Understanding your family business
A conversation for your family

## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>5</td>
</tr>
<tr>
<td>Why is family business special?</td>
<td>7</td>
</tr>
<tr>
<td>Understanding ‘interests’ in a family business</td>
<td>9</td>
</tr>
<tr>
<td>Becoming more professional</td>
<td>13</td>
</tr>
<tr>
<td>Managing people in a family business</td>
<td>15</td>
</tr>
<tr>
<td>Governance systems for family business</td>
<td>19</td>
</tr>
<tr>
<td>Transition</td>
<td>23</td>
</tr>
<tr>
<td>Further help and assistance</td>
<td>26</td>
</tr>
</tbody>
</table>
Family businesses are defined as businesses where two or more family members work in the business and share or expect to share ownership, and have a long-term preference to pass ownership to the next generation of family members.
Introduction

Why is family business important?

Family businesses are defined as businesses where two or more family members work in the business and share or expect to share ownership, and have a long-term preference to pass ownership to the next generation of family members. There are approximately 53,000 family businesses in South Australia. They account for approximately two-thirds of all businesses in the state, and employ approximately 55% of the private sector workforce.¹

The diversity within the family business sector further reinforces its significance and contribution to the state economy. Family business can range from small-to-medium size first generation business, to large, multi-generational ventures; from single-site businesses to complex entities that operate a number of businesses from a range of sites and locations. And family businesses operate in every sector of the economy including retail, manufacturing, services, primary industries and resources, and in every region. The success of family business is clearly important to the success of the South Australian economy.

But the importance of family business in South Australia extends beyond simple economic considerations, given the intrinsic links between family and business in family business. There are many positives that families bring to family business—shared values, loyalty, commitment, lower costs, patient capital and a focus on the longer-term—which can be the very source of an enduring competitive advantage. But family issues can spill over into the business too in a way that isn’t so constructive—frustrations, rivalry, conflict, and disharmony can hinder an otherwise sound business operation, just as much as the positives can underpin success.

When a family business is doing well, the positive spillover for the family in terms of the satisfaction, accomplishment, confidence and well-being is palpable. Conversely, business stress in a family business inevitably leads to family stress in a way that isn’t present with other forms of business.

The dynamics are complex, and the implications are important for the health of the economy and the well-being of the community.

How to use this guide

This guide has been produced by the South Australian Department of State Development in collaboration with the University of Adelaide, Family Business Australia and members of the Business Development Council, as an introduction to some of the common issues in family business. It has been written for people who are in family business, people who may be considering starting up or entering a family business, and people who simply have an interest in family business. It is intended to provide a framework or structure for identifying and thinking about these common issues, and especially for discussing them within your family.

Each of the six main sections of the guide conclude with a simple ‘self-assessment’ tool, which is there to prompt you and other family members to think and talk about the issues raised in this guide. Many of the issues you identify however, will be quite complex and take time and effort to resolve. That’s okay—often the most sensible course of action will be to seek professional, independent advice from qualified experts, or your family’s trusted advisers.

¹ The Future of Family Business in South Australia, Dr Dennis Jaffe, SA Thinker in Residence, January 2008, p11
Starting a business is risky at best and understanding the problems you will face and working out how you will tackle them before you start will increase your chances of succeeding.
Why is family business special?

Family business in South Australia

In his 2008 report to the South Australian government, *The Future of Family Business in South Australia*, Dr Dennis Jaffe (SA Thinker in Residence 2007) argued family business, with its creativity, scale, diversity, and resourcefulness, was the backbone of enterprise in South Australia, and that successful family business would remain a crucial social and economic force in the state.

Dr Jaffe met with nearly 100 family businesses during his South Australian residency and from these engagements he identified the following challenges.

**Work and lifestyle**

The desire to establish some form of work-life balance, and the difficulties posed when there is no escape from work, even at home.

**Dealing with family and emotional issues**

Sometimes these are issues that families are avoiding, like problems with performance, personal dysfunction and rivalry – problems that are known but for a variety of reasons the family finds are too difficult to address. Sometimes the issues relate to communication and unrealistic assumptions and expectations about the future. In reality there is no limit to the range of family and emotional issues that can intrude.

