MIDDLE MARKET ADVISORY

KPMG and Family Business Australia Survey of Family Businesses 2008

Media pack

ADVISORY

AUDIT ▪ TAX ▪ ADVISORY

Foreword

This is the fourth national survey, conducted by Deakin University's Family Business Research Program, to identify issues and trends that are considered important to the success of Australian family businesses. It has also investigated the contribution that 'family' makes to the business.

The inaugural survey was successfully conducted in 2005 (Glassop, Ho, and Waddell, 2005). In 2006, the survey instrument was amended and extended in response to feedback sought from interested practitioners and academics (Glassop, Hagel, and Waddell, 2006). In 2007, the survey was replicated and intentionally limited to members of Family Business Australia (FBA) so that specific feedback could be given to the professional organisation about the concerns of their members (Glassop, Hagel, and Waddell, 2007). This survey in 2008 has extended the database to broaden the scope of the research.

The questionnaire used in this survey was managed, and the data analysed, by Linda Glassop, Pauline Hagel and Dianne Waddell from the School of Management and Marketing, Deakin University, Melbourne, Australia. Expert assistance was given by the Deakin Computer Assisted Research Facility (DCARF) under the coordination of Ken Reed and Adam Zammit.

KPMG has been proactive in the development of the survey instrument and fully supported the project. With their continued financial support, the research team has been able to address additional contentious issues and increase the response rate which has improved the credibility of the data. Both Dominic Pelligana and Edwina Ogilvie have contributed extensively with their expertise and proffered invaluable feedback. Valuable comments were also received from a select number of family businesses.

Philippa Taylor, Chief Executive Officer of FBA, has endorsed the survey, encouraged FBA members to participate and assisted with the compilation of participants.

The following is a summary of the findings of the survey.

Linda Glassop

Pauline Hagel

Dianne Waddell

Introduction

The *KPMG and Family Business Australia Survey of Family Businesses 2008* continues to build upon previous surveys and contribute to the body of family business research in Australia. Sponsored by KPMG, managed by Deakin University and endorsed by Family Business Australia (FBA), the survey again highlights the trends and issues facing family businesses today.

Despite being a growing area of research in Australia, there is still some way to go to understand the contribution of family businesses to Australian social and economic life. This survey contributes to our understanding of the nature of family businesses in Australia.

One of the most significant changes since the 2007 survey has been the change of government at the federal level, at a time of economic instability and rising petrol prices. The sub-prime financial crisis in the United States has had ramifications for the global economy, and while Australia's economic position remains strong, there is the potential for family businesses, particularly those carrying out business with a high dependency on energy or petrol, to be adversely affected. Given the importance of family businesses to Australia's economic profile, family businesses must meet the challenges faced by rising debt and increasing interest rates if they are to survive.

In addition to facing the challenges associated with the global economy, family businesses face issues not apparent in other businesses: managing succession strategically while maintaining sensitivity to family dynamics and conflict, reward and compensation of family members and considering future generations.

Of particular interest this year is the significantly higher number of survey responses. The increased response rate has been a result of an improved methodology and increased number of survey recipients. Highlights include the following:

- Strategic situation: business concerns, business environment, business approach, business capabilities and business performance. Family businesses are operating in a competitive environment, yet they indicate they are outperforming their rivals. However, the entrepreneurial spirit of family businesses needs to be reinvigorated.
- Business structure: family involvement, Board of Directors and Chief Executive Officer. Of particular interest is the low representation of females at senior levels of the family business. The role of women within the family is undisputed: how transferring their contribution to the workplace remains an ongoing dilemma.
- Business practices: business planning, business philosophy, human resource policies, organisational values, performance evaluation and the use of business advisers. Low levels of business formality persist: professionalisation of family businesses still needs to be addressed.
- Nature of the family business: roles, family policies, governance practices, estate planning and family contribution. Family harmony is a key aspect of the family business. However, the virtues of the systems that facilitate family involvement need to be promoted.

Methodology

In an alliance with Family Business Australia (FBA), and with financial support from KPMG, the survey was managed by the Deakin Computer Assisted Research Facility (DCARF) and the data was analysed by the staff of Deakin University's Family Business Research Program.

