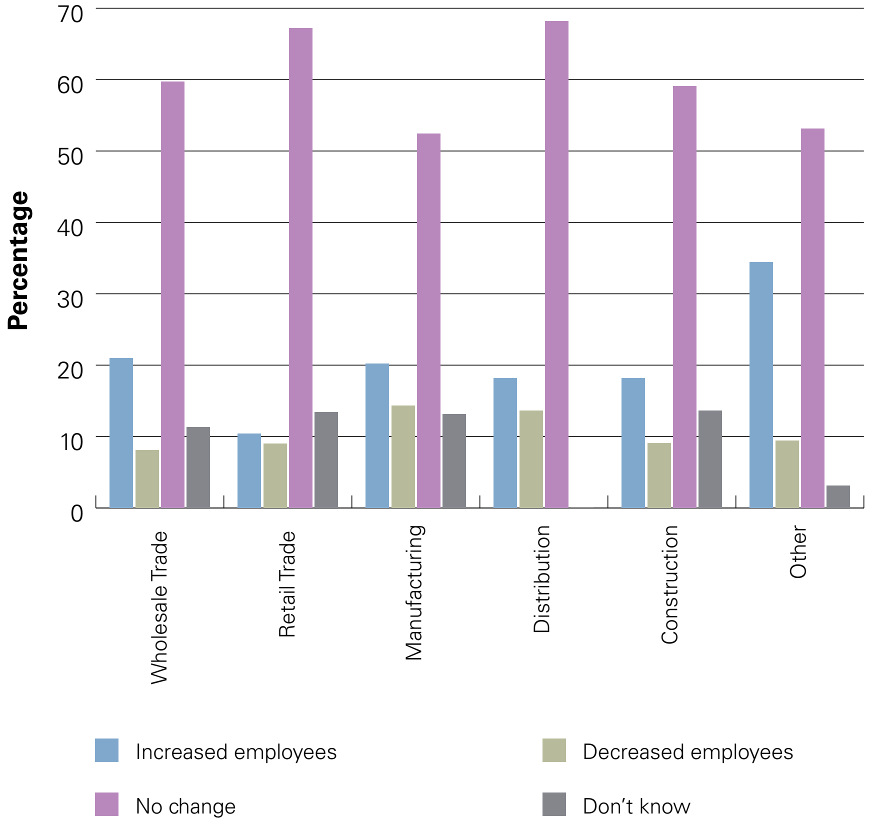
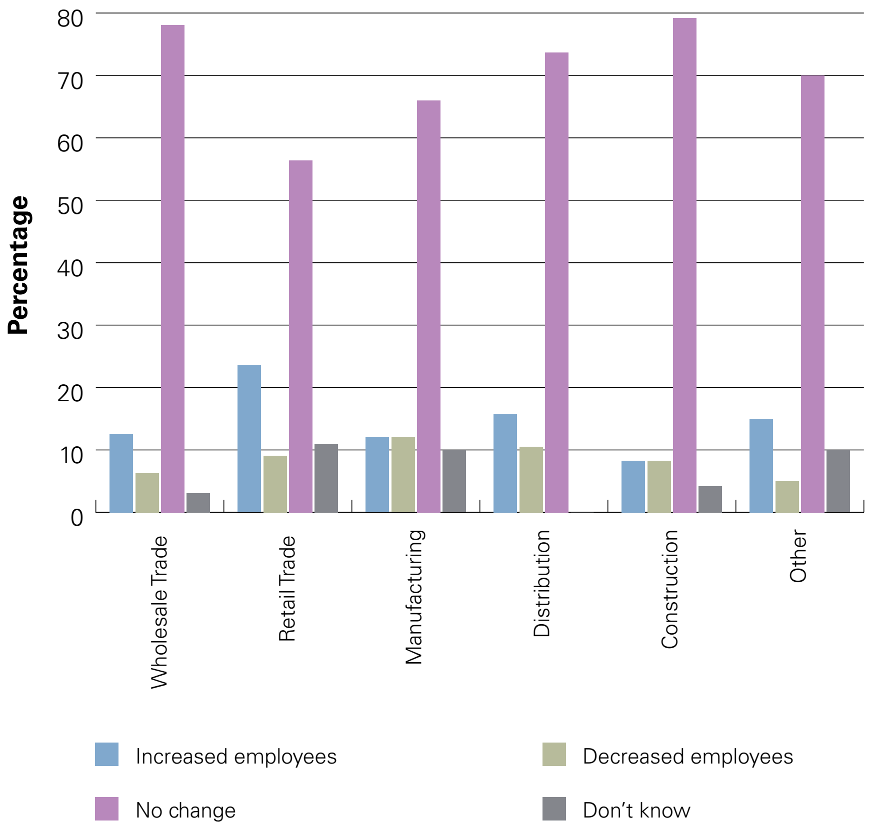


