Characteristics of Centennial Family Companies

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A commonly cited cliché about family business suggests that family firms all "go from shirtsleeves to shirtsleeves in three generations. This oft repeated generalization suggests an endemic incapacity in all family controlled enterprises to last more than the span from grandparents to grandchildren. The idea that family controlled firms can not only survive, but thrive beyond three generations is simply dismissed *a priori* in most public conversation and media commentary on family business. But this frequently repeated cliché about shirtsleeves needs retailoring. Research on Centennial Family Companies indicates that family controlled enterprises can in fact thrive for more than a century. This essay endeavors to explain how reality confounds commonplace misunderstanding of family firms. Consider, for example, Group Ferre, based in Puerto Rico.

María Luisa Ferré, fourth-generation President of the Grupo Ferré Rangel, explained: "Our success with continuity in this generation comes from learning from the failure of the second- and third-generation transitions. My father set out to do it differently, and he approached it very conscientiously, having learned in his generation that a group of entrepreneurially prone individuals without a coherent structure can get into a lot of trouble."

The Grupo Ferré is a diversified media group operating in Puerto Rico, the United States and Chile. In its fourth generation now, the company has 1500 employees and about $300 million in annual revenues. The first-generation business was a foundry. As the business grew, it added paper and cement to the business mix. Over the generations, the company expanded to Florida, Panama, Cuba, and then lost some of those businesses, in some cases for political and economic reasons, in others because the businesses were mismanaged.

One of Luis Ferré's sons, Antonio Ferré, became the CEO of the Ferré family controlled, NYSE-listed Puerto Rican Cement. He also bought for $400,000 a little daily newspaper from his father. *El Nuevo Día,* now the flagship newspaper on the Island, enjoying 50 percent market share in the Puerto Rico public relations market and commanding 80 percent of all newspaper advertising.

In collaboration with fourth-generation members of the family Antonio Ferré continued to grow and diversify his family controlled enterprises: Newspapers, a real estate company, a healthcare division, a printing company, a digital marketing company, and a recycling company now make up the Grupo Ferré. [no new para.] María Luisa, fourth generation CEO and chairperson sees it this way: "As a fourth generation, we also fundamentally bought into the idea that we have to grow, experiment, create new business plans or we would end up becoming our own worst enemies." The concern is zero-sum dynamics, particularly among naturally entrepreneurial and competitive siblings. (*Zero-sum* refers to a win–lose outcome between two or more parties that nets out to a zero gain.] In no-growth contexts, the initial win–lose outcome results in self-reinforcing cycles of lose–lose outcomes, as when a union and management fight over contract issues to the point where the firm's survival is put at risk. Or as seen recently in New England, when two factions of the Demoulas family fight for control of a supermarket business founded two generations earlier until—with the business at death's door—one cousin sells control to another. María Luisa also credits both her parents with promoting strong family unity coupled with unusual support for individual differences. Perhaps because of the journalistic culture that runs in the family, the opinions of the individual children, however different, were always sought and appreciated as they grew to adulthood.

María Luisa Ferré adds: "Our success in continuing the entrepreneurial spirit is a result of five professionals who know they complement, they need each other, to be successful. My siblings have selected me to lead them. So the major distinction between us and the previous generation is the sense of confidence that comes from knowing that we now have a coherent structure to govern the relation between people who are naturally entrepreneurial in nature."

Characteristics of Centennial Family Companies and Continuity

Global economic activity has accelerated to record speeds. The profitable life of products is estimated to have been reduced by 70% during the past ten years. Companies now have an estimated life span of only ten years in the United States. [1] The speed at which fundamental changes have stormed through the global economy, whether the catalyst was technology, the financial and capital markets, customers, global competition, or a combination of these, is unparalleled in human history. More companies have to rely more often on new products/services and growth opportunities in order to stay alive.

While this phenomenon impacts CEOs of management-controlled firms (whose average tenure has been estimated at 8-9 years)[2] it is of critical importance to CEOs of family-owned and family-controlled corporations. Why? Family business CEO tenures are much longer, currently 18 years.[3] And one of the key differences between family firms and their non-family counterparts is their intention, if not outright commitment, to continue across generations of owners or owner-managers.

