

BusinessPlus+ Newsletter



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Lessons from High Performing Business – Part 1

The high-performers are easy to identify: above-average sales margins, revenue, average fee rates, utilisation, and profitability. Normally, all are above-average.

While it is easy to identify the high-performers, **it is harder to identify the story behind the above-average results.** The above-average achieve an “escape velocity”- they break through the gravitational pull of mediocrity.

We all know the ‘what’ of high-performance (more and better sales revenue, average sales/fee rates, utilisation and profitability). The mystery is the ‘how’. How do you get to “escape velocity”? Much of this is about process and systems (knowing how to design and deliver on an ambitious business plan, working on the business, and the usual mantra of great team, culture, clients etc and not least of all being great at doing all the boring stuff).

The high-performers are always obsessed with: -

- **Strategy** (where are we going);
- **Marketing** (how are we going to sell this stuff); and
- **Teams** (high performing staff that are engaged and aligned to the business strategy);

The three further obsessions of the high-performers are: -

- The **ability to bring in great people** (recognising you can’t do it all yourself) and that you need a great team in the business and a great team outside the business supporting the team;
- A relentless **focus on the finances & cashflow**: the ability to measure and possibly raise finance/equity to support the growth; and
- They are **awesome at the execution**. The execution of delivering the service *and* the execution of running and growing the business. Most are good at delivering the service. Few are great at delivering the service *and* the business of running and growing the business- working both IN and ON the business.

Business transformation and improvement starts with **strategic clarity and a shared vision** that has been translated into **concise goals and milestones**. Key management practices that fast-track business improvement during transformation efforts are shown in the table below: -

Business Theme	Healthy Business Practices Adopted
Setting the Business Direction	Strategic Clarity & Shared Vision across the whole Business and Employee group
Providing Clarity and Meaning	Employee involvement through the adoption of clear Business Values and Signature Behaviours together with concise Role Clarity, Responsibilities & Accountability for the Team
Sparking Ideas and Innovation	Capturing external ideas and the latest best practice initiatives, combined with appropriate employee incentives and rewards for embracing innovation and new ideas
Fostering strong Business Operations	Operationally disciplined through adoption of suitable behavioural and performance standards, combined with a Supportive Leadership approach

We will continue this “Business Transformation” series in future editions of the newsletter as this is a vital subject for all business owners operating in a difficult economic environment.

The Value of Business Values

The values of an organisation can be simply defined as its beliefs in action. An organisational culture, really, is ‘how we do things around here’. The key word is “do”. Values drive beliefs and beliefs drive behaviours. Those behaviours determine how well an organisation performs. These behaviours are your culture.

Those values, therefore, if truly lived in an organisation, can become a competitive edge that enables and drives all the right behaviours. The founder of Visa said: ‘Simple clear purpose and principles give rise to complex, intelligent behaviour. Complex rules and regulations give rise to simple, stupid behaviour.’

Values should encourage the right behaviours in an organisation. They should ensure ethical behaviour. They should enable behaviours that help to deliver the business plan. But above all, they should enable people throughout the organisation to make decisions on their own.

Values should help the company to achieve its goals and deliver its purpose. Yet most organisations have a hodgepodge of values, that do not fully empower employees and are the same as most other companies, including competitors. When considering your values, think about what you are trying to achieve, and which behaviours you want to influence or engineer.

There are six places to look for your core values. Here are the areas to think about: -

Licence-to-operate Values

There are some values that every organisation should adhere to. Honesty, integrity, respect, innovation – what business could survive if it didn’t have these? Everyone needs teamwork and collaboration. Everyone needs to be safe. These are what you could describe as cleanliness values; of course, you must have them. Society expects these of you, but because of this, all companies have these, and they do little to distinguish and differentiate.

Differentiating Values

These are values unique to your organisation, which help to differentiate you in the marketplace. What is it about the way you do things that makes you different? How do you deliver unique offers to customers? What aspects of your brand are recognised and applauded by your consumers? These values need to be kept alive and leveraged constantly for you to maintain the promise of your brand in the marketplace.