The survey was directed to two groups. The first group comprised members of FBA. Questionnaires were sent to 536 FBA members using a list provided by FBA. The second group comprised a random sample of 5,000 businesses from a Dun and Bradstreet listing. The Dun and Bradstreet sample included businesses where (1) the company name matched a shareholder surname (owning 50 percent or more of the business) and (2) multiple individual shareholders had the same surname and own 50 percent or more of the business.

By the cut-off date there were 1,080 completed questionnaires. This represented a response rate of 34 percent from FBA members and 17 percent from the Dun and Bradstreet listing and 20 percent overall. Of the respondents from the Dun and Bradstreet listing, 132 did not consider themselves to be family businesses.

The questionnaire was distributed to both groups by postal mail. Those surveyed had a choice of responding by mail or by completing the survey online. There were 70 questions under fourteen sections: business demographics, business concerns, business environment, business approach, business capabilities, business performance, ownership, board of directors, chief executive officer, business practices, organisation values, nature of the family business, about you and the survey process.

As prescribed by Deakin University's Ethics Committee, the mail out included a covering letter explaining the purpose of the project and confirmed the endorsement of FBA and the support of KPMG. Data was analysed using SPSS for Windows. Descriptive data is reported in the form of percent counts or means. For some items, cross-tabulations by the size of the business (as determined by annual turnover) are reported.

For sections in the questionnaire about business, family and operational issues, respondents were asked to rate each item on a scale of 1 to 5. In these cases, a rating of 5 implies that the item was 'very important' to the respondent. Results from the analyses of these items are reported in the form of means.

Profile of Survey Respondents

Of the 781 replies to the question on respondent gender, 83 percent of respondents identified themselves as male. Of the 1,030 respondents who provided their position, 61 percent were CEOs. Twenty-one percent of respondents were a member of the senior management team, followed by fourteen percent who held the position of Chairperson. Only 4 percent identified themselves in another position within the business.

The most common age group of respondents was 46 to 55 years (32 percent) followed closely by 56 to 65 years (31 percent). Only 7 percent were 35 years or younger.

1,004 respondents replied to the question on highest level of education (refer Table 1), and of these, 23 percent were undergraduate degree qualified, with twenty-two percent having gained a secondary education. Most respondents have worked in the business between 11 to 29 years (54 percent). Almost a third (32 percent) have worked in the business for 30 or more years (refer Table 2). Eighty-three percent of the respondents said they work 40 hours or more a week. A significant number of respondents (33 percent) said that they worked 50 to 59 hours a week

Table 1: Highest level of education

Respondent's education	Percentage
Incomplete secondary	9
Secondary	22
Trade qualification or apprenticeship	14
Certificate or diploma	19
University degree	23
Post-graduate degree or post-graduate diploma	13

Table 2: Years worked in the business

Years worked	Percentage
Less than 10 years	14
11 to 29 years	54
30 years or more	32

Respondent business profile

Of 1,061 valid responses, 86 percent of respondents identified their business as a family business. The majority of businesses (80 percent) identified their legal status as proprietary limited companies. Most head office locations were in Victoria (31 percent) followed by NSW (24 percent) and Queensland (16 percent). Ten percent of family businesses have their head office location in either South Australia or Western Australia with only 6 percent being based in the Australian Capital Territory and 3 percent in Tasmania. The predominant forms of industry that these businesses are involved in are manufacturing and retail trade (18 percent) followed by wholesale trade and construction (14 percent) (refer Table 3).

Most businesses (38 percent) have an annual turnover of between $5 million and $15 million. Thirty percent of businesses have a turnover of more than $15 million (refer Table 4). Forty-two percent of businesses have between 20 and 199 staff, with 36 percent having between 5 and 19 staff (refer Table 5). Most of the businesses (42 percent) were founded in the period 1980 to 1999, with 36 percent founded in the period 1950 to 1979 (refer Table 6).

