

Chapter 5

The challenge of succession

...one of the big things globally that everyone is struggling with is succession—how do you transfer wealth from one generation to the next generation; how do you do it properly without causing a lot of issues within the family and sometimes breaking up the family? Globally I think Australia is probably leading the way as far as that is concerned.¹

...people need to be educated as to benefits and the consequences of a great succession plan...[F]rom my experience and from what I have seen, people who have the foresight and thinking get to where they need to go, because they plan to get there.²

Introduction

5.1 The fourth article of this inquiry's terms of reference relates to the structural, cultural, organisational, technological and governance challenges facing family businesses. Arguably the most significant challenge that family businesses must address is the challenge of succession: preparing for and passing the business on to the next generation.

5.2 Indeed, many argue that it is this challenge that defines the success of a family business and distinguishes the business from non-family businesses.³ Representatives of the family business sector, academic commentators and families in the sector identified succession as 'a major issue'.⁴ The 2010 *Australian Family and Private Business Survey* found that matters affecting succession were among the more critical issues confronting family businesses.⁵ Succession was listed first among the challenges identified by KPMG:

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- 1 Mr Peter Pagonis, Partner, Deloitte Private, *Committee Hansard*, 14 November 2012, p. 4.
 - 2 Mr Ian Joseph, Executive Chair, Agribusiness Council of Australia, *Committee Hansard*, 7 February 2013, p. 16.
 - 3 See, for example, Moores Family Enterprise, *Submission 8*, p. 5; Mr Simon Le Maistre, Partner, KPMG, *Committee Hansard*, 14 November 2012, p. 40; Family Business Australia, *Submission 1*, p. 2; MGI Australasia, *Submission 9*, p. 6.
 - 4 See, for example, Dr Christopher Graves, Professor Mary Barrett, and Dr Jill Thomas, *Submission 14*, p. 4; Mr Peter Levi, Managing Director, Co-owner, Colorific Australia, *Committee Hansard*, 14 November 2012, p. 38; Mrs Philippa Taylor, Chief Executive Officer, Family Business Australia, *Committee Hansard*, 14 November 2012, p. 34; Ms Rosaria Panteleo, Chief Executive Officer, La Porchetta, *Committee Hansard*, 14 November 2012, p. 39.
 - 5 Lucio E. Dana and Professor Kosmas Smyrniotis, *The MGI Australian Family and Private Business Survey 2010*, RMIT University, July 2010, p. 15.

The key issues facing family businesses are: management and equity succession, fostering and support of the complexity within the business, recognition and support of the complexity facing families in business as the owners and managers, the conflict inherent in family business where you have an overlap of ownership, family and business in management.⁶

5.3 The challenge of succession is common to family businesses across a range of sectors including transportation,⁷ agriculture and primary industry,⁸ and manufacturing.⁹ Succession appeared as an issue common to all businesses in the family business sector regardless of their size.¹⁰ Family Business Australia (FBA) told the committee:

It is an enormously difficult task to find something that all family businesses completely agree upon, but I would say that there are certain fundamentals in common. One of them, for example, would be the issue of succeeding to the next generation and how policy can affect that positively.¹¹

5.4 There is also a perception of the family business sector as a global community, with succession challenges common to family businesses regardless of geographical location:

[O]ne of the big things globally that everyone is struggling with is succession—how do you transfer wealth from one generation to the next generation; how do you do it properly without causing a lot of issues within the family and sometimes breaking up the family?¹²

5.5 The succession challenge was depicted as an issue of ongoing concern. Mr Christopher Lowe, Chief Executive Officer (CEO) of Bus Association Victoria noted that 'succession has been an issue in my industry since year dot.'¹³ PricewaterhouseCoopers argued that succession required continual management as economic and legal frameworks change:

6 Mr William Noye, National Leader, Family Business Services, KPMG, *Committee Hansard*, 16 November 2012, p. 10.

7 Mr Christopher Lowe, Chief Executive Officer, Bus Association of Victoria, *Committee Hansard*, 14 November 2012, p. 10.

8 National Farmers' Federation, *Submission 29*, pp 7–8.

9 Mr Albert Beard, Chairman and Managing Director, A H Beard Manufacturing, *Committee Hansard*, 15 November 2012, p. 52.

10 Professor Mary Barrett, Professor of Management, University of Wollongong, *Committee Hansard*, 15 November 2012, p. 40.

11 Mrs Philippa Taylor, Chief Executive Officer, Family Business Australia, *Committee Hansard*, 14 November 2012, p. 34.

12 Mr Peter Pagonis, Partner, Deloitte, *Committee Hansard*, 14 November 2012, p. 4.

13 Mr Christopher Lowe, Chief Executive Officer, Bus Association of Victoria, *Committee Hansard*, 14 November 2012, p. 10.

Succession planning is not new in any sense but it is something that needs to be looked at anew given the post-World War II complexity that came about in business regulation, not only with family law and succession law from a wills and estates perspective.¹⁴

Strategies to assist intergenerational business transfers

5.6 Evidence varied on the essential features of viable succession plans. Research by MGI Australasia recommends that succession plans contain the following features:

- documentation of buy-sell agreements providing clearly defined and fair ownership options;
- a designated mandatory retirement age for all senior executives and owner managers;
- the appointment of a family leader to perform the role of supporting the family emotionally; and
- a definite date for the transfer of leadership responsibility and control to the next generation.¹⁵

5.7 Family businesses appearing before the committee noted varying features including the use of family trusts, family constitutions and transition periods to allow for graduated transfers of control.¹⁶ Mr Albert Beard, Chairman and Managing Director, A H Beard Manufacturing, spoke of the necessity for clear documentation:

How you join the business and all those sorts of things will be documented, they will have a much better understanding how the transition will work.¹⁷

5.8 Deloitte Private defined succession planning as a process of establishing measurable objectives and clear parameters on the roles and responsibilities of family members. It was further submitted that the process could usefully involve external expertise:

Families need to clarify the qualities, educational requirements, work experience and expectations they have of the next generation. They also need to consider what support they will provide, i.e. a number of our clients have found using an independent mentor to work with next-generation

14 Mr Paul Brassil, Partner, Private Clients, PricewaterhouseCoopers, *Committee Hansard*, 15 November 2012, p. 27.

15 Lucio E. Dana and Professor Kosmas Smyrnios, *The MGI Australian Family and Private Business Survey 2010*, July 2010 p. 18.

