

Succession Matters: The Australian Family Business Survey 2000

**A joint project of the CPA Australia Small Business
Centre of Excellence, and AXA Australia Family Business
Research Unit at Monash University**

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EXECUTIVE SUMMARY

Profile of Respondents

- The typical family business owner is 57 years of age, with almost 22% being over the age of 65 years. Almost 95% of owners are married. Over 70% of children are less than 40 years of age and about 58% of them are married. Almost 15% of family business respondents are women. Over 44% of owners, 37% of spouses, and 55% of adult children have tertiary qualifications.
- Most businesses are in retail/trade or wholesale distribution (42.9%), and manufacturing (25%).
- 34.5% of firms comprise between 6-19 employees; 23.8% between 20-49; 14.3% between 50-99; and 9.5% have over 100 employees.
- 31% of firms involve no family personnel, a further 31% comprise 5% of employees who are family, and 26% of enterprises entail between 6-20% family member personnel. About 5% of enterprises employ between 76-100% employees who are family.
- For over 57% of family firms, turnover for the 1998-99 financial year is less than \$5 million. 11% of firms report a turnover of \$20 million or more.
- For the purposes of this study, family businesses were defined as those firms in which proprietors viewed their business as a family firm. 50% of ownership is held by one family, 42.9% is held by two or more families, and in about 7% of firms a family has control or provides management.
- 44% of businesses have been owned for between 21 and 40 years. 15.5% of enterprises have been owned for greater than 60 years, and about 12% have been around for between 41-60 years. In contrast, less than 10% of firms have been owned for 10 years or less.
- The majority of firms operate nationally (i.e., 44%) and regionally (i.e., 23.8%). Over 15% of businesses concentrate their operations internationally.
- Most (i.e., 53%) businesses are managed by first generation owners. Over 26% are second generation, and almost 20% are managed by third and subsequent generation proprietors.

Successor Characteristics

Participants were invited to rank 30 successor characteristics in terms of their importance.

- **Integrity, commitment to the business, intelligence, decision-making abilities, and self confidence** are ranked as the most important characteristics of successors. Items concerning **family standing**, such as **birth order, gender, and blood relation** are ranked the least critically important.
- In terms of successors' competence, all respondents rank **decision-making abilities, interpersonal skills, and strategic-planning skills/experience** higher than other areas.

- A comparison across family members reveals substantial differences in rankings between spouses on the importance of **intelligence, track record and past performance, experience in the business, educational level, and respected by actively involved family members**.
- A breakdown by industry type shows that, when compared with manufacturing and other firms, retail or wholesale distribution owners rate a number of succession characteristics including **financial skills/experience, interpersonal skills, personal relationships with current CEO, current ownership share in the business, and blood relation** as being more important.
- A categorisation by size reveals that larger (i.e., turnover >\$5m) enterprise proprietors place greater importance on successor characteristics relating to **ability to get along with family members, education level, personal relationship with current CEO, aggressiveness, and age** than do owners of smaller (i.e., turnover up to \$5m) firms.
- A cross-tabulation by years of ownership indicates that, when compared with proprietors who have owned their firms for more than 20 years, their newly-established firm counterparts stress higher importance on successors being **respected by actively involved family members, having technical skills/experience, willingness to take risks, having a personal relationship with current CEO, and being aggressive**.

A Comparative Viewpoint: Australia Versus Canada

Integrity and **commitment** to the business are the successor characteristics ranked highest, whilst **age, blood relation, gender, birth, and current ownership share in the business** are ranked lowest in both the Australian and Canadian surveys. **Respect from employees** and **intelligence** are ranked 3rd and 6th respectively in the Canadian survey, but 6th and 3rd, respectively, in this study. **Experience in the business** obtained comparable rankings in the Australian and Canadian surveys. However, a number of business attributes including **strategic planning, financial, marketing sales, and technical skills** are ranked higher in Australia than in Canada.

Ranking of Succession Issues

Participants were invited to rank 25 succession issues in terms of their importance.

