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IMPLEMENTATION BY AUSTRALIAN FAMILIES IN BUSINESSES OF LESSONS LEARNED FROM SUCCESSFUL, LONG-LASTING FAMILY BUSINESSES

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ABSTRACT

This paper presents findings of an investigation into levels of implementation by Australian families in business of management and governance lessons, or practices, identified by the family business literature. This research provides empirical data that extend Dana and Smyrnios (2010 a) and addresses three main topics: key management and governance practices associated with family business success and longevity; levels of implementation (in full or in part) of the practices; and possible reasons for the relatively low levels of implementation of several practices. Exploring current levels of implementation of the identified practices has important implications for researchers, family business owner-managers, and the consultants that advise them.

FAMILY BUSINESS CONTINUITY: LESSONS LEARNED APPROACH

Becoming multi-generational firms is one of the most critical issues confronting families in business. Researchers (Jaffe & Braden, 2003; Poza, 2007; Schwass, 2005; Ward, 2004, 2005) have sought to learn from successful, long-lasting family businesses critical lessons or practices for the effective long-term management of the family-business interface. This approach is a search for an answer to the challenging question *what do families in business have to do to ensure long-term success and continuity?* This lessons learned approach to family business survival and endurance suggests implementation, by family businesses generally, of practices learned from so-called outstanding family businesses with a view to helping them achieve success, continuity, and effective succession. These objectives include: anticipating and avoiding the fatalistic concept shirtsleeves-to-shirtsleeves in three generations (Ward, 2004); assisting families in business to grow, and grow wisely (Schwass, 2005; Ward, 1997); ensuring that successors are not only committed, but also well-prepared to assume leadership control (Poza, 2007; Schwass, 2005); and increasing awareness of the multi-dimensional family and business strategic planning that can be undertaken (Carlock & Ward, 2001). In this paper, we discuss practices identified by the principal advocates of the lessons learned approach, and outline its theoretical underpinnings; provide an overview of findings detailing levels of implementation of the listed practices (Dana & Smyrnios, 2010 b); examine practices that are most and least frequently implemented in the context of the objectives they are meant to achieve; and conclude by exploring possible explanations for the relatively low levels of implementation of several practices by substantial percentages of families in business.

Principal Exponents and Proponents of the Lessons Learned Approach

Studying family businesses that were still thriving after making it to the third generation and beyond, Ward (2004) set out to discover what the families that owned and managed them did right, or what succeeded, over the generations. The outcome was a most comprehensive and detailed checklist of 50 family business lessons learned or practices, including: merit based employment compensation and promotion of family members; attracting and retaining key non-family executives; strategic planning; business culture that encourages responsiveness and change; family mission statement and code of conduct; ongoing education and development of family members, particularly successors; voluntary accountability in the form of boards of independent directors; and building social goodwill. Ward (2004) incorporated these practices into an overarching family business governance and management framework that included 5 insights considered to be the major keys to the enduring success of family businesses, and 4 principles that reduced or averted the friction created by the inevitable contradictions between family and business. These were deemed to constitute the underlying foundations upon which the 50 practices and, by implication, long-term family business success and continuity depended. *Insights:* respect for the challenge of combining family with business; proactive management of succession; acceptance of different family members' perspectives; communication forums; and multi-level planning. *Principles:* commitment to the family's purpose; policies and processes to anticipate and address family-in-business issues; and good parenting.

Schwass (2005) used an umbrella concept of wise or evolutionary growth under which to subsume a number of lessons learned from outstanding family businesses, including: governance structures; values and commitment by, and codes of conduct for, family members; clarity of roles of family members; and strong family leadership over the generations. Schwass (2005) emphasized growth, the development of the next generation, and intergenerational entrepreneurship, as critical practices for long-term success and survival, arguing that a major challenge of family business was for each generation of family members to arrive at a constructive, collectively and individually meaningful answer to the question: *why continue the family business?* In line with the previous two frameworks, Jaffe and Braden (2003) catalogued 8 practices for the management and governance of family businesses: a clear and powerful vision; the cultivation of entrepreneurial strengths; strategic planning to mitigate risks and capture opportunities; building unifying structures to connect family, assets and environment; clarifying roles and responsibilities of family members and helping them to develop competencies; communication; and providing independence, including exit options.

Table 1. Key Family Business Lessons Learned or Practices Clustered Around Key Factors

Commitment to, and Planning for, the Future as a Family in Business

1. Commitment to the long-term viability and continuity of the business
2. Planning for ongoing growth, transitions, and foreseeable contingencies

Governance: Values, Purpose, Rules and Policies to manage the family-business interaction

3. Establishing policies to deal with predictable family-in-business issues *before* the need arises
4. Defining a uniting sense of *purpose* and *mission* in relation to the business
5. Identifying a clear set of *values* the family wishes to perpetuate (i.e., the *human face* of family business)
6. Establishing processes to govern the family-business interaction for continued family ownership/control
7. Setting *rules* to strengthen interpersonal relationships and manage the expectations of family members
8. Establishing a formal dividend policy that pays out according to business profitability

Communication and Conflict Management

9. Holding regular *family meetings* to share information, build trust, avoid politics, and achieve consensus
10. Accepting that family members will have different perspectives on family business issues
11. Establishing conflict management processes
12. Family members getting together regularly to have fun and pursue non-business activities

Professionalisation of the Business and Use of Non-family Resources

13. Establishing family employment/career planning policies based on qualifications and experience
14. Establishing merit-based policies for the compensation and promotion of family members
15. Benchmarking business practices and performance against the best businesses in Australia
16. Using unconventional strategies/practices to leverage family business uniqueness
17. Making timely use of outside resources/assistance (e.g. advisory boards and professional advisers)
18. Hiring key non-family executives and assuring career growth opportunities for them

Mentoring and Development of Family Members and Definition of Roles & Responsibilities