Nice-place-to-work Values

Ask employees what matters to them, and you will find a whole set of values that ensure they work in a place **that enables them to do their best**, while also making them feel cared for and respected. You need these too.

High-performance Values

Talk to managers and most of them describe a set of values around creating a high-performance culture. **They want accountability, agility, ideas, commitment, innovation and more.**

Current Values

As organisations grow and develop, a set of behaviours take root in that organisation for all sorts of reasons. The founder might have had a personal set of values that became embedded as the organisation grew. Successive leaders might have brought in their own beliefs and put in place operating processes driven by those beliefs. Whatever the reason, the organisation will have a real set of values that manifest themselves as behaviours throughout the organisation. These are the real and current values, not all of which are desirable and should be sustained.

You must truly understand what values live within the organisation now and are brought to life in behaviours. Which are the behaviours that are undesirable and need to be stopped? Which behaviours happen only infrequently, but need to be made more commonplace? Which behaviours are critical to your success and must be maintained?

Future Values.

Every team, every division, every company and every organisation have a plan. **Progress requires new and stretching goals, greater productivity, new products and services, new customers or new business from existing customers. To achieve these things will require new behaviours.** If not, then what will enable the growth? And if they are new behaviours, what are the values that must underpin those behaviours? What beliefs need to be instilled in the business that will encourage the right behaviours throughout the organisation? **Too often, leadership teams fail to recognise that business plans require new behaviours and those new behaviours may require new and different values** that must be embedded.

Core Values

From all these categories, the organisation's core values should then be selected. These should become the deeply held beliefs that guide all the company's actions, creating a moral compass that guides all decisions, at every level of the organisation, always. Once decided on they should be sacrosanct, never compromised for convenience or short-term gain.

Articulating values and purpose is one of the most important jobs of leadership. It is a conversation without end, on board and management agendas, discussed on roadshows, workshops and team meetings. A shared sense of mission and values inspires, empowering and liberating and creates enormous value in those companies that really bring them to life.

How Purpose on a Page Powers Performance

Leaders who make "purpose" the beating heart of their organisations create more effective managers, more engaged employees, more committed customers and more supportive stakeholders. By doing this, they create greater value, as well as thriving businesses, communities and environments.

Businesses that express their purpose in a way that shows how they improve people's lives do much better than their peers, **by up to 400 per cent.** Organisations with a shared sense of purpose outperform those with no sense of purpose, on both hard financial measures and soft intangible measures.

One reason is because employees with purpose are more motivated and deliver better results. Leaders who make people's work meaningful, and make their people feel worthy, inspire their people to be more passionate, engaged and flourishing employees, driven to make a difference.

Leaders, who have used powerfully articulated purpose statements, describe how purpose has helped them to transform performance, motivate people through meaning, and create cultures of high energy and high performance.

When you combine purpose, values and goals into an integrated framework, and communicate it all on a single page, you create a powerful tool that can help you deliver a more agile, empowered, energised and aligned organisation – the prerequisites of high performance.

Research commissioned by the EY Beacon Institute among 500 global business leaders and conducted by Harvard Business Review Analytic Services, highlighted how global executives view the power of purpose to grow and transform their organisations. **It also realised that purpose was a powerful but vastly underutilised asset.**

The Beacon Institute found that:

- *Most executive believe purpose matters- 89 per cent of executives surveyed said a strong sense of collective purpose drives employee satisfaction;*
- *84 per cent said it can affect an organisation's ability to transform;*
- *80 per cent said it helps increase customer loyalty;*
- *However, only a minority of executives said their company currently runs in a purpose – driven way;*
- *Only 46 per cent said their company has a strong sense of purpose; and 44 per cent say their company was still trying to develop one;*

So, the challenge is not having a strong purpose; **it is in how to generate a sense of purpose that is truly shared by everyone in the organisation.**

Here's what the best leaders are doing: -

The Key Ingredients for A Purpose Framework

1) A Long-Term Vision:

A long-term vision gives employees a sense of security and this has a powerful impact on their engagement. If you want your people to have a greater sense of purpose, you must give them an audacious goal 10–20 years away – so audacious it gives them a sense of urgency today.