**Working relationships, skill and motivation of the next generation**

These challenges may include the work ethic of younger family members, sibling rivalry (where family members are unable to work well together or resolve their differences) and the lack of competence or even severe dysfunction due to dependence on drugs or alcohol, or emotional problems.

**Business development and planning**

In particular, the challenge of developing professional management and control systems, and finding capital to develop or expand the business.

**Succession in family and business**

The older generation may not be willing to let go or plan for succession, or face up to the challenges of managing succession within the family and the business.

**Inheritance, financial resources and business transfer**

Here too, there are many challenges. Parents need money to retire, but the business needs to retain capital for business growth and development. What is fair for family members who work in the business and those who do not? Should the family continue to run the business or sell it? How should these decisions be made?
In articulating the challenges faced by family business, Dr Jaffe said:

‘In addition to ordinary challenges of running a successful business, these diverse enterprises share some specific challenges as they prepare for the future. They must manage complex relationships of family and business, and they must work toward a generational succession that respects both family needs and business realities. They have to learn how to resolve family issues of inheritance, sibling recommendation, and the commitment and capability of the next generation. In addition, like all growing businesses, if family enterprises are to succeed, they must face the demands of a global marketplace and the challenges of growth.’

Every family business is unique, but as Dr Jaffe confirmed, the challenges faced by family business in South Australia are not unusual. In essence, the conundrum is the same the world over: how do you ensure the strengths and benefits of business and family combine in a way where they complement each other in a family business? How do you ensure neither domain adversely affects the other? What mechanisms sustain both the family and the business and allow both to flourish?

**Assessing the challenges facing your family business**

The simple self-assessment tool below can be used to think about some of the challenges facing your family business.

**Self-assessment: Family business challenges**

<table>
<thead>
<tr>
<th>Common family business challenges</th>
<th>To what extent is this a challenge in your family business?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Negligible</td>
</tr>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Work life balance</td>
<td></td>
</tr>
<tr>
<td>Dealing with family and emotional issues</td>
<td></td>
</tr>
<tr>
<td>Working relationships, skill and motivation of the next generation</td>
<td></td>
</tr>
<tr>
<td>Business development and planning</td>
<td></td>
</tr>
<tr>
<td>Succession of management and ownership</td>
<td></td>
</tr>
<tr>
<td>Inheritance, financial resources and business transfer</td>
<td></td>
</tr>
<tr>
<td>Other (specify)</td>
<td></td>
</tr>
</tbody>
</table>
Understanding ‘interests’ in a family business

Why is this an issue?

The evidence suggests there are two basic reasons why family businesses fail:

- Family issues overwhelm business issues.
- Family members neglect to renew and sustain the family business.

Why this is so can be understood by thinking about family business as three separate but interdependent dimensions or interests – ownership interests, business interests and family interests. Each is distinct but they can overlap.

The behaviour of people involved in the family business will be heavily influenced by their position within this framework. Their interests are not always the same. The structures required to manage these interests are not the same. The systems and processes required to manage these interests are also not the same. The crucial point is to recognise that people will have a different interest in the family business depending on where they sit within the family and the business, and most important of all, people’s behaviour is closely linked to their interests.

Ownership interests

Every business has at least one owner and the owners are known as shareholders. By definition, every family business must have some family members who are shareholders.

Shareholders have an obvious interest in the performance of the business, but they aren’t necessarily involved in the business day-to-day, and to complicate matters further, they may not all be family members.

Owners receive income from the family business as dividends, representing their share of the profits of the business.

Ownership interests become more complex and more important as the size and composition of the family changes. When the family business spans more than one generation or more than one family, a wider set of interests and concerns arise.
Understanding ‘interests’ in a family business

Business interests
As with any business, the fundamental business issues include business strategy, the structure of the business, products and services, marketing and pricing, managing suppliers and contractors, employing staff, technology, innovation, communications, licensing and compliance, taxation and so on, and the myriad of issues that determine whether or not the business is profitable and sustainable. If the family were not involved in the business, these issues would still exist within the business.

