



# Family business - the balance for success

**Colliding generational perspectives,  
reinvigorating successful family businesses**

May 2018

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## The 2018 KPMG Enterprise and Family Business Australia survey report.



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# Introduction

If there's one thing that was loud and clear from the KPMG Enterprise and Family Business Australia (FBA) 2017/18 survey of family businesses in Australia, it was that good communication, and even healthy conflict, between family members is vital to boost the sustainability of the business and wellbeing of the family.

Communication is a key factor in 'socioemotional wealth' (SEW) – a measure of the non-financial aspects of the business, or the 'emotional value' for the family.<sup>1</sup> The acronym FIBER<sup>2</sup> shows it is made up of:

- **F**amily control and influence
- **I**dentification with the business
- **B**inding social ties
- **E**motional attachment
- **R**enewal of family bonds through dynastic succession.

SEW is vital to the future sustainability of family businesses. In fact, without it, our research found there is a greater likelihood a family business will be passed on and/or sold to non-family members – or will be forced to close.

In addition to communication and conflict, we looked into various areas that impact SEW, including:

- Future growth and performance
- Transition strategies
- Confidence and commitment
- Governance for the future.

Within each area, it was clear that there were different generational perspectives on a family's level of success. This is to be expected as different generations think and operate differently. The incumbents have got experience and they're confident in their

roles. The next generation is coming through, they are learning, they are uncertain, they are inquisitive, they don't know everything, and they are in need of support. Having insight into these differences can help us understand just how sustainable family businesses really are.

This survey report dives into the factors that make up SEW, and looks at the different views offered by incumbents and the next generation of leaders. To enhance our understanding of how SEW works in real life, we meet three families running Australian family businesses:

- **The Valmorbida family of Melbourne**, who are behind Italian food and wine importing business Joval Group
- **The Dowsing family of Perth**, the force behind concrete business Dowsing Group
- **The Fleming / McLean family of Bundaberg**, owners of beverage company Bundaberg Brewed Drinks.

[In addition to the information they share within, you can click through to video interviews to hear their perspectives in person.](#)

A vast 70 percent of Australian businesses are family owned.<sup>3</sup> They are the lifeblood of communities and are key to our productivity and economic outlook. That is why KPMG Enterprise and FBA have been undertaking joint research into the challenges and opportunities of family businesses since 2005, making this body of work the longest running survey of Australian family businesses.

We hope you find the survey findings and family stories as interesting and thought-provoking as we have, and that they inspire and empower you on the path to building even more prosperous family businesses.

<b>Bill Noye</b> <b>Partner</b> <b>KPMG Enterprise</b>	<b>Dominic Pelligana</b> <b>Partner</b> <b>KPMG Enterprise</b>	<b>Michelle De Lucia</b> <b>Director</b> <b>KPMG Enterprise</b>	<b>Greg Griffith</b> <b>CEO</b> <b>FBA</b>
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1 Gomez Mejia, L. R., Makri, M., & Kintana, M. L. (2010). Diversification decisions in family controlled firms. *Journal of Management Studies*, 47(2), 223-252.

2 Berrone, P., Cruz, C., & Gomez-Mejia, L. R. (2012). Socioemotional wealth in family firms: Theoretical dimensions, assessment approaches, and agenda for future research. *Family Business Review*, 25(3), 258-279.

3 <https://peak.fambiz.org.au/documents/item/253>

# Survey information

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KPMG Enterprise and FBA partnered with the University of Adelaide's Family Business Education and Research Group (FBERG) to conduct the survey, analyse the results and write this report. In June/July 2017, a 42-item questionnaire was distributed to the family businesses on the KPMG Enterprise and FBA databases. The median age of firms was 40 years and the majority (57 percent) of respondents were multi-generational controlled family businesses.

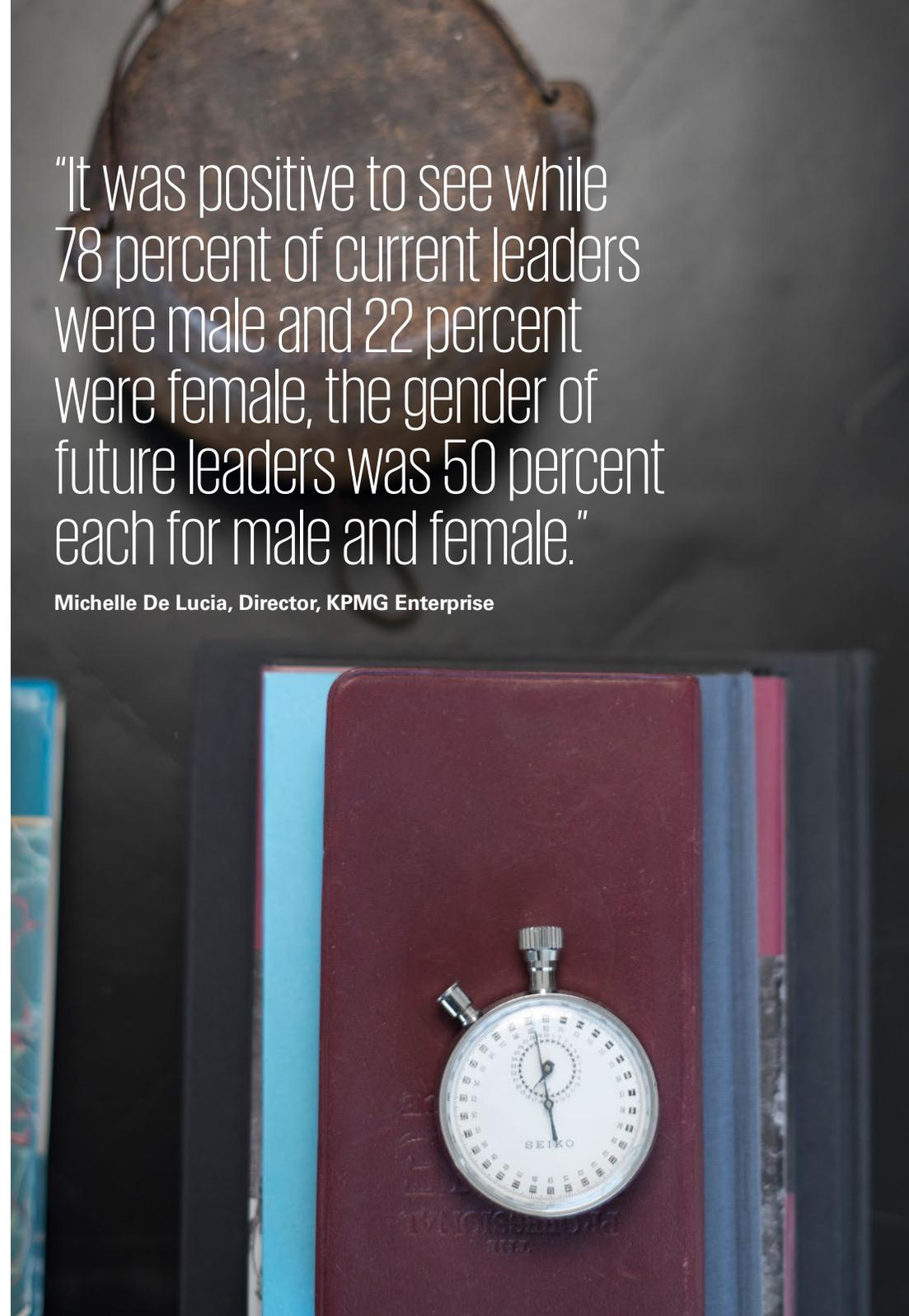
In addition, eight focus groups were conducted across Melbourne, Brisbane, Sydney and Adelaide from September 19-25, 2017. In each city, two concurrent focus groups were held – one for the incumbents and one for the next generation of leaders. Wherever possible, incumbent and next generation participants were matched by their family membership, and on average a 54 percent match rate was achieved. This allowed for interesting inter-generational as well as intra-firm comparison of data.

