

Don't settle for less than is possible...

Tom Peters

Keeping Business in the Family

Most companies start out as family-owned businesses. From humble beginnings, driven by entrepreneurial vision and energy, some grow to become major forces – such as Wal-Mart and NewsCorp.

Companies where family has a controlling stake face a sobering reality: statistically only 5% will continue to create shareholder value beyond the 3rd generation. Any company faces significant business challenges in increasingly competitive markets; family companies have other risks to address:

- keeping growing numbers of family shareholders committed to ownership;
- founders drive and business acumen may not be matched in subsequent generations, though they may insist on managing

the company;

- squabbles among members and branches of an ever-expanding family.

McKinsey conducted a study of 11 successful family businesses on four continents to gain a better understanding of how to build and manage family businesses that last. All companies were at least 100 years old—the oldest, founded over 250 years ago, in its 11th generation.

The core element was strong governance in its broadest sense: a powerful values commitment passed down through the generations and a keen awareness that ownership is both a blessing and a curse, giving the power to destroy the business as well as to shape it and enjoy its returns. The families in the study had recognized this danger and established checks and balances for the three vital dimensions of governance: ownership, board supervision, and management.

Some key factors show up over and over again: strong boards and uncompromising standards of meritocracy in personnel decisions, risk diversification and business renewal through active management of the business portfolio, and long-term financial policies.

Powerful Boards

It is particularly important in family-owned enterprises to complement family business skills with fresh strategic perspectives of qualified outsiders. Even when a family holds all equity, its board will most likely include a significant pro-



Family business...

EVEN in today's modern world, surveys show that parents still prefer to have a boy rather than a girl. One longstanding reason has been that boys are expected to become better providers for their parents' old age. Yet it is time to think again. Girls may now be a better investment.

Girls do better at school, and, in developed countries, more women go to university, better equipping them for the new jobs of the 21st century. In

Britain far more women than men are now training to become doctors...and women are more likely to provide sound advice on investing their parents' nest eggs as women consistently achieve higher financial returns than men.

The main driving force of growth in the developed world over the past few decades has been the increase in female employment, contributing more to global GDP growth than either new technology or China

and India. Add the value of housework and child-rearing, and women account for just over half of world output. It is true that women still get paid less and few make it to the top of companies, but, as prejudice fades, women will have great scope to boost their productivity—and incomes.

Governments, too, should embrace the potential of women. Women complain (rightly) of centuries of exploitation. Yet,

Contd. P4

Volume 5, Issue 2

September 1, 2006



Gen Ford MBA, Ithaca's Managing Director



Special points of interest:

Project and troubleshooting expertise is rarely found within a business—especially the ability to take a helicopter view of a situation and address potential solutions from an objective and holistic perspective

The application of good, basic planning and process in a robust, well-supported manner will bring the results being sought every time.

Inside this issue:

Keeping Business in the Family Contd.	2
Oil Prices—Implications for Your Business?	2
IIB	3
UK Business Productivity—Family Issues	3
Have You Considered Factoring?	4
True Knowledge Management	4
Ithaca Business	5

Keeping Business in the Family *Contd.*

True meritocracy

Nepotism is the obvious way to destroy a family-owned business in a single generation—and this happens, all the time and all over the world. To control the natural human desire to favour your own kin, family-owned businesses that have lasted for generations have established true meritocracies, as all the companies in the survey did.

Half of the families did not have family members involved in management at all. "You cannot expect the family to consistently generate competent top managers," one family leader said. Another said, "Our key factor of success is that we hire the best people, if they turn out not to be the best, we fire them. We would not be able to do that if we had family members in management."

In the rest, family members who have proved their competence were welcome to serve as managers. Two of the companies require family members to start work outside the family business. After they have had 10 to 15 years of highly successful experience, its board may invite them to hold top-management positions.

One family member and CEO explained in great detail how he was put through a two-year process of outside evaluation and coaching before a board committee appointed him to the position. An-

other uses a recruiting firm to find alternative, outside candidates for every top-management position and sometimes appoints them. Harsh as these policies may seem, they safeguard the family's long-term interests.

