

Code: 029c0c27-d9dc-4632-a206-88ab46a6924

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

Inquiry into family business

Terms of Reference

1. The definition of family business’;
2. The availability and reliability of information and statistics about family business in Australia;
3. The contribution of family business to the Australian economy, in terms of financial, social, employment, innovation and sustainability outcomes;
4. Structural, cultural, organizational, technological, geographical and governance challenges facing family business;
5. The role of family trusts in facilitating family business;
6. Access to, and the cost of, finance and insurance for family business;
7. Family business responses to the challenges of the GFC and GFC resilience

Introduction:

Packer Leather Pty. Ltd. is a family owned business operating out of Narangba in the State of Queensland. The company Directors consists of both 4th and 5th generation members.

The Packer family business has been in operation since 26th January 1891 – now relocated from its original site at Downfall Creek Chermside, Brisbane, to its current location at Narangba, Qld.

Packer Leather Pty. Ltd. are producers of high performance leathers produced from Australian sourced skins and hides. Their major production is Kangaroo leather which are exported to some seventeen (17) countries across a broad range of end uses – namely: Footwear- Athletic/Dress/Casual/Recreational/Western Boots/Hiking ; Garment – Motor Cycle Suits/Casual/Hats; Gloving- Military/Motor sports/sports/ Fire fighting/Law Enforcement; Trim- Aviation/Auto; Leather Craft – Belts/Whips/Falconry/Bookbinding.

The Bovine leather production is focused around Footballs / Cricket Balls/ Safety Equipment.

Current turnover of the business is approx \$17M..a significant drop from earlier years of \$22-28M. The current world economic position has impacted on both Turnover and staffing levels, now at some 60% of pre GFC levels. Actual numbers are 92 persons.

Packer Leather Pty. Ltd. have received Awards and International recognition over the last decade for their endeavors in Export- Winners if the 2003 Qld. Premiers Export Award for Agri-business.

Some notable “firsts” – German Auto firm Audi uses Kangaroo in the “TT” Sports car; Eurocopter uses Kangaroo in its Helicopter Trim in Australia;

Major world sports Brands use Kangaroo in their high end sports shoes.

Major European Motor Cycle Brands use Kangaroo in riders Race suits.

Perhaps of major significance is the Environmental Status that Packer Leather Pty. Ltd. have been awarded through the Audit by the Leather Working Group – LWG.- Gold Status Level. Additionally the Queensland Government have recognized Packer Leather Pty. Ltd. for their Eco-efficiency Partner through their waste minimization and recycling programme.

Addressing the Terms of Reference:

1. the definition of ‘family business’

Whilst there may be many opinions of what really constitutes a Family Business, our basic response is that it is owned by two or more members of a same family, however with the possibility that management may be non-family.

Perhaps it is beyond reasonable questioning to adopt the Family Business Association’s (FBA) simple description; *“a family business is comprised of two or more members of the same family involved in the business with one or more members having a controlling interest”*

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

We are not well conversant with “what is really available” nor where to access what is” It is our understanding from our membership with the FBA sector, several surveys have been carried out by bodies such as Deakin University; The Australian Centre for Family Business and RMIT.

Collation of such data would appear to be only in a reportable form through the FBA, whereby there are significant statistics to show the importance of this Sector within the overall Australian economy. I refer to both employment and to turnover in that aspect. Kindly refer to Annexure – 2 pages – Family Business Sector / Statistics.

Page 3.

Our question arises in “how does the Australian Bureau of Statistics (ABS) manage to delineate the family business sector from its all encompassing terminology called SME’s?”

It then does become a further question on how to research the unique characteristics of a family business, the support and representation of such at Government level and the consideration of Policies that will enhance these operations as they contribute to the wealth of the Nation.

Maybe easily said, however the current Statistics from FBA certainly would quantify the obvious omission from visibility.

Recommendation:

As one of the many Australian family business’s, it is our request this Parliamentary Joint Committee on Corporations and Financial Services make recommendations to the Australian Bureau of Statistics to collect such data as necessary to provide a sound basis on the very uniqueness of what is a family business.

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

To the best of our knowledge, the MGI Australian Family and Private Business Survey 2006 as circulated by FBA contains the most up to date information under this reference heading.

We would also make comment that many family business’s protect their confidential information and are reluctant to ‘share all’, thus making survey value somewhat diminished.

