

# The ANZ Privately-Owned Business Barometer 2008

Understanding the opinions of privately-owned businesses  
in New Zealand



## Foreword



Nigel Williams  
Managing Director  
Institutional Corporate & Commercial

### Unlocking and accelerating growth

***There's no better time to make big gains than when competitors are ducking for cover. Change brings opportunity. The volatility now evident in markets will be used by many to re-evaluate strengths and sharpen the focus on future direction.***

Clearly, with most corporate balance sheets still strong, this is the way many business owners are thinking. There is a broad measure of confidence in the medium term prospects of most privately-owned businesses – largely those with turnovers ranging from \$5 million to \$150 million – who participated in this, the second ANZ Privately-Owned Business Barometer.

However despite aspirations for growth, the majority of businesses seem to be thinking about organic growth and there appears to be less appetite for significant change through acquisition, mergers, joint ventures or international expansion. Succession is also on the horizon, but as a 'problem' requiring a solution, rather than a dynamic for change.

These issues highlight the need for sound strategic planning. And this is all the more important to overcome because of a key factor that may have been overlooked but is rolling nearer with tsunami-like force. Demography.

Generation X – the 35 to 45 year olds who should be the next generation of business owners – is much smaller in number than the looking-to-retire baby boomer generation. For current owners this could impact on their ability to release both time and wealth from their businesses to secure their personal future.

Among the factors cited in this year's Barometer as curbing growth aspirations are: a lack of time to think about the bigger picture; a lack of ideas on how to grow; not enough support or access to different thinking; and a lack of people to deliver the growth or succeed the current owners. For those planning their change of ownership journey, finding a suitable successor seems to be the biggest issue to solve.

These are vital elements to unlock if firms are to continue to create growth and significant wealth for all their stakeholders.

***To gain an advantage, current owners and managers will need to focus on the end-goal and develop a strategic plan to achieve it. This may include identifying successors, providing for transition and identifying a high-growth path.***

For New Zealand it is now clear that Asia offers a once in a generation opportunity to change business models and create significant wealth. Many businesses – but still too few in number – are expanding rapidly into new markets by melding New Zealand intellectual property and Asian manufacturing capability. Exporters are seeing new niches to satisfy as standards of living rise in the biggest Asian economies. Better still, this expansion is at a time when at this stage the leading Asian nations show few signs of fallout from turmoil in Europe and North America.

To seize opportunities, be they in Asia or elsewhere, or to release the wealth built in their businesses, business owners require a solution so simple as to be over-looked. Think long-term, have a strategy, identify who is needed to achieve it, then just get on with it.



We want to demonstrate our commitment to a vibrant New Zealand business market by helping business owners to tackle these issues. We are addressing this in three ways: possibilities; people; and planning.

**Possibilities** - we have formed a specialist 'Planning for Change' team to help businesses identify options or point to the people who can help proactively plan for growth and change.

**People** - that team will also help match companies and owners with the people they need to identify to deliver growth and change, be they directors, investors or managers.

**Planning** - ANZ will look at establishing, in conjunction with the wider market, a Privately Owned Business Institute. This would serve as both a forum and centre of excellence, bringing together business owners and advisors to share ideas, opportunities and successes. And we will of course repeat the Barometer again next year to keep abreast of the on-going challenges facing this crucial sector.

My thanks to the business owners, directors and managers who have been enthusiastic in their input to the ANZ Privately-Owned Business Barometer.

Nigel Williams  
Managing Director,  
Institutional Corporate & Commercial

## Executive Summary



***The ANZ Privately-Owned Business Barometer seeks to understand both the opportunities and issues affecting one of the most important sectors of the economy; the successful businesses who are the main creators of jobs and wealth for New Zealand.***

These firms are mainly well established and predominantly have turnovers in the range of \$5 million to \$150 million. Most still have a high degree of involvement by their founders.

The second ANZ Privately-Owned Business Barometer builds on the findings of the first study, conducted in 2007. It provides further insight into the attitudes to growth, change and governance. It reveals that despite growing awareness in the market, there is much more to be done to unlock and accelerate growth and change.

***Specifically, the main findings of the Barometer are that:***

- ***owners are confident about the prospects for their own businesses but are responding to negative external factors by focusing on organic growth;***
- ***there is a desire to release time and capital but many owners have yet to identify a successor or to proactively plan a path to eventual exit;***
- ***there seems to be wide-spread reluctance to find and utilise appropriate external expertise to shape growth or change, despite awareness that such advice can add value.***

Further analysis shows that in addition to external factors, many firms are experiencing a lack of time and people resources to commit to growth. Smaller firms – those with a turnover of less than \$21 million – often lack the expert advice to identify and develop growth opportunities.

The New Zealand market remains highly fragmented, which could suggest a negative impact on productivity. In this regard, trade sales and acquisition activity will assist in bringing about much needed consolidation to the privately-owned business sector, providing platforms of scale for businesses looking to exploit more exciting growth opportunities.

Succession has become significantly more important as an issue since 2007. There is a greater awareness of the need to find a solution (63 percent in 2008 versus 48 percent in 2007), and in particular to identify who will take over from the existing owners. There is also a much higher level of motivation to release capital. Yet few have a formal succession plan in place.

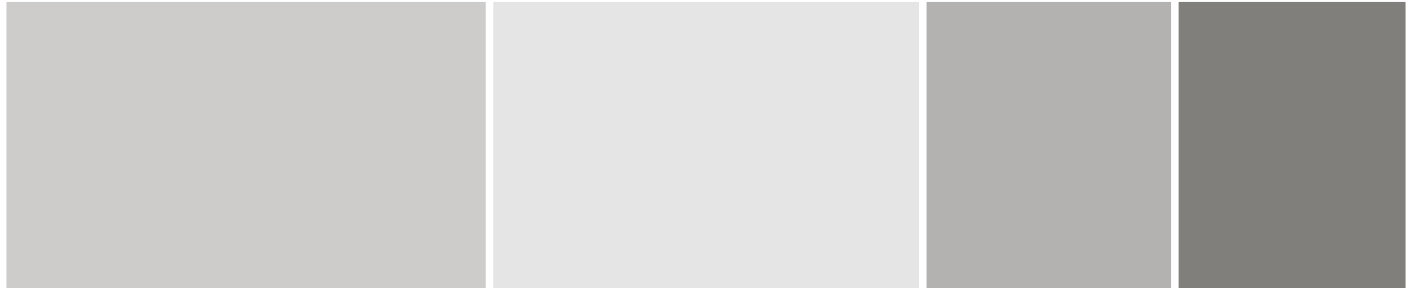
Where there is another family member involved, the assumption is often that this person will take control. In addition, more owners (40 percent) appear willing to consider management as potential future owners than in 2007 (20 percent). Despite this, three-quarters of present owners have a strong preference for the clean-cut exit provided by a trade sale.

Hanging over the succession issue is a demographic with the potential to upset the aspirations of many owners whose thinking is turning to a lesser commitment of time and capital in future. The 35 to 45 year olds who might be expected to be the next generation of owners number far less than the owners expected to exit their businesses. This is the finding of a study by executive search and leadership firm Swann Group, who contend that there is a potential leadership gap opening in the next 10 to 15 years<sup>1</sup>. This has very real implications for the transition process to new ownership and ultimately could affect the wealth baby-boomers can expect to extract from their businesses.

There are also implications for the future availability of expert advisers such as accountants and lawyers, with anecdotal evidence suggesting that the average age of qualified accountants in the New Zealand marketplace is 57 years or older.

The role of Boards is widely accepted as being about driving strategy, as well as dealing with issues of compliance. However, despite the fact that those firms who have used expert advisors believe they have benefited from the advice given, there seems to be some ambivalence towards engaging truly independent directors and advisors.

<sup>1</sup>Leadership Cataclysm published by Swann Group, June 2008



The ANZ Privately-Owned Business Barometer 2008 is a survey commissioned by ANZ and undertaken by research house Colmar Brunton. The structure of the survey is broadly similar to the 2007 survey.

Respondents were largely key decision-makers and two-thirds were first generation owners. The businesses were predominantly well

established and successful. Ownership remains tightly controlled; 70 percent of firms have three or fewer shareholders.

An unexpected finding is the increase in percentage of principal shareholders who are actively engaged in the business. This is supported by anecdotal evidence of principal shareholders becoming more active in response to perceptions of the current economic environment.

## Key Thoughts

### Growth

Strong, established businesses should be well positioned to seize the opportunities provided by volatility in markets. The majority are not deterred by additional risk from embarking on growth goals (78 percent are comfortable with debt and risk) but most are focused on organic growth in the next twelve months.

