



# Family businesses

Find your way through the connections,  
communications and complexities to  
achieve harmony and success.

# About Crowe Horwath

Crowe Horwath works with individuals, businesses, government entities and not-for-profits to maximise their growth potential and achieve their financial and non-financial goals. As part of the global Crowe Horwath International network, we have the resources and proven experience to deliver results.

Crowe Horwath is ranked among the top 10 global accounting networks. We have more than 190 independent accounting and advisory firms with 684 offices, and over 29,000 professionals and staff in 118 countries. Each of our member firms is known for its local knowledge, expertise and experience, balanced by an international reputation for the highest quality service.

We offer all the resources of a major accounting and consultancy firm under one roof, providing a comprehensive range of services to meet all of your personal and business needs, including:

- Audit and assurance
- Business advisory
- Corporate finance
- Tax advisory
- Financial advice

Our goal is to get to know you and your business, providing you with the people and resources to help you grow. You could call it a holistic approach to advisory services. We just call it forming a meaningful and successful relationship. We'll work closely with you as a strategic partner to ensure your advice takes into account all the factors affecting your business or personal financial affairs.

## The relationship you can count on

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# About family businesses

**In Australia, family businesses make an enormous contribution to the economy. In fact, they account for around 70% of Australian businesses.\***

Being part of a family business can be both rewarding and challenging. It can be challenging because of the ways in which business ownership, management and family relationships overlap, creating complexities and emotional issues, particularly around money and control.

Crowe Horwath has prepared this resource to assist you in the successful operation of your family business and show you how to overcome some of the challenges unique to family businesses. It presents a collection of strategies to assist you in the management of your business and demonstrates how planning for the future can ensure a better outcome for you, your family and the people in your business.

Throughout, you'll find a range of activities and checklists to get you thinking about your family business. You'll also find a range of tax tips to highlight the tax implications and how you could do things more tax efficiently.

Your Crowe Horwath advisor can assist you in navigating the complexities of family businesses and help you achieve your business and lifestyle aspirations. Call 1300 856 065 to speak to your advisor.

## Section 1 ▾

### Introduction

- How does the family fit into business?
- The characteristics of a healthy family business

## Section 2 ▾

### Family business planning

- Tips on managing conflict
- The importance of goals and planning

## Section 3 ▾

### Planning for the future

- Succession planning
- Protecting and managing your estate
- What is your family business worth?
- Preparing for the unexpected

\* KPMG and Family Business Australia Survey of Family Businesses 2009 (in conjunction with Bond University)





Son Tim  
OWNER / EMPLOYEE

Father Phil  
OWNER / EMPLOYEE

Daughter-in-law Sara  
EMPLOYEE

SECTION ONE  
Introduction

Daughter Mila  
OWNER / EMPLOYEE

Son Anthony  
EMPLOYEE

# How does the family fit into the business?

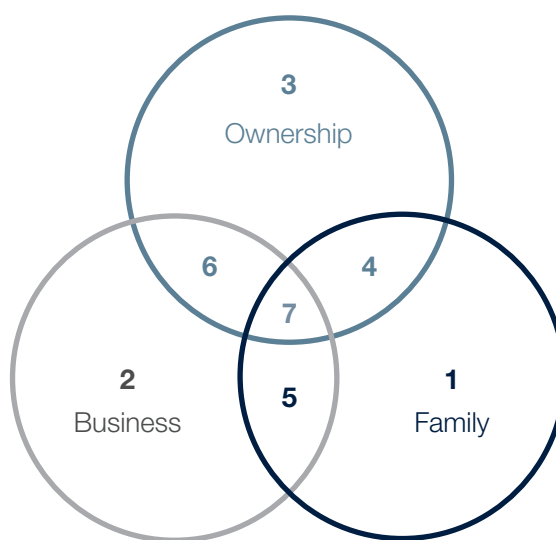
A family business is different from other businesses because the needs of the family interact with and influence the business. A useful way of describing this is by looking at how each person in the family and in the business has different roles.

