Chapter 4

The characteristics and mindset of family businesses in Australia

We have a stronger engagement with our staff than typical companies. Our employees value that the owners are visibly known people that they can talk to. The success of many family businesses is something employees take great pride in. We measure our organisation culture to ensure family values and expectations are embraced by our people…Our decision making is not confined to reporting periods and bonus horizons but reflect a vision over decades. This contrasts starkly with much of the listed corporate sector…[1]

I believe they are the fabric, heart and soul, of our local communities.[2]

Introduction

4.1 The third article of the terms of reference directs the committee to the contribution of family business to the Australian economy, in terms of financial, social, employment, innovation and sustainability outcomes. The previous chapter noted the view of Deloitte Private, among others, that little data is available on the extent to which family businesses contribute to Australia's GDP, employment and other economic indicators. Government agencies also acknowledged the paucity of evidence in this area. As the Department of Resources, Energy and Tourism (DRET) noted in its submission:

> According to research undertaken by Tourism Research Australia, as at June 2011, there were approximately 283,000 tourism businesses in Australia, representing in excess of 13 per cent of 2.1 million businesses across the Australian economy.
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> Approximately 91 per cent of tourism businesses were non-employing, micro, and small businesses (employing less than 19 persons). Whilst there is a lack of data relating to the number of family businesses in the tourism industry, the structure of the industry and anecdotal evidence suggest that a significant number of small tourism businesses are family operated.[3]

4.2 There is obvious interest in not only the economic contribution of family businesses, but their economic performance relative to non-family businesses. As a

1 Kennards Self Storage, *Submission 15*, pp 1–2.

2 Mr Donald McKenzie, Private capacity, *Committee Hansard*, 21 January 2013, p. 9.

3 Department of Resources, Energy and Tourism, *Submission 31*, p. 1.

2010 paper by Linda Glassop, one of the co-authors of the 2005–2008 FBA–KPMG surveys, observed:

> If Australian family firms do outperform non-family firms, then their presence in the economy should be encouraged and the practices that render them successful identified so they can be emulated. In the absence of concrete data regarding family firm contribution to the economy, such assertions are meaningless.[4]

4.3 The committee believes that the need for data on the economic contribution of family businesses to the Australian economy should be a matter for the proposed IDC (see chapter 2). This will be an opportunity for departments such as DRET and the Department of Regional Australia, Local Government, Arts and Sport (DRALGAS)—both of which have an interest in disaggregating the small business data to identify family businesses—to argue the need for, and the form of, the data.

Recommendation 8

4.4 The committee recommends that in its deliberations on the specific public policy need to identify a family business, the IDC should consider the need for data on the economic contribution of family businesses. This should include the need for data on the contribution of family businesses to Gross Domestic Product, export earnings and employment, both in aggregate and by sector.

Key family business characteristics

4.5 In the absence of solid, reliable data, this chapter approaches the contribution of family businesses in terms of the characteristics that they exhibit. The evidence gathered by this committee—both from witnesses and the academic literature—has identified a set of characteristics that form a mindset that is qualitatively different to that of non-family businesses. Although the evidence is largely anecdotal, the observations have been made too consistently and too widely to ignore. They should be considered by the IDC.

4.6 This chapter considers evidence received by the committee that family businesses possess the following attributes:

- a risk averse mindset;
- a long-term mindset, looking beyond short-term returns (what some have termed 'patient capital');
- more flexibility in their decision-making than non-family businesses, enabling greater responsiveness to market needs;
- a commitment to retaining staff;

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4 Linda Glassop, 'Family owned businesses: Perspectives on Australian Policy', Deakin University, 2010, p. 5, http://dro.deakin.edu.au/eserv/DU:30031227/glassop-familyownedbusinesses-2010.pdf (accessed 24 February 2013).

- a significant contribution to the community in which they operate; and
- higher labour productivity than non-family firms.

A long-term mindset—causes and benefits

4.7 Several submitters and witnesses to this inquiry emphasised the long-term mindset of family businesses. In the academic literature, the expression sometimes used is 'patient capital'—a long-term approach to investment. In part, this approach was attributed to the absence a board demanding short-term performance on share price. The other key influence is the need for the owners to preserve the legacy and reputation of the family name.

4.8 Various submitters highlighted the benefits of family businesses' long-term mindset. These include the stability and resilience of the business, a commitment to retaining staff and an attachment and contribution to community.

4.9 Mr Chris Lowe of Bus Association Victoria drew direct parallels between the reputation of the family name and the long-term approach of the family business. He told the committee that:

> …family values are very much transmitted over to the family business, unlike with non-family firms. With family businesses, it is all about continuity and continuance. There is…the legacy factor. The family name is all over the business, so it is very important that the family values are transmitted into the business. If there is a complaint against the business, it is a complaint against the family. Further, family businesses have a long-term orientation second to none. They are not so much in the game for the term of a contract which might be seven or 10 years; this is the industry that the family has chosen to commit itself to over generations, and this is how the family has made its name.[5]

4.10 Mr Sam Kennard, Managing Director of Kennards Self Storage stated that family business owners have 'a long-term enduring view to preserve our brand and assets for many generations'.[6] Mr Michael Claydon, owner of the Perth-based firm National Corporate Training, noted that the owners of long-standing family businesses are particularly conscious that they are continuing the family legacy and have a responsibility to ensure that it is preserved.[7]

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5 Mr Chris Lowe, Chief Executive Officer, Bus Association Victoria, *Committee Hansard*, 14 November 2012, p. 9.

6 Mr Sam Kennard, Kennards Self Storage, *Submission 15*, p. 2.

7 Mr Michael Claydon, Managing Director, National Corporate Training Pty Ltd, *Committee Hansard*, 7 February 2013, pp 24 and 26.

