



Family Business News

A Newsletter for the family business sector

Introduction

Welcome to the second edition of Family Business News.

This newsletter addresses issues relevant to the family business sector including communication, change management, employment and issues surrounding the transfer of the business to the next generation.

This edition focuses on entrepreneurship as a key driver for family business. By fostering an environment where entrepreneurship is encouraged across generations, your business will be better positioned to take advantage of opportunities as they arise.

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Transgenerational entrepreneurship

The key to long-term family business success lies in the ability to build and sustain an entrepreneurial family.

While family businesses are the engine that drives socio-economic development and wealth creation around the world, entrepreneurship is a key driver of family businesses. Entrepreneurial thinking and leadership are fundamental factors in the creation of new enterprises and the sustained competitive advantages of corporations both large and small. The ability to create and foster an entrepreneurial mindset across generations is a major element of family business continuity and longevity and is instrumental in effective strategic execution, innovation and growth.

Entrepreneurship across generations

Transgenerational entrepreneurial behaviour in family businesses goes beyond simply increasing sales, head count or profits. Family business entrepreneurs create and support a growth and learning orientated culture in both family and business and reinforce entrepreneurial behaviour in relatives of all ages. They encourage successors to be alert to their environment so as to spot and take advantage of profit opportunities. The foundation of any entrepreneurial family business is a loving and learning family that fosters cooperative dynamics between generations over time. Transgenerational entrepreneurship is built around two central principles:

1. Entrepreneurial vision and mission: There must be a drive to create transgenerational wealth for the business and its owners. This is rooted in a growth orientation that motivates the family, the ownership group and their non-family managers to be forward thinking and to communicate and pursue specific strategic expansion plans for the business.

2. Dynamic and adaptive family values: While there is a commitment to family traditions, the family must be able to adapt to changes over time. The family must be committed to open communication, the use of formal protocols and policies and conflict resolution.

The entrepreneurial mindset

Enterprising families work together to define the role and context of entrepreneurship in their family and business. They are committed to the long term and enlist champions among ownership groups, key family members and non-family managers.

These families explore the history of entrepreneurship in the family business, including actual examples from the past and present and discuss ideas for the future within this context. This process helps entrepreneurs understand the role the family has played and what it can do to advance and perpetuate success in the future.

Enterprising families are 'people centric'—they focus on teamwork and internal and external relationship building. In addition, the family business leadership identifies, agrees upon and pursues a clearly outlined strategic direction. This strategy emphasises entrepreneurial behaviours such as market expansion, technological advancement and refinement of operational activities and processes.

Research has shown that entrepreneurial families embrace five fundamental principles across successive generations:

1. Entrepreneurial leadership: The ability to anticipate future circumstances, maintain flexibility, think strategically and work with others to initiate change that will create a viable future for the business.

2. Opportunity recognition: The capacity to imagine dramatically new ideas or to find new ways to differentiate existing products or services to create and sustain cost effective and profitable competitive advantage and customer satisfaction.
3. Internal continuum of entrepreneurial activity: A people-centred strategy emphasising organisational systems, structures and practices that encourage innovation and creativity and do not present insurmountable road blocks to flexibility and fast action.
4. Balanced strategic positioning: A strategic vision that is defined, translated, communicated and aligned operationally across the entire organisation through the balancing of performance metrics and compensation programs as envisioned from multiple financial and non-financial perspectives.
5. Future-based orientation: People are encouraged to perceive opportunities and are empowered to embrace change, control costs, enhance product/service quality, and improve offerings and services through innovation and learning.

Creating and maintaining an entrepreneurial mindset is vital for socioeconomic growth and sustained competitive advantage in today's dynamic marketplace. Entrepreneurs speculate, anticipate and direct resources in pursuit of profitable business activities under uncertain conditions.

Transgenerational entrepreneurship promotes a common vision and mission among key family business stakeholders across generations. This inclusive, forward-looking strategy creates a set of adaptive values and protocols that promotes family unity and business acumen.

Five insights for ongoing success

How do family-owned or family-controlled companies like Marriott International Inc., Hermes, Heineken, Ford Motor Company, Brown Brothers, De Bortoli and many others survive generation after generation? How do they become 'long-lasting, successful enterprises'—businesses that are at least three generations old and that continue to be strong businesses supported by strong families?

Author John Ward, who is internationally recognised as an authority on family business and holds professorships at Northwestern University's Kellogg School and IMD international business school in Lausanne, Switzerland, calls his latest publication "the most personal book I have ever dared to write".

Perpetuating the Family Business is an insightful text for those who wish to educate themselves about family business best practices. It details what Ward has

observed over the years as the best practices and principles enabling family firms to survive generation after generation. The five insights below are, in essence, the major keys highlighted in this book to be the enduring success of family businesses.

Insight #1: We respect the challenge

Successful business families have tremendous respect for the challenge of combining family with business. They understand the odds of passing on a business to the next generation are not in their favour. As a result of this knowledge, they take the task of managing succession very seriously and put enormous effort into it. They pay close attention to making continuity happen and they earn their success. They appreciate what is facing them and they reach out and try to learn what they can about it.

Insight #2: Family business issues are common and predictable, yet perspectives on the same issues will be different

Long lasting, successful family businesses understand two fundamental certainties. First, they recognise that nearly all family businesses share most of the

same problems and issues. Second, they realise that while most of the issues they face are common to all family businesses, they also understand that different people within the same family business system—that is, a family and its business—will see the same issues in predictably different ways.

