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Unconventional Wisdom: Counterintuitive Insights for Family Business Success

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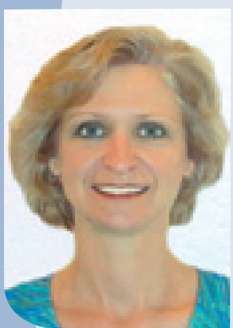

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Since the beginning of time, families have been working together. Goals could be achieved as a trusting group that eluded the grasp of the individual. Banding together with the people one knew best helped ensure survival and was highly successful for many years. One day, however, management gurus noticed that fathers hired mainly sons and wealth was preserved and controlled by small, related groups. They were aghast. -- Can this be right? Just think of all the quality talent going to waste in favor of – a son-in-law? Capital markets theorists pointed out that enterprising families were missing out on broader capital access and – perish the thought – leverage.

Families in business listened to this rhetoric and eventually began to wonder if they were on the right track after all. Many had survived the vagaries of the market and competition for centuries. But maybe they were just lucky? What took root from there was an insidious, but deep-seated inferiority complex.

After decades of hand-wringing and soul-searching, enough was enough. In an article published in the Family Business Review in 2004[1] we, along with our colleague and co-author Dan Denison, urged family businesses to acknowledge the success they have achieved and maximize the uniqueness that lay at its core.

Family business is widely misunderstood because it defies conventional wisdom at almost every turn. One of the most pervasive, and yet most erroneous, beliefs is that the family business universe consists mainly of small retail shops run by sole proprietors. Nothing could be further from the truth. While many family firms are smaller enterprises, some of the biggest, most familiar global brands belong to companies with some proportion of family ownership. It may seem surprising that family firms are well-represented on the S&P 500 and have repeatedly been shown to outperform their non-family peers. One may wonder why. We believe family firms' inclusion on so many "Best" lists – best performance, best places to work, best governance – is no accident, but rather the direct result of unanimity in commitment, purpose and *raison d'etre*. A glimpse of the fundamental differences between family and non-family businesses can be seen in the table on page 2:

The question soon became – If family businesses constitute such a large percentage of the world's employment and GDP, how can they make the most of these invaluable assets to the public's and the families' benefit?

Their approach to growth, corporate governance, strategy and corporate culture is and should be different. Each individual family enterprise must be sufficiently in touch with its heritage, capabilities, philosophy and values to develop best practice solutions that ring true for their specific competitive, life-cycle and market challenges.

Until recently, families in business were urged to "manage your business like a business; your family like a family" and whatever you do, keep them separate. But separation implies a prioritization, a choice that is anathema to families in business. Rather than seeing the family business as a sure source of family dissonance and prickly business conflicts, families are acknowledging the many benefits that also flow from this alternative approach. Dissolving the separation between ownership and management may lead the

1 "Culture in Family-Owned Entreprises: Recognizing and Leveraging Unique Strengths," Family Business Review, March 2004

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way to superior financial performance and an organizational coherence that can better satisfy a firm's many constituents.

Proactive acceptance that contradiction is natural and manageable is key to what separates family firms from publicly held companies. Because founders and their heirs become comfortable with the juxtaposition of seemingly incongruent concepts – family and business, individual and plurality, stability and flexibility, privilege and responsibility—they are uniquely positioned to embrace counterintuitive approaches to governance, succession, strategy and managing human resources.

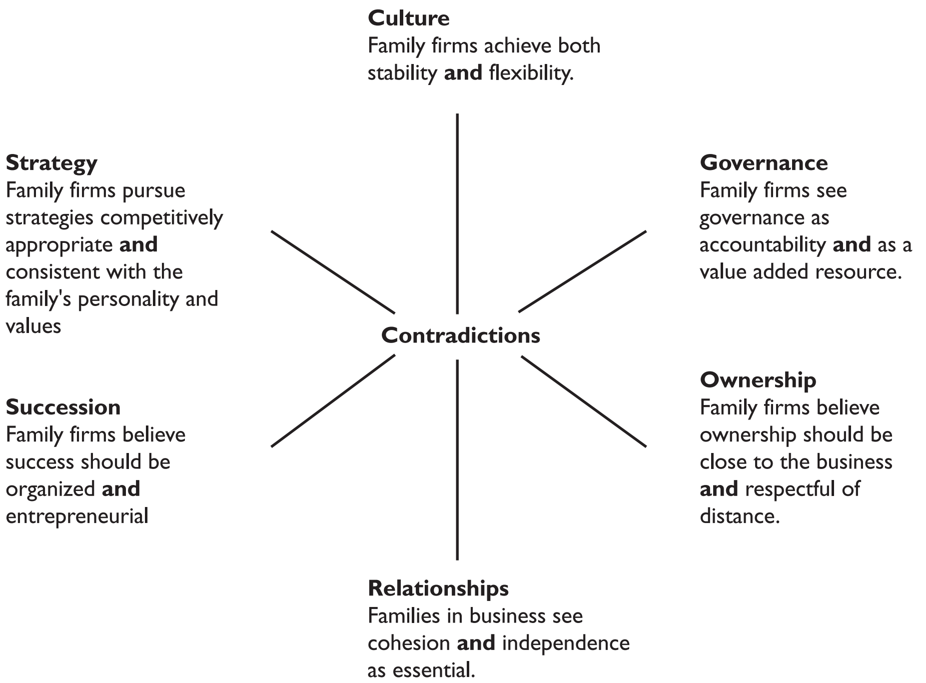
The issues and approaches common in family and business governance, at first glance, could not diverge more. Emotions and history are thought to typify only personal relationships whereas reason and a shorter-term orientation represent items standard on the commercial agenda. In many healthy family businesses, freedom and the power of the individual are celebrated in concert with the acknowledged history and financial muscle associated with acting as a cohesive unit. While stability is seen to lie in direct opposition to remaining nimble and open to new ideas, heirs who have spent a lifetime observing the previous generation's creative balancing of a myriad concerns do not view choice as an option. The only way they know to prevail is to consider new notions while remaining true to their unshakable core. And, although being born into a world of established wealth could certainly be called fortuitous, families in business know that the blessing carries enormous responsibility—for the well-being of community, labor, environment and the generations of family to come.

