

## Chapter 2

### The challenge of defining 'family business' and the needs of policy makers

*Family enterprises are not officially defined, which impedes the gathering of statistical information on family businesses. Decision-makers need statistical information on family businesses to support their decisions and to assess the effects from these decisions. It is difficult to obtain statistics on family enterprises and their activities since there is no definition of family enterprise.<sup>1</sup>*

#### Introduction

2.1 The first article of the terms of reference for this inquiry directs the committee to consider the definition of 'family business'. The committee deliberated on this matter in some detail: it is the crucial consideration of this inquiry. Some witnesses and submitters proposed a definition of their own; others gave broad support for one or several of these definitions; while others highlighted the difficulties in composing a definition and questioned the purpose of, and therefore the need for, a definition.

2.2 This chapter considers various aspects of a definition of 'family business' and how work on an official definition might proceed. It is divided into the following sections:

- (a) the 2005 Australian Bureau of Statistics (ABS) survey question which attempted to define a family business;
- (b) stakeholders' views on whether a definition is needed, the arguments for and against the development of an official definition, and whether family businesses are mainly small and medium sized enterprises;
- (c) proposed definitions of 'family business';
- (d) the setting of thresholds in a definition including;
  - whether sole traders should be classified as a family business;
  - whether there should be the possibility or intention to pass on the business; and
  - whether a definition should include both small and large family businesses;

---

1 Ministry of Trade and Industry, Government of Finland, 'Family Entrepreneurship: Family enterprises as the engines of continuity, renewal and growth-intensiveness', 2006  
[http://julkaisurekisteri.ktm.fi/ktm\\_jur/ktmjur.nsf/All/E7E75135A895485BC2257123003F5221/\\$file/jul7elo\\_2006\\_netti.pdf](http://julkaisurekisteri.ktm.fi/ktm_jur/ktmjur.nsf/All/E7E75135A895485BC2257123003F5221/$file/jul7elo_2006_netti.pdf) (accessed 12 February 2013).

- (e) the public policy reasons for a definition of family business; and
- (f) the committee's recommendations for how a definition of family business should be developed.

## The 2004–05 Business Characteristics Survey

2.3 The first and most fundamental observation is that there is no generally accepted definition of a 'family business' either in Australia or internationally. In Australia, the ABS does not collect official data on family business.

2.4 In its submission to this inquiry, however, the ABS did note that as part of its 2004–05 Business Characteristics Survey (BCS), it asked the following question:

As of 30 June 2005, was this business a family business?

For the purpose of this survey a family business is defined as one where family members are part of the business ownership and are involved in the strategic direction of the business.<sup>2</sup>

2.5 The ABS found in a post-enumeration investigation that there were 'quality issues' with the data collected. It speculated that the reasons for this could have included:

- the narrow definition specifying that family members must be owners *and* involved in the strategic direction;
- the definition did not define family members, and in particular whether in-laws and those in de facto relationships are included; and
- that the answer may not be known by the person responsible for completing the survey.<sup>3</sup>

2.6 The ABS noted that this question (among others) was discontinued and replaced with 'questions more focused on business characteristics which demonstrated

---

2 Australian Bureau of Statistics, *Submission 2*, p. 2.

The ABS describes the Business Characteristics Survey as: 'an annual ABS survey and is conducted via a mail-out/mail-back questionnaire. It is designed to collect characteristics data. It is intended that each year the survey will contain a consistent set of core questions to allow longitudinal analysis. There have been some changes to the core content of the survey in these early iterations as its purpose and scope has been refined.' Australian Bureau of Statistics, 'About the Business Longitudinal Database', <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/8168.0.55.001main+features32004-05%20to%202009-10> (accessed 1 March 2013).

3 Australian Bureau of Statistics, *Submission 2*, p. 2. See also Ms Jacky Hodges, Regional Director, Australian Bureau of Statistics, *Committee Hansard*, 13 November 2012, p. 17.

a stronger relationship to productivity and performance'.<sup>4</sup> The data were used to populate the Business Longitudinal Database, initially released in October 2009.<sup>5</sup>

2.7 The ABS told the committee that it had recently met with representatives from Family Business Australia (FBA) and the University of Adelaide Business School to discuss the possibility of including new family business-related questions in the BCS. It noted that at this meeting, the FBA acknowledged that the question used in the 2004–05 BCS did not collect 'fit-for-purpose' information. The FBA proposed a number of questions which they believed could accurately identify family businesses. However, the ABS commented that these questions:

...would need to be reworded and fully tested before they would be considered fit for inclusion on an ABS survey vehicle. Part of this work would require defining a 'family business' and ensuring that the definition can be understood and answered by the person completing the survey.<sup>6</sup>

At the end of that process, they were accepting that the definitions used did have the ambiguity which caused problems and that would need to be sorted. They also accepted that in ABS we were in the business of having to balance a wide range of information requirements and that our current funding was not sufficient to do that.<sup>7</sup>

2.8 Treasury observed that while there is benefit in having data, there is also a cost to collecting it. In terms of the utility of a future ABS survey question on family business, Treasury agreed with the ABS that if a better question (than in the 2004–05 survey) could be designed to replace an existing question, there could be value in asking this question.<sup>8</sup>

### **Stakeholders' views on the need for a definition**

2.9 The fundamental question in drafting a definition of 'family business' is to ask why a definition is needed in the first place. Interestingly, submitters and witnesses gave a range of views on this matter.

#### ***Identifying the public policy issues***

2.10 In terms of the need for a definition of family business, government departments emphasised the importance of identifying the public policy issues that

---

4 Australian Bureau of Statistics, *Submission 2*, p. 2.

5 Australian Bureau of Statistics, *Answer to a question on Notice*, received 10 December 2012.

6 Australian Bureau of Statistics, *Submission 2*, p. 2.

7 Mr Bill Allen, Assistant Statistician, Australian Bureau of Statistics, *Committee Hansard*, 13 November 2012, pp 23–24.

8 Mr Hector Thompson, General Manager, Small Business Tax Division, Treasury, *Committee Hansard*, 13 November 2012, p. 11.

need to be addressed. A definition of family business, they argued, might be unnecessary if the policy matter can be addressed through existing frameworks and definitions. The Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE) told the committee:

In essence, the role of government is to look at what the problem is that we are trying to address and to see how best to do it. In some instances, the definition may be a secondary issue to that.<sup>9</sup>

2.11 The committee asked DIISRTE whether in policy-making terms there was an advantage in identifying family businesses as distinct from small, medium and large businesses. It replied:

There is nothing particularly evident other than the idea of the family structure. I guess the issue is what policy issues would need to be addressed by having a particular definition like that.

...many of the issues facing small business generally—for example, there are issues relating to taxation, regulatory burden, best practice regulation, access to finance and those sorts of things—would relate equally to small family businesses as well, and so the question we would ask ourselves is: what additional factors are there at play that would require particular either data collection or definitional structures around a family business?

...issues around succession are probably the main ones. Others probably relate to the more general issues facing small business.<sup>10</sup>

2.12 The committee asked the Department of Regional Development, Local Government, Sport and the Arts (DRALGAS) the use to which data on family businesses in regional Australia could be put. It responded:

With that type of data we would do similar things to what we do with other industry or employment data. We would get a richer picture of what is happening in particular regions, which can support policy development across all types of areas. That would be another element of that.<sup>11</sup>

2.13 The ABS also emphasised that if a definition of family business is to be developed, it must reflect the public policy objective. Mr Bill Allen, Assistant Statistician at the ABS, told the committee:

---

9 Mr Peter Chesworth, Acting Head, Small Business Division, Department of Industry, Innovation, Science, Research and Tertiary Education, *Committee Hansard*, 13 November 2012, p. 1.

10 Mr Peter Chesworth, Acting Head, Small Business Division, Department of Industry, Innovation, Science, Research and Tertiary Education, *Committee Hansard*, 13 November 2012, p. 2.

11 Mr Simon Atkinson, First Assistant Secretary, Regional Policy and Coordination, Department of Regional Australia, Local Government, Arts and Sport, *Committee Hansard*, 13 November 2012, p. 36.

