

Dr Chris Graves *
Family Business Education
& Research Group [FBERG]
The University of Adelaide SA 5000
(chris.graves@adelaide.edu.au)
*Corresponding author

Professor Mary Barrett
School of Management and Marketing
University of Wollongong NSW 2522
(mbarrett@uow.edu.au)

Dr Jill Thomas
Family Business Education
& Research Group [FBERG]
The University of Adelaide SA 5000
(jill.thomas@adelaide.edu.au)

31 October 2012

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Submission from the University of Adelaide and Wollongong University to the Senate Inquiry into Family Business

Introduction

As academics who research the behaviour and performance of family businesses, we are grateful for the opportunity to make a submission to the Senate Enquiry into Family Business in Australia.

Background

Family business scholarship is a relatively new phenomenon, despite the importance of family businesses to all countries' economies. But it has grown exponentially since 2000 through the growing awareness of the family business sector among academics, advisors, and public policy-makers. The expanding activities of Family Business Australia (FBA) show family business owners themselves are increasingly aware of their status as a business interest group. Since 1985, the number of family business studies published in scholarly business journals worldwide has grown at an annual rate of 12.4%, higher than any other topic area (Stewart and Milner, 2011). Specialist family business oriented courses and/or research are now being undertaken at universities in all Australian states. New centres, such as the University of Adelaide's Family Business Education and Research Group (FBERG) established in 2011 (see www.business.adelaide.edu.au/fberg), are adding

to the long-standing strength of Bond University's Australian Centre for Family Business (ACFB) (see www.bond.edu.au/acfb).

Addressing the terms of reference

We are primarily concerned with the first two terms of reference, the definition of family business, and the availability and reliability of information and statistics about family business in Australia. However we have also commented briefly on four others given their relationship to ToR 1 and 2.

ToR 1: The definition of family business

There is broad agreement among academics that a business owned and governed by a nuclear family is a family business. But family businesses vary according to their values, goals, the degree of family influence, and the extent to which their members *perceive* them to be family businesses. These variations are typically reflected in the company's ownership, management, and governance structures. Researchers are keen to understand how these and other variations influence family firm behaviour and performance. To do this requires detailed and consistent data about a wide range of businesses, including family businesses. The simple, perception-based definition previously used by the ABS in the Business Longitudinal Survey (BLS) – that asked respondents whether they regarded their business as a family business – has yielded valuable data that has been used in high-quality PhD and other research in Australia (see Appendix 1).

To maintain the longitudinal value of data gathered previously, we urge the ABS to reintroduce the family business question used in the 2004/05 Business Longitudinal Database (BLD) Business Characteristics Survey *and* supplement it with questions about businesses' ownership, management, and governance characteristics (discussed further under ToR 2). Accordingly, we recommend:

- 1 that, for purposes of this Inquiry, an inclusive definition of family business be used, such as the one used in the 2004/05 BLD Business Characteristics Survey, namely that 'a family business is one where family members are part of the business ownership and are involved in the strategic direction of the business', and**
- 2 that data about businesses' ownership, management and governance characteristics be collected.**

ToR 2: The availability and reliability of information and statistics about family business in Australia

Family business scholars strongly support – and receive support from – the family business community. Family business scholars work closely with FBA Australia, is clear from the references in FBA's submission to the Inquiry to surveys it has run in partnership with universities. FBA consistently reminds its members of how research helps them, it facilitates rigorous research, and helps us make the results available to family businesses via the FBA Annual Conference, a newly established FBA academic symposium held every two years, presentations by academics at FBA state branch meetings, and so on. Studies done with FBA tend to be limited to small samples, however, with larger scale studies based on publicly-listed (as opposed to unlisted) family businesses. The problem with this is that because most family businesses are unlisted firms, the findings from current studies are not generalisable to the entire group. Gathering data about a

large number of businesses on a long-term and consistent basis, and using definitions which enable researchers to compare family businesses with other types of firms, would do much to alleviate this problem.

As noted earlier, official data gathered in the past has led to excellent research on family business by students and academics. Appendix 1 highlights published research (using the ABS 1994/95 to 1997/98 Business Longitudinal Survey) on how ownership and management characteristics influence businesses' growth and performance, including family businesses. A cursory review of the titles of these studies shows investigators' focus on how the particular characteristics of family businesses influence SME growth, profitability, and propensity to export, among other topics of vital interest to public policy. These studies are readily available, but if we need to do more to bring them to the attention of government – who after all provided the source material – we would be more than happy to discuss this as part of the Inquiry or afterwards.

