Drive Behind a Family Affair

Successful private firms have a clearly defined plan of action

Family-owned businesses are prevalent throughout the world, accounting for 80 to 90 per cent of all businesses. They are the dominant form of private enterprise and create the vast majority of the wealth generated worldwide.

Although many believe family businesses are most likely to exist in Asian cultures, they are prevalent in developed economies. For example, in the United States they account for 70 per cent of all businesses, 50 per cent of gross domestic product and 50 per cent of the labour force.

Perhaps most surprisingly, 35 per cent of the Fortune 500 companies are family owned. Therefore, many lessons in strategic thinking can be derived from understanding how such businesses operate.

Recently we gave a presentation to a group of Asian chief executive officers in Bangkok at a forum which focused on the issue of strategy in a family-owned business. A co-speaker was Kelin Gersick, author of the book Generation To Generation: Life Cycles Of The Family Business. In both his book and his presentation he discussed a number of issues critically important to the successful management of family businesses over the long term.

Family-owned businesses are special, according to Mr Gersick, because they have unique characteristics. They are value-driven by a family dream.

There is someone in that family who has created a clear business concept he or she wants to see fulfilled. These people have distant horizons, always looking to the long term.

The members also have a high degree of trust and commitment because they fully understand what they are trying to create.

Family-owned businesses are also more complex systems because they involve many different types of interest groups each attempting to influence the direction of the business takes but often without regard for economic consequences.

Such companies, at times, have a set of conflicting norms, which must be reconciled in order to have continued success. For example, they are always trying to reconcile tradition and change; the legacy they want to establish versus the need for continued entrepreneurship; the values they want to endure versus the need for performance; and finally, the intimacy family-owned businesses seek versus the need for a public view of their operations.

Successful family-owned businesses are facing a host of new changes. For example, they see themselves as part of a global economy confronted by competitors with more sophisticated management support systems; and the next generation, who are beginning to take over the operations, have matured and developed with an international perspective.

These businesses also find themselves caught up by the changes in the role of women in the family who are now well educated and capable of managing the enterprise. This change is often at odds with old perceptions of the role of women. The family is also being confronted with the politics of private ownership and the new inheritance laws being implemented.

Mr. Gersick does not believe the assumption that there is an incompatibility between family control and professional management.

However, he believes the next generation of leaders must anticipate and manage family dynamics in all aspects of the system in which they are involved.

What then are the issues that are important to ensure the future success of a family-owned business? Mr. Gersick approaches this from three different viewpoints: ownership of the business; the family; and business operations.

From the ownership side of the business, there must be clear transfer plans which allow the business title to be transferred to a new generation of owners. There must also be clear succession plans which allow the continuation of the leadership function and contingency plans to deal with unforeseen ownership issues.

From the business point, the family must have a clear strategic plan which describes the business it is trying to create. This strategy must be consistent with the family values and consistent with the realities of the market place. There must also be career development plans for key executives who are not family members.

From a family perspective, Mr. Gersick recommends the establishment of a family council which does not replace the role of outside directors but supplements their effort with a mechanism through which family needs can be met. This council deals with issues such as the articulation and transfer of family values across generations; entry and exit policies for family members; liquidity needs and benefits; security and educational needs, and philanthropy.

Mr. Gersick's research on family-owned businesses has been supported by studies such as the one conducted by Robert Kleiman. For example, from 1976 to March 1997 the stocks of the 209 largest family businesses in the US had an average annual return of 16.6 per cent a year, compared with 14 per cent for the companies in the Standard and Poor's 500.

Mr. Kleiman believes this success is derived from the long-term perspective these businesses take and the fact their owner/managers have much of their own net worth tied up in the company.

However, if you intend to invest in these businesses make certain the directors of the company comprise at least 50 per cent of people outside the family. Also ensure these companies have a clear plan of succession.

These studies have supported our own experience in working with family businesses. They are successful because they are able to manage the dynamics of a family business while managing the complexities of a business operating in a modern global economy.