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Dear Committee Secretary

## **REVIEW INTO FAMILY BUSINESS**

We are a professional association of 3500 bookkeepers who predominantly service the SME sector of Australian Business. Approximately 1900 of our members are "in practice" meaning they are a business in their own right providing professional bookkeeping services to other businesses.

Accordingly our membership and the businesses they work with are typically "Family Business". As part of this information we also provide our 2011 survey results of our contact base with 744 bookkeepers providing information about their sector. (The 2012 survey has just concluded with 800 responses this year). The information contained therein may also be relevant to the committee considerations.

### **In relation to your terms of reference**

#### **1. the definition of 'family business'**

Our involvement in Australian businesses would conclude that the term "family business" would overlap and include terms typically used of: SME (Small – Medium Enterprises), Small business, Micro Business. ATO definitions of Micro business (\$0 - \$2m turnover) would be included and ATO definition of "SME" (\$2m - \$250m) would only in part be included.

We believe Family Business typically exist in the range of \$0 – \$20m with a trend specifically at the lower turnover levels.

Family business are typically 1<sup>st</sup> generation and to a lesser degree 2<sup>nd</sup> generation owned and controlled by the “family” of the founder, if not the founder.

Family business is typical of all the stats and characteristics reported of Small business: Low turnover, over worked, underpaid, does not always provide equitable reward for the business owner, burdened by compliance obligations.

Owners are typically the key employees and/or operators of the business and the key generators of the income.

The definition would include many “sole trader” business where the individual is the key income generator for the family.

Family business owners typically contribute more time than employees.

*Suggested definition: A “Family business” is one where the founder/s are from the one “family” and remain involved in the business. Typically the business “contributors” (employees etc) are in the majority family members or possibly the business has grown such that management is dominated by family members but with an increasing number of non-family employees. Turnover is typically in the \$0 – 25m range. A “Family Business” is typically a “SME”.*

## **2. the availability and reliability of information and statistics about family business in Australia;**

We include our 2011 survey as an example of valid statistics in relation to this sector. We believe the ATO surveys into business sector provide valid results and indications of the sector.

We have a concern that many other “business indicator” surveys do not adequately reflect the “family business” sector as these businesses do not typically contribute to such surveys.

SME statistics would be a fair indication of “family business” statistics.

## **3. the contribution of family business to the Australian economy, in terms of financial, social, employment, innovation and sustainability outcomes**

Extensive!

In all aspects we see that most businesses are SME/Family business, therefore their contribution in all aspects is significant.

Innovation: this is somewhat restrained in this sector due to the first priorities being survival and income generation. Second priorities being attempting to meet the compliance burden. Family business/SME exhibit the will to be “doing business” differently and will bring innovative or unique characteristics to what they do, when other factors allow them the opportunity.

#### **4. structural, cultural, organisational, technological, geographical and governance challenges facing family business**

Succession handover of a family business from one generation to the next is a struggle. SME's rely on key individuals running with the business and the vision for the business in order for it to continue. In a Family business that succession to another family member further diminishes the ability to continue. Hence the "structural" aspects of ownership and management and succession are poor.

"Structural" in terms of legal entity and corporatisation depends on the degree of early success and the extent of advice sought and received. It is unwise for a new family business to invest heavily in establishing the right corporate/operational structure prior to actually being in business as the funds required to obtain such "establishment" tend to prohibit or destroy the ability to commence the business. It is also very unwise for a new family business to ignore considerations of the right corporate/operational structure in the early days. Considered staged assistance is required for all new startups including family business.

"Governance" tends to become a problem with substantial growth and the involvement of other family members or external persons within the business. As a Family business is a SME it faces the same system, control, governance concerns of all SMEs: Business systems, recording, accountability, documentation.

Family Business earns what it is able to derive and pays the family contributors what is left. The family contributors earnings would be AFTER obligations to external employees. The structure of Australian workplace obligations prohibit the expansion of family business as they are unable to engage "external" people to assist in a progressive or flexible growth of the business.

#### **5. the role of family trusts in facilitating family business;**

The structure of a "family trust", preferably with a corporate trustee, generally lends itself favourably to the operation of a family business. In succession, in tax strategy, in flexibility.

We would support the continuation of the "family trust" structure being allowed and supported for the SME / Family business sector.

## **6. access to and the cost of finance and insurance for family business;**

Anecdotally finance is a major issue and restriction for family business.

We would typically advise a new family business to refrain from embarking on their business, based on interest bearing finance, due to the cashflow impact. The cost of finance and servicing a debt is a major cause of family business stress and failure.

It also appears that in the current banking environment family business is not supported by the lenders. Without family provided security (the house, other property, personal guarantee), a family business cannot generate the finance. It would appear that the lenders do not in fact wish to lend to a family business but will lend to the family if there is sufficient security and other income to service the debt.

An unsatisfactory position.

Insurance appears to be competitive and obtainable.

## **7. family business responses to the challenges of the GFC and post GFC resilience**

Participants in and advisors to the "Family Business" sector would argue that the GFC has not gone away. SME is typically doing it tough. The Family Business response to such economic conditions is one of reality in that they make less so they earn less so they have to survive on less.

There is a real economic inequality in a family business compared to that of "employee" relationships. In Australia the employee conditions and pay is subject to the "award" and "law". A Family Business contributor is not subject to the same privileges and hence earns less money. This inequality and the "law" and "obligations" around engaging an employee is a MAJOR restraint of family business and a MAJOR reason more part time or flexible work is NOT offered in Australia.

We apologise for the lateness of this contribution.

Please contact us if you require any further information or clarification of our comments.

Yours faithfully

Matthew Addison  
Executive Director