BUSINESS GROWTH ADVISORS

From the dining room to the board room – Family business in focus

The MGI Australian Family and Private Business Survey 2010

Researched and prepared by

RMIT UNIVERSITY

mgi BUSINESS SOLUTIONS WORLDWIDE

The commercial world in which today's family or privately owned business finds itself is starkly different to the early 1990s when Professor Kosmas Smyrnios and his colleagues first commenced these landmark studies.

Contents

The MGI Australian Family and Private Business Survey

Published in July 2010

Researched and prepared by
Lucio E. Dana and Professor Kosmas X. Smyrnios RMIT University, Melbourne.

Proudly sponsored by MGI

The research support of David Hollinger, Rui Bi, Lin Xiong,
and Prue Dana is gratefully acknowledged.

For past surveys and further information about the results of the current survey visit www.mgiaust-survey.com

Foreword

The commercial world in which today's family or privately owned business finds itself is starkly different to the early 1990s when Professor Kosmas Smyrnios and his colleagues first commenced these landmark studies.

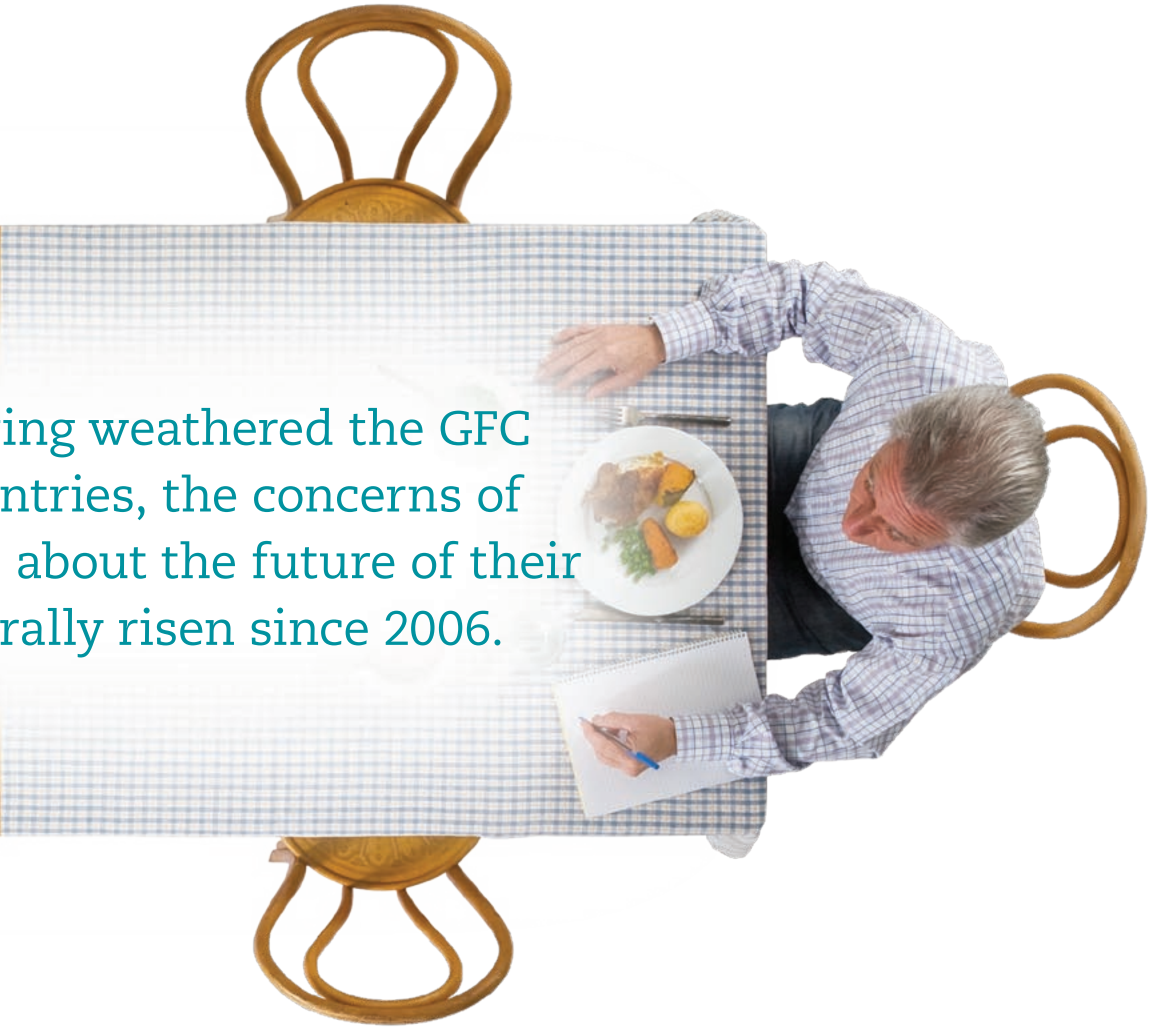
Sue Prestney
MGI Australasia
Chairperson

At that time Australia was emerging from the impact of the "recession we had to have". Businesses were recovering from the financial excesses of the 1980s, rising inflation, an overstretched economy, and the tightening of credit.

Today, as Australia disentangles itself from the grip of the Global Financial Crisis (GFC), the current survey shows that family businesses have changed from pre-GFC days. Despite Australia having weathered the GFC better than most countries, the concerns of family business owners about the future of their businesses has generally risen since 2006, the date of the previous survey. More business owners are significantly more concerned about competition, funding for growth and for the future of their particular industry than they were in 2006 and 2003.

The survey reveals a less confident family business sector post-GFC than pre-GFC – with family business owners more reliant on the continuity of their business to fund their retirement and more concerned over the future of their business. The proportion of family business owners who would seriously consider selling their businesses if approached has decreased from 75% in 2006 to 61% in 2010. While those who plan to sell their business has dropped from 53% in 2006 to 44% in 2010. Changes in attitude to selling the family business appears to have much to do with the fall in prices of businesses as a result of the drying up of available cash for funding.

Retirement plans also seem to have been impacted by the GFC. In 2006 only 17% of family business owners stated they did not have an adequately funded retirement program. This has increased to 31% in 2010, most likely on the back of the reduced investment values in 2009. Further concerns for family business owners for the future include selecting a successor and the future financial performance of their businesses.



While there has been much discussion about the low level of female participation on public company boards, a similar situation also exists in the private sector – even in family business. The survey results highlight the low participation of females as owners and managers of family businesses – only 11% of owners are female; only 7% of current owners have daughters actively involved in the businesses (with only 2% of business owners' sisters being involved in the business); sons are five times more likely to be involved in the family business as daughters and five times more likely to succeed the current CEO than daughters. While these statistics in themselves paint a picture of the current low level of female participation in ownership and management of family businesses, more surprising is the fact that this position has changed little over the last seven years.

The value of this longitudinal study cannot be underestimated in gaining insight into the motivators of Australian family and privately owned business. The current study, as well as others in the series, has made an important contribution to the understanding and appreciation of the attitudes of family and private business owners, and their valuable contribution to the Australian economy.

