

Family Business News



A newsletter for the family business sector

People become really quite remarkable when they start thinking that they can do things. When they believe in themselves, they have the first secret of success.

– Norman Vincent Peale, Author, *The Power of Positive Thinking*

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Protecting your business from failure

Andrew Fielding, Partner, Business Recovery & Insolvency, BDO Kendalls (QLD)

Owning and operating your own family business can be a rewarding experience, however, the current financial environment provides you with many challenges:

- decreasing margins to win work from competitors;
- rapid sales growth placing pressure on old accounting and business systems;
- pressure from suppliers and the Australian Tax Office to pay debts;
- financiers refusing to increase loans or overdraft limits on accounts;
- customers leaving, refusing to pay or delaying payments;
- large marketing budgets of competitors drowning out your product's message, making winning work all the more difficult;
- increasing operating costs such as fuel, stock, raw materials, or leases;
- drowning in red tape, filling out forms such as BAS, IAS (PAYG), super, payroll tax, fuel rebates, license fees, income tax returns and financial statements;
- key personnel leaving and difficulty replacing staff; and
- employees or owners wanting to retire from the business.

Dealing with these challenges can be very time consuming and costly, impact on your cash flow and in some cases, threaten the very survival of your business. The key to surviving these business challenges is to recognise the stress signs early and seek the appropriate professional advice. Trying to solve the problems on your own may sound like the cheaper solution, however, will limit the options available to a professional who is later retained to try and help save your business.

There are a number of strategies you can employ to help your business survive, including:

- rejecting work that is not profitable;
- revising margins on products to cover overhead costs;

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- preparing a rolling 12 week cash flow to help you understand the timing of your income and expenses and payment of accounts;
- debtor insurance or debtor finance;
- stock only the products that your customers are buying regularly and sell obsolete stock quickly to generate cash;
- ensuring your credit applications are in order and invoices include retention of title clauses to recover stock in the event a customer defaults;
- ensuring your customers operate within their trading terms;
- maintain and replace machinery earlier to avoid increased maintenance costs towards the end of its life;
- communicate with your key stakeholders regularly (banks, suppliers, the ATO, customers), so that they may be more inclined to help you when times are tough;
- regularly review systems, software and procedures for any improvements;
- target customers who can reciprocate with work for you; and
- prepare a business plan that includes a detailed marketing program and succession plan.

Implementing these strategies is not always easy and can often be time consuming. If you do nothing else, you should implement the strategies aimed at improving your cash flow.

BDO Kendalls Business Recovery and Insolvency team specialises in consulting and managing financially distressed businesses and can assist you with practical advice to help your business succeed.

For further information contact andrew.fielding@bdo.com.au, your local BDO Adviser or visit www.bdo.com.au

Article summary

Key business strategies

- Prepare a business plan that includes detailed marketing program and succession plan.
- Regularly review systems, software and procedures for any improvements.
- Review inventory and sell obsolete stock quickly to generate cash.
- Reject non profitable work.
- Revise margins to cover overheads.
- Prepare a rolling 12 week cashflow.
- Ensure customers operate within trading terms.
- Consider debtor insurance or debtor finance.
- Maintain and replace machinery earlier to avoid increased maintenance costs.

Lessons in hindsight

Governance – conflict and non-family management

A 100 year old 6th generation manufacturing family business provides lessons for all family businesses.

The Business had a non-family Managing Director (MD). Traditionally the family members of the business had a reputation of mistreating each other. The family had divided into three branches, each with their own agenda. Each branch of the family tried to influence the MD for their own benefit. A lack of governance and conflict between the families created an impossible situation for the MD. An external adviser was consulted to assist the family and the business.

The family agreed to appoint another external MD in an effort to work together for the future benefit of the family and the business. In rapid succession the business went from one MD to the next due to the families' resistance to change. As MD's tried to implement strategies that would turn the business around, the family would overrule the proposal with the catch cry 'That's not how we do things around here.'

As the family felt they knew the business and what was needed better than any outsider they decided to run the business themselves. The business declined as family members did not have the business acumen, experience or vision to take the business forward in a rapidly changing market. The attributes of past success were no longer serving them for the future. They had become out-dated in their thinking, reluctant to change from traditional methods of production to new technology. Experience had also caused them to mistrust external non-family in senior management.

For the business to prosper it would be necessary to modernise and professionalise. The first step may be for the family to recognise they need governance structures in place and an MD they can trust, listen to and support, or consider a managed sale of the business before it is too late.

