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When Family Businesses are Best

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Abstract

Families are about caring and businesses are about money—not a likely formula for a successful partnership. Unfortunately those are the facts and family enterprises around the world have found that planning for these two often-conflicting systems is critical to family harmony and business success. The theme of this article is that business families need a planning approach that provides rigor and consistency to drive their thinking, strategies and actions for the family and business systems. We advocate a parallel process-driven approach because the systems need to be aligned. In addition, focusing on process (how they do it) rather than content (what they do) better reflects the needs of different cultures, family experiences and economic systems. When a family works together to craft their own strategies based on their situation and family goals it creates commitment and a unity of purpose.

Family businesses are often seen as dysfunctional, prone to nepotism and conflict. Even in the business press, the family business model is often portrayed as outmoded or problematic. Recent research, however, has shown that family businesses outperform public companies on key dimensions such as stock price and return on equity. How do you explain this disparity? Our work as researchers, teachers and consultants suggests that family businesses can indeed be the best and the worst: the best because they have some unique strengths (long term vision, strong values, committed owners); the worst, because the overlapping systems are more complex than other businesses, and they require more communication, better planning and governance—which they do not always receive.

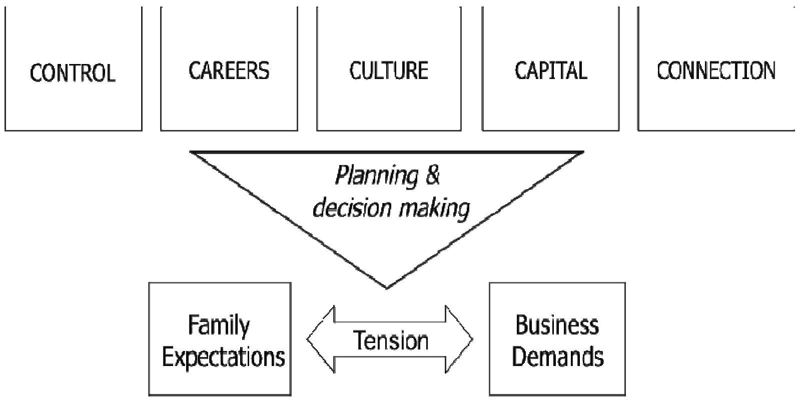
While the principles and benefits of strategic planning for businesses are well recognized, the idea of strategy for the business family is less well understood. Typically, family firms have sound business strategies, but planning for the family is mostly neglected or triggered by issues or conflicts that need to be resolved. Indeed, in our experience, many business families do not appreciate the value of family planning or are afraid of the emotional minefields that such planning may expose. Many fear that the process itself may raise questions that no amount of planning can resolve.

We argue that a lack of planning for the family is a serious threat to sustaining the family's commitment, which is an important competitive advantage of family-controlled firms. The global commitment of the founder-entrepreneur to all aspects of the business naturally diminishes with each subsequent generation, as the family expands and a separation of management and ownership roles occurs. It is predictable, but often surprising to the second or third generations, that they should face a new set of family challenges: how to share ownership among a growing number of family members; how to decide who will lead the business; and what the rights and responsibilities of family owners are. If the family has not planned and developed family agreements together then every family or business issue has the potential to become a family conflict. On the other hand, if there are clear agreements and plans, on employment for example, then procedure and consistency, not personalities and power, become the drivers of family interactions.

The Overlap of the Family and Business Systems

Family businesses are powerful and complex organizations that create both advantages and challenges because of the interaction of the family and business systems. These overlapping systems, when effectively aligned, can create significant value for all the stakeholders. But beyond the founder alignment does not come naturally. The family system is driven first by emotions and second by economics, while the business system is driven first by economics and second by emotions, creating very different—yet overlapping—priorities. The interplay of family cohesion and business accomplishment that arises from this overlap can create exceptional business performance but often at a cost. Without coordination, actions that benefit the business can hurt the family, and family conflicts can threaten the business' performance and viability. Figure 1 (see below) demonstrates the conflict between family expectations and business needs in planning and decision-making around five structural issues.