In preparing this submission, we gathered information from ten family business researchers in Italy, China, Germany, the United States, Norway, the Netherlands, and Australia about the databases they mostly used in their research. Four used government databases such as the U.S. Economic Census, stock exchange listings (various countries), and the ABS. A fifth researcher, from Germany, reported using the *Bundesanzeiger*, an electronic database published by the German Department of Justice and similar in scope to the Federal Register in the US. The *Bundesanzeiger* is used for announcing laws, mandatory legal and judicial announcements, announcing changes in the *Handelsregister* (register of businesses), and for legally mandated announcements by the private sector. The last-named source would include many family firms, but none of these sources affords convenient access to the type of data about family business generated by the BLS and BLD surveys. All respondents mentioned using data gathered by private companies or their personal databases, some built up over many years. They either added questions to ascertain which firms were family firms, or built this focus into the databases they developed themselves. We also asked our international colleagues what type of data they would most like to have. Of the eight researchers who told us about this, seven would like more data about firms' ownership, governance and family involvement especially in smaller firms or franchises, and changes in these matters over time.¹

These results suggest that researchers internationally would like their governments to gather similar data to what we are requesting, especially longitudinal data. It would be regrettable if we were to lose the data sources we already have, and we were disappointed that the ABS dropped the sole family business question from the BLD Business Characteristics Survey after the first year of use. Dr Chris Graves recently met the team that oversees the BLD to ask them to reintroduce the family business question and include additional questions to capture ownership, management and governance characteristics of SMEs. Ms Diane Braskic, Director of ABS's Innovation and Technology Statistics, said this would not be possible because of a lack of funding and the greater priority of questions about SME productivity and performance. However as noted earlier, the studies in Appendix 1 show the value of collecting data about family businesses because of the influence of their characteristics on SME performance.

¹ The remaining researcher would like better contact information to facilitate contacting firms for survey purposes, but acknowledged that privacy regulations prevented this.

This evidence from academics' work with the family business community, the value to public policy makers of earlier studies, and the views from academics internationally all suggest that we need good, official data to continue our work on and for family business, and to expand our efforts. Accordingly, we recommend:

- 3 that the Australian government renew and expand its efforts to gather reliable statistics and other information about Australian businesses, particularly their ownership, governance and management characteristics, in ways that allow longitudinal and comparative studies of family businesses and other business types.**

ToR 3: The contribution of family business to the Australian economy

Australian statistics indicate that 67% of all privately-owned businesses are family businesses. They employ over 50% of the private sector workforce, account for over 40% of private sector output, and have an estimated wealth of \$4.3 trillion with an average turnover of \$12 million (Smyrniotis and Dana, 2006). Thus family businesses are already a major force. Gathering statistics as described earlier will help researchers and policy-makers determine what interventions can assist this sector.

ToR 4: Structural, cultural, organisational, technological, geographical and governance challenges facing family business

Managing international growth

The fact that family businesses are less likely than others to export overseas (Graves and Thomas, 2004) may result from limited managerial capabilities. Having data on the exporting activities of family businesses, as well as their management and governance structures, would assist in ascertaining their success with exporting and what policy interventions may encourage family businesses to grow through exporting.

Impending succession challenges

Due to the upcoming retirement of the post-war baby-boomer generation, it is anticipated that around 60% of family business owners plan to retire by 2016 (KPMG and FBA, 2007). Studies elsewhere suggest that half of these owners will be unable to pass on the business to the next generation (the preferred option for most firms) due to a lack of qualified successors. Trade sales are not a viable alternative succession strategy given the scale of the problem. Yet the successful transition of family firms (eg to the next generation, or via Management Buy-Out, or sale) is critical to national economies because a successful transfer is estimated to conserve, on average, five jobs, whereas a start-up generates on average two jobs (European Commission, 2003). Again, having appropriate official data available will help advisors and policy-makers address the challenge of impending succession in family firms.

