

Chapter 3

The availability and reliability of information and statistics on family business

I am nervous about all of these numbers because I think the only really reliable statistics are those that come from the ABS.¹

For targeted policy on family businesses...if that were the intention, the collection of consistent, reliable data on family businesses would be very important.²

The availability of reliable information is essential to make policy makers...aware of the importance of the family business sector, and to advocate favourable action.³

Introduction

3.1 The second article of the terms of reference draws the committee's attention to the availability and reliability of information and statistics about family business in Australia. This chapter considers the data that is available on Australian family businesses and makes some observations about the dependability of these survey findings. Consistent with the recommendations in chapter 2, the committee does not seek to define what official data should be available: this is a matter for government.

3.2 The lack of reliable data is not unsurprising given there is no official definition of family business. In the absence of a formal definition and official data, consultancy and advisory firms have undertaken their own research and analysis. The analysis of family business in Australia has therefore developed in a fragmented way, through surveys that have produced interesting but questionable findings.

3.3 This chapter has two parts:

- the first presents the findings of various consultancies' surveys and some limited data from the Australian Bureau of Statistics (ABS); and

1 Professor Ken Moores, Executive Chairman, Moores Family Enterprise, *Committee Hansard*, 16 November 2012, p. 20.

2 Mr Bill Allen, Assistant Statistician, Australian Bureau of Statistics, *Committee Hansard*, 13 November 2012, p. 22.

3 European Commission, *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

- the second part presents submitters' and witnesses' views on the reliability and accuracy of this research and their opinion as to whether, and if so what, official data is needed.

A patchwork of surveys

3.4 Over the past 20 years, an assortment of unrelated surveys has been conducted into various aspects of family businesses in Australia. Even among surveys conducted by the same research organisation, the methodology and even the definition of 'family business' has changed over time; the questions have changed from one survey to the next; the sample sizes have often been low; and some of the data is quite dated while the newer official data has restricted access. These factors compromise the reliability and utility of the findings.

3.5 Nonetheless, the committee believes it is useful to sketch in this report some of the key findings of these surveys. The committee recognises that while the reliability of the findings can be questioned, they do highlight the areas that might interest and inform policy makers (see chapter 2). The following section presents selected findings from:

- the ABS' Business Longitudinal Survey (BLS) and Business Longitudinal Database (BLD);
- the MGI Australian Family and Private Business Surveys, conducted by Professor Kosmas Smyrnios of the Royal Melbourne Institute of Technology (RMIT);
- the Family Business Australia (FBA) surveys, conducted by Deakin University and KPMG; and
- the 2012 PricewaterhouseCoopers (PwC) private clients family business survey.

The Business Longitudinal Database and the Business Longitudinal Survey

3.6 The ABS's BLS data was gathered for the years 1994–95, 1995–96, 1996–97, and 1997–98 under the title of Business Growth and Performance Surveys. The BLD was introduced in 2005 and has two independent samples or Panels:

- Panel One contains five reference periods of data (2004–05, 2005–06, 2006–07, 2007–08 and 2008–09) for 2,732 business records; and
- Panel Two also contains five reference periods of data (2005–06, 2006–07, 2007–08, 2008–09 and 2009–10) for 3,432 business records.⁴

4 Australian Bureau of Statistics, *Business Longitudinal Database—Introduction*, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/8168.0.55.001main+features22004-05%20to%202009-10> (accessed 22 February 2013).

The ABS states the aim of the BLD is to increase understanding of the activities or factors that are relevant to business performance and the associated business characteristics.⁵

3.7 In his submission to this inquiry, Mr Frank Barbera, a doctoral student at the Australian Centre for Family Business at Bond University, noted that the ABS's BLS and BLD both contained the following questions:

- 1) *Do you consider the business to be a family business? Yes/No*
- 2) *If yes, why do you consider this a family business? Family members are:*
 - i) *Working directors or proprietors. Yes/No*
 - ii) *Employed in the business. Yes/No*
 - iii) *Not working, but contribute to decisions. Yes/No*
 - iv) *Business acquired from parents. Yes/No*
 - v) *Close working relationship between management and staff. Yes/No*
 - vi) *Other. Yes/No*⁶

3.8 Mr Barbera noted that of the family firms responding to question 2 (above) in the 1994–95 to 1997–98 BLS and the 2004–05 to 2009–10 BLD:

34.91 percent selected i only; 27.45 percent selected both i and ii; 11.79 percent selected i, ii and v; 4.39 percent selected i and v; 3.18 percent selected i, ii, iv and v; and 3.18 percent selected i, ii and iv. Based on this, and out of 64 possible permutations, nearly 95 percent of all family firms at least selected i, which is understandable since we would expect small to medium sized family firms to have a more operational classification; however, not excluding these, approximately 37 percent also selected iv and v, which is associated with the essence based classification of a family firm.⁷

3.9 Mr Barbera also expressed frustration that the options listed under question 2 are not mutually exclusive, which makes intra-firm differences across family businesses difficult. He argued that in order to better understand the economic impact of family ownership in Australia:

...more effort must be directed towards collecting data which distinguishes the intra-firm differences across family owned firms. In other words, the

5 Australian Bureau of Statistics, *Business Longitudinal Database—Introduction*, <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/8168.0.55.001main+features22004-05%20to%202009-10> (accessed 22 February 2013).

6 Mr Frank Barbera on behalf of the Australian Centre for Family Business, Bond University, *Submission 3*, p. 5. The family business questions were asked of all businesses in 1995–96 and only those new to the study in 1996–97 and 1997–1998. See Australian Bureau of Statistics, [http://www.abs.gov.au/websitedbs/D3310114.nsf/0/f7739966adba7636ca2572030016614c/\\$FILE/1994-95%20to%201997-98%20CURF%20docoV2.pdf](http://www.abs.gov.au/websitedbs/D3310114.nsf/0/f7739966adba7636ca2572030016614c/$FILE/1994-95%20to%201997-98%20CURF%20docoV2.pdf) (accessed 1 March 2013).