## Who are the family business leaders?

The most senior decision-makers that participated in the survey were predominantly family members (95 percent, up from 93 percent in 2015). Eighty percent were male (down from 85 percent in 2015) with a median age between 55 and 64 years. On average, they had been in their senior role for 16.5 years (up from 16 years in 2015).

"It was positive to see while 78 percent of current leaders were male and 22 percent were female, the gender of future leaders was 50 percent each for male and female."

**Michelle De Lucia, Director, KPMG Enterprise**



# Socioemotional wealth – underpinning success

**SEW matters both in the short and long term, as our findings show business families with high SEW are more likely to keep the business in the family, while those with low SEW are more likely to close or exit the business.**

“Introducing families to the concept of SEW and how to develop it is a foundational issue that is key for the long-term success of the family business,” Bill Noye, Partner, KPMG Enterprise, says.

However, getting SEW right is easier said than done. Balancing both economic needs and socioemotional needs was identified as the primary source of conflict within the family over the last 12 months, and indeed since our survey began in 2005.

Perceptions of socioemotional wealth



1 = completely dissatisfied to 7 = completely satisfied

There are some key differences between generations around views on the importance of, and the evidence of, SEW in families, as shown in the table to the left. Future leaders were less satisfied with the level of SEW compared to current leaders. Dominic Pelligana, Partner, KPMG Enterprise, says they have higher expectations of SEW, which is predictable as family businesses succeed through generations.

“Typically the second generation or third generation comes along and says we need some balance and we need to professionalise if we are going to grow,” he says.

Focus group discussions also indicated these differences in perception are most likely due to communication issues between generations. A future family leader stated:

“I believe that most major family conflict arises from a lack of quality communication, which then impacts harmony within the family business...we work on trying to get family more involved and informed on family business issues through setting up family forums...because it’s one of our biggest flaws...we’re very poor about communicating with each other.”

The survey showed the top three SEW objectives of business families were:

- 1 Emotional attachment between family members (E)**
- 2 Family control and influence (F)**
- 3 The renewal of family bonds through dynastic succession (R).**

A future family business leader commented on their father’s identification with the business (I) and his binding social ties with the community (B), and how this can influence how business operations are conducted, as well as a desire for it to continue.

“I think that [being able to continue to provide employment to the community] plays on dad’s mind because he has lived in the town for 50 years and he values the way people look at him in the town. If word spreads that he fired 50 people then it’s going to hurt his personal reputation as well as the business reputation.”

# Future growth and performance

## SEW also links to the financial success of the business (see diagram to the right).<sup>4</sup>

The top financial objectives of family businesses were sales and sales growth, profitability and profit margins, and return on investment.

Future family leaders were more likely to prioritise sales growth over other financial objectives, including strategic direction, emphasising innovation and expansion into unrelated industries. A current leader said, “The next generation have the luxury of having a greater appetite for risk, as they don’t wear the consequences of when things don’t go according to plan.”

Future leaders were more positive about how the business is performing financially. Focus group participants suggested this is likely because future leaders may not have exposure to all aspects of the business and the industry through difficult economic cycles, so may not fully appreciate how ‘tough’ business can be.

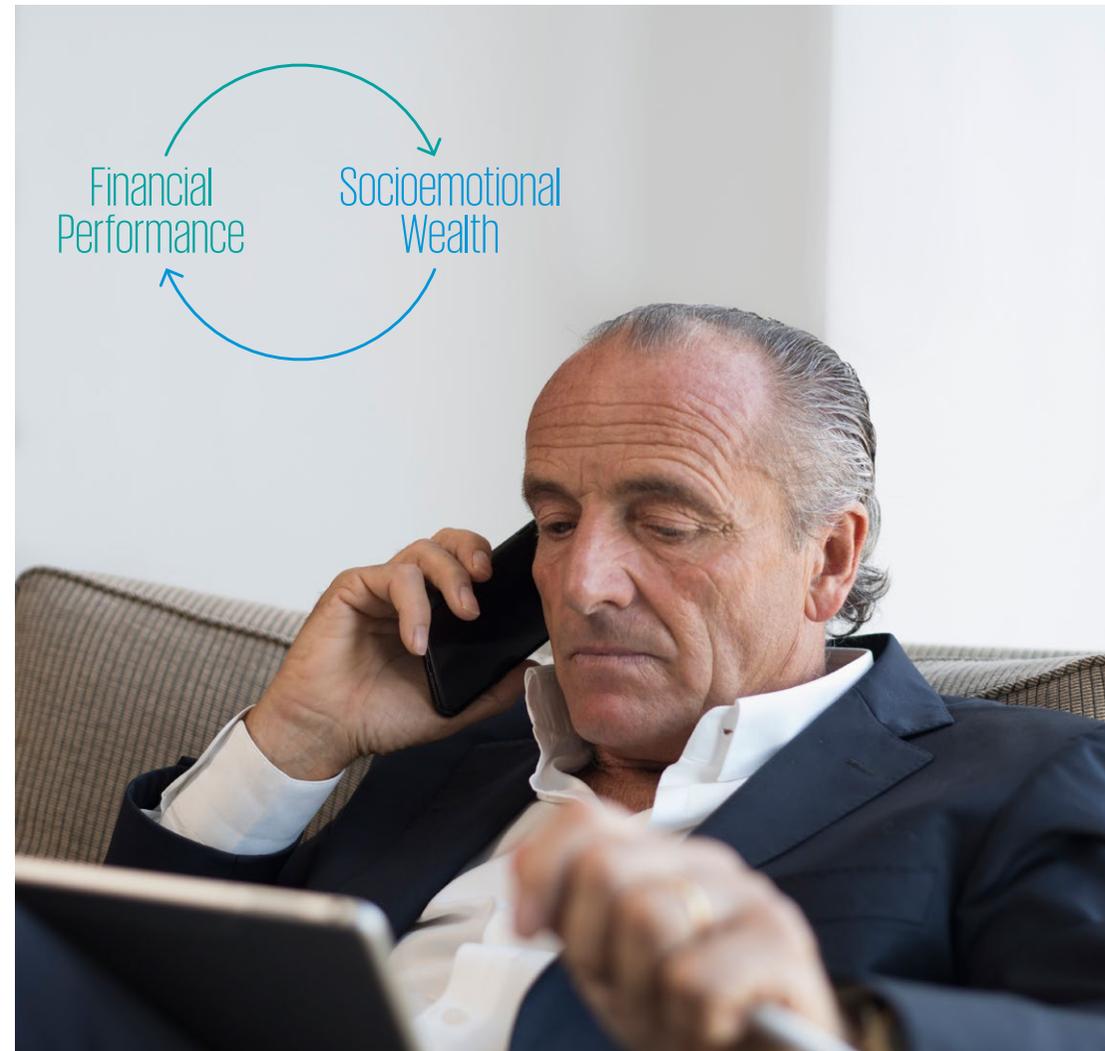
Regarding the future growth outlook, around 40 percent of family businesses indicated local sales will remain the same, while nearly 60 percent anticipated growth. In the interstate market, around 40 percent indicated that sales will remain the same, while nearly 60 percent anticipated growth. In the international market, around 50 percent indicated their sales will remain unchanged over the next three years, while 50 percent anticipated growth.

