



Family Business
Australia

Family Business Australia (FBA)

The voice for family businesses

- Established in 1997, Family Business Australia (FBA) is the peak national body for families in business committed to contribute to Australia's future through a dynamic, sustainable family business community.
- It is a not for profit, membership-based organisation committed to deliver access to tools, resources, and professional development opportunities to assist families in business to prosper.

www.fambiz.org.au

1800 249 357

Family Business Australia (FBA)

The voice for family businesses

- **Purpose:** To contribute to long term success of family business by facilitating and engaging resources and channels that promote sustainability and longevity.
- **Programs and products:** Developed to provide access to specialist family, business, and technical services and generate opportunities for families in business to learn and grow by networking and sharing with their peers.

FBA membership: Connect, share, grow ...



Networking events
Seminars & Workshops
Conferences



Forum Group program
NxG CEO program
NxG Mentoring program



National & State
Education and
Development courses





Family Business
Australia

Family Business Australia (FBA) National Conference

Australia's Family Business 17th Annual Conference

Community, Continuity, Success

26-28 August 2015

Gold Coast

Register online: fambiz.org.au

28th Annual SEANZ Conference

Melbourne July 1-3, 2015

Rhetoric and Reality: Effective Management of Small to Medium Enterprises

How to work when you have 'kin' in the game

Exploring key family business success and
continuity factors

PART 1

Presenter: **Lucio E. Dana** BA LL.B (Hons.)

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Family Business

Kick starting an exploratory discussion

1 - What do the words 'family business' mean to you?

2 - Family business = 'complex business'.

- Is this correct in your opinion?
- What do you think is the nature of the complexity?

3 - How would working with/for relatives work for you?

The MGI Australian Family & Private Business Survey 2013

Statistical Overview

- **Gender of owner(s):**
Male 90%; Female 10%
- **Generation of family currently in control:**
First 60%; Second 26%; Third 9%; Fourth + 5%
- **Number of generations involved in business:**
One 37%; two 47%; Three + 16%
- **Current ownership control:**
One individual 28%; Couples 48%; Siblings 12%; Other 12%

The MGI Australian Family & Private Business Survey 2013

Statistical Overview

- **Family members employed in business:**
One 19%; Two 38%; three 18%; Four + 25%
- **Family members in senior management positions:**
One 32%; Two 45%; Three + 19%
- **Family members most actively involved:**
Sons 36%; Spouses 35%; Daughters 9%; Brothers 8%.

How to work when you have 'kin' in the game

- The title 'Kin in the Game' was used in PwC's Family Business Survey 2010-2011 to reflect the duality of family business owner-managers having both 'skin' and 'kin' in the game.
- This concept underlies the 3 Circle Model of Family Business that shows:
 - the range of interests that exist, and
 - where they intersect or diverge.
- It demonstrates how the perspectives of the different parties depend on where they stand within the three circles as much as they do on the personalities of the people involved.

How to work when you have 'kin' in the game

- Another way of expressing the concept in the title is **“How to work with relatives in a family business”**
- Mixing family and business creates many issues and challenges for families in business. These have to be understood, respected, and managed ...
- Complexity results from the need to deal concurrently with business, ownership, and family issues.
- Most issues confronting families in business are family-based rather than business-based; solutions reside with family members.

What Makes Family Business Different?

- The presence of the family
- The owner's dream to keep the business in the family
- **The overlap of family, ownership & management**
- The competitive advantage derived from the interaction of family, management, & ownership

Obstacles to sustaining family business prosperity

“... Family firms have a built in Achilles’ heel.

The two systems that interact in these firms - the family & the business - are not necessarily compatible.

On the contrary, they are often in conflict with each other.”

