Small businesses dominate insolvency statistics

ASIC's annual report into corporate insolvencies shows small businesses continue to be more likely than larger organisations to go bust.

Insolvency statistics: External administrators' reports (July 2015 to June 2016) summarises information from 9465 reports, which ASIC received from external administrators during the 2015–16 financial year.

The findings show 86 per cent of failed companies had estimated assets of $100,000 or less and 46 per cent had estimated liabilities of $250,000 or less. The figures are broadly in line with the previous financial year's numbers.

Of the businesses that collapsed, 79 per cent had fewer than 20 employees.

Jirsch Sutherland Managing Partner **Sule Arnautovic** says small businesses are more likely to become insolvent largely because they are difficult to run.

Sule Arnautovic

"Not all small-business operators have the appropriate training or knowledge of what is required to operate a lawful and successful business," Sule says. "These small businesses are mainly undercapitalised and unable to sustain themselves in periods of cash-flow constraints."

The findings also show that creditors received little in the wake of these collapses with 97 per cent receiving between 1-11 cents in the dollar, reflecting the asset/liability profile of small-to-medium corporate insolvencies.

Sule says subject to litigation recoveries (insolvent trading for example) from the owners of the small business, it is rare that any significant dividend is paid to ordinary unsecured creditors from small-business failures.

"This is because small businesses own very little unencumbered assets and the costs to run an insolvency process, even on a small business, usually outweigh the value of such assets," he says.

Industries with the most lodgements were:

- Other (business and personal) services – 31 per cent or 2889 reports
- Construction – 21 per cent or 1964 reports
- Accommodation and food services – 10 per cent or 928 reports

The top three nominated causes of failure were:

- Inadequate cash flow or high cash use (4318 or 46 per cent of reports)
- Poor strategic management of business (4315 or 46 per cent of reports)
- Poor financial control including lack of records (3183 or 34 per cent of reports)

Most reports related to companies registered in NSW (3618 reports or 38.2 per cent), followed by Victoria (2432 reports or 25.7 per cent) and Queensland (1930 reports or 20.4 per cent).