Table 3: Primary industry

Industry	Percentage
Manufacturing	18
Retail Trade	18
Construction	14
Wholesale Trade	14
Transport, Postal and Warehousing	6
Professional, Scientific and Technical Services	6
Rental, Hiring and Real Estate Services	6
Agriculture, Forestry and Fishing	4
Financial and Insurance Services	3
Other Services	3
Administrative and Support Services	2
Accommodation and Food Services	2
Mining	1
Electricity, Gas, Water and Waste Services	1
Information Media and Telecommunications	1
Health Care and Social Assistance, Arts and Recreation Services, Public Administration and Safety, Education and Training	1

Table 4: Approximate annual turnover

Annual turnover	Percentage
Less than $5 million	32
$5 million to less than $15 million	38
More than $15 million	30

Table 5: Number of employees

Employee number	Percentage
1 to 4 (micro enterprises)	17
5 to 19 (small enterprises)	36
20 to 199 (medium enterprises)	42
200 or more (large enterprises)	5

Table 6: Year business founded

Year	Percentage
Before 1950 (more than 58 years)	17
1950 to 1979 (29 to 58 years)	36
1980 to 1999 (9 to 28 years)	42
2000 and beyond (less than 9 years)	5

Business Strategy

The strategic choices of business operators are important factors for determining business success. Survey respondents were asked a range of questions pertaining to: the state of their industry, environmental turbulence, their strategic approach, core capabilities and business performance relative to competitors. These factors enable us to examine the position of family firms within their industries.

Industries can be classified according to four criteria: 'start-up' reflects the emergence of a new industry, 'growth' refers to an industry that is experiencing vibrancy, 'maturity' equates to industry stability, and 'in decline' refers to an industry that is losing its viability. The majority of family businesses (58 percent) consider their industry to be in a mature state (refer Table 7). However, 35 percent are enjoying a growing marketplace.

Table 7: State of the industry—by business turnover

State of industry	Overall percentage	Percentage by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
In the start-up phase	0	1	0	0
Growing	35	30	35	40
Mature	58	61	57	55
In decline	7	8	8	5

Environmental turbulence refers to factors outside the organisation that have a major influence on the success or otherwise of the business. The present survey investigated three turbulence domains: the marketplace, technology and competition. Family businesses agree that they are operating in an environment with strong competitive turbulence (refer Table 8). Technological change appears to also be a prominent factor influencing family businesses.

Table 8: Source of environmental turbulence—by business turnover

Source of turbulence	Overall percentage	Mean by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Competitive turbulence	3.8	3.7	2.8	3.9
Technology turbulence	3.6	3.4	3.3	3.4
Market turbulence	2.8	2.8	2.8	2.8

* Items were rated on a 5 point scale: 1 = strongly disagree and 5 = strongly agree

Strategic approach refers to the basic strategic orientation of businesses towards their product or market environments according to three strategic types: 'defender', 'prospector' and 'analyser'. Defenders and prospectors tend to adopt opposite approaches (Blumentritt and Danis, 2006). Defenders are businesses that pursue narrow product market domains, are focused on improving efficiency in existing operations and rarely make adjustments to their technology, structure or methods of operation. By contrast, prospectors search for new opportunities, are flexible in operations and structure and act to bring about change in their environments. Analysers fit between the two former groups. These are businesses which operate in both stable and changing product-markets and adopt the characteristics of defenders in stable product-market areas and those of prospectors in dynamic environments (Blumentritt and Danis, 2006). Among businesses of all sizes, the biggest group identified were analysers (72 percent), followed by prospectors (17 percent) and then defenders (11 percent) (refer Table 9). Businesses with over $15 million in turnover show a 9 percent shift from analysers to prospectors; indicating more focus on innovation.

Table 9: Key business approach—by business turnover

Strategic stance	Overall percentage	Percentage by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Analysers	72	72	75	66
Prospectors	17	17	15	24
Defenders	11	11	10	10

Respondents were asked to rate their capability (relative to their three major competitors) in four key areas. Specifically, the capabilities examined were: marketing (knowledge of customers and competitors, and effective pricing and advertising programs), information technology (the various systems for new product development, cross-functional integration, knowledge creation and internal communication), technology (new product development, manufacturing processes, technology development and quality control), and management (logistics, cost control, financial management and human resources management). Australian family businesses rated themselves as having relative competence across all four capabilities (refer Table 10).

Table 10: Capability in core business functions—by business turnover

Core capability	Overall mean	Mean by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Information technology	3.7	3.4	3.4	3.8
Marketing	3.5	3.4	3.5	3.6
Technology	3.5	3.5	3.5	3.5
Management	3.5	3.5	3.5	3.5

* Items were rated on a 5 point scale: 1 = strongly disagree and 5 = strongly agree

Various measures are often utilised to evaluate the performance of a business. Family businesses were asked to evaluate their performance over the last three years relative to their major competitors (refer Table 11). Family businesses perceive that they outperform their competitors across a range of measures, especially the retention of customers and suppliers. Profitability appears to be better than competitors along three measures: return on investments, return on sales and sales growth. Interestingly, family businesses report that they perform as well as their competitors when it comes to employee turnover.

