
From the dining room to the board room – Family business in focus



The MGI Australian Family and Private Business Survey 2010

Researched and prepared by





Despite Australia having better than most countries, family business owners' businesses have generated

Foreword

The commercial world in which today's family or privately owned business finds itself is starkly different to the early 1990s when Professor Kosmas Smyrniotis and his colleagues first commenced these landmark studies.



Sue Prestney
MGI Australasia
Chairperson

At that time Australia was emerging from the impact of the "recession we had to have". Businesses were recovering from the financial excesses of the 1980s, rising inflation, an overstretched economy, and the tightening of credit.

Today, as Australia disentangles itself from the grip of the Global Financial Crisis (GFC), the current survey shows that family businesses have changed from pre-GFC days. Despite Australia having weathered the GFC better than most countries, the concerns of family business owners about the future of their businesses has generally risen since 2006, the date of the previous survey. More business owners are significantly more concerned about competition, funding for growth and for the future of their particular industry than they were in 2006 and 2003.

The survey reveals a less confident family business sector post-GFC than pre-GFC – with family business owners more reliant on the continuity of their business to fund their retirement and more concerned over the future of their business. The proportion of family business owners who would seriously consider selling their businesses if approached has decreased from 75% in 2006 to 61% in 2010. While those who plan to sell their business has dropped from 53% in 2006 to 44% in 2010. Changes in attitude to selling the family business appears to have much to do with the fall in prices of businesses as a result of the drying up of available cash for funding.

Retirement plans also seem to have been impacted by the GFC. In 2006 only 17% of family business owners stated they did not have an adequately funded retirement program. This has increased to 31% in 2010, most likely on the back of the reduced investment values in 2009. Further concerns for family business owners for the future include selecting a successor and the future financial performance of their businesses.



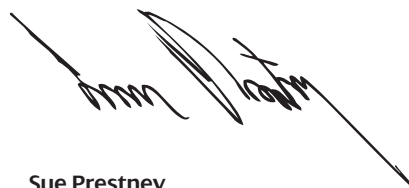
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While there has been much discussion about the low level of female participation on public company boards, a similar situation also exists in the private sector – even in family business. The survey results highlight the low participation of females as owners and managers of family businesses – only 11% of owners are female; only 7% of current owners have daughters actively involved in the businesses (with only 2% of business owners' sisters being involved in the business); sons are five times more likely to be involved in the family business as daughters and five times more likely to succeed the current CEO than daughters. While these statistics in themselves paint a picture of the current low level of female participation in ownership and management of family businesses, more surprising is the fact that this position has changed little over the last seven years.

The value of this longitudinal study cannot be underestimated in gaining insight into the motivators of Australian family and privately owned business. The current study, as well as others in the series, has

made an important contribution to the understanding and appreciation of the attitudes of family and private business owners, and their valuable contribution to the Australian economy.

MGI would like to acknowledge the work of Professor Smyrnios and his research team. With a tradition of supporting Australian family and privately owned businesses, spanning some 25 years, MGI has the skills, experience and understanding to assist this important sector through their upcoming challenges. MGI is again proud to be associated with this important work.



Sue Prestney

MGI Australasia Chairperson
Chartered Accountants and Business Advisors



Key Findings

ISSUES AND CHALLENGES

The most critical issues/challenges confronting family businesses are: communication between family members, 39.7% and letting go of leadership/ownership control, 39.7%.

Interestingly, 40.9% of family business owner-managers believe that family-based issues are more critical than business-based issues, and 45.5% believe that when family-based issues are resolved, business issues can also be resolved. Nearly two thirds agree that the ultimate challenge in family businesses is dealing with the addition of work/business-based relationships on top of pre-existing family-based relationships. Nevertheless, 86% have NOT set rules to strengthen interpersonal relationships and manage the expectations of family members; 82.1% have NOT established policies to deal with predictable family-in-business issues *before* the need arises; and 72.1% do NOT hold regular *family meetings* to share information, build trust, avoid politics, and achieve consensus.

FAMILY INVOLVEMENT IN THE BUSINESS

Family members most actively involved in the business are: spouses, 35.4% and sons, 35.0% with brothers a distant third, 8.8%. Least actively involved are daughters, 5.9% and sisters, 1.6%.

