

Family First, Business First

**Lessons For All of Us From Large Family Owned or Controlled
Multinational Businesses**

By

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Dedication

To my families: my father's family, my mother's family and my own family. Over the years they have taught me the value of family and how important they can be. My children, Adam and Jennifer are the constants in my life.

Acknowledgements

Many people have inspired and educated me. I have worked with and for several of the great family business leaders of history. They are all very special people.

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I also want to recognize with some gratitude that I have seen dysfunctional families over the years. Often individually fine people, they demonstrated to me how the group dynamics of a family can sometimes work against the best interests of the individuals. While surprising, this chance to observe good people working hard against their own interests has been invaluable. I would hope that this book can help others avoid some of these mistakes.

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Introduction

There are many reasons why someone who is not associated with a family owned firm should read about them. In many ways, they are the purest expression of private enterprise. As such, we can see the principles of running a business in essential detail. I have enjoyed watching Gordon Ramsey's TV program, "Kitchen Nightmares." The story is so often similar. A family-run business which is failing. Gordon Ramsey comes in and strips the issues down to their essentials – product, people, service, presentation, advertising. He tells them how to fix it, meets resistance to change, overcomes it, and then moves on.

Family Firms have always fascinated me. My father spent most of his business career with a family controlled, public company, James Finlay, Ltd. Though he was CFO at the time of his early death in 1971, the company illustrated some of the shortcomings of the family company, and its history some of the more innovative control mechanisms used in multinational family firms during the Nineteenth Century. While the company lasted 250 years, The Swire Group, another family company finally acquired it in 2000. My mother's father worked for a family clothing business, Hill, Paul, in Stroud, England, a town, which was, for centuries the center of the global wool industry. While the company closed its doors in 1990, the building has been the focus of major conservation efforts. When I was twelve years old, my then best friend was the youngest of three brothers who would inherit the family business, Ralph Blatchford Co. Limited, a construction company. Sadly, this was a family business, which did not survive the transition, largely because they were heavily involved in Canary Wharf in London, the single largest property development in Europe, which while now successful, went through immense problems in the 1990s as leasing was much slower than expected. This created cash flow challenges, which they were not able to overcome. Family companies' key vulnerability is often their inability to finance easily. I spent twelve years with Mars, Inc, one of the largest private family owned companies in the world, and consulted to Perdue Farms for eleven years. I also advised such family owned businesses as McGraw Hill, the William Wrigley Company, and Hallmark. A cousin was CFO of a major multinational privately owned family business, another was COO of a yet another, and one of my father's cousins founded a successful business, which continues to prosper and grow.

Many people have written about family companies from an academic perspective, and a number of Universities and Business Schools have established "centers for family business," which specialize on coaching the leaders of such businesses. However, little has been written by people who have spent most of their lives in family businesses other than memoirs or sponsored biographies of particular companies, and while the academic work focuses on transition and taxation issues, there are other key differences in management style that are worth consideration. While I have applied intellectual rigor to this book, I have favored the human side rather than the academic. I believe that we often learn more through anecdote and example than by reciting "rules." I also have focused on large family firms. Most of the research and writing has been about small family businesses rather than bigger ones. The large family firm has much to

teach both the large widely-held company and the smaller family firm. Large family businesses frequently demonstrate many of the best management, entrepreneurial and control techniques available to us.

Like so many people, I sometimes have mixed feelings about family firms. At their best, they are superb and focused organizations which, according to the INSEAD Initiative for Family Enterprise, provide about half the employment in the United States, where even about one third of Fortune 500, publicly owned corporations are family controlled. Overall, about 90% of companies in the United States and 80% in Europe are family owned. Researchers at American University, the University of Alabama, and Virginia Tech studied the S&P 500 and concluded that family firms achieved 53% greater economic value, a 6.65% better return on assets. This was recognized by the stock market, which valued family firms 10% higher than non family firms. On the other hand, they hurt our sense of fair play as they may seem to encourage nepotism, and non-family management often is at a disadvantage when it comes to promotion and pay. However, the well run family business takes this into account, and ensures that it takes the best decisions for the future of the company. While we think of the ineffective family members given sinecure jobs, we do not always consider the intelligence, dedication, and trustworthiness of many family members. On balance, I believe that family firms are extremely valuable for many reasons. Among these reasons are:

- Particularly in private ones, line of communication are short and decisions are amazingly fast. Family members have no compunction in talking to each other, and want non-family management to have easy access.
- The company takes the long view as management is thinking about generations to come. They manage the company for the long-term, not quarterly earnings.
- Accountability is clear.
- Financial reporting systems can be innovative, fast, and extremely actionable.
- Investments are carefully evaluated and money is used carefully.
- People are important. Even if sometimes they may treat people badly. These situations are few, and the family is closely connected to the employees.
- They support entire communities and local economies.
- The idiosyncrasies of the family are clearly reflected in the company.
- There is clarity of purpose.
- New tools, techniques and philosophies are implemented fast and thoroughly if the family believes in them. Many have been pioneered in family companies, where experimentation will not die at the hands of financial analysts.

Of course, family companies may also suffer from disadvantages. I attempt here to present a balanced picture with a prescriptive element so that families

and senior management can optimize the business. Among the issues of concern are:

- Family members may be favored to such an extent that not only does the company suffer from poor management but also, capable non-family managers leave.
- The family runs it for the personal short-term benefit of individual members of the family
- Family differences, whether of strategy, needs or competence are allowed to become major points of public disagreement and family members sabotage each other.

There are many kinds of family business as there are widely held public ones. Cargill, while family owned, is now being managed by the third generation of non-family management. Family members still run Wegmans Food Markets. Ford and Wrigley's are public and while they have family CEOs now, have been open to non-family ones, while HE Butts and Bechtel are privately owned. Of course, "private" and "public" are not always clearly distinguished. Many companies are technically public, in that outsiders own stock, which they are free to sell. However, the stock may not be traded on any exchange, or be so thinly traded as to be effectively private.

Family owned or controlled businesses are often quirky and distinctive, reflecting the character of the owners, rather than the more heterogeneous management of most public companies. Often, family firms, such as W. L. Gore, Semco, or Mars, Inc., are laboratories for what others see as idiosyncratic management philosophies. Yet, family businesses may be just as, or more, sophisticated, and professional as any non-family business, and many of the philosophies adopted early by family companies are later used broadly in Industry. Furthermore, since about half the children born within a family are female, these businesses have provided women with more egalitarian opportunity than business as a whole has.

While in this book I concentrate on family business in the United States, I also cover learning from Asia-Pacific, Europe, and Latin America. In many countries large family firms are major factors in the nation's economy. While all this is often fascinating, particularly when we learn about the family intrigues and obsessions, it also has economic value to us. Among the key learning is:

- Innovative management styles and techniques pioneered by family businesses can first be tested here.
- Close financial controls can be used to control and learn. Taxation and asset management is usually very sophisticated.
- Business formation and transfer of control is a critical issue.
- Management and Motivation of employees who have to feel as loyal as family members ensures that these are among the innovators in HR policies and procedures.
- Effective investment because of financing challenges is critical.

The industries covered here range from defense to retailing, candy to beer, high-tech to very low. Family owned or controlled businesses cover as broad a range of enterprise as business in general. As they become larger, "form follows

function”, they begin to look more and more like non-family companies. Later on this book, I will use both anecdote and more formal history to illustrate some of the characteristics of family companies. I will also show some lessons we can learn from them.

There are, of course, many tales of scandal and impropriety regarding family firms. They reflect the characteristics, foibles and eccentricities of people perhaps more than widely held public companies do. Greed and jealousy is more dramatic when family members are involved. The intensity of feelings may be far greater when loyalty, love, hatred, and envy drive many business decisions. However, the intent of this book is not to focus on these, except as they are relevant to discussion of the business issues. I believe that they occur in the minority of family owned business as does such behavior in widely held public companies. I should also point out that drama is not unique to family firms. We can find it in organizations of every kind. I have seen several widely-held public corporations where the CEO runs it as a personal fiefdom to his or her personal benefit and that of his or her cronies. Nevertheless, the kinds of misbehavior in family companies are often different. It may be driven by personal animosity or jealousy, or by the founder still thinking of it as his or her own personal property after he or she has shared ownership.

It is not easy to manage a company for the long term. Many of the companies commended inside *In Search of Excellence* in 1988, would not qualify now, so a family company which survives to the third or fourth generation has already done well. The fact that some family businesses last into many generations is a compliment to their effective strategy, execution, and inter-personal skills.

There are many differences between public and private family businesses. This book addresses each of them. Nevertheless, we must be careful to not generalize from individual examples. Family firms are frequently idiosyncratic, and as unique as people.

Nonetheless, the family firm is a fascinating anthropological as well as economic factor. Over the history of human life, different forms of organization have evolved to accomplish what people could not do alone. Tribes and nations arose, led by chiefs and kings. Religions were run by priests, and each competed with each other. Kings fought to seize the loyalty and wealth of barons and monasteries. As economic enterprise demanded that people work together in trust, common goals and uniform processes and terminology, families were the first to take advantage of this. In some cultures, particularly Asian and Latin ones, the family is still the basis of more trust than an association of strangers. We see in the Middle East troubles today that the tribe, which is simply an extension of the family, creates divisions and prevents people working in the best interests of the country. However, in Anglo-Saxon cultures, laws were passed which first allowed and then encouraged the formation of companies. The 1862 Companies Act in the United Kingdom being the model for most of these. Much of the criticisms of it centered on the separation of responsibility from authority, as the managers were not personally responsible for the organization’s malfeasance. This keeps on recurring today, and even the 2002 Sarbanes-Oxley Act is yet simply another attempt to put responsibility into the hands of

management. The Sherman act of 1890 was the first anti-trust act and was used to break up Standard Oil, the Rockefeller family business. Later the Clayton and Robinson-Patman Acts were passed to control monopolistic practices more effectively.

For most of us these days, our employer, the company, competes for our time, attention, and loyalty with our family. In the case of the family business, the interests are aligned, and unless ego interferes, there should be no conflict. That this is rarely the case is a large part of what makes family businesses so fascinating. With their natural advantages, family businesses should beat widely-held public companies every time and the economy should be dominated by them. Yet that does not always happen. The lessons which can be drawn from study of family businesses can be applied to all enterprises. The basis of this learning has its roots in biology, sociology, anthropology, game theory, law, and psychology. Much of the academic work being done is to develop a “theory of the firm.” Unfortunately, doing this thoroughly requires expert level knowledge of each discipline, or the application of scientific method to the business itself, much as Elliott Jaques, with the enthusiastic support of its CEO, Wilfred Brown, turned Glacier Metal into a laboratory for management techniques for seventeen years from 1952. This was the most complete series of studies ever carried out into the nature of management and of work. I wish that we had the opportunity to carry out this kind of longitudinal research within the families of several types of family business.

The family firm has a great deal to teach industry and business as a whole. Sadly, much of the “business press” is really the investment press, and focuses on the stock market payback rather than how business takes place. While the Financial Times does run a “management” column, you have to read the Harvard Business Review or such to read about management, and family business is covered, if at all, in the context of small business.

As this book has evolved, I have concentrated on four key issues which are particular to family owned or controlled companies. Most of the others flow directly out of these. The solutions to them can usually be used to learn more general lessons which are applicable to any business. The four key areas are:

1. Ensuring the existence of a vision which while being true to the founder’s intent, is flexible and powerful enough to maintain the competitive edge of the business
2. Maintaining a management succession which both preserves the family nature of the company, and ensures that the best qualified individual runs the business
3. Retaining and motivating non-family management by financial and emotional incentives
4. Financing a family business, which if private, has limited access to the capital markets; or if public, may be unwilling to dilute family ownership any further?

We see family business issues occurring each and every day. As one part of the Molson family tried to merge with Coors, another part of the family was doing its best to block it. This was not primarily for business reasons, but because Ian Molson, who had been pushed out of his former role as Chairman, vowed to

prevent the merger on principle. Brewing is one of the businesses which is still heavily family run, but changing rapidly. Stroh's, founded in 1850, and which grew rapidly during the 1970s, was sold in the early 1990s. Today, Yuengling, family owned and founded in 1829, is actually the fifth largest brewer in America, largely because most of the family-owned companies between it and Anheuser-Busch have ceased to exist. Change is inevitable and we can only be sure that the future of a company is as unpredictable as the life of a human. Yuengling is now faced with the need to make changes as it faces discontinuity. How to move from being a company which prospered because of its scarcity and small size to one which competes more directly with much larger competitors. Over the past few decades many of the famous and successful family breweries have ceased to exist. Pabst, Schaeffer (the world's best selling beer in the first half of the 20th Century), Stroh's, and now we see Coors and Molson combining. Yuengling now has four daughters of the current CEO (three of whom work in the business) as potential successors. Unlike most other family businesses, traditionally, the younger generation buys the company off the older generation. In effect this forces the business to put aside enough funds to pay all inheritance taxes.

Chapter 1 – Stories from the Front

Family companies have been among the most adventurous ones in the world. For a number of reasons, management has to be in many ways, better than that of widely-held public companies. I saw much of this first hand during my twelve years with Mars, Incorporated. I still believe that, even having joined the company from Procter & Gamble, a superb organization, that Mars, Inc. was at the time, the best company I have ever seen. Although Forrest Mars' father, Frank, had, after three earlier attempts that ended in bankruptcy, his own candy company, it was never to grow very large, although he had invented the Milky Way candy bar. Forrest started to build his company in England, and soon after, in 1934, recognizing the long-term opportunity in prepared pet foods, acquired Chappel Brothers. Forrest was a unique visionary who seemed to succeed at all he did. The businesses he founded were in seemingly very different industries, and in different countries, yet all succeeded.

Early in his business's life, Forrest was interested in trying out new and experimental techniques. He was a believer in Taylor's "Scientific Management" and also in egalitarianism at work. All his "associates" were treated the same. He paid them weekly, required them to punch a time-clock, and made everyone work at unremarkable desks in one large room without partitions. During the Second World War, he went back to the United States and established Uncle Ben's Rice, Inc. in partnership with Gordon Harwell, and M&Ms, Inc with Bruce Murrie, son of Hershey's then President. This assured them of processed chocolate during the war years. He was also an early believer in the Marketing concept. During the war, when shortages were the norm, consumers would buy anything you could make. Many companies luxuriated in the post war shortage by simply making things and assuming that returned servicemen and their wives would buy them. Few companies recognized the need to be market driven. Yet, in 1949, he recruited Ken "Steve" Stevenson from Procter & Gamble in the United Kingdom, where he had been Brand Manager of Drene shampoo to introduce Marketing and the Product Management system to his company. Few Consumer Packaged Goods companies introduced this system until the 1970s or 1980s. "Steve" went on to establish the Mars pet-food business in continental Europe, one of the crown jewels in the company's assets. At around this time, Forrest became a follower of Deming, who was virtually unknown in the United States. In the 1950s Forrest became a convert to Rosser Reeves' USP ("Unique Selling Proposition") theory of advertising, moved his advertising for M&Ms candies to Ted Bates, Inc, which created "melts in your mouth, but not in your hand" and was one of the first companies to sponsor a TV show (Howdy Doody). In 1964, upon his father's death, he bought his sister's half of the company, and merged it with his own United Kingdom based company. When I joined the company in 1972, it had \$800 Million in sales and during the twelve years I was there it grew to \$ 8 Billion, moving from an International company to a true Multinational. While it has been family managed for most of its existence, it did have an outsider, Colin Baxter as its CEO for a brief period when Forrest Mars felt that his sons were not quite ready to take the reins. Now again, as Forrest Jr. and John Mars have

retired, it yet again has a non-family CEO, Paul Michaels, as the next generation are tested for their potential.

Forrest Mars was a passionate believer in product quality and also that he had to provide the best value for money that he could. This implied efficient manufacturing, minimum cost packaging, minimum inventory (which also ensured product quality), a lesson also taught us by Dell computer, and consistency. Even in his pet food business, he believed in genuine respect and caring for the animals. All testing was carried out not only humanely, but with genuine pampering for the animals. The “Pet care” symbol, with a hand petting a cat and a dog, was adopted for all products.

Among its other hallmarks and secrets of success was its unwillingness to enter new markets via joint ventures, but to maintain total control. Therefore, even in countries such as Russia, Brazil, South Korea, India, Japan, and Australia, it set up 100% owned businesses. This served it well in the long-run, as companies which had entered new markets via what seemed like the easy option of joint ventures with local companies, struggled years later to extricate themselves from ineffective or even harmful relationships. Even companies such as Procter & Gamble and Coca-Cola started in Japan via joint ventures, only to find that wholly owned companies were more successful. Mars also took the long view of its investment, not requiring the rapid payback which has crippled other companies’ expansion efforts.

Mars also had several other convictions and practices which led to its success. It always had superb financial reporting systems. The company operated on twelve accounting “periods” in the year and complete financial results, even thirty years ago, were available two days after the end of the period. Performance measurement was on a rolling twelve month basis, so year end artificial revenue and profit boosts were not relevant. Most importantly, it used the Dupont formula to evaluate investment performance, in which Return on Total Assets was the key measure, with current value accounting being used to value assets and depreciation added back to calculate earnings. This means that as Assets were not valued on a depreciated basis, but at replacement value, there was a disincentive to use assets until they were fully depreciated, but instead to employ latest technology to equip operations with the latest and most efficient machinery. The “Five Principles of Mars” were probably the most important factor in the company’s success. These stated essentially that the company had obligations equally to shareholders/owners, employees, customers, suppliers and the community. People were always important to the company. The owners knew even most junior managers by name and often personal details about them. Integrity and accountability was also key.

The company understood that the way in which to wield power is behind the scenes. The family is relatively anonymous, the corporate head office building, an undistinguished one in a D.C suburb. While Mars, Inc., never hesitated to use its money to make its case in Washington (employing Patton, Boggs & Blow, the powerhouse law firm, as lobbyists), Brussels, or New Delhi, it always maintained a low key set of activities so as not to arouse antagonism. It always behaved ethically and honestly in all its dealings. However, as in so many family companies, it is clear that the next generation has neither the hunger nor

the talent to take the company to new heights. I remember that even as they interned in the company as students, Vicky and Linda Mars, while nice and intelligent, did not have the drive and hunger of their Grandfather or even their fathers.

Among the key elements in family owned or controlled business is how to supplement the loyalty and trust engendered by effective people management through strong financial controls. One of the earliest and key examples of this was a turn of the century, British multinational family business, named James Finlay, Ltd.

Until the Scots took a hand, based on the work of Adam Smith (the economist who coined the phrase “the invisible hand”), a man (and in those days, with few exceptions such as Madame Clicquot, who inherited the Veuve Clicquot business in 1805 from her husband, whose father founded the business in 1772, when she was only 27 and made it a success, it was a man) was inseparable from his business. He founded a business with his own money, and prospered with it. But if it went bankrupt, he did too. The problem became larger with the scale of capitalist enterprise during the Industrial Revolution along with the large Trading companies, and the demands for more investment than any one person could provide. In crises, with the primitive financial organization possible then, whole communities or even nations could be ruined.

It was Scottish law that proposed a distinction between a business and its owners, so it could go bankrupt but they need not. This allowed the formation of partnerships into and out of which the partners moved as they wished, so the partnerships might long outlive their original founders. Later this developed into limited liability partnerships and joint-stock companies. Some are still with us - James Finlay, until its recent acquisition by Swires, being one of the oldest. There are others disguised today as joint-stock companies, which is just a statutory form of that type of economic organization the Scots first invented. Without it, again, there could be no global economy. There were a few companies with limited liability for its owners, such as the East India Company, established in 1600, but these were established by special Act of Parliament on an individual basis. The ability to form limited liability companies represented a revolutionary new invention which was far more significant than junk bonds, which enabled many companies to get financing which would not otherwise have been available. We do not often think of new forms of business organization in the same context as new technology. However, if we had not moved on from the sole proprietorship to partnerships which allowed for the combining of forces, or limited liability companies, which allowed financing apart from bank or lender financing, we would not have the wealth creation we experienced over the past two centuries.

James Finlay, Ltd. was one of the strong family-controlled multinationals during the heyday of the British Empire. Founded in Glasgow in 1745 by James Finlay, a trader, born in 1719, who started operating in India a few years before, he was succeeded by his son, Kirkman, in 1790, though only seventeen years old at the time. He greatly expanded the business, and by the time of his death, in 1842, he had seen it become a true multinational with operations in India, Ceylon, and Africa in tea, coffee, jute, and shipping. Until 170 years ago most tea

came from China, but when the qualities of Indian tea were discovered in Assam, James Finlay was the company which exploited the opportunity above all others. During his tenure, the Muir family business was merged into the Finlay family business and the company became for a short while, Muir and Finlay, and by 1835, Sir John Muir was Chairman of James Finlay. The Muir family mostly continued to head the company for most of remainder of its existence. His descendant, also Sir John Muir, was Chairman of the company as he presided over its demise through the last decades of the twenty-first century, and Richard Muir was its last Executive Chairman. My father spent twenty years with the company, starting in India in 1951 and as CFO when he died in 1971 at the age of fifty-three.