...we collect data based on what the information is meant to inform, so as to what the decisions and what the policies are. So it really comes down to what the policies driving those questions are. If a policy is relevant to that concept then that would be appropriate but if not it would not be.<sup>12</sup>

2.14 Ms Jacky Hodges of the ABS added:

One of the considerations we would test is around people's understanding when they were filling in the survey form to make sure that the question we were asking was actually getting the information that was needed to support that policy. So there would be a lot of field testing to actually test questions before we would commit to what would or would not work in a survey.<sup>13</sup>

2.15 Mr Chris Lowe, a doctoral candidate examining the links between governance and performance in family businesses, also suggested that a definition must reflect the government's public policy needs.<sup>14</sup> He told the committee that in developing a definition, the government could approach family business industry representatives and say: 'This is what we're trying to achieve and this is why we're trying to achieve it; can you help us get this data submitted'.<sup>15</sup>

*A definition as a heuristic tool*

2.16 Some witnesses to this inquiry argued that a definition of family business is needed as a heuristic tool; that is, gathering data on the sector that could be analysed in a meaningful way would broaden the sector's understanding of itself. As Mr David Smorgon told the committee:

Frankly, I don't care what the definition is; let's just understand and agree on one definition and let that then be the base on which all the other data can stand. Only when you have that definition can the relevant numbers be obtained. For example, how many family businesses are there? How many people do they actually employ? What is their contribution to our society? What is the wealth of the family business? How long do they survive? Most importantly, what are the key issues that they face when compared with SMEs or other businesses in our community?<sup>16</sup>

---

12 Mr Bill Allen, Assistant Statistician, Australian Bureau of Statistics, *Committee Hansard*, 13 November 2012, p. 19.

13 Ms Jacky Hodges, Regional Director, Australian Bureau of Statistics, *Committee Hansard*, 13 November 2012, p. 19.

14 Mr Lowe is a PhD candidate at Monash University and the Chief Executive Officer of Bus Association Victoria. His thesis will examine the links between governance and performance in family and multinational enterprises providing public transport services.

15 Mr Chris Lowe, Bus Association of Victoria, *Committee Hansard*, 14 November 2012, p. 13.

16 Mr David Smorgon, Generation Investments Pty Ltd, *Committee Hansard*, 14 November 2012, p. 2.

2.17 In the same vein, Mr David Hill of Deloitte Private told the committee that a definition of 'family business' should reflect the data that family businesses themselves want to know. In terms of the data that is needed, Mr Hill explained that the list is long:

[F]undamentally, the number of family businesses. It will drive the definition of what a family business is. They are very diverse and, as we have said today, one of the most naive things to think would be that family businesses equals SMEs. That would be missing a vast component of the Australian economy. Information on the definition, the number, the employees, issues such as growth—are they experiencing growth?—and the contribution to the broader GDP of the country is very important.<sup>17</sup>

2.18 Professor Mary Barrett of the University of Wollongong argued that a better understanding of family businesses could assist the broader business community in Australia. She drew the committee's attention to an article published in the *Harvard Business Review* in November 2012 which compared the characteristics and the performance of family and non-family businesses. The article's finding was that while family businesses performed below their peers during upturns, they led the pack in times of crisis.<sup>18</sup>

2.19 Professor Barrett argued that this type of research into the dynamics of family business is important for the insights and the lessons it can provide. As she explained to the committee:

I think there is a point in saying it is worthwhile to know what it is about the dynamic of family businesses that sets them apart from any size-based definition or any definition based on the size of loan they get in certain situations, because it gets at a mindset that has quite a lot to do with the way a certain dynamic can work in a business, for good or for bad. The point is that when you know what it is, what you have to do to make it good and how you can head off the bad you are a whole lot better off than if you had not made that segmentation.<sup>19</sup>

2.20 Professor Barrett took issue with the view that collecting data on the family business sector is not worthwhile as it is unlikely to be the basis of public policy and there are other factors that are more likely to predict the success of businesses generally. She argued that the operation, success and failure of family businesses is substantively different because of these family business characteristics. Accordingly,

---

17 Mr David Hill, Deloitte Private, National Managing Partner, *Committee Hansard*, 14 November 2012, p. 3.

18 Nicolas Kachaner, George Stalk and Alain Bloch, 'What you can learn from family business', *Harvard Business Review*, November 2012, p. 104.

19 Professor Mary Barrett, Professor of Management, University of Wollongong, *Committee Hansard*, 15 November 2012, p. 36.

Professor Barrett emphasised that proper data collection and analysis is 'absolutely vital'.<sup>20</sup>

2.21 In terms of the ABS's 2004–2005 BCS family business question, Professor Barrett suggested that a few amendments could be made. She argued that instead of asking 'do you regard this business as a family business?' and then 'why?' (for those that ticked 'yes'):

I would just have them separately: 'Do you regard this business as a family business?' Then I would have those questions, but not with a 'why' connection to the first one. They would just say: 'Do you do this? Do you do that?' Then we would catch the people who self-identify, and then we would still have all the other data, with which we can slice and dice as other people have said. I would be delighted, and I think just about every academic in the country would love the opportunity, to do a bit of head scratching with the ABS over that one.

For my own part, I would basically be happy to see the two main conceptual issues in the literature captured in a definition of family business which had something to do with control and, as I say, one to two people, members of the same family. Yes, there is a problem about family, but what I liked about the original definition was that the family themselves could define how they thought of their family.<sup>21</sup>

### ***Doubt on the need for a definition***

2.22 Some stakeholders were sceptical that a definition of 'family business' and the subsequent collection of data are necessary. Mr Peter Strong, Executive Director of the Council of Small Business of Australia (COSBOA), told the committee that in considering a submission to this inquiry, the feedback from members was that the issue of a definition of family business is not important. He explained:

As I was looking at writing this report...I thought, 'It's obviously important enough for people to be looking at it.' So I rang a few people, and the same thing happened across the council. It does not come up for us, and it has never really come up in the whole time that I have been around COSBOA, which is since 1996. It comes up from technicians who need to define small business for technical purposes. Family Business Australia have their head around this.

The impression I get is that it is for the wealthier people. So it is the family businesses that have money, not mum and dad down the road who are

---

20 Professor Mary Barrett, Professor of Management, University of Wollongong, *Committee Hansard*, 15 November 2012, p. 36.

21 Professor Mary Barrett, Professor of Management, University of Wollongong, *Committee Hansard*, 15 November 2012, p. 36. See the discussion in chapter 3 of this report on the ABS' Business Longitudinal Survey. This survey used a similar format to that proposed by Professor Barrett.

running a little shop. They are very different, even though I would define them as a business. You can hear that I get quite confused about where I am going with this whole family business thing. When I talk small business, I am very comfortable. I do not see the difference quite often.<sup>22</sup>

2.23 He emphasised COSBOA's view that the first priority should be to establish a clear definition of a small business:

In all the time that I have been around I have never heard of anybody in COSBOA asking for a family business definition. It is not a big issue for us. A definition of small business is a much bigger issue. If we bring the family into that I am comfortable with it, but let us get a definition of what a small business is first. Otherwise, my experience is that we will end up concentrating on the people who have the money to be concentrated on. That is always the way.<sup>23</sup>

2.24 Indeed, COSBOA argued that efforts to refine the definition of a small business will assist in identifying and addressing family business issues. Mr Strong told the committee:

...at the beginning of this year, we ran a roundtable with the tax institute on the definition of small business, so getting back to the definition of what a small business is—and that has its own problems and I am sure you are aware there is any number of definitions depending on how you look at it. By the way, I do not think we will ever get one definition. I think that is a bridge too far. But we can cut it all down to not many definitions. That is an area we can work on. I think it will then impact upon the family business issues if we can say, 'Okay, we can define a business this way and the owners of the business can be structured shareholders or it can also be about the people who have put a lot of time and effort into it and are part of a family structure.' That will take solicitors and lawyers some time to work out but I think that is the way we have got to go.<sup>24</sup>

2.25 Other witnesses, while not rejecting the need for a definition, noted that they had not required data on family businesses. For example, the Queensland Chamber of Commerce and Industry told the committee:

The chamber predominantly deals with issues that impact on all business, so we have never had the need to differentiate between family-run business and non-family-run business. We often find that the issues that are important to large businesses are equally important to small businesses. The issues important to those businesses in South East Queensland are equally

---

22 Mr Peter Strong, Executive Director, Council of Small Business of Australia, *Committee Hansard*, 13 November 2012, p. 29.

23 Mr Peter Strong, Executive Director, Council of Small Business of Australia, *Committee Hansard*, 13 November 2012, p. 29.

24 Mr Peter Strong, Executive Director, Council of Small Business of Australia, *Committee Hansard*, 13 November 2012, p. 26.



important to those businesses operating in regional Queensland. The issues relevant to some industry sectors are relevant to other industry sectors.<sup>25</sup>

### Are family businesses mainly small and medium-sized enterprises?

2.26 A point of some discussion during this inquiry was the extent to which family businesses are small and medium-sized businesses. Witnesses such as COSBOA argued that policy-makers' focus on small business will also address the concerns of family businesses. Other witnesses strongly rejected this argument. They claimed that not only do family businesses come in all sizes, but that their issues are distinctive to those of other small and medium sized businesses.

2.27 Table 2.1 (below) shows that 96 per cent of all businesses in Australia are small businesses, employing less than 20 employees. Among family businesses, 64 per cent employ less than 20 employees; 32 per cent are medium-sized firms employing between 20 and 199 employees; and four per cent are large businesses, employing 200 or more employees.<sup>26</sup>

**Table 2.1: Businesses by size (employees)**

	All businesses	Family businesses
Small (0–19 employees)	96	64
Medium (20–199 employees)	*	32
Large (more than 200 employees)	*	4

Source: The figure for all businesses is taken from the Australian Bureau of Statistics, *Counts of Australian Businesses, Including Entries and Exits, June 2007 to June 2011*, Cat No. 8165.0, released 31 January 2012, p. 2. The data for family businesses is taken from the MGI Australian Family and Private Business Survey 2010, p. 13.