When it comes to future growth, respondents indicated top threats are the increasing costs of doing business, changing consumer preferences and purchasing behaviours, and the entry of new competitors.

Current leaders were more likely to emphasise threats that are within their control, while future leaders emphasised threats outside of their control (e.g. economic conditions, increasing tax burdens, and overregulation). Focus groups suggested that the views of current leaders are driven by their greater experience and a sense of responsibility.

Pelligana says these differences of opinion in terms of current status, market opportunities, and outlook, could impact SEW.

“This lack of alignment can cause the business to become distracted and start to lose its competitive edge, and the family starts to lose its love for the business,” he says.



<sup>4</sup> Graves, C., Caspersz, D., Barbera, F. (2017), Let’s not forget about the family – examining the interrelationships between family governance, family goals, and business performance, in proceedings of the IFERA Global Conference in Taiwan, Nov 14 – 17.

# Communication and healthy conflict

**Two pillars of SEW – emotional attachment (E) and renewal of family bonds through dynastic succession (R) – both point to the need for effective family communication.**

Not surprisingly, the survey found that families that openly discuss information are better equipped to identify potential successors, promote their development, as well as address difficult issues as they arise.

Relative to current leaders, future family business leaders reported lower satisfaction across all well-known communication features,<sup>5</sup> including talking regularly, listening to each other, and bringing issues into the open (see table below).

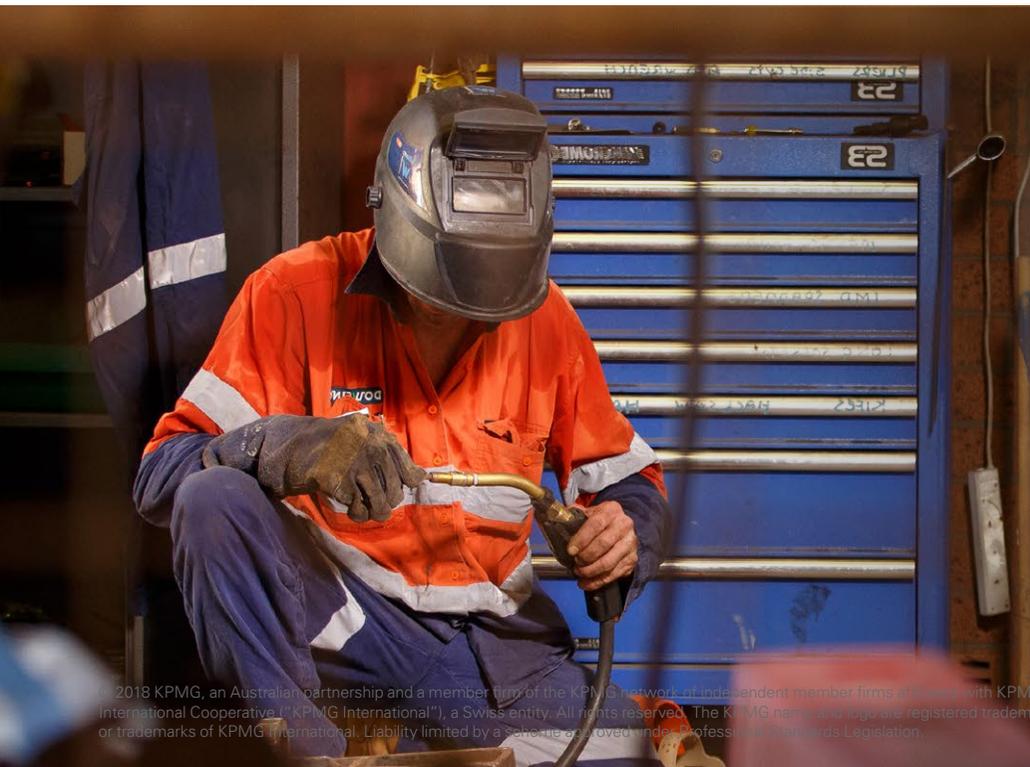
<sup>5</sup> Björnberg, Å., & Nicholson, N. (2007). The family climate scales — Development of a new measure for use in family business research. *Family Business Review*, 20(3), 229-246.

Pelligana says generational experiences and behaviours influence the practice of communication, and how its success is viewed.

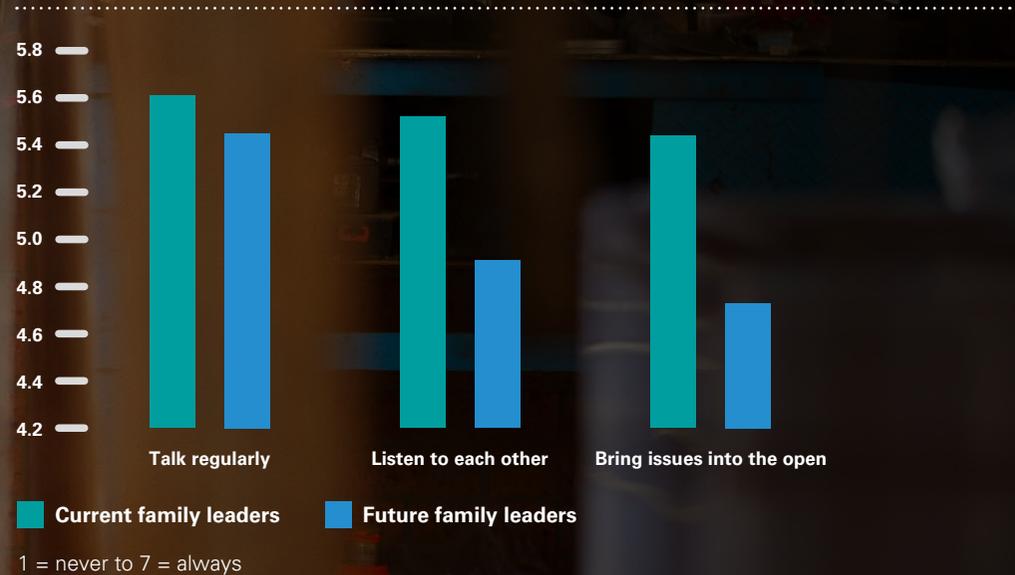
“The first generation is all about the business, growth and survival,” he says. “They have had to work hard, their concern is about action not planning. They are typically entrepreneurial – all the traits of having implicit strategies rather than being good communicators.”

He says the next generation comes along and wants to professionalise processes – and they want greater communication.