7 Mr Frank Barbera, on behalf of the Australian Centre for Family Business, Bond University, *Submission 3*, p. 5.

current state of family business research necessitates a move towards viewing family firms as a heterogeneous group. Information specifically related to the structural, intentions, and family sub-system definitional approaches will help in this regard.⁸

3.10 Mr Frank Barbera also drew the committee's attention to restrictions with the availability of the BLD data. Unlike the BLS, he noted that the BLD is 'subject to rigid confidentiality restrictions' with access only via the ABS's Remote Access Data Laboratory. He argued that the confidentiality of the BLD data could be retained by removing reference to specific respondents while releasing the dataset to sanctioned individuals.⁹

Recommendation 6

3.11 The committee recommends that the Australian Bureau of Statistics inquire into whether the Business Longitudinal Database can be sufficiently de-identified so as to be made available for research purposes on request.

3.12 Noting the difficulty in accessing data from the BLD, the submission presented a table showing 'a representative SME sample from the older BLS data'. It shows that:

...just over half [the firms] are family owned. Further, family firms employ more than 40 percent of all full-time equivalent employees, own nearly 30 percent of all assets, and contribute nearly 32 percent towards total output in all sectors.¹⁰

3.13 The committee notes that the earliest data on which the table is based (1994–95) is now nearly 20 years old. Further, the table contains no information on the representation of family businesses in the agricultural sector. The committee was informed that the BLS does not include information on this sector.¹¹

MGI Australian Family and Private Business Survey

3.14 Since the early 1990s, Professor Kosmas Smyrniotis of RMIT has completed seven surveys into family business in Australia. The surveys were conducted in 1994,

8 Mr Frank Barbera on behalf of the Australian Centre for Family Business, Bond University, *Submission 3*, p. 5.

9 Mr Frank Barbera, on behalf of the Australian Centre for Family Business, Bond University, *Submission 3*, p. 5.

10 Mr Frank Barbera, on behalf of the Australian Centre for Family Business, Bond University, *Submission 3*, p. 9.

11 See the discussion, *Committee Hansard*, 16 November 2012, p. 39.

1997, 1999, 2000, 2003, 2006 and 2010.¹² The last three of these surveys, commissioned and sponsored by MGI Australasia, are called the MGI Australian Family and Private Business Survey. In its submission to this inquiry, MGI described the surveys as 'the most comprehensive longitudinal study of family businesses available in Australia'.¹³ It believed that the data is reliable but the committee notes that the sample size is small and the definition of 'family business' changed between surveys.

3.15 The key findings of the 2010 MGI Australasia survey are as follows:

- 80 per cent of businesses surveyed had a private company structure (up from 73 per cent in 2006) while 12 per cent operated a family trust structure (down from 19 per cent in 2006);
- the proportion of family business owners who 'would seriously consider' selling their business if approached decreased from 75 per cent in 2006 to 61 per cent in 2010;
- the proportion of family business owners who planned to sell their business fell from 53 per cent in 2006 to 44 per cent in 2010:
 - of the 44 per cent who planned to sell their business, 20 per cent stated they wanted to retire while nine per cent said there was a lack of a family successor. The percentage of respondents giving these reasons was quite significantly down from the 2006 survey response;¹⁴
- in 2006 only 17 per cent of family business owners stated they did not have an adequately funded retirement program—this increased to 31 per cent in 2010;
- the average (mean) number of employees in the family businesses surveyed was 37 in 2010, 39 in 2006 and 31 in 2003;

12 Kosmas Smyrniotis and Claudio Romano, *The Pricewaterhouse/Commonwealth Bank Family Business Survey 1994*, 1994, http://www.mgiaust-survey.com/sites/default/files/1994_Report.pdf
 Kosmas Smyrniotis and George Tanewski, *The Australian & Private Family Business Survey: 1997*, 1997, http://www.mgiaust-survey.com/sites/default/files/1997_Report.pdf
 Kosmas Smyrniotis, Claudio Romano and George Tanewski, *The 1999 Australian Family Business Lifestyle Audit*, 1999;
 Claudio Romano, Kosmas Smyrniotis and Lucio Dana, *Succession Matters: The Australian Family Business Survey 2000*, 2000;
 Kosmas Smyrniotis and Rhett Walker, *The Australian & Private Family Business: 2003*, 2003, http://www.mgiaust-survey.com/sites/default/files/2003_Report.pdf
 Kosmas Smyrniotis and Lucio Dana, *The MGI Family and Private Business Survey: 2006*, 2006, <http://www.mgiaust.com/publications/MGI%20Survey%20book.pdf>
 Kosmas Smyrniotis and Lucio Dana, *The MGI Family and Private Business Survey: 2010*, 2010, <http://www.mgiaust-survey.com/> All documents were accessed on 25 February 2013.

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

14 Respondents could identify more than one reason.

- the average age of the family business owner is 55 years, which is very consistent across the three surveys;
- the average age of the family businesses surveyed was 32 years, compared to 28 years in the 2006 survey;
- only 11 per cent of family business owners are female, up from 10 per cent in 2003 and 4 per cent in 2006;
- in the 2010 survey, 35 per cent of family businesses surveyed noted that a spouse was involved in the day-to-day running of the business. The same percentage noted that a son is involved in the day-to-day running of the business;
- in all three MGI surveys, the majority of family businesses were first generation businesses (58 per cent in 2010), roughly one-quarter were second generation businesses (31 per cent in 2010) and a smallest proportion were third generation business (11 per cent in 2003);
- in the 2010 survey, 47 per cent of family business owners were tertiary qualified, compared to 52 per cent in 2006; and
- the 2010 survey was perhaps most notable for the results to the question on respondents concerns for the future. Fifty-four per cent of the family businesses surveyed indicated their concern with the 'financial performance of the business', compared to only 31 per cent in the 2006 survey. Thirty-eight per cent of respondents identified the particular industry in which they operated as a concern, up from 21 per cent in 2006 and 15 per cent in 2003. Twenty per cent of family businesses surveyed identified 'funding for growth' as a concern, compared with only six per cent in the 2006 survey.¹⁵

3.16 Notably, the 2010 MGI survey does not contain an estimate of the wealth of family businesses in Australia. The 2003 and 2006 surveys estimated this wealth at \$3.5 trillion and \$4.3 trillion respectively. Apart from questions about the reliability of these figures, they are also now dated. The FBA relied on the 2006 estimate in a September 2012 Media Release.¹⁶

3.17 The committee also notes that the definition of 'family business' varies across the seven MGI surveys. For the 1994 and 1997 surveys, 'family business' was defined as an enterprise for which:

- more than 50 per cent of the ownership is held by a single family or more than one family;

15 See Kosmas Smyrniotis and Lucio Dana, *The MGI Family and Private Business Survey: 2010*, 2010, p. 8.

16 Family Business Australia, 'Is government overlooking the interests of family business?', *Media release*, September 2012. <http://www.fambiz.org.au/documents/MediaRelease-FamilyBusinessMinister.pdf> (accessed 25 February 2013).