MGI would like to acknowledge the work of Professor Smyrnios and his research team. With a tradition of supporting Australian family and privately owned businesses, spanning some 25 years, MGI has the skills, experience and understanding to assist this important sector through their upcoming challenges. MGI is again proud to be associated with this important work.

Sue Prestney
MGI Australasia Chairperson
Chartered Accountants and Business Advisors

Key Findings

ISSUES AND CHALLENGES

The most critical issues/challenges confronting family businesses are: communication between family members, 39.7% and letting go of leadership/ ownership control, 39.7%.

Interestingly, 40.9% of family business owner-managers believe that family-based issues are more critical than business-based issues, and 45.5% believe that when family-based issues are resolved, business issues can also be resolved. Nearly two thirds agree 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. Nevertheless, 86% have NOT set rules to strengthen interpersonal relationships and manage the expectations of family members; 82.1% have NOT established policies to deal with predictable family-in-business issues *before* the need arises; and 72.1% do NOT hold regular *family meetings* to share information, build trust, avoid politics, and achieve consensus.

FAMILY INVOLVEMENT IN THE BUSINESS

Family members most actively involved in the business are: spouses, 35.4% and sons, 35.0% with brothers a distant third, 8.8%. Least actively involved are daughters, 5.9% and sisters, 1.6%.

Not only are sons more actively involved in family businesses than daughters, they are also five times more likely to succeed the current CEO than daughters, 27.4% versus 5.3%.

Over half of family business owners, 58.4% do NOT require family members to have outside business experience before joining the business.

CONCERNS FOR THE FUTURE

Almost half of family business owner-managers, 44.7% indicate that they have concerns for the future of their businesses, primarily *financial performance, problems with their particular industry*, *competition*, *skills shortages*, and *lack of funding for growth*.

GLOBAL FINANCIAL CRISIS (GFC)

The GFC has adversely affected 35.7% of family businesses leading them to cut costs, 51.8%; defer hiring staff, 34.5%; postpone expansion plans, 26.9%; and review product/service lines, 23.7%.

The vast majority of family business respondents, 90.8%, bank with one of the major four banks. Just over a quarter, 26.6%, agree that accessing funding for business activities has been difficult. Approximately half, 45.0%, report that their bank has been supportive during the GFC.

SUCCESSION

One third of family business owners state that it will NOT be feasible to implement leadership succession in their family business. The likelihood of succession appears to be minimal for a substantial percentage of families in business given that:

— Over two thirds indicate that younger generation family members are NOT as interested in actively managing the business as the older generation;
— Over a third indicate that the current CEO is more likely to be succeeded by a non-family member; and
— Only a fifth identify ***passing the business on to the next generation*** as a main motivation or objective for starting, or remaining in business.

RETIREMENT OF OWNER-MANAGERS

— Just under half, 45.2%, of family business owner-managers see themselves working in the business beyond 65 years of age, with 66.1% indicating that their businesses were NOT exit or succession ready. Interestingly, 52.2% indicate that they do NOT intend to do something about it in the next 12 months.
— Encouragingly, 60.6% of family business owner-managers have something to retire to as against simply something to retire from (i.e. their business), and 68.5% believe they have an adequately funded retirement program. One third, however, are likely to rely on either continuing family business ***ownership*** or the ***sale of their business*** for the cash to fund their retirement.

SALE OF THE BUSINESS

45.0% of family business owners are actively planning the future sale of their business either ***now*** or ***later***. Moreover, 61.3% would seriously consider selling their business, if approached, with 25.2% reporting that they have been approached in the last 12 months. As in 2006, we are led to conclude that approximately half of family businesses are less likely to become later generation firms, not as a result of any managerial failure on their part, but because their intentions, as well as their active plans, are to exit their businesses for various reasons via a trade sale. To that extent, it would be inappropriate simply to equate family business success with succession.

MANAGEMENT AND GOVERNANCE PRACTICES

Over 50% of family businesses report that family members get together regularly to have fun and pursue non-business activities; 43.9% emphasise ***integrity*** and ***commitment to the business*** as primary successor attributes; 37.4% are committed to the long-term viability and continuity of their business; and 36.8% report that they engage in philanthropic and charitable activities. Not surprisingly, hardly any family businesses have set a definite date for the transfer of leadership responsibility and control to the next generation, or designated a mandatory retirement age for senior executives. Very few have established conflict management processes, or processes for welcoming, educating and inducting in-laws into the family. Contrary to what is often advocated by the family business literature, 65% of family business owner-managers believe that family business success and wealth are NOT achieved by means of formal rules and procedures.

BOARDS OF DIRECTORS

An active Board of outside directors can serve a number of functions, including assisting family business owners to deal with feelings of isolation in their daily struggle to survive and to excel, heightening accountability of the business as well as improving quality of corporate decision making and planning without significant loss of privacy. And yet, 57.7% of family businesses do NOT have a formal Board of Directors; 85.3% of family businesses do NOT have non-family executive directors on their Boards; and 86.3% do NOT have non-family, non-executive directors on their Boards. The main reasons provided are: ***a desire to retain privacy***, 52.5%; and ***skills required at Board level exist in-house***, 29.0%.

THE FEDERAL GOVERNMENT'S CARBON POLLUTION REDUCTION SCHEME (CPRS)

Nearly all respondents, 98.8%, report that the Federal Government has NOT provided them with sufficient information about CPRS.

Family business owners indicate that accountants are the advisors most likely to assist them in the preparation of their businesses for the introduction of CPRS, 28.3%; followed by Business Consultants, 14.2%; and Specialist Consultants, 12.9%.

> Not only are sons more actively involved in family businesses than daughters, they are also five times more likely to succeed the current CEO than daughters...

Snapshot: 2003/2006/2010

	2003 (%)	2006 (%)	2010 (%)
Proportion of Respondents that are Family Firms	**67**	**67**	**83**
First generation	55	69	58
Second generation	28	23	31
Third to Fifth generation	17	8	11
Profile of Owner			
Average age in years	56	55	55
65+ years	20	14	12
Female	10	4	11
Tertiary qualified	60	52	47
Married	87	90	91
Profile of Business			
Industry			
Manufacturing	40	26	24
Wholesale/Retail	30	33	27
Technology	5	5	4
Construction	10	13	11
Legal Structure – Private Company	79	73	80
Legal Structure – Family Trusts	15	19	12
Average age of firm in years	34	28	32
Size – Number of Employees (Mean)	31	39	37
Size – Number of overseas divisions	8	8	8
Sale of Business			
Would seriously consider selling business if approached	76	75	61
Plan to sell the business now or later	50	53	44
Of those that plan to sell business, it is because:			
Wish to retire	32	31	20
Original intention	15	17	6
Sale price exceeds expectations	20	17	4
Lack of family successor	31	15	9
Have concerns for the future	8	9	6
Family Involvement in Day-to-Day Running of Business			
Spouse	49	53	35
Son (s)	49	30	35
Daughter (s)	9	5	7
Concerns for Future (particularly in relation to)			
Funding for growth	17	6	20
Particular industry	15	21	38
Selecting a successor	11	9	20
Financial performance of the business	27	31	54
Retirement of Owners			
Do NOT have adequately funded program	27	17	31

One third of family business owners state that it will NOT be feasible to implement leadership succession in their family business.

