

## People and Relationship Issues in Management

### 9 Financial structures

What gets measured, gets controlled. What information does management see that enables a rapid understanding of the key fundamentals of the business? Is the information relevant, succinct, timely and exception based?

All too often, profit and loss reports provide little information that is useful for management. They represent an historical confirmation that weekly reporting has been accurate. A weekly one page summary of all key business performance measurements is all that is required.

### 10 Preserving wealth

Better to get rich slowly than try to get rich quickly. All too often, business owners leave their wealth tied up in the business. It make sense .. to a point. Capital is needed to grow a business and, together with the considerable effort of the owner, the return on capital is usually very high. But a business is inherently risky. Even the most stable businesses can go through periods of uncertainty, due to competitive activity, insolvent clients, changing markets, litigation and work place accidents. The wealth of the family can be lost through misadventure.

As owners get older, they are less inclined to want to start again from nothing. By developing a wealth strategy which focuses on building wealth away from the business, in a lower risk and return environment, in a secure and protected manner and where the highest rates of taxes do not apply, business owners can build and preserve wealth, irrespective of the fortunes of the family business.

### 11 Resolving conflicts

Is the family business a blessing or a burden?

A business is a cold hearted entity. Shape up or ship out. It is unemotional, based on performance, always looking to adapt and change and outward looking. A family is a warm hearted entity. It is based on love. It is highly emotional, not always reasonable, it is sharing and usually caring, hopelessly unchanging, inwardly looking and membership is for life. When they come together, the best and worst are revealed. But conflict can hold back or destroy a family business. And it is hard to deal with.

By designing structures, systems, procedures and guidelines which make a distinction between family concerns and busi-

ness concerns, it is possible to help avoid conflict and to build a process for managing conflict which has been accepted by all parties.

### 12 Family creed

What are the rights and responsibilities of the family members? A family creed is a set of family business rules which consider the interrelationship in matters such as:

- Obligations of the business to offer employment to family members.
- How family members are to be remunerated.
- Whether family employment entitlements are the same as for other employees.
- Where family members fit into the management structure of the business.
- Whether family members are always groomed for management roles.
- How family members are assessed for promotion.

Such a document is private to the family and provides a "business like" approach to the family member's career in the business.

### But in the end, if you don't change, nothing will change.

These 12 factors are tools to manage some or all of the problems regularly encountered in family business.

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Owning and managing your own **family business** can be a lonely job. So many things to do, so many great ...

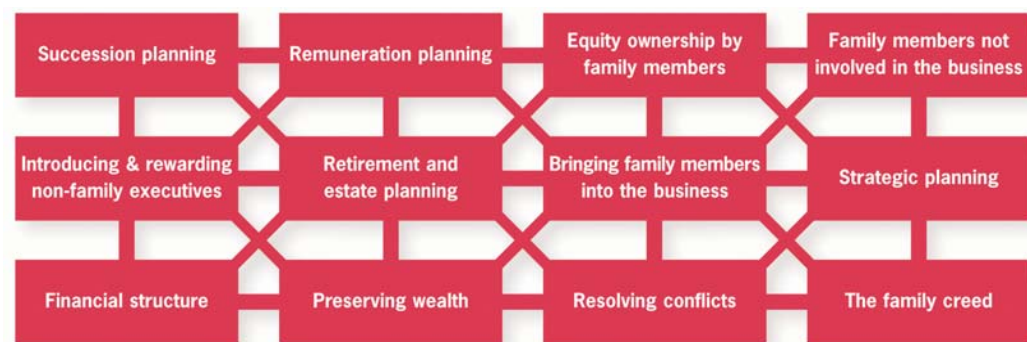
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... opportunities, so little time, such limited resources, so many people, so many problems. Where is it all leading? How can I get perspective? How long do I keep going? How do I get out of here? Can I afford to retire?

Every year, Grant Thornton conducts a survey of small and medium sized enterprises in 27 countries. Throughout the world, around 75% of these businesses are family controlled, less than 30% of these survive to the next generation, and less than 10% survive to the third generation.

Perhaps Grant Thornton's **PRIMA® framework** can help? PRIMA® is a systematic means to managing a family business. It is a way of compartmentalising issues and dealing with them in a sensible, pragmatic and prioritised fashion. It may be what you are looking for.



