Family Business Australia

National Office
Suite 4 / Level 3
450 St Kilda Road
Melbourne VIC 3004

T 03 9867 5322
F 03 9867 5344
E info@fambiz.com.au
W www.fambiz.org.au

"our families mean business"

Family Business Australia (FBA) proposes to take its programs to New Zealand

As the peak boy for families in business, FBA has been developing programs for the past 13 years, Helping family firms professionalise – increasing their chances of being productive and sustainable. One of the greatest challenges facing family owned enterprises is that of succession – research in Australia tells us that 70% of all business is family owned, employing 50% of the workforce (MGI/RMIT 2009). These statistics are believed to be even higher in New Zealand (MGI/RMIT 2007).

"Two thirds of New Zealand's family business owners plan to transfer their equity in their business by sale to third parties, to non-family managers or to the next generation family members within the next decade. Yet, 53% report that they do not believe their business is exit ready!" MGI/RMIT 2007

It is FBA's experience that if family firms are encouraged to address their family and business governance, succession planning is addressed in a timely and professional manner. To this end, FBA has developed a Family Business Directors Course, a Family Business Strategic Planning Course, a Family Business Leadership Course, and a Family Business Transitions Course. The course development has been undertaken by a number of credible academics in the field of family owned enterprise, and the framework includes a substantial degree of `peer learning'; ie the inclusion of successful family business operators in the delivery.

Family firm directors face their own challenges

One of the greatest governance challenges to family owned firms is the separation of ownership and management – and in this context, the challenge faced by family business directors, who happen to wear any one (or more) of the three `hats' so well described in the widely accepted `three circle model'. The overlapping three circles graphically depict family members who are not owners of the business and who do not work in the business, family members who merely work in the business as employees or managers, and family members who work in the business and are also owners.

The primary obligation of Corporate Directors is to the corporations' shareholders or owners, both in terms of corporate performance and conformance. Similarly, Family Business Directors are responsible for ensuring accountability to the family, primarily family owners.

One of the key roles of a family business board is to clarify the distinct roles of owners, managers, and directors as well as to ensure that the potentially conflicting needs and goals of owners and managers are anticipated and managed.

Since the introduction of our Family Business Directors Course, I have been challenged on why such a course was necessary, and why being a director of a family business should be any different from that of a publicly owned company, especially considering there is a perfectly good, well regarded course for company directors available in Australia.

As articulated in this introduction, there are specific challenges facing family business boards, especially when family members are directors. (Many family firms employ non-family directors. They too need to anticipate and manage the owners' expectations).

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The board can perform a number of useful functions to further clarify the overlapping roles of owners, managers, employees, and when operating efficiently, can create a clear distinction between `operations' and `strategy'.

These functions can include:

- promoting and supporting the development of owners' and managers' leadership skills;
- assisting both owners and mangers to identify, clarify, and assume their respective roles and responsibilities;
- improving the formulation, and monitoring the implementation of, business goals, policies, and strategic plans (including compensation, liquidity, and dividend policies);
- overseeing the succession planning process and acting as a form of insurance protection in the event of unforeseen events, particularly the death or disability of an owner-manager;
- providing a steadying influence on family members in times of crisis.

The Board can also help multiple owners articulate their values, needs, and objectives (vision and mission) as well as their policies so they can speak with one voice in formulating what can be referred to as the owners' objectives or plans.
As well as providing advice to management as required, the Board can also free owners (particularly non-active family members) from direct involvement in management matters. After reviewing the owners' objectives and plans and assessing their feasibility, the Board instructs management to prepare strategic and operational plans for the business that are consistent with and address the owners' objectives. It then ensures that these plans are implemented in a due and timely way. In doing so, the Board is accountable to the owners and ensures that management is accountable to the Board, which is the basic tenet of effective corporate governance.

The members of business families invariably identify closely with their business and are emotionally involved in it. Accordingly, they expect to have access to board members, to communicate with them both in person and in writing, and to be provided with relevant information about the business in an understandable and timely basis. They also expect directors to behave ethically and ensure that the business conforms to its legal and other obligations. Most importantly, family members want board members to be aware of and understand family's expectations in relation to the business; how they want it run and to what end.

Philippa Taylor
Chief Executive Officer
Family Business Australia