Everyone will have one or more of the following roles:

- Family member
- Family business owner
- Family business team-member (manager, employee etc)

This can be described using a Three Ring diagram. Everyone's role or roles can be seen from this diagram.

1. Family members not involved otherwise
2. Non-family, non-owners employee
3. Owner, neither family nor employee
4. Family member with ownership interest
5. Family member employed in business, but non-owner
6. Non-family owners employed in business
7. Family members with ownership interest and employed in the business



Source: Tagiuri & Davis (1982) Bivalent attributes of the family firm, working paper, Harvard Business School

**Activity:** How does your family fit into the business? Complete a Three Ring diagram for your family business. Where do you and the others fit in the three rings? Use the table below to see where everyone fits. You may have more than one person in each category.

Role Insert ring number	Names Insert names of person(s) in that role	Directors Tick if appropriate	Share-holder Tick if appropriate	Family council Tick if appropriate

# The characteristics of a healthy family business

Tolstoy, the famous Russian author, once said that: “Happy families are all alike; every unhappy family is unhappy in its own way.” The same could probably be said about happy or healthy family businesses. They do have similar characteristics which are worth imitating.

**Activity:** How well do the following characteristics describe your family business? Circle each description with High, Medium or Low for this family business.

1. The family functions well			
The family is well led with all family members working towards agreed goals.	H	M	L
Decisions are made and conflicts are managed with mutual support and respect.	H	M	L
Individuals can manage themselves and relationships with others.	H	M	L
Communications are open and clear, with knowledge shared and used well.	H	M	L
Boundaries between work and family are clear, reasonable and respected.	H	M	L
The different generations' roles and expectations are defined and respected.	H	M	L
2. The business is well managed			
The business is well led by effective, well trained leader(s) supported by their appointed successor.	H	M	L
There is a good planning meeting process based on data such as business financial ratios, valuations, customer feedback and staff input.	H	M	L
There are effective business systems (financial, production, HR, marketing etc) that are supportive of the people working in the business.	H	M	L
Well trained and rewarded people including family members use the systems to achieve business and personal success.	H	M	L
Family members' roles and remuneration in the business are clear and add value to the business.	H	M	L
Career paths exist for managers/employees including family members/ successor(s).	H	M	L
Succession either through a successor or by means of a sale is planned for and is handled effectively.	H	M	L
3. Business and family interactions are open and effective			
An effective process such as a Family Council or Family Constitution exists for managing family goal setting and decision making regarding the business.	H	M	L
Clear family values influence business decisions making to an agreed extent.	H	M	L
Good communication occurs between the business and the family.	H	M	L
Inter-generational family involvement in the business is encouraged.	H	M	L
Family members' interests in the business are protected.	H	M	L

Has the overview of the “health” of your family business identified some issues for your family business?





Uncle Jim  
OWNER / EMPLOYEE

Nephew Angus  
FUTURE OWNER

Son Nathan  
EMPLOYEE / OWNER

Tax tip //

You should review whether your current tax structure properly protects and preserves your family and business wealth. Have you considered whether the current structure best positions you to meet the goals of your succession plan?

11 hours ago

Tax tip //

Understanding the legal and tax structures used to hold and protect family wealth is critical to effective succession planning. In some cases, the expansion of the business or the family may result in several different entities being involved making the planning more complex without the help of experts.

3 hours ago



521



35



89




share



future business owner

#familybusiness





Uncle Chris  
OWNER

Nephew Sam  
OWNER / EMPLOYEE

## SECTION TWO

# Family business planning

- Tips on managing conflict in a family business
- The importance of goals and planning



# Tips on managing conflict in a family business

**There is just one word that causes conflict and that is communication, or rather, the lack of it! Conversely it is the one word that resolves it!**

Sounds simple, doesn't it? But when you stop and think about all the issues you deal with during a day, whether they be personal or business, poor communication is usually the main cause of concern, stress, anger and a whole range of other emotions.