Diversification strategy

Most businesses in the study were privately held holding companies with reasonably independent subsidiaries, which might be publicly owned, although usually the holding company controlled the more important ones. By keeping the holding private, pressure from outside shareholders for quick, high returns is avoided and the company can pursue diversification strategies to achieve steady profitability and survival over shifting business cycles.

In most of the companies studied, the criteria for selecting new opportunities were clear: asset-light businesses such as retailing, consumer goods, and trading were preferred to asset-intensive ones. This avoided competition with publicly traded companies with better access to capital. Several companies in the sample exited well performing asset-intensive businesses, though they fitted nicely into the portfolios, for fear that they could drain financial resources in the long term. Niche businesses - those competing in small world markets - were also popular, giving family control and a chance to be globally active

without becoming financially and organizationally overstretched.

Long-term-performance focus

These family-owned survivors shared a strong performance culture combined with quantitative targets for growth and returns. One business aimed to have returns 25% above the relevant stock market index: as the company's leader said, "Why would you keep the family business if it returns less than the stock market?" Interestingly enough, when asked about historic returns, none of the family members interviewed for the study quoted the quarterly performance of the companies or even their performance over 1 or 2 years. The minimum period mentioned was 5 years, and one to two decades was more common.

Economic cycles are a fact of life for family-owned businesses that have a very long past and anticipate an even longer future. "We have survived world wars and hyperinflation. We never expect good periods to last very long; neither do we expect that from bad periods," one family leader said. To sum up, these companies are performance oriented but risk averse, which might make them less successful in boom times but keeps them alive, with healthy profitability, over the very long term.



“Nepotism is the obvious way to ruin a family business in a single generation”

Oil Prices, Implications for Your Business?

Gen Ford, MBA

It can't have escaped anyone's attention that the price of oil is at an all time high. The immediate impact of this is already apparent in those areas directly affected by this—but what are the broader implications for business?

Assuming—and, in today's global strategic environment, this seems a reasonable assumption—that oil prices remain at, near or above current levels, there are a series of longer term challenges—or opportunities—that arise:

Alternate Energy

- There has been significant focus on the development of alternate energy sources—great for the environment but often, realistically, not economically viable. These projects will become more and more viable as the oil price situation is maintained;
- The development of alternate energy options will close down some peripheral offerings—but also open up new opportunities. As with any new opportunity, getting in early will be the key to success.

Air Transport

- At the moment there are no alternate fuels for air transport—even in development;
- The cost of fuel for most airlines is greater than any other cost—even aircraft—not all of which is being passed on in fares;
- The cost of passenger transport is likely to escalate dramatically, making other forms of transport—or remote communication tools—far more attractive as well as adding time to travel arrangements;



Institute for Independent Business (IIB)

Gen Ford, Ithaca's Managing Director, is an Accredited Associate of the Institute for Independent Business.

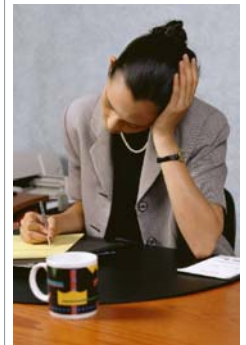
Launched in 1984 as an international accreditation body for individuals able to demonstrate years of experience and success in senior / ownership roles in business, the Institute accredits roughly 1% of all those who apply. They have recently notched up just over 3,000 Accredited Associates in 21 countries.

As an Associate Gen gives up some of her time each month to visit Managing Directors / Owners of enterprises employing anything up to 500 staff, spending a few hours with them to understand the ins and outs of their business. At the end of a visit Gen is usually in a position to offer some objective feedback / advice

about challenges and opportunities the business is facing—and, potentially, ways in which the business might tap into the IIB network.

On occasion the business owner asks for help beyond that provided within the context of the visit. With the support of the IIB and assuming the business qualifies, Gen is often able to offer such assistance through the Business Support Programme.

