

## **Business Succession, Retiring Owners and Buyout Options: The Public Policy Perspective.**

Successful business succession for retiring owners has become a major public policy issue in Europe, North America and Australia where programs have been set up to assist owners to sell their businesses to either their employees or, in the case of vital community assets such as pubs, stores and services stations in rural towns, to local community groups.

From the business advisors perspective, the economy as a whole is a major stakeholder when it comes to successfully transferring a business across generations. Given the current demographics of business owners, a high failure rate to sell - leading to business closure - will impact on employment, economic output and business formation, particularly in rural areas where the loss of viable firms may reduce available employment or availability of services.

For those involved in "transition planning" in Australia - such as business and financial advisors - the four key "drivers" in this market are:

1. The typical SME owner is now 57 years old, with 40% planning to retire in the next five years (CPA Australia, 2004).
2. The number of business owners who intend to sell their firm on the open market as an exit strategy climbed to 38% in 2005/06 from 16% in 2004/05 (KPMG Family Business Survey, 2006).
3. Business assets worth \$1.6 trillion will be subject to ownership transfer in the next ten years (RMIT Australian Family and Private Business Survey, 2003)
4. Only one business in four currently going to sale in Queensland is being sold within twelve months - the rest are being withdrawn from sale and facing possible liquidation (RESI business broker, in conversation with a business consultant member of the Employee and Community Buyouts Network, 2006).

One UK Study is indicating that 30% of business closures now arise from "succession failure". This could represent major losses in business value and jobs in any one year in any BEC area.

In Australia, there is no official data on business transfer failures, though it is being estimated that only 15% of family businesses reach a third generation.

Faced with this kind of data, what do we need to consider in terms of policy to open up a supportive environment for retiring owners wanting to transition their business to employee or community groups?

The surveys mentioned pointed out that support systems for business transfers are not well developed in this country. The challenge in future will be to both increase the number of trained professionals and to improve the quality of training for those within the current system who are interacting with "succession" clients. The recently initiated AusIndustry "Business Succession" funding program has these objectives. It is clear, however that alternative succession options such as employee and community buyouts are just not on the radar of most financial and business advisors at present.

From the public policy perspective, it is important therefore for Governments to recognise that:

- The ageing demographics data is impacting on business owners as it is everywhere else;
- Significant numbers of businesses will be vulnerable to transfer failure;
- Employee and community buyouts are an increasingly attractive business transfer option;
- The take up of employee and community buyouts by vendors is constrained by a number of specific barriers that amount to market failure - notably lack of awareness, advice and guidance;

- Governments can play a constructive role in helping to remove or reduce these barriers which, in time, will help reduce business transfer failure rates.

Any public policy initiative will therefore need to be driven by two key objectives:

1. To make the sale of any business to its employees or to a community group as easy and as profitable to the business owner as a trade sale, and
2. To ensure that resources available in Government enterprise programs and private professional advisory services - which are currently heavily weighted towards start ups and early business growth – are re-balanced to ensure that equal emphasis is placed on assisting business continuity across generations.

There are also other factors making a strong case for public policy intervention to assist retiring business owners. These include:

1. Australia is out of step in this area compared with the UK, the US and elsewhere, as is indicated by the range of business succession support agencies and buyout funds available in these countries, and
2. The state of the succession market suggests that there is an urgent need for establishing alternative options to the normal progression of “business succession” services.

The process of developing new policies will also increase awareness of current problems within the business advisory service system such as:

1. “Baby boomer” family business owners without offspring to take over the business being advised not to further pursue the “succession” route but to look to making a quick and clean “exit” from their business through a trade sale or liquidation.
2. Business owners being lead to believe that they will get a good price for their business only from a trade sale. Trade sales are seen as the “safe path” compared to other alternatives. As a result, many retiring business owners are faced with the only possible exit from their business being via a trade sale to a competitor. This is likely to cost jobs in those communities affected.
3. With employee and community buyouts few and far between in this country, our advisory professionals are generally unaware of how such “purchases” can be structured, financed, negotiated and executed. Hence, the advisors do not recommend them as a viable option. This will only change with education and experience.

Further policy development in this field could also see the “leveraged ESOP” become as easy to implement here as it is overseas – and as a form of “ownership succession” rather than as merely an employee benefit as it is seen as now.

With a clearer policy position on these kinds of initiatives, there would be much more support for this strategically important community economic development process in the Australian community.

Further information on these issues can be obtained by contacting:

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