When you don't know what's going on, or you have to make a decision without all the facts, the outcomes are not what you or others might be looking for.

When it comes to family businesses, there are new dynamics at work. To live and work with the same people 24/7 can be a recipe for disaster. But it needn't be!

**Set the scene from the start.** That means preparing a business plan or charter that will govern the business. Ensure every family member is engaged in the process and agrees with the strategies.

**Define roles, working with individuals' strengths.**

Importantly, make them accountable for their input into the business. They will feel they are valued and are contributing not just to their success but to the success of the business. Reward people as individuals, based on performance, not just because they may be a preferred family member. Don't employ family members that can't contribute – they could do more damage than good!

Keep talking! **Hold regular meetings to discuss progress, outcomes and issues.** Constructive criticism and debate are essential for business growth. Although these meetings might be informal, it is often a good idea to occasionally have an objective professional external party present, such as an accountant or lawyer, depending on what is being discussed.

**Play an even hand – be fair but not biased.** Ensure family feuds are kept out of the business. And don't take sides otherwise you'll find yourself caught up in the conflict. When these situations spill over into a business you need to act as an effective manager and tackle the problems head-on.

But take time out too for some social activity away from the office. Family relationships are important.

Bringing a non-family member into the business can also cause conflict especially if the person's role is a very senior one. Money, management and ownership are often contentious issues at the best of times. Making the right decisions around the structure of your business and any succession planning will make things a lot easier for you and your family, and contribute to the business's ongoing success.

Sam Johnson // Nephew

What's my role in the business?

11 hours ago

Uncle Chris

Depends on your goals.

11 hours ago

Sam Johnson // Nephew

I want to be more involved.

9 hours ago

Uncle Chris

Let's call a family meeting to discuss responsibilities.

8 hours ago

# The importance of goals and planning

## 1. Set clear goals and objectives

This is a fundamental step to keep any business heading in the right direction. Goals can also help you prepare for what your future will look like. Goals should be S.M.A.R.T. which is an acronym for the five steps of specific, measurable, achievable, relevant, and time-based goals.

A business goal might be when you want to leave the business and retire. For example: achieve full retirement by 60, with daughter Elizabeth taking up the day to day management of the business by the time I'm 59 to allow for a transition period.

What are your family business goals?

Tip //

Did the "health" overview exercise on page 6 help in identifying new goals for your family business?

19 hours ago

Tax tip //

There can be tax consequences of changing control of the legal structure(s) operating the business and holding the business or family assets. Without proper tax planning, this can unnecessarily erode the family wealth.

4 hours ago

## 2. Develop a family business plan

As outlined on page nine a family business plan plays a critical role in managing conflict within a family business. It also involves deciding on "where we want to get to" and then "how we will get there".

Common steps are:

1. Agree on the family values, which will underpin the way the family will behave in the future.
2. Agree on a family business vision statement articulating what the family members want as the preferred future for the business.
3. Agree on the family business constitution with specific reference to:
  - ☐ Ownership - who can own shares and how they are allocated at sale or succession.
  - ☐ Governance structures, membership and responsibilities - such as family council, board, shareholders and top management.
  - ☐ Decision making, appeals and conflict management.
  - ☐ Family involvement in the business - who and how, inter-generational family involvement, building the family culture, having fun, involving the next generation.
  - ☐ Family and business management succession policies and planning process.
  - ☐ Other matters.
  - ☐ Acceptance and amendment of the constitution.
4. Next action steps to finalise and approve the constitution, plus start the process of implementing the decisions made.

Tip //

Crowe Horwath Business Advisors can work with you to develop a family business plan to give a clear direction for the future.

Just now



# Start developing your family business plan

List your family goals (remember to keep them S.M.A.R.T.)



List your family values



What's your family business vision statement?



What are the next steps to creating a family business constitution?