4. structural, cultural, organizational, technological, geographical and governance challenges facing family business

Legal Structure;

In our knowledge, a majority of the larger family business’s would favour a private company structure. This is the structure chosen by Packer Leather Pty. Ltd. as the most suitable for its various family shareholder members.

Ownership Structure:

In our particular instance, Packer Leather Pty. Ltd. has evolved from the original three (3) Packer families into its new identity of the fourth generation family ownership – consisting of three(3) Packer families again but emerging from just one of the original three(3) families.

In our opinion, there would be perhaps little benefit to change the “50 shareholder rule” (Section 113 of the Corporations Act). To have a shareholding of family members beyond 50, would certainly contain many challenges, most likely with poor outcomes.

Page 4.

Cultural Challenges:

All family business develop and retain a culture of their own making. When a founder is still present, then what they have developed over the business's growth remains part and foremost in the culture.

To move this forward with generational change requires both stability and also a repositioning at times of the business's direction –

In our particular instance, the value system remains paramount. It overlays how the business is run; its relationship with staff; its relationship with customers and suppliers and also to its family members.

Then there are conflicts within families...how best to overcome is always going to be a challenge. However, there are sufficient consultancies that offer support in this area, for families and the way through such occasions. They assist with the education of the younger members as they take control.

Managing without conflict is paramount to the business's success in the long term.

Geographical locations:

We would assume that the majority of family business's exist in only one location; near to where they have settled as a family

Governance challenges:

These are decidedly ongoing for all family business's. Primarily it depends on the size of the business – how many shareholders and working Directors/family members involved.

The establishment Family Council is also a proactive way to manage the interests of family and the requirements of its "Charter" can also assist.

Generally though, there are many smaller business's in this category that have no need for this type of structure, or see such a benefit.

Education for Directors and Management has been critical to our success in this aspect. It also provides for stability, the way forward and a possible career path for both family and non-family employees in the organization.

With the heightened responsibilities under WH&S Legislation and other Legislative Acts of Compliance, it must be accepted that the increasing costs to the business must not outweigh the perceived benefits flowing from that.

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

We have no comment to make in this aspect as we are not structured in this manner.

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

Sources of Funding;

We exist today in the most trying of circumstances both locally and globally. With the International Sovereign Debt crises remaining across most of the globe, our continued access to funding remains a constant threat.

Our Australian Banks are extremely ADVERSE to any form of risk ! Their risk analysis of our business – ‘an Exporter and Manufacturer’ certainly does not give them a lot of confidence in our Industry.

Locally, our Industry has almost disappeared and , whilst globally the demand has fallen by some 50%. The indecision of customers and a willingness to only commit to small order volumes, does not present a strong picture.

The finance models that they use for risk assessment seemingly make no or little allowance for the personal factor – who they are supporting.

Our Company, with 121 years association with only one Bank, would seemingly have little to show for that loyalty.

As a Company, we are and have been committed to innovation / R&D Research. Expenditure year on year. The actual recovery of these Technologies that we develop is all long term. Unfortunately, this gives little comfort to Banks and financial organizations who look at current financial statements.

Family business’s are not solely about profit – there is also an expectation that to produce a product from its raw material state and supply the world market surely allows for job satisfaction, employment opportunities and a contribution to the Australian economy. They provide regions with community support.

How do we manage in the face of adversity? It comes back to the family and their ability to fund ongoing activities as well as growth. Due to the fact that credit has really dried up, the family is the last resort to borrow from and provide the much needed injection of funds. When that runs out – where to then?

7. family business's response to the challenges of the GFC and post GFC resilience

Company's like Packer Leather Pty. Ltd. – an exporter and manufacturer have suffered immensely from the above circumstance. As our markets have been spread across several global area, we have not remained free of this situation.

There has been a definite attack to lower pricing whilst we have experienced an Australian currency at unsustainable levels for exporters.

Added to that, the interest rate scenario as compared to our major trading markets has just added to the pain.

This Country cannot and should not maintain policies that suit the “big end of town”! Where are the Policies that allow for Innovation etc to be encouraged and not with some compliance attribute that negates the will to even contemplate applying.

We are a leather manufacturer on an International scale – we must meet all European and USA Environmental Legislations that demand our product be free on banned substances. This we do at our cost.

