

31 October 2012

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
CANBERRA ACT 2600

Submitted via email

To whom it may concern:

RE: Inquiry into the operation of family business in Australia

As the State's peak business and industry association, the Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide feedback to the Parliamentary Joint Committee on Corporations and Financial Services on Family Business in Australia. This Inquiry provides an excellent opportunity for CCIQ to provide feedback to the Committee on family businesses in Queensland, the challenges they are facing, and the areas in need of further improvement.

CCIQ is the peak group representing the interests of over 25,000 Queensland businesses on a range of issues that affect small and medium enterprises. We work closely with all levels of Government to ensure our member's interests are considered in the formulation and development of policies.

Whilst some family businesses have grown substantially and fall into the upper echelons of the business spectrum, family businesses generally account for a significant portion of small and medium enterprise (SME) in Queensland, and Australia. CCIQ acknowledges not all family businesses fall into the category of SMEs, however many of the issues facing SMEs are also those confronting family businesses – not only in Queensland, but Australia-wide.

CCIQ is well positioned to address the issues as they relate to terms of reference 4 and 7 of the Inquiry. Both terms of reference capture the essence of what is confronting family businesses and SME's all over Australia in the current economic, social and political climate.

CCIQ has consulted widely with the Queensland business community about their priorities in the current political and economic environment, what challenges they are facing and how they are

**CCIQ SUBMISSION TO THE PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES
ON FAMILY BUSINESS IN AUSTRALIA**

dealing with the continued fallout from the poor economic environment. CCIQ's 'Big 3 for Business'¹ identifies the three most common issues for Queensland businesses as:

1. Delivering better economic and fiscal management
2. Reducing government costs on business
3. Reducing government red tape

A full copy of this report is attached and is of crucial relevance to this inquiry.

The Global Financial Crisis

CCIQ's Big 3 for Business highlighted the combined effects of the GFC, high Australian dollar and wide-spread impact of the 2010-11 natural disasters that resulted in a deterioration of economic conditions (particularly in Queensland). Poor consumer confidence, reduced revenue and increasing operational costs have progressively eroded business profitability outside of the resources sector, leading to the emergence of a two-speed economy. This presents unique challenges, particularly in States such as Queensland where the patchwork economy is most prolific. Many small businesses reported adverse impacts as ongoing following the GFC, and family businesses as a sub-group of SMEs was not immune. Please refer to the latest CCIQ Pulse Survey of Business Conditions for a timely snapshot of how Queensland SMEs are performing and what their expectations are for the next 12 months. The Pulse survey can be found at www.cciq.com.au

Access to Finance and Banking

SMEs have experienced profound difficulties in obtaining, retaining and renegotiating finance from Australian banks for business expansion, investment and short-term cash flow assistance. Unlike larger businesses, SMEs including many family businesses, rely heavily on finance from financial institutions for their working capital and new capital expenditure e.g. on machinery, plant and equipment as well as opportunities for overall expansion.

Businesses are facing significant difficulties in accessing finance for a number of reasons, primarily due to banks since the GFC becoming more risk adverse and overly conservative in their small business lending through increased risk margins and non-price loan conditions. Previous research reveals a range of instances of banks tightening lending criteria which has threatened the ongoing viability of many small businesses. Changes in lending requirements have undermined the feasibility of existing business plans and required small business to alter their strategies, resulting in them either shelving plans for expansion, downsizing, or in some cases exiting the market altogether.

Organisational Cultures in Family Business

An underlying theme in family business is the way in which the culture of family businesses creates a degree of competitive advantage.² This was identified as coming from a range of factors, including

¹ Chamber of Commerce and Industry Queensland, Big 3 for Business: State and Local Government Election Report 2012.

the personalisation of relationships, flexibility, resilience and superior product and service offerings. This is often what separates family-owned businesses from their medium and big business counterparts. There is plenty of literature to be found on the importance and creation of cultures within the workplace, however there is a lack of information available about the importance of this culture in family-owned enterprises – both benefits and drawbacks.

Drawbacks that may be encountered in family owned business often occur when the family is forced to consider options for growth and address issues pertaining to succession planning, leadership and control of the business, providing exit strategies and financial choices for older family members and discussing future ownership structures.

Gaining a Competitive Advantage as a Family Business

Like many small businesses, family businesses provide a unique offering, priding themselves on the boutique nature and superior service and quality of goods and services. There exists a belief amongst family businesses that although there are challenges associated with running a family owned-business, it also creates a dynamic culture. This is largely attributed to how family values influence business values, and can be leveraged to help create and sustain a competitive advantage in an overwhelmed market.

There is no doubt that the prevailing poor economic conditions at present are forcing business (family-owned and otherwise) to adapt their structures and offerings accordingly. Family businesses are well-placed to adapt to new financial and trading conditions, however this does not mean that they may throw caution to the wind.

Preparing for Growth

The difficulties encountered by business when confronted with decisions about expansion and growth are daunting. Any strategy to expand requires a great deal of consideration, consultation and planning on future options. This position is only amplified when a family business considers expansion and growth.

When contemplating growth, a number of encumbrances arise that may not have been earlier considered. For example, the amount of regulatory burden increases with the size of the business. This can force SMEs to question whether an expansion or growth strategy is really in the best interests of the business – and in the case of a family owned business, there are more questions. Such as, will this expansion mean the family no longer has the expertise to move the business forward? Should the business consider installing a non-family CEO and board? How does the family retain control? Should they retain control? And accordingly the questions continue.

In other words, SMEs are ordinarily faced with a number of considerations in whether to move forward and expand a business (and in winding down a business, or diversifying). It not only requires consideration of the regulatory burdens and costs that are normally associated with SME's,

² KPMG and Family Business Australia's Family Business Survey 2011, Stewards: Moving forward, moving onward.

but there is a substantial range of other issues that need to be carefully examined that are unique to family owned business. Guidance and advice can be sought from external stakeholders (the same as any SME), however there is often a level of emotion attached in a family owned business that will blur the distinction between a decision that is in the best interests of the business and a decision that is in the best interests of the family.

Family Business in the Future

CCIQ can identify a clear gap in research pertaining to family-owned businesses and their contribution to the economy on a macro level, but also the role and differences that family businesses bring to SMEs more generally. Many of CCIQ's members operate family-owned enterprises; however the availability of statistics is minimal. Given the importance of SMEs to the broader economy, it is important to know what components make up this important economic contributor and accordingly existing data sets must progressively be improved upon.

Conclusion

Family businesses are integral to the economic fabric of Australia. They account for a significant portion of business activity and ownership. However, there is a tendency to skim over the importance of the word 'family' and focus more on the word 'business'. Whilst this approach is important, it should also be recognised that family businesses bring their own challenges, benefits and cultures to the business environment in Australia. They face issues that are unique to family businesses like succession and growth planning, and dealing with family conflict within the business. However they also share a lot in common with many other SMEs – the ongoing challenges associated with economic volatility and the burden of compliance costs.

CCIQ would be pleased to address aspects of this submission. For further information please contact Sophie Andrew, Senior Policy Analyst

Yours sincerely

Nick Behrens
General Manager – Advocacy
Chamber of Commerce and Industry Queensland