Table 11: Business performance—by business turnover

Performance measure	Overall Mean	Mean by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Retention of major customers	3.7	3.7	3.7	3.7
Retention of major suppliers	3.7	3.6	3.7	3.8
Return on investment	3.4	3.2	3.3	3.5
Return on sales	3.4	3.3	3.4	3.5
Sales growth rate	3.4	3.2	3.4	3.6
Relative market share	3.4	3.2	3.4	3.6
Cash flow	3.3	3.2	3.3	3.4
Sales percent from new products	3.2	3.2	3.2	3.2
Employee turnover	2.7	2.8	2.7	2.7

* Items were rated on a 5 point scale: 1 = much lower than competitors and 5 = much higher than competitors

Business Concerns

The *KPMG and Family Business Australia Survey of Family Businesses 2008* again investigated the challenges faced by Australian family businesses. Findings from the survey provide confirmation of the importance of the ten main challenges identified in the 2007 survey (Glassop, Hagel, and Waddell 2007).

Growing profitably (61 percent) and economic stability (48 percent) are clearly significant challenges for Australian family businesses (refer Table 12). With the recent changes in both the global and local economic environment, in particular increasing fuel prices and rising interest rates, it is not surprising that Australian family businesses have concerns. Government regulation (46 percent) and tax/insurance (36 percent) issues are also a challenge.

Perhaps it is because these issues are out of the immediate control of business owners, together with global affairs being unpredictable.

Unlike the external environment, business management practices are under the control of business managers. Thus, employee issues (42 percent), operational concerns (28 percent), professional management practices (26 percent) and funding issues (25 percent) represent secondary challenges. With regard to families specifically, succession (29 percent), balancing different interests (15 percent), and family-management issues (15 percent) are not pressing business challenges. Surprisingly, environmental issues (17 percent) are not a concern despite the current drought, the debate regarding sustainability and pressures to address global warming.

Table 12: Major business concerns—by business turnover

Performance measure	Overall Percentage	Percentage by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Growing profitably	61	63	62	59
Economic stability	48	46	51	46
Government regulation issues	46	46	48	44
Employee issues	42	34	44	47
Tax/insurance issues	36	36	40	31
Succession planning	29	36	27	24
Operational issues	28	28	25	33
Establishing professional management practices	26	23	27	28
Financial/funding issues	25	28	24	24
Environmental issues	17	16	17	18
Balancing different interests	15	18	14	11
Family-management issues	15	17	14	13

Structure of the business

Family owned businesses are unique in as much as the owners and managers of the business generally reside within the same family unit. Therefore, family businesses are considered to be both social and economic entities (Glassop and Waddell, 2005). The relationship between the social and the economic is, therefore, an important consideration when investigating family businesses.

The structure of a family owned business is represented by the intertwining of the family, the owners (as shareholders), and the senior management team who are responsible for day-to-day management of the business. Family members can reside in any or all of the three areas. Further, an important structural element of any business includes the Board of Directors (BOD) or Governing Body and the role of the Chief Executive Officer (CEO).

Family involvement

The survey data indicates that family members directly involved in the business represent around 60 percent (3.6 members) and family with no direct role in the business represent approximately 40 percent (2.3 members) (refer Table 13). Larger businesses tend to have more overall family members; this is not surprising as they generally are multi-generation businesses.

Table 13: Family involvement—by business turnover

Number of family members	Overall Mean Number	Mean by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Senior management team	2.5	2.5	2.4	2.6
Other business role	1.1	1.0	1.1	1.2
Not working in the business	2.3	2.0	2.1	2.9
Total family members	5.9	5.5	5.6	6.7

Business ownership is indicated by shareholding which can be by individuals and companies and/or trusts. The data indicates that the larger the business the more shareholders we can expect to see with, on average, 6.7 shareholders for smaller firms and 14 shareholders for the larger firms. Furthermore, the prevalence of family companies and/or trusts also increases marginally as business size increases. This may indicate that companies/trusts might be a more useful vehicle for managing family ownership as the business grows in size (refer Table 14). Generally, there is no difference in the pattern of shareholding distribution relative to business size.