Let's consider the situation during the early days of the company. Young men from the United Kingdom would take a month or more passage to India, having been recruited as assistant plantation managers, mill managers, or Headquarters staff. It was an intrepid journey. Most of the people who went to India never came back. Many died, others succumbed to drink or gambling and could not return. Their pensions would not keep them in the United Kingdom in any style at all. For a few, after several years of isolation, they could perhaps make the long trip back. Even in the nineteen fifties, contracts were two and a half years in India, with six months paid home leave, travel being usually by ship. If they returned home, they would probably seek a wife to bring back with them. The women who went were also brave and daring. If they married a plantation manager, it was hard and risky. One such wife was overwhelmed with the beauty of the plantation and declared that she wished to be buried there when she died. Two days later, she died of cholera, and was indeed buried there. If they were fortunate enough to be based in Calcutta or Chittagong, the weather was extremely hot and humid, with epidemics rampant. Their children would probably be schooled from a very young age in England and perhaps would see their parents once a year only. If they were more fortunate, they might go to a boarding school in the "hill stations," such as Darjeeling or Simla, and see their parents more than once a year. The first products traded were jute and other agricultural products, but when the quality of Indian tea was discovered in the late eighteen hundreds, companies like James Finlay were quick to set up plantations and a global shipping and trading system. Nevertheless, the company depended on a large number of men who were typically young and daring or older and often alcoholic and needing cash. The company had to maintain loyalty and honest accounts. The church and empire could appeal to integrity, honor, and the potential of divine retribution, but a company could not. Therefore, the company also established an effective appraisal system long before it became normal practice in domestic corporations.

The company was initially set up as a series of interlocking partnerships, with the Muir family in control in each case, and the manager in each branch office as a junior partner. In 1909 it was established as a private limited company, and the partnerships were gradually absorbed. The company went public in 1924, but the Muir family continued to control it. In the early days of the business, the accounts were audited annually and "profits" were defined as that which was left after payment of "interest". Investors were guaranteed a fixed rate of interest on

their investment, and the remaining profit was also given to them in addition as a “reward for entrepreneurship.” Accounts in the Glasgow head office were completed once a year, whereas in the overseas branches they were done twice a year. As the business switched from an interlocking partnership, in which local “top managers” were junior partners in the firm so that their interests were aligned with the Muir family, the accounting system and employment contracts, with profit sharing, replaced this. Now, we grant stock or stock options to key management, thus returning to the principles of the nineteenth century when giving key people a “piece of the action” was regarded as essential. Family owned or controlled businesses continue to face this challenge. James Finlay also went to great lengths to interview and indoctrinate new hires. A typical interview covered family background, including parents’ and siblings’ occupations, religious beliefs, schooling, including oral examinations in Math, languages and history. The new employee was expected to spend several years in Glasgow learning the values and beliefs of the company. Employees were viewed as “trustees” and were expected to see themselves as such. As Francis Fukuyama argues, neoclassical economics is 80 percent correct but ignores the role of social capital (“reciprocity, moral obligation, duty toward community, and trust”) in facilitating the “stability and prosperity of postindustrial societies.” High-trust societies like Japan, Germany, the U.S. develop the kind of flexible organizations using non-family members that the global economy demands far more easily than do low-trust societies or “family driven” nations like China, France, Italy, and South Korea where you believe you can only trust family members. Scottish society in the nineteenth century was either family or clan based, but also, because of the Presbyterian moral code, one in which non-family members could be trusted.

The company, one among many such in existence in the late nineteenth century, seemed to be able to go on for ever. However, as “Indianization” took hold in the 1980s and James Finlay was forced, first to enter into a joint venture with the Indian (family owned) company, Tata, and then later to sell all its interests to Tata. The indictment of James Finlay was that is was not prepared for this, even though it should have seen it coming, and had no plan for diversification. As a result, the Swire Group (also family controlled) acquired it in 2000, and James Finlay effectively disappeared. Thus one of the major global multinationals from 1850 to 1950 completely vanished. During its history it had undoubtedly exploited the workers in its plantations and mills as much as any other agribusiness, but at its best, it serves as an example of a well managed global enterprise in the days before email, faxes, telephones, aircraft or even steamships. Although it no longer exists as an independent entity, it did for over two hundred and fifty years, most of them very successful.

For an interesting comparison, let’s next study the Swire Group, the company which purchased James Finlay. The Swire Group had very similar beginnings. However, it grew more slowly, and in the nineteenth century was much less powerful than James Finlay. Nevertheless, the family adapted much better and faster to changing conditions in China, from Communism to the handover of Hong Kong, so continued to prosper and grow. John Swire founded the business in 1816 in Liverpool, England as an import-export firm, initially

trading in the textile business with the United States. His son, John Samuel turned the attention of the firm to Australia and built a thriving export business. When the American Civil War hurt their business, the family turned its attention to China. So much as James Finlay focused on India; Swire became a collection of “old China hands,” starting with an investment in a steamship line, later known as the Blue Funnel Lines (James Finlay participated in the formation of “Clan Lines” also). While the company continued its trading business and entered the manufacturing business, first with sugar, it remained a factor in transportation, becoming the owners of Cathay Pacific Airlines as well as continuing in ocean freight. In 1914, the company moved, as had James Finlay, from its structure of multiple partnerships with local Managers to a limited company, incorporated in London. It became a major presence in banking, insurance, ship construction, Coca-Cola bottling (curiously, Swire was a bottler and exporter of Guinness beer in the late nineteenth century), cold storage, automotive trading, hotels, and farming. Nevertheless, the company is still run by family members who are great-great-grandsons of the founder. So why did The Swire Group prosper and grow while James Finlay company died? Clearly the family was far more adaptable than the Muir family. While using many of the same managerial methods, they were able to use their focus on and extensive knowledge of China to build a wide range of businesses and work with what should have been an extremely anti-business regime. Whereas James Finlay was not able to redeploy assets from its tea business and stave off the end, Swire was able to move from one business to others which had more promise. Furthermore, the Swire family was able to incorporate non-family management far better than James Finlay, which really simply made a couple of other families, largely interrelated by marriage, into the inner circle. All others were really just “hired hands.” Finally, when Hong Kong was handed back to China, the Swire group was ready and made appropriate business moves to continue its business. This adaptability to change is a key theme in successful family businesses.

We have examined three family owned companies so far. Each has been successful for many years. As long as each family maintained focus, but retained flexibility, the business prospered. As soon as the family lost the ability to adapt to changing market conditions, it suffered. Of course, one of the major causes of this is the existence of family disagreements, whether personal or professional. Let us take note of the fact that each of the above companies became successful based on specific expertise in one area. However, Mars, Incorporated has become a global giant based on its expertise in candy, pet food and a few human food areas, such as rice. The family has no specific geographical expertise or market knowledge. It has been as successful in Russia as in Japan, as prominent in France as in the United States. James Finlay and Swire prospered by geographical expertise. Superficially, being successful in banking or shipping or insurance does not ensure success in soft-drink bottling or automobile dealerships. Nevertheless, family companies in Korea, such as Samsung, and companies such as Charoen Pokhpand, the Thai giant, have used their managerial and project management skills, as well as financing ability to build broad-based businesses.

There is yet another approach which some family businesses follow. This is to address the needs of specific customer segments. Family businesses may be better equipped than widely held companies to do this as they family can affiliate with the target market. So Richard Branson's Virgin group sells insurance, mobile phone service, cola, records, air travel, all focused on youth markets, or one which sees itself as young at heart. An even better example is LVMH, which is not only a family business, but a collection of family businesses. The LVMH approach is to sell to people like themselves, but virtually any product which appeals to that target. Therefore over the years the group has added many upscale family firms, from Moët & Chandon, Krug or Veuve Clicquot in Champagne, Hennessy brandy, FRED jewelry, Tag Heuer watches, Louis Vuitton luggage, Givenchy, Marc Jacobs, Christian Lacroix, Fendi fashion, Guerlain or Christian Dior perfume, as well as retailers such as Sephora and the la Samaritaine department store. Many top managers would regard this as a "messy" business, whose strategic "grand design," requires the creation of "star brands" which are defined as: timeless, modern, fast-growing and profitable. In order to do this, says Bernard Arnault, CEO, you must free creative people from financial and commercial concerns, don't follow consumers, minimize risk by introducing all new products all the time, and give star brands time to grow. While these are self-declared paradoxes, they are not too different from long established business principles such as the McKnight principles at 3M which allowed scientists to pursue their own projects. The history of LVMH is one in which many traditional luxury brands have been assembled over several centuries, typically by a member of one of the families which founded one of the brands. So over years, the leadership of the growing assembly of brands has typically come from one of the families which has been "acquired in." The company, as it exists today, was only formed in Nineteen eighty-seven. It includes the world's oldest Champagne producer, Ruinart, which was founded in 1729, as well as such recent businesses as eLuxury.com. In 1987, Bernard Arnault's Moët Hennessy merged with Louis Vuitton, and the internal battle for control started. Henry Racamier, the then 74 year old head of the Louis Vuitton family sought to dislodge Arnault, who had 44% of the combined company (jointly held with another family company, Guinness). Three years of legal maneuvers later and Arnault had control. It is worth noting that with many family firms, national borders have little relevance. The heirs of the founders typically have a far more global perspective than the founders themselves. I will note that this global perspective does not come from attending International business schools, but more likely, from growing up on several continents, making childhood friends out of the children of other rich families, and calling several countries "home." So if we look at LVMH, we see the family continuity still being highly visible. Bernard Arnault's daughter, 28 year-old Delphine, having graduated from the London School of Economics, spent two years at McKinsey, the consulting firm (note how the children of the rich and influential manage to get into prestigious schools, Universities and employers). Shortly after she joined LVMH and first worked for John Galliano and now heads Dior's women's shoe division. In October of two thousand and three she was appointed to the Board of LVMH. It is not every day that a 28-year old becomes a Director of a \$16 Billion company, but in a family controlled company anything is possible.

As we examine family dynasties, they seem to be more common in non-Anglo-Saxon countries, UBS investment research pointed out that 45% of the companies in the French CAC 40 stock market index are family controlled, but they have also outperformed the index over the past ten years. When Jean-Luc Lagardere, founder of the large French industrial and media group died in 2003, he was succeeded by his son, Arnaud, without any comment by outsiders. In the United States and United Kingdom, with a greater tradition of corporate openness, shareholders wonder whether a family successor is in the best interests of the company, or just the family. Commonly, families have interests which they alone control and can manage the public corporation to benefit their private interests. Often in some cultures it is felt to be legitimate to use a family controlled company to enrich individual family members at the expense of non-family investors. For example, a family company might lease land or aircraft from individual family members at above market rates. Even in the United States, it has not been uncommon for family businesses to lend money at below market interest to family members or even turn a blind eye to the purpose behind expenses which have been charged to the company. These are essentially the charges which have been leveled against the Rigas family, who founded and controlled Adelphia, the cable company. Of course this kind of behavior is not unique to family businesses. In the early days of the corporation, the word “manager” was regarded as almost synonymous with “thief,” and it was believed that only an owner-manger could be trusted to behave honestly. Nevertheless, there are still a number of quite extreme examples of family favoritism in the Anglo-Saxon world of accountability. Rupert Murdoch’s News Corporation is an interesting example of this. Following his studies at Oxford University, Rupert Murdoch worked for two years at The Daily Express, and returned to Australia in 1952 to inherit wealth, in the form of a publishing business, including *The Adelaide News*, from his father Sir Keith Murdoch, a Melbourne publisher. After building a larger company in Australia, Rupert Murdoch turned his attention in the sixties to the United Kingdom, where he created a huge business, largely by moving the appeal of his publications to where the audience was with newspapers such as *The Sun* and *The News of the World*. This meant, in general, moving downscale, but he also acquired *The Times* and *The Sunday Times*, and continued their historic positions. In the seventies, he purchased *The New York Post* and turned from a stolid, stagnant paper into a dynamic, growing publication. In 1985 he became a United States citizen (while also managing to remain an Australian one, normally illegal in Australia) so that he could buy 20th Century Fox and Fox TV. In the 90s he purchased Star Television, to add to his BSkyB United Kingdom satellite TV business, and then at the end of Two thousand and three he acquired DirecTV in the United States. Many regard him as the most influential media baron in the world, with influence, and a generally right-wing perspective, in Europe, Asia, Australia, and the United States of America. He has four adult children (three by Anna Murdoch, one by an earlier marriage) and their careers illustrate the issues which concern many about family controlled businesses. His eldest daughter Prudence is married to Alasdair MacLeod, who runs News Corp’s community newspapers in Australia. His son Lachlan, a Princeton graduate, ran the Australian business before he took over

The New York Post in Two thousand and two at the age of thirty. His brother James, a Harvard drop-out, took over as CEO of BSkyB at the end of Two thousand and three at thirty also. His eldest child by Anna, Elisabeth, seemed to be destined for stardom herself at one time. A Vassar graduate, she married the son of a former Ghanaian dissident in Nineteen ninety-three. Her father appointed her as the Managing Director of Sky TV. While eight months pregnant with her second child, she met Matthew Freud, grandson of Sigmund Freud and an owner of a successful London PR agency. He helped her rebrand Sky TV. Shortly after, she left her husband, he left his wife, and they moved in together. In two thousand and one she left to establish her own production company, Shine, with a UK pounds ten Million production contract with Sky and a further UK pound 6 Million investment from Venture Capital fund 3i. During 2001, Shine managed to lose UK pounds 1.6 Million and in 2002, another 2.1 Million. In December, 2003, Rupert Murdoch said that he expected her to rejoin News Corp "in a few years." Therefore, we see a common situation where a family business which has been stable for years, but not very dynamic, is taken over by a successor who has immense drive and energy. This successor grows and builds the company to a new level, but then assumes that the next generation has his or her talents. As a result we see a group of individuals appointed to very senior positions in a large multinational who, at least on the surface, would not automatically get such positions elsewhere. Rupert Murdoch divorced his second wife, Anna and married Wendy Deng, who, like Anna before her, worked for him but was born the year in which Rupert Murdoch married Anna. At the age of 70 he had his fifth child, Grace, his sixth, Chloe, in 2003 at 71. No doubt another Murdoch will be joining the company in about twenty years. Rupert Murdoch has also been criticized for allowing the Chinese government to shape his news coverage to the Chinese audiences in exchange for favorable business treatment. So the Murdoch family business seems to represent one in which idealism or principles take a backseat to profit and self-aggrandizement. It seems likely that other businesses may be similar, but since News Corp is a media and entertainment company, its willingness to co-operate with governments of every persuasion is highly visible.

Now, I have focused on some of the largest, multinational family businesses in the world so far, but I do not want to forget some of the oldest and most family-driven. The oldest company in the world is Kongo Gumi, a temple builder whose first temple, build when the company started is still in fine shape, as is the company. Mazakazu Kongo, President, is the 40th generation to run this company founded in 578. The company started building Buddhist and Shinto temples. Its first, a Buddhist temple in Osaka, is still standing and Kongo handles repairs almost exclusively. While the company has branched out slightly, it still remains focused on temples. As the 54 year-old CEO says, "All we did was concentrate on our core business." However, while skills with carpentry are still central to Kongo Gumi, it was also the first to use concrete to build traditional Japanese architecture and also to use computer aided design. The company, with sales in excess of \$ 80 Million, has been profitable as long as anyone remembers. The key to its success is clearly to balance traditions with new technology, while

taking few risks. Masakazu Kongo was not allowed to skydive as a young man even though he wanted to.

One of the most fascinating aspects of family businesses is that while some survive by being small and local, others have the most sweeping, global visions of any businesses in existence. Ironically, some of the family businesses before age of steam had a sweep and ambition which far exceed that of most family businesses in the age of the Internet. Furthermore, many had a vision of style and grace which it is difficult to conceive a widely-held corporation having today. Of course, in the early days of corporations, there was less difference and companies such as the East India Company or the Hudson Bay Company could conceive of ruling a sub-continent. They were prepared to shape the world around them to benefit the company. I believe that one of the real strengths of a family business should be single minded purpose. In this, geography or nationality are of little importance compared to the prosperity of the company. This does not mean that ethics or idealism need be far from the objectives of the company. Companies such as S.C. Johnson, have a stated bias towards globalism. However, some companies have gone much further. Some have been started by immigrants who keep their roots alive. Others have intentionally kept themselves divorced from specific nationalities, but put the company first. Creed, the French perfume maker, was founded in London in 1760, moved to Paris in 1854 and became French but retained strong roots in England.

One of the most fascinating family businesses which demonstrates that family overcomes nationality is Rothschild. This family business started with Mayer Amschel Rothschild (a name taken from the red shield above the entrance to the shop. Shortly after his father died, he went to work as a clerk in a bank owned by the Oppenheimers (who eventually owned DeBeers diamonds). He left to take over the business started by his father in Frankfurt-am-Main, Germany, but decided that he wanted to build a family dynasty which would not be dependent on the fortunes of any one country. Accordingly, he sent each of his four sons to four different cities, and started a tradition of carefully arranged marriages for each. Nathan went to London, Jakob to Paris, Saloman to Vienna, and Kalmann to Naples. His first business was dealing in rare coins and he expanded this to antiques, wineries, and importing. As the business amassed more money and also built relationships of trust with Prince William IX of Hesse-Kassel, it started lending money, acting as his agent, to the government of Denmark. When Prince William was forced to flee by Napoleon's troops, the Rothschild took over the handling of his money. When Napoleon tried to seize all debts due to Prince William, and even offered Rothschild a 25% commission, he refused and remained true to Prince William. This early example of constancy and trustworthiness has remained one of the cornerstones of the bank ever since. In later generations, the family not only lent money to governments, but profited from an international view of business which was without favor to any one country. When the Battle of Waterloo took place a Rothschild courier was on the battlefield. The story goes that he used carrier pigeons to get the news of Wellington's victory to Nathan Rothschild ahead of Wellington's envoy. While Nathan Rothschild informed the British government, they did not believe him, so he first sold on the London Stock Exchange, precipitating a selling frenzy, but

then secretly bought back at rock-bottom prices. In addition, Mayer Amschel Rothschild had also had the foresight and vision to invest substantially in the East India Company, a very wise investment. Interestingly, while the Rothschild family served several nations, each one honored the family by awarding titles and honors to them. Over time, the banks in Paris and London became the surviving and prospering ones. The Naples bank was closed in 1861, the Frankfurt one closed in 1901, and the Viennese one during World War II. During the 1800s, the Rothschilds (along with the Baring brothers), financed much European expansion. They lent money to governments, railroads, financed the Suez Canal, oil exploration in the Middle East and Russia, diamond mining in Southern Africa, and saved the Vatican from bankruptcy. Even in the United States of America, they financed Rockefeller's Standard Oil, Carnegie Steel, and Harriman's Railroad. While the Rothschilds were early supporters of Zionism, they never sought separatism for themselves. Baron Edmond James de Rothschild was a patron of the first Zionist settlement in Palestine at Rishon-LeZion, and in 1917 Lionel Walter Rothschild was the addressee of the Balfour declaration which committed Britain to the establishment of a home for the Jewish people in Palestine. Over the generations they have married many people who were not Jewish, but they have usually married well, Marriage was always seen as a means to advance the family fortune, and the younger members of the family understood this well.

Today the family owns a Paris and a London bank as well as some of the finest wine-making estates in the world. In 2003, Kate Rothschild married Ben Goldsmith, son of the late Anglo-French tycoon Sir James Goldsmith, and another family whose roots go back to eighteenth century Frankfurt. While Kate's father, James Amschel Rothschild, heir to the British bank, committed suicide in 1996, her mother, Annabel, is a member of the Guinness family, another of the great family businesses of the world. This illustrates the rule that in great family businesses, while emotions do often outweigh logic for a while, there are certain threads of history which come together whenever they fall too far apart. While the death of James Amschel left the London bank without an apparent heir, in 2003, it announced that his cousin, Baron David de Rothschild of the Paris bank would head up the London bank also. Thus, the family continues to provide well qualified management in depth, family members continue to build alliances and connections through marriage, and family members who are not ambitious to join the family business are allowed to seek other outlets.

As we examine the great, long-lasting family fortunes and businesses, we continue to see the skeins of family lineages come together again and again. Not only in countries, but across borders, families merge through marriage, much like mediaeval dynasties. Sir James Goldsmith, who eloped to marry a Bolivian tine heiress, Isabel Patino, had grandparents who moved first to Paris to escape Bismarck's troops when they invaded Frankfurt, and then moved to London in 1894. His father, Frank, went on to become a Member of Parliament and colleague of Sir Winston Churchill. Thanks to a French wife, Marcelle, James was born with dual citizenship. Again, we see that nationality matters less than family in many cases.

So what of large family businesses which do not have an international mind-set, are not willing to use marriage to build influence, or do not plan succession in a disciplined way? There are several prominent examples to consider, and in each case we will see that there are discontinuities and uncertainties about the future of the business in family hands, and sometimes even absolutely. Typically these are companies where the founder has not had succession as an early priority. He or she built the business, but without a long-term view of the business and family intertwined. Frequently, the founder loves the business more than his or her family. Only after the family has grown large does the founder look around and wonder who can take over. He or she may well have brushed aside all other family members for fear they would get in the way, developed contempt for them, and not really allowed them to develop skills or temperament appropriate to managing a large business. The individual who founds a dynasty as well as a business has respect for the talents of his or her heirs, pushes them to grow personally and professionally. Unfortunately, human nature gets in the way.