2.28 Table 2.2 shows data on businesses by annual turnover. The first two columns are taken from ABS data. It shows that as of June 2011, roughly a third of all Australian businesses fell in each of the ranges of less than \$50,000 annual turnover, from \$50,000 to less than \$200,000, and from \$200,000 to less than \$2 million. Only six per cent of Australian businesses have an annual turnover of more than \$2 million. Therefore, on the ATO and Treasury's definition of small business (less than \$2 million in annual turnover), 94 per cent of all businesses are classified as small businesses.

25 Mr Nick Behrens, General Manager, Advocacy, Queensland Chamber of Commerce and Industry, *Committee Hansard*, 16 November 2012, p. 9.

26 Australian Bureau of Statistics, *Counts of Australian Businesses, Including Entries and Exits, June 2007 to June 2011*, Cat No. 8165.0, released 31 January 2012, p. 2; MGI Australian Family and Private Business Survey 2010, p. 13. [http://www.mgiaust-survey.com/sites/default/files/fpbs\\_report\\_0.pdf](http://www.mgiaust-survey.com/sites/default/files/fpbs_report_0.pdf)

2.29 Table 2.2 contrasts this data with the findings of the 2009 KPMG and FBA Survey of Australian Family Businesses. 648 businesses were surveyed, of which 70.6 per cent self-identified as a family business. This survey found that 36 per cent of respondents reported the annual turnover of their business between \$1 million and \$5 million, and a further 36 per cent of respondents reported annual turnover at more \$5 million.

2.30 Assuming respondents gave correct responses, the sample of businesses used in the 2009 KPMG survey was unrepresentative of the business community at large. Their annual turnover is far in excess of what the official data would indicate was a representative sample. Either the respondents gave inaccurate responses or the businesses surveyed were disproportionately medium and large businesses. Chapter 3 comments on the broader issue of the reliability of the consultancies' survey data.

**Table 2.2: Businesses by size (turnover)**

	% of all businesses ABS data		% of businesses (648) (71% family businesses) KPMG/FBA data
Less than \$50K	29	Less than \$500K	17
\$50K – \$200K	35	\$500K to less than \$1 million	12
\$200K – less than \$2 million	31	\$1 million to less than \$5 million	36
More than \$2 million	6	\$5 million to less than \$10 million	10.3
		More than \$10 million	25.4

Source: Australian Bureau of Statistics, *Counts of Australian Businesses, Including Entries and Exits, June 2007 to June 2011*, Cat No. 8165.0, released 31 January 2012, p. 11; Australian Centre for Family Business, *KPMG and Family Business Australia Survey of Family Businesses 2009*, 2009. Note: Numbers have been rounded up.

2.31 DIISTRE confirmed for the committee its view that most family businesses are small businesses.<sup>27</sup> Its engagement with family businesses is mainly through its dealings with small businesses. As it told the committee:

What we tend to do is focus on the idea of small business and definitions around small business—of which there are more than one across government as well for a range of policy and legacy reasons as well. Our

---

27 Mr Peter Chesworth, Acting Head, Small Business Division, Department of Industry, Innovation, Science, Research and Tertiary Education, *Committee Hansard*, 13 November 2012, p. 3.

interactions with family businesses tend to be, I guess, through that small business prism.<sup>28</sup>

2.32 DIISTRE argued that from a policy perspective, the issues that some claim to be particular to the family business sector may best be handled within a broader policy rubric applying to small and medium-sized enterprises (SMEs). It explained:

Coming from the policy perspective, I just reiterate, it has been suggested in the past that there are some family businesses whereby the succession can be an issue. From a policy perspective, we would see that in the broader issue of management capability. It has been demonstrated over a number of years that that is a challenge for Australian businesses: management capability and capacity. That might be one of the issues that could fall under that.<sup>29</sup>

2.33 The Reserve Bank of Australia (RBA) put a similar view:

On family businesses, the thing that is striking there is that small and medium seem to collect a large proportion of family businesses, but there are family businesses that are extremely large as well. But you are probably picking up quite a bit in that small and medium-sized category.<sup>30</sup>

2.34 The RBA added further context to the parallel between small and family businesses by noting the similarities between small business decisions and those of households. As Mr Aylmer told the committee:

...there is an interesting characteristic of small businesses...that to a large extent they look more like households, because family businesses' decisions are actually household decisions. They are not necessarily scaled down versions of very large businesses. Once you get to a certain size, you will have people who will manage all of your financials. You start to specialise when you get very large. In family businesses, particularly the smaller ones, quite often decisions on whether or not they want to grow are basically decisions about their households and whether or not, as a family, they want to expand and get bigger and take on the additional pressures of being a larger business.<sup>31</sup>

---

28 Mr Peter Chesworth, Department of Industry, Innovation, Science, Research and Tertiary Education, *Committee Hansard*, 13 November 2012, p. 1.

29 Mr Peter Chesworth, Department of Industry, Innovation, Science, Research and Tertiary Education, *Committee Hansard*, 13 November 2012, p. 1.

30 Mr Christopher Aylmer, Head, Domestic Markets Department, Reserve Bank of Australia, *Committee Hansard*, 15 November 2012, p. 1.

31 Mr Christopher Aylmer, Head, Domestic Markets Department, Reserve Bank of Australia, *Committee Hansard*, 15 November 2012, p. 1.

2.35 COSBOA noted that for its purposes, 'family business' and 'small business' are essentially interchangeable. As Mr Peter Strong, the Executive Director of COSBOA, told the committee:

...in the main we are all family businesses, so the definitional stuff becomes confusing for a lot of our members because they say, 'Small business or family business; it's really much the same sort of thing, isn't it?'<sup>32</sup>

2.36 Mr Graham Henderson, a board member of Family Business Australia and a part-owner of a third-generation family business, told the committee that the majority of small businesses (those with a turnover of less than \$2 million) are family businesses. However, he argued that the \$2 million threshold used by the ATO to identify small businesses was not necessarily a useful point of reference to identify family businesses:

The segment of business that is family business, whether it be the Stillwell Motor Group of \$400-plus million or our business of about \$17 million or the small hardware store of \$2 million, is a segment that is very different to what we perceive as big business...In terms of family business and small business, or if you want to call them one and the same thing because it is really the sector we are talking about, there are so many things that are very different in our sector of the business than in larger business and the considerations we talked about regarding capital gains tax, shareholder rulings, education et cetera are all relevant to family business. So my response to you would be to say that, rather than have a minister for small business, I would very much favour a ministry for family business, which would then cover off a lot of the things we are talking about.<sup>33</sup>

2.37 Some witnesses strongly disagreed with the characterisation of family business as simply small business. Mr Bill Noye of KPMG, for example, told the committee:

From a definitional point of view, I need to stress that it is very important that 'family business' is not just seen as 'small business'. I think to do so is a poor misconception and provides a misguided view of the sector and its needs. It is wrong. Family businesses are unique. They are not necessarily small. They have unique issues that impact on them. In our view, it is that uniqueness that this committee should focus on. We are inclined to support the European view. We do support the FBA view of the definition of family

---

32 Mr Peter Strong, Executive Director, Council of Small Businesses of Australia, *Committee Hansard*, 13 November 2012, p. 26.

33 Mr Graham Henderson, Board Member Family Business Australia, *Committee Hansard*, 14 November 2012, p. 38.

business, but we would like to extend that somewhat further to be consistent with the European Commission definition.<sup>34</sup>

2.38 Mr David Smorgon, whose family's business interests exceed \$2.5 billion in value, also rejected the idea that family businesses are simply small and medium-sized businesses. As he put it:

We also know that family businesses are not necessarily SMEs. I know we are always branded as SMEs, but there are some very large family businesses that would abhor to think that they are classified as a small business enterprise.<sup>35</sup>

### **Possible definitions of a family business**

2.39 The following section looks at three possible definitions: one proposed by Family Business Australia (FBA) in its submission to this inquiry; another used by MGI Australasia in a 2010 survey; and a third used by the European Commission in 2009. These definitions were the basis of considerable comment during this inquiry. A key point of stakeholder focus—common to all three definitions—was the requirement that a family member or members have control (and ownership) of the business.