We believe there is a general need for many owners to raise their sights, looking beyond current growth aspirations to what might be possible. In particular, the current market may provide the opportunity to undertake mergers and acquisitions or form joint ventures; all of these strengthen market positions and provide a platform for rapid growth.

These aspirations can be realised by:

- seeking ideas and different thinking from external advisors regarding opportunities and pathways for growth;
- accessing the capital that is available from a variety of sources to fund this growth;
- accessing information and expertise provided by independent advisors to help unlock that growth.

### Change

The question who will take over the business is looming in the minds of many business owners as their desire to release time and capital grows. Many are starting to realise that succession can be staggered and they can gradually release time and

capital on the way to an eventual exit. But few are proactively planning for change, with only 17 percent having a formal succession plan in place.

We believe that change can be more effectively accomplished if owners:

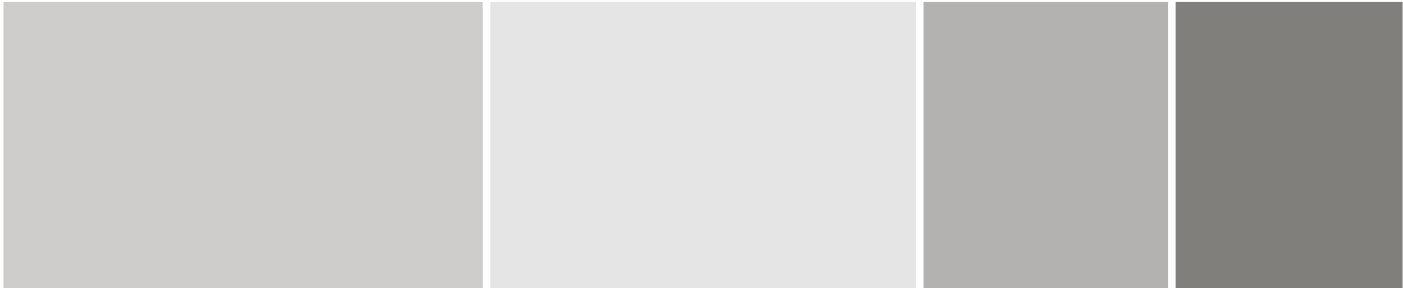
- see succession as staggered change rather than an all-or-nothing activity;
- develop a strategy – for the business and themselves – and plan for how to achieve it;
- seek expert advice to devise and implement the strategy;
- recognise and consider the very real role that managers might play in helping owners achieve their aspirations for change of ownership.

### Governance

There is recognition that independent advisors and directors can be a beneficial source of expertise and fresh thinking. Yet there remains a general reluctance among owners to make use of this resource, with 60 percent not interested in availing of independent advisors or directors.

We believe efforts need to be made to expand the pool of talented people who are willing to provide their expertise as independent directors and advisors. Further, consideration needs to be given to demonstrating to the market the real benefits that have accrued to those firms that have engaged independent advisors.

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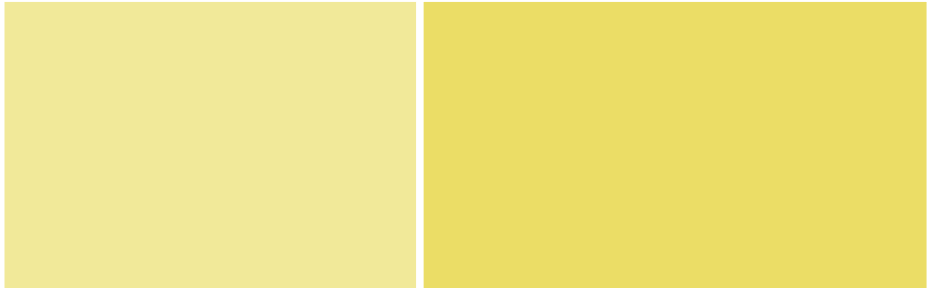
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# 01 Growth

- Key Findings
- The Issues
- Our Opinion



# 01 Growth

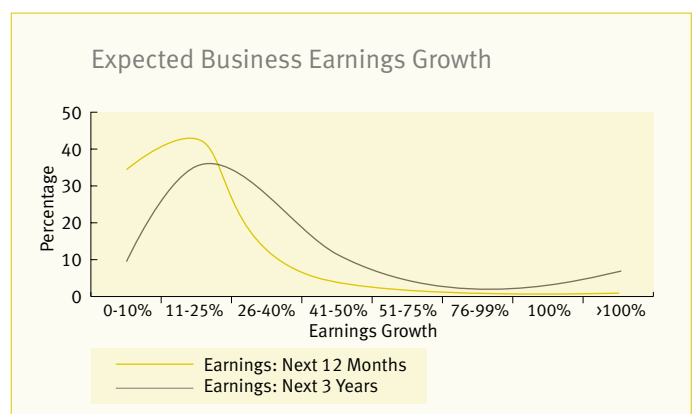
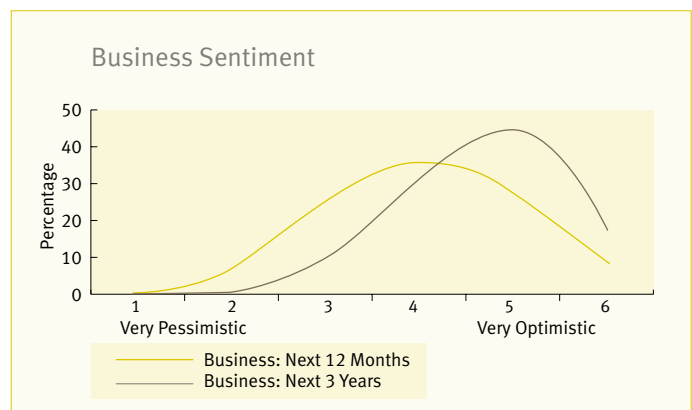
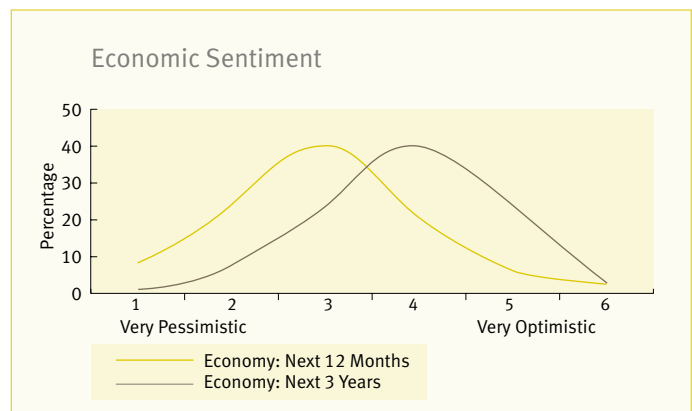


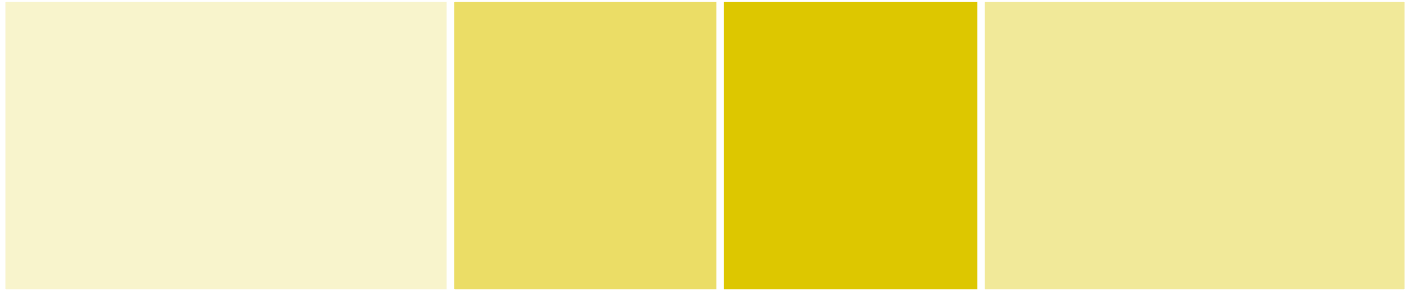
## Key Findings

### Growth Sentiments and Aspirations

- Short term economic sentiment is negative, yet respondents are confident about their own businesses and the medium term outlook.
- Looking at the general economy, 71%<sup>1</sup> have a pessimistic view for the next twelve months.
- 70% are optimistic about their own business performance for the same period, increasing to 89% in the next three years.
- Short term growth aspirations correspond to performance outlook with the majority (78%) expecting less than 25% earnings growth for the next twelve months. Over half however expect more than 25% earnings growth over the next three years, versus only 22% in the shorter term.
- Respondents are more unanimous in their view than in last year's survey. The same results were evident across geography, sector, age and size of businesses.