Founders of great family companies, like the Rothschilds, are usually daring and adventurous in many ways. Levi Strauss was born in Bavaria in 1829. At eighteen he sailed for America with his mother and two sisters, to join his half-brothers' dry goods business in New York. Several years later he moved to San Francisco and established a dry goods business there. Almost twenty years later, he received a letter from Jacob Davis a Reno tailor, whom he supplied with cloth, suggesting that he patent the idea of using rivets to make clothing, as Jacob Davis had been doing by hand. Levi Strauss did so, and asked Jacob Davis to come and supervise the new factory, which he did until his death in 1908. While he exhibited courage and a sense of adventure, he also had a sense of integrity and loyalty which continued after his death. When in the 1906 San Francisco earthquake and fire, the office and two factories were destroyed; the company extended credit to its customers and continued to pay employee salaries until the factories could be rebuilt. The themes of quality, integrity, and loyalty are recurring ones in family businesses.

In-N-Out Burger was founded by Harry and Esther Snyder in 1948 in Baldwin Park California. While still confined to three states on the West Coast, even the New York Times acknowledges it as among the best hamburgers in the country. Each burger is cooked to order, using all fresh ingredients. Even the fries are hand sliced fresh in each store. As with Krispy Kreme before it went public (and In-N-Out has no such plans), growth is measured and organic. So how does a fast food chain charge modest prices, serve large volumes, use all fresh ingredients, and maintain high quality? Firstly, they have a very limited menu. Hamburgers (not many variations), fries, shakes, and sodas are all you can get. It pays above the norm in the fast food industry and gets lower turnover and thus has lower training costs. This is also a Costco advantage versus Walmart. So even though it may seem primitive, its productivity and sales per store are higher than McDonalds. It is a word of mouth franchise. Its competitors outspend it dramatically in advertising, but its customers will buy clothing which advertises the chain. This is also a substantial and profitable business. Anyone can learn

that a business whose customers will pay to advertise the brand has a powerful franchise.

Now White Castle is also a family business, but which demonstrates a very different behavior over the years. White Castle was the creator of the worldwide fast food market. Yet it completely failed to understand its own achievement and by trying to stand still, fell far behind. It is little realized today that White Castle, with another objective in mind entirely, did more to change the habits of society than almost any other business. The automobile, pneumatic tires, portable radios, surfaced roads, and fast food put the world on the move. Yet if we think back to the early 20th century, we need to remember that there was great suspicion about the safety of ground meat. Upton Sinclair had published *The Jungle* in 1906. This novel, set in the meat-packing plants of Chicago, led to the passage of the Pure Food and Drug Act of 1906. Consumers were particularly suspicious about ground meat. In 1916, a cook in Wichita, KS, Walter Anderson developed a way to cook a flattened ball of ground beef all the way through. In 1921, he formed a partnership with “Billy” Ingram a local real estate investor. In order to ensure safety and confidence in that safety, all cooking was done in front of the customers. After opening four stands in Wichita, one was opened in Kansas City in 1924, and by 1930, the company operated in twelve cities. In order to protect against economic shifts, the company decided to create a standardized, modular building, based on Chicago’s Old Water Tower, which could be dissembled and moved, but therefore needed to be standardized. So the original standardization of cooking processes and store was based on safety and financial conservatism. In 1933, Ingram bought out Anderson, and his descendents still run the company. The company was soon overtaken by imitators such as White Tower, now defunct, and later, MacDonalds. However the company continued to exist in a time bubble, which while it protected the company as other competitors such as Burger Chef and Carroll’s went out of business, prevented it from growing. It may be that In-N-Out follows a similar path. Nevertheless as long as Billy Ingram, in a pattern we see again and again, the original entrepreneur, ran the business, it was an innovator. On June 3rd, 1932, White Castle printed the first newspaper coupon which allowed the reader to buy five for 10c. Later, it resisted hiring women, ethnic minorities and setting up stores in the suburbs. While it became a “cult brand” in time to save it, it will never regain its past glory.

In a completely different industry, Hollingsworth and Vose, a \$ 300 Million company founded in 1843, printed the discharge papers for soldiers of the Union Army after the Civil War. Over the years it has built on its paper technology to enter filtration markets, non-woven materials, and separators. The company has been cautious and secretive and has grown more slowly than many of its competitors. It has given priority to providing dividends to family members rather than investing in growth. This is a common mistake in multi-generation family companies and results in failure to maximize the long-term value of the business. On the other hand, it has made changes by using its technology to address new markets. It has become a major producer of non-woven interlinings in men’s suits and during the 1980s started a successful international expansion. In this respect, given the failure rate of family businesses at each generation transition, it has been a great success.

Chapter 2 – Keeping control in the Family Company

When a founder starts and runs a company, control is simple. He or she owns all the stock and does what he or she likes. As the company grows and time passes, ownership may be spread more widely. Perhaps some stock passes to other family members, to trusted employees, or even to the public. So the company moves from a simple capitalist model towards the widely accepted one in Western society, in which ownership and management are not synonymous. Shareholders may own a piece of the company, but do not have the traditional rights of ownership. They may sell their stock, but they may not sell, destroy, or even have rights of access to their part of the assets of the firm. As long as the family business remains private, it only has to deal with internal family politics. If the company goes public, and most large family businesses are public, it is faced with a challenge beyond family unity. Typically, family businesses such as Comcast, Ford Motor Company and others resolve this is by creating two classes of stock. In this solution, there a class of stock with “super” voting rights, where one share counts for, say, ten shares of the other class. Thus the Roberts family, with less than 4% of the stock in Comcast, has one third of the votes. The Ford family, which votes as a block, with 4.7% of the stock has 40% of the votes. Sometimes families fail to allow for inheritance tax and are forced to sell off wither the company or other family assets to pay the tax, much as the Wrigley family sold off its ownership of the Chicago Cubs in 1981. Illustrating the fact that families which own major businesses also have other interests, the Wrigley family owned the Arizona Biltmore Hotel for forty-four years and still own large parts of Catalina Island, off the coast at Long Beach, California.

People such as Rupert Murdoch, Richard Branson and many others, own private holding companies that own a minority, but controlling part of many businesses. They use these businesses to benefit each other, and ultimately themselves. In Anglo-Saxon mindsets, we worry that shareholders who own stock in only one of the companies may find themselves damaged if this company is used to benefit another. In many Continental European and Asian businesses, this is rarely a concern as investors feel that the family will understand that it must take the long view and serve all investors.

Irik Sevin is a charming man with a lightning fast intellect. Graying, but full of energy and intensity, he is not only the inheritor of a business founded by his father and mother, now Star Gas, L.P., but has grown the business well beyond its origins. The business is run as a publicly traded master limited partnership, traded on the New York Stock Exchange. Such a structure for a business of this size is highly unusual, but instead of paying any income tax, all gains or losses flow straight through to the unitholders. Irik and his mother, Audrey, own a total of 59% of the units, so that they do have total control of the company. Over the years he has run the company, Irik has used a “roll-up” strategy to acquire small heating oil companies and become the largest home heating oil business in the United States. However, he still has only a 7% market share and such strategies run into a stage of diminishing returns as he well knows. When you buy more companies in the same industry, but often contiguous geographies, you have the opportunity to build scale in sourcing,

billing, customer service, training, and systems. Since this is usually accomplished with borrowed money and price may be fairly high, savings must be able to pay debt service and ultimately, principle. In a growth business, such as cable was for many years, you also get asset value growth against which to borrow. However, in a declining market such as home heating oil, as you get a larger market share, you have to pay a greater premium and also you find that savings shrink with each acquisition. Therefore, companies such as Star Gas have to add more products and services. Irik knows this and has been working to achieve this for some years. While he is the second generation and has worked hard to build the business, it will be interesting to see if it is handed down to his teenage son. In his mid 50s, Irik will have to work hard at transitioning to his son, who will still be in his twenties when Irik would normally expect to retire. We will be discussing some of the financial constraints on family businesses later, but Star Gas has adopted some of the more unusual financial structures in the United States. There are typically only a few ways to maintain control of a family business. Each has its own strengths and weaknesses. Among the factors to consider are the implications for inheritance. The key methods are:

1. Maintain 100% ownership directly. This usually means that inheritance taxes will prevent the business being passed on to heirs. Wrigley was forced to sell assets, including the Chicago Cubs to pay taxes. If you want to do this, buy insurance to pay inheritance taxes for the heirs.
2. Establish trusts controlled by the family to own the business.
3. Issue “supervoting” stock as Ford and Comcast have done which each carry up to 10 votes vs. one for ordinary shares. This allows effective control to be maintained with minority ownership.
4. Set up a family holding company (typically private) which holds slim majorities in other companies, each of which, in turn, hold slim majorities in other companies. This is the method used by Rupert Murdoch and Richard Branson
5. Set up the business as a not-for-profit corporation (not to be confused with a charity), controlled by trusts. This allows generous salaries and expenses to be paid to heirs, but no asset-based wealth. The Grosvenor family managed to run the National Geographic this way for several generations.

Essentially there are only two ways to get capital for expansion or continued operation. I will discuss it further later, but there is either debt or equity based funding. Debt funding can be either recourse or non-recourse. Equity can range from going public in an IPO, through private sale of an equity interest to joint venture. Each has trade-offs to be made.

Lastly, we must never underestimate the importance of leadership. This takes two forms. The first is the power of charisma, in which by personality alone the leader sweeps all along. This is rare, but Richard Branson has it, and has built his Virgin Empire while relying heavily on it. The second is the power of credibility. This can come from intellect or from integrity and dedication. So people within the organization will follow someone who is hard-working, honest, and smart even if he or she is not charismatic. The family name is extended and

its value multiplied if the person bearing it is admirable. Often family members who are newly appointed to new positions do not realize how closely they are being watched. Others are not hoping they will fail, as they often fear, but hoping they will succeed. In a family company, the fate of the non-family members as well as the other family members is tied to the family succession plan. So much as in the United Kingdom, people wonder how Prince Charles will perform as King, in family companies; people watch rising family members and wonder how they will do. If a family member fails to be successful or turns out to be lazy, arrogant, stupid, or uncaring, all involved are sincerely disappointed.

Overall, if you want to maintain control in a family business, retain 100% ownership. You may want to compromise on this to reward and involve non-family management or get access to the capital markets. The first can be dealt with in many ways, such as granting stock to management with a compulsory buy-back on retirement or death; issuing “phantom” stock, or putting stock in retirement plans. The second one is more challenging. Many people assume that you need access to the capital markets, and that going public is the only way to do this. Evidence suggests that this may not be true if the company is profitable, does not have to pay large or any dividends to family, and does not have to deal with large inheritance taxes. Companies such as Mars, Inc realized that they had to be more operationally efficient than competitors and then invest almost all the earnings in the business to minimize taxes. All too often companies put paying dividends to family members ahead of the long-term future of the company. This may serve the current generation, but is rather like spending capital. Thus, while Ford, Comcast, Taubman Centers, and Tyson Foods have maintained family control via special classes of stock, they have each reached a point where they cannot reduce their percentage at all, and if any laws are passed or regulations promulgated which restrict use of special classes of stock, then they become vulnerable to losing control. This concept is constantly open to criticism, investors such as CALPERS and analysis firms such as The Corporate Library and Institutional Shareholder Services. While attempts to derail these have usually failed, and Taubman Centers’ was attacked on the basis that their plan was not established until six years after the company went public, it is a vulnerable area. Even companies which live in glass houses often criticize others. Comcast criticized Disney for its corporate governance while The Corporate Library gave Comcast a lower score and the Simon Group criticized Taubman while trying to acquire it, even though the Simon family, with only 15% of the stock can designate four directors and block all major decisions. Quite reasonably, outsiders see this as a device wherein, non-family shareholders provide the capital, assume the risk and all without a voice in the company. At least bondholders and preferred stock holders get priority in repayment in exchange to no vote. Interestingly, even such a professedly egalitarian company as Google launched its IPO with the founders and CEO getting supervoting stock with ten votes for each ordinary share. Studies (Gompers, Ishii and Metrick) have suggested that companies with two classes of stock under-perform the stock market by 8.5%, though one has to not that financial analysts may be predisposed to be negative about them.

Another device used more often in countries where more than one class of stock is not legal or acceptable is to use a family owned private company to own a majority in company A, and that company in company B. In the end, the family controls Company B, even though it may own a modest part of it. This is also often attacked by the press and analysts. My firm belief is that every effort should be made to remain private or closely-held. In the event where it cannot be done, the family has to be prepared for a degree of scrutiny which may seem to be very unfair. This is largely because of two very different perspectives. Outsiders, such as stockholders, analysts, and lenders are likely to be suspicious that the company is being run for the benefit of the family at the expense of the non-family stockholders. This happens often enough that the fear is based on good reason. When the Rigas family went public, they did not fully grasp that they were now accountable to outsiders and could not continue to run Adelphia as an extension of their personal finances. As a result, they felt it perfectly reasonable to use company money for the family. On the other hand, the family feels that they started the company, and unlike outside investors, are bound to the company. Since the family has unique responsibilities, it should have unique benefits. An heir to a family company has his or her freedom constrained. It is impossible to lead an ordinary life. If the company performs poorly, the family is seen as responsible. Family members will not find it easy to have a successful career outside the family business. It would have been difficult for Terry McGraw to become CEO of Procter & Gamble. Careers in academia or politics are feasible, but even then, others will point and attribute success to wealth or influence. Of course, failure will be noted with particular glee. It takes a very secure person to go his or her own way regardless of what others think.

Chapter 3 – What Family Companies Teach us

While this book discusses the Family Firm in a time of Multinationals, we have seen that it was the family business which started the Multinational. In fact, we could even hypothesize that it was the existence of family bonds of trust and shared values which enabled companies to become multinationals in an age of poor communications. Could a business really trust a stranger to travel months away and represent the company while being confident that he or she would not take advantage of the company? The family business invented many of the procedures, tools, and systems which we routinely use today. Furthermore, family owned and managed businesses continue to pioneer new approaches. Family companies can be overly conservative, declining to take any risks and eventually going out of business, or they can be dynamic and experimental. Unlike most widely held public companies, the family company does not have to focus on quarterly earnings, but instead it makes decisions for the benefit of the next generation. If times are tough, family members will work for a pittance to secure the future of their children.

A study by *Business Week*, itself part of McGraw Hill, a family controlled business, indicated that family businesses perform better than widely-held companies. Others studies, in the United States and elsewhere, have found the same. However a study by Jonathan Low and Pamela Kalafut of CAP Gemini, found that family owned or controlled businesses do not perform as well in maximizing the value of their brands. They used an accounting measure developed to value intangible assets and learned that widely-held companies nurtures their brands' value better. Frankly, this surprises me. In over thirty years with family businesses, I have found that a well run family business, which will almost always take a longer view than a widely-held company, is immensely considerate of its brands. I remember John and Forrest Mars Jr. saying again and again that their names were over the door and therefore they felt a sense of responsibility for how the brands and company are perceived. I suspect that there may be some situations where family companies intend good stewardship, but either because of internal dissent or non-family managers with a less than loyal attitude, the execution is not as good as it should be.

In an interview in *Business Week* of November, 2003, Bill Wrigley, Jr. discussed the concept of “generational growth.” He discussed the long view which comes with being the family CEO of a family owned company. I remember sitting in Bill Wrigley’s office and listening, very impressed by his passion, belief, and commitment to the family business. I have seen this with many family companies, from Mars, Inc, to Perdue. I have seen it at McGraw Hill and at Hallmark. I found Terry McGraw to be very aware of the responsibility of his position, while Don Hall had a strong sense of his obligation and community. This long view means that family companies tend to invest for the long term and also have greater loyalty to people as they become “family” too. At Mars, which was headquartered in McLean, Virginia, they used the concept of the “clan” and had McLean tartan ties and scarves issued to signify the bond between all “associates.”

In a family business, bonds between members of the firm are more important than bonds of nationality or culture. That is the founding ethos, and it tends to continue through the life of the firm. Whether it is the Rothschild family sending sons to London and Paris to form banks, become, respectively English or French, yet remain first and foremost, Rothschilds, or the Murdoch family, where Rupert Murdoch changed nationalities so that he could meet United States legal requirements and grow his empire, nationality matters less than family. We can see that as soon as a family moves a generation or two beyond the founder, they affiliate more with people like themselves than with people with the same nationality.

There are several common patterns in the life of a family company. In one, an heir to a modest, stable, and profitable, company breathes dynamic life into it and creates an explosion of growth. He or she then expects the next generation to take it further. Usually, the next generation is not as talented or suffers from hubris and growth slows. The generation after that is less interested in work, less connected to each other, and more focused on other interests. We saw this pattern with the early years of Procter & Gamble, which was very much a family company until 1934, where Harley Procter in the late 1880s put the company on the path to its current pre-eminence. We see it in Mars, Inc, where Forrest Mars built an empire far larger than his father's, but his grandchildren are little involved. We see it in News Corp, where Rupert Murdoch inherited a steady but uninspired business, which he used as the basis for an enormous multinational, and then is making every effort to pass it on to his children.

Entrepreneurs can learn from successful long-lived family companies. Also, while they may not realize it at first, senior managers in widely held public companies can also learn a lot. The family led company demonstrates a very pure form of management. The owner-manager is even older than the partnership as an organizational structure.

Therefore we can see many of the fundamental precepts of management being tested in a "clean" setting.

There are many misconceptions about private companies. In an article in the *Wall Street Journal* (*Costco's Dilemma: Be Kind to its Workers or the Street*, March 26th, 2004), Bill Dreher of Deutsche Bank was quoted as saying, "Public companies need to care for shareholders first. Costco runs its business like a private company." This statement implies that private companies do not care about shareholders. The evidence is to the contrary. Of course, Costco outperforms Wal-Mart in many ways despite the fact that Wal-Mart has enormous economies of scale. The long-term financial results of family businesses, according to *Business Week*, are higher than that of widely-held public companies. The owners of family companies, in my experience, may take a longer view and be more prepared to make short-term sacrifices, but they are even more committed to the long-term success of the business than either shareholders (who can buy and sell at a moments notice) or management (who do not need to worry about passing it on to their children) of widely-held public companies.

The most basic need and skill in a family company is reconciling very many different objectives and creating a common goal from a very disparate set.

In a fourth generation family business, there can well be hundreds of people involved. Some may be active in the business, others not. Some will be older and others children. Some will want to take their money and lie on the beach or pursue very different vocations. Some will make unwise marriages and face ex-spouses who will ask for some of the company as part of community property. Yet others will be passionately devoted to careers in the company and plan a company which has growth, longevity and provide interesting opportunities, A few may have a social agenda, to improve the life of the employees or the society around them. Whichever they intend, conflict resolution skills as well as corporate governance are critical in ensuring success. In general, people make suboptimum economic decisions because there are many non-economic factors which impact these choices, Therefore, we cannot assume that if we collect all the family members in a room and explain to them which decisions lead to the “best” economic outcome, all will agree to move ahead. While some objections, such as questioning the underlying assumptions, may be rational, others, such as whether the recommended course of action has harmful effects on the environment, the employees of even long-term suppliers or partners, may be driven by principle or ethics. Even more confusing, there may be unspoken or even unconscious agendas.

As we learn how to address these in family companies, we should also be able to apply many of the same techniques to widely-held public companies. Thus there is considerable relevance to learning about family business for managers in other businesses or even in government and non-profits. Putting the learning from these into silos is a mistake and the manager who is interested in improving performance will examine all kinds of organizations.

Even when we discuss the four key issues in family firms: vision; succession; financing, and motivation of non-family management, we see that these are just as relevant in widely-held public companies. However, in a family business they are more visible and finding a solution is more urgent. As a result, solutions found in family companies are often of particular value to other companies. Yet, top management in widely-held public companies will rarely examine family business to see what they can learn from it. Business best-sellers do not spend a lot of time on family firms, or if they are discussed, the family control is seen as unconnected to success.

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Chapter 4 – When Good Families Turn Bad

In general, families do a remarkably good job of dealing with family squabbles and disagreements. The fact that companies can survive several generations of rivalries between brothers, sisters, cousins, uncles, and aunts is a quite remarkable given the challenges which families face and fail in far simpler situations. However, there are occasions where family members disagree, in some cases these can escalate into public disagreements, lawsuits, and even in few cases, physical violence. These will probably grow. While the ancient principle of primogeniture, where the eldest son inherits all, may have been both unfair and ensured that often the most talented family member was left out, it did eliminate family fights. As primogeniture has faded in many societies, and younger brothers and daughters are sharing in, or even taking the lead position, envy and argument may grow. In family businesses it is often difficult to separate the person and the professional disagreements and when a family member perceives what he or she sees as the destruction of the family business by a relative, or one who takes advantage for personal profit, some extremely vindictive actions can follow. Often also, principle plays a more important role in the actions of family members. An adult member of the family who has grown up in the business sees it very differently. Forrest Mars Jr. once told me that he remembered playing “Cowboys and Indians” among the rice sacks while his father was building the Uncle Ben’s rice business.

