



VIEWPOINT

WEALTH & KNOWLEDGE TRANSFER

► THE BDO FAMILY BUSINESS WEALTH & KNOWLEDGE TRANSFER REPORT EXAMINES THE WEALTH TRANSFER INTENTIONS OF 320 BUSINESSES, THE MAJORITY OF WHICH CLASSIFIED THEMSELVES AS FAMILY BUSINESSES.

More than 38% of the surveyed respondents indicated their intention to transfer wealth within the next five years. To successfully transfer the business to their successor, incumbents need to prepare the successors and themselves to 'let the firm go'.

Preparing to let go is more than putting a succession plan in place and identifying a successor, which 39% of those surveyed have already done. For the transfer to be successful, and to enhance the probability of success, successors need to be developed and nurtured over time. A potential successor must '*learn business*', '*learn the family business*' and '*learn to lead the family business*'. A key element is the transfer of knowledge, in particular the tacit knowledge of the incumbent. Over 75% of family businesses indicated they intend to transfer this knowledge over the next four to five years, ultimately preparing the successor for successful wealth transfer.

Main findings of the survey:

Wealth transfer

- 93% intend to transfer business wealth within the family
- 7% intend to transfer business wealth outside the family
- *Individual, Business and Beneficiary* level considerations shape planned transfers.

Family business valuation – how much do we have to transfer?

- In preparing to let go and transfer the family business wealth, incumbents need to know the 'size of the pie' – how much the business is worth
- 21% of family businesses have never been formally valued
- Financial performance, risk and value of family firms is driven by unique family factors including level of professionalisation, generational stage and family involvement requiring a specialised valuer with experience and skills.

Transfer preparedness

- 39% have a complete succession plan that nominates a CEO successor
- A succession plan is noticeably less sophisticated for family successors
- Over 70% have no professionalised management or governance.

Knowledge transfer

- Transfer of family business knowledge is critical to the success of wealth transfer
- Firms with formal succession plans emphasise:
 - The successor's formal education and work outside the business – '*learning business*'
 - The successor's networking skills – '*learning the family business*'
 - Codifying knowledge, training in operational and financial management, and thinking strategically in the business – '*learning to lead the family business*'
- Successful multi-generational firms are more adept at managing the transition steps – '*learning to let go*'.

SECTOR

Family Business

"Many family firms are currently under-prepared for wealth transfer and lack sophistication if the plan is to nominate a family successor. These findings are consistent with our practical experience and highlights the need to plan wealth transfer for success."

Implications for wealth transfer

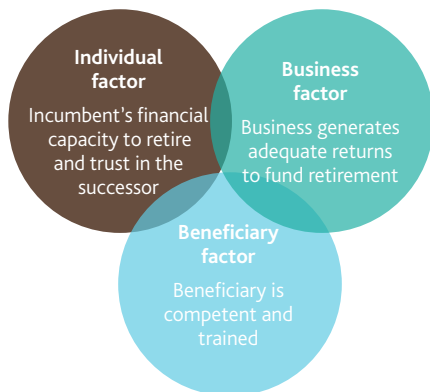
Family business as a sector represents two thirds of businesses in Australia, employing a significant proportion of the workforce and contributing significantly to the health and wealth of the economy. In the coming years, it is anticipated that a large number of baby boomer generation business decision makers will be transferring their business wealth and knowledge as they move into retirement. It is expected that the collective effect of the transference of wealth will be far reaching throughout all segments of the economy and that inter-generational change will pose significant challenges for family businesses, yet little to no research has been conducted on the possible impact of this change.

After years of creating the building blocks of understanding family business within BDO and the greater community, through previous research and thought leadership, we present this research to provide the family business community with information that will help them protect the interests of both the family and the business as they contribute to this unprecedented degree of wealth transference. We have sought to better understand the dynamics of wealth and knowledge transfer in these challenging times, and identify key trends and issues that will enhance successful transitions within private businesses.

With nearly 40% of family firms looking to transfer wealth in the next five years, it is critical for the economy that family firms are prepared to meet the challenges of wealth transfer and maximise the probability of successful transfer to the next generation. Wealth transfer for families in business, while important to the incumbent and successor family members, is a transition that is only likely to be successful if the incumbent family member:

- Wants to transfer the wealth to a family member (93% do)
- Is ready to transfer wealth (68% have four or more years to effect the transfer)
- Has imbedded a culture and desire for multi-generational stewardship within the firm.

The wealth transfer is impacted by factors perceived as important by the incumbent:



Many family firms are currently under-prepared for wealth transfer. Only 39% have a complete succession plan that nominates a CEO successor, and the sophistication of the succession plans are noticeably reduced for family successors. Over 70% of family businesses have not professionalised their management or governance structures, and are yet to engage in the difficult process of 'letting go' of management and board control.

In preparing to 'let go' and transfer the family business, incumbents need to know the size of the pie and how much the business is worth. Astonishingly, 21% of the family businesses surveyed have never undergone a formal valuation. Such valuations require professional skills, given the intertwined nature of the business, the family and the unique family factors that drive value.

A critical element in being able to 'let go' is investing in the process of knowledge transfer for the nominated successor. Firms with formal succession plans require successors to: (1) 'learn business' through formal education and working outside the business; (2) 'learn the family business' in particular the family network and network management skills; (3) 'learn to lead the family business' by codifying knowledge and learning the tacit knowledge, training in operational and financial management, and thinking strategically in the business. The most successful multi-generational firms are those who are more adept at managing these factors.

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