<sup>1</sup>For details of grouping and reporting responses, see Scope & Methodology, page 24





**Growth Drivers**

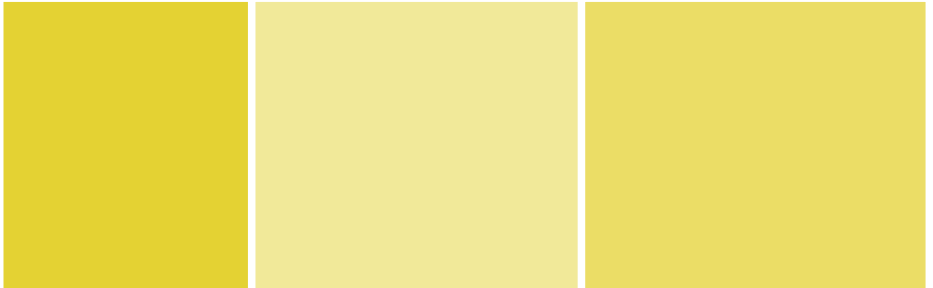
- General sales growth, increased marketing, market and product development are considered the key drivers of growth, particularly in the short term (i.e. organic rather than step-change strategies).
- 53% see new regions/markets as a likely factor for growth in the next twelve months, increasing to 64% in the medium term.
- Regression analysis of growth drivers against twelve month and three year expectations show that general growth, and expansion into new markets are what matters to respondents.
- In the short term, each of the step-change growth strategies (acquisitions, international expansion or joint ventures) is favoured by a third of respondents. Out to three years, the aspiration for accelerated growth strategies shows a moderate rise.



**Handbrakes**

- Constraints on growth are largely factors of execution: lack of time (the biggest concern at 54%); skilled labour shortages (46%); lack of capital (38%); and lack of skilled management (32%).
- Another constraint cited was comfort with the status quo (31%).
- In line with 2007, issues of greatest concern are shortage of skilled labour, exchange rates and domestic competitive pressures.
- By size of company, smaller companies feel constrained by lack of opportunities and advice (in both the short and medium terms). Larger companies feel more restricted in the short term by aversion to debt and lack of time. In the medium term, lack of capital and comfort with status quo are the prevailing factors.
- Generally debt risk was not perceived as an issue by respondents; 78% are comfortable with debt and risk. Half have a very strong risk appetite.

# 01 Growth



## Key Findings – continued

### How to Fund

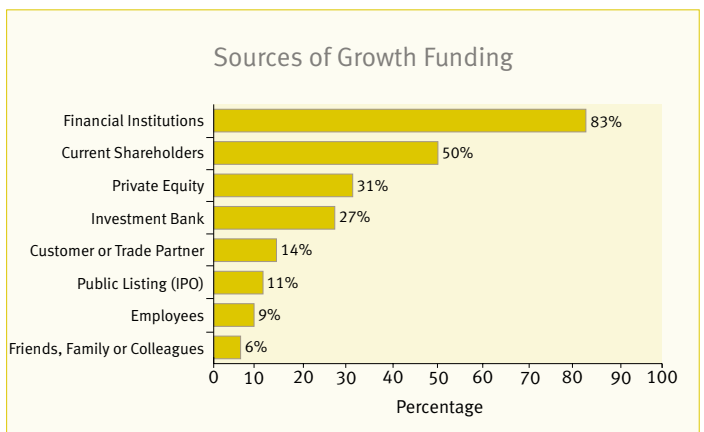
- Sourcing capital to fund growth is not seen as an issue by respondents; 76% require additional investment for growth and 78% expect capital to be readily available.
- Looking at avenues to fund growth, only 24% expect to fund growth by raising new equity, while the vast majority expects to access either existing cash flows (72%) or bank borrowings (61%).
- Banks are the preferred source of capital (83%) followed by current shareholders (50%). Initial Public Offerings, employees and family/friends are the least favoured.
- 31% considered private equity a likely capital source.

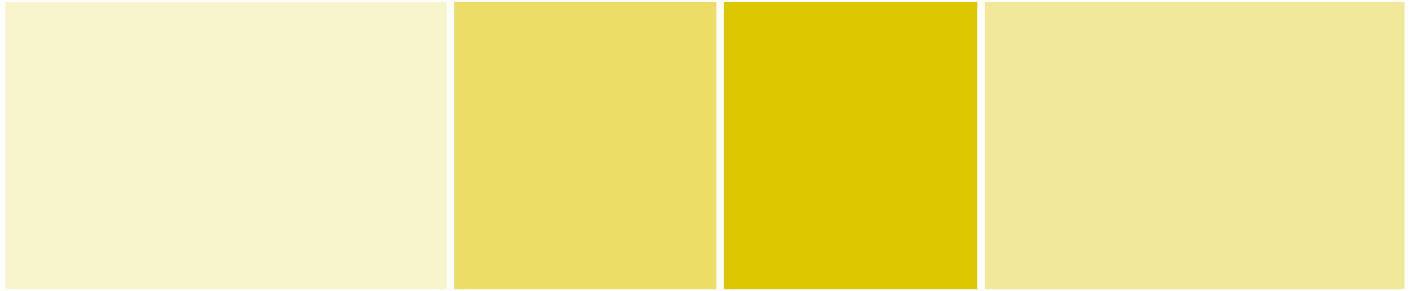
### But if capital was not a constraint...

- 68% would be likely to accelerate their plans (48% very likely).
- 40% would be likely to acquire different businesses.
- 38% would be very likely to acquire competitors, and a third would be very likely to develop new markets or employ more staff.

### Sources of advice on growth avenues

- As preferred sources of advice on growth, shareholders (78%) and Boards (75%) ranked highest, followed by accountants (54%) and banks (52%).
- Banks and accountants escalate in importance for companies without a Board.





## The Issues

- The focus is on organic growth, that is, growth by increasing sales, market development and/or product development.
- Few firms have developed or implemented strategic growth plans.
- Larger firms (turnover \$21 million plus) lack motivation to grow by step-change.
- Smaller firms (turnover less than \$21 million) have difficulty identifying opportunities for rapid growth and lack the skilled advice that could assist in doing so.
- Regarding capital constraints, while three-quarters would need additional capital for growth, most regard those funds as being readily available. Yet two-thirds would accelerate growth plans if capital was not a constraint.
- Firms have a high degree of confidence in their own medium term prospects but short term aspirations for more rapid growth appear to be constrained by a range of external factors including: the current economic outlook; a shortage of skilled labour; exchange rates; and competitive and market pressures.



***“At Apex Car Rentals we identified that tourists wanted better value from a rental car and we have grown organically to meet the demand. The industry now needs to consolidate to drive further growth and profitability – and we intend to play a role in that process.”***

Phil Lennon,  
Managing Director Apex Car Rentals.

Apex began in Christchurch renting a fleet of six cars to tourists and now has a fleet of 2,200 operating from nine locations across New Zealand.

## Our Opinion

The Barometer reveals a significant gap between thinking and doing.

Three-quarters said they were comfortable with debt and risk. Half said they had a strong appetite for risk and were not averse to increasing debt to pursue opportunities.

Yet (aside from developing new regions/markets) only a third would consider making a step-change in the next twelve months to drive rapid growth, via activities such as a merger, international expansion or a joint venture. Access to capital was not seen as a constraint, with 72 percent confirming they had the ability to fund expansion through existing cash flow and 61 percent through debt facilities. Yet if capital was unlimited, two-thirds would accelerate their plans and 40 percent would be likely to make a step-change by acquiring a different business.

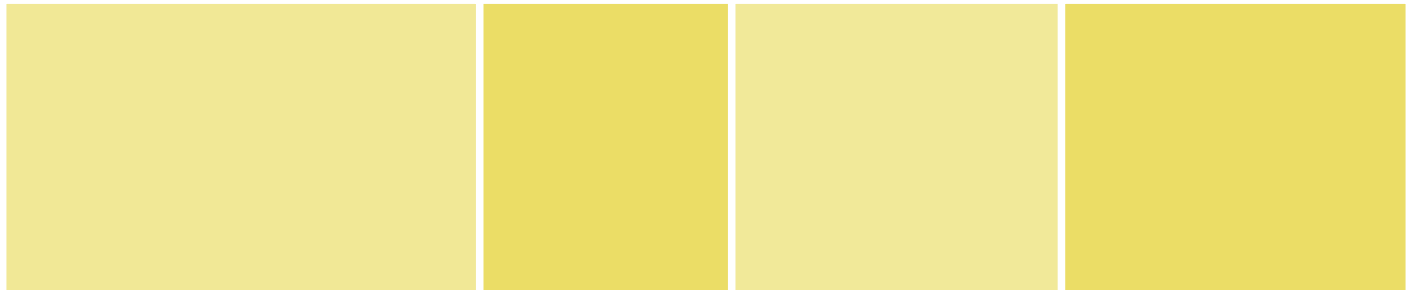
All this suggests respondents’ aversion to risk outweighs growth aspirations.

