

Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Family Business in Australia

29 November 2012

Joint submission from

- Hunter Business Chamber, and
- Regional Development Australia Hunter

Kristen Keegan
CEO, Hunter Business Chamber



The Hunter Business Chamber is the largest regional business chamber in Australia representing approximately 900 member businesses to all levels of government and is the Hunter region's peak representative body for business and industry. The Chamber works as an integral part of the Chamber network in NSW and represents our member's interests at Federal, State and local level to advocate for an improved operational climate for business.

99 Selwyn Street, Mayfield East NSW 2304

Ph 4969 9600

Todd Williams
CEO, RDA Hunter



Regional Development Australia Hunter is the peak regional development consultative organisation for the Hunter Region. Regional Development Australia is a national network of 55 regions formed by partnerships between Australian, State, Territory and Local Governments.

Level 3, 251 Wharf Rd. Newcastle NSW 2300

Ph 4908 7300

The Hunter's family business tradition

The long history of families owning and running businesses is rich with stories of ambition, triumphs, risk taking, rivalries and unstoppable drive. Founded in 1535, a butcher in Dorset is Britain's oldest continuously trading family business.¹ A relative newcomer compared to the Japanese construction company and temple-builder Kongo Gumi, which was founded in 578.² In the Hunter, family farming and horse breeding enterprises date back to the 1800's.

Family names are synonymous with business in The Hunter. Every town and suburb in the Region is served by family businesses. All private industry sectors have their family enterprises: farming; food production, storage, packing, transporting and retailing; manufacturing; construction and property development; accommodation; tourism; thoroughbred breeding; finance, legal and insurance services; local doctors in family practices; dentists; chemists; artists; car and truck repairers; home maintenance; florists; newsagents; shoe repairers; real estate agents; jewellers; logistics and transport suppliers; and even coal mining – Bloomfield, owned by Mr Richards and family.

Earlier this year, The Hunter shared the family's grief when co-founder and managing director of The Forgacs Group, Mr Stephen Forgacs passed away. His vision and passion to establish a business specialising in ship construction and repair, engineering, defence supply and apprentice training that trades internationally and employs 1,250 people at seven sites and shipyards is respected and admired.

Some of the families with the longest regional business histories established and continue to bring acclaim to the Australian wine industry:

- Drayton – proudly continuing over 150 years of an unbroken line of five generations of family ownership and wine making;
- Tyrell – vineyards and wine making business that has been family owned since 1858, with fifth generation family members actively involved; and
- Wyndham – in 2013 it will be 185 years that this family name has been associated with Hunter wines. The value of the traditional brand recognised and maintained by the Paris based global corporation and parent company owner, Pernod Ricard.

This overseas connection to a former family owned business is made for two reasons:

1. to reinforce the priceless value of goodwill that is generated by family connections to products and services; and
2. to acknowledge the place family businesses can occupy in the development of commercial enterprises between start-ups and publicly-listed managerial firms.

Of course, The Hunter's economy is unavoidably associated with the mining boom, black coal exports, electricity generation and manufacturing. Too easily the details of the Region's diverse economy are overlooked and in particular, the importance of the family business sector to the economy and communities of The Hunter goes unrecognised.

The Hunter Business Chamber and RDA Hunter welcome the Joint Parliamentary Committee's inquiry into the nation's family business sector. We appreciate the opportunity to make this submission and provide information in response to four of the terms of reference that we hope the Committee finds useful.

¹ <http://www.campdenfb.com/article/uk-s-oldest-family-businesses-history-longevity>

² <http://www3.unileon.es/personal/wwdfcsrr/pdf/100empresasfamantiguas.pdf>

Responding to Terms of Reference 1, 2, 3 and 4

1. the definition of 'family business'

By defining 'family business':

- Public policy regarding the sector can be developed;
- Common parameters for collection and analysis of data can be applied;
- Understanding of the economic and social contributions, needs and organisational nature of this business sector can be improved; and
- Structures, support networks and information hubs can be created to share and address unique challenges.

As Australia continues to develop off-shore business relationships, the **need to define 'family'** should not be underestimated. Family business researchers have pointed out that, *'a definition of family is often missing' and 'this notable absence poses problems, particularly in an international context where families and cultures differ not only across geographical boundaries, but also over time.'*³

Further, as the ABS submission to this Inquiry records, there is the need for consistency in definition of 'business' and 'ownership'. We can also merit in the comment in the ABS submission that, *"it is important that any definition developed for 'family businesses' can be supported by reliable data."*

A selection of definitions

"Family businesses ...can be defined as businesses where two or more family members work in the business and share or expect to share ownership, and want to pass ownership on to the next generation."

Dr Dennis Jaffe, 2008: The Future of Family Business in South Australia

"A family business is comprised of two or more members of the same family involved in the business with one or more related members having a controlling interest."

Family Business Australia – submission to the committee

"The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families"

Chrisman, J., Chua, J., Sharma, P., A Review and Annotated Bibliography of Family Business Studies, Boston: Kluwer, 1996

A project was carried out by the European Commission and experts in the field of family business appointed by the national authorities, under the Multiannual Programme for Enterprise and Entrepreneurship coordinated by the European Commission's Directorate-General for Enterprise and Industry.