Governance:

While all businesses eventually need to formalize their governance structures, this is more difficult for family businesses which have to manage the interaction between ownership, management, and family. Governance structures are typically more varied in family businesses than in others, comprising boards of directors/advisory boards, family councils, family assemblies, shareholders' meetings, and top management teams which may include family and non-family, and internal and external members. Collecting details about governance structures in family businesses will aid our understanding of how their performance can be optimized.

ToR 6: Access to and the cost of finance and insurance for family business

Because of their preference for tight control, family businesses generally follow a strict pecking order when it comes to financing their operations, favouring equity from family and retained profits over the use of debt (Zoppa and McMahon, 2002). So a family's attitude towards using debt and different degrees of control (eg whether it is open to outsider investment) influences the family business's financing structures. As before, longitudinal information about family firms' financing preferences will increase understanding of how they affect family firms' behaviour and performance. In particular, as shown by Seet and Graves (2010), this information would allow external advisors to help family firms professionalise their management and governance structures, making them a more attractive investment to private equity providers.

ToR 7: Family business responses to the challenges of the GFC and post GFC resilience

Results from the 2009 KPMG and Family Business Australia Survey of Family Businesses suggest that family businesses weathered the 2008 Global Financial Crisis better than other firms, presumably because they make less use of debt. Such findings are difficult to empirically verify, however. Data that would allow researchers to investigate this hypothesis would be useful in its own right, and possibly provide a model to increase the resilience of non-family firms.

Summary of recommendations

- 1 that, for purposes of this Inquiry, an inclusive definition of family business be used, such as the one used in the 2004/05 BLD Business Characteristics Survey, namely that 'a family business is one where family members are part of the business ownership and are involved in the strategic direction of the business', and**
- 2 that data about businesses' ownership, management and governance characteristics be collected.**
- 3 that the Australian government renew and expand its efforts to gather reliable statistics and other information about Australian businesses, particularly their ownership, governance and management characteristics, in ways that allow longitudinal and comparative studies of family businesses and other business types.**

References

European Commission (2003). Transfer of businesses – continuity through a new beginning: European Commission.

Graves, C., & Thomas, J. (2004). Internationalisation of the family business: a longitudinal perspective. *International Journal of Globalisation and Small Business*, 1(1), 7-27.

KPMG, & FBA (2007). *KPMG and Family Business Australia Survey of Family Businesses 2007*. Geelong: Deakin University.

Seet, P.S. & Graves, C. R. (2010). Understanding the barriers to and opportunities for access to private equity: For small-to-medium-sized family-owned enterprises, CPA Australia, Southbank, Victoria.

Smyrnios, K.X, & Dana, L. (2006). *The MGI Family and Private Business Survey*, Melbourne: RMIT.

Stewart, A., & Milner, A. S. (2011). The prospects for family business in research universities. *Journal of Family Business Strategy*, 2(1), 3-14.

Zoppa, A., & McMahon, R. G. (2002). Pecking order theory and the financial structure of manufacturing SMEs from Australia's business longitudinal survey. *Small Enterprise Research*, 10(2), 23-42.

APPENDIX 1

Selected published academic studies using ABS 1994/95 - 1997/98 Business Longitudinal Survey data.

(Studies with a family business focus are highlighted in red.)

