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IMPLEMENTATION OF BEST PRACTICE IN FAMILY BUSINESS GOVERNANCE AND MANAGEMENT

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EXECUTIVE SUMMARY

This paper looks at the level of implementation of generally accepted best practices in family business governance and management, investigates the reasons for low levels of implementation and examines how best practice can be practically implemented to improve family business management and governance.

The research on which the paper is based is *The MGI Australian Family and Private Business Survey 2010* conducted by Professor Kosmas Smyrnios and Lucio Dana of RMIT University ('the Survey').

This is supplemented by empirical evidence based on the author's experience in preparing family business constitutions for Australian family businesses over 15 years.

The paper examines the lack of full implementation of the practices recommended by family business authors based on lessons learned from outstanding, long lasting family businesses.

Reasons for lack of full implantation of the practices were found to be:-

Lack of awareness
Non-acceptance
Lack of relevance
Lack of personal experience of family-in-business issues
Lack of extant family-in-business issues
Deferral of initiation of implementation until an issue arises
Cost
Lack of know-how

The ability to practically implement these practices through the process of preparing a family business constitution was examined by relating the practices to the contents of a standard constitution. It was found that the constitution and the process of preparing it accommodated the vast majority of the practices.

The methodology for incorporating one of the practices in the process and contents of the constitution was set out in detail.

It was concluded that the preparation of a family business constitution, if thoroughly undertaken and regularly reviewed, is a practical means of implementing best practice in family business governance and management.

THE RESEARCH

The Survey

The research that is the subject of this paper is *The MGI Australian Family and Private Business Survey 2010* conducted by Professor Kosmas Smyrnios and Lucio Dana of RMIT University ('the Survey').

This is the seventh major Australian survey of family businesses undertaken by Professor Smyrnios and his associates since the early 1990s, examining facts and issues relating to family and other privately owned businesses.

As part of the 2010 survey, respondents were asked to consider a list of 35 family business management and governance practices which the researchers had compiled from practices recommended by family business authors. Using a 'lessons learned' approach, the authors had identified outstanding, long lasting family businesses and learned from them what they did better than others, with a view to providing guidance as to what practices family businesses should implement so as to increase their chances of success, long-term continuity and effective succession. These practices are referred to as 'Recommended Practices' in this paper.

The 35 Recommended Practices were compiled around 6 main topics:-

- Planning and commitment to the future as a family in business
- Governance
- Communication and conflict management
- Professionalism of the business
- Education and development of family members
- Succession and succession planning
- Philanthropic and charitable activities

Respondents to the survey were asked to indicate:-

- Their awareness of the practice
- Their acceptance of the practice
- The level of implementation, ie 'nothing done', 'partially implemented' and 'fully implemented'.

Findings

Of the 35 practices, there was only one which was fully implemented by a majority of respondents, being

'The family gets together regularly to have fun and pursue non-business activities'.

Of the other practices those with the highest levels of full implementation (over 35%) were also generally the 'softer' issues, as set out in Table A.

TABLE A – PRACTICES WITH HIGHEST LEVELS OF FULL IMPLEMENTATION

The family:-	Fully Implemented
- gets together regularly to have fun and pursue non-business activities	51.2%
- emphasises the importance of integrity and commitment to the business as primary successor attributes	43.9%
- has made a commitment to the long-term viability and continuity of the business	37.4%
- engages in philanthropic and charitable activities	36.8%
- demonstrates a strong sense of corporate citizenship that actively builds social goodwill	36.5%
- has identified a clear set of values it wishes to perpetuate	35.4%

The practices with the lowest levels of full implementation, with less than 25% full implementation, are set out in column 1 of Table B (refer page 6).

Empirical Evidence

The writer has been working with Australian family businesses for over 30 years as a Chartered Accountant in public practice and, for the past 15 years, has focussed on preparing family business constitutions incorporating succession plans. The purpose of these constitutions is to deal with those issues that typically arise from the interaction of family and business, create principles and guidelines to deal with potentially negative impacts and ensure that the positive impacts are realised. Above all the constitution is to protect and enhance the business and maintain family harmony.