- a single family group is effectively controlling the business; or
- a majority of the senior management is from the same family.¹⁷

3.18 In the 2003 survey, participants could self-identify as a family business, while in the 2006 survey, the definition was not provided in the survey report. In 2010, 'family business' was defined as an enterprise involving two or more related individuals working together, or otherwise associated, in a commercial enterprise that is controlled by one or more of those individuals (see chapter 2).¹⁸

3.19 Clearly, the changing definition of 'family business' limits the utility and accuracy of the longitudinal data. There is also the small number of businesses surveyed. As the FBA noted of both its surveys and the MGI surveys, 'the reliability of the data in each case is limited by their relatively small sample size'.¹⁹ In the 2010 MGI survey, only 5000 Australian family businesses were surveyed from a sample:

...based on location by state, industry, number of employees, and sales turnover [from]...selected companies in the proportions found in the Australian population of employing small-to-medium enterprises (SMEs).²⁰

3.20 With the relatively small sample size as a caveat, the surveys do contain some notable findings. Most obvious is the respondents' concern about the financial performance of their business and the adequacy of their retirement program. These concerns are not surprising given the impact of the Global Financial Crisis (GFC). The GFC occurred between the 2006 and 2010 surveys. As the report stated:

The survey reveals a less confident family business sector post-GFC than pre-GFC – with family business owners more reliant on the continuity of their business to fund their retirement and more concerned over the future of their business.²¹

3.21 The capacity of family businesses to save adequately for retirement is an issue of some concern for the committee. Although it has received little by way of concrete evidence on retirement plans and superannuation savings, the committee suspects there is significant under-investment in this area with many family businesses opting instead to hold equity in assets rather than through superannuation funds. The

17 Kosmas Smyrniotis and Claudio Romano, *The Pricewaterhouse/Commonwealth Bank Family Business Survey 1994*, 1994, p. 2; K. Smyrniotis, C. Romano and G. A. Tanewski, *The Australian & Private Family Business Survey: 1997*, 1997, p. 2.

18 Lucio Dana and Kosmas Smyrniotis, *The MGI Australian Family and Private Business Survey 2010*, RMIT University, July 2010, p. 9.

19 Family Business Australia, *Submission 1*, p. 2.

20 MGI Australasia, *The MGI Australian Family and Private Business Survey 2010*, http://www.mgiaust-survey.com/sites/default/files/fpbs_report_0.pdf (accessed 20 December 2012)

21 MGI Australasia, *The MGI Australian Family and Private Business Survey 2010*, p. 4.

committee notes that government policy settings can encourage family businesses to shift equity into superannuation funds.

3.22 Another point of interest in the 2010 MGI survey is that the average number of employees is 37. In light of the discussion in chapter 2 of this report, the figure seems high. If most family businesses are small business, and small businesses employ under 20 employees, one would have expected the average to be less than 20 employees. However, MGI used the mean rather than the median to calculate this figure. The committee suggests that the mean is not an appropriate measure of central tendency. If data on the number of employees is collected, the ABS should consider a modal class to assess the midpoint.²²

The Family Business Australia surveys

3.23 The FBA noted in its submission to this inquiry that it has commissioned six annual surveys of the family business sector. The surveys were sponsored by KPMG. The 2005, 2006, 2007 and 2008 surveys were undertaken by Deakin University.²³ The Australian Centre for Family Business conducted a further FBA survey in 2009.²⁴ In 2011, the FBA and KPMG conducted and released the findings of a survey described as a 'biennial survey'.²⁵

3.24 In its submission to this inquiry, MGI Australasia noted that the FBA surveys have extracted data 'from a limited sample size and therefore could be considered as not significantly reliable'.²⁶

3.25 Intriguingly, the FBA's submission contained only one reference to any of these published surveys' findings. Perhaps this was intended so as not to cloud the

22 A modal class would indicate the number of businesses employing 0–4 employees, 5–9 employees, 10 to 14 employees, 15–19 employees, etc.

23 Linda Glassop, Yuen Ching Ho and Dianne Waddell, *KPMG and Family Business Australia survey of family business needs*, KPMG, 2005, <http://peak.fambiz.org.au/documents/item/243>; Linda Glassop, Pauline Hagel and Dianne Waddell, *KPMG and Family Business Australia survey of family business needs*, KPMG, Canberra, 2006, <http://peak.fambiz.org.au/documents/item/245>; Linda Glassop, Pauline Hagel and Dianne Waddell, *KPMG and Family Business Australia survey of family business needs 2007*, KPMG, 2007, <http://peak.fambiz.org.au/documents/item/246>; Linda Glassop, Pauline Hagel and Dianne Waddell, *KPMG and Family Business Australia survey of family businesses 2008*, Deakin University, Melbourne, Australia, 2008, <http://peak.fambiz.org.au/documents/item/247> (all documents accessed 1 March 2013).

24 Australian Centre for Family Business, *KPMG and Family Business Australia Survey of Family Businesses 2009*, 2009, <http://peak.fambiz.org.au/documents/item/250> (accessed 1 March 2013).

25 KPMG and Family Business Australia, *Stewards: Moving forward: moving onwards*, 2011, <http://www.kpmg.com/au/en/issuesandinsights/articlespublications/documents/family-business-survey-2011.pdf> (accessed 1 March 2013).

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

FBA's central message that official, reliable data needs to be collected.²⁷ It certainly is striking that having commissioned no fewer than six surveys in a six year period, the FBA should be essentially silent on the findings. Instead, the submission made several references to the findings of the 2006 MGI survey.