4.11 Mr Andrew Mostyn from the agribusiness company Craig Mostyn Group also linked the longevity of family businesses with their focus on their reputation. He explained that:

> …there are some underlying things that are prevalent in all family businesses. For many of us, our name is part of the company name. I think when that happens then there is a responsibility that you have for the longevity of the business and for the integrity of the business. So I do think that because that is the situation there is very much some underlying and common themes amongst the culture of family businesses.[8]

4.12 KPMG linked the long-term mindset of family businesses to their unique values and their connection with the community in which they operate. As Mr Bill Noye, National Leader of Family Business Services, told the committee:

> Family businesses do take a much longer term view. They are not so much focused on the short-term financial outcome but rather the long-term return on capital. Theirs is a different mindset from non-family businesses. Family businesses have applications that involve more than merely serving a financial purpose. They are a means of sharing certain values and providing a service to the community in which they are integrated. They are different. They do feel different. Their values are different. Culturally, they are different and they offer a unique benefit to our communities.[9]

4.13 Deloitte Private continued the theme. Mr David Hill, National Managing Partner of the firm, put the following argument:

> Virtually every family business has a long-term horizon. The family values are attached to the family business. The family name is attached to the family business. The legacy is attached to the family business. So decisions that family businesses take are for the long-term. One of the regular criticisms of government, for example, is that decisions are taken on terms. Corporates often are challenged by taking decisions based on quarterly reporting cycles—very short-term decisions designed to either buoy up a stock price or report a profit. Family businesses do not think that way; they think for the longer term because of their legacy, their values and their reputation. That is a wonderful culture in business for the future of this country of which we're all very proud. So I think that any attempt to sponsor family business with that long-term view—that view to a sustainable business to hand on to future generations—in various forms has to be a great thing for this country.[10]

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8 Mr Andrew Mostyn, Executive Director, Craig Mostyn Group Pty Ltd., *Committee Hansard*, 7 February 2013, p. 24.

9 Mr William Noye, National Leader, Family Business Services, KPMG, *Committee Hansard*, 16 November 2012, p. 10.

10 Mr David Hill, National Managing Partner, Deloitte Private, *Committee Hansard*, 14 November 2012, p. 8.

4.14 Mr Peter Taylor, the owner-manager of the Queensland-based construction company T & T Corporation, also contrasted the long-term mindset of family businesses with the short-term imperatives faced by corporates:

> It is a resilient sector which usually handles the volatility and variability of our economy better than corporations. There have been numerous surveys that have confirmed the advantages of family businesses compared to corporations…They plan longer term, with many owners focused really as much on stewardship as on short-term profit. They are not driven by the need to increase share value or generate large performance bonuses which often lead to short-term and sometimes high-risk strategies in corporations.[11]

4.15 Mr Robert Powell of Grant Thornton Australia contrasted the short-term decisions of investor-led businesses with the stability of family businesses' decision-making processes. As he told the committee, family businesses:

> …make long-range decisions. They are more stable because of that and they are not prone to making snap decisions about firing people or shutting down a division. They are prepared to ride out situations a lot more than investor led businesses because the investors are only interested in what happens to their money in the next 12 months as they may choose to sell out in six months.[12]

4.16 Professor Ken Moores told the committee that the long-term mindset of family businesses provides resilience in times of economic downturn, greater retention of labour and an effort to preserve their communities around them. He added:

> The average CEO of a family business is there for about 20 years. The average CEO of a non-family firm is there for about 3.89 years and going down. If you think about that for a moment, this is a person who has been there, learnt their job and has got the time and capacity to pass it on to the next generation, because they have learned a bit of wisdom. So there are a lot of characteristics about these firms that really need to be understood.[13]

4.17 The committee took evidence from Mr Steve Sampson, the fifth generation owner of the Lionel Samson Sadliers Group—Australia's oldest family business. Mr Samson noted that the company's long-term mindset created resilience and a commitment to staff retention:

> To give you our story, during the very tough times during the 1970s and 80s, when things were very, very tough, we made sure that we never sacked any person who was an employee of our business, because that is what the family wanted to do. They were willing to forgo a dividend, a profit, to

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11 Mr Peter Taylor, Family Business Australia, *Committee Hansard*, 16 November 2012, p. 26.

12 Mr Robert Powell, Grant Thornton Australia, *Committee Hansard*, 15 November 2012, p. 15.

13 Professor Kenneth Moores, Executive Chairman, Moores Family Enterprise, *Committee Hansard*, 16 November 2012, p. 18.

> make sure that we supported and protected those employees. That is where you build loyalty, that is where you build a foundation for a business that is different to a corporate. The corporate is about the next quarter. The corporate is about: how do we fly somebody in to solve this problem?—whereas family business is about: how do we actually, long term, get through this together? The government needs to know the size and scope of that. It is a solid foundation to our economy that should be supported, because that is the resilient part of our economy, and hence they should know all about it.[14]

4.18 Professor Mary Barrett of the School of Management at the University of Wollongong noted that the tenure of Chief Executive Officers (CEOs) in family businesses is significantly longer than in the corporate world. She explained that the CEOs of family businesses:

> …are not jumping ship after three or four years like a lot of CEOs are, for the quick rewards and the golden parachutes. I believe the figure that somebody was groping for earlier is something like an average of 17 years, compared with three or four years. It is an order of magnitude longer that CEOs tend to stay there.[15]

4.19 Mr Matthew Power explained that the long-term perspective of family businesses is apparent in their decision-making processes. In particular, he noted that family businesses are more prepared to have assets on their balance sheets to provide long-term security:

> Most family businesses take a very, very long term view about things. They are looking to grow wealth not only for the current generation but for future generations, and they do it in a very conservative way…
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> As a family business you take decisions that are going to make sure that they are going to run for five, 10, 15 or 20 years, so you will purchase a building, a piece of property or a piece of equipment not because of its immediate return but rather because of its long-term return and security of asset for the business, going forward, and to give the family assurance, going forward. It is quite a different time perspective in terms of the decision-making process. We do not have to answer to a corporate board, where we are driven by final rate of return on investment, and you will notice that if you look at a lot of the Australian public companies, they are divesting themselves of assets, insofar as a big corporation like Bunnings does not own its buildings. They rent their buildings because they do not

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14 Mr Stephen Samson, Director, Lionel Samson Sadliers Group, *Committee Hansard*, 7 February 2013, p. 22.