The age profile of the principals may play a part; 59 percent are over 50, and 23 percent are over 60.

The high proportion of businesses that were founded more than 10 years ago by their present principals (85 percent) also suggests most have weathered more than one business cycle and may be more sensitive to the current tightening of credit markets than those who are enjoying the exuberance of comparative youth. Larger companies feel constrained by an aversion to debt and lack of available time in the short term. In the medium term, the constraints are a lack of capital and comfort with the status quo.

Smaller, younger companies by contrast (those with a turnover less than \$21 million) are already growing or want to grow. But

## 01 Growth



### Our Opinion – continued

their principals are too often swept up in day-to-day activities; working in the business rather than on the business. These companies feel constrained by the lack of opportunities and advice in both the short and medium term. They have not the time, the access to the ideas and advice, nor the help necessary to make the big decisions that can generate step-change and lift them to the next stage of development.

In the short term this paints a picture of the status quo being adopted by those with access to the resources to achieve rapid growth, but reluctant to make that commitment. Those who know that step-change is necessary may not have the support in place to achieve it. If this is so, it appears that the real constraint to growth could be the comfort zone of owners who are content to achieve organic growth with minimum exposure to risk. While this may be desirable from an individual perspective, it does raise questions as to the ability of New Zealand to achieve high levels of growth and the productivity improvements that lead to the creation of real wealth.

### Making a Difference

The privately-owned business sector is significant in the New Zealand economy as a generator of employment and stakeholder wealth. Typically it is nimble in its response to external influences and exhibits high rates of growth.

However, in comparison to Australia, the sector is populated by many smaller companies. The means need to be found to demonstrate that opportunities for growth are real, that expert advice is accessible to seize those opportunities and that far from being complacent, business owners can pursue those opportunities.



***“ANZ has gone from being a financier to a valuable partner who showed us everything is possible. They brought invaluable knowledge and talented people not normally available to provincial companies. They have assisted us with expansion in New Zealand and we are now repeating the exercise overseas.”***

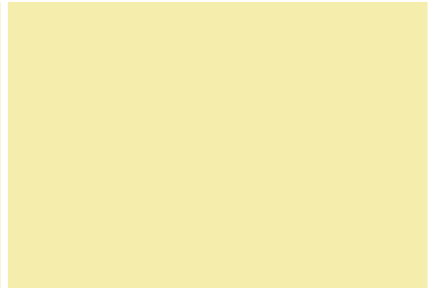
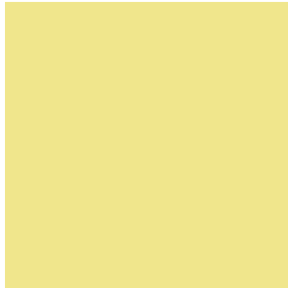
Chris Simkin, Managing Director The Mill Liquorsave, whose initial vision of being the largest independent liquor retailer in Taranaki expanded to encompass New Zealand. The Mill Liquorsave is now New Zealand’s largest independent by volume and is supplying export and domestic markets from a manufacturing facility in Melbourne.

## 02 Change

- Key Findings
- The Issues
- Our Opinion



## 02 Change



### Key Findings

#### Succession an issue

- 63% cite succession as an issue (up from 48% in 2007); 14% consider it a 'big' issue.

#### Yet only half are actively considering succession

- 56% are actively considering succession, but only 17% have a formal plan in place (slightly more than the 10% reported in 2007).

#### Retirement on the horizon

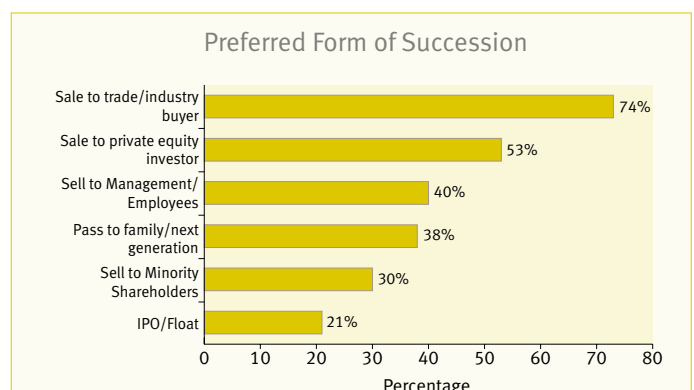
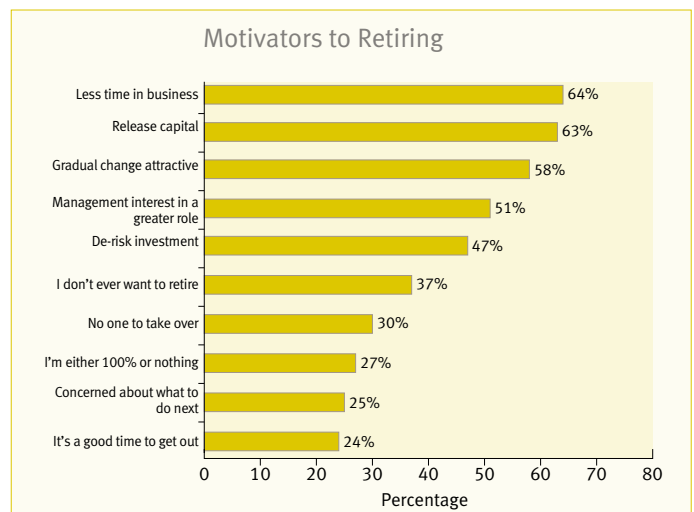
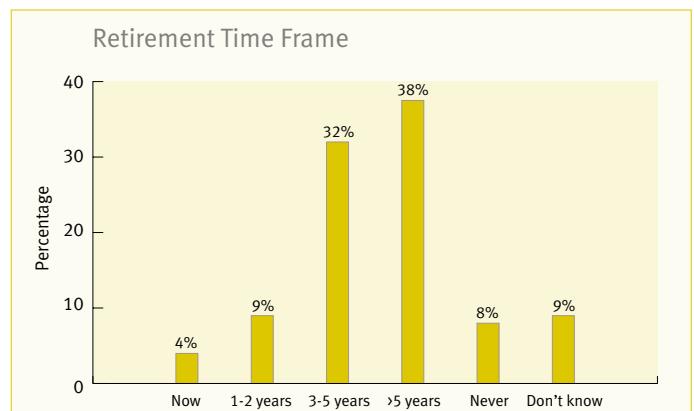
- 47% intend to retire by the age of 60 (69% by 65).
- 45% aspire to retire within the next 5 years; 38% expect this to realistically happen.
- 8% never want to retire; 37% wish they never have to.

#### Time and capital are key motivators

- 64% are motivated by a desire to release time (compared to 54% in 2007).
- There is significantly more interest this year in freeing up wealth; 63% are motivated by desire to release capital (versus 29% in 2007).
- 47% would like to de-risk; 58% favour gradual change over time.
- 51% say the interest of management is motivating them to consider change; up from 8% in 2007.

#### Trade players clearly favoured as buyers

- 74% prefer a trade party as their successor (up from 41% in 2007).
- But where family are in the business, further analysis shows that selling to a trade player is just as desirable as passing on to family.
- Private Equity investors are gaining popularity; 53% (up from 19% in 2007).





**Get out clean or staggered hand-over; an even split**

- Similar numbers considered outright exit appropriate 61% versus those favouring staggered exit (66%).