The 2011 FBA survey

3.26 There are some findings of note in the most recent FBA–KPMG survey in 2011. The survey's focus was on 'internal dynamics of a representative cross section of Australian family businesses'. 658 businesses were surveyed.²⁸ Some of the key findings were:

- more than 60 per cent of respondents identified retaining control of the family business as an issue of high or very high importance;
- nearly 60 per cent of respondents identified preparing and training a successor before succession takes place as an issue of high or very high importance;
 - 51 per cent of respondents identified that selling the business to an independent third party was a possible exit strategy in the next 12 months, compared with only 13 per cent who identified passing the business on to the next generation;
 - 42 per cent of respondents identified that selling the business to an independent third party was a possible exit strategy in the next three years, compared with 17 per cent who identified passing the business on to the next generation;
 - 34 per cent of respondents identified that selling the business to an independent third party was a possible exit strategy in the next five years, compared with 24 per cent who identified passing the business on to the next generation;
- 48 per cent of respondents identified experience outside the business as a 'very important' attribute of a potential successor; 34 per cent of respondents identified the attainment of formal business qualifications as a 'very important' attribute of a successor;
- 57 per cent of respondents identified distributing ownership among family members as a low or very low issue of importance;
- 54 per cent of respondents identified establishing a family constitution or code of conduct as a low or very low priority;

27 Family Business Australia, *Submission 1*, p. 4.

28 50.5 per cent of these respondents employed fewer than 21 employees; 36.5 per cent employed from 21 to 100 employees; and the remaining 13 per cent employed more than 100 employees.

- 20 per cent of respondents identified the future strategy of the business as the most common cause of conflict in the family business; only 10.5 per cent of respondents identified succession as the most common cause of conflict;
- 32 per cent of respondents had no formal mechanisms to resolve family conflict; and
- 61 per cent of respondents said the family members in the business were paid the same as non-family members; 25 per cent noted that family members were paid more than non-family members; while 14 per cent indicated that family members were paid less than non-family members.

61 per cent of family businesses to transition between 2006 and 2016

3.27 The FBA submission's single reference to a finding from a survey that it had commissioned was to the 2006 survey undertaken by Deakin University. Specifically, the survey found that:²⁹

More than half the survey respondents (61%) noted that they plan to retire in less than ten years. This is not surprising given that around half (58%) are aged over fifty years. However, with the majority of family businesses having no formal succession plan (78%) and not yet chosen a successor (62%), these family businesses would appear to be at high risk. The question of succession appears ambiguous given that the same number of respondents indicate that their exit plan is to either pass the business to the next generation or sell it (60%). With around a quarter (26%) of family businesses indicating that they have a succession plan for the CEO and other senior positions held by family members (23%), longevity of these family businesses appears doubtful.³⁰

3.28 This finding was a key reference point for the committee throughout this inquiry. The committee sought comment from various stakeholders as to whether they believed the figure was accurate and if so, what trends it could explain. In particular, the committee asked whether the figure reflected the imminent retirement of baby boomers who own family businesses.³¹

3.29 The committee notes that the 2008 KPMG survey found that 34 per cent of family business CEOs are likely to step down within five years, and 27 per cent between five and ten years. KPMG noted that this finding is 'consistent with the fact that forty-three percent have been in the role for more than twenty years'.³² KPMG

29 Family Business Australia, *Submission 1*, p. 7.

30 Linda Glassop, Pauline Hagel and Dianne Waddell, *KPMG and Family Business Australia survey of family business needs*, KPMG, Canberra, 2006, <http://peak.fambiz.org.au/documents/item/245>

31 *Committee Hansard*, 15 November 2012, p. 3.

32 Linda Glassop, Pauline Hagel and Dianne Waddell, *KPMG and Family Business Australia survey of family businesses 2008*, Deakin University, Australia, 2008, p. 11.

also drew attention to the age of respondents: 32 per cent were aged between 46 and 55; and, 31 per cent aged between 56 and 65.³³

3.30 Reflecting on its finding, KPMG told the committee that while the 2006 figure of 61 per cent of respondents planning to retire within ten years had 'shrunk a little post GFC', the figure partly reflects the fact that the next generation does not want to take over the business. As Mr Des Caulfield told the committee:

...there is a change of the attitudes in the community or perhaps in the younger generations. Once it was almost assumed that if mum and dad had a business, the children would take over. That has certainly changed due to a number of things including the fact that business has changed so much now. The traditional business, the local supermarket or whatever, was never much different. All of a sudden there are all these other things out there now so people are finding that the next generation does not necessarily want to take on mum and dad's business. That is the main reason I think there are more people wanting to get out.³⁴

3.31 KPMG also recognised that demographic factors are at play:

The situation is there is a whole heap of people in that age category, between late 50s and late 60s, who are now finding that their children do not necessarily want to succeed them in the business. They probably should have known longer ago than now that that was going to happen but also probably did not accept it because they thought, 'I have had the business and my kids are going to take it on.' There is a bulge there of businesses that will have to close or go on market if they cannot find a successor. That is going to have an impact on the value of those businesses because the more businesses that are available, the lower the price is likely to be. I do not know if there is anything we can do about it but it is reality.³⁵

3.32 The committee asked both the Reserve Bank of Australia and Treasury if they could comment on the figure of 61 per cent of family businesses facing transition between 2006 and 2016. Treasury recognised that the figure could reflect the play of market forces, rather than a demographic trigger:

...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

33 Linda Glassop, Pauline Hagel and Dianne Waddell, *KPMG and Family Business Australia survey of family businesses 2008*, Deakin University, Australia, 2008, p. 3.

