Parliamentary Joint Committee on Corporations and Financial Services

Inquiry into Family Business in Australia

SUBMISSION BY THE AUSTRALIAN BUREAU OF STATISTICS October 2012

The Australian Bureau of Statistics (ABS) is Australia's official national statistical agency. The role of the ABS is to assist and encourage informed decision making, research and discussion within governments and the community by leading a high quality, objective and responsive national statistical service.

The ABS' enabling legislation, the *Australian Bureau of Statistics Act 1975*, establishes the ABS as Australia's central statistical authority, responsible for providing statistical services to all Australian governments, and the community more generally. It provides the ABS with the legal responsibility to lead the development and operation of the national statistical system, although we choose to do so through collaboration rather than direction.

The ABS is aware of the need for statistics relating to family businesses and acknowledges the current information gap in official statistics. The ABS' contribution to this enquiry relates largely to the structure and wording of a definition designed to identify family businesses for the purpose of the collection of statistical data.

Reference points of the inquiry

One of the points of reference for this inquiry is the desire to develop a definition of a 'family business'. While the ABS does not currently use a definition for a 'family business', the ABS is able to provide advice on the measurement implications for consideration when adopting a standard definition. In particular, it is important that any definition developed for 'family businesses' can be supported by reliable data.

Experiences with the Business Characteristics Survey

In 2004-05 the ABS, as part of its collection of information for the Business Characteristics Survey (BCS), asked respondents to report against the following question in an effort to obtain an understanding of family involvement in Australian businesses.

18 As at 30 June 2005, was this business a family business?

Definitions

- 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.

No ☐ ▶ Go to Question 20

Yes ☐

A post enumeration investigation following the 2004-05 BCS found that, despite the testing and refinement of the 'family business' question that took place prior to the collection, there were quality issues with the data collected. Possible reasons for this included:

1. The definition is narrow as it specifies that family members must be owners AND they must be involved in the strategic direction. Many 'family businesses' may not fit both of these criteria.
2. The definition of family members is not defined. Does 'family' cover the immediate or extended family and include members who have married into the family or are in de facto relationship?

3. The answer may not be accurately known by the person (e.g. accountant or business manager) responsible for completing the ABS questionnaire.

The ‘family business’ question was removed from the BCS form after the first iteration of the survey, along with several others, and replaced with questions more focused on business characteristics which demonstrated a stronger relationship to productivity and performance.

The ABS 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.

At this meeting FBA acknowledged that the question used in the 2004-05 BCS form did not collect ‘fit-for purpose’ information and proposed a number of questions which, they believe, could accurately identify family businesses. 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.

The BCS is currently at capacity in terms of available resources, content and acceptable provider load. As a result, new questions cannot be added unless other content of similar complexity, length and cognitive load is removed. In addition, consultation with the key users of the statistics continue to indicate that while family ownership would be an useful indicator for analysis, it is relatively low in priority compared to existing content.

The FBA has acknowledged that the ABS is unable to undertake the work required to enable the inclusion of family business questions on the BCS at this point in time but is keen to seek additional funding to support other collection activity.

Sole proprietors

All legal entities on the ABS Business Register (ABS BR), the list from which ABS business surveys are selected, are classified according to their ‘type of legal organisation’. At June 2011, of the 2.1 million actively trading businesses in Australia, 22% were classified as sole proprietors.

The treatment of such businesses will need to be considered when formulating a definition of a ‘family business’.

Consistency with the definition of a business

The ABS has experience in assisting the community to develop definitions suitable for use in the collection and dissemination of statistics.

For example, recently the ABS was involved in developing the definition of an Aboriginal and Torres Strait Islander-owned businesses. The process is outlined in the following papers;

1. Defining Aboriginal and Torres Strait Islander-owned Businesses, 2010 (cat. no. 4731.0), and
2. Information Paper: Defining Aboriginal and Torres Strait Islander-owned Businesses, Australia, Feb 2012 (cat. no. 4732.0)

These papers acknowledge that, to support the collection of statistical information to inform decision making, the creation of an unambiguous definition is essential. In this instance, ABS recommended that the definition of an Aboriginal and Torres Strait Islander-owned business align to the ABS definition of a business as defined in the Counts of Australian Businesses

including Entries and Exits (cat. no. 8165.0):

"A business is a legal entity engaging in productive activity and/or other forms of economic activity in the market sector. Such entities accumulate assets on their own account and/or hold assets on behalf of others, and may incur liabilities. Excluded are the economic activities of individuals (except where individuals engage in productive activity either as sole traders or in partnership) and entities mainly engaged in hobby activities."

This ensured that all reported data on an Aboriginal and Torres Strait Islander- owned business will:

1. be a subset of the approximately 2 million small-to-medium sized businesses on the ABSBR;
2. exclude most community organisation as they are not part of the market sector; and
3. exclude individuals/groups who are not registered as businesses and are therefore not legal entities.

These criteria may or may not be appropriate for family businesses. Nonetheless, the learnings from the process of developing a definition for Aboriginal and Torres Strait Islander-owned businesses could be applied when developing an appropriate definition of a family business.

Defining Ownership

Considering the issue of ownership and 'operational control' is also relevant to discussions relating to the definition of business 'type'. In the indigenous business context the term 'majority ownership' was used to link the concept of 'ownership with the concept of 'control'. Consequently by using this definition, businesses with an ownership split exactly 50:50 between indigenous and non-indigenous owners are excluded (as are businesses where there is significant minority indigenous ownership).

For other purposes, such as the foreign ownership of land in Australia, other thresholds for establishing ownership have been used. An appropriate, but measurable concept of ownership should also be considered when formulating a definition for a 'family business'.

Conclusion

While the ABS does not currently have a definition of a family business it does have the experience and knowledge required to develop a definition which can later be used in the collection and dissemination of statistical information to support decision making. Currently the ABS has no capacity to undertake this work but is willing to provide advice should another agency take on this project or additional funding for the ABS become available.

In relation to the collection of statistical information on family businesses the ABS has no capacity, at present, to expand the Business Characteristics Survey to include questions on family businesses; and stakeholder consultation has not identified this area as an area of priority information need. However, if a definition could be agreed upon and funding provided for the development and collection of robust statistical information, the ABS does have the expertise to develop a collection vehicle to support the collection of the information requirements.

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