REIQ JOURNAL

FOR MEMBERS OF THE REAL ESTATE INSTITUTE OF QUEENSLAND

The Kings of Real Estate

WHAT DOES IT TAKE TO LAST IN THE REAL ESTATE BUSINESS? WE ASK FOUR OF QUEENSLAND'S OLDEST REAL ESTATE FAMILIES.

PHOTOS BY INDUSTRIE MEDIA

APRIL 2016

Bring the next generation into the business

WORDS BY SUSANNE BRANSGROVE,
FOUNDER AND CEO OF FAMILIES IN TRANSITION

Empire building doesn't always go smoothly so what are the keys to successfully transitioning to the next generation?

Family businesses are the world's oldest and most dominant type of business. Often, these businesses represent more than 70% of the economy and they do play a key role in workforce employment.

In Australia, family businesses are most certainly the backbone of the economy and their commitment to their community, their staff, their clients and suppliers is what sets them apart.

There are several studies, including research by Denis Leach and John Leahy, that show that family owned businesses have the potential to outperform their non-family peers in terms of profitability, sales and various other growth measures.

While this might surprise many, there are actually some good reasons why this is the case.

According to the International Finance Corporation Family Business Governance Handbook family businesses have some inherent strengths that contribute to this strong performance:

1. Commitment to the business

There is an unwavering commitment of family members to see their business grow, prosper and then stay within the family in future generations. Often, the family members identify with the brand closely and are willing to reinvest and work harder to allow it to grow.

2. Keeping knowledge in the business

Unlike non family companies, where a change of leadership brings a change of direction and having long standing employees is unusual, families in business tend to retain and pass on their accumulated knowledge and skills to the next generation.

3. Pride

The family's name and reputation is generally very closely associated with the company's product or service offered. It is just not possible to 'run away' from problems. Family businesses strive to constantly improve the quality they deliver and take their responsibilities to staff, clients and suppliers seriously.

So being a family in business is certainly worth celebrating and something to be proud of.

However, on the flip side - and there is always a flip side, isn't there - there are factors that can undo all of the strengths and can greatly detract from business performance or even see the business fail to be sustainable in the long term.

Sixty-five per cent of businesses do not make it to the second generation, despite the family's aspirations and only around 10 per cent actually succeed to survive into the third generation.

Naturally, there are general weaknesses that can undermine any business however the specific risks for family businesses include:

FAMILY BUSINESS ENTREPRENEUR AND A CAPTAIN OF THE REAL ESTATE INDUSTRY, RAY WHITE. READ ALL ABOUT THE FOUR-GENERATION WHITE FAMILY EMPIRE, AND THREE OTHER LONG-STANDING REAL ESTATE FAMILIES ON PAGE 16.

While it is a plus being a family in business, it is important to create frameworks that can support and build on the strengths the family element adds to the business.

1. **Complexity the family component adds**

   Governing and managing a business is a complex enough task, even without the emotional layer the family will bring to it. Families tend to bring their relationship issues and expectations of each other into the business, rather than separating the two. This can place significant strain on the business and focus attention on conflict, rather than business issues.

2. **Lack of formality**

   Setting clear business processes, good decision-making frameworks and articulating a strategy is often not a priority for family businesses. While this may not be a problem in the early stages, as the business grows and the family complexity increases with more members working in the business, this can lead to significant problems.

3. **Lack of discipline**

   As mentioned above, a commitment to strategic areas is often not a priority. Neglecting areas such as senior management succession planning, rules of employing family members in the business, as well as the consideration of appointing external talent over family if necessary can lead to significant performance issues.

The above detractors pose a significant risk and this is the case for business performance as well as for family harmony.

Luckily, not all is lost!

It is possible to support the strengths that exist whilst mitigating the weaknesses these businesses are faced with and to set the business up for strong performance and succession for today and tomorrow.

Admittedly, compared to their European counterparts, Australian family businesses are not very experienced in setting up succession plans with longevity in mind. We are such a young country! I am the third-generation of our German family business and being a third generation business is not very exciting when compared with the fourth, fifth and sixth generation family businesses. Those businesses are expert in the transition process.

Of the 80% of business owners looking at transitioning to the next generation in Australia over the next 10 years, most are dealing with these issues for the first time.

It is crucial to overcome weaknesses and set up strong framework but it's not always clear how to do that.

About 10 months ago, a client wanted help with succession planning and implementing a framework.

When the client, "Peter" started his business in 1984 his focus was on creating a company that would sustain his family, his employees and his community, and for more than 30 years he has been successful.

Now Peter is thinking about retirement and he has realised that none of his three children, who all work in the business, are suitably skilled to take on the leadership role. In addition, the conflict between his children is putting strain on the business and the family.

In recent years studies show that less than 30% of businesses will be successful in transitioning to the next generation, mostly due to a lack of common vision, failure to communicate and not building a strong enough business to endure.

To get Peter and his family on the right path, we spent considerable time establishing good communication among the family and aligning their vision and values to provide ethical guidelines, rules for tough decisions and around conflict, as well as building family harmony and cohesion.

It was a revelation for the sons to understand that their 'inheritance' was more than just running the business.

Once we aligned the family's values, we assisted in developing stable business processes and good frameworks to ensure a sustainable return on investment to the family to deliver on their needs.

We implemented good governance principles for the family and for the business which serve to map the direction and future plans for the organisation.

Naturally, establishing a solution can't be done overnight, so the sooner business owners can start putting a plan in place for their retirement, the better their chance of successfully transitioning.

So, all in all, while it is a plus being a family in business, it is important to create frameworks that can support and build on the strengths the family element adds to the business as well as to mitigate the factors that can bring the family and business undone.

The sooner you can start the process, the better it will be for family harmony and a stronger future for all.