Figure 16: Employment intentions for the next 12 months — part time/casual.



Many consider that payroll tax is a major impediment to employment.

Many consider that payroll tax is a major impediment to employment. We asked our respondents how many additional workers they would employ if payroll tax were abolished. Thirty five percent said they would add one or more full-time workers, and 22 percent would add at least one part timer or casual. (These figures were no doubt distorted by the fact the various states and territories have payroll thresholds below which no tax is payable. As a consequence, some of our respondent businesses would have had no liability for this tax, rendering the question meaningless for them).

We also asked respondents to rank other potential employment deterrents on a scale of one (negative) to five (positive). That means the lower the figure, the greater the deterrent. The results of the question are summarised in Figure 17.

Figure 17: Which issues have the greatest impact on family business.

	Mean
Individual agreements	3.10
Superannuation regulations	2.94
Collective agreements	2.88
Industrial awards	2.88
Workcover (OH&S) regulations	2.84
Antidiscrimination laws	2.79
Tax regulations	2.77
Dispute resolution regulations	2.77
Local government regulations	2.76
Dismissal laws	2.58
Union involvement	2.33

Note: 1-5 scale, where 1 = very low importance and 5 = very high importance

Family business has a reputation for building good staff relations, promoting loyalty and productivity, and demonstrating a reluctance to downsize. The raw figures above would seem to confirm that reputation. Maintaining numbers would appear to be both an expression of both loyalty to employees and a desire to retain skilled and experienced people. Our focus groups reinforced this view, with one participant even suggesting that in times of hardship, a family business will always stand strong because "*a good workplace culture eats strategy for breakfast*".

"We're redeploying people, restructuring some of our jobs, trying really hard not to put people off. We're saying to them, 'Times are tough, we're pulling our heads in, but our commitment to you is that as long as we can we won't be looking to retrench anybody".

"Family businesses are better placed to keep people on. They're conservatively geared, take a long-term view and keep higher retained earnings in the business".

"Family business is to a big extent family. You do look at your employees differently. There is more transparency. They are closer to you simply because there aren't so many layers between them and you".

"We've been opportunistic. We were probably a bit fat in a few areas and we did take the opportunity to get rid of a few people who we wanted to go anyway. We should have dealt with them earlier. For a lot of the group that we've wanted to keep we've just cut back working hours".

"These are the times when culture comes to the fore. It's about communication, values, letting people know where they stand, encouraging positivity, training, investing where you can, even if they're not big sums of money. They're the gestures that make a difference on an individual basis. Giving positive feedback when someone has done something well. Not walking around with your chin on the ground".

Focus group participants

Insight

This demonstrated resilience stems from the greater flexibility and agility of family firms, combined with the greater importance placed on long-term success rather than the short-term returns.

Looking beyond the crisis

More than half of our survey respondents believe that their short-term business prospects (6 to 12 months) were 'average' or better. The further ahead they looked, the better the view (Figure 18).

Figure 18: How do you view business prospects for Australian family businesses?

	Short term (6-12 months) %	Medium term (next 3 years) %	Long term (5 years +) %
Very good	3.7	6.1	19.4
Good	14.6	41.3	52.7
Average	39.6	42.1	20.3
Poor	32.1	7.8	3.3
Very poor	9.0	2.0	1.5
Don't know	1.0	0.7	2.8
Total	100.0	100.0	100.0

More than half of our survey respondents believe that their short-term business prospects (6 to 12 months) were 'average' or better. The further ahead they looked, the better the view.

