

## **Baton change**

**Report: Tony Blackie and Georgie Dent**

BRW | 03 Jul 2008 | Page: 50 | The Business End

Best business practices, including clearly delineated roles and conditions for everyone, can make a good family business great.

Most Australian small to medium enterprises are family owned and operated but many fail to follow best business practice when they are set up, leaving them vulnerable to management and operational disasters.

As family businesses grow and make the transition from small to larger enterprises, it is the planning they do at the beginning that will often determine success or failure.

"The adoption of appropriate best practices can make great family businesses out of good family businesses," the chief executive of Family Business Australia, Philippa Taylor, says. "The main objective of focusing the attention of families in business on best practices is to encourage them to anticipate and prepare for the next stages of development."

Taylor says many family businesses do not follow the same processes for family members as they would for other employees, such as providing them with job descriptions that clearly define their roles and obligations.

The failure to set up management agreements for all members of a family involved in a business can lead to problems should one member want to leave the business or sell it against the wishes of others. Setting out procedures to deal with these circumstances is vital for avoiding nasty family splits.

Family businesses are a substantial contributor to Australia's economy, but the extent to which family involvement boosts business performance is not well understood.

Deakin University and KPMG are conducting a national survey to measure the economic contribution of family businesses and learn more about their dynamics.

Anecdotally, researchers believe it is clear why some families experience fantastic success. "A family creates a special kind of cohesive force that you won't find in other situations," Dr Linda Glassop of Deakin University's School of Management and Marketing says. "It's not about the money. Many families are in it for the love. It becomes their life."

But the family business story does not always have a fairytale ending. About 79,300 family businesses cease trading every year. Most do so because the next generation is unwilling to take up the reins.

Many do not survive the transition from first to second generation and even fewer survive the transition from second to third. Glassop says that capturing the imagination of the next generation is a huge hurdle for families.

The FBA has developed a best-practice charter for members to help them avoid long-term problems. The main issues covered by the charter include employing family members, remuneration policies for family members, communication and governance policies, the role of family boards and family councils, creating a code of conduct, and establishing business continuity and succession programs.

Taylor says one of the big issues facing family businesses is how to involve members of successive generations in the company. Well-structured employment policies created early in the life of a business ensure family members who do not have the skills, ability or commitment are not employed.

Best-practice principles demand that when a job becomes available, it must be advertised and not be given automatically to a family member wanting to join the business. Some family business employment policies state family members must gain external management experience before joining. The family business code of conduct should specify the relationship between the family and the business, management structures and responsibilities, the values of the business and steps for resolving problems that may arise as the business grows.

One of the thorniest issues facing family-owned enterprises is the question of succession or business continuity.

Taylor says it is never too early to plan for the continuity of a business through the generations. This involves producing a strategic plan covering contingency and risk management, and a personal financial and estate management plan for the current owner-managers to make sure their retirement is funded.

Contingencies also need to be put in place in the event there are no family members who can take over the business.

The aim of the code is to ensure the next generation has the skills to carry on managing the business successfully, Taylor says.

Best practices make perfect

- \* Create a code of conduct that sets out the relationship between family members and the business.
- \* Employment policies should apply to family as well as other employees.
- \* Family members who don't have the skills, ability or commitment should not be employed.
- \* Management agreements with family members of the business can avoid disruption in the case of a dispute.
- \* Establish business continuity and succession programs, including contingencies in the event that there are no family members who can take over the business.

Source: BRW, Family Business Association

#### Band of brothers

\* Michael Sharpe was born to take the helm of his father's asphalt company. Some children may consider a preordained future a burden, but not Sharpe. He believes growing up in a roadwork business with his two brothers, Richard and Hayden, was idyllic.

"In school holidays, it was like playing in a giant sandpit with graders, front-end loaders and trucks everywhere," he recalls. "It was fantastic."

Sharpe cannot imagine life without the family business. It was founded by their grandfather in 1950 then handed to their father in 1970. In 2004, the brothers became joint directors. "It's all we've ever wanted," Michael Sharpe says. "We love it."

Family businesses tend to evolve naturally, and this one is a case in point. The Sharpe family was originally in the business of construction and development on the New South Wales central coast. In 1970, it changed tack. Demand for car parks within their developments was a catalyst for entering the asphalt industry.

Today, it continues to operate as an asphalt paving company, specialising in road surfacing and maintenance.

The brothers' first initiative as joint directors was to rename the business Sharpe Bros. "We wanted to put our stamp on the business," Sharpe says. The brothers agreed success depended upon balancing their family lives with the demands of the business. They designed a clear organisational structure to accommodate three directors.

"It is so easy with a family business to get caught up with just being brothers or family," Sharpe says. The brothers have clearly defined roles that reflect their natural abilities, and they believe this has been integral to their success.

Family Business Australia recognised Sharpe Bros as the Third Generation Family Business of the Year for NSW this year.

Sharpe attributes much of their success to their special advantage. "Being a family is our greatest asset in business," he says.