19. Actively learning to deal with the challenges that result from combining family with business
20. Actively learning communication skills for family members to operate as an effective team at work
21. Establishing a clear process for successors to develop as individuals, in their roles, and in the business
22. Ensuring attentive mentoring of successors as prospective business leaders and owners
23. Defining clear family member roles, responsibilities, accountabilities and interpersonal boundaries
24. Gradually modifying parent-offspring relationships into ones of 'peers" at work
25. Emphasizing importance of *integrity and commitment to the business* as primary successor attributes
26. Establishing processes for welcoming, educating, and inducting in-laws into the family

Continuity, Succession Planning, and Exit Options

27. Committing to being in the best businesses in the future, even if it means leaving the business of origin
28. Documenting 'buy-sell' agreements that provide clearly defined and fair ownership exit options
29. Taking the challenging task of *succession planning* seriously and putting considerable effort into it
30. Designating a mandatory retirement age for all senior executives, especially owner-managers
31. Selecting a family (cf. business) leader to perform the role of holding the family together emotionally
32. Setting a definite date for the transfer of leadership responsibility and control to the next generation

Philanthropic and Charitable Activities, and Building Social Goodwill

33. Demonstrating a strong sense of corporate citizenship that actively builds social good will
34. Engaging in philanthropic and charitable activities
35. Establishing policy to handle & assist family members who have personal problems & special needs

Note. Adapted from Jaffe & Braden (2003), Lansberg (1999), O'Hara (2004), Poza (2007), Schwass (2005), Ward (2004).

Similarly, setting out to investigate the question of resilience and continuity of fourth, fifth, and sixth generation centennial family companies, Poza (2007) recognized 5 critical family business practices, structures and processes for the management of the family-business interaction for continued family ownership and control: hiring and retaining professional non-family managers; establishing influential independent boards; strategic planning; communication in the form of family meetings and a family council; and an equity structure appropriate to continued family control. Poza (2007) indicated that in addition to competitiveness, adaptation and growth, emotional intelligence, family unity, tolerance of differences, and 'interpreneurship' (intergenerational entrepreneurial activity), were important factors for family business success and longevity. Focusing primarily on the challenges of intergenerational succession, Lansberg (1999), emphasized stewardship, the shared visions or dreams that integrate the aspirations of different generations, development of successors, and family members' ability to collaborate and manage conflict. By way of further contrast, O'Hara (2004) identified 11 beneficial patterns, principles, and practices he thought were associated with family business success and longevity: family unity; a product that caters to basic human needs; primogeniture; a role for women; commitment to continuing the legacy; the use of adoption as a means of perpetuating family ownership; allowing the business rather than the family to come first; an obligation to community and customer service; conflict management; plans in writing; and a system of governance. Table 1 summarises and lists the principal family business management and governance practices identified by these researchers, clustered around seven main factors: planning for the future as a family in business; governance; communication and conflict management; professionalisation of the business; education and development of family members; business continuity and succession; philanthropic and charitable activities.

Main Theoretical Underpinning of Lessons Learned Approach

Sharma (2006) suggested that systemic study could clarify how enduring family firms sustained multi-generational alignment between firms' goals and tasks, and the skills, abilities and interests of family members. A primary objective of the multidisciplinary field of family business research is to increase our understanding of the reciprocal relationships of family on business and vice versa, and to improve the functioning of family firms (Zahra & Sharma, 2004). Consistent with this objective, the managerial and governance practices identified by the lessons learned approach are intended to optimize the ownership, management, and family interface; control agency costs; promote stewardship; and capitalize on, and leverage, the unique resources that each family can bring to its business to create competitive advantage (Poza, 2007). These practices are based on an eclectic mixture of theories discussed below including: strategic planning and management (Poza, 2007; Ward, 2004); the resource view of the firm (Habbershon, Williams, & MacMillan, 2006); agency theory (Poza 2007; Van den Berghe & Carchon, 2003; Eisenhardt, 1989), systems theory (Gersick, Davis, McCollom Hampton & Lansberg, 1997; Tagiuri & Davis, 1982); and stewardship theory (Lansberg, 1999; Poza, 2007; Sharma, 2006).

Strategic planning and management are the main theoretical underpinning of the lessons learned approach to family business success and longevity (Poza, 2007; Ward, 2004). By thinking forward and planning, families in business can craft better futures. Ward (2004) was of the view that the identified lessons or practices provided tools with which owner-managers could think through the future implications or consequences for their families and businesses of their current decisions. In other words, thinking ahead and developing foresight capabilities enabled owner-managers to explore and understand a range of scenarios on how their businesses, and the contexts in which they were embedded, might develop in the future, thereby improving not only their decision making process but also their ability to create their desired future (Hideg, 2007; Major, Asch, & Cordy-Hayes, 2001; Horton, 1999). Carlock and Ward (2001) emphasized a need for an integrated four-dimensional Parallel Planning Process (PPP), including: a business strategy plan; a business leadership and ownership succession plan; a personal financial plan for family members; and a unifying family continuity plan.

Individual family businesses have particular (specific) agency relations within and between the overlapping systems of family, ownership, and management. Based on agency theory (Poza 2007; Van den Berghe & Carchon, 2003; Eisenhardt, 1989), boards of directors, family councils, family meetings, family charters, and other governance practices and processes are suggested as ways of minimising agency issues and reducing agency costs in family businesses. The lessons learned approach also draws on systems theory that forms the basis for models of family business represented by three overlapping sub-systems: family, ownership, and management (Gersick, et al., 1997; Tagiuri & Davis, 1982). Poza (2007) argued that implementation of governance, communication, and business professionalisation practices led to joint optimization of the three sub-systems; control of agency costs through positive family-business interaction; and exploitation of the resources available to business families to achieve competitive advantage. These factors, together with stewardship, led to family business sustainability and continuity. The stewardship perspective on family business emphasizes a commitment to hand on a healthy business to subsequent generations and the implementation of practices that facilitate continuity and succession (Lansberg, 1999; Sharma, 2006). These include not only commitment to, and planning for, the future as a family business but also relevant governance, communication, conflict management, developmental, and philanthropic practices that demonstrate and support that commitment.