(Kets de Vries, et al., (1996). Family Business on the Couch)

Key characteristics of the family business

Advantages and disadvantages

- **Simultaneous roles** potentially leading to norm confusion **cf.** heightened family & company loyalty
- **Shared identity** potentially leading to a stifling sense of being over-watched **cf.** strong sense of mission
- **Lifelong common history** enabling family members to point out relatives' weaknesses and strengths **cf.** strong foundation for family members to weather adversity
- **Emotional involvement and confusion** potentially leading to lack of objectivity in communication complicating work interactions **cf.** expression of positive feelings can create trust and promote loyalty

Key characteristics of the family business

Advantages and disadvantages

- **Private language of relatives** can potentially trigger sensitive reactions that distort communications and create conditions for conflict **cf.** allows for more direct and efficient communication
- **Mutual awareness and privacy** can potentially lead to 'fish-bowl' effect **cf.** improved communication and business decisions
- **Meaning of the family company** can potentially lead to fierce rivalries between family members **cf.** company symbolism can develop strong sense of mission.

Key characteristics of the family business

Advantages and disadvantages

- The main features or attributes of family businesses account for both their advantages and disadvantages.
- Not possible to eliminate these characteristics that derive directly from the defining overlap of membership groups
- Necessary to recognize their potential for positive and negative consequences.
- Challenge: manage key attributes so as to maximize their positive consequences and minimize their negative ones.

The challenge of family business: Managing dual work-family relationships.

- **The journey of family members from home to business is often short, and seems entirely natural.**
- But moving from a close family to an effective working relationship involves different requirements and tasks.
- It is an enormous transition that is not as simple as it looks.

(Jaffe, D 1991, Working with the ones you love. Conari Press, at pp. 24-5; 27).

The challenge of family business: Managing dual work-family relationships.

- In a family business you have to manage two different types of relationships with the same person - and sometimes these are in conflict.
- Family members need to learn to
 - deal with conflict
 - hold each other accountable, and
 - work for clear, shared goals.
- They need to learn how to handle predictable growth crises of a family along with business cycles.

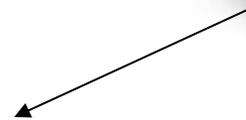
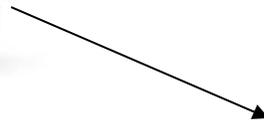
Family involvement adds several layers of complexity to a business

The family business challenge: Managing dual work-family relationships.