The empirical evidence draws on that experience and in particular on the catalysts for implementing a constitution, obstacles that have prevented implementation of constitutions and the consequences of implementation and the evolution of those documents over periods of years.

APPLICATION OF THE RESEARCH

The following discussion explores the reasons for the apparent low level of full implementation of the Recommended Practices, focussing on those with the lowest levels of full implementation as set out in column 1 of Table B. This analysis is based both on the findings of the Survey and empirical evidence derived from working with Australian family businesses.

The connection between implementation of family business constitutions and the implementation of recommended practices is also discussed.

Application of Survey Results

Lack of Awareness

Practices may not be implemented because the owner/manager is simply not aware of the practice.

Respondents to the Survey were asked whether they were aware of the 35 recommended practices. Not surprisingly the practices with the lowest level of full implementation generally had higher levels of lack of awareness than practices with higher levels of full implementation. The responses in relation to the practices with low levels of full implementation are shown in Column 2 of Table B.

On average 11.5% of respondents were unaware of these practices. The highest levels of lack of awareness were for the practices of establishing a definite date for transfer of leadership responsibility and control to the next generation (15.4%) and designating a mandatory retirement age for all senior executives, especially owner-managers (18.6%).

The lowest level of lack of awareness was 6.8% in relation to succession planning and 7.8% for the practice of establishing processes to govern the family-business interaction for continued family ownership/control. It could be inferred from this that there is a relatively high level of awareness of succession planning and family business constitutions.

REASONS FOR LACK OF IMPLEMENTATION OF RECOMMENDED PRACTICES

TABLE B – RESPONSES RELATING TO PRACTICES WITH LOWEST LEVELS OF FULL IMPLEMENTATION

The family –	Practice Fully Implemented	Not aware of Practice	Practice not accepted	Nothing Done
- has established a formal dividend policy that pays according to business profitability	22.6%	11.5%	9%	34.6%
- has established processes to govern the family-business interaction for continued family ownership/control	21%	7.8%	7.4%	38.3%
- takes the challenging task of succession planning seriously and puts considerable effort into it	20.4%	6.8%	6%	36.6%
- has established a clear process for successors to develop as individuals, in their roles and in the business	19.2%	8.3%	4.6%	40%
- has documented 'buy-sell' agreements that provide clearly defined and fair ownership exit options	15.3%	13.1%	8.9%	50%
- establishes policies to deal with predicable family-in-business issues before the need arises	17.9%	11.4%	4.5%	37%
- ensures attentive mentoring of successors as prospective business owners and leaders	17.8%	8.7%	5.8%	35.7%
- has established family employment/career planning policies based on qualifications and experience	14%	11.9%	5.8%	46.17%
- has a set of rules to strengthen interpersonal relationships and manage the expectations of family members	14%	11.1%	7%	41.2%
- has established merit based policies for the compensation and promotion of family members	12.4%	10.4%	8.3%	49.8%
- has established a process for welcoming, educating and inducting in-laws into the family	12.3%	14.5%	7.7%	46.4%
- has established conflict management processes	11.8%	11.4%	7.8%	47.3%
- has set a definite date for the transfer of leadership responsibility and control to the next generation	4.2%	15.4%	12.1%	55%
- has designated a mandatory retirement age for all senior executives, especially owner/managers	2.1%	18.6%	15.6%	58.6%

Practice not accepted

If a practice is not accepted it is unlikely to be implemented.

Respondents to the Survey were asked to indicate their non-acceptance of the recommended practices.

In relation to the practices with the lowest levels of full implementation, as set out in Column 3 of Table B, on average these were not accepted by 7.9% of respondents.
The highest levels of non-acceptance related to establishing a definite time for retirement/succession ie:

- the family has designated a mandatory retirement age for all senior executives, especially owner-managers (15.6% do not accept this)

- the family has set a definite date for the transfer of leadership responsibility and control to the next generation (12.1%)

The lowest levels of non-acceptance related to establishing policies to deal with predictable family-in-business issues (4.5%) and establishing a clear process for successors to develop as individuals (4.6%).