Table 14: Shareholding by type of shareholder—by business turnover

Shareholder type	Overall Percentage Number	Percentage by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Individuals that belong to the same family	72	75	72	69
Family owned companies or trusts	22	19	23	24
Non-family individuals	4	5	3	5
Non-family owned companies or trusts	2	1	2	2
Other	0	0	0	0

Around 60 percent of the senior management team are family (2.4 members), who are typically shareholders (refer Table 15). As the firm size increases, the size of the senior management team grows and the presence of family members on the senior management team decreases to around 50 percent (2.4 members).

Table 15: Senior management team—by business turnover

Number of members	Overall Mean Number	Mean number by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Family shareholders	1.9	2.1	1.5	2.0
Other family members	0.3	0.3	0.3	0.4
Non-family shareholders	0.8	0.7	0.7	1.2
Other non-family members	0.8	0.3	0.5	1.5
Total	3.8	3.4	3.0	5.1

The most senior position held by a family member is the position of Chief Executive Office (CEO), followed by the Board Chairperson (28 percent) (refer Table 16). As the firm size increases, the more likely we are to see the most senior family member holding the role of Board Chairperson, rather than CEO.

Table 16: Management position held by most senior family person—by business turnover

Position	Overall Percentage	Percentage by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Chairperson	28	25	24	36
CEO	60	62	61	55
Senior management team	8	10	8	6
Other position in the business	4	3	7	3

Overall we note that around half the survey respondents (49 percent) have the most senior family member from a second or more generation, but only 18 percent have three or more generations. The larger the firm the more likely it is that the most senior family member is from the second or higher generation (56 percent).

Board of Directors or Governing Body

This section provides a breakdown of the number of family businesses with a formal Board of Directors or Governing Body. Of the 1,047 valid responses, only 37 percent of respondent family businesses indicate that they have a formal Board of Directors or Governing Body. Of those who indicated they have a formal Board or Governing Body in place, total number of board members is around four with 2.8 working in the business, 2.6 family members and 0.9 females (refer Table 17).

Table 17: Members on the Board or Governing Body

Kind of member	Mean number
Working in the business	2.8
Family member	2.6
Shareholder in the business	1.7
Not working in the business	1.2
Female	0.9
Total members	4.0

Further to the significant under-representation of females on the Board, 97 percent of Chairpersons are male. Interestingly, 55 percent of Chairpersons are also the CEO. The general profile of the Chairperson is male, a shareholder and/or family member who works in the business. Family businesses consider improving business performance to be the most important reason for establishing a Board or Governing Body (33 percent), followed closely by improving governance (26 percent) and because it is a legal requirement (24 percent). Addressing risk management (7 percent) and communication issues in the family business (9 percent) do not appear to be important drivers for establishing a Board or Governing Body. A large proportion of family business Boards or Governing Bodies (75 percent) have no formal assessment. Of those that do formally assess Board members, 15 percent are assessed by someone outside the business with 8 percent assessed by someone inside the business.

The Chief Executive Officer

A large percentage of CEOs (89 percent) are shareholders in the family business and an overwhelming number of CEOs (94 percent) are male. A third of CEOs (33 percent) are in the age range of 46 to 55 years with almost the same number aged 56 to 65 years (32 percent). Some 10 percent of CEOs are older than 65 years; suggesting that these family businesses face succession and estate planning challenges in the near future. The majority of CEOs (51 percent) represent the first generation of the family business, followed by the second generation (32 percent); only 12 percent represent the third generation. Only a very small number of CEOs (5 percent) are of the fourth, fifth or greater generation.

Most CEOs are undergraduate degree qualified (24 percent). Twenty-two percent have a secondary level of education. Certificate or diplomas and trade qualifications or apprenticeships represent the highest level of education for CEOs at eighteen percent and sixteen percent respectively. Only 11 percent of CEOs hold a postgraduate degree or diploma. Forty-three percent of CEOs have been in the role for more than 20 years and 28 percent less than 10 years.

Eighty-seven percent of CEOs are recruited from within the business and forty-eight percent of CEOs founded the business. With regard to performance assessment of the CEO, the majority of CEOs are assessed by family members (45 percent). Twenty-five percent of CEOs are assessed by the Board or Governing Body, followed by the senior management team and shareholders, 22 percent and 20 percent respectively. Only 9 percent of CEOs are assessed by persons external to the business.