However to continue to develop and compete on the “level playing field”, we need access to the latest Chemical developments.

To our horror, we find that to obtain registration of certain chemicals through NICNAS, is extremely difficult and costly in the extreme.

This delay from NICNAS has created consternation after some 3 months of Technical development.

Just an example of issues that affect our resilience in the face of adversity.

Family business's have long term goals, commit their whole of life philosophy to making a success of their business in the hope that the next generation will follow on. Surely that is the backbone for a strong and well cared for community.

In conclusion

It is our hope that the Parliamentary Joint Committee on Corporations and Financial Services both consider and act on these recommendations:

- A meaningful study of Family Business in Australia by the ABS
- Appointment of a Minister for Family Business – stand alone appointment
- Create and enact Policies that understand the very nature of family business's through a strong consultation through the peak business representative – FBA
- Further public recognition of the fact that Family Business's are the very backbone of Australian Industry.

Signed: Graham R Packer
Director – Packer Leather Pty. Ltd.

ANNEXURE: AUSTRALIAN FAMILY BUSINESS SECTOR - STATISTICS

The family business sector

- Family businesses account for around 70% of all businesses in Australia¹
- Average turnover is \$12 million per annum³
- Average number of employees is 37²

Wealth of the sector

- \$4.3 trillion is the estimated wealth of the sector³
- First generation wealth is \$3 trillion³
- Second generation wealth is \$987 billion³
- Third to fifth generation wealth is \$346 billion³
- 81% of owners intend to retire in the next 10 years, generating a wealth transfer of \$3.5 trillion³

Longevity

- Average age of a family business firm is 32 years²
- Average age of a family business owner is 55 years²
- Average tenure of a CEO in family business is 17 years³

Transition

- 41% intend to pass the business to family members¹
- 61% of family business owners would seriously consider selling if approached²
- 44% of family business owners are planning to sell their business¹

Governance

- 34% of families in business have a formal board structure¹
- 28% have a family council¹
- 12% have a family constitution¹
- 20% have a succession plan for the CEO¹

Important issues²

1. Communication between family members
2. Letting go of leadership/ownership control
3. Providing liquidity for family owners to exit
4. Securing adequate capital for growth and retirement
5. Choosing a suitable ownership structure for next generation

Sources:

1 KPMG and Family Business Australia Survey of Family Businesses 2009 (in conjunction with Bond University)

2 The MGI Australian Family and Private Business Survey 2010 (in conjunction with RMIT University)

3 The MGI Family and Private Business Survey 2006 (in conjunction with RMIT University)

4 KPMG and Family Business Australia Survey of the Next Generation of Family Business (in conjunction with Bond University)

Employee size

- 64% of family businesses have less than 20 employees²
- 32% of family businesses have 20-199 employees²
- 4% of family businesses have 200 or more employees²

Generational involvement

- 36% of family businesses have only one generation involved in the business²
- 59% of family business has two generations involved in the business²
- 5% of family businesses have three or more generations involved in the business²

Age of business

- 84% of family businesses are less than 50 years old²
- 49% of family businesses are less than 25 years old²

Gender

- 11% of all family business owners are female and 89% male²
- 7% of daughters are actively involved in the business compared with 35% of sons²
- Sons are five times more likely to succeed the current CEO than daughters²

Next Generation

- More than 85% of the Next Generation felt family members should compete fairly with non-family employees for promotions and career opportunities⁴
- 55% of the Next Generation plan to hand over to the next generation in due course⁴
- 61% of the Next Generation family members feel they bring a different leadership style than the incumbents⁴
- The top priorities for the Next Generation taking over the business are business strategy and Governance structures⁴

Major family issues of concern to families in business¹

1. Balancing family concerns and business interests
2. Maintaining family control of the business
3. Compensating family members involved in the business

Major influences on the succession process¹

1. The ability of the business to generate adequate financial returns
2. Level of trust in the abilities of the potential successors
3. Level of interest of potential successors in the business

Sources:

1 KPMG and Family Business Australia Survey of Family Businesses 2009 (in conjunction with Bond University)

2 The MGI Australian Family and Private Business Survey 2010 (in conjunction with RMIT University)

3 The MGI Family and Private Business Survey 2006 (in conjunction with RMIT University)

4 KPMG and Family Business Australia Survey of the Next Generation of Family Business (in conjunction with Bond University)