

**HD Succession a key factor in family business success - SPECIAL REPORT**

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Steve Samson knows better than most the challenges of keeping a family-owned business together.

The national chairman of the Family Business Association spent nearly 30 years in Western Australia's oldest family business, Lionel Samson Sadleirs, which traces its origins back to 1829.

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"When you do get into a consortium of cousins, which effectively starts with the third generation, it becomes very unwieldy by its nature; the number of people involved and the different personalities," Mr Samson said.

"I'm fifth generation and so we're fighting the odds. We shouldn't be around because of the nature of that succession process from generation to generation."

Despite the challenges, Lionel Samson Sadleirs is still going strong, having just appointed two sixth-generation family members, Angus Samson and Todd Wisdom, to its board of directors.

The continued family ownership contrasts with many other family businesses, such as Bunnings, Aherns, Boans and Clough, which have been sold into big listed companies.

One factor in Lionel Samson Sadleirs' longevity is its willingness to bring in non-family members - its chairman Michael Smith and chief executive Neil David are both 'outsiders'.

It joins a handful of family businesses, including D'Orsogna, Craig Mostyn Group, the Wright family's VOC Group and the Bennett family's AMB Holdings, in going down this path.

Staying together

Mr Samson believes the growth of the Lionel Samson Sadleirs business, which is diversified across wine, packaging and logistics, was an important factor in enabling continued family ownership.

"If you go back to the 1940s when we bought into Sadleirs, it was so that different brothers had something separate; they all couldn't go into the liquor business," he said.

"My father got involved and really built up the business, which has been probably the strongest part of our organisation."

Sadleirs started as a brokerage agency but has grown to become a national player in trucking and logistics, with annual turnover of \$200 million and 500 staff.

Many other long-running businesses have stayed in family hands, only after certain family members bought out their siblings.

A prime example is ship supply and food service business Sealanes; fourth-generation family member Leeanda Paino runs the business after her father, Sam, moved to outright ownership 10 years ago.

Dawson's Garden World and Galvin Engineering have also been through multiple ownership changes, all within the same families.

#### Dawson's Garden World

Ian Dawson is the third-generation owner of Dawson's Garden World, which employs about 90 people at its nursery in Forrestfield and garden centres in Swanbourne, Joondalup and O'Connor.

Mr Dawson said succession across each generation had brought challenges.

His grandfather, who started the **business** in 1903, had three sons and two daughters.

"In those days, the girls were never mentioned much, they obviously didn't get a look in," Mr Dawson said.

One of the sons wanted to go orcharding after WWII, so his brothers bought him out.

"That was the first time they had to do a **buy**-out; dad had to sell his house to get over that hurdle," Mr Dawson said.

Mr Dawson's father and his uncle George owned the **business** for some years until the 1970s.

"George wanted out, his kids had grown up and he wanted to travel and enjoy life, but dad just loved the place," he said.

The solution was for Mr Dawson and his cousin Andrew to **buy** out their parents and siblings.

"It was a complex deal that involved the siblings getting interest payments over 10 years, then a capital payment, plus the parents' houses, and a commitment to look after the parents financially for their lives," Mr Dawson said.

The next, and probably most difficult change happened in the mid 1990s after Mr Dawson and his cousin started working on a plan for the former to **acquire** the **business** outright.

The **buy**-out got a lot more complicated when other family members, along with lawyers and accountants and valuers, got involved.

"Once we got so many people involved, they just wanted to sell the whole thing because they thought that would maximise their return," Mr Dawson said.

It took three years to negotiate and implement the buyout.

"We shed land out of the **company** and I had to take out a fairly big loan; it was not a happy three years," Mr Dawson told **Business** News.

"It could easily have tipped the whole thing over; we were very close to selling the whole thing."

#### Galvin Engineering

Galvin Engineering is one of several businesses built up by Roy Galvin in the 1930s and beyond.

Roy Galvin's three children undertook a series of transactions to make the **business** structure manageable for their respective families.

This started with John and Jim buying out their brother, Tony, who became a doctor.

They subsequently split ownership of the various businesses, with John buying the hardware and concrete operations and later the plumbing **business**, which was much bigger.

Galvins Plumbing Supplies is now run by John Galvin's son Mark and nephew David Galvin.

Brothers Chris and Paul Galvin bought the engineering **business** in two tranches, buying out their uncle John in 1992 and their father Jim in 1997.

"There has always been this paring back," Chris Galvin said.

"They've always been very smart, thinking pragmatically - the **business** was getting bigger and they all had kids."

