

# Surviving Not Thriving

FROM THE DINING ROOM  
TO THE BOARD ROOM™

THE MGI AUSTRALIAN FAMILY AND  
PRIVATE BUSINESS SURVEY 2013



Researched and prepared by





Sue Prestney  
MGI Australasia  
Chairman

## Foreword

The publication of *The MGI Australian Family and Private Business Survey 2013*, which is the eighth in the series, is particularly important for MGI. It is now a decade since we first became involved in supporting the invaluable research of Professor Kosmas Smyrniotis, Mr Lucio Dana and the research team.

As the longest running longitudinal study of its type in Australia, and also one of the longest running in the world, the research has provided a unique opportunity to track the concerns and motivations of family and private business owners over the last nineteen years.

The “dearth of valid research relating to Family Business” observed in the first report published in 1994 is as relevant now as it was then. Today, as then, in Australia there is limited official understanding and knowledge concerning the business practices of this important contributor to our economy.

There is still no widely accepted definition of what constitutes a family business. The paucity of family business information, combined with the lack of a widely accepted family business definition, on which to base Australian government policies could have unintended and negative consequences, not only for this sector, but also for the economy as a whole.

MGI is pleased to have been able to support the research of Professor Smyrniotis, which has provided much needed knowledge of this sector over a long period.

In late 2012, MGI provided evidence to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Family Business. We look forward to the implementation of the Committee's 21 recommendations.

The last decade for family and private business owners has been tough on many fronts as a comparison of the last four surveys reveals.

Firstly, there has been a change in profile of family businesses participating in the surveys. There has been a marked decline in family businesses involved in the manufacturing industry – once the heartland of the sector – from 40% to 20% of the respondents. During this same period, there has been a decrease in the number of family business employees, expressed as a mean, from 31 to 23.

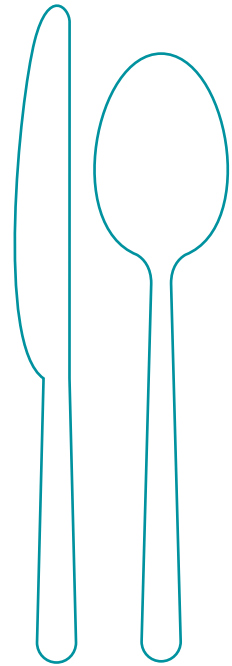
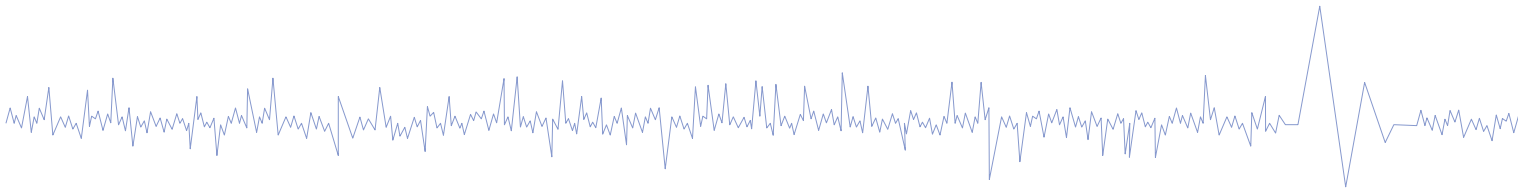
There has also been a subtle but predictable change in the profile of family business owners, as their average age in years has increased and the number of family businesses in the hands of owners over the age of 65 years has grown from 20% to 25%. Disappointingly, a comparison of the four reports again highlights a lack of growth in the participation rate of females as owners and managers of family businesses.

But perhaps the most disturbing factor evident across the four surveys is the bleak outlook for family business owners. There have been dramatic increases in the percentage of family business owners who are not only concerned for their family business future, but who also have concerns about the financial performance of their business and those in their



The picture that emerges from the decade long research series is one of increasingly pessimistic family businesses that are surviving, but certainly not thriving.





industry. This is not surprising given that the majority of family business respondents in 2013 had no growth in profitability or market share in the last three years.