Succession

According to survey respondents, 34 percent of CEOs are likely to step down within five years, and thirty-four percent between five and ten years. This is consistent with the fact that forty-three percent have been in the role for more than twenty years. It is clear that more than one-third of family businesses are close to changing the baton.

Alarmingly, eighty-three percent of family businesses do not have a succession plan in place for the CEO. The primary reason for not having a succession plan is that a likely successor has not yet been identified (36 percent), it is too early to plan (27 percent) and other reasons (29 percent) (refer Table 18). However, it is believed by 53 percent of respondents that the successor CEO will be recruited from within the business. Furthermore, 43 percent of respondents believe that the likely successor will be a member of the owner's or major shareholder's family. More than a third of respondents indicate that they don't know who the likely successor is (35 percent).

Table 18: Primary reason for not having a succession plan

Reason	Percentage
No likely successor identified yet	36
It is too early to plan	27
Selecting a successor is too difficult	8
Other reason	29

Business Planning

The number of formal business plans covering specified functions increases with annual turnover (refer Table 19). In businesses with an annual turnover of less than $5 million, 48 percent of formal business plans cover accounting and finance. Contrast this with 62 percent in businesses with an annual turnover of $15 million or more. Formal business plans across all turnover categories most commonly cover accounting and finance, sales and marketing, and human resource management. Research and development is least likely to be included in formal business planning across all turnover categories.

Table 19: Business planning—by business turnover

Formal business plan	Overall Percentage	Percentage by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Accounting and Finance	48	42	43	62
Sales and Marketing	41	33	37	56
Manufacturing/Distribution/Operations	38	27	37	50
Human Resource Management	37	30	31	52
Strategic Business Direction	33	26	27	48
Information Technology	31	26	22	47
Business Risks and Contingencies	24	21	22	29
Technology/Asset Management	23	19	22	29
Research and Development	12	10	10	18

In terms of assessing performance, the most commonly evaluated area is financial with an overall percentage of 69 percent. Although, in firms with a turnover of less than $5 million, only 58 percent formally evaluate their financial performance compared with 83 percent of firms with a turnover of $15 million. The second most common area for evaluation is internal performance (39 percent), and again this is common across all turnover categories, with the percentage increasing as turnover increases (29 percent, 36 percent and 55 percent respectively) (refer Table 20).

Table 20: Performance evaluation—by business turnover

Formal evaluation	Overall Percentage	Percentage by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Financial performance	69	58	66	83
Internal business performance	39	29	36	55
Customer performance	33	25	31	42
Human resource performance	28	20	24	41
Environmental performance	11	6	9	20

Business Operations

Business operations are those ongoing recurring activities involved in the running of a business for the purpose of producing value for stakeholders. The area with the highest level of formalised operating procedures is accounting and finance (54 percent). Once again it is evident that businesses with a turnover of more than $15 million are more formalised (68 percent). This trend is replicated when considering human resources management (66 percent), manufacturing/distribution/operations (60 percent), sales and marketing, and information technology (50 percent) (refer Table 21).

Table 21: Operating procedures—by business turnover

Formal procedures	Overall Percentage	Percentage by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Accounting and Finance	54	44	52	68
Human Resources Management	49	38	44	66
Manufacturing/Distribution/Operations	46	34	46	60
Sales and Marketing	38	33	33	50
Information technology	34	29	26	50

The most common area for formal documentation of work practices is job descriptions (77 percent); with large businesses in excess of $15 million recording the highest use (89 percent). Formal job descriptions are far more commonly implemented when compared to flow charts (44 percent) and processes for encouraging multi-skilling (28 percent).

The contribution of family

This survey has, for the first time, attempted to pinpoint the factors that bind a family to its business. Family involvement means more than ownership and participation in business affairs. The effect ‘family’ has on business operations extends to understanding the goals and aspirations of family members, family membership, what social capital do family members bring to the business (relationships, networks), the human resources they bring to the business (effort, time), how the family brand is managed (reputation) and the degree of family harmony (conflict) (refer Table 22). It is clear that being a family business does matter. Family relationships are not always harmonious; however, the degree of conflict within a family represents a measure of family cohesion as well as a measure of how much family issues distract from business matters. The majority of respondents (72 percent) agree that family harmony is important to the family business. The branding of the business as a family business is seen as positive to business operations (59 percent), although some respondents were undecided as to the virtue of the family brand (27 percent) (refer Table 22).