16 See, for example, Mr Peter Ciliberto, Group Managing Director, Ciliberto Nominees Pty Ltd, *Committee Hansard*, 14 November 2012, p. 43; Mr Andy Kennard, Owner, Kennards Hire, *Committee Hansard*, 15 November 2012, p. 49; Mr Peter Levi, Managing Director, Co-owner, Colorific Australia, *Committee Hansard*, 14 November 2012, pp 38–39.

17 Mr Albert Beard, Chairman and Managing Director, A H Beard Manufacturing, *Committee Hansard*, 15 November 2012, p. 52.

family members is very helpful as a mentor is able to provide objective feedback free of family bias and uncluttered by family issues. It is also important to clarify who the next generation will report to, how they will be compensated and the performance criteria they will be measured on. It is critical these expectations are articulated from the outset and measures are as objective as possible.¹⁸

5.9 Professor Mary Barrett emphasised that while approaches may differ, the key is that succession planning takes place:

What the research seems to say is that it is not the actual succession planning or the involvement of the next generation in strategic planning that actually makes a difference; it is more the fact that it happens. It is more the fact that it is addressed. It is not so much that the solution might be really fantastic, but more the fact that somebody's paying attention and attending to the issue.¹⁹

Barriers to managing succession

5.10 The evidence before the committee is that many family businesses are under-prepared for the challenge of succession. KPMG's 2009 family business survey (see chapter 3) indicated that the majority of family businesses do not have in place succession management plans. Of the family businesses surveyed in 2009, only 15 per cent reported having formal secession plans. A further 31 per cent reported 'they were currently working on one'.²⁰ The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) advised of a 2006 survey of Australian farms which indicates that less than 10 per cent have established documented succession plans:

ABARES included questions on farmers' succession planning in the National Farmer Survey 2006 undertaken to review the Agriculture Advancing Australia (AAA) package. The survey targeted farms with an estimated value of agricultural operations (EVAO) of \$22,500 or more and the industries surveyed were: crops, mixed crops–livestock, sheep, beef, mixed sheep–beef, vegetables, fruit, sugar, cotton and wine grapes.

In this survey, 52 per cent of farms indicated that they expected to pass the farm to a family member. Around 25 per cent of farms had a written business plan and a succession plan was included in only 35 per cent of business plans.²¹

18 Deloitte Private, *Submission 16*, p. 17.

19 Professor Mary Barrett, University of Wollongong, *Committee Hansard*, 15 November 2012, p. 37.

20 KPMG and Family Business Australia, *KPMG and Family Business Australia Survey of Family Businesses 2009*, p. 26.

21 Australian Bureau of Agricultural and Resource Economics and Sciences, answer to question on notice, 14 November 2012 (received 13 December 2012).

5.11 Pitcher Partners Consulting Pty Ltd identified 'a hesitation about succession, a reluctance to engage in what is seen as an uncomfortable discussion, uncertainty about how to proceed, and the resulting delay in commencing or engaging in a meaningful way in the process of succession'.²²

Recognising the need for a succession plan

5.12 The committee heard of several reasons why family businesses may be hesitant to engage with succession planning issues. Mr Peter Taylor, a member of the Queensland chapter of FBA, identified a fundamental reason:

One of the biggest difficulties we have in family businesses is owners who are yet to work out that they are in a family business and they need to work on succession. I have no idea how you get that light turned on in people's heads. I was fortunate in that I went to a family business gathering on Hamilton Island with about 500 other people. While I was there I sort of realised that this is not my business; this is a family business. The moment people recognise that they have a family business all these other opportunities—such as getting succession happening in a logical way, which might take a couple of years—can start to be taken.²³

5.13 Conversely, it was put to the committee that businesses that identify as family enterprises may not be actively considering the role of future generations:

I am the second generation, and a third generation is in the business. Up until 10 years ago I was really not conscious of necessarily passing it on to the next generation. It might have been there in the very background but there was no clear intention or plan or anything. It was only when I joined FBA and started learning about succession that I became aware of it.²⁴

Balancing future planning with immediate management needs

5.14 It was acknowledged that predominantly family businesses are 'time poor'.²⁵ KPMG noted that time pressures can compromise planning, particularly in the area of succession:

[Research] suggests that the main reason why family businesses fail is a 'failure to effectively and thoughtfully communicate' and finding the time to develop strategic planning involving multiple generations of the family, when faced with the day to day demands of the business itself.

22 Pitcher Partners Consulting Pty Ltd, *Submission 28*, p. 8.

23 Mr Peter Taylor, Queensland Committee Member, Family Business Australia, *Committee Hansard*, 16 November 2012, p. 29.

24 Mr Andy Kennard, Kennards Hire, *Committee Hansard*, 15 November 2012, p. 49.

25 See, for example, Mr Nick Behrens, General Manager, Advocacy, Chamber of Commerce and Industry Queensland, *Committee Hansard*, 16 November 2012, p. 8.

The failure to communicate typically revolves around the question of the future management and control of the business e.g. the capacity of the current owners to step aside, the confidence of the current generation in the ability of the next generation, the dilemma of moving from a dictatorship to a democratic environment.²⁶

5.15 Family business owners noted similar time pressures. As Mr Matthew Power, manager and owner of the Canberra-based family business, Iken Furniture, explained:

You go into a family business, you start the business, you have come out of a job and you probably have a small amount of cash. You are really working hard, you have brothers, sisters, mums, children and whoever to help you get going and you are working weekends.

You start to see some cash, which is great. But then there is compliance and you have to do the minimum because you are selling and doing whatever you need to do. Then the next thing comes along and you do a bit more compliance, and then you start to put in place some procedures. A lot of this takes time. It is not even about the cash you are generating, it is the time to get your head around it. You are so busy trying to keep the business rolling along and getting the next order, whatever that order is, that is what tends to be the situation.²⁷

5.16 KPMG identified that immediate business pressures can limit an enterprise's capacity to plan for succession:

[V]ery often, when people are in business they do not have their minds on what is going to happen 20, 30 or 40 years out. They are focusing on growing the business and making the business work.²⁸

5.17 Indeed, research conducted by KPMG in 2011 indicated that:

...the main reason why family businesses fail is a failure to effectively and thoughtfully communicate and finding the time to develop strategic planning involving multiple generations of the family, when faced with the day-to-day demands of the business itself.²⁹

5.18 In this context, the committee notes the implications of family business failure for family members' superannuation arrangements. In particular, it is of concern if family businesses presume that their assets are the best form of retirement savings. Should the business fail, those assets may need to be sold to cover debts, leaving family members without adequate retirement savings.

26 KPMG, *Submission 21*, p. 10.

27 Mr Matthew Power, ACT Chairman, Family Business Australia, General Manager, Power Family Group, *Committee Hansard*, 14 November 2012, p. 53.