1. Introduction

This is the **seventh** major Australasian Survey of family businesses undertaken by Professor Kosmas Smyrnios and colleagues since the early 1990s, forming part of a longitudinal examination of factors associated with and affecting not only family businesses, but also non-family private firms.

Family firms – small, medium, and large – represent the most enduring organisational form. Given the increasing importance of global markets, family enterprises, like their counterparts, must survive and evolve so as to be able to exploit emerging opportunities.

The challenges that confront family firms include ownership and managerial control, degree of family involvement, management and governance practices, and ownership and leadership succession. The involvement of related people in business can generate a greater degree of intensity than might otherwise be the case.

In this National study, 82.7% of respondents indicate that they consider their business to be a family business[a]. This proportion is higher than in previous studies because we sampled predominantly family enterprises. 58.3% are first generation[b]; 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.

[a] **NOTE.** For the purposes of this survey, an enterprise is considered to be a family business when it involves two or more related individuals, who work together (or are otherwise associated), in a commercial enterprise that is controlled by one or more of them.

[b] **NOTE**. For the purposes of this survey, the relevant generation of the family business is considered to be the generation of the family member currently holding either the most senior managerial position or a controlling ownership interest in the business.

The challenges that confront family firms include ownership and managerial control, degree of family involvement, management and governance practices, and ownership and leadership succession.

2. Methodology

SAMPLING FRAME

A random sample of 5,000 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, micro businesses were excluded, as were companies whose revenues were less than $2 million.

THE AUSTRALIAN FAMILY AND PRIVATE BUSINESS SURVEY QUESTIONNAIRE: 2010

For this national study, in conjunction with MGI, the researchers developed a 113-item questionnaire. Questions were listed under nine broad headings: Background Information on the Business; Background Information on the Owner; Carbon Pollution Reduction Scheme (CPRS); Global Financial Crisis (GFC); Potential Sale of the Business; Family Business Characteristics; Family Business Succession; Family Business Issues and Challenges; Family Business Management and Governance Practices.

PROCEDURE

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 was analysed using Statistical Package for Social Sciences (SPSS) for Windows.

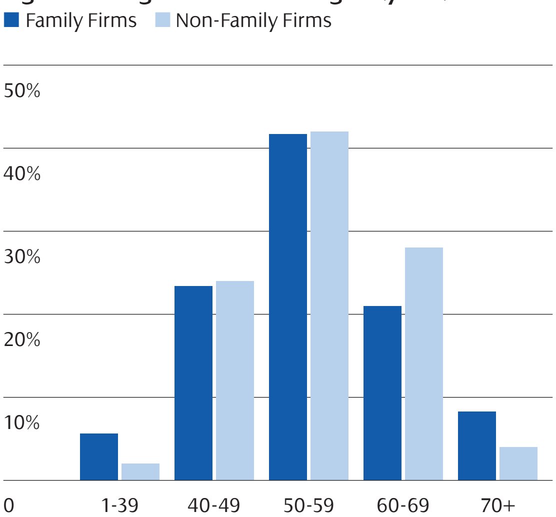
3. The Owner-Manager

[c] **Note.** Percentages in brackets are for non-family business, unless the context indicates otherwise.

AGE OF FAMILY AND NON-FAMILY BUSINESS OWNERS-MANAGERS[c]

Over a third of family business owner-managers, 41.7% (42.0%), are in the 50-59 years of age bracket (Figure 3.1). The oldest family business owner is 94 (77) years of age and the youngest 28 (39) years of age.

Figure 3.1 – Age of Owner Managers (years)



COUNTRY OF ORIGIN/BIRTH OF OWNER-MANAGERS

Most owner-managers were born in Australia 78.7% (62.0%), with a small proportion born in New Zealand 1.2% (6.0%). 15.7% (18.0%) of respondents listed Europe as their birthplace, with the remaining respondents listing Asia 2.0% (8.0%), Africa 0.4% (4.0%), America 1.6% (2.0%).

EDUCATION

Just under half the owner-managers, 47.4% (40%), have tertiary/post secondary qualifications; 36.9% (26.0%) have secondary-level education; and 15.7% (34%) hold postgraduate degrees.

GENDER

Males represent 89.3% (86.0%) of family business owners; females 10.7% (14.0%).

MARITAL STATUS

The majority of owners, 90.9% (84.0%), are married; 2.4% (10.0%) are separated/divorced; and 0.8% (Nil) are single.

CONSISTENCY OF LEADERSHIP

Most owners, 82.2% (83%), are also the CEOs of their businesses.

MOTIVATION AND OBJECTIVES

The main motivations for starting or remaining in business are: *to be self-employed and independent* 59.7% (64.2%); and *to create wealth* 54.9% (67.9%) (Table 3.2). Only 18.6% (3.8%) and 9.5% (Nil) nominate as objectives *passing on the business to the next generation*; and *employing family members*, respectively.

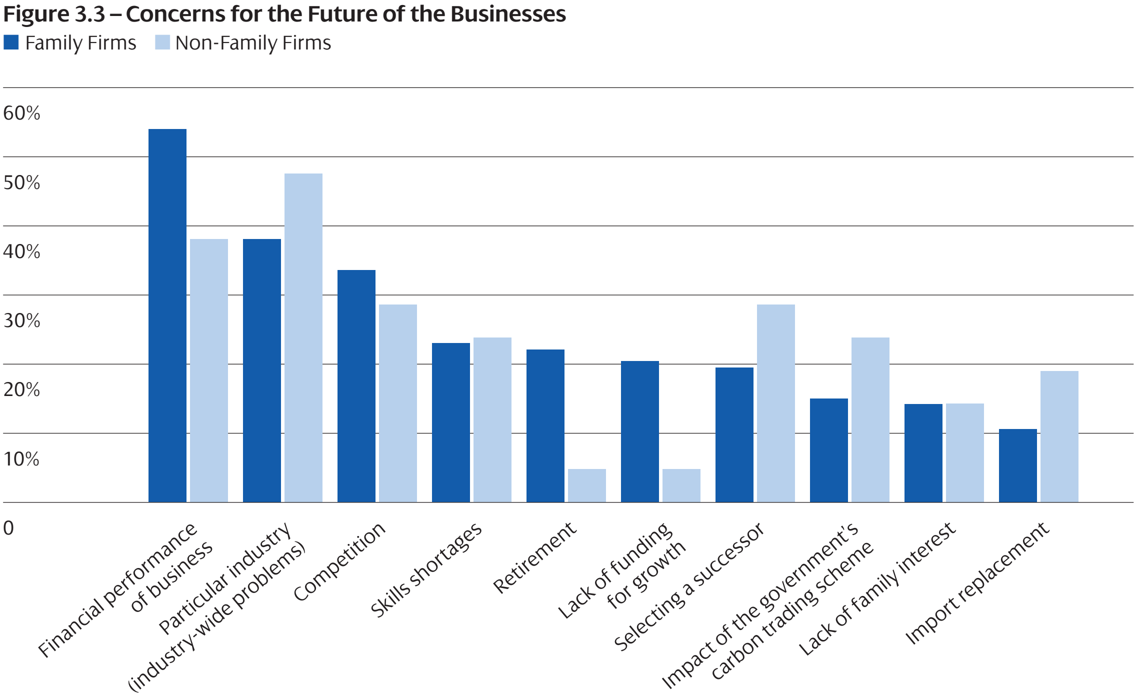
Table 3.2 – Motivations and Objectives

Motivations and objectives of owners	Family Firms (%)	Non-Family Firms (%)
Personally oriented motivations		
To be self-employed and independent	59.7	64.2
To create wealth	54.9	67.9
To enjoy the challenges of building a successful enterprise	40.3	37.7
To pursue a vision, dream, or passion	31.2	43.4
Family oriented motivations		
To improve family lifestyle	25.3	17.0
To pass on the business to the next generation	18.6	3.8
To follow in the footsteps of role model parents/mentors	13.8	5.7
To employ family members	9.5	Nil