15 Professor Mary Barrett, Professor of Management, University of Wollongong, *Committee Hansard*, 15 November 2012, p. 36.

> want those assets on their balance sheets—that reduces their rate of return on their asset usage.[16]

4.20 The committee believes that these issues of the tenure of CEOs in family businesses and the value of assets on family businesses' balance sheets could be areas of public policy interest (see recommendation 10).

An aversion to risk

4.21 A corollary of the long-term mindset of family businesses is that in general, they are also more conservative and risk-averse than non-family businesses. A November 2012 article published in the *Harvard Business Review* identified seven key differences between family firms and non-family firms that could explain the greater resilience of family businesses. The first three of these traits were as follows:

- family businesses keep their expenses under control and are 'frugal in good times and bad';
- family businesses tend to invest only in very strong projects. While they miss opportunities in periods of expansion, in times of crisis they have limited exposure (see chapter 9); and
- the firms studied were much less leveraged than the comparison group. From 2001 to 2009, debt accounted for 37 per cent of the capital of family firms compared to 47 per cent of non-family firms' capital.[17]

4.22 These themes were also prominent in witnesses' and submitters' evidence to this inquiry. Mr Des Caulfield, Director of MGI Australasia, told the committee that while family businesses may not agree:

> …as an observer and as an accountant who deals with them nearly all the time, I can see that they are much more cautious than many and were therefore better placed financially to handle the downturns in turnover et cetera that occurred.[18]

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16 Mr Matthew Power, ACT Chairman, Australian Family Business, *Committee Hansard*, 13 November 2012, p. 47.

17 Nicholas Kachaner, George Stalk and Alain Bloch, 'What you can learn from family business?', *Harvard Business Review*, November 2012, p. 104.

The research draws on a compiled list of 149 publicly traded, family controlled businesses with revenues of more than $1 billion across the United States, Canada, France, Spain, Portugal, Italy and Mexico where a family owned a significant percentage (not necessarily a majority) of the stock and family members were actively involved on the board and in management. The researchers used a comparison group of non-family controlled businesses, similar in size and in the same countries and sectors.

18 Mr Desmond Caulfield, Director, MGI Australasia Ltd, *Committee Hansard*, 14 November 2012, p. 24.

4.23 Mr Chris Lowe directly linked the long-term mindset of family businesses with their cautious approach and aversion to risk. He explained this link well in his submission:

> Family owners and managers often tend to have lengthy tenures and anticipate long careers, not only for themselves but for their offspring. Therefore they can be parsimonious stewards – careful to ensure that today's actions do not jeopardise the longer term prospects, or that an obsession with futuristic ambitions does not rob the firm of resilience or sustainability. Family owners' needs often span different time horizons: current needs such as income, dividends, and secure employment of family members; intermediate term projects and investments in capabilities and resources to perpetuate success across the long tenures of most family CEOs; and long-term projects to ensure a robust company for future generations. This is preservation of traditions from the past increasing family security as it encourages productive talent that can sustain the firm during periods of crisis or renewal, and family community status that provides access to resources today and builds reputation for the future.[19]

4.24 Some witnesses sought to qualify the image of family businesses as simply risk-averse. Mrs Janice Taylor, the owner of a third generation Tasmanian shipping business, told the committee that while the business is 'fairly conservative', it is 'not frightened to take a little risk'.[20] Mr Robert Pennicott, the owner of Pennicott Wilderness Journeys, told the committee that while the business prides itself on innovation, it is also 'a bit conservative as well'.[21] Mrs Philippa Taylor, Chief Executive Officer of Family Business Australia (FBA), described family business as a paradox: both conservative and at the same time 'extremely opportunistic'.[22]

4.25 Submitters gave three reasons for the risk-averse nature of family businesses. First, it was argued that family businesses are not under pressure to increase share value or generate large performance bonuses, which often leads to short-term and sometimes high-risk strategies in corporations.[23] Second, family businesses are often constrained in the extent to which they can borrow from financial institutions (see chapter 9).[24] And third, family business owners are conservative in their decision-

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19 Mr Chris Lowe, Bus Association Victoria, *Submission 20*, p. 11.

20 Mrs Janice Taylor, Taylor Bros, *Committee Hansard*, 21 January 2013, p. 44.

21 Mr Robert Pennicott, Pennicott Wilderness Journeys, *Committee Hansard*, 21 January 2013, p. 28.

22 Mrs Philippa Taylor, Chief Executive Officer, Family Business Australia, *Committee Hansard*, 14 November 2012, p. 35.

23 Mr Peter Taylor, Queensland Committee Member, Family Business Australia, *Committee Hansard*, 16 November 2012, p. 27; Mr Matthew Power, ACT Chairman, Australian Family Business, *Committee Hansard*, 13 November 2012, p. 47.

24 Mr Hugh McKenzie, Private capacity, *Committee Hansard*, 21 January 2013, p. 17.

making because they stand to lose their personal possessions if they make poor business decisions.

