FAMILY BUSINESS RULE BOOK

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IN AUSTRALIA, FAMILY BUSINESSES OF ALL SIZES AND TYPE DOMINATE THE PRIVATE SECTOR. ACCORDING TO RECENT RESEARCH, AS MANY AS 85% OF AUSTRALIAN BUSINESSES ARE FAMILY OWNED. WORLDWIDE, SOME OF THE MOST SUCCESSFUL AND PROFESSIONAL COMPANIES ARE FAMILY OWNED AND RUN – MANY OF THEM HOUSEHOLD NAMES.

Commitment, culture, and pride in the business are typically the inherent strengths of a family business. Together they can produce a significant competitive edge. However, if owners and managers fail to reconcile both the short and long-term needs of the business with those of the family, this can undermine the survival of the business itself.

Rapid social, technological and economic changes are forcing all businesses to review their operations. This can present particular challenges for the owners and managers of family businesses. Every family business is unique, shaped by its own set of distinctive personalities, objectives and relationships. There are, however, challenges that are common to all family businesses.

These are:

- Communication
- Management of change
- Employing family members
- Transferring the business to the next generation.

The Family Business Rulebook expands on these issues and provides some practical guidelines to help increase the success of the family business.

This booklet was written as a general guide and is not a substitute for professional advice. You are recommended to obtain specific professional advice before you take any action.

"Of course my daughter wouldn't want to work in the business."

Issue: Communication

Many family business managers make the mistake of assuming that, as the family is involved in the business, there is free and open communication. This is unlikely to be the case and often the opposite is true.

There is often a hidden agenda covering a whole variety of potentially sensitive family issues that might generate unpleasant conflict. Despite the fact that many family conflicts can only be resolved if they are tackled early enough, the common unspoken understanding is to "let sleeping dogs lie".

Consider your own management style. Does it tend to dominate the company and its employees? Do you listen to family and non-family employees alike, and to shareholding family members not involved in the day-to-day running of the business, i.e. is your communication two-way?

Furthermore, because of links inside and outside the business, family members may find it difficult to air their views. Do you really know what individual family members want? Do they really feel they can tell you?

You need to think about the sort of enterprise the family wants to own and be associated with: one that reinvests all its capital, or one which pays large dividends? Without the family's requirements being clearly articulated, it is difficult for management to run the business.

Remember, the first step in solving conflict is recognising it exists.

The Rules

Create an atmosphere for open discussion among family members to identify and document the family's objectives and core philosophies. Do this before you tackle the business plan.

Listen to each other and give everyone a voice.

Discuss, with the help of professional advisers if necessary, the different objectives and needs of individual family members, with a view to building a consensus.

Go for consensus rather than edict.

Make sure the family understands the business is a commercial venture that needs to be run in a professional manner.

Focus on objectives rather than personalities.

Don't ask others to relay messages for you: speak directly to one another.

Avoid laying blame or making personal attacks on other family members.

Never agree to anything you have reservations about without first voicing your concerns - encourage other family members to do the same.

Remember, improving the communication within a family business is a process and in order to make it work, you need to create the right settings for family members to express their views.

“If it was good enough for Dad ...”

Issue: Management of change

If it works, why fix it? – a common view of succeeding generations who can be reluctant to change what earlier generations have done.

The fact is that the only constant in life is change.

However uncomfortable, it may be better to accept sooner rather than later that change is inevitable.

Family businesses are concerned with change not only from a business perspective but also because of the changing nature of family dynamics. For example, the way an owner entrepreneur operates will be very different to his children in a sibling partnership. This in turn may vary greatly from the next generation of cousins in business together. In particular, the motivational forces driving the different generations will vary.

In the current business environment, we are all faced with an ever-increasing rate of change, especially in the following areas:

- Economic
- Customer needs
- Labour market
- Onnovation
- Rregulation
- Competition
- Lifestyle.

However, in a family enterprise, maintaining a strong family culture and value system often gives such an enterprise an edge over its competitors. Balancing this with the need for change in a fast-moving environment is one of the special challenges facing family businesses.

The Rules

Accept change as inevitable.

Do not accept “it has been done that way since Grandad's day” as an excuse for not making change. When commercial reality requires change – change!