A smiling man and woman, likely a family, are standing side-by-side. Both are wearing white long-sleeved shirts and dark blue aprons with white vertical stripes. The man on the left has grey hair and a mustache. The woman on the right has dark hair and is smiling. They are standing in front of a brick wall with some greenery and flowers visible on the left.

## SECTION THREE

# Preparing for the future

- Succession planning
- Protecting and managing your estate
- What is your family business worth?
- Preparing for the unexpected



# Managing business transition smoothly

## Do you have a succession and exit plan for your family business?

The way you structure your business now makes a huge difference to how it can operate without you in it. And we're not just talking about you not being around, we're talking about the exit plan for you to successfully enjoy your retirement.

For business owners there are plenty of exit options – each with advantages and disadvantages to weigh up. What works for someone else might not work for you, so you need to consider and understand all the options and benefits available.

If the family business is to continue, issues that need to be decided include:

- ☐ Are the successors identified and trained?
- ☐ Is there a career path for family members or key employees?
- ☐ Has a timeline and process for handover been established?
- ☐ Will you be able to retire – is there enough liquidity available? If you are counting on deriving a significant portion of your retirement income from your business, what will this look like – superannuation, income streams, sale of shares to others?

### Tax tip //

Passing assets and exiting from a business can have income tax, Capital Gains Tax (CGT), Goods and Services (GST) and stamp duty consequences. Tax can still arise even where no sale proceeds are involved resulting in an unfunded tax liability.

2 days ago

## Managing money expectations

When the head of the business decides to retire or the family decides to bring in a non-family CEO or general manager, the transition can create conflict and strain or, if managed well, it can take the business to new heights. It's all about managing money expectations – whether it's the next generation taking over the reins or an 'outsider' being brought into the business, everyone has a different view.

Have you thought about what will happen when you're no longer around to take care of your family or run your business? And the conflict that could arise because there is no clear direction for the family? A succession or exit plan may include transferring the business to children, other members of the family or selling your business. Planning for a smooth transition or having a plan in place for the unexpected is essential.

### What happens if you don't have a succession plan in place?

- You may be required to continue to work in the business.
- You may walk away from a lifetime of hard work for no return.
- You could potentially lose your personal wealth.
- You could have to sell at a lower than adequate price.

Speak to your advisor about the importance of preparing a succession plan for your family business. Making informed decisions about your succession means a better outcome for you, your family and the people in your business and also helps to avoid conflict.

### Top tip //

#### Have a buy-sell agreement in place.

A buy-sell agreement is a contract between business owners that governs the situation if a co-owner dies or is forced to, or chooses to leave the business. Having a buy-sell life insurance agreement can protect the business, especially for the surviving owners.

39 minutes ago

# Protecting and managing your estate

Estate planning is just as important as succession planning. The consequences of inadequate estate planning can be disruptive and distressing for beneficiaries. Understanding the pitfalls to avoid and planning your estate can give you peace of mind, and helps to make sure your hard-earned assets pass into the right hands.

Your advisor can help you protect and manage your financial legacy down to the last detail. This process would involve:

- taking into account all of your assets and liabilities as well as your particular wishes.
- making recommendations for managing and structuring your estate and ensuring there are sufficient funds to cover your debts and provide for your family's future needs.
- understanding how current legislation will affect the treatment of your estate.

## Tax tip //

Proper tax planning around your estate means that more of the family wealth is preserved for future generations. Consideration should be given as to how wealth not dealt with under your will (e.g. wealth held by associated family entities) can be tax effectively passed on.