CONCERNS FOR THE FUTURE

A sizeable proportion of family business owners, 44.7% (39.6%), have concerns for the future of their business, primarily *financial performance*, *particular industry problems*, and *competition* (Figure 3.3).

Figure 3.3 – Concerns for the Future of the Businesses



VIEWS OF OWNER-MANAGERS

Slightly less than half of family business owners, 40.9%, agree that family-based issues are more critical than business-based issues, and 45.5% indicate that when family issues are resolved, business issues can also be resolved. Just under two thirds of family businesses, 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.

Contrary to what is often advocated by the family business literature, 65% believe that family business success and wealth are NOT achieved by means of formal rules and procedures. Notwithstanding what is perceived to be a preference for privacy and confidentiality by families in business, 59.3% indicate that they would seek outside advice in relation to family-based issues (as distinguished from business-based issues) in their family business (Table 3.4).

Table 3.4 – Views Owner-Managers

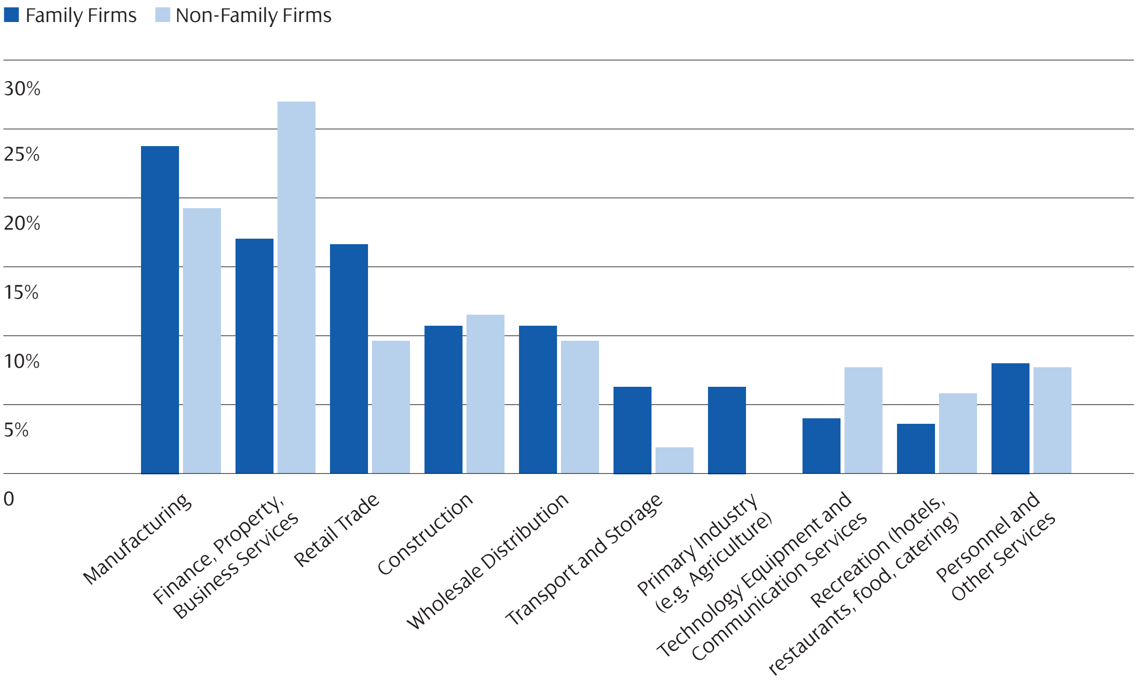
Views of owner-managers	Agree (%)
Family business success and wealth are NOT achieved by means of formal rules and procedures	65.0
The ultimate family business challenge is how to deal with work/business-based relationships on top of pre-existing family-based relationships	62.2
Would seek outside advice 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

4. The Business

INDUSTRY

23.7% (19.2%) of family businesses are in Manufacturing; 27.3% (19.2%) in Wholesale or Retail Trade; 17.0% (26.9%) in Finance, Property, and Business Services (Figure 4.1).

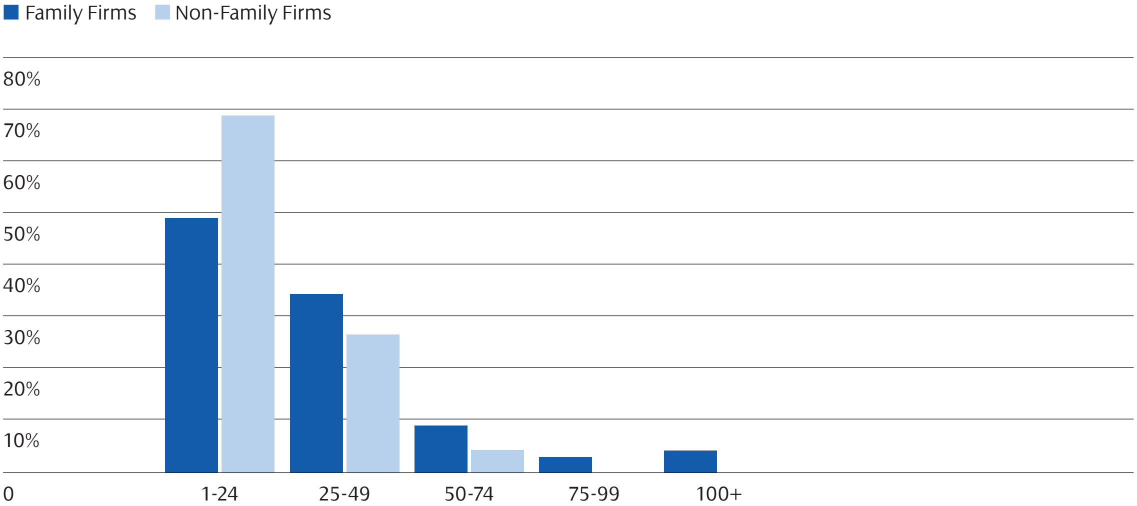
Figure 4.1 – Types of Industries



ESTABLISHMENT OF THE BUSINESS

Just under half of family businesses, 49.1% (68.9%), were established less than 25 years ago (Figure 4.2). The oldest business, a family business, is 153 years old.