**Handing over reins to family – a mixed message**

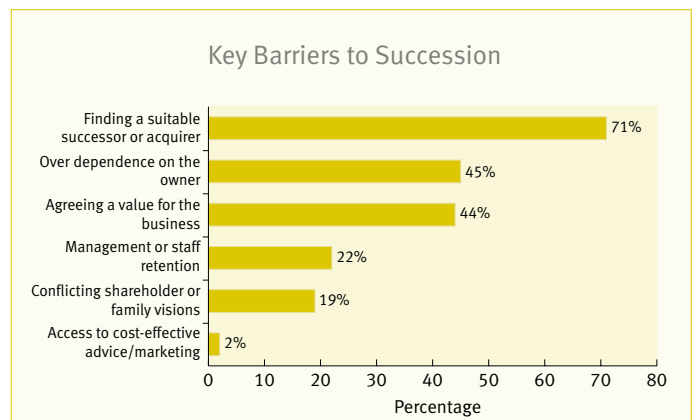
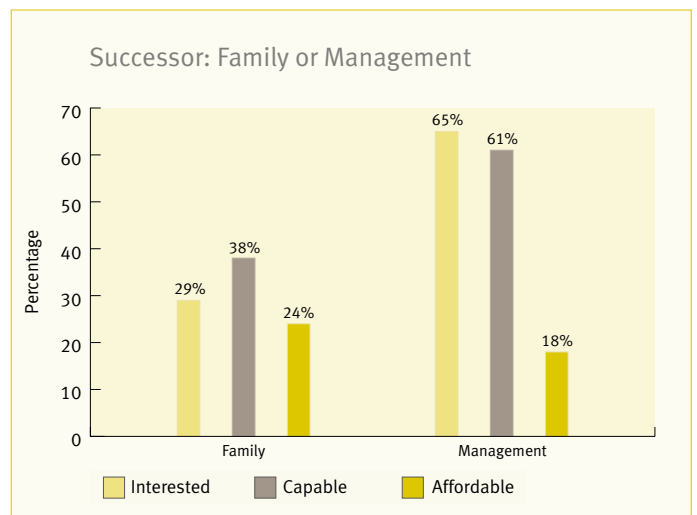
- 42% of the companies have family members working in the company.
- 38% would consider passing the business on to family (31% in 2007).
- 29% feel family are interested in taking over; 38% say they are capable.
- 24% say family can afford to buy the business.

**Management viewed more positively**

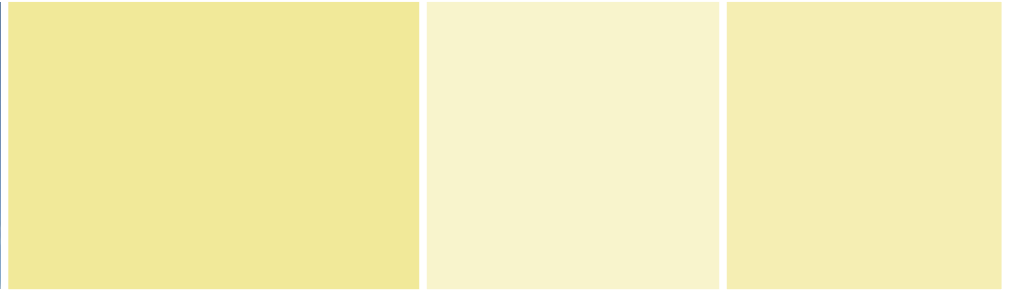
- Management are potentially viewed as a growing avenue for succession with 40% of owners likely to consider exit via management buy-in (up from 20% in 2007).
- 65% feel management are interested in taking over; 61% say they are capable (up from 2007, which reported 57% interested and 58% capable).
- Yet only 18% think management have the financial ability to take over.

**Identifying the right person – the biggest barrier**

- 71% say finding a suitable successor is an issue; with lack of a successor being the most statistically relevant issue cited by owners.
- Other less important factors include dependence on the owner’s expertise or involvement (45%) and agreeing a value for the business (44%).
- Interestingly, further analysis shows these results are similar regardless of whether the owner is actively considering succession or not.
- This suggests focus should be on ‘who’ to take over, rather than ‘how’. Certainly it is the lack of a clear successor that causes respondents to view succession as problematic.



## 02 Change



### Key Findings – continued

#### Advice still primarily sought from traditional advisors

- Accountants (66%) and lawyers (61%) are the main providers of external advice.
- But management are rated much more highly than previously; 68% are likely to involve management in their decision making process (compared to 42% in 2007).

#### Buying interest strong

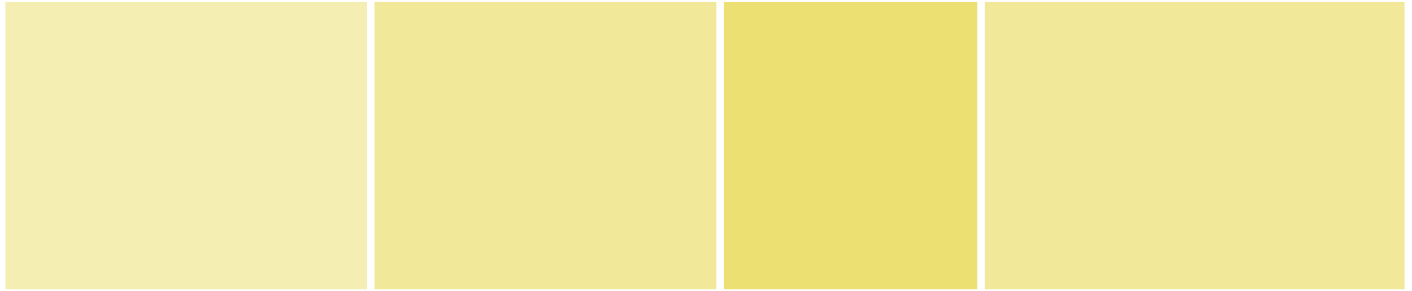
- 52% have had an approach from an interested buyer in the last twelve months.
- Interest largely came from trade players but 15% of approaches came from management.

#### Value expectations high

- 88% had some idea of the value of their business.
- 31% had obtained a formal valuation (in 89% of these cases the valuation met or exceeded expectations).

### The Issues

- Lack of planning. Owners are focusing on the short term and while they are aware succession is an issue that will need to be confronted, few are actually seeking advice and planning for it.
- Identifying potential successors is a major issue. Most owners favour a trade sale as providing a defined exit. But while half say they have been approached in the last twelve months to sell, most of these inquiries have not resulted in a transaction.
- There is a higher awareness of private equity as another means of implementing staggered change (that is, a progressive transition of ownership while releasing of capital and time). None of the respondents were actively engaged in this transition.
- The implication of a demographic ‘hole’ (see below) may mean that potentially, business sales could be more difficult in future and existing owners may not be able to release the level of wealth they believe they have created in their business.
- However current anecdotal evidence suggests that there is at present a pool of buyers who are frustrated at the lack of opportunities to acquire businesses with strong growth prospects.
- Management are largely unaware of their ability to buy-in to a business and the receptiveness of owners to considering their involvement. They may also be unaware of supportive attitudes among progressive banks like ANZ towards management-buy-ins.



## Our Opinion

There is awareness that succession is an issue that needs to be addressed but few are planning for it and even less are implementing plans. This may change, as many more owners are motivated to release capital than previously.

The majority of owners are already aged 50-plus and a fifth are aged over 60. These are largely the baby boomers who founded their businesses in the last 30 years. Their successors – Generation X – are a much smaller group, which could potentially result in a leadership deficit<sup>1</sup>. This creates a demographic hole that may hold negative implications for retiring baby boomers. These could be:

- low capital realisation impacting on retirement wealth;
- an inability or reluctance to sell;
- a shrinking pool of skilled advisors.

The implications are potentially severe for existing owners. It may mean a deferral of retirement plans if suitable successors cannot be found. Secondly it may result in lower realisations from the eventual sale of the business. Thirdly there could be implications for the wealth management aspirations of those exiting owners. Lastly, but by no means least important, is the impact of delayed change of ownership on growth. New ownership can be a driver for growth by injecting fresh thinking and new imperatives. This can lead to increased levels of performance from the development of new products, services or markets.

The Barometer shows the problems are already evident, with the identification of a suitable successor being seen as the single largest succession problem. The strong preference of three-quarters of respondents is for a trade sale. This is a significant increase from the 2007 Barometer, which found that a trade sale was the preferred exit strategy of 41 percent of respondents. Interestingly, 53 percent of owners would consider Private Equity as a succession route, reflecting growing awareness in New Zealand of the role of professional financial investors.

There has been some growth also in the number of owners willing to consider management as a succession route, with 40 percent saying they would consider selling to management, and two-thirds feeling management are interested and capable in taking over. But only 18 percent actually think management have the financial ability to do so. One conclusion that could be drawn is that neither owners nor managers are aware of the willingness of financiers like ANZ to consider supporting management-buy-outs as part of wider support for change and growth.

Despite many owners with family members in the business anticipating those people taking over, our experience is that far fewer achieve that objective than initially plan for this eventuality.