Despite their concerns, the research shows that there has been no improvement in planning or corporate governance. The vast majority of family businesses do not implement recommended best practices for management.

Retirement exit-strategies for family business owners have become increasingly limited. There has been an increase in the inability of family business owners to find a suitable successor from within the family and, for those business owners who would like to sell, an increasing number are finding the sale price for their business no longer exceeds their expectations.

Compounding concerns for the future are the current issues that family businesses need to manage such as: cost increases resulting from the carbon tax; the high Australian dollar; leveraging technology such as social media and the increase in the Superannuation Guarantee Contribution.

Only 9 per cent of the respondents to the 2013 survey believe that the Federal Government provides them with enough support.

The picture that emerges from the decade long research series is one of increasingly pessimistic family businesses that are surviving, but certainly not thriving.

With a tradition of supporting Australian family and privately-owned businesses spanning some 28 years, MGI has the skills, experience and understanding to assist this important sector through their upcoming challenges.

MGI would like to acknowledge the work of Professor Smyrnios and his team and is proud of its decade long association with this research series.

**Sue Prestney**  
MGI Australasia Chairman  
Chartered Accountants and Business Advisors

# Snapshot of a Decade of MGI-supported Family Business Research 2003–2013

Family Business: A Decade On Snapshot of Australian Family Business 2003–2013	2003 %	2006 %	2010 %	2013 %
<b>Proportion that are family firms</b>	<b>67</b>	<b>67</b>	<b>83</b>	<b>72</b>
– First generation	55	69	58	60
– Second generation	28	23	31	26
– Third and later generations	17	8	11	14
<b>Profile of owner</b>				
– Age in years (average)	56	55	55	58
– 65+ years	20	14	12	25
– Female	10	4	11	10
<b>Business objectives</b>				
– Accumulate wealth	45	34	55	55
– Pass on to the next generation	5	6	19	21
– Employ family members	10	4	10	9
<b>Profile of business</b>				
Industry				
– Manufacturing	40	26	24	20
– Wholesale/retail	30	33	27	29
– Technology	5	5	4	8
– Construction	10	13	11	16
Legal structure – private company	79	73	80	71
Legal structure – family trusts	15	19	12	13
Age of firm in years (average)	34	28	32	34
Size – number of employees (mean)	31	39	37	23
<b>Business planning</b>				
– Have a strategic plan	47	45	–*	45
– Have a business plan	66	47	–*	52
<b>Family involvement in day-to-day running of business</b>				
– Spouse	49	53	35	35
– Son(s)	49	30	35	36
– Daughter(s)	9	5	7	9
<b>Concerns</b>				
– Financial performance	27	31	54	58
– Funding for growth	17	6	20	16
– Particular industry	15	21	38	55
– Selecting a successor	11	9	20	22
<b>Retirement of owners</b>				
– Do <b>NOT</b> have adequately funded retirement program	27	17	31	34
<b>Sale of the business</b>				
– Would seriously consider selling business if approached	76	75	61	64
– Plan to sell the business now or later	50	53	44	44
Of those that plan to sell business, it is because:				
– Wish to retire	32	31	40	32
– Have concerns for the future	8	9	11	25
– Lack of family successor	31	15	19	21
– Original intention	15	17	13	10
– Sale price exceeds expectations	20	17	6	6

\*Note: '–' denotes statistics that are not available

**FAMILY  
BUSINESSES  
ENGAGED IN  
MANUFACTURING**

**IN 2003:**

**40%**





## OVERVIEW OF A DECADE OF AUSTRALIAN FAMILY AND PRIVATE BUSINESS RESEARCH: 2003–2013

The snapshot provides an overview of four National surveys undertaken between 2003 and 2013 that form part of a two-decade longitudinal study of Australian family and non-family businesses dating back to 1994.

Over the decade, the proportion of businesses that consider themselves to be family enterprises has averaged around 72%, with the generational distribution reflecting an approximate pattern of 60% first, 27% second and 13% subsequent generations.