Individuals’ objectives change over time – respect these changes and ensure they are articulated.

Be more outward looking. Consider using the services of a non-executive director (not a family member) to provide a more objective view in the planning and decision-making process.

Identify which issues relate to family and which to business. As regards business issues, separate internal issues from external ones. Create the appropriate framework to deal with these separately.

Recognise and openly appreciate that change may impact on different individuals in different ways.

Devote adequate time to thinking about the future – remember, it’s where you are going to spend the rest of your life!

> "The sooner I get him into the business the quicker he'll learn."

Issue: Employing family members

There is a tendency for the family business to be regarded as a "job for life" employer of family members, regardless of their capabilities and commitment. Such an attitude ignores the requirements of the business and may ignore the needs of the individuals.

In an ever-changing business environment, the family business must maintain appropriate quality staffing at all levels. It cannot afford to carry individuals, whether family members or not, who do not make a full contribution.

Over-promotion of family members is also likely to have a demotivating influence on non-family employees and the company may find it difficult to recruit and retain high-quality outsiders. The company may therefore be depriving itself of resources it may require to remain competitive.

Family members who are employees are likely to be able to contribute more to the business if they have had work experience elsewhere. They may bring new ideas and perspectives to the business and it will also help them to earn the respect of non-family employees.

It is also important not to discriminate on gender grounds as the business may well miss out on potentially valuable family resources.

The Rules

All family members should have work experience outside the business.

Family members should only be employed on merit and in positions that they are qualified to occupy.

Remuneration of family members should be no more favourable than that of equivalent non-family employees. Do not confuse remuneration with a return on a share ownership.

Institute appropriate appraisal procedures for all employees, whether family or not.

Non-family members should not be excluded from senior positions because of fears of loss of control by the family. If non-family members are more suitable for the job, use them.

If there is no suitable employment for family members, think carefully before employing them.

A job in the family business should be regarded as an opportunity, not a birthright.

Don't pressurise family members to join the business - this can cause problems in the long run.

Family members should be prepared to work harder than others to prove themselves.

Find a mentor for family members, both inside and outside the business.

Remember, real authority comes from the respect you have earned, not from the shares you have inherited.

"I could always stay in a purely advisory capability..."

Issue: Transferring the business to the next generation

This is potentially the most life-threatening stage of the family business and regrettably many businesses do not survive to the second and subsequent generations.

The family business manager cannot start succession planning too early. No one can know with certainty when succession will happen, but failure to prepare may be fatal for the company and disastrous for the family.

Succession planning involves the identification and education of a successor and the gradual relinquishing of control. The latter is one of the most difficult things to achieve, many entrepreneurs being reluctant to recognise that anyone else is capable of running their business!

Succession planning also means facing hard questions such as:

Are my children the most qualified to run the business or is an outsider better qualified? Which child will I choose? Do my children want to come into the business? Would the family be better off if I sold the business? What will I do with myself if I retire?

Sentimentality has to be put aside and commercial reality faced.

In particular, the taxation implications of succession and tax-planning opportunities must be carefully considered. Professional advice should be taken from experts suitably qualified in this area.

The Rules

Succession planning needs to be started sooner rather than later.

Consider all the succession options with an open mind - avoid sentimentality. Discuss them with others.

Make sure the family are aware of your succession plans and intentions from the start.

Commit your succession plan to paper.

Consider the aspirations and qualities of family members to identify whether they are in reality potential successors and consider their training needs.

Do not ignore outsiders - professional management may produce higher returns for the family in the long term than an ill-qualified family member.

Take time to train your chosen successor and be patient - let them express their ideas even if you disagree with them. Build intergenerational teamwork.

Be prepared to relinquish control - give the successor a fair chance to prove him or herself.

Try, as far as you can, not to be dependent on the business for income post-retirement. This should help you give more impartial advice to your successor.

Go when you say you will!

COMMITMENT, CULTURE, AND PRIDE IN THE BUSINESS ARE TYPICALLY THE INHERENT STRENGTHS OF A FAMILY BUSINESS. TOGETHER THEY CAN PRODUCE A SIGNIFICANT COMPETITIVE EDGE.

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