“The second generation says, I need to know what the plan is, make it explicit rather than implicit. If we are going to scale the business, and get involved, we need some framework and structure,” he says.



**Communication patterns**



Communication of course involves some level of conflict, particularly in families. However, the sources of conflict were viewed differently by generations. For example, 21.8 percent of future leaders said communication style was the leading cause of conflict, while just 13.3 percent of current leaders agreed. Balancing the needs of family and business was another – felt more by the incumbents at 17.3 percent, than future leaders at 12.7 percent. Another source was future vision, cited by 12.7 percent of future leaders and eight percent of current leaders. Financial stress was surprisingly not a significant cause of conflict – for future leaders at 7.3 percent and current leaders at 11.5 percent (see table to the right).

Michelle De Lucia, Director, KPMG Enterprise, says that family business members should not be afraid of some conflict as it can lead to better outcomes.

“If we can get everyone to acknowledge different styles, and we can get a good healthy debate around the table, then you’re halfway there on the communication piece,” she says.

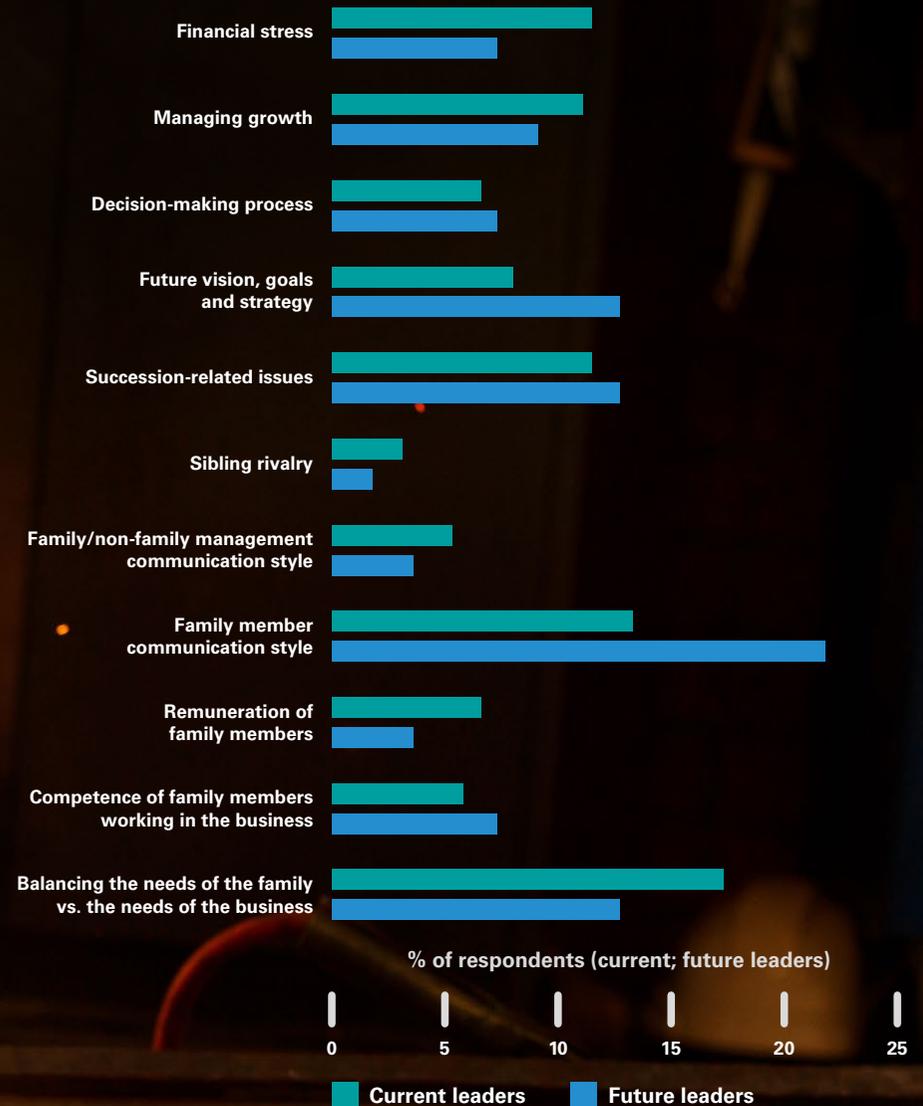
A good example of this was that a family’s perception about their ‘adaptability’, such as working together, how to solve major problems, and being flexible about handling difficulties, was enhanced by evidence of related conflict.

### The benefits of a family council

Our survey findings suggest that communication patterns, as well as conflict resolution, are significantly healthier for families that have a family council in place, versus those that do not.

Noye says: “A family council is focused on the family and how it interacts with the business, and it helps in getting the balance. The caveat is to make sure the same person is not running the business board and the family council. Keep the roles and perspectives quite separate.”

### Sources of conflict





# Getting the best out of conflict

**With Jacinta Dowsing, Non-Executive Director, and son Bohdan Dowsing, Executive Director, Dowsing Group, Perth**

Communication is paramount to the success of any organisation, but it goes to a whole different level when family is involved, says Bohdan Dowsing of concreting business, Dowsing Group.

“You have to go the extra step,” he says. “It’s important that I communicate as a business leader to my brothers [three in the business] and the rest of the staff about the strategy we are trying to implement and why we’re doing what we’re doing.”

He says the difference in how his parents, company founders Jacinta and Carl Dowsing, and he perceive communication is notable.

“My parents have a more hierarchical view of communication. Their way of doing it is to tell someone what to do and ‘just get it done’. I think I have a lot more holistic approach to staff. I tend to be more visual and present in the workplace.”

After taking over the business from his parents in recent years, Bohdan says he has had to learn to balance conflict.

“I often think now it’s better to have a facilitator in the room – that helps us get to a better outcome,” he says.

For Jacinta, having a formalised advisory board, bi-monthly meetings, and an independent facilitator has allowed her and Carl to have a say while handing the baton to her sons.

“I don’t miss it at all now that I feel we have good channels of communication to address any issues,” she says. “We are a very open family. We are very honest. No one has been shackled at the dinner table to not speak their mind, they challenge each other to bring things up and they don’t have a fear of silence... it is a form of communication that lets everyone know how they feel.”

[🔗 You can hear more from Jacinta and Bohdan here.](#)

# Keeping discussions on track

**With Cliff Fleming (left), Founder, and son-in-law John McLean (right), CEO, Bundaberg Brewed Drinks, Bundaberg**

Finding an appropriate space to openly discuss information and share conflicting opinions is paramount in family business.

“Communication is the absolute crux of success – if we don’t communicate we can’t be successful,” says John McLean. “Communication often comes with tensions, but healthy tensions can be a really good thing because people are passionate and challenging.”

Cliff Fleming says in the past, conflicts would sometimes monopolise family occasions.

“We would have a Sunday dinner and it would spoil it,” he says.

In order to keep a balance he believes in formal mechanisms to keep topics separate.

“My daughter Rae-Lee and John suggested that we speak with KPMG. We started a family council and through this in particular we learnt a lot about how a family business should operate. It formalises a Sunday dinner in a better and more professional way.”