Not only do firms owned and managed together by relatives differ categorically from non-family companies but also from each other. One of the primary strengths of family companies lies in the fact that they are inimitable. Their derivation from singular, individually motivated entrepreneurs implies an innate distinctiveness to each firm's philosophy, competencies and values. To tap into their inherent strengths, family enterprises must set off on a quest to recognize and appreciate

Divergence on the Basics

For the Family Firm	For the Non-Family Firm
The purpose is continuity	The purpose is maximizing near-term share price
The goal is to preserve the assets and reputation of the owning family	The goal is to meet institutional investor expectations
The fundamental belief is that the first priority is to protect downside risk	The fundamental belief is that more risk promises return
The strategic orientation is adaptation	The strategic orientation is constant growth
The management focus is continuous incremental improvement	The management focus is innovation
The most important stakeholders are customers and employees	The most important stakeholders are shareholders and management
The business is seen as a social institution	The business is seen as a disposable asset
Leadership is stewardship	Leadership is personal charisma

Contradictions Inherent in Family Enterprise



their own "DNA" – what makes them what they are. With this greater awareness of self, combined with a welcoming attitude toward complexity and contradiction, family businesses can achieve holistic long-term success.

In a book recently published by John Wiley & Sons, Ltd., IMD contributors (Denison, Kahwajy, Kohlrieser, Lief, Lorange, Schwass, Steger and Ward) tried their hand at explaining the bases for the paradoxical phenomena outlined above. Real understanding is key to relevance. In order to be able to harness the power of what lies within, each organization must come face-to-face with its own reality – keeping what is good and resolving to improve the rest.

The book, "Unconventional Wisdom: Counterintuitive Insights for Family Business Success," begins by addressing the growth imperative and counterintuitive notions. Constraints on growth in this context can be addressed most effectively by encouraging individual entrepreneurial tendencies and the development of a "meeting place" culture. Next, the almost universally-held notion of nepotism as a scourge on business management is challenged. Nepotism is revealed as a way to tap into "idiosyncratic knowledge" held by the family, and a mechanism for providing leaders who are intimately familiar with the company's history, values and culture.

A truly counterintuitive insight is manifest in the observation that constraints can foster strategic creativity. Family firms' reluctance to risk losing control through debt or equity issues requires a more disciplined consideration of investment options and fewer opportunities to go very far astray from enduring values and goals. Further, best in class strategic planning begins with the owning family. It may at first appear odd that a commercial enterprise would take its cues from a cluster of personal values, motivations and needs. However alignment of the enterprise with its owners is all-important to continuity and long-term viability. This unified approach is enhanced when family leaders are at the helm. While limiting the talent pool has been viewed with skepticism, a family executive brings broad capabilities and a connectedness to the owners that may elude potential non-family managers. In fact, when family and business planning takes place simultaneously but separately with convergence at crucial intervals, unity of purpose and goals between the company and its ownership is enhanced.

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Corporate culture is a further point of difference. The superior financial performance generally exhibited by family companies perhaps may be traced to the cultures engendered by founders and the generations of family that follow. Active owners hold more capital patiently than is common in public markets, and have an in-depth knowledge of the nature and level of risk parameters acceptable to their families and firms. So while companies with concentrated ownership may be expected to act more conservatively, investing with one's personal wealth can actually encourage the assumption of suitable, measured risks.

While succession has been a subject of much focus in the literature, the emphasis may be wrongly placed. Rather than highlighting the planning necessary to accomplish the transition, resources could be better spent in ensuring success in the many years that follow. Successors can benefit immeasurably from the unbridled support of both the outgoing leadership and the next generation. Successors also need to accept responsibility for their own achievements and assume a proactive posture to the learning and experience necessary in taking over the reins.

One of the most misunderstood facets of interpersonal relationships involves conflict. Popular wisdom says that conflict is best avoided if relationships are to be preserved. In fact, confronting sensitive issues by "putting the fish on the table" is the surest way to establishing real communication and intimacy. Ironically, this can best be accomplished by first sharing one's own needs and concerns. By displaying a willingness to be vulnerable, the other party feels empowered to communicate.

Family constitutions are a powerful tool in family and business governance. However, rather than trying to anticipate every possible contingency and commit a plethora of solutions to paper, participants should focus instead on the process of developing the document. Devoting time, effort and considered thought to the process foments family creativity and commitment.

The issue of corporate governance is receiving a lot of media and regulatory attention these days. And while some family businesses may be unaffected by such regulations due to their privately-held status, they could nevertheless be expected to comply with standards of good governance. The synchronicity evolving from a connectedness to the past and the daily living of principles and values is more likely to result in excellence in stakeholder relationships.

Although this discussion has centered on family enterprises, the key principles presented here can benefit a wider audience. Organizations of all types can apply these ideas to their own circumstances. The message for family and non-family firms alike is: Know thyself and then proceed authentically with confidence.

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