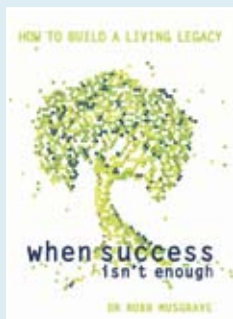
For further information contact your local BDO Adviser or visit www.bdo.com.au.

Learning points

- Governance structures can provide the correct forums for family in business to make and manage decisions.
- External non-family management can make a valuable contribution to the family business – if permitted.
- Prepare for resistance to change, particularly when that change challenges the traditions on which the family's business was founded.
- Gain experience and an education outside the family business.
- Longevity in the business does not necessarily mean family are born with business know-how.
- Sometimes, a sale is the most positive outcome and the family must come to this conclusion themselves.

Recommended Family Business reading

When Success isn't Enough - How to Build a Living Legacy by Dr Robb Musgrave



This book will take readers on a journey of personal discovery for 'when success isn't enough.'

Returning to the core values, history and lessons learned along the way readers will be challenged to think about the things that are intangible and yet the essence of whom they will be remembered for.

There are practical and useful exercises that guide the reader to discover their purpose and how to build a living legacy that plans for life, family and philanthropy now and to benefit future generations.

An easy and insightful read that is highly recommended.

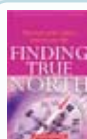
Related books



Motivation and Personality
– Abraham Harold Maslow



The 7 Habits of Highly Effective People
– Stephen R. Covey



Finding True North: Discover Your Values, Enrich Your Life
– Michael Henderson



Letters From Dad: How to Leave a Legacy of Faith, Hope, and Love for Your Family
– Greg Vaughn



Ethical Wills: Putting Your Values on Paper
– Barry K. Baines

Your foundation: a way of helping others

Dr Robb Musgrave, Legenis Pty Ltd

Dr Robb Musgrave has completed a PhD on Creating Personal Legacies and is CEO of Legenis, a company that focuses on the installation, administration and maintenance of family foundations as a part the financial, personal and social aspects of living legacy creation.

Redirecting your tax dollars can help others while working wonders for your own family.

Preparing your family for your wealth

When we ask our clients, "What do you want most for your children and grandchildren?" The answer is always the same. "We want them to be happy." Nothing is more satisfying than watching children grow up to be happy, useful, productive members of society.

When founders of a family fortune consider transferring the family's wealth to an upcoming generation, they usually spend large amounts of time working out how to avoid taxes and create airtight legal documents to protect their wealth from the claims of creditors and irresponsible heirs.

Yet, a successful estate plan is not just about escaping taxation and legislation. The real issue is, "Has my

family been able to retain the family wealth and use it in ways that are beneficial personally and globally?"

In other words, have your heirs' lives been enhanced by receiving it? Or will you be doing them a disservice, as they are not prepared for the responsibility?

Research and studies by Paul Schervish of Boston College, in the U.S. have found that:

- 65 percent of families have lost the family wealth by the end of the second generation; and
- 90 percent of wealthy families have lost the family wealth by the end of the third generation.

These research findings reinforce the timeless expression, "from shirtsleeves to shirtsleeves in three generations" which Andrew Carnegie coined and the Vanderbilt family so aptly demonstrated.

The perfect training ground for heirs

So, if you have significant wealth, how can you pass this wealth on without making your heirs insecure, lazy or wasteful? You could teach them about philanthropy.

You could establish a family foundation now for your

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“Nothing is more satisfying than watching children grow up to be happy, useful, productive members of society.”



family and fund it with an appropriate amount of money. Charge the future heirs with the task of distributing these funds responsibly to worthy charitable causes. The ATO provides you with the option of donating money to your family foundation which is a tax free environment for the purpose of charitable giving. This is a bit like Self-Managed Super Funds where you obtain tax advantages when you invest money for the purpose of providing for yourself during retirement. Both reduce the government's financial responsibility to provide for social welfare.

Philanthropy builds character, develops a positive self-image and provides a real sense of accomplishment for those involved. This is what prepares heirs for responsibility. Your children and grandchildren can be advised about how the money can be invested and they can make donations from the family foundation.

Professional advisers may give a broader understanding of investment strategies and your heirs get to understand risk and the impacts of risk on investments. Wherever possible, have all family members participate so they learn and work together for the benefit of others. These are valuable lessons needed to make useful, productive, happy members of society, and are a wonderful way to keep the family together across the generations.

Your adult children who are the trustees can then say, “Look at what we did!” You have provided them with a real sense of achievement. You have helped improve their character and development as well as directing them away from a life of selfishness. You have enabled them to do meaningful work, and shown them what they can do for themselves and others. Budgeting, appropriate resource allocation and managing investments are all important skills, as is learning about the plight of others and how they can make a real impact.