Figure 1: Structural Conflicts between the Family and Business Systems



If we explore these issues more deeply we can see how family expectations and business demands often result in conflict. These structural issues, present to some degree in all family businesses, are usually caused by life cycle and life events, family values and experiences—and the real differences between family (emotional) and business (economic) goals. They are a predictable and manageable aspect of family business relationships, but they require communication to address their conflicting demands. The five structural issues identified above lead to five planning questions:

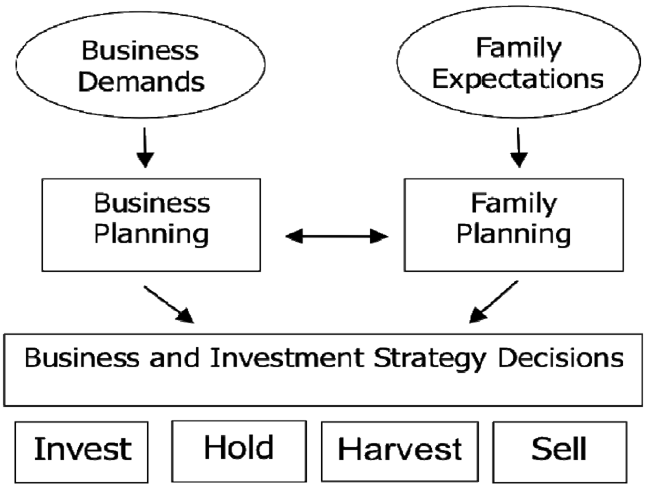
- Control: How are decisions made?
- Capital: How are financial resources allocated?
- Careers: How does the family create career and leadership roles?
- Connection: How do we keep family relationships strong?
- Culture: What values drive our planning, decision-making and behavior?

Consider next-generation careers, which are frequently a source of misunderstanding and stress. All businesses demand well-trained and capable executives to fill management roles in the firm. Most parents see their offspring as capable and expect their family's support, especially for jobs and careers. The parent's logic is simple: we own a family business that needs people and my child requires a job. Here is where planning and governance can help match the business' demands with the family's expectations and help family members become a source of talent with the skills and attitudes the business requires. However, the logic fails when a family member lacks the skills that the business needs, if the family has not properly planned a process for hiring and developing its members or there is a lack of fairness in promotion decisions. All of these scenarios will create conflicts with possible consequences for the business and family relationships. This is where family agreements must be completed, to ensure that the family knows the business' requirements, that family members perceive they are being treated fairly and most important that the business has capable employees.

The Importance of Aligning Family and Business Plans

Beyond the founder, and perhaps the second generation, the driving force in most family businesses is ownership not management. The ownership group selects the board, influences investment and ultimately decides if the business will remain family owned. The fundamental challenge is about aligning the business' demands with the family's expectations (see Figure 2 below). Underlying the business and investment strategy are the family's commitment to owning the firm and its continued support through reinvestment. And there are four possible generic reinvestment decisions: invest, hold, harvest or sell. We argue that each of these decisions reflects the owners' investment commitment based on the business' potential for value creation. The choice of family investment is shaped by family expectations and commitment as well as the business' demands, and results in different business strategies and actions.

Figure 2: Aligning Family Expectations and Business Demands to Create Business and Investment Strategies Driven by Ownership



If the family vision involves aspirations for growth and perhaps industry leadership, then the family must consider the business' needs for high levels of investment to support this more demanding business strategy. If the owners are indifferent about the business' future or even want liquidate their ownership reduced investment is required. As these very simple examples show, parallel planning helps business families to drive strategy and investment that align family and business activities, thus ensuring the best possible family and business performance. A disconnect between the business' potential and the owners' investment is a formula for conflict and missed opportunities.

Baron Jean-Pierre Berghmans, Executive Chairman of the Lhoist Group, speaking to a group of MBAs argues that, "You must have the full commitment of shareholders in a family business if you want to succeed." He cites his shareholders' commitment to investing capital and to serving as executives and directors as two factors that have helped sustain their company's spectacular growth. The family's participation in a privately controlled business as active owners or directors is critical because private ownership can have the adverse effect of shielding non-performing firms from the public scrutiny and market pressures that face publicly traded companies. When family owners are active, they are more likely to keep a sharp eye on performance—their own and their competitors'—and avoid falling into the trap of complacency.