Not only are sons more actively involved in family businesses than daughters, they are also five times more likely to succeed the current CEO than daughters, 27.4% versus 5.3%.

Over half of family business owners, 58.4% do NOT require family members to have outside business experience before joining the business.

CONCERNS FOR THE FUTURE

Almost half of family business owner-managers, 44.7% indicate that they have concerns for the future of their businesses, primarily *financial performance, problems with their particular industry, competition, skills shortages, and lack of funding for growth*.

GLOBAL FINANCIAL CRISIS (GFC)

The GFC has adversely affected 35.7% of family businesses leading them to cut costs, 51.8%; defer hiring staff, 34.5%; postpone expansion plans, 26.9%; and review product/service lines, 23.7%.

The vast majority of family business respondents, 90.8%, bank with one of the major four banks. Just over a quarter, 26.6%, agree that accessing funding for business activities has been difficult. Approximately half, 45.0%, report that their bank has been supportive during the GFC.

SUCCESSION

One third of family business owners state that it will NOT be feasible to implement leadership succession in their family business. The likelihood of succession appears to be minimal for a substantial percentage of families in business given that:

- Over two thirds indicate that younger generation family members are NOT as interested in actively managing the business as the older generation;
- Over a third indicate that the current CEO is more likely to be succeeded by a non-family member; and
- Only a fifth identify *passing the business on to the next generation* as a main motivation or objective for starting, or remaining in business.

RETIREMENT OF OWNER-MANAGERS

- Just under half, 45.2%, of family business owner-managers see themselves working in the business beyond 65 years of age, with 66.1% indicating that their businesses were NOT exit or succession ready. Interestingly, 52.2% indicate that they do NOT intend to do something about it in the next 12 months.
- Encouragingly, 60.6% of family business owner-managers have something to retire to as against simply something to retire from (i.e. their business), and 68.5% believe they have an adequately funded retirement program. One third, however, are likely to rely on either continuing family business *ownership* or the *sale of their business* for the cash to fund their retirement.

SALE OF THE BUSINESS

45.0% of family business owners are actively planning the future sale of their business either *now* or *later*. Moreover, 61.3% would seriously consider selling their business, if approached, with 25.2% reporting that they have been approached in the last 12 months. As in 2006, we are led to conclude that approximately half of family businesses are less likely to become later generation firms, not as a result of any managerial failure on their part, but because their intentions, as well as their active plans, are to exit their businesses for various reasons via a trade sale. To that extent, it would be inappropriate simply to equate family business success with succession.

MANAGEMENT AND GOVERNANCE PRACTICES

Over 50% of family businesses report that family members get together regularly to have fun and

pursue non-business activities; 43.9% emphasise *integrity* and *commitment to the business* as primary successor attributes; 37.4% are committed to the long-term viability and continuity of their business; and 36.8% report that they engage in philanthropic and charitable activities. Not surprisingly, hardly any family businesses have set a definite date for the transfer of leadership responsibility and control to the next generation, or designated a mandatory retirement age for senior executives. Very few have established conflict management processes, or processes for welcoming, educating and inducting in-laws into the family. Contrary to what is often advocated by the family business literature, 65% of family business owner-managers believe that family business success and wealth are NOT achieved by means of formal rules and procedures.

BOARDS OF DIRECTORS

An active Board of outside directors can serve a number of functions, including assisting family business owners to deal with feelings of isolation in their daily struggle to survive and to excel, heightening accountability of the business as well as improving quality of corporate decision making and planning without significant loss of privacy. And yet, 57.7% of family businesses do NOT have a formal Board of Directors; 85.3% of family businesses do NOT have non-family executive directors on their Boards; and 86.3% do NOT have non-family, non-executive directors on their Boards. The main reasons provided are: *a desire to retain privacy*, 52.5%; and *skills required at Board level exist in-house*, 29.0%.

THE FEDERAL GOVERNMENT'S CARBON POLLUTION REDUCTION SCHEME (CPRS)

Nearly all respondents, 98.8%, report that the Federal Government has NOT provided them with sufficient information about CPRS.