METHOD

Instrument
To determine the levels of implementation by Australian family businesses of management and governance practices identified by the family business literature, we developed a survey questionnaire incorporating the list of practices shown in Table 1.

Procedure
A random sample of 5000 Australian family businesses based on location by state, industry, number of employees, and sales turnover was obtained from Dun and Bradstreet (2009) who randomly selected companies in the proportions found in the Australian population of employing small-to-medium enterprises (SMEs). Additional selection criteria included: names with the words ‘bros’, ‘brothers’, ‘son’ or ‘daughter’; multiple directors of the business with same surname; shareholders with the same surname owning 50% or more of the business. Public sector, social services, agricultural, and micro businesses were excluded, as were companies whose revenues were less than $2 million. Questionnaires were mailed with a covering letter explaining the purpose of the study and were returned in stamped, self-addressed envelopes. Participants were also given the option of completing the Survey on-line. Data were analysed using SPSS for Windows.

Participants
82.7% of respondents indicate that they consider their business to be a family business. 58.3% are first generation**,** 31.0% second generation, and 10.7% third and subsequent generation family businesses. 58.7% have two generations involved in operations and 5.6% have three or more generations. Just over a third, 35.7%, have only one generation of family members involved in business operations.

For the purposes of the survey, an enterprise was considered to be a family business if it involved two or more related individuals, who worked together (or were otherwise associated), in a commercial enterprise controlled by one or more of them; and the relevant generation of the family business was considered to be the generation of the family member that held either the most senior managerial position or had a controlling ownership interest in the business. Survey results are summarized in the following paragraphs.

RESULTS: MANAGEMENT AND GOVERNANCE PRACTICES

Implementation of Practices

Appendix A. shows levels of implementation by Australian family businesses of the 35 management and governance practices listed in Table 1, distinguishing practices implemented (in full or in part) by 50% of more of family business owner-managers from those not implemented by 50% or more of owner-managers. In the following sections, we review the most and least frequently implemented practices in the context of the objectives they are meant to achieve in order to illustrate their relevance or importance to family business success and longevity. In relation to the most frequently implemented practices, we note that findings are based on self-reports of owner-managers; further and alternative forms of investigation need to be undertaken to confirm and/or fine tune findings. In relation to the least frequently implemented practices, the question that arises, and that requires further investigation, is why there is such a big gap between a number of practices suggested by the literature and their current levels of implementation by Australian families in business.

Practices Most Frequently Implemented (In Full or In Part)

The top 9 practices highlighted in the table in *Appendix A.* are practices fully or partially implemented by two thirds or more of family businesses. The most frequently implemented practice is *The family gets together regularly to have fun & pursue non-business activities* indicating that family business owners recognise the importance of family and make time for family interests and fun apart from the business (Ward, 2004). *Engaging in philanthropic & charitable activities*, and *demonstrating a strong sense of corporate citizenship that actively builds social good* acknowledge the importance of creating strong relationships with the community and building goodwill that can protect and sustain the business through external changes. *The family has made a commitment to the long-term viability & continuity of the business* positions the business for long-term gain. It demonstrates the commitment of family members to the family's vision and purpose, and to the continuity of the business within the family in answer to the question: How does owning an business make sense to our family? (Schwass, 2005; Ward, 2004).

Integrity and commitment to the business as primary successor attributes constitute a powerful combination of attributes in potential successors especially when they are combined with competence characteristics such as intelligence, self-confidence, and ability to make decision. They contribute to both trustworthiness and the performance of the business and emphasize the importance of finding successors who can be depended on to make decisions that are in the best interest of the business as well as the family. Competence without integrity or commitment does not provide that assurance (Chrisman, Chua & Sharma, 1998). *The family has planned for ongoing growth, transitions, and foreseeable contingencies,* an essential practice designed to ensure not only long terms success but also continuity. *The family has identified a clear set of values it wishes to perpetuate* links the family's values to its enterprise demonstrating to the next generation that traits like honesty, integrity, and respect can enhance the business. One of the key objectives of this practice is to pass on a value system to the next generation (Jaffe & Braden, 2003; Ward, 2004). *The family accepts family members having different perspectives on family business issues* recognizes and acknowledges differences of opinion are matters of legitimate perspective and that it is natural and valid for family members to disagree (Ward, 2004). *Actively learning to deal with the challenges that result from combining family with business* indicates awareness of this critical issue and willingness to learn from others.

Practices Least Frequently Implemented

The last 6 practices highlighted in the table in *Appendix A.* are practices that were not implemented by two thirds or more of family businesses. Heading the list of least frequently implemented practices are *Designating a mandatory retirement age for all senior executives, especially owner-managers*, and the related practice *Setting a definite date for the transfer of* *leadership responsibility and control to the next generation*. Among other things, Ward (2004) considered that the objective of these practices was to make retirement and leadership transfer decisions clearer and final, so as to create more opportunities sooner for organization and leadership renewal. Responses confirm the great reluctance of family business owner-managers to commit themselves to a specific timeline either for retirement or for transfer of leadership responsibility and control.

Individual family members may, from time to time, need access to liquidity or may wish to exit the family business for various reasons. *Documented buy-sell agreements that provide clearly defined and fair ownership exit options* make it easier for them to sell their equity in a pre-agreed manner that does not victimize them. There are also stages in the evolution of a family business where it is useful to have a process that facilitates 'pruning the family tree' to ensure that the interests of individual family members are aligned with those of the business (Poza, 2007; Ward, 2004). *Establishing a process for welcoming, educating and inducting in-laws into the family* is seen by Ward (2004) to be a sensitive way of informing in-laws in such matters as family culture, the nature of the business, and family agreements (family policies, shareholders agreements, etc.) and building in-law support for the family and its enterprise.