The Lack of Family Commitment or Investment

The consequences of passive ownership to a family business were clearly demonstrated at Dow Jones, the global financial publisher, which until recently was controlled by the Bancroft family. The Bancroft family's entrepreneurial ancestors were early innovators in U.S. financial journalism founding the *Wall Street Journal* and *Barons* but for the last 30 years the family took a hands-off approach, basically delegating control of the company to non-family management. Because the management team members were first and foremost journalists, not business strategists, their focus was on journalism. This narrow focus resulted in Dow Jones' failure to pursue several significant opportunities in the financial information market that other family businesses or entrepreneurs exploited.

For example, Bloomberg L.P., which provides real-time financial information to investment professionals, created a new desktop market for the very information that had been printed by the *Wall Street Journal*. In contrast, the Canadian-based Thomson family repositioned its business from small, local newspapers to become a global legal and business publisher. It recently acquired Reuters and is now one of the largest business news services in the world. Pearson Publishing in the United Kingdom, which for many years published the *Financial Times* (*FT*) as a British-based competitor to the *Wall Street Journal*, has also expanded globally, making the *FT* a market leader in many parts of the world.

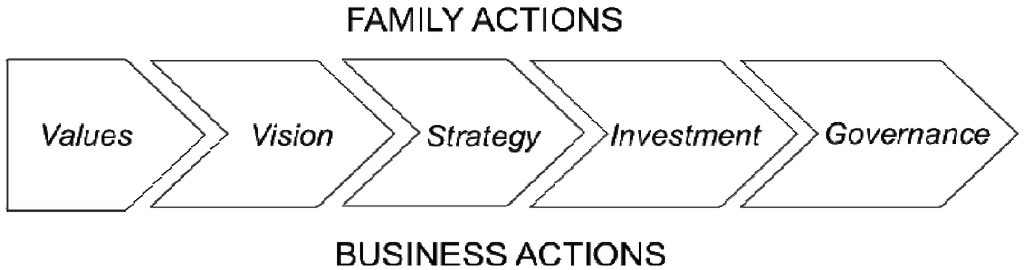
Not only did the family fail to invest its human capital effectively in the business or board, it also provided little financial support for the business. Dow Jones had been good to the Bancroft family: its members had taken dividends from the business for decades. Indeed, in some earlier years dividends had exceeded the company's profits; and just prior to approving the sale of Dow Jones to News Corp., the family had doubled the dividend it took from the company. All this capital depletion and the lack of a regeneration strategy undoubtedly undermined the company's competitive position.

The sale of Dow Jones to Rupert Murdoch might have been prevented if the Bancrofts had agreed on a shared vision and a plan to strengthen the family's commitment instead of struggling among themselves without developing any actionable plans. If the family had regularly analyzed the business' performance over the last 20 years, they would have recognized the bad industry trends that demanded a reformulated business strategy. Their lack of action let the business continue to slide until they were forced to sell it to a competitor who represented the journalistic values they opposed. There was also a financial loss: as one of the family members stated; "had things been run differently [at Dow Jones], the shareholders might own a $50 billion business today not a $5 billion business."

The Parallel Planning Process

The Parallel Planning Process (PPP) framework is driven by values and vision to support developing strategy, investment and governance actions that exploit business opportunities and address the family's concerns (See Figure 3 below). The first planning step is for the family to meet and clarify its values and then its future vision for the business—and the family's contribution to that future. The family's values shape the vision statement, which determines what the business will become, and consequently its business strategy. Many business-owning families espouse values and a vision of a strong commitment to their firm's future success but this is only the first step because strategy, investment and governance actions are required to support the business' long-term performance (see Figure 3 below). A family's investment of its human and financial capital clearly demonstrates the owners' belief that their ownership creates a competitive advantage for the business.

Figure 3: The five action steps of the Parallel Planning Process



There is logic to starting any planning process with an exploration of values and vision but this is often not the way family businesses operate when an important issue arises. In the real world, if a family is struggling with conflicts over the dividend rate they will often want to discuss the issue immediately rather than taking a big-picture view. Business families are action driven and often see planning as a luxury for large corporations. The PPP functions if the family's efforts are issue driven because the five planning steps are interrelated. As a result the family's thinking and action on dividends must be analyzed as a part of their values, vision, strategy and investment to create alignment.

