



Family business news

A newsletter for the family business sector

Introduction

Welcome to the ninth edition of Family business news.

Family business news 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 issue features Part 2 of our article on knowledge management and specifically how you can use it as a platform for growth, understanding the role of the patriarch and some key diary dates for your calendar.

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Knowledge risk and knowledge for growth: Challenges for growing businesses, Part 2

Dr. Kate Andrews, Consultant, Knowable

This article is Part 2 of our lead story in issue 8. To recap briefly, Part 1 covered why knowledge risk is relevant to your family business, minimising knowledge loss, identifying knowledge risk and how you can minimise its impact. Now that you know what knowledge risk is, Part 2 focuses on harnessing this knowledge for your business's growth.

Setting the scene

You've put together a great team and built a strong demand for your products and services. You're now adding new people to the team but haven't been able to replicate early successes. You re-invent the wheel, repeat costly mistakes and miss out on opportunities because you don't know what you've done in the past. How can you organise what you know to keep up with the opportunities for growth that you've created?

Challenge 2: Using knowledge as a platform for growth

When businesses start out, the founding team typically carry important knowledge around in their heads (for example: processes that are used and why they are used; key assignments, customers and contacts). As more staff join the business, the team passes on what they know by working alongside recruits, supervising their work and being available to respond to requests for information. This is a person-to-person knowledge process and a very effective way of building expertise. However, as the firm continues to grow, relying solely on the person-to-person process is less successful because:

- demands on the founding team's time become more onerous;
- the ability to supervise everything that is happening diminishes;
- the most experienced staff can't do everything, therefore the firm has problems delivering the quality of outputs that have made it successful;

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- some highly experienced staff are not good at developing similar skills in new staff; and
- no single person now understands or remembers the details of the firm's experience and activities.

At this stage of your organisation's life, you need a fresh approach—to build a set of replicable practices and processes to enable your business to grow.

Identifying knowledge for growth

As for knowledge risk, the starting point is to identify the critical handfuls of firm-specific information and knowledge that have the most impact on your business results. Areas to consider include:

- knowledge about your most important business processes;
- knowledge involved in delivering your key products and services;
- your key assets;
- VIP customers and assignments; and
- managing your risks.

In short, you are seeking to identify the set of replicable practices you need if you are to continue to grow.

Building knowledge practices for growth

At this stage, you've outgrown your original approach, which was based on a small group of highly experienced staff who knew everything. You may be able to work your skilled staff a bit harder but once all their hours are used you've run out of options. Instead, you need to focus on building the firm's capacity to grow new capabilities. (This is what franchise owners do: they build a set of replicable practices as a framework for business success.)

So, now is the time to convert some of what experienced staff know into written (or codified) format, so that it is readily available to all staff. You may need to devote time to developing procedure manuals, checklists, methodologies and job aids. This process links people to information and it reduces dependence on one or two key individuals. At least some critical knowledge is now available to staff even when experienced staff aren't on the spot.

It's impossible to document everything that your experienced staff know, so it is important to continue to provide the people-to-people link. Staff will learn and develop more quickly if you supplement what is written

Founding strength

*Marina Skinner, Family Business Consultant,
BDO Kendalls (QLD)*

Previously we have looked at the role of the matriarch and their influence over the business. We thought this was a good opportunity to examine the other key figure head in families: the patriarch.

Patriarch qualities for ensuring business success

The patriarch, owner, founder is an entrepreneur by nature. He is a risk taker and will constantly challenge how things are, experiment and overcome incredible obstacles to follow his dream and provide for his family. As a result, he usually has more ideas than he can realistically cope with in any given period and is weighing up the possibilities for his next plan before he has stopped thinking about the current one. At the same time, he has extraordinary physical energy and stamina and an apparent capacity for almost constant activity. He works long hours. Survival is at stake. This can lead to some challenging habits with future consequences for the family and the business.

His style is frequently charismatic, creative and innovative in a highly action-oriented way. He has the drive and need to achieve personal goals central to his character and satisfaction. Building a successful business can be a stronger motivating force than personal satisfaction. Decisions can be made quickly and acted upon creating a competitive advantage over the competition, a key component of successful family businesses. He demonstrates mastery and vision in his

field and is highly respected. For the most part he is ideally suited to enterprise building.

As well as these attributes the owner often has less attractive characteristics such as:

- dictatorial and domineering in both his business dealings and his family life;
- perceived as difficult and highly individualistic with perfection as an unrelenting goal;
- private and prefers secrecy thereby maintaining control; and
- self-reliant rather than trusting others to avoid unwanted problems.

The patriarch's interaction with the business

In the business this tends to discourage the development of all but the most determined and capable employees, which, at first may not matter.

It is important to remember that during the earliest founding or first generation stage special dynamics exist that set family businesses apart from other businesses. The intrinsic contrast between the objective nature of business and the emotional aspect of the governing family often create friction and conflict.

The owner's management style is generally instinctive, and unlikely to involve much formality or planning. Such an approach may work well as long as the business remains small. As it grows, shortcomings in the management process become evident – forward planning, organising and controlling – at first become limiting and then become dangerous. All too often the owner unwittingly guarantees the demise of his

with coaching and training from your experienced staff. This provides the best of both worlds.

Finally, you will also need to identify what information sets need to be routinely collected, summarised and made available to relevant staff. Related to this is the requirement to assign responsibility for important information assets. Who 'owns' the key information sets? (The appropriate owner may be the expert who confirms the accuracy and completeness of the information, makes sure that it is used and refreshes it as the firm finds better ways to do things.)

