

MANAGING FOR THE LONG RUN

Lessons in Competitive Advantage from Great Family Businesses

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MAIN IDEA

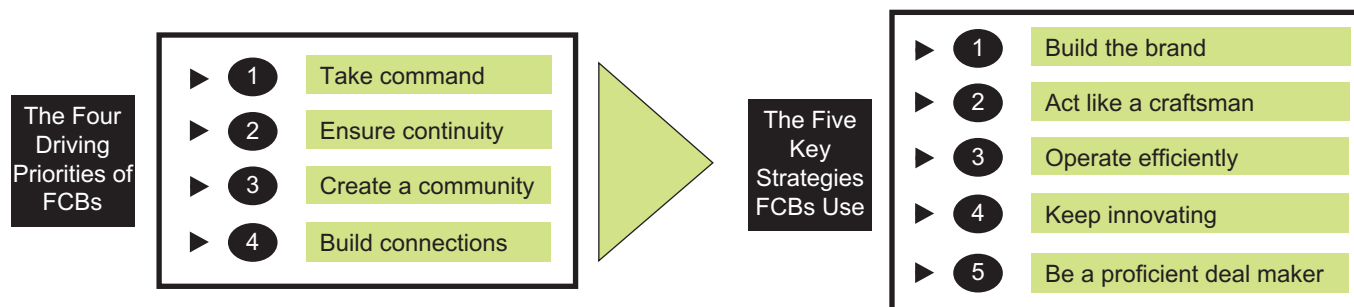
Prevailing wisdom suggests a family-controlled business (FCB) – a public or private company in which a family holds the largest block of shares and has at least one family member in a key management position – can never be as competitive as a business with professional managers. However, in every systematic study, FCBs have actually been shown to outperform other public companies in every measure imaginable – in revenue growth, market valuation increases, return on assets, return on equity, etc.

So what is it FCBs and their family appointed leaders are doing right? Their success is built on a foundation of “the four C’s”:

1. *Take command* – FCB leaders are decisive, speedy and innovative when it comes to running their firms.
2. *Ensure continuity* – they plan on being there for the long haul, and therefore correctness rather than expediency is stressed.
3. *Create a community* – where everyone working for the firm is integrated into a close-knit extended family culture.
4. *Build connections* – FCBs strive to build long-term relationships rather than opting for opportunistic transactions with others.

Based on that foundation, FCBs then use one of five specific strategies better than their peers:

1. *Build the brand* – Family-controlled businesses create perceptions of their products and services that last generations.
2. *Act like a craftsman* – FCBs go to great extremes to build quality products they should be and are proud of.
3. *Operate efficiently* – Great FCBs find original ways to add value more efficiently than all their competitors.
4. *Keep innovating* – These family-controlled businesses live to push the edge of the envelope outwards.
5. *Be a proficient deal maker* – FCBs that spot opportunities early and structure deals that put them ahead of everyone else.



“The only way to sustain good performance is to act in the long-run interests of the company and all its stakeholders. First, boards and top managers must be motivated to be courageous and farsighted stewards. Second, they need to concentrate on and invest deeply in a substantive, enduring mission. Third, they must assemble a unified, value-driven staff that uses its initiative for the interests of the whole firm. Finally, they must form enduring, win-win relationships with external partners. People may object that in all these respects, great family-controlled business will be difficult to emulate. Patient shareholders are rare, as is family-like trust among top managers and the board. Our recommendations, therefore, may fall on deaf ears. That does not, however, make them any less valid. We know that the path is steep and the difficulties many. But if we look at what these great family businesses have accomplished, the trip seems to be worth it, for owners, employees, clients and partners, and for society as a whole. Maybe the current economic difficulties Americans are facing, as well as the crisis in corporate confidence, will awaken all of us to the weaknesses of the short-term approach and to the promise of a different way.”

– Danny Miller and Isabelle Le-Breton-Miller

1. The track record of FCBs Page 2

Family-controlled businesses (FCBs) get a bad deal from the business press. Typically, any family feuds or internal fights for control get much more coverage than ongoing year-to-year financial performance. When the data is analyzed, however, it becomes apparent that exceptional FCBs rise to lead their industries for long periods of time. Perhaps these companies are successful because of their family-controlled status rather than in spite of that distinction.

2. The four driving priorities of FCBs Pages 3 - 5

All highly successful FCBs, in varying degrees, integrate four key driving priorities to such an extent they become passions within the firm. These priorities are command, continuity, community and connection. When blended and configured appropriately, these four priorities translate into a source of vitality for FCBs. All successful FCBs incorporate all four priorities into the way they do business, although each of them may prioritize things differently at times. They also find ways to counterbalance the gaps or potential excesses of any one priority with the corresponding strengths of one of the other priorities.

3. The five key strategies FCBs use Pages 5 - 8

To excel in the marketplace, family-controlled businesses have succeeded by using one of five general strategies to differentiate themselves and gain a sustainable competitive advantage. Each of these strategies is built on a foundation of two dominant driving priorities. They are profitable because other firms are unable to match these strategies because they are reliant on the unique characteristics of FCBs.

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