28 Mr Simon Le Maistre, Partner, KPMG, *Committee Hansard*, 14 November 2012, p. 47.

29 KPMG, *Submission 21*, p.8.

The willingness and capacity of the next generation to manage the family business

5.19 The perceived and actual capacity of the next generation to assume ownership or management positions can also be a challenge to effective succession planning. FBA has noted research indicating that the success or failure of intergenerational transfers can be affected by the level of trust in the abilities of potential successors and the level of interest of potential successors in the business.³⁰ This research is consistent with the views of submitters to this inquiry.

5.20 The evidence before the committee highlighted concerns among the current generation that the next generation is not qualified, or is unwilling, to continue the family business. PricewaterhouseCoopers noted concerns that the next generation may not possess the requisite expertise:

The proverbial, 'The first generation starts a business, the second generation consolidates it and the third generation loses it altogether' is a maxim that we would not want to be part of perpetuating, but there is some truth in some of these things.³¹

5.21 The committee was referred to research indicating that approximately 50 per cent of family businesses will be 'unable' to transfer ownership to the next generation 'due to lack of qualifications'.³² Similarly, Deloitte Private advised that the current generation may consider delaying succession due to concerns that family members are not qualified to operate the business:

They advise us they don't feel ready to hand over their business because they don't believe their children are ready to manage and grow it.³³

5.22 Commenting on the decline of the next generation's interest in assuming responsibility for the business, MGI Australasia noted anecdotal evidence indicates that succession management practices have had to change to accommodate changing societal attitudes:

[T]here is a change of the attitudes in the community or perhaps in the younger generations. Once it was almost assumed that if mum and dad had a business, the children would take over. That has certainly changed due to a number of things including the fact that business has changed so much now. The traditional business, the local supermarket or whatever, was never much different. All of a sudden there are all these other things out there

30 Family Business Australia, *Australian family business sector statistics*, <http://fambiz.org.au/documents/AustralianFamilyBusinessSectorStatistics.pdf> (accessed 9 November, 2012).

31 Mr Paul Brassil, Partners, Private Clients, PricewaterhouseCoopers, *Committee Hansard*, 14 November 2012, p. 26.

32 Dr Christopher Graves, Professor Mary Barrett, and Dr Jill Thomas, *Submission 14*, p. 4.

33 Deloitte Private, *Submission 16*, p. 16.

now so people are finding that the next generation does not necessarily want to take on mum and dad's business.³⁴

5.23 Within the family business sector, there is a view that ownership is an entitlement not a privilege. As a family business adviser Mr Mark Cleary stated:

[T]here is an assumption that I am part of the family I am going to manage it. Well, here is some news: not necessarily. That is not genetically passed on. There is no right.³⁵

5.24 Mr Cleary argued that succession planning must prioritise 'commercial imperatives' rather than family ties:

[T]here are commercial imperatives that I think some family businesses are light on because they have not been exposed at that tough edge of the world. They are full of heart, they are full of family values, but until they get that commercial edge I think that is an inhibitor. That is what I was getting at, that they need to be forced out and told, 'There is no place here for you until you earn a place at this table.'³⁶

5.25 Mr Beard also spoke of the priority given to skills. He linked qualifications to financial stability and the capacity to raise necessary funds:

Because our business relies very much on cash flow lending, the quality of the people looking after the business is very high on the agenda, without involving bricks and mortar. So yes the qualifications are very important to what I know about the ANZ Bank. They are probably already ticking those boxes themselves.³⁷

5.26 There is an expectation by some family businesses for prospective owners to acquire skills outside the family business.³⁸ As Mr Desmond Caulfield, Director, MGI Australasia, noted family business advisors may encourage family members to gain experience outside the business:

When the younger generation start getting into the business we will suggest to them that they need to go and do some outside training, even to the

34 Mr Desmond Caulfield, Director, MGI Australasia Ltd, *Committee Hansard*, 15 November 2012, p. 25.

35 Mr Mark Cleary, Business Adviser, Sharpe Bros, *Committee Hansard*, 15 November 2012, p. 52.

36 Mr Mark Cleary, Business Adviser, Sharpe Bros, *Committee Hansard*, 15 November 2012, p. 49.

37 Mr Albert Beard, Chairman and Managing Director, AH Beard Manufacturing, *Committee Hansard*, 15 November 2012, p. 52.

38 See, for example, Mr Mark Cleary, Business Adviser, Sharpe Bros, *Committee Hansard*, 15 November 2012, p. 49.

extent of saying, 'Perhaps it might be worth going to work for someone else for a while, just to see how somebody else does things.'³⁹

5.27 Similarly, Deloitte Private advised:

Some of our clients insist family members must gain outside experience before being allowed to have a role in the family business, which gives family members an opportunity to prove themselves free of actual or perceived nepotism. They can then join the business with more to offer, having gained confidence and self-esteem from working in and proving themselves in an independent organisation.⁴⁰

5.28 However, outside training and skills development does not appear to be a well-established practice in the family business sector. MGI Australasia conducted research in 2010 which indicates that 58.4 per cent of family businesses do not require family members to gain external experience prior to employment with the family enterprise.⁴¹

5.29 Submitters also noted that the success of intergenerational transfers can be affected by the willingness of the next generation to take responsibility for the family business. Some submitters were quite positive about the willingness of the next generation to be part of the business:

[Y]ou have to get the next-genners engaged in the business; that is No.1... I have seen young next-genners—people in their 20s—willing to step up and take on those roles.⁴²

5.30 Mr Justin Taylor, Director of T & T Corporation, argued that there are factors that can encourage and motivate the next generation to be involved in the business. He explained:

It starts quite early. It depends what sort of family business you are in. The entrepreneurial spirit is alive and well in some of those families. It has a lot to do with your upbringing and whether you work inside the family business for a little while or whether the family lets the kids go and make mistakes on someone else's money and time. It is about bringing those experiences back into the family and encouraging growth and the concepts you get from outside the family to help the family business grow internally.⁴³

39 Mr, Desmond Caulfield, Director, MGI Australasia Ltd, *Committee Hansard*, 15 November 2012, p. 27.

40 Deloitte Private, *Submission 16*, p. 17.

41 MGI Australasia Ltd, *Submission 9*, p. 5.

42 Mr Justin Taylor, Director, T&T Corporation Pty Ltd, *Committee Hansard*, 16 November 2012, p. 32.

43 Mr Justin Taylor, Director, T&T Corporation Pty Ltd, *Committee Hansard*, 16 November 2012, p. 32.

5.31 In contrast, Mr Michael Stillwell of Stillwell Motor Group, argued that engaging the current generation is a key challenge for family businesses:

