

The passing of Australia's richest man, Kerry Packer, last year at age 68 marked our region's most significant generational shift in recent memory. His son, James, inherited the family business and US\$5 billion fortune and now firmly leads Australia's largest diversified media and entertainment group, PBL.

Family-controlled private and public companies account for 90% of all businesses worldwide. Of those, barely one in 10 companies will survive beyond the second generation.

The Packer story of success and seamless succession has become an exemplar for large numbers of Australian family companies. It is a well-loved and oft-quoted story because, as the graveyard of family companies will attest, building a corporate dynasty can be far harder than building the corporation.

At a recent ANZ leadership conference, James Packer revealed that this past year had been tumultuous. Yet, he regards himself as incredibly lucky to be doing something he loves. When he became executive chairman of PBL in 1998, James became the fourth generation at the helm of one of Australia's most successful family empires.

So how does a family company achieve that sort of longevity? In Europe, the very old family firm is not uncommon. Pencil makers Faber-Castell is still run by the family of founder, Kaspar Faber, who started the company in Germany in 1761. Italian gun maker Beretta is a 500-year-old family firm that claims to be the oldest business in the world and continues to be run by the family that founded it.

Closer to home, Family Business Australia (FBA) is a national member-based, not-for-profit organisation

formed to improve the effectiveness of Australian families in business. CEO Philippa Taylor argues that successful family businesses are those which adapt and change according to the talents of the younger generations.

"There is a common misperception," she says, "that because the company is no longer 'Blah Blah and Sons', it has failed. In fact, the children have often developed the business into something bigger and better; or the business has become a launching pad for their own enterprises."

In other words, she says, "surviving the generations" doesn't mean staying the same. But there are some other important elements for success.

DEVELOP AN EXIT STRATEGY

US estimates indicate that, globally, more than US\$3 trillion worth of family company assets will change generational hands over the next 10 years.

Stock markets are not traditionally kind to those companies that have forgotten about succession planning. Especially where the founder is still at the helm, succession issues can not only destroy the company but also bitterly divide the family. Share prices can deviate from intrinsic value long enough for some observers to raise doubts about the company's worth and strategic direction.

FBA estimates that only 27% of family companies have a plan for when the leader steps down. "If it means the future of the company, a strong traditional founder will usually agree to put steps in place," says Taylor.

Her best advice is to use an external adviser. "An external professional, who is not a family member,

FAMILY-CONTROLLED BUSINESSES ARE RENOWNED FOR WITHERING ON THE CORPORATE VINE. HOW CAN SUCCEEDING GENERATIONS NURTURE THE FAMILY FORTUNES TO ENSURE AN ONGOING AND FLOURISHING DYNASTY?

By Jennifer Conley Photography Jaime Murcia

nurturing an

empire



“AN EXTERNAL PROFESSIONAL, WHO IS NOT A FAMILY MEMBER, CAN PREVENT A TRAGEDY.”

Philippa Taylor, Family Business Australia

can prevent an absolute tragedy. Leaders need to take time-out to be strategic. Perhaps they have the viewpoint that no one else can do what they do, or do it as well. Too many are working in the business – they don't actually spend time working on it.”

BOARD TABLE, NOT KITCHEN TABLE

Family issues can easily become magnified in a business. According to FBA, properly convened and managed family meetings around the boardroom table, not the kitchen table, are essential. These help family members – including in-laws – to talk freely about the business and encourage a separation of family versus business issues.

“If there is a lack of a shared vision or a lack of communication – for instance, the head of the family perhaps assumes he knows what everyone else wants – these can cause some family businesses to go into meltdown,” says Taylor.

“To me, it is such an absolute tragedy when family businesses fail because of these sorts of issues, when they didn't have to. And it is so exciting when they do well.”

Stephen Newman, a commercial partner in Melbourne law firm, Cornwall Stodart, has seen the crippling effects of lengthy litigation within family companies. He advises companies on the mechanisms they can establish to avoid legal trouble, such as shareholder agreements, trusts and deeds, wills and powers of attorney.

He has seen family companies “shut down” for months while litigation was going on, some founders preferring to see the company destroyed than to see the other party win. But these are at the dysfunctional end of the scale, where family issues have become so entangled in the business as to be virtually inseparable.

Before it gets to this, family companies can establish structures which will resolve challenging issues early – long before they become problems.

Family meetings are one of the most important steps in this process of ensuring the continuity of the family business. All members of the family need to be part of the resolution of issues, to contribute to the decision making and, in this way, younger members can be grooved in to future leadership roles.

