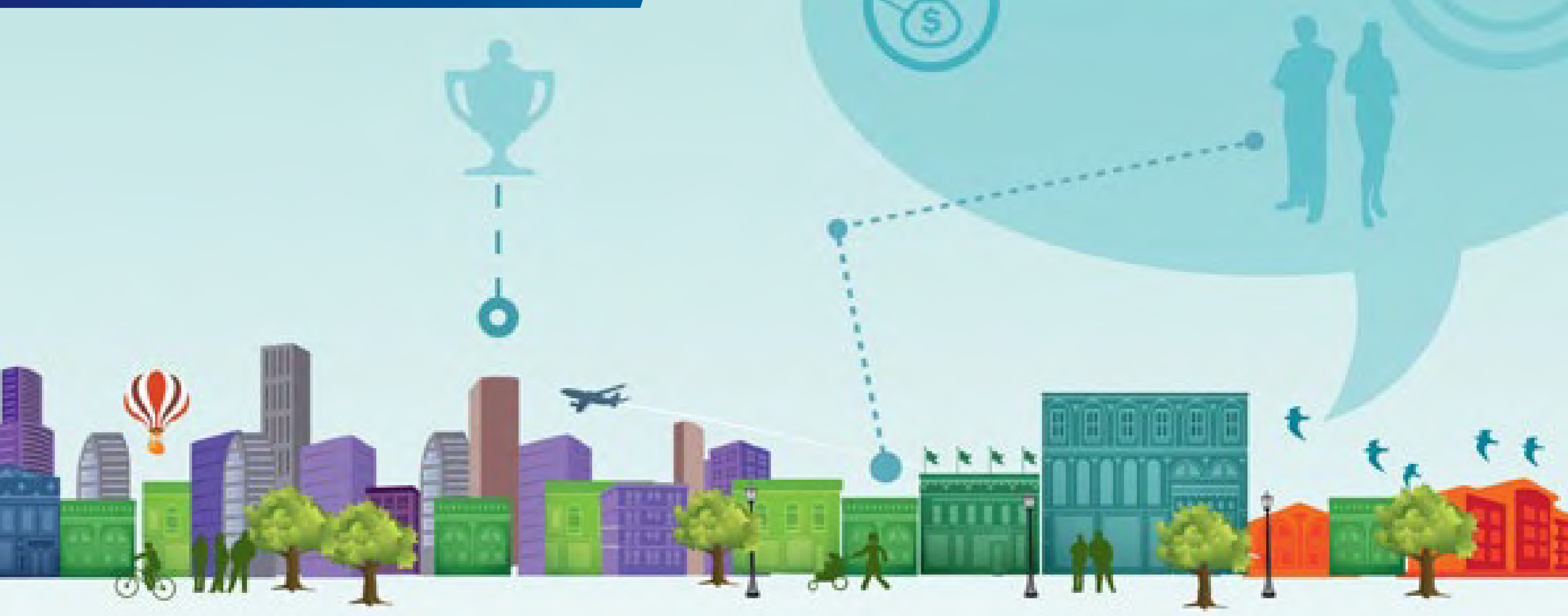
KPMG
cutting through complexity

FBA
Family Business Australia

Performers: resilient, adaptable, sustainable

KPMG and Family Business Australia

Family Business Survey 2013



THE UNIVERSITY of ADELAIDE

Welcome

As evidenced by the recently released report of the Australian Joint Senate Enquiry titled *Family Businesses in Australia – different and significant: why they shouldn't be overlooked,* there is growing recognition amongst policy-makers, business advisers, media commentators and others, that family businesses are different.

As the peak body for families in business, Family Business Australia (FBA) has long been concerned about the lack of available and reliable data on the sector in terms of contribution to GDP, scope, structure and key trends. It is encouraging to learn that one of the 21 recommendations made by the Senate enquiry into family businesses is for the Australian Bureau of Statistics to collect statistics on Australia's family business sector.

In the absence of government mandated data collection, and to explore the unique nature of family businesses, FBA and KPMG in Australia (KPMG) have been undertaking joint research since 2005 through a biannual survey. For the 2013 survey, FBA and KPMG partnered with the University of Adelaide's Family Business Education and Research Group (FBERG). In April 2013, we surveyed 570 family business leaders with results further explored through focus groups of family business owners in Brisbane, Sydney and Adelaide in June.

In our 2013 survey, in addition to our usual focus on issues which challenge family business including governance, exit and succession, we asked family businesses how they are performing compared to their key competitors. We also asked how satisfied they are with regard to achieving their family-oriented goals.

Based on the economic indicators and views of leading business commentators, it is widely acknowledged that all businesses are facing a tough economic environment. Encouragingly, 83 percent of our 2013 survey respondents reported that being a family business assisted them in coping with the ongoing economic uncertainties. Furthermore, the majority of these family firms felt they outperformed their key competitors in a range of areas, including product and service quality, productivity, innovation, growth, and financial performance.

Family owners are succeeding in achieving their family-oriented goals for the family business which include providing personal challenges and rewards, family independence, and to enhance the family's standing in the community. However, they were less satisfied with regard to the level of achievement of other family-oriented goals such as spending time with the family, increasing family wealth and quality of work-life balance. The balancing 'family and business issues' was seen to be the biggest challenge faced by our respondents.

KPMG and FBA thank all of the individuals who responded to our survey questionnaire and to those who participated in the associated discussion groups.

We would also like to recognise Dr. Jill Thomas and Dr. Chris Graves from the University of Adelaide's FBERG for their contribution to the survey.

We trust our report will be of value and interest not only to those directly engaged in family businesses, but also to those financiers, advisers and regulators who deal with and support the sector.

Philippa Taylor
CEO
Family Business Australia

Bill Noye
Partner
National Leader for Family Business
KPMG Private Enterprise

Contents

Executive summary

Competitive strengths and performance of family businesses

- The majority of family firms felt they outperformed their key competitors in a range of areas, including product and service quality, productivity, innovation, growth, and financial performance.
- Eighty-three percent of respondents believe that being a family business made a difference in coping with ongoing economic uncertainties. Through shared values and ethos, and guided by a long-term and consistent approach to strategic planning, embraced by a committed workforce, family businesses are able to be more adaptable and resilient to market conditions and therefore consistently and productively deliver superior service and product to their customers.
- Family owners are realising their family-oriented goals for the family business to provide a personal challenge and rewards, family independence, and to enhance the family's standing in the community.
- However, they were less satisfied with regard to the level of achievement of other family-oriented goals such as spending time with the family, increasing family wealth and quality of work-life balance.

Family business issues – facing up to the challenges

- 'Balancing of family and business issues' was seen to be the biggest challenge.
- 'Maintaining family control of the business' was the second most highly ranked challenge, followed by 'preparing and training a successor'.
- While family businesses share common challenges, individual businesses will face their challenges and issues at different times depending on their business life cycle and their ownership life cycle.

Managing and resolving tensions

- Forty percent of respondents stated they had experienced no conflict within the business over the last 12 months.
- Those experiencing conflict reported it as primarily occurring around 'vision, goals, and strategy', with 'how decisions are made', 'managing growth', 'financial stress' and 'competence of family members' making the top five sources of conflict.
- To manage the conflict, family businesses most commonly utilise family gatherings to discuss contentious issues, while multi generational firms also use boards, family councils and shareholders' agreements.

Attracting and retaining talent

- Family values have a major impact on both how the business is operated and the sense of belonging/ community experienced by many who work there.
- Most respondents believe their employees feel a sense of ownership for the organisation, rather than just consider themselves 'an employee'.
- The majority of respondents reported that compensation of family members was comparable to that of non-family members at the same level.
- Two thirds of respondents consider that family members work longer hours than non-family counterparts at comparable levels. This may reflect family commitment and investment in the business to see it succeed.

Governance: balancing family and business priorities

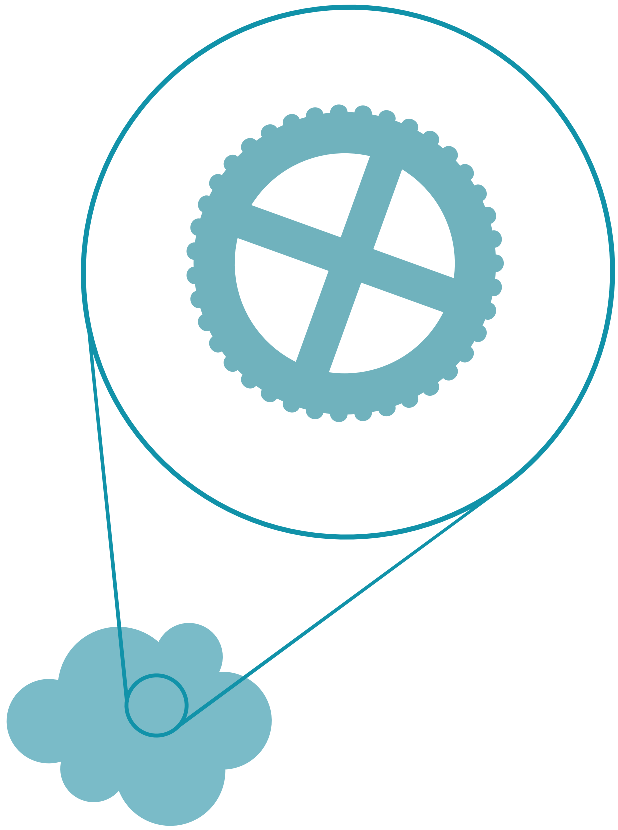
- Many respondents view family issues as having an 'equal' or 'greater' influence over family business performance than business-only issues.
- Family business firms with formal advisory boards performed better (both in terms of business performance and achievement of family-oriented goals) compared to those that did not have formal advisory boards.
- Family businesses that had processes for 'incorporating the owning family's vision and priorities into the business's planning processes' reported both superior business performance and achievement of family-oriented goals, compared to those that did not have such processes.
- Forty-four percent of family businesses have formal boards compared to 39 percent in our previous survey in 2011. However, the adoption of business governance mechanisms and practices is influenced by a firm's size and generation/phase in the life cycle.

