

Succession Planning: Planning for Success

The next eight years will represent a period of great opportunity and risk for Family Businesses in Australia that will impact not only individual family wealth but also the longer term prosperity of our Nation. Unfortunately, however many family businesses and certainly not our political leaders have recognised the importance of this period.

By the year 2020 the baby boomer generation will be aged between 56 and 74 years of age with the weighting heavily towards the higher age. The result will be that those that are business owners will probably have had to exit the active management of their businesses and also ownership. The latest survey data available indicated that around 75% of business owners have no exit strategy. With the estimated market value of businesses to transfer management and ownership being valued at some \$3.5 trillion, this is a massive shift in control and value without much apparent forward planning. Add into that the fact that small business is the significant employer in our nation and you can now see why this cycle can impact our Nation's economy.

The great opportunities lie in those owners wishing to exit getting ahead of the curve and planning for their succession effectively, and for the new generation of owners seizing the opportunity to acquire the best and build great businesses for the next generation. The risk lies with those who do nothing and quite simply miss the boat. Effective succession planning will become the most important skill that business owners will need to develop to capture the opportunities and to avoid the risks.

Although family business succession has generated considerable interest over recent years, there is very little, Australian research on what makes for a successful succession process. Pitcher Partners in partnership with Swinburne University however have been undertaking an Australian Research Council supported study into the success strategies, barriers and dynamics of family business succession. This Australian research study has now gone global with over 30 Countries electing to participate in the next stage.

Succession planning is often thought of only in the context of transferring a business within a family. However succession takes many forms in today's market and can comprise outcomes as diverse as the outright sale of the business to third parties, merging the business with others, the sale of the business to the management team and employees, the closure of the business and sale of assets or, in some cases, doing nothing and facing the gradual decline of the business.

The preliminary results of the Pitcher Partners/Swinburne University research are now emerging and paint a diverse, complex and sometimes surprising picture of the issues surrounding succession planning:

- As is to be expected, there is a high degree of sensitivity around the issue of succession and a great deal of uncertainty. This leads to a lack of willingness to engage in conversations with family members that facilitate effective succession.
- Although traditional thought would have dictated that the business is passed to the next generation, there is an overwhelming view that children are not expected to follow in the family business. Children are seen as having a choice, combined with the belief that they do not have a natural entitlement to ownership and control.

These views create uncertainty on both the part of the exiting and new generation with neither being sure what the future holds.

- However there remains a strong sense that wealth should pass along family lines, with lineal descendants being the recipients and the wealth being protected for future generations from the breakdown of relationships and marriages.
- In an attempt to simplify the process, there is an uncertainty and hesitation regarding the inclusion of spouses in the succession process. This uncertainty is not about inclusion itself, but rather a difficulty in how to include and engage them in the discussion.
- Husbands are inclined to want continuity of the business along family lines, while wives are more inclined to express their reservations about the impact of the business on the children's wellbeing.
- Succession is generally seen as a process of fairness, not equality, where recipients receive a fair but not necessarily equal entitlement depending on their contribution to the business.

To summarise the findings to date, there is a hesitation about succession, a reluctance to engage in what are seen as uncomfortable discussions, uncertainty about how to proceed and a resulting delay in commencing or engaging in a meaningful way in the process of succession.

Family businesses are among the most important contributors to wealth and employment creation in virtually every country in the world. Australia is no exception.

The smoothness of this transfer is a critical challenge that will impact the prosperity of the Australian economy over the next decade. Given the initial research findings and the lack of understanding and support right through from government policy through to practical implementation there is a vital need to establish and communicate clear strategies which will improve the effectiveness of this transfer and support effective succession.

The Pitcher Partners/Swinburne University Research is continuing with a launch of the Australian and Global survey. Over 30 countries are participating the results will refine the outcomes and provide a breadth and depth of knowledge. Such a research project has never been undertaken before. Australian business will be able to benchmark their approach to succession with other family businesses from around the world.

If you wish to participate in the survey the link may be found at <http://growth.pitcher.com.au>

and any enquiries may be directed to Dr Richard Shrapnel, Pitcher Partners Melbourne.