Nevertheless, there are times when family quarrels turn so acrimonious that they can destroy individuals and businesses. In some situations arguments escalate out of greed or principle so that the events which follow would horrify Othello or Lady Macbeth. These situations are not typical, but are an extreme, and as such represent cautionary tales. Among the strangest set of events is that surrounding U-Haul. The company was founded by L.S. Schoen in 1945 when he was only 29 years old. He created a market and built a giant. He was a visionary, an immigrant who foresaw the need Americans would have, in a mobile society to move themselves across the country. However, he was also a practical organizer who built the infrastructure which allowed him to rent out a truck and let the renter leave it in another city. He was a man of enormous energy, but strong opinions. Through several marriages, he had twelve children, gave stock to each of them and brought most of them into the business. While he brought them into the business, he had no intention of giving them a voice. By the 1970s the children owned 88% of the company, but L.S. still ruled with a grip of iron. Later in the decade, four of his sons left rather than continue working for their father. During this time, U-Haul has lost market share to Ryder, Hertz/Penske and local competitors. The company made a decision to diversify into rental of many other things, from motorbikes to videotapes. We can speculate about what might have happened if the company had seized the market now dominated by Blockbuster. In 1985, L.S., frustrated by his children’s lack of interest, threw seven of them off the board, despite the fact that they held most of the voting power. One son, Sam, remained with his father. In late 1986, the children finally pulled together and used their dominant ownership to force their father out of the company, replacing him with Joe and Mark. Joe, a Harvard Business School graduate,

became chairman, with Sam as President. Meanwhile Leonard Schoen, who had retreated to Las Vegas with his wife of half his age, missed no opportunity to snipe from the sidelines, as did their siblings. When Sam Schoen's wife was found murdered in Telluride, Leonard Schoen began telling people that his son Joe had a role in the crime. He was not passive about this, but began an orchestrated campaign to have his son charged with the crime. Meanwhile Sam Schoen's lawyer's home was set on fire because of his representation. With several of the key players hiding, the family business success helped to tear it apart. In the end, the company, while severely hurt, survived, and is still family run. Joe, as CEO, and Mark, as a Division President, are the only family members left in senior management.

We see several examples of siblings as well as parents and children in fights which destroy or seriously hurt the company. We also see a few examples where the outcome is far from what we might expect. The global witch-hazel market is centered on a small town in Connecticut. Originally, the Dickinson family controlled the supply and processing of this highly effective astringent. When the brothers quarreled, the company split into EE Dickinson and TN Dickinson. After over one hundred years of separate existence at opposite ends of the same small town, the two companies remerged in 2001. A more serious example of siblings who split, but provided, perhaps, a happy ending, is the story of the Dassler brothers. In 1920, Adolf (Adi) Dassler invented the spiked running shoe and four years later he went into partnership with his brother Rudolph (Rudi) to found Gebrueder Dassler OHG. The two brothers quarreled and in 1948, Rudi left to form Puma across town, while Adi renamed his business Adidas. The two companies soon became each others fiercest competitor. When Adi died in 1958, his widow took over, but eventually the company became owned by the French firm, Solomon. While Adidas is no longer a family-owned company it continues to compete with Puma (and the US company Nike) with the spirit of a family quarrel.

Most of the Italian fashion houses are family businesses. However, this is declining. Fashion has a low cost of entry, so families are highly appropriate to this. My mother's father was a designer of men's suits in a now defunct, large clothing company so I understand the structure and economics of the fashion business. Usually, it is the imagination of the designer which represents the real value of the business. While we have mentioned many of these Italian design houses earlier, the most disturbing events surrounded the Gucci family. Guccio Gucci was the son of an Italian leather craftsman. As a young man he spent time in London and Paris learning about style. In particular, while working in the Savoy hotel in London, he acquired a taste for fine leather luggage. He returned and established the business in Florence in 1922 as a shop which sold his own fine leather products – at first accessories for horse riders, but then moving on to luggage and purses. His three sons, Aldo, Vasco, and Rodolfo, grew the business successfully and took the brand on a worldwide expansion, opening stores in Rome and Milan, then London and Paris. Aldo, the oldest, led the expansion. In 1953, the year Guccio died, the sons opened their first New York store, against the wishes of their father. Like many fashion houses, the company was as much as retailer as a manufacturer. Even today, companies like LVMH and PPR as well as

smaller luxury brand companies sell through their own stores as much or more than through other distribution channels. Aldo had many of the characteristics of an outstanding leader of a family business. He exuded energy, enfolded non-family members in the business, making them feel fully part of the enterprise, and threw off creative ideas constantly. The siblings began what seemed like an ongoing battle among themselves. While the brothers favored Maurizio, Aldo's son Paulo had his own ideas. He wanted to establish a less expensive, mass market line (a common theme in the fashion industry), called *Gucci Plus*. The family disagreed so strongly that they fired him and told all their customers that they would blacklist any which took this line, which was now planned to be named after him, *PG*. Paulo fought back in the courts and boardroom, finally taking control of the business away from his father, Aldo, by selling his own shares to his cousin Maurizio. During this process he raised questions about the company's tax evasion in a board meeting. When Paulo started tape recording the conversation, he was physically attacked by his father and cousin. Paulo then reported his own father's tax evasion to the Italian authorities, who was then charged, and Aldo was sent to jail. At the trial, he broke down in tears. Maurizio then allied with Investcorp and his siblings, to take control of the company. In 1988, the children of Rodolfo, who between them owned 50% of the company, sold their stock to Investcorp, a London-based holding company and Rodolfo's son, Maurizio, was named President of the company. However, his cousins took revenge by informing the authorities that Maurizio had forged his father's signature to avoid death duties. Maurizio then escaped from Italy to Switzerland, closely followed by the Italian police, on a motorbike. He attempted to manage Gucci from Switzerland, but his cousins had applied to the Italian courts to suspend his control of his own and Investcorp's shares. During this period the company virtually came to a standstill. While in the end, he did clear his legal difficulties and returned to Italy, he proved to be a glaring example of a paranoid and manic CEO. In 1993, Investcorp took over all the company and forced him completely out of the business. Shortly, a series of events unfolded which shocked Italy and the worldwide fashion industry. Patrizia, Maurizio's wife, had always thought of herself as the driving creative force behind the business. However, once he became President, he listened to her less and less, until eventually he divorced her. Maurizio proved to be a spendthrift President who got the company into enormous debt. However, he had recruited Dawn Mello from Bergdorf Goodman to run the company, and she in turn hired Tom Ford, a brilliant Texan, as head of design. While she returned to the United States in 1994, Tom Ford stayed until 2004, taking Gucci to greatness. Patrizia believed that had Maurizio only listened to her advice her would still be running the company with her as the real power. Her resentment grew so intense that in 1995, she arranged his murder with the assistance of her best friend. Following a trial which was watched in Italy as closely as the trial of O.J. Simpson was in the United States, she was sentenced to 27 years in jail for the murder, and her four accomplices were also found guilty. In 1998, Domenic De Sole, Gucci's CEO moved the corporate offices to London following Prada's acquisition of 9.5% of the company. While Prada had ambitions of becoming a huge fashion company, it did not have the financial muscle, and their raid simply put Gucci into play. In the end,

Investcorp decided that they would profit more by selling the business than by operating it, but even then drama continued to dog the business. First LVMH put in a hostile bid, but Gucci management allied with Pinault-Printemps-Redoute, LVMH's rival in France, so that PPR could buy the business. Strong personalities continued to make the business hard to manage until in 2004, Serge Weinberg, CEO of PPR announced that Gucci top management would be replaced. So, in the end, we see a family business created and built by forceful, charismatic and creative people, become simply a brand in a multinational corporation because the family members could not let their egos take second place to their own best interests.

Harrison and Wallace McCain used their father's (a seed potato exporter) legacy of \$ 40,000 to establish a business in 1956 to make French fries. They lived and worked in the small Canadian town of Florenceville. In less than forty years, they built a French fry empire with 2003 revenues of \$ 6.4 Billion. The two brothers, who each owned one third of the company, built houses next to each other in the town where they grew up. For thirty years they shared the Chief Executive Officer title, and were the best of friends. Their two older brothers each had one sixth of the company. In the late 1980s they disagreed about whose son should succeed them. This argument moved outside the family into the courts, and eventually the two older brothers sided with Harrison, Wallace left the company to run Maple Leaf Foods, Canada's second largest food processor, and the two brothers became totally estranged. Later, when Harrison had a heart attack, Wallace told the press that though he had heard about it, he had not seen his brother even though they still lived next to each other. Sadly, while Peter McCain became CEO, he died in 1997 in a snowmobile accident, and the company is now run by another son, Allison McCain.

Barney Pressman opened the doors of his men's clothing store in 1923. He took pride in the quality of his suits and the lack of fuss in his store. At its peak, the store sold over 80,000 men's suits a year. Barney Pressman was a man without pretensions, but a deep pride in the quality of the suits he sold. His son Fred, who studied at Rutgers before joining the army in 1943, left the army in 1945 with the desire to have a more upscale customer. Fred wanted the kind of Wasp who shopped at Brooks Brothers. Fred had more of a sense of style and fashion than his father. He expanded the store and succeeded in moving it up-market while remaining true to its heritage in men's suits.

In 1902, the same year that the Straus brothers opened Macy's in New York, the Sakowitz brothers opened their first store in Galveston, Texas. However, whereas Macy's cost \$4.5 Million, the Sakowitzes invested only \$1,250 in their store. Yet several generations later, Sakowitz would be challenging Neiman Marcus for leadership in the high end of the women's fashion market.

The reason for taking a look at family companies where relationships have destroyed the company is not based on taking pleasure in the discomfort of others, but rather because there is a great amount of learning in it these examples. "Divided we fall, united we stand" is so particularly true for family businesses. If individuals allow ego to get in the way of the common good, everyone suffers. Even the book *Candy*, which one can regard as a business, was so consumed by lengthy lawsuits between its authors, first publisher and

subsequent ones, that although it sold millions of copies, the authors and publisher spent far more in lawyers' fees than they earned. The same can happen in family companies. The Pritzker family took century to build an estimated \$ 15 Billion fortune based on the Hyatt hotel chain and TransUnion the credit reporting business. As the fortune grew, the family business, founded by Nicholas Pritzker, led by his son, Abraham Nicholas (known as A.N.) and then grandson Jay, used ingenious offshore trusts to shield and grow the family fortune. By 2003, Liesel Pritzker, daughter of Robert, the next generation, decided that she had been cheated by her father and eleven older cousins, so she filed suit against them. The lawsuit claims that she and her brother Mathew, had been defrauded out of \$ 2 Billion, and continues.

Another family business whose feuds became the subject of public derision was when father and son Herbert and Robert Haft took their battle into the courtroom and the press. In 1955, Herbert Haft opened his first Dart drugstore and quickly established himself as an innovator by suing Parke Davis to free up retail pricing. This suit was resolved by the Supreme Court in 1960. Thee family continued to build a large discount retailing operation until 1984, when they sold it to a management group. In 1977, Robert showed he was as much an innovator by founding Crown books, the first book discount chain. When he took it public ten years later, it was worth over \$ 200 Million. In 1993, in a Wall Street Journal Article, Robert Haft, who had worked together successfully for many years, threw down the gauntlet by comparing himself favorably with his father. Over the next few years, the two filed many lawsuits against each other and in 1999 each launched a competing online vitamin retailing website. Both failed as each took aim at each other more than gaining customers.

Chapter 5 – Women in Family Businesses

Family businesses have long provided one of the few opportunities for women to succeed in business. When an adult male heir was not available, a young widow was sometimes left to run the company. While she may have engaged managers to run it, she often felt a sense of obligation to a young son and decided to run it herself. The French champagne maker, Veuve Cliquot was such an example, founded in 1772 by Philippe Cliquot-Muiron, his son died in 1805, leaving a 27 year old widow. Madame Cliquot went on to run the company extremely successfully, and died in 1866. While the company is now part of LVMH, she is a typical example of how women first entered business. Guest, Keen and Nettlefolds was formed in 1759 to make iron using coal instead of the traditional charcoal. In the 1850s it was run by Lady Charlotte Guest, a mother of 10, who moved the company from iron to steel. While no longer a family company, it still survives and prospers, 245 years after its foundation, having transformed itself each generation. Katharine Graham was another example of such a woman. Her father bought the bankrupt *Washington Post* in 1933. While her husband, Philip, took over on her father's death, he committed suicide in 1963 and she became President of the company. Over the next thirty-six years she became one of the most successful newspaper proprietors and business leaders in the world. Loida Lewis is another example who took control of Beatrice International on the death of her husband Reginald Lewis in 1994. Although a lawyer rather than a business person, she quickly learned the business and grew sales and profit. However, rather than go public, which had been her late husband's dream after his historic 1987 management buyout, she decided that the company would bring more value if it were broken up. By 1999 the breakup was complete.

The next situation, which many people believe is the normal way for women to achieve power in business, is for a daughter to inherit. In fact, while it is most relevant to family businesses, women now start businesses at a rate equal or greater than men do. A study by Nan Langowitz of Babson College showed that women are more likely to found a business than inherit one. However, among the large family companies I am considering, inheritance is the norm for both men and women. The 2003 Mass Mutual/Raymond Institute for Family Business Survey indicated that while only 105 of family firms have female CEOs, 395 will experience leadership shifts in the next five years and 34% of all family companies said the next CEO might be a woman, up from 25% in the last survey in 1997. Actually, looking at some of the largest family businesses, we see women taking over or waiting in the wings in record numbers. While, according to the Directors' Council, women occupy only 14% of the board seats in the largest 1,000 public companies in America, they seem to do better in family companies. This is also true on a global basis. Codorniu Group, a Spanish wine producer founded in 1551, and with 1200 acres of vines and eleven wineries around the world, up from five in 1997, is now headed by family member, Maria del Mar Raventos Chalbaud, 49, whose father was CEO for twenty years. However, it was not automatic. Each family member has to earn their way to the top. With 450 family members to choose from, there are strict criteria to even work at the

company. Family members have to have a University degree, speak fluent English, and have been successful for at least five years in another company. This company is one of the two top producers of “Cava,” or Spanish sparkling wine in the world. It excels in wine-making technology as well as being an increasingly effective marketer.

There are many other noteworthy examples of how women have taken over family businesses and saved or grown them. One of the highly visible and more ironic examples is Christie Hefner who took over Playboy Enterprises from her father Hugh Hefner. She had grown up with her mother after her parents divorced in 1959 when she was seven years old. Hugh Hefner founded *Playboy* magazine in 1953. Not only was he a visionary as radical as Frederick Smith, who started Federal Express, but like Frederick Smith, his timing was right. He launched the magazine using some pre-existing nude photos of Marilyn Monroe, which no one else had dared used in a publication for fear of being in violation of US Postal Regulations. His first issue sold fifty thousand copies, far more than expected. While it now seems rather stodgy to many, in the 1950s *Playboy* was revolutionary. This applied not only to its attitude to sex, but also to politics, art, music, and literature. He commissioned the best authors to write short stories for him. Jack Kerouac, Lenny Bruce, Arthur C. Clarke, John Updike, and others wrote for *Playboy*. He had a complete vision of the magazine before he launched it, developed while he worked for *Esquire* magazine.

Christie Hefner joined the company in 1975, with no apparent expectation that she would remain in the business, and worked in various parts of the company before being appointed President in 1982 at the age of thirty. Like many other heirs to a family business, she worked intensely at learning the business and about business in general. Early in her career she developed an admiration for Warren Buffet and contacted him and asked to meet. Not only did they meet, but they developed a friendship and she has made him a trusted advisor. While *Playboy Enterprises* has often struggled under her leadership, much of this has come from *Playboy* magazine, which continues to be under her father’s control. She has actually made several smart strategic moves, first as a pioneer in eCommerce and later on cable TV. If she had been granted control of the magazine, there is every reason to believe that the company would have performed better. In the past year or two, the company has continued to recover. She has two younger half-brothers and it is uncertain what, if any, roles they will play in the business later. She has clearly devoted much of her life to the business, only getting married in 1996, and never having any children. She has worked hard to show the world that she deserves the position, and is not simply there by inheritance.

Of course, *Playboy Enterprises* is only a second generation family business, and the situation changes as the generations increase. *Family Business* magazine states that only 30% of businesses survive to the second generation, 10% to the third, and only 4% beyond. There are 22 Million businesses in the United States alone and around 80% of them are family owned. Over the next five years alone, over five million family businesses will have to transfer ownership to the next generation. While this puts obvious financial and strategic burdens on the business, it also provides an opportunity for many daughters to finally

become a major factor in US business. In other countries family business ownership is even higher.

Nevertheless, while women do increasingly take over the family business, there is one situation where equality is still far off. For thousands of years, daughters in family businesses have married men who were or who became leaders of the family business. I have found many examples of such, and will outline a few. However, it is difficult to find a single example where a son has married a woman who was or who became the leader of his family business except when the son died unexpectedly leaving young or no male heirs. There are also several situations where a female heir seems to take center stage, but it is uncertain whether or no she is really in charge. Sometimes it is a good PR move to make a woman the public face of the company, particularly if she is young, photogenic, or otherwise interesting. If astute, she can certainly use her perceived leadership and turn it into real leadership. Typically, when a woman climbs to the top spot, there is a blizzard of publicity surrounding the event. Thus Gallo, a company famous for autocratic male management started making Gina Gallo, at 33, the public face of the company in 2000. Ernest and Julio Gallo set up the company in the middle of the Depression, and following the repeal of Prohibition in 1933. At first E. & J. Gallo built their business by selling cheap wines and became well known for brands such as Thunderbird, but they were among the first to brand wines as consciously as Procter & Gamble branded soap. Of Ernest and Julio's twenty grandchildren, most are in the business, but Gina is the only one to become a winemaker. Over the years the company became known for its confrontational attitude to most of the people with whom it did business. One of the challenges facing the company will be to soften its image as it moves its product line upscale. The appointment of Gina Gallo is a major cornerstone in this. Only time will tell if she truly become the leader of the company or simply a PR device. The company faces many challenges as the business consolidates and globalizes. While this was once an industry of small family businesses, sophisticated in the art of winemaking, but backward in the skills of sales and marketing, a hurricane of change is sweeping many away. Gallo benefited from being a giant among pygmies, but this has changed. Competitors such as Constellation Brands and Foster's of Australia (which supplanted Gallo as the world's leading wine producer in 2000 when it bought Beringer),

The oldest company in the United States Ziljian Cymbal, was not founded in the United States, but in 17th century Istanbul. An Armenian alchemist developed an alloy which enabled him to make the best cymbals. The business continued in family hands and was honored within the Ottoman Empire even as Armenians were increasingly despised. In 1909 Avedis Zildjian emigrated at the age of twenty to the United States. It was in 1915-1916 that one and a half million Armenians, out of a population of two and a half and massacred. Lesser massacres were carried out in 1922-1923. The Zildjian family continued their business in Turkey until in 1927 when Avedis was asked to return home to take over the family business. Instead, he persuaded all the other family members to move the business to the United States. While the early years were a struggle, each misfortune or challenge was met and overcome. The determination and respect for tradition of this company is unusual, as is the respect it gives its non-

family employees. In the circumstances of the family culture and the industry, it is even more remarkable that without any fanfare, the CEO of the company since 1999 has been a daughter of Armand Zildjian, Craigie Zildjian, and the head of Human Resources, another daughter, Debbie. The only son, Rab, plays only a non-executive role in the company. It is the sheer ordinariness of the transition which makes it so special, and this is more typical of the way in which daughters will take over in the future.

At Fidelity Investments, Abigail Johnson has become CEO in a fairly unremarkable way. Abigail is the third generation of this privately owned company and has trained all her life for the CEO role. While moving up in the organization, she performed well, so she deserves the job. It is unclear whether or not she would have been promoted into the job had she not performed well. She has shown willingness to adapt the company to changing conditions and that augurs well for the future. For example, she has exerted more political muscle to influence legislation as well as the New York Stock Exchange electronic trading adoption.

Like Gallo, there are many other family businesses where there are daughters in waiting. Will these businesses be run by the obvious candidates, the daughters, or will they be handed on to less qualified sons, or will they be sold? Sports is a major industry in the world. Owners of sports teams tend to be hobbyists who are fulfilling their passions. Many people who have made money, then buy or establish a sports team. Nevertheless, a sports team is a business, and it is often a family business, none more so than the LA Lakers. Jerry Buss, the owner, is a larger than life character. Even at the age of 76, he is a gadabout, a man about town who is usually seen in the company of beautiful women. He has three adult children who are active in the business. His daughter, Jeannie is the highest profile of them. Yet what a burden it has been for her! She has had to watch as her father very publicly pursued many women, and her ongoing romantic relationship with Phil Jackson, ex-coach of the Lakers, must have complicated her life. Long-term, it is very difficult to maintain such a relationship between an owner and an employee.

Another family business where a woman has earned her way into the top spot is Carlson Cos., where Marilyn Carlson Nelson, daughter of the founder, took over as CEO in March, 1998. Her father, Curtis Carlson ruled the company as an autocrat for six decades, and retains 100% ownership. Yet she has been highly successful at running this \$ & Billion behemoth with almost 200,000 people in 140 countries. Educated at the Sorbonne and having served as a delegate to the White House from the travel industry, she has built the hotel and cruise business, both organically and by acquisition, notably of Thomas Cook in 1999.

Of course, there are many situations where a daughter is passed over and either never becomes leader of the company, or has to endure many vicissitudes before doing so. Tauck Tours was founded in 1925 by Arthur Tauck, passed down to his son Arthur Jr. who handpicked his oldest son as his successor. However, he and his wife decided that the pressure of running the business would hurt them, and they bought and run a winery in California. A second son was then chosen to

replace him, and only when it became clear that this would not work, did Arthur Tauck select his daughter, Robin, to be the President of Tauck World Discovery.