Growth & progress

"Family business leaders will benefit when they demonstrate commitment to making a significant contribution to an organisation's mission, longevity, and stakeholders, more so than their economic self-interest."

Dr John Davis
Harvard Business School

Growth & progress

Preparing for change

Unlike listed companies, or firms that find themselves in the hands of private equity investors, family business can avoid the obsession with short-term profit and revenue performance. It does not mean that family business will be unconcerned with short-term performance, but that its concern will be tempered by other considerations, notably the preservation of the business for future family generations.

Paradoxically, it is often those unfashionable, conservatively managed family businesses that are in the best position to survive periods of economic distress and dislocation, and to ride the eventual recovery to new levels of growth and prosperity.

In this context, a clear majority of the family businesses in our survey believed they were well placed to deal with changes in business conditions over the coming 12 months. Thirty two percent regarded themselves as well prepared to respond to change and 61 percent felt they were moderately well prepared. Generally there was a positive (but not perfect) correlation between the size of a business and its self-perceived preparedness for change (Figure 19).

Figure 19: How well prepared is your business to respond to changes over the next 12 months?

	Less than $500K %	$500K to less than $1 million %	$1 million to less than $5 million %	$5 million to less than $10 million %	$10 million to less than $20 million %	$20 million or more %
Very well prepared	28.3	28.6	28.0	35.0	46.2	37.8
Moderately well prepared	63.6	61.4	62.1	61.7	50.0	60.0
Not well prepared	7.1	10.0	10.0	3.3	3.8	2.2

Few expected a dramatic turnaround in business conditions. Nearly one in five of the businesses surveyed thought growth in their own business revenues would be negative in 2009-10. A further third predicted their revenues would grow by only 5 percent or less while 27 percent tipped 10 percent or lower growth.

Figure 20: Approximately by what percentage do you expect your business revenue will increase in the next 12 months?

	Family business	
	Yes %	No %
Valid negative growth	19.3	12.7
0- 5 percent	34.0	36.7
6-10 percent	27.4	22.9
11-20 percent	8.9	14.5
21-30 percent	6.1	4.8
More than 30 percent	4.3	8.4

Paradoxically, it is often those unfashionable, conservatively managed family businesses that are in the best position to survive periods of economic distress and dislocation, and to ride the eventual recovery to new levels of growth and prosperity.

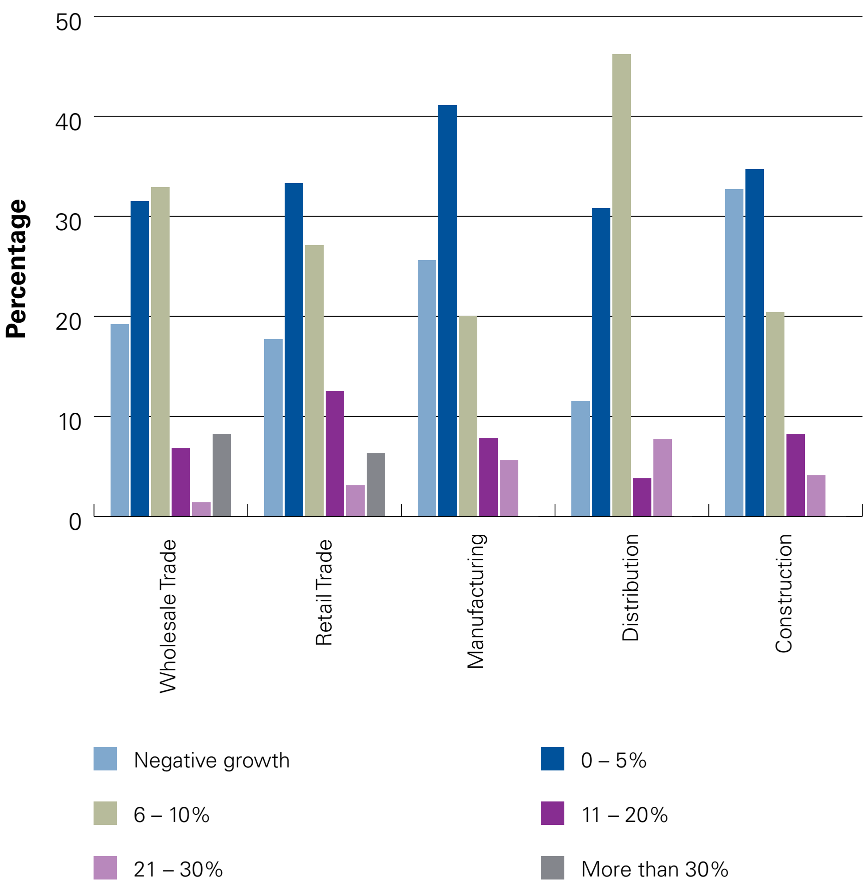
The construction sector was particularly pessimistic, with a third expecting negative revenue growth over the coming year.