This subsidized scheme allows Gen to become an advisor to a business over an extended period of time—drawing in complimentary expertise from amongst other Accredited Associates to provide specialist assistance in the specific areas where a need has been identified by the owner.



Being a Managing Director / Owner of a Business doesn't have to be tough and lonely...

UK Business Productivity—Family Issues

(2006 Report Update on Marshall Plan findings by LSE Centre for Economic Performance and McKinsey & Co)

Research carried out by the Centre for Economic Performance at the London School of Economics and McKinsey & Co suggests that the productivity gap between the UK and everyone else is predominantly due to the high proportion of family businesses in the UK and the fact that many of them are badly run. The study says the best way to ruin a UK family business is to give it to an eldest son.

The research into the gap between the UK's productivity performance and that in the US, France and Germany

found that objective assessments of managerial performance were important in explaining why UK manufacturing companies tended to have lower productivity and profitability.

The finding that surprised was that half of the difference could be explained by the prevalence in Britain of second or later generation family-run companies. If those were removed from the analysis, British performance did not look nearly so bad.

Performance indicators for

730 SME manufacturing companies were examined to determine the underlying reasons for the UK's poor performance. Chandler and Landes (Harvard) have claimed that the UK's management problem dates back to around the 1900s, arguing that hereditary family management has played a major role, describing the way in which second and third generation family members run down successful businesses. There are two problems with family management:

First, selecting a CEO from the

“The best way to ruin a UK family business is to give it to an eldest son.”

Oil Prices, Implications for Your Business? *Contd.*

- Air cargo services have, over recent years, been growing in popularity. Costs in this area are also likely to escalate—with implications for the viability of many products that could not be supplied without air. Many food perishables currently imported by air may fall into this category.

These are just a few ideas that may open lines of thought about opportunities available for your business—or give you food for thought about some challenges that are going to appear on your horizon.

Developing strategies and plans to take advantage of such situations are offered by the IIB.



What is the life cycle for affordable air transport?

Have You Considered Factoring?

Graham Card

Factoring provides finance against the security of unpaid sales invoices. It can also offer a sales ledger management service. It is available for companies that trade business to business, offering goods or services on credit terms. It is often seen as a flexible alternative to bank overdrafts. Broadly speaking there are two main generic types of factoring from which further variations have been developed.

Factoring - with Recourse

Most commonly used to provide an advance availability of between 60% and 90% of debtors within the recourse period, usually around 90 days, after which any advance made against an invoice, which remains unpaid, is withdrawn.

Factoring - Non Recourse

Additionally the financier will assume the credit risk in case of non-payment by the customer.

Useful Information for a Factoring Referral

- Annual turnover
- Current sales ledger balance
- Number of live debtors
- Average invoice value
- UK only and/or Export sales
- Top five customers
- Seasonal peaks or troughs in turnover

True “Knowledge Management”

One of the myths concerning the explosion of software solutions over the past 10 years has been that, somehow, knowledge would permeate the organisation.

Let's understand one thing at the start—knowledge is the sum of a person's—or, in an advanced organisation—an organisation's learning, skills and experience. Accumulating information—or worse, data—does not constitute the passing or accumulation of knowledge.

That does not mean to say that having a robust and searchable information repository is a bad thing—but organisations' should not expect that having such a resource will, in and of itself, result in the dissemination of knowledge.

to an economist, women are not exploited enough: they are the world's most under-utilised resource; getting more of them into work is part of the solution to many economic woes, including shrinking populations and poverty.

Some people believe that if more women work rather than mind their children, this will boost GDP but create negative social impacts, such as a lower birth rate. Yet developed countries where more women work, such as Sweden and America, actually have higher birth rates than Japan and Italy, where women stay at home. Others fear that women's move

A true “learning” organisation will invest in a comprehensive program that truly addresses the passing of knowledge:

- They will plan and run formal internal learning programs;
- They will sponsor selected employees to attend external training and education courses in the short, medium and long term;
- They will provide mentoring and coaching programs throughout the organisation;
- They will foster informal learning opportunities within and across organisational boundaries;

into the paid labour force can come at the expense of children. Yet the evidence for this is mixed—a study by Suzanne Bianchi at Maryland University found that mothers spent the same time, on average, on childcare in 2003 as in 1965.