The inquiry that has resulted in developing an understanding of the characteristics of centennial family companies set out to investigate the question of resiliency and continuity among family-owned and family-controlled corporations by interviewing fourth-, fifth-, and sixth-generation leaders of companies that were at least 100 years old. All chairpersons, presidents, and CEOs interviewed are members of the founding family. In a world where corporations seem unable to last, what are the characteristics of these longer-lasting family businesses? What are they doing to survive and even thrive? Are they promoting a continuing spirit of entrepreneurship, are they relying on diversification, or do they have elements in their family or organizational cultures that enable them to reinvent themselves in every generation?

All of the family companies, by the way, are composed of multiple businesses and not just the original, core business. The $1 billion in annual revenues auto retailing group in the sample, for instance, began as a hardware store. The son of the founder, an early car aficionado, seeing new Fords being transported by train (the railroad tracks were prominently visible from the hardware store's front window on Main Street) decided in his first week at work that he wanted the business to expand into car retailing. While his father disagreed, he did ultimately help finance that diversification and was ultimately quite happy, if surprised, by the success achieved. Besides autos, this company is today composed of a hardware store division, marina operations, a real estate development company and a resorts/ golf course business unit. This multiunit business configuration is true of all 16 companies studied and suggests that entrepreneurship and continued opportunity seeking organic growth, diversification, acquisitions and other means represents a first and fundamental characteristic of these successful centennial family enterprises.

The conclusions are preliminary, because the sample is limited to 16 companies to date. Their annual revenues range from $18 million to $10 billion dollars, and they operate in a variety of industries: newspapers, textbook distribution, greeting cards, brick and tiles, food and beverage, wine, steel and bearings, insurance, bakery and baked goods retailing, farm equipment distribution, auto retailing, real estate development, funeral homes and leather accessories. The companies are headquartered in the United States, Latin America, and Europe.

Of particular interest in the inquiry was developing an understanding of any change efforts or intergenerational entrepreneurial activity these later generation family members were leading to promote continuity and in discovering similar efforts undertaken by their predecessors while in leadership positions. Related investigations have been carried out in Spain, the United States and England.[4] Because the family-firm leaders the author interviewed came from centennial companies, we cannot say with certainty that some of these same characteristics will not be found in companies that have not lasted a century or have been unsuccessful in their continuity efforts. Still, the research provides valuable insights into actions that leaders of family companies can undertake in order to build great companies that endure.

This essay presents the interview findings, followed by an enumeration of the characteristics discovered and a best practices model induced from the evidence. Besides self-reports from company CEOs, the author sought additional information from company websites, business cases, public records, books, electronic databases and trade publications. The author hopes that drawing a sketch of the characteristics of successful long-run companies, rooted in the real-life experiences of next-generation CEOs, will assist readers in creating their own visions or dreams of continuity.

Family Culture, Organizational Culture and Cultural Blur in Family Firms

Edgar Schein[5] defines *organizational culture* as a set of values, beliefs, and assumptions that influence the practices and behaviors of organizational members. An organization's culture largely reflects what has proven successful, over time, for a business. This proven way of thinking becomes, over time, the organization's culture. It becomes so matter of fact, Schein argues, that the culture drops out of awareness until it is challenged by changes in its competitive environment. At that moment, its values, assumptions and practices, are reexamined and may then be targeted for change in the interest of adaptation.

The concept of culture is particularly useful in the context of family firms because these tend to exhibit strong cultures[6] and a form of cultural blur—that is, there is little differentiation between assumptions that go into decision making depending on whether the issue is a family, ownership, or business-management issue. Family values and rules often influence decision-making and behavior in the business—as when family members are not held accountable because they are dearly loved relatives. Or just as easily, business values and rules influence behavior in the context of the family—as when members of the family that have been terminated from employment in the firm appear exiled from the family circle. Cultural blur generally enables families in business to avoid the conflict inherent in the sometimes different goals of the family and the organization they operate. But by minimizing conflict or differences, cultural blur may also undermine the ability of a family in business to address problems in creative ways and to find new solutions to old problems.

Cultural blur, on the other hand, can endow a business with invisible crossovers, or what the strategic planning literature calls "intangible assets," that can be converted into unique competitive advantages. Love in the family, for example, may be the source of a strong commitment to quality and customer service in the organization. Strong ownership commitment may also lead to the patient capital or long-term investment horizon that characterizes many family firms.

