

## Insolvency inquiry shows too many SMEs leave seeking help too late

Small businesses facing financial difficulties are leaving it too late to seek help. This is one of the initial findings of a discussion paper released by the Small Business Ombudsman Kate Carnell on December 20.



Kate Carnell, Small Business Ombudsman

The paper forms part of the ongoing Insolvency Practices Inquiry that was set up to develop a best-practice framework for small-to-medium enterprises who experience financial issues. It is seeking feedback from both small businesses facing insolvency and from insolvency practitioners.

More than 300 small businesses have shared their experiences to date and Carnell says the inquiry has heard a “vast number of harrowing small-business stories, shining a light on the failures of the insolvency system as well as the challenges faced by industry professionals”.

“The overwhelming experience of small businesses has been a loss of control, costs that strip the value of a business and a lack of transparency throughout the process,” Carnell says.

“We also appreciate the constructive feedback we’ve had from insolvency practitioners, industry groups, lawyers and financial advisers. They have sent the clear message that small businesses experiencing financial difficulties are often leaving it too late to seek help.

“What we know is the sooner small and family businesses get help, the more likely it is they can achieve a turnaround or restructure.”



Jirsch Sutherland National Managing Partner Bradd Morelli

Jirsch Sutherland National Managing Partner Bradd Morelli agrees that the sooner businesses seek help the better, but appreciates admitting help can be difficult.

In a [recent JS Matters article](#), Morelli wrote that when businesses are in trouble, “often there might have been options but by the time they seek help, those options are off the table... if early help is sought, then at least businesses have an understanding of options and can make an informed decision.”

Morelli says one of the main causes of small businesses getting into financial difficulties is poor management around cash flow and not focusing on quickly implementing required changes. “Circumstances can change and often business operators don’t make changes such as cutting costs or reducing staffing rapidly enough, which can damage the business,” he says.

“To assist their clients, accountants could be ensuring they have regular conversations with them, especially if they suspect they are struggling. This way, plans can be put in place early on to make sure they are meeting their financial obligations. It can be difficult to ask for help but understanding your accountant or lawyer is there to help you can make all the difference to your state of mind and financial outcome. It really helps SMEs to know they don’t have to go it alone if they’re struggling.”

## **Should SMEs undergo business education?**

One of the questions in the December discussion paper concerned mandatory education. Specifically:

Should it be mandatory for individuals seeking to be directors of companies to undertake core education on running a business and the potential risks of personal exposure to liabilities before being eligible for appointment?

“The imbalance of knowledge is particularly evident in the mismatch of the small business owners’ expectation of turnaround and the reality of the financial state of their business,” the

paper said.

The report calls for feedback on whether Australia should introduce compulsory training before an individual either registers an Australian Business Number or starts as a company director.

Carnell says she hasn't formed a clear view yet on whether this is the best course of action given the curb it could place on innovation.

"That said, the ramifications of trading insolvent are very real and some people really just didn't have good knowledge," she says.

The industry body ARITA (Australian Restructuring and Turnaround Association) [has backed the compulsory education idea](#) with its CEO John Winters saying while he's not suggesting it should be a university course "many go in without properly costing or having a proper business plan in place".

Morelli agrees that those wanting to start a business should undergo compulsory business training. "Currently there's no requirement for any level of training, especially at the smaller end of business. As a result, many directors are unaware of their obligations and the risks and pitfalls in running a business.

"Training is vital for business operators to understand their obligations and personal risks – also to understand that the company's bank account is not their bank account."

The final Insolvency Practices Inquiry report will be released in March 2020.