

MEDIA RELEASE

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“Keeping mum” may not be good for family businesses

A desire to keep everything in the family is having a negative impact on the growth and succession planning of Australia’s two million family businesses.

According to a landmark survey into family business governance and management practices, staggeringly only 42% have a board of directors.

Of those that do, 85% do not have non-family executive directors on their boards; while 86% do not have non-family, non-executive directors on their boards.

The main reason given by 53% of family businesses for not having non-family, non-executive directors on their board was a desire to maintain the family’s privacy.

A further reason for the absence of non-family directors on boards for 29% of businesses was they felt the skills required at board level already exist in-house.

The MGI Australian Family and Private Business Survey was undertaken by RMIT University and supported by MGI, a leading international accounting firm specialising in advice to family and privately owned businesses.

The research, the seventh in a series, was undertaken among 5000 Australian companies.

“It is of concern that fifty-eight per cent of family businesses do not have a board of directors. This is likely to mean there are many businesses that are not implementing sound corporate governance practices, said Ms Sue Prestney, Executive Chairman, MGI Australasia.

“A business without a formal board is more likely to concentrate on operational matters and neglect big picture issues. In many cases there are no formal meetings being held to deal with strategy, risk management, regulatory compliance and other matters normally dealt with by a board.

“External board members can provide the business with access to new skills and experience, as well as to ambassadors to open up important networks for the business. They can also provide support and guidance to family business owners and valuable mentoring to successors.

“Importantly for family businesses, an independent board puts professionalism and objectivity into business decisions affecting family members. This will in turn assist in maintaining family harmony, continued Ms Prestney.

“Denying the company access to these benefits is a big price to pay for privacy. Especially considering a director is bound under the Corporations Act not to use the information they obtain to cause detriment to the company or gain an advantage for themselves or someone else.

“As a result of the concern over privacy many businesses are failing to maximise their potential, concluded Ms Prestney.

Some further governance findings in the report were:-

- Of the 42% of family businesses that have boards, 46% indicate that the board meets once a month; 19% meet quarterly; 12% meet six monthly and 16% meet once a year.
- Forty-six percent of family business boards have two directors; 24% have three directors; 17% have four directors; and 10% have five or more directors.

MGI is represented by 283 offices in 82 countries and has been operating in Australia and New Zealand for 26 years.

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