[🔗 You can hear more from Cliff and John here.](#)



# Transition strategies

**Succession, again another pillar of SEW (R), is not a singular event, but a process of transitioning the family business to its next stage of development. There are two key transitions – the most senior decision-making role to another person, and ownership (and control) of the business to new directors and owners.**

In terms of leadership transition strategies, the survey found that 29 percent had no management transition strategy in place. This was likely because their current leader was on average less than 55 years of age. A further eight percent had no strategy because the owners intended to sell. The remaining 63 percent had a leadership transition/succession strategy in mind.

A significant 60 percent planned on passing the leadership to another family member, while 34 percent intended to pass it to a non-family member. As 94 percent had a family member in the senior leadership role, we can expect the percentage of non-family leaders to grow in coming years.

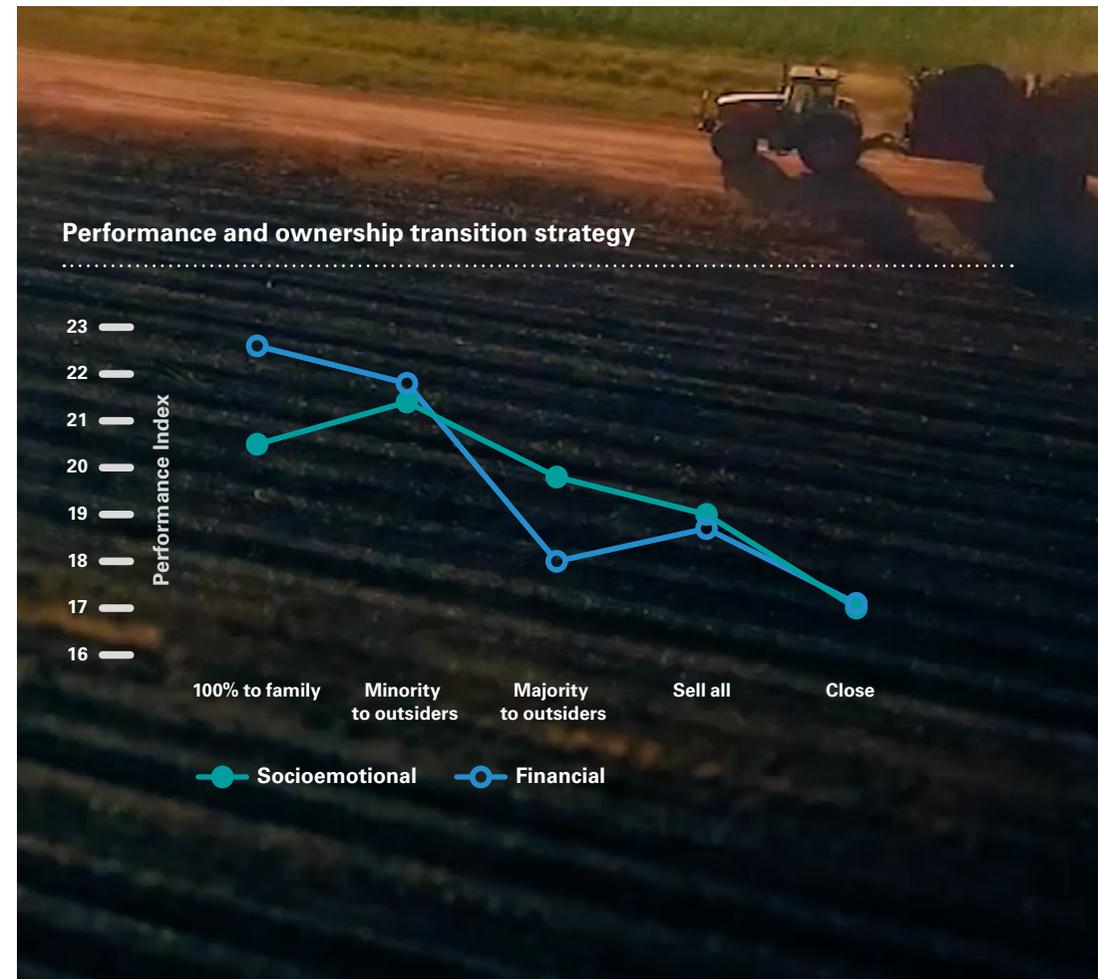
Leadership transference wasn't far off for some, with 18 percent looking to pass the baton in the next 12 months, 54 percent in the next two to four years, and 28 percent after another five or more years. More than half (53 percent) of those looking to pass on leadership in the next 12 months are intending to appoint a non-family leader. This contrasts to those looking to pass on leadership in more than five years, where only 17 percent intend to appoint a non-family leader.

In regard to ownership transition strategies, 10 percent were looking to undergo an ownership change the next 12 months, 30 percent within the next two to four years, and 60 percent in the long-term (five or more years away). Nearly one-third (32 percent) had no ownership transition strategy. Of those that did, 63 percent intended to pass it solely to family members; five percent intended to sell a minority share to non-family; three percent intended to sell a majority share to non-family; and 24 percent intended on either closing the business or selling.

A number of future family leaders expressed 'being in the dark' about the future of the business and how to best prepare for potential roles.

De Lucia says this of course ties back to SEW, as evidenced in the table below. The table shows the relationship between ownership intentions and family business performance.

"If we are not working on developing the socioemotional wealth of the family, and it is at a low level, the likelihood of shutting down or exiting the business increases. Unless you are successfully developing and balancing your SEW, you are probably not going to have much to succeed with," De Lucia says.



# Inheriting dad's entrepreneurial streak

**With John Valmorbida, Managing Director, and son Jamie Valmorbida, Director, Joval Group, Melbourne**

Jamie Valmorbida has inherited his father John Valmorbida's entrepreneurial streak and is focused on growing his ice cream business with his sister. His dad is an investor in it, and Jamie and John are looking at other options to work together.

"The beauty of being in a family business is that you can be a bit more honest, you can say what you think and not be too scared of upsetting someone's feelings," Jamie says. "When it comes to family business you need to treat each other with respect and trust each other like any colleague."

John sees the ability to engage Jamie and his siblings as a way of not only future-proofing the succession of the business but helping to guide his children through to the next stages of their lives.

"We're in a transitional period and we're working towards getting them more involved," John says. "They're sitting in on regular meetings and are having more of a say on what we should do from a distance."

"But to me, it's more about how they see their own lives and what they want in their priorities and they're all in different stages."

[🔗 You can hear more from John and Jamie here.](#)



### Extent of planning for management and ownership succession

When it comes to documented plans for leadership and ownership succession, 54 percent had no unifying strategy for how the family will participate or be recognised in the business, while 17 percent did. Just over half (54 percent) had no retirement plan for the current CEO/MD (worse than 50 percent in 2015), and interestingly, 43 percent had no training in place before a succession (42 percent in 2015), (see table to the right).

These results suggest that most business families have not had the opportunity to get together and discuss and determine the future of the ‘family’ aspect of the business. A focus group participant said:

“I think our issue is that Dad probably doesn’t communicate enough with us and I don’t know if that’s because at the moment he’s still trying to get his head around what the succession plan looks like...ultimately, we [the next generation] would like to keep the company in the family and have some sort of a plan in place, where all of us can work together to you know, continue on.”