The Myer Family Company and the family's philanthropic foundation, for instance, have biannual ‘family musters’ for three generations of the family. These are largely social, held over the course of three days, but include formal business and philanthropy meetings, presentations and discussions.

The company was founded in 1925 by Sidney Myer to hold his Myer Emporium shares. It has grown and changed dramatically over the years and includes a wide diversity of investments, including, recently, a renewed involvement in its traditional holding, the Myer retail business. The family is now very newly in its fifth generation and third and

fourth generation Myer family members are active as board members, shareholders and executives.

FBA argues that the successful transition of many family companies beyond the first and second generations is often due to the early establishment of documented policies. These include well-designed employment practices, such as family members being paid market-rate salaries and criteria for family members joining the business.

Company X, for example, was established by three brothers who are working happily together in business. One of their daughters finishes a marketing degree and wants to work for them and yet the brothers have never identified the need for a marketing manager.

Companies need to think about how they are going to admit a new family member before they get to this point. Their guidelines could state, for example, that the directors must agree there is a job first. Then, does the person measure up to market benchmarks (why should you lower the bar?).

The family business literature also suggests that outside management experience for successors is highly recommended. Younger generations, it is argued, then have a greater sense of accomplishment and a broader perspective on the business, having cut their teeth elsewhere.


COMPETITIVE ADVANTAGE

A 2004 Wharton Business School study has found that family companies deliver better sales growth – 19.6% for family firms compared to 13.8% for non-family firms – and have a higher return on assets. Some of the most successful US companies are defined as family-run, having the founder or a member of the family in control: Wal-Mart, Home Depot, Heinz, Rubbermaid and Black & Decker among them.

In Australia, the list is also long and often hugely successful: Visy Industries, with revenue of \$3.2 billion, sits at the top of the family-owned private company list, while Linfox, Tenix, Transfield, Manildra Group, Grocon and Federal Hotels and Resorts are just some of those among the top 100 (with 2006 revenues above \$400 million). Public companies with founding family members still in control include such success stories as Westfield, PBL and Multiplex.

Martin Tobin, Managing Director of Tobin Brothers Funerals and a member of the national board at FBA, believes the family company brand is a particularly powerful one in a world of market cynicism.

He says Australian family-controlled businesses are the heartland of a majority of entrepreneurial activity; they can seize opportunities more easily and they have a reputation for trust and reliability that is the envy of other corporations.

“I'm a great believer that family companies have a competitive edge.” 

the grollos

DANIEL GROLLO IS HAUNTED BY THE adage that the first generation acquires, the second consolidates, the third squanders. Daniel (pictured left with his father Bruno) is the third-generation leader of privately owned development and construction group, Grocon.

“It was drummed into us by our father!” he says, laughing. “It's a superstition but, when you think it through in psychological cycles, it seems to have truth in it. You know: the first is keen, hungry; the second remembers that struggle; and the third has never known anything but success.”

The reality is that, under Daniel's leadership, Grocon continues to strengthen and innovate, motivated by his genuine passion for the business.

For him, the advantage of a family company over a non-family one is that management has “a motive to care”.

“The proprietors and managers are the same people, so there is the financial incentive,” he says. But he also points to an element of personal pride and responsibility which often gives family companies the edge in performance.

“We are quick on our feet,” he says. “A family business tends to have no bureaucracy. We may not mobilise huge amounts of capital but we can make decisions quickly – and we have a dedicated pool of talent.”

Grocon regularly employs about 400 people, about 60 of whom have worked for the company for 20 years or more.

The company started life as a suburban concreting business, established by Italian immigrant, Luigi Grollo. His sons, Bruno and Rino, took the business into larger-scale construction with projects like the Greensborough Shopping Centre and, with Bruno at the helm in the 1980s, the landmark Rialto Tower, Melbourne's tallest building until recently usurped by Grocon's own Eureka Tower. Bruno retired several years ago and quite happily takes only a passing interest in the business now managed by his son.

Daniel Grollo started as a carpenter on 101 Collins Street. His older brother Adam and sister Leanne have been involved in Grocon at times but now pursue other interests. “I wouldn't want to pressure my own children into the business that I do,” says Daniel. “All the generations should have the freedom to choose. It would be awful to go to work and not love what you do.”



the tobins

TOBIN BROTHERS FUNERALS WAS started in Melbourne in 1934 by four brothers whose children and children's children have worked alongside one another in the family business ever since.