	Publication	Study focus and findings
1	Hall, J., & Tozer, C. (2000). Gazelles in the 1990s: Why did they leap so high?: An analysis of high growth firms from the Australian Business Longitudinal Survey 1994-95 to 1997-98. <i>Small Enterprise Research</i> , 8 (2), 71-84.	Management structure was found to have a significant influence over the rapid growth in sales of SMEs. Family SMEs were less likely to experience rapid growth in employment and sales compared to other SMEs.
2	McMahon, R. G. (2001). Deriving an empirical development taxonomy for manufacturing SMEs using data from Australia's business longitudinal survey. <i>Small Business Economics</i> , 17 (3), 197-212.	Business characteristics to identify SMEs by growth pathway (lifestyle / capped growth / entrepreneurial)
3	Zoppa, A., & McMahon, R. G. (2002). Pecking order theory and the financial structure of manufacturing SMEs from Australia's business longitudinal survey. <i>Small Enterprise Research</i> , 10 (2), 23-42.	Some support for the influence of a firm's ownership and management structure on an SME's financial structure
4	McMahon, R. (2003). An Exploratory Study of Under and Over-Investment amongst Manufacturing SMEs from Australia's Business Longitudinal Survey. <i>International Small Business Journal</i> , 21 (1), 29-53.	Ownership and management characteristics were found to influence ill-advised investment decisions. Equity 100% owned by Owner-managers are significantly more likely to be under investing while family SMEs are significantly more likely to be overinvesting.
5	Smith, M. S. (2003). From entrepreneurial to professional management: A transition model from Australian manufacturing SMEs. <i>Small Enterprise Research</i> , 11 (2), 3-21.	Examines the changes in managerial characteristics and competencies as SMEs grow.
6	Cassar, G. (2004). The financing of business start-ups. <i>Journal of Business Venturing</i> , 19 (2), 261-283.	Owner-manager characteristics found to have a significant influence over the firm's financial structure.
7	Graves, C., & Thomas, J. (2004). Internationalisation of the family business: a longitudinal perspective. <i>International Journal of Globalisation and Small Business</i> , 1 (1), 7-27.	Ownership and management characteristics were found to significantly influence the propensity of SMEs to export.
8	Jones, J. (2004). Training and development, and business growth: A study of Australian manufacturing small-medium sized enterprises. <i>Asia Pacific journal of human resources</i> , 42 (1), 96-121.	Found support for the link between SME growth and management team training and management structure.
9	McMahon, R. G. (2004). Equity agency costs amongst manufacturing SMEs. <i>Small Business Economics</i> , 22 (2), 121-140.	Findings suggest that Equity agency costs is influenced by the ownership structure of SMEs. Growth experienced also influenced by their ownership structure.
10	Kotey, B. (2005). Goals, management practices, and performance of family SMEs. <i>International Journal of Entrepreneurial Behaviour & Research</i> , 11 (1), 3-24.	Small family firms were less likely to pursue growth compared with similar non-family firms. Although medium family proprietors desired growth, their actual growth was lower than similar non-family firms. Management practices were less formal in family firms and the gap between family and non-family firms in this area widened with growth. Small family firms achieved greater profits than their non-family counterparts, although this disparity disappeared at the medium level. Exports were low for both firms at the small level. However, medium family firms were less likely than similar non-family firms to export.
11	Kotey, B. (2005). Are performance differences between family and non-family SMEs uniform across all firm sizes?. <i>International Journal of Entrepreneurial Behaviour & Research</i> , 11 (6), 394-421.	The findings indicate that family SMEs perform at least as well as non-family SMEs. Although the two types of firms shared several similar performance characteristics at the small level, certain differences were evident. Performance differences between family and non-family SMEs became prominent at the critical growth phase (20-49 employees), reached an optimum at 50-99 employees and narrowed again thereafter. For family firms , the benefits of higher gross margins and efficient use of assets began to wane after 100 plus employees but the disadvantages of lower employee performance continued.
12	Graves, C., & Thomas, I. (2006). Internationalization of Australian family businesses: A managerial capabilities perspective. <i>Family Business Review</i> , 19 (3), 207-224.	Family SMEs expand overseas with less managerial resources (# managers, mgmt processes), which brings into question their ability to successfully grow internationally.
13	Smith, M. (2006). An empirical comparison of the managerial development of family and non-family SMEs from Australia's manufacturing sector. <i>Journal of Enterprising Culture</i> , 14 (02), 125-141.	Family SMEs were found to have less tertiary qualifications and are slower to adopt some management practices as they grow.
14	Kotey, B., & Folker, C. (2007). Employee training in SMEs: Effect of size and firm type—Family and nonfamily. <i>Journal of Small Business Management</i> , 45 (2), 214-238.	The study examined the main and interaction effects of size and firm type on a variety of informal and formal training programs in small and medium-sized enterprises (SMEs). Samples of 448 family and 470 nonfamily SMEs were separated into four size groups and differences were assessed using multivariate analyses of variance. The results point to prevalence of informal training for all sizes and an increase in adoption of formal, structured, and development-oriented training with increasing firm size (especially for firms with 20–99 employees). This pattern was evident for nonfamily but not for family firms . For family firms , formal training programs increased significantly during the critical growth phase only (20–49 employees). Gaps in employee training between the two types of firms were greatest at 50–99 employees but narrowed thereafter at 100–199 employees. The approach to employee training in family SMEs is in consonance with their slower growth, informal management styles, limited financial resources, and greater emphasis on efficiency compared with nonfamily SMEs.