

Family Business News



A newsletter for the family business sector

“It has been my observation that most people get ahead during the time that others waste.”

– Henry Ford,
Founder, Ford Motor Company

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Superannuation

Paul Rafton, Executive Director – Superannuation, BDO Kendalls (QLD)

It is vital that individuals closely monitor their superannuation contributions to ensure they do not exceed either the Concessional Contributions (CC) Cap or Non-Concessional Contribution (NCC) Cap.

Those particularly at risk of exceeding the new reduced caps are clients who have more than one employer, with each making contributions unaware of the other employer's superannuation contributions on behalf of the same individual.

Superannuation guarantee

In light of the reduced concessional contribution caps for 2009/2010, employment agreements should be checked to ensure employment contracts do not force an employer into paying 9% (the SG rate) of an employee's salary into Super and potentially breaching the \$25,000 annual concessional cap (\$50,000 transitional cap for those over 50 years of age).

The maximum contribution base for **2009/2010** is \$40,170 for each quarter (\$38,180 per quarter 2008/09).

Therefore, the maximum SG obligation an employer is required to make in 2009/2010 is \$14,461.20 (**\$40,170** maximum contribution base x **4** quarters x **9%** SG rate).

For example:

A 48 year old person receives an ATI of \$300,000 in 2009/2010 and has an employment contract that requires the employer to pay 9% of their ATI (\$300,000 x 9% = \$27,000) as superannuation contributions; the employer would be obliged to pay \$27,000 as superannuation contributions, regardless of any excess contribution tax consequences for the individual. However, the maximum SG obligation for 2009/2010 is \$14,461.20.

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Expenses

Expenses paid by other entities (eg. Employer or Member) on behalf of a superannuation fund during the year are required to be taken up as contributions at year end. Under the new reduced caps an individual can unintentionally exceed the contribution caps and trigger excess contributions tax.

For example:

- An individual pays life insurance premiums on policies owned by a superannuation fund.
- An employer pays the superannuation fund's administration fees in error.

Case study

Luke is 48 years and will draw a salary of \$300,000 from his consulting company for the 2010 financial year.

Luke makes a personal Non-Concessional Contribution to the Fund of \$450,000 during the 2010 financial year.

Each month Luke's book-keeper makes a contribution of \$2,250 to his Self Managed Superannuation Fund (SMSF), being 9% of Luke's monthly salary.

Luke is also a member of two boards and is paid annual directors fees of \$13,000 and \$15,500, which Luke has instructed to be paid as salary sacrifice direct to his SMSF in the 2010 financial year.

Luke's company pays \$10,000 of expenses on behalf of his SMSF during the 2010 year.

The taxation impact on each of the above mentioned contributions is illustrated in the table below.

CONTRIBUTION	INCOME TAX	AMOUNT COUNTED AS CC	AMOUNT COUNTED AS NCC	EXCESS CC TAX	EXCESS NCC TAX	TOTAL TAX
NCC \$450,000	0	0	\$450,000	0	0	0
Employer \$27,000 (\$300,000 × 9%)	\$4,050 (27,000 × 15%)	\$27,000	\$2,000	\$630 (\$2000 × 31.5%)	\$930 (\$2000 × 46.5%)	\$5,610
Director's Fees \$28,500	\$4,275 (\$28,500 × 15%)	28,500	28,500	8,977.50 (28,500 × 31.5%)	13,252.50 (28,500 × 46.5%)	\$26,505
Fund Expenses paid by Company \$10,000	\$1,500 (\$10,000 × 15%)	\$10,000	\$10,000	\$3,150 (\$10,000 × 31.5%)	\$4,650 (\$10,000 × 46.5%)	\$9,300
Total Tax Payable						\$41,415

NB: Because Luke has already accessed his CC and NCC caps, his Director fees of \$28,500 paid to the Fund as salary sacrifice, will be taxed at 93% (\$26,505) and Fund expenses of \$10,000 paid by the company will also attract tax of 93% (\$9,300).

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Article summary:

Contribution Caps from 1 July 2009

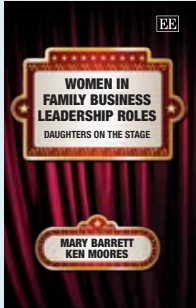
	INDIVIDUALS <50 YEARS OF AGE	INDIVIDUALS >50 YEARS OF AGE
Concessional Contribution Caps	25,000	50,000
Non-Concessional Contribution Caps	150,000	150,000

There is the option to bring forward three years of Non-Concessional Contributions (\$450,000) up until age 65.