When these responses were analysed by industry sector, some interesting variations emerged (Figure 21). The construction sector was particularly pessimistic, with a third expecting negative revenue growth over the coming year.

"One of the biggest issues we face is that we don't know the balance sheets of our customers or suppliers. Can our customers pay us in the future? Do our suppliers have stability? Are they going to be there in the long term? This is what is meant by both volatility and uncertainty".

Focus Group Participant

Figure 21: What percentage do you expect your business revenue will increase in the next 12 months, by sector?



Going beyond profits

We asked respondents to tell us about their biggest challenges for the future. The most important business challenges for family firms are increasing their customer base and sales, increasing profits, business/strategic planning and business growth (Figure 22).

The most important business challenges for family firms are increasing their customer base and sales, increasing profits, business/strategic planning and business growth.

Figure 22: Importance of challenges facing your business.

	Mean
Increase customer base/sales	4.00
Increasing profits	3.95
Business/strategic planning	3.71
Business growth	3.57
Operational issues	3.04
Tax issues	3.03
Regulatory requirements	2.99
Succession planning	2.97
Retirement planning	2.96
Move into new markets	2.87
Change business direction	2.48
Other	2.43
Estate planning	2.26
Raising capital	2.23
Transferring ownership	2.14
International competition	1.88
Expanding internationally	1.78

Note: 1-5 scale, where 1 = very low importance and 5 = very high importance

Significantly, the relatively low ranking given to the challenge of raising capital suggested financial constraints had not been as severe as expected in many quarters. Also, when we split these responses between family and non-family respondents, differences appeared. Family businesses regarded increasing profits as a somewhat lower priority challenge than did non-family entities. As well, family concerns put less emphasis on increasing customers and sales and raising capital compared with their non-family counterparts.

Of course, these differences are not dramatic — family enterprises are concerned about profits and sales, but do not emphasise them to the exclusion of everything else.

Figure 23: Please indicate the importance of each challenge facing the business.

Do you consider the business to be a family business		Increasing profits	Increase customer base / sales	Raising capital
Yes	Mean	3.95	4.00	2.23
No	Mean	4.11	4.15	2.75

Insight

These differences showcase the different intentions of family businesses, highlighting their long-term focus on sustainable growth rather than profit taking and the lesser importance on capital raising due to the patient nature of capital sourced from family members.

Succeeding at succession planning

For most family businesses, succession planning goes beyond who and when. It can raise sensitive issues about the future of the business, the potential crystallisation of tax liabilities, the distribution of wealth accumulated in the business and relations between family members. Careful and timely planning is essential. In this regard, only 15 percent of the surveyed businesses reported having a formal succession plan in place, although 31 percent said they were currently working on one.

The importance of good succession planning is further emphasised by the fact that over 40 percent of respondents intended to pass on the business to either the next generation or to other family members.

The importance of good succession planning is further emphasised by the fact that over 40 percent of respondents intended to pass on the business to either the next generation or to other family members (Figure 24).

Figure 24: Are current business owners planning to do any of the following:

	%
Pass on the business to the next generation	28.8
Pass on the business to other family member(s)	12.9
Sell business to other owners or employees	19.8
Sell business on the open market	16.4
Close the business	5.4
Publicly list the business	5.0
Bring in a partner	5.4
Other	4.5
None of the above	1.7

Insight

While selling the business is an exit option considered by 40 percent of respondents, many of these families will continue their business and entrepreneurial activities, transitioning from the function of family business to business family.

