



# Farewell Michael

1938 - 2010

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Chartered Accountants Business in Focus  
Monthly audio program

July, 2010

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Welcome to this July 2010 edition of Business in Focus. I must begin it with some sad news.

Last month I reported that our founder and Executive Chairman, my father Michael Schildberger, was seriously ill. Now I must advise you that he passed away. It's been a difficult time for all those who were close to Michael, but my family and I would like to thank the many subscribers who have offered their condolences, and warm memories.

As was his wish, I will continue to host the program, working with the same production team and striving to bring you each month – as he always did – interviews which can help you and your clients.

As well as being the best Dad I could have hoped for, Michael was my boss for almost half my life. His work ethic, the respect and loyalty he received from those who worked with him, and his vast store of business knowledge and experience will be my guide. I hope I'll be able to rely on your continuing support too.

We'll begin this month with a tribute to my father from Professor Neville Norman, Associate Professor of Economics at Melbourne University, who was one of the co-founders of Business Essentials more than a quarter of a century ago. Neville Norman has never missed a program in all that time, and many subscribers have told us how much they rely on his advice and his forecasts.

And there's much more on this CD which I hope will be of interest and assistance to you.

Please enjoy it.

Regards,

**Nick Schildberger**  
Managing Director



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# THE ESSENTIALS

July 2010

## Track 2

### **THE ECONOMY & TAX REFORM – UNFINISHED BUSINESS**

**Professor Neville Norman, Melbourne  
University & Michael Jones, Cummings  
Flavel McCormack**

- At the halfway point of the calendar year, most of the news is good: unemployment low, fulltime jobs increasing, the budget forecast to be in surplus in 3 years not 5, and investment in plant and equipment rising
- We should expect the federal election to be a short-term business and confidence negative, and the possibility of a change of government has risen as the year has gone on
- For the rest of the year, growth and rate forecasts have to be trimmed a little, inflation risks remain, and a double-dip recession in economic activity is still unlikely
- It's better to face an ugly boom than a real activity slump

- In a year's time: no recession, higher interest rates, brighter business prospects, the mining tax shelved, possibly a change of government and more of the Henry Report adopted
- Henry's proposals under the personal income tax heading have merit, not only for the suggested changes in tax rates, but for what would be included under the definition of personal income
- Bringing down the Henry Review in an election year has meant a piecemeal approach by government, and delays in introducing worthwhile reforms quickly
- The value of Henry is that it's a comprehensive review, but reducing the company tax rate by bits and pieces is not helpful
- Trying to bring in tax changes to deal with a single issue is often unsatisfactory and results in bad taxes
- Tax reform does not mean tax relief, unless the whole question of government expenditure is opened up at the same time – a political minefield

### Track 3

## **ACCOUNTING INDUSTRY – OVERMANAGED AND UNDERLED?**

**Ric Payne, Principa**

- The profession has focused on implementing “efficiency-focused” strategies. This has increased output per person and as a result organisations are now relatively flat



- But, average net profit per partner has not increased and it never will. Productivity does not naturally lead to increased profitability
- This has occurred because of what I call the Productivity Paradox. The economic structure of the profession that causes its fragmented characteristic, coupled with the popular use of timesheets as the foundation for billing, has resulted in the economic value created by technology improvements to be passed on to customers
- If you aren't using efficiency-enhancing technologies you will not stay in the game for very long. Superior performance comes from understanding and responding to the changing needs of clients and team members
- It demands the continual review of a firm's business model starting with its client value proposition. This is a leadership issue whereas achieving efficiency is a "management" issue.
- Management and leadership are not mutually exclusive. The problem in today's professional service firms is that people associate responsibility with titles and their behavior reflects their title
- We need an organisational environment in which all people act as leaders and managers when required – people constantly thinking about where we are going while also thinking of how we're getting there!

## Track 4

# **BUILDING SUSTAINABLE CULTURES**

## **Peta Bayman, Facilitating Results**

- We believe that the focus for many change programs is too narrow. It tends to be technical in nature concentrating on roles, structure and organisational processes
- There is often a focus, albeit a lesser one, on training which is skills development
- The approach needs to be holistic, looking at individual change, skills development, structural change and culture change
- There needs to be a long term commitment to change and a real understanding, particularly at the leadership level, about where the organisation is aiming
- What we are looking at are the thinking, feeling and spiritual meaning which systems people carry around with them
- We know now through lots of research that technical mundane tasks can be motivated by reward - for complex tasks it simply does not work
- Make the structural changes that will deliver the results, regardless of who is holding what position
- Do the training and skills building that is necessary, especially ensuring all supervisors and managers are skilled coaches
- Conduct a cultural audit, be ruthlessly honest, and get an external company to do this. Be willing to look at organisational dysfunction

## Track 5

# PROPERTY: A BOOM OR A BUBBLE?

## Nicholas Don, Odyssey Financial

- Probably neither at this stage, but strong growth has continued through the first half of this year, and shows no sign of abating
- Strongest growth has been in apartment sales in inner suburban areas of most capital cities, with demand from both investors and owner-occupiers
- Investment in property has benefited from a turn-away from the stockmarket as a result of the GFC and continuing volatility
- That's particularly true with self-managed super funds, which have traditionally invested mainly in shares
- Legislation 3 years ago permitted super funds to borrow to buy property, albeit under strict conditions
- External factors, like the financial instability in Europe, are having little effect while the Australian economy stays in good shape
- High levels of immigration, especially in Melbourne and Brisbane, are contributing to the continuing strength of the property market
- Post-GFC dominance of home lending by the major banks is receding, with second and third-tier lenders re-entering the market