Skin in the game

4.26 Mr Matthew Power, a Canberra-based family business owner and the ACT Chairman of Family Business Australia, contrasted the mindset of family businesses and non-family businesses prior to the Global Financial Crisis. He attributed the difference to the personal equity that family businesses have at stake:

> The reality is that if you have got a good project with good numbers, it will get up. It is no different. During the pre-financial global crisis period, there was a whole stack of projects that got up that simply should not have—they were bad projects. Everybody was running on this whole concept of this growth which was beyond normal and therefore it was going to continue and there was money to be made—but they were bad projects before they started.
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> With us, we typically cannot operate like that—because it is our house. Therefore, you are trying to be very, very conservative. If I have to sign a piece of paper that says at some stage in the future if all goes belly up my house is on the line and I am going to lose it all, you take a very, very different perspective about whether you are going to go into the project or not.[25]

4.27 Mr Donald McKenzie, a former partner at KPMG and a long-time advocate of family business, argued along similar lines:

> In some instances I have seen some very aggressive family businesses who have taken lending to the level that you probably would not see in a lot of other businesses. But I guess inherently a family business operator…generally has the family home on the line, basically just about lock, stock and barrel, other than the things we can set up by protecting them in structures that we try to do to protect some of the assets from things. They will tend to sit there and say, 'Well, we do have a more conservative view, because if I get this wrong not only have I lost my business but I have probably lost my home as well.' So I guess that drives people to be a little bit more sensitive about how they take investment risks.[26]

Flexible decision-making

4.28 A third characteristic of family businesses relates to the flexibility with which they make decisions and employ staff. Family businesses are often unencumbered by a board structure and can convene meetings and make decisions at short notice. They

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25 Mr Matthew Power, ACT Chairman, Australian Family Business, *Committee Hansard*, 13 November 2012, p. 51.

26 Mr Donald McKenzie, Private capacity, *Committee Hansard*, 21 January 2013, p. 17.

have flat and informal organisational structures that allow more responsiveness to immediate and unexpected challenges than hierarchically structured corporations.[27] In addition to flexible decision-making, the flat structure of many family businesses engenders flexibility in employing and providing opportunities for staff.

4.29 Mr Taylor of T&T Corporation emphasised the importance of family businesses' quick and responsive decision-making:

> There have been numerous surveys that have confirmed the advantages of family businesses compared to corporations. They are more flexible and can adjust more quickly to change, mainly because there is a concentration of ownership and you do not have to wait for a decision; you can ring up mum, dad and the kids and almost make the decision in an afternoon.[28]

4.30 Mrs Philippa Taylor of FBA expressed similar sentiments:

> They [family businesses] are very capable of making quick decisions. They do not have quarterly reporting in the way that a lot of corporations do. They can bring the family together and say, 'There will be no new Mercedes Benzes or utes this year because we're going to invest in some research and development,' or 'We're going to pull the horns in.'[29]

4.31 The issue of the flexibility of family businesses' practices also arose in the context of career opportunities for women. Professor Moores told the committee that on the basis of his research, the flexibility of family businesses' working arrangements benefitted women. He claimed that family businesses tended to be more accommodating of women in their need for time off work to raise a family.[30]

4.32 As gender roles become more fluid in modern families, the flexibility of family businesses will increasingly enable men to take up part-time work and caring responsibilities. It is likely that many more family businesses—particularly those conducted online—will have at least periods in which wives assume full-time responsibility for the running of the business while husbands assist in a part-time role. This could be an interesting trend to monitor.

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27 Mr Chris Lowe, Bus Association Victoria, *Submission 20*, p. 11.

28 Mr Peter Taylor, Queensland Committee Member, Family Business Australia, *Committee Hansard*, 16 November 2012, p. 27.

29 Mrs Philippa Taylor, Chief Executive Officer, Family Business Australia, *Committee Hansard*, 14 November 2012, p. 35.

30 Professor Ken Moores, Executive Chairman, Moores Family Enterprise, *Committee Hansard*, 16 November 2012, p. 19.

See also Professor Mary Barrett and Professor Ken Moores, *Women in Family Business Leadership Roles: Daughters on the stage*, Cheltenham, United Kingdom: Edward Elgar Publishing Limited, 2009.

4.33 Family businesses can also provide more flexible working practices in relation to the payment of family members. Mr Alan Berechree, the owner and manager of a family newsagency in Burnie, told the committee:

> I do pay my children the same as the award wage, mainly for ease of operation and because it takes all of the problems out of it. But also there is a lot more flexibility there that you would not be able to ask of employees. That is probably the bottom line. They work the couple of extra hours or they come in for half-shifts, which legally you cannot do under the Fair Work system.[31]

4.34 The committee recognises that the issue of under-payment of family members in family businesses is a matter of some controversy (see chapter 8). While there is no data to gauge the extent to which this is happening, the committee received some anecdotal evidence that the problem of underpayment may not be as pronounced as it once was. Professor Moores noted:

> As to this question of sweat equity and the lower rates of pay, the family firms that I speak to nowadays—and they are probably the more enlightened, I suppose, if we could call it that—tend to be not of that ilk. These days—and given the last 20 years of conversations—you pay real wages for real work and you do not necessarily want to have children beholden to the business.[32]

4.35 Nonetheless, the committee flags the issue of non-payment and underpayment of family members as an area of continuing concern. While it may be true that there are fewer family businesses these days that underpay family members, there are undoubtedly still many family businesses that emphasise that proper payment for work is a secondary issue to the health of the business. The argument, presumably, is that these arrangements assist the business, which in turn assists the family to provide for all of its members. However, the committee notes that registered businesses must comply with the terms of *Fair Work Act 2009*, including the provisions on the underpayment of wages. This issue is revisited in Chapter 8 of this report.