The objective of *Establishing merit-based policies for the compensation and promotion of family members* and the related practice of *establishing family employment/career policies based on qualifications and experience* is to focus the attention of family members who wish to join and rise in the business on competence and earned privilege, and to discourage paternalism. The development of employment policies based on qualifications and experience encourages and permits the most competent family members to join the business. *Establishing conflict management processes* evidences recognition & acceptance by family members that differences of opinion are matters of legitimate perspective that need to be addressed in a systematic and effective manner to ensure that conflicts do not escalate and threaten the family or the business (Ward, 2004; Jaffe & Braden, 2003).

Additional Practices Less Frequently Implemented Than Anticipated

The family has a set of rules to strengthen interpersonal relationships & manage the expectations of family members. Establishing a Family Charter or Constitution, or a Code of Conduct, creates a set of rules to help family members clarify interpersonal expectations, strengthen relationships, and minimize conflict. The rules address such issues as: how family members will work together and handle communication; what the decision-making process will be; and how disagreements will be handled so as to assist family members to grapple with the challenge of working together without leaning on parental authority to guide their behaviour (Ward, 2004). Schwass (2005) considered that *establishing a clear process for successors to develop as individuals, in their roles, and in the business* was critical for long-term family business success and continuity. Ward (2004) and Lansberg (1999) have advocated the practice of *establishing policies to deal with predictable family-in-business issues before the need arises* on the basis that wise family businesses recognize and accept that predictable issues likely to create friction or conflict will come up and, as a result, ought to be given attention before they become personal and emotional.

Ward (2004:16) reported that having a family board was *the single most prevalent prescription* he heard from successful, long-lasting business families, and suggested that, for rapidly growing family businesses, an active board of outside directors can assist family business owners to deal with feelings of isolation in their daily struggle to survive and to excel, heighten accountability of the business, and improve quality of corporate decision making and planning. Our survey findings show that 57.7% of family business owners do not have a formal board of directors. The remaining 42.3% have a formal board that meets once a month, 45.6%; or quarterly, 19.4%. However, 86.3% do not have non-family, non-executive directors on their boards. The main reasons provided were: *desire to retain privacy,* 52.5%; and *skills required at board level exist in-house,* 29.0%.

Other notable practices less frequently implemented than expected include: families *taking the challenging task of succession planning seriously and putting considerable effort into it*; *hiring key non-family executives*; and *holding regular family meetings*.

CONTEXTUAL VARIABLES

Accounting for the Relatively Low Levels of Implementation of Several Practices

It is encouraging to find that 50% or more of Australian family businesses have implemented (in full or in part) many of the practices that appear in *Appendix A*. However, 50% or more of family business owner-managers have not implemented several of the practices, and another 10% signal relatively low levels of implementation of other listed practices. How do we account for, or explain, the relatively lower levels of implementation of those practices? In the following paragraphs we review contextual variables in our survey that might assist us to identify some plausible answers to this challenging question.

Age and Size of Australian Family Businesses, Issues, and Intentions of Owner-Managers.

Table 2 shows age of businesses, main issues or challenges, and intentions of family business owner-managers.

Table 2. Age of Family Businesses, Issues and Challenges, and Intentions in Relation to the Future

Age of businesses		%
	1-24 yrs	49.1
	25-49 yrs	34.5
	50-74 yrs	9.1
	75 yrs and over	7.3
Most critical issues/challenges confronted by family businesses		
	Communication between family members	39.7
	Letting go of leadership/ownership control	39.7
	Providing liquidity for family owners to exit	36.7
	Securing adequate capital for growth and retirement	34.2
	Choosing a suitable ownership structure for next generation	29.1
	Selecting a leadership successor	25.3
	Family conflict management and resolution	21.9
	Developing effective processes for shared family control	13.9
Intentions in relation to future leadership and ownership		
	Intend to have a family member (s) manage the business in the future	63.0
	Intend to keep the business in continuous family ownership	57.4
	Intend to keep the business small	53.5
	Are actively planning the sale of their business (original intention 12.6%; concern for the future 10.8%)	45.0
	Would seriously consider selling their business if approached (retire 30.6%; lack of successor 18.9%)	61.3

83.6% of family businesses were established less than 50 years ago. 63.6% are also small businesses (1-19 employees) with 34.7% having less than 10 employees. 57% had gross sales of $1m-$5m in 2009. In 16.7% of family businesses, ownership is held by one individual; in 46.2%, ownership is held by husband and wife couples; in 34.0%, by two or more siblings; and in 2%, by cousins from different sibling branches. 42.9% of family businesses employ two or fewer family members; 28.9% employ 3; and 28.1% employ 4 or more family members. 72.3% have two or fewer family members in senior management positions, and 19.3% have 3.

57.4% of family business owners intend to keep the business in continuous family ownership, and 63.0% intend to have a family member manage the business. Family members most likely to succeed the current CEO are sons, 27.4%, and spouses, 14.2%. Even though 63.5% of family business owners report that leadership succession will be feasible, 60.0% are of the view that younger generation family members are not as interested in actively managing the family business as the older generation. The most critical issues/challenges that confront family businesses revolve around *communication between family members,* including conflict management, *succession,* particularly letting go of leadership/ownership control, and *securing adequate capital for growth and liquidity*. These create the need for, and are the objectives of, most of the management and governance lessons or practices identified by the family business literature and summarized in Table 1.

Age, Motivations, Concerns, and Views of Owner-Managers

Table 3 shows age, motivations, concerns and views of family business owner-managers. 41.7% of family business owner-managers are in the 50-59 years of age bracket 29.0% are less than 50 years of age and 29.3% are 60 years or older. Most owners, 82.2%, are also the CEOs of their businesses.