### 1 Succession planning

Most business owners look up in their mid 50s and wonder "what's next?" They have little idea what their business is worth. They are unsure whether the next generation should run the business or whether to sell to a third party. They do not know which children should be in, which should be out, whether to give it to them or sell it to them and how to best mentor them to take over. And if it is to be sold to an outsider, what needs to be put in place to maximise the value of the business.

Succession planning should be undertaken earlier rather than later, while the owner is still in control. Planning should identify a course of action and perhaps alternatives should circumstances change. That means that the business should always be sold, even to the next generation. Vendor terms often apply, but only with appropriate securities, generally as charges over the assets of the business.

### 2 Remuneration planning

Is the family overpaid and spoiled, or underpaid and resentful? Can you be doing both at the same time?

The more family members, the bigger the challenge. Whether between generations or between siblings. Particularly when spouses get involved .. remuneration can be a burning and unresolved issue in working families. It can be hard, but the principle is to pay family members as though they were outsiders. Fair reward for effort.

### 3 Equity ownership

Is ownership a right in a family business? What happens when the issue of future ownership is not planned and discussed in the family? Sadly we see the worst outcomes occurring. Sometimes dad passes away suddenly and the surviving wife and children have to deal with the business ... Sell? Put in professional managers? Put the kids in charge? Let mum take over? Most owners would be horrified the types of disasters which can eventuate.

### 4 Family members not in the business

Ahh... spouses, children, children's spouses, ex spouses, grandparents. They all seem to have a view about how the business should be run, who should be employed, how much they are paid, what the non-working family members rights should be and when the founder should retire.

It is useful to consider all family members in terms of belonging to one of three groups: employee, management, owner. As an employee, a family member should be paid for the work they do and expected to behave and perform in the same way as other staff. They may also be a member of the management team, but not necessarily. Management brings additional rights and responsibilities. Retiring family members often continue in management as the employment role declines. And ownership is the right to income and ultimate power. It has to be earned and acquired.

By considering which area(s) your family belong (if any) enables the owner to be fair and equitable.

### 5 Non-family management

As the business grows, so also does the need for outside talent. Attracting, training and retaining good people can be hard in a family business. What rights does a good senior non-family member have? What is their future? Should they expect equity? Are there alternative rewards?

The sense of ownership is obviously an important driver for the owner. This can be partly passed to senior people through acknowledgement of their importance (appointment to director), their status and power (assignment of responsibilities and accountability) and the extent to which their views matter (participation in management meetings and strategic planning). The use of bonuses, incentive schemes and phantom share arrangements can also engender a sense of ownership and loyalty.

### 6 Retirement and estate planning

Will you be comfortable in retirement? Are your wills effective? Are your assets at risk?

Way too many family businesses have most of their wealth tied up in the business. A hiccup late in a working life could spell disaster for future plans. With director responsibilities now extending far beyond the company structure, owners should speak to their advisors as to how to protect their family homes,

their investments and ultimately, the assets of the business. It can be done, but once things go wrong, it is too late.

Similarly, too few families have used Self Managed Superannuation Funds to build wealth in a tax effective and risk protected environment. These are ideal entities for owning business premises and for developing a separate wealth stream outside the business. And of course, if you have not revised your will in recent years, it may be ineffective, may not reflect the true ownership of assets, not consider unfortunate commercial events or not take advantages of inter-generational taxation and asset protection measures which may be available.

### 7 Bringing family members into the business

As society becomes more educated, your children's career options grow and the family business becomes less attractive. It is a fact that many children choose not to enter the family business. But for those who do choose to join, how should they be introduced? How can they be mentored? How can they be sacked?

Conventional wisdom would see the children work in the business after they gain experience elsewhere, preferably in well run business where they can make mistakes without everyone's watchful glare. In years to come when they join the business, they need to plan their career. And in the end, they have to perform. Or else....

### 8 Strategic planning

To fail to plan is to plan to fail. Everyone knows it... so why don't they do it? Mostly because they make it too hard for themselves. It does not need to be hard. A couple of tips for getting started:

- Involve your key people. Their participation ensures their commitment to the plan.
- Keep it brief and to the point. Identify the issues and priorities. Don't try to do everything.
- Don't do it in your office. Use an external facilitator.
- Avoid complex financial analysis. Look at the big picture. Cash flows and forecasts can always be added later.
- Make sure that your people feel free to raise the important issues. Hidden issues cannot be addressed.
- For all important issues, spend time discussing them in detail. Summarise actions and responsibilities into a schedule for follow-up and monitoring.