Preparing to exit

- Around two-thirds of current family CEOs are 50 years of age or older, while nearly 20 percent are 65 plus years of age. Despite this, only around a third of family businesses considered themselves exit or succession ready.
- Two-thirds of family firms intend to keep the business in family hands by passing management and ownership onto the next generation in the next 5 plus years.
- Multi-generational firms considered themselves slightly more prepared for exit, and less likely to sell, compared with first generation firms.

Business continuity planning

- Over a third of family businesses (36 percent) have no explicit unifying strategy for the future of the business.
- Over 40 percent of the family CEOs did not have a retirement plan.
- Over half have no explicit plan in place for appointing a new CEO, no plan for ownership transfer, and over one-third have no plan for preparing/training a successor.
- Of particular concern is the unpreparedness of those intending to enact succession in less than 5 years. Of these firms, around 25 percent had no retirement plan or plan for preparing/training a successor, while one-third had no plan for how ownership will be transferred.



Competitive strengths and performance

Majority are outperforming competitors in **product and service quality, growth, productivity, innovation and financial performance**

83%

believe being a family business helps in

surviving economic uncertainty

TOP 5

Family business strengths:

1. values & shared ethos
2. family support network
3. vision & strategy
4. strong brand
5. customer service

Satisfaction with achievement

70%

personal challenge & rewards

63%

family independence

61%

recognition & respect in the community

Primary challenges

1. **72%**

balancing **family** & **business** issues

2. **67%**

maintaining **family control** of the business

3. **64%**

preparing and **training** a successor

Conflict can be constructive

TOP 5

Sources of conflict or 'creative tensions':

1. visions, goals & strategy
2. decision making
3. managing growth
4. competence of family members
5. financial stress

30%

use family gatherings to manage conflict

Attracting and retaining talent

84% believe **family values** have a considerable or major impact on how their business is operated

Sharing success: **72%** believe the business successes **are the employees' successes**

"Our people really like working in a family business... they share our **values** and are **committed** to our business"
Family business owner

Governance – family and business

1/3 of family business believe **family issues** have an equal or greater influence over performance than business-only issues

55% have formal governance mechanisms in place to **complement their management teams**

Family firms with **formal advisory boards** perform **better** than those without

In larger businesses:
51% **of non-executive directors** are non-family members

Preparing for succession or exit

1/3 are **exit** or **succession** ready

2/3 intend on passing the business to family members

20% of CEOs are **65+** years old

41% of CEOs **do not** have a retirement plan

Section 1: Competitive strengths and performance

As made evident in the March 2013 report of the Australian Joint Senate Enquiry, *Family Businesses in Australia – different and significant: why they shouldn't be overlooked,* there is growing recognition by government, educators, advisers, and society at large that family businesses are different.

Additionally, empirical evidence suggests family businesses often outperform others and the family business model does, in fact, make very good economic sense. In a recent study published in the leading international journal *Family Business Review*, Australian family firms were found to financially outperform their non-family counterparts[1].

In this survey we asked family businesses how their *businesses* were performing compared to their key competitors and how satisfied they were with regard to the achievement of the owning family's family-oriented goals, an issue often overlooked.

Business objectives and performance

When asked to identify the importance of commonly cited business objectives, the top five were fairly consistent across firm size and generation of ownership.

Top 5 business objectives of family businesses:

[1] Graves, C. & Shan, Y.G, An Empirical Analysis of the Effect of Internationalization on the Performance of Unlisted Family and Non-family Firms in Australia, *Family Business Review* (forthcoming) http://fbr.sagepub.com/content/early/2013/06/17/0894486513491588.abstract

Because most family businesses are small and medium-sized firms (less than 200 employees), and compete based on differentiation rather than low cost, it is no surprise that 'product and service quality' was a top priority.

Although innovation was ranked seventh (out of 10) in terms of business objectives, it ranked third regarding how they were performing relative to their key competitors. Specifically, nearly 70 percent indicated that their innovation performance was better than that of their key competitors.

KPMG Insight:

A recent study[2] supports this view, highlighting that family businesses are more likely to invest in innovation compared to non-family businesses, but do so less intensively. Overall their innovation performance in products and processes is equal to or better than non-family businesses. The study's findings supports the long-held view that family businesses 'try to maximise their long-term survival by opting more often for a continual but less intensive investment in innovation…extending their market leadership through continuous and gradual innovation.'

Continual innovation is an important component of any business, especially when differentiating products and services in competitive markets in order to develop a source of distinctiveness. Innovation may include improving efficiencies, and the ability to respond to competition, trends or changing consumer needs before your competitors.

69%

indicated that their innovation performance was better than that of their key competitors

Table 1 summarises performance of family businesses against these business objectives with respondents reporting that they were performing best in product and service quality – 88 percent of these family business respondents believing they surpassed their key competitors in this area.

This is followed by a perception of superior performance in productivity, innovation and sales growth.

Table 1: Business performance relative to competitors

	2013 breakdown by firm size*				2013 breakdown by generation#	
Percent of firms with performance better than key competitors	**All firms** %	**Small** %	**Medium** %	**Large** %	**1st Gen** %	**2nd+ Gen** %
Product and service quality	88	84	92	88	89	87
Productivity	72	73	71	72	74	71
Innovation	69	64	73	70	69	69
Sales growth	65	58	67	83	64	67
Cash flow	63	61	63	71	64	63
Net profit	61	61	59	71	62	61
Return on sales	58	58	57	62	60	56
Market share	56	46	61	72	54	57
Return on assets	51	48	51	60	49	52
International sales	23	18	26	24	20	25

* Small (1-19 employees), Medium (20-199 employees), Large (200+ employees).
\# 1st Gen refers to firms where the family's ownership remained with the founding generation.

2 Classen, N., Carree, M., Gils, A., & Peters, B. (2013). Innovation in family and non-family SMEs: an exploratory analysis. *Small Business Economics*, 1-15.

"We very much believe in the power of vision... in our visioning exercise we drew a picture of a bridge going to the world. It was on the radar, but the strength of the vision certainly opened the doors for our international expansion to happen."

Fourth generation family chairman

83%

felt that being a family business made a difference in surviving uncertain economic conditions

Shared values and ethos can play a vital role in planning for a successful transition to the next generation

Only 23 percent believe they perform better than their key competitors regarding international sales, which is understandable given the desire to enter into overseas markets ranked low as a business objective. This suggests that family businesses are more interested in growth in domestic rather than international markets. This finding is consistent with previous research, which suggests family businesses lag behind their non-family counterparts when it comes to expanding internationally. However, family firms should be encouraged to do so as a recent Australian study found that they financially outperform their non-family competitors in the international marketplace[3].

Although the ability to expand overseas is influenced by the type of industry a firm operates in, two strong themes emerged from focus groups held by the University of Adelaide's FBERG as to why international growth is not a priority:

1. Given the ongoing effect of the 2008 global financial crisis, many family owners are focussed on regaining lost domestic sales before seeing the need to expand overseas.
2. In many cases, international expansion requires the broadening of a firm's vision.

With the exception of return on sales and international sales, there was little difference in the performance of first and multi-generational firms. Larger family firms reported they had achieved better performance in areas such as sales growth, market share and return on assets.

Overall, the results in Table 1 highlight that the majority of family firms believe they are outperforming their key competitors in a range of areas, including quality, productivity, innovation, and growth, and, consequently, financial performance.

In addition, 55 percent of respondents stated that being a family business was 'very'/'extremely' helpful in addressing the challenges of ongoing economic uncertainties. Another 28 percent deem it is 'somewhat' helpful; meaning that overall, 83 percent of respondents felt that being a family business made a difference in surviving uncertain economic conditions.

To understand why they are able to achieve superior performance and survive the ongoing economic uncertainties, we asked family businesses to identify what they considered to be their key competitive strengths (see Table 2).

Table 2: Competitive strengths of family businesses

Top 7 Competitive Strengths (in order of importance)	
1	Shared values and ethos
2	Strong support network amongst family members
3	Vision and strategy
4	Strong brand/market presence
5	Customer service
6	Ability to make decisions quickly
7	Take a long-term perspective

[3] ibid

Focus group participants reasoned that through shared values and ethos, family members can trust, and delegate responsibilities to employees who exhibit a commitment to their job 'just like a family member'. The strength associated with vision and strategy relates to consistency of purpose.