Figure 25 provides a possible explanation for the lagging approach to succession planning. For most surveyed businesses, the proposed handover or sale of the enterprise remains some years off. Of course, illness or sudden death can throw long-term plans into disarray, leaving both business and family unprepared for the changes facing them. In any event, business succession or disposal plans can change often.

Figure 25: Timeframes for business disposal plans.

	Next 12 months %	Next 3 years %	Next 5 years %	More than 5 years %
Pass on the business to the next generation	3.2	10.6	22.0	64.2
Pass on the business to other family member(s)	2.0	14.3	23.5	60.2
Sell business to other owners or employees	8.7	19.3	28.0	44.0
Sell business on the open market	8.9	13.7	17.7	59.7
Close the business	7.3	7.3	17.1	68.3
Publicly list the business	0.0	13.2	18.4	68.4

Nearly one in five respondents admitted having changed their succession plans during the previous 12 months. The financial crisis may have delayed succession moves in some firms by increasing uncertainty and reducing financial flexibility. Indeed a much larger portion of respondents in our 2007 survey expected to pass on to the next generation.

Many factors influence the succession process. However, the business's ability to generate adequate financial returns was regarded as the most important influence on their succession plans by our respondents.

"Succession is now deferred. I was to retire next April. Now I will be working another 3 years".

"I could not in good conscience have walked away at a time when there was so much uncertainty, passing on the business to someone who is young, perhaps a little too young, and who definitely hasn't had the experience of going through the bad times. The only other option would have been an external appointment".

Focus group participants

Many factors influence the succession process. However, the business's ability to generate adequate financial returns was regarded as the most important influence on their succession plans by our respondents.

Figure 26: Influences on the succession process.

	Mean
The business ability to generate adequate financial returns	3.95
Level of trust in the abilities of the potential successors	3.88
Level of interest of potential successors in the business	3.80
The motives of the potential successors	3.76
The financial capacity to retire	3.69
My willingness to let go	3.39
Legal requirements of the succession process	3.20
Willingness of financiers to support succession/retirement	3.18
Other	3.13
Lifespan of family trust structures	3.10
Capital gains tax CGT implications	2.99
The impact of the global financial crisis	2.82

Note: Scale 1 to 5 where 1 = very high negative impact, 5 = very high positive impact

There were some differences between industry sectors when it came to the impacts on succession. For example, a business's ability to generate adequate financial returns had the greatest influence on the construction sector while it was much less important to enterprises in agriculture or transport.

Insight

The business-specific nature of issues with the greatest impact on succession reinforces the need for a solid succession planning procedure and appropriate decision-making mechanisms to effectively support the succession process. Indeed, there is no one solution to the complexities of family business succession – successful generational transfer must be considered on an individual business basis.

Preparing the next generation

The next generation figures prominently in the thinking of many current family business owners and managers.

Forty-five percent of our surveyed family businesses already had a next generation family member working for them. Forty-eight percent expected a next generation member to enter the business at some point in the future.

Forty-five percent of our surveyed family businesses already had a next generation family member working for them. Forty-eight percent expected a next generation member to enter the business at some point in the future. Curiously, around half the businesses currently controlled by first and third generation family members were already employing next generation members. However, the corresponding figure for businesses under second generation control was less than 40 percent. There is no obvious explanation for this discrepancy. More than two thirds of businesses under third generation control intend to invite another generation into the business. The average age of current new generation entrants was in the mid 20s.

Figure 27: Does a member of the next generation currently work in the business?

		Frequency	Valid %
Valid	Yes	176	44.9
	No	216	55.1
	Total	392	100.0

Figure 28: Do you expect a member of the next generation to enter the business?

		Frequency	Valid %
Valid	Yes	180	47.9
	No	196	52.1
	Total	376	100.0

The age of entry for next generation members averaged 23 years for those currently in the business and 24 years for those expected to enter in the future.

Figure 29: Age upon entry.