Cultural blurring, then, can be the source of competitive advantage and sustainability in a family business via a collection of values and principles that make up an enterprising family's strategy. Fisk Johnson, CEO of SC Johnson, quotes his father and fourth-generation CEO as saying: "We call our values 'Family values... World class results.' They are not radically different from the values you hear from major Fortune 500 companies, but I think we are better able to practice those values as a family-owned business. People care about making quality products, really care about the family, each other and the success of the company. I believe this caring attitude translates into the success of the company." [7]

The Timken Company and Long-Term Continuity through Products and Values

The Timken Company of Canton, Ohio, was founded in 1899. Timken is a publicly traded S&P 500 company that operates in 29 countries, had $4.5 billion in annual revenues in 2014, and 26,000 employees. (See http://www.timken.com.) A member of the Timken family has been active in top management in every generation. Tim Timken, a member of the fifth generation, is currently chairman of the board of directors. He commented on the reasons for Timken's outstanding record of continuity:

"First of all, we make the best products in the world. We are the leader in bearings. We are the leader in alloy steel. We also recently made a significant acquisition which broadens our product line consistent with the core of the business. So from a product point of view and a service point of view, we believe we are the best at what we do. Behind the product, there are consistent values. The Timken Company has always believed that our four values: ethics and integrity, quality, innovation, and independence are central. We have been consistent with them for over 109 years. These values go back to our founders, my great-great grandfather, who believed passionately in them, and to this day we hold those in everything that we do."

"My great-great grandfather invented the tapered roller bearing as a solution to friction problems in carriages at the time. So going back 109 years, the company has been dedicated to creating value for our customers through innovation. That is still true today, whether it is in our automotive business, our industrial business or our steel business. Unless we can find a way to create value through innovation we are just a commodity player and that's not a position we feel we can win with." (The central role of innovation was also highlighted by the CEOs of the greeting card, media, book retailing, brick and tile, wine and leather accessories companies.)

Curious about his own role in preserving and adapting the culture, the author asked him what role he saw himself playing regarding the values at the core of Timken's success. He replied:

"My belief is that as a family member, and chairman of the board, my role is to make sure we don't lose sight of them. Fortunately, the professional management that we have in place has experienced these core values first hand in the field, and so their commitment to them is there. My role, I guess, is more as the conscience; to make sure those values don't slip away from us." [For additional historical data on the Timken Company and its commitment to quality and innovation, see Pruitt.[8]]

"And regarding our value of independence—our belief is that as a company, we need to control our own destiny. That influences the type of alliances and relationships we enter into; whether it's joint ventures, investments around the world, or labor policy, we believe we are better suited to run our business than anyone else, and as a result we keep our debt to equity capital ratio low. We don't want bankers running our business. Over the years we have enjoyed the flexibility to make significant investments when we need to."[9]

This collection of values, safeguarded by the Timken family, constitutes the controlling family's strategy; strategy that significantly influences the Timken Company's corporate strategy. And as we have seen in the cases already discussed, and will see in the centennial company cases that follow, a values-based long-term family strategy constitutes a second fundamental characteristic of these centennial family companies.

The J. M. Smucker Company: A Proud Brand and a Professionally Managed Corporation

J. M. Smucker is the leading U.S. producer of jams, jellies, and preserves. It is now the market leader in coffee with 29% market share, deriving over a billion dollars in revenues annually from coffee sales of brands like Folgers, Millhouse and Bustelo Coffee. The J.M. Smucker Company was established in 1897. At the time, Richard Smucker's great grandfather sold apple butter out of the back of a wagon. Richard Smucker is fourth-generation CEO of the Orville, Ohio, company that employs 3000, operates in 45 countries, and had revenues of over $5.6 billion in 2014. When I asked him about the drivers of continuity for the 117-year-old company, he confidently said: "A family with the same religious values, a board of directors with independent outsiders, and a deep appreciation that the consumer is king so we have to continue to improve and innovate. He also highlighted the exemplary role that his father and CEO (Paul Smucker) played by letting-go of his CEO post and becoming a statesman for the company in 1981 when Richard and Tim, his brother and current chairman of the board, succeeded him. Richard Smucker also emphasized the tremendous influence of their mother, a strong matriarch, in the successful succession to the fourth generation. "[10]

Just as significant though, Richard Smucker pointed out his father turned away from making private label products for supermarket chains that continually insisted on cost reductions and were responsible for margin erosion. Paul Smucker took the considerable risk of abandoning a significant portion of company sales to turn Smucker into a branded-products-only company. And in so doing, committed the family to a strategy of making Smucker one of the truly great brands in America.