Such understanding gives the family behind the business great power. It enables a family to realise that (a) “We’re not alone”, (b) “We’re not strange” and (c) “We can learn from others”. When a family knows that it is not alone in its concerns, it gains the confidence it needs to go out in the world to secure the knowledge necessary to perpetuate its business for the long-term benefit of generations to come.

Insight #3: Communication is indispensable

Business families with a long history of success are families that work very hard at communication. Successful families recognise how profound, complicated, perilous and rewarding communication can be. Successful business-owning families address communication in a number of ways: putting in place forums, systems or structures that promote, facilitate and assure good, ongoing sharing of information, ideas, opinions, attitudes and feelings.

Insight #4: Planning is essential to continuity

Planning in a family business is more complex than planning in any other kind of business. Nevertheless, the most successful business families tackle it willingly and intelligently. They know it is essential to their continued success. It demonstrates that a business-owning family has to plan on four different levels simultaneously and interdependently, producing a business strategy plan, a leadership and ownership succession plan for the business, a personal financial plan for family members and at the core, a family continuity plan.

Insight #5: Commitment is required of us

The fifth key to multi-generational family business success is commitment—commitment to the family’s purpose, commitment to planning for the future of the family, commitment to the valuable work that takes place in family meetings, and commitment to the business and its continuity within the family. Different family members will articulate different ideas about the benefits of owning a family business. While the ideas may differ they will all reflect a tremendous spirit, vision, energy and hopefulness about what it is the family can accomplish together in the future and how owning a family business can be a helpful and supportive experience.

Spotlight on...Beerenberg Farm

Sustaining entrepreneurship was the theme of the 7th National Family Business Association Conference held in Adelaide in August. One of the many entrepreneurial family businesses profiled during the conference was Beerenberg. Andrew Doust, BDO Family Business Adviser, takes a closer look at what makes this family business stand out.

Served in five star hotels, restaurants, Qantas first class and in homes around Australia, Beerenberg Farm—makers of Australian jams, marmalades and condiments—is a familiar name to many.

Five successive generations of the Paech family have owned and worked on Beerenberg Farm since migrating from Germany in 1838. When Grant Paech and his wife Carol took over Beerenberg in 1970, it was a dairy farm. Keen to develop another source of income to help offset inheritance tax, Grant and Carol planted strawberries and in 1971 produced their first batch of strawberry jam.

The last dairy herd was sold in 1975 and a range of other varieties of jams, pickles, sauces and chutneys followed. The farm has since become a market gardening and food processing operation and began exporting its produce in 1986. Today export sales account for approximately 25% of total revenue.

So how does a family business like Beerenberg sustain an entrepreneurial edge?

While Grant and Carol Paech remain fully involved in the business, they have appointed their son Anthony Paech to the position of Managing Director and their other son Robert Paech as Farm Manager.

In 1994 Beerenberg stepped up its export efforts, with commensurate improvement in sales. They are now exporting to 23 Asian countries and Beerenberg jam is now in over 300 major four and five star hotels throughout the Asia Pacific region.

Currently, Beerenberg is embarking on perhaps one of its most significant and challenging ventures, with the recent release of a new form, fill, and seal 14gram portion pack range of jams and condiments. These products are made on ‘state of the art’, purpose designed equipment and are targeted at the tourist or economy end of the tourism market. The offering complements Beerenberg’s existing foil and glass packs and extending its portfolio of products for this market.

Other projects currently underway include ongoing product development and an extension of horticultural activities with a significant planting of cherry trees.

The family is optimistic about the future of their business. They see exciting potential for horticulture related industries, given Australia’s ‘clean and green’ reputation in the economically developing Asia Pacific region and a burgeoning tourism market.



Question

Our family company has had considerable difficulty in getting the Board of Directors to function effectively. Specifically, there have been a number of family members who have sat on the Board but have contributed very little considering all Directors are paid fees. How do we improve the efficiency and effectiveness of our Board?

Answer

A Board of Directors should be elected to monitor the performance of your organisation, develop policies to be followed by management and staff and to support the strategic direction of the business as developed by the CEO and management in conjunction with the Board. The Board's role should also be focussed on succession, risk management and assisting management to achieve its goals.

Therefore the Board of Directors selection process is vital to the efficient functioning of the Board. With many family companies there is a reluctance to go outside the family to fill Board positions. Quite often the family solicitor or accountant is appointed to the Board for their knowledge of the family or their compatibility with the Chairman. However in many cases, this is not what the family business needs. The basic requirement to balance the roles of Directors is to appoint people who will make a contribution and provide independence where there are skills lacking within the family. It is important to select Board members for their value to the business, not their consensus.

An ideal board structure ranges from five to seven directors, and over time a majority of directors will be independent...

Initially you should look to appoint one independent director to your family Board. Start by writing a position description and the attributes your Board is seeking, including key performance indicators for performance measurement. Then advertise for the position or approach the Australian Institute of Company Directors (AICD) to assist you in your search for a new director. In doing this, you will need to be aware of the market rates that are currently payable to obtain the services of a good independent director. In addition you should be prepared for robust debate, as a good director will openly debate topics that require such discussion or for which they have strong views.

An ideal board structure ranges from five to seven directors, and over time a majority of directors will be independent. As the Board elects its own Chairman, the aim should be the appointment of an independent Chair. However, as there are many things to learn about the dynamics specific to family businesses, this appointment could take around 18 months for an independent director to feel comfortable taking the chair.

What you are seeking is a dynamic board that provides leadership, supports management and provides the foundation for good shareholder value and longevity of the business. If you follow some of the ideas above, then Board performance will be enhanced.

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