34 Mr Des Caulfield, Director, MGI Australasia Ltd, *Committee Hansard*, 14 November 2012, p. 25.

35 Mr Des Caulfield, Director, MGI Australasia Ltd, *Committee Hansard*, 14 November 2012, p. 25.

businesses are viable, then, arguably, they should be being sold and you should have a smooth transition.³⁶

3.33 Treasury did point out that an accurate picture of the number of Australian family businesses facing transition requires official longitudinal data. It told the committee:

It goes back to the broader data question: the advantage of an ABS time series or some RBA data is that you can look at it through time. In the family business context a succession plan would normally revolve around a family member taking over the running of that business. I do not know whether or not it would be normal that within the next 10 years most family businesses do not have a formal succession plan with respect to a particular family member. I do not think there would be any data on it on a time series basis.³⁷

3.34 In its submission, KPMG also noted that an estimated \$3.5 trillion in wealth held by family businesses is likely to be transferred over the next 10 years. Professor Ken Moores queried the reliability of both the 61 per cent and the \$3.5 trillion estimates. He agreed that it is not possible to know whether the figures are accurate or not, adding:

I am nervous about all of these numbers because I think the only really reliable statistics are those that come from the ABS...My centre, KPMG and FBA have produced these [surveys] and had 600 respondents and things like that, and we have interpolated from there, but I am always a little wary as to making big, bold statements. Certainly, with 61 per cent, where is the error in those sorts of things?³⁸

Committee view

3.35 The committee shares Professor Moores's doubts about the reliability of the 2006 KPMG survey's finding on the transition of Australian family businesses. It may be that when interviewed in the 2006 and 2008 KPMG surveys, roughly two in three family business respondents planned to retire (or step down) within the decade. However, the sample sizes in these surveys were relatively small and there is ambiguity around whether the respondent wanted or needed to sell the business, or whether they wanted to pass it on. The committee agrees with Professor Moores that only ABS data can provide the requisite breadth and depth of data. It is concerned that Treasury does not have any data on the succession plans of Australian family

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

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

38 Professor Ken Moores, Executive Chairman, Moores Family Enterprise, *Committee Hansard*, 16 November 2012, pp 20–21.

businesses over the next decade. These issues of succession intentions are raised in chapter 5 of this report.

BDO Australia's Wealth Transfer Survey

3.36 The Australian Centre for Family Business told the committee that it is currently working with the accounting firm BDO Australia on what it called a 'wealth transfer survey'. Mr Barbera explained that the survey relates to the transfer of ownership (rather than management) and will include issues such as:

How is it going to be done? What are the tax implications? What are the intentions of the owners: for example, are they needing this money to retire, are they interested in maintaining the wealth of the family as a whole or are they interested in selling and distributing that money amongst the family and then have some sort of investment vehicle that continues to generate wealth? There are all these sorts of questions as far as the modes of wealth transfer, what are the motivations behind wealth transfer and when do they expect to do this transfer of wealth? That is what we looking at right now.³⁹

3.37 There were 320 respondents to the survey. BDO Australia has published some preliminary findings from the survey. These include:

- 93 per cent intend to transfer business wealth within the family—seven per cent outside the family; and
- 39 per cent have a complete succession plan that nominates a CEO successor.⁴⁰

3.38 At the time of writing, the final report on the wealth transfer survey had not been made publicly available. The committee understands that the final report is expected to be released in March 2013. It believes the findings will be useful to stimulate discussion about the possible public policy objectives on succession-related matters.

Recommendation 7

3.39 The committee recommends that as part of its deliberations, the Inter-Departmental Committee (see recommendation 1) should examine the findings on the wealth transfer survey conducted in 2012 by the accounting firm BDO Australia.

39 Mr Francesco Barbera, *Committee Hansard*, 16 November 2012, p. 40.

40 BDO Australia, *Family business wealth transfer survey*, December 2012, <http://www.bdo.com.au/resources/newsletters/growth-matters/Growth-Matters,-December-2012/family-business-news/family-business-wealth-transfer-survey> (accessed 1 March 2013).

The PricewaterhouseCoopers private clients family business survey

3.40 In its submission to this inquiry, PricewaterhouseCoopers (PwC) gave a summary of its findings from an international survey of family businesses conducted in July and August 2012.⁴¹ Fewer than 2000 businesses were surveyed of which only 50 were Australian.

3.41 PwC claimed that the results of the survey 'can be recommended as a timely and accurate snapshot of family businesses in Australia'. The survey found that:

- almost 40 per cent of Australian respondents intend to pass on management to the next generation. The remaining businesses are 'twice as likely to sell or float than to pass down but employ non-family management';⁴²
- 58 per cent of Australian respondents indicated that they have non-family members on the board, while 28 per cent of Australian respondents indicated that they have non-family staff who have shares in the company;⁴³
- in terms of the perceived challenges faced by the business in the next five years, only 30 per cent of Australian respondents identified company succession planning as a challenge;⁴⁴
- 56 per cent of Australian respondents agreed that 'government should make it easier for family businesses to access finance';⁴⁵
- Australian respondents ranked 19th out of 28 countries in terms of the perception of government in recognising the importance of family business;
- 82 per cent of Australian respondents agreed with the statement that family businesses 'do all you can to retain staff, even in the bad times';
- 78 per cent of Australian respondents agreed with the statement that family businesses have a 'sense of responsibility to support employment in areas where you operate';
- 68 per cent of Australian respondents agreed with the statement that 'the culture/values tend to be stronger than in other types of businesses';
- 62 per cent of Australian respondents agreed with the statement that there is a 'sense of responsibility to support community initiatives in your area';⁴⁶ and

41 PricewaterhouseCoopers, *Private clients family business survey*, <http://www.pwc.com.au/private-clients/assets/family-business-survey/Australia-Family-Business-Survey-Oct12.pdf> (accessed 1 March 2013).

42 PricewaterhouseCoopers, *Submission 11*, p. 1. PricewaterhouseCoopers, *Private clients family business survey*, p. 22.

43 PricewaterhouseCoopers, *Private clients family business survey*, p. 18.

44 PricewaterhouseCoopers, *Private clients family business survey*, p. 12.

45 PricewaterhouseCoopers, *Private clients family business survey*, p. 24.

46 PricewaterhouseCoopers, *Private clients family business survey*, p. 26.

- roughly equal proportions of Australian respondents agreed as disagreed with the statements that family businesses:
 - 'take a longer-term approach to decision-making' (34 and 40 per cent);
 - 'take more risks' (32 and 38 per cent); and
 - 'are less open to new thinking and ideas' (36 and 36 per cent).⁴⁷

3.42 The committee draws attention to the very small sample size of the PwC survey. It is very difficult from this sample to postulate about the views of 'Australian family businesses'. Indeed, if the survey is of any utility, it is really only as a guide to the type of issues that might interest policy makers should they decide there is a need for official data (see chapter 2).