Fourth-generation members Tim and Richard, both graduates of The Wharton School, have taken the company to the next level by significantly growing the business, diversifying the product line and professionalizing management of the firm. That renewed managerial competency is evident in the strategy deployed in the past decade, including the acquisition of other recognized brands that are now part of Smucker: Jif peanut butter, Crisco cooking oil, Pillsbury baking products and Folgers Coffee. And in its consistent recognition, since the 1998 inception of *Fortune*'s annual survey of the 100 Best Companies to Work For, as one of the top 25 companies to work for in the United States.

Five members of the fifth generation already work in the company, including Mark Smucker, president of the coffee company and Paul Smucker Wagstaff, president of institutional sales. Richard Smucker was quite confident that The J.M Smucker Company would be strategically adapted again by this next generation in the process of providing for continuity across generations of owner-managers.

A Systems Theory Perspective on Continuity Resulting from Generational Conflict

Research on organizational culture postulates that strong cultures are a business asset and that cultures that fit the strategy and are strong are even better. But because the competitive environment is changing all the time, unless the culture is also flexible and agile (think new-age composite as opposed to steel), the organization could get into trouble by failing to adapt appropriately.[11]

General systems theory suggests that as turbulence and variance increase in the environment, systems achieve adaptive capacity by increasing their internal requisite variety. In other words, to the extent that leaders bring more variety inside a system, the organization will have more resources to deal with the increasing variety outside the company. Engaging the younger next generation in responsible ownership and/or management, hiring new people with new skills, implementing new information technology, adding independent outsiders to a board, adopting team structures (in which multiple skills are brought to bear on a given task), and adding redundancy or slack resources and expertise, all increase requisite variety.[12]

From this perspective, and moving beyond conflict, two generations can add value in complementary ways. In fact, the author would argue (on the evidence of the research[13] and 30 years of experience as an advisor to family businesses) that the conflict that is inherent across generations is actually one of the keys to the survival of the family business. Other businesses may not get the kind of wake-up call that they need to reinvent themselves as conditions change in the absence of passionate disagreements about strategic direction.

In terms of continuity, then, the enterprise is well served by a disagreement between the generations of owner-managers on the strategy of the family-controlled company. The older generation actively represents what has worked well in the past, the "secret sauce", and brings to bear the confidence and wisdom distilled from that success. The new generation challenges that wisdom because its future orientation alerts it to new opportunities and new challenges.

Do successions represent cultural revolutions?

Because of the family-influenced and strong organizational cultures observed in many family companies,[14] the author interviewed these CEOs with the premise that fundamental transformations may sometimes be needed to provide these firms and their owning families with the requisite variety needed to adapt and be future-ready across generations of owners.

But Ignacio Osborne, sixth-generation CEO of Osborne, a Spanish wine company founded in 1772, categorically states: "It was not a revolution. It was not easy, it was complicated, but there were no big conflicts with the fundamental change process that my generation was leading. There were many meetings, many sessions, I had only been with the company for 3 years. It was hard, we listened to the disagreements and comments, but there was no conflict or revolution."[15]

Ignacio joined the company in 1993. His father and uncle had led Osborne in the fifth generation. As the sixth generation took over (Tomas, Ignacio's cousin is the chairman of the board), competitive conditions changed. Casa Osborne may not have needed a revolution, but it certainly needed to change its strategy and culture to respond to its increasingly successful competitors. Younger consumers in Spain were drinking more beer and manzanilla, but less sherry, one of Osborne's key products. Ignacio remembers making a presentation to the board on the need to understand the new consumer better and proposing, as part of his new marketing effort, conducting focus groups among young consumers when an uncle on the board complained: "But Ignacio, we, the Osbornes, have the best taste buds in Spain, why are you suggesting these tasting focus groups with young people, what do they know?"