Continuity of the family business is a clear aim for 40 percent of family businesses; although surprisingly thirty nine percent are undecided as to the future of the business, while 11 percent of respondents do not expect the business to remain in family hands (refer Table 22). The use of family networks does not appear to be a contributing factor to business success with 82 percent of respondents disagreeing that family networks yield business opportunities.

Table 22: The contribution of the family to the business

Formal business plan	Disagree	Neutral	Agree
	Percentage		
Family harmony	10	18	72
Family brand	14	27	59
Goal alignment	22	30	48
Family continuity	11	39	40
Family resources	35	24	41
Family networks	82	13	5

Family Business Practices

Family businesses are often accused of lacking professionalism, preferring informal, rather than formal, management approaches. From a family business perspective there are several practices that are critical: governance mechanisms, human resources policies, estate planning and share ownership transfer.

Family-to-business mechanisms, such as a Constitution or Family Council, provide a formal link between business matters and family affairs. The value of formal governance mechanisms in this regard ensures that communication is facilitated between the family, the owners and business managers. Overwhelmingly, Australian family businesses utilise informal communication mechanisms as evidenced by the small percentages who have formal mechanisms in place (refer Table 23). Given that around 40 percent of family members do not work in the business (refer Table 13), the potential for miscommunication is obvious.

To avoid the perception of nepotism, the treatment of family members within the family business needs to be seen as appropriate. This can be facilitated by having formal HR policies and practices specifically focussed on family business members. Of considerable concern is that less than 10 percent of family businesses report the presence of formal policies for family members (refer Table 24). Given that family members hold positions of importance to the firm (refer Table 13), this is concerning and such practices could well feed the perception of nepotism. This statistic is, perhaps, indicative of the fact that only 37 percent of family businesses have a formal HRM plan (refer Table 19). Securing family wealth is facilitated by ensuring that family assets are appropriately dealt with in the event of family member's demise. Importantly, 66 percent of respondents report that family shareholders have a Will. However, securing family wealth requires all family shareholders to have clear directions for the distribution of their assets.

According to forty percent of respondents, keeping the family business in the family is an important factor for family business continuity (refer Table 22). However, only ten percent of family businesses have a formal policy pertaining to share transfers. There appears to be a disparity between desire and practice.

Table 23: Formal family-to-business governance mechanisms—by business turnover

Family-to-business mechanism	Overall Percentage	Percentage by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
A Shareholder Assembly/Meeting	16	13	16	18
A Family Assembly/Meeting	7	6	5	10
A Family Council	5	3	3	8
A Family Constitution	4	1	3	9
A Family Office	3	5	7	6

Table 24: Family policies—by business turnover

Family policies	Overall Percentage	Percentage by business turnover		
		Less than $5 million	$5 million to less than $15 million	More than $15 million
Performance review of family members	9	7	7	14
Remuneration of family members	8	6	5	13
Induction of family members	7	5	6	9
Training and development of family members	6	4	6	9
Recruitment of family members	5	3	3	9
Management development of family members	5	4	3	8
Promotion of family members	4	3	4	7
Mentoring of family members	4	2	3	7

The Authors

Linda Glassop is a Senior Lecturer in Management and HR Programs at the School of Management and Marketing at Deakin University, Melbourne, Australia. Linda lectures in Organisational Behaviour and Organisational Theory. Prior to this, Linda spent some 20 years in industry, working with multi–national corporations in a variety of management areas including business operations, business strategy, marketing, process reengineering, information systems, quality management and managing change. Linda moved into an academic career 15 years ago, and has taught undergraduate and post–graduate students for nine Australian universities. Originally trained as an Accountant, Linda completed a Master of Business Administration (*MBA, Macq.*) in 1992, a Graduate Certificate in Higher Education (GradCertHEd, *UNSW*) in 1999, a Master of Philosophy in Commerce (MPhil, *ANU*) in 2000, and a Doctorate on the nature of change in 2007 (PhD, *Deakin*). Linda is author of the book *Rethinking Causality: pattern as the science of change* (Heidelberg Press, 2007), co–editor of the book *Managing the Family Business* (Heidelberg Press, 2005) and author of the book *The Road to Quality: Turning Effort into Reward* (Prentice Hall, 1995).