Figure 4.2 – Age of Businesses (years)



BUSINESS LOCATIONS

Over two thirds of family businesses, 68.1% (83.0%), operate from one Australian location; while 31.9 % (17.0%) operate from more than one location, ranging from 2 to 28 (2 to 7). Only 7.5% (9.6%) operate from overseas locations ranging in number from 1 to 20 (1 to 5). Most respondents are located in NSW, 40.7%; and in Victoria 26.6% (Table 4.3).

Table 4.3 – Location of Businesses

Location of businesses by State	Total (%)	Family Firms (%)	Non-Family Firms (%)
NSW/ACT	40.7	41.1	38.8
Victoria	26.6	28.2	18.4
Queensland	17.2	15.8	24.5
South Australia	7.6	7.9	6.1
Western Australia	4.5	2.9	12.2
Tasmania	3.4	4.1	Nil

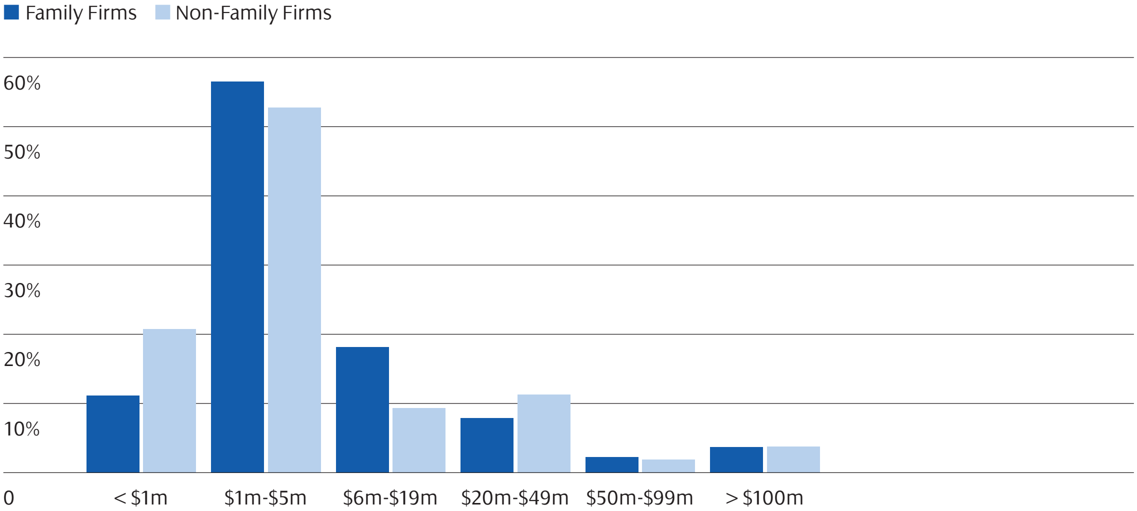
SIZE OF FIRMS – NUMBER OF EMPLOYEES

Most family firms, 63.6% (68.6%), are small (1-19 employees); 32.2% (25.5%) are medium (20-199 employees); and 4.1% (5.9%) are large (200 or more employees) businesses. The median number of employees in family businesses is 12.8% (10.5%). The largest responding family business has 2,500 (1,000) employees.

SIZE OF FIRMS – GROSS SALES

Most respondents, 57% (53%), had gross sales of $1-$5m in 2009; 3.7% (3.8%) had gross sales of over $100m (Figure 4.4).

Figure 4.4 – Gross Sales in 2009 (millions)



LEGAL STRUCTURE

Almost 80.0% (83.0%) of family enterprises have a private company structure; 12.2% (5.7%) have a private trust structure; and 5.1% (1.9%) trade as a partnership; with only 1.2% (1.9%) as public companies.

OWNERSHIP STRUCTURE

In most family businesses, ultimate ownership control is consolidated in a husband and wife couple 46.2%; compared with 24.3% in two or more siblings (brothers and/or sisters); 16.7% in one individual; and 2.0% in cousins from different sibling branches.

FAMILY BUSINESS OWNERSHIP BY NON-FAMILY MANAGERS AND NON-FAMILY INVESTORS

Less than 10% of family businesses have some of their equity held either by non-family managers, 7.5% (with ownership stakes ranging from 10% to 60%); or non-family investors 3.1% (with ownership stakes ranging from 10% to 50%). Predictably, 83.8% do NOT intend to expand ownership to non-family members in the foreseeable future.

BOARD OF DIRECTORS

42.3% (39.6%) of family enterprises have a formal Board of Directors with 45.6% (20.8%) meeting once a month; 19.4% (25.0%) meeting quarterly; 11.7% (16.7%) six monthly; and 15.5% (25.0%) yearly. 85.3% (55.3%) of family businesses do NOT have non-family executive directors on their Boards; and 86.3% (74.3%) do NOT have non-family, non-executive directors on their Boards.

Most family business Boards, 45.8% (47.4%), have two directors; 24.4% (21.1%) have three directors; 17.3% (13.2%) four directors; and 9.6% (15.8%) five or more directors.

An active Board of outside directors can serve a number of functions, including assisting family business owners to deal with feelings of isolation in their daily struggle to survive and excel, heightening accountability of the business as well as improving quality of corporate decision making and planning, without significant loss of privacy. And yet, 57.7% (60.4%) of family businesses do NOT have a Board of Directors. The main reason provided for the lack of non-family, non-executive directors on the Board were: ***desire to retain privacy*** 52.5% (46.4%); and ***skills required at Board level exist in-house*** 29.0% (28.6%) (Table 4.5).

Table 4.5 – Reasons for Absence of Non-family, Non-executive Directors

Reasons for absence of non-family executive directors on Boards	Family Firms %	Non-Family Firms %
Desire to retain privacy	52.5	46.4
Skills required at Board level exist in-house	29.0	28.6
Inability to find someone suitable	8.6	3.6
It is considered to be too expensive	8.6	–
Potential candidates' concern about directors' liability	4.9	7.1
Inability to find someone willing to take the position	3.7	3.6

5. Issues and Challenges Confronting Family Businesses

The most critical issues/challenges confronting family businesses are: ***communication between family members***, 39.7%; ***letting go of leadership/ownership control***, 39.7%; ***providing liquidity for family owners to exit***, 36.7%; and ***securing adequate capital for growth and retirement***, 34.2% (Table 5.1).

Table 5.1 – Critical Issues and Challenges

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
Expectations of family owners not active in the business	7.6
Controlling factional orientation of family branches	2.1

THE GLOBAL FINANCIAL CRISIS (GFC)

The GFC has adversely affected 35.7% (47.2%) of family businesses. As a result of the impact of the GFC, family businesses report cutting costs, 51.8% (46.1%); deferring hiring staff, 34.5% (32.7%); postponing expansion plans, 26.9% (25.0%); and reviewing product/service lines, 23.7% (30.8%).

BANKING

The vast majority of family business respondents, 90.8% (83.3%), bank with one of the major four banks. Just over a quarter, 26.6% (17.8%), agree that accessing funding for business activities has been difficult. Just under half, 45.0% (53.8%), report that their bank has been supportive during the GFC.