Family business owners indicate that accountants are the advisors most likely to assist them in the preparation of their businesses for the introduction of CPRS, 28.3%; followed by Business Consultants, 14.2%; and Specialist Consultants, 12.9%.

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Snapshot: 2003/2006/2010

	2003 (%)	2006 (%)	2010 (%)
Proportion of respondents that are Family Firms	67	67	83
First generation	55	69	58
Second generation	28	23	31
Third to Fifth generation	17	8	11
Profile of Owner			
Average age in years	56	55	55
65+ years	20	14	12
Female	10	4	11
Tertiary qualified	60	52	47
Married	87	90	91
Profile of Business			
Industry			
Manufacturing	40	26	24
Wholesale/Retail	30	33	27
Technology	5	5	4
Construction	10	13	11
Legal Structure – Private Company	79	73	80
Legal Structure – Family Trusts	15	19	12
Average age of firm in years	34	28	32
Size – Number of Employees (Mean)	31	39	37
Size – Number of overseas divisions	8	8	8
Sale of Business			
Would seriously consider selling business if approached	76	75	61
Plan to sell the business now or later	50	53	44
Of those that plan to sell business, it is because:			
Wish to retire	32	31	20
Original intention	15	17	6
Sale price exceeds expectations	20	17	4
Lack of family successor	31	15	9
Have concerns for the future	8	9	6
Family Involvement in Day-to-Day Running of Business			
Spouse	49	53	35
Son (s)	49	30	35
Daughter (s)	9	5	7
Concerns for Future (particularly in relation to)			
Funding for growth	17	6	20
Particular industry	15	21	38
Selecting a successor	11	9	20
Financial performance of the business	27	31	54
Retirement of Owners			
Do NOT have adequately funded program	27	17	31

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MGI's pedigree: just right for family business partnerships

We are committed to making
our relationship with you,
as your business growth advisor,
a successful partnership.

A twenty-five year history of providing professional advice to family and privately-owned businesses positions MGI as the business growth advisor of choice for this vital contributor to the Australian economy.

Finding practical solutions to management, governance practices, succession and retirement planning are part of our every day business practice.

As each MGI firm in Australia is privately owned, we also understand the structure and nature of family businesses and their commercial concerns through first hand experience. This knowledge allows us to work with you to develop business solutions to enhance what it is that sets your business apart from your competition as well as constructively plan for your future.

When you partner with MGI you also have access to one of the world's leading professional services networks. MGI firms are located in Australasian capital cities and important regional centres. Internationally, MGI firms are located in 265 offices in more than 80 countries - whether you are contemplating expanding your family business or establishing a strategic alliance outside Australasia, there is always someone at MGI to provide advice about local business conditions.

Our approach to your family business is quite simple: we are committed to making our relationship with you, as your business growth advisor, a successful partnership not just an accounting assignment. This proven approach, combined with our commercial experience and access to our international network, means we provide you with solutions to help your family business go from strength-to-strength.

MGI – Your Business Growth Advisor

For information on how MGI provides business solutions that work for you contact your nearest MGI office or visit www.mgiaust.com

Adelaide

(Incorporating Port Pirie)
Tel: +61 8 8272 6800
Email: info@mgiadelaide.com.au
Website: www.mgiadelaide.com.au

Auckland (New Zealand)

Tel: +64 9 377 1362
Email: info@mginz.co.nz
Website: www.mginz.co.nz

Brisbane

Tel: +61 7 3002 4800
Email: info@mgjbris.com.au
Website: www.mgjbris.com.au

Melbourne

Tel: +61 3 9521 3000
Email: info@mgimelb.com.au
Website: www.mgimelb.com.au

North Queensland

(Incorporating Cairns, Mossman and Port Douglas)
Tel: +61 7 4047 4000
Email: info@mginq.com.au
Website: www.mginq.com.au

Perth

Tel: +61 8 9463 2463
Email: info@mgjperth.com.au
Website: www.mgjperth.com.au

Sydney

Tel: +61 2 9230 9200
Email: info@mgisyd.com.au
Website: www.mgisyd.com.au

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Researched and prepared by Lucio E. Dana and Professor Kosmas X. Smyrniotis RMIT University, Melbourne.

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For past surveys and further information about the results of the current survey visit www.mgiaust-survey.com

