

people in focus

The Grant Thornton periodical
focussing on people and
relationship issues in management

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In this edition of [people in focus](#), we take you through the process of bringing family members into the business.

Grant Thornton recently surveyed privately owned businesses around the world and asked the owners whether they consider their business to be a family business. Seventy percent (70%) of Australian respondents said yes. More than half felt the business was 'stronger' because of family involvement.

Yet sixty-seven percent (67%) of Australian respondents felt that their children should only join the business if they wanted to and almost half believe that management successors could be non-family members.

These results provide an insight into what is happening to the traditional family owned business in the 21st century. While many business owners still consider family involvement to be a defining characteristic of their business, there is a realisation that this quality may be lost due to introduction of non-family members into the organisation.

In order for family businesses to be successfully passed on to the next generation, here we look at some of the factors that need to be addressed by the current owners of the business.

Planning

In many of the topics covered through the People in Focus

series, we have emphasised the need for a well documented business plan to address key issues as they affect the business. The introduction of family members into the business is yet another area which should be covered by the plan and policies of the family business.

Some of the problems that can arise through the neglect of a well documented policy in this area include:

- the business may become overburdened with family members
- family conflicts are more likely if clear standards are not communicated concerning employment and advancement
- motivation of non-family employees will suffer if family members are awarded jobs and promotions without application of appropriate standards; and
- family members may not develop themselves fully if family business jobs are too readily available.

These problems can be addressed by the development of specific employment policies for family and non-family members. Two areas that should be addressed via these policies are the requirement for prior work experience and the provision of appropriate education and training.

Introducing the next generation

Work experience

As a general rule, family members should come into the business with between two and five years of "outside" experience to help ensure that they are independent and able to add value to the business.

Advantages of outside experience include:

- the opportunity to see a bigger world, and gain some personal time and space
- the experience of getting a job and learning its market value
- the chance to make mistakes and gain some self confidence
- enhancement of a sense of independence
- enhanced credibility with non-family employees; and
- learning how to get along with people in the workplace and seeing that they can do good work and fit in on the same terms without special advantages.

One of the main advantages of this approach is that the incoming family member does not have to start at the

bottom of the organisation. Because they have achieved a certain level of experience already, it is easier for them to justify a position higher in the chain with their existing credentials.

Education and Training

Many business owners don't feel that it is necessary to steer their children's education towards skills and knowledge that will specifically benefit the business. A broad education, and work experience in other industries or roles are generally considered an excellent grounding for the incoming generation.

However, it is important to remember that the skills and knowledge that the elder generation accumulated and found to be of benefit to the business may differ from what the business needs from its newcomers.

With the formulation of a strategic plan, it should be clear as to what specialised skills the future leaders will require to be successful. If there is a skills gap in the next generation, it might be worth

encouraging someone suitable to pursue training or education in that speciality now. The entry of a new generation presents an opportunity to equip the business well for the future.

The utilisation of a family business constitution can help address, amongst other things, the issue of bringing family members into the business. Some families make the business open for any family member to be an employee.

Others set higher entry standards for family members than they do for outsiders. Whatever the position, the constitution should be clear about who may enter, what their qualifications must be, and what it takes to stay in the business.

Grant Thornton can assist your family business on this issue through the holding of a strategic business planning session. Should you wish to know more about these sessions, please contact your Grant Thornton advisor for further information.



Ian Judson
T 07 3222 0200
E ijudson@gtqld.com.au



Tony Markwell
T 07 3222 0200
E tmarkwell@gtqld.com.au



Mark O'Hare
T 07 3222 0200
E mohare@gtqld.com.au

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