

## Blood ties bind family business

PUBLISHED: 25 Mar 2010 07:30:25 PRINT EDITION: 25 Mar 2010

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Theo and John Poulakis from Harrolds boutique are keeping succession in the family

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Melbourne retailers and brothers John and Theo Poulakis were approached by their respective 24-year-old sons with a proposal to take the reins of the company, and the senior pair was a little surprised.

Exit planning was certainly on the agenda for the owners of Melbourne luxury menswear retailer Harrolds.

However, they had always envisaged their sons, neither of whom had any experience in retail, would have their own careers first.

The Poulakis' conundrum is faced by thousands of family businesses every year. Make the right decision and the company can be set for growth for years to come. The wrong choice can quickly undo the work of a generation or more.

The sudden interest from the two cousins – who incidentally share the name Alexander Poulakis – triggered an intense bout of thinking for the two Poulakis seniors.

"They both love clothes – that is something that is part of the DNA," Theo Poulakis says.

"John and I had different ideas. My initial thought process was I've seen a lot of children work under their father's shadow and never fully develop. My view was always that you should go out and develop yourself ... and make your own mistakes."

Determined to minimise the mistakes they had seen other companies make, Harrolds formed a succession planning committee comprising the company's directors, accountants and lawyers. The committee meets quarterly to discuss the boys' progress. Alex and Alexander have also been given mentors from prominent Melbourne business families.

"The committee has identified that the boys need further education and they will be undertaking courses to expand their knowledge in key business management areas," John Poulakis says.

"They are also rostered on to work on the shop floor. The business is selling. If you can't do that, then you don't know much about the business."

The goal, pending the succession works, is for Alex and Alexander to take over from their fathers and for John and Theo to hold positions on the board.

"We truly acknowledge the fact that they need to shine and perform themselves and not live under our shadow," Theo Poulakis says.

"That is a fine line, but slowly we will manage it."

There are many family-owned businesses that may wish for such unexpected enthusiasm from the next generation.

A survey of 5000 small to medium enterprises by RMIT University and accounting firm MGI found that about 60 per cent of all family businesses are still controlled by their founder (about 80 per cent of all SMEs are thought to be family owned).

However, the survey, due to be released in late May, found that while 54.5 per cent of family businesses are planning to hand over the reins to one or more of their children, about 60 per cent of younger people are not interested in taking over.

"In many cases, their education levels are higher, the founder is not wanting to retire and there are family conflicts," RMIT University's School of Management head of entrepreneurship, professor Kosmas Smyrniotis says.

"Also, many younger people are very tech-savvy and there is some ease in establishing an online business where they can work from home. They're not interested in bricks and mortar businesses."

Trade sales are a more popular way of exiting a business, with some 45 per cent of family businesses planning to sell over the next few years, the survey found.

A gender imbalance still exists among family businesses, Smyrniotis says. Twenty-nine per cent of family businesses handed the business over to a son, while only 6 per cent are given to daughters, he says.

However, mothers are far more likely to pass on a business to their daughters and fathers are more inclined to hand over the reins to their sons, he says.

The chief executive of home services provider Dial-An-Angel, Danielle Robertson, spent 17 years working for her mother's 43-year-old business before taking over from her in 2003. Today she has expanded the company to 11 offices throughout Australia, three of which are franchised.

"I had a brother and sister who weren't interested in the business and another sister who was a franchisee for some time," Robertson says.

"I just developed an interest in the business ... and followed Mum around and learned how the business works. I even worked as an Angel, looking after kids."

In the final years working for her mother, Robertson became financial director and facilitated a lot of the company's expansion into new states and territories and introduced its new data systems. The pair discussed her eventual takeover of the company for years before it happened.

"We all just felt it was time, and she came to me one day and said, 'I am giving you six weeks' notice'," Robertson says. "I said, 'Mum we have been talking about this for years'."

At work, Robertson refers to her mother – who, at age 73 still comes to the office twice a week – as "Dana" and at home she is Mum. She also refrains from talking about the business around the family dinner table – however, her 17-year-old daughter has shown an interest in the business.

"She is a bright kid, but she wants to study and I am pushing for her to do that and go and work for someone else first," Robertson says. "That is probably one thing I wish I had done – had that bit more experience."

Chartered accounting firm HLB Mann Judd partner Simon James says there has been an increase in inquiries about succession planning since the beginning of the year.

The trend has prompted the firm to run three-hour family business succession planning workshops a corporate adviser, wealth manager, a tax partner and the company's accountant, banker and lawyer.

"It's a good place to start. To be honest, most businesses still do not have a formal succession plan in place," James says.

"Even if they do have one, and they haven't updated it since the global financial crisis, it is probably out of date."

With the proper support network, younger family members can slowly be integrated into the business without upsetting the balance – but it takes time, James says.

"You can put management systems in place ... you can get the red flags in early, and that certainly helps if something goes bad."

However, sometimes a trade sale provides a better outcome for business owners and their families, he says.

"It's quite often better for the owner to realise his \$10 million pay-out, pay off mortgages and invest in something the child is actually interested in, rather than push them into something they are not really into," he says.

"There will be lots of this in the next 12 months."

Preparation is crucial, according to RSM Bird Cameron director of business services, Ray Scott. Of the owners who plan to pass their business on to a family member, only one-third have a succession plan in place, he says.

Their main reason for this lack of planning is that they have either not yet found a successor, or they perceive it as "too early" to start planning.

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