

29 October 2012

Dear Sirs,

I wish to make a submission on this matter very important to the Australian economy.

Definitions of Family Business;

There are many differing definitions around the world. However they all have one constant; They are under control or substantial influence by members of the founding family. They can be any generation from 1st through to 6th which is the oldest currently in Australia. They can be tiny – 1 person - up to major corporations with many thousands of employees, in every sector of the economy. These are characteristics that determine what is a family business.

The availability and reliability of information and statistics about family business in Australia;

Is virtually nil – the ABS has very little; the government has little; Any information is old or available from private surveys conducted by firms such as KPMG. Overseas more information is known.

The contribution of family business to the Australian economy, in terms of financial, social, employment, innovation and sustainability outcomes;

Due to the lack of information there is only speculation. However I am lead to believe that FBs are 70% of all businesses and employ 50% of the workforce. Our profitability is higher by virtually every measure. We have stronger balance sheets with lower levels of debt. Because it is OUR money we have invested or borrowed personally we are more risk averse. Yet we are innovative – many innovations come from start-ups. To be sustainable we need to constantly innovate. We hold our employees for longer – and have softer policies on retrenchment, aiming to 'find a position' if possible. Our people are a part of the business family. Our compliance to regulations is high, many use boards of external directors. Because we are in business for many generations we need to be sustainable.

Structural, cultural, organisational, technological, geographical and governance challenges facing family businesses;

We have all these challenges like other businesses. However we have one major unique challenge; due to our aim to maintain the FB for multiple generations the tax laws (CGT) cripple the next generation's ability to continue and/or to grow. We seek, like other countries around the world currently do have, to have exemption from CGT when the shares are passed from one generation to the next. This should not be a sale in normal terms, but a transfer to future generations. We argue that if the shares are transferred to in-laws this exemption should equally apply. Should shares be sold to non-family members normal CGT rules should apply, and when the business is sold, in part or whole. The raising of capital or borrowings can be difficult to FBs as it is to other businesses. We find banks willing to lend to us on normal risk terms. Governance in FBs is higher than businesses without personal risk and start up capital due to this 'hurt money'. We aim to be in business for the long term and governance is critical and of constant importance to most members of the family.

The role of family trusts in facilitating family business;

It is the accountants who can best answer this.

Access to, and the cost of, finance and insurance for family businesses;

We have found this is not a problem – the availability and cost results from the risk of the business. Nothing different due to being a family business.

Family business responses to the challenges of the GFC and post GFC resilience;

We, being risk averse, constantly peer into the future and assess the risks.

We have been through 4 recessions. The current GFC is caused by excess debt with little concern about the future. Fbs' low levels of debt reduces their risk.

By having a strong balance sheet we have the ability to take up opportunities that arise from the GFC and from previous recessions.

It forces us to look at improving our business through tight cost control and service improvement.

We have exited from recessions in the past stronger than we entered them and have created a platform for future growth.

I hope this gives the committee some insights to one 3rd generation family business, started in 1948 by Walter Kennard, an immigrant from the UK who left school at 13 to help his family survive.

Thank you for reading my submission.

I will be happy to attend a hearing should you wish to find out more.

Andy Kennard
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Chairman, Family Business Australia