See all 'Strategy ' articles

No exit for family business

Wednesday, 28 July 2010 00:00
Leon Gettler

Australia's ageing family business owners have a big problem. According to new research on the family business sector, 45% are actively planning to sell their businesses and 61.3% would seriously consider selling now. On top of this, 25.2% say they have been approached regarding a sale in the last 12 months.

There is just one problem – these business owners, who control a large chunk of Australia's $1.6 trillion family business sector, are simply unlikely to get enough from the sale to fund their retirement.

The MGI Australian Family and Private Business Survey 2010 from accounting firm MGI and Melbourne university and RMIT, supports the theory that a tidal wave of family business sales will occur in the next two years, as baby boomers look to sell up and retire.

But while the current business environment is making sales difficult, the survey also points to a number of other potential succession stumbling blocks, including family disputes, a lack of interest from Gen Y and Gen X family members and a lack of planning for the sales process.

Family business owners are already starting to think they will be forced to delay transition of ownership – be it through a business sale or succession – for up to 10 years, with the survey showing that 45.2% of family business owners said they would be working in the family business beyond the age of 65.

The average age of family businesses owners already at 55, and more than half are aged over 50.

The big problem is simply raising enough money from the disposal of the family business – one in three family business owners will have to continue running the business, or sell it, to fund their retirement.

But David Fitzgerald, managing director of business broking firm LINK, says sales of family businesses will not hit the market in any major way for at least two years.

He argues the global financial crisis has put many retirement plans on hold.

"What we found was that a lot of family businesses were devalued during this period,'' Fitzgerald says.

"There are buyers out there and they do want to buy, but they are only prepared to pay a price substantiated by the 2009-2010 tax figures. They want to see how the company has come through the GFC and what the company actually did during the 2010 financial year.

"A lot of families were looking to retire and had worked out what their nest egg was, but their investments in property and shares have also devalued. So in 2008, their property, shares and business were worth so much. Now the shares have gone down in value, property has gone down in value and the business has gone down in value, so they can't afford to retire."

"If the business, for example, had an EBIT of $300,000 three years ago, it would be selling for $900,000. If in the last two years, it only made an EBIT of $200,000, then the price of the business will come down accordingly to $600,000 and they can't afford to retire. The owners have to stay there to build it back up again, or accept the lower value."

But restoring the business could take time.

"They will have to wait another two years until their business fully recovers. When they get their profit back up to

More on Strategy

No exit for family business
GROWTH SECRETS: The 14 keys to growth
The innovative business model
What's your exit strategy?
The perfect plan

Read more on:

Family business
Growth
Strategy

$300,000, it may not be 2011, it may be 2012. Then they will come back on the market," he says.

A need to sell

At the same time, many family business owners will have no alternative but to find a trade sale, at whatever price, because only half the family businesses are expected to be passed on to the next generation.

The survey shows one in three family business owners say it will not be feasible to implement leadership succession plans, with 60% of family business owners saying the younger generation family members from Gen X and Gen Y are not as interested in actively managing the family business as the older generation.

This is not to say that the younger generation is not interested in running a business, they just want to run their own.

"There is no reason to assume that members of the younger generation are not at least as entrepreneurial as their parents or grandparents,'' the report says.

"However, they generally prefer to work on their own terms and are, therefore, just as likely to want to start their own business (particularly web-based businesses) or acquire a business, as they are to become willing and able successors of their parents' family business."

Professor Kosmas Smyrnios, the director of research at RMIT who conducted the study, says the findings raise a number of uncomfortable questions about the family business sector, which he estimates is worth around $1.6 trillion.

"If the younger generation are not moving into the family business, and if there are so few family business owners under the age of 40, are we seeing the demise of family firms?'' Smyrnios asks.

"What it does signal is there will be a smaller proportion of family businesses relative to non family businesses. It might also mean that there is going to be an increasing number of non-family CEOs."

Family disputes still high

One of the other big issues around succession is sorting out family issues and keeping the lines of communication open. While the study does not go into detail into the kind of family disputes that erupt, the research suggests that family issues can throw a spanner in the works and stop the business running effectively.

According to the study, 40.9% of family business owners say family-based issues are more critical than business-based issues and 45.5% believe that when family-based issues are resolved, business issues can be resolved.

It found that 39.7% cited communication between family members as the most critical issue confronting family businesses, while another crucial issue was founders letting go of leadership and ownership.

Smyrnios says these disputes will affect the business and left unresolved, the business will be harder to sell later on.

"These difficulties not only spill over into the business but affect the performance of the firm so the priority must be given to solving them."

He says many of these disputes are just part and parcel of the family business landscape.

"That is to be expected when you have owners who have put in a considerable amount of their own lives...for the betterment of the family; you have the younger generation who may not be interested; others expecting to take over the mantle and take it to the next level; and you have owners who are reluctant to retire for one reason or another. Issues like that do spur conflict within families,'' he says.

The study shows family businesses are minefields for potential conflict because some family members will be out of the loop. Family members most actively involved in the business are spouses (35.4%) and sons (35%). Brothers are a distant third at 8.8%. The least involved are daughters (8.8%) and sisters (1.6%).

Not only are sons more involved in the business, they are also five times more likely to succeed the CEO than the daughters. Indeed, only 10% of family businesses are owned by women.

Significantly, the study found that most family business owners had done little to resolve these conflicts. It found that 86% had not set rules to strengthen interpersonal relationships, 82.1% had not established policies to deal with predictable family-business issues before they flared up and 72.1% did not hold regular meetings to share information, build trust and create consensus.

Family councils one solution

The chief executive officer of Family Business Australia Philippa Taylor says family businesses need a separate board or panel to deal with family issues.

“So if someone feels it’s unfair that big brother got a car and they didn’t, it goes to the family council,’’ Taylor says.

“A lot of families become very alienated from each other because if you have got mum and dad working in the business and you’ve got a couple of kids who choose not to work in the business, if they don’t have these sorts of processes you will find that the two who are not involved will feel totally out of it because the discussion will revolve around what happened in the shop.

“But if you’ve got those structures and processes, you start taking the business off the kitchen table and you start doing it the way it should be done.”

Apart from family disputes, family businesses are also harder to sell because of a lack of process.

According to the study, 65% of family business owners said success and wealth was not achieved by having formal rules and processes. And non-family members, who can perhaps provide some independent input, are not welcome. While 42.3% had a formal board of directors, 85.3% did not have non-family members on their boards.

And despite the fact a large chunk of family business owners have selling up on their mind, the survey shows 66.1% said the business was not yet ready to sell.

Fitzgerald says the lack of process can make it difficult to sell the business.

“Many of them don’t have up to date books, they don’t have accurate accounts and that definitely affects the sale of the business, especially these days. Nowadays, the banks want to know what you want to buy and they get involved ascertaining what it’s worth, whether you can run it and whether you can repay the loan over a period of time.

“They will knock back finance accordingly. That has made it harder for borrowers and harder for buyers.”

Smyrnios says that succession is still the big problem for family business. How bad is it? According to his study, only a small proportion of owners have set a retirement age or date when they leave.

“The majority of owners continue to view it as an event rather than a process that requires medium to long term planning. The certainly don’t benchmark the issues,” he says.

“Not doing things like that further complicates the picture because the next generation might be interested in taking over the business. They just don’t know when that’s going to occur.”

Related Items :

Women still struggling to break into family business: Report
GROWTH SECRETS: The 14 keys to growth
Who is the most helpful when it comes to expanding my business?
Strategies for change
My skills shortage is clipping my entrepreneurial wings. Help!