Submitters' and witnesses' views on the availability and reliability of data

3.43 During the committee's public hearings, several witnesses commented on the lack of reliable data that is currently available on family businesses in Australia. Some witnesses made these comments principally to caution that the survey findings should not be endorsed. Others referred to existing data as at least a good estimate. They argued that the data, while not strictly reliable, provide enough evidence of the significance of the family business sector to warrant the collection of official statistics.

3.44 The lack of official data was clearly frustrating for several witnesses. MGI Australasia told the committee:

...we have become more and more aware that there is very little reliable statistical data available that can act as a foundation for ensuring that this sector of our economy is properly serviced and gets what it needs.⁴⁸

3.45 Mr Yasser El-Ansary of the Institute of Chartered Accountants, put a similar view:

...there is no broad based research platform or statistics on which the government can rely at the moment. There is some very comprehensive private-sector research that has been undertaken...but from an Australian Bureau of Statistics point of view we certainly agree that there is not sufficient information collected about the size or composition of the sector in Australia at this point. That is something we think is worthy of further consideration and, if appropriate, we would certainly support designing a framework to improve the quality, breadth and depth of information that could be collected about family businesses and the contribution they make to the broader economy.⁴⁹

47 PricewaterhouseCoopers, *Private clients family business survey*, p. 16.

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

49 Mr Yasser El-Ansary, Institute of Chartered Accountants, *Committee Hansard*, 14 November 2012, pp 16–17.

3.46 MGI Australasia also drew the committee's attention to the cost of the surveys it has conducted, their infrequency, how quickly the findings date and the small sample size that was used. Mr Des Caulfield explained:

I guess the way that we look at it is that it is an expensive exercise for us to undertake. Whilst we are a medium-sized accounting group, we are certainly not up there with the big boys. We therefore conduct a survey in detail only once every three years. The world is growing at a fairly fast rate these days...and it becomes obvious that the data can get out of date fairly quickly. We do not believe that we are in a position to fund to any greater extent than what we do, and we are very grateful to RMIT for providing their people to undertake the stuff for us. But the situation is that we are only doing this once every three years, which I believe is not often enough. Our view would be that it would be good if there could be a mechanism in place where people could be encouraged to do regular, properly research study into family business in a more significant manner than what is done at the moment. In our last survey we asked 5,000 people to respond and we had responses from about 1,000, give or take.⁵⁰

3.47 The committee asked PwC if it was confident with the accuracy of the figure that 70 per cent of Australian businesses are family businesses. Mr Paul Brassil, a partner with the firm, was frank in his response:

No, certainly not. It is a bandied-around number at the moment, which seems to have a fair bit of traction. One of the questions goes to: what is the reliability of information about family business? There are all sorts of ways of slicing and dicing it, none of which are accepted as gospel truths, but there is a consistency about it, I suppose. That is what I am getting a sense of...Is it more than half? Yes, I would have thought so. Is it 60, 65 or 70 per cent? I do not know.⁵¹

3.48 The committee probed for the reasons why official data on family businesses is necessary. Mr Michael Claydon, the Managing Director of a Perth-based corporate training business, emphasised the importance of accurate and more complete information to assist government in its decision-making. He explained:

The one thing I know is that we deal with government a fair bit in terms of funding and other things, but the government does not make decisions based on having no information. The more information you have, the better the decisions that you can make. I can confirm that most businesses who start out as individual operators would still consider themselves family businesses. You look at the impact on family: what happens when you go home? You talk about your family business constantly, because you are trying to grow it in the initial stages. Then as its gets bigger you actually just incorporate more members of the family, but you still talk about it a lot

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

51 Mr Paul Brassil, Partner, PricewaterhouseCoopers, *Committee Hansard*, 14 November 2012, p. 25.

inside the business. But from a government perspective, you cannot make decisions based on having no information. At the moment, the definition is up in the air; the number of businesses is up at in the air. But I would surmise that there would be a complete surprise about how many people actually consider themselves to be part of a family business. It would be a very high percentage.⁵²

3.49 Mr Stephen Sampson, Director of the Lionel Sampson Sadlier Group, put the case for better data collection on family businesses in terms of understanding a significant sector of the Australian economy. As he told the committee:

Because of the sector employing half the population of Australia, there is a growing need to make sure that you get good information about something so significant. I actually spoke at a conference overseas in June. It was run by IFERA, which is the International Family Enterprise Research Academy. They are all about getting information and working with academics to find out what makes this part of the market sector tick. It is critical that you get good information. Without information, you just cannot make any judgements or any determinations. For something that covers such a broad sway of the Australian economy, it is amazing that we do not have good information.⁵³

3.50 Mr David Smorgon of Generation Investments also put the case for collecting official data in terms of quantifying assumptions about the contribution of the family business sector:

...we are reliably told that today, family businesses make a major contribution to our society, although we do not have the data to put a figure to that. We are also told today that 70 per cent of all Australian businesses are family businesses—not 83 per cent as it was in 1994—and they employ 50 per cent of Australia's workforce. That is outdated data. I think those reports were done in 2006 and 2009. But, if you think about it, it is staggering that family businesses would employ 50 per cent of all Australian workers. We still do not have the facts. As a former editor of the Manchester Guardian once said: 'Comments and views are free but facts are much more expensive to obtain.' I think it is about time that the money was spent on getting the data, because we have to know. We need clear and comprehensive data, and then strategies and policies can be established where the contribution by family businesses to our society can be further enhanced.⁵⁴

52 Mr Michael Claydon, Managing Director, National Corporate Training, *Committee Hansard*, 7 February 2013, p. 22.

53 Mr Stephen Sadlier, Director, Lionel Sampson Sadliers Group, *Committee Hansard*, 7 February 2013, p. 21.

54 Mr David Smorgon, *Committee Hansard*, 14 November 2012, p. 2.

3.51 The Chamber of Commerce and Industry Queensland expressed interest in identifying the competitive advantages enjoyed by small and medium sized family businesses over SMEs generally. Mr Nick Behrens put the Chamber's view as follows:

...being a small or medium sized family owned business presents opportunities that are unique to family businesses. For example, being a family business often has a competitive advantage attributable to family values influencing business values and by being able to offer a boutique product or service that differentiates them from other market players. However, what is also clear is that there is insufficient research to inform the current discussion about the importance and significance of family businesses in Australia and their contribution to the economic and social fabric of Queensland and Australia. The current lack of qualitative and quantitative data needs to be progressively improved upon.⁵⁵

3.52 Mrs Genevieve Power, Managing Director of the Canberra-based family business Iken Commercial Interiors, suggested particular areas that needed official data to test the anecdotal evidence about family business. As she told the committee:

If the statistics could differentiate or arrange questions that would allow us all to determine small, medium and large and the sector into which they fit. Are they a public corporation? Are they a private corporation? Are they a family business? Or do they consider themselves a family business? That would then allow some long-term look at the anecdotal evidence that we all talk about—60 per cent of Australia is run by family businesses...I think that one of the ways the government could definitely help is by annual—or biannual [surveys]; whatever it is—statistical collection or by doing some core sampling of businesses.⁵⁶

3.53 The committee notes that some government departments have seen merit in collecting better data. This is of particular importance given the recommendations in chapter 2 of this report. The Department of Regional Australia, Local Government, Arts and Sport told the committee:

One of the constraints on the conversation about family business in regional Australia, as we look at it, is that there are no readily available ABS statistics on family business in regional Australia, which makes it difficult for us to speak authoritatively about the regional versus non-regional aspects of it; there is not that solid data set.⁵⁷

55 Mr Nick Behrens, Queensland Chamber of Commerce and Industry, *Committee Hansard*, 16 November 2012, p. 1.

56 Mrs Genevieve Power, Managing Director, Iken Commercial Interiors, *Committee Hansard*, 13 November 2012, p. 50.

57 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. 33.

3.54 The lack of reliable data at present was apparent from several submitters' reliance on SME data to indicate the dimensions of Australian family businesses. In reference to its submission, the RBA told the committee:

We would not profess to have any specialised knowledge on family businesses. In fact, to a large degree that is actually why we have focused on small and medium-sized enterprises: it is about availability of statistics.⁵⁸

3.55 Deloitte Private's submission refers to a CPA survey of small business.⁵⁹ It also notes that the ABS and the Australian Taxation Office (ATO) have data on household income, household expenditure, employment and business counts which is 'somewhat aligned to family business'. Deloitte Private recognised there is little data available on the extent to which family businesses contribute to Australia's GDP, employment and other economic indicators.⁶⁰ Mr David Hill, Managing Director of Deloitte Private, told the committee that the need for data collection on family businesses in Australia reflects the diversity of these businesses. He argued that government has a role to make the voice of these businesses heard by collecting reliable data on the sector. In terms of what data should be collected, Mr Hill told the committee:

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. We have highlighted a number of issues that I believe would be really interesting to know. For example, how many of them operate across state boundaries? How many of them have expanded internationally? For family businesses those two things are quite considerable constraints. I would love to know about things like their investment in R&D and their focus upon innovation. I think it is a very long list; it is a wish list. At the moment we are starting with a very minimal base. I think the other very good idea would be to go out and consult with people like David [Smorgon] and other leading family businesses to say, 'What would you like to be able to say?' and drive it from the market back.⁶¹

Farm sector data

3.56 While there is no official data on family businesses, there is data on family ownership in the farm sector. The Australian Bureau of Agricultural and Resource

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

59 Deloitte Private, *Submission 16*, pp 26–28. The *CPA Australia Asia-Pacific Small Business Survey 2011*.

60 Deloitte Private, *Submission 16*, p. 4.

61 Mr David Hill, Managing Director, Deloitte Private, *Committee Hansard*, 14 November 2012, p. 3.

Economics and Sciences (ABARES) told the committee that its farm dataset is collected through face-to-face interviews with farmers, which enables the Bureau to construct 'a comprehensive picture of the economic performance of farm businesses'. It elaborated:

ABARES's farm surveys collect some information on the ownership of farm assets and the distribution of farm profits of farm businesses. On the basis of this information, more than 95 per cent of Australian broadacre and dairy farms are estimated to be family operated, and at least partly family owned. Broadacre and dairy farms account for about 68 per cent of Australian farm businesses, and surveys conducted in recent years of vegetable industry farms and irrigated farms in the Murray-Darling Basin indicate a similar proportion of family farms in these sectors. Major challenges faced by family farms are similar to those faced by all farms in Australia, including the long-term decline in farmers' terms of trade; the important role of productivity growth to maintain cost competitiveness; the relatively high volatility in yields and prices on agricultural markets; and the economic impact of the resource boom.⁶²

3.57 The committee asked ABARES how it distinguishes between family farms and non-family farms. ABARES responded that this distinction is not made given that more than 95 per cent of all farms are likely to be family farms. However, it added:

There are issues around how we classify farms in the sense of what is family owned versus operated. I think our definition is probably closer to a family operated farm as opposed to family owned. You might very well have, for example, a farm which might be leased by a family. They are operating the business, but they are leasing the land. We might still regard that as a family farm, even though the land might be owned by someone else.⁶³

...If we were pressed we could do a segregation of family farm specific information, but, as I indicated, I do not think it would vary that much from the overall farm numbers in any case. For farming we already have a very good set of information and data on farm family businesses.⁶⁴

3.58 ABARES told the committee that the quality of the information it collects on farm statistics—of which family farm data is the substantive component—is based on the quality of its collection processes. It explained that:

For ABARES to have credibility in terms of the work we do—the analysis and research that we do—we need to have a relationship with the businesses that we are working with, and we do that in a number of ways. One is the direct relationship that we have through collecting information

62 Mr Paul Morris, Executive Director, ABARES, Department of Agriculture, Fisheries and Forestry, *Committee Hansard*, 13 November 2012, p. 39.