With the exception of the 2006 Survey, the proportion of female family business owners has remained relatively constant at approximately 10%. Fewer spouses appear to be actively involved in the business, from 49% in 2003 to 35% in 2013; and fewer sons, from 49% in 2003 to 36% in 2013.

The percentage of family businesses engaged in manufacturing has decreased dramatically from 40% in 2003 to 20% in 2013 and so has the average number of employees, from 39% in 2006 to 23% in 2013.

In 2013, family businesses are increasingly apprehensive about change, expressing heightened concerns for the future of their ventures with particular emphasis on the *financial performance of their businesses*, 58% (27% in 2003); *issues surrounding their particular industries*, 55% (15% in 2003); and *selecting a successor*, 22% (11% in 2003). Moreover, a growing number of family business owners, 60% (compared with 54% in 2010), indicate an intention to keep their businesses small (Table 1).

In addition to *wish to retire*, 32%, and *lack of family successor*, 21%, *concern for the future*, 25% (11% in 2010) has increasingly become an additional reason for owners to plan to sell their businesses. Fewer of them put forward *sale price exceeds expectations* as a reason (6% in 2010 and 2013, from 20% in 2003 and 17% in 2006).

As expected, the average age of owners increased over the decade (58 years in 2013 from 56 years in 2003), with a corresponding jump in those aged 60–69 years (37% in 2013 from 21% in 2010). There is also an increase in the proportion of owners aged over 65 years (25% in 2013 from 14% in 2006 and 12% in 2010) and in the percentage of owners who anticipate working beyond 65 years of age (58% in 2013 from 45% in 2010) (Table 1).

While the percentage of family business owners who would consider selling the business has decreased from 76% in 2003 to 64% in 2013, the percentage of those whose objective it is to *pass on the business the next generation* has risen steadily from 5% in 2003 to 21% in 2013. The percentage of owners who believe that their businesses are 'sale ready' has decreased from 56% in 2010 to 44% in 2013 (Table 1).

Following the Global Financial Crisis (GFC) of 2007–8, there has been an increase in the percentage of family businesses that consider they *do not have adequately funded retirement programs* (34% in 2013 from 17% in 2006).

### FAMILY BUSINESSES ENGAGED IN MANUFACTURING

#### IN 2013:

# 20%

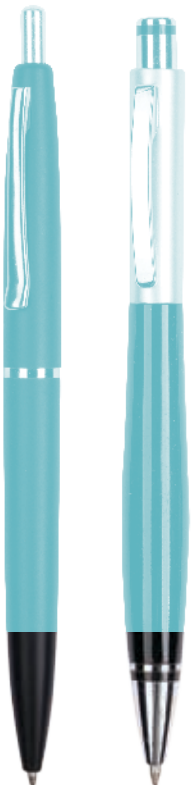


Table 1 – Notable comparative findings 2013–2010:

Notable comparative findings	2010 %	2013 %
Owners in the 60–69 age bracket	21	37
Proportion of owner-managers aged over 65 years of age	12	25
Owner-managers indicating they will be working beyond 65 years of age	45	58
Owners intending to keep their businesses small	54	60
Owners who believe their businesses are 'sale ready'	56	44



# Main Findings

## FAMILY-IN-BUSINESS CHALLENGES

The main challenges confronting family businesses are: *letting go of leadership/ownership control*, 37%; *securing adequate capital for growth and retirement*, 36%; *choosing a suitable ownership structure for the next generation*, 33%; *providing liquidity for family owners to exit the business*, 33%; and *communication between family members*, 29%.

## CURRENT ISSUES

### Carbon Tax

The Federal Government's carbon tax will have some impact on the bottom line for 76% of family businesses in pre-tax dollars, with 16% indicating that the *Carbon Tax will have a large impact*. *Energy, transportation, raw materials input, waste disposal and external consultants* were ranked as the five most-impacted costs. To reduce the impact of the Carbon Tax, businesses have changed their *energy consumption*, 31%; *waste disposal practices*, 16%; *product and service pricing*, 15%; and *energy providers*, 13%. *Accountants*, 27%, and to a lesser extent, *specialist consultants*, 5%, have been the main providers of assistance to prepare family businesses for the introduction of the Carbon Tax. Interestingly however, 88% of family businesses note that they *have NOT measured their carbon footprint*.