Family
Family Rules



Business
Business Rules

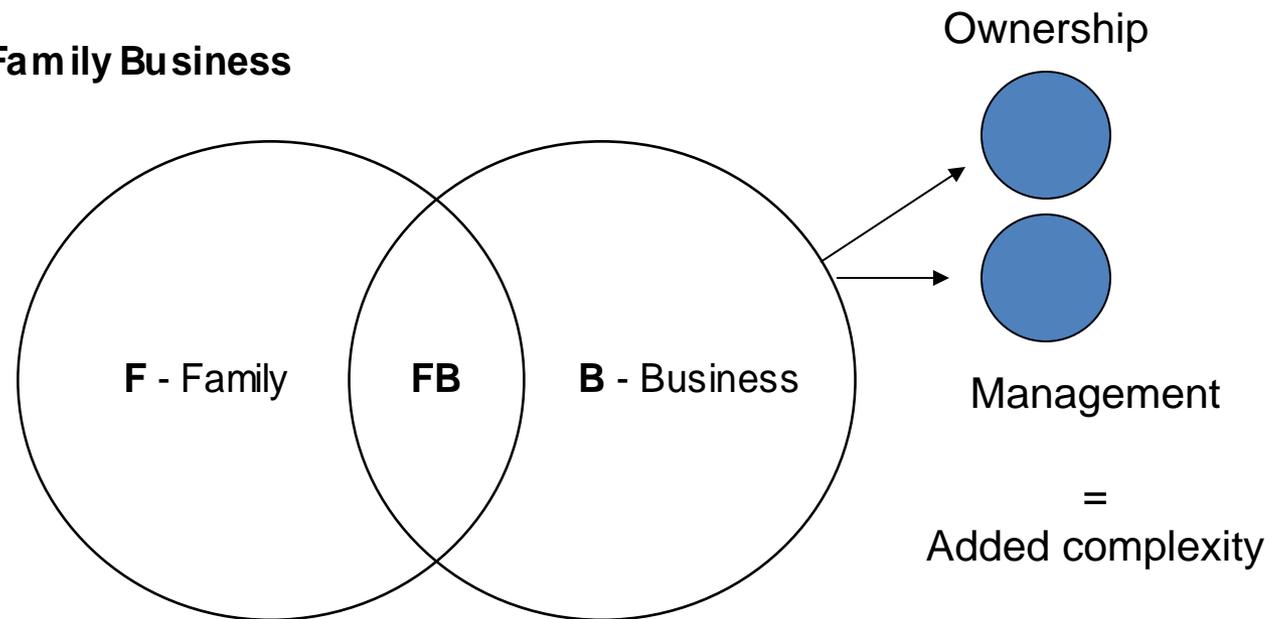


Family Business
Which rules?

“Contradictions between the norms & principles that operate in the family, and those that operate in business frequently interfere with the effective management of human resources in family firms”.

(Source: Gersick, K.E. et al., 1997, *Generation to Generation*.)

Two (2) Circle Model of Family Business



- Family businesses = unique & complex organisations created by the **overlap of family & business sub-systems** or circles.
- Each of these two 'circles' has its own norms, membership rules, values & organisational structures.
- Issues and challenges arise because the same **individuals have to fulfill obligations in both circles**; for example, as parents & as professional managers.
- In addition, the business itself has to operate according to sound business practices & principles, while at the same time meeting family needs for employment, identity & income.
- **Finding strategies that satisfy both sub-systems** is seen as the key challenge facing all family enterprise.

(Source: Gersick, K.E. et al., 1997, *Generation to Generation*.)

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How to work when you have 'kin' in the game

**Exploring family business key success and
continuity factors**

PART 2 - Three Mini Case Studies

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FAMILY BUSINESSES

3 Mini Case Studies

**to illustrate how to become aware of,
and avoid, *role confusion*
in the family business,
by using the
3 Circle Model of Family Business**

Becoming aware of & avoiding role confusion in the family business.

Mini Case Study 1

- Frank runs a successful large family business. He has three sons working with him alongside a number of very capable non-family managers.
- Two of the sons are conscientious & competent, but the third has trouble dedicating himself to steady work. He would much prefer to spend time with his musician friends & play the guitar.
- Although he has been cautioned on more than one occasion, the son does not appear to be aware of (or is oblivious to) the impact his attitude & behaviour have on others in the business.
- Senior non-family managers finally draw Frank's attention to his son's continuing poor work record & the negative impact it is having on staff morale. They point out that if the young man had not been the owner's son, he would have been fired long ago.
- Frank is ambivalent how to respond ...

Becoming aware of & avoiding role confusion in the family business.

Mini Case Study 2

- Peter manages the family's business of which he is 75% owner.
- His sister Joan owns 25% of the business but is not otherwise involved. She usually has little to say about how John manages the business as long as she receives her modest dividend cheque at the end of the year.
- The business is doing well & is expanding fast.
- Martin, Joan's husband has been looking over the financial information that Joan receives at the end of the year. He believes that the business is making money & thinks that Joan should be getting a greater dividend distribution. He suggests that Joan ask Peter for a detailed breakdown of administrative expenses.
- Peter wonders how to handle the situation ...

(Source: Northington, M. 1994, Managing the family business)

Becoming aware of & avoiding role confusion in the family business.

Mini Case Study 3

- John is the manager of the family's wholesale appliance business that is wholly owned by his mother who used to manage it.
- He has a sister who is not involved in the business.
- Because of economic and market conditions, business has been relatively slow and he is considering laying off an employee.
- He is trying various methods of increasing and improving business activity and there are signs that these might be starting to work. (cont.)

Becoming aware of & avoiding role confusion in the family business.

Mini Case Study 3 (Cont) - The following situations occur:

Situation 1. His sister calls asking him to hire her 16-year old son, who is having trouble at school. She says that if her son does not have a job, he may end up in serious trouble.

