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ADVISORS TO FAMILY ENTERPRISE

Sustaining Family Enterprise:
Meeting the Challenges of Continuity, Control and Competitiveness

PREFACE

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In a 2008 article on family controlled media companies, Professor Jonathan A. Knee, the then Director of the Media Project of Columbia University, wrote:

> *[T]he prime determinant of how long a family dynasty will endure is how well its business is run. Nothing is more likely to spur a family insurrection and provoke demands to sell than the perception that the business is not being managed efficiently. Those who romanticize family ownership are often the same people who encourage policies that will almost certainly accelerate its disintegration. (Portfolio: 2008)*

I think Professor Knee was on to something very important at a time when virtually all the writing on family business was about "succession," i.e. how the older generation owners of a family firm pass control to their progeny. And to gauge by the number of pages of articles and books about family business focused on succession, it would seem the views of most "experts" was [and remains] that succession is the primary issue in family business. I do not agree.

Should "success" not "succession" be the primary focus of families that control operating companies? In my view, the answer is clearly, "Yes, but . . ."

Yes, without a successful business, there is nothing for the family to lose when succession goes awry, except a chance to sell the company at a steep discount [the "Family discord discount"], or worse, an unforeseen visit to bankruptcy court. For a full discussion of the utility of focusing on success rather than succession, see generally, the essay, "Entrepreneurship in Family Firms: Reassessing the Fascination with Success, Failure and Succession," by Jennifer Halyk, in my collection of essays**,** Family Enterprises: How to Build Growth, Family Control and Family Harmony, published by Globe Law and Business, www.globelawandbusiness.com/FEH.

But great family enterprises are never just about business success, nor is continued family control solely dependent on profits distributed to shareholders. Rather, unless the core values on which the family controlled enterprise was founded –and which undergird all decision making by both managers and owners — are honored regularly and with deep understanding, great family controlled companies inevitably decline to the level of their merely good competitors, and worse. Adherence to core values was the single distinguishing characteristic that Jerry Pouras and Jim Collins, authors of the classic business book, Built to Last, found to be the sole distinguishing characteristic truly great companies demonstrated that their merely good competitors did not. And what is true about great publicly traded companies is also true for great family controlled enterprises.

Collins and Pouras were not writing explicitly about family controlled companies [although at least half of the truly great companies they profiled were either still family controlled or had been for at least two generations]. But what they found in their six year-long research study is, in my experience working with more than 400 family controlled companies over more than 30 years, profoundly true of such firms. Without regular reference to their core values, family controlled firms can rarely achieve or sustain greatness. In this respect, family firms are indistinguishable from more widely owned companies. What does distinguish the family controlled enterprise from other business entities is the source of their corporate culture, which is first and foremost the culture of the founding family.

But while fealty to business ideals rooted in the culture of the founding family is necessary for greatness, it is not sufficient. Great ideas that are not explained well and frequently both to members of the controlling family as they come to maturity and to employees as well, lose their potency to inspire great performance. Moreover, unlike companies with broad public ownership, the core values of business owning families may include not only "wheat," like commitment to quality, focus on employee well being, and a deep focus serving the needs of their customers, but also the "chaff" of an excessive sense of privacy and habitually poor communication about emotionally powerful issues. Such unhelpful cultural norms rooted in the culture of the founding family can preclude the kind of communication in family controlled companies about core values that all great companies require to thrive.

The core values of great companies—whether family controlled or publicly traded—must be articulated clearly, and repeated frequently. Although one need not, as one of my clients did, carve them in granite lintels installed over the front entrance of their corporate headquarters. There are in fact numerous other ways to ensure that core values endure. See, for example, my article, "Heritage and Tradition in Family Business: How Family-Controlled Enterprises Connect the Experience of their Past to the Promise of their Future," http://narvaandcompany.com/heritage-and-tradition-in-family-business/.

This book is an endeavor to collect the wisdom of many leading stakeholders in family firms about how to leverage the single most powerful competitive asset of family controlled enterprises, their culture, to ensure continuity of competitiveness, family control and family harmony. Keeping in mind Peter Druker's oft cited caution about too much focus on applying the left side of the brain to business, "*Culture eats strategy for breakfast*," the express intent of this volume is assist stakeholders in family firms to benefit from leveraging both their strategy and their culture: An objective that requires all hands, as we shall see, to be fluent both in the language of business and the particular dialect of the family controlled enterprise to which they dedicate their endeavors.