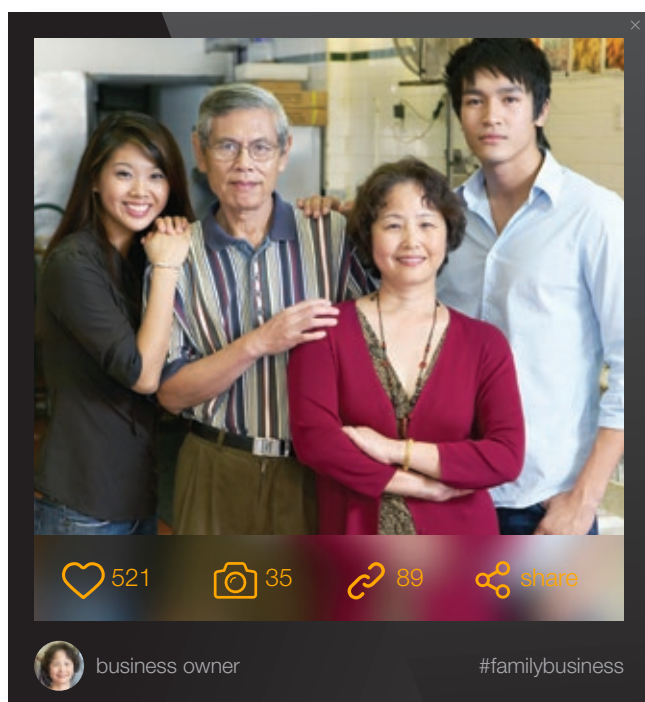
9 days ago

## Being prepared

As well as making sure your will is up to date and structured to minimise the likelihood of a challenge, you also need to consider:

- the best way to manage your superannuation
- whether you have adequate insurance cover
- whether an enduring power of attorney is appropriate for you
- using trusts to minimise tax payable by beneficiaries such as capital gains
- implementing measures to ensure your family's immediate cash needs will be met after your death
- advice if your beneficiaries could be involved in a Family Law Court property dispute or bankruptcy action.

Estate planning is a complex area, but we work with you and your lawyer to help arrange your estate and business interests so that should you or your partner pass away, the right funds go into the right hands at the right time.





## Succession planning case study:

# Are you avoiding having “that” discussion?

Family politics and finances are issues we sometimes tend to avoid as they can be sensitive issues that cause arguments and disharmony in our families. Yet those who address the issues of business ownership, succession planning and inheritance, more often achieve better financial outcomes and maintain positive working and personal relationships within their family groups. So don't avoid having that discussion.

### The client

- A farming family in their late 70s with four children.
- The husband's health was deteriorating and this prompted the couple to address the issue of farm and business ownership and the ultimate distribution of assets to their children.
- The owners were very clear about how they wanted to distribute their assets and knew that if this was to be achieved that they needed to discuss this openly with all four children.
- They recognised that their current ownership structure, documentation and wills in place were not going to provide the smooth transition they desired.

### What did the existing family business structure look like?

- The day to day operation of the farm had largely been transferred to one of the children who managed the beef and sheep property with her husband but no formal agreements or transfer of ownership had taken place.
- The land and assets were tied up in a mix of company structures, trusts and individual ownership which had been accumulated over a very long time.
- The existing wills in no way reflected the ownership structure of the assets, the current farm operating structure (succession), nor the owners' intentions for the distribution of their assets upon their death (estate planning).

### What needed to be done?

- A succession and estate planning review
- The old structures needed to be reviewed and where appropriate the family's legal advisers restructured the land, livestock and plant holdings to reflect their intentions and the current operating structure.

- The issues surrounding stamp duty, capital gains tax (CGT), livestock and plant taxation issues were very complex. They only proceeded following rulings obtained from the State Revenue Office regarding stamp duty, and with Crowe Horwath tax consultants reviewing the CGT and income tax implications to ensure a no tax cost outcome now or in the future.
- New wills were drafted by legal advisers.

### What was the communication throughout the process?

- All parties were consulted and kept informed with open communication and face to face group meetings.
- Individual meetings with each family member were held to get a real feel for where they sat in the whole process and the future of the property.