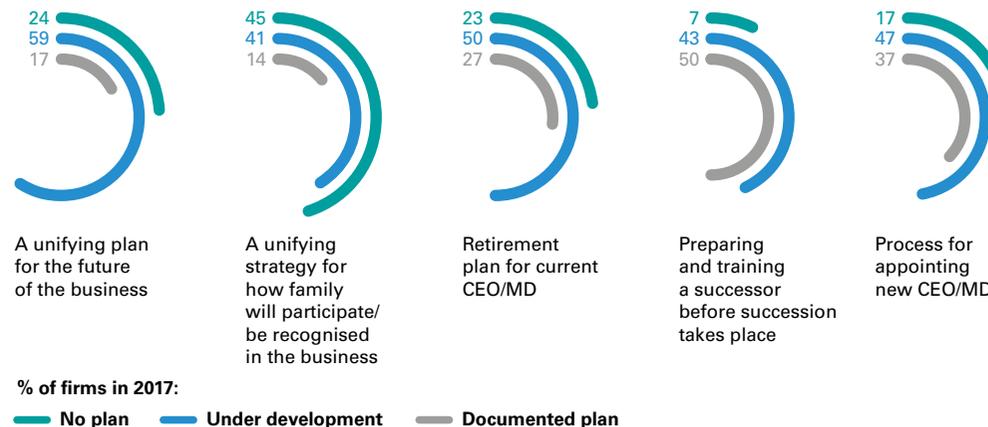
For businesses with leadership succession on the cards within five years, these trends towards a lack of preparation are of concern. Just 14 percent of close-to-succession businesses have a unifying strategy for how the family will participate or be recognised in the business, and just 27 percent have a retirement plan for the CEO/MD.

For businesses with ownership succession on the cards in less than five years, the table to the right shows that only 26 percent had identified who ownership would pass to.

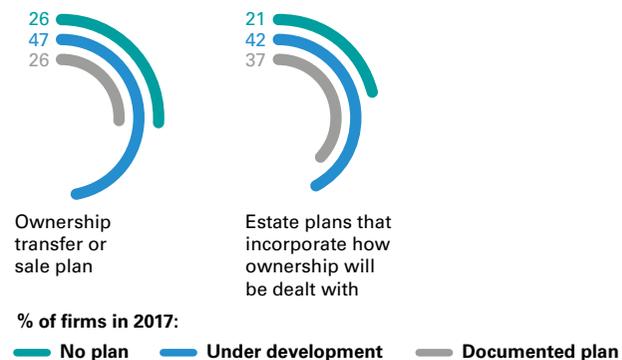


John Valmorbida (far right) focuses on preparing his family and team for the future.

### Leadership succession planning of firms passing baton in < 5 years



### Ownership succession planning of firms passing ownership to family in < 5 years



Noye says these results demonstrate a clear “failure to plan” and will of course impact SEW.

“It brings forward a lack of confidence as the time for transition gets closer – and what this survey highlights is in fact the next generation aren’t feeling ready, they feel underprepared to take over, but the incumbent is saying ‘they’re fine’. This is a key issue that needs to be looked into. The issue of planning for effective succession is critical to the long-term success of the family business and successful succession.”

# Confidence and commitment

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**The ingredients of SEW – family control and influence (F), identification with the business (I), emotional attachment (E), and renewal of family bonds (R) – all relate to the passing of wisdom from one generation to the next, as well as giving the future leaders a chance to form their own connection with, and influence on, the business.**

Current leaders play an important role in this process – by educating future leaders on the complexity and challenges of leading a successful business. And future leaders (in their likely optimism, enthusiasm and entrepreneurial spirit) play an important role in both learning these skills, while also challenging long-held assumptions of how 'things should be done around here'.

However, incumbents, being occupied with running the business, may not be as concerned with how they share information to successors, while future leaders are occupied with learning their family's business, which requires more vigorous intergenerational communication.

When incumbents were asked if they believed the potential successor is prepared to take over, 60 percent said yes and 40 percent said no. In contrast, when asked about their own readiness, just 36 percent of future leaders said yes and 64 percent said no. Future leaders are less confident in their 'technical' skills (e.g. financial management) and more confident in their 'human' skills (e.g. leading and managing people).

When transition was planned to occur in the next one to four years, successors felt less prepared than incumbents give them credit for, but when transition was planned to occur in the long run (i.e. the next five years or more), successors felt more prepared than incumbents give them credit for (see table to the left on the next page).

De Lucia says: "Why is that happening? It is possible that the next generation are really starting to realise the gravity of taking over, especially large family businesses, and understanding there are lots of stakeholders, they are looking after lots of employees, and they might be looking after the bulk of the family's wealth in the business."

A future leader supported this idea.

"I'm still human. I've never run a business...people can get ahead of themselves and think 'I can do anything', but I really cannot and I need help...it's Dad trying to show confidence in me so that I take that step instead of always putting myself down, like 'I'm not great at this', maybe I don't want to put myself out there to take a chance."

Irrespective of time frame, future and current leaders also perceive different confidence levels in the types of abilities successors may (or may not) possess. The table to the right on the next page, shows that relative to incumbents, future leaders are less confident in their technical skills, and have more confidence in their human skills (such as managing people).

Noye says this lack of certainty shows that "family businesses need focused development plans for the next generation, which will include education, mentoring, and networking".

"There needs to be open communication about what has worked and not worked."

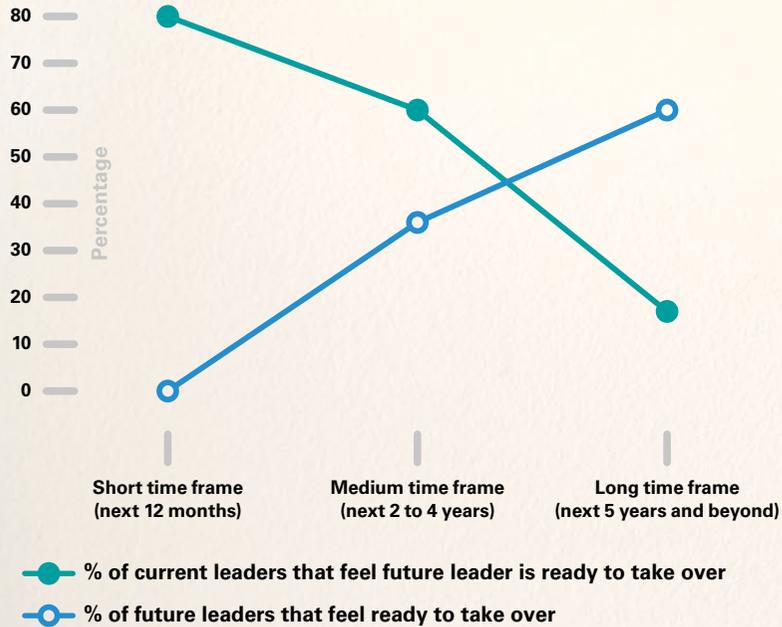
Pelligana says the next generation needs the chance to develop a deep understanding of the business and perspective before taking on responsibility.

"A good motto is 'learn, participate, then involve them in decision making'. It should not be 'my way' or 'your way', but 'my way and your way' in the context of the goal we are trying to achieve," he says.