Family interests
The over-riding family interest is to achieve harmony. The family issues include the roles and responsibilities within the family, the values and expectations of each member of the family, the shared values and vision within the family, how decisions are made within the family, communication within the family and conflict within the family.

This framework of overlapping interests is illustrated in the figure below.

More complications – understanding interests
The importance of this framework becomes more apparent when you consider how the three different circles or interests can overlap to form seven different combinations, all of which may exist at the same time within a complex family business. These different interests are summarised in Table 1.

Table 1: Interests in a family business

<table>
<thead>
<tr>
<th>Single interest (one hat)</th>
<th>1</th>
<th>Owners (shareholders) who do not work in the business, and are not members of the family</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2</td>
<td>People who work in the business as employees (including managers) but aren’t also owners or family members</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Family members who aren’t shareholders and don’t work in the business either</td>
</tr>
<tr>
<td>Two interests (two hats)</td>
<td>4</td>
<td>Family members who work in the business as managers or employees, but are not also shareholders</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Family members who are shareholders but do not work in the business</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>Owners who work in the family business but are not members of the family</td>
</tr>
<tr>
<td>Three interests (three hats)</td>
<td>7</td>
<td>Family members who are also shareholders and they work in the business</td>
</tr>
</tbody>
</table>
Understanding ‘interests’ in a family business

The implications of this framework

In a small, newly formed family business these separate dimensions may not be so apparent, and indeed every person involved in the family business may wear all three hats at the same time. But as the business matures, and especially in a large family business, with many family members of different generations, some of whom work in the business and have an active role in its management, and some of whom have little involvement but receive income through dividends or in some other manner, these separate dimensions become more evident.

The challenge in a family business is to establish and sustain a balance between these different interests, which only coincide or overlap fully when the family business is 100% family owned, and when every family member who works in the business has some equity.

Assessing the ‘interests’ in your family business

The simple self-assessment tool below can be used to think about the different ‘interests’ in your family business.

Self-assessment: Understanding the ‘interests’ in the family business

<table>
<thead>
<tr>
<th>Name of Person</th>
<th>Interest in the family business</th>
<th>What are the main concerns of people who have these interests?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Family</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Owner</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Business</td>
<td></td>
</tr>
</tbody>
</table>


The challenge in a family business is to take advantage of the benefits that this evolving formality brings to the business, without stifling the benefits of informality and flexibility that lies at the heart of the family.
Becoming more professional

Why is this an issue?
There is a natural life cycle in business (start-up, growth, maturity, revival or decline) that is accompanied by an evolution in management structures and styles. Inevitably these systems add a degree of formality and inflexibility to the way business operates. The challenge in a family business is to take advantage of the benefits that this evolving formality brings to the business, without stifling the benefits of informality and flexibility that lies at the heart of the family.

Management structures
The evolution of the family business is usually accompanied by the development of management structures that replace informality with an acceptable level of formality, centralised control with decentralised control, loosely defined roles and responsibilities with specific job descriptions and the associated policies and procedures required to support these.

Degrees of informality
Formalisation is always accompanied by rules and procedures. Families benefit from shared values, beliefs and experiences that can be used to align the goals of individual family members with the interests of the wider family. Where rules and procedures are sometimes out of place within the family, they become essential in a complex family business.

For example, expectations of family members who may wish to join the business should be clearly articulated to ensure no sense of entitlement prevails. The challenge is always to find a mix of informal and formal approaches that best suits your own family business.

Degrees of autonomy
Autonomy refers to the degree to which a person in a job or role has the freedom, independence and discretion to plan their work and determine how it should be done. Inevitably, the degree of autonomy becomes constrained as the number of people involved in the family business grows.

