

"Innovative Methods for Business Succession Planning"

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ABSTRACT

The paper and original research conducted explores opportunities for and possible barriers to the flow of Private Equity (PE) funds into Small-to-Medium Family Enterprises (SMFEs) in South Australia (SA), seeking to raise funds for succession. A 2005 Australian survey indicates that 61% of family business owners holding senior positions in the organization plan to retire within the next 10 years. However, family business owner/ managers seeking to retire by cashing out of their business increasingly face succession issues as the next generation is unwilling or unable to step up and take over. This point of view is supported by a further 2005 Australian survey that found two-thirds of current SMFE owners will be unable to hand-over their business to the next generation. This situation is described as a potential crisis for family businesses and the Australian economy in general, particularly if traditional exit strategies such as trade sales are not able to cover the rising number of businesses on sale in the market. Similar experiences in Europe indicate that PE may provide a solution to the upcoming crisis through partnering and by funding business owner exit strategies such as:

Management Buy-Outs (MBOs)

Management Buy-Ins (MBIs)

Buy-In Management Buy-Outs (BIMBOs)

An increasing amount of PE funds available worldwide is surmised to benefit the Australian SMFE community. The European experience indicates an important role for professional advisers in making the market between PE providers and SMFE owners better understood, balanced and more accessible - thereby more efficient. This paper focuses on South Australia and yet is widely applicable and explores three gaps:

Knowledge Gap

Empathy Gap

Finance Gap

that exist between SMFEs and PE that are identified in current literature, but not yet studied in depth from the Australian perspective. The authors' exploratory research was conducted by sampling and interviewing sets of SMFE owners, PE providers and professional advisers operating in SA. The findings indicate that the three proposed gaps are acting as significant barriers for an efficient market in PE funding of SMFEs. Hence, a solution to the upcoming family business crisis is warranted and imperative. The authors propose several innovative recommendations to aid in bridging the gaps uncovered.

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