



Family business news

A newsletter for the family business sector

Introduction

Welcome to the eighth 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 covers the importance of knowledge management and the associated risks, techniques in preserving the family business history and calls for Family Business of the Year Awards nominations.

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Knowledge risk and knowledge for growth: Challenges for growing businesses

Dr. Kate Andrews, Consultant, Knowable

Part 1

Does your firm routinely maximise the business impact of your information and knowledge assets? If so, you are advantaged in today's market place. If not, even small improvements can deliver outstanding results for your business.

Often the key knowledge of the family business is tightly held by the business owner. It could be critical contacts, formulas and techniques that are unique to your business.

This article focuses on managing knowledge risk and building replicable practices to enable business growth for family and privately owned businesses. Related topics include enabling innovation, identifying and managing intellectual property assets and intellectual property due diligence (for buyers and sellers).

Why is knowledge risk relevant?

The imminent baby-boomer retirement, coupled with shortages of skilled staff, has been attracting business attention for some time. Combine these pressures with business growth in a thriving economy and it is clear that we need to be very smart about how we use our people and their skills in the future.

Do these issues sound familiar?

- A long-term family or staff member has left our business, leaving behind almost nothing that is useful. We've lost valuable knowledge about our customers, our processes, our history and all of this will take a long time to build up again. Some of it can never be replaced.

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- We are growing quickly. Yet, despite the experience of the firm and the skills of our staff, it takes a very long time for new people to be productive. We don't seem to be able to replicate our highly valuable 'know how' to get new people up to speed. Unless we find a way to do this, we won't be able to cope with our business growth.

Let's take a look at one of these challenges

Minimising the impact of knowledge loss

We have long-term staff that will leave us soon and family members who are transitioning. We're not sure what and how much capability we are going to lose when they go. What's valuable and what isn't? What should we be doing now? We're nervous but don't know where to start.

In 2003 BDO Kendalls introduced the term knowledge risk to describe the loss of knowledge critical to a firm's performance. Potential impacts of knowledge risk include loss of efficiency, mistakes and re-work, reinventing the wheel, unwanted variation in service delivery and missed opportunities.

Mitigating knowledge risk is the first challenge for growing businesses. Ignoring this risk could jeopardise your firm's sustainability.

Most firms have a poor understanding of knowledge risk. We focus our attention on head count (staff expenses on the payroll) rather than head contents (the valuable knowledge and skills that our firm uses to stay in business).

Identifying knowledge risk

Knowledge risk will not be evenly distributed in your firm. The first challenge is to identify the job roles with high knowledge risk and the key family members responsible for these jobs. It is important that this knowledge is documented and transferred to other employees.

- Some jobs require very little firm-specific knowledge, or what is required can be readily picked up. It's relatively easy to recruit new staff and they become productive quickly in this type of role. Given these characteristics, knowledge risk is low.
- Other jobs require substantial amounts of knowledge that is specific to your particular business (for example, knowledge about your important customers, machinery or equipment, suppliers or processes). Even if you recruit someone with a similar background, they can't bring firm-specific knowledge with them. Knowledge risk is high if the critical knowledge is not written down (for example, in methodologies, procedures, checklists and guidelines) and it resides in only one or two heads.

Minimising knowledge risk

Focus your efforts on jobs, roles and tasks with high knowledge risk (i.e. those with a high component of firm-specific knowledge not widely held or captured in the firm).

Information can be captured and written down (for example, in procedures, training materials, case studies, checklists and guides).

However, knowledge is different from information. It is built up over time, through experience and in some older family firms from generation to generation. Because it takes time to develop, knowledge is difficult to transfer from person to person, let alone team to team or site to site. Knowledge resides in people, and is described by terms like 'gut feel', 'insight' 'intuition' 'judgement' and 'a feeling for things'.

To minimise knowledge loss, the emphasis is on transfer, not capture. Knowledge is transferred by close personal contact, mentoring, coaching, master-apprentice relationships, teaming, or work shadowing. Knowledge transfer takes time!