Delegation of authority
Delegation of authority refers to the process of entrusting work to others and giving them the right to make decisions and take action. As a general operating principle, decisions should be pushed down to the lowest level possible in the family business. The more routine the decision required, the lower down in the organisation it should be handled. The objective should always be not to waste time by unnecessarily centralising decision-making. Business works better with working managers, not managed workers.
The enduring benefit of values

Family values are the greatest strength a family can bring to business ownership. They lay the foundation for the corporate culture of the family business. They inspire people to do things that are difficult, make commitments that require discipline and stick to plans for the long term. Sound values maintain integrity, openness, responsiveness and generosity within the family business. They enable family members to derive pleasure and meaning from sustaining relationships and striving towards mutual goals within the family business.

Assessing the management structures and systems in your family business

The simple self-assessment tool below can be used to think about the management structures and systems in your family business.

Self-assessment: Management structures and systems

<table>
<thead>
<tr>
<th>To what extent does your family business</th>
<th>Negligible</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allow quick decision-making?</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Enable business information to flow easily?</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Create the shared vision?</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Ensure open and honest communication?</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Adopt practices that encourage a sense of belonging?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Build a balance between family, business and ownership?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commit to shared values?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop a long-term perspective?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Encourage initiative and teamwork?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Managing people in a family business

Why is this an issue?

The evidence and feedback suggest this is a major issue in many family businesses. Should family members work in the business because they are family or because they add value? How do you manage their performance and contribution, and how do you manage poor performance? How do you manage relationships with non-family members who work in the business?

The intertwining of family and business interests means these issues need to be handled with care and sensitivity when family members work in the family business. If these issues are poorly managed they are likely to present themselves elsewhere, especially in business performance, governance and succession, and of course they can spill over into family life.

Recruitment

Before a family member is offered a position in the family business it’s worth considering what job or role they will fill. Does this position really add value to the business? Is the job needed or has it just been created because the family member can’t find work elsewhere? If the job isn’t required, will this do more harm than good, to the business and the family member?

If there is a role that adds value, what process should be used to recruit staff, and does this process apply to family members too? Many family businesses stipulate children must work for a period of time elsewhere before joining the family business. The benefits of business experience gained elsewhere, and an understanding of what is required to be successful away from the support structures provided by the family, can be invaluable. Requiring family members gain experience elsewhere ensures they have role models other than parents and relatives in developing their skills and knowledge. It may also challenge the assumption that there will always be a job in the family business and can provide a useful antidote for complacency.

Induction

When family members are introduced to the business the starting point should always be how to set them up to succeed. Like any other employee, this is best achieved with a formal induction process – induction should not be something you do on an ad hoc basis.

A structured induction process is a small investment in time and effort to make every new member of the team feel welcome, understand their new job and workplace quickly, and set them up for success. It’s not in anyone’s interest to expect new staff to either sink or swim. In particular the induction process should clarify expectations, agree performance objectives and the method and frequency of performance reviews.

Training and development

Even the most junior of positions within a business requires some degree of skill and experience to perform. What skills, qualifications or experience are
Managing people in a family business

required in the job assigned to the family member? Does the family member possess these, and if not, what training or development is required, including on-the-job training and development, to enable them to perform the job or role well within a reasonable period of time?

Remuneration

Family members who work in the business should be paid according to the value or contribution they make to the business in that position. Other payments, such as dividends because they are part owners or distributions from family trusts linked to the family business, should be kept separate. This is especially important if the business employs family and non-family staff. Fairness is important to both.

Evaluating performance

Evaluating the performance of family members working in the business can be difficult and challenging to all concerned. The process used to review the performance of family members should be fair (neither too critical nor too lenient), meaningful (a balanced discussion of accomplishments and failings focused on relevant business considerations) and objective (using evidence and data).

The challenge is how to have regular, open and honest conversations with family members about their performance at work, deal with the emotions (yours and theirs) which adverse reviews inevitably generate, and ensure the discussions remain at work and not spill over into family life.

Promotion, progression and career development

The issue of promotion, progression and career development for family members within a family business is similarly fraught with complications, especially if there are unstated expectations (on all sides) about the role of family members within the business. Is promotion appropriate, has it been earned and can it be justified? What are the expectations (on all sides) and are these reasonable and realistic? How will non-family members working in the business respond as family members progress in the business? How will other family members react and respond?