Your family foundation: technical information

Family foundations must comply with ATO requirements and guidelines, which require care and attention. Often it is helpful to obtain specialist advice and support.

Many family foundations are being established as a result of new legislation and regulations which came into

effect in 2001. In Australia, we have seen the numbers of family foundations increase, called Prescribed Private Funds (PPFs), as they provide a terrific opportunity for families to make significant contributions to charity and receive tax advantages and deductions along the way. The Government has recently announced changes to the PPFs legislation. However, these changes are likely to be administrative only and will take effect early 2010.

A family foundation can survive many generations, usually 80 years and onwards, and in this way the founder's values are passed from one generation to the next. The core of the investment funds driving the foundation, known as the corpus, can be built on over a number of years and held in the foundation tax free. Decisions about the dispersment of capital and income can be decided by the trustees (usually adult family members) every year. Even young children can be involved in the family discussions.

Your contributions to the establishment of a family foundation can be fully tax deductible and tax deductions can be carried over for up to 5 years. Beneficiaries are usually required to have a particular status (Deductible Gift Recipient status) for tax purposes and most legitimate Australian charities qualify.

There has also been a significant increase in the number of corporate foundations where visionary employers encourage staff to become more philanthropic by volunteering time and donating money to worthy causes.

For further information contact Legenis on 1300 302 191, your local BDO Adviser or visit www.bdo.com.au.

Article summary

- Philanthropy builds character, develops a positive self-image and provides a real sense of accomplishment for those involved.
- Provides an excellent opportunity for families to make contributions to charity and receive tax advantages and deductions.
- Family foundations can survive many generations and allows the founder's values to be passed on from one generation to the next.

Branding as family business has advantages

Justin B. Craig Ph.D, Associate Professor of Entrepreneurship and Family Business, Co-Director Australian Centre for Family Business Faculty of Business Technology and Sustainable Development, Bond University (QLD)

S. C. Johnson, a multi-billion dollar global organisation, is a family business. This 5th generation dynasty chose to promote their identity as 'A Family Company' after extensive research revealed that consumers have a positive view of family businesses. Increasingly, many large and small family businesses promote their family brand identity as a means of differentiating themselves in a crowded marketplace. Yet despite its intuitive appeal there is a noticeable lack of scholarly evidence to support the premise that promoting or marketing a business as a family business enhances a company's financial performance.

How does the promotion of family-based brand identity influence competitive orientation and firm financial performance in family businesses?

To address this question, we draw inspiration from Rogoff and Heck's (2003) notion that family and business are as closely connected as oxygen and fire. Of particular significance to the current study are arguments by Cooper, Upton, and Seaman (2005) that family business' identification with the family name motivates a greater emphasis on serving customers and consumers effectively, such as through providing quality products and customer services.

We investigate the role of family-based brand identity in relation to competitive orientation (i.e., product or customer service orientation) and company financial performance using a sample of closely-held small- and medium-sized family businesses, defined as having fewer than 500 employees. Such firms are relevant for this study. Lacking the substantive economies of scale available to their larger non-family brethren, small and medium-sized family businesses may be especially inclined to leverage their distinctive family name to create a form of reputational capital or family brand equity that helps enhance financial performance. In the current study, we theorise and define family-based brand identity as an intangible resource affecting the firm's emphasis on competitive orientations and subsequent company financial performance outcomes.

Our study reviewed survey data collected from leaders of 218 family businesses. We demonstrate that developing a family-based brand identity positively contributes to firm performance (growth and profitability) indirectly, via a customer-centric orientation (i.e., a strategic emphasis on the customer through customer service). In contrast, attempts to leverage family-based brand identity via a product-centric orientation (i.e., a strategic emphasis on incremental product upgrades) does not impact firm

financial performance. Our results suggest that family-based brand identity enhances the family business' ability to persuade customers to make purchasing decisions based on the perceived attributes of the seller.

We view this study as making two significant contributions to our understanding of family businesses. First, this study complements recent discussions in the academic literature that highlight the extraordinarily important aspect that is 'the family' and the considerable influence that the family has on the family business entity (e.g., Rogoff and Heck 2003). For example, family-based social capital, in various forms including structural (pattern of relationships among the family members), relational (trust, norms, and obligations), and cognitive (shared belief and values within the family) facilitate cooperative group efforts and actions in the pursuit of common objectives (Nahapiet and Ghoshal 1998). Second, just as family ownership, and related social capital, impact a firm's internal competitive abilities, so too can promoting family ownership play a complementary role in establishing a firm's appeal to customers. An organisation's family roots can be instrumental in furthering access to customers and organisational success.