Nothing done

Lack of awareness and non-acceptance of a practice account for why, on average, around 19% of respondents had not fully implemented the practices set out at Table B. (Obviously the percentage varies between the practices as shown in the Table B.)

This infers that the balance of respondents were both aware of the practices and accepted them. Of this balance a further percentage, shown in Column 4 of Table B had done nothing to implement the practice. On average 44% of respondents had done nothing in relation to these practices.

A number of hypothesises can be advanced to explain this.

Practice not relevant

The first of these hypotheses is that the respondents may believe the practices do not apply to them. In businesses where there is no distinction between ownership and management and particularly where only one family member (or a married couple) are involved in the ownership and management, many of the typical family-in-business issues do not arise. For example, in these situations there is little need to establish policies to deal with predictable family-in-business issues, or a set of rules to strengthen interpersonal relationships to manage the expectations of family members, or for conflict management processes. You generally do not need a practice to deal with yourself.

First generation businesses would often be in this position, at least until the next generation commences employment in the business.

On the basis that 58% of respondents to the Survey were first generation businesses, this could largely explain the relatively large ‘nothing done’ response. If this is a valid hypothesis it would be expected that there would be a larger ‘nothing done’ response to those practices related to family-in-business issues than to those relating to general family issues or general businesses issues.

The lowest ‘nothing done’ responses were:-

The family engages in philanthropic and charitable activities	14.5%
The family demonstrates a strong sense of corporate citizenship that actively builds social goodwill	17.8%
The family gets together regularly to have fun and pursue non-business activities	11.9%
The family has made a commitment to the long-term viability and continuity of the business	15.4%
The family emphasises the importance of integrity and commitment to the business as primary successor attributes	18.8%
The family has identified a clear set of values it wishes to perpetuate	19.9%

These ‘nothing done’ responses generally relate to issues of relevance to first generation businesses without the complications that arise from actually having the next generation currently involved in the business. Further, the highest ‘nothing done’ responses, as listed in Table B, do relate to practices that are most relevant to family-in-business issues.

It is therefore tempting to attribute the high ‘nothing done’ responses to the fact that the Recommended Practices with lowest levels of full implementation are not relevant to many of the respondents, particularly the large proportion of first generation business respondents.

From my years in practice I have not seen any first generation businesses who have considered implementing family-in-business practices until the next generation starts to become involved in the business.

Lack of know-how and lack of impetus

However there are other hypotheses to explain the ‘nothing done’ responses; which are that the respondents either

(i) do not know how to go about implementing the practice, or
(ii) they have not had the impetus to do anything about it.

The practices with the lowest levels of ‘nothing done’ responses are also those which relate to soft issues – those that do not require difficult or emotional decisions or formal documentation.

On the other hand the practices that have the highest level of ‘nothing done’ responses do involve difficult decisions and formal documents, including the establishment of processes, rules, written policies and legal documentation.

This may be evidence that the respondents do not know how to go about implementing the practice or it may indicate that the practice is too difficult – emotionally and/or practically – to tackle without assistance. Further research will be required to determine how much lack of know-how contributes to the lack of implementation. However some insights may be gained by reviewing empirical evidence.

Application of Empirical Evidence

The empirical evidence used is based on the author’s experience of facilitating family business constitutions for 21 families in business since 1997. Since these are families who changed from doing nothing to preparing a constitution, an examination of their motives may help to explain the ‘nothing done’ responses to the Recommended Practices covered in the Survey.

TABLE D – Empirical Evidence

Process instigated by:	Families implementing constitution process	Constitution fully implemented
- Owner/managers with previous experience of family-in-business issues	12	11
- An issue arising:-		
• Pressure from children re succession	6	3
• Pressure relating to entitlements	2	1
• Parent concerned about succession	1	N/A
	9	4
Total	21	15

Motivations for implementing constitution

Previous experience

Of the 21 families, 12 had owner/managers who had previous personal experience in a family business, working with either parents, siblings or cousins, or had a close family member such as a parent who had such experience. In these cases no major current issue had arisen which instigated having a family business constitution and their motivation was based purely on their past experience of the issues that can arise in a family business.