2) Customers:

For a truly authentic purpose, start with the customer to truly engage with people inside and outside your organisation.

Defining common purpose is a key task of leadership. Purpose stays constant while strategies and practices constantly adapt in a changing world. Research shows that **leaders who focus their purpose on making customers' lives better are more likely to inspire truly customer-centric staffs**, who work hard to keep those customers coming back, thus outperforming competitors.

3) Culture is your Competitive Edge:

Organisations with a winning culture have given people a shared purpose, shared values and shared goals. Those **organisations with rich, healthy cultures achieve income growth seven times higher than those with less well-defined cultures.**

As a result of their strong cultures, those companies are also better at attracting the talent that enables them to keep generating growth and value. Leaders must choose their values with care and use them to drive conversations everywhere about not only their purpose and goals, but also the way in which they will be achieved.

4) Strategic Priorities:

To achieve your three-year ambitions requires you to focus on no more than five or six strategic priorities – fundamental things you must get right in order to achieve your revenue, profit and relationship goals. These will be high-level tasks that will take you at least three years or longer to achieve, but which are the building blocks of success.

All subsequent operational; or tactical planning and resource allocation decisions will be based on these strategic priorities. Defining these will enable you to decide which projects or initiatives to continue and which to stop or delay.

If this or that project does not help you to achieve one of your strategic priorities, then why are you doing it? Defining these goals is to bring your strategy to life and enables employees to understand the various initiatives that are under way, what those goals will contribute to the vision, and why they are of value to the organisation.

Success, however, depends on ensuring that employees understand and a commitment to corporate goals, as well as an ability to set their own goals to align with those corporate goals. And they must be regularly reviewed.

5) Have Powerful Conversations:

Use your 'Purpose on a Page' to have the powerful conversations that embed vision and values and align the organisation.

Without alignment, the best strategic plan will never be fully achieved. **Alignment is the glue that binds an organisation to its purpose, its values and its goals and enables it to get things done faster, with less effort, and with better results.** However, you cannot create a fully aligned organisation if you don't spend the time aligning and enabling your managers, so that they can have the purposeful conversations that embed a sense of purpose in every employee. Unless you do this, employees see only the gap between your aspirational purpose and their daily working lives, and they become cynical rather than motivated.

When articulated and communicated well, a purpose framework can help to direct, align and inspire the right actions on the part of large numbers of people. When you combine purpose, values and goals into an integrated framework, and articulate it all on a single page, you create the tool that liberates high performance.

Sources of Conflict in the Family Business & Some Questions to Consider – Part 1

While small or even ongoing disagreements within the family side of the family business might be more easily managed within a short timeframe, the more difficult conflicts tend to emerge and develop over time, often enabled by a strong commitment to not pay them any direct attention. **This dynamic is further supported by tacit "rules" commonly held by family members around historically "undiscussable" topics or behaviours and the assumptions family members hold around any number of topics and concerns about the business.**

In addition, there are common environments that might incubate potential conflicts ranging from unclear succession and continuity plans to growth and maturity of the enterprise to naturally occurring paradoxes that make up the day-to-day state of most family enterprises (i.e. upholding a rich family tradition while simultaneously embracing change; honouring elders while welcoming younger people, etc.)

In his book, *The Fifth Discipline*, MIT Professor Peter Senge¹ discusses Systems Thinking to better understand organisations and how human behaviour tacitly influences them. Based in the engineering field, Senge's view of Systems Thinking highlights several recurring themes or system archetypes² that represent predictable patterns or common "storylines" of behaviour in organisations. **These patterns almost always result in some level of inefficiency or degree of conflict within an organisation.**

Systems Thinking's archetypes or patterns also provide a unique application to the family enterprise, particularly around the predictable conflicts that many families associated with a successful, multi-generational enterprise might recognise. What follows are three broad systems archetypes in which conflicts within family enterprises can commonly emerge over time. They include questions that families might consider together to keep them in check.

(1) Fixes that Fail: Values Creep

According to Senge, the "Fixes that Fail" archetype is when a challenge demands attention. A solution is quickly implemented that alleviates the challenge but carries with it an unintended consequence that over time can create new challenges.