In summary, through shared values and ethos, and guided by a long-term and consistent approach to strategic planning, embraced by a committed workforce, family businesses are able to be more responsive to market conditions and therefore consistently and productively deliver superior service and product to their customers.

In addition, shared values and ethos can play a vital role in planning for a successful transition to the next generation. These shared values can help the incumbent generation develop more confidence in the next generation's abilities and intentions and in turn assist the incumbents in letting go.[4]

"When the family is at the helm, you have consistency of vision and strategy, and I think that's a really important thing for winning new and repeat business with customers."

Fourth generation family chairman

Achievement of family-oriented goals of the owning family

When asked to identify the importance of commonly cited family-oriented goals of the owning family, the responses were fairly consistent across firm size and generation of ownership. Table 3 provides a summary of the family-oriented goals of the owning family, ranked according to importance.

Top family-oriented goals included providing security for the family, providing a personal challenge and rewards, quality of work life and increasing family wealth. Larger family firms were more likely to emphasise family independence, especially seeing that as a family firm grows, so does its dependence on key customers and outside providers of finance (non-family shareholders, long-term debt from lending institutions), who may exert a greater say in the firm's future direction.

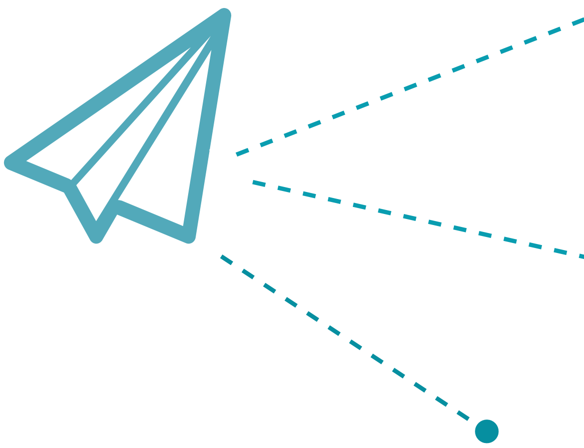
When asked about their satisfaction with the degree to which these family-oriented goals have been achieved, owning families seem to be succeeding with realising a personal challenge and rewards (70 percent 'mostly' or 'completely' satisfied), their independence (63 percent), and their standing in the community (61 percent).

Conversely, they were less satisfied regarding their level of achievement in spending time with the family (49 percent 'mostly' or 'completely' satisfied), increasing family wealth (50 percent), and quality of work-life balance (55 percent). A lack of balance between family and business needs may adversely impact the future performance of the family business (if not that of the family). It may also negatively impact the many advantages stemming from families working together for current and future generations.

As Table 4 shows, large and multigenerational family firms were more likely to be satisfied with their achievement of family-oriented goals, with the exception of 'family cohesiveness', which was lower than that experienced by small firms.

70%

are mostly or completely satisfied with realising a personal challenge, satisfaction and rewards



[4] Le Breton-Miller, I. , Miller, D., & Steier, L. P. (2004). Toward an Integrative Model of Effective FOB Succession. *Entrepreneurship Theory and Practice*, *28*(4), 305-328.

Table 3: Family-oriented goals of the owning family

		2013 breakdown by firm size			2013 breakdown by generation	
Family-oriented goals	**All firms** Rank	**Small** Rank	**Medium** Rank	**Large** Rank	**1st Gen** Rank	**2nd+ Gen** Rank
Security for the family	1	1	1	1	1	1
Personal challenge, satisfaction and rewards	2	2	3	2	2	2
Quality of work life	3	3	2	4	3	3
Increasing family wealth	4	5	4	5	5	4
Family independence	5	4	5	3	4	5
Family cohesiveness supportiveness and loyalty	6	6	6	6	6	6
Time to be with the family	7	7	7	7	7	7
Family name recognition & respect in the community	8	8	8	8	8	8

Table 4: Satisfaction with level of achievement of family-oriented goals ('mostly' or 'completely' satisfied)

		2013 breakdown by firm size			2013 breakdown by generation	
Family-oriented goals	**All firms** %	**Small** %	**Medium** %	**Large** %	**1st Gen** %	**2nd+ Gen** %
Personal challenge, satisfaction and rewards	70	68	71	70	70	70
Family independence	63	60	63	72	60	65
Family name recognition and respect in the community	61	59	59	72	49	70
Security for the family	60	55	63	69	55	65
Family cohesiveness, supportiveness, and loyalty	60	62	57	59	56	63
Quality of work life	55	55	53	62	51	58
Increasing family wealth	50	49	49	65	47	54
Time to be with the family	49	52	46	58	46	52

Large and multigenerational family firms were more likely to be satisfied with their achievement of family-oriented goals

Section 2: Family business issues – facing up to the challenges

The highest ranked challenges reflect the unique nature of family businesses. As with our 2011 survey, 'balancing of family and business issues' was seen as the primary challenge. Given that the overlap of the 'family' and the 'business' is what makes the family business different from other private business entities, such a challenge is unsurprising.

As highlighted in Section 5, nearly 40 percent of respondents view family issues as having an equal or greater influence over family business performance than business-only issues. Balancing family and business needs is the key; ensuring that the family is catered for on the one hand and the business on the other, without compromising either.

This business challenge makes it clear why respondents reported 'vision and strategy' as the primary source of conflict in the family business (Table 6). This may be because of the tensions between family and business objectives in striving for vision and strategy that fit both the 'family' and the 'business'.

Unsurprisingly, 'maintaining family control of the business' was the second most highly ranked challenge, again indicative of the unique characteristics of a family business. This did not feature as a significant challenge for first generation businesses as the founder is still very much at the helm (Table 5).

However, it ranked as number one for second generation and beyond, where the pool has widened in terms of potential owners and a greater diversity of views. There may also be concerns from owners as they separate from management as the business grows.

Rounding out the top five, the next three challenges are also closely related to the unique characteristics of family businesses: 'preparing and training a successor before succession actually takes place', 'communication between the generations' and 'selecting a successor'.

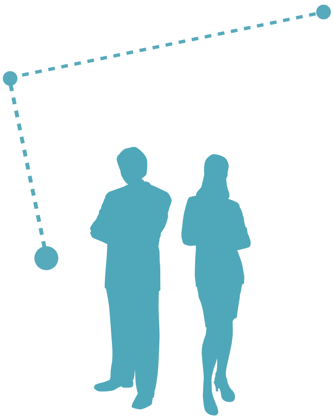
Achieving a successful transition between generations has often been viewed as an indicator of 'success' to many families in business, and as such, is very likely to be seen as a challenge to effect smoothly.

"It's really important for family businesses to have that shared vision and strategy... they don't operate anywhere near as effectively without it... when they do they're quite powerful. But it is something I think family businesses in general aren't as good as public companies... Vision and strategy is often kept in the confines of the patriarch's or matriarch's mind."

First generation family owner

KPMG Insight:

A successful transition of management and equity rarely runs smoothly. Like any change process, it requires careful planning, clear communication, strong leadership and patience, acknowledging that change does not occur in a linear fashion.



It is not surprising that 'preparing and training a successor before succession actually takes place' was more highly ranked (second) as a challenge by first generation family businesses than second generation and beyond businesses. The latter learn a great deal from effectively transitioning once (e.g. from first to second generation) and therefore other challenges may seem more pressing; for example, 'maintaining family control of the business' is more highly ranked for the latter generational firms. Although 'balancing of family and business issues' was seen as less of an issue as the family firm grows, formalising the family role in the governance of the business and ensuring fairness amongst family members becomes more of an issue.

KPMG Insight:

Balancing family priorities with those of the business can be difficult. However, being able to effectively manage them are essential for success.

To help achieve this balance, it is important that the family unit has clarity and alignment in relation to what they want ***for*** the business, and ***from*** the business. These collective needs and aspirations can then be used to adapt the family's and the business', values, purpose, strategy and tactics, investment guidelines and governance models.

As the figures in Table 5 highlight, while individual family businesses will face similar challenges they will do so at different times depending on their business life cycle and their ownership life cycle.

Table 5: Family business issues

				2013 breakdown by firm size			2013 breakdown by generation	
Family business issues identified as very/extremely important	**Rank**	**2013 All firms** %	**2011 Survey** %	**Small** Rank	**Medium** Rank	**Large** Rank	**1st Gen** Rank	**2nd+ Gen** Rank
Balancing family concerns and business interests	**1**	72	59	1	1	4–6	1	2
Maintaining family control of the business	**2**	67	62	2	4	1	4	1
Preparing and training a successor before succession actually takes place	**3**	64	60	5	2	4–6	2	6–7
Communication between generations	**4**	63	n/a	4	5	3	6	3
Selecting a successor	**5**	62	38	7	3	7	3	5
Formalising the family role in the governance of the business	**6**	60	29	9	6	2	8	4
Financial literacy amongst family members	**7**	60	n/a	3	8–9	9–10	7	6–7
Informing family members of business issues	**8**	60	38	6	7	8	5	8
Compensating family members involved in the business	**9**	56	36	8	10	11–13	9	9–10
Fairness among family members, including step–relations (blended families)	**10**	55	17	10	8–9	4–6	10	9–10

A refreshing passion for quality and innovation

Case study: Bundaberg Brewed Drinks

Since 1960, Australian family-owned Bundaberg Brewed Drinks (BBD) has grown from its home in Bundaberg, Queensland to become a true success story throughout Australia.