* Excess contributions tax of up to 93% can apply if caps are reached.

Recommended Family Business reading

***Women in family business leadership roles* by Mary Barrett and Ken Moores**



BDO Kendalls is a proud sponsor of the research conducted for this book, which demonstrates women's entrepreneurial leadership. Thirteen international cases have been included in the research on the challenges that women have faced in traditionally conservative family business environments. The research focuses on the patterns of success and failure, and analysis on whether this is the result of gender or other factors.

Insights are provided on growth and sustainability, dynamic leadership, and a desire to achieve and succeed.

Related books



Women in family business – What keeps you up at night?

by Patricia Annino, Thomas Davidow & Cynthia Harrison



Women and the leadership Q – revealing the four paths to influence and power

by Shoya Zichy



Family Business Succession: The Final Test of Greatness, Second Edition (Paperback)

by Craig E. Aronoff, Stephen L. McClure & John L. Ward



Strategic Planning for the Family Business: Parallel Planning to Unite the Family and Business (Hardcover)

by Randel S. Carlock & John Ward



Perpetuating The Family Business: 50 Lessons Learned from Long Lasting, Successful Families in Business (Hardcover)

by John Ward

Understanding individual behaviour in family business

Justin B Craig, Associate Professor of Entrepreneurship and Family Business and Viki Bitsika, Associate Professor School of Health Science and Medicine, Bond University

Part 1

For individuals to operate effectively in the family business environment, diverse relationships must be managed. In order to minimise conflict, individuals need to be aware of the way they interact with members of their family in a variety of work and family situations. However, to date, the family business literature has not addressed this in detail. When people in family businesses are the focus of research, the theories of individual motivation, decision-making, and group behaviour applied to them are often oversimplified (Kets de Vries, 1996). It is rare that the processes that interventionists who work with individuals in family businesses have been developed with scientific precision (Habbershon & Pistrui, 2002). To address this oversight, this exploratory study focused on individual functioning in family businesses. Specifically, causal explanations using functional assessment techniques

based upon theory developed by Skinner (1938, 1953) and formulated more recently into Valued Outcomes Analysis (VOA) (Bitsika, 2003) are introduced.

Analysing behaviour via functional analysis

To analyse behaviour, it is necessary to understand its function. That is, the outcomes or consequences that are produced by the behaviour (Bitsika, 2003; Groden, Groden, & Stevenson, 1997). Functional assessment is a process that has been developed and refined to help understand the purpose of behaviours that limit effective functioning in a variety of populations and settings. Functional assessment is “a systematic process for understanding problem behaviour and the factors that contribute to its occurrence and maintenance” (Sugai, Lewis-Palmer & Hagan-Burke, 2000, p.149), and refers to “the activities involved in describing and formulating hypotheses about potentially controlling variables and is the process of identifying establishing operations, antecedent variables, and consequent events that control behaviours” (Sugai, Horner & Sprague, 1999, p. 253). Thus, it is the basis for investigating the ‘when’, ‘where’, and ‘why’ behaviours do and do not occur in particular

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situations and allows for the defining of variables that maintain behaviours prior to the construction of an intervention (Carr & Durand, 1985). The focus, therefore, is on environmental events in functional assessment. These include antecedents, consequences, and setting events. Because of this, intervention is not centered on “managing” or “controlling” but on redesigning the environment and building new skills that make the previous behaviour irrelevant, inefficient, and ineffective in that environment (Horner & Carr, 1997). Antecedents and consequences can be divided temporally and labeled ‘distal’ and ‘proximal’ events (Cone, 1997).

Valued outcomes analysis

Valued Outcomes Analysis (VOA) is an extension of functional assessment and offers a basis for conducting an in-depth analysis of setting events, antecedents and consequences. Broadly stated, VOA introduces the degree to which the individual values the consequence that results from his/her behaviour (Bitsika, 2003). VOA suggests that behaviour is best understood when effort is made to pinpoint the multiple and specific internal and external outcomes which impinge on functioning. The functional analytic literature has produced seven possible function labels that can be assigned to behaviour in order to understand its purpose by asking a number of questions about the specific changes that occur after the behaviour (e.g., “what are the specific internal and external reinforcing events arising from the behaviour?” “Where is the person when these reinforcers come into play?” “is there another person or group involved in the process of the person gaining access to specific reinforcers?” and, “how does the presence of these specific reinforcers enhance coping ability?”). The seven function labels are: (1) Escape, (2) Avoidance, (3) Access to preferred activity, (4) Attention change in others’ social reaction, (5) Change in internal state (emotions), (6) Change in internal state (sub-vocalisation/images), and (7) Change in internal

state (physiological status) (Bitsika, 2003). Classifying consequences of behaviour into these (function label) categories provides a basis for investigating the valued outcomes which drive the individual to repeat behaviour over time.