63 Mr Paul Morris, Executive Director, ABARES, *Committee Hansard*, 13 November 2012, p. 39.

64 Mr Paul Morris, Executive Director, ABARES, *Committee Hansard*, 13 November 2012, p. 42.

from individual farmers but we also do things like our regional outlook conferences, where we have a regional conference in each of the states and the Northern Territory each year. This is where we actually get out and talk directly to people who attend those conferences. Often we get a mix of local and rural businesses and farmers and so forth. We invite our survey participants along to those conferences for free. I think part of our social licence, our credibility, if you like, is about making sure that we have those connections with the people that we are doing analysis for and that we are providing analysis to the government on.

...I would just add that the surveys are voluntary. We invite farmers to participate in our surveys, and so I guess we do need to demonstrate value back to them for being willing to allow us to visit their properties and spend several hours collecting that information. Part of that is being able to hand back something that might help them in their business planning.⁶⁵

3.59 ABARES explained that its current survey covers 1,600 broadacre farms and 300 dairy farms. It noted that this is 'probably about the right number' to provide a statistically valid sample. ABARES told the committee that the larger the sample size, the more regional level information it can provide. The current sample of 1,600 farms allows for some state regional numbers as well as state-based information.⁶⁶

3.60 The committee was informed that the ANZ Bank and the University of Adelaide Business School are currently conducting a joint three-year study into the issues impacting the future of Australia's family-run farms. This project is focussing on succession planning for family farms, the development of options to ensure their sustainability and farmers' access to credit and appropriate financial management practices (see chapter 9). The project's researcher, Mr Andrew Harrison has observed:

Currently there are limited statistics on issues surrounding the sustainability of Australian family farms. ABARE [sic] does collect statistics on Australian farms through its annual survey but it focuses mainly on financial performance. There is a lack of data on other important issues such as succession planning. Given the fact that the farming industry is unprepared for succession and transition, more research needs to be conducted in this area.⁶⁷

3.61 The committee notes that this work is in its early stages and it looks forward to the research findings.

65 Mr Paul Morris, Executive Director, ABARES, *Committee Hansard*, 13 November 2012, p. 43.

66 Mr Paul Morris, Executive Director, ABARES, *Committee Hansard*, 13 November 2012, p. 43.

67 Mr Andrew Harrison, 'Survival of Family Farms: Capital raising and credit access', *Document supplied to the committee by Dr Chris Graves*, received 14 December 2012.

Data on trusts

3.62 Chapter 6 of this report details with the use of trust structures by family businesses. The 2010 MGI survey found that 12 per cent of respondents surveyed operated a family trust structure. This was down from previous MGI surveys (19 per cent in 2006 and 15 per cent in 2003).⁶⁸

3.63 The committee asked the ATO if it had any data on the number of family trusts currently operating in Australia. It responded:

We have some data. We do not actually have data in relation to family trusts. There is no such definition as such in terms of the data we use. But we have data in relation to discretionary trusts, and, by and large, because of the nature of discretionary trusts, they are quite likely to be owned by families, albeit they could be quite extensive families.⁶⁹

3.64 The committee then asked the ATO if it could indicate the number of discretionary trusts as a proportion of all trusts. It gave the following response:

...we have data in terms of discretionary trusts where the main source is from trading and therefore you might think of it as being a family business trust. We have about 225,000 operating, from figures in 2009–10. We have a total figure of trusts in the system of 700,000.⁷⁰

Data on culturally and linguistically diverse communities

3.65 The committee also asked the ABS whether it had data on family businesses formed by new migrants and within culturally and linguistically diverse (CALD) communities. The ABS responded:

Not directly. In the past collections focusing on immigrants per se have often been followed more by the Department of Immigration and Citizenship. That said, there is potential work on our future work program which may open opportunities. We have recently negotiated access to personal income tax information and are investigating opportunities to match that with the immigration data base so that would give potential opportunities to follow that up. That in turn could then be linked with business information where we find what businesses employ which individuals through the old equivalent of group certificates and the like. There are future analytical possibilities on the horizon but they would need to be investigated.

...The ABS Census provides information on the year they arrive in Australia, their employment, their education and the like. These details are

68 Kosmas Smyrnios and Lucio Dana, *The MGI Family and Private Business Survey: 2010*, 2010, p. 8.

69 Mr Tony Poulakis, Australian Taxation Office, *Committee Hansard*, 13 November 2012, p. 14.

70 Mr Tony Poulakis, Australian Taxation Office, *Committee Hansard*, 13 November 2012, p. 14.

collected in a detailed census to a small granular level. That can be supported with other information such as that which can be matched to immigration statistics and the like on immigration in each year.⁷¹

3.66 The committee believes that the establishment rates and contribution of family businesses from CALD communities could be an area of particular interest for government agencies. It recommended in chapter 2 that the proposed IDC consider the need to identify the number and type of family businesses established from CALD communities.

3.67 The committee also draws attention to the dearth of academic research into issues affecting family businesses in CALD communities in Australia. It believes that official data collection will spur academic interest on a range of issues relating to these businesses. This includes the owners' level of education and that of their children, the location and sector in which these businesses operate, and their capacity to access professional services such as financial advice and accounting services.

Committee view

3.68 This chapter has presented the findings of several surveys into various dimensions of family businesses in Australia. Although the nature of the research is important and the findings are interesting, the usefulness and reliability of the data is questionable. In terms of the consultancies' surveys, the sample sizes are small and the research lacks independence. Any comparison between the surveys—even those conducted by the same consultancy—is difficult given that different definitions of family business are used and their questions and methodology vary over time. While there is some ABS data, the most recent data is confidential while the BLS data is now at least 15 years old.

3.69 Nonetheless, this chapter has drawn attention to the type of issues that may be worth exploring should the IDC decide that official data on family businesses is needed. Most obviously, there is the number of Australian businesses that are family businesses. Of course, this will depend on the definition of family business: whether it is based solely on governance structures or whether it also includes an intention and/or a plan to pass the business on. The committee does emphasise that the IDC should consider the types of issues and concerns related to inter-generational transfer of wealth, and the benefit to policy makers of clear data on these issues.

71 Mr Bill Allen, Assistant Statistician, Australian Bureau of Statistics, *Committee Hansard*, 12 November 2012, p. 20.