Managing and enjoying family wealth while actively upholding more historically conservative or traditional family values is important to many families. One of the most often stated reasons to do so is a desire to avoid an "entitled" next generation. While wealth brings potentially more options to a family in terms of travel, vacations, cars, flights, help around the house, etc., over time it can also shift a family's core values, perhaps of hard work and humble lifestyle of grandparents, from being actively practiced to being simply, if wistfully, espoused or upheld in word only.

Without much tangible day-to-day activity demonstrating historic family values, new norms of behaviour develop that eventually displace older answers to the question, "what's most important to us as a family?" This can result in the deterioration of the very values that underpinned both the family and the growth of its enterprise.

Some Questions to Consider: -

It is important for families in business to continue to ask themselves and talk together about what is “most important” to them. These conversations can help them balance the heritage and legacy of deeply held values handed down from subsequent generations with the success of the business and the opportunities it brings to family members. They also might ask to what extent aspects of their lifestyle are inadvertently teaching their children new norms or expectations that are outside core family values.

¹ **Senge, Peter (1990) “The Fifth Discipline: The Art and Practice of the Learning Organization”. Crown Publishing Group, New York, NY.**

Social Media – Tools that most Businesses will find Useful!

Social media opens the windows and doors into your business and allows you to tell your story about your business, your team, yourself.

One of the key questions is “What do your customers and prospects really want from you?” You then have to decide how you can deliver answers to those questions that will satisfy your clients and prospects.

The key challenge for businesses is to create content that “evokes an emotive response.”

You need to remember that social media conversations are happening on a public stage therefore they are viewable by the whole world.

To successfully utilise social media platforms the messages that you are conveying on social media need to be integrated into all aspects of your business operations for your business to be successful.

One of the first questions that business people must answer is: “Who is your ideal customer – your Avatar?” (An Avatar is the characterization or persona of your ideal customer)

The various social media platforms target to different numbers of people and different demographics. The reported numbers of participants on the various social media pages in Australia are:

- Facebook – 10 million users of which 9 million are using mobile devices to access
- Linked In – 4 million users – 57% male
- Twitter – 2.9 million users – fastest growing user group aged 55 to 64
- Instagram – 9 million users – 60% aged under 30 and 68% of users are female

There are businesses offering social media support in most parts of Australia.

Regular Meetings Contribute to Business Success

The concept of “working on your business” rather than always “working in your business” illustrates the desirability for directors and managers to have some “time out” from day to day activities periodically. One of the key activities that could be conducted at least four times per annum is to have a meeting with your accountant to consider your overall business performance.

As businesses grow most businesses find it desirable to appoint an accountant as their Chief Financial Officer. This appointment acknowledges that there are many aspects of the business operations that require a financial input on a daily basis.

We acknowledge that this same requirement for financial advice beyond the preparation of annual accounts and income tax returns applies also to small businesses and medium sized enterprises who in the main will not have a full-time accountant working for them who can perform the Chief Financial Officer role similar to what happens in larger companies.

A regular meeting enables the Owner/CEO/General Manager of your business to meet with the partner, manager, accountant from our firm that you normally deal with to give you the opportunity to discuss with us a range of financing issues that are of concern to you in the operation of your business.

Our suggestion is that we establish a standard Agenda for these meetings, but other items can be added as required during the year and yes, if you wish, to discuss taxation issues we will be happy to give you our input on your business' taxation affairs but we do not envisage that taxation is the primary reason for this series of meetings.

We acknowledge that the preparation of an Income Tax Return does not “add value” to your business. It is the “add value” areas that we recommend should be treated as high priority items in this regular series of meetings.

Our suggestion is that we meet with you and any members of your management team that you care to invite on at least a quarterly basis (but the schedule could be on a monthly basis) and that we both agree on the dates of these meetings twelve months in advance so that they are locked into our calendars.

Obviously, these meetings are for your benefit and therefore we acknowledge that the Agenda for these meetings should be approved by you and that the necessary reports for discussion at the meeting are prepared in sufficient time to be distributed to you, if we are preparing them, and to us if your team is preparing them, so that we are both prepared for discussions at the meeting.