### What was the outcome?

- The children operating the farm now know exactly where they stand and feel in control of their destiny.
- This has provided a real incentive in the day to day running of the farming operation and the family is now seeing a significant improvement in the bottom line which was an unintended but very welcome outcome from the restructure.
- The process also highlighted a number of things in the farm operation that had been overlooked including a review of business profit drivers, borrowings and debt structuring. This led to a saving of over \$2000 per month in interest costs alone.

### Were the clients happy with the result?

- “Yes. Absolutely. You don't want to leave a mess for your kids to sort out and we did not want arguments after we were gone. We wanted to be fair to everyone and know that the kids were happy and understood the choices we were making. So no one feels cheated and everyone has agreed to the changes. We now have peace of mind”.
- “Yes there are costs involved and it takes time to sort through all the issues but it's our lifetime of hard work and our families inheritance we are talking about – and in the long run it actually costs much less doing it this way proactively” said the parents.

### What is the alternative?

- The will may have been contested
- Multi-party disputes may have occurred
- Family relationships may have broken down.

# What is your family business worth?

## Business valuations

If there is no obvious family successor, selling your business may be your preferred exit option. It's important then to ask the right questions to ensure you maximise the value of your business:

- What is your business worth?
- How can you increase the value of your business?
- How do you best exit and when?
- Can you reduce or eliminate tax on exit?
- How do you manage the exit process?

### Tax tip //

A robust valuation can be an important element of your tax planning. Consideration should be given to the 'after-tax, cash-in-hand' value of the business.

5 days ago

### Top tip //

Every business will either be:

- Sold
- Passed to the next generation of owners
- Closed

Which of these are you ready for?

39 minutes ago

## Choosing the right valuation method

Valuing a business will always be subjective, since different people will place a different value on certain aspects of the business. Some businesses will be highly asset driven and hence the asset value will determine its value, others will be steady cash and profit generating businesses and hence cash flow will determine the value. In other cases a business will have strategic value and profit and growth potential so a premium can be added to a determined value.

In any case, the ultimate business value comes down to what the market is prepared to pay for your business. This comes down to how well you can demonstrate the value and drivers of the business. The effectiveness of how you communicate the features of your business will determine what the final value of the business will be and how quickly you can sell it.

This is critical, especially at a time when the number of private businesses for sale has reached a record number\*. Many methods for valuation exist, but three methods most commonly used are:

- Net Assets Method
- Earnings Multiple
- Discounted Cash flow

Each method shown has certain advantages and disadvantages, which may help your preference for one method over another.

Speak to your Crowe Horwath advisor about the methods of valuing your business, which methods work best for which businesses and how to improve value. We consider your family business structure from both a commercial and tax planning perspective. As well as growth and succession, risk management and control are also important elements to consider, as is having an effective and valid will.

\* BizExchange Index for Private Business Values Key findings June Quarter 2014

# Preparing for the unexpected

## Don't get caught unaware on business and personal protection

Having the right insurance cover is crucial for protecting your business, lifestyle and the people who depend on you.

Australia has a huge under-insurance problem. Too often we see the consequences of not having a safety net for you, your family and your business when unexpected life events such as prolonged illness or injuries from accidents occur.

Although most superannuation funds now carry some compulsory insurance, newer types of insurance such as trauma and income protection are generally not included. Unfortunately, many people don't realise they are under-insured until it's too late. Do you have adequate cover for:

### Personal risk

- ☐ Life Insurance
- ☐ Total and Permanent Disability (TPD)
- ☐ Income Protection
- ☐ Trauma Cover
- ☐ Business Expense Cover

### Business risk

- ☐ Key Man Cover
- ☐ Buy and Sell Agreements
- ☐ Shareholder Protection
- ☐ Loan Protection
- ☐ Appropriate Ownership Structures
- ☐ Business Expenses

Make sure you, your family and your business have the best protection available to ensure you have an adequate financial safety net. Our advisors have expertise in advising on the right personal and business insurance and can make selecting insurance cover simple, straightforward and cost effective.

