WHAT REALLY MAKES THE DIFFERENCE?

Despite having to contend with internal family tensions on top of the usual work stresses family businesses still outperform non-family businesses. At the end of the day it's not what they succeed at but the way they succeed that makes the difference, says **Jane Hilburt-Davis**

We know the statistics. Family businesses comprise about 80-90% of all businesses. They are the backbone of our economy – if they failed so would the world's economy. We also know that survival is tough. They combine family tensions and work stresses and, paradoxically, outperform non-family businesses, including shareholder return and revenue growth.

We have become pretty good at describing the good ones. In fact we've become so confident about how they can be described that recognition is given annually for 'family business of the year'. These awards are usually based on a combination of the following criteria: success of the business; positive links between the family and the business over time; contributions to community and industry; and innovative business practices or strategies.

We also know the horrific stories, which capitalise on the other side of businesses gone bad, and/or relationships destroyed. For example, the Pritzkers, one of the world's richest families and oldest Chicago dynasties, with a granddaughter suing her father; the Rigas family, whose father and sons were charged with looting the cable TV company of hundreds of millions of dollars for their own personal use; and the Binghams, a publishing family dynasty that owned the Pulitzer Prize winning *Courier Journal*, who lost the fight to recover from their sons' accidental deaths and a daughter's public struggle for influence and love.

We know they are unique, with interacting family, ownership, and management systems. Family business experts agree that what the good ones have are: values that are passed on; a functioning and independent board of directors; a working strategic plan; regular family meetings; and an employment policy for family members. So far, so good. But how do they accomplish these in ways that makes for better business and happier families? For example, if families in business have regular family meetings filled with constant quarreling or a grandstanding CEO, then, clearly they will cause more harm than good.

Because most of the problems in family businesses arise in the interactions between family and business, how things are done is as important as what is done. It's not enough simply to recommend, for example, more frequent family meetings or an employment plan for family members. More useful is to start with the basic, core competencies needed to achieve the award winning traits. The family needs to have the ability to agree on values-driven vision and manage conflict. They also need to develop functional policies.

Each competency is the stepping stone for the next level. Values come first, then conflict management, then policies. When you get stuck in one level, return to a lower level and work it through from there. One of the family businesses I've been working with has had an ongoing conflict between two brothers. No common sense, facts, or talking worked, until we were able to re-examine their individual values and visions that were, no surprise, remarkably different.

ABILITY TO AGREE ON VALUES-DRIVEN VISION

In their book, *Built to Last: Successful Habits of Visionary Companies*, Collins and Porras argue that faithfulness to core values is the single variable that distinguishes the long term success of America's greatest companies. Values-driven vision incorporates where we want to go, how we want to get there and how we treat each other. Vision is the where; values the how.

The late Sam Johnson of the SC Johnson company, and recipient of the 2002 IMD Distinguished Family Business Award, described not only his values but his vision when he said, "Every community where we operate should become a better place because we are there". Fisk Johnson, Sam's son, carries on the tradition; he says his father didn't just talk values, he lived them.

Vision or goals should not be confused with the purpose of the company. Obviously, there's already a purpose – making money, maximising shareholder investments. But, other companies have this same purpose; what gives one company a competitive advantage over another is their vision and values. Focusing exclusively on the purpose limits the possibilities.

Another factor to consider is the differing values of the generations in the work force today. Recent studies have shown that there are differences in how each age group defines commitment to work. For example, the founder, thinks "If I'm not working hard, I'm not of any use," whereas his baby boomer daughter's assumptions ("I want to see this company soar but I will have a life, not like my dad") are remarkably different from both her son ("I really would rather sell this company and not be tied down to it") and her dad.

There is also an underside to getting consensus on values-driven vision.Because the ties are emotional and personal, family members can feel trapped,by guilt or golden handcuffs, and be unable to be honest with themselves or others. Because of this, parents may not make the wisest decision about the choice of the next leader. Likewise, the next generation may take over the reins unwillingly, ill-equipped or uncommitted to giving to the business the time and passion it needs.

Family businesses that know their values, share them,stick to them and live them day-to-day are more likely to see long-term success.

ABILITY TO MANAGE CONFLICT

You've probably heard the saying "the bone is strongest where the break heals"(that is actually medically true!).Because family businesses are fertile ground for conflicts that undermine sound business decisions, they need to learn not how to avoid conflicts but how to manage them by establishing a process to make these tough decisions. There is no doubt that family businesses that have developed conflict management techniques will make decisions faster, move more quickly on critical decisions and have a competitive advantage. Other rewards of dealing directly with conflicts include: building self confidence in emerging leaders; strengthening family and work bonds; and encouraging a rich diversity of opinions. The converse is also true: unresolved conflicts are harmful and put the family and business at risk.In his book, *Centuries of Success*, the author, William O'Hara, observes that "most of the families have come to realise that conflict itself is not necessarily bad, but that the inability to manage it is a source of much difficulty".

There is no one way to manage conflicts; as long as everyone agrees to the process. One family business I worked with decided in just 24 hours to acquire a competitive company. As one of the sisters said,"We know each other so well, using our hearts and our heads. We also were prepared for each of our objections and could deal with them in a caring and efficient way. The vetting process took very little time."

Two cautions should be mentioned about the curious nature of conflict. Every family who works and lives together has felt the pull for autonomy, space and independence – and this may get played out in arguments. If that is the case, then family members must create ways to have time away from each other and find their own interests. Second, and more insidious, is 'group think' a syndrome so dangerous that it has been implicated by the 911 commission's findings of failure in all branches of the government to challenge conclusions about safety. The danger of group think is that it doesn't just censor differences but it makes dissent impossible. People see what they want to see, are not allowed to differ with the leaders and, because agreement is forced and false, do not follow through with action plans.

One way that families in business can move faster than corporate bureaucracies is to establish a way of managing conflicts quickly so that decisions are made proactively, not reactively. There are plenty of opportunities to practice, at work, and even around the dinner table.

ABILITY TO CREATE FUNCTIONAL POLICIES

Policies are,as we say,'where the rubber meets the road'.They are the 'codes of conduct', the 'rules of engagement'. They make things explicit and transparent. How policies are developed is as important as what is developed because the process of creating them can serve to: inform the family about business and ownership issues; encourage a buy-in; and increase the family's ability to deal with issues as they occur. Policies also encourage healthy boundaries, avoiding what happened in the Rigas family who had a habit of thinking that what belonged to the business belonged to the family. When policies reflect the family's values and vision, the 'family effect' produces a high-performing cultural benefit. Finally, policies impose accountability, for the family, the board, the owners, and the management.

FUNCTIONAL POLICIES ENCOURAGE HEALTHY BOUNDARIES

Designing formal policies as the family business grows and becomes more complex,to take the place of informal,tacit social agreements, often creates tension and anxiety. This process must be handled carefully, respecting each generation's needs, values, and goals and the firm's mission. Two policies that are likely to create upheaval are shareholders' agreements and family employment policies. How the family works through these issues is critical for, if the process creates distrust and adversarial relationships, it will do more harm than good. It is during this process that the family would be wise to call in an objective advisor to manage the drafting of these policies.

If we drill deeper into the recommendations that are offered by the experts, what really makes the difference between the success and failure in family firms is not only what they accomplish but how the job gets done. Three essential competencies are needed to take care of the three interacting systems, the family, ownership, and management: ability to agree on a values-driven vision, to establish a conflict management process; and to create functional policies. With these skills, family firms are better prepared for long-term performance and family participation. ■

JANE HILBURT-DAVIS *is founder of Key Resources, an international family business consultancy based in Boston,MA.*
www.familybusinessconsulting.com