

Submission to the Inquiry into Family Business in Australia

Parliamentary Joint Committee on Corporations
and Financial Services

OCTOBER 2012

This submission summarises the Reserve Bank's assessment of the state of small and family businesses in Australia. Family businesses cover a wide spectrum of businesses, from sole proprietorships to conglomerates. A key criterion commonly used to define a family business is whether a majority of the business' equity is held by family members and that there is at least one representative of the family having a role in the management and governance of the organisation. Alternative definitions emphasise the potential for the family business to exist across the lifetimes of different family members. As with small businesses, the definition needs to be tailored to the question at hand, although a small size is generally considered to be highly correlated with family ownership. Indeed, Australian statistics rarely distinguish between family-owned businesses and more widely owned organisations.

The attached materials include the Reserve Bank's submissions to the *Inquiry into Access of Small Business to Finance* in March 2010 and the *Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Access for Small and Medium Business to Finance* in February 2011. It also includes a number of papers prepared for, and summarising the main lessons from, a Reserve Bank *Small Business Finance Roundtable (Papers and Summary)* held in May 2012.

The attached documentation focuses primarily on the characteristics of small businesses as well as their contribution to the Australian economy. Their access to, and the cost of, finance is also discussed. The main conclusions are:

- Small businesses play a significant role in the Australian economy, particularly in terms of their contribution to employment and production. ABS data suggest that small businesses with fewer than 20 employees account for 96 per cent of the total number of businesses, 46 per cent of employment and 34 per cent of value added.
- The level of lending to small businesses was little changed in the few years following the onset of the financial crisis, potentially reflecting the cautiousness in a more uncertain environment of both small businesses (through reduced demand for credit), as well as lenders (expressed through tightened lending standards). Over the past year or so, however, growth in lending to small business has accelerated.
- In contrast to large businesses, small businesses appear to rely on more flexible forms of intermediated credit, such as credit cards and bank overdrafts. In addition, there is evidence that small businesses use collateralised forms of finance, such as bank loans secured on property (primarily residential), as well as lease and hire purchase transactions.
- The higher rates paid on average by small businesses compared with larger corporations are likely to reflect the unsecured nature of more flexible forms of credit, as well as the more volatile nature of small business cash flows where collateral is used.