Today they export their unique range of premium quality, naturally brewed, non-alcoholic beverages to over 30 countries around the world.

With around 150 employees, BBD is a strong innovator that doesn't take past success for granted. They're active in social media, have recently changed their advertising agency, and are very involved in their community.

John McLean, CEO and General Manager, took the time to discuss how some of this report's findings affect his family business.

What do you feel are BBD's key strengths?

Our vision, family culture and values, and customer focus.

Our vision 'to be a leader in naturally brewed non-alcoholic beverages' ensures we stay focused and don't get distracted, while our family values unite us. We're all from a diverse range of professional and cultural backgrounds, yet we all strive to achieve excellence together.

As for our customer focus, we actively listen to what our customers say. That's why we always innovate and use real ingredients in the brewing process to extract the genuine taste and create a unique flavour profile with superior taste.

Is growth important for BBD? What about future/international growth?

Yes. Coming from a small regional town, we've always been outwardly focused on national and international growth. This helps reduce our risk exposures while also buffering us from changes between markets.

Our global growth has been genuinely organic with visitors to Australia trying and loving our drinks. Of course, when they go home they want them there too, and let us know. We plan to grow strongly into the USA, UK, South Africa and Asia over the next couple of years.

What are the values you consider important? How do they affect the way BBD operates?

Our family values are formally defined around being honest and ethical in all our behaviours and business dealings, working as a team, valuing quality, caring, learning, innovating and growing to meet our customer's needs. These values have built a unique, strong culture and flexible team.

How do you communicate your values?

By not only being involved in all aspects of the business but being personable. I know everyone by name and I genuinely care about them and their families. We have a monthly staff lunch where we celebrate and share our successes, reflect on our learnings, and re-enforce our values. We have employee of the month awards and host an annual employee recognition dinner. I also spend considerable time travelling and meeting our ever-growing network of distributors and retailers throughout the world.

Do you find it useful communicating that BBD is family owned?

Without a doubt being family owned and Australian is a great point of difference, especially as our market is dominated by huge global brands. That's why every bottle we produce has a small kangaroo with 'Australian Family Owned' printed on it.

What governmental changes would you welcome?

In general, I think a simplification of tax rules would be beneficial to the whole economy. The current complexities and grey areas create inefficiency, confusion and tie up resources that could otherwise be doing something productive.

BBD Fast Facts

Located: 147 Bargara Road, Bundaberg QLD – home of the new Bundaberg Barrel.

History: Established in 1960 by the Fleming family. Son-in-Law, John McLean, has been CEO and Managing Director since 2007.

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+61 7 4154 5400
www.bundaberg.com
Twitter: @BundabergDrinks
Facebook: BundabergGingerBeer

Section 3: Managing and resolving tensions

Conflict in itself should not be viewed by family businesses as something to avoid at all costs. The positive outcome of any well-managed conflict or 'creative tension' can help ensure that family businesses take advantage of diversity and build their competitive advantage.

"We could sell out, but as the father of the CEO, I would feel guilty if I sell it from under him. The siblings (non-executive board members) are not in agreement that this youngest member of the family is really suited for the CEO role. I fear that the siblings will fire him if I choose to step down and retire."

Focus group CEO participant

40%

indicated that they had experienced no conflict within the family business during the previous 12 months

Sometimes, conflict can bring issues to a head, where they can actually be aired and dealt with. Without creative tension, previous ways of conducting business (i.e. traditions) may remain unchallenged and become institutionalised, which could create a culture of complacency that potentially undermines the longevity and value of the firm.

Interestingly, 40 percent of those surveyed indicated that they had experienced no conflict within the family business during the previous 12 months. It may be that these respondents are experiencing positive 'creative tension', which involves healthy family to family and family to non-family discussions.

Of the 60 percent reporting they had experienced conflict during the last 12 months, conflict primarily occurred around 'vision, goals, and strategy', with 'competence of family members' also being in the top five sources of conflict (see Table 6).

KPMG Insight:

An effective strategy involves aligning emerging market opportunities with your internal capabilities. Basically, putting your best people forward to get the most out of any opportunity. This can also be a good chance to 'train up' those who need additional guidance/experience and/or acquire additional capabilities.

This highlights the two roles that a family business leader must play; a capitalist for the business and a socialist for the family.

In this year's survey three new possible sources of conflict were explored, as they had frequently been identified in previous surveys under 'other sources'. These were 'how decisions are made', 'managing growth', and 'financial stress'. Their importance was confirmed as each ranked in the top five sources of conflict.

Table 6: Major sources of conflict

			2013 breakdown by firm size			2013 breakdown by generation	
Major sources of conflict (in order of most common)	**2013 All firms** Rank	**2011 Survey** Rank	**Small** Rank	**Medium** Rank	**Large** Rank	**1st Gen** Rank	**2nd+ Gen** Rank
Future visions, goals and strategy	1	1	1	2	4	2	1
How decisions are made	2	n/a	3	4	1	3	2
Managing growth	3	n/a	6	1	3	5	3
Competence of family in the business	4	2	5	3	5	4	5
Financial stress	5	n/a	2	6	7	1	7
Lack of family communication	6	4	4	5	2	6	4
Remuneration	7	6	7	7	10	10	6
Succession-related issues	8	3	10	9	6	7	11
Lack of family/non-family communication	9	5	8	10	8	8	9
Sibling rivalry	10	7	9	8	16	11	8

Interestingly, smaller family businesses found ‘future considerations’ to be the primary source of conflict, whereas this did not feature for larger firms (presumably as they had been through those struggles already).

The primary source of conflict for larger family businesses was ‘how decisions are made’, recognising that as the firm has grown it has also become increasingly complex, with more family and non-family members involved in decision making. ‘Managing growth’ was the primary source of conflict for medium size firms, potentially as they were experiencing growth phases.

‘Financial stress’ was the second most common source of conflict identified by smaller sized firms but was not identified in the top five sources by larger firms. Also, first generation firms considered financial stress as paramount, whereas this was ranked seventh by those in the second generation and above (see Table 6). This aligns with the view that as both the family and business grows there are more resources available to operate effectively.

When asked what ‘mechanisms’ were used to manage the conflict, around 30 percent of respondents said that family gatherings were the most common forums for contentious issues. This was followed by a board, a family council, and a shareholders’ agreement in 20 percent of respondents. Unsurprisingly, each of these mechanisms was utilised to a greater extent by second and later generation firms compared to first generation firms.

Again, this demonstrates implications resulting from the growth and complexity of both family and business, i.e. that second and later generation firms are more likely to have set up these governance mechanisms to facilitate the management of both the family and the business (alternatively they are implementing these mechanisms because of conflict already experienced). It may, therefore, be beneficial for first generation firms to consider adopting some of these mechanisms earlier to address predictable challenges which will inevitably arise as part of a generational change in the business.

‘Financial stress’ was the second most common source of conflict identified by smaller sized firms and all 1st generation businesses

30%

said that family gatherings were the most common forums to discuss contentious issues

Section 4: Attracting and retaining talent

Having effective and committed non-family employees is crucial for family business growth and success as it improves the business internal capabilities to exploit emerging market opportunities.

"People really like working for a family entity, you've got to create the family feel within the business, and that's important."

Focus group CEO participant

"And even some of our senior non-family staff… they share the values. That's why they've been with us for a long time."

Focus group CEO participant

While many family businesses have a preference for family members to fill managerial roles, this is not always possible. Sometimes, there are not enough family members to go around, or who have the required qualifications, so developing the appropriate policies and practices to retain non-family employees is essential.

Family businesses are often perceived as having positive, nurturing, 'family-like' environments.

A majority of respondents (84 percent) believed that the family values have a 'considerable' or 'major' impact on the way the business is operated (see Table 7). This is indicative of the sense of belonging/ community experienced by many who work in a family owned business. Furthermore, when asked about their employees, almost two-thirds of respondents reported that their employees were 'extremely likely' or 'very likely' to feel a sense of ownership for the organisation, rather than just being 'an employee'.

Seventy-four percent of respondents considered it 'extremely likely' or 'very likely' that managers make employees feel like they work *with* them, rather them *for* them. Over 70 percent also 'completely' or 'mostly' agreed that the businesses' successes were also the employees' successes, indicating the family business felt success came from both family and non-family members. It is also indicative of an environment of participation that is free from a 'them and us' (family versus non-family) mentality, where managers were seen to make decisions in consultation with subordinates.

It is no surprise then, that we found family values and ethos to be one of the key strengths that enables family firms to outperform their major competitors.

In managing a diverse workforce, many family businesses are guided by pay awards and market forces to determine compensation packages for non-family employees at both employee and managerial levels. However, compensation for family employees / managers is often treated less formally. Some family members consider they are underpaid, as it is assumed that there will be additional benefits accrued via shareholder dividends and/or ownership opportunities.