Family Values and Vision

Business families are driven by values that reflect their shared beliefs, experiences and goals. The first planning step is to clarify family values and begin the process of exploring the family's shared vision. This vision consists of two parts: first, the future state of the business (size, markets, employees, profits) and second, a clear understanding of how the family contributes to and benefits from the business' success. It may sound obvious that the family needs to contribute to the success of the business it owns, but this is not always the case, as we discussed earlier with the Bancroft story.

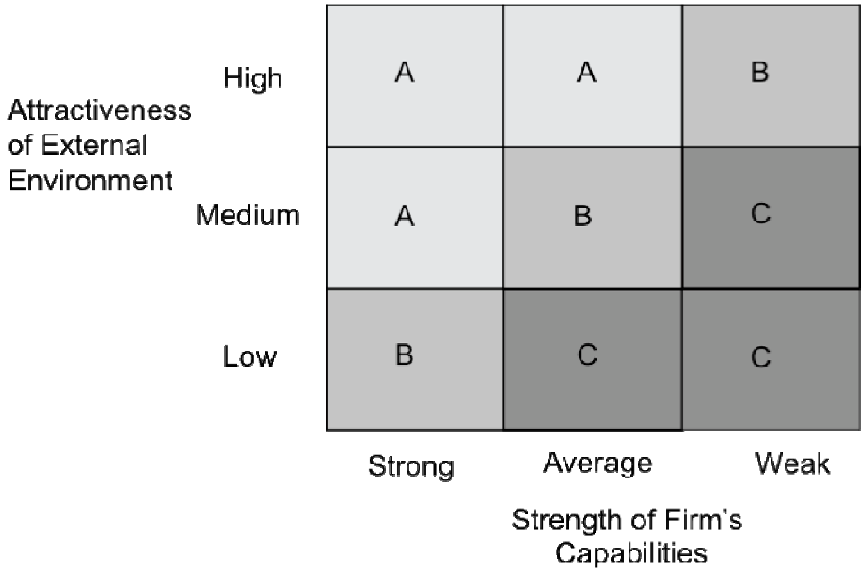
When an entrepreneur creates a business there is a personal commitment to the business' success that aligns their values and vision. But quite naturally, as the family and business grow, and as ownership and management roles are separated, there can be changes in some or all of the family's interest in and support for the business. It is important to recognize that the family's values drive the business vision and strategy that develops. A family that values wealth and expects large dividends will develop a very different business strategy than a family that sees itself as stewards of the business' long-term growth through low dividends and high investment.

The family's values and behaviors as owners and leaders also shape the development of the business' culture. The firm's culture is a shared set of beliefs held by the organization and its stakeholders about how and why the firm is successful. Family business culture is a powerful tool for motivating employee performance and creating behavioral norms that support the firm's strategy. Pictet & Cie, the Swiss Private Bank, uses its marketing to communicate the owners' three core values of respect, integrity and independence. Like most family businesses, Pictet's actions are driven by these values and the firm's culture is based on them. In times of stress and uncertainty these values become fundamental: they demonstrate to employees and other stakeholders what behaviors support the bank's continued success.

Strategy for the Family Business

Strategy is a critical tool in any organizational setting. It is used to assess the firm's situation, identify opportunities, agree on goals, allocate resources, coordinate actions and ensure accountability. For example, a strong firm could consider an acquisition or joint venture in a new market. If management believes in the potential of the acquisition or new market to create economic value they would work with the board to approve a plan and determine the level of financial investment required. We define the capacity of a firm to create economic value as the *Business Strategic Potential.* A firm's strategic potential can be categorized as: *High,* a market leader with strong value creation potential; *Medium,* a steady performer with average value potential*;* and *Weak,* an uncompetitive firm with limited value potential or possibly even value destruction (see Figure 4 below). The firm's strategic potential and management's plan provide a basis for discussing the family's investment options. The discussion of the ownership group or the board of directors, representing the owners, about the firm's strategy and potential value creation is in itself a positive outcome from the process.

