THE
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Greatness in a Family Business

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"Good is the enemy of great," proclaims Jim Collins in his landmark best-selling book "Good to GREAT." To achieve greatness in business, Collins' research shows, among other things, that leaders must:

- Face the brutal facts
- Get the right people on the bus, in the right seats
- Become the best in the world at something (The Hedgehog Concept)
- Know what you are deeply passionate about
- Know what drives your company's economic engine

And how does Collins' research team measure the transition from good to great? The primary metric used was financial performance as reflected in the stock values of these businesses. The 11 companies selected had to have "experienced 15-year cumulative stock returns that were at or below the general stock market, punctuated by a transition point, then cumulative returns at least three times the market over the next fifteen years." These companies are:

- Abbott
- Circuit City
- Gillette
- Fannie Mae
- Kroger
- Philip Morris
- Kimberly-Clark
- Wells Fargo
- Walgreens
- Nucor
- Pitney Bowes

As you can see from this list, achieving greatness does not guarantee staying great. Circuit City is bankrupt; others have declined, leading to Collins' latest book: "How the Mighty Fall." However, in both of these books, like so much of business research, the companies studied are publicly-traded, in large part because these companies generate objective data that are accessible and can be analyzed and compared.

Since most family businesses are privately-held and many keep numbers confidential, it is much more difficult to access quantitative data, making them more difficult to study. We do not possess the body of knowledge about when family businesses may have transitioned from an average or good company to a great company. So, what makes a family business great? In fact, there is no single definition or metric for a good family enterprise or a great family enterprise. Financial performance is just one important indicator of a successful company. For family businesses, we find that greatness goes beyond an ROI (return on investment) or EBITDA (earnings before interest, taxes, depreciation and amortization) number. In fact, over the years of working with family businesses, certain attributes have emerged that can arguably be tied to greatness. The following are 10 distinguishing characteristics most often found in great family businesses.

Living Shared Values: Great family enterprises consist of families that understand their values and guiding principles and truly live them in their business decisions and actions. The Mogi family (producers of Kikoman Soy Sauce and now in its 17th generation) created a family constitution in the late 1800s that includes 16 guiding principles. As an example, number 15 describes the trait of humility "...never think highly of yourself."

In great family businesses, values are the bedrock. In fact, John Ward (one of the founders of FBCG) has stated, "values pervade every aspect of family business. Values are the independent variable shaping every dimension of family business management." Great enterprising families use their values to help guide key decisions regarding strategy, structure, diversification, culture, employee recruitment, governance and very importantly—succession.

Strong Financial Performance AND More! Just as Collins points out for public companies, family-owned businesses must also demonstrate continuous strong financial results. In fact, as a collective group, family businesses have shown strong long-term financial performance. A McKinsey study shows that over time family-owned businesses financially out-perform other businesses by 7 to 8 percent. but, a great family company is not ONLY measured by profitability. Many family businesses have helped develop the more encompassing concept of the Triple Bottom Line: economic, environmental and community. Great family enterprises, while economically strong, are also stewards of the environment and often lead in the development of eco-friendly products and practices. In addition, communities around the world benefit significantly from the philanthropy displayed by great family companies.

Evolving Governance: As a family and a family business grow and become more complex, the need to govern beyond an owner-operator approach is vital. Those family enterprises with carefully blended key elements of governance have positioned themselves for much greater success. An active board of directors that includes independent outside directors sets the oversight tone in the business. On the family side, a family council can capture the voice of the family and effectively communicate the needs and concerns of the family to the board. This entity can help develop guiding documents, such as a Family Constitution, which includes policies or guidelines (e.g., family member employment policy or compensation guidelines) that clarify the "rules of the road" where family and business intersect. In addition, an ownership council may be appropriate if the shareholder pool has become fairly large. This oversight structure for ownership provides the correct forum for discussing issues around ownership priorities. Great family enterprises evolve a governance structure which often leads to both greater business performance AND greater family unity.

Family Involvement: The degree to which family members actively participate in the family enterprise is also indicative of greatness. Participation can be as a business leader, shareholder, board member, employee or even simply a proud owner. Great family businesses demonstrate a high level of family member involvement—be it in the business, on the board, or simply as active and committed owners. Owners of great family businesses do not simply hold a share certificate and expect dividends; they are aware of the responsibilities that come with ownership and feel a certain amount of "psychological ownership" of this asset—it is NOT just another investment holding.

Conservative Money Management: Long-lasting family enterprises demonstrate a remarkably low level of debt to operate and grow the business. Once a family business gets past its start-up phase, great family-owned companies are very careful of how leveraged they become. Most plow funds generated from the business back into the business, opting for building the business over excessive distributions. In addition, great family enterprises are patient with their capital, willing to wait and be more deliberate in achieving a return.

Effective Paradox Management: Family enterprises are full of paradoxes or polarities that need to be managed. Merit-based pay versus family member perks or acceptance of family members versus need to challenge family members. According to Greg Page, President and CEO of giant family firm Cargill: "In this world full of paradoxes, companies that manage paradoxes well out-perform companies that don't." Great enterprising families are able to walk along the precipice and effectively balance the dual forces of "Family First" and "Business First"—never sacrificing one for the other.

Planning (strategic & succession): Less than a third of family businesses have a written strategic business plan. Studies show that a business with a written strategic business plan outperforms those without one. In a family enterprise, a key component of comprehensive strategic planning is a succession plan for both leadership and ownership. Family businesses that develop a strategic business plan and a succession plan think through these processes, engage others and end up with a more robust direction for the business and family. The planning process helps to incorporate calculated risk taking and balances the senior generation's need for more wealth preservation with the younger generation's desire for more wealth creation. In addition, a transparent process that involves as many stakeholders as possible builds trust and consensus around these complex choices that will affect both the business and the family.

Diversification & Growth: Great family enterprises build on their core strengths, competitive advantages and relevant opportunities. In some respects, this is managing the paradox of sticking to your knitting while broadening your offering. There is also a strong paradox in a family enterprise of respecting what got us here (work processes, traditions and innovations of the senior generations) while staying current with the marketplace and giving a voice to ideas from the younger folks involved in the system. Diversifying into other offerings often leads to greater career opportunities for the next generation, which can be very important as the family grows. Many family-owned businesses came into being because they created some kind of innovative product or service. Great family-owned businesses continuously look at ways to innovate in many areas: products, processes, services, business models, promotion, distribution and governance.

Blending Family and Non-Family: A family enterprise cannot become great alone. It takes an effective combination of family members and non-family members, who often feel like a part of the family, to generate the power needed to move to a higher level. Those family businesses who appreciate this fact, and have chosen the best person for the position, regardless of family connection, usually attain greater heights.

Multi-generational Endurance: The survival statistics of family owned businesses are regularly cited. Only about one third of these companies survive through the second generation; 12-15 percent through the third generation; and then less than 4 percent for following generations. It's just plain difficult to get into the fourth generation. Therefore, by shear endurance, those family enterprises that have made it to the third generation and beyond have already achieved at least one meaningful measure of greatness.

Today, a combined score of these 10 attributes does not exist. As with so many elements of family business, a greatness score would include a combination of some hard facts, like operating profit, and many softer, tougher-to-measure elements, like family unity and contributions to the community.

Greatness in family business comes down to mastering the continuity of the business and the family. When these 10 attributes are present, a family business will have achieved much in the way of "greatness."

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