

Why Do Family Businesses Matter?

By: Rob Sligh, The Family Business Consulting Group

Family-owned businesses account for almost three-quarters of global GDP, generating annual revenue of \$60 to 70 trillion. They are responsible for three-fifths of global employment. In scale, they range from large companies like Mars, Penske, Fidelity, Enterprise, SC Johnson, and Perdue Farms to small mom-and-pops throughout our communities. Over the long run, family-owned businesses earn better returns on average than either private equity-owned companies or public companies. By any measure, family-owned businesses have an enormous impact on their communities and the world — and that impact is, on balance, enormously positive.

In this article, we'll explore how family ownership drives enduring success and the many ways it matters for employees, customers, suppliers, communities, and the world. The easiest place to start is with the role of family business owners.

Vision, Values, and Long-Term Success

In 1978, I saw first-hand the impact that a family owner's values can have in responding to a challenge. That's the year I began working at SC Johnson, which was led by fourth-generation Chairman & CEO Sam Johnson. On my first day, my assignment was to chair an internal group to defend our Raid brand. A competitor had introduced a new product called Black Flag Roach Motel ("Roaches check in, but they don't check out®"). The Johnson family value was simple: a new Raid product must offer a "product plus," meaning it must have distinct advantages important to end users.

For my Raid project, that meant we needed to develop a better roach trap. The researchers on our team devised a means of attracting more roaches into the trap. The engineers developed a way of dramatically increasing the number trapped without increasing the product size. Within a short period, Raid Roach Traps were displayed in



stores, providing superior benefits for consumers. It was an exciting introduction to a great family business.

Family business owners have an important role in their enterprises whether or not they're also involved on the board or as employees. The owner's role is to discuss and agree upon the vision, values, and performance expectations for the business. Owners elect the board and ideally speak to the board in one voice.

The most important reason that family-owned businesses outperform others is their long-term view. That's not an excuse for shortfalls, but they recognize it's the long run that counts for owners planning to thrive for generations. While plenty of family businesses last for only a generation or two, family-owned businesses last longer on average than either private equity-owned businesses or public companies.

Consider tree harvesting: Wood is organic, renewable, and biodegradable. Trees on family-owned land are likely to be harvested selectively, preserving the annual harvest potential for generations. This long-term thinking demonstrates how family-owned enterprises plan and act with the future in mind.

Part of the Family: Building Trust and Inclusivity

Annual surveys show that family businesses are the most trusted among American institutions. People prefer to work in family-owned enterprises. Family leaders recognize that their family's welfare depends on enterprise success. As family businesses progress from generation to generation, which is often their goal, more family and non-family members assume leadership positions. There is trust, appreciation, and opportunity for people, whether they are blood relatives or unrelated.

Family and business governance processes evolve along with processes that provide all employees with the opportunity and responsibility to understand the business, how it competes, and how they can advance company performance.

Consider a family-owned US manufacturing company with a fiduciary board and a majority of independent directors. Owner-leaders met monthly with representatives from all their locations to review marketplace realities, financial results, company-wide profit sharing and plans to win. When a recession came, top leaders reduced their salaries and made other cuts but avoided layoffs. There were no profits to share initially, but a strong sense of team effort emerged. Company performance quickly accelerated after the recession subsided.

In the best family businesses, family and non-family employees are valued, well compensated, and share in the profits they produce together through team effort. No wonder people at the best family businesses genuinely feel like part of the family.

Commitment to Communities and the World

Local family business owners play a crucial role in enriching their communities because they genuinely care and are often generous with their time and money. For instance, in the 1980s, the owners of a family company in the upper Midwest were disheartened by the sight of boarded-up windows in the downtown area of their headquarters city. They decided to contribute to a downtown development plan, which not only inspired others to participate but also spearheaded a renaissance of the downtown area. This revitalization effort included the implementation of a snowmelt system that used warm wastewater from a nearby power plant to heat

the downtown streets and sidewalks, as well as the establishment of new shops and restaurants that attracted visitors from near and far.

Government incentives to attract new businesses with public owners or owners from afar can miss the better long-term value for communities created by locally owned, locally headquartered businesses. For instance, a public conglomerate built a large manufacturing facility in a Midwestern town. Their top leaders lived elsewhere and were not involved in the community. When they decided to close the plant some decades later in favor of another location, it was with a dispassionate stroke of a pen.

Large family businesses typically think beyond profit to how they can help solve not only community but also national and even global problems.