He adds that if sharing of wisdom and embracing of fresh ideas can be achieved, confidence can grow, and the family business can have an immense competitive advantage.

"Most corporate CEO tenures is an average of five to six years, this average is 15 to 20 years in a family business. Imagine the advantage of having all that business and industry knowledge accumulated and leveraged in multigenerational family businesses."

### Preparedness of future leader



### Wisdom of now and the future

De Lucia says incumbents need to loosen the reins a little to help build confidence in the skillsets future leaders need, such as stewardship, stakeholder management and leading and managing people.

“It has to be the balance of the lessons learnt, but also recognising that the world is moving at a much faster pace than ever, and we need to tap into some of the younger generation’s ways of thinking and strategies, including technology.”

### Confidence in future leaders’ skillset

(current leaders’ assessment of future leaders vs. future leaders’ self assessment)



■ Current leaders ■ Future leaders

1 = no confidence to 7 = complete confidence

# Knowledge is power

**With Jacinta Dowsing, Non-Executive Director, and son Bohdan Dowsing, Executive Director, Dowsing Group, Perth**

Jacinta Dowsing sees her role in fostering the next generation of leadership as enriching people with her own experiences.

“Knowledge is power and being able to receive wisdom from those that love and care for you and appreciate you is another whole layer of greatness,” she says. “It’s a great challenge for the boys [her four sons in the business] to take our wisdom into the next generation and the growth and adaptation of our company.”

“Carl [her husband and founder of the business] and I never lose sight of our company’s core values. It’s important to not only our family, but also to the respect of our suppliers and customers. We have a good name here in Perth and I would never want that to be damaged.”

But she also sees the value of knowledge the new generation can bring.

“They bring lots of new opportunities and they touch things that we don’t even know exist.”

Eldest son Bohdan is investing in new technologies, business intelligence tools and new practices to drive the business forward.

“It has been hard for Jacinta and Carl to see the value in a lot of this stuff – a lot of capital invested to put empowerment into our staff with the right data and tech,” he says. “But we couldn’t grow at the level we are without the support of the family.”

[🔗 You can hear more from Jacinta and Bohdan here.](#)





## Showing faith in the future

**With John Valmorbida, Managing Director, and son Jamie Valmorbida, Director, Joval Group, Melbourne**

The Valmorbida family first came to Australia in the 1950s, and three brothers established a business importing and distributing Italian food and goods across the country. John Valmorbida worked with his father but had a desire to break away and start something of his own – so he focused on importing Italian wines, and is now Managing Director of Joval Group. This means he understands why his three children have thus far shown a reluctance to get directly involved in his business, with his eldest son Jamie and his sister focusing on their own ice-cream company.

“Like father, like son; he’s very independent,” says John. “But we’ve managed to get him directly involved through the investment side of things, so he’s playing an active role and keeping an eye over everything, acting as an ambassador at the appropriate times and getting to know what’s happening in the Group.”

Jamie is finding his dad’s mentorship and wisdom a great asset in his own entrepreneurial endeavours.

“I’ve embraced and learnt from dad since the earliest days, but since I’ve been working in the business he’s very open and loves teaching,” Jamie says. “It’s great being able to pick up the phone and get his ideas.”

“He’s really good at sharing his history and experiences, particularly on the family side. We’re conscious of his history of family business and making sure we’re aware of the things that can go wrong.”

[🔗 You can hear more from John and Jamie here.](#)

## Commitment

Another important reason for generational gaps regarding the readiness of successors may relate to the level and type of commitment they exhibit (see table to the right). This idea of commitment is of course connected to SEW – namely identification with the business and emotional attachment, for example.

The reasons behind a decision to pursue a career in the family business can be a major force in shaping successor perspectives, as they relate to underlying mindsets, motivations, and incentives. To better understand this precursor to preparedness, we focused on four key types of commitment, not all of which are necessarily positive.<sup>6</sup> These are:

- 1 Desire-based** – stemming from a genuine belief in and acceptance of the organisation’s goals, combined with a desire to contribute, and the confidence to do so.
- 2 Cost-based** – stemming from perceptions of substantial opportunity loss and threatened loss of investments or value if they do not pursue a career in the business.
- 3 Obligation-based** – stemming from feelings of obligation to pursue a career in the family business and an attempt to have good relationships with the senior generation.
- 4 Needs-based** – stemming from feelings of self-doubt of the ability to successfully pursue a career outside of the family business.

Family members can be motivated by more than one type of commitment at a time.

Current leaders primarily tend to be committed for cost-based reasons and have a strong secondary tendency towards a desire-based commitment. Future leaders are primarily committed due to obligation, which may be the result of expectations that they feel are being imposed, rather than a real desire to be involved.

One current business owner said: “The worst thing [the next generation] can do is take over the family business because they feel obligated.”

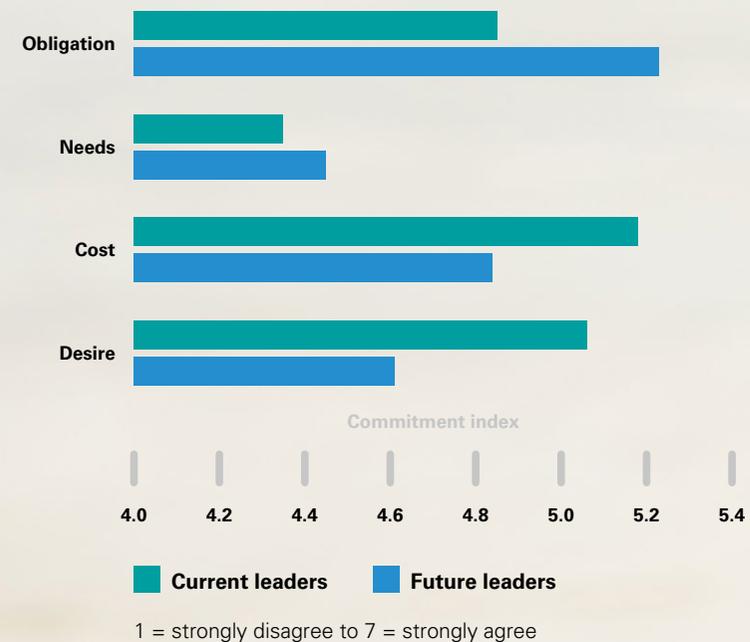
Pelligana says these types of commitments to the business can be formed at a young age, and have a real impact on SEW.

“For both good and bad they will have certain experiences being kids in the business. This all shapes perspectives, as they have been conditioned through education, emotional investment and their own experiences with their parents. This can impact the future leader’s passion and commitment to the business, thereby impacting the business’s performance and the family’s SEW. This concern is reflected in the gap between the current and future leaders’ ‘Desire’ commitment type.”

<sup>6</sup> Sharma, P., & Irving, P.G. (2005). Four bases of family business successor commitment: Antecedents and consequences. *Entrepreneurship Theory and Practice*, 29(1), 13-33.