One of the more interesting examples which can superficially be used to support many cases, is that of Pataks. Laxmishankar Pathak was born in India to poor, but ambitious parents. Seeking a better life, they emigrated to Kenya when he was a small child and established an Indian food business. Following persecution in Kenya, he moved his family to England in 1956, and by 1958 had managed to open his own food shop. In 1972, when Kenya's Idi Amin expelled all the Asians, Laxmishankar was ready to welcome them with leaflets about life in Britain and supplies of familiar food. However, it was not until his son, Kirit, married Meena Desai in an arranged marriage in 1976 that the business was on track to become a true multinational. Meena, a successful model, also had a degree in food technology and a flair for publicity. She wrote two cookbooks on Indian food, appeared regularly on television and drove product development. Within 25 years, the company was selling its products in 45 countries and had sales around \$ 100 Million in spices and pickles. So while this appears to be a classic case of a woman, and one who married into the business, becoming an integral part of the leadership of the business, Kirit's two sisters now claimed to have been cheated out of their share of the business. Apparently, in 1989, Kirit had bought out his three brothers for £ 6 Million (\$ 10 Million), but only succeeded because his mother had given him 2,500 additional shares. His two sisters charged that the shares had originally been given to them and they had been tricked into signing them over, having been told that it was a device to avoid taxes. In court, the family claimed that under Hindu tradition, daughters could not inherit, only sons (the daughter's dowry is in lieu of an inheritance). As charges and countercharges grew more virulent, the case was settled out of court with the sisters getting £ 4 Million each (which includes 12.3% of the company).

The impact women have made upon family businesses has been noticeable for many years. In 1759 nine English merchants started a company which is still going strong 245 years later. In 2003 GKN Plc (founded as Guest, Keen & Nettlefolds Ltd.) had revenues of \$ 8.3 Billion. In the 1850s Lady Charlotte Guest ran the business and was one of the first to see the value of steel over iron and moved the company to steel. Lady Charlotte was a remarkable woman, full of intellectual curiosity. Born in England, she became fascinated by Oriental subjects as a teenager and learnt Farsi so she could read Persian literature. At twenty-three she married John Guest, a widower and wealthy Welsh ironmaster. She worked to improve the schools which served the families working in the ironworks, and managed to find time to have ten children of her own. She also learnt Welsh and prepared the definitive translation of the Mabinogion, the Welsh mythology. When John Guest died in 1852, she took over the company, which was troubled. She transformed the company by moving from iron to steel and the company prospered again. In 1855, she remarried and turned her attention to ceramics and built a collection which may today be seen in the Victoria and Albert Museum in London. She also built a fan collection which is today in the British Museum.

The Financial Times recently wrote that while women owned businesses are growing extremely rapidly, the service industries, such as banking, or

Information Technology, are still not comfortable dealing with women. It does go on to say that alternative explanations for the fact that the average loan to a woman owned business is one third of that lent to male owned businesses, may be that men and women are in different businesses, or that women are more conservative. Microsoft believes that there should be no difference. For a company accused of being marketing driven, it rather surprisingly, believes that if you simply put a good product out in the same way to men and women, they will buy it equally. IBM, on the other hand, has focused on women business owners for ten years. Research carried out by Prowess, a British advocacy group for women business owners, suggests that, "Woman entrepreneurs are more likely to be driven by a sense of fulfillment than by the desire to make a lot of money. It makes sense to reflect those values in marketing." IBM is one of the few companies that understands that even in Business to Business Marketing, segmentation is key to maximum success. The implication is that it is in selling and marketing to family owned companies that suppliers will have to understand and serve women's needs perhaps differently than men's.

Chapter 6 – The Unique Strategic Challenges of the Family Firm

Family firms are not like widely-held public corporations, nor even like private ones which are not dominated over time by one family. The challenges they face are a mix of financial, attitudinal, legal, organizational, and interpersonal. As a result, the family business has to be managed in a very different way.

In a family business the role of the family is critical. The position the family plays is a factor. If the family simply sits on the sidelines and collects dividends, even though this is what many investors do, employees may see them as parasites because of their visibility. If family members play an active role in management, then they must be clearly qualified and effective. As the generations unfold, some family members will have desire, ability, and experience to perform well, while others will disqualify themselves on one or another set of grounds. Being a family member in a family business is necessary but not sufficient. In the Mars family, while Forrest Mars' sons, John and Forrest Jr. played the leadership roles in the company, their children have not followed suit. Vicky, Frank Jr., and Linda were given every opportunity to participate in the business, and did play a role in the United States and overseas businesses. However, they have not shown the commitment which younger generations in other family businesses have, and this family business is behaving less and less like one.

It is critical that the family leader of a family business knows him or her self extremely well. This is particularly difficult as the heirs usually grow up in an artificial environment, and all their lives meet largely false responses to all that they say or do. Eric Trump is Donald Trump's youngest son. He, his older brother Donald Jr., and sister Ivanka watched his father being portrayed in the press in ways which he may not have recognized. While Donald Trump did inherit a large family real estate business, he was the heir to a low key company. Eric is due to inherit a high-profile enterprise. While, at 19, he may want to blend in, he can't, except among other children of the very wealthy. As CBS News reported, he has learned to be guarded in what he says and others are careful in what they say to him. As a result, Eric Trump will never learn the kind of lessons which his grandfather learned. He will learn others. He will learn how to deal with investment bankers or doormen at the Plaza Athenee. This is not a value judgment, but it makes it difficult to compare his qualifications to that of a non-family candidate for any position if the non-family member grew up in suburbia or even the inner-city, went to the local high school and State Universities.

Management succession has been an issue at Foster Farms. The company was founded in 1939 by Max and Verda Foster who bought an 80 acre farm near Modesto, CA and began by raising turkeys. Shortly afterwards they bought a second farm and switched to chickens. The company continued to grow by organic growth and acquisition. Over the years, the company expanded up and down the West Coast. Its most recent and largest acquisition being that of Zachy Farms in 2001 which gave it the dominant position on the West Coast. The company also acquired its way into the dairy business, a good move in the

circumstances of California's growth in the Dairy industry at the expense of mid-Western states. However, succession became a problem when Paul Foster, who was expected to take the reins for many years, died in his forties. At this point, since there was no member of the family with the energy and experience to become CEO, the family in 1992, brought in Bob Fox, a veteran Consumer Packaged Goods marketer. Bob had started at Procter & Gamble, and had been a senior executive at Unilever, Canada Dry, Hunt Wesson, R.J. Reynolds, Del Monte, Nabisco, Continental Can, and just before Foster Farms he was CEO and President of Revlon International. The Board of Directors, many of whom were non-family members asked him to ready the company for sale or IPO. As he made a number of successful and appropriate moves to do this, the family met in council and decided that they did not want to sell the company. Therefore, at the end of 2000, Bob Fox was asked to resign and since there was still no family member with the appropriate qualifications, they appointed Paul Carter as CEO. Paul had been a long-time Foster Farms employee, but who had left in 1986 and completed stints at Perdue Farms, Zachy Farms, and as President of Choctaw Maid Farms. He had been brought back to Foster Farms in 1998 as President of its Poultry Division, with Ron Foster managing the smaller Dairy Division. Paul was believed to be a "safe" choice because he was a cautious conservator. Unfortunately, as is so often true, there is nothing as dangerous as "safe." Just as buying and holding only CDs in an investment portfolio guarantees that you lose money vs. inflation, so does a "safe" choice in a management position. Circumstances, whether driven by competition, technology, regulation, legislation or distribution channel realignment means that companies which do not constantly change go under. As a result, the Foster family found themselves looking for a replacement within a short period of time. Having interviewed a number of outside candidates, they decided that the benefits of having a family member outweighed the advantages of a seasoned outsider. This is similar to the conclusion reached by their cross-country parallel, Perdue Farms. In 1920, Arthur Perdue formed an egg company. Frank Perdue, his son, joined the company in 1939 as the third full-time employee. Frank built the business into a successful fresh chicken company in the Northeast by stressing quality and freshness. He teamed with Ed McCabe of the advertising agency Scali, McCabe and Sloves, who created the slogan, "It takes a tough man to make a tender chicken," and saturated the airwaves with it on TV and Radio. Frank was obsessed with product quality as it was received by the consumer. As a result, he was not only insistent upon the quality of the breeding and feeding of the chickens, but also on the slaughter conditions and the distribution and freshness of the product. While in California, because of the high cost of agricultural land, companies such as Foster Farms owned their own grow out facilities, Perdue contracted this out to independent farmers, but monitored them carefully. One of the keys to Frank Perdue's success was his ability to rely on Don Mabe, who looked after operations while Frank worried about Sales and Marketing. Don was no "yes man." The two of them argued constantly and openly. In these arguments they were able to air opposing viewpoints as Don was as committed to the success of the business as Frank was. Frank persuaded his only son, Jim who had started out to become a marine biologist, to enter the family business in 1983 and work

through all the functions of the company, though mainly in operations. It is always interesting to see that these loyal “family retainers” get so little public credit, though the family which owns the business should realize that in earning the loyalty of so many, they have achieved a very different kind of greatness than just financial success. Later, when Jim Perdue took over the Chairmanship in 1991, the President was Pelham Lawrence. Pelham had been the CFO of the company, and had replaced Don Mabe. Pelham was a thoughtful, intelligent man with a gentle sense of humor and fierce commitment to the company’s success. He brought in some more disciplined strategic development processes, and was always committed to learn how to do better. Unfortunately, he died at 46 and was eventually replaced by Bob Turley from outside the company. The poultry industry has struggled to move away from its commodity roots and both Foster Farms and Perdue have faced increasing pressure from retailers and the global market. Jim has worked hard and well to keep the company healthy, but it has been a hard struggle in recent years. Tyson, which is also family-controlled but public, has moved farther from its roots and become an added value food processor and marketer. Foster Farms is still family run, but has had two non-family CEOs. Any business which is so close to its raw commodity and which supplies Wal-Mart and the food chains while trying to add value through product differentiation and advertising has a challenge these days.

The Ford Company has seen both family and non-family CEOs, but has continually returned to family management. Family has always played a major part in the company and family members have been constantly groomed for management roles.

Even the best run widely held public companies have issues with management succession. Coca-Cola, once regarded under Roberto Goizueta as one of the best corporations in the world, with a deep management bench, has recently been the center of a very public CEO search and in the end, none of the existing management proved good enough. Even Procter & Gamble, with the deepest bench of all, a tradition of promoting only from within and of providing more Fortune 500 CEOs than any other corporate training ground, has made some recent apparent missteps, though it has corrected itself rapidly and effectively. So how can a family-owned or controlled company, with a smaller cadre to draw on, manage to maintain the best quality management? This assumes that it can take advantage of the family connection to make the advantage of a large pool less relevant. In fact a pool which is too large may provide a chimera. The anecdotal evidence suggests that too large a pool is more of a disadvantage than an advantage. At GE, which was renowned for its depth, the plethora of talented managers resulted in most of them leaving to run other companies, so in fact, Jeff Immelt (another former Procter & Gamble manager), benefited from this when he became Jack Welch’s successor.

Chapter 7 - What Does it Feel Like to Work for a Family Business?

I will describe as a generalization, what it feels like for a non-family member to work for a family business. This is based on personal experience as well as conversations with hundreds of people who work or have worked for family companies. When you work for a family business, the identity of the business is wrapped up in the family. You walk into a meeting and all eyes are on the family members present. Much like a medieval king, a word, a gesture, can have unintended consequences. There is no court of appeal for unpopular decisions, no retribution for decisions which hurt business or people. On the other hand, in most family owned or controlled companies, the family, if genuinely involved, has a sense of “noblesse oblige,” or the obligations of nobility. Family firms often have much greater paternalism, so that employees are treated like minor children of the family. Much is expected, but much is given, unless the employee behaves in such a way as to become “non-family.” I have heard stories of how in such companies with reputations for strictness, such as Gallo, how employees have been given special consideration when ill or in trouble. John Rigas of Adelphia ensured that employees and members of the community received extraordinary medical care. I have seen Frank Perdue use a company plane to fly a member of his advertising agency home to his wife when she went into labor, and I have received great courtesy from members of the Mars family. In fact, without any doubt, I have enjoyed working for family companies most of all. If you take it for granted it may be withdrawn, as it is seen as a privilege rather than a right.

As in so many entities, family businesses consist of the good, the bad, and the indifferent. The most genuinely inspiring aspect of a family business is not in fact how well they do or do not take care of employees, but rather the sense of mission, of working for something which is bigger than any individual. You know that the owners are not people who have bought stock as an investment without any real connection to the business, its customers, its employees, or suppliers. In a family company, you know that the owners are not only connected, but are working to pass down an inheritance. The inheritance is not only money, but a sense of achievement, tradition, and purpose. As a non-family member in a family firm you have think if “the family” as something apart from the individuals in it. In fact you often come to feel sorry for them as they are pressured into joining and running the business, even if they have no desire for it. Perhaps because of this, senior management and even cleaning crews feel an obligation to help them to be successful. I do not think that the family members realize just how dedicated, loyal, and caring many of the people around them are. Of course, there are also those who are willing to exploit the family, particularly as it moves to the third generation and management has been hired from outside with no sense of culture and history.

To provide a balanced picture of working for a family company, it is very different if you are a family member. The precise feeling will depend on your personality, which generation you are, how large is the company and the attitude of other family members (both senior and in your cohort). For the first

generation, very little introspection is needed or expected about your place. You start the business and run it. As the business becomes more successful, you have to start thinking about succession. If you are a sole owner with one child who has interest and ability, then your life is easy. On the other hand, if you share the business with a sibling, cousin, or non-related partner, it starts to get very complex. If, for example, you and a brother each own the business and you each have two children who want to enter the business, but your brother's youngest is the best while both of yours plead with you, this will be difficult. While this situation has created major difficulties, imagine how much more complex it gets if you share ownership with multiple cousins. If you are one of the younger generation, you may feel a sense of entitlement. You may feel you can treat non-family employees, even senior employees, with a lack of respect and rudeness. After all, it is unlikely that you will be fired. Particularly for young family members it can be very difficult if the people who are supposed to be training, disciplining, and evaluating you, are also afraid of you. There is a strong temptation to mix only with people like you – wealthy young people who expect to inherit a business. It is difficult, as Gerald Grosvenor, the Duke of Westminster did, to send your children to the local school and force them to mix with ordinary people when you are one of the wealthiest people in the world, with a fortune which stretches back hundreds of years. He can trace his ancestry back to a nephew of William the Conqueror, and the family fortune back to the 300 or so acre family farm – in what is now the center of London! However, the Grosvenor Group is run like a business, and he has done more than his fair share to take what was a struggling business when he inherited it and turn it into a global property management company. As an example of his energy, he has also dedicated 35 years to the Territorial Army (National Guard), and was recently named its Major General. In many cases, while the founding generation is focused on taking care of the business, the second generation is more afraid of making a mistake and often lurches from over cautious to dangerously daring (particularly if the older generation is looking over the shoulder, muttering or yelling about being cowardly or not doing as much to grow the business as they did). By the time we reach the third generation, we are at a tipping point. The grandparents are now telling them they can do no wrong. They have, as so many young people do anyway, little respect for their parents. They are convinced that they can do better. They also may have a sense of entitlement. The expression, “he was born on third base, and thinks he hit a triple,” is often appropriately applied to this generation. However, it need not be this way. Many family businesses have avoided this. It does require the older generation being single minded in its dedication to the next generation. Unfortunately, this is best accomplished when the company has gone through many generations and there is a tradition of preparation as well as a tradition of duty. As a result, the third generation is particularly vulnerable as their parents have not been prepared appropriately, since they probably grew up as their parents were building the business. So the third generation comes into money, power, and hangs on without having wise counsel from their parents. Few company founders or second generation members really think about the differences between them and the third generation. They may not realize that the environment in which they

grew up is so different and may get angry or try exhortation to greater efforts. Unfortunately, this needs to start early. Each young generation has to understand that in order for the company to succeed, they must earn their way to success. They must establish credibility, and despite the hard work required, the rewards, both material and psychic are worth the effort.

Chapter 8 – The Advantages of the Family Company

A Family owned and managed business can, all other things being equal, compete at an advantage to widely-held public companies. While the family business may have less financial flexibility and fewer options, these actually provide it with some advantages. The limited options actually provide better focus and reinforce the long-term view of the company. While each year family firms fall out of contention, this is not necessary.

Most of the Italian and French fashion houses are family businesses. Over time, many have been acquired, but frequently by other family firms. One of the oldest, Marzotto was founded by Luigi Marzotto in 1836 as a wool weaving mill. The business prospered in family hands, until in the early 1900s the business moved into ready-to-wear clothing. The business has now grown to around \$ 1.5 Billion in size, with factories around the world, but while still family owned, for the first time, an outsider, Jean de Jaegher was appointed Chairman in 2000, though he has since been replaced by another.

Family owned or controlled companies can operate in far greater secrecy and with a far longer view than can widely-held public companies. So not only can these companies make long-term investments which will not be second-guessed by investors seeking immediate returns, but they do not have to share their goals and plans with competitors. Sometimes the secrecy can be amusing, but it is also sometimes rooted in a real fear of children being kidnapped and held for ransom, or activist groups targeting individual family members for the actions of the company. The kidnapping of John Paul Getty III in 1973 sent a shiver up the spines of many wealthy families. His grandfather, John Paul Getty, then the world's richest man, refused to pay the demanded \$ 3 Million ransom until the kidnappers cut off one of the boy's ears and sent it to a newspaper. Of course, prior to that, in 1960, Adolph Coors III had been kidnapped and killed. In 1974 Patty Hearst was kidnapped by the Symbionese Liberation Army and rather than being released, was captured and convicted on bank robbery charges. Also in that year, Jorge and Juan Born of the multi \$ Billion Argentine, family owned multinational were kidnapped by the Monteneros and only released on payment of a \$ 60 Million ransom.

However, in most circumstances, the value of the secrecy is to shield the company from its competitor's reactions. For a widely held public company, the need to explain and justify strategic plans to financial analysts is counterproductive. This gives away critical information which can be used against the company. Thus ironically, the need to measure performance of a public company hurts it. Even more damaging is the program of publicity designed to hype the share price by boasting of achievements and intentions.

The Michelin tire company traces its origins to 1830. When in 1985 Francois Michelin granted an interview to the Financial Times, it was not only the first interview he had given in six years to any newspaper, but the journalists were kept so far from the factory that the interview took place in a hotel, and only after the next-door rooms had been searched for listeners! When someone finally did write a book on Michelin, he documented practices which are not all that uncommon in family companies – fierce anti-unionism (with paternalism),

demands for secrecy, strong non-compete requirements, and highly confidential ownership structures. This has helped the Michelin Company to prosper and be creative. The famous Michelin guides were invented to encourage people to drive. It is one of my most cherished beliefs that all companies become obsolete unless they can reinvent themselves, the markets in which they operate and, if they are major players, to take responsibility for market growth. A family company can be more creative in this regard, and aided by secrecy can be more successful. Strategies can be hatched in secret and much of it can be executed in secret. Cargill is another family owned company which has used secrecy to move markets. Though the McMillan family has handed over control to non-family managers, the tradition of keeping business plans secret has continued. Mars Inc. has recently seen control pass from family hands to non-family managers, yet this is so secret that most outsiders do not even realize it. Even public, but family controlled companies can use this insulation to some extent. Short-term stock price matters little if a family's stock ownership gives it control whoever owns the rest of the company. Thus, with the use of preferred classes of stock, the Ford family controls Ford motor with just 3.7% of the stock ownership.

Another major advantage of a family controlled company is the rallying point a family member can provide. While the fifth generation of the Ford family has more than 30 members, the election of William Clay Ford, then 45, to the position of Chairman and CEO was greeted by many with a sigh of relief that at last a family member was back in charge. As John and Forrest Mars used to say, "Our name is over the door, and we will treasure it." To employees, customers, shareholders, and others, the fact that a family member controls a company provides an assurance of integrity, long-sightedness, and caring. Employees like to feel like part of the family, albeit minor ones rather than fully-fledged adults. People will follow a family member with more loyalty and dedication than an appointed CEO. The Personality cult created around a founder (usually well-deserved), brings a halo effect to his or her descendents, and enables much more focus. I believe that voluntary employee turnover in family-led family controlled companies is much less than in non-family led companies.

In an interview in Business Week (3/6/2004), Mark Mays, President of Clear Channel Communications talked about the benefits of being a family owned company. Among these he led with the fact that the interests of management and shareholders are aligned. It is run by his father Lowry, and his brother, Randall is CFO. Thus in many ways, the company is an extension of the family. He went on to mention that who should lead the company is a topic of ongoing discussion, and he does not believe that he is entitled to the top job just because he is family. I would be prepared to bet that his and his brothers' children will have very different perceptions than he does.

In many Asian and Latin American countries, family businesses dominate. The Economist estimated in 2004 that up to 95% of Mexican businesses were still family owned, and that 43% of the value of the Mexican stock market was accounted for by just one family, that of Carlos Slim. The Economist confirms that the reason is that in countries where corruption is endemic and neither government nor public institutions can be trusted, the family meets this need. Of course, sometimes family is not always reliable, but in a very literal sense, family

members can be held accountable for their actions and sanctions can be applied.

