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 surveyof more than 400 Australian and 200 New Zealand owner-managed businessesreveals that business owners are gambling on their ongoing health rather thancreating 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 revealthat just 24% of owner-managed businesses have a formal business successionplan in place while more than one third do not have key person insurance tocover an orderly business succession in the event of the death or disability ofan owner-manager.

MSI spokesman Alec Blacklaw madethe following comments: “It is critical in any owner-managed business that awell considered business succession plan is in place to protect the business andmaximise the value for all stakeholders via an orderly sale, especially in thecase of the unexpected death or disability of one of the owners. Too oftenbusinesses are brought to their knees when one working owner is lost to thebusiness and there is no succesion plan in place, or insurance, to fund thebuy-out of the affected owner or their replacement.”

With more than 1 millionowner-managed businesses in Australia and more than 230,000 in New Zealand, theknock-on effect can be devastating, impacting ongoing employment, financingrequirements and even business viability itself. Mr Blacklaw noted that‘thousands of businesses are affected each year from the death or disability ofa working equity participant. Many more are affected by disagreements onbusiness direction between joint-owners. Combining a business succession planwith a buy-sell agreement and key person insurance ensures these issues arediscussed and agreed before anything untoward occurs. It’s about preventionrather than cure.”

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

“It is interesting to note thatof the 76% of business owners surveyed who said they do not have a businesssuccession agreement, 40% said this was because they just hadn’t got round toit. Aspiring owners can see the importance of an agreement. However, it will beinteresting 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 thisgroup:

- o40%said it was because they ‘just haven’t got round to it’
- o12% said it was because they ‘don’tthink it’s important’
- o10% said it was because they were‘not sure which steps to take’

-Of those whodo have a plan:

- o19% reviewit every year
- o26% havenever reviewed the plan

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

disability

Aspiring businessowners

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

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

- o54% said they would want to reviewit every year
- o31% said they would want to reviewit every two to five years

-100% of aspiring business owners saidthey would want to obtain key personinsurance

-58% ofaspiring business owners said they would review their key person businesssuccession insurance provisions every year, with 37% wanting to review everytwo years.

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

About MSIGlobal Alliance:

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

InAustralia and New Zealand, MSI consists of 14 independentlegal and accounting firms that provide specialist services to local andoverseas businesses.

As a group, MSI members are committed to serving companies andindividuals 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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