### Appreciation of the Australian Dollar

The appreciation of the A\$ against other world currencies has impacted the profit margins of 43% of family businesses. To compensate, businesses have *cut costs, postponed business expansion plans, reviewed their product and service lines and sourced more materials/services from offshore into processes*. 64% of respondents *do NOT foresee positive market improvement over the next 12 months*.

### Use of social media to communicate with customers

Two thirds of family businesses *do NOT use social media (Facebook, Twitter, blogs) to communicate with their customers online*.

### Use of design as part of business strategy

A third of family businesses *do NOT use design as part of their business strategy*, with *funding and time considerations* cited as the main reasons.

### Levels of business profitability and market share

37% of family business owners report that over the last three years the levels of business profitability and market share have *declined*; 39% of family business owners report that they are *about the same* and 24% that they have *increased*. 36% have *positive expectations* of core market improvement over the next 12 months, 43% have *negative expectations* and 21% are *uncertain*.

### Superannuation Guarantee Contribution (SGC)

32% of family businesses intend to fund the SGC increase from 9% to 12% between now and 2020 from *future staff pay increases*, whereas 68% intend to *fund it from profits*.

### Support for family and non-family business SMEs

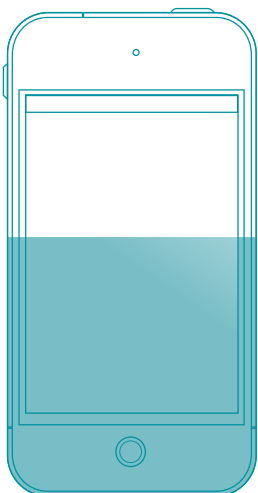
91% of family businesses indicate that they are *NOT receiving enough support from the Federal Government* and 83% *do NOT believe that the Federal Opposition is doing enough to offer policies that support SMEs*. This may change in the foreseeable future following the release in March 2013 of the *Family Businesses in Australia Report* of the Commonwealth Parliamentary Joint Committee on Corporations and Financial Services. The committee concluded that, as a result of its inquiry, it was clear that family businesses have been a largely unrecognised part of Australia's economy and that the main purpose of its Report was to further the conversation within government about family business issues.

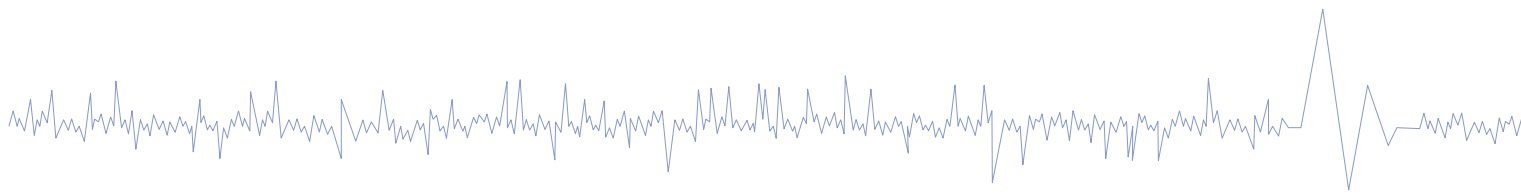
## MAIN MOTIVATION AND OBJECTIVES FOR STARTING OR REMAINING IN BUSINESS

The main motivations reported by family business owner-managers for starting or remaining in business are: *to be self-employed and independent*, 66% and *to create wealth*, 55%. Only 21% nominate *passing on the business to the next generation* as an objective and only 9% nominate *employing family members*.

# 53%

OF FAMILY BUSINESS OWNER-MANAGERS INDICATE THAT THEY HAVE CONCERNS FOR THE FUTURE OF THEIR BUSINESSES.





