

Business Advantage, January, 2007

SECRETS OF CENTENNIAL FAMILY BUSINESS

If You Want Your Family Business to Last 100 Years...

By Donald Levitt

Only about 4% of family businesses last for over one hundred years. Based on the ten centennial family businesses featured in previous columns, here is what it takes to become a centennial family business.

1. Stay small

Four of the ten featured centennial family businesses have less than ten employees, and most of the remaining centennial family businesses have fewer than 100 employees. After 100 years of being in business – that’s not rapid growth. *Family Business* magazine’s list of the oldest family businesses in the U.S. similarly indicates that almost half of these businesses employ fewer than 15 people.

While there are certainly some centennial family businesses which are very large (e.g., Cargill, Levi Strauss, Anheuser-Busch), staying small seems to be a factor which increases the likelihood of a family business lasting 100 years. Modest size may contribute to family business longevity because: (1) there is less need to seek non-family or public sources of capital to support rapid growth or to liquidate shares during generational transition, and (2) there is less likelihood of being an acquisition target. Many small businesses – whether a family business or a non-family business – have difficulty staying in business for an extended period, so staying small is not the secret to business longevity – but it may counteract some of the special vulnerabilities of family businesses.

2. Keep the owner group small – and committed to the business

After 4-5 generations one might have expected broad ownership among cousins within the featured centennial family businesses, but for most of these businesses the ownership group has remained small. In each generation only 1-2 children entered the business and family members who were not active in the business were willing to sell their shares back to the business. Maintaining ownership primarily in the hands of family members who are active in the business reduces the likelihood of conflict which can hinder the business. For those centennial family businesses where some shareholders are not actively involved in the business, the shareholders view this ownership as “patient capital” and are not aggressively pressuring management regarding dividends.

3. Don’t pressure the next generation

Most of the featured centennial family businesses were not pressuring the next generation to enter the business. This pressure may have existed during earlier generations. While

the next generation is most often encouraged to follow their own career paths and to enter the family business if they so choose, the senior generation generally expresses a strong sense of pride in the business and in the legacy – and this probably serves to encourage the next generation to consider entering the business.

4. Allow the next generation to learn, grow, and take charge

These centennial family businesses generally did not experience significant conflict in the transition of leadership from one generation to the next. Adult children were supported in opportunities to learn and grow – and even to lead the business in new directions – and the senior generation was willing to “turn over the reins” in a timely manner. Similarly, siblings were willing to allow one of their siblings to become president without going through a struggle for power.

5. Keep your ego in-check

Most of the founders of these centennial family businesses demonstrated the typical entrepreneurial dynamism, ambition, and risk taking – but later generations seem to live and value more modest business and personal lives. Each of the above listed four characteristics of centennial family businesses speak to this underlying sense of modesty. Pursuing modest growth; willingly selling shares to one’s siblings; encouraging adult children to follow their own interests; and stepping aside for the next generation are not the behaviors of a “big ego” which is seeking self-advancement or self-aggrandizement through the business or through other family members.

Becoming a centennial family business is not the right goal for everyone

Becoming a centennial family business may or may not be a “good fit” for you. Maybe rapid growth, profits, and liquidity are more important to you than tradition, stability, and lasting 100 years. Maybe your contribution to the family legacy focuses less on providing opportunities in a family business and more on providing opportunities in a wider sense. The featured centennial family businesses represent a narrow slice of very specific values – values which are quite admirable, but which may not be a perfect match with your vision and values.

If you want your family business to last 100 years, these are some great role models. If your values lead you in another direction – there can be “greatness” in that as well.

Donald Levitt, Ph.D., president of Levitt Consulting, helps family businesses to succeed as both a business and a family. More information about this month’s topic, and other family business issues, can be found at LevittConsulting.com.