We acknowledge that business is getting more competitive by the day and that there are probably many issues that we could make suggestions on relative to activities within your business that will add value – our overall objective is to help you run a better business.

Some of the items that we thought you might like our input on in these meetings includes:

- Are you happy with the format of the Financial Reports that are prepared during the year?
- Do these Financial Reports give you meaningful information on how the various sections of your business are operating?
- **Analysis of financial performance for the previous. – Quarterly or monthly**
 - Key Performance Indicators
 - Comparison to Budgets
 - Cash flow position as compared to Budget
 - Comparison to industry benchmarks
 - Analysis of revenue and gross margins
 - Where did the money go? – We will prepare a straightforward Source and Application of Funds Report which identifies the cash that was generated within the business and where it was spent for the period under review.
- **Customer analysis**
 - It is very important to analyse who your new customers are but also to review any lost customers and try to determine reasons why those businesses/consumers have gone to someone else.
 - Average sale for the quarter preferably on a departmentalised basis and comparison to the previous period and the Budget.
 - Gross profit percentage calculated for individual departments and product lines if that information is available from your computer system.
- **Prospect Analysis**
 - Review of the prospects that have been identified within your CRM (Customer Relationship Management) system
 - Sales made to prospects.
 - Conversion percentage of prospects to customers/clients.
- **Sundry Debtors**
 - An analysis of the debtors' position including
 - Debtors' days outstanding
 - Debtors' aged analysis
 - Bad debts written off since the previous meeting
 - Problem debtors

- Discussion on changes that could be made within your systems in an attempt to eliminate problems with debtors.

- **Inventory (stock)**

- Value of the investment as compared to the Budget estimate
- Stock turn rate – preferably on an individual stock basis but if this information is not available, on a departmentalised basis.
- Discussion with you relative to the current investment in stock and what that investment is projected to move to over the next six months.
- Discussion with you relative to the cash flow effects of the build-up of stock at particular times in the year e.g. Christmas – is it possible to negotiate longer payment terms with suppliers to reduce the cash flow pressure from this stock build-up?

- **Work In Progress**

- What is the investment in work in progress?
- How does this compare to the budget?
- Analysis of jobs remaining in the work in progress category for more than 30 days. Is there a problem within a particular job that is causing a delay in the finalisation of that job?

- **Sundry Creditors**

- Discussion on the amount owing and in particular on the creditors aged analysis and creditors days outstanding
- Are there any creditors who are being paid on terms longer than have been negotiated with them?

- **Team**

- What has happened within the team since the previous meeting relative to:
 - new engagements
 - resignations
 - retrenchments
 - dismissals
- What was the sales income per individual team member in this period as compared to other periods?

- **Cost Control**

We acknowledge that cost control is a very important item for businesses. We propose that at the meetings we will be able to discuss strategies that might be able to be implemented that can assist in the control of costs within your business.

- **Business Financing**

There are a lot of changes currently occurring in business financing for small and medium sized enterprises. Our suggestion is that at each of these meetings we have a regular agenda item that will encourage us to examine:

- Bank support
 - other finance company support
 - debtors' financing
 - supply financing
- for your business and discuss the development of new strategies.

- **Capital Raising**

There are now opportunities for small businesses and medium sized enterprises to be able to raise capital from the public rather than borrowing money from banks and other financial institutions thus requiring an asset to be offered as security for that borrowing, personal guarantees to be given by owners/directors and monthly principal and interest repayments to be entered into.

The capital raising opportunities that are available include:

- raising capital under section 708 of the *Corporations Act* (a propriety limited company can raise up to \$2 million from a maximum of twenty investors in a twelve-month period);
- companies which are under three years of age who have developed a new product process or service could give consideration to becoming classified as an Early Stage Innovation Company so as to take advantage of this registration which could prove attractive to potential investors who are able to qualify for a tax rebate based on their investment in the company and potentially to a capital gains tax exemption on that investment.
- Crowd Sourced Funding Equity Raising – is now available to propriety limited companies and unlisted public companies that have turnovers under \$25 million – these companies have the potential to be able to raise up to \$5 million in share capital direct from the public in a twelve-month period.
- Initial Public Offering (IPO) if your ambition is to be listed on a stock exchange than at this series of meetings we could discuss the strategies for getting the company “investment ready” so that an IPO could be instigated.