## CONCERNS FOR THE FUTURE

Over half (53%) of family business owner-managers indicate that they have *concerns for the future of their businesses*, primarily the *financial performance of the business*, 58% (27% in 2003) and *problems with their particular industries*, 55% (15% in 2003). These, and other identified concerns, are in addition to the challenges they confront in *selecting a successor*, 22% or in dealing with *lack of family interest in the business*, 9%.

## FAMILY INVOLVEMENT IN THE BUSINESS

- Family members most actively involved in the business are: *spouses*, 35% and *sons*, 36%, followed by *daughters*, 9% and *brothers*, 8%.
- Just under two thirds (61%) of family business owners **do NOT** require family members to have outside business experience before joining the business.
- 44% of respondents state that *family membership is important when considering appointment of senior managers*.

## DAUGHTERS IN THE FAMILY BUSINESS

- Not only are sons four times more *actively involved in family businesses*, 36%, than daughters, 9%, they are also six times more likely to *succeed the current CEO as family business leaders*, 65%, versus 11%.
- 43% of family businesses note that daughters are *as interested in being actively involved in the business as sons*.
- 31% are of the view that it is *more difficult for daughters to be actively involved in the business than it is for sons*.
- 30% believe that the need for *work-family balance* and *maintenance of family relations* keep daughters from taking top-level management positions in the business.
- 9% express the view that *fathers find it easier to mentor daughters as potential successors* than they do sons.

## MANAGEMENT AND GOVERNANCE PRACTICES

Over half (55%) of family businesses **do NOT** have a *strategic plan* and 48% **do NOT** have a *business plan*. Not surprisingly, hardly any family businesses have set a *definite date for the transfer of leadership responsibility and control to the next generation*, 4% or *designated a mandatory retirement age for senior executives*, 2%.

Only 30% of respondents indicate that the business has a *specially designed successor development program*, with 36% emphasising *integrity* and *commitment to the business* as primary successor attributes.

Although 40% of family businesses have *identified a clear set of values and a culture they wish to perpetuate*, 88% have **NOT** agreed on a *family code of conduct or charter to govern the family-business interface*. Very few (16%) family businesses have *established policies to deal with predictable family-in-business issues before the need arises*. Even fewer, have *established conflict management and resolution processes*, 12% or *processes for welcoming, educating and inducting in-laws into the family*, 13%.



# 55%

OF FAMILY BUSINESSES DO NOT HAVE A STRATEGIC PLAN.





## GOVERNANCE – BOARDS OF DIRECTORS

An active Board of outside directors can assist family business owners to improve the quality of corporate decision making and planning. Nevertheless, 62% of family businesses **do NOT** have a formal Board of Directors. Moreover, of those that have a Board, 72% **do NOT** have non-family executive directors on their Boards and 83% **do NOT** have non-family, non-executive directors on their Boards. The main reasons provided are: a desire to retain privacy, 49% and skills required at Board level exist in-house, 29%.

## OWNERSHIP STRUCTURE OF FAMILY BUSINESSES

In most family businesses, ultimate ownership control is consolidated in a husband and wife couple, 48% compared with 12% in two or more siblings (brothers and/or sisters); 28% in one individual and 2% in cousins from different sibling branches. The pie chart overleaf (Figure 1) shows the underlying ownership structure for first, second and third and subsequent generations.

## LEADERSHIP SUCCESSION

Looking into the future, 41% of family business owners believe 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:

- only 21% identify passing the business on to the next generation as a main motivation or objective for starting or remaining in business;
- more than half, 58%, indicate that younger generation family members are **NOT** as interested in actively managing the business as the older generation;
- 25% indicate the low relative ability of potential successors as factors likely to impede/prevent successful leadership succession, while 20% cite dissatisfaction/lack of motivation of successors; and
- as a result, 40% indicate that, to the extent that business ownership will remain in the family, the current CEO is more likely to be succeeded by a non-family manager.

The table opposite (Table 2) shows family business owner-managers' intentions in relation to future leadership and ownership of the family business, split by generations of the business.



# 41%

OF FAMILY BUSINESS OWNERS BELIEVE THAT IT WILL NOT BE FEASIBLE TO IMPLEMENT LEADERSHIP SUCCESSION IN THEIR FAMILY BUSINESS.