Retaining staff

4.36 The 2012 *Harvard Business Review* article presented research that found family-run businesses retained labour better than non-family firms.[33] The annual turnover of staff in family firms was nine per cent compared to 11 per cent for non-family firms. The article also observed that family businesses generally do not rely on financial incentives to increase retention. Instead:

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31 Mr Alan Berechree, *Committee Hansard*, 21 January 2013, p. 20.

32 Professor Ken Moores, Executive Chairman, Moores Family Enterprise, *Committee Hansard*, 16 November 2012, p. 19.

33 Nicholas Kachaner, George Stalk and Alain Bloch, 'What you can learn from family business?', *Harvard Business Review*, November 2012, p. 104.

> …they focus on creating a culture of commitment and purpose, avoiding layoffs during downturns, promoting from within, and investing in people. In our study we found that they spent far more on training: €885 a year per employee on average, versus an average of €336 at nonfamily firms.[34]

4.37 Similar arguments were put to the committee. Submitters and witnesses identified the retention of staff as a key characteristic of family businesses. They noted that this is consistent with the view of family businesses as long-term planners with a conservative mindset and a need for staff that retain knowledge and take on tasks outside their immediate duties. They also argue that staff remain because they want to: they are treated better in family businesses than in non-family businesses.

4.38 Mrs Janice Taylor, the director of the Hobart-based shipping company Taylor Bros, emphasised her firm's commitment to its staff. As she told the committee:

> Consideration of staff is of prime importance. Some of the longer serving members commenced straight from school, completed apprenticeships, married, and now have young family members about to enter the workforce. These people have worked alongside you and provided you with loyalty and support, and have become extended members of your own family. Many of the younger newer staff members look to these long serving people for guidance, and you need to ensure that they receive the encouragement they need to follow in those footsteps. You must extend to these people stability, knowledge, diversity of skills and projects, ethics, work opportunity, workplace satisfaction, and mateship. In a field as diverse as ours, the loss of long term skills and knowledge is damaging, and retention of long term staff is the only way to ensure the retention of this valuable asset.[35]

4.39 Burnie Newsagent Mr Berechree told the committee that he currently employs seven non-family staff members. Two of these staff members were employed by Mr Berechree's late father in 1967 and in 1984.[36] Other witnesses, such as Mr Mark Kagan (formerly of Kagan Logistics), Mr Peter Levi of Colorific and Mr Peter Taylor of T&T Corporation, emphasised that retaining staff is a key part of the culture of family business.[37] Mr Taylor argued that there is a 'familyness' about belonging to a family business which is of major benefit for the company.[38] Mr Levi explained:

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34 Nicolas Kachaner, George Stalk, and Alain Bloch, 'What you can learn from family business?', *Harvard Business Review*, November 2012, p. 104.

35 Mrs Janice Taylor, Taylor Bros, *Submission 38*, p. 3.

36 Mr Alan Berechree, *Committee Hansard*, 21 January 2013, p. 22.

37 Mr Peter Levi, Managing Director, Colorific Australia, *Committee Hansard*, 14 November 2012, p. 48; Mr Mark Kagan, *Committee Hansard*, 14 November 2012, p. 48.

38 Mr Peter Taylor, Queensland Member, Family Business Australia, *Committee Hansard*, 16 November 2012, p. 26.

> For a business like ours, our people are everything to us and I think that does distinguish family business very much from a lot of other businesses. A lot of people in our team, a lot of our senior people, come to us having worked in big business. They can no longer work with the culture of politics that is prevalent naturally in big businesses and so our family values are very important. Everyone who joins us signs a statement of family values as part of the professionalism of our business.[39]

4.40 FBA argued that the perception that they do not treat their staff well is something that grates with family businesses. Mrs Taylor of FBA claimed that family businesses are incredibly good employers. She cited the example of Akubra Hats which:

> …through two world wars and several recessions, have never laid off a member of staff. The family themselves have taken pay cuts to keep their staff—because a loyalty gets built up and the family employees become part of the family.[40]

4.41 Indeed, other family business owners sought to qualitatively differentiate their treatment of staff to the way that non-businesses deal with staff. Mr Samson noted that this difference was 'not necessarily all about the wage', but rather:

> People like working for a family business because of the relationships and the way they are treated. So we see that as a way of securing good people and keeping them.[41]

4.42 Mr Mostyn agreed:

> I think that family businesses tend to treat staff differently to how they are employed in the larger corporates. And I think that does play a part in keeping hold of staff. So I do think there is a difference. We try and encourage a number of family-oriented things within the workforce that I do not think exist outside. Yes, occasionally we lose people to a larger corporate and quite often they come back to work for us, because they think the grass is greener but they find out that it is not.[42]

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39 Mr Peter Levi, Managing Director, Colorific Australia, *Committee Hansard*, 14 November 2012, p. 39.

40 Mrs Philippa Taylor, Chief Executive Officer, Family Business Australia, *Committee Hansard*, 14 November 2012, p. 35.

41 Mr Stephen Samson, Director, Lionel Samson Sadliers Group, *Committee Hansard*, 7 February 2013, p. 23.

42 Mr Andrew Mostyn, Executive Director, Craig Mostyn Group Pty Ltd, *Committee Hansard*, 7 February 2013, p. 24.

Community-based and community-oriented

4.43 An oft-cited characteristic of family businesses is the extent to which they are engaged with, and contribute to, the community in which they operate. This community-orientation is regarded by many as a key point of difference between family businesses and non-family businesses.