Compensation is an important issue that needs to be transparent and handled correctly.

All employees, regardless of whether they are family or not, should be compensated at market rate based on their skills and performance. A perception that a family member is remunerated based on a sense of entitlement, rather than merit, may undermine the morale and commitment of non-family employees. Conversely, failure to remunerate family at a level appropriate to their skills and effort is likely to weaken the commitment of the next generation to take over the business.

KPMG Insight:

Overall, it may be beneficial to clearly separate roles and how they are compensated. For example, it should be clear that management receive market salary and wages, directors receive director's fees (if any), and owners receive dividends.

When roles and remuneration remain 'bundled', it can lead to a sense of confusion and distortion with some stakeholders not being appropriately recognised.

"Our strength is the ability to act quickly, to react to trends quicker than the public companies. I've got a small workforce, but they're very much more engaged and take the matter more personally."

Focus group CEO participant

Table 7: Values in the workplace

	2013 All firms %
Percent who believe that family values have a considerable-major impact on the way the business is operated	84
Percent of firms that are very-extremely likely to have managers make employees feel like they work with them not for them	74
Percent of firms that mostly-completely agree that the business successes are the employees' successes	72
Percent of firms that mostly-completely agree that the business successes are the family's success	71
Percent of firms that are very-extremely likely to have employees who have a sense of ownership for the organisation rather than just being an employee	60
Percent of firms that often-always make decisions without consulting subordinates	47

Table 8: Compensation of family members compared to equivalent non-family employees

			2013 breakdown by firm size			2013 breakdown by generation	
	2013 All firms %	2011 Survey %	Small %	Medium %	Large %	1st Gen %	2nd+ Gen %
Same as non-family employees	67	61	61	71	72	68	66
More than non-family employees	20	25	24	19	15	19	22
Less than non-family employees	13	14	16	10	13	13	13

67%

noted that salaries of family members was comparable to that of non-family members

The commitment shown by family members in working relatively longer hours may be a contributing factor to the fact that the majority of family firms achieve superior levels of productivity

As Table 8 shows, the majority of respondents reported that compensation of family members was comparable to that of non-family members at the same level.

Even more respondents of the bigger firms (71 percent medium and 72 percent large) noted that salaries are comparable; confirming the view that as firms grow (also in their professionalisation and/or formalisation), an 'equal pay footing' may boost the motivation of non-family employees – especially if other non-monetary incentives are included, such as being more involved in the decision-making process.

As in our 2011 survey, two-thirds of respondents considered that family members work longer hours than non-family counterparts at comparable levels. However, less than half of the larger firms surveyed experienced this discrepancy (see Table 9), which is likely a reflection of formalised work practices as the firm grows.

The commitment shown by family members in working relatively longer hours may be a contributing factor to the fact that the majority of family firms achieve superior levels of productivity compared to their key competitors[5] (also refer Table 1).

On the other hand, as highlighted in Section 1 (achievement of family-oriented goals), families should be cognisant of balancing the demands of the business with the need to invest time and effort in building and maintaining family relationships.

When family members work together, achieving an acceptable 'work-family-life' balance becomes even more crucial to help sustain both the business and the family.

Table 9: Hours worked by family members compared to non-family employees

			2013 breakdown by firm size			2013 breakdown by generation	
	2013 All firms %	2011 Survey %	Small %	Medium %	Large %	1st Gen %	2nd+ Gen %
More than non-family employees	65	63	70	63	49	66	64
Same as non-family employees	29	28	25	29	47	28	29
Less than non-family employees	7	9	6	7	4	6	7

[5] Graves, C. & Shan, Y.G, An Empirical Analysis of the Effect of Internationalization on the Performance of Unlisted Family and Non-family Firms in Australia, ***Family Business Review*** (forthcoming) http://fbr.sagepub.com/content/early/2013/06/17/0894486513491588.abstract

Delivering wines that are always in fashion

Case study: Brown Brothers

Founded by John Francis Brown in 1889, Brown Brothers Winery has hand-crafted an enviable reputation for quality wines throughout Australia, and increasingly, the world.

One of Australia's oldest family wineries, they have vineyards throughout Victoria and most recently in Tasmania. Offering an extensive variety of wines, the family has worked hard to stay on top of trends within their industry. It's an effort that continues to yield success.

Ross Brown, Executive Director, spoke with us about their strengths and challenges.

What do you feel are Brown Brothers' key strengths?

Vision, strategy, and our ability to make decisions quickly.

How does being a family business assist in developing these key strengths?

As a family business, you're intimately involved. You're basically living and breathing the business all the time. This closeness is essential when it comes to risk-taking and developing a long-term view.

85% of respondents indicated that being a family business assisted them in coping with the ongoing economic challenges post-global financial crisis. Has this been your experience and if so, why?

Absolutely. We're able to look beyond the 'here and now' and not answer to a share-holder review in terms of our immediate profitability. I also think that being low in debt has meant that we're not immediately threatened once the banks change their lending behaviours. Without a big debt, you can actually be very resilient.

And without a doubt, our employees – 30 percent of whom are part of our 10 Year Club – are also a big factor in coping with challenges.

What are the values you consider important?

Trust, respect and pride. The important thing is that you have to live the values. They need to be identified, understood and reflected. I think the values of a business are too important to treat them informally. The real success of a family business is in recognising the informal things that work and in making them formal.

One prime value we have is 'pride in workmanship'. We work on the basis that everybody comes into work to do a 'good days' work. That means giving them the tools, knowledge, skill and direction to achieve that goal.

How do you communicate your values?

Though our daily behaviour, and verbally on ongoing basis. I think value has to be lived and regularly talked about.

Do you find it useful communicating that Brown Brothers is family owned?

Yes. It's something we communicate at every touch point. It's identified in our logo, our branding, and our behaviour; family members are visually in the market place, and our cellar door is all about family and location.

Has there been a significant challenge Brown Brothers has recently overcome?

We lost substantial export revenue through high exchange rates and were suddenly dealing with a smaller business with all the inherent costs of a big business. Part of our move into Tasmania was about re-shaping our business to cope with this challenge. It's important that you can change your business model to suit a dynamic business environment.

What governmental changes would you welcome?

I think that market forces should dictate what makes a company successful. Ideally, if government increased investment in infrastructure (rail, road, telecommunications), simplified tax rules, continued to provide a good business environment, and got out of the way; I don't think they'd need to do much else.

Brown Brothers Fast Facts

Located: 239 Milawa Bobinawarrah Road, Milawa, Victoria, 3678.

History: Established in 1889 by John Francis Brown. Ross Brown joined the winery in 1970, eventually working as CEO until taking on the role of Executive Director in 2011.

Contact:
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Facebook: BrownBrothersWinery
YouTube at www.youtube.com/user/BrownBrothersWinery

Section 5: Governance: balancing family and business priorities

As highlighted by two well recognised family business researchers, Professor John Ward and Professor Randel Carlock, it is imperative that family businesses pay attention to the governance of both the 'business' and the 'family', rather than favouring one over the other.

55%

of family businesses have some formal governance mechanism in place

There has been an increase from 2011 in the proportion of family businesses with a formal board

Respondents appear to be recognising this important aspect of their family business with 37 percent of all family businesses (36 percent first generation and 38 percent of latter generations) viewing 'family based issues' as having an 'equal' or 'greater' influence over family business performance.

In this survey, we asked family businesses what governance structures and practices they had in place to assist them in balancing the priorities of both the family and the business. This is especially important as the climate for business accountability and success becomes more complex and challenging; where having appropriate governance mechanisms is crucial.

Interestingly, a little over half of respondents considered governance structures as 'very' or 'extremely important', and over half consider their current governance structures as 'mostly' or 'completely adequate'. This represents a significant increase on the 2011 survey, suggesting an increased awareness in how governance can aid business performance.

With regard to the future, it's unlikely there will be significant changes to current governance structures. This is because respondents indicated the next generation is likely to place greater emphasis on changing the vision and strategy of the business, rather than changing its governance structure (ranked fifth priority of the next generation).

For current generations, however (see Table 10), there is evidence of an increase in the proportion of family businesses with a formal board (44 percent compared to 39 percent in 2011). As Table 10 highlights, the adoption of business governance mechanisms and practices is influenced by a firm's size.

As a firm grows, it needs to adopt governance mechanisms and practices to manage additional complexity. It is, therefore, not surprising that the presence of a formal board of directors is greater (72 percent) in larger firms as compared to only 31 percent of small family businesses. Although, understandably smaller businesses might find it difficult to conceptualise the value of governance structures, it would be of benefit to establish these *before* the family business becomes more complex with multi-generations and increasing numbers of shareholders.

Of particular interest, of those that did not have a formal board of directors, 19 percent reported having a formal advisory board where a consistent group of advisers meet regularly to work 'on' the business.

Therefore, 55 percent of family businesses have some *formal* governance mechanism in place to complement their management teams (44% with formal board of directors; 19% of the remaining 56% have a formal advisory board). Of those with a formal governance mechanism, only 30 percent undertook a self assessment of its effectiveness, while 6 percent undertook independent assessments.