THE FEDERAL GOVERNMENT'S PROPOSED CARBON POLLUTION REDUCTION SCHEME (CPRS)

Over half of family respondents, 54.6% (43.1%), state that their business is likely to incur additional costs as a result of CPRS. Costs include: energy 82.1% (68.2%); transportation 73.9% (63.6%); and raw material inputs 51.5% (36.4%).

Most family businesses, 86.1% (95.8%), have NOT undertaken any changes in anticipation of CPRS. Nearly all respondents, 98.8% (93.6%), report that the Federal Government has NOT provided them with sufficient information about CPRS.

ADVISORS

The advisors most likely to assist respondents in the preparation of their businesses for the introduction of CPRS are accountants, 28.3% (22.0%); followed by Business Consultants, 14.2% (10.0%); Specialist Consultants, 12.9% (14.0%); and Government Bodies, 6.4% (8.0%). However, 42.9% (44.0%) indicate that no one is likely to assist them to prepare their businesses for the introduction of CPRS.

6. Involvement of Family Members in Management

Surprisingly, almost three quarters of family businesses, 74.4%, report that they started with a high degree of family involvement, with the remaining 25.6% observing that their enterprises became family businesses as family involvement increased over time. Less than half reveal that their family business started with an expectation of trans-generational succession.

INVOLVEMENT OF FAMILY MEMBERS IN THE BUSINESS

The family members most actively involved in the business are: spouses, 35.4%; sons, 35.0%; brothers, 10.6%; daughters, 7.1%; sisters, 2.0%; and other family members, 6.3%. Not only is the percentage of sons most actively involved in family business five times higher than the percentage of daughters, sons are also five times more likely to succeed the current CEO than daughters, 27.4% versus 5.3%.

Over a third, 36.5%, of family businesses have two family members employed in the business. Only 4.1% have one family member employed; 28.9% have three; 14.1% have four; and 14% have more than four.

Most family businesses involve either two (54.6%); three (10.3%); or more than three (8.4%) family members in senior management positions. 14.1% of firms have only one family member in a senior management position.

Over half of family business respondents, 58.7%, have two generations of family members involved in the business, with 35.7% having only one generation involved; and 5.6% having three or more generations involved.

APPOINTMENT OF SENIOR MANAGERS

Approximately two thirds of family business owners (63.7%) emphasise that family membership is NOT important when they consider appointing senior managers.

THE YOUNGER GENERATION AND THE FAMILY FIRM

Of some concern is the finding that just under two thirds (60%) of family business owners indicate that younger generation family members are NOT as interested in actively managing the family business as the older generation.

Current family business owner-managers are invariably either members of the Silent Generation (born before 1946) or the *live-to-work* Baby Boomer Generation (born 1946-64), whereas younger generation family members or potential family business successors are either their *work-to-live* Generation X (born 1965-77) grandchildren or children respectively, or their more optimistic and technologically savvier Generation Y (born 1978-87) younger siblings.

Those who are planning the future leadership and ownership of their family businesses need to consider and take into account differences in upbringing, outlook, attitude, and behaviour between these generations.

There is no reason to assume that members of the younger generation are not at least as entrepreneurial as their parents or grandparents. However, they generally prefer to work on their own terms and are, therefore, just as likely to want to start their own businesses (particularly web-based businesses) or acquire a business, as they are to become willing and able successors of their parents' family business.

OUTSIDE BUSINESS EXPERIENCE

It is often suggested that successors who have had an opportunity to prove themselves outside the family business before joining have a greater chance of feeling that they have received adequate preparation for their role. However, 58.4% of family business owners do NOT require family members to have outside business experience before joining.

> Less than half reveal that their family business started with an expectation of trans-generational succession.

7. Family Business Management and Governance Practices

LESSONS LEARNED FROM SUCCESSFUL, LONG-LASTING FAMILY BUSINESSES

According to Poza (2007), most family businesses do not survive beyond the first generation of founder owners. Given this context, *what do families in business have to do to ensure long-term success and continuity*? To address this question, a number of authors have proposed a *lessons learned* approach to family business management and governance practices. This approach is based on identifying outstanding, long-lasting family businesses – exemplary ones – and learning from them what they did better than others, with a view to inspiring and guiding those others to put that learning into practice in their own businesses so as to increase their chances of achieving success, long-term continuity, and effective succession (Schwass, 2005).

There is a fair degree of agreement among family business authors as to what is required to promote long-term family business success and continuity. Table 7.1 summarises critical family business management and governance practices clustered around main topics.

Note. Adapted from Poza (2007), Schwass (2005), Ward (2004), Jaffe & Braden (2003), and O'Hara (2004). See also Dana & Smyrnios (2010).

Table 7.1 – Identified Family Business Lessons Learned Clustered Around Key Topics

Summary of Lessons Learned from Successful, Long-lasting Family Businesses
Planning and Commitment to 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
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
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. Defining clear family member roles, responsibilities, accountabilities and interpersonal boundaries
16. Gradually modifying parent-offspring relationships into ones of "peers" at work
17. Benchmarking business practices and performance against the best businesses in Australia
18. Making a commitment to being in the best businesses in the future, even if it means leaving the business of origin
19. Using unconventional strategies/practices to leverage family business uniqueness
20. Making timely use of outside resources/assistance (e.g. advisory boards and professional advisers)
21. Hiring key non-family executives and assuring career growth opportunities for them
Education and Development of Family Members
22. Actively learning to deal with the challenges that result from combining family with business
23. Actively learning communication skills for family members to operate as an effective team at work
24. Establishing a clear process for successors to develop as individuals, in their roles, and in the business
25. Ensuring attentive mentoring of successors as prospective business leaders and owners
26. Emphasising the importance of *integrity and commitment* to the business as primary successor attributes
27. Establishing processes for welcoming, educating, and inducting in-laws into the family
Succession and Succession Planning
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
33. Demonstrating a strong sense of corporate citizenship that actively builds social good will
34. Engaging in philanthropic and charitable activities
35. Establishing a policy on how to handle and assist family members who have personal problems and special needs

Most family businesses do not survive beyond the first generation of founder owners.

IMPLEMENTATION OF FAMILY BUSINESS MANAGEMENT AND GOVERNANCE PRACTICES

Table 7.2 shows the levels of implementation by Australian family businesses of management and governance practices, advocated by the family business literature as conducive to long-term family business success and continuity. A substantial percentage of families in business get together regularly to have fun and pursue non-business activities, they emphasise integrity and commitment to the business as primary successor attributes, they are committed to the long-term viability and continuity of their business, and they engage in philanthropic and charitable activities. Few have established conflict management processes, or processes for welcoming, educating, and inducting in-laws into the family. Hardly any have set a definite date for the transfer of leadership responsibility and control to the next generation, or designated a mandatory retirement age for senior executives.