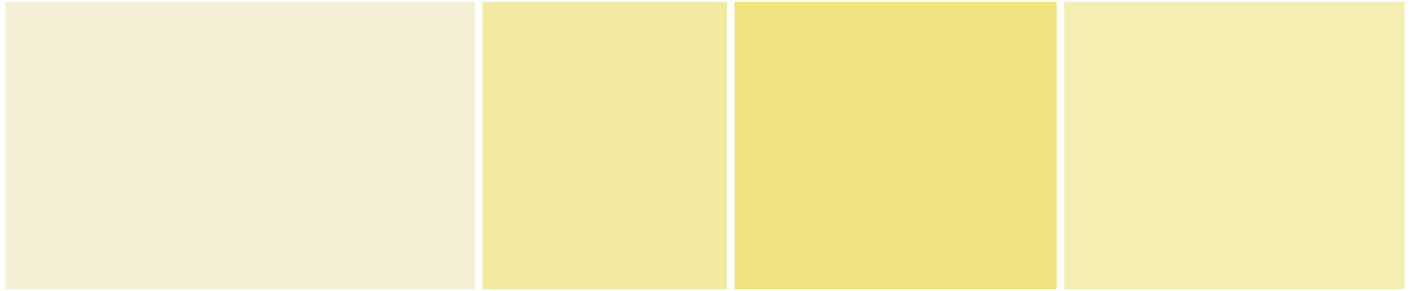
But while change of ownership is firmly in the consciousness of many business owners, few are actively engaged in seeking the advice required to plan for it. Planning for succession needs to be viewed as a marathon not a sprint. Owners must start with a strategy to achieve both their own and their business goals. Preparation must then begin early and the platform established for what might be either a gradual or quick push to the finish line. Milestones need to be created for the injection of new equity, the implementation of new management and the phased transfer of wealth to the existing owners. This way businesses can benefit from a staged process of renewal using the knowledge and expertise of the current owners.

For owners the transformation can be seen as moving from managing a business to managing wealth.

Ideally the process is continuous and constantly evolving through ownership change, rapid growth, capital release and business renewal.

<sup>1</sup>Leadership Cataclysm published by Swann Group. June 2008

## 02 Change



### Our Opinion – continued

#### **Making a Difference**

Raising awareness of the depth of the issues regarding change is undoubtedly the call to arms. But while this may galvanise existing owners it will not alter the structural issue regarding demographics. Many of the Generation Xers have migrated. As yet it remains to be determined whether this is the traditional 'OE' experience of young New Zealanders from which they will soon return, or a more potentially corrosive loss of talent.

Even if the majority of Generation X return, the group will still be significantly smaller than the retiring baby boomers they will replace. This is an issue for macro policy makers to address, to find ways of encouraging New Zealanders overseas to return and invest their resources and capabilities in the nation's future.

Meanwhile business owners need to be aware of the risks to their personal wealth from the impact of the unfavourable demographics and the need to actively plan to avoid such outcomes.



***“To control the destiny of their successful earthmoving business, the Hick brothers knew they need to go beyond the limitations of working for head contractors. The business model needed to change, and I joined to bring about that change and encourage people to lift their horizons above the entrenched narrow focus that can hold a small business back. ANZ has been of great help to us as we have worked through the changes in the business.”***

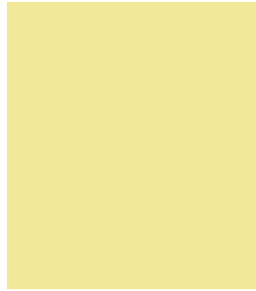
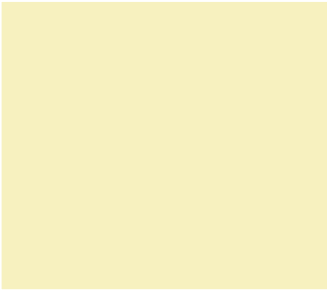
Mark Cole, General Manager, Hick Bros Civil Construction, based in Silverdale, Auckland. Since he joined the business, and became a shareholder, the company has transformed from a earthmoving sub-contractor, with a staff of 15, to a civil engineering business with operations across New Zealand and staff of 200.

## 03 Governance

- Key Findings
- The Issues
- Our Opinion



## 03 Governance



### Key Findings

#### More have active Board members

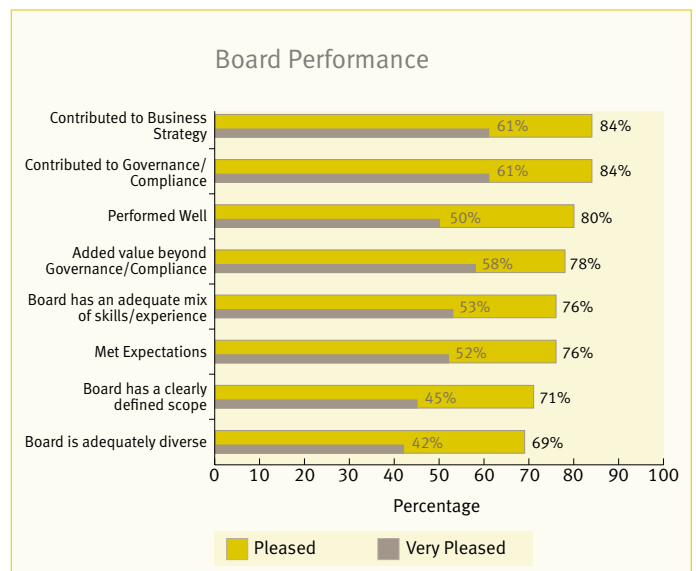
- A third of the respondents have no Board of Directors (consistent with 2007), but there is better representation and activity.
- Of those who do, 82% have Boards with three plus members (up from 72% in 2007).
- 87% of those with Boards conduct formal Board meetings, yet only 66% meet on a regular basis; monthly or bi-monthly (up from 57% in 2007).

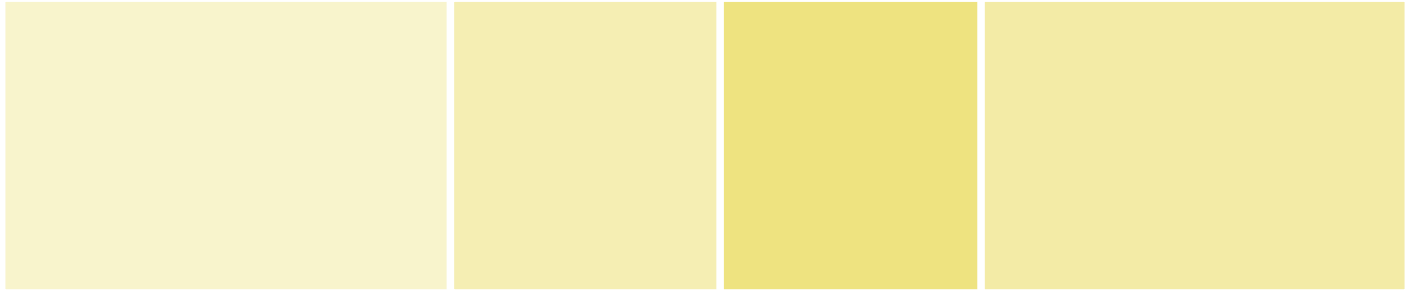
#### Composition has improved

- 71% of the Boards have at least one independent director (52% in 2007).
- Yet only 44% of the respondents identified Board members as truly independent.
- Larger companies appreciate diversity in Board membership structure.
- 42% feel strongly that their Board is adequately diverse.

#### Board performance rates high

- 84% are pleased with the Board's contribution to both strategy and compliance/governance (61% are very pleased).
- 78% feel the Board has added value beyond governance/compliance (58% feel they have significantly added value).
- Regression analysis of the Board's performance against overall performance reveals that the strategic role is more important than the compliance role (we could speculate that perhaps the latter is simply taken for granted).





### **Role of the Board well understood**

- The majority (93%) agree the key roles of a Board are: maximising shareholder value; representing shareholder interest; providing ideas; contribution to corporate strategy and ensuring good governance.
- 73% strongly agree that providing different thinking and ideas is a key role.
- There was no statistically significant difference between the views of respondents whose company has a Board, and those without. Nor does the size of the respondent's business (by turnover) have any effect.

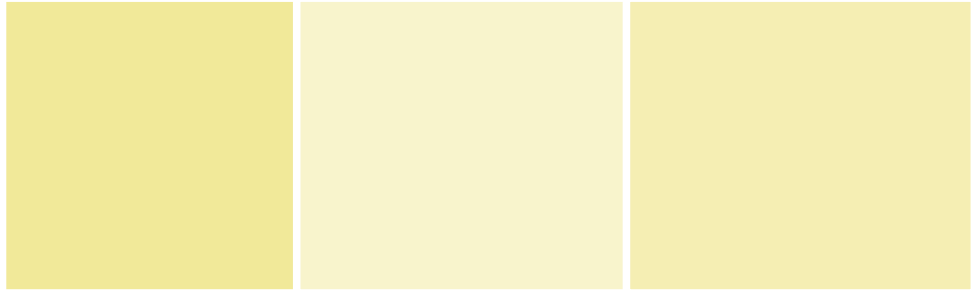
### **Strategic value**

- Strategy and independence are widely considered the most important attributes of a Board (78% feel these are very important).
- Marketing skills/industry expertise was noted as highly important by around half of respondents.
- Knowing the person is immaterial to the respondents' view of a Board member's value (78%).
- There was no apparent difference of opinion between those who have used an external Board member and those who haven't. Nor do companies of different sizes differ in their opinion, except that smaller companies tend to value expertise in sales and marketing more than large companies.