The wake-up call for the change was quite intimate for the family. As Ignacio Osborne revealed, "Up until the fifth generation, at least some of the Osborne family members could live from the dividends generated by the company. In the sixth generation, none of us could live from the dividends. I know this is not very romantic or family-business oriented, but in practical terms, this was very important." [16] Notice that in this case, as in the case of the Ferré family, the textbook distributor, and several of the cases of families in business whose stories follow, it was the family (its needs or vision for the future) and not the business, that brought a flurry of entrepreneurial and leadership of change behavior by the succeeding generation. Therefore, it was the enterprising family´s vision and strategy that readied the business for adaptation for another generation. This phenomenon was first acknowledged in the family business literature by the author in his book, *Smart Growth: Critical Choices for Family Business Continuity and Prosperity,* published in 1989. The author referred to this phenomenon as *interpreneurship* or intergenerational entrepreneurial activity.[17]

“What we did to create the needed fundamental change was to present very early in our leadership of the company a series of alternatives to the board and described eloquently what the challenged situation of the company was. The contrast between our vision and the current situation set the task out for the board and the company. We also described to the board how our generation thought the company had to be managed in order for it to have a future.”[18]

The inability of a family company to generate sufficient dividend income to maintain the living standards of a family that generally grows with each generation has issued a wake-up call for other families in business. For example, the McIlhenny family, of Tabasco sauce fame in the United States, did not gun the engines of growth through new products as a result of a grand strategic planning exercise led by a strategic consulting firm. Instead, it adopted a new strategy and promoted growth opportunities as a result of its CEO, Paul McIlhenny, putting the choice to family shareholders during a family retreat on Avery Island. The family wisely chose to gun the engines of growth, even though it represented a reduction in dividends to shareholders, in order to prevent zero-sum dynamics from destroying the business and the family. New products and product-line extensions were created. The company grew successfully and the shareholders ultimately benefited with increased dividend payouts and family unity.[19]

The Entrepreneur Exits: Erosion of the Entrepreneurial Culture

Later generation family businesses may be experiencing the interaction between family and business as a cost rather than as the unique and prized resource enjoyed by these enterprising centennial family companies. The entrepreneurial stage is widely recognized as one that endows the organization with the capacity to be nimble. But it does not seem to take long for entrepreneurial companies to be asked by their customers to be ISO 9001 and 14001 certified and be asked by their lenders to apply accounting practices that often demand significant data processing and digital resources. So increased regulation and the growing needs for coordination create the need for meetings and more meetings and memoranda and more e-mailed messages that make the business become more bureaucratic.

Speed is one of the competitive advantages often inherent in entrepreneurial firms resulting from the invisible crossovers between ownership and management. [20] But in later generations, the family–business interaction, which in earlier periods provided the strategic advantage of speed and agility can become a cost; the loss of agility in the face of change. A family that is paralyzed because of conflicting views across generations or across branches of the extended family can become inward-looking and become fertile ground for turf wars and feelings of entitlement. In the process, it can also lose the ability to keep an eye on new competitive dynamics and the ever-changing marketplace.

Ignacio Osborne, reflecting on this very development, commented: “The biggest source of resistance to change may have been that the family name is on every product label. So we had to try to explain to family members who have been managing the company that in business today you have to focus on the customer and you have to forget a little bit about the vineyards, the countryside and the craftsmanship in production and look more into the market and what is going on in the world. I think that was the biggest resistance. After all the company has been very successful with the original business model for many years, so why change?”[21]

A Customer-Centric Paradigm and Family-Business Continuity

Family firms just as often capitalize on being customer-centric, as they waste this resource away in later generations. As generations transition and both wealth and the number of family branches increase, the significant power that the family's emotional life wields on the ownership group often makes the now sometimes entitled owners abandon the obsessive customer orientation that defined the business during its entrepreneurial stage.