Table 7.2 – Implementation of Family Business Management and Governance Practices

The family…	Implemented
… gets together regularly to have fun 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 good will	36.5 %
… has identified a clear set of values it wishes to perpetuate (i.e., the *human face* of family business)	35.4 %
… accepts family members having different perspectives on family business issues	34.0 %
… has defined a uniting sense of *purpose and mission* in relation to the business	32.5 %
… has a policy on how to handle and assist family members who have personal problems and special needs	31.5 %
… is actively learning to deal with the challenges that result from combining family with business	30.8 %
… holds regular *family meetings* to share information, build trust, avoid politics, and achieve consensus	27.9 %
… has a family (cf. business) leader who performs the role of holding the family together emotionally	27.6 %
… has planned for ongoing growth, transitions, and foreseeable contingencies	27.5 %

… has defined clear family member roles, responsibilities, accountabilities, and interpersonal boundaries	27.4 %
… is actively learning communication skills to operate as an effective team at work	26.1 %
… makes timely use of outside resources/assistance (e.g. advisory boards and professional advisers)	25.6 %
… hires key non-family executives and assures career growth opportunities for them	24.8 %
… is committed to being in the best businesses in the future, even if it means leaving the business of origin	23.1 %
… has established a formal dividend policy that pays out according to business profitability	22.6 %
… has established processes to govern the family-business interaction for continued family ownership/control	21.0 %
… takes the challenging task of *succession planning* seriously and puts considerable effort into it	20.4 %
… uses unconventional strategies/practices to leverage its uniqueness	19.9 %
… accepts the need gradually to modify parent-offspring relationships into ones of "peers" at work	19.7 %
… has established a clear process for successors to develop as individuals, in their roles, and in the business	19.2 %
… benchmarks business practices and performance against the best businesses in Australia	18.5 %
… establishes policies to deal with predictable family-in-business issues *before* the need arises	17.9 %
… ensures attentive mentoring of successors as prospective business owners and leaders	17.8 %
… has documented 'buy-sell' agreements that provide clearly defined and fair ownership exit options	15.3 %
… has a set of *rules* to strengthen interpersonal relationships and manage the expectations of family members	14.0 %
… has established family employment/career planning policies based on qualifications and experience	14.0 %
… has established merit-based policies for the compensation and promotion of family members	12.4 %
… has established a process for welcoming, educating, and inducting in-laws into the family	12.3 %
… has established conflict management processes	11.8 %
… has set a definite date for the transfer of leadership responsibility and control to the next generation	4.2 %
… has designated a mandatory retirement age for all senior executives, especially owner-managers	2.1 %

8. Succession

Two thirds of family businesses, 63.5%, report that leadership succession will be feasible; and 63.3% indicate that the current CEO will be succeeded by a family member. The remaining third of enterprises indicate that leadership succession will NOT be feasible; that the current CEO is likely to be succeeded by a non-family member; and that, as a result; family leadership and ownership succession are NOT key issues for them (Table 8.1).

Table 8.1 – Succession Issues

	Total (%)	To a large extent (%)	To a small extent (%)	NOT at All (%)
Family business leadership succession is a key issue in the family business	63.3	36.7	26.6	36.7
Family business ownership succession is a key issue in the family business	64.0	34.0	30.0	36.0

LEADERSHIP SUCCESSION

To the extent that current CEOs are likely to be succeeded by a family member, these family members are most likely to be a son, 27.4%; or a spouse, 14.2% (Figure 8.2).

FUTURE INTENTIONS

Interestingly, just over half of family business owner-managers intend to keep the family business small and in continuous family ownership and control, and two thirds contemplate having a family member manage the business in the future.

Approximately a quarter of family businesses aim to pass (and/or consolidate) ownership and leadership control to one sole family leader, with a third proposing to pass ownership and leadership control to a team of siblings.

Revealingly, over half of family businesses are signalling an intention to transfer some equity in the business to younger family members during their lifetime, with just under two thirds of them concurrently proposing NOT to differentiate between "active" family members (i.e. those employed in the business) and "passive" family members (i.e. those not employed in the business) (Table 8.3).

Figure 8.2 – Family Members Most Likely to Succeed Current CEO

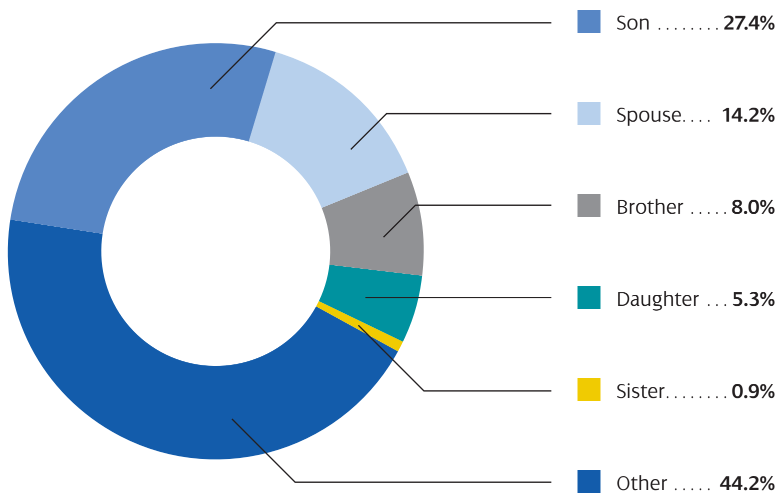


Table 8.3 – Intentions in Relation to Future Leadership and Ownership

	(%)
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 transfer some equity in the business to younger generation family members during their lifetime	55.9
Intend to keep the business small	53.5
Intend to differentiate between 'active' (i.e. employed in the business) and 'passive' (i.e. not employed in the business) family members	39.0
Intend to pass ownership and leadership control to a team of siblings (i.e. successor generation brothers and/or sisters)	32.5
Intend to pass (or consolidate) ownership and leadership control to one family leader	22.0

9. Retirement of Owner-Managers

Just under half of family business owner-managers, 45.2%, see themselves working in the business beyond 65 years of age; with 66.1% suggesting that their businesses are NOT exit or succession ready. Moreover, 52.2% do NOT intend to do something about this over the ensuing 12 months.

It is encouraging that 60.6% of family business owner-managers signal that they have something to retire to as against simply something to retire from (i.e. their business).

Over two thirds of business owner managers, 68.5%, believe that they have an adequately funded retirement program. Nevertheless, a substantial proportion of business owner managers are relying either on the sale of their business or continuing family business ownership for the cash to fund their retirement.

10. Sale of the Business[c]

Almost 45% (50.0%) of family business owners are actively planning the sale of their business, either *now* or *later.* Moreover, 61.3% (58.5%) would seriously consider selling their business if approached; with 25.2% (32.1%) reporting that they had been approached during the previous 12 months (Table 10.1).

[c] **Note.** Percentages in brackets are for non-family business, unless the context indicates otherwise.