Table 10: Business governance mechanisms and practices in place

			2013 breakdown by firm size		
Business governance structures/practices	**2013 All firms** **Yes** %	**2011 Survey** **Yes** %	**Small** **Yes** %	**Medium** **Yes** %	**Large** **Yes** %
Formal Board of directors	44	39	31	47	72
Formal Advisory Board (regular meetings with a selected ongoing group of advisers)	24	n/a	17	28	32
Further analysis: of those that didn't have a formal Board of directors, what % had a formal advisory board?	19	n/a	13	23	23
Informal Advisory Board (ad hoc meetings with advisers)	50	n/a	47	54	40
Further analysis: of those that didn't have a formal Board of directors or formal advisory board, what % had an informal advisory board?	50	n/a	46	56	50
Business management team	75	82	55	88	92
Independent assessment of the board of directors/ advisory board	6	n/a	3	6	15
Self assessment of the board of directors/advisory board	30	34	26	31	41
Shareholders' Agreement	36	n/a	28	40	47
External audit of financial statements	69	n/a	64	68	88
A policy for the selection, remuneration and promotion of non-family employees	42	n/a	25	48	72
A policy for the selection, remuneration and promotion of family employees	26	n/a	16	29	47
Formal reporting to all shareholders about business matters (e.g. through reports and shareholders' meetings)	46	34	34	53	65

Of those firms with no formal board of directors or formal advisory board, 50 percent reported having an informal advisory board where advisers met on an ad hoc basis.

30%

of directors are non-family members

Table 10 also highlights that family firms are more likely to have a policy for the selection, remuneration and promotion of non-family employees than for family employees, and 46 percent undertake formal reporting to all shareholders about business matters. The value of instituting some steps of effective governance, such as developing a policy for employing family members, may help facilitate the alignment of the best interests of the 'business' with the best interests of the 'family shareholders', encouraging communication, debate and better understanding.

Regarding the composition of the governance positions, 83 percent had executive directors on the board while 48 percent had non-executive directors. There continues to be reliance on family members as CEO (87 percent), and as executive and non-executive directors (70 percent overall). Around 40 percent of non-executive directors are drawn from independent, non-family ranks, and in larger businesses more than 50 percent of directors are non-family members.

This development is in line with recommended governance practices that the use of independent, outside expertise enhances performance, particularly as a business grows. Interestingly, of those family firms that don't have any independent directors on their board, 67 percent have no plans to appoint any in the foreseeable future. Often, simply starting the process of bringing in outsiders to adopt more formal governance mechanisms is the most difficult.

"My business is at the stage where I probably should have a board, but frankly I enjoy being the boss. The advantage of a family company of course is passion. It's very difficult to get that from outsiders. These are hired guns, most of whom really are not passionate about your business."

Focus group CEO participant

A detailed look: Governance vs Performance

When analysing the effects of using an advisory board or board of directors on 'business performance' and 'achievement of family-oriented goals', the results were clear:

Of firms of all legal forms (partnerships, companies, trusts), those with a formal advisory board achieved both superior business performance and their family-oriented goals compared to those without.

Of firms legally organised as companies, there was no significant difference in either the business performance or achievement of family-oriented goals, based on whether they had a formal board of directors in place.

In summary, firms with formal advisory boards performed better (both in terms of business performance and achievement of family-oriented goals) compared to those that did not have formal advisory boards.

Family businesses that had processes for 'incorporating the owning family's vision and priorities into the business's planning processes' reported both superior business performance and achievement of family-oriented goals, compared to those that did not have such processes.

This suggests that family businesses that can incorporate the family's vision and priorities into the business plans will perform better (in terms of achieving family and business priorities) compared to those that don't. These results add further support to the view that family issues can have equally or greater influence on overall performance.

A common question asked by family business owners is:
What governance mechanisms are appropriate for my business?

In its simplest form, governance in a family business relates to having:

1. A forum focused on the development of people and family harmony (a family forum/council), and
2. Establishing pre-agreed rules as to how the family will participate and be recognised (a family constitution/charter); and
3. A forum which focuses on business strategy, risk, accessing outside perspectives and developing future business leaders (a business board)

A family business adviser can assist family firms in deciding what business governance structures (e.g. formal advisory board versus formal board of directors) are appropriate for their current and future needs. They can also assist in guiding families on an appropriate board composition, as well as how board meetings should be conducted to maximise their value.

"Our board was totally unworkable... Following the departure of our chairman, I asked our family lawyer who was also a director of our company, to chair our board meetings... He chaired one meeting; it was so bad that we haven't had a meeting since."

Focus group CEO participant

Interestingly, while almost two-thirds of respondents considered that it was 'very' or 'extremely important' for the governance team to undertake further education in 'director responsibilities', less than one-third indicated that their directors had completed the Australian Institute of Company Directors '*Company Directors Course'* and only 10 percent had taken FBA's Director's course. This suggests opportunities for further development of family business directors.

The survey results highlight that as firms grow there is a significant change in the composition of management teams. Smaller family businesses report that 37 percent of their managers are family members, compared with the larger family businesses with only 5 percent. Family businesses obviously recognise the valuable contribution that non-family managers can make to their operations.

KPMG Insight:

Family businesses should consider placing additional emphasis on developing family members as responsible future directors and owners, not only as good managers. This helps promote better decision making, continuity, leadership and longevity. In addition, they will continue to guide the business along your shared values and ethos.

Regarding management reporting practices, 69 percent reported having a documented strategic/business plan in place and 76 percent had documented budget plans, which is good news, especially regarding governance. In terms of performance evaluation, almost all prepared regular income/expenditure reports and tracked performance against key financial indicators, such as sales growth and profit margins.

"We established a board after making some expensive errors… So now I've got checks and balances in place so (my ideas) have got to have a lot more thinking behind them before I make the decision. It's helped me immensely."

Focus group CEO participant

Around 40 percent reported benchmarking against other businesses, while half reported that they evaluated managerial performance – in the larger family businesses 83 percent did so. The most common non-financial indicators used by family firms were customer satisfaction and quality of goods and services delivered.

Family governance

Table 11 provides an overview of the family governance mechanisms and practices put in place by the family businesses surveyed. It highlights that their adoption is influenced by a firm's size, which strongly suggests that as a firm grows, it is important to formalise the family's involvement with the business to ensure the needs of the business and the family are catered for.

Although only 22 percent of family businesses report using a formal family council/forum/assembly, 43 percent do provide formal feedback to family members about business matters. Also, 37 percent of respondents report that they have processes for incorporating the owning-family's vision into the firm's planning processes. This is particularly important for those businesses that are committed to remaining family owned into the next generation.

With regard to governing the future involvement of the family in the business, only 31 percent have a succession plan for the current CEO (who, as highlighted earlier, is in most cases a family member). However, over three-quarters of family firms have senior family members (with a stake in the business) with estate plans (wills). Only 16 percent have a family constitution or code of conduct, which suggests that family firms can do more to formally document policies that guide family involvement with the business.

Table 11: Family governance mechanisms and practices in place

			2013 breakdown by firm size		
Family Governance structures/practices	**2013 All firms Yes** %	**2011 Survey Yes** %	**Small Yes** %	**Medium Yes** %	**Large Yes** %
Family council (family members that represent the family to the business)	22	32	18	21	39
A family constitution or code of conduct	16	20	8	18	37
Succession plans for the CEO/MD	31	35	30	31	37
Succession plans for other senior positions held by family members	20	28	17	22	24
Estate plans (wills) for senior family members who have a stake in the business	77	76	69	81	88
Estate plans (wills) for other family members who have a stake in the business	50	51	39	56	67
Processes for welcoming, educating and inducting family members – including in-laws – into the family business	13	14	10	14	20
Processes for incorporating the owning family's vision and objectives into the business's planning processes	37	n/a	31	40	45
Formal feedback to family members about business matters (e.g. through a family council/forum/assembly)	43	38	39	44	51

KPMG Insight:

A Family Constitution

In its simplest form, a Family Constitution is a document which outlines the family's values and pre-agreed rules for how family members can participate and be recognised in the family business – and only 16 percent of surveyed family business owners have one.

Each family constitution needs to reflect the unique characteristics of both the business and the family to which it relates. However, certain matters are commonly covered:

- ✔ Strategic business objectives reflecting agreed family values and aspirations for the business.
- ✔ The process for hiring, assessing and remunerating family members employed in the business.
- ✔ The rules for nominating, training, assessing and appointing management successors.
- ✔ Processes for nominating and assessing individuals for appointment to the family company's board of directors and/or the family council (or equivalent) if one exists.
- ✔ The composition and rules of conduct for a family council or equivalent body.
- ✔ Communication and disclosure policies between company and family.
- ✔ The process for resolving conflicts about the business between members of the family.
- ✔ Recommended or compulsory retirement age for family directors and managers.
- ✔ Policies concerning external, non-family ownership and management of the business.
- ✔ A properly administered process of developing and continually updating these pre-agreed rules.

That is, a Family Constitution can help address all the family business issues listed in Table 5.