In all but one case out of the twelve instigated by owner/managers with previous experience, family business constitutions were successfully implemented.

In the one case where the constitution was not fully implemented, the document was initially prepared but not updated. This was at the instigation of certain members of the family who found that dealing with family-in-business issues was often too personally upsetting. As a result of not updating the constitution many parts of it have become irrelevant as the attitudes and situations of the children have changed over time. As a result, the constitution no longer deals with all the issues the family and business are facing, and these issues are now being handled reactively as they arise, often accompanied by emotion and strain on the family relationships.

Therefore one explanation for the ‘nothing done’ response in relation to recommended family business practices is the lack of personal experience, particularly of first generation business owners, of the issues that can arise in family businesses once other members of the family become involved.

When predictable family-in-businesses issues are explained to those owner/managers who have not personally experienced them they are often a reluctant to acknowledge that these things may happen in their own family and their own business. Even with the vast number of high-profile family business fall-outs this attitude still exists.

It is often not until such an issue actually arises that they start to take the need to implement such practices seriously.

Issues have arisen

Of the 21 families, the remaining 9 initiated the family business constitution process because an issue had arisen that was causing conflict in the family and/or problems in the business. In six of the nine cases the issue was pressure from children in relation to management succession and/or equity succession.

In two cases there was pressure from family members in relation to entitlements from the business.

In the final case the pressure came from a parent in relation to the lack of commitment and initiative shown by the children who were working in the business and the resultant lack of an obvious successor.

It is clearly not ideal to set about a process of initiating a family business constitution once an issue has arisen. By this stage it is often difficult to deal with it objectively. This was the situation in all of the six cases where succession had become an issue instigated by a child. Most of these children were upset that they were not being given the opportunity to manage the business and had no idea if and when it would ever happen. This situation was associated with strong emotions – the child feeling undervalued by the parent, the parent feeling pressured by the child to vacate a position that had, in most cases, been the result of a life's work, and all the other emotions that go with the 'old lion/young lion' scenario. The constitution process in these cases, focussing on the succession plan, was therefore more difficult, with the parent being a less-than-enthusiastic participant. While in all cases a constitution and succession plan was put in place, in three of the six cases the succession plan was not fully implemented because the parent did not carry out his (it was the father in all cases) side of the plan, generally not relinquishing management control in accordance with the plan and timeline set out in the constitution. In the other three cases the constitution and succession plan were successfully implemented.

In the two cases where the process was instigated by disputes over entitlements, one constitution was successfully implemented, however in the other case the family relationships had broken down to such a degree that the family members could not agree on the terms of the constitution. In that case, the business was subsequently sold.

In the case where pressure had been applied to the children by the parent, the initial part of the constitution process resolved the matter. In reviewing the childrens' responses to the confidential questionnaires issued in preparation for the initial family meeting it was obvious that the children had no long term commitment to the business, were not excited by its future and were not sure whether they had the necessary skills to operate it. During the interviews with the children prior to the meeting it became clear that they had not told their parents this for fear of disappointing them. There was no need to proceed with the preparation of the constitution as the decision at the family meeting was to sell the business.

These cases indicate that the successful implementation of a family business constitution is more difficult where it is instigated by an issue that has already arisen.

On the other hand, in almost every case of the constitution being put in place before issues arose, it had been successfully implemented. This is largely because:-

- the parent had instigated the process based on experience of what can go wrong in family businesses and had a real motivation to prevent such things occurring with their own children
- with no extant serious conflicts or issues, the terms of the constitution were able to be considered objectively
- in the majority of cases the constitution was reviewed annually or bi-annually at regular family meetings and was therefore continually updated for changes in the views of family members and their personal circumstances and changes in the business. As a result, the principles and rules included in the constitution maintained their relevancy.

In summary, this limited empirical evidence suggests that a family business constitution is more likely to be fully implemented when initiated by the current owner/manager before an issue actually arises, and such an initiation is more likely to occur where the owner manager has previous personal experience of such issues.

