The Family Business Advisor

THE FAMILY BUSINESS CONSULTING GROUP

Ownership Matters

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I recently participated in a conference recognizing and celebrating 100-year-old family businesses. Their achievement was not continuous executive leadership by a family member, for many 100-year-old family businesses have been or are headed by non-family CEOs. Nor was their accomplishment that of remaining private (for many are traded publically) nor growing large (for many remain small).

Their celebrated feat was that members of one family have sustained their joint control over a business enterprise for at least one fantastically dynamic century, in a country whose culture has always encouraged freedom and independence.

Was this a celebration of anomalies or curiosities? Of quaintness or the relics of another age? Was this assemblage of century-old firms a collection of antiques?

We think not. Why? We believe that ownership matters. And we believe that those who stay as owners of a business for a century or more provide important, powerful lessons not only for other family businesses, but also for our entire economy, our culture and our society. And we fear that the lessons, wisdom and knowledge embodied by these special institutions are in danger of being thoughtlessly lost in a business culture that is preoccupied with speed, paper wealth and virtual reality.

There is no doubt that the economic and technological revolutions that are upon us are enormous tidal waves, demanding our attention. But family business is the ocean on which those waves travel. And unlike what you may have heard, family business is not an endangered species. They always have been and always will be with us. Indeed, family is the human species' primary economic and cultural institution.

The hype that is an integral part of the business of financially manipulating businesses (IPOs, mergers, and acquisitions, etc.) affect fewer than 5,000 businesses annually in a universe of over 5,000,000 businesses. That is less than one in a thousand businesses – many of which remain under family control. Yet, these are the businesses that receive the vast majority of the attention of the media and our schools of business, which as Michael Novak points out, "focus attention on material things, the bottom line, on means and methods rather than ends and purposes."

In the public company environment, often presented by educational institutions and media as the business "norm," ownership has evolved into a true "legal fiction," an abstraction existing primarily in the minds of tort lawyers who purport to protect anonymous shareholders from the misfeasance and malfeasance of directors and executives who indeed often play their own cynical games. Bain & Co.'s Darrell Rigby says, "Senior executives are thinking more about retiring rich at 45 or 50 and less about the institution they will leave behind."

That may well be true in publicly-owned companies. But family businesses, especially century-old family businesses, measure stock turnover in generations, focus on the long-term, and are distinctly concerned about "the institution they will leave behind." As the CFO of a Dot.com-type company observed: "It's in the long-term interests of all the shareholders to have a stable shareholder base." That executive cannot even begin to conceive of the long-term interests and shareholder stability century-old family businesses have achieved.

When ownership turnover is rapid, as it typically is in public companies today, owners are unidentifiable gamblers, with a unidimensional sense of value (financial). It can be no other way. When ownership is committed, then stewardship becomes a meaningful concept. Stewards show care for their assets, building on them for their progeny and for the benefit of all. They understand in their marrow what "Built to Last" means and recognize that while the financial value is important, it is only one of the values that provide the foundations for the institutions their families own, and of our culture and our society. They understand that legacy is comprised not just of material goods but also of spiritual values — and they realize that when material wealth has passed to future generations without values, all are in peril. Family businesses — especially century-old family businesses — are where these lessons live.

Simply stated, ownership matters. Owners should not be indifferent to their assets. It is not, as the asset allocators would have you believe, just a matter of optimal portfolio balance or the form in which you prefer to hold your assets. And assets, at least in the form of living systems called businesses, should not be indifferent to who their owners are, for owners can and should bring value — and values — to the assets that they own.

Being good owners can make all the difference…and not being good owners should invite others who would be better owners to replace existing ownership. Sustaining ownership in the same family for over a century suggests not only that successive generations have been deserving owners and have developed mechanisms to transfer assets from generation to generation, but that they also have passed to each generation the understanding of how to be good owners. That understanding, in our experience, inevitably includes a culture that fosters individuals' sense of responsibility and accountability to something larger than themselves. Having a set of interacting owners who have developed and articulated a deeply shared commitment to a set of goals and values makes it possible to create and sustain organizations that are built on and for values that include, but supersede profit. Within the world of business, those circumstances exist almost exclusively among family businesses.

When a family business achieves a shared commitment to an articulated set of values, it does not have to regress to everyone else's lowest common denominator – maximizing shareholder value. It can, therefore, hew to a strategy that is unique and of incredible value to us all. That is not possible under public ownership. And that is an absolutely irreplaceable competitive advantage. The constructive reality of committed, cohesive, experienced, wise ownership is a resource unimaginable to businesses lacking the ability to experience it. For family businesses, it can be the secret to effective corporate governance and competitive advantage.

And when values stretch across generations for 100 years or more, one is most likely to discover the biggest secret of all. It is a secret deeply hidden from the cynical souls who argue in courtrooms about violations of fiduciary responsibility. The secret relates to the power and the value that is developed when all the parties – owners, directors, managers, employees – are aligned as to goals and values. The secret is called "trust" and it permits and encourages everyone to find the best paths and pursue them.

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