The challenges for us in taking over the business were putting in place an effective governance regime and an effective reporting regime. Today we find that our challenge is one of engaging the third generation and making sure we can educate them and provide them with the professional development that they need to run the business going forward.⁴⁴

5.32 The committee was advised of factors that could deter the next generation from assuming responsibility for the family business. In particular, it was noted that difficulties in communicating expectations relating to the role of running the business could hinder the succession process by creating uncertainty for the next generation. Pitcher Partners Consulting Pty Ltd advised that:

Our research to date has identified...[a]n overwhelming view that children are not expected to follow in the family business and that they do have a choice, combined with the belief that they also do not have a natural entitlement to ownership and control. These views create uncertainty on both the part of the existing and new generation with neither being sure what the future holds.⁴⁵

5.33 The problem of an apparent lack of interest among the current generation appeared to be particularly marked in rural areas. The National Farmers' Federation (NFF) reported that succession arrangements for Australian farmers have been affected by 'a decline in the rate of entry of young people into farming'.⁴⁶ ABARES also reported a decline in interest in family-owned agricultural enterprises:

There is a lot of concern, too, with young people leaving the farm and a lot of people not wanting to come back to farming, so part of the succession planning is the fact that the next generation is not necessarily always wanting to go back to farming.⁴⁷

The willingness and capacity of the current generation to relinquish control

5.34 The capacity of the next generation to take over, however, is only part of the necessary ingredients for a successful intergenerational transfer of the family business. It was argued that the willingness and capacity of the current generation to relinquish control is of equal importance. The 2010 *Australian Family and Private Business Survey* found that financial security of the current generation can influence succession

44 Mr Michael Stillwell, Director, Stillwell Motor Group, *Committee Hansard*, 16 November 2012, p. 44.

45 Pitcher Partners Consulting Pty Ltd, *Submission 28*, p. 8.

46 National Farmers' Federation, *Submission 29*, p. 8.

47 Mr Paul Morris, Executive Director, Australian Bureau of Agricultural and Resource Economics and Sciences, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 13 November 2012, p. 44.

strategies. A 'substantial proportion' of the businesses surveyed reported that they are 'relying either on the sale of the business or continuing family business ownership for the cash to fund their retirement'.⁴⁸ Similarly, KPMG's 2011 survey records the view of family business owners that succession planning needs to provide for the current owners in their retirement. As one owner commented:

No one is going to move aside for the next generation unless they know they're secure actuarially for the rest of their life. As John D. Rockefeller said, "I worked out how much it's going to cost me for the rest of my life to live and I am going to add a nought to it and make sure I get there".⁴⁹

5.35 Evidence before the committee also captured the impact of succession on the current generation's ongoing financial security. Generally, it was noted that owners and operators of family businesses can be confronted with the challenge of funding retirement. Mr Michael Stillwell, Director, Stillwell Motor Group, reported being confronted with the challenge to 'fund our retirement out of the business'.⁵⁰ The Power Family Group also noted the challenges of funding retirement, submitting that succession places additional financial demands on the business without increasing the business' asset base:

The next thing that challenges family businesses are equity, equity sharing and equity transfer. This is going to become particularly difficult over the next 15 years as the baby boomers, who have generated so much wealth and have been so successful, now want to transfer that wealth onto the next generations, and want to know how that is going to be achieved in a manner which both keeps the businesses as viable, going concerns and keeps people employed—which is the nature of where it is up to—so that it does not get continually divested, cut down and split as we go along.⁵¹

5.36 In addition to financial constraints, the committee's attention was drawn to concerns that the current generation may be unwilling to transfer ownership. Ms Pamela Low of Pamela Low and Associates reported that family businesses can be affected by an '[u]nwillingness of patriarchs and matriarchs to relinquish control and change habits'.⁵² Similarly, Mr Justin Taylor, T & T Corporation Pty Ltd, argued that

48 Lucio E. Dana and Professor Kosmas Smyrniotis, *The MGI Australian Family and Private Business Survey 2010*, RMIT University, p. 23.

49 Focus group participant, as cited in, KPMG and Family Business Australia, *Stewards: Moving Forward, Moving Onward – KPMG and Family Business Australia's Family Business Survey 2011*, 2011, p. 24.

50 Mr Michael Stillwell, Director, Stillwell Motor Group, *Committee Hansard*, 16 November 2012, p. 44.

51 Mr Matthew Power, ACT Chairman, Family Business Australia, General Manager, Power Family Group, *Committee Hansard*, 14 November 2012, pp. 47-48.

52 Ms Pamela Low, *Submission 13*, p. 2.

successful succession planning should also focus on 'getting the incumbent willing to let go'. This aspect was identified as presenting challenges for family businesses.⁵³

5.37 KPMG has noted a correlation between individual identity and business identity. As one participant to KPMG's 2011 family business survey commented 'I need to retire, that is a fact. But if I'm not that business, who am I?'⁵⁴ The NFF also suggested that the link between personal identity and involvement in the family business may deter the current generation from relinquishing the business:

There are many obstacles to be overcome while developing a sound succession plan. For example, parents passing the farm business on to their children may be concerned that they will be marginalised.⁵⁵

Management structures and family conflict

5.38 Two further and related issues were put forward as having the potential to derail successful succession planning. The Institute of Chartered Accountants Australia submitted that businesses with poor or informal management structures are less likely to successfully manage the succession process:

Many family businesses, especially those in the SME sector, have little depth of management and the retention/attraction of key managers is critical for the successful transition of the business from the current owner/manager.⁵⁶

5.39 Regional Development Australia Pilbara also noted the importance of appropriate management structures to the succession process:

A key challenge for family businesses is the transference of ownership and management when leaders are seeking to retire or leave the business. Succession may be passed to family members, if there are any suitable and willing, yet there can be resistance to changes brought in by new family management. Ideally, family businesses need to balance the founding family values and culture that drive the business with an appreciation for new ideas and the changing business environment. These issues are also relevant when family businesses are sold or external professionals are introduced to run the business.⁵⁷

53 Mr Justin Taylor, T&T Corporation Pty Ltd, *Committee Hansard*, 16 November 2012, p. 32.

54 Focus group participant, as cited in, KPMG and Family Business Australia, *Stewards: Moving Forward, Moving Onward – KPMG and Family Business Australia's Family Business Survey 2011*, 2011, p. 26.