In conclusion, it appears from our findings that family brand building should be incorporated as a far more salient and meaningful component in generating positive customer response (growth and profitability). Thus, managers of family business may benefit by ensuring that they communicate truly unique and relevant family-brand values to their customers. It is evident from our research that only through a unique customer-centric competitive orientation that values associated with the family brand are effectively communicated and transmitted to customers in a manner that directly affects their purchasing behaviors.

For further information contact jcraig@bond.edu.au, your local BDO Adviser or visit www.bdo.com.

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- Cooper, M. J., N. Upton, and S. Seaman (2005). "Customer Relationship Management: A Comparative Analysis of Family and Nonfamily Business Practices," *Journal of Small Business Management*, 43 (3), 242-256.
- Nahapiet, J. and S. Ghoshal (1998). "Social Capital, Intellectual Capital, and the Organizational Advantage," *Academy of Management Review*, 23, 242-266.
- Rogoff, E. G., and R. K. Z Heck (2003). "Evolving Research in Entrepreneurship and Family Business: Recognizing Family as the Oxygen that feeds the Fire of Entrepreneurship," *Journal of Business Venturing*, 18 (5), 559-566.

Article summary

- A family-based brand identity positively contributes to firm performance.
- Ability to communicate relevant brand values to their customers.
- Develop a unique customer-centric competitive orientation directly affecting purchasing behaviours,

BDO Kendalls Family Business Profile

Marina Skinner

Marina is an accredited Family Business Consultant at BDO Kendalls' Brisbane office.



Marina coordinates the BDO National Family Business Consultancy practice. She holds internal accreditation in Family Business Consulting, accreditation by Family Business Australia as an Adviser Member, representative for FBA

Advisers Queensland and is currently completing an Executive MBA specialising in Family Business at Bond University, Gold Coast. Marina has worked across multiple industry sectors with Family Business clients of various sizes and has coordinated seminars, workshops and succession planning events.

She has a thorough knowledge of issues that are unique to family businesses and appreciates how these factors can influence business performance and interpersonal relationships. In addition to her training, Marina's special insight comes from working in and managing her father's family business for over twelve years. Other experience in the private sector ranges from manufacturing, electrical, retail and motor dealers through to the building industry.

*She has a thorough
knowledge of issues unique
to family businesses...*



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.

Case Study - Professionalising the business

With the sudden passing of the founder of a family business the next generation found there were urgent decisions to be made about the future of the business. The founder's daughter was the only family member working in the business at the time (as a secretary) and felt strongly that she had a duty of care to staff and the role the business played in the community. Options were to sell the business, appoint an external manager or, the daughter could step up into the position of managing the business herself. The family wanted the business to retain the family name and considered that an outsider would not have an understanding of the values of the founder and what it meant to be a part of the family business.

The daughter stepped into the shoes of her father and managed the business in much the same style as the generation before. Very few changes were implemented and her focus was directed towards the reputation of the business and its standing in the community during her rein.

Consideration was given to who the successor should be and upon her retirement she appointed her nephew (who was the founder's grandson). At first the nephew felt compelled to follow the style of his predecessors. It took a crisis in the form of a major flood at the premises of the business as a catalyst for change. This created a feeling of ownership and vision to take the business in a new direction.

With a new strategic objective of transforming the firm's culture to one of active participation for employees and respect for individuals, he introduced flexible working hours. The result was a need for employees to clock in and out. Flexitime was extended to all employees and everyone, including shop floor staff, office workers and the MD clocked in on the same clock. Further, to emphasise the importance of the factory floor to all employees, he placed a new car park in a position that resulted in all employees crossing the factory floor to reach their offices. To ensure he demonstrated from the top down the value placed on employees he also introduced profit sharing and share option schemes, with a view to releasing them up to 20 per cent of the family's equity. Strategic management techniques were introduced, the company continues to grow, and has become an extremely successful business with highly motivated employees.

This case illustrates the need for management to ensure they are not stifled by their predecessor's style. It also highlights the benefits of professionalising the business by not allowing family issues to dominate management policy. Finally to re-energise a business with fresh ideas and to think strategically about long-term goals and objectives is healthy for a business.

For further information contact your local BDO Adviser or visit www.bdo.com.au.

Conflict and communication in the family business

Lyall Bear, Director and Family Business Consultant, Private & Entrepreneurial Clients, BDO Kendalls (WA)

Difficulties arising from the overlap of family and business systems, while they can be minimalised, cannot be avoided entirely. Successful families devise strategies that help them to keep the overlap under control, and to minimise the major problems that arise when one set of values engulfs the other.