Of the company's 140 current employees, 14 are family members; three of them are second generation and 11 are third generation. Within the next five to 10 years, the fourth generation is likely to join their ranks.

"Whether they would want to join is always a question," says managing director Martin Tobin (pictured right). "Being a funeral director isn't everyone's cup of tea. Not all family members will be suitable either, and, as in any business, there needs to be a job opening."

In other words, he says, entry to the company is not a birth right. Indeed, entry requirements for family members are tougher than for non-family, with relevant post-secondary qualifications or at least two years' experience in the workforce a minimum condition.

The family has a formal constitution, with employment guidelines, and holds quarterly family business meetings to discuss current projects and resolve any problems before they become crises.

The family's successful leadership transition eight years ago is testimony to the benefits of planning and policy. The former managing director, Des Tobin, told family members in the early 1990s they had five years to find his replacement. They drew up the specifications for the job which, significantly, did not include being a Tobin but did include holding a tertiary level education and an MBA.

In the end, the family approached Des' son, Martin, who was a successful solicitor and happy in his profession. He agreed to join the company under a detailed succession plan, which included completion of an MBA, and took over as managing director in late 1998.

When Tobin Brothers started in North Melbourne during the Depression, the four brothers included two firemen, a general store manager and an accountant. "The firemen became the marketing people, the store manager handled operations and the accountant managed the money," says Martin.

There are now 19 branches of Tobin Brothers across Melbourne and the company is still growing, with a new acquisition in November this year in country Victoria.



Right A blend of family talents works well for the De Bortoli clan, from left, Victor, Leanne, Darren, Kevin and Emeri.



the de bortolis

HAVING SURVIVED AUSTRALIAN consumer preferences for beer, draconian winemaking quotas and archaic licensing laws over nearly 80 years of topsy-turvy existence, the De Bortoli winemaking family is ready for anything.

The current glut of wine is the worst trouble Darren De Bortoli has seen personally in his 25 years in the industry. But his family memory is long.

"My father used to talk about 1952 and my grandfather survived worse," he says.

Darren's grandfather, the founder of the company, Vittorio De Bortoli, began making wine in 1928, essentially to use the grapes he could not sell in the lead-up to the Depression years. Australian tastes at the time were limited to fortified wines – ports and sherries – and yet Vittorio and his wife, Giuseppina, grew shiraz grapes and made table wine. Eventually, winemaking became their core business with two vats increasing to 20 by the pre-war years.

Their son, Deen, joined the business as an eager 15-year-old in the early 1950s and, over the course of less than a decade, increased the company's capacity to 110 vats. Today, the third generation manages a \$170 million business.

The board of directors is made up of Emeri De Bortoli, wife of the late Deen De Bortoli, and the couple's four children, all of whom are involved in the day-to-day running of the company. Darren is managing director, Leanne De Bortoli, together with her husband, winemaker Stephen Webber, manages the Yarra Valley Winery & Restaurant, Kevin De Bortoli is company viticulturist and Victor De Bortoli is export director.

As a teenager, Darren worked in different parts of the company then studied oenology at the Roseworthy Agricultural College in South Australia. His creation of Noble One Botrytis Semillon, while still in his early 20s, started a revolution in sweet wine.

In 1994, Darren became managing director at the age of 34. "My father Deen had seen too many problems in other family wine businesses when children were not adequately prepared to take over when the principal passed away," he says.

"It was quite an experience taking over the running of the company. Sometimes you come unstuck but my father's maxim was that you learn from your mistakes."

When Deen passed away suddenly in 2003, Darren had been at the helm for almost a decade. "I've continued my father's style of giving people a fair degree of autonomy and flexibility."

He says a family company has a definite edge over competitors "because the family culture is very conducive to success".

"The staff have an enormous sense of ownership and pride in the business," says Darren. "A lot of effort is wasted by people in large corporations protecting their part of the turf and playing corporate politics."

10 TIPS FOR SUCCESS IN FAMILY BUSINESS

Hold family meetings at the board table, not the kitchen table.

Discuss challenging questions frequently and early before they become problems.

Include all family members in the resolution of issues and allow them to contribute to decision making.

Re-visit your business plan every 12 months.

Mentor younger family members in the business.

Allow future generations to pursue their passions.

Write a family code.

Even small companies need external advisers (if not independent advisory boards).

Pay family members market-rate salaries.

Encourage potential successors to get outside experience.