#### ***Family Business Australia's definition***

2.40 In its submission to this inquiry, the FBA proposed the following definition of family business:

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.<sup>36</sup>

2.41 The ABS foresaw that the FBA definition may encounter some of the problems that beset the 2004–05 BCS question. As it told the committee:

Our initial response is that the definition is expected to come up with some of the same conceptual issues that we expressed in 2004-05, particularly around issues such as the definition and interpretation of a family—so does it include immediate family, extended family and de facto relationships and the like—the nature of the involvement—is it a legal involvement in the business or an operational involvement?—what we mean by controlling interest—is it financial, strategic direction or ownership?—and the availability of the information to the provider of the data. An example

---

34 Mr Bill Noye, National Leader, Family Business Services, KPMG, *Committee Hansard*, 16 November 2012, p. 10.

35 Mr David Smorgon, Generation Investments Pty Ltd, *Committee Hansard*, 14 November 2012, p. 2.

36 Family Business Australia, *Submission 1*, p. 1.

would be that in many of our surveys, particularly those of a financial nature, it might be referred to the tax agent who may not be on top of the specific ownership implications.<sup>37</sup>

2.42 However, other witnesses appeared to support the FBA's approach and in particular, the focus on family members having a controlling interest. Mr Andy Kennard of Kennards Hire, for example, told the committee that a definition of family business:

...has to include the aspect of ownership and control. There are many public companies that are controlled by families, so it does not have to be 100 per cent ownership, but ownership and control are a key factor, and I think they are the two things. I do not think the number of generations matters. The size certainly does not matter; it is across all sectors.<sup>38</sup>

2.43 However, he added:

I do not know why you have to have two or more involved. You can have multiple people owning it but only one person working in it...I think the numbers do not matter. I still think it comes back to who owns it. Many family businesses do not actually have family working in them.<sup>39</sup>

2.44 Professor Barrett also seemed to support the FBA's definition. She argued that a definition essentially needs to refer to the involvement of family members and the control of these members over the business. Professor Barrett noted that she was comfortable with a definition that left it open to respondents to determine whether they were family members. The threshold of 'control' would be satisfied where two people are 'actively involved in the management and/or working in the firm'.<sup>40</sup>

### ***MGI Australasia's definition***

2.45 Another definition of family business was used in the MGI Australasia 2010 *Australian Family and Private Business Survey*, conducted in conjunction with Royal Melbourne Institute of Technology (RMIT).<sup>41</sup> This definition was as follows:

A business is a family business when it involves two or more related individuals who work together (or are otherwise associated) in a commercial enterprise that is controlled by one or more of them.<sup>42</sup>

---

37 Mr Bill Allen, Assistant Statistician, Australian Bureau of Statistics, *Committee Hansard*, 13 November 2012, p. 19.

38 Mr Andy Kennard, Owner, Kennards Hire, *Committee Hansard*, 15 November 2012, p. 48.

39 Mr Andy Kennard, Owner, Kennards Hire, *Committee Hansard*, 15 November 2012, p. 48.

40 Professor Mary Barrett, Professor of Management, University of Wollongong, *Committee Hansard*, 15 November 2012, p. 36.

41 See <http://www.mgiaust-survey.com/key-findings> (accessed 13 December 2012).

42 MGI Australasia, *Submission 9*, p. 2.

2.46 The committee questioned MGI about various components of this definition. In terms of what constitutes 'related individuals', Mr Desmond Caulfield, a Director of MGI Australasia, responded:

I would define 'related' in the same manner as it is currently defined in the *Income Tax Assessment Act*. Related parties are clearly defined in various sections of the *Income Tax Assessment Act*. I believe they are also defined in the corporations law and the company law similarly. It covers situations of spouses, children, cousins, associates of those people who would be spouses of cousins et cetera, so it is a fairly wide definition.<sup>43</sup>

2.47 The *Corporations Act 2001* and the *Income Tax Assessment Act 1997* (ITAA) define 'relative' and 'related' broadly. Section 9 of the Corporations Act defines 'relative' as 'the spouse, parent or remoter lineal ancestor, child or remoter issue, or brother or sister of the person'. Section 995-1 of the ITAA defines 'related' as:

- a) the person's spouse; or
- b) the parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descendent or \*adopted child of that person, or of that person's spouse; or
- c) the spouse of a person referred to in paragraph (b).

2.48 Mr Caulfield told the committee that a 'commercial enterprise' is not necessarily a full-time business, but it must be a business that is established to make a profit. In terms of the reference in the definition to 'controlled', Mr Caulfield explained:

Control is generally ownership, and ownership means that if you own more than half of something you are considered to control it—you may not, but you are considered to control it if you own more than half of it. There are various definitions in the corporations law about what 'control' means. For significantly large public companies sometimes as little as 15 per cent can be considered to be some form of control, but what we are talking about here in our submission is that for it to be control more than 50 per cent must be owned by a family group.<sup>44</sup>

### ***Other suggested definitions focused on ownership and control***

2.49 In the academic literature over the past thirty-five years, several proposed definitions of a family business have been based on the conditions of family control and/or ownership. Bernard (1975) referred to 'an enterprise which, in practice, is

---

43 Mr Desmond Caulfield, Director, MGI Australasia, *Committee Hansard*, 14 November 2012, p. 23.

44 Mr Desmond Caulfield, Director, MGI Australasia, *Committee Hansard*, 14 November 2012, p. 24.

controlled by the members of a single family';<sup>45</sup> Barnes and Hershon (1976) to 'controlling ownership';<sup>46</sup> Davis (1983) referred to 'significant influence by one or more family units...through ownership and sometimes the participation of family members in management';<sup>47</sup> and Holland and Oliver (1992) propose 'any business in which decisions regarding its ownership or management are influenced by a relationship to a family or families'.<sup>48</sup>

2.50 Mr Francesco Barbera, a researcher at the Australian Centre for Family Business at Bond University, referred in his submission to a 'structural based classification' of family businesses: where family firms are defined as those which are owned, controlled and/or managed by a family unit. He noted that this definition allows for a wide range of family firms given that the degree of family ownership, control and management can differ among individual firms.<sup>49</sup>

2.51 Several consultancy firms also emphasised that a definition of family business must be based on family members being both the owners and managers of a business. For example, Mr Robert Powell of Grant Thornton Australia proposed a definition of family business where there are at least two family members involved in management and the family controls the business through voting rights.<sup>50</sup> Similarly, KPMG recommended a formal definition of family business that recognises 'the unique characteristic of family business owners as both the owners of equity/capital and managers of the business'.<sup>51</sup> Mr Paul Brassil, a partner at PricewaterhouseCoopers, proposed a definition where the family has 'a significant percentage of ownership of the business' and where 'the family is predominantly in control of the direction of the business'.<sup>52</sup>

2.52 Deloitte Private also argued that a definition of family business should be based on recognition of family ownership and control of the business. In its submission, Deloitte contrasted 'private business' from public corporations. It noted

---

45 B. Bernard, 'The development of organization structure in the family firm', *Journal of General Management*, Autumn, 1975, p. 42.

46 L. B. Barnes and S. A. Hershon, 'Transferring power in the family business', *Harvard Business Review*, 54(4), 1976, p. 106.

47 P. Davis, 'Realising the potential of the family business', *Organizational dynamics*, 12(1), 1983, p. 47.

48 P. G. Holland and J. E. Oliver, 'An empirical examination of stages of development of family business', *Journal of Business and Entrepreneurship*, 4(3), 1992, p. 27.

49 Mr Francesco Barbera, *Submission 3*, p. 3.

50 Mr Robert Powell, Partner, Grant Thornton Australia, *Committee Hansard*, 15 November 2012, p. 12.

51 KPMG, *Submission 21*, p. 6.

52 Mr Paul Brassil, Partner, PricewaterhouseCoopers, *Committee Hansard*, 15 November 2012, p. 26.



that in the case of public corporations, ownership is offered to the public and decision-making and management is outsourced to employees overseen by a board of directors appointed by shareholders. In private companies and family businesses, by contrast, every decision 'directly affects the welfare and wealth of the family or families who own the business and the ability of the business to support the family members now and in future generations'.<sup>53</sup>

2.53 Deloitte noted the broad scope of this definition. Mr David Hill, a partner at the firm, stated that a definition based on family involvement in both the ownership and management of a business:

...could extend right through to listed companies where the family either controls the business through their shareholding or controls the composition of the board. That could go from the corner deli through to very large listed companies which remain under the control of the broader family either in terms of the composition of the board or via their voting rights or their shareholding. I think any attempt to come up with a common agreed definition needs to recognise that that is the reality of the breadth of family business in Australia.<sup>54</sup>

2.54 KPMG made essentially the same point. While the lack of separation of ownership and management is a defining characteristic of a family business (compared to a publicly owned business), a family business may become publicly owned with the family maintaining a controlling interest. KPMG argued that in these cases, the family may still see its involvement as being part of the family business despite outside shareholder influence. It added:

It may be necessary to contemplate the continuation of the 'family business' as both a closely held 'private' entity and also a more widely 'held' public entity providing the organisation can demonstrate that there exists a significant level of family influence.<sup>55</sup>

### ***The European Commission's definition of family businesses in company form***

2.55 The committee is also aware of a definition of family business first proposed in 2006 by the Family Entrepreneurship Working Group, which was established by the Finnish Ministry of Trade and Industry in 2004.<sup>56</sup> In November 2009, the

---

53 Deloitte Private, *Submission 16*, p. 3.

54 Mr David Hill, National Managing Partner, Deloitte Private, *Committee Hansard*, 14 November 2012, p. 6.

55 KPMG, *Submission 21*, p. 5.

56 Ministry of Trade and Industry, Government of Finland, 'Family Entrepreneurship: Family enterprises as the engines of continuity, renewal and growth-intensiveness', 2006, [http://julkaisurekisteri.ktm.fi/ktm\\_jur/ktmjur.nsf/All/E7E75135A895485BC2257123003F5221/\\$file/jul7elo\\_2006\\_netti.pdf](http://julkaisurekisteri.ktm.fi/ktm_jur/ktmjur.nsf/All/E7E75135A895485BC2257123003F5221/$file/jul7elo_2006_netti.pdf) (accessed 12 February 2013).