The main motivations for starting or remaining in business are: *to be self-employed and independent* (59.7%); to *enjoy the challenges of building a successful enterprise* (40.3%); and *to create wealth* (54.9%). Revealingly, fewer than 20% of family business owner-managers mention *passing on the business to the next generation,* and fewer than 10% mention *employing family members* as motivations either for starting or for remaining in business.

44.7% of owner-managers have concerns for the future of their business, primarily *financial performance*, *particular industry problems*, and *competition.* 59.1% do not agree that *family-based issues are more critical than business-based issues*, and 54.5% do not share the view that *when family issues are resolved, business issues can also be resolved*. Nevertheless, 62.2% concur that *the ultimate challenge in family businesses is dealing with the addition of work/business-based relationships on top of pre-existing family-based relationships*.

Table 3. Age, Motivations, Concerns, and Views of Family Business Owner-Managers

Age of owner-managers		**%**
	Less than 50 yrs of age	29.0
	50-59 yrs of age	41.7
	60 yrs and over	29.3
Motivations and objectives of owners		
	Personally oriented motivations	
	To be self-employed and independent	59.7
	To create wealth	54.9
	To enjoy the challenges of building a successful enterprise	40.3
	To pursue a vision, dream, or passion	31.2
	Family oriented motivations	
	To improve family lifestyle	25.3
	To pass on the business to the next generation	18.6
	To follow in the footsteps of role model parents/mentors	13.8
	To employ family members	9.5
Concerns for the future of the business		
	Financial performance of business	54.0
	Particular industry (industry-wide problems)	38.1
	Competition	33.6
	Skills shortages	23.0
	Retirement	22.1
	Lack of funding for growth	20.4
	Selecting a successor	19.5
	Lack of family interest	14.2
Views of owner-managers		Agree %
	Family business success and wealth are not achieved by means of formal rules and procedures	65.0
	The ultimate family business challenge is how to deal with work/business-based relationships on top of pre-existing family-based relationships	62.2
	Would seek outside advice in relation to family-based issues (as distinguished from Business-based issues) in the family business	59.3
	When family issues are resolved, business issues can be resolved	45.5
	Family-based issues are more critical than business-based issues	40.9

DISCUSSION

Context dependent implementation of family business practices

According to Corbetta and Salvato (2004), family businesses are embedded in widely different economic, cultural, historical, and institutional settings. These factors not only shape the choice of business activity but also make certain places and cultures more favourable to long term family business success and endurance than others. In addition, family related contingencies and peculiarities affect and dictate the management and governance practices they are likely to implement and that best fit their situation or circumstances. The main family related contingency variables that influence the family enterprise include: ownership structure; composition and experience of managerial teams; organizational life-cycle stage and related firm complexity; and culture (Astrachan, Klein, & Smyrnios, 2002). Along similar lines, Landes (2006), concluded that long-term family business performance is largely determined by a few key factors including: the nature of the business activity, its context (or how particular societies view and regulate the activity), and family considerations. Positive family considerations include capable family members that are suitably trained and steeped in a system of reciprocal trust, duty, habit, and affection, ready to see the business as interesting and rewarding, and able to work effectively together. The firm-context interaction has a significant effect not only on the performance but also on the practices of firms (Uhlaner, Wright, & Huse, 2007; Beckhard & Dyer, 1983). In the US, for example, aggressive gifting of shares (equity) to children and grandchildren is a recognized practice for private business owners wishing to minimize estate taxes (Ward 2004). Also in the US, the Sarbanes Oxley Act, designed to reform securities laws by improving financial reporting and increasing accountability by senior executives and boards of directors, has become the current financial reporting benchmark. As a result, it has led to the recognition of a number of governance best practices for privately held companies including establishment of internal audit functions, involvement of independent members at Board level, adoption of formal codes of ethics, and separation of professional services (Shelton, Santa, & Moore, 2004; Poza, 2007). Different families will make different decisions and adopt different practices based not only on the economic, legal, and social environments in which they operate, but also on their particular beliefs and cultural assumptions about how their family works best as well as their vision for the future. This in turn influences not only the culture and character of their business but also its strategy, ownership structure, continuity plans, and work practices (Gibb Dyer, 1988; Ward, 2004). As a result no single set of practices can either fit or cater for their heterogeneous nature and multifaceted needs; practices, as such, are less important than fitting solutions to specific business contexts.

Most Family Businesses are Relatively Young and Small

Our survey findings indicate that most family businesses are relatively young, early generation, small businesses, with three or fewer family members employed in the business, and two or fewer family members in senior management positions. Moreover, even though half of owner-managers indicate that they intend to keep the business in continuous family ownership, they also intend to keep the business small (Table 2). As a result, for most of these family businesses two main situations manifest themselves: first, they have limited organisational capabilities and expertise to establish internal processes and structures either to professionalize the business or to create organizational competencies that would enable the business to adapt to changing market conditions so as to endure (Astrachan & Kolenko, 1994); second, the owner-managers of these businesses may consider that several of the lessons learned from large, long-lived, multi-generation family businesses are irrelevant to them not only because of their relatively small size and lack of desire for business growth, but also because of the particular contexts in which their businesses are embedded. These may well be the main reasons for the low level of implementation of several of the practices and, potentially, the shorter lifespan of many of these firms.

