

Australian and New Zealand companies failing to prepare for the worst

MSI Global Alliance Business Impact Survey: Business Succession Planning

A recent MSI Global Alliance survey of more than 400 Australian and 200 New Zealand owner-managed businesses reveals that business owners are gambling on their ongoing health rather than creating an orderly succession agreement in the event of death or disability. The survey was undertaken in the last week of April 2012.

Two key findings of the survey reveal that just 24% of owner-managed businesses have a formal business succession plan in place while more than one third do not have key person insurance to cover an orderly business succession in the event of the death or disability of an owner-manager.

MSI spokesman Alec Blacklaw made the following comments: "It is critical in any owner-managed business that a well considered business succession plan is in place to protect the business and maximise the value for all stakeholders via an orderly sale, especially in the case of the unexpected death or disability of one of the owners. Too often businesses are brought to their knees when one working owner is lost to the business and there is no succession plan in place, or insurance, to fund the buy-out of the affected owner or their replacement."

With more than 1 million owner-managed businesses in Australia and more than 230,000 in New Zealand, the knock-on effect can be devastating, impacting ongoing employment, financing requirements and even business viability itself. Mr Blacklaw noted that "thousands of businesses are affected each year from the death or disability of a working equity participant. Many more are affected by disagreements on business direction between joint-owners. Combining a business succession plan with a buy-sell agreement and key person insurance ensures these issues are discussed and agreed before anything untoward occurs. It's about prevention rather than cure."

In conjunction with the survey of business owner-managers, MSI also surveyed aspiring business owners on the need for a business succession plan. Contrary to their owner-manager counterparts, almost 90% of aspiring business said they would take steps to create a documented business succession plan while 100% said they would want to obtain key person insurance.

"It is interesting to note that of the 76% of business owners surveyed who said they do not have a business succession agreement, 40% said this was because they just hadn't got round to it. Aspiring owners can see the importance of an agreement. However, it will be interesting to see how many of them actually do formulate and document a plan."

Survey findings:

Business owners

- 76% of owners do not have a documented Business Succession Agreement in place.

- 24% of owners do have a plan

- Of this group:

- o 40% said it was because they 'just haven't got round to it'
- o 12% said it was because they 'don't think it's important'
- o 10% said it was because they were 'not sure which steps to take'

- Of those who do have a plan:

- o 19% review it every year
- o 26% have never reviewed the plan

- 36% do not have key person insurance in place as part of their plan to cover the buy-out or replacement of a working partner in the event of death

or disability

Aspiring business owners

- 89% said that they would take the steps to create a documented Business Succession Plan (compared to just 24% of business owners who said they do have a current business plan in place)

- Of the 89% who said they would take steps to create a plan:

- o 54% said they would want to review it every year
- o 31% said they would want to review it every two to five years

- 100% of aspiring business owners said they would want to obtain key person insurance

- 58% of aspiring business owners said they would review their key person business succession insurance provisions every year, with 37% wanting to review every two years.

For more information or to arrange an interview, please call Maree Schneiders on 0411 446 484 or maree@strategyco.net

About MSI Global Alliance:

MSI Global Alliance (MSI) is one of the world's leading international alliances of independent legal and accounting firms, with over 250 member firms in 100 countries.

In Australia and New Zealand, MSI consists of 14 independent legal and accounting firms that provide specialist services to local and overseas businesses.

As a group, MSI members are committed to serving companies and individuals both in Australia, New Zealand and around the world.

For further information about MSI in Australia and New Zealand, visit www.anz.msiglobal.org

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