For Tim Timken, fifth-generation leader, keeping the customer first is very important in promoting continuing adaptation. His perspective mirrors that of Ignacio, of Osborne Wines, as to the healthy effect of a customer orientation on a successful family ownership group, one that by nature of its success is vulnerable to hubris. "At the end of the day it all starts with the customer" Timken explained. "We as a company believe that unless we have a firm grasp on what the customers need, we're not going to be able to provide value for them. So I spend about 50 percent of my time in the field working with my customers, understanding the directions they are headed in, and understanding how we apply core competencies to create value for them. [22]

At Casa Osborne, Ignacio observed: "It used to be that the taste of Osborne family members, sophisticated as it was, determined the taste of our products and defined what quality in wines meant. Not anymore. Now we conduct market research, do focus groups, pay attention to trends and changing consumer tastes." He added: "One of the successes we had, is we went very quickly. A new business plan for the company was drafted, discussed by the board until we reached some consensus for the future of the company. It was just business and company and then we managed the communication with the rest of the shareholders to let them know what we were trying to do and why."[23] Interestingly, not long after Ignacio Osborne led the transformation of Casa Osborne, he diversified the business launching a restaurant concept called Cinco Jotas; a fast casual restaurant similar to Applebee's in the US, it serves Iberian hams and red wines instead of steaks and hamburgers. The Osbornes understood that having their own chain of restaurants would help them understand the customer better and detect changing consumer preferences affecting their product lines more rapidly.

Remaining customer-focused is a third fundamental characteristic of these successful centennial family companies.

Family Unity as a Resource in the Creation of Inimitable Competitive Advantages

Competitive advantages that are more likely available to the family firm are highlighted by the resource-based view.[24] This theoretical perspective, considers the firm to have intangible resources that are unique to it. These resources are much more likely to be present according to these centennial family leaders when family unity and business growth are both present. [25] One of these resources in a family firm would be the overlapping owner and manager role, which could lead to advantages from owners personally monitoring both the operations and the operators of the business. This is precisely the claim of the fairly extensive agency cost literature. The advantages often include reduced administrative costs; the result of greater trust and lower financial control costs.

Faster decision making and longer time horizons that produce increased efficiency in investment activity often represent another advantage. The united family is the source of more patient capital than capital markets, influenced by high-speed trading and a short-term orientation offer today. The fourth generation CEO of the insurance company in the sample personalized it this way: “I would rather guide my company and ultimately be remembered for having been tolerant and sympathetic with our clients in need than for our earnings per quarter per share.” **A united family with a patient capital/long-term investment horizon that gives rise to idiosyncratic resources and competitive advantage clearly represents a fourth fundamental characteristic of these centennial family companies.**

Ownership Structure and Corporate Control

These centennial family business leaders have so far stated the following: A new shared vision emerges as a response to customers’ needs. This vision drives the strategic regeneration process. Family management and family shareholders are both a part of that process. Family priorities established in the family council or family meetings are linked to the family’s board agenda through at-large representation of the family on the board. But how are multiple family priorities by a growing number of shareholders ultimately reconciled?

Current-generation CEOs have to address the issue of ownership structure and corporate control, because as Jim Collins says in *Good to Great,* who is on the bus is ultimately very important. [26] The Deere farm implement distributor in the sample of centennial firms just celebrated its 115th anniversary with over $200 million in annual revenues. CEO Ray Koenig claims that the family agreed to change the corporation’s code of regulations in order to enable a cross-generational sale of stock. This provided liquidity and a nice retirement for members of the third generation while promoting an orderly transfer of control to fourth-generation members active in the business and to key nonfamily managers who, after the change, could own company stock.

The insurance company in the sample similarly opened company stock ownership to nonfamily managers in key positions guided by the idea that these high producers both deserved and would respond favorably to real ownership. But not all family businesses in the sample opened company ownership to nonfamily members. The Grupo Ferré, for instance, pursuing the same goal of “like an owner” commitment from its key management, restructured the organizational structure instead. A flatter structure with more key nonfamily presidents and vice-presidents running business units achieved that goal for the Ferré family.

In family businesses, who is on the shareholder bus is extremely important to the long-run commitment and the patient capital required. Unless company leaders provide exit opportunities, via liquidity and buy-sell agreements, the bus ride may become quite unpleasant for some family shareholders, its trajectory quite unpredictable, and its destination truly regrettable. This is precisely the situation that after 135 years of proud ownership, the owning family of the funeral homes company in the sample found itself in; after the deaths of several third generation members and an estate plan that minimized taxes but did not consider restructuring ownership for corporate control after such an event. **A shareholder structure,**

tailored to the need for corporate control particular to the next generation, is the fifth fundamental characteristic of centennial family companies.

The Role of the Board, Family Council and Nonfamily Management in Promoting Continuity

The incumbent CEO need not do all the continuity work alone. The board, according to Ignacio Osborne, "ends up doing a lot of the lead work in this process of adapting the corporation to its new competitive reality."