### **Fresh thinking**

- 68% feel advisors can add significant value and 66% feel that businesses could benefit from their independent thinking with similar statistics recorded for independent directors; 70% and 61% respectively.
- 81% of respondents say they are willing to pay for value adding advice from external advisors; 77% say the same of independent directors. However despite the willingness to pay, interestingly 60% are still not interested in obtaining advice from either source.
- 62% have engaged an advisor in the last two years (80% say they have benefited).

## 03 Governance



### The Issues

- While there is recognition of the value of independent thinking and ideas, only 44 percent of Boards have a truly independent director.
- Those firms that have engaged expert advisors and independent directors have gained real benefit from doing so. Only 16 percent do not perceive expert advisors as creating value for the business.
- Strategy is recognised as the main role of the Board and those that have used external advisors/directors have benefited from the value added. But few are engaging independent advice.

### Our Opinion

The ANZ Privately-Owned Business Barometer has produced the first real data supporting the important contribution Boards make to the development of corporate strategy. Boards are also valued for their focus on maximising of shareholder wealth and addressing compliance.

There is also recognition among many respondents that independent directors and expert advisors can add value as a source of fresh thinking and new ideas.

Further, the experience of ANZ and members of the Barometer roundtable who are advisors, is that the businesses that do seek expert advice do so in a limited way. This is on a silo basis and rarely takes a multi-disciplinary approach that could lead to development of a complete and multi-faceted strategic plan of action.



***“A willingness to utilise external advisors divorced from day to day management is the sign of a maturing company that wants to benchmark performance and open its horizons to wider opportunities.”***

Sandy Maier, independent company director and management consultant specialising in strategic, financial and human resource issues.

## Making a Difference

The purpose and role of a Board is clearly understood. What is less understood is the need for directors who can add significant value because of their expertise in addition to, or in place of, those directly involved in the business as executives, shareholders, accountants or lawyers.

To achieve this means devising links between an expanded pool of talented people who have the skills to act as external advisors/directors, and privately-owned businesses. Opportunities to demonstrate the benefits and achievements of external advisors could also be beneficial.



***“When I arrived (in 1995 ) I needed to change the Board to give me the freedom to create Lee Fish as an international brand committed to delivering a high quality, dependable fresh product that gains the best value for the resource. I needed independent directors that shared that passion and had expertise to guide me. Now the Board is addressing succession – it is the key to creating wealth. We can make a lot of money from doing what we do but the business will not survive if we cannot get investment from new owners to carry it forward.”***

Greg Bishop, Managing Director, Leigh Fisheries, exporter of high quality chilled fish to Australia, Europe, North America and Asia

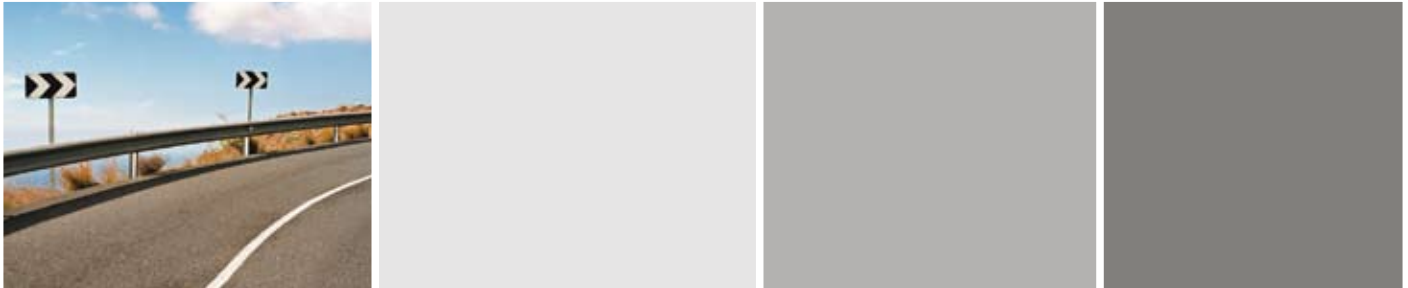


***“New Zealand Pharmaceuticals is highly dependent on developing international networks to identify growth opportunities for its specialist biochemical ingredients. When we sought outside investment, we selected a partner who as well as having access to finance, could bring experienced governance skills to our Board table and a strong portfolio of contacts in the biochemical area.”***

Richard Garland, Managing Director, New Zealand Pharmaceuticals Ltd.

Based in Palmerston North, New Zealand Pharmaceuticals is a specialised manufacturer of biochemicals supplying many of the world’s leading pharmaceutical and biotechnology companies.

## About the Survey



### Scope & Methodology

This year's survey, undertaken on behalf of ANZ by Colmar Brunton, targeted just under 1,500 privately-owned businesses with annual total revenue in the range of \$5 million to \$150 million.

The response rate was 21 percent, or a total of 306 responses, a similar number of respondents to the 2007 survey. ANZ customers comprised 36 percent of respondents.

The structure of the survey was generally consistent with last year but was 50 percent longer to probe deeper into the areas of growth, change and governance. For comparison purposes, we have in some cases recalculated the 2007 results to a percentage of respondents, rather than the percentage of individual responses cited last year.

To gain greater insight and aid further analysis, the survey asked respondents to grade many answers on a scale of one to six. For the purposes of statistical analysis of the key findings, we have assumed respondents are (unless stated otherwise) either positive or negative, by grouping responses four to six and one to three respectively. Where we state otherwise (eg. "very likely"), this refers to the grouping together of the two most extreme ratings only.

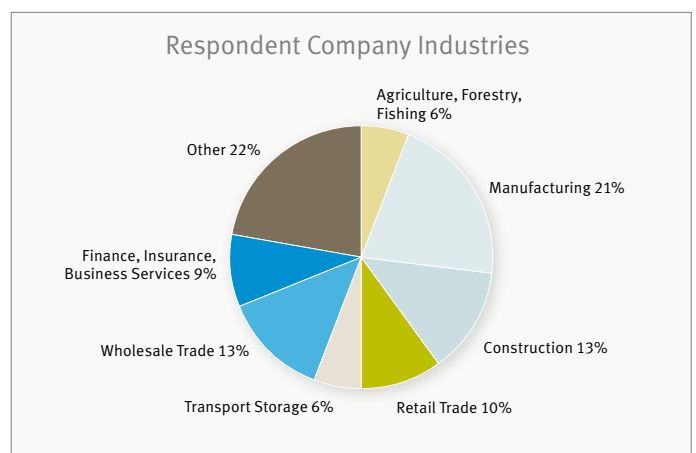
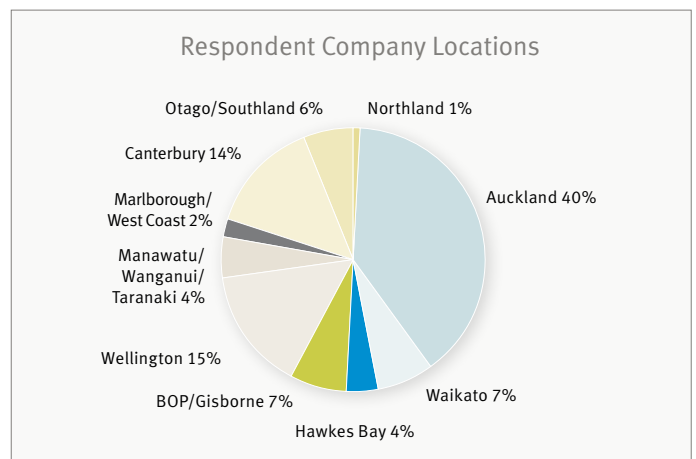
In addition to the survey, ANZ organised a roundtable of business leaders to discuss the survey findings and test validity in the context of their experiences. ANZ wishes to thank all those who took part including: Roger Marshall, Professor of Marketing, AUT Business School; Warwick Hunt, Chief Executive, PricewaterhouseCoopers; Don Jaime, Director, Swann Group; Rowan Chapman, Managing Partner, WHK Gosling Chapman; Roger Thompson, Managing Partner, Staples Rodway; Bryce Davey, Partner, Hesketh Henry.