However, in the absence an issue arising, the constitution may not have been initiated at all. Therefore lack of an extant issue is a likely reason for a 'nothing done' response in the survey, while deferring action until an issue arises can contribute to a lack of full implementation.

Obstacles to implementing constitution

Lack of know-how

In all 21 cases the family approached the author to assist with the constitution process because while they knew they had to take some action in relation to the governance and management of their business, they did not know how to go about it.

It is reasonable to assume that many of the 'nothing done' responses are by owner/managers with the same problem.

Cost

Apart from the 21 cases discussed where the author was engaged to conduct the process of preparing a constitution, there were approximately six more cases where families expressed interest in the process but decided not to proceed because of the cost involved. In these cases clearly there was insufficient dissatisfaction with the existing state of family and business interaction to overcome the cost of implementation of a constitution.

The danger with such a deferral is that if and when an issue arises which motivates the family to spend the money need to prepare a constitution, there is less chance of successful implementation (as discussed above).

THE FAMILY BUSINESS CONSTITUTION AS A MEANS OF IMPLEMENTING RECOMMENDED PRACTICES

The above discussion of the empirical evidence of implementation of best practice in family business governance and management is based on the premise that a family business constitution is a means of implementing these Recommended Practices.
It is beyond the scope of this paper to deal with the process of preparing a family business constitution. The process I use is summarised in Chapter 2 of my book 'The Family Business Succession Guide' published by Thomson Reuters. I have included at Appendix 1, a typical Table of Contents for a family business constitution that I prepare.

In considering the extent to which the Constitution process assists in implementing the recommended practices I have attached at Appendix 2 the list of the 35 Recommended Practices and cross-referenced these to the relevant sections in the Table of Contents of the constitution.

This shows that the constitution process and contents, if fully and properly undertaken, address the vast majority of the Recommended Practices. In addition, the constitution ensures that the succession plans, estate plans, retirement plans and rules relating to entitlements, take account of all associated taxation, legal and regulatory issues to ensure they are able to be effectively and efficiently implemented with minimum transaction costs.

While the scope of this paper does not allow for a description of how the constitution process addresses all these Recommended Practices, a description of how one of the practices can be implemented through the constitution process is set out below.

Example of implementation of a Recommended Practice through the process of preparing the family business constitution.

The practice discussed is:

The family establishes policies to deal with predictable family-in-business issues before the need arises.

A description of how the process of preparing a family business constitution can implement this practice is as follows:

One of the first things that happens at the family meeting to work on the constitution is an exercise on the positive and negative impacts that families and business can have on each other.

When you ask any member of a family in business what positive impacts a family can have on a business and what negative impacts a family can have on a business (and vice versa) they can generally come up with many points from firsthand experience. However making the question objective (ie a family, a business, can have) also requires them to think about what can go right and wrong in any family business. This is a good basis for establishing the predictable family-in-business issues for which the family will develop policies later on in the meeting and throughout the constitution process.

Workshopping the issues in this way also makes them more meaningful to the family because the family members have usually come up with most of them themselves and therefore are more likely to accept the importance of dealing with them. The facilitator also has a check-list of typical issues to complete the list if necessary.

At the end of the exercise, having assembled the matrix of positive and negative impacts, the facilitator can illustrate the need for the constitution; that is, to ensure the positive impacts are realised and the negative impacts are prevented, or their effects are at least minimised. It explains what we are trying to achieve in preparing the constitution. (A typical matrix is attached at Appendix 3.)

In working through the contents of the constitution during the rest of the family meeting the matters that are covered can then be related back to those positive and negative impacts. At the start of each subsequent family meeting, there should be a review of the positive and negative impacts, adding any new ones that may have occurred to people (generally none are taken away).

At each subsequent meeting the family is also asked whether the family and the business are taking advantage of the positive impacts and whether they are experiencing any of the negative impacts. This helps to focus the discussion at the meeting on the items that need work and ensures that the constitution is adequately covering these items.