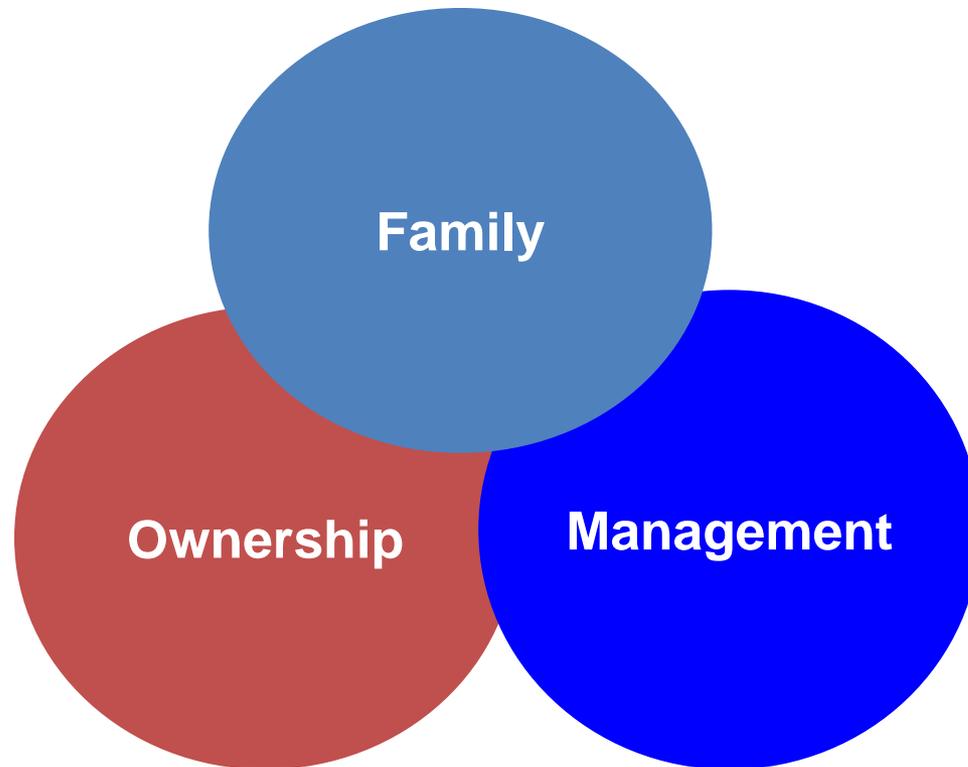
Situation 2. John's mother, who is now retired, comes in on an irregular basis to see how he is doing. As the owner, she depends on the business for her income and she has not adjusted too well to retirement. Lately she has been complaining about inventory levels and sales tactics. She is critical of John's management style and her attitude to him has been negative. She asks John to have lunch with her to discuss the management of the business.

John wonders how to handle both situations ...

(Northington, M. 1994, Managing the family business)

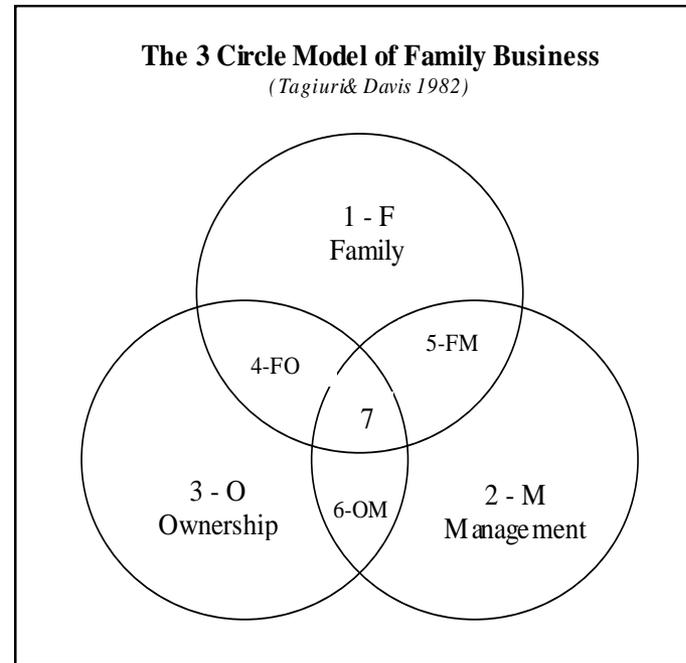
Systems Theory

- Family businesses have been described as dynamic systems made up of three sub-systems (circles) family, management, and ownership
- Integration is achieved by adjustments between the three subsystems
- Individual perspectives of family and firm may differ, potentially leading to overemphasis on one sub-system at the expense of others
- The challenge is achieving joint optimization of the three sub-systems.