Figure 1 – Ultimate underlying ownership configuration of family businesses

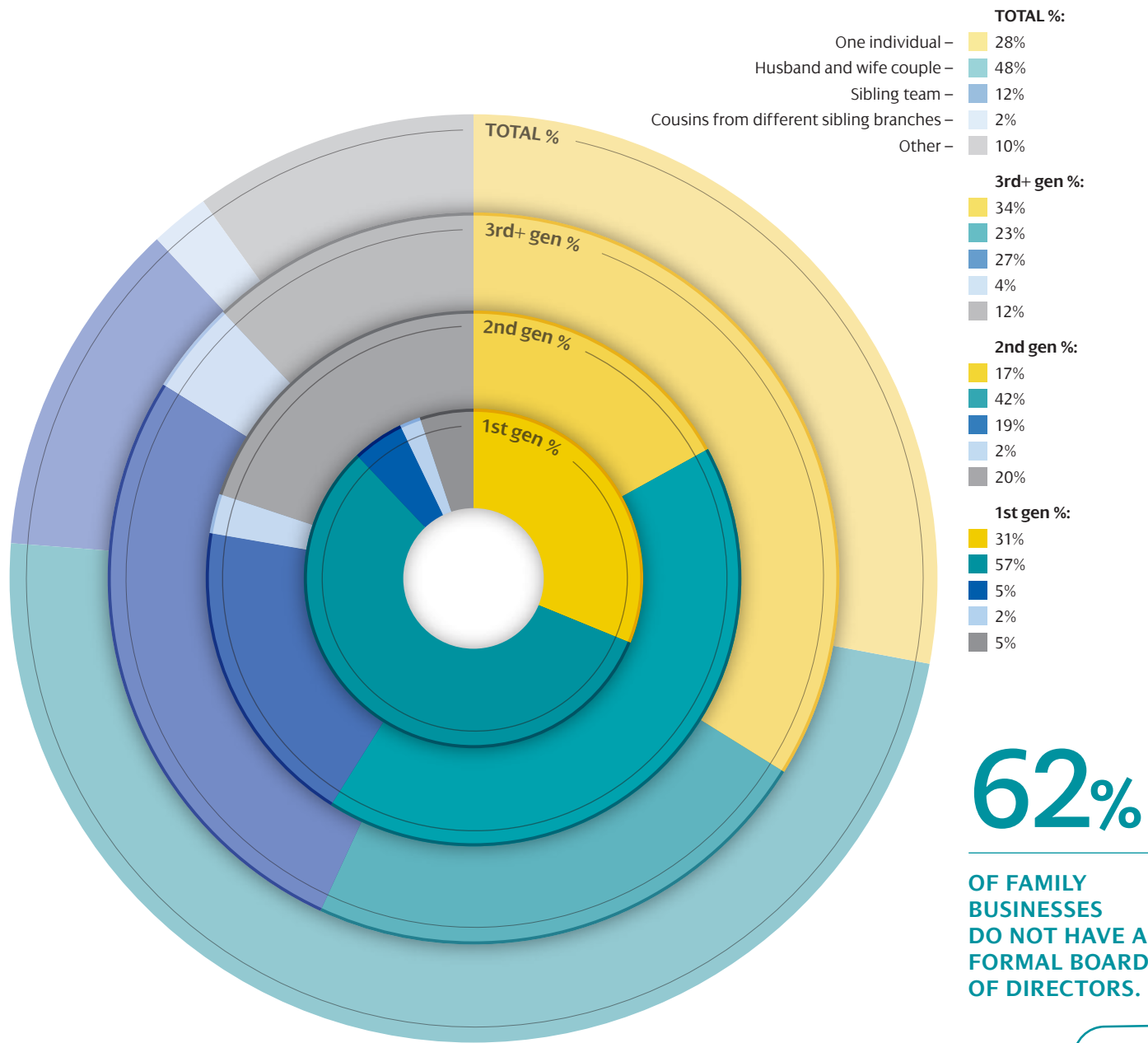
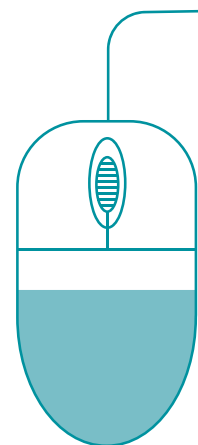