What is clear is that in countries such as Japan, Germany and Italy, which are all troubled by the demographics of shrinking populations, far fewer women work than in America, let alone Sweden. Likewise, in developing countries where girls are less likely to go to school than boys, investing in education would deliver huge eco-

- They will develop and maintain a searchable repository of information relevant to the activities of the organisation, its strategies and plans—and reviews of what worked, what didn't work and, most importantly, why.

Of course, overriding all of this is the need to foster an organisational culture that accepts, supports and promotes the accumulation of knowledge.

Some IIB Associates have particular expertise in planning and implementing programs that deliver TRUE Knowledge Management

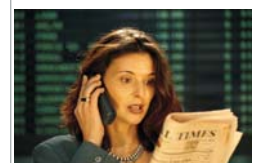
The Importance of Sex Contd.

conomic and social returns. Not only will educated women be more productive, they will also bring up better educated, healthier children. More women in government could also help: studies show that women are more likely to spend money on improving health, education, infrastructure and poverty and less likely to waste it on tanks and bombs.

It used to be said that women must do twice as well as men to be thought half as good. Luckily that is not so difficult.



“Knowledge is the sum of experience, skills, learning & information.”





126 Ernest Jones Drive, Macleod
 Victoria 3085 AUSTRALIA
 41E Mount Park Road
 W5 2RS London, UNITED KINGDOM

Managing Director:

Gen Ford

+44 (0) 7913 464430 M

Directors:

Angela McCusker

+44 (0) 7714 23968 M

Elisa Hallinan

+61 (0) 412 546 616 M

www.ithacabusiness.biz



OUR OFFICES:

Ithaca operates offices in Australia & the United Kingdom. All business activities are supported from Ithaca's HQ in Melbourne, Australia.

We have conducted projects in Australia, New Zealand, Singapore, Europe, North America, China and Taiwan, our availability to conduct projects is global.

WHY ARE WE CALLED ITHACA?

Ithaca was once the island kingdom of Ulysses, a hero of the Trojan war. After the 10-year war had ended Ulysses took a further 10-years to travel home to Ithaca—having to fight Cyclops, repel the Siren's songs and escape Circe's seductive embrace in the endeavour to reach home.

Organisations today are not unlike Ulysses - they have goals but frequently lack a map showing a way through the maze. Ithaca's service profile is designed to provide not only the map, but a guide to show the way, facilitating effective and sustainable change.

Core Competencies

Assess strategic environments, capability, gap & risk analyses;

Create roadmaps, plans, org. design & development, measure inputs & outcomes using metrics, methodologies & KPIs;

Prepare resource, systems & operational plans, apply core supply chain methodologies including S&OP, ECR, EHCR, CPFR.

Overall project management, enterprise mapping, recreate business process, select & implement enterprise/best-of-breed software, lead change & implementation, link processes to ISO, TGA, ACHS ;

Total cost analysis, end-to-end process focus, matrix org. structures, coach, mentor, identify & nurture catalysts for change;

Up to date & informed on supply chain technology – Auto-ID, SCEM, ASP, demand-based replenishment systems.

Excellence in written & oral communication – often gained in professional educator roles, able to successfully influence people at the coal-face & in the boardroom.

Ithaca Business Services

Strategy

Business Planning

Business Improvement

- Productivity
- Reduce Cost
- Technology Specification & Sourcing
- Change Facilitation

Business Growth

- Import / Export Strategies & Operations
- Distribution Channels

- Strategic Market Analysis

- Mergers & Acquisitions

Leadership Development

Business Resourcing

- Organisation Re-Design
- Performance Measurement & Management
- Redundancies & Redeployment
- Recruitment Strategies
- Industrial Relations / Employee Relations