Pauline Hagel is Senior Lecturer in Management Programs at the School of Management and Marketing at Deakin University, Melbourne, Australia. Pauline lectures in Strategic Management. She holds a PhD (Deakin), MBA (Monash) and Bachelor of Economics (La Trobe). Her PhD investigated the marketing of higher education in Australia and used conjoint analysis to understand the structure of students' preferences. Pauline has supported her teaching interests with work placements in several organisations including Siemens Ltd, Export Development Australia Ltd and the Australian Taxation Office. She is on the Advisory Board of the CPA Segment, Business Strategy and Leadership and is a member of several professional organisations including the Higher Education Research and Development Society of Australasia, the Australian and New Zealand Marketing Academy, the Australian and New Zealand Academy of Management and the Australian Society for Computers in Higher Education.

Dianne Waddell is Associate Head of School (Teaching and Learning) and Associate Professor in Management with the School of Management and Marketing at Deakin University, Melbourne, Australia. Dianne is responsible for the development, implementation and evaluation of postgraduate and undergraduate courses and has taught in the areas of Quality Management, Change Management and Strategic Management. She holds a PhD (Monash), Master of Education Administration (Melbourne), Bachelor of Education (Melbourne) and Bachelor of Arts (La Trobe). Dianne has published and presented many papers on 'resistance to change', 'leadership', 'e–business', 'quality management', 'family business' and 'forecasting for managers'. Her publications include five books, *Contemporary Management* (McGraw Hill), *Organisation Development and Change* (Nelson–Thomson Learning), *E–Business in Australia: Concepts and Cases* (Pearson Publishing), *Managing the Family Business* (Heidelberg Press) and *E–Business Innovation and Change Management* (IDEA Publishing). Dianne has taught in both public and private education systems for many years, as well as presenting specifically designed industry–based courses. Dianne is a Fellow of the Australian Organisation for Quality (AOQ).

Bibliography

Blumentritt, T. and Danis, W. M. 2006, 'Business Strategy Types and Innovative Practices', Journal of Managerial Issues, XV111, 2, 274-291.

Glassop, L., Hagel, P. and Waddell, D. (2006) *KPMG and Family Business Australia Survey of Family Business Needs* 2006, Deakin University, Melbourne, Australia.

Glassop, L., Hagel, P. and Waddell, D. (2007) *KPMG and Family Business Australia Survey of Family Business Needs* 2007, Deakin University, Melbourne, Australia.

Glassop, L., Ho, Y.C. and Waddell, D. (2005) *KPMG and Family Business Australia Survey of Family Business Needs 2005*, Deakin University, Melbourne, Australia.

Glassop, L.I. and Waddell, D. (eds) (2005) *Managing the Family Business,* Heidelberg Press, Melbourne, Australia.

Contact Us

For further information about this survey or to find out how KPMG can assist your family business, please contact:

National Partner in Charge
Graeme Matthews
03 9288 6685
gcmatthews@kpmg.com.au

Adelaide
Laurie Madigan
Partner
08 8236 3215
lmadigan@kpmg.com.au

Brisbane
Bill Noye
Partner
07 3233 3253
wnoye@kpmg.com.au

Cairns
Robert Ince
Senior Manager
07 4046 8888
rince@kpmg.com.au

Darwin
Peter Chilman
Partner
08 8982 9000
pchilman@kpmg.com.au

Gold Coast
David van Herwaarde
Partner
07 5577 7545
dvanherwaard@kpmg.com.au

Hobart
Matthew Wallace
Partner
03 6230 4037
mgwallace@kpmg.com.au

Launceston
Nigel Briggs
Partner
03 6337 3711
nbriggs@kpmg.com.au

Melbourne
Dominic Pelligana
Partner
03 9288 6386
dpelligana@kpmg.com.au

Perth
Rob Kelly
Partner
08 9263 7320
rkelly@kpmg.com.au

Sunshine Coast
Bruce Swan
Partner
07 5444 7999
bswan@kpmg.com.au

Sydney
Brett Mitchell
Partner
02 9335 7398
bmitchell@kpmg.com.au

Wollongong
Peter Fitzgerald
Partner
02 4225 2126
pfitzgerald@kpmg.com.au

For further information about Deakin University's Family Business Research Program please contact:

Deakin University
Linda Glassop
Lecturer
Senior School of Management and Marketing
03 9244 6768
Linda.glassop@deakin.edu.au

kpmg.com.au

July 2008. VICN01721MMA.