Motivation and Commitment of Family Business Leaders as Masters of Growth

Having observed that most family businesses did not grow, but could grow, Ward (1997) proposed a growth model that identified a number of managerial processes designed to enhance business performance and growth including attracting and retaining competent non-family managers; preparing successors for leadership; and exploiting the unique advantages of family ownership such as patient capital and fast decision making. Although Ward (1997:334) considered these practices to be useful growth tools in their own right, he stressed that the *motivation of family leaders* to follow those practices and the *commitment of the owning family to support the sacrifices necessary for growth* were necessary leadership conditions for the effective implementation of the practices. In the process, he referred to those family business leaders as *masters of growth* and a *special breed,* constituting a very small percentage of family business leaders worldwide. Landes (2006) noted that family business dynasties (3 successive generations of family control) were invariably established by extraordinary men and women, who were brash, keen, dedicated, full of eccentricities and genius, and who often ignored or repudiated conventional rules and practices; they set out initially to do well for themselves and ended up founding empires. Accordingly, when it comes to implementing governance and management practices the objectives of which are long-term success and continuity, we are not surprised to find that not all owner-managers are, can be, or even want to be, masters of growth. Most of the businesses of those owner-managers are likely to be single generation, ephemeral family businesses (Schwass, 2005).

Concentrated Ownership and Management Control

Several of the lessons or practices in Table 1 are variations on a theme of conventional management practice applicable in professionally managed businesses with dispersed ownership. These include: boards with independent directors; hiring and retaining non-family managers; competence and merit based employment, compensation, and promotion of family members; vision and mission statements; strong business leadership; focus on business excellence and quality; and strategic planning to mitigate risk and capture opportunities for continued growth. Previous surveys have reported that substantial percentages of family businesses had not implemented many of these practices (Smyrnios, Romano, & Tanewski, 1997; Smyrnios & Walker, 2003, Smyrnios & Dana, 2006, 2007). Family businesses appear not only to be reluctant to embrace conventional management and governance practices, they are also less likely to adopt total quality management practices than non-family businesses (Ellington, Jones, & Deane, 1996; Graves & Thomas, 2006). As indicated above, several of the listed lessons or practices, like the conventional governance and management practices they duplicate, are ultimately based on the principle of separation of ownership and management, and the dispersion of ownership. They could, therefore, be of little interest or relevance to the many family businesses in which ownership and management control are concentrated either in one individual or in a husband and wife team working as a single unit. Because of their tightly held family control, many successful family businesses embrace very different ownership, business, and social philosophies, and implement different practices from those stipulated by conventional management wisdom.

Succession Planning and the Desirability, Acceptability, and Feasibility of Succession

According to Sharma et al. (2003), the propensity of a trusted successor to take over the firm is the primary determinant of the incidence of succession planning activities and practices of family firms. Three characteristics of these firms are indicators of likely implementation of succession planning processes and practices: desire of incumbents to keep the business in the family (desirability of succession); family commitment to keep the business in the family (acceptability of succession); and propensity of a trusted and able successor to take over (feasibility of succession). As indicated in Tables 2 and 3, succession is not a major motivation of many family business owner-managers, and can also be one of their concerns about the future. Moreover, our findings show that 60% of family business owner-managers consider that younger generation family members are not as interested in actively managing the family business as the older generation. If family business owner-managers are not committed to the continuity of the business in the family and, as a result, are not convinced that succession is desirable, acceptable, and/or feasible, they are less likely to implement practices the principal objective of which is keeping the business in the family.

Selling the family business as the preferred exit strategy
Just under half of all family business owner-managers are actively planning to sell their businesses either now or later, and approximately two thirds would seriously consider selling if approached (Table 2). These findings confirm that while all family business owners may want their businesses to succeed, not all of them want their businesses to continue under family ownership and control. For many family business owners, the main objective for starting or remaining in business is improving family lifestyle by the creation of family wealth and its realisation via the eventual sale of the business. When selling the business is, or becomes, the ultimate objective and preferred exit strategy for family business owner-managers, as it usually is for privately held non-family businesses, the game changes and so do the rules; practices the principal objective of which is continuity of family ownership and control, or succession, are no longer seen as either critical or relevant.

Family Business Ownership Stages and Implementation of Practices
Ward (2004) noted that the key issues and challenges confronting particular family businesses differ depending not only on where each business is in time and place, but also on its stage of ownership, and he outlined three stages that roughly correspond with the generation of the business. Stage one is when a founder or individual successor is a controlling owner; stage two, when sibling successors are in control; and stage three, when cousins in the third or later generations are the owners. These stages represent a common, predictable pattern in the evolving lifecycle of family businesses, and each has it own predominant issues and challenges (Gersick, et al. 1997). Accordingly, depending on its life-cycle stage and/or ownership configuration, each family business will identify, select, and implement different practices based on its own needs and objectives. The distribution of life-cycle stages in the Australian family business population (58.3% 1st generation, 31.0% 2nd, and 10.7% 3rd and subsequent generations) provides another indicator of reasons why many of the lessons learned from later stage/generation family businesses, and the practices that are based on them, important and useful though they may be in principle, might be of lesser interest or practical relevance to the earlier stage/generation businesses that constitute the overwhelming majority of family businesses. This is notwithstanding Ward's (2004:10) suggestion that family businesses recognize the wisdom of the principles, insights, and practices of his lessons learned framework *early in the life of the business* and *continue to honour them throughout succeeding generations*.

Family-based Versus Business-Based Practices
Ward (2004:6) was also of the view that *the most critical issues facing business-owning families are family based issues more than they are business-based issues*. Consistent with this view, Kets de Vries, Carlock, & Florent-Treacy (2007:195) observed that the most intractable family business issues were not business problems but emotional issues that magnified them, and that more often than not the family was the main threat to business continuity, concluding pessimistically that changing the attitudes and behaviour of family members was *so difficult that, even with the best of intentions*, people could *rarely manage it on their own*. Our findings indicate that 40.9% of family business owner-managers agree with this conclusion, and 62.2% concur that *the ultimate challenge in family businesses is dealing with the addition of work/business-based relationships on top of pre-existing family-based relationships*. With their long shared history, established psychological defences, and set attitudes to one another, many families find it very difficult to engage in effective interaction and confrontation processes instead of re-enacting scenarios that characterize their usual ways of functioning (Barker, 1998; Beckhard & Dyer, 1983). This observation provides another indicator of why some family businesses may not implement several of the family based practices that are primarily directed at addressing family-based issues such as family communication and meetings, team building, and

conflict management or resolution processes. While more than half of family business owners indicate their willingness to seek outside advice in relation to family-based issues as distinguished from business-based issues, it is nevertheless quite confronting for some of them to accept and implement suggestions on how to manage their families or family relations, particularly on how to parent their children. Ironically, Ward (2004:153) thought that *all the lessons* learned from enduring family businesses *were parenting lessons*.

