

# Inherit this?

Around \$1.6 trillion is expected to change hands over the next 10 years as baby boomers hand down or sell family businesses. But how will these sales or closures impact on their families, the community and the economy, asks *John Spoehr*?

**A**s baby boomers approach retirement, Australia is poised to see a rapid increase in the number of family businesses seeking to transfer ownership over the next 10 years. While many of these owners will successfully make this transition, research indicates that a significant number are likely to find it difficult and may face the prospect of closure.

To assess the likely impact of family business closures on families, the economy and the community as a whole so that future research and policy development related to the family business sector can be more informed, a case study was conducted with five family business owners/managers who closed their family business in South Australia during 2005 (a closure in this instance means the family business ceased operation or was sold to a non-family business operator). During this period, South Australia saw a period of strong economic and employment growth.

Closures have direct and indirect impacts which include employment losses, lost orders to suppliers, losses of revenue from business taxes, product or serv-

ice related losses to customers, losses of intellectual property, of business efficiency related to the establishment of trust and social capital, of entrepreneurial capital and unquantifiable benefits to the community and those directly affected in terms of lifestyle and personal fulfilment. However, it is also clear that there are benefits to some families from the closures.

Along with the rest of the country, Australia's small business owners are aging, with 33 per cent of them older than 50. Their ranks are growing annually at 3.7 per cent. The retirement rates of owners are set to increase over the next 10 years. It is estimated that 54.1 per cent of the first, 68.7 per cent of the second and 55.6 per cent of third to fifth generation owners plan to sell their businesses during that time. The value of the wealth transfer associated with this wave of sales is estimated at around \$1.6 trillion in assets over the 10 years to 2012.

According to the Productivity Commission, the economic impact of business exits represents around 3 to 4 per cent of Gross Domestic Product and around 10 per cent of total annual job losses. However, at present these impacts are more than offset by business start-ups and growth, with the business entry rate being two-thirds higher than the exit rate.

## IMPACTS OF FAMILY BUSINESS CLOSURES

The five case studies provided an insight into the range of impacts that might flow from family business closures.

**The Family:** While the loss of potential earnings and ability to hand the family business onto the next generation were significant impacts of closure, in most cases the closures appeared to have provided financial freedom and emotional relief. Owners realised a better quality of life and spent more time with their families.

**Asset Distribution:** Most families were content with the financial outcomes and there were no disputes over asset distribution. Three of the five families started new businesses (two of these later closed). One family invested in shares, property and also in their children's new business. One family said they lacked the energy, good health and inspiration to start another business and wanted to spend more time with their family. They also said the hectic nature and

## Closure shock

The issues that result from business closures can apply to both non-family and family businesses.

### EMPLOYMENT

Direct and indirect job losses, withdrawal from labour force, heavy burden on limited job placement services, costs of retraining

### INCOME

Financial hardship, declining average wages, increased demand for federal and state income support, increase in consumer debt

### PSYCHOLOGICAL

Personal hardship, high levels of anxiety and stress among workers and their families, increased domestic violence and child abuse, social and health impact of increased drug and alcohol abuse

### SALES AND PRODUCTION

Reduced demand for goods and services flowing from a decline in average weekly incomes

### COMMUNITY

Loss of corporate financial and in-kind support

### SUPPORT SECTOR

Employment losses in the support sector

### EXPORT AND VALUE-ADD

Decline in exports, lower value added to resources before export

### POPULATION

Immediate population loss as well as gradual, long-term population decline, out-migration of people who cannot find alternative employment

### TAXATION

Declining sales tax revenues due to lower business sales, declining property tax base, increased tax burdens on residents and businesses that remain, declining revenue base

### HOUSING AND REAL ESTATE

Increased demand for low cost housing and housing assistance, weakening of housing market

complexity of their business operations prevented them from securing any alternative investments. Age was seen as a barrier to starting a new venture.

**Employment:** Around 60 employees lost their jobs after one family business transferred to non-family business ownership. Employees in executive positions were less affected however trades staff suffered. In other cases, former employees were able to secure work largely due to the prevailing strong labour market conditions.

**Trading Partners/Suppliers:** Two closures had a significant impact. In one, the new management switched product suppliers and in the other the network of suppliers was abandoned by the new owner. In two cases, suppliers dependant on long-term relationships with the family business were significantly disadvantaged.

**Customers:** Product availability and service standards were key. In one case, the loyal customer base was hit by deterioration in product quality.

**Community/Cultural:** In one case, the business was actively involved in sponsorships, philanthropy, provision of English education for its employees and cultural programs. The new management abandoned many of those activities. In two cases, owners who sponsored sports believed their business closure would have a long-term impact on sponsorships.

**Environment:** In one case the new management used synthetic materials against recycled natural materials used by the former management.

The nature and magnitude of the impacts identified in the case studies appear to be have been greatly softened by favourable economic and labour market conditions in South Australia. Less favourable conditions in the future are likely to produce less favourable outcomes, particularly if a large number of family businesses were to come on to the market for sale at a similar time as data on the number of owners seeking to exit the sector over coming years suggest.

Associate Professor John Spoehr is Executive Director of the Australian Institute for Social Research, University of Adelaide

To view the full paper email [mbr@busec.monash.edu.au](mailto:mbr@busec.monash.edu.au)