Chapter 8 – Organizational Issues Facing the Family Business

The obvious issues facing a family owned or controlled company are those of succession and the motivation of non-family managers, as well as the compensation of family members who are not in the business. Sir Adrian Cadbury has written extensively about corporate governance in general and that of family companies. He has described how when the Cadbury family business, founded in 1824 as a grocery store, acquired the Fry's chocolate business (itself founded in 1728) in 1919, this meant that the number of family members who were actively involved managing the business were outnumbered by family members who played no role in management. He described the tension between the different objectives of the two groups. The managers wanted growth while the non-managers wanted dividends and capital appreciation. In time, this tension led to the company going public in 1962, although retaining its prime family ownership. Sir Adrian went on to call for what is now generally accepted as the required way to manage a family business. There is a need for a family council as not all the family members can be in either management or on the Board of Directors. Furthermore, as the number of people in the family grows into perhaps the hundreds within a few generations, they do not even know or trust each other. He also called for outside Directors to be appointed to the Board, even while the company is still privately owned. Cadbury had its first non-family Directors in 1942.

Trust is one of the most important factors in the need for and success of family businesses. Cultural differences can be seen to drive the proportion of businesses in each nation. In many cultures, you can only really trust your relatives. This is true in many Latin and Asian countries. So while an Anglo-Saxon or Northern European would be suspicious of the opportunity for corruption in family businesses, in other cultures, doing business with relatives is seen as prudent. Each year Transparency International ranks all the nations on the basis of perceived corruption. It is noticeable that the greater the perception of corruption, the more likely it is that the family firm will be the normal or even preferred form of corporate organization. Now correlation does not tell us about causation, so we do not know for sure whether the family firm is a response to corruption or provides an opportunity for it. However, in my observation, the family firm in many countries is an attempt to build trust into the structure given the impossibility of developing management controls which are foolproof. Therefore, since you cannot really trust strangers, who even if honest, have their own agenda, you best make sure that you are surrounded by people who share your goals and will not cheat you.

In Asia and Latin America there may be less trust in the institutions which control business. Therefore, a business person has to surround him or herself with trustworthy people. In fact, as we see all the time, even in Anglo-Saxon countries where there is the greatest amount of transparency in all financial dealings, there is still a need for trust as the unscrupulous will find a way to exploit the system. I remember as a child in India, the milk was delivered to our house by bringing a cow to the kitchen and milking it in front of a family member

so that it would not be adulterated. On a larger scale, Asian and Latin American family companies seem to be less likely to be run by a non-family CEO. In some cultures, someone can be adopted into the family, as in Western cultures they can marry into it, with mixed success.

Within the company one of the major challenges is do you assign family members by their ability or by the areas which require family involvement. For example, if there are four family members in the business, should one each be assigned to finance, operation, sales and H.R. or if each of them is particularly skilled at, for example, sales, do they all serve there, leaving no member of the family in other functions? If they are assigned to ensure that family members are “watching the store,” how do they get selected? Does the older get first choice and the youngest the last one? Is there a rotation?

If it is decided that family members will be promoted and trained in an identical way to non-family members, then none may reach the top. In fact, I do believe that they should be given preference because of passion, involvement (they should grow up in the business, but have to prove some ability elsewhere at some point). However, how much is this preference worth? If abilities are equal between a family member and a non family member, the choice is simple. Equally, if the family member is incompetent or lazy, the choice should be easy. However, there are many gradations of this, and it is not easy deciding how to handle it. Set the bar too high, and excellent family members will be excluded. On the other hand, set it too low and not only will the company be run by people who are not good, but non-family managers will be driven off. Evidence supports my belief that family members need to be in each key function. However, there is no need for each function to be run by a family member.

Chapter 9 – The “Trusted Family Retainer”

Gallo has Albion Fenderson, Mars had David Brown, and Perdue had Don Mabe. Each was a non-family individual who contributed immensely to the growth of the family business. While each was well rewarded financially, they worked more for intangible rewards. I saw my father give great personal loyalty to the Muir family. I venture to say that Albion Fenderson participated in the growth of Gallo to a greater extent than will be recognized. He is known for his collection of Native American art; Don Mabe created a wonderful home for himself, surrounded by the hand-made duck carvings he loved. Yet few in Mars, Incorporated now still remember David Brown, and in time the others will be forgotten. The vast majority of people who work in a large family business see it no differently than the employees of a non-family one. However, in many of the most successful and long-lived, a key to success is to engender loyalty among a few senior managers. These people are as much custodians of family culture as they are of skills. They provide counsel to the family, and by example, they inspire other non-family members. If a family business does not have one or more immediately obvious “family retainers,” that is a huge vulnerability. Irik Sevin at Star Gas has failed to develop non-family members with total belief in the Sevin family. As the time comes for transition to a successor, it will be a disadvantage, as these people help to ensure an orderly change. At McGraw Hill, Harold McGraw, Jr. had built such a cadre of people so that he could appoint Joe Dionne as CEO until Terry McGraw was ready to take over. Joe could coach and guide Terry with no ulterior motives. Sometimes non-family retainers can have their own family tradition of service to the family business. Within James Finlay, the Campbell family had a long-term relationship with the company, including Sir Colin Campbell being CEO for a period towards the end of the company’s life. Extreme examples of this are seen in those who serve monarchies (which are really just a form of family business).

The success of a family business depends on its ability to engender loyalty and honesty in senior managers. Non-family managers provide the glue which completes the structure of the company. They provide honest, unbiased perspective to family. They fill in during an interregnum, when there may be no family member energetic, experienced, or interested enough to manage the business.

On the one hand, part of the relationship lies within the non-family manager. He or she has to have the capacity for loyalty while not needing recognition or personal prestige. On the other hand, the family has to be able to engender and accept this kind of loyalty. Some families do not seem to earn this, and many others cannot accept a non-family member growing this close. If the family cannot trust non-family, then they lose all possibility of receiving this kind of loyalty in return.

While experience has shown us that non-family members are essential to the long-term success of a family business, it is critical that the individuals be the right ones. It is common for non-family members to have a growing resentment that they provide much of the impetus for success, but share in neither the full financial benefits nor the recognition. The need for glory is often the driver in

betrayal. Often his or her family and friends feed this. Perhaps the true mark of loyalty is when several generations of one family serve another family's business. This does happen in Royal Families, which are merely another form of family business, but does it happen in the more typical family firm? It certainly did in the case of James Finlay, and it has happened in Mars. However, in most cases it does not happen. While Don Mabe served Perdue well for many years, his son, while entering the poultry business, went to a competitor, Gold Kist Foods. For those who own family businesses, it is critical for them to measure how many long-term non-family members of management they have. Compensation and motivation of those individuals is critical. Do they feel like full members of the team, or are they always outsiders?

At McGraw Hill, Harold McGraw II did not feel that his son Harold (Terry) McGraw III was yet ready to take over, so Joe Dionne was appointed as Chairman in 1988, when Terry McGraw was only 39. Terry McGraw was appointed President and COO in 1993, CEO in 1998, and ultimately followed his father as Chairman. I remember him as an eager learner in the late 1980s, who knew even then that his task was to learn from Joe Dionne. Joe had demonstrated his loyalty to the family over many years and as a result could be trusted to groom Terry and pass on the torch instead of trying to strike out on his own.

As already mentioned, a Royal Family is simply another kind of family business, and indeed the Queen of England does refer to her role as head of "the family firm." A successful royal family has much to teach leaders of other family businesses. Among other tasks it has to:

- Maximize Revenues.
- Attract and retain employees, some of whom must be willing to sacrifice their lives for the family. Loyalty is critical.
- Train and motivate a successor who is selected by accident of birth.
- Plan for continuity.
- Use the family to form alliances and friendships.
- Manage large numbers of staff.

Any family business has to achieve the same things if it is to survive and prosper for many generations. There is a society for personal assistants to celebrities, where they can go to each other for support. It is clear that most celebrities are demanding and difficult, and few achieve lifelong loyalty. This is extremely difficult, and to do so, a family must earn it every day. Even one family member who behaves with indifference, cruelty or self-absorption, can damage the entire families reputation and loyalty. It must be clear to all non-family members that the family has standards of behavior and anything which hurts this will not be tolerated from anyone.

Perhaps the ultimate "family retainer" is a wife or husband. While an outsider by blood, the spouse is totally trusted. This is so much so that such qualities as experience, education, or talent are rarely an issue. Usually, the knowledge that this person has your best interests at heart in a way which a mere hireling cannot is enough. Bertelsman, a German publisher and media company was founded in 1835 by the Mohn family. At 37, Reinhard Mohn, who was married at the time, fell in love with a 17 year old secretary in the company. It took 24 years for them

to be able to get married. In 2002, Mr. Mohn appointed his 61 year old wife as family spokesperson, chairing the eight member panel which manages the family's controlling stake. As such she is the de facto leader of the company. With a non family CEO in place, the company had over extended itself. With her in the key role, the company has been recovering and even though Groupe Bruxelles Lambert, a holding company owns 25% of the company and could force an IPO in 2005, the Mohn family has now said it will exercise its right to buy out these shares.

Chapter 10 – Financial Issues for the Family Firm

Family firms face some very different financial issues. Some are unique to privately-held ones, while others belong also to public ones. I will split these into ones of operation and ones of succession. Family owned or controlled businesses are constrained in obtaining financing to run their companies. Equity based finance is rarely an option as private companies do not want to go public and even public ones do not want to dilute the family holdings and risk losing control. As a result, borrowing tends to be the only option available, and even then there may be restrictions because of the availability of security and interest rates. The well managed family company therefore is often highly reliant on cash from operations. This requires that the balance sheet is extremely well managed. Whereas in a regulated business, management seeks to maximize assets as regulators allow a guaranteed return on assets, a family company has to minimize assets as investment funds have to be carefully spent. Large privately owned family companies are masters at stretching the budget much like a parsimonious head of a poor household.

B.K. Murjani founded the classic family business in 1930 which was “an artistic success, but in the end, a commercial failure.” This was in large part because of the limitations of the family company in obtaining financing. After forming a substantial textile business in Hong Kong, producing over 10 Million units a year in 1958, he sent his son Mohan to New York to build a US business. Mohan was, and is, a man of considerable vision. On many ways he revolutionized the fashion industry. Much of what LMVH or PRR does today was pioneered by Murjani. He conceived of the idea of deliberately building brands in this industry in much the same way that Procter & Gamble does in Consumer Packaged Goods. His first such created brand was Gloria Vanderbilt jeans. He quite deliberately picked a high-profile socialite upon whom to build his premium priced fashion jeans. He created an image which had little to do with design or manufacture. During the early 70’s he built this brand using all the techniques of a toothpaste marketer. Recognizing that he had a formula, which if applied with intelligence, could be replicated elsewhere, he licensed the Coca-Cola brand name for use on clothes and retail stores. He also started using market research including some of the more sophisticated ones such as simulated test markets to evaluate new brands. His launch of Coca cola clothes was instantly successful. He had plans to launch a range of Jeep brand clothes. In the meantime he had also “discovered” Tommy Hilfiger. This was a fashion designer without a real sense of ego. He had no strong vision of the kind of clothes he wanted to design, but only of being wealthy and famous. Tommy Hilfiger was prepared to adjust his design philosophy to meet the desires of the market. In fashion, luxury, and entertainment businesses this is unusual. Most designers, writers, creative artists, follow their own vision, and only by luck do they become successful. Tommy was prepared to design to a formula – perfect for Mohan’s vision. Accordingly, Tommy Hilfiger clothes were launched with great fanfare following a licensing deal in 1985. A billboard in Times Square proclaimed him among the four great American designers, along with Perry Ellis, Ralph Lauren, and Calvin Klein. The outrage that this created provided him with more free publicity than

the billboard itself did. Sales of Hilfiger clothes went from \$ 8 Million to \$ 35 Million in eighteen months. Sales are now in the region of \$ 2 Billion. Unfortunately, Murjani had over extended the Coca-Cola clothes line and sales dropped. While Murjani had been launching several successful clothing brands, as a private company, it had been borrowing from banks. This put life or death power in the hands of bankers.

Along with this exposure, the company became embroiled in a number of lawsuits. Perhaps because the company was in a number of licensing, distributorships and other forms of partnerships, it began to face suits from people as varied as Warren Hirsch and Gitano. For a family owned company, this is particularly harmful. Not only does it cause the family managers to lose focus on the business (they see them as personal attacks, and a blow to the ego), but they make creditors nervous. For a number of reasons, including the bankers' inability to see beyond the current year, Murjani (both the Hong Kong company, and the US business), was sued for failure to pay back debt, and eventually forced into bankruptcy. The Murjani Group continues to exist in a truncated form. Tommy Hilfiger is a huge company now, after Hilfiger, in partnership with Joel Horowitz, Silas Chou, and Lawrence Stroll bought the company from Murjani for \$ 10 Million in 1989. While Chou and Stroll left the company, it generated \$ 1.8 Billion in 2002. Ironically, in 2004, Hilfiger signed an agreement with Arvind Murjani Brands of India to distribute Tommy Hilfiger in India. Arvind Murjani Brands is a Joint venture between Arvind Brands and the Murjani Group, now run by Vijay Murjani. Thus the family which created Tommy Hilfiger ends up as a mere distributor in one market. The Murjani family had the vision and scope to become a less upscale LMVH, but failed because of financing flexibility.

In addition to the strain of financing a going operation, a family business must be prepared for the death of shareholders and the impact of inheritance taxes. While the smaller family business can make use of aggressive transfer of ownership to the next generation, this option may not exist in the larger company. In these situations, the major options are to buy expensive life insurance and/or to reserve funds for the payment of taxes. This puts an extra "tax" requirement on the business which the widely-held company does not face. However, a family business can make sufficiently high profit to be able to handle this if it plans ahead and does not have to pay a large dividend. In fact, the most successful family companies, pay little or no dividend to family members, but compensate them via salaries if they want to and are capable of working in the business. Then the company reinvests as much of the profit as possible to minimize taxes, but continue to grow the business.

Chapter 12 – The Family as Brand

In the case of family businesses, one key distinguishing feature is frequently that the company name and the family name are the same. In many cases,

Chapter 13 – How They Succeed

There are some unique ways in which Family Businesses succeed. The largest benefit of a family company is the trust which exists between key decision makers. In many cultures, such as Asian or Latin ones, family interests override even national ones. The fact that family members have grown up together and know how each other thinks is a huge benefit to strategy setting as well as day-to-day decision making. As a result, in Latin American and Asian countries, family businesses may represent as much as 95% of the businesses. Even in the US, while we may see examples of family betrayal, it is all the more horrifying because it is so rare. In family companies, even in the third generation, trust is usually greater than in widely-held public companies. Now, I have seen that in most family companies, by the time it reaches the fourth or fifth generation, trust is worse than in an organization of unrelated people. The key difference is that in a family company where ownership does translate to control, any differences can be serious. In a widely held public company, the opinions of individual shareholders are less relevant. In fact, if a shareholder has a major problem with management, he or she is likely to simply sell their stock. In a family business, this is at least undesirable and sometimes impossible.

Family businesses can take a long-term view so that they are not impacted by the quarterly earnings imperative of widely-held public companies. They can also operate in greater secrecy and can use the strategic drivers of a public company against it and exploit its vulnerabilities. In Vietnam, each side measured success differently, the US by casualties and the Viet Cong by materiel. Since neither side understood this, the war escalated. If one of the combatants understands the measurement system used by the other, it can take advantage of this. Furthermore, it can use behavioral economics to lure its competitors into foolish decisions.

Arie deGeus had spent many years with Royal Dutch Shell when the Chairman asked him to identify other large companies which were older than Shell and to understand the secret of their success. He found very few public companies which were older than Shell and his analysis of 1970's Fortune 500 showed that one third had disappeared by 1983. In his book (*The Living Company: Habits for Survival in a Turbulent Business Environment*), he identified four common factors which any well run family business could have told him immediately. The four factors he identified were:

- Long-lived companies are sensitive to their environment. Whatever the basis of success, whether manufacturing, knowledge or service, they remain in close touch with the world around them.
- Long-lived companies are cohesive, with a strong sense of identity. However, diversified or dispersed the company may be, all employees and even many suppliers feel part of one entity. Note that family businesses have an identity and by being constrained from many acquisitions because of financing issues, avoid diluting their essence.
- Long-lived companies are tolerant of activities, experiments, and eccentricities that keep stretching their understanding of possibilities.

- Long-lived companies are conservative in financing. They are frugal and do not risk capital gratuitously. While public companies tend to manage the P&L, private companies tend to manage to the balance sheet. As a result, they have cash in hand for when it is really needed.

Dee Hock was the creator of the Visa organization and having established it, he stepped aside and away from it at the age of 55 for six years. Uniquely, Visa prospered most without clear ownership or leadership. During that time, he isolated himself, thought about what he had done, and how he had done it. He became fascinated by Chaos theory and the learning from the Santa Fe Institute. He came to these conclusions about key ingredients of leadership, which I have annotated in regard to family businesses:

- **Power:** true power is never used. If you use and enjoy power, you never really had it. In a family owned or controlled company the leaders should not need to grasp for it.
- **Human Relations:** First, last, and only principle – when dealing with subordinates, repeat silently to yourself, “You are as great to you as I am to me, therefore we are equal.” When dealing with superiors, repeat silently to yourself, “I am as great to me as you are to you, therefore we are equal.” In a family business, all should be thought of as participants in the enterprise, and of equal worth.
- **Criticism:** Active critics are a great asset. Without the slightest expenditure of time or effort, we have our weaknesses and error made apparent and alternatives proposed. Critics provide us with education and training which we should embrace eagerly.
- **Compensation:** Money motivates neither the best people, nor the best in people. It can rent the body and influence the mind but it cannot touch the heart or move the spirit; that is reserved for belief, principle, and ethics. Treating people as though they are motivated only by money insults the best people and attracts only the insincere. Nevertheless, generosity of spirit is reflected in generosity of material goods, so meanness is demotivating.
- **Ego, Envy, Avarice and Ambition:** Four beasts that inevitably devour their keeper. Harbor them at your peril, for although you expect to ride on their back, you will end up in their belly Jealousy is a close cousin; rightly called “the green eyed monster,” it consumes those who succumb to it.
- **Position:** subordinates may pay you lip-service by virtue of your position, but they will only give you the respect you earn by your daily conduct. Without respect, your authority is destructive.
- **Mistakes:** Much less fearsome than they are usually regarded. Recognize them, admit them, correct them, learn from them, and rise above them. If you do not, they will grow fangs and come to bite you.
- **Accomplishment:** Never confuse activity with productivity. It is not what goes in your end of the pipe that matters, but what comes out the other end. Most working time is spent driving the business sideways. A family firm should be far more focused on outcomes.

- **Hiring:** Never hire or promote in your own image. It is foolish to repeat your strengths. It is stupid to repeat your weakness. Hire those whose perspective and ability are radically different from your own. Understand that this requires uncommon humility, tolerance, and wisdom.
- **Creativity:** The problem is not how to get new, innovative thoughts into your mind, but how to get old ideas out. Preconceptions and old ways of doing things are the enemy of success. Family businesses benefit from the pent up frustration of passionate members of younger generations.
- **Listening:** While you can learn much by listening carefully to what people say, a great deal more is revealed by what they do not say. Listen to the silences. In a family business, leaders should know each other much better than in a widely-held public company.
- **Judgment:** Judgment is a muscle of the mind developed by use. You lose nothing by trusting it. If you trust it and it is bad, you learn quickly. If it is good, you will succeed. The saddest thing is to have good judgment and not to follow it. The best companies give junior people the opportunity to fail. In a family business, young family members have a chance to watch judgment being used.
- **Leadership:** Lead yourself, lead your superiors, lead your peers, and free your people to do the same.

While Visa was one of the first organizations to apply these principles, there are other and even earlier examples. Mondragon, in the Basque region of Spain, was founded in the early 1950s by some idealistic engineers who were mentored by a local priest, and all employees were treated as equals. Incidentally, this is no small enterprise, but employs 66,000 people in 37 countries and has Sales of \$ 10.6 Billion in 2002 and \$ 17.4 Billion in assets. While it has diverged slightly from total equality, even now the CEO is paid only about ten times the lowest paid employee. Ben & Jerry's applied the same philosophy, as does Costco today. Ricardo Semler inherited Semco from his father and implemented an organization driven by an egalitarian ideal. This is also not just an impractical idealistic rich kid who inherited a company. Semco is highly professional and has grown at 35% per annum over the past ten years. W.L. Gore is yet another example of a family owned company which has implemented this kind of philosophy which makes all employees full participants in the business (though at W.L. Gore, the only title is "associate", a descriptor used in other family businesses such as Mars, Inc. too). In the company, founded in 1958 by Bill and Vievo Gore, there is no hierarchy. Instead, the company uses a lattice structure in which associates are free to communicate with each other, and pay and responsibilities are determined by fellow associates. However, let us not assume that all family companies apply these philosophies. Many still believe in "command and control." It is simply that family companies have the freedom to apply management methods in which they believe.