VOA, therefore, “moves the focus of the behavioural investigation away from analysing environmental variables to systematically exploring individual-environment interactions and the manner in which the individual experiences the consequences of his/her actions” (Bitsika, 2003). We proceed to illustrate the effectiveness of using VOA to understand individual functioning in family businesses by using a single-case design study of behaviour that involved collecting and interpreting information from an individual from a second-generation family business.

Case example

The participant was a second-generation family business in the retail industry, founded in 1972. Three years previous, due to a downturn in the economy, the business was in financial difficulty and almost placed into liquidation. The founder of the business negotiated with his suppliers and financiers, and as a result of his good standing and successful track record over many years, they supported him and he restructured the business and it was again profitable. This had come at a cost to his health and he was in the process of reviewing his priorities. He had had a turbulent relationship with his only son over many years. His son had worked in the business for several years but was, at the time of the study, not involved in the business in an operational role. The founder’s only daughter married two years prior and her husband had joined the business in an executive role, albeit part time because he had other business interests. The founder and his wife owned the business. The two offspring did not have any equity in the business.

The founder was reaching a stage when he wished to exit the business, or at least redefine his role, while his son and son-in-law wanted to prove themselves in the business. The founder’s wife wanted the best for her husband, her son, and her newly married daughter. Relationships between the family members were strained because of the influence of the business. The founder had multiple roles as the CEO, the Chairman of the Board, and the head of the family. The son of the founder agreed to be involved in this study.

Part 2 of this article will be published in the next edition of Family Business News and will cover analysis and intervention and the implications.

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Succession: Caught in the middle

Lyall Bear, Director, BDO Kendalls (WA)

The transition of business leadership from father to son or daughter can present painful and seemingly insoluble family business problems. And when it does, the person who suffers most is often the mother of the daughter or son versus wife of the father. The two most important people in her life are hurting each other.

For example, with a son the two mindsets of the mother/wife could be something like this:

As Mum

- I'm so proud of my son; he is bringing so much to the business. He wants to do what he thinks is right for the business.
- My son keeps complaining to me, and to my daughter-in-law, that he's frustrated – that his father can't "let go".
- It seems I see less and less of my son and his family. The relationship between him and his father is getting very strained. They're avoiding each other.

As Wife

- His aggressiveness and eagerness to do his own thing are making him push my husband out of the business. My husband doesn't feel appreciated, needed.
- I don't want my husband feeling unimportant and lonely and moping around the house. That's not good for either of us.
- I'm really torn. I know my husband still has so much to offer if he were only asked and respected. He has been in the business 30 years! And I think he has a right to hold onto most of his shares. After all, he built it all.
- They both complain to me about each other. Wise friends tell me not to get caught in the middle – don't make a communications "triangle," they say. My husband and son must learn to work it out between themselves... and I'm the one getting all the stress. They need to talk to each other, listen...

We see this no-win emotional dilemma much too often. Rarely do business-building parents find new careers to rush to, leaving a competent heir to his or her own show. If that were the case, offspring would be begging for advice from "too busy" parents, rather than trying to push them out of the way.

We agree with the realisation in this story that mums/wives can get themselves entrapped in triangles of ineffective communications. What to do? Some who are caught in the middle develop the personal strength to avoid being drawn in, and tell each of their men, "I'm sorry you feel you have this problem with the other. But you have to talk directly to each other about it!"

Some "mums" even successfully "conspire" with daughters-in-law so that the message comes through twice as strong. In this way, each can emphasise some tolerance and patience... and can coach her man on better expression of their feelings directly to one another.

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Article summary

- The transition of business leadership from father to son/daughter can cause family problems
- Difficult for mum/wife not to get involved, however important not to get entrapped in a triangle of ineffective communication
- Daughter in laws can assist in coaching their man to better express their feelings emphasising patience and tolerance

2009 National Family Business of the Year Awards

The 2009 Family Businesses of the Year Awards held in Darwin, NT were extremely successful with tough competition for all categories. The judging criteria included, family business best practice, performance, professionalism and community service.