4.44 FBA emphasised the role that family businesses play in contributing to their community not only in terms of the services they provide and their understanding of the community, but also their contribution to non-profit organisations. Mrs Taylor made reference to the Dyson Bus Company, which in its 65 years of business has employed 5000 people. She told the committee that the Dyson family:

> …are enormously embedded in that community. Without that business there would be so many attributes and advantages in that community that would disappear from footy clubs to others. I do believe they have an enormously important role to play in the community and in the social fabric.[43]

4.45 Mr Smorgon told the committee that family businesses are involved in community activities that are 'well outside' their business interests. He claimed that family businesses are at the top of the list of donors to charitable organisations and 'give back more to the community than most other sectors'.[44]

4.46 Mr Lowe argued that a key point of difference between a multinational and a family business is the family business's connection with, and service to, the community. He argued that this contribution is not made by multinationals who are only focused on delivering the terms of the contract.[45]

4.47 The committee received accounts from family businesspeople themselves about the contribution that their business has made to their local community. Mr Michael Sharpe, the Joint Managing Director of the Gosford-based Sharpe Bros Australia, gave the following summary of his firm's involvement with the local community:

> Our father, Ron Sharpe, joined the business and started earth-moving works. Dad spent his life quietly helping others and was acknowledged as Gosford council's 2005 citizen of the year. In 2006 he was awarded the Order of Australia medal in recognition of his service to the community of

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43 Mrs Philippa Taylor, Director, Family Business Australia, *Committee Hansard*, 14 November 2012, pp 35–36.

44 Mr David Smorgon, Director, Generation Investments, *Committee Hansard*, 14 November 2012, p. 2.

45 Mr Chris Lowe, Chief Executive Officer, Bus Association Victoria, *Committee Hansard*, 14 November 2012, p. 9.

> the Gosford region through a range of service and social welfare organisations.
>
> My brothers, Richard and Hayden, and I continue that proud tradition, helping the community whenever we can. As we grow and expand our production as the third generation of Sharpe companies. We continue the philosophy of providing support to community groups through donations, sponsorships and volunteering. We have placed $25,000 over five years to support Australian artists through the Gosford Regional Gallery. My brothers and I feel that this long-term commitment has enabled the gallery to plan and build the art prizes with the confidence of sponsorship dollars…
>
> For many years the Sharpe family have all been involved with community organisations, including chambers of commerce across the Central Coast, Rotary International and Apex—just to name a few. We have been active in our support to the Australian Olympic team, the Salvation Army Red Shield Appeal, the Royal Volunteer Coastal Patrol, the Judo Federation of Australia, HunterNet Co-operative and Family Business Australia, serving on board positions and just helping where we can.
>
> As a family we have been able to help raise funds and commit donations to a full range of activities including medical research, volunteer bush fire brigades, surf clubs, art galleries and sporting groups from tennis clubs to judo clubs.
>
> Our community works are interwoven with our business.[46]

4.48 The committee received some comment from government agencies on the contribution of family businesses to the community. DRALGAS told the committee that the Regional Development Australia (RDA) Committees have highlighted that family businesses:

> …are important and valued employers in regions and communities; that they often provide essential goods and services to their communities; that they often buy locally from other businesses when they can; and that they often support clubs and community activities as part of the social fabric of communities and regions.[47]

4.49 Some witnesses emphasised the contribution of family businesses to the community in terms of the loss that their demise has caused to local communities. By way of illustration, Mr Donald McKenzie, a former partner at KPMG, gave the following example:

> The problem is that the consumer is, in the main, insensitive or even ignorant to the needs of the family business operator. Take, for example,

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46 Mr Michael Sharpe, Joint Managing Director, Sharpe Bros Australia, *Committee Hansard*, 15 November 2012, pp 45–46.

47 Mr Simon Atkinson, First Assistant Secretary, Regional Policy and Coordination, Department of Regional Australia, Local Government, Arts and Sport, *Committee Hansard*, 13 November 2012, p. 33.

> the local golf professional. He has members of the club come into his shop, borrow a demonstration club, receive some free advice, return the club after a practice round and then go and buy the same club on the internet because they can buy it for a lower price. The members have not understood that if everyone did this it would mean one less family business into the future and a further breakdown in the community social structure.[48]

4.50 Mr McKenzie argued that there would be benefit in educating consumers about the importance of family businesses to the community, and buying products from local businesses. He claimed that if consumers do not recognise the impact of their decisions to buy online, businesses within small municipalities will close which could lead to some towns ceasing to exist.[49]

4.51 The same argument was put by Mr Berechree:

> It is vital that businesses in a community are supported by their community. In Burnie there is a thing called rate differential, where the CBD properties pay a higher percentage in rates than the houses and businesses in the rest of the town. Ten years ago you used to justify that by the fact that you are living off the support of that community. They are coming down there and giving you a business and everything like that, so you are prepared to pay a little bit extra. But now, the minute you lose the support of your community—as they take the easy options of buying online or buying out of town and all that sort of stuff—it is very hard to justify why you are doing it when the softball club comes in and asks for a donation. It becomes harder and harder to justify it if you are not getting the support of your community.
>
> As we mentioned earlier, education is probably the important thing because if I go out of business then nobody is going to be supporting the softball club and the football club. That is what makes a region and makes a small town. It is important that we have a level playing field. If somebody who has an option to buy online is paying a GST component it is the same as they would be paying if they were buying off us. With a level playing field the customer gets the choice of who they are going to support. We have all bought products online because it is cheaper, but it does not help the long term of your community.[50]

Committee view

4.52 The committee recognises that many family businesses in Australia make a significant contribution to their local community. Committee members, and indeed all parliamentarians, frequently attend awards ceremonies and charity fundraising events

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48 Mr Donald McKenzie, Private capacity, *Committee Hansard*, 21 January 2013, p. 9.