55 National Farmers' Federation, *Submission 29*, p.8.

56 Institute of Chartered Accountants Australia, *Submission 25*, p. 3.

57 Regional Development Australia Pilbara, *Submission 33*, p. 2.

5.40 Submitters also argued that family conflict can present a barrier to successful succession planning. Deloitte Private identified the following opportunities for conflict arising out of the succession process:

- Sibling competition, e.g. where all children want to be CEO of the business
- Parental expectations which can lead to feelings of unworthiness
- Inequality, both emotional and monetary, which can lead to conflict and unresolved issues among family members.⁵⁸

5.41 Ms Pamela Low, Principal, Pamela Low and Associates, also referred to the potential for family conflict to derail the succession process. The committee was advised that succession is one area where private family dynamics can influence the business operation. As Ms Low stated, it is this challenge of addressing family dynamics within a business governance model that distinguishes family from non-family enterprises:

The additional challenge for family businesses is this dynamic of the sense of entitlement of people that are members of the family outside the family [business] and the jostling for position in that organisation, status...That is the additional challenge for them.⁵⁹

5.42 Ms Low went on to argue that communication between family members is a critical component of managing the intergenerational transfer of family business.⁶⁰

Transferring the business to non-family members

5.43 There is a divergence of views on the merits of transferring ownership or management of the business outside the family. Pitcher Partners Consulting Pty Ltd argued that selling the business or otherwise incorporating non-family members are valid strategies to manage succession:

Succession planning is often thought of only in the context of transferring a business within a family. However succession takes many forms and can comprise the outright sale of the business to third parties, merging the business with others and the sale of the composite business, the sale of the business to a 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.⁶¹

5.44 In contrast, KPMG conceptualised a family business as an entity that is retained within a family:

58 Deloitte Private, *Submission 16*, p. 17.

59 Ms Pamela Low, Principal, Pamela Low and Associates, *Committee Hansard*, 15 November 2012, p. 10.

60 Ms Low, Pamela Low and Associates, *Committee Hansard*, 15 November 2012, pp 10–11.

61 Pitcher Partners Consulting Pty Ltd, *Submission 28*, p. 7.

To help support the long term stability and sustainability of family businesses, government should adopt policy measures that recognise the benefits of long-term multi-generational ownership by specifically recognising that on succession whilst individual ownership may change the family's ownership does not.⁶²

5.45 PricewaterhouseCoopers indicated that KPMG's concept of a family business may be more in line with the views held by businesses within the family business sector. PricewaterhouseCoopers advised that there is a reluctance among Australian family businesses to involve non-family members. Its research indicates that almost 40 per cent of the businesses surveyed intend to transfer business management and ownership to the next generation. The remainder are twice as likely to sell or float rather than transfer ownership of the business to the next generation but assign management of the business to persons outside the family unit.⁶³ The data suggested that the concept of 'family' is intertwined with the concept of 'business'—the business cannot be viewed apart from the involvement of family members. As KPMG submitted:

Central to all family businesses is the need for control to remain within the family and to have a mechanism in place that is sufficient to allow for the next generation to take over the family business.⁶⁴

5.46 It was also argued that there may be limited opportunities to sell the business to non-family members. The committee heard comments that, in the absence of willing buyers, transferring ownership to third parties is 'not a viable alternative succession strategy'. Dr Chris Graves, University of Adelaide, Professor Mary Barrett, University of Wollongong, and Dr Jill Thomas, University of Adelaide, argued that the number of family businesses unable to transfer the business to the next generation exceeds the pool of third parties with the capacity to buy the businesses.⁶⁵ The problems associated with the absence of available buyers appear to be particularly marked in rural and regional areas. The Department of Regional Australia, Local Government, Arts and Sport identified particular challenges in selling businesses in rural areas given the absence of buyers.⁶⁶

62 KPMG, *Submission 21*, p. 2.

63 PricewaterhouseCoopers, *Submission 11*, p. 2.

64 KPMG, *Submission 21*, p. 15.

65 Dr Christopher Graves, Professor Mary Barrett, and Dr Jill Thomas, *Submission 14*, p. 4

66 Mr Simon Atkinson, First Assistant Secretary, Regional Apology and Coordination, Department of Regional Australia, Local Government, Arts and Sport, *Committee Hansard*, 14 November 2012, pp 34 and 37.

Growing expertise in succession management across the family business sector

5.47 Despite the challenges confronting family businesses, it was also evident there is growing expertise in the area of succession management. Mr Lowe from Bus Association Victoria advised that succession matters have received increasing attention over the past decade:

When I look at my current membership of 470 bus operators, 95 per cent of them are third or more generation, so grandad or great-grandad started the business. So it is something that is not new to them. They have been working on succession planning in a very unsophisticated, non-academic manner for some years but in the last, say, 10 years we have seen a move by my membership, the 470 bus and coach operators, to adopt a more formal and documented process of succession planning.⁶⁷

5.48 KPMG noted that preparing and training a successor is an issue of high to very high importance for 59.5 per cent of the family businesses surveyed by KPMG in 2011.⁶⁸ Data from the 2009 and 2011 KPMG surveys indicate that succession planning is increasingly on family businesses' radar. In 2009, 19.3 per cent of family businesses surveyed had established succession plans for the CEO.⁶⁹ In 2011, this figure had increased to 35 per cent.⁷⁰ The number of succession plans for other senior positions held by family members has also increased, from 18.4 per cent in 2009 to 28 per cent in 2011.⁷¹

5.49 The committee heard there is momentum within the sector to address the challenges of succession. As Deloitte Private advised, family businesses are seeking to increase skills relevant to managing the succession process:

Deloitte Private believe educating the next generation of family members is the key to ensuring the successful transition of family businesses to future generations. In the majority of our Client Service Assessment interviews, the patriarchs/matriarchs of our family business clients ask us whether we have a program to educate their next generation.⁷²

67 Mr Christopher Lowe, Chief Executive Officer, Bus Association of Victoria, *Committee Hansard*, 14 November 2012, p. 10.

68 KPMG, *Submission 21*, p. 9.

69 KPMG and Family Business Australia, *KPMG and Family Business Australia Survey of Family Businesses 2009*, 2009, p. 10.

70 KPMG and Family Business Australia, *Stewards: Moving Forward, Moving Onward – KPMG and Family Business Australia's Family Business Survey 2011*, 2011, p. 12.

71 KPMG and Family Business Australia, *KPMG and Family Business Australia Survey of Family Businesses 2009*, 2009, p. 10; KPMG and Family Business Australia, *Stewards: Moving Forward, Moving Onward – KPMG and Family Business Australia's Family Business Survey 2011*, 2011, p. 12.