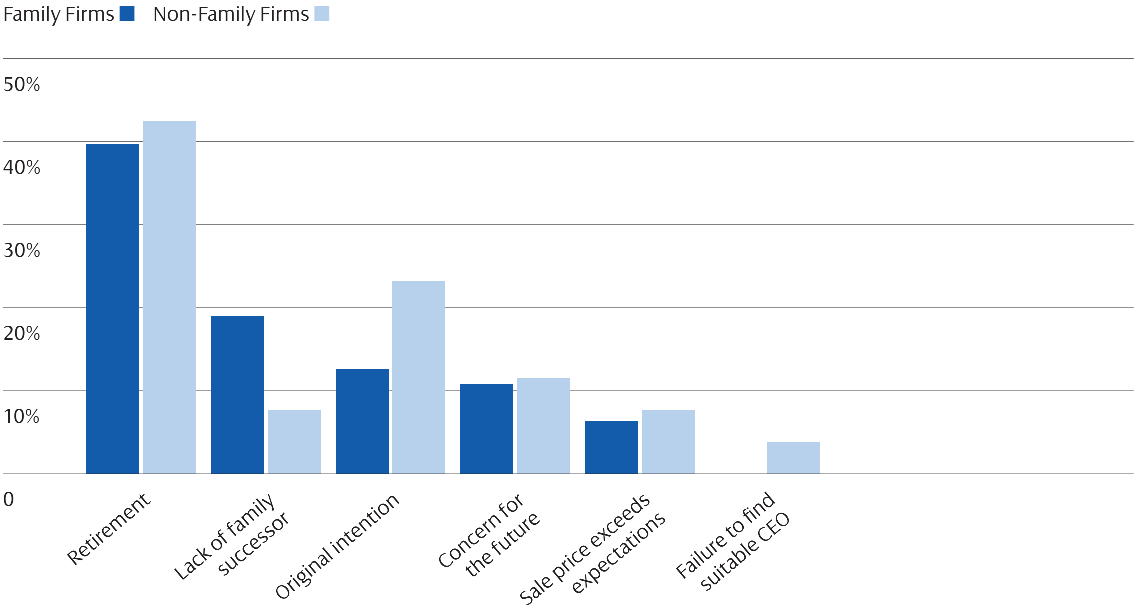
Table 10.1 – Sale of the Business

Sale of the business	Family Firms (%)	Non-Family Firms (%)
Would seriously consider selling if approached	61.3	58.5
Actively planning for the future sale of the business	44.4	50.0
Now	14.4	17.3
Later	30.0	32,7
Approached within the previous 12 months	25.2	32.1
Business is NOT sale ready	43.8	54.0
Intention to do something about it in the next 12 months	45.8	64.3

REASONS FOR PLANNING TO SELL

Figure 10.2 outlines the main reasons family business owners contemplate selling their business, compared with their non-family counterparts. The main reasons are *retirement* and *lack of family successor.*

Figure 10.2 – Principal reasons given by business owner-managers for planning to sell their businesses



Given the above responses, we are led to conclude – as we did in our 2006 Survey – that just under half of family businesses are less likely to become later-generation firms; not as a result of any failure on their part but because their intentions, as well as their active plans, are to exit their businesses, for various reasons, via a trade sale. To that extent, it would be inappropriate simply to equate family business success with succession.

References

Dana, L. E., & Smyrnios, K. X. (2010). Family business best practices: Where from and where to? *Journal of Family Business Strategy 1*(1) 40-53.

Jaffe, D., & Braden, A. (2003). Best practices of successful multi-generational families. *Families in Business*, 80-82.

O'Hara, W. T. (2004). *Centuries of Success: Lessons from the World's Most Enduring Family Businesses*. Avon, Massachusetts: Adams Media.

Poza, E. (2007). *Family Business* (2nd ed.). Mason, Ohio: Thompson.

Schwass, J. (2005). *Wise Growth Strategies in Leading Family Businesses*. New York: Palgrave.

Ward, J.L. (2004). *Perpetuating the Family Business: 50 Lessons from Long-Lasting Successful Families in Business*. New York: Palgrave Macmillan.

The Study Team

Mr. Lucio E. Dana and Professor Kosmas X. Smyrnios of the RMIT University, Melbourne, developed and conducted this Survey.

The 2010 Australian Family Business Survey would not have been possible without the generous support of MGI, and the valued participation of business owners. Ms. Sue Prestney and Ms. Christine Greiser as well as a number of MGI partners and managers provided valuable input during the research process. We thank them all sincerely.

MR. LUCIO E. DANA B.A. LL.B (HONS.)

Lucio is a specialist family business facilitator and adviser. He is the Managing Director of Creativity In Business Pty. Ltd. trading as *Family Business Dynamics*. Lucio lectures in family and non-family business management subjects at RMIT University, Melbourne. He is the co-author of *Family Business Succession Planning: A 10-Step Guide, 2000 CPD*; *Succession Matters: The Australian Family Business Survey 2000; The MGI Australian Family & Private Business Survey 2006; The MGI (New Zealand) Family & Private Business Survey 2007*; and 'Family business best practices: Where from and where to?' *Journal of Family Business Strategy*, 2010, 1(1) 40-53.

PROFESSOR KOSMAS X. SMYRNIOS PhD, MAPS

Kosmas is an international expert in the area of family business. He is Foundation Board Member of the *International Family Enterprise Academy* (IFERA), Associate Editor of *The Journal of Family Business Strategy*, and Discipline Head of Entrepreneurship at RMIT University's School of Management. He has a demonstrated track research record with over 100 national and international refereed publications across different disciplines including business management, marketing, accounting, physics, and psychology.

SUE PRESTNEY B.COM, FCA, PRINCIPAL MGI

Sue assisted the RMIT University team in developing the Survey and the questionnaire, and in the write up of this report. As a Chartered Accountant in practice, Sue has been working with family business clients for around 30 years and specialises in succession planning and family business constitutions. She has presented papers on family business to Australian and international groups and has had articles published in various national publications. Sue is the spokesperson on small and medium business for the Institute of Chartered Accountants in Australia and is a member of the Family Firm Institute.

For more information concerning this survey, please contact

MGI
Ms. Sue Prestney
Telephone + 61 3 9521 3000
Email sue.prestney@mgimelb.com.au
Website www.mgiaust.com

RMIT University
Professor Kosmas X. Smyrnios
Telephone +61 3 9925 1633
Email kosmas.smyrnios@rmit.edu.au
Website www.rmit.edu.au

For past surveys and further information about the results of the current survey visit www.mgiaust-survey.com

Just under half of family business owner-managers see themselves working in the business beyond 65 years of age.

BUSINESS GROWTH ADVISORS

MGI – Your Business Growth Advisor

For information on how MGI provides business solutions that work for you contact your nearest MGI office or visit www.mgiaust.com

Adelaide
(Incorporating Port Pirie)
Tel: +61 8 8272 6800
Email: info@mgiadelaide.com.au
Website: www.mgiadelaide.com.au

Auckland (New Zealand)
Tel: +64 9 377 1362
Email: info@mginz.co.nz
Website: www.mginz.co.nz

Brisbane
Tel: +61 7 3002 4800
Email: info@mgibris.com.au
Website: www.mgibris.com.au

Melbourne
Tel: +61 3 9521 3000
Email: info@mgimelb.com.au
Website: www.mgimelb.com.au

North Queensland
(Incorporating Cairns, Mossman and Port Douglas)
Tel: +61 7 4047 4000
Email: info@mginq.com.au
Website: www.mginq.com.au

Perth
Tel: +61 8 9463 2463
Email: info@mgiperth.com.au
Website: www.mgiperth.com.au

Sydney
Tel: +61 2 9230 9200
Email: info@mgisyd.com.au
Website: www.mgisyd.com.au

mgi
BUSINESS SOLUTIONS WORLDWIDE

www.mgiaust.com