Employing family and non-family members in the business

One of the most difficult challenges in a family business can be managing and motivating non-family members who work in the business alongside family members. Non-family members will have quite reasonable concerns about empowerment (i.e. their authority and autonomy, and the rights of family members to challenge or criticise the work they do), equity (being paid and treated fairly, especially when comparing themselves to family members working in the business), being respected and valued.

As family members progress in the business, non-family members will be concerned about their own future in the business and will appreciate clarity, especially as to whether the family business is committed per se to a family member holding the most senior management role. All of these issues can potentially undermine staff morale and the performance of the business unless they are managed appropriately.
Managing people in a family business

Assessing the way people are managed in your family business

The simple self-assessment tool below can be used to think about how people are managed in your family business.

Self-assessment: Managing people

<table>
<thead>
<tr>
<th>To what extent do your family business practices ...</th>
<th>Negligible</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure family members do real work which adds value to the business?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensure family members are properly inducted into the family business?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Set family members up for success by ensuring they receive the training and development required to succeed in their work?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clarify expectations about remuneration for family members?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Include an objective process for evaluating the performance of family members working in the business?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clarify expectations about career progression within the business for family members?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Take account of the needs of non-family members working in the family business, and ensure they also remain committed and motivated to succeed within the business too?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Governance refers to the way that decisions are made, communicated and implemented by the family and by the business.
Governance systems for family business

Why is this an issue?

Governance refers to the way that decisions are made, communicated and implemented by the family and by the business. The evidence shows successful family businesses apply sound governance structures to strengthen the family and the business; one of the most fundamental reasons why family businesses fail is the tendency to intertwine family and business issues in a way that undermines the fabric of both the family and the business.

The research suggests the best way to deal with complex and difficult issues is to create effective forums for both the family and the business. This begs the question – what are the appropriate forums? The practical answer depends on a range of factors; the size, scale and maturity of the family business, the number of family members and the number of generations, their ages and so on. There is no one single approach that fits all family business.

Regardless of where your family business is situated in relation to these matters, the key question is how can governance be improved? The forums suggested in this guide will help you think through the options that suit your business. Whatever the outcome, the objective of good governance is to promote harmony and goodwill, transparency, accountability and fairness within the family, and success in the business.

A family meeting for family issues

Issues of family governance are best addressed by a family meeting. The family meeting provides a forum where family members can come together to be informed, to speak and to be heard, and can be used to identify, discuss and resolve family issues.

Periodic, well-functioning family meetings can be used to:

• Educate family members about the business, especially those family members who don't work in the business on a day-to-day basis but nonetheless have an interest in its operations and success.
• Identify the changing needs of the family members.
• Clarify and reinforce the boundaries between family and business.
• Reinforce family values and a family vision.
• Reinforce and uphold accepted standards of family behaviour.

Many families find the discussion about family issues is as important as any outcomes or decisions that may arise from the discussion.
Governance systems for family business

Family charter
Some families will find benefit by having a formal family charter that helps to frame the issues addressed in the family meeting. A family charter is a written document but it is not usually a legally binding document. It is written with an eye to the potential issues that may arise within the family and provide a guide to how those issues will be addressed or resolved. A family charter is used to manage the expectations of family members regarding their involvement and interaction with the family business.

There is no prescribed set of matters that must be included in a family charter, but a charter could:
- Include a statement of long-term family aspirations or goals, and the family values and philosophy.
- Clarify expectations and roles, especially about the involvement of family members in the business, either as employees, managers or in some other role, including the principals underpinning remuneration, advancement and appraisals.
- Stipulate codes of behaviour for family members.
- Specify rules for acquiring and transferring interests in the family business vis-à-vis other family members.
- Stipulate protocols for communication within the family and clarifying what aspects of the family business are to be communicated outside the family, including the disclosure of financial and other information.
- Include rules about how the charter itself should be reviewed and can be changed.

The family charter may include a plan of action to achieve certain outcomes, for the family itself and for the individuals within the family. In particular the plan could address issues of transition and succession, and the education, training and development of family members so that they can add value to the family business.