A simple but frequently occurring negative impact identified by the family is where sibling relationships are strained by perceived inequitable entitlements being taken from the business, either as salary, leave, drawings, car and/or travel benefits. A clear policy in the constitution on family members' entitlements from the business, and a principle of market value remuneration, (specified as a salary package), will in most cases be enough to prevent problems arising over one family member having a more expensive car or taking longer holidays than others. Like any policy it needs to be policed. Ideally this policing should not fall solely to another family member. (Having a board that includes non-family members is a good tool for providing much needed objectivity to difficult issues involving family members.)

In determining these policies in the forum of a facilitated family meeting the family is actively learning to deal with the challenges that result from combining family with business.

CONCLUSION

The reasons for the apparent low levels of full implementation of the Recommended Practices can be partially attributed to the reasons included in responses to the Survey. Further reasons can be taken from the limited empirical evidence gathered from the professional experience of the author.

These reasons include:

- Lack of awareness of the practices
- Non-acceptance of the practices
- Lack of relevance of the practices, particularly to first generation businesses
- Lack of personal experience by owner/managers of family-in-business issues
- Lack of extant family-in-business issues
- Deferring initiation of implementation until an issue arises (less likelihood of full implementation)
- Cost
- Lack of know-how

Lack of know-how may be addressed by implementing a family business constitution process. The process, if properly conducted, and the constitution document itself, if thoroughly prepared, can cover the vast majority of the Recommended Practices and present a practical means of fully implementing these practices.

The process and the practices that flow from it are more likely to be sustained when the process is instigated by owner/managers with direct or indirect previous personal experience of family businesses.

The process and the practices are less likely to be sustained if the process is initiated after an issue has arisen, especially when the initiator is other than the current owner/manager.

Regularly reviewing and updating the constitution ensures the practices remain relevant and fully implemented. The practices were recommended by leading family business authors identified in the Survey based on lessons learnt from outstanding long lasting family businesses. By fully implementing these practices family businesses should increase their chances of success, long term continuity and effective succession.

APPENDIX 1

FAMILY BUSINESS CONSTITUTION
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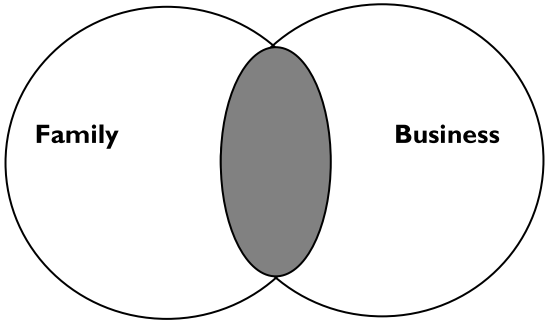
APPENDIX 2