72 Deloitte Private, *Submission 16*, p. 16.

5.50 Similarly, Family Business Australia noted interest in professional development, advising that the organisation has instituted 'the first comprehensive Succession Planning Course designed to address both transactional challenges and the important emotional challenges of "handing over", whether it's a family (inter-generational transfer), non-family (external CEO) or sale'.⁷³

5.51 Family business owners told the committee that the sector is developing sophisticated approaches to succession management that respond to the businesses' needs and the economic and legal environment. Mr Peter Levi of Colorific told the committee of his strategies to transfer the management and ownership of the company.⁷⁴ Mr Sam Kennard of Kennards Self-Storage spoke of the benefits of planning for both the transfer ownership and the transfer of management.⁷⁵ Mr Andy Kennard of Kennards Hire advised that his business is 'quite structured now in our succession planning', adopting measures that include a family constitution.⁷⁶

5.52 Mr Graham Henderson, the managing director of a long-standing family business, and Director of Family Business Australia, also highlighted the significance of succession planning for businesses' success:

With increased education maybe this would reduce the level of business failures in Australia. Business failures cost the economy lots of money, so education is very important and certainly I would encourage greater education in the area of family businesses and things like succession planning and governance. Those things I believe are very important.⁷⁷

5.53 Education is seen as the key to fostering a culture of proactive succession management within the family business sector. Family business sector representatives, family business advisors and family businesses were united in the view that education is critical to the longevity of family enterprises.⁷⁸ Deloitte Private argued:

We believe any efforts from the government to support education and assist family businesses and intergenerational wealth transfer would be very important. Training is key.⁷⁹

73 Family Business Australia, *Submission 1*, p. 7.

74 Mr Peter Levi, Managing Director, Co-owner, Colorific Australia, *Committee Hansard*, 14 November 2012, pp 38–39.

75 Mr Sam Kennard, Kennards Self-Storage, *Committee Hansard*, 15 November 2012, p. 50.

76 Mr Andy Kennard, Kennards Hire, *Committee Hansard*, 15 November 2012, p. 49.

77 Mr Graham Henderson, Director, Family Business Australia, *Committee Hansard*, 14 November 2012, p. 43.

78 See, for example, Mr Michael Sharpe, Joint Managing Director, Sharpe Bros Australia, *Committee Hansard*, 15 November 2012, p. 51; Mr Peter Taylor, Queensland Committee Member, Family Business Australia, *Committee Hansard*, 16 November 2012, p. 27.

79 Mr David Hill, National Managing Partner, Deloitte Private, Deloitte Touche Tohmatsu, *Committee Hansard*, 14 November 2012, p. 43.

Advantages of family trusts for succession planning

5.54 In addition to education and training, the committee heard of a number of options to assist the intergenerational transfer of family businesses. These include removing existing shareholder limitations in order to attract suitable business managers,⁸⁰ and the creation of a family trust.

5.55 The committee heard that family trusts play a legitimate role in the management of the intergenerational transfer of family businesses.⁸¹ Notably, it was argued that family trusts are integral to successful succession planning:

The reality is that a family business is not just the individuals currently running it; it is a family business, which means it is for the children and the grandchildren. There needs to be a mechanism whereby this family business can be transferred for the future generations to grow up and work in it. That is what the family trust really achieves. It enables that successful succession planning. It enables assets to be held for future generations.⁸²

5.56 It was argued that family trusts possess features that facilitate business transfers. These included the apparent capacity of family trusts to provide structure and order to the succession process:

[I]t can enable transition of control as well as transition of profits and entitlements from the company to be done in a structured and meaningful way over a period of time.⁸³

5.57 Additionally, family trusts reportedly 'keep the business intact' by retaining family control. Mr Simon Le Maistre of KPMG argued that family trusts in effect encourage businesses to remain family enterprises as, in contrast to a company structure, a family trust structure does not provide family members the opportunity to divest their interests to third parties:

If you had this in a vehicle like a company, the challenge is that it is likely the interests will be sold off, and very often those interests will be sold outside the family group. That will then change [the business] fundamentally. It will go from being a family operated and owned business to being something that is shared and owned amongst a variety of partners – and that changes very much the structure and the whole ethos behind what the family business is. If you keep in a trust it forces those involved, the family members, to work together...the ownership and control, ultimately, are not split amongst many.⁸⁴

80 See, for example, MGI Australasia, *Submission 9*, p. 5.

81 Institute of Chartered Accountants, *Submission 25*, p. 5.

82 Mr Simon Le Maistre, Partner, KPMG, *Committee Hansard*, 14 November 2012, p. 40.

83 Mr Simon Le Maistre, Partner, KPMG, *Committee Hansard*, 14 November 2012, p. 40.

84 Mr Simon Le Maistre, Partner, KPMG, *Committee Hansard*, 14 November 2012, p. 40.

5.58 Similarly, Mr Robert Powell, a Partner at Grant Thornton Australia, told the committee:

I have also found that having family business assets in a trust is a way that people try to keep the family involved in the business. It is quite difficult to cash in your share of the trust. In fact, it is difficult if not impossible a lot of the time.⁸⁵

5.59 This view was shared by several of the family businesses that contributed to the inquiry. Mr William Winter, BW Business Development, provided a personal account of the effect of not operating under a family trust structure:

I will tell a story about me. When my father died, he did not leave a will. There are five children, as well as in-laws. We picked up on a phrase that you might have heard before: 'Where there's a will, there's a relative.' It was so true in our case. If he had had some kind of trust structure set up, my brother and I would probably still be running that family business.⁸⁶

5.60 It was also argued that family trusts can remedy the barriers to successful succession planning posed by capital gains tax (CGT). Family business owners and advisers have claimed that CGT can undermine the prospects of a successful succession process, as CGT rules are 'restrictive and impact on their [family businesses'] ability to structure to continue to operate into the future.'⁸⁷ Family trusts were presented as a legitimate means to avoid the financial implications of CGT and, thereby, reduce the financial impact of a succession event:

When you operate outside a trust you face many challenges – capital gains tax, stamp duty – with trying to transfer your business. Within the environment of family trust, this can be done when it is commercially right with minimal tax costs.⁸⁸

5.61 However, it was further noted that due to changes to the *Income Tax Assessment Act 1997* effective as of 1 November 2008 family trusts could no longer operate to protect businesses from incurring capital gains tax when transferring business ownership to the next generation.⁸⁹ This issue is explored in chapter 6.