Family Business Continuity: Alternative Perspectives

The summary list of practices in Table 1 indicates that there is a fair degree of agreement among leading family business researchers as to what is required to promote long-term family business success and continuity. We note, however, that Miller and Le Breton Miller (2005) provide an intriguing alternative perspective on family business long-term success and continuity. Exploring the competitive advantage of outstanding, large, and old family businesses, Miller and Le Breton Miller (2005) found that these firms behaved in incomprehensible ways and embraced different ways of competing, managing, and governing including: ignoring market trends, displaying only a passing interest in quarterly financial statements, little bureaucracy, rudimentary controls, systemic role ambiguity, blurred roles and reporting relationships, and scary informality. They were peculiar non-conforming, rule breaking firms that marched to a different drum, driven more by a desire to make their mission relevant to their customers, rather than by the practices of their competitors. Simon (as cited by Kuhlman, 1996) opined that family business champions went their own way rather than doing what is acceptable or usual, with common sense as their only secret success formula.

Similarly, in *Unconventional Wisdom*, Ward (2005) suggested that family business is very personal and culture-culture peculiar, and that family businesses prospered by daring to be different and by pursuing unconventional strategies, thinking paradoxically and counter-intuitively. Being values-driven, thinking long-term, and needing to achieve both family and business goals concurrently, family businesses tended to take approaches that were not popular either with current management wisdom or fashion, or with most other firms, particularly single-purpose enterprises; that is often the key to their competitive advantage. Outstanding family businesses do not accept that the inherent contradictions that exist between family and business are dilemmas or handicaps; they believe that they can coexist and be managed proactively with counter-intuitive thinking and unconventional actions. Ward (2004:11) quoted family business owners saying: *we wouldn't be successful in business if we limited ourselves to following conventional wisdom … because we have always done things that are difficult and rare, we're a lot stronger as individuals and as a family*. This point of view supports the 'marching to a different drum' paradigm provided by Miller and Le Breton Miller (2005), and plausibly explains why family businesses tend to do things differently. In the words of Patton (2001:330), *in a world that values diversity, many paths exist for reaching some destination; some may be more difficult and some more costly, but those are criteria that take us beyond just getting there.*

Many Family Business Owner-Managers Shun Formal Rules and Procedures

Two thirds of family business owners do not believe that family business success and longevity are achieved by means of formal rules and procedures (Table 3). Gilding (2002) found that many successful family business patriarchs consider some family business processes and practices to be nonsense advocated by talkers (with limited understanding of the requirements of a successful business), rather than by doers. Confirming the perspective presented by Miller and Le Breton Miller (2005), these business owner-managers see themselves as rule breakers, riding roughshod over formal procedures, and unwilling to hand over authority to the next generation. Even though some of them reluctantly go along with processes such as family meetings for the sake of form, they consider them to be a waste of time. Deep down they believe that some family members do not, and never will, understand the requirements of successful businesses. While we may not necessarily agree with this idiosyncratic perspective, we cannot ignore it, and we need to understand it, in our efforts to explore reasons for the non-acceptance and lack of implementation of several of the suggested practices. Gilding (2002) concluded that the dream of a dynasty, powerful though it may be, is also deeply ambivalent, not only for founder-owners and their children, but also for other stakeholders and interested parties in the family business, as Beckhard & Dyer (1983) pointed out a long time ago, and Lansberg (1988) described as the succession conspiracy. More often than not, founder owner-managers are too driven to find or allocate time to prepare their children to take over, or to stand aside for them. For many of them, it is like getting ready to die (Beckhard & Dyer, 1983). Moreover, as noted above, their children who grew up in different circumstances, are rarely equally driven. As a result, founder-owners, justifiably or not, distrust their children's commitment to the business, and their ability to manage it. And yet, *what is a family business about if it not about the next generation?* (Ward, 2004:27).

Challenges Presented by Lessons Learned Approach to Family Business Continuity
Patton (2001) noted that lessons learned constituted a form of personal and local form of knowledge and insight, and questioned the basis upon which a lesson learned (local knowledge about what works) becomes a suggested practice (universal knowledge about what works). As discussed in Dana and Smyrnios (2010 a), this question is relevant in relation to the provision of advice to family businesses based on suggestions in the literature, making it important to ensure that items included under the umbrella cover of lessons learned are not so broad and inclusive as to lack consistent meaning and standard. Keeping them grounded in their context is one way of achieving that objective. Patton (2001) pointed out that care needed to be exercised when assessing first, the relevance, and second, the transferability of lessons or practices, by investigating whether there were multiple sources and types of learning that supported them, and whether they were mutually reinforcing. These would then constitute cumulative knowledge, or working hypotheses, that would potentially be adaptable, and applicable, to new situations. Moreover, individual families and firms needed to determine their absorptive capacity for particular lessons before adopting or adapting them (Timbrell, Andrews, & Gable, 2001). Davies and Kochhar (2000:1214) indicated that the reported success from the use of certain practices could not be emulated *unless the conditions that made those practices successful were also emulated*. That is, similar scenarios needed to be re-created. As a result, the main challenge in implementing identified lessons or practices is in the initial assessment and filtering processes of determining whether particular practices are likely to be as effective as suggested, and whether they are likely to work well in firms proposing to adopt them (Brannan, Durose, John, & Wolman, 2008). While useful lessons and practices have been identified (Table 1), they have rarely been accompanied by sufficiently detailed and comprehensive criteria and guidelines to assist families in business with the challenging process of selecting and implementing those that are relevant to them. This factor goes some way towards explaining current relatively low levels of implementation of several of the practices.