Representation of women still needs attention

The number of the businesses that are led by a female CEO has increased from 14 percent in 2011 to 23 percent in 2013. However, as in 2011, only one-third of businesses have executive directors who are female with 36 percent having female non-executive directors. Of interest is that the number of female managers has dropped from 40 percent to 25 percent, with only 18 percent in the larger family businesses. This is of concern as diverse perspectives in decision making – whether based on gender, age and/or experience – are invaluable to business.

Section 6:
Preparing to exit

Consistent with the aging demographics of Western economies, Australia will increasingly experience the transfer of business control and/or ownership as the current generation enters retirement. In this survey, around two-thirds of the current family CEOs were 50 years of age or older, while nearly 20 percent were 65 plus years of age.

"But the reason I didn't prepare for succession earlier is that there were other things more important. That was until I had a serious health scare and realised I wasn't going to last forever. Once you put your mind to it and you realise you can't rule from the grave, and I'm a great believer of meritocracy, it was pretty clear developing a succession plan was a very important thing to do."

First generation family owner

Despite this fact, only around a third of family businesses considered themselves exit or succession ready. Multi-generational firms considered they were slightly more prepared for exit compared to first generation firms, most likely because they have experienced such transition(s) before and appreciate the need to be prepared rather than have it occur by default.

By undertaking exit and succession planning well in advance of when it's likely to occur, the family maximises the number of available alternatives (especially if it happens unexpectedly).

Although we often focus on succession of senior management positions to the next generation, in many cases passing the baton onto a family member is not a feasible option. For many family businesses, there is also no formal plan for ownership succession, which is often taken for granted. There are many pathways that the current family owners may take to exit the business. We asked respondents to indicate what exit options they are considering and the timeframe they intend to enact these options (see Table 12).

Based on their responses, many family businesses are considering more than one exit option (e.g. hope to pass onto next generation but may also consider selling the business); with the most likely exit option to pass the management and ownership of the business onto the next generation. Although over two-thirds favour these options, most intend to do so in the longer term (5 plus years).

KPMG Insight:

Whether the successor is a family member or not, transition is a gradual process. It starts with thorough preparation which should include a process of identifying and developing appropriate talent, establishing pre-agreed policies and alignment with strategy. Only then can the transition of management commence, followed by the transition of control, then the transition of ownership.

In the last 12 months, less than 30 percent of respondents had been approached to sell their business. However, given the average age of current family CEOs, combined with the current economic circumstances, it is not surprising that around half were willing to sell (to a competitor or an independent business) if approached to do so. Interestingly, multigenerational family firms were less likely to sell compared to first generation firms, possibly because of their emotional attachment to the business, or possibly that their family priorities are being met; with the business providing financial security and being used as an investment, not a 'job'.

Because succession to the next generation is often seen as the 'ultimate test' for the family business, some may incorrectly view the exit of the family from a business (e.g. by sale) as a failure. We often hear Professor John Ward's statistic quoted where only 30 percent make it to the second generation, 13 percent to the third, and 3 percent the fourth and latter generations (the '30/13/3' statistic).

In summary, despite the average age of the current family CEO, most family businesses do not intend to enact an exit strategy in the short or medium-term. The majority of family firms intend to keep the business in family hands through passing on management and ownership onto the next generation in the next 5 plus years. This intention is more evident in second or later generation-owned family businesses.

However, leading family business scholars argue that:

"In the past we've neglected the portfolio of entrepreneurial activities of business families beyond a core company and consequently fail to acknowledge other (appropriate) forms of succession beyond passing on the baton within the family, such as the sale of the firm as way to harvest value and create new opportunities for the family."

Zellweger, Nason and Nordqvist, 2012[6]

Table 12: Consideration of exit strategies in the future		**2013 breakdown by generation**		**Breakdown by time horizon**		
	2013 All firms Yes %	**1st Gen** %	**2nd+ Gen** %	**Short term <12 Months** %	**Medium term 1-3 Years** %	**Long term 5+ Years** %
Passing the senior management of the business to the next generation	67	64	70	18	25	57
Passing the ownership of the business to the next generation	66	62	69	9	20	71
Sale of business to a competitor/ trade sale	47	52	43	11	24	65
Sale of business to an independent third party	46	50	42	10	25	64
Appointment of a non-family CEO/ MD but retain ownership/control within the family	42	43	40	14	24	62
Sale to a private equity consortium	23	22	24	14	20	66
Sale to current employees	21	26	16	11	14	75
Close the business	18	19	17	11	13	76
Sale to another family member	17	16	18	10	9	81
Initial public offering (i.e. publicly-listed firm)	16	16	17	3	14	83

6 Zellweger, T. M., Nason, R. S., & Nordqvist, M. (2012), From Longevity of Firms to Transgenerational Entrepreneurship of Families: Introducing Family Entrepreneurial Orientation. Family Business Review, 25(2), 136-155.

Success from out of the blue

Case study: Scenic World

Converting a disused mining site into a bustling tourist attraction took a lot of foresight in 1945. Today, family-owned Scenic World is staking its claim to being one of Australia's most popular attractions.

Featuring the steepest passenger railway in the world and a glass-bottomed cable car, they know how to capitalise on what the Blue Mountain's have to offer.

David Hammon, Joint Managing Director for the company (with sister, Anthea), enthusiastically spoke with us about being a three-generation family business.

Has being a family business helped with your success?

We're a third generation family business, so we've been running this site for 68 years now. After you've been somewhere for that long you get pretty good at it.

I also think, as a family business, you tend to be a bit more dynamic and willing to try new things, and because we have that 'freer' perspective we can react faster. Our Facebook page is a really good example; we looked around and saw that nobody in our industry was doing it and we were able to react very quickly and gain an advantage. Because we have a flat structure and the board of directors was happy to let us run with it – we were able to set everything up quite fast – and we now have over 300,000 more 'likes' than the next best.

Do you promote being a 'family business'?

It is something we're doing more and more. We're finding that our Asian customers respond really well to our being a family business; though it doesn't seem to have quite the same emphasis with Australians.

Do your family values let your employees feel they're a part of your business?

We decided about 5 years ago to be the 'employer of choice' in the mountains. I believe we look after our staff really, really well and they see all that.

Part of our policy is to pay above award wage, staff health checks, a free counselling service, and monthly massages available to all of our staff. As a family business we've taken the philosophy that they are part of our family and that up here on the mountains, we need to take better care of them than anyone else.

We've also worked hard to get a 'unified sense of direction'... and to get that is really tough... but that means everybody in the business is going in the same direction, all the time.

What governance do you use?

We have an internal board of directors with an external chairman. Above the board we've got a family council, which is there so that family who aren't working in the business day-to-day, know what's going on and can give suggestions. It's really important that they maintain their connection.

And governing the family council there's a family constitution that helps us be clear on how everyone relates to the business and, if we hire someone from within the family, keeps it an arms-length transaction.

The main thing is that we had buy-in from all of the family that this was the way we needed to go.

Do you have any future plans for growth?

We do... and that's part of the reason we now have an external chairman... we know how to make Scenic World the best it can be because we live and breathe it all the time, but sometimes you need that external person to come in and look at it and say well, you could do this... or diversify into that.

Because a lot of our core business is locked in and it doesn't need to be touched for awhile... this gives us the chance to look at different opportunities.

Scenic World Fast Facts

Located: 1 Violet Street, Katoomba NSW 2780.

History: Established in 1945 by Harry Hammon. David Hammon joined the firm in 2006 and became Joint Managing Director with sister Anthea, in 2011.

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Section 7: Business continuity planning

In this section, we focus on the group of respondents who intend to transition management, control, and/or ownership to the next generation and examine the extent to which they are prepared for this.

In the previous section we highlighted that two-thirds of family businesses surveyed intend to pass on the management and/or ownership of the business to the next generation. More specifically, 18 percent intend to pass management to the next generation in the next 12 months, 25 percent in the next 1 to 3 years, and 57 percent in 5 plus years time. It is not surprising that 18 percent are looking to pass on management in the next 12 months as 20 percent of these firms have a family CEO who is 65 plus years of age.

One of the reasons why an appropriate business continuity (succession) plan can take time to develop is that it involves a range of interrelated issues to work through, many of which require input from professional advisers such as tax accountants, lawyers, financial planners and family business advisers.

Only 9%

have a retirement plan in place for the CEO/MD

KPMG Insight:

In our experience, family businesses tend to have implicit (implied) succession plans, with the family's business leaders unable, or not prepared, to articulate the plans with much detail.

It may be beneficial to first develop a plan for the business, then a plan for the leadership of the business, a plan for the ownership of the business, and a personal financial plan.

Ideally, a family succession plan will recognise, and accommodate, the varying goals, priorities and needs of all family members involved in the business. These can then be 'fed' into the business succession plan.