European Commission's (EC) Expert Group on Family Business endorsed the Finnish Working Group's definition. The definition is as follows:

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

1. the majority of decision-making rights is 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.
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 percent of the decision-making rights mandated by their share capital.

This definition includes family firms which have not yet gone through the first generational transfer. It also covers sole proprietors and the self-employed (providing there is a legal entity which can be transferred).<sup>57</sup>

2.56 This definition differs from the FBA's and MGI Australasia's in several respects. First and significantly, it explicitly notes that a family business can be a firm 'of any size'. Second, instead of a broad reference to a 'controlling interest', it refers to 'the majority of decision-making rights'. Third, there is an explicit reference to one member being involved in the 'governance' of the firm. Fourth, in keeping with the definition of a 'firm of any size', there is reference to a family business being a listed company provided the founder or their descendants have at least a quarter of decision-making rights. And finally, unlike the other definitions, there is the reference to sole proprietors and the self-employed being family businesses, and to firms 'that have not yet gone through the first generational transfer'.

2.57 It would seem that the detail in the EC's definition is its obvious strength. It clarifies some of the issues that are essentially left open to interpretation in the FBA's and MGI Australasia's definitions. The EC's definition explicitly acknowledges the diversity of family businesses' size and structure. As the remainder of this chapter emphasises, this issue of the sector's diversity is important to many stakeholders.

2.58 In this context, another observation is that many of the ABS' concerns with the lack of detail in the FBA's definition seem to be addressed by the EC's definition.<sup>58</sup>

---

57 First published in the *Final Report of the Family Business Expert Group to the European Commission: Overview of family-business-relevant issues: research, networks, policy measures and existing studies*, November 2009, [http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/family\\_business\\_expert\\_group\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/family_business_expert_group_report_en.pdf) (accessed 1 March 2013). See KPMG, *Submission 21*, p. 6.

- The ABS queried whether the FBA's reference to 'involved in the business' was to legal involvement or operational involvement. The EC's definition makes explicit reference to 'governance of the firm'.
- The ABS was concerned with whether 'family members' refers to immediate family or extended family. The EC's definition makes clear reference to 'spouses, parents, child or children's direct heirs'.
- The ABS questioned the meaning of 'controlling interest' in the FBA's definition and whether this referred to the financial stake, the strategic direction or the ownership of the firm. The EC's definition clearly states that the family must have a majority of decision-making rights or at least a quarter of these rights if it is a listed company.

2.59 While the EC's definition is detailed, it relates only to family businesses in company form. The committee draws attention to the thresholds set in the EC's definition. If the EC's definition is to be used as a guide in the Australian context, these thresholds will need to be carefully considered: should the decision-making rights thresholds be set at these levels; should the 'majority of decision-making rights' threshold extend more broadly than to 'spouses, parents, child or children's direct heirs'; and should sole traders be included?

### **Are sole traders family businesses?**

2.60 Another issue relevant to the question of a definition is whether sole traders should be considered a family business. While the sole trader is the business owner and trades in their own name, he or she often employ their own staff which can include family members. Sole traders account for a sizeable portion of all Australian businesses. ABS data indicates that 33 per cent of all Australian businesses are companies, 29 per cent are sole proprietors, 22 per cent are trusts and 16 per cent are partnerships.<sup>59</sup> The Australian Bureau of Agricultural Resource Economics and Sciences (ABARES) told the committee that roughly one in five family farms are operated as sole traders, a higher proportion than family farms run by trusts and

---

58 See Mr Bill Allen, Assistant Statistician, Australian Bureau of Statistics, *Committee Hansard*, 13 November 2012, p. 19.

59 Australian Bureau of Statistics, *Counts of Australian Businesses, Including Entries and Exits, June 2007 to June 2011*, Cat No. 8165.0, released 31 January 2012, p. 7.

corporate structures.<sup>60</sup> Partnerships are the dominant form for family farms in Australia.<sup>61</sup>

2.61 There does appear to be a case for including sole traders in a definition of family business to recognise those businesses with a single owner but with a family member or members working in the business. Regional Development Australia (RDA) told the committee:

...if information were collected, depending on the definition that you use...you could have someone who is effectively a sole trader who has a family and has all the other characteristics associated with what you would want to know in a region.

So just getting family owned businesses where you might have several members of that family involved does not necessarily mean that you should not also be looking at, for example, sole traders, because they could also have family, children, social engagement and all those other things.<sup>62</sup>

2.62 The ABS similarly raised the inclusion of sole traders in a definition of family business as a possibility. Mr Allen told the committee:

We are not saying they [sole traders] need to be included. They just need to be considered and whether it is appropriate for their inclusion depending on the information needs. We have had instances where a family can be a family of one. We are not prejudging. We are just making sure that the policy implications are considered with that group in mind.<sup>63</sup>

2.63 Mr Matthew Power, a family business owner based in Canberra, claimed that the issue of including sole traders as family businesses is a matter of perception. He told the committee that:

...when we speak to sole operators they forget about the fact that their wives, children and cousins are involved in what they do. Probably the only ones I can think of are the one-person consultancies, where they literally go

---

60 Mr Peter Martin, Policy Officer, Australian Bureau of Agricultural and Resource Economics and Sciences, *Committee Hansard*, 13 November 2012, p. 40. The National Farmers Federation noted that as farm businesses become more complex in operation and larger in size, there has been a gradual shift in operating structures from sole trader and partnership, to more operating in a trust or company structure. *Submission 29*, p. 9.

61 Mr Peter Martin, Policy Officer, Australian Bureau of Agricultural and Resource Economics and Sciences, *Committee Hansard*, 13 November 2012, p. 40.

62 Mr Shane Bennett, Assistant Secretary, Economic and Infrastructure Policy, Department of Regional Australia, Local Government, Arts and Sport, *Committee Hansard*, 13 November 2012, p. 35.

63 Mr Bill Allen, Assistant Statistician, Australian Bureau of Statistics, *Committee Hansard*, 13 November 2012, p. 20.

in, write a report and leave. But even then, you sit at home in your study, your wife brings you a cup of tea, she's the one answering the phone—<sup>64</sup>

### *Committee view*

2.64 The committee is interested to receive from the ABS an estimate of how many sole traders would be likely to fall within a definition of family business based on 'at least one family member' working in and owning the legal entity. It also seeks advice from the ABS on how this number would be likely to change if a definition required:

- at least two family members working/involved in the business, with ownership of the entity by at least one family member (as per the FBA and MGI definitions).

2.65 Including or excluding sole traders in a definition can significantly alter the number of family business that are identified. The committee draws attention to comments made in the 2006 study by the Finnish Ministry of Trade and Industry, with reference to a 2002 survey of Finnish businesses:

If estimated using a structural and a subjective indicator, a significantly higher proportion of Finnish enterprises are family enterprises compared to the estimates using a functional or a generational-transfer indicator. A closer examination of the material shows that the difference is mainly caused by sole-proprietor businesses, which comprise approximately 40 per cent of Finnish enterprises (number of personnel in companies in 2003). It is also difficult regarding the definition if family members are involved in the sole proprietor's business activities as wage-earners or as owners.<sup>65</sup>

### **The possibility or the intention to pass on the business**

2.66 Another possible element of a definition of family business is the potential and/or the intention of the family to pass the business on to the next generation. This is a complex issue. In evidence to the committee, Mr Barbera reflected on this complexity:

I am lecturing a class here at Bond that is called 'Understanding the family enterprise', and in the first week we deal with this issue of definition. Technically, according to Poza, the textbook that we are using, the family firm does not become a family firm until the next generation, the children of the founders, are somehow involved; then you can call it a family business. What I am suggesting is that just the intention alone to involve your children, whether or not they are currently involved, would constitute your business to be a potential family business. Of course, those intentions

---

64 Mr Matthew Power, ACT Chairman, Family Business Australia, *Committee Hansard*, 13 November 2012, p. 49.

65 Ministry of Trade and Industry, Government of Finland, *Family Entrepreneurship: Family enterprises as the engines of continuity, renewal and growth-intensiveness*, 2006, p. 23.

can change at any given moment; in fact, depending on when you ask them, those intentions may be different. So that relates back to the trickiness of it, the complexity of it.