Table 2 – Intentions in relation to future leadership and ownership by generation

Generation	1st gen %	2nd gen %	3rd+ gen %
Family intends to keep business in family ownership	48	72	88
Family intends to have family member manage business	52	70	84
Family intends to pass leadership to a team of siblings	25	49	58
Owners intend to transfer some equity to next generation during their lifetime	45	59	65
Owners intend to differentiate between active and passive successors	36	54	60





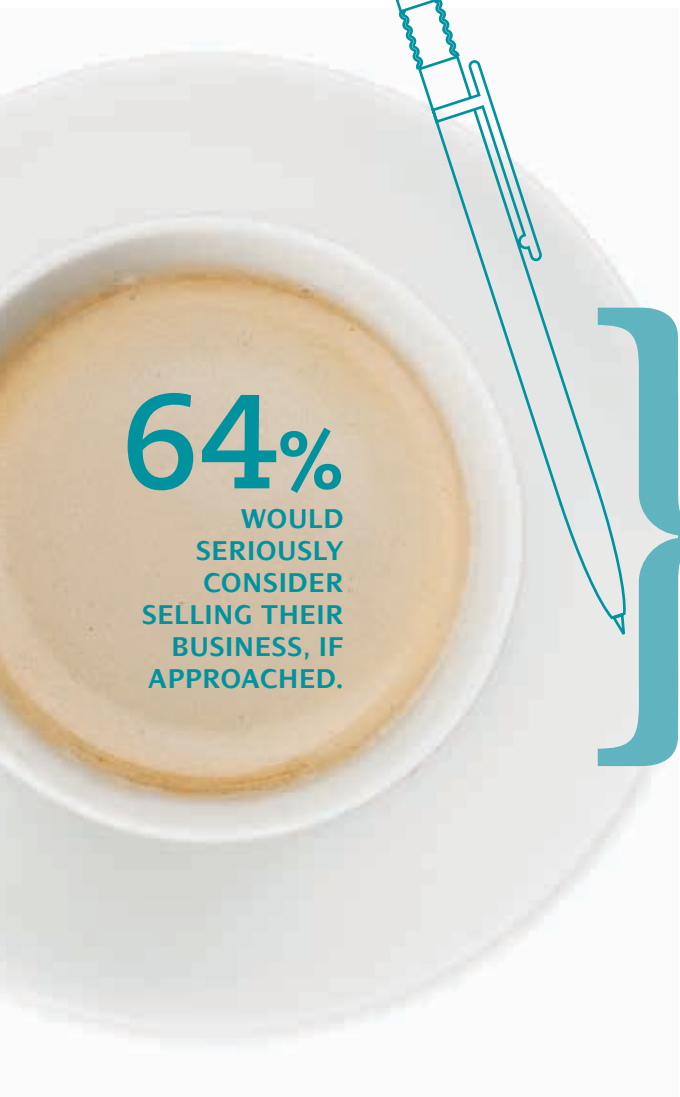
### RETIREMENT OF OWNER-MANAGERS

- 58% of family business owner-managers see themselves *working in the business beyond 65 years of age*, with 65% indicating that their businesses are **NOT** exit or succession ready. Interestingly, 56% indicate that they **do NOT** intend to do something about it in the next 12 months.
- Encouragingly, 70% of family business owner-managers have something to retire *to* as against simply something to retire *from*, i.e. their business.
- 66% believe they have an *adequately funded retirement program*, however, 33% 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 FAMILY BUSINESS

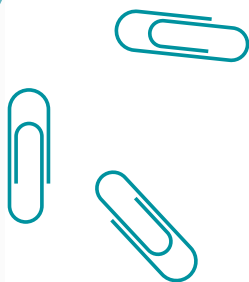
Just under half (44%) of family business owners indicate that *they are actively planning the future sale of their business* either *now or later*. Moreover, 64% would *seriously consider selling their business, if approached*, with 25% reporting that *they have been approached in the last 12 months*. A third of owners are concerned about the feasibility of *securing adequate capital for growth and retirement* and about obtaining requisite *liquidity for family owners to exit the business*.