The role of the board is prominent in the governance of the relationship between a family and its business. Because of the board's importance, next-generation leaders of centennial family firms frequently undertake a critical review, and often restructuring, of their board early in their terms. They all come back to the idea that because of the family's legacy on the board, a lot of communication and education needs to take place beyond what is deemed traditional board work and strategic-planning processes. The family's identity remains attached to the company's, so if the company is going to change in order to adapt and grow, the board composition has to change. Ignacio Osborne confessed that "in the span of two years, I took 12 years out of the average age of our board."

The textbook distributor in the study sample received its wake-up call from fifth-generation members of the family serving on the board. Much more concerned than the older top-management team, and feeling a sense of urgency about the implications that e-commerce had for the more traditional textbook distribution and retail model, the fifth generation spearheaded approval of a multimillion-dollar unbudgeted capital expense. The investment aimed to arrest the sudden and accelerated onslaught of Internet-based booksellers that were making significant investments in new technology. The company successfully repelled the incursions from new entrants by expanding its brick-and-mortar retail channels to include business-to-business, business-to-education, and business-to-consumer electronic commerce.

At the Grupo Ferré, family council meetings took place on a monthly basis in the early years—the readiness-to-change stage. Then there were family retreats, two of them a year, that included the next-generation spouses. In the second stage of a 10-year succession and regeneration process, the Ferré family reconnected with the legacy and its core values, and sponsored education in family and business topics. Next-generation members began to assume positions with profit-and-loss responsibility, and this is when the viability of the new vision was really tested. Did next-generation members have the capability and motivation to be successful business leaders of the next generation?

Next and Incumbent Generation Leadership

Ignacio Osborne also thrives in his role as fifth-generation CEO. But he adds: "An important part of our success comes from having quickly set the new goals and having quickly shown shareholders positive results against those goals. You cannot come to every board or shareholder meeting and announce what you are going to be achieving next year. You have to show them what you achieved this year or people start not trusting you."[27]

Next-generation leaders in family firms that are successful in the long term are very aware that their motto is partnership. Tim Timken, for example, served as director of strategic planning for the Timken Company, "so that I provided the spark for some important conversations about strategy yes, but the vision is customer driven—it wasn't about me, it was about the customer. And in order to make it successful I have to share leadership with or create a partnership with other family members through the family council, family meetings and shareholder meetings. And build a partnership with key nonfamily management, through the top management team, the operating committee, the board of directors."[28]

The incumbent generation, on the other hand, builds institutions that will effectively govern the relationship between family, management, and ownership through a strong board, family meetings, the appointment of professional non-family employees in top management, and equity structures that facilitate control. This then allows the next generation to focus on the future rather than the past. **The sixth fundamental characteristic is an incumbent generation who generously transfers power after having created the governance infrastructure (board, family council and ownership structure) befitting the unique profile of the succeeding generation.** Grupo Ferré, Timken, J. M. Smucker, S. C. Johnson and the rest of the centennial family company sample all benefited from this legacy gift. Here is an eloquent statement from Ignacio Osborne on the important role of the incumbent generation: "Something that is very important is a previous generation that always worked for the transition. So as the successor, once I got the responsibility for the company, I only had to think of the business and of the next generation. When the next generation gets into the company and for the first 2 or 3 years of their term all they are doing is trying to repair conflicts and problems that they have inherited from the previous generation, then a lot of time is wasted. When we started working, we worked on the present and the future, the past had all been settled.[29]

When this responsibility is not carried out by the incumbent generation, the succeeding generation cannot dedicate itself fully to building the future. Managerial and governance best practices, centennial family company leaders tell us, are very important. **But the seventh fundamental characteristic of centennial companies is a next generation with a customer-focused vision and a strong commitment to another generation of enterprise: One that is able to focus on building the future because of the generosity of the previous generation.**

Summary

1. The first part of the longevity story is all about competitiveness and adaptation via entrepreneurship and diversification. In fact, it may not be much of an overstatement to suggest that the only disagreement worth having in a family business, these centennial family business leaders tell us, is a disagreement about strategy.

2. It is the customer that often issues the wake-up call to family business leaders that are listening. Listening to the customer challenges the culture and promotes a reexamination of the family strategy. This reexamination often inspires entrepreneurship and the pursuit of growth opportunities which help the business thrive for another generation.