The Three (3) Circle Model of Family Business

(Source: Gersick, K.E. et. al. 1997 *Generation to Generation*.)



Three (3) Circle Model of Family Business.

- An elaboration of the 2 Circle model that distinguishes between ownership & management sub-systems within the 'business' system.
- Useful framework for mapping the competing self-interests of those who inhabit family business systems.

Blurred System Boundaries

Boundaries among *family*, *ownership*, & *management* systems may become blurred

- Problems determining if decisions relate to family, ownership, or management issues
- Family rules may overtake the business
- Problem-solving ability diminished by blurred boundaries.

Becoming aware of & avoiding role confusion in the family business

The 3 Circle Model can be used to examine and address blurred boundaries issues based on the following principles:

- The 3 circles are a basic diagrammatic representation of a family business system designed to clarify the various roles, the perspectives and the resulting expectations that different family members can have in it.
- The conflicting alternatives that constitute the decision-making challenges in family businesses come from different sub-systems of the family business system.

(Cont.)

(See: Gersick, K.E. et. al. 1997, Generation to Generation).

Becoming aware of & avoiding role confusion in the family business

(Cont.)

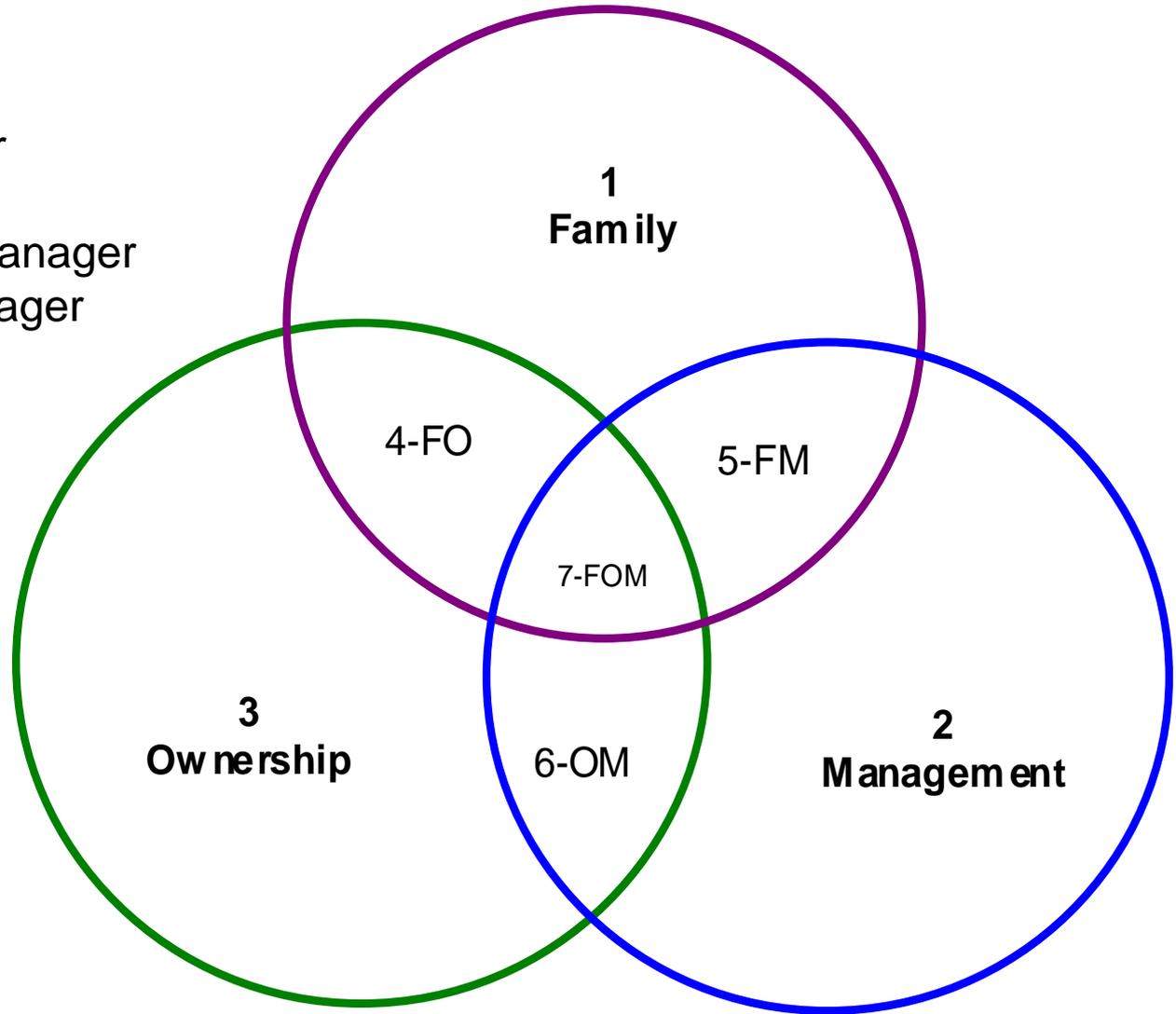
- Only one of the sub-systems is appropriate for a particular issue or problem, i.e. the appropriate response to a family need or problem is through the family, and the appropriate response to a business need or problem is through the business either ownership or management.
- When problems exist in two or more sub-systems at the same time, sorting out the parts of the issue that come from ownership, management, or family can be the first step toward workable solutions.