49 Mr Donald McKenzie, Private capacity, *Committee Hansard*, 21 January 2013, p. 9.

50 Mr Alan Berechree, *Committee Hansard*, 21 January 2013, p. 25.

where the efforts and contributions of local businesses are recognised. Many of these businesses are family businesses.

4.53 However, the committee believes that more could be done to publicise the contribution that these businesses make to local communities. A new set of awards could be created whereby parliamentarians are able to nominate a family business in their own State (for Senators) or electorate (for Members).

4.54 The committee notes that FBA currently has an awards system in each state and territory, as well as nationally, with the winners selected through a broad-based nomination process. These awards are important. The committee's suggestion would be in addition to these awards, with the objective of raising parliamentarians' awareness of family businesses' contribution to the local community.

4.55 The committee suggests that the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE) form a secretariat to appoint a judging panel for the awards:

- one from Family Business Australia;
- a notable family business owner (perhaps a winner of a previous FBA award);
- a DIISTRE official or an official from Enterprise Connect;
- a representative of a consultancy or a major bank;
- an academic with expertise in family business matters.

National Family Business Day, developed by Family Business Australia (see chapter 1), would be an ideal forum to recognise formally the winners, and to further raise the profile of family businesses within the Australian Parliament. Sponsorship of the awards could be financed by the adjudicating financial institution and consultancy.

Labour productivity, governance and performance

4.56 The committee also received comment on the possible influence that family businesses' size and governance structures have on their productivity and performance. This is an area of particular interest for the committee. If family businesses' governance structures and decision-making patterns contribute to higher growth and productivity than non-family firms, this should be a matter of genuine public policy interest. It should lead government to consider carefully the need for official data collection that is focussed on identifying a correlation between firm performance and factors that are unique to family businesses.

4.57 In a 2011 paper, Mr Francesco Barbera and Professor Kenneth Moores found that the contribution of labour productivity to the output of family firms was much greater than the relative contribution of labour to comparable non-family firms. The contribution of labour to output in family firms was also significantly greater than that of capital to output in these firms. The authors summarised their findings as follows:

> This study has investigated the effect of family involvement on Australian SMEs from 1995 to 1998, so we cannot claim to have definitively established whether family firms are more or less productive than non-family firms; however, we can claim that the assumption of homogeneous labour and capital shares between family and non-family firms is inappropriate. Moreover, on the basis of the unique characteristics of family firms, heterogeneous production inputs do matter empirically. Therefore, if we account for the role for family involvement and allow for unequal factor elasticities, perhaps we could better understand the differences in production strategy, planning, and other important productivity drivers between family and non-family firms. These results hopefully shed further light on the unique attributes of family firms and bring us closer to understanding the specific economic impact family involvement may have on a firm level.[51]

4.58 In evidence to the committee, Mr Barbera explained that family firms tend to cluster in certain industries which are more labour intensive because they tend to get more output from their labour force than non-family firms would. He added:

> The explanations that I offered in my paper were that they are a more flexible labour force which is willing to work for less money if need be and which has tacit knowledge because they have spent a large portion of their life working in that firm and in multiple departments in the firm. So, overall, the human capital in family firms is arguably much higher and thus contributes more to output than it does in non-family firms.[52]

4.59 Mr Lowe, who is currently conducting doctoral research into the links between the governance and performance of family businesses, made the following observations in his submission:

> Some studies conclude the performance of family firms is worse than non-family counterparts, which suggests that the family's desire for capital preservation, stability, and risk aversion keep the firm from pursuing strategies that might otherwise improve performances, but would also threaten the family’s continued control. Conversely, research suggesting that family firm performance is superior to others suggests that families are better stewards of firm resources because of an overall aversion to managerial opportunism.[53]

4.60 In evidence to the committee, Mr Lowe expanded on his PhD proposal:

> I am trying to prove that the family business governance model has cultural characteristics, capability and competitive advantages over the

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51 Mr Francesco Barbera and Professor Kenneth Moores, 'Firm ownership and productivity: a study of family and non-family SMEs', *Small Business Economics*, vol. 29, October 2011, pp 1–24.

52 Mr Francesco Barbera, *Committee Hansard*, 16 November 2012, p. 39.

53 Mr Chris Lowe, Chief Executive Officer, Bus Association Victoria, *Submission 20*, p. 11.

> multinational enterprise governance model in order to deliver on public transport outcomes…
>
> So in my PhD I will be outlining what those family business and multinational enterprise governance capabilities are. Then I will be formally quantifying that by way of a formal survey next year. I will be starting off by holding some focus groups just before Christmas and after Christmas with both Victorian-based [public transport] family business operators and international-based [public transport] multinational enterprise operators. I will be going to New Zealand, South Africa, England, Norway, Sweden and Canada in order to do an international comparison of the governance models and to formally quantify this competitive advantage which I suspect the family businesses have. So far my research is anecdotal and it is qualified but it is not quantified. But, in order to have government policy implications, I need to quantify it.[54]

4.61 Other submitters also drew attention to the mixed research evidence on the performance of family businesses relative to non-family businesses. In their submission, Professor Barrett, Dr Graves and Dr Thomas noted several academic papers that focus on how family businesses' characteristics influence SME growth, profitability and the propensity to export.[55] They observed that the findings of this research, in terms of the performance of family businesses relative to non-family businesses, were mixed:

- A 2000 article by Mr Jon Hall and Mr Clem Tozer of the ABS, for example, found that while management structure had a significant influence in those SMEs that experienced rapid growth in turnover between 1994–95 and 1997–

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54 Mr Chris Lowe, Chief Executive Officer, Bus Association Victoria, *Submission 20*, p. 9.

