

What makes Family Businesses tick?....

By Ben Cameron, Director, Bentleys

Dynamics of Family Business

Ordinary businesses have three functioning elements or dimensions:
People, Capital, and Resources

This is hardly new but it does establish a benchmark that helps identify what makes family business different.

Family business people and their advisors often talk about the passion that ignites and inspires families-in-business. You cannot see it or place a value on it and you certainly cannot rely on what it is going to do, but it is clearly an active element in the mix. It paints the background canvas on which all family business stories are written and as such can be regarded as the fourth dimension:

Passion (or emotion)

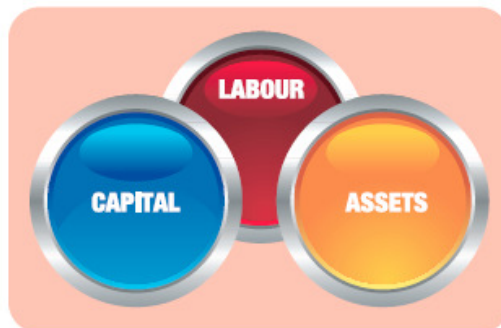
Ordinary Business Dimensions

● People (labour) ● Assets & OP (know-how) ● Capital



Family Business Dimensions

● People (labour) ● Assets & OP (know-how) ● Capital ● Emotion (passion)



Ask almost any family in business what their dream is and they will say it is to have a strong business and a happy family, where each supports the other and where the fruits of their labour is shared between both current and future generations of the family.

Many advisors would have you believe that if you take a family and plunge it into business, mix up family issues with business issues, that you have the start of a catastrophe!

Unless the needs, interests, styles and personality quirks of key individuals are addressed, there is little chance of dealing constructively with family business issues. Businesses may come and go, but family is for life!

Accordingly, families and their professional advisors should be trying to achieve stronger businesses and happier families by addressing the "people factors" in a meaningful way, rather than focusing solely on management, legal, accounting and other technical areas

Top 5 Family Business Issues and Challenges

All businesses are faced with a kaleidoscope of issues of varying levels of importance. However, a small number of headline issues are usually present.

These vary from business to business, from family to family and from circumstance to circumstance.

1. *Performance* - maximising profits, returns and inherent business value. The better the business is travelling in terms of profitability, the more options it has at its disposal.

Strong and consistent profits generate larger inherent values of goodwill in the business. Again, this offers more in the way of negotiation and exit options for business owners and creates greater potential flexibility.

2. *Communication and Relationships* - In a family business, it is even more important than usual to have a culture of communication, collaboration, problem solving and effective conflict management. This is a key component in helping the business to function effectively as a business and the family as a family.

To make this a reality requires properly worked out and clearly defined policies and processes for managing key relationships between family members, non-family employees and advisors and other stakeholders.

At some stage in most conflicts, blame for the conflict itself will be attributed to "a failure of communication" amongst the parties. This is a form of face saving that avoids having to recognise that it is the parties themselves that generated and nurtured their conflict.

The simple reality is that communication in itself is just an enabling tool that helps people to put into effect the policies and procedures required to keep things operating smoothly.

If the underlying attitudes, relationships and processes are poor, no amount of communication will put things right. Similarly, if communication is poor in the first place, it is hard to establish worthwhile relationships and processes anyway.

A key determinant of family business culture is whether the family has taken the trouble to develop and articulate shared vision, values and mission, along with agreed goals.

This provides a powerful sense of long-term purpose that helps the family overcome all sorts of trials and tribulations by allowing everybody to agree that they will accept what is wrong today for the sake of many successful tomorrows.

3. *Professionalising the business* - Conforming the business to prevailing and anticipated circumstances should be a simple matter of good business sense - ensuring the business is up to the challenge of participating in its chosen markets in an efficient, meaningful, profitable and long-term sustainable manner.

However, this can also become a battleground for a war between the generations. Junior can rely on his or her more recent and relevant education to claim the technical (and possibly commercial / moral) high ground over his or her parents or grandparents, while the latter bemoan the fact that their highly educated children are out of touch with the "basics of business" that they have learnt through the school of hard knocks.

In reality, this is just a smokescreen for the battle that is raging between the generations. Here, the old cling to tradition to bolster their position, while the young try to lever out the old by disenfranchising them through changes to which they cannot readily adapt.

4. *Funds and Finance* - At any given time, within a multi-generational family business there will be family members with very different personal needs and aspirations. The retiring generation may be highly risk averse - wanting to protect their superannuation with limited regard for the future needs of the business. A younger generation may be in the midst of an expensive lifestyle-building phase with home mortgages, school fees, car leases, family holidays etc.

Incoming generations may want to maximise investment in the business for the sake of their future, or perhaps because their financial needs are more modest now than they will be in a few years time. This can open up all sorts of deep-buried family tensions.

5. *Leadership, Management and Ownership* - This triad of issues creates more trouble in more family businesses than any other issues. When individuals merge the roles of leader, manager and owner, they may be the only ones who actually understand exactly where their heads are, and where they are going - personally, with the family and with the business, from day-to-day.

As businesses grow, the need for more skilled leadership and management grows comparably. If family members are not up to this growth, there is a problem looming.

Deciding whether to and then how to develop the next generation to take over leadership of the business is one of the most challenging issues for family business owners. Succession planning involves complex issues such as business continuity; self-preservation and financial security; perceived loss of status and general self-esteem; fear of the unknown and what to do with one's time to keep life meaningful.

Provided these issues are addressed in a responsible and reasonably systematic manner, rather than under the storm clouds of crisis, succession planning can provide opportunities for learning, growth, improvement and greater satisfaction - stronger businesses and happier families.

However,... you've got to have a dream, and you've got to have a plan to make that dream come true... Success does not happen through chance.

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