Ward (2004) confirmed that identified family business lessons were not necessarily appropriate for all families. Accordingly, we suggest that, difficult though they may be to provide, there is a need for more detailed and comprehensive practice guidelines to be developed to explain how specific practices, or combinations of practices, could appropriately be selected and adapted to fit the configurations and requirements of individual family firms, particularly early generation firms. It would be useful if situations where specific practices would not apply could also be identified. Effective selection and implementation require not only the identification but also the prioritization of such practices based on the effect they are likely to have on performance, and on the presence of supporting practices as well as appropriate infrastructure being in place. Leaving individual family businesses, particularly the relatively large number of smaller first and second generation businesses, to deal with the challenge of filtering and unpacking lessons and practices, without more comprehensive and detailed selection and implementation criteria and guidelines, is unlikely to be conducive to increasing practice adoption and implementation levels.

CONCLUSIONS

Our findings indicate that twenty out of thirty five, or 57% of the listed lessons or practices are implemented (in part or in full) by fifty percent or more of family businesses. This confirms the usefulness of the insights researchers have obtained, and the contribution they have made to the family business field, by learning lessons from, or identifying the practices of, outstanding long-lived family businesses. Concurrently, our research highlights that the remaining fifteen practices listed are not implemented by fifty percent of more of family businesses; and another 10 practices have relatively lower implementation levels than anticipated. In the discussion above, we have sought to explore possible reasons for the relatively low level of implementation of those practices. Without diminishing the relevance and usefulness of the identified practices, we are led to conclude that given the idiosyncratic nature of family businesses, and the large percentage of these that are relatively young, small, and with concentrated ownership, not all identified lessons or practices are equally appropriate for all of them. Moreover, the intriguing alternative perspectives on family business success and longevity we explored lead us to question whether there may not be multiple, even contradictory, but nevertheless effective ways for families in business to achieve success and longevity. These alternative perspectives also alert us to the potential danger that lists of lessons and practices may end up being seen, and treated, as off-the-shelf, ready-made processes or solutions that are generally applicable to all family businesses, rather than ones that need to be carefully selected, and judiciously adapted, to address the specific issues of, and to fit the unique context, situation, and configuration presented by, each family in business. In other words, when it comes to family business management and governance practices, best fit is even more critical than best practice.

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APPENDIX A. **Survey - Implementation of Family Business Management and Governance Practices**
For sequential list of the practices clustered around relevant factors refer to Table 1.

The Family …	***Not implemented %***	***Implemented in full or in part %***
12. … gets together regularly to have fun & pursue non-business activities		**80.3**
34. … engages in philanthropic & charitable activities		**78.9**
1. … has made a commitment to the long-term viability & continuity of the business		**76.4**
33. … demonstrates a strong sense of corporate citizenship that actively builds social good will		**74.7**
25. … emphasizes importance of *integrity* & *commitment to the business* as primary successor attributes		**72.8**
2. … has planned for ongoing growth, transitions, & foreseeable contingencies		**72.0**
5. … has identified a clear set of *values* it wishes to perpetuate (i.e., the *human face* of family business)		**70.0**
10. … accepts family members having different perspectives on family business issues		**69.7**
19. … is actively learning to deal with the challenges that result from combining family with business		**69.1**
20. … is actively learning communication skills to operate as an effective team at work		**66.3**
17. … makes timely use of outside resources/assistance (e.g. advisory boards & professional advisers)		**66.1**
4. … has defined a uniting sense of *purpose* & *mission* in relation to the business		**65.4**
23. … has defined clear family member roles, responsibilities, accountabilities, & interpersonal boundaries		**58.9**
16. … uses unconventional strategies/practices to leverage its uniqueness		**55.6**
9. … holds regular *family meetings* to share information, build trust, avoid politics, & achieve consensus		**54.5**
31. … has a family (cf. business) leader who performs the role of holding the family together emotionally		**54.0**
35. … has a policy on how to handle & assist family members who have personal problems & special needs		**53.9**
18. … hires key non-family executives & assures career growth opportunities for them		**51.7**
24. … accepts the need gradually to modify parent-offspring relationships into ones of 'peers' at work		**50.7**
29. … takes the challenging task of *succession planning* seriously & puts considerable effort into it		**50.6**
22. … ensures attentive mentoring of successors as prospective business owners & leaders	**50.2**	
3. … establishes policies to deal with predictable family-in-business issues *before* the need arises	**52.8**	
21. … has established a clear process for successors to develop as individuals, in their roles, & in the business	**52.9**	
6. … has established processes to govern the family-business interaction for continued family ownership/control	**53.5**	
15. … benchmarks business practices & performance against the best businesses in Australia	**53.5**	
27. … is committed to being in the best businesses in the future, even if it means leaving the business of origin	**54.6**	
8. … has established a formal dividend policy that pays out according to business profitability	**55.2**	
7. … has a set of *rules* to strengthen interpersonal relationships & manage the expectations of family members	**59.3**	
13. … has established family employment/career planning policies based on qualifications & experience	**63.8**	
11. … has established conflict management processes	**66.6**	
14. … has established merit-based policies for the compensation & promotion of family members	**68.5**	
26. … has established a process for welcoming, educating, & inducting in-laws into the family	**68.6**	
28. … has documented 'buy-sell' agreements that provide clearly defined & fair ownership exit options	**72.0**	
32. … has set a definite date for the transfer of leadership responsibility & control to the next generation	**82.5**	
30. … has designated a mandatory retirement age for all senior executives, especially owner-managers	**92.8**	