	Current	Future
Mean (years)	23.47	24.51

Education expectations for new generation entrants appeared to be going up (Figure 30). Among current next generation members working in their family businesses, 58 percent had obtained previous business experience. Respondents expected that proportion would increase for future entrants. Sixty five percent of current next generation members were planning to obtain additional training.

Figure 30: Highest level of education on new generation entry to business.

	Current %	Future %
Incomplete secondary	11.2	4.3
Trade qualification	14.0	11.3
Secondary	29.0	18.4
Postsecondary	12.6	17.0
Undergraduate degree	22.9	32.6
Postgraduate degree	10.3	16.3

Insight

This result reflects the best-practice trend of gaining such experiences; the value of which has proven to enhance the effectiveness of next generation entrants, and ultimately the success of generational transfer.

Induction of the next generation was a hot-button topic for many focus group participants. Their expectations for the succession appeared realistic.

"Our son comes to every board meeting as a way of inducting him into the business — it is a great business experience for him, even if he doesn't want to become part of the business.

"The generation that owns the business just doesn't understand what succession is and they are shy about formalising the process.

Focus group participants

Induction of the next generation was a hot-button topic for many focus group participants. Their expectations for the succession appeared realistic.

About the survey

Of the 648 entities that responded to the *KPMG and Family Business Australia Survey of Family Businesses 2009*, 70.6 percent considered themselves to be family business. This is broadly in line with the estimated incidence of family-owned and managed businesses operating in the Australian economy. In fact, 96 percent of respondents that considered their businesses to be family enterprises also met the internationally accepted criteria for classification as a family business:

- that at least 51 percent of the business's equity is held by family members; and
- that at least one member of the family has a role in the management and governance of the organisation.

For the first time, the 2009 survey included non-family businesses. These non-family respondents were invited to answer selected questions only. They formed a control group for comparison purposes.

Over 90 percent of respondents classified themselves as either first or second generation family businesses. The average age of the businesses in the survey was 20 years. (One business covered in the survey was an incredible 180 years old!) Several reasons were cited for self-classification as a family business, with the dominant one being ownership by a family.

Figure 31: Why do you consider the business a family enterprise?

	%
Dominant ownership by family	93.3
Dominant management by family	67.3
Family involvement	57.5
Potential generational transfer	34.3

Definitions of 'family' for the purpose of business were skewed towards spouses and children, which was no surprise (Figure 32).

To the extent the number of employees is a guide, the survey's response was dominated by small to medium-sized businesses. More than three quarters of respondents employed fewer than 20 full-time staff. Sixty five percent of respondents reported an annual turnover of less than $5 million (Figure 33).

FIgure 32: Who do you regard as family?

	%
Spouse	75.5
Children	56.5
Brothers and sisters	39.5
Parents	36.0
Grandparents	15.8
Nieces and nephews	11.8
De facto	11.0
Cousins	10.5
Aunts and uncles	10.3
In-laws	10.3
Step-relatives	4.5
Relatives of in-laws	2.8

Figure 33: What is the approximate annual turnover of your business?

	%
Less than $500K	16.9
$500K to less than $1 million	11.9
$1 million to less than $5 million	35.7
$5 million to less than $10 million	10.3
$10 million to less than $20 million	8.7
$20 million to less than $50 million	6.8
$50 million to less than $100 million	3.9
$100 million to less than $200 million	3.1
$200 million or more	2.9
Total	100.0

Respondents were drawn from all main sectors of the economy (Figure 34).

The *KPMG and Family Business Australia Survey of Family Businesses 2009* was mailed to firms around Australia. It was released online via the Family Business Australia and Australian Centre for Family Business websites.

Figure 34: In which sector does your business operate?

Sector	%
Wholesale trade	16.80
Retail trade	19.58
Manufacturing	19.25
Distribution	6.20
Construction	9.62
Transport	3.43
Agriculture	3.92
Fisheries	0.16
Business services	2.28
Finance	1.31
Property	2.77
Hospitality	2.61
Professional services	2.61
Hi-tech	0.49
Resources	1.31
Telecommunications	0.33
Education	0.49
Other	6.85
Total	100

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October 2009. QLDN04300MMA.