There are multiple ways of doing it. As I said, typically, what we would do is take a structural based approach and look at who is holding the equity; is it a controlling ownership stake; and, subsequent to that, are there intentions to either increase or decrease the family relatedness or inter-relatedness in this particular firm across multiple generations. So, yes, I agree it is a problem. It has always been a problem in this discipline and it is one that I do not think is going to be solved any time soon.<sup>66</sup>

2.67 A 1987 article in the *American Journal of Small Business* defined a family business as one that had either already been passed on to the next generation, or anticipated to do so:

What is usually meant by family business is either the occurrence or the anticipation that a younger family member has or will assume control of the business from the elder.<sup>67</sup>

2.68 In a 1988 book, Professor John Ward defined all family firms specifically as those that will be 'passed on for the family's next generation to manage and control'.<sup>68</sup> The same year, an article published by Ivan Lansberg, Edith Perrow and Sharon Rogolsky suggested that the key to defining a family business was the potential for inter-generational transfer.<sup>69</sup> They proposed the following definition:

A family business is a business in which related family members control the ownership, vision and direction and which is potentially sustainable across generations of the family.<sup>70</sup>

2.69 In his evidence to the committee, Professor Kenneth Moores of Moores Family Enterprise, emphasised the need for a definition of family business to be based on the issue of succession. He argued that a definition of family business must recognise:

...their essence, and that is their intention to maintain this across generations over the longer term. Until you have crossed that particular

---

66 Mr Francesco Barbera, *Committee Hansard*, 16 November 2012, p. 37.

67 N. C. Churchill and K. J. Hatten, 'Non-market based transfers of wealth and power. A research framework for family businesses', *American Journal of Small Business*, vol. 11, no. 3, 1987, pp 51–64.

68 John Ward, *Keeping the Family Business Healthy*, San Francisco, Jossey-Bass, 1987.  
John Ward, 'The Special Role of Strategic Planning for Family Businesses', *Family Business Review*, vol. 1, no. 2, 1988, pp 105–117.

69 Mr Francesco Barbera, *Submission 3*, p. 1.

70 Family Business Australia, *Submission 1*, p. 2; I. Lansberg, E. L. Perrow and S. Rogolsky, 'Family Business as an Emerging Field', *Family Business Review*, vol. 12, no. 1, 1988, pp 39–46.

rubicon, I do not think you actually are a family business. If you are a family in business and have a lot of people working in the business, you have many of the issues. But when the penny drops and you say, 'We want to keep this,' there intrude many more of the issues that highlight the difference of this sector of the economy.<sup>71</sup>

2.70 The FBA and MGI Australasia definitions are silent on this issue of the capacity or the intent to pass on the business to the next generation. The EC's definition mentions that it applies to firms that have not gone through the first generational transfer. On the other hand, a proposed definition by the German Wittener Institute fur Familienunternehmenas, emphasised:

The transgenerational aspect is essential to a family business. For this reason, it is strictly speaking only correct to refer to a company as a family business if the family is planning to hand down the company to its next generation. Start-ups and owner-managed companies are therefore not yet family businesses in their own right.<sup>72</sup>

2.71 Some submitters to this inquiry also argued that a definition should refer to the transgenerational nature of family businesses. Mr Lowe, for example, told the committee:

I think there is a need to reference in some way the transgenerational nature of the family business...I would think the intention of having sustainability and tenure is a core objective of both family and non-family firms, but it is the handing down and passing on of the business to continue the IP and give the family firm a competitive advantage that needs referencing in a formal definition.<sup>73</sup>

2.72 However, the FBA disagreed that an intention to pass on the business should be part of a definition. Ms Taylor described this aspect as an 'unnecessary complication'. She told the committee:

I do not believe it should be included. I do think that when a family business starts and maybe is into its first decade of business, the intention to continue as a family business might not be there. You might also find that the founders and owners do not at that stage have children who have indicated that they are ready, willing and able. But that can change as time goes on. We have found within our family business community that family businesses have come to our conferences and been inspired by what has been achieved by second, third and fourth generation businesses and have turned their thinking around. They subliminally, maybe, have thought that

---

71 Professor Kenneth Moores, Executive Chairman, Moores Family Enterprise, *Committee Hansard*, 16 November 2012, p. 17.

72 Cited in KPMG, *Submission 21*, p. 5. See <http://www.wifu.de/en/research/definition-of-family-business/> (accessed 1 March 2013).

73 Mr Chris Lowe, Bus Association of Victoria, *Committee Hansard*, 14 November 2012, p. 14.

they might sell the business once they have made enough money to survive on it and they have then changed their thinking.<sup>74</sup>

### *Committee view*

2.73 Whether a definition of 'family business' should be framed around the intention, or the event, of passing the business on to the next generation is an important but difficult question. Clearly, without a definitional requirement of intending to pass the business on, there will be many 'families in business' classed as a 'family business'. On the other hand, if a definition requires that the business has at least been transferred to the second generation, there will be comparatively few businesses in Australia classed as a family business. As the 2006 study by the Finnish Ministry of Trade and Industry observed: '[T]he stricter a definition of a family enterprise is used, the older a family enterprise often is'.<sup>75</sup>

2.74 Between these extremes, there are other possibilities to consider. If a family business is to be defined as one that could be passed on to the next generation, there will be many businesses captured by the definition that may in fact never reach the hands of a second generation. The same is true if a definition is based on the intent to pass the business on.

2.75 In both these cases, the definition of a family business would rely on the businesses themselves 'self-identifying'. In terms of official data collection, this seems unsatisfactory. If a survey simply asked respondents whether they could, or intended to, pass on the business, and if on this basis they are classified as a family business, one might expect many respondents to do so. This would particularly be true if respondents thought there would be some public policy benefit from self-identifying.

2.76 Short of restricting the definition of a family business to second and later generation businesses, a definition could require that the business have in place a succession plan. In other words, the intention alone is not enough; there needs to be a formal plan in place for the business to be classed as a family business.

2.77 This requirement is certainly a higher threshold than merely the possibility or the vague intention of passing the business on. As discussed later in this chapter, the committee believes that a formal definition of 'family business' in Australia must carefully consider the public policy rationale for a definition. If the policy rationale is

---

74 Mrs Philippa Taylor, Family Business Australia, *Committee Hansard*, 14 November 2012, p. 32.

75 Ministry of Trade and Industry, Government of Finland, *Family Entrepreneurship: Family enterprises as the engines of continuity, renewal and growth-intensiveness*, 2006, p. 23. The study referred to a 2003 paper which found that only 18 per cent of firms surveyed had been transferred from one generation to the next. J. Heinonen and J. Toivonen, *Perheyrytykset suomalaisessa yhteiskunnassa. Teoksessa Heinonen, J. (toim.) Quo Vadis, suomalainen perheyryty? Turun kauppakorkeakoulu, PK-Instituutti, 2003.*



to assist businesses that have made clear and concrete plans to succeed, the committee believes that a definition should require evidence of a succession plan.

### **Should a definition include small and large family businesses?**

2.78 Another matter considered by the committee in terms of defining a family business is whether a threshold is needed to distinguish between small family businesses on the one hand and large family-based corporations on the other. Some submitters noted that without a threshold—however framed—a definition of family business would be too broad and untargeted for public policy purposes. DIISTRE told the committee:

...family businesses can be across all ranges of structures. They can be small or they can be multinational. So it is difficult to see how a definition of a family business could apply equally to a corporation like Westfield, for example, and to a family business located in the suburbs...<sup>76</sup>

2.79 Treasury was asked whether in its view, a local corner store and a multi-billion corporation have common traits where they are both family-owned entities. It responded:

I could make the comment—and this is purely from a tax perspective—that the tax issues that a large globally competitive company is likely to face are significantly different from the tax issues that I imagine a small partnership in a suburb is likely to face. I guess that is from the perspective of the business; I imagine they are going to have a very different set of preferences around their interaction with the tax system and a very different set of capacities to engage with it.<sup>77</sup>

### ***Committee view***

2.80 The committee recognises that the question of whether to set a definitional threshold based on numbers employed or annual turnover has polarised opinion during this inquiry. While it may be true that most family businesses are SMEs, a definition without a size threshold would also find many large companies that are family businesses. These businesses are often highly successful and have gone through intergenerational transfer. There is an argument that it is these large businesses that embody what a family business is, and there should therefore be no size threshold within the definition. On the other hand, as the following section of this chapter emphasises, the setting of a threshold in an official definition of family business

---

76 Mr Peter Chesworth, Acting Head, Small Business Division, Department of Industry, Innovation, Science, Research and Tertiary Education, *Committee Hansard*, 13 November 2012, p. 2.

77 Mr Hector Thompson, General Manager of the Small Business Tax Division, Treasury, *Committee Hansard*, 13 November 2012, p. 13.

should be based on how policy makers intend to use the data. If their focus is only to be on SMEs, there may be a case for a definition with a size threshold.

2.81 The committee does recognise that policy makers' use for data must acknowledge stakeholders' concerns and needs. Government agencies need to be aware of the extent to which family business issues differ between medium and large sized businesses and small businesses. To some extent, this will require consultation with these businesses.

### **Public policy reasons for a definition of family business**

2.82 There is already a policy framework and statistical basis upon which to consider the needs of small and medium sized enterprises (SMEs) and large corporations. The key issue, therefore, is to identify the particular public policy needs of family businesses.

