

## Planning Practices in Australian Family Businesses

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### Abstract

*Australian family businesses have a poor track record of undertaking formal business planning. This paper reports on the business planning behaviour of Australian family businesses from a survey of 5,000 businesses across all types and sizes of industries. Our survey found that around one-third of family businesses undertake formal planning activities. Thus, there has been no improvement in family business planning practices from that reported in 2003. The reluctance of Australian family businesses to undertake contingency and risk planning, as well as human resources planning, leaves Australian family businesses highly exposed in these difficult economic times.*

**Keywords:** Australian Businesses, Business Planning, Family Business

### INTRODUCTION

Over the past year, the Australian economy has been impacted by many things; for example, a change of government at the federal level, economic instability and rising petrol prices. The sub-prime financial crisis in the United States has had ramifications for the global economy, and while Australia's economic position is relatively stable for the moment, there is the potential for family businesses, particularly those carrying out business with a high dependency on external funding, energy or petrol, to be adversely affected (Glassop, Hagel and Waddell, 2008).

It is currently estimated that around 67 percent of the Australian economy is controlled by family businesses (Smyrniotis and Walker, 2003). Given the importance of family businesses to Australia's economic profile, family businesses must meet the challenges faced by rising debt and increasing interest rates if they are to survive (Australian Associated Press, 2008). Needless to say, as their success (or otherwise) impacts on the way of life of so many individuals, it is important that their unique characteristics and special circumstances be understood. Only then would any disparity between family businesses and modern business management be resolved so that a mutual synergy could exist.

Planning is an important facet for every business, especially in turbulent economic times, and family businesses are no different in this regard. However, family businesses have a tendency towards less professional approaches to business because they rely on the informal relationships between family members (Glassop, 2005). Smyrniotis and Walker

(2003) confirmed this view when they found that 34 percent of family businesses did not have a written business plan when compared to 20 percent of non-family businesses. In these difficult economic times, there is a strong need to establish plans that will ensure that the family business can ride out the difficulties, rather than make short-term decisions that might impact business longevity. It is unclear, however, whether family businesses in Australia are attending to the demands of rigorous planning in these hard economic times. This paper reports on the findings of a national survey on Australian family businesses.

A national survey, managed by the Deakin Computer Assisted Research Facility (DCARF), with financial support from KPMG, was designed and executed by members of Deakin University's Family Business Research Program. The study sought to identify issues and trends that are considered important to the success of Australian family businesses (Glassop, Hagel and Waddell, 2008). The survey was conducted among randomly selected sample of 5,000 businesses from a listing of Australian businesses. The sample included businesses where (1) the company name matched a shareholder surname (owning 50 percent or more of the business) and (2) multiple individual shareholders had the same surname and own 50 percent or more of the business. This is an accepted means of identifying family-owned businesses (FOBs) (Gulbrandsen, 2005). While the national survey investigated and collected data on a range of issues relevant to family businesses, this paper reports on data pertaining to the planning practices of Australian family businesses. Specifically, the data provides information on Australian family businesses' adoption and use of strategic planning, functional planning, business risk and contingency planning, technology and asset maintenance planning and research and development planning.

**Table 1: Business Planning in Australian Family Businesses - by Business Turnover**

Formal business plan	Overall Percentage	Percentage by Business Turnover		
		Less than A\$5 Million	A\$5 to less than A\$15 Million	More than A\$15 Million
Accounting and Finance	47	39	44	61
Sales and Marketing	39	30	35	53
Manufacturing/Distribution/Operations	37	27	37	46
Human Resource Management	35	26	30	51
Strategic Business Direction	30	22	24	46
Information Technology	29	23	21	45
Business Risks and Contingencies	23	19	22	29
Technology/Asset Management	23	17	22	29
Research and Development	13	11	9	19

Source: Glassop, L.I., Hagel, P. and Waddell, D. (2008), *FBA and KPMG Survey of Family Businesses*. Deakin University, Melbourne, Australia.

## **FINDINGS**

### **Strategic Planning**

Overall, 30 percent of Australian family businesses claim they have written plans about their strategic business direction. However, the larger the firm, the more likely they are to develop a formal strategic plan (46 percent of firms with revenue in excess of A\$15 million have a written strategic plan). This low level of strategic planning is alarming given that a 2003 Australian study reported that around 66 percent of family firms had a written business plan (Smyrnios and Walker, 2003). Although, these current Australian figures tend to align with a 2002 study in the USA which reported that 40 percent of US family businesses had a written strategic plan (Mass Mutual, 2002).

Given the increased attractiveness of MBA programs over the past ten years, it is disconcerting that family businesses have a low regard for formal business planning. A further 43 percent of Australian family businesses report that they have a strategic plan, but it is not written down. Holding a business strategy in the minds of owners and/or management is a risky approach and assurances would be needed to ensure that the strategy held is the same for each individual. Further, with no record of the plan, there is no benchmark to compare performance against or the documentation that banks and other lenders/investors might need. It is clear that family business operators and managers need to improve their professional management techniques by adopting formal strategic planning processes.