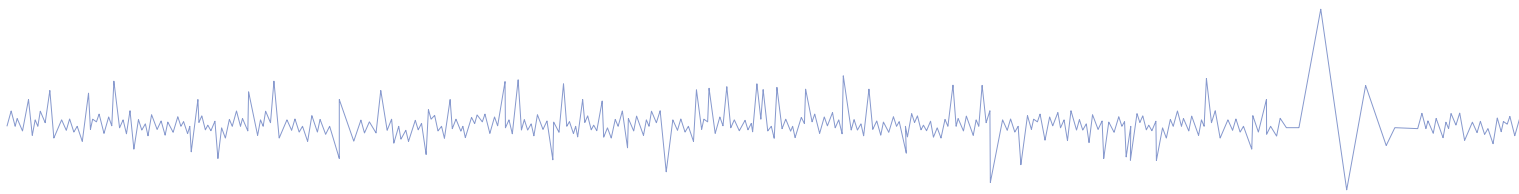
As reported in the 2006 and 2010 MGI Australian Family And Private Business Surveys, approximately half of family businesses are less likely to become later generation firms, not as a result of any managerial failure on their part, but because their intentions, as well as their active plans, are to exit their businesses for various reasons via a trade sale. The main stated reasons are *concern for the future*, 25%; the *wish to retire*, 32% and the *lack of family successor*, 21%. To that extent, therefore, it would be inappropriate simply to equate family business success with succession.



**64%**  
WOULD  
SERIOUSLY  
CONSIDER  
SELLING THEIR  
BUSINESS, IF  
APPROACHED.

Just under half of family business owners indicate that they are actively planning the future sale of their business either now or later.





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## An advocate for family and privately-owned businesses – MGI's pedigree

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

With a twenty-eight year track record of working with Australia's family and privately-owned businesses, MGI provides practical solutions for management problems, governance practices, taxation, succession and retirement planning.

Not only does MGI provide professional advice to these vital contributors to the Australian economy, but we also take pride in our advocacy role through our decade long support of RMIT's family and privately-owned business survey series. This series provides one of the few means by which Australian family and private business owners can voice their opinions and concerns.

As each MGI firm in Australia is privately-owned, we also understand the structure and nature of family businesses and their current commercial concerns through first-hand experience. This knowledge allows us to work with you to develop business solutions that 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 as your business growth advisor, you also have access to one of the world's leading professional services networks, with MGI firms located in Australasian capital cities and important regional centres. Internationally, MGI firms are located in 280 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.

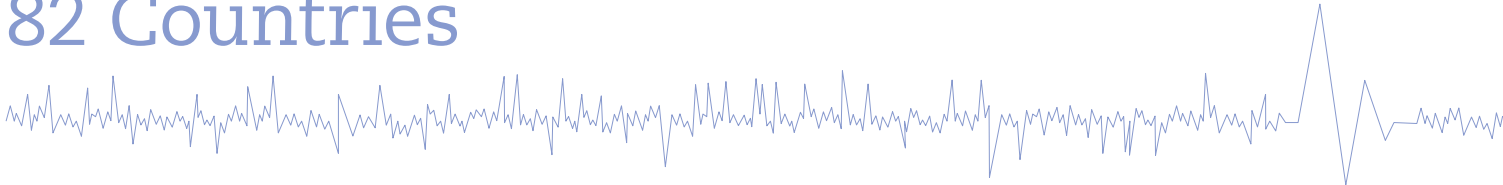


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#### OTHER GLOBAL LOCATIONS

##### Africa

##### Asia

##### Europe

##### Latin America

##### Middle East and North Africa

##### North America

##### UK and Ireland

### The MGI Australian Family and Private Business Survey

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