After having analysed existing definitions, the expert group proposes the following definition:

"A firm, of any size, is a family business, if:

- 1) *The majority of decision-making rights are in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.*

³ ASTRACHAN, J., KLEIN, S. & SMYRNIOS, K. 'The F-PEC scale of family influence: a proposal to solving the family business definition problem', in Handbook of Research on Family Business, Edward Elgar, UK, 2006 (p. 167).

- 2) *The majority of decision-making rights are indirect or direct.*
- 3) *At least one representative of the family or kin is formally involved in the governance of the firm.*
- 4) *Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.”*

Final Report of the Expert Group Overview of Family–Business–Relevant Issues:
Research, Networks, Policy Measures and Existing Studies (November 2009)

Recommendation

Under terms of reference number 1, the Report from this Inquiry adopts a definition of ‘family business’ and addresses:

- ***The complexity and difficulties of defining ‘family business’;***
- ***Benefits and disadvantages of defining what may be identified as a sub-sector of business, industry and corporate structures that are already defined and measured;***
- ***Whether to include sole practitioners in a definition of ‘family business’;***
- ***Consideration of any implications for a definition in relation to the Corporations Act 2001 - Sect 9AA Certain family relationships;***
- ***The role(s) that a definition of ‘family business’ may serve in the development of public policies to better respond to and support the family business sector in Australia; and***
- ***How well the definition of Australian family business serves the international interests of the sector.***

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

Ownership is the essential tenet of family businesses. To better inform public policy, we require a deeper understanding of family ownership and the influence this has on the business behaviour of family businesses.

We would welcome further information regarding the costs, benefits and implications of collecting and disseminating data on the family business sector in Australia by the Australian Bureau of Statistics (ABS).

The outcomes of the Deakin University survey conducted in 2006 have potentially wide-ranging implications for the nation and The Hunter. The timeframe for more than 6 out of 10 family businesses to be in transition by 2016 and for almost 8 out of 10 of these businesses to have no formal succession plan is much shorter than the decade ahead when this survey was conducted. In conjunction with the analysis that there is three times the capital invested in family businesses as the market capitalisation in the ASX, we appear to be facing an unwelcome degree of uncertainty in a significant business sector.

We do not have on hand enough detail of the Deakin Uni’s 2006 findings to know for sure if the data apply to The Hunter. Given the potential impact of these statistics, and our roles as representatives and information providers to policy makers, it would be preferable to

have current and local data regarding the intentions and future plans of the family business sector in the Hunter over the short -, medium- and long-term.

Recommendation

The Australian Bureau of Statistics (ABS) in conjunction and cooperation with tertiary research institutions, regionally based research institutes, such as Regional Australia Institute (RAI) and locally, the Hunter Valley Research Foundation (HVRF) should design and regularly collect data about family business to define its economic contributions and inform innovative policy development in support of the sector.

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

Quite rightly, many Australian family businesses celebrate their longevity in the market. Their long-term approach and innovative behaviour helps deliver sustainability and successful navigation of difficult times.

Characteristics of family businesses:

- Represent a diverse range of company structures;
- Cover a diverse range of industries and services;
- 67% of Australian businesses and more than half of the workforce (in the Family Business Australia submission to this Inquiry);
- Committed to local communities;
- Long-term stability; and
- Determination to make it work.

'Family businesses must be seen not only in terms of assets but as a combination of property and values. That is, family businesses have implications that involve more than merely serving a financial purpose; they are a means of sharing certain values and providing a service to the community in which they are integrated'.

TÄPIES J. — WARD J., 'Family-owned business, a role model of values', Palgrave MCMillan, 2008.

Recommendation

This inquiry reviews the categories and selection procedures for family business awards at National and State levels and makes recommendations for ways to further promote public awareness and confirm recognition of the role of family businesses as supporters of local communities, achievers of regional, state and national strategic goals and committed contributors to a better Australia.

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

Further research to support and add detail to the observations that family business owners would rather build a capital base by retaining earnings than open their doors to external investors may be instructive for policy makers.

If the taxation system discriminates in favour of debt financing against equity financing via retained earnings then family-businesses may be disadvantaged.

Challenges

- Attracting the attention of policy makers with knowledge of and an appreciation for the particular economic and social contribution of family businesses;
- Financial issues:
 - gift and inheritance tax,
 - access to funds without handing-over control of the business,
 - reinvestment of profits encouraged by tax offset, or competitive tax rate.
- Timing for succession planning;
- Support if emotional turmoil is faced during succession implementation;
- Implications of ceasing to trade;
- Finding the right balance between family, ownership and business concerns within the operation;
- Attraction and retention of a skilled workforce.
- Access to research facilities and outcomes to inform business decisions;
- Appropriate content and delivery of education and training in entrepreneurship and management tailored to their specific family-business.
- Without a designated family business contact, beyond “small business” desks, knowing who to contact within government agencies and service providers.

Recommendation

The Council of Australian Governments (COAG) expand their Reform Agenda to encompass support for and develop policy initiatives directed at improving the family business sector’s capacity to address the education, skills, financial, administrative needs and challenges faced by these enterprises.