### **Functional Planning**

Functional planning refers to the degree to which family businesses have written annual plans for each business function; for example, accounting and finance, sales and marketing, manufacturing/distribution/operations, human resource management and information technology (Glassop, 2005). In general, functional business plans are more readily formalised than strategic business plans as functional plans are often short-term in nature.

Around 30 to 47 percent of Australian family businesses have written functional plans. Not surprisingly, the Accounting and Finance function tops the popularity list with 47 percent. Larger family businesses show a higher regard for Accounting and Finance planning (67 percent). Given that human resources are often the most expensive business cost, it is of great concern that only 35 percent of family firms formally plan their workforce. Again, larger family firms show a higher adoption rate (50 percent), but this still means that around half of large Australian family businesses have no formal plans for managing their people. HR practitioners and advisors would be well advised to establish formal plans that can actively guide operational matters such as recruitment, terminations and salary management. Human resources management is especially important in these difficult economic times.

### **Business Risk and Contingency Planning**

The twenty-first century has been littered with reasons why we should plan for worst case scenarios. Contingency planning is an essential part of making sure the family firm is resilient enough to withstand shocks on an international, national and local level

(Glassop, in press). Internationally, the impact of terrorism and economic instability has had adverse affects on all sizes of firm, even the very large multi-nationals. Nationally, the environment has posed many threats: drought, floods, hurricanes and bush fires. And, locally, businesses can be exposed to fraud, workplace accidents and machine failures that adversely impact business performance.

In the present study, only 23 percent of Australian family businesses consider business risk and contingency planning vital enough to formally develop a written plan. Being ill-prepared for disaster leaves the family firm exposed to failure. This is, perhaps, indicative of a denial about the current state of the economy (Coutu, 2002). Resilient organisations, Hamel and Välikangas (2003) suggest, need to aim for zero trauma (similar to zero defects in the quality literature) and consider four challenges: the cognitive challenge (free of denial, nostalgia and arrogance), the strategic challenge (ability to generate alternatives or options), the political challenge (divert resources into new ideas) and the ideological challenge (renewing continuously). Australian family businesses do little to incorporate risk planning into their thinking.

### **Technology/Asset Maintenance Planning**

Today, businesses are becoming more and more reliant on technology. While the rise of service organisations can mean less reliance on expensive machinery and equipment, every business has an extensive investment in some form of asset that needs maintaining. Effective business management means protecting technology/assets as a vital business investment (Glassop, 2005). Planning for the maintenance and replacement of technology/assets is imperative to uninterrupted business operations.

Twenty-nine percent of Australian family businesses compile a written plan to manage their technology and asset investments. Significantly, smaller businesses are least likely (17 percent) to undertake this kind of planning. With approximately 40 percent of the survey participants coming from service-related industries, this suggests that the family business asset base is exposed for the other 60 percent of family businesses that may have extensive asset investments. The recent spate of maintenance glitches being experienced by Qantas provides insight into the cost maintenance problems can have on the bottom line, sales and the reputation of the business.

### **Research and Development Planning**

Research and development planning is indicative of organisations with an innovation agenda. We live in a changing world, where the future may look radically different from the past; for example, oil prices affecting transport options and environmental considerations influencing energy use. Nakagawa and Watanabe (2007) advise that organisational inertia to cling to old technology can result in a dramatic decline in operating income when the state of play changes.

Given that around 60 percent of Australian family businesses report that their industry is in the mature phase of the life cycle, an innovation agenda would seem appropriate (Glassop, Hagel and Waddell, 2008). However, only 13 percent of Australian family businesses have a research and development plan; although 19 percent of large family businesses do. Family businesses aim to hand the business from one generation to the next. Long-term survival requires long-term thinking. The list of the world's oldest family businesses boasts numerous innovators; the wine industry has show significant ability to

innovate and has nineteen firms in the top 100 (Kristie, 2008). Australian family firms need to reengage their entrepreneurial spirit if they are to succeed and survive.

## **CONCLUSION**

Business planning is a vital tool for enabling firms to traverse these difficult economic times. Yet, business planning in Australian family businesses has eroded from that reported by Smyrnios and Walker in 2003. Further, the importance of strategic planning appears to be a mismatch with the high concern family business practitioners have with increasing profits, business growth and balancing short-term with long-term business issues (Glassop, Hagel and Waddell, 2008). It is perplexing that formal business planning does not seem to be a favoured tool for assisting Australian family businesses with business growth and increasing profits. While short-term planning for Accounting and Finance is the dominant planning regime, it is disconcerting that human resources management, contingency planning and technology/asset management are the least favoured for undergoing the scrutiny of formal planning.

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