5.62 In contrast to views that family trusts provide, or could previously provide, an optimal means of ensuring intergenerational business transfers, the committee heard

85 Mr Robert Powell, Partner, Grant Thornton Australia, *Committee Hansard*, 15 November 2012, p. 13.

86 Mr William Winter, BW Business Development, *Committee Hansard*, 14 November 2012, p. 41.

87 Mr Yasser El-Ansary, General Manager, Leadership and Quality, Institute of Chartered Accountants in Australia, *Committee Hansard*, 14 November 2012, p. 17.

88 Mr Simon Le Maistre, Partner, KPMG, *Committee Hansard*, 14 November 2012, p. 40.

89 See, for example, Mr Simon Le Maistre, Partner, KPMG, *Committee Hansard*, 14 November 2012, p. 40.

evidence that family trusts present challenges to the succession process. The challenge of funding the retirement of the current generation remains for family businesses trading as family trusts.⁹⁰ It was also suggested that family trusts may impede a family business from evolving. Mr Stillwell commented that the family trust structures may reflect previous business needs rather than current business practice:

The importance of trust structures has been touched upon today. My father did set up a trust when he went to work in the USA for 10 years back in the early 1980s. That structure has now passed on to us. The structure is out of date and we need to change that to modernise it and reflect custodianship from generation to the next generation going forward.⁹¹

Is succession necessary?

5.63 As chapter 4 observed, representatives and members of the family business sector have argued that family businesses are the bedrock of the Australian economy. By extension, the argument was put that continuing family businesses is necessary to maintain a productive and growing economy. As Dr Graves, Professor Barrett, and Dr Thomas argued:

...a successful transition of family firms (e.g. to the next generation, via management buyout or sale) is critical to national economies because a successful transfer is estimated to conserve, on average, five jobs, whereas start-up generates on average two jobs.⁹²

5.64 Mr Levi reiterated this view, arguing that family business closures that result from a failure to successfully transfer the business jeopardise the health of Australia's economy:

If we can encourage the next generation to come through, take control and truly feel ownership of the business, that is going to benefit the employee, so there is a multiplier effect, because the business will not only continue but also flourish and continue to grow. If we do not do that, we are really at risk. I think it is a massive issue for this economy.⁹³

5.65 Mr Levi argued the need for government policy and legislative support is required to assist the succession process. As he told the committee:

I think it is vital, not only to the business – in this case, our business – but the economy as a whole that legislation supports the future of family business. Without a fair and effective transition mechanism, it is not going

90 Mr Simon Le Maistre, Partner, KPMG, *Committee Hansard*, 14 November 2012, p. 46.

91 Mr Michael Stillwell, Director, Stillwell Motor Group, *Committee Hansard*, 14 November 2012, p. 45.

92 Dr Christopher Graves, Professor Mary Barrett, and Dr Jill Thomas, *Submission 14*, p. 4.

93 Mr Peter Levi, Managing Director, Co-owner, Colorific Australia, *Committee Hansard*, 14 November 2012, p. 47.

to be possible. There have been so many points raised today where it has been highlighted how family business adds value to the economy.⁹⁴

5.66 The Institute of Chartered Accountants Australia also called for government policy to actively support the continuance of family businesses:

We need to make sure that we do everything possible, as stated earlier, to put in place policies that help support and promote the viability of the family business sector in the future.⁹⁵

5.67 The statistics indicate that a significant portion of family business owners are intending to retire in the coming decade. The Institute of Chartered Accountants Australia submitted that responding to the retirement of the baby boomer generation, and the resulting consequences for the family business sector, is one of the most significant challenges confronting Australia's economy:

In this country we do have, as the committee would be well aware, a number of economic challenges, one of the most significant challenges related to demographic profiles our economy and the workers in our economy. There is cause for concern for us in this particular area if we are staring down the barrel of the situation where a very significant number of small businesses of family businesses are looking to exit the economy, in effect – to stop trading, to stop conducting business, to stop employing people and to stop making profits upon which they pay tax.⁹⁶

5.68 Mr Levi argued that with the impending retirement of the baby boomer generation, support for the succession process is a pressing priority:

[I]f, as I understand it, 70 per cent of Australian businesses are family businesses and 80 per cent of those are going to transition [in] the next 10 years, then it is a major issue for the Australian economy.⁹⁷

5.69 The Institute of Chartered Accountants claimed that it is a priority issue that requires deliberate government intervention:

There is certainly an argument that market forces will do whatever job they need to do in order to pick up gaps or fill voids. But I do not think that it is appropriate to leave all of the hard work to markets. There is an equally important role for policy to help guide and shape the way in which the market responds to various issues. If we get the policy settings right and put

94 Mr Peter Levi, Managing Director, Co-owner, Colorific Australia, *Committee Hansard*, 14 November 2012, p. 47.

95 Mr Yasser El-Ansary, General Manager, Leadership and Quality, Institute of Chartered Accountants in Australia, *Committee Hansard*, 14 November 2012, p. 21.

96 Mr Yasser El-Ansary, General Manager, Leadership and Quality, Institute of Chartered Accountants in Australia, *Committee Hansard*, 14 November 2012, p. 21.

97 Mr Peter Levi, Managing Director, Co-owner, Colorific Australia, *Committee Hansard*, 14 November 2012, p. 38.

in place the right frameworks to help support rather than impede the growth of the family business sector than that can help.⁹⁸

5.70 Pitcher Partners Consulting Pty Ltd concurred:

As you are aware family businesses are among the most important contributors to wealth and employment creation in virtually every country in the world. They are a critical part of the Australian economy. It is forecast that family businesses valued at some \$3.5 trillion+ will change hands over the next decade as the baby boomer generation pass their businesses on. The smoothness of this transfer will impact the prosperity of the Australian economy but no government policy exists to support the effectiveness of this transfer.⁹⁹

5.71 Statistics were provided to support the view that the retirement of the baby boomer generation will significantly affect the family business sector and, by extension, the Australian economy.¹⁰⁰ The 2006 MGI Australasia *Australian Family and Private Sector Survey* estimated that 80 per cent of family businesses owners will retire in the coming decade. In citing this statistic, Pitcher Partners provided the following data:

Commonly cited statistics from The MGI Family and Private Business Survey 2006 are:

- 97% of businesses are privately owned
- Average age of owners is 55 years of age (and therefore in 2012, the average age will be closer to 60 years)
- Percentage intending to retire in the next 10 years is 81% (but most likely delayed by GFC)
- Owners with no exit strategy is 75%

And when considering the demographics of the Baby Boomer Generation:

- Comprises persons born between 1946–1964
- In 2012 their ages range from 48–66 years of age
- In 2020 they will be between 56–74 years of age with the weighting heavily towards the higher end.¹⁰¹

5.72 The 2006 MGI Australasia *Australian Family and Private Sector Survey* reports that '84 per cent of CEOs plan to retire within the next 10 years'.¹⁰² The survey

98 Mr Yasser El-Ansary, General Manager, Leadership and Quality, Institute of Chartered Accountants in Australia, *Committee Hansard*, 14 November 2012, p. 21.