First generation

Innovation & Entrepreneurship award

Era Publications (South Australia)



When Rodney Martin, who was once a teacher, realised that teaching materials had more effect on children's learning than the curriculum, he became a publisher, benchmarking his products against world-class multinational companies. He and his wife Sandra founded Era Publications in 1977.

Sandra and Rodney sold their home to invest in new products

and acquire a commercial property which doubled as their family home for 4 years. Their children grew up in the business premises – and now both work in the family business.

Era addresses the imbalance of students' cultural values being subjected to the content of English and American texts. They take pride in exporting Australian culture and educational expertise to the rest of the world.

Era's philanthropy focuses on life improvement through literacy. They provide shipments of free books to children in South African shanty towns and the Pacific Islands, publishing advice and services to the East Timorese Government and donate to local charities supporting street children, families in need and schools affected by disaster.

Second generation

Formalisation and Growth

T & T Corporation Pty Ltd (Queensland)



In 2003, Peter & Gay Taylor purchased a small building company – Townsend Building Services, initially to ensure that they had a retirement free of money concerns. Their three children, Natasha,

Justin and Brendon joined the company soon after and with their help; T & T Corporation has experienced impressive growth each year. Now with three business streams, managed respectively by Natasha, Justin and Brendon, Peter and Gay provide an overarching support function.

T & T Corporation provides project management services to both.

the Insurance Industry and Queensland Dept of public works, with offices in Cairns, Townsville, Mackay, Sunshine Coast, Brisbane, Toowoomba, Gold Coast and Newcastle. T & T Corporation prides itself on quality workmanship, timeliness, efficiency, honesty and is focused on exceeding customers' expectations.

Third Generation

Business Renewal

Dyson Group of Companies (Victoria)



Laurence Collins Dyson migrated to Australia alone from Yorkshire at the age of 18. During the great depression, Laurie carted milk for a living. During this time, he astutely noted the opportunities in the transport industry. Following ownership of a service station and a repair shop, he built upon his experience and in 1952 at the age of 48 he founded the Dyson Group. His ultimate intention was to provide job security for his family to ensure that they were never unemployed. Laurie started the business with just "four clapped out buses", two drivers, a mechanic and a fierce determination to see it grow and succeed. His resolve remains evident today, living within subsequent generations who share in his values, ideals and passion. Today, Dysons has grown to a fleet of 370, with 700 employees spread over eight locations. Despite the company's exponential growth, Laurie's objective remains paramount; the business retains its strong family-based framework by offering job opportunities to relatives, ensuring it remains as it started: a family business.

4th Generation and Over Sustainability into the Future.



Lionel Samson Family Group (Western Australia)

Lionel Samson Group is believed to be one of Australia's oldest continuing family run businesses having been founded by Lionel Samson in 1829.

Lionel and William Samson arrived in Western Australia in August 1829, and purchased land in Fremantle to establish a general store, liquor business and general import-export business. They secured the first liquor license in Western Australia, which remains current today. During the 1830s and 1840s, L&W Samson were major exporters of Western Australian livestock and produce to Mauritius, Singapore and China.

When William left the business, Lionel formed Lionel Samson & Son with son Michael. Upon Lionel's death, the company continued as merchants and agents for numerous local and international brewers. Lionel Samson & Son benefited considerably from the Western Australia gold rush in the 1890s, supplying the goldfields with essential supplies.

The company acquired a majority interest in R.C Sadleir Pty Ltd in 1939, when it was solely a wharf cartage business. In the mid 1950s it was expanded into interstate road transport, and grew with the introduction of standard gauge railway to Western Australia, becoming an interstate rail forwarder. In the 1990s, Sadleirs Transport made a number of acquisitions to support the growth of the Sadleirs International freight forwarding arm.

Plantagenet Wines, the oldest winery in the Great Southern region of Western Australia was subsequently acquired.

More recently, the two operating arms – Lionel Samson & Son and Sadleirs Transport have been brought together under a newly formed 'peak' Board.

The company thrives on innovation, seeking opportunities, teamwork and accountability.

Jason Lea Award

Dial an Angel (NSW)



Dena Blackman founded DIAL AN ANGEL in 1967 and grew her business from a one-person, one-telephone office in Lindfield to 11 offices nationwide, four of which are franchises. This fourth generation family business now employs around 50 full-time staff with over 10,000 registered Angels.