### Comparison of commitment type of current and future family leaders



# Embracing interest

**With Cliff Fleming, Founder, and son-in-law John McLean, CEO, Bundaberg Brewed Drinks**

Cliff Fleming credits the ongoing success of the Queensland-based beverage business to the successful changing of the guard between generations of management. He moved into his parent's business with his wife Lee in 1968, and over the subsequent 25 years grew the company as an agent for Cadbury Schweppes.

"As a family we worked well together," he says. "Mum and dad, Lee and I had a wonderful partnership until in 1985 they retired from the business. We learnt a lot about bottling, we learnt a lot about profitability. It wasn't until John [McLean, son-in-law] and Rae-Lee [daughter] came to me and said 'You have a pretty good business here' that I thought to myself, 'I've got them, they're going to join the business!'"

John and Rae-Lee spent a number of years working with Cliff before John was named CEO. After setting out to sell their own brand of products, the company has expanded to the point where it now distributes to 47 countries.

"I never imagined we'd get to the size of business we currently have; it's a wonderful dream that I did not even know to dream. It's only because of passing the baton from my ways of thinking to a younger person's thinking."

Now even John is looking at ways he can pass on his own knowledge, wisdom and experience down the track.

"We need to ensure the next generation coming through is not alienated from the business," John says. "The spread is quite wide within the younger age group. One of my daughters lives in the Snapchat world and I have to Snapchat appropriate things like new bottle designs. My hope is that the younger generation has an interest in the business and can have an active and allowed pathway to gain skills, and the ability to be able to stand on their own two feet."

[🔗 You can hear more from Cliff and John here.](#)

# Governance for the future

**Governance frameworks are also vital to SEW, with particular reference to renewal of family bonds through dynastic succession (R). Family business governance refers to the structures and practices put in place to oversee and direct the organisation towards achieving both financial and socioemotional goals. While there is no ‘ideal’ governance framework, there are three key forums which help:**

- 1 A Family Council**, which is inclusive of family members and seeks to guide and set rules around the family’s values and expected behaviours, how family members can participate and be recognised in the business, focusing on the family’s best interests and its development of its SEW;
- 2 A Business Board**, which is exclusive, comprising of qualified and experienced people, focusing on the best interests of the business, providing broad and independent perspectives around strategy, risk and succession of key talent; and
- 3 A Shareholders’ Board**, particularly for 2nd and subsequent generations, to help ensure that the business’ owners are aligned and committed to carry on as owners of the business.

Pelligana says that different governance structures should be responsible for different areas, to ensure there are no conflicts of interest. For example, family council members can be responsible for governance of the family system, while advisory board members or the board of directors can be responsible for the business system.

The survey showed that 48 percent had a board of directors and 38 percent had a family council. Pelligana says it is important to facilitate communication between these two structures – yet only 27 percent had a formal mechanism for providing feedback to family members about business matters, while 47 percent had a process for incorporating family values into the business.

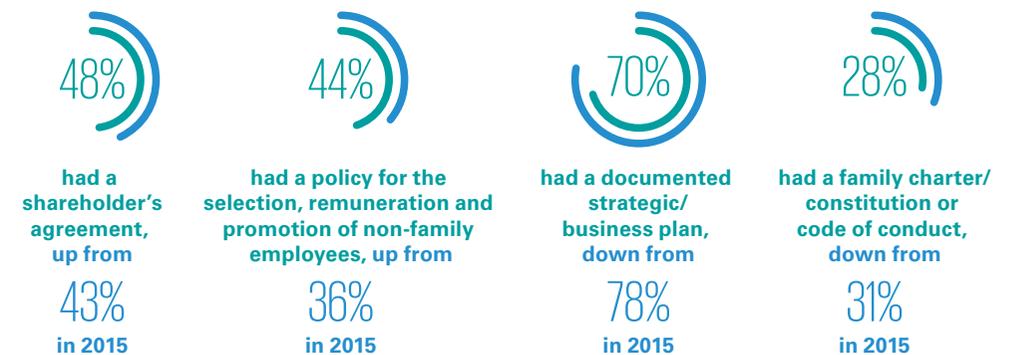
The survey found that family businesses are more likely to adopt governance frameworks as they grow. For example, 72 percent of large family businesses had a formal board of directors compared to 43 percent of medium sized family businesses.

Pelligana says while it could be tempting for the incumbents to keep governance minimal for speed of decision-making, this can have downsides, and can add to issues with SEW.

“They won’t go far unless they bring people with them, which goes back to the sustainability of the business and the structures you put in place,” he says.

Pelligana adds that one thing to remember is that, “it’s essential that governance structure changes should not undermine the essence of the firm’s competitive advantage. Many family businesses outperform larger corporates because they combine their historical knowledge of the business and industry with quick and informal decision making, allowing them to be flexible and agile. It is important that we don’t over bureaucratise and stifle this competitive advantage as the business professionalises.”

## Structures in place





# Getting it in writing

## With John McLean, CEO, Bundaberg Brewed Drinks

“Looking on to see the sustainability of the family within Bundaberg Brewed Drinks is a hard thing for me to see in my crystal ball at this stage,” says John McLean. “It would be great to see them all working in the business, but each person needs to make a ‘heart moment’ themselves.”

A family constitution and a shareholders agreement provide confidence and guidance, not only to the Fleming/McLean family members, but also to employees on how they should interact with the family.

“Bundaberg Brewed Drinks is a large business but we don’t have a lot of family members. To ensure we don’t alienate our staff and valuable team members, the family constitution helps us to really guide how we work within the business.”

It also helps enshrine the values and ideals of the company – whether or not the next generation decides to play an integral part.

“Bundaberg Brewed Drinks has established the family constitution and broad strategic plans to continue to run the business with family values. We see them as absolutely crucial, and we may not have any family members within the business or we may, but I’m a realist.”

[🔗 You can hear more from John here.](#)

# In summary

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**It is clear from this investigation into family businesses that barrelling forward with a ‘business first’ approach, without respect for the socioemotional wealth of the family can lead to a greater likelihood of passing the baton (leadership and/or ownership) to a non-family member down the track. And with so many differing intergenerational perspectives across the areas of future growth, communication and conflict, transition strategies, and confidence, SEW is something that must be worked on.**

Noye says: “The big issue for me is the importance of the family to parallel plan. The family having a shared vision and objectives for the family and where it is going with the business, and the vision and objectives of the business itself. Secondly, I would really like for families to get in touch with their socioemotional wealth as part of that, and to look at how they will develop that.”

The family having a shared understanding of their intent for the future of the business and its future growth plans is an important step, as will be building stronger communication frameworks within the family about the business, both formal and informal. Accepting that conflict will happen, and doesn’t have to be detrimental, is also important, as is recognising that enlisting outside help to mediate meetings can be beneficial.

It is fundamental for families to have a shared understanding on leadership and ownership strategies and transition plans, or people may lose their connection to the business. Focusing on training, mentoring and developing the next generation to be prepared for leadership is absolutely critical to overcome that concerning lag in self-confidence.

Finally, governance frameworks for the future must be put in place to ensure the interests of the family and the business are secure and understood by all involved. Pelligana says to remember that this effort to focus on all the aspects of building SEW are worth it – not only for now but for generations to come.

“A family business is the optimal business model in this world of uncertainty and ambiguity – bringing in the wisdom of all generations, and understanding of goals and frameworks is a competitive advantage.”



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