99 Pitcher Partners Consulting Pty Ltd, *Submission 28*, p.7.

100 See, for example, Mr Peter Levi, Managing Director, Co-owner, Colorific Australia, *Committee Hansard*, 14 November 2012, p. 47; Pitcher Partners Consulting Pty Ltd, *Submission 28*, p.7.

101 Pitcher Partners Consulting Pty Ltd, *Submission 28*, p. 7.

draws on information received from approximately 1000 Australian businesses, both family businesses and non-family enterprises. The definition of family business, or the methodologies used to distinguish a family enterprise from a non-family business, is unclear. While the survey report outlines various definitions of family businesses, the report does not indicate which definition was used for the purpose of the survey. However, the report does assert that the responses 'can be seen as representative of Australian privately owned enterprises'.¹⁰³ More recently, the 2010 MGI Australasia *Australian Family and Private Sector Survey* did not speculate on the number of family business owners intending to retire in the coming decade. However, the survey report noted that 45.2 per cent of family business owner-managers are intending to work beyond 65 years of age.¹⁰⁴

5.73 Chapter 3 of this report discussed submitters' views on the KPMG estimate that 61 per cent of family business owners plan to retire by 2016.¹⁰⁵ The KPMG survey states that '26 per cent intend to retire within five years and 35 per cent between 5 and 10 years'.¹⁰⁶ With six years having passed since the survey was released, this suggests that less than half, indeed approximately a third, of Australia's family businesses will be affected by the retirement of the baby boomer generation.

5.74 Hunter Business Chamber and Regional Development Australia Hunter queried whether it was applicable to family businesses in the Hunter region, stating that 'we do not have on hand enough detail of the Deakin Uni's [sic] 2006 findings to know for sure if the data apply to The Hunter'.¹⁰⁷ Accordingly, further data collection was recommended:

Given the potential impact of the statistics, and our roles as representatives and information providers to policymakers, it would be preferable to have current and local data regarding the intentions and future plans of the family business sector in the Hunter over the short, medium and long-term.¹⁰⁸

102 Professor Kosmas Smyrniotis and Lucio E. Dana, *The MGI Australian Family and Private Business Survey 2006*, Melbourne, p. 24.

103 Professor Kosmas Smyrniotis and Lucio E. Dana, *The MGI Australian Family and Private business Survey 2006*, Melbourne, p. 9.

104 Lucio E. Dana and Professor Kosmas Smyrniotis, *The MGI Australian Family and Private Business Survey 2010*, RMIT University, July 2010, p. 23.

105 See, for example, Dr Christopher Graves, Professor Mary Barrett, and Dr Jill Thomas, *Submission 14*, p. 4; Family Business Australia, *Submission 1*, p. 7; Hunter Business Chamber and Regional Development Australia Hunter, *Submission 27*, p. 4.

106 Lynda Glassop, Pauline Hagel and Diane Waddel, *KPMG and Family Business Australia Family Business Needs Survey 2006*, 2006, p. 8.

107 Hunter Business Chamber and Regional Development Australia Hunter, *Submission 27*, p. 4.

108 Hunter Business Chamber and Regional Development Australia Hunter, *Submission 27*, pp 4–5.

5.75 The significance of the impending retirement of the baby boomer generation was also challenged by views that succession is not necessary to ensure a viable, growing economy. It was suggested that there is a natural evolution in the life cycle of family business. The committee received representations from Mr David Smorgon, Director, General Investments Pty Ltd, that their family businesses can take various forms and, consequently, their success may not require sustaining the business within the family:

When you talk about family business, clearly dealing with succession goes hand in hand with that. But there is life after a family business. One of the things it is important that the committee understands is, particularly with the larger groups which may go through to the second, third and even the fourth generation, if the family business then sells out, for whatever reason, there is still life after the family business for the next generations, albeit in a different form.¹⁰⁹

5.76 Deloitte Private concurred, arguing that the family business sector is broader than a conglomerate of individual family businesses. Mr Peter Pagonis argued that a family business can evolve into a 'family office':

[i]t goes from a business to a family office, which is the Smorgon story. But it gets even better than that...All these family offices do help the next generation of new family businesses. That is the key point.¹¹⁰

5.77 Mr Smorgon noted that family businesses can divide and in doing so strengthen the economy through supporting further business initiatives:

To highlight the point I made earlier, since then there are now probably up to 30 different Smorgon family offices—I will not call them business—set up for the seven branches of the family. This is because, once the funds were distributed to the seven families, each of those seven families then split up into brothers and cousins. So today I would estimate that there are up to 30 of them, all out in the marketplace, all doing their own thing, but making a contribution to the community as well.¹¹¹

Committee view

5.78 The committee acknowledges that succession is a key challenge that separates family businesses from non-family businesses. The challenge relates not only to the governance of the firm, but also the underlying dynamics and culture of the business including its perception as a family business that can be passed on. Family businesses are unique in that they not only face the economic and financial hurdles common to all

109 Mr David Smorgon, Director, General Investments Pty Ltd, *Committee Hansard*, 14 November 2012, p. 47.

110 Mr Peter Pagonis, Deloitte Private, *Committee Hansard*, 14 November 2012, p. 5.

111 Mr David Smorgon, Director, General Investments Pty Ltd, *Committee Hansard*, 14 November 2012, p. 5.

businesses, but in addition they must plan and time a succession that leaves the business with the requisite skills, knowledge and leadership.

5.79 The extent to which business ownership and management within the family business sector will change in the coming decade as a result of the retirement of the baby boomer generation is unclear. Without sufficient longitudinal data, the economic consequences of this generation's retirement are largely unknown. The committee reiterates recommendation 2 of this report, which draws the attention of the proposed IDC to the issue of succession and whether a public policy response is needed. To this end, the IDC must also consider whether it is necessary to quantify the extent to which ownership of family businesses will be transferred in the coming decade as a result of the retirement baby boomer generation.

Recommendation 11

5.80 The committee recommends that the proposed IDC consider the need to quantify the extent to which family businesses will be transferred or closed in the coming decade as a result of the retirement of the baby boomer generation, and the policy implications for the economy.