Practices for business growth can be thought of as a knowledge spine and will help the firm to:

- learn from failure so costly mistakes are not repeated;
- learn from success to ensure performance, customer satisfaction and results are continually improving; and
- enable growth, as new staff are advantaged by access to the firm's most influential knowledge and experience and develop new insights, products and services based on this knowledge.

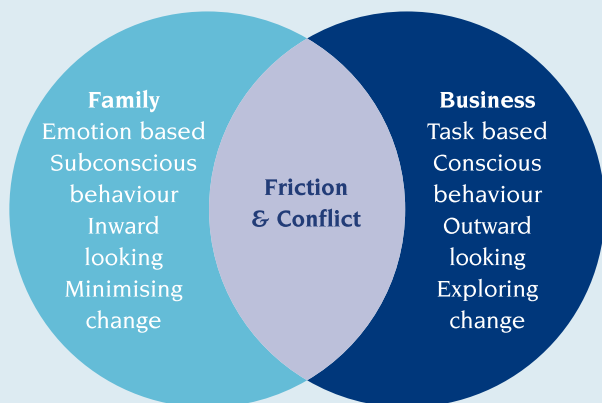
Tips for knowledge for growth

- *Impact, not completeness.* Focus on the few key information and knowledge sets that impact most on your business model.
- *Time-to-capability.* Use time-to-capability of new staff to evaluate your progress. Aim to measurably reduce how long it takes for new starters to become confident, capable and productive staff members.
- *Use it, or lose its advantage.* Don't just record important information and knowledge and forget about it. In the knowledge game, value comes from applying a body of knowledge. Knowledge needs to be on the prowl in your organisation, not sitting quietly in a corner waiting for someone to notice it. Review the information and knowledge you create, embed it in everyday work and develop new insights from its application. Put knowledge to work in your business to deliver competitive advantage.

Author profile

Dr Kate Andrews is the principal of a specialist knowledge and intellectual capital firm, Knowable (www.knowable.com.au). She has developed intellectual capital and knowledge strategies for some of Australia's best known organisations and regularly leads executive master classes in Australia and Asia.

business by failing to build into it a collective purpose that can ensure its survival after he is no longer around to pull all the strings.



Working with a patriarch

The patriarch started with a dream and a vision to create unity, strength and future prosperity for the family and the business. The collective purpose, core values and culture need to be defined, established and articulated from the top down. Developing a mission statement that incorporates the founders' values is a key component not to be undervalued. Four questions need to be asked:

- Who are we?
- What do we do?
- Why do we do it? and
- Who do we do it for?

"Values represent what is uniquely important to you, the broader concepts that guide your decision in life and represent what you stand for, such as family, happiness, adventure, stability, creative fulfillment, love, money, recognition, respect, justice and so on. People's experiences vary based on their range of values. An individual who values wealth will invest time and effort in that area and his or her experience of life will reflect that. If that same person does not value honesty, then the route to wealth will be very different from that of someone who highly values both wealth and honesty."¹

This is what sets family business apart.

With the harmony and financial security of the owner's family riding on his ability to succeed he is burdened with balancing heavy and frequently conflicting responsibilities in the preservation of the business. The qualities that drive him to succeed if not balanced can also create conflict and tension. For owners who are keen to keep the business in the family, the major challenges are to recognise, prepare and instill core family values in successors. They will shape the family's method of transmitting, preserving and growing their wealth.

For further information please contact Marina Skinner, Family Business Consultant, on (07) 3237 5870.

Reference

¹Howard, Christopher. *Turning Passions into Profits*. Hoboken, New Jersey: John Wiley & Sons, Inc., 2004.



Agree to a family governance plan before joining the firm

Question

I am a university graduate who has been asked to join a very successful family business run by my uncle. I am currently working for an international professional firm and I do have some ambitions to join the family business. However, I am concerned with the autocratic style of leadership practised by my uncle and lack of good governance. Can I suggest some modifications to the governance practices before I join the company?

Answer

Quite often, good governance is lacking in family businesses because of the leadership styles of management and the reluctance of shareholders to force their views on the senior family business managers. However, this is not an excuse that can be accepted because without the necessary checks and balances, bad decisions can be made.

It is important to establish and maintain good values and practices. There should be a strong culture within the family business supported by open family communications. The family as a group should be more important than individual needs.

There must be demonstrated competence in delegation of authority and responsibility. A documented and understood succession plan should be in place so that continuity of the family business and the protection of the family wealth is assured along with processes for conflict management including sanctions for family members to follow agreed procedures.

Finally, it is important to document the family governance plan which would include the role of the family council, the role of the company's board and certainly consideration of the family constitution and a shareholder's agreement.

It is a good time to address these issues before you make a decision to join the family business. Idle promises to appease you may not resolve your long range concerns.

If you have a question you would like some advice on please email

bruce.hatcher@bdo.com.au

Diary dates

FBA awards

Entries close April 2008. Please contact your nearest office if you would like assistance with your entry.

Breakfast with Cameron Schwab (Perth)

Wednesday, 16 April 2008. 7:30am - 9:00am. Hosted by BDO Kendalls. The John Worsfold Room, Subiaco Oval, Roberts Road, Subiaco

8th Annual NSW & ACT Conference "Critical Issues for Family Business"

Thursday, 15 May 2008. Sydney Convention Centre, Darling Harbour. See www.fambiz.com.au for details.

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