INCLUSION OF RECOMMENDED PRACTICES IN FAMILY BUSINESS CONSTITUTION	CONSTITUTION REFERENCE
1.The family has made a commitment to the long-term viability & continuity of the business	Part 3
2.The family has planned for ongoing growth, transitions, & foreseeable contingencies	Parts 3, 7, 8 , 9
3.The family establishes policies to deal with predictable family-in-business issues *before* the need arises	Parts 2, 3, 4, 7, 8, 9 &10
4.The family has defined a uniting sense of *purpose* & *mission* in relation to the business	Part 3
5.The family has identified a clear set of *values* it wishes to perpetuate (i.e., the *human face* of family business)	Part 5
6.The family has established processes to govern the family-business interaction for continued family ownership/control	Parts 7, 8, 9, 10, 11 & 12
7.The family has a set of *rules* to strengthen interpersonal relationships & manage the expectations of family members	Parts 7, 8, & 9
8.The family has established a formal dividend policy that pays out according to business profitability	Part 9.1
9.The family holds regular *family meetings* to share information, build trust, avoid politics, & achieve consensus	Policy of regularly meeting to update constitution
10.The family accepts family members having different perspectives on family business issues	Having the family meeting forum
11.The family has established conflict management processes	Part 10
12.The family gets together regularly to have fun & pursue non-business activities	
13.The family has established family employment/career planning policies based on qualifications & experience	Parts 8.4, 8.5 & 8.6
14.The family has established merit-based policies for the compensation & promotion of family members	Parts 8.5 & 8.6
15.The family benchmarks business practices & performance against the best businesses in Australia	
16.The family uses unconventional strategies/practices to leverage its uniqueness (i.e. does things that are difficult /rare	
17.The family makes timely use of outside resources/assistance (e.g. advisory boards & professional advisers)	Part 8.1 plus use of advisors throughout constitution process
18.The family hires key non-family executives & assures career growth opportunities for them	
19.The family is actively learning to deal with the challenges that result from combining family with business	The entire constitution process
20.The family is actively learning communication skills to operate as an effective team at work	
21.The family has established a clear process for successors to develop as individuals, in their roles, & in the business	Parts 8.3 & 8.4
22.The family ensures attentive mentoring of successors as prospective business owners & leaders	Part 8.4
23.The family has defined clear family member roles, responsibilities, accountabilities, & interpersonal boundaries	Parts, 8.1, 8.2 & 8.3
24.The family accepts the need gradually to modify parent-offspring relationships into ones of 'peers' at work	Part 8.3
25.The family emphasizes the importance of *integrity* & *commitment to the business* as primary successor attributes	Questionnaires focus on commitment
26.The family has established a process for welcoming, educating, & inducting in-laws into the family	Families include in-laws in constitution process
27.The family is committed to being in the best businesses in the future, even if it means leaving the business of origin	
28.The family has documented 'buy-sell' agreements that provide clearly defined & fair ownership exit options	Part 7.4
29.The family takes the challenging task of *succession planning* seriously & puts considerable effort into it	Parts 7 & 8.4
30.The family has designated a mandatory retirement age for all senior executives, especially owner-managers	Part 8.4 for family
31.The family has a family (cf. business) leader who performs the role of holding the family together emotionally	
32.The family has set a definite date for the transfer of leadership responsibility & control to the next generation	Part 8.4
33.The family demonstrates a strong sense of corporate citizenship that actively builds social good will	
34.The family engages in philanthropic & charitable activities	Some families include this in Constitution
35.The family has a policy on how to handle & assist family members who have personal problems & special needs	Part 9.6

APPENDIX 3
FAMILY BUSINESS CONSTITUTION

BUSINESS / FAMILY INTERACTION



POSITIVES

<u>Family Impact on Business</u>

Loyalty

Passion - Dedication

Strong Foundation / Stability

Trust between family employees

Strong Culture

Genuine, Clear Values Instilled in the Business

Focused Direction

Strong Work Ethic / Commitment

Management & Shareholders Have Common Goals

Knowledge transferred to next generation

Long Term Vision

Caring

Security – risk aversion

<u>Business Impact on Family</u>

Sense of Accomplishment & Achievement

Security

Working Together Strengthens Family Bonds

Financial and Job Security

Business Provides Opportunities

Sense of Pride / Tradition / Identity

Generational Wealth Transfer

Good Lifestyle

NEGATIVE

<u>Family Impact on Business</u>

Family Conflict / Sibling Rivalry

- lowers morale
- wastes energy and resources
- confuses staff
- factions can arise from competing loyalties

Reluctance to access capital from non-family investors can stifle growth

Lack of Professionalism

Lack of commercial perspective can mean profitability may not be maximised

Inflexibility and Rigidity ('it's always been done this way')

Death and Divorce of family members can disrupt and damage the business

Nepotism – inappropriate staffing

Risk aversion can lead to lost opportunities

Family members' need for cash can deplete the business

<u>Business Impact on Family</u>

Family employees may feel isolated

'Silver Spoon' syndrome

High expectations of family members can create pressure

Work talk at home – can't get away from the business

Family members can get drawn into conflicts within the business and be targets for manipulation by other employees

Lack of differentiation of roles eg Dad vs Boss; Daughter vs Manager, can result in family taking business issues personally

Business needs may override family needs eg funding for growth; less time for family

Termination of family employees can permanently damage family harmony