55 *Submission 14*, p. 3; The academic papers include:

Richard McMahon, 'An exploratory study of under and over-investment amongst manufacturing SMEs from Australia's Business Longitudinal Survey', *International Small Business Journal*, vol. 21, no. 1, 2003, pp 29–53;

Richard McMahon, 'Equity agency costs amongst manufacturing SMEs', *Small Business Economics*, vol. 22, no. 2, 2004, pp 121–140;

Chris Graves and Jill Thomas, 'Internationalization of Australian family businesses: A managerial capabilities perspective', *Family Business Review*, vol. 19, no. 3, 2006, pp 207–224;

Max Smith, 'An empirical comparison of the managerial development of family and non-family SMEs from Australia's manufacturing sector', *Journal of Enterprising Culture*, vol. 14, no. 2, 2006, pp 125–141, http://www.flinders.edu.au/sabs/business/research/papers/05-6.pdf (accessed 24 February 2013);

Bernice Kotey and Cathleen Folker, 'Employee training in SMEs: Effect of size and firm type—Family and nonfamily', *Journal of Small Business Management*, vol. 45, no. 2, 2007, pp 214–238.

98, family businesses were less likely to have experienced rapid growth in turnover and employment over the period.[56]

- A 2005 article by Associate Professor Bernice Kotey of the University of New England Business School examined the impact of firm size on performance (as measured in terms of profits, growth, efficiency and liquidity). It found that family SMEs perform at least as well as non-family SMEs, but that larger family firms would benefit from improved management of employee performance.[57]
- Another 2005 article by Associate Professor Kotey found that small family firms were less likely to pursue growth compared with similar non-family firms. The growth of medium-sized family businesses was lower than similar sized non-family firms. Management practices were less formal in family firms and the gap between family and non-family firms in this area widened with growth. Small family firms achieved greater profits than their non-family counterparts, although this disparity disappeared at the medium-sized level.[58]

Committee view on links between governance and performance

4.62 The committee believes that research into those factors that contribute to the performance of family businesses is an important and largely untapped area of inquiry. The committee commends the completed research to the proposed Inter-Departmental Committee (IDC) for its consideration. It believes that in terms of identifying the public policy rationale for a definition of family business and the collection of data, this research could hold some important leads.

4.63 To reiterate the point made in chapter 2, the IDC must be focused on the policy need for this data. It may be that on the basis of these discussions—and aided by the academic research—the IDC decides that data should be collected on the profits, growth, labour productivity and capital productivity of family businesses of different sizes.

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56 Jon Hall and Clem Tozer, 'Gazelles in the 1990s: Why did they leap so high?: An analysis of high growth firms from the Australian Business Longitudinal Survey 1994–95 to 1997–98', *Small Enterprise Research*, vol. 8, no. 2, 2000, pp 71–84, http://sbaer.uca.edu/research/icsb/2000/05.pdf (accessed 24 February 2013).

57 Bernice Kotey, 'Are performance differences between family and nonfamily SMEs uniform across all firm sizes?', *International Journal of Entrepreneurial Behaviour & Research*, vol. 11, no. 6, 2005, pp 394–421.

58 Bernice Kotey, 'Goals, management practices, and performance of family SMEs', *International Journal of Entrepreneurial Behaviour & Research*, vol. 11, no. 1, 2005, pp 3–24. This study was based on 233 small non-family and 362 small family firms. Medium firms comprised 305 family and 341 non-family firms.

Recommendation 9

4.64 The committee recommends that the Inter-Departmental Committee consider the policy need for data on issues including the profits and growth of family businesses of different sizes, and the labour and capital productivity of these businesses.

Final comment

4.65 The committee believes that the various characteristics of family businesses discussed in this chapter warrant the attention of policy makers. As part of the proposed IDC process, government agencies should reflect on whether the benefits of gathering data to test the strength of these characteristics outweigh the opportunity costs (in terms of other questions that could be put). These characteristics should be considered in addition to the 'definitional' and 'information' issues identified in Table 2.3.

4.66 There would need to be careful thought given to how these characteristics might be gauged. Some of the consultancies' surveys simply ask respondents whether they believe that family businesses value their staff more, or contribute to the community more than other businesses. It is not surprising that if they identify as a family business, they will tick these boxes.

4.67 If the IDC does decide to incorporate some of these family business characteristics into a survey, the measures need to be concrete. They could include:

- the value of assets on balance sheets;
- debt to equity ratios;
- the tenure of Chief Executive Officers;
- the average number of years of employee service to the business; and
- the business' philanthropic contributions as reported to the ATO.

Recommendation 10

4.68 The committee recommends that the proposed Inter-Departmental Committee assess whether data should be gathered to measure the key characteristics and behaviours of family businesses. In particular, consideration should be given to:

- **the value of assets on balance sheets;**
- **debt to equity ratios;**
- **the tenure of Chief Executive Officers;**
- **the average number of years of employee service to the business; and**
- **philanthropic contributions, as reported to the Australian Taxation Office.**

4.69 The interest in these issues, of course, is how they compare with the same indicators in non-family businesses. The committee understands that the Business Characteristics Survey conducted by the ABS contains a section on Business Performance Assessment.[59] Respondents were provided with a list of business performance measures (financial, cost, operational quality, innovation, human resources and environmental) and asked to indicate the extent to which they focussed on these measures. Respondents were also provided with a list of performance indicators and activities (income, range of products, productivity, profitability, social contributions etc.) and were asked to self-assess whether any of these had decreased, stayed the same, or increased compared to the previous year. If the IDC does consider that data should be gathered on the issues identified in Recommendation 9, the questions in the BCS Business Performance Assessment would be useful.

59 Australian Bureau of Statistics, 8167.0—Selected Characteristics of Australian Businesses, http://www.abs.gov.au/ausstats/abs@.nsf/Products/8167.0~2010-11~Main+Features~Business+Performance?OpenDocument (accessed 28 February 2013).