2.83 This issue was considered by the EC Expert Group in its November 2009 report. It noted the following six areas of policy interest:

- there is limited awareness among policymakers of the contribution that family businesses make to the economy and society. A commonly recognised definition of family business 'would significantly help overcome this challenge';
- family businesses face specific financial challenges related to succession and the choice of financing method. It noted that national governments may consider issuing regulations to grant access to finance for family enterprises, without threatening decision-making powers within the company;
- family businesses must prepare for succession which is widely viewed as the most important issue facing family businesses. The EC report argued that the main issue to enable succession is to raise awareness of the importance of early preparation and to make training available for the transfer. It claimed that this type of initiative is best undertaken at a local level or by private sector organisations;
- family firms require a 'special type of management' which minimises potential tensions between the family and business aspects. The report argued that governments need to raise awareness of these governance issues and the tools that are currently available;
- there is a need to improve the image of family businesses in the labour market to overcome perceptions that they are nepotistic, paternalistic and fail to offer career opportunities; and

- national governments need to develop family business-specific courses as part of existing curricula or as new curricula.<sup>78</sup>

2.84 In a 2010 article, Dr Linda Glassop of Deakin University gave an Australian context to these areas of policy interest.<sup>79</sup> She argued that establishing the significance of family businesses to the Australian economy requires an operational definition of family business and data on the number of businesses by legal status, industry, region, revenue size and employment size. She noted that only then can research be conducted on the extent to which owner relationships affect business practices (including governance, employment, operations, risk-taking and innovation).<sup>80</sup>

2.85 The committee recognises that the EC's list is by no means comprehensive. There will be other areas of policy interest as well as several elements within the six mentioned above that deserve closer attention from policy makers.

2.86 For example, there is a useful discussion that Australian government agencies could have on the economic benefits of succession. Several witnesses to this inquiry have argued the need for this discussion.<sup>81</sup> The committee suspects that Australian policy makers have not given adequate consideration to the possible benefits of succession to the economy. The view could be that whether business owners pass on to the next generation or sell to the highest bidder is a matter of judgment for the business owners. As Treasury told the committee:

...if they have a succession plan or not, many businesses will simply hit a point whereby they enter into negotiations for sale. They will sell the business as an ongoing concern to someone else. The point from a productivity perspective is that this may result in a possible loss of corporate knowledge. That is going to be heavily dependent on the transition between the new buyers and the existing sellers. From an economy-wide perspective, if you make the assumption that these businesses are viable, then, arguably, they should be being sold and you should have a smooth transition. Having said that, and speaking from a personal perspective, I think it would be good business practice to have transition plans in place.<sup>82</sup>

---

78 First published in the *Final Report of the Family Business Expert Group to the European Commission: Overview of family-business-relevant issues: research, networks, policy measures and existing studies*, European Commission, November 2009, pp 11–18.

79 Dr Linda Glassop, *Family owned businesses: Perspectives on Australian policy*, <http://dro.deakin.edu.au/eserv/DU:30031227/glassop-familyownedbusinesses-2010.pdf> (accessed 1 March 2013).

80 Dr Linda Glassop, *Family owned businesses: Perspectives on Australian policy*, p. 4.

81 See for example, Mr Yasser El-Ansary, General Manager, Leadership and Quality, Institute of Chartered Accountants, *Committee Hansard*, 14 November 2012, p. 21.

82 Mr Michael Wilson, Analyst, Small Business Tax Entities Unit, Treasury, *Committee Hansard*, 13 November 2012, p. 11.

2.87 This type of comment suggests to the committee that government agencies would benefit from focused discussion on the economic benefits of succession planning, particularly within sectors such as farming. It may well be that government agencies form a view that there is no discernible economic benefit from ensuring that a family business is passed on. It may well be that a business can survive and perform better in the hands of an unrelated buyer, rather than a reluctant successor. Nonetheless, the committee believes that based on the discussions during this inquiry, it is worthwhile for policy makers to have this debate.

### **The committee's conclusions on an Australian definition of family business**

2.88 The committee believes there is merit in scoping an official definition of family business in Australia. The case for this view is developed throughout this report, noting as it does the unique characteristics of these businesses and their contribution to economic activity. As the following chapter outlines, these characteristics and contributions have not been reliably measured to date. However, a definition of family business should not be developed merely to satisfy curiosity—the committee stresses that any effort to develop a formal definition of family business and devise survey questions must be principally based on clear policy objectives.

2.89 In conducting this inquiry, however, the committee has observed that consideration of how family businesses fit within the broad policy framework is generally not as well-advanced as it is for other groups, such as small businesses. While family businesses have certainly not been ignored, this inquiry has perhaps been the first occasion that multiple government departments and agencies have been required to directly turn their attention to family business issues. This has allowed a preliminary discussion on policy implications; however, there is a need for this to be continued.

2.90 Given the committee's view that a formal definition of family business needs to be linked to policy objectives, the committee believes that there is a need for officials to further consider the policy areas that are particularly relevant to family businesses. Following this, a clear definition of family business and ABS survey questions that are useful for policy development can then be framed. Accordingly, the final part of this chapter considers the process through which an official definition of family business should be developed. The committee acknowledges the complexity of this task, and argues the need for a systematic process of consultation and analysis.

### ***An Inter-Departmental Committee***

2.91 The committee recommends that a formal definition of family business should be based on a collaborative process involving key government agencies. This should take the form of an Inter-Departmental Committee (IDC). The agencies on the IDC should include—but should not be restricted to—the Treasury, DRALGAS, the Australian Taxation Office, DIISTRE, the Department of Resources, Energy and

---

Tourism, the Department of Education, Employment and Workplace Relations and ABARES. The ABS should be an active participant on the IDC throughout.<sup>83</sup>

### Recommendation 1

**2.92 The committee recommends that an Inter-Departmental Committee (IDC) be established to identify the policy issues facing family businesses that are not adequately captured within the existing policy framework and with existing Australian Bureau of Statistics (ABS) data collection. The IDC should include: the Department of Industry, Innovation, Science, Research and Tertiary Education; the Treasury; the Australian Taxation Office; the Australian Bureau of Agricultural Resource Economics and Sciences; the Department of Resources, Energy and Tourism, the Department of Regional Australia, Local Government, Arts and Sport; and the Department of Employment, Education and Workplace Relations. The ABS should also participate in the IDC.**

#### *The first phase—the policy need for data*

2.93 The IDC's principal objective must be to identify the public policy need for data relating specifically to 'family businesses'. Each agency on the IDC should address the following questions:

- (i) what has been the agency's *past* need for—or interest in—data relating specifically to businesses that are owned and operated by a family?
- (ii) to what extent has the particular need/interest for family business data related specifically to:
  - the economic contribution of family businesses;
  - their contribution to employment;
  - workplace relations issues;
  - the productivity of family businesses;
  - taxation and trust matters;
  - governance structures (such as the presence of a succession plan);
  - superannuation arrangements, particularly for women involved in family businesses;
  - technological innovation;
  - rural and regional policy; and

---

83 The committee thanks the ABS for its explanation as to how it approaches the task of forming a national definition for government clients. *Correspondence received 27 February 2013.*

- behavioural considerations (such as the propensity to reinvest profits, levels of indebtedness)?
- (iii) to what extent is there international data on family business based on these indicators that the agencies find useful, and to what extent is it important that there is consistency with the format of this international data?
- (iv) to what extent have agencies shared a need for, or interest in, information based on these indicators?
- (v) to what extent could the agency find *future* use for data on family businesses based on these indicators, and what is the shared need/interest for this information?
- (vi) has there been, or could there be, a need for the agency to distinguish between small, medium and large family businesses?
- (vii) what is, or what could be, the specific public policy need to distinguish between small, medium and large family businesses?

## **Recommendation 2**

**2.94 The committee recommends that the initial focus of the Inter-Departmental Committee (IDC) must be on the specific public policy need for these agencies to identify a family business as distinct from a non-family business. In terms of the policy rationale for a survey (and a definition of family business), the committee recommends that the IDC carefully consider the following issues:**

- (a) **the need for policy makers to identify the number of family businesses that are small businesses, and if so, whether the definition of small business should be based on the threshold used for tax purposes (annual turnover of less than \$2 million) or the ABS's threshold of fewer than 20 employees;**
- (b) **the extent to which a definition of family business needs to capture employment data, and the possible effect that different thresholds in the definition will have on the number employed;**
- (c) **the importance of succession as a policy objective and the need for a definition to identify whether the owners could pass the business on, whether they intend to pass it on, whether they have a formal plan to do so;**
- (d) **the need for policy makers to identify first, second, third and later generation family businesses;**
- (e) **the need for policy makers to identify the industry and location of the family business;**
- (f) **the need for policy makers to identify the number of family businesses from culturally and linguistically diverse communities;**

- (g) the need for policy makers to identify the number of non-employee shareholders in a family business and, therefore, the need for data on the number of family businesses that are proprietary companies as opposed to unlisted public companies; and**
- (h) the need for policy makers to collect data on the superannuation arrangements of family businesses, particularly the evidence that female family members do not have adequate superannuation arrangements in place.**

2.95 While the committee emphasises the key role of the IDC as a mechanism for policy discussion on all these issues, it is also important that stakeholders have a voice in this process. The IDC should periodically consult with key stakeholder groups to ensure that the IDC registers and considers their views. A good example of the need for consultation is in relation to recommendation 2(g) (above). As Chapter 7 of this report discusses, this issue of the number of non-employee shareholders and how this affects the business' legal structure, is an issue of stakeholder concern. Consultation with stakeholders should occur within the IDC process.