## Insurance case study //

### The importance of professional advice

A large horticultural services family business (husband, wife and son – joint owners) had previously attempted to put a Buy-Sell Agreement in place with the intention of a smooth transfer of equity and ownership should one of them be forced to exit the business due to death or incapacity. A business health check was completed which included a review of their individual life insurance arrangements. During the review it was discovered that the existing Buy-Sell agreement was flawed due to the Father being previously declined life insurance for health reasons. The family were made aware that the declined life insurances resulted in an ineffective Buy-Sell Agreement which exposed them and their business to significant financial loss. Through an extensive health and occupational insurance pre-assessment process our Crowe Horwath Financial Advisors were able to negotiate cover for the father and better value cover for the other family members. The Buy-Sell Agreement was re-drafted and now gives them confidence in the succession plan of their biggest asset.

39 minutes ago

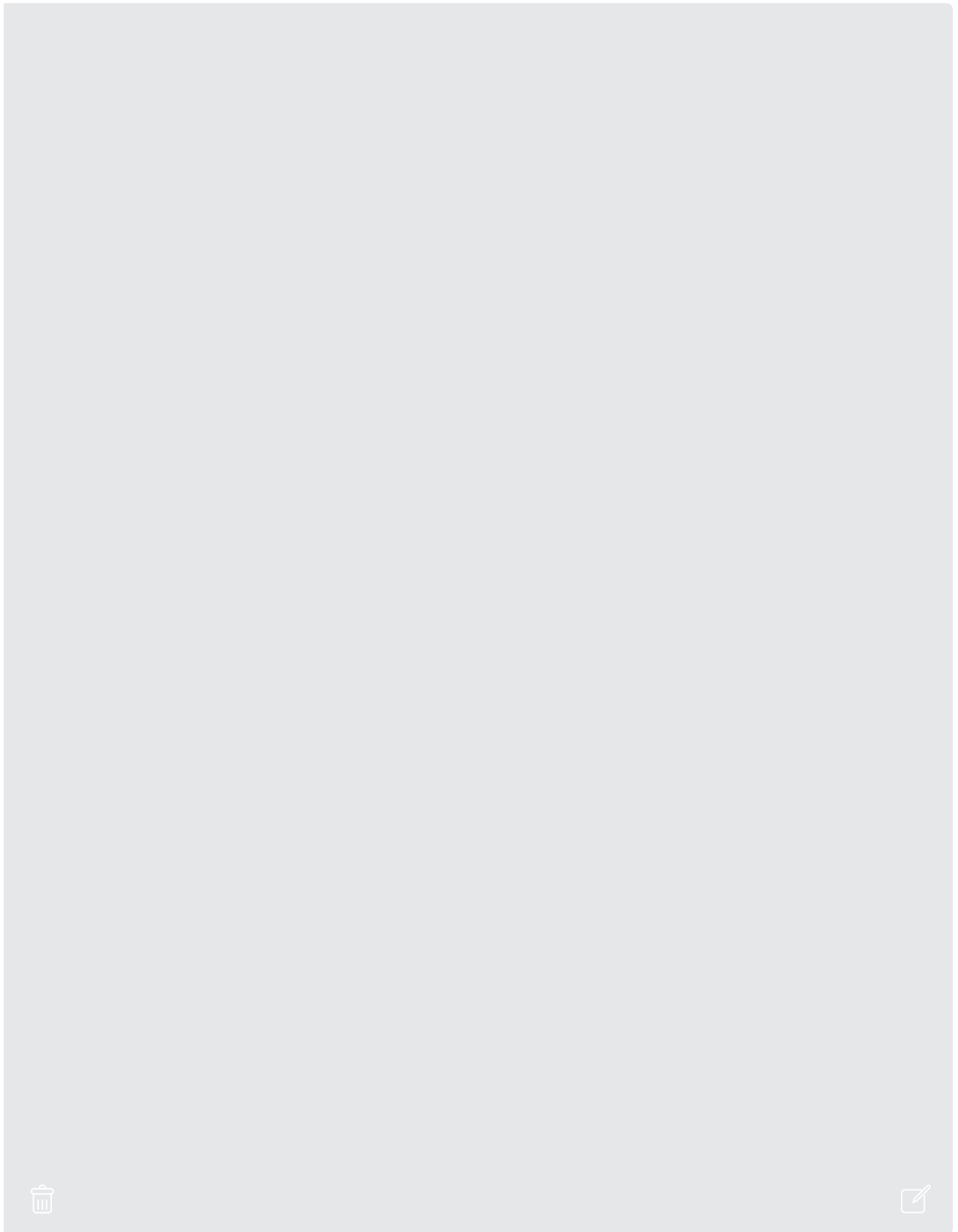
## Tax tip //

Depending on the nature of the insurance there could be income tax, fringe benefits tax or CGT implications of paying the premiums or dealing with the proceeds.

8 hours ago



# Notes



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# A personalised service for your family business