Tips for minimising knowledge risk

- **Start soon.** The closer you are to the key member's exit the less risk you can mitigate. (You have fewer options and it will cost you more money, focus and staff resources.) In addition, the closer to exit, the greater the likelihood that staff will have 'switched off'.
- **Don't leave it to chance.** Whilst much informal information sharing happens everyday, take deliberate actions to facilitate transfer of the critical (right) knowledge to the right people at the right time and in the right way for the organisation.
- **Manage change positively.** Often there is high uncertainty during times of change and people may resort to hoarding knowledge as their insurance against involuntary exits. Culture does matter: disaffected and disengaged staff are very poor knowledge donors and recipients!
- **Au revoir (not goodbye).** Where appropriate, find opportunities to stay connected with staff that leave. Formal opportunities may include part-time, casual or contract work for you; informal contacts include invitations to the firm's social events.

In the next issue we will look at 'Knowledge for business growth'.

Author profile

Dr Kate Andrews is the principal of a specialist knowledge and intellectual capital firm, Knowable (www.knowable.com.au) and was awarded her PhD in 2000 for her pioneering research describing knowledge processes in a biomedical consortium. 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.

Family business genealogy:

A legacy to preserve the family business history

Marina Skinner, Family Business Consultant, BDO Kendalls

Do your family, staff, customers, suppliers and community really know who you are?

Recording the beginnings of a business often reveals the values and traditions that have built up over the years and generations. The benefits of this record can bring perspective and learning from the past and provide a chain reaction for planning succession and:

- create a source of pride for your family and employees;
- reveal to today's generation the values of earlier generations;
- inspire;
- inform;
- identify critical success factors for the family business;
- identify core values, leadership and management styles;
- identify conflict resolution and decision making processes; and
- build on external relationships with customer, professional advisors and business relationships.

For a young or small business a few pages written by the owner will usually be sufficient. A statement of why you are in business, when and where it started, how the business achieved its position, key personnel within the business and the vision for the future of the business.

The larger, older firm may have started from small beginnings and the blood sweat and tears of its founders but if it has stood the test of time there is more to be gained from recording the history. This helps to enhance your reputation and showcase time honoured traditions and the character that has formed an integral part of the community. Mature family businesses may be surprised to discover how far their circle of influence extends.

As we lead up to Christmas and the New Year, families come together to reminisce about the good times, the challenging times and laugh or cry, it is a good time to share and start recording the family business history. This just may be the catalyst to succession planning and minimising knowledge risk to ensure a prosperous future for your business for generations to come.

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



Family Business of the Year Awards:

Nominations now open

These awards provide an opportunity to acknowledge the achievements of Australian family businesses and their contribution to the community. The awards are divided up into four generational categories recognising the challenges faced by each of these generations.

BDO Kendalls has been proud advisers to many of the national winners in previous years and has the experience and expertise to assist you in gaining the recognition your business deserves.

To enter simply fill in a nomination form found on the Family Business Australia website (www.fambiz.com.au) or contact your local BDO Kendalls office and submit by 14th December 2007. Good luck!

Christmas and New Year message

Bruce Hatcher, Partner, BDO Kendalls (QLD)



Family businesses by their very nature are passionate enterprises. Emotions can drive them forward very successfully with good management practices. Unfortunately emotions sometimes create conflict among family members and this can spill over into the business.

Christmas is the time when families gather, reflect and celebrate. It is a time for goodwill sharing and acknowledging your spiritual beliefs.

We at BDO Kendalls are passionate about advising family businesses and assisting them to resolve their difficult issues. We would like to thank all our clients, supporters and referrers for a wonderful year.

May you have a relaxing festive season with happiness, good health and continued prosperity. Look forward with optimism and plan your success.

Kind regards,

Bruce Hatcher

Diary dates

Family Business of the Year Awards

Nominations close Friday 14 December 2007.

Family Business Australia National Conference

FBA national conference will be held in Cairns 7-9 August 2008

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