### **Recommendation 3**

**2.96 The agencies represented on the Inter-Departmental Committee should periodically consult with key stakeholder groups to seek their input and feedback on the issues it is discussing. These groups should include Family Business Australia, the Australian Chamber of Commerce and Industry, the Council of Small Business of Australia and the National Farmers' Federation, and consider engaging other peak bodies that may be nominated to represent family businesses of differing sizes.**

### **Recommendation 4**

**2.97 The committee recommends that the Inter-Departmental Committee report its findings to the Minister for Industry and Innovation within six months of it being established.**

#### *The second phase—scoping a survey*

2.98 If the agencies do identify sufficient need to collect and use official data on the family business sector, the next task of the IDC should be to discuss these outputs or measures with the ABS.<sup>84</sup> In correspondence to the committee, the ABS explained its process for identifying these outputs:

---

84 The committee understands that the ABS often convenes a 'reference group' to discuss with key agencies the possibilities of a definition and a survey. The committee believes that if the proposed IDC does agree that there is a specific policy need to proceed with a survey, the IDC should fulfil the role that the reference group normally would. The committee also suggests that when the IDC reaches the stage of discussing the type of survey questions, it would be useful for key academics to be involved in these discussions.

When considering whether a particular survey vehicle is appropriate to consider asking a new question, firstly there has to be an understanding of what outputs or measures are required. This includes whether the survey vehicle has the scope and coverage for the desired outputs to be at the required level of disaggregation. This includes whether the scope of the survey covers the population of interest and whether the coverage provides for the data to be available by industry, business size, geography (e.g. state, regional) for what is required by the end users.<sup>85</sup>

2.99 Having identified the agencies' use for the data, the ABS then determines what questions would best yield these results. As the ABS explained:

Does the data need to only provide high level metrics of information or is further detail needed, for example, with family businesses is it just a raw count that is required or is information needed on the business structure and management, inter-generational involvement or future intentions of the business?

...

The ABS then develops appropriate questions (and response options) that will inform these policy areas. This includes seeking advice from internal experts on form design and methodology to reduce the potential of non-sampling error, such as poor layout, ambiguous or offensive questions, inadequate instructions and so on. Expert ABS areas provide the survey area with formal feedback on every survey form, with particular focus on new questions being tested.<sup>86</sup>

2.100 The committee suggests that the format of a survey to identify and gather information on family businesses needs to use two sets of questions:

- those that are fundamental to determining whether a respondent is a family business; and
- those that further inform policy makers (as distinct from defining whether the respondent is a family business).

2.101 Table 2.3 presents a range of issues according to this division of 'definitional issues' that are fundamental to determining whether the respondent is a family business (column 2). The key definitional issues relate to the size and composition of the business and its governance structure. There are also several information issues relating to size/composition and governance of the business that the IDC and the ABS may want to consider (column 3).

2.102 A key area of discussion for participants on the IDC will be how the thresholds set on the various definitional issues will impact the data set. Including sole

---

85 Australian Bureau of Statistics, *Correspondence received 27 February 2013*.

86 Australian Bureau of Statistics, *Correspondence received 27 February 2013*.



traders will inflate the number of family businesses, as will a broad interpretation of 'family members'.

2.103 The committee recognises the expertise of the ABS in devising survey questions and definitions based on its clients' intended use for the information, and with an eye to international data and definitions.

2.104 In its evidence to the committee, the ABS commented on some of the practicalities in collecting official data on family businesses. It made the following points:

- first, the ABS noted that if a question on family business was to be included in the BCS, existing questions would need to be cut;<sup>87</sup>
- second, the ABS noted that there is more interest among key stakeholders, such as DIISTRE and Treasury, in many of the existing questions in the BCS than in data on family businesses;<sup>88</sup>
- third, and relatedly, the ABS told the committee that in terms of eliciting responses on family business, there would need to be 'quite a few questions to draw out the concept properly';<sup>89</sup> and
- fourth, if the family business questions could not be included in the BCS, the ABS noted that it would need to look at additional funding options.<sup>90</sup>

2.105 The committee believes that if the government does proceed with the formal collection of ABS data based on a definition of family business recommended by the IDC, this process should be incorporated into the existing BCS. It is important that the process be as efficient as possible, both from the perspective of public administration and respondents' time. There should be a set of clear and targeted questions which reflect the policy need for the data, and which are most likely to present policymakers with evidence for possible action.

## Recommendation 5

**2.106 The committee recommends that when collecting official data based on a formal definition of family business, the ABS should incorporate a set of clear and targeted questions into the Business Characteristics Survey. The intent must be to deliver the survey as efficiently as possible, including to limit the time taken by respondents to complete the survey.**

---

87 Australian Bureau of Statistics, *Submission 2*, p. 2.

88 Ms Jacky Hodges, Regional Director, Australian Bureau of Statistics, *Committee Hansard*, 13 November 2012, p. 18.

89 Mr Bill Allen, Assistant Statistician, Australian Bureau of Statistics, *Committee Hansard*, 13 November 2012, p. 18.

90 Ms Jacky Hodges, Regional Director, Australian Bureau of Statistics, *Committee Hansard*, 13 November 2012, p. 18.

<i>Issue</i>	<i>Definitional issues (critical)</i>	<i>Information issues (useful)</i>
Size and composition	<p>the <b>number of family members</b> employed in the business (should a definition include sole traders if there are family members informally employed in the business?);</p> <p>the <b>definition of 'family'</b> and whether 'family' should include de facto members and extended family (should it be consistent with definitions of 'related' in the Income Tax Assessment Act?)</p>	<p>the number of family and non-family members employed in the business;</p> <p>whether the survey should ask:</p> <ol style="list-style-type: none"> <li>1. if the business is small, medium or large with reference to the existing ABS definitions of these terms</li> <li>2. if the business is a public company (more than 50 non-employee shareholders)</li> <li>3. if the business has an annual turnover of more than \$2 million</li> </ol>
Governance	<p>whether the definition of 'family business' should refer to '<b>control</b>' and if so:</p> <ol style="list-style-type: none"> <li>1. whether this term needs to be consistent with existing definitions in Australian statute (section 50AA of the Corporations Act);</li> <li>2. whether a definition should refer to a 'controlling interest by one or more related members (FBA and MGI Australasia)</li> </ol> <p>whether the definition of 'family business' needs to refer to '<b>owned</b>' and if so, whether to refer in the survey to having a majority of the equity</p> <p>whether the definition of 'family business' should also refer to '<b>managed</b>', and if so, how should this be measured (eg: majority of decision-making rights; working in the business)</p> <p>whether the definition should require at least one representative of the family is formally involved in the governance of the firm</p> <p>among first generation owners, whether they <b>intend to pass the business on</b> to the next generation</p>	<p>whether the business is owned by the first, second, or later generation</p> <p>whether the business has a Board of Directors</p> <p>presence of a formal Strategic Plan</p> <p>establish and annually review a succession plan</p> <p>superannuation arrangements and whether all family members have superannuation arrangements in place</p> <p>whether female family members are involved in the governance of the business</p>
Finance		reliance on equity rather than debt capital
Performance		the productivity and profitability of the business
Location and sector		the principal industry/sector and region in which the business operates

2.107 The ABS informed the committee that the final stage of the survey development process involves field testing the questions:

These new questions are then field tested on a range of business types, size and industry groups. The measures for determining whether a new question will be included on the next iteration of the BCS are:

- the data needs of users;
- the level of accuracy needed, the availability of the data from the respondent, the language appropriate for respondents, data item definitions, standard question wordings and any other relevant information e.g. accounting standards, ABS classifications;
- the office processing system you are using, including editors, data entry staff, OCR [Optical Character Recognition] etc;
- the sequencing, or order of questions; and
- the answer space required for each question.<sup>91</sup>

### **Final comment**

2.108 The committee's key recommendation is that an IDC be established to discuss the public policy need for data relating to family businesses in Australia, which will inform a definition of family business. The committee hopes that the evidence it has gathered during the course of this inquiry will be a useful reference point in the IDC's deliberations.

2.109 The committee recognises that there are key threshold questions relating to the definition of family business on which the IDC—in discussion with the ABS—should form a view. Including sole traders and extended family in a definition will increase the number of businesses that are family businesses. Requiring at least the intent to pass the business on, and limiting the definition to under a certain employee or turnover threshold, will reduce the number of businesses defined as a 'family business'. These are potentially very complex considerations. The committee emphasises that in making these decisions, agencies need to consider carefully their need for the data, how it will be used and whether it should be in a form that matches available international data.

---

91 Australian Bureau of Statistics, *Correspondence received 27 February 2013*.