In 1975, SC Johnson was the first company to voluntarily eliminate fluorocarbon propellants from its production lines. Today, SC Johnson is a leader in cleaning up and recycling plastics. The company is also saving lives by providing low-cost spatial repellents without profit to dramatically reduce malaria in areas where it is a major problem.

Many founders build successful companies and then use a portion of the profits to contribute to their communities. Founders have the right to use their funds as they see fit. In cases where there are multiple owners, families can collectively decide whether to support charitable causes through the company or leave it to individuals to choose which causes to support and how to support them.

A medium-sized family enterprise regularly contributed to projects like Boys & Girls Clubs, Junior Achievement, United Way, and schools in the communities in which they operated. The owners were aligned on the purposes and benefits of the company contributions. However, more recently, family owners considered company contributions to political candidates and found there were earnest differences of opinion. To maintain family harmony, the owners agreed that political contributions would be made personally, and any connection with the company for this purpose would be avoided or disavowed.

Ensuring Multi-Generational Continuity

Multi-generational family businesses often find their footing in the second generation and beyond, developing criteria in advance for NextGen involvement. The criteria

are typically designed to build a sense of responsibility and the confidence that comes from accomplishment.

Opportunities may arise for teenagers to work part-time in the family business. It is important for the next generation (NextGen) to show dedication by being the first to arrive and the last to leave, while maintaining a positive, selfless attitude and adding value through their work. In college, there may be opportunities for paid internships. Typically, NextGens are expected to work outside the family business for a few years after college, earn promotions, and prove their competence.

If there is a job opening at the family business that could benefit from the skills and experiences of the NextGen, they can apply for the position. Assuming all else is equal, at this point, it is usually considered fair to give the NextGen the opportunity. This process ensures that the family business has high-quality candidates. It also shows both family and non-family members that the NextGen was valued by another unrelated company. Equally important is the self-confidence that the NextGen develops through this process.

The best family businesses contribute to their company and society by nurturing good citizens. That is, people who are responsible, accomplished, and self-effacing; people who are willing and able to support positive progress and to lead when the situation calls for leadership.

Managing Wealth and Responsibility

Unearned wealth can destroy family members. The best family business owners earn their way and work hard to productively deploy their wealth.

Family business owners engage in a variety of ways. They may serve primarily as active owners, participating in the building of consensus on vision, values, and performance expectations. They may also have or develop the skills, experience, and interest in serving on the board of directors. Many family-owned businesses, particularly in the third generation and beyond, find that a non-family CEO and/or other non-family leaders best serve their

interests. Talented and selfless non-family leaders can be the bridge to a day when interested family members develop the necessary skills and experience.

Often family-owned businesses take on less debt than public companies or private equity owned companies. Wealth is reinvested by families in their businesses. That makes their businesses more resilient over the long run for the benefit of employees, customers, suppliers, and the communities where they operate.

Cornelius Vanderbilt built a hugely successful railroad and shipping business in the 19th century. Upon his death in 1877, he left his heirs a multi-billion dollar fortune. G2 continued his father's legacy and expanded the railway operations from New York to other cities, doubling the family's wealth. By the fourth generation, there was a steep decline in wealth for most of the Vanderbilt family branches. But one of the G4 Vanderbilt branches transformed the family's Biltmore Estate in Asheville, North Carolina, into a thriving museum and touring enterprise. They have spoken publicly at family business conferences about their commitment to family governance and engagement through an active family council that strives to instill constructive values in current and future generations. NextGens from family enterprises of all shapes and sizes can follow their aspirations and succeed in prospering for generations.

Making the World a Better Place

SC Johnson's long-term commitment to product improvement, environmental protection, and saving lives exemplifies how the best family-owned businesses contribute to shaping communities and the world for the better, much like the generational continuity of the Vanderbilt heirs. While media portrayals like *Succession* and *Yellowstone* may focus on dramatic exceptions, the reality is that the vast majority of family-owned businesses, from local mom-and-pop shops to global enterprises, are not self-centered fiefdoms. Instead, they are engaging enterprises that help make the world a better place.

Rob Sligh is a consultant with The Family Business Consulting Group.

To learn more about our firm and how we serve families like yours, call us at (773) 604-5005, email info@thefbcg.com or visit www.thefbcg.com. There is absolutely no obligation.



The copyright on this article is held by Family Business Consulting Group Publications®. All rights reserved. All forms of reproduction are prohibited. For reprint permission, contact editor@thefbcg.com. THE FAMILY BUSINESS CONSULTING GROUP, INC. and FBCG are registered trademarks and the FBCG logo is a trademark of The Family Business Consulting Group, Inc. Reprinted from The Family Business Advisor®, A Family Business Consulting Group, Inc.® Publication