(See: Gersick, K.E. et. al. 1997, Generation to Generation).

The 3 Circle Model of Family Business

(Tagiuri & Davis 1982)

- 1 F-Family member
- 2 M-Non-family manager
- 3 O-Non-family owner
- 4 FO-Inactive family owner
- 5 FM-Family manager
- 6 OM Non-family owner-manager
- 7 FOM-Family owner-manager



Becoming aware of & avoiding role confusion in the family business

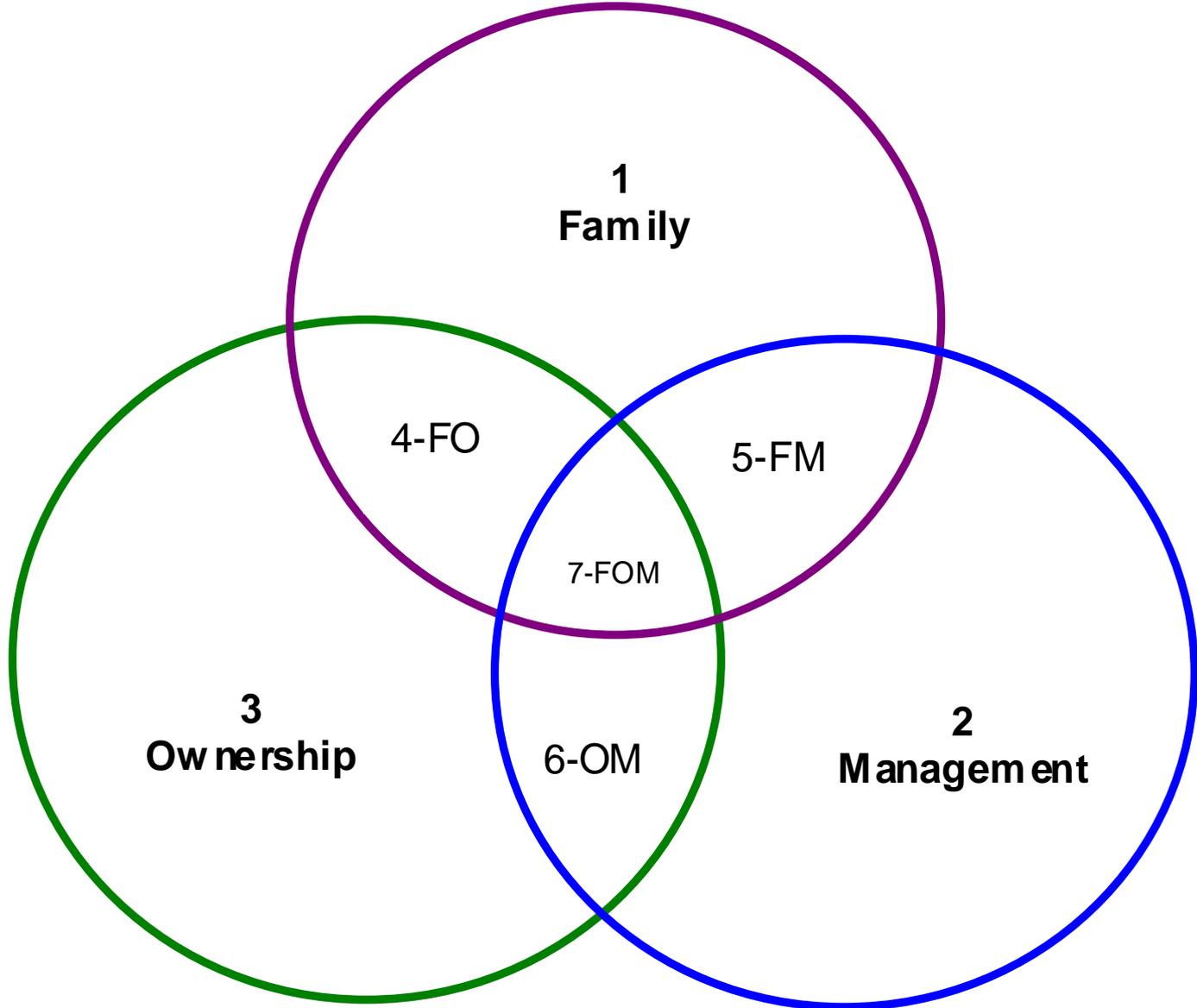
The 3 circle Model of family business can be used to suggest (not tell) what *could* be done in each of the 3 cases outlined.

Steps:

- Draw a 3 circle Model
- Place family members in their respective segments
- Identify the appropriate segment (& circle) for the particular issue being dealt with

The 3 Circle Model of Family Business

(Tagiuri & Davis 1982)



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**Exploring family business key success and
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PART 3 - Seven Key continuity factors

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What do family businesses have to do to survive & thrive?

- Management and governance practices associated with **family business multi-generational continuity** identified by the family business literature.
- Family business **continuity** = longer-term success and longevity encompassing both family harmony and firm performance
- Conceptualization of family business **continuity** in terms of **7 key factors** (and related proactive practices) that can be used as a tool for understanding, explaining and, possibly, predicting the continuity or otherwise of family firms.

Family business continuity: 7 Key factors

1 - Stewardship

2 - Governance of the Business & Family

3 - Communication

4 - Professionalisation of the Business

5 - Education and Development of Family Members

6 - Continuity

7 - Corporate Citizenship

Family business continuity: Key factors & main practices

1 - STEWARDSHIP

- Commitment to longer-term viability and continuity of the family business
- Strategic planning
- Ongoing entrepreneurial growth

Family business continuity: Key factors & main practices

2 - GOVERNANCE

- Governance of the business & the family
- Values
- Vision, mission, purpose
- Rules, policies
- Processes, structures

Family business continuity: Key factors & main practices

3 - COMMUNICATION & CONFLICT MANAGEMENT

- Family meetings
- Family Council; family Assembly
- Family culture
- Family unity and cohesion
- Conflict management

Family business continuity: Key factors & main practices

4 - PROFESSIONALISATION OF THE BUSINESS

- Merit-based employment, compensation, and promotion policies
- Benchmarking
- Hiring of non-family executives
- Use of outside resources (Board of Directors & advisors)

Family business continuity: Key factors & main practices

5 - EDUCATION & DEVELOPMENT

- Education & development of family members
- Mentoring successors
- Defining roles, responsibilities & accountabilities
- Team building