DIAL AN ANGEL is Australia's only national agency specialising in home and family care.

Over the years the services offered have grown to include domestic housekeeping and cleaning, child care, babysitting, nannying, in-home nursing, care of the frail and disabled, in-home aged care, garden and home maintenance, pet care, assistance with corporate events and home functions as well as a Corporate Services Department for many major companies who provide their staff with work-lifestyle initiatives.

Dena was inducted into the Businesswomen's Hall of Fame in 1999. She was a finalist in the prestigious Verve Cliquot Award in the late 1980s and a finalist in the Business Owner Section recognised at the Telstra NSW Business Women's Awards in 1998,

BDO Kendalls Family Business Profile



Robert Powell

Robert is a Director in BDO Kendalls' Sydney's Private and Entrepreneurial Client Services division. He has been a Chartered Accountant since 1982, and has worked in the business advisory, audit and taxation consulting areas for a number of large accounting organisations.

Robert has been with BDO Kendalls and its antecedent firms since 1990, and has been a partner since July 1995. Robert is an accredited Family Business specialist who has been responsible for developing Family Constitutions and facilitating Family Council meetings, is an Advisor Member of Family Business Australia and an accredited Mediator with the Australian Commercial Disputes Centre. Robert has a particular interest in providing structuring advice to family groups and small/medium enterprises. He is a regular presenter on topics affecting family businesses and the SME sector in Australia. In June 2009 he facilitated workshops in all capital cities on behalf of the Federal Government on the topic of the Global Financial Crisis. Most recently he presented to professional groups in Sydney and Melbourne on the subject of Family Business Governance.

“... he is an acknowledged
spokesperson on SME
issues...”



BDO Kendalls has FBA Accredited Advisers who provide a national consulting service to family businesses. Our advisers/consultants are experienced and appreciate the complexities of the business and the needs of the family. This experience is underpinned by the BDO process, a best practice methodology for family businesses.

BDO Kendalls' Family Business team is here to help, so please contact us at your nearest office or visit our website www.bdo.com.au. We can then send you further information or arrange an appointment at a convenient time to discuss how we can help you in managing your family business issues more effectively.

Q&A

Share ownership

Question

My son has been running our family business for the last five years and we have two daughters in the business too. The question of share ownership has been raised recently and my husband and I feel that it is too early to relinquish control. Could you please give us your thoughts on this difficult issue?

Answer

Ownership succession is made more difficult by taxation and potentially stamp duty issues. Through your accountant, you should understand all the taxation implications of transferring shares from the current ownership to next generation family members. However, your professional advisers will encourage you to retain control of all of your assets whilst you are alive and this will include the ownership of your shares in the family company. You should also be mindful of the need for flexibility in your wealth strategies. A compromise that may be acceptable to you initially is to sell small portions of equity to your son, in particular, at full value. The valuation mechanism for this transaction should be provided in the Shareholder's Agreement, which sets out options about how to exit the company and for what price. There will be other procedural issues covered in that Agreement also.

For your son to acquire some shares, he may need to borrow from a bank or other financial institution. To do this he may have to mortgage his house or provide some other security. This process will ensure that he has the commitment and responsibility to fulfil the goals of the company, which probably includes growth and profitability. To assist him to be able to repay his borrowings, the company should establish a dividend policy, which will ensure that he gets certain financial dividends on a regular basis. The cash flows of the company need to be managed efficiently to ensure that those funds are available to meet the dividend payments. In this way you will also be available to measure your son's progress in the business and his maturity in being able to handle directors at board meetings.

In time, you will need to consider the position of your daughters with regard to share ownership and whether their long-term aspirations are with the company or some other pursuit. However, you must be very careful not to trigger significant capital tax consequences for yourselves particularly as you approach the control threshold. Small business CGT concessions may provide relief here depending on the facts of your case.

Bruce Hatcher

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Diary dates

Family Office Congress – Shangri-la Hotel, Sydney

3-4 December 2009

To register: www.dealergroup.com.au

BDO are proud sponsors of the 2nd Annual Family Office Congress.

The Family Office Congress convenes the world's best practice experts together with some of Australia's leading family offices. The Congress brings together families facing succession and wealth preservation challenges with the very best private client advisers from a range of disciplines including tax, law, investment, business, estate planning and organisational psychology.

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We want to hear from you

Your feedback is important to us. If there are any topics that you would like addressed in Family Business News, please send your request through to marina.skinner@bdo.com.au

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