- **Grants**

Our suggestion is that a regular agenda item for these meetings should relate to “grants”. There are hundreds of Federal, State and Territory grants operating in Australia. We will be able to give you an update at the meeting on grants that are available that are targeted at businesses similar to yours so that a decision could be made as to whether a grant application should be submitted.

- **Risk Management**

At each meeting we suggest that there is a discussion on risks that are currently affecting the business or could affect the business so that strategies could be developed to offset the problems that a particular risk could present to the ongoing business operations.

We would suggest that the Personal Property Securities Register be considered as part of the risk review.

- **Pricing of Products/Services**

We believe it would be beneficial as part of the concept of adding value to your business for a review on the performance of the various activities within the business relative to achieving the profitability target that has been set in the Annual Budget.

This would probably require a review based on current labour costs and productivity, direct material purchases mark-up percentage, targeted profitability, to determine charge out rates based on these revised inputs as compared to current charge out rates been utilised, to facilitate a discussion as to whether charge out rates or pricing should be changed.

- **Research, Development and Innovation**

At each meeting it would be desirable that reports on any research activities are submitted.

- **What if?**

We are well aware that there are many issues that arise in a business on a daily basis that pose a “what if” question. In larger organisations the Chief financial Officer is an intricate member of the group that is considering “what if” questions in many cases on a daily basis.

We believe that these regular meetings will be a good forum to discuss questions relative to the operation of your business. Obviously, if the “what if” question requires an urgent response we are most happy for you to contact us direct at that time to raise the question with us.

- **Valuation of your Business**

We will always be conscious of the ultimate saleability of your business by making suggestions that will contribute to a better bottom-line performance and system enhancement that should justify the use of a higher multiplier in the valuation of your business.

Our proposal is that we will prepare a valuation of your business based on generally accepted business principles for the valuation of similar businesses to yours at least once per annum so that you can monitor the changes in the valuation of your business.

- **Succession Planning**

Part of the strategy for creating a higher valued business is the implementation of a training/professional development strategy in conjunction with succession planning at every level of the business so as to ensure that your business has a well-trained, informed, enthusiastic team. Our suggestion is that the succession planning strategy is discussed at each meeting

- **Superannuation/Retirement Planning**

Our proposal is that at each meeting there would be a discussion on the level of superannuation contributions that you are making together with a general review of your retirement aspirations and how you are planning to fund your retirement.

- **Business Readiness**

An important component of the meeting process will be to review at each meeting the ongoing development of the company/business so that the business is alert to opportunities within the marketplace to consider a potential trade sale, acquisition of another business, expansion of the business into other areas, undertaking an IPO etc.

- **Systems review**

At each meeting we will discuss with you any suggestions which you have or which we are proposing relative to system changes within your business.

- **Key Strategies for the Next Quarter**

One of the key reasons for suggesting an ongoing series of quarterly meetings is to assist in the identification of a number of key objectives to be implemented by the business in the following quarter. Our suggestion is that following the discussions on all the foregoing issues that you then agree on the identification of key strategies for the leadership team and all other team members to assist in the implementation of these key strategies over the next three months.

- **Corporate Governance**

To gain the maximum value from each of these meetings we suggest that the Agenda and supporting reports are distributed at least three days prior to the meeting so as to enable each participant to have read the material prior to the meeting.

At the conclusion of the meeting we will be able to assist in the preparation of Minutes of the matters discussed and the preparation of individual action plans to be distributed to persons who are responsible for implementing action that has been decided on at the meeting.

- **Want more information?**

If you would like to have a discussion with us on the merits of establishing a regular advisory meeting with your business, please do not hesitate to contact our Business Advisory specialist – Lyall Bear and/or your CBSW contact director, to discuss this further and how we might best assist you.

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