

17 July 2015

Business set-up and closure in Australia  
Productivity Commission  
GPO Box 1428  
CANBERRA CITY ACT 2601

### **To Whom It May Concern**

We wish to make a submission drawing on collaborative research between Griffith University and the University of New South Wales<sup>1</sup>. The research was funded by CPA Australia under a Global Research Perspectives Program grant and it investigated the effectiveness of undertaking due diligence prior to starting up or purchasing a small business or franchise. We have attached the full report to this submission.

Of particular relevance to the current Inquiry are the following issues that our research revealed:

- The act of undertaking appropriate due diligence is regarded as good business practice for all prospective small business owners.
- However, many people who are entering business for the first time are unaware of the meaning of 'due diligence' and/or how to conduct effective due diligence.
- Prospective franchisees tend to undertake more thorough due diligence than prospective independent small business owners. This is most likely due to the regulatory framework surrounding franchising, whereby some aspects of due diligence are actively encouraged.
- Most first-time small business owners undertake relatively unsophisticated forms of due diligence which they later regret when they develop more business experience and acumen.
- Most people enter business for emotional as well as financial reasons. Hence, their objectivity in conducting due diligence may become clouded and subjective.
- In the case of franchising, a Disclosure Document is required to be provided to a prospective franchisee 14 days prior to entering a franchise agreement (or at the time of making a non-refundable payment in relation to the franchise). However, 14 days is not enough time to undertake effective due diligence and, therefore, prospective franchisees may neglect to undertake sufficient research.
- As due diligence occurs prior to commencing a business, it needs to be self funded outside the financing arrangements for purchasing or starting up the

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<sup>1</sup> The research team also included Professor Scott Weaven and Mr Anthony Grace (Griffith) and Assoc Professor Binh Tran-Nam (UNSW).

business. The research revealed that access and availability of sufficient funding may pose a significant constraint to thorough due diligence.

Yours sincerely

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