In 1882, Edward Kirk Warren, a storeowner, had a bright idea. In those days, women had formed and tightly laced garments, which were made using whalebone stays. This material became brittle with age and washing, and even then it was clear to everyone that whales were becoming scarcer and heading for

extinction. While he was on a visit to a feather duster factory, where he was buying for his dry-goods store, he saw that many turkey feathers has been rejected and were lying about. Picking one up, he wondered whether with appropriate processing, he could use them to make durable, strong, and lightweight stays. After much experimentation, he introduced Warren's Featherbone, and by the turn of the century he had achieved considerable commercial success. From the start of his enterprise, he decided to run a principled business, and it has remained that way. Today, the company has moved far from its roots, but Gus Whalen, great-grandson of the founder, continues to put people and community first. The company was founded in Three Oaks, Michigan, and as the company grew, E.K. refused all offers to sell out or move away until in 1958 it did move away, but only after establishing a new business to keep employing people. He also was an ardent conservationist, and bought land so that it might be kept intact and undeveloped. In the 1920s the company was threatened by a competitive product which was superior and cheaper – plastic. Showing the mark of all great, long-lived family companies, i.e. adaptability, Featherbone developed a plastic baby pant, which was a great success. This was the beginning of the company's expansion into baby apparel. The company has such a strong personality and philosophy that he felt, following a heart attack, compelled to write about it in three books. Interestingly, in his first book, Gus Whalen sells family companies somewhat short. He uses the failure of most family companies to go beyond the third generation as an indictment of them. Given the longevity of other ownership structures, family businesses do well. However, he does point out that family businesses flounder when their only reason for existence is to provide a living for family. The company philosophy of the company is informed by its family background. Employees are regarded as part of the family, people are valued. Customers are put ahead of the company's convenience. This is not as common as you might think. I have often heard senior management say that we should not do something which would please the customer because it would put pressure on our own people, or be inconvenient. As the company made its first sales to Japan through the Tobu department store, it developed a formalized statement of its philosophy which is appropriate for every lon-lasting family company. It hangs in the company's conference room. "Accept change – good; Embrace Change – better; Create Change – best!"

The great family businesses are always more adaptable than we realize. As a family company, it can work through periods of discontinuity better than a widely held public company, which has quarterly earnings expectations to meet, and which becomes vulnerable if it makes major changes too fast.

If we take a look at Scalandre, we see a fine weaving company which started making hand made fabrics on Jacquard looms in 1929. As time went on, it became the only American company which could match and even beat the finest European hand-made fabrics. In 2004, the company finally sold its factory in Queens and shut down its looms. However, production moved to a fully computerized factory in South Carolina, and continued only when the family was convinced that quality would be even better.

This reminds us of another key advantage for family owned companies. The family that runs them is usually well aware that their name is literally or figuratively above the door. Therefore, the product quality reflects directly on to the family. Family owned businesses hate more than others to be associated with product defects, or disasters. In July, 1981 two massive aerial walkways in the Kansas City Hyatt Regency collapsed, killing 111 people and injuring a further 188. The hotel was owned by a subsidiary of Hallmark Cards, one of the most principled family businesses in the world. Don Hall was devastated by the event, and it resulted in real soul searching in a company which had always put quality first, but had never thought that a shortcoming (it was discovered that an improperly installed connector was the cause of the disaster), and this was a shock. In most family companies there is far greater emphasis on product quality than in the typical widely held public company. Now PIMS research, as reported by Buzzell and Gale in 1987 shows that one of the strongest positive correlations with profitability is product quality. This means that a family business, which probably has a built in bias to quality, has an intrinsic propensity to make higher than average profits. For example, in Mars, Incorporated, a simple M&M was regarded with an attitude of perfectionism. I have seen the obsessive way in which quality (as defined by the consumer) was made into the objective of operations, and yet this was done with an attention to efficiency and cost which would put most of its competitors to shame. We have seen some of the qualities of the Warren Featherbone Company, yet we need also to realize that the company has received many awards for logistics excellence. This a superb product, distributed with world-beating logistics in an environment where change is seen as an opportunity rather than a threat.

Chapter 14 – How They Fail

Family businesses may have a set of characteristics which make them likely to fail in different ways from a non-family firm. The most common is a falling out among family members. If family members start to feel envious of each other, or if other tensions trigger dislike or distrust, then this will carry over to the business. In a non-family business, private lives and work lives are more separate, and as a result, a personal issue is less likely to impact professional behavior. Research carried out at the London Business School suggests that while family managers of their firm believe that the major future challenges they face relate to strategy, operations and management, they do tend to underestimate the challenges of succession and transition. Game theory provides a lot of insight as to how family businesses fail because of conflict. The psychology of human decisions is a key supplement to this. In the 1950s the Rand Corporation began a series of investigations into game theory because of its potential application to nuclear confrontation. Since that time very many people have investigated “the prisoner’s dilemma.” In this, two criminals are apprehended. The police give them individually a choice. “Confess, and if you implicate your accomplice, you get a ten year sentence. If your accomplice confesses and you do not, you get a twenty-five year sentence. Of course, if neither confesses, we have to release both of you.” Study has shown that most people will confess and then both will get sent to prison when simply keeping silent will ensure that both get off. The “dilemma” faced by the prisoners here is that, whatever the other does, each is better off confessing than remaining silent. But the outcome obtained when both confess is worse for each than the outcome they would have obtained had both remained silent. A very frequent view is that the puzzle illustrates a conflict between individual and group rationality. A group whose members pursue rational self-interest may all end up worse off than a group whose members act contrary to rational self-interest. More generally, if the payoffs are not assumed to represent self-interest, a group whose members rationally pursue any goals may all meet less success than if they had not rationally pursued their goals individually. Puzzles with this structure were devised and discussed by Merrill Flood and Melvin Dresher in 1950, as part of the Rand Corporation’s investigations into game theory (which Rand pursued because of possible applications to global nuclear strategy). The title “prisoner’s dilemma” and the version with prison sentences as payoffs are due to Albert Tucker, who wanted to make Flood and Dresher’s ideas more accessible to an audience of Stanford psychologists. Other experiments have shown that if one person is given a choice of getting one dollar and a partner gets a dollar, this is more likely to be accepted than the individual getting two dollars and the partner getting ten. Therefore, we see that people:

- Do not trust another to act in good faith
- Would rather accept a lesser reward themselves than see someone else get a lot more.

This has enormous relevance to family businesses. Even when we are dealing with children, siblings, spouses, and parents, humans seem to be reluctant to allow others to get a “better deal” than they get. The new area of “behavioral economics” has studied this extensively. It seems that humans are so

unwilling to see others get a better deal than them that they will sacrifice their own rewards so that no one does better than them. So while many authorities continue to believe that people usually make rational decisions, this is not the case. Professor John Ward, in his excellent book, *Perpetuating the Family Business*, suggests that all family members receive the same salary. This rarely works. While he quotes the system used by Codorniu to ensure that only the best of the best family members actually work in the company, this is a system operated by a benevolent dictatorship. In fact, people tend to be very emotional about ensuring that others do not get better treatment that it can break down a family. The science of behavioral economics, which has only been in existence for about thirty years, has gone a long way to explaining how and why people do not behave rationally. For example, most people who own a stock which has lost a lot of value have a tendency to hold on to it so that they can recover the loss. In fact, in most cases, they should sell the stock and invest the proceeds elsewhere. In addition, in his book, *Innumeracy: The Consequences of Mathematical Illiteracy*, Professor John Allen Paulos describes how people draw conclusions which are not supported by data. Most people have insurance deductibles which are too low and more people are concerned about life insurance than disability insurance although we are more likely to be disabled for an extended period of time during our working lives than to die. Many people are more worried about a plane flight than the drive to the airport even though it is less dangerous. We are much more likely to be killed in a car accident than a terrorist attack, but too many people worry about the terrorist attack more. Equally, Professor Gerald Zaltman of Harvard Business School suggests that 95% of our thinking takes place in our unconscious minds. As a result, many of the decisions we make are not susceptible to easy analysis. In any situation where cooperation is required people react in unpredictable ways. The one thing we can be sure of is that members of a family who share ownership in a business are not likely to make the best decisions all of the time. Decisions are made for often irrational reasons, and while in a typical public company, such factors as ego, laziness, and preconceptions may drive decisions, in a family business, we can add jealousy, preferential affection, and deep emotions.

Thus in a family business, failure, if it comes, can arrive with much greater suddenness and acrimony. The closer the relationships between the owners, the greater are the potential for real hatred. Ultimately, this results in *schadenfreude*. This German word expresses taking pleasure in the discomfort of others, imagines a deep satisfaction in this which is particularly appropriate in family conflicts.

Kenneth Pontikes built Comdisco into a multi \$ Billion computer leasing firm in fewer than thirty years. When he died in 1994, he expressed the wish that his son, Nicholas, should succeed him. An interim CEO, John Slevin, continued the company's growth, and in 1999, Nicholas became CEO at the age of 33. Unlike his father, Nicholas was insecure and surrounded himself with yes men. He determined that his father had been too risk averse and he was going to be more aggressive. Despite his earlier track record as founder of a failed startup he withdrew from mainframe leasing, entered the added-value services business, formed Comdisco Ventures, and acquired Prism Communications Systems. Each

of these moves failed spectacularly. By early 2004, the company had \$ 3.5 Billion in debt, and Nicholas had been forced to resign. So while the cliché is, “from rags to riches and back again in three generations,” in this situation it happened in two. Traditionally, the first generation creates and builds the company (sometimes building on a parent who was a small-time business owner). The second generation holds on, acting out of a need to demonstrate their ability to their parent as well as a fear of losing it all. Shortly after taking over from his father, Frank, Jim Perdue told me that he was more concerned about messing it all up than building the business. The second generation has usually grown up as the first built the business, so they have seen how much hard work it takes. The third generation knows nothing else, frequently mixes largely with other rich kids. The TV series, “The Simple Life,” with Paris Hilton (great grand-daughter of Conrad Hilton, founder of Hilton hotels) and Nicole Ritchie shows this in a manner which would be called parody if they had been portrayed by actors. In the case of the Hilton family business, Conrad Hilton was succeeded by one of his three sons, Barron Hilton, but the third generation did not lead the business.

Balancing maintenance and conservation with risk-taking is difficult. We all know that if you invest all your money in Certificates of Deposits, after inflation you lose money, but taking high risks you can also lose it all, much faster! Very often the first generation gets the balance right, the second is too conservative and fails to make the changes, investments, and indoctrination of the next generation. Finally, the third generation has no idea of what is involved in building a business, and because it thinks itself smarter than the third, it takes foolish risks. This is what led Barneys into disaster.

One of the fastest reversals in fortune must have been that of Comdisco. Founded by Kenneth Kontikes, it grew to a \$ 4 Billion company. When he died in 1994, having expressed his wish that his son Nicholas replace him, the board, full of Ken’s friends, gave him the job in 1999 at the age of 33. Ken had been a scrappy businessman, who enjoyed discussion of pros and cons. He had built an unglamorous but sound computer leasing business. Nick had grounding in investment banking and thought like one. He was also a huge risk taker without, apparently, understanding the risks he was taking or hedging his bets. His greatest passion was reserved for Comdisco Ventures. This was a venture capital arm which initially showed promise, but became larger just as the tech bubble collapsed. By the end of 2002, the company owed \$ 3.5 Billion in debt and Nick was forced to resign.

The pattern we see all too often is that a later generation is sometimes too conservative, and rather like leaving your savings in a Certificate of Deposit, earning 1% for many years, is unwilling to take the apparent risks which are required for continued existence. We see other companies where the heirs are overconfident, and with little understanding of obstacles and risks take foolish risks based on whim or fancy.

Chapter 15 – Whither the Family Firm

Over the past twenty years, there has been increasing recognition by many that family businesses represent the bulk of the world's economy. Sadly, this is not the case in the media. Part of this is that information which journalists can use to write about family firms is harder to get, and the other part is that the "business" section of your daily paper is centered on investments rather than the practice of business or the real components of our economies. From time to time, articles will acknowledge that small business is the driver of employment, or that new ideas come from small companies, many family-owned, rather than large public companies. It is the W.L.Gore or Semco organization which takes risks with philosophy and organization, not GM any more.

Academia, which is more attuned to the real world than many realize, has recognized this and there has been an explosion of University programs in Family Business. This also reflects a market reality in that there is growing demand among family members to learn how to manage their firms. A frustration with traditional business programs, which tend to assume a widely-held public company perspective, has created demand for education for family members which are appropriate to their needs. The evidence supports this recognition, as companies where family members are trained in a more formal way than sitting next to older family members seem to last longer.. We are also faced with a change in the nature of families themselves. While one of the major reasons for family companies is the existence of greater trust between executives, and family businesses can improve decision-making efficiency because of it, the breakdown of traditional family structure makes this more challenging. Families today do not look like the mother-father, two children structure so common in the 1960s and before. Today we have blended families, sequential monogamy, and families in which no one is marred. Can people trust step-siblings as much as they trust siblings they have spent all their lives with? Can a founder with children by two or more different spouses play fair when it comes to inheritance or management succession?

A classic history of a family business is that of Littlewoods. Perhaps more than most others, this represents the stereotypical cycle, including the ultimate sub-optimization of the sale of the company. In 1923, John Moores founded Littlewoods, originally as a "football pools," or legal gambling pool on soccer. The company developed a deep and abiding attachment to Liverpool, the city where it was headquartered. Over the years, its corporate office became a city landmark and the Moores family was a driving force behind the two leading professional soccer teams in the city as well as the arts and environment. In 1932, he used the mailing list he had developed to launch the first Littlewoods catalog. In this, he was one of the pioneers of direct marketing and understood the value of a mailing list. In 1937, he opened the first Littlewoods department store in Blackpool, England. For a long time the company prospered. The gambling business grew and was very profitable, while the retail operation flourished in the post Second World War years. However, by the time the company was sixty years old, it was flagging. By now Sir John Moores continued to run the business in a dictatorial and random way. He had pushed out his second son, Peter, and the company was

sinking. Finally, in 1983, he brought in outside management. In the meantime, his grandchildren were growing up, moving away from Liverpool, often to offshore tax havens. While he continued to live frugally in a four bedroom house in the suburbs, they lived lives of great luxury far away. They had little or no interest in the business, and he killed what little of it there was. There were to be three iterations of non family management, and still the company continued to slide as the family bickered. In 1996, Sir John's two other children left the board and his grandchildren were waiting with bated breath for a public offering. The company lurched first one way, then the next. Each move, whether operations driven, or putting the retail stores up for sale, seemed to make everything worse. As this once great company became a laughing stock, Cecil Moores, Sir John's brother, died in 1989, Sir John in 1993, and his son John Jr., retired in 1996. Eventually, the company, in two parts (pools and stores) was sold off and the 35 descendents claimed their share of the proceeds. The sale price for the stores in 2002 was £ 750 Million (approx \$ 1.8 Billion). To complete the picture of a group of spoiled, rich kids making money they had neither earned nor deserved, most of them paid very little tax on the proceeds. Because most of them had either established residence or accounts in off-shore tax havens, the family saved at least £ 60 Million in taxes. For example, John Moores, grandson of Sir John, received £ 38 Million, but because he lived in Monaco, he paid no tax. This saved him £ 15 Million which he would have paid had he lived in the UK. Now, while it is legitimate to use the tax laws to your advantage, events like this do provide a poor image of family businesses in the public mind.

Sadly, Littlewoods heirs would have made more money, received less press attention and been remembered with more respect if they had been more thoughtful and cooperative. A genuine interest in the success of the business would have resulted in more wealth for the individuals involved.

A more typical and successful family business is that which was founded by my father's cousin. KK Nag is a successful plastics and packaging business in India. The company was founded in 1965 to manufacture and market expanded polystyrene. Over the years it grew as it managed through the changes of economic philosophy in India. He sent his two sons, as he had been sent, to the UK and US to be educated. It became clear that his eldest son, Milon, had the most passion and interest in running the business, so while both are part owners, Prommeet, his younger son, made his life and career in Germany. As Milon told me (and I believe that his comments could equally come from many other heirs to family businesses): "Not joining the family business was never an option for me. It was not like it was ever forced down my throat but neither my parents nor I actually contemplated my not joining the business. My father would never have been so crude as to lay down the law and say that it was mandatory that I did this or that; it is just that in all conversations it was assumed that I would eventually join the business ("you can later expand the business to do...!").

And quite frankly, I absolutely love what I am doing. It has been extremely tough for the last few years because the market was liberalized and all of a sudden we went from a cost-plus pricing model to a price-minus one, but even at the most difficult of times I don't think I seriously contemplated doing anything else.

I don't think Promeet was expected to join the business as much as I was. I think it was less a function of his being younger and more because he was always the more exuberant one. He always loved adventure which is not always compatible with running a small manufacturing business in India. In fact, I think my father knew at the back of his mind that Promeet would settle overseas because he would often remark that while I was busy working hard in a factory in India, Promeet would be in some far corner of the world and he'd end up making a hell of a lot of money! As it turns out, he was right!

Although ours is a "family business" in the sense that most of our shares are owned by my mother, Promeet, and me, in terms of management, I am the only one from the family with executive responsibilities. I have tried very hard to disassociate the company from the 'family business' tag because I think the term often implies a lack of professionalism, a culture where nepotism is used to judge people more than merit, etc. Also, I think it does nothing to motivate people working in the company because it suggests that they are somehow inferior to the 'family'; it is a position that is impossible for them to aspire to so they end up feeling that they are in a servant-master relationship.

I tell all my colleagues that I don't come in every morning wearing my 'owner' hat; I come in as an executive with a job to do. The 'owner' hat is only worn once or twice a year and the two roles should not be mixed up. I think I have been quite successful with this strategy because even though we are so small, our Board is made up entirely of professionals with excellent academic and professional backgrounds. All executive directors are people who have worked in the company and they eventually get a percentage of the shares. It was a system started by my father and I think it has worked very well for us.

As regards my father's philosophies, he essentially ran a highly patriarchal set-up and he, in turn, received absolute loyalty. I continued in the same manner until a few years ago when we were suddenly hit with unprecedented competition from companies whose overheads were a quarter of ours. We had no option but to focus our attention on people's competencies and eliminate all wastage in the system. This has led to some amount of churning and something of a breakdown in the completely patriarchal system that we had but, overall, I think we are still more patriarchal in our outlook than most companies."

This is an eloquent statement which reflects much of what I have heard and seen over the years from other people who are running their family business. The overwhelming majority of them are dedicated, hard-working people who are very aware of their responsibility. Most are very conscious of the succeeding generations and achieving high standards of professionalism. They are keen to avoid any appearance of nepotism and are conscious of being seen as privileged. They want to retain and reward non family management, and are often modest about their own accomplishments.

In many respects, Bechtel is in this mold. Founded in 1898 by Warren Bechtel, as he graded railroad beds with a mule-drawn scraper in Oklahoma Territory, within fifty years the company was large enough to be a member of the six company consortium which built the Hoover Dam. In 1991, Riley Bechtel, Warren's great grandson, took over as CEO of the business which is still owned 40% by the family (with the remaining 60% owned by top managers). Riley

Bechtel has worked to change the command and control structure which was used by his predecessors. He is unfailingly modest despite his success, and acts like a “first among equals” rather than an owner. Under his leadership one of the company’s hallmarks is its propensity to create projects rather than wait for one to be handed to it. So it has become a developer of large industrial projects, not just a construction company. This is the kind of innovative and original thinking which family businesses can aspire to.

I strongly believe that family businesses will benefit from the heightened respect for professionalism. When Robert McNamara, a former Harvard professor, and one of the smartest people to be CEO of a major company, joined the Ford Motor company after the Second World War, there were fewer than ten college graduates in the company. He rose to become the first non-family member to become President of the company, before he left to become Secretary of State for Defense in the Kennedy administration. This was because he was the first person to bring a passion for professionalism to the company. Today, it does not require an outsider. The family members themselves bring a passion for professionalism and great knowledge. Many of the family members who run large companies have worked in other businesses, so can compare and contrast. As programs for family business spread and family members attend these, the bar keeps getting higher. Furthermore, years ago, most of the business founders had no formal training in business and had to learn as they went. While clearly most succeeded well, they were not often able to pass it on in a structured way to the next generation. This task is now much easier, not only through Business School programs, but also because consultants and interim management with extensive knowledge of family companies are more widely available to help.

Chapter 16 – Eleven rules for a Family Business to Follow

As you read this book you may well be asking yourself how to codify and apply all the examples, learning, and recommendations which it contains. On the one hand we have an impulse to accumulate and analyze all the available data. On the other hand, however, we are all busy people and need to be able to access the core learning fast. The following rules represent the summary of a lifetime spent in and around large family businesses.

1. Establish a process to ensure that family members are motivated, groomed, tested, and promoted where deserved. The criteria for this need to be clear and understood by family members and non-family employees. Ensure that Family and Business goals are aligned, measurable and achievable. Communication is critical.
2. A family company will not only prosper in the normal sense, but has unique advantages when led by an admired and respected family member. All the longest lived family companies are led by family members. Appointment of a non-family CEO for much more than a few intervening years is usually the beginning of the end. However, an interim non-family CEO may be an excellent mentor for the younger generation.
3. Ensure that each CEO has a defined retirement date. Frequently, this is not clear and the designated successor is forced to jump through hoops while biting his or her tongue. Furthermore, the outgoing CEO must genuinely retire and not hover over the successor's shoulder second guessing all decisions or being prepared to step back in again.
4. If possible avoid going public. This requires thinking ahead to ensure that inheritance taxes are covered well in advance of the death of family members. Reinvesting in the business must be a priority rather than paying dividends to family members.
5. Value, respect, and retain long-term non-family management. This may require being creative in terms of compensation, but more importantly, if you expect loyalty, be prepared to initiate, not simply reciprocate. Non-family members will be totally committed if they feel like honorary members of the family. Non-family senior management can be wonderful mentors as well as objective advisors.
6. Product quality has to be the main objective for the company. This has to be defined broadly and as seen by the customer.
7. Work hard to transfer ownership and ambitions. Openness is critical as younger family members need to understand the family vision, behavior code and their responsibilities in this. Ownership has to start being transferred early by very aggressive action. The best way to ensure that the next generation successfully takes on the responsibility is to give it. Withholding responsibility and ownership hinders success as well as increases financial liabilities.
8. Regard the business as separate from, and greater than any one family member. Imagine a long-term time horizon in which the company passes on to family members who have not yet been born. Adaptability is a critical value for the company to hold.