Attempting to separate family and business life completely is the first response in many family businesses when they begin to see the danger signals. This strategy jeopardises the sources of commercial strength which flow from the family relationship – loyalty, commitment, sharing in a common enterprise, flexibility, and so on, as well as denying the reality of family and human behaviour.

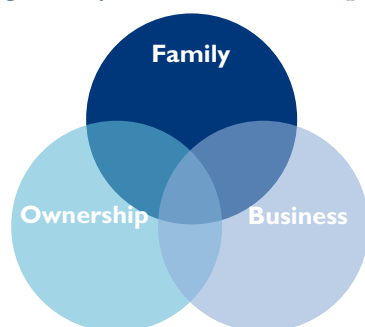
A balanced approach

A much more effective technique lies in developing strategies that help recognise and analyse family and business issues, and then addresses them directly to ensure the correct degree of balance between the competing systems. The 'correct degree of balance' is one that allows the business to run properly while not disrupting family harmony. A key ingredient of this is 'preventative maintenance' – i.e. doing something about the huge range of problems that can afflict family businesses before they take hold.

As we have seen, difficult areas include family friction, personal dilemmas, management issues and succession, and within these broad categories the number and scope of individual problems is often bewilderingly large. Two approaches that can be particularly useful in helping families to anticipate and avoid these problems are :

1. the holding of regular family retreats/meetings and communication sessions, perhaps involving the establishment of a 'family council'; and
2. the development of a written constitution for the family business, reflecting both family and business values.

Diagram Systems are interdependent



Where they cross over there is potential for conflict

Family – emotion based, inward looking
Business – task based, outward looking

Defining and articulating the family's relationship with the business is invaluable. It is best to record conclusions in a formal, unambiguous family constitution.

Drawing up a constitution also helps family members reflect on and come to terms with some truly basic questions, such as "Do I want to work for the business, or do I want the business to work for me?"

Drafting and agreeing on the constitution should form an integral part of long-term family strategic planning. Such planning provides a structure opportunity for the family to assess and organise its relationship to the business. It also exerts needed pressure on individual family members to face up to the difficult emotional issues that, uncontrolled, can be damaging to the business.

Recent Family Business Survey conclusions included the view that although family businesses appear better able to handle a volatile economic climate, misalignment of business and family goals, lack of governance structures and inadequately planning for the future may mean they aren't as well equipped to handle a downturn. These conclusions clearly support the need for embracing the approaches suggested earlier in this article.

Ten reasons to hold family meetings

1. Unite the family.
2. Strengthen the business.
3. Educate successors in understanding and managing wealth.
4. Discuss succession.
5. Develop and enhance shared family values.
6. Decide who will work in the business.
7. Decide policy on future ownership of the business.
8. Professionalise the family.
9. Ensure smooth communication between the family and the Board.
10. Understand and resolve conflict.

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Article summary

- Develop strategies to recognise and analyse family and business issues.
- Correct the balance that allows the business to run properly while not disrupting family harmony.
- Identify problems that can afflict family businesses before they take hold.
- Includes family retreats/meetings and communication sessions, a family council and the development of a written constitution.

Q&A

Expand your skills and knowledge

Question

I joined my father's business 5 years ago and while I am enjoying the challenge and opportunity of being involved in the family business, sometimes it can be a little stifling. My father has built the business from scratch and has strong views on how things should be done. While I respect his ability and experience I am concerned that the business will be "locked in" on how we do things and this could be detrimental for both the business and my own personal development.

Answer

Like many successful business people in family businesses, your father's self-belief will have been a strong contributing factor to creating the business you have today. That can be a "double-edged sword" if he doesn't have the capacity to know his own limitations and listen to the ideas of others both inside and outside of the business. Every business, no matter how successful needs constant review, re-energising and regeneration.

My suggestion is to engage him on the value that new ideas can bring to the business, as well as the importance of providing career development for all valuable employees – even you! Your brightest people will have the same needs and expectations as you. If these are not met, they will eventually leave and this comes at a significant cost – dollars, time and opportunity.

Some thoughts on how you might approach this:

- establish a culture of constant learning and improvement within the business;
- support this with time and money so senior people can expand and develop their skills;
- understand the current skills mix of the business and chart a development plan based on the anticipated future needs of the business; and
- on a personal level you might join an industry or professional association and attend their seminars and conferences. Take your father with you!

Tony Young

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Diary dates

FBA National Conference and Awards:

13-15 August – Darwin

Self Managed Super Funds:

- Making contributions up to the maximum cap before 30.06.09
(caps are halved from 1 July 09)

Please contact your State representative for more information on 1300 138 991

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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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