Family business continuity: Key factors & main practices

6 - CONTINUITY PLANNING

- Commitment to being in the best business in the future
- Leadership and ownership succession planning
- Liquidity and exit options
- Timely retirement of incumbents

Family business continuity: Key factors & main practices

7 - CORPORATE CITIZENSHIP

- Philanthropic and charitable activities
- Building social goodwill
- Assistance for family members in need

Best fit even more critical than best practice

- Identified factors and related practices are relevant and useful.
- However, given the idiosyncratic nature of *family* businesses, not all practices are equally relevant or appropriate for them.
- There may be multiple, even contradictory, but nonetheless effective, ways for families in business to prosper.
- Practices need to be carefully selected, and judiciously adapted, to address the specific issues of, and to fit the unique context, situation, and configuration presented by each family in business.
- In other words, when it comes to family business management and governance practices, best fit is even more critical than best practice.

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**PART 4 - Conditions precedent and subsequent to effective
implementation of practices**

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Conditions precedent & subsequent to effective implementation of practices

- The practices identified by the family business literature have the potential to assist aspiring families in business to find answers to the challenging question ‘**What do families in business have to do to survive and thrive?**’.
- Literature also indicates that effective implementation of practices is context dependent and conditional on the attitudes and aptitudes of family members, as well as their levels of mutual trust, commitment, and cohesion.
- Accordingly, the more challenging, and potentially more revealing, question to ask and answer is likely to be: “**What do families in business need to be and to have, so that what they do can contribute effectively to their long-term success and longevity?**”

Conditions precedent & subsequent to effective implementation of practices

There are conditions precedent & subsequent to effective implementation of management & governance practices for long-term family harmony & business performance.

Conditions precedent include:

- Certain family characteristics & attributes, such as who & what family members are, and how they relate as family members, co-workers & business partners
- What they have & are willing & able to bring to the business in terms of capabilities, attitudes, aptitudes & resources
- A shared vision and mission
- Internal and external contexts need to be taken into account

Who is on the bus matters!

Jim Collins, (2001). Good to Great.

Conditions precedent & subsequent to effective implementation of practices

Conditions subsequent include:

- Sound business practices; business excellence programs
- Intergenerational entrepreneurship to ensure that the business remains viable
- Integration of family and business strategies
- Regular evaluation and control
- Family's ability to adapt to internal and external contextual changes

A certain amount of luck can also be a helpful ingredient in the longer-term success & continuity of family businesses

Character, personal qualities & relationships

Everything in the family business hinges on how well family members get along and interact with one another.

Some families are able to work effectively together, others are not.

Hoover & Hoover (1999). Getting Along in Family Business.

Character, personal qualities & relationships

(Source: Pitcher Partners / Swinburne University of Technology 2014)

- Successful family businesses recognise that “character, personal qualities, and relationships of incumbent family members, and successors, matter more than ever as they seek to nurture and mature the right traits across family members”
- Family business prosperity can be understood both in terms of businesses (relevant profitable businesses for the time) and families (the right people in the right positions).

Right people for the right job ...

(Source: Pitcher Partners / Swinburne University of Technology 2014, at p. 9)

Australian Small Business Commissioner

Top 10 Tips for Family Businesses

1. Leave work at work & home at home
2. Have clear roles for each family member
3. Pay award rate to all family members who work there
4. Use outside advisors for unbiased advice
5. Have a good management structure - don't confuse ownership or inheritance with management ... (Cont.)

(Source: Australian Small Business Commissioner :

<http://www.business.gov.au/business-topics/business-structures-and-types/family-business/Pages/default.aspx>)

Australian Small Business Commissioner

Top 10 Tips for Family Businesses (Cont.)

6. Be open with communication - both good and bad news must be shared
7. Clearly outline the entry and exit conditions for family members involved with the business from the beginning
8. Develop a succession plan and make sure that all parties agree on the transfer of ownership
9. Hold regular meetings and family 'retreats'
10. Use mentors and family business forum groups as a sounding board.

Family business = Complex business

The challenge is to understand the complexity & learn how to manage it.

QUESTIONS?