Where relevant, the outcomes from family meetings should be conveyed to the owners or managers of the family business.

A board of directors for the ownership issues
The role of the board of directors is to protect and advance the interests of the owners of the family business. The board is responsible for selecting the chief executive and monitoring the chief executive’s performance, monitoring the performance of the family business, developing or approving the strategic plan for the business, and approving significant business decisions such as the acquisition of new businesses or the sale of the business (in part or in whole). The board also decides how the profits of the family business are to be used (i.e. reinvested in the family business or distributed as dividends to the owners).

Many families include experienced, independent non-family members on the board who can deal with the business issues in a dispassionate and unbiased manner. All directors in a family company, whether they are family members or independent non-family members, have the same legal responsibilities as directors in any other business.

The Board will meet regularly (usually on a monthly basis), and at least once each year the Board will hold a general meeting that all shareholders can attend. At these general meetings the Board accounts for its own performance to the shareholders.

Managers handle business operations
Business managers (whether they are members of the family or not) are responsible for the day-to-day management of the business operations, and they must account for their efforts to the board.
Governance systems for family business

Assessing the governance systems in your family business

The simple self-assessment tool below can be used to think about the governance systems in your family business.

Self-assessment: Governance

<table>
<thead>
<tr>
<th>To what extent do your family business practices ...</th>
<th>Negligible</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognise the difference between family governance and business governance, and the relationship between the two?</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Acknowledge the importance of introducing formal family governance initiatives (including a board and/or advisory panel)?</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Build and foster structures that lead to best practice in business and family business?</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Constantly champion initiatives that promote transparency?</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Distinguish family matters from business matters?</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Vigilantly monitor the business and the well-being of the family?</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Incorporate independent views of non-family members to promote unbiased, unemotional decisions?</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>
Transition and succession is a process, not an event. It can be planned or it may happen by force of circumstance.
Why is this an issue?

Transition and succession is a process, not an event. It can be planned or it may happen by force of circumstance. It may be welcomed or be unwelcome. It may occur easily or only after great resistance. Regardless of the context or situation, it is nonetheless inevitable.

Given this inevitability, the key questions are:

• What factors can facilitate transition and succession and make this a constructive outcome for both the family and the family business?
• What factors may constrain transition and succession and make it more difficult, costly and traumatic for both the family and the family business?
• When do you envisage this may occur in your family business?

These questions are especially pertinent now as the baby-boomer generation transitions from a working life to retirement. This phenomenon will be reflected in family business too and the next decade or so will witness a spike in the number of family businesses being passed on, either to the next generation or to something else.

What are the issues?

There are essentially four sets of issues in transition and succession:

• Is the objective of transition clearly defined?
• Is the business ready for the transition?
• What are the options?
• Letting go.

What is the objective?

Is handing over the business to the next generation (i.e. succession) actually the goal or is that really the means to an end? Perhaps the goal is actually to transition the wealth of the business within the family. Or perhaps the goal is to transition a set of family values and skills that can create new streams of income and wealth elsewhere, including in other family business. In other words, perhaps the family goal is to equip the next generation with the skills and capabilities to succeed on their own terms, including (if they choose) starting afresh and pursuing their own goals and ambitions.

These are issues which well-functioning family meetings will have addressed and resolved, and the outcomes will be expressed in a properly documented family plan.
Transition

Is the business ready for transition?

The family business itself must be prepared for transition. What condition is it in? Is it run down? Does it require an injection of capital? What is the condition of the assets? When will the key leases expire? How will the transition affect the key customers or suppliers? What is the business actually worth and is there agreement between the current owners and their successors about this? How will the transition be communicated to employees, customers, suppliers, financiers and other stakeholders?

Clearly it takes time to prepare a family business (any business) for transition. How long will depend on how long it takes to answers questions like these.

What are the options?

The options for transition are relatively straight-forward:

- Do nothing, which means the issue comes to the fore with the death or incapacity of the owner. Although this is usually the most destructive option for both the business and the family, it is unfortunately all too common.
- Pass the business on to the next generation, either by appointing a family member or several family members, or appointing a caretaker until such point in time when family members are able to assume responsibility.
- Appoint a professional non-family manager.
- Sell the business to employees or others.
- Liquidate the business.