## Track 6

### SMSFR 2010/2

#### Leigh Adams, Leigh Adams Lawyers

- Self Managed Superannuation Fund Ruling 2010/2 explains how section 17A of the Superannuation Industry (Supervision) Act applies to self managed super funds
- That section broadly allows a non-member, who holds an enduring power of attorney in respect of the member, to be trustee of the member's super fund, or director of the corporate trustee - without causing the fund to cease being a self managed super fund
- Well, self managed super funds used to be known as *excluded superannuation funds*. That's because they were *exempt* and still are, from many of the prudential requirements under the SIS Act that have the effect of protecting members' interests
- Section 17A sets out the conditions that a fund must satisfy in order to have the *self managed* status. One requirement is that each member must be a trustee of the fund, or a director of the corporate trustee of the fund. Another requirement is that, other than in the case of single member funds, each trustee of the self managed super fund or director of the corporate trustee of the self managed super fund, must also be a member
- This could have caused potential problems when a member died or travelled overseas for a period of time or became incapacitated. The ruling clarifies the operation of the section

## Track 7

# SHAREMARKET UPDATE

## Tim Lincoln, Lincoln Stock Doctor

- My thanks to Michael Schildberger, a great mentor, for all that he taught me in the 11 years in which we've done these interviews
- Volatility, mainly caused by the European debt crisis, worries about sovereign risk and the uncertainty over the mining super profits tax, continues to dominate the market
- But that creates opportunities, and it's time to be an active investor, not a passive one
- Review your portfolio. Sell off the stocks to which you're not wholly committed. Use the cash to buy into those which are performing well and have the best underlying strength
- Look for the stocks that are under-valued at the moment. It's an opportunity to re-weight your portfolio
- Active management means taking big decisions, based on careful assessments. At Lincoln, we've recently sold our Billiton BHP holding, not because it's doing badly but because other stocks offer greater value
- High among our Star Stocks: Wotif, Webjet, TGA Holdings, CSL, JB Hi-Fi – all trading at substantial discounts to our valuation

## Track 8

# CLOUD COMPUTING – DOING BUSINESS IN CYBERSPACE

## Sandy Male, Tymwise

- Software as a service (SAAS) or “cloud” computing is a simple distribution model where applications are hosted by a vendor and made available via the Internet
- Using cloud computing doesn’t remove control but it does remove the need to micromanage, allowing the owner to focus on the core business
- It reduces the frustration of having to back up your data on an ongoing basis. That’s all taken care of out on a cloud
- Security needn’t be an issue, there are many hosting providers who are extremely secure
- Tymwise is an online scheduling application
- A key benefit is accessibility. Clients can access the booking system in real time, from anywhere - it’s very useful when managing complex bookings or where employees or clients are in remote locations
- As well as streamlining operations, there are bottom line savings, eg multiple branches can be handled from one location through a single application
- SAAS applications allow clients to interact with a business 24x7, whenever it suits them
- There are many SAAS or cloud applications on the market now

## Track 9

# TRAPS TO AVOID IN ONLINE TRADING

## Dr Michael Schaper, ACCC

- Online trading offers great opportunities but there are traps for the unwary
- One is the belief that because you aren't selling from a bricks-and-mortar shop, the normal rules of retailing don't apply. Not so!
- Whether sold online or not, the goods must be fit for their intended purpose
- They must match the description provided and be of merchandisable quality
- Online traders are bound by the usual rules on remedying defects in the goods they sell
- They must disclose full information about the customer's rights. If they don't do this, or if they cut and paste information from elsewhere and it's wrong, they putting the business at risk of breaching the Trade Practices Act
- This applies also to the rules on refunds and warranties
- It's harder to enforce your rights as a customer if the supplier is overseas, especially if the country is outside the jurisdiction of the Australian courts
- The ACCC can assist in many ways
- The laws of the land are there to provide a fair environment in which businesses can compete against each other – no matter where the trade takes place

- It's important for customers to have confidence in online purchases

## Track 10

### **WHY CLIENTS NEED A BOARD**

#### **Adrian McFedries, DC Strategy**

- Boards aren't just for big business. In some ways they're more important for small businesses, whose owners have trouble finding the time to work ON the business
- Some companies will say they have a board but actually it's a collection of family and friends and not a genuine functioning board with independent representation
- Sometimes the ego of the business owner will get in the way, or the fear of losing control or of being confronted in front of the team
- "I don't have the time" is no excuse for not having a board. If you don't have time to work ON your business, what are you doing in it?
- It's likely to be much easier to get a bank loan if you have a board. Banks will find comfort in the decision-making process in your business
- Likewise, potential investors will be more confident about getting involved
- Businesses with a board are more likely to get a premium price when they're sold
- It can take 24 months for a board to become fully functioning, with several months just getting the reporting right



- In the initial period, the business owner may find the whole process a grind – but don't give up!
- It's a good idea to select board members who'll bring different skill sets to the table
- It doesn't have to be a Board of Directors. It could be a Board of Management, which is quite different, easier to implement and which doesn't have the directorship obligations
- Consider the cost of having a board as an investment. It could be the best money you've spent in the company