9. Family members must grow up closer to the customer than to spoiled rich heirs to family fortunes. They must understand and have empathy for the people they serve. It is also key that they see the non family members of the management team as professional equals to respect and thank for extraordinary efforts.
10. Install the best possible financial controls. Even a multinational must allow the family to know and be able to project finances to the penny. In a small company, no short-cuts may be taken. It is very difficult to retroactively install good management accounting. Know early on what you have to measure.
11. Spend frugally. Ensure that employees feel that unlike faceless shareholders, they are spending money which belongs to people they know, trust, and respect.

These rules are necessary, but not always sufficient. In different industries, countries and family situations, distinctive solutions may be required. A family business can consistently outperform non-family companies, but requires much care and feeding. Like a marriage, the structure needs nurturing and laissez-faire management will not work.

As I was writing this book, I put a great deal of thought into developing a set of straightforward rules. I felt that it must be possible to present a formula in a nice small number of rules which would help any family business to be more successful. As I worked towards a final set of rules I found that I could not get below eleven. However, this can be put onto a small space.

In final summary, I have appreciated the years I have spent getting to know families and their businesses. Overall, I believe that family owned or controlled companies have significant advantages, with private ones having the greatest of all. If the company is to survive beyond the third generation, it is essential that planning for long term continuity begins in the first generation. Even the founders have to really internalize that the company is bigger than they are. Just because the founder may legally own or control it, he or she has a responsibility not to exercise that ability if by doing so the long term health of the business would be harmed..

Chapter 17 – Summary

There are cardinal rules for success in a family business. While many of these mirror those in any business, they are not the same. Family companies operate with fewer restrictions in some areas, but greater ones in other areas. There tend to be greater financial constraints. However, less daily scrutiny of earnings and revenues mean that the business can take the long view and make short-term sacrifices for long-term gain. If the issues around family dynamics are well handled, the business has immense advantages versus widely-held public companies, or even non-family private businesses.

As the company grows, its survival through the third generation seems to be the most critical. The first generation (which is not necessarily the first to be in the business, but the first to really build it as a growing, unique and differentiated company), is occupied with the work. The second generation has seen hard working parents in action and has usually not grown up in luxury. The third generation, however, has never known scrambling, mixes with other wealthy people, is often shielded from ordinary people (even if it is because parents are scared by kidnap and ransom scenarios), and may see non family managers as servants. Furthermore, their parents have not experienced this themselves, and so do not understand it nor know how to deal with it. By the time the generations have continued further, parents know how to balance the conflicting demands, traditions can be built and the cadre of family members is large enough that a system of “apprenticeship” and selection can be applied. The family has become large enough that the leadership does not feel obligated to provide a senior job to each member of the family. Some may best serve the company by staying out of it.

Until recently it was assumed that family companies were less effective and efficient than widely-dispersed ownership would provide. Many wrote with conviction that families running companies suffered from divided loyalties, so that they would benefit the family at the expense of the company. It was assumed that because they selected CEOs from a restricted pool of candidates, that the CEOs would be weak. More recently, original research has shown that the reverse is often true. Family companies have leadership and shareholders who are aligned, and a family member who becomes CEO has much less of a learning curve to move along. A study published in the *Journal of Finance* in June, 2003 (*Founding-Family Ownership and Firm Performance: Evidence From the S&P 500*, by Anderson and Reeb), showed that among public family owned companies (one third of the S&P 500) ROA was better than among non-family companies, and those in which a family member was CEO performed even better. Interestingly, in Victorian and earlier times, the family run business was regarded as the best form. “Managers” were regarded as little more than family servants, most of whom would rob the family as soon as its members turned their backs.

One area where privately-owned family companies are vulnerable is that of financing. In the early days of General Motors, under Billy Durant, the company almost went bankrupt several times because its rapid growth outstripped its ability to finance the growth in required working capital and fixed assets. One of Alfred Sloan’s achievements in addition to organizational (decentralization) and

branding (early market segmentation) ones, was to install tight spending controls so that growth could continue. A smart family company monitors Asset-turnover ratios closely. Current value accounting may also be a useful tool. Using this, assets are valued at replacement cost. While not accepted by the IRS or SEC, it is accepted in many countries and at the cost of keeping two parallel accounts, it does force efficient use of assets.

Appendix I

The Largest Family Businesses in the World (Billion)

1. Wal-Mart* (USA) Retailing	\$245
2. Ford Motor Company* (USA) Automaker	\$163
3. Samsung* (South Korea) Conglomerate	\$ 99
4. LG Group (South Korea) Conglomerate	\$ 81
5. Carrefour Group* (France) Retailing	\$ 72
6. Fiat Group* (Italy) Automaker	\$ 61
7. Ifi Istituto Finanziario Industriale* (Italy) Diversified	\$59
8. PSA Peugeot Citroen S.A.* (France) Automaker	\$ 57
9. Cargill Inc. (USA) Agribusiness	\$ 51
10. BMW* (Germany) Automaker	\$ 44
11. Hyundai Motor* (South Korea) Automaker	\$ 40
12. Koch Industries (United States) Energy/Ranching	\$ 40
13. Robert Bosch GmbH (Germany) Auto Parts	\$ 37
14. SCH* (Banco Santander) S.A. (Spain) Banking	\$33
15. ALDI (Germany) Retailing	\$ 30
16. Auchan (France) Retailing	\$ 29
17. Pinault-Printemps-Redoute* (France) Retailing	\$ 29
18. Ito-Yokada* (Japan) convenience stores	\$ 28
19. Tengelmann (Germany) Retailing	\$ 28
20. J Sainsbury* (United Kingdom) Retailing	\$ 27
21. Motorola* (United States) Electronics	\$ 27
22. Viacom* (United States) Media and Entertainment	\$ 25
23. Novartis* (Switzerland) Pharmaceuticals	\$ 23
24. Tyson Foods* (United States) Food	\$ 23
25. Bouygues* (France) Retailing	\$ 23
26. Roche Group* (Switzerland) Pharmaceuticals	\$ 21
27. Bertelsmann (Germany) Publishing	\$ 19
28. Weyerhaeuser* (United States) Timber Products	\$ 19
29. Loew's* (United States) Tobacco, Hotels	\$ 18
30. News Corp* (Australia) Media	\$ 17
31. Karstadt Quelle* (Germany) Retailing	\$ 17
32. Michelin* (France) Tires	\$ 16
33. Publix Super Markets (USA) Supermarkets	\$ 16
34. Bombardier* (Canada) Aerospace, defense	\$ 16
35. Mars (USA) Candy, Food, Pet food	\$ 16
36. L'Oreal* (France) Cosmetics	\$ 15
37. Lagardere* (France) Publishing, defense	\$ 15
38. Gap* (USA) Apparel retailing	\$ 14
39. LVMH* (France) Luxury Goods, retailing	\$ 14
40. Groupe Danone* (France) Food	\$ 14
41. General Dynamics* (USA) Aerospace, defense	\$ 14
42. Anheuser-Busch* (USA) Beer	\$ 14
43. Cathay Life Insurance* (Taiwan) Insurance	\$ 13

44. Magna International* (Canada) Auto Parts	\$ 13
45. Otto Group (Germany) Catalogs, retailing	\$ 13
46. Comcast* (USA) Cable	\$ 13
47. Sodexho Alliance* (France) Food service	\$ 12
48. Winn-Dixie Stores* (USA) Supermarkets	\$ 12
49. Power Corp. of Canada - Utilities, Mutual Funds	\$ 12
50. Ikea (Sweden) Furniture retailing	\$ 12
51. Gerling-Konzerna Versicherungs-Beteiligungs (Ger) Ins.	\$ 12
52. Bechtel Group (USA) Engineering	\$ 12
53. Comp. Brasileira de Distribuie (Brazil) Retailing	\$ 11
54. Meijer (USA) Retailing	\$ 11
55. Suntory Ltd. (Japan) Distiller	\$ 11
56. Heineken* (Netherlands) Beer	\$ 11
57. Henkel Group* (Germany) Chemicals, detergents	\$ 10
58. Investor AB* (Sweden) Holding company	\$ 10
59. H.E. Butt Grocery (USA) Supermarkets	\$ 10
60. Cox Enterprises (USA) Newspapers, TV	\$ 10
61. SHV Holdings N.V. (Netherlands) Energy	\$ 10
62. Hutchison Whampoa* (Hong Kong) Telecom, retail, energy	\$ 10
63. Reliance Industries* (India) Chemicals	\$ 10
64. Illinois Tool Works* (USA) Machine tools	\$ 9
65. Masco* (USA) Building supplies	\$ 9
66. El Cortes Ingles (Spain) Retailing	\$ 9
67. Huntsman Corp. (USA) Chemicals	\$ 9
68. Fidelity Investments (USA) Mutual funds	\$ 9
69. Marriott International* (USA) Hotels	\$ 8
70. Clear Channel Communications (USA) Broadcasting	\$ 8
71. Tata Group (India) Textile, autos, steel	\$ 8
72. Parmalat* (Italy) Dairy products	\$ 8
73. Boehringer Ingelheim (Germany)	\$ 8
74. Dillard's* (USA) Retailing	\$ 8
75. SAP* (Germany) Software	\$ 8
76. Thomson Corp.* (Canada) Media, publishing	\$ 8
77. JM Family Enterprises (USA) auto dealerships	\$ 8
78. Grupo Financiero BBVA-Bancomer* (Mexico) banking	\$ 8
79. Tetra Laval (Switzerland) Packaging	\$ 7
80. Interbrew* (Belgium) Beer	\$ 7
81. Associated British Foods* (UK) Food	\$ 7
82. Cemex* (Mexico) Building Materials	\$ 7
83. Enterprise Rent-a-Car (USA) Car rental	\$ 7
84. Dollar General Corp.* (USA)	\$ 6
85. Mercadona* (Spain) Supermarkets	\$ 6
86. Heraeus Holding GmbH (Germany) Precious metals	\$ 6
87. Aditya Birla Group (India) Conglomerate	\$ 6
88. Nordstrom* (USA) Retailing	\$ 6
89. Haci Omer Sabaucci Holding (Turkey) Conglomerate	\$ 6
90. Sonepar (France) Electrical distributor	\$ 6

91. Marmon Group (USA) Mining equipment	\$ 6
92. Grupo Carso* (Mexico) Conglomerate	\$ 6
93. ERG S.p.a.* (Italy) Oil, energy	\$ 6
94. De Beers Consolidated Mines (South Africa) diamonds	\$ 5
95. Estee Lauder* (USA) Cosmetics	\$ 5
96. Dogus Group (Turkey) Banking, construction	\$ 5
97. FEMSA* (Mexico) Beer	\$ 5
98. Pernod Ricard* (France) Distiller	\$ 5
99. H&M Hennes & Mauritz* (Sweden) Retailer	\$ 5
100. S.C. Johnson & Son (USA) Household products	\$ 5
101. Lazard L.L.C. (France) Investment Banking	\$ 5
102. Saudi Binladin Group (Saudi Arabia) conglomerate	\$ 5
103. Bolloré* (France) Oil, transport	\$ 5
104. Koc Group* (Turkey) conglomerate	\$ 5
105. Alticor (USA) Household products	\$ 5
106. C&A (Belgium) Retailer	\$ 5
107. McGraw Hill* (USA) publishing	\$ 5
108. Porsche* (Germany) automobiles	\$ 5
109. Tchibo Holdings (Germany) Coffee, tobacco	\$ 5
110. Fomento de Construcciones y Contratas* (Spain) construction	\$ 5
111. Danaher Corp.* (USA) industrial equipment	\$ 5
112. Italmobiliare S.p.a.* (Italy) concrete, paper	\$ 5
113. Carnival Corp.* (USA) cruise line	\$ 4
114. Kumagai Gumi co. Ltd.* (Japan) Construction	\$ 4
115. Kelly Services* (USA) Office temps	\$ 4
116. Inditex* (Spain) clothing	\$ 4
117. Advance Publications (USA) newspapers	\$ 4
118. Hallmark Cards (USA) Greeting Cards	\$ 4
119. Levi Strauss (USA) apparel	\$ 4
120. Jeronimo Martins (Portugal) supermarkets	\$ 4
121. Oetker Group (Germany) food, beer, shipping	\$ 4
122. McCain Foods Ltd. (Canada) Food	\$ 4
123. Cablevision Systems* (USA) Cable	\$ 4
124. Murphy Oil* (USA) oil	\$ 4
125. Richemont* (Switzerland) Luxury goods	\$ 4

All Revenues rounded to nearest Billion since so much is estimated or based on changing exchange rates

* Publicly traded stock

Sources: Family Business Magazine; independent research

The Oldest Family Businesses in the World (excluding US farms)

1. Kongo Gumi (Japan) Construction	578
2. Hoshi (Japan) Innkeeping	718
3. Chateau de Goulaine (France) Winery	1000
4. Barone Ricasoli (Italy) Wine and olive oil	1141

5. Barovier & Toso (Italy) Glassmaking	1295
6. Hotel Pilgrim Haus (Germany) Innkeeping	1304
7. Richard de Bas (France) Paper	1326
8. Torrini Firenze (Italy) Goldsmiths	1369
9. Antinori (Italy) Wine	1385
10. Camuffo (Italy) Shipbuilding	1438
11. Baronnie de Coussergues (France) Wine	1495
12. Grazia Deruta (Italy) Ceramics	1500
13. Fabbrica D'Armi Pietro Beretta S.p.A. (Italy) Firearms	1526
14. John Brooke & Sons (United Kingdom) Woolens	1541
15. Codorniu (Spain) Wine	1551
16. Fonjallas (Switzerland) Wine	1552
17. DeVergulde Hand (Netherlands) Soap	1554
18. von Poschinger Manufaktur (Germany) Glassmaking	1568
19. Wachsendustrie Fulda Adam Gies (Germany) Wax	1589
20. Bernberg Bank (Germany) Banking	1590
21. R. Durtneil & Sons (United Kingdom) Construction	1591
22. J.P. Epping of Pippsvadr (Germany) Groceries	1595
23. Eduard Meier (Germany) Shoes	1596
24. Tissiman & Sons Ltd. (United Kingdom) Tailors	1601
25. Takenaka (Japan) Construction	1610
26. Mellerio dits Meller (France) Jewelry	1613
27. Zildjian Cymbal Co. (United States) Cymbals	1623
28. Alldays Peacock (United Kingdom) Industrial Engineering	1625
29. Kikkoman (Japan) Soy sauce	1630
30. Sumitomo Corp. (Japan) Conglomerate	1630
31. Akerblads (Sweden) Hotels	1630
32. Van Eeghen (Netherlands) Shipping	1632
33. Gekkeikan (Japan) Sake	1637
34. Hugel et Fils (France) Wine	1639
35. James Lock & Co. (United Kingdom) Hatters	1642
36. G.C. Fox & Co. (United Kingdom) Shipping Agents	1646
37. R.H. Levey & Son (United Kingdom) Funeral Services	1649
38. William Adams & Sons (United Kingdom) Potters	1650
39. Ulefos Jernvaerk (Norway) Metals, forestry	1657
40. Friedr Schwarze (Germany) Distillery	1664
41. Kronenbourg Brewery (France) Brewery	1664
42. James Kenyon & Son, Ltd. (United Kingdom) Textiles	1664
43. Hedges & Butler (United Kingdom) Wines & spirits	1667
44. Early's of Whitney (United Kingdom) Blankets	1669
45. Mocatta & Goldsmid (United Kingdom) Goldsmiths	1671
46. C. Hoare & Co. (United Kingdom) Banking	1672
47. Firmin & Sons Ltd. (United Kingdom) Uniforms	1677
48. Viellard Migeon & Cie. (France) Iron Making	1679
49. Gradis Corp. (France) Wine trading	1685
50. Toy, Kenning & Spencer (United Kingdom) Weavers	1685
51. Yamamotoyama (Japan) Tea	1690

52. Cartiera (Italy) Paper	1690
53. Delamere et Cie. (France) Packaging	1690
54. Folkes Group (United Kingdom) Property & Engineering	1697
55. Berry Brothers & Rudd Ltd. (United Kingdom) Wine	1698
56. Shepherd Neame (United Kingdom) Brewer	1698
57. William Dalton & Sons (United Kingdom) Pest Control	1710
58. Tissages Denant (France) Cloth	1723
59. Amarelli (Italy) Licorice	1731
60. Fraterri Piacenza Corp. (Italy) Woolens	1733
61. Taittinger Champagne (France) Champagne	1734
62. William Clark & Sons (United Kingdom) Linen	1739
63. Boplaas (South Africa) Agriculture	1743
64. Aubanel (France) Publishing	1744
65. Fonderia Daciano Colbachini & Figli (Italy) Bellmaker	1745
66. J.D. Neuhaus Hebezeuge (Germany) Hoists	1745
67. Avandero (Italy) Transportation	1746
68. Nagelmakers (Belgium) Banking	1747
69. Villeroy & Boch (Germany) Ceramic tableware	1748
70. Zenith Pipe Company (Netherlands) Tobacco pipes	1749
71. Marie Brizard & Roger International (France) Distiller	1755
72. Joseph Drouhin (France) Wine	1756
73. Lanificio Conte S.p.A. (Italy) Woolens	1757
74. Jose Cuervo (Mexico) Tequila	1758
75. Waterford Wedgwood (Ireland) Crystal and china	1759
76. Creed Perfume (France) Perfume	1760
77. Griset (France) Foundry	1760
78. Hacienda Los Lingues (Chile) Ranch	1760
79. Faber Castell (Germany) Writing instruments	1761
80. Moeller Group (Germany) Metal products	1762
81. Bachman Funeral Home (United States) Funeral services	1769
82. Silca (Italy) Keys	1770
83. Osborne y Compania (Spain) Brandy and sherry	1772
84. Edition Henry Lemoigne (France) Music Publishing	1772
85. Bass Ale (United Kingdom) Brewer	1777
86. JB Fernandes & Sons (Portugal) Tools & Ironware	1778
87. St. John Milling Company (United States) Milling	1778
88. Ditta Bortoli Nardini (Italy) Distillery	1779
89. Laird & Co (United States) Brandy	1800
90. Asprey (United Kingdom) Jewelry	1781
91. Cadbury Schweppes (United Kingdom) Drinks & Candy	1783
92. Confeti Mario Pelino (Italy) Candy	1783
93. Bixler's (United States) Jewelers	1785
94. Molson (Canada) Brewer	1786
95. Haye's Coffee (United States) Coffee	1787
96. Wilson Fuel (Canada) Fuel	1788
97. Revol (France) Craft pottery	1789
98. George Ruhl & Sons (United States) Baking Supplies	1780

99.	Jeronimo Martins (Portugal)	Food retailer	1792
100.	Bonhams (United Kingdom)	Auction house	1793
101.	Louis Latour (France)	Wine	1797
102.	Industria Filati Tessuti Crespi (Italy)	Cotton	1797
103.	Egon Mueller-Scharzhof (Germany)	Winery	1797
104.	Lombard Odier & Cie. (Switzerland)	Banking	1798
105.	Alan McIlvain (United States)	Lumber	1798
106.	N.M. Rothschild & Sons (United Kingdom)	Banking	1799
107.	Torres (Spain)	Wine & Brandy	1800
108.	Crane & Co. (United States)	Paper	1801
109.	Sawyer Bentwood (United States)	Wood products	1801
110.	Brucedale Pty.Ltd. (Australia)	Farming	1802
111.	Rogers Funeral Home (United States)		1802

Source: *Family Business* magazine; own research

Appendix II

Family Business Programs

The University of Akron
Alfred University
American University
Baylor University
Belmont University
Bryant College Institute for Family Enterprise
University of California, Los Angeles
California State University, Fullerton
California State University, Sacramento
Carnisius College
Case Western Reserve University
University of Cincinnati
Concordia University
University of Connecticut
Cornell University
Creighton University
DePaul University
Drake University
Duke University
Fairleigh Dickinson University
Florida International University
University of Illinois
Kennesaw State University
University of Kentucky
University of Louisville
Loyola College in Maryland
University of Massachusetts
University of Memphis
Loyola University Chicago
University of New Hampshire
University of North Carolina
Northeastern University
Nova Southeastern University
Oakland University
Ohio State University
Oklahoma State University
Oregon State University
Pacific Lutheran University
University of Pittsburgh
Saint Louis University
University of St. Thomas
University of San Diego
Siena College

University of South Carolina
University of South Dakota
USC
Stetson University
University of Tampa
University of Tennessee of Tennessee at Knoxville
University of Toledo
Tulane University
University of Vermont
Virginia Commonwealth University
Wake Forest University
University of Wisconsin-Madison

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