Crowe Horwath provides comprehensive accounting, advisory and financial advice services for private and family businesses. These are backed by a strong understanding of the ways in which business ownership, management and family relationships often overlap and the complexities and emotional issues this can create. This is becoming particularly important as more family businesses consider their succession or exit plans.

We are very experienced in working with family business clients to maintain a tight focus on meeting statutory requirements, improving performance, growing business value and achieving lifestyle aspirations. We also regularly form multidisciplinary teams within Crowe Horwath and with other advisors, such as lawyers, to realise the best outcomes for our clients.

Our services include:

- Succession planning
- Estate planning, including superannuation and wealth creation
- Financial advice and retirement income stream planning
- Exiting businesses – mergers, sales or listings
- Tax advice and compliance
- Corporate governance / statutory audit
- Asset protection
- Insurance
- Business structuring
- Business growth and performance management
- Business development
- Facilitating meetings and workshops
- Assisting with setting up boards
- Assessing business risk

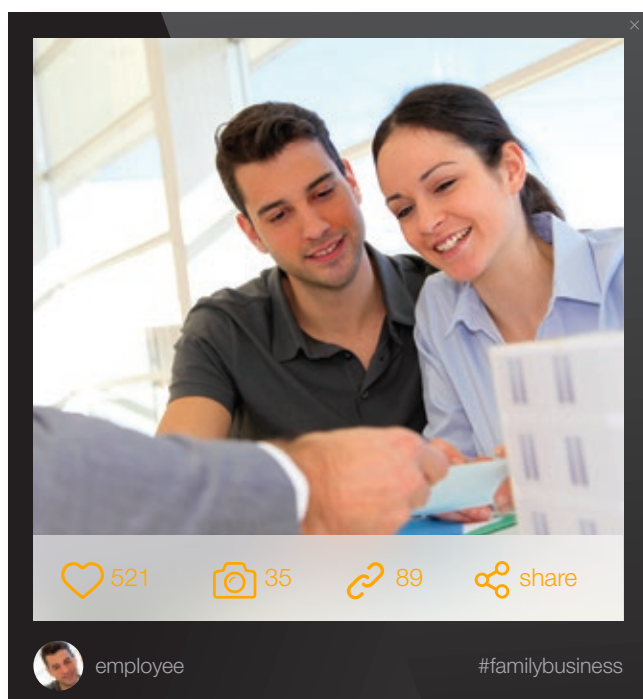
We can also assist you with preparation of board reports, financial statements, all aspects of general tax compliance and specialist tax advice.

## Top tip //

For more information visit [www.crowehorwath.com.au](http://www.crowehorwath.com.au) or speak to your Crowe Horwath advisor on 1300 856 065.

Your advisor can assist you in navigating the complexities of family businesses and help you achieve your business and lifestyle aspirations.

Just now



Tel 1300 856 065  
[www.crowehorwath.com.au](http://www.crowehorwath.com.au)

**The relationship you can count on**