3. Continued ownership control often requires a new ownership structure and commitment by shareholders to govern their relationships via family meetings and/or a family council.

4. Communication, information, and engagement of family members that promote family unity and a reasonably shared vision are as important to the success of these centennial companies as a good strategy. The primary asset in creating competitive advantage is embedded in the family through the patient capital, a strong work ethic, the commitment to excellent quality, the commitment to the long term, and the commitment to financial independence.

5. Centennial family companies have also learned to govern the family–business interaction and mitigate shareholder self-dealing and conflict (two great challenges to family businesses postulated by agency theory[32]) through more formal structures and processes such as:

- Hiring and retaining professional nonfamily employees in top management
- Influential boards with caring family members and a few independents
- Business and strategic planning processes
- An equity structure that promotes continued control by family members who know the business well and ensures that the company remains adaptable and nimble.

The building blocks of the fundamental characteristics of successful centennial family companies, according to the fifth and sixth generation CEOs and chairpersons that participated in this study then are: family and business strategy, boards of directors, ownership structure, management best practices, family communication (to tap the patient capital resource) and governance of the family-business relationship via a family or ownership council (See Figure 1).

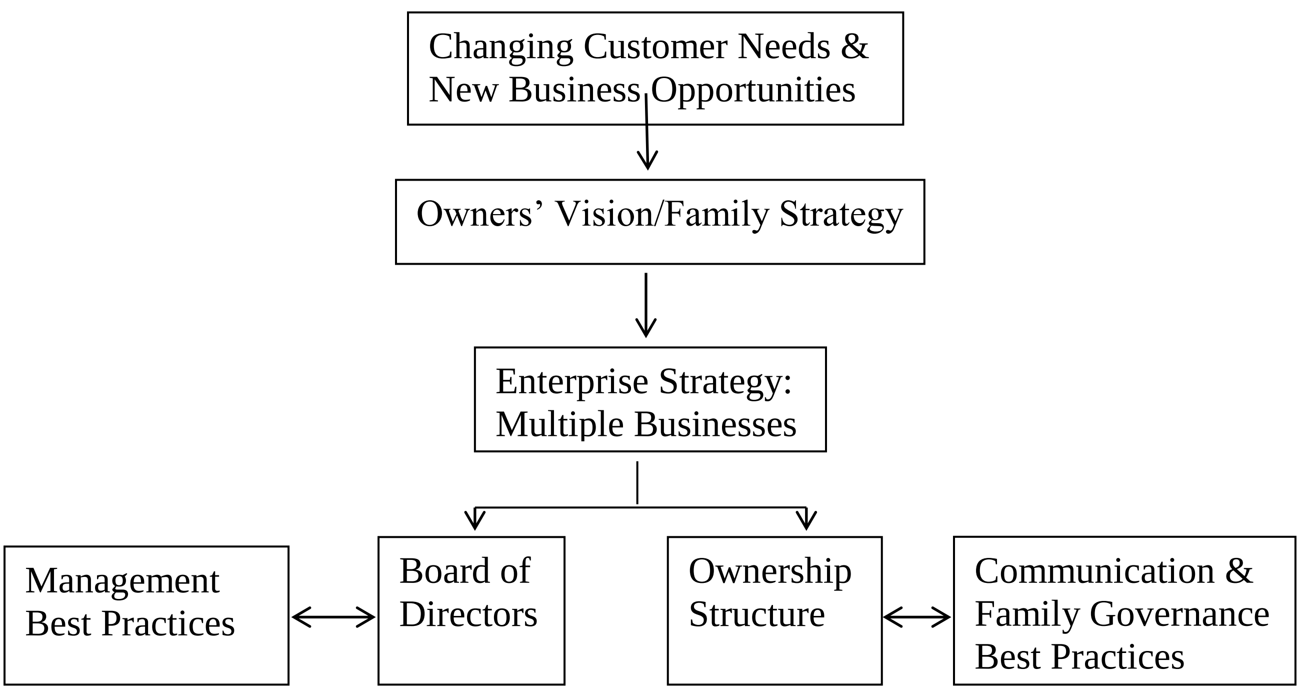

Figure 1. The Building Blocks to the Resilience and Longevity of Centennial Family Companies.

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