The mechanics of buying the engineering **business** were relatively straightforward - it was independently valued, and the purchase was vendor financed.

#### Managing growth

BDO director Mark Pollock, who has advised many family businesses, highlights the 'four Ls' that contribute to family **business** success.

The first is ensuring that family members learn about the **business** world, and **acquire** broad **business** skills, before they learn about their own family **business**.

Family members need to learn leadership skills if they want to take over the family **business**, and then need to learn how to let go, so the next generation can step up.

When Chris and Paul Galvin purchased Galvin Engineering, they brought their outside experience in accounting and engineering.

That has proved beneficial, as Galvin Engineering has grown from a WA-focused **business** with \$3 **million** annual turnover to a national **business** with \$20 **million** turnover and 85 people on **board**.

It has become more focused, supplying specialised taps and valving for the health, education, research and correctional industries, and has manufacturing operations in India, **China** and Italy.

Chris and Paul Galvin worked as joint managing directors until about five years ago when they recruited an external CEO.

That didn't work out, so Chris returned as sole managing director

"We knew we were in for tough times and thought one person would be able to act faster, but still with the support of the other," he said.

Paul Galvin has moved to a more non-executive role, working two days a week on special projects for Galvin Engineering, plus handling the other businesses and investments the brothers own.

Chris said turnover jumped during the GFC because of the BER education work, but "the past couple of years have been very tough".

The **group** has won work on a number of big hospital and prison projects but there has been less underlying small-to-medium work.

Despite that, Chris still has an eye on growth opportunities.

"The next five years are about continuing our expansion into the eastern states, New Zealand and hopefully South-East Asia," he said

A notable initiative was the establishment of an advisory **board**, which provides strategic advice and management accountability.

The advisory **board** is chaired by Cumberland Consulting's Jim Crockett, who has worked as a consultant with the Galvin **business** for about 10 years, and they are considering appointing a fourth **board** member in 2015.

#### Managing the family

Mr Samson urges all family **business** to maintain an open dialogue to deal with issues like succession and governance.

"There is a lot of research showing that successful family businesses have a strong sense of what their values are, what they stand for, and they are able to manifest that within the **business**," he said.

"If you can do that, you've got a really strong family **business** because everybody knows exactly what the rules are and what it stands for."

His experience also tells him there is no magic formula that applies across all businesses.

"At the FBA, we throw up a framework of best practice, but each family has to adapt it to be appropriate to their history and values," Mr Samson said.

Lionel Samson Sadleirs, which has about 80 shareholder 'members', has a family council and a family charter to deal with these challenges.

"Instead of waiting for an issue to arise and all of a sudden you get a bunfight, let's talk about all those issues with no heat in it, in a very controlled space Mr Samson said.

Chris and Paul Galvin have led the establishment of two family councils, which are independently chaired.

One deals with their immediate families, and covers the family **business** plus other investments, which Paul and Chris have shared 50:50.

Paul and Chris are also looking at succession, for both their children and for management of the **business**.

"These things have a habit of sneaking up on you, so you can't leave it," Chris Galvin said.

They also helped in the establishment of the Jim Galvin Family Council, which includes their parents and three sisters.

"It was a way of getting mum and dad to the table, and saying 'instead of dealing with this in a will when you're dead, let's talk about this as a family and deal with it while you're on your feet and enjoying life'."

The family council meets four times a year.

Chris said the children would get invited on to the family council after they turn 21, but they needed to be interested.

They also used the council to start the James Galvin Family Foundation.

Ian Dawson started working on a succession plan nearly 10 years ago, after being prompted by his wife.

"Helen asked, what if you die, what are we planning?"

"That started my series of 'When dad dies'. It was about three foolscap pieces of paper."

Mr Dawson recalls giving the first version to his three children as the family was boarding a flight to Melbourne.

"They were all sitting together behind us, and I could hear them laughing as they went through it," he said.

However, the first draft served a serious purpose; it started a family conversation that is continuing today.

"I'm up to number five or six now. It's changed as they've had input into it.

"So that's my succession plan and it's evolving."

Mr Dawson wants all of his children to be involved in the **business** "but I want to create areas where they can take it in new directions".

"The current **business** can keep growing but we can also go off in a few tangents, so long as we do it in a measured way," he said.

This includes using the family's Yallingup vineyard to establish a Dawson label, led by his daughter and winemaker, Liz, and building up the food side of the **business** at Forrestfield.

"At the weekends, we can't handle the crowds who want to have a light lunch or Devonshire tea," Mr Dawson said.

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