Succession – transition within the family

Succession refers to transition within the family, and may occur in two stages; management succession followed at some other time by ownership succession. Management succession alone allows the day-to-day management of the family business to pass on to the next generation but leaves ownership unchanged.

Passing the business on to the next generation raises a number of critical issues that need to be carefully considered and addressed.

These issues include:

- The aptitude, competence, capability and desire of the next generation to manage the family business.
- The method or process to be used to select a management successor if there is more than one suitably qualified and experienced candidate.
- Supporting and encouraging family members who want to establish new business ventures of their own.

The challenge of funding transition

One conflict that can arise at the time of transition and succession is the desire of the retiring family members to withdraw capital from the family business to fund their retirement and other interests outside the family business, when the successors often need to retain capital in the business to fund growth or rejuvenate operations, or simply to remain viable.

The challenge of letting go

For some people letting go can be particularly difficult, if not traumatic. Often there is a deep emotional bond and attachment to the business, especially for owner-founders. For others the family business is so engrossing it is difficult to envisage a life separate from the business.

Many people find their identity, worth, status and self-image is so intrinsically bound up with the family business that they can’t let go – for these people they are the business, and the business is them. The evidence suggests the more closely personal identity is associated with or linked to the business, the harder the transition will be.

Transition and succession can also raise issues affecting the dynamics between spouses (in sickness and in health, but not for lunch) and between the parents and their children.

A further complicating factor can be the owner’s vision of retirement (is it a positive and better alternative to continuing to work in the family business?) and the relevance of the business to their retirement plans, especially if the ongoing success of the business is required to fund retirement.
Transition

Timing transition and succession

The factors influencing the timing of the transition and succession process include having the financial capacity to retire and concerns about retirement plans, the level of interest in the business shown by potential successors and their desire to actually work in the business, the motives of potential successors, and the owner’s willingness to let go.

The key questions are:

• What strategies can be put in place to address these concerns so that transition and succession can occur?
• Is holding on to the reins the only viable option?
• What are the alternatives and what are their merits (pros and cons)?

Preparing for transition and succession in your family business

The self-assessment tools below can be used to think about transition and succession in your family business.

Self-assessment: Transition and succession – business issues

<table>
<thead>
<tr>
<th>To what extent are these business factors influencing your attitude to transition and succession ...</th>
<th>Negligible</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declining interest in managing the business</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>A desire to exit the business altogether</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estate planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Choosing a successor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managing the business capital</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Self-assessment: Transition and succession – personal issues

<table>
<thead>
<tr>
<th>To what extent are these personal factors influencing your attitude to transition and succession ...</th>
<th>Negligible</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identity and self-image</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Status and worth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationship with spouse</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vision of retirement – now what do I do?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work as a source of pleasure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationships with work colleagues</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
This guide provides a framework to stimulate your thinking about your family business, but most of the issues raised in this guide cannot be addressed or resolved without expert advice and guidance.

You are strongly encouraged to discuss the issues raised in this guide with the other family members in your family business, and your trusted professional business advisors. You may also wish to seek advice and guidance from the organisations listed below.

**Family Business Australia (FBA)**

[www.fambiz.org.au](http://www.fambiz.org.au)

Telephone 03 9867 5322

Freecall 1800 249 357

The peak body committed to contributing to Australia’s future through a dynamic and sustainable family business community.

**Business Advisory Centres in metropolitan and regional South Australia**

or request details via email: DSDSmallBusinessStrategy@sa.gov.au

**Business SA**

[www.business-sa.com](http://www.business-sa.com)

Telephone 08 8300 0000

An industry association, offering operational and specialist services to business members in South Australia.

**Motor Trade Association (MTA)**

[www.mta-sa.asn.au](http://www.mta-sa.asn.au)

Telephone 08 8291 2000

An industry association, offering operational and specialist services to members in South Australia.