Table 13: Extent of business continuity planning

	No plan %	Being developed %	Plan in place %
A unifying strategy for the future of the business	36	45	19
Retirement plan for the current CEO/MD	41	50	9
Preparing/training a successor	37	52	12
Process for appointing a new CEO/MD	55	38	8
Ownership transfer/sale plan	58	32	10
Estate plans that incorporate how ownership will be dealt with	35	35	30

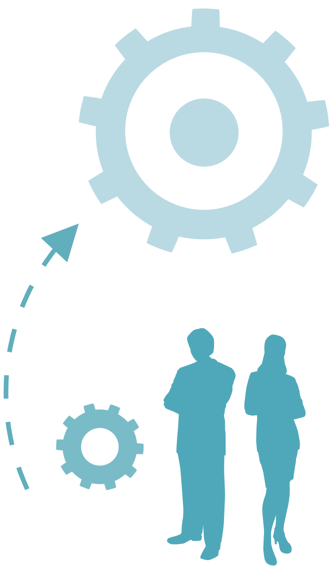
Table 13 highlights the extent to which respondents have addressed six key, interrelated areas of continuity planning.

Over one-third had no unifying strategy for the future of the business and no plan in place to prepare and train any future successor(s). Over 40 percent of the family CEOs did not have a retirement plan, suggesting, among other reasons that many may be unsure as to whether they have sufficient funds to retire, not to mention what they will be retiring to (an important issue to assist them in ‘letting go’). Finally, over half had no plan for appointing a new CEO, no plan for ownership transfer (e.g. to whom, how will it be done, is there capacity for the recipients to purchase the shares?). As a consequence, many had not updated their estate plans to reflect how ownership would be distributed. Although those firms intending to enact a succession in 5 plus years have some time to address these issues, of particular concern is the unpreparedness of those intending to enact succession in less than 5 years. For example, of this group, around 25 percent had no retirement plan or plan for preparing/training a successor. Over one-third had no plan for how ownership will be transferred, and consequently, their estate plans had not addressed the critical issue of how shares would be distributed in the event of death.

Sixty percent of the group intending to pass on the business to the next generation reported that family were most likely to be involved when developing a succession plan, followed by involvement of the current CEO (53 percent) and a professional adviser (42 percent).

KPMG Insight:

A business continuity plan may be developed by a family business owner once in a lifetime, or once in a generation. It may, therefore, make sense to consult appropriately qualified advisers to family businesses, who have broad and deep ranges of experience and proven frameworks for developing succession plans. Outside advice can also bring a different and honest perspective to further increase the odds of success.



Respondents were asked to indicate on a scale of one (extremely positive) to seven (extremely negative) the extent to which a range of issues affect the succession process. The mean scores are reported in Table 14, where values closer to one indicate items which had a positive influence on succession.

The top three positive influences on the succession process relate to the motivation and competencies of the potential successor(s), which are discussed further below (Table 15). Interestingly, although two retirement planning-related items were seen as having a positive influence on the succession process (fourth – CEO’s willingness to let go; sixth – financial ability to retire), only 9 percent actually had a retirement plan in place (refer to Table 13). This suggests many family CEOs are aware of the need for succession planning but have yet to act on this awareness.

Table 14 highlights that issues such as the current economic conditions, capital gains tax and stamp duty were less likely to have a positive effect on the succession process.

Such situations can create potential problems in the family business as the previous generation effectively has full control of the business (because of possessing the shares), despite the senior management responsibilities being passed onto the next generation.

Respondents were asked to indicate on a scale of 1 (extremely important) to 5 (not at all important) the importance of a range of characteristics of potential successors. The mean scores are reported in Table 15, where values closer to 1 indicate items which were extremely important.

Based on the results reported in Tables 14 and 15, it is clear that the abilities and motivation of the potential successor(s) were seen as critical in the succession process.

It is essential that other stakeholders (e.g. family, employees, customers and lenders) have trust in the abilities of the successor designated to take over the leadership of the business, and understand that the successor shares the same embedded values and ethos. But it is also important that the successor has an interest in taking on this role, and that their motivations for doing so are appropriate.

A leading United States-based family business scholar, Pramodita Sharma[7], argues that the four most common motivations for successors to take over are: obligation-based (I'm obliged to), needs-based (I'm faced with limited alternatives), cost-based (It's too good to pass up) and desire-based (I have a passion to work here).

Of these four, the best succession outcome for the business is most likely to occur when the successor exhibits a desire-based commitment. Interestingly, issues such as outside work experience and formal business qualifications were not seen as important as experience *within* the business and an understanding of finance/investment management.

"I've stepped down and handed over management of the business, but I've held onto the shares because of the Capital Gains Tax issues of passing them onto the next generation."

Focus group participant

'A desire to work in the business' is the most important characteristic of a potential successor.

Table 14: Issues affecting the succession process

Issue	Mean average of responses (1 = Extremely positive, 7 = Extremely negative)
Level of trust in the abilities of the potential successors	2.2
Level of interest of potential successors in the business	2.2
The underlying motives of the potential successors	2.4
CEO/MDs willingness to let go	2.8
The business ability to generate adequate financial returns	2.9
The financial capacity to retire	2.9
Concerns about fairness of ongoing succession arrangements	3.0
Fair valuation of the business and individuals shares of the business	3.1
Willingness of financiers to support succession-retirement	3.1
Ability to have difficult confronting conversations with family members	3.2
Concerns about CEO/MDs retirement plans	3.2
Lifespan of family trust structures	3.4
The impact of the current economic conditions	3.6
Capital Gains Tax (CGT) implications	3.7
Stamp duty implications	3.7

◆ *Mean average of responses*

7 Sharma, P., & Irving, P. (2005). Four Bases of Family Business Successor Commitment: Antecedents and Consequences. Entrepreneurship: Theory & Practice, 29(1), 13-33

Table 15: Importance of characteristics of potential successors

	1 = Extremely important 5 = Not important at all
A desire to work in the business	1.2
Level of commitment to working in the business	1.4
Experience working inside the business	1.7
Understanding of the principles of finance/ investment management	1.8
Understanding the role of strategic planning	1.8
Entrepreneurial flair/capabilities	1.8
Willingness to undertake further development mentoring	1.9
Knowledge of governance practices	2.0
Experience with employee performance management	2.0
Experience from outside the business	2.1
Attainment of formal business qualifications	2.5
Leadership potential has been assessed by an external independent party	2.6

◆ *Mean average of responses*

"CGT implications of passing on the business to the next generation can be huge and potentially wipe out a company. I think that the government can do more in this area."

Focus group participant

Government and regulatory environment – the challenge of compliance

In this year's survey we also asked each respondent to rank the effect of a range of government regulations (from positive to negative) on their business. With the exception of individual workplace agreements, all of the regulations were seen to have a negative effect on family firms. The top five negative regulatory items (in order) were:

1. Dismissal laws
2. Union involvement
3. Tax regulations
4. WorkCover/OH&S regulations
5. Local government regulations.

Further analysis of the results highlighted that as family firms grow, so does the burden of complying with these regulations. Respondents were also asked to rank a range of possible regulatory changes that they would welcome most (from highest to lowest priority). The top five (in order of priority) were:

1. Lower state taxes
2. Simpler tax rules
3. Lower Federal taxes
4. Flexible employment arrangements
5. Concessional tax arrangements for generational transfer.

Although the first four are items most likely to be ranked highly by all business types, the fifth item is likely to have a greater effect on family businesses because of their desire to pass on ownership to the next generation.

About the survey

This report is the result of the combined efforts of FBA, KPMG and the University of Adelaide's FBERG, with the input of others including Dr Donella Caspersz from the University of Western Australia and Chris Johnston from J and AG Johnston.

In April 2013, the questionnaire was distributed to 6,000 family businesses listed on KPMG and Family Business Australia's databases, with an overall response rate of 9.5 percent.

Dr. Jill Thomas and Dr. Chris Graves, from FBERG, undertook the analysis of the responses received which was further explored through conducting focus groups of family business owners in Brisbane, Sydney and Adelaide in June.

Overwhelmingly, the respondents identified their firms as family businesses because of controlling family ownership. The median age of the firms sampled was 35 years and 79 percent were proprietary companies, while 15 percent were operated through trusts. For the purposes of this survey, first generation firms were firms where the family's ownership remained with the founding generation.

Industry	**2013** %
Agriculture, forestry, fishing and hunting	9
Business consulting, scientific and technical services	5
Construction	12
Cultural and recreational services	1
Education and training	3
Electricity, gas and water, and waste services	1
Financing, insurance and superannuation services	3
Health care and community services	2
Hospitality, hotels, cafes, restaurants and accommodation	2
Information, media, publishing and telecommunication services	2
Manufacturing	24
Mining	1
Rental hiring and property services	9
Retail trade	10
Support services	2
Transport, postal and storage services	4
Wholesale trade	9
Other	1

Location of businesses by state	**2013** %
Australian Capital Territory	2
New South Wales	25
Northern Territory	2
Queensland	10
South Australia	24
Tasmania	5
Victoria	24
Western Australia	8

Firm size (number of employees)	**2013** %
Small (1-19 employees)	43
Medium (20-199 employees)	47
Large (200+ employees)	10

Generation in control	**2013** %
1st Generation	41
2nd+ Generation	59

Firm size (sales $)	**2013** %
Less than $500K	6
Between $500K and $1m	6
Between $1m and $2m	11
Between $2m and $5m	18
Between $5m and $10m	15
Between $10m and $20m	18
Between $20m and $50m	9
Between $50m and $100m	7
Between $100m and $200m	5
more than $200m	5

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