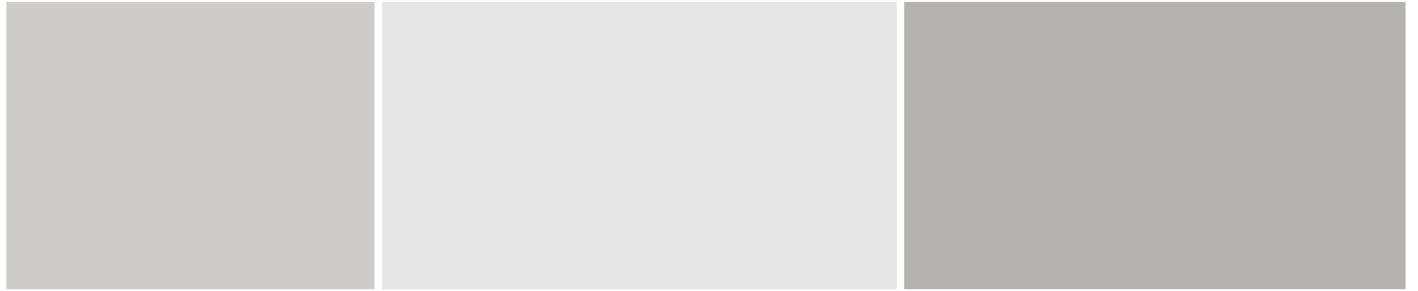
### About the respondents

The profile of respondents was largely consistent with the previous year.

#### All major regions and sectors were represented

- 40% of the respondents were located in Auckland, 15% in Wellington, 14% in Canterbury .
- Manufacturers comprised 21% of respondents, wholesalers 13% and construction 13%.





### Respondents were largely key decision makers

- 62% were principals of the business, identifying themselves as managing director or chief executive.
- 85% identified themselves as shareholders.

### Close to two thirds were first generation owners

- This year's respondents were slightly younger than those of the 2007 survey.
- 59% of main shareholders were 50 years or older, and 23% were 60 years or older.

### The businesses were predominantly well established and successful

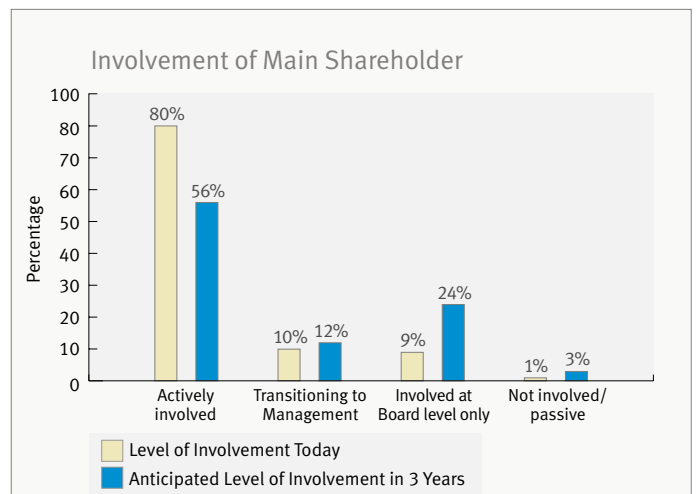
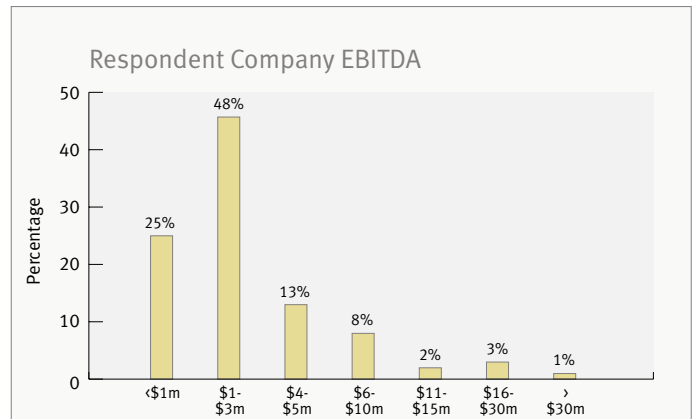
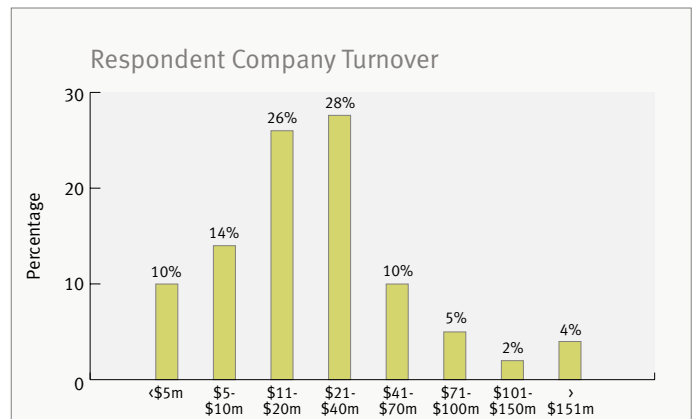
- 85% have been in existence for more than 10 years and 31% for more than 30 years.
- Over half have annual turnover ranging between \$11 million and \$40 million.
- Three-quarters have a net profit (earnings before interest, tax, depreciation and amortisation) greater than \$1 million, with almost half in the range from \$1 million to \$3 million.
- Three-quarters employ greater than 20 FTE (full time equivalents), demonstrating this segment's strong contribution to the New Zealand labour force.

### Ownership remains tightly controlled

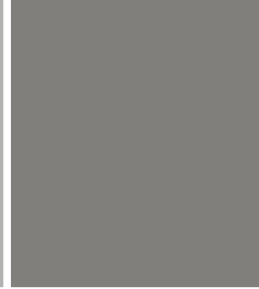
- 70% of firms have three or fewer shareholders and 54% have only one or two shareholders.
- In 60% of cases, control lies with the primary shareholders who hold stakes in the business of 50% or more.
- A third of secondary shareholders own the controlling stake.

### Greater involvement of main shareholders

- Interesting findings are both the increase in percentage of principal shareholders who are actively engaged in the business at present (80%, up from 76% in 2007), and those who intend to remain so in the medium term (56%, up from 46% in 2007).
- This is supported by anecdotal evidence of principal shareholders becoming more active in response to perceptions of the economic environment.



## Further Information and Contacts



### **On-going commitment to New Zealand's Privately-Owned Business Sector**

We want to help New Zealand businesses to grow and succeed. We will look to initiate a wider independent forum to bring together owners and advisors to share ideas, opportunities, issues and successes, in the form of an independent business exchange.

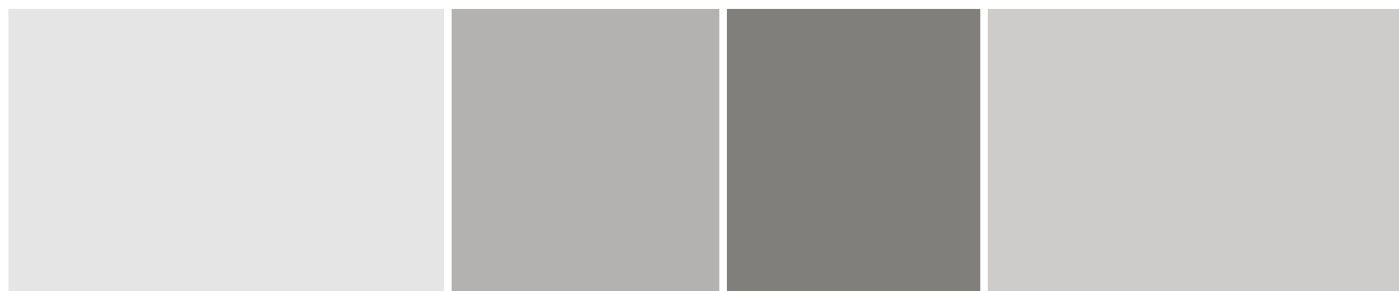
We intend that the ANZ Privately-Owned Business Barometer will be conducted annually, to add to our understanding of the needs and obstacles facing owners of New Zealand's high-growth businesses, and highlight opportunities to assist in driving further growth.

### **Open partnerships. Open possibilities.**

We are a major banking partner with a focus on growth for our customers. We offer innovative financial solutions based on insight and the breadth of our connections and areas of specialisation.

We provide solutions and expertise in areas including: cashflow-backed lending (access to finance without the need for security over property); financial structuring (discussing the range of capital structures available to businesses); Leveraged Finance (more complex debt solutions to support growth and change) and Private Equity (access to shareholder capital to further support growth and ownership change).

We will continue to support businesses with innovative thinking and banking solutions to help unlock wealth and growth potential.



### For Further Information

For further information on the ANZ Privately-Owned Business Barometer, please contact one of the names listed below.

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Open partnerships  
Open possibilities