- Owners and spouses hold similar views regarding their rankings of the top five succession issues: **Balancing short-term and long-term business decisions, preparing and training a successor, maintaining loyalty to non-family managers, balancing family concerns and business interests, and developing relationships between successor(s) and non-family employees.**
- Adult children rank **selecting the successor** (3rd) and **maintaining ownership control in the family** (4th) in their top 5. Spouses' rank **balancing family concerns and business interests** first.
- Other succession issues ranked in the top 10 by all groups include **defining the role of the Board of Directors, developing relationships between successor(s) and non-family employees, and**

valuing the business. Interestingly, both owners and adult children rank **involving non-family managers in making strategic decisions** 10th in their lists, whereas spouses rank this issue 21st. All respondents rank **buying out family members not employed in the business** as the least important issue.

- More retail or wholesale distribution firm owners rate **compensating family members involved in the business, maintaining ownership control in the family, planning for estate taxes, resolving conflict among family members**, and **maintaining a role for the founder in the business after retirement** as being more important than do manufacturing and **other** firm owners .
- Another breakdown by size of enterprise (i.e., turnover) demonstrates that larger firm (i.e., 20 or more employees) owners place greater importance on **preparing and training a successor, selecting a successor, involving non-family managers in making strategic decisions** , and **changing from family to professional management** than do their smaller counterparts.
- A further cross-tabulation by years of ownership (i.e., a surrogate for age of firm) shows that owners who have owned their firms for more than 20 years place higher levels of importance on **maintaining loyalty to non-family managers, seeking assistance, from outsiders to resolve business problems, deferring the role of the Board, involving non-family managers in making strategic decisions** , and **planning for estate matters** than their counterparts.

Conclusion

This survey extends previous research in the area by seeking information on the ways in which family business owners, their spouses, and adult children rank the importance of the various successor attributes and succession issues.

Identification of critically important successor characteristics and issues can assist family business owners and their potential successors in training and developing potential successors, as well as determining their suitability for leadership of the family business.

- Respondents consider personality traits, current involvement with the business, and level of competence as the most important attributes of successors rather than family standing (i.e. gender, age, bloodline) and the successor's personal relationship with the incumbent.
- Some of the principal characteristics usually associated with the entrepreneurial personality such as independence, willingness to take risk, and aggressiveness were ranked toward the bottom of the list of attributes indicating that owners did not consider them to be critically important in potential successors.
- The family business literature suggests that outside management experience for successors before they join the family business is highly recommended. Owners do not appear to reflect this sentiment, ranking it very low in the list of critically important characteristics. On the other hand experience in the business and track record/past performance are deemed to be important.

- Business size impacts on the ranking of some successor characteristics. Such factors as age, personal relationship with the incumbent, the ability to get along with family members and educational level are deemed to be more important by the larger firms, whereas the importance of technical skills decreases.
- ‘Seeking assistance from outsiders to resolve business problems’ and ‘Defining the role of the board of directors’ were considered critically important issues and yet ‘Including non family on the board of directors’ was not. The potential use of a board of directors which includes a number of non family appointees as a source of advice does not appear to be fully recognised.

THE STUDY TEAM

The study team acknowledges the family and nonfamily business owners whose contributions made this project possible.

This Survey was developed and conducted by the AXA (Australia) Family Business Research Unit Team (AAFBRU) and CPA Australia. The team includes Professor Claudio Romano, Associate Professor Kosmas Smyrnios, Dr George Tanewski, Lucio Dana, Mrs Georgia Pashias, and Ms Kerrie Clayton of CPA Australia.

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Associate Professor Kosmas Smyrnios. Kosmas is Foundation Director of the (AAFBRU) at Monash University. He has a demonstrated track research record with a number of national and international refereed publications in different disciplines including accounting, business management, psychology, and health.

Dr George Tanewski. George is a Postdoctoral Research Fellow. He has a national and international background in management and organisational research.

Lucio Dana. Lucio is a family business adviser and facilitator, and lecturer in Family Business Programs at Monash University. He is the Managing Director of Creativey in Business P/L, which trades under the business name Family Business Dynamics. Lucio is also the convenor of Forums and Networks for the Sons and Daughters of Family Business Owners.

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generation family business.

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