Figure 4: Assessing the Business Strategic Potential



Strategy for the Family: Participation, Development and Succession

While the business strategy is important, it is an effective family ownership strategy that really sustains a multi-generational family business. It is also the latter kind of planning that presents the biggest challenges because of emotions, differences in talent and motivation and family relationships. Business interactions are professional and temporal, meaning that plans require clarity and a relatively short time frame; family relationships, in contrast, are emotional and last forever. Family issues, like succession, careers and ownership, are personal and highly emotional making it simpler to avoid rather than confront the issues. Family planning is also typically not a part of the family's experiences; founders do not need or want formal structures or processes and the subsequent generation adapts this informal style working on a personal sibling-to-sibling basis. Consequently in most successful first- and second-generation firms there is limited amount of formal planning about the family because an informal and reactive model has always worked well enough.

The involvement of the third or 'cousins' generation, with a larger number of family members preparing for career or ownership roles, usually triggers thinking about more formal structures and processes to ensure fairness and professionalism. Planning for the family's ownership and leadership also requires careful thinking about building and protecting family relationships in the next generation. Cousins lack the natural connections and shared experiences of siblings so they need to learn to work together. In the ‘founder’ and ‘sibling’ generations, active involvement as employees and directors is the norm. As the family grows in size and the business becomes more complex there is often a separation of ownership and management roles that requires the family to develop plans and family agreements that clarify planning, decision-making and leadership roles for family and business.

Family Planning as A Tool for Ownership Continuity

The Wates family demonstrates how thinking strategically about the family supports their vision of long-term family ownership. The Wates have controlled one of the UK’s largest construction companies for more than a century. Like many family businesses they faced a leadership crisis when the five senior family leaders and owners began to contemplate retirement. While several members of the next generation worked in the business, none had served in senior management or at the director level, and there was uncertainty about who was interested in and capable of committing to these leadership roles. The senior generation recognized the issues and working with their children began to develop plans to explore the next generation’s interest in a new business model based on non-family management and the family becoming governing owners.

For the Wates family, the process of preparing for the transition to the next generation of owners involved three steps. First, the family members met, discussed their vision and confirmed the importance of strengthening the management team with the best available managerial talent to develop and execute strategy. A decision was made to recruit an experienced non-family CEO from outside the business because professionalizing management would support the generational transition process. With the business leadership identified, and a new CEO and Finance Director in place, the family could turn their full attention to developing plans for the family ownership and governance transition.

The second step was to engage an outside family business advisor to help prepare a comprehensive transition plan focusing on developing the next generation’s talents as professional owners and directors. A series of meetings helped confirm that, while the entire family believed in the business’ future, several next-generation members did not see themselves in leadership roles or even as owners. This prompted the family to assess its talent bank objectively and to craft individual development plans for each of the committed next-generation members using psychological assessments, coaching, executive education workshops, and governance experience. The results were successful with two next-generation family members joining the Wates Group board and two others involved in senior executive roles.

The final step of the transition was a restructuring of the ownership to reflect the decision by two of the next-generation family members to pursue careers and interests unrelated to the family business. A strong Wates value was active ownership so two senior family owners decided to request a buy-out of their branches after their children chose not to be involved. The Wates family succeeded in their generational transition because they considered the linkage between the family and business planning process at each step. The ownership change, the next-generation leadership transition and the appointment of a non-family CEO and chairman meant that the family needed a new family charter (or family agreement) spelling out ownership roles and governance structures. As Andrew Wates, the former Executive Chairman of the group says: “We are at the beginning of our family journey today, not the end of it.”

The choice of the next CEO was an important business decision for the Wates Group but equally important was planning for the next generation’s professional involvement in ownership and governance roles. In multi-generational family businesses there are several roles that support the family’s success. Leadership functions that were the responsibility of one or two family members in the early years now belong to a diverse family-leadership team comprised of different interests, talents and capabilities. As the family and business grow, the CEO’s role must focus on the business’ strategy and performance. This means that the family needs to take responsibility for ensuring that family members are prepared to serve on the family council, on the board of directors and in other activities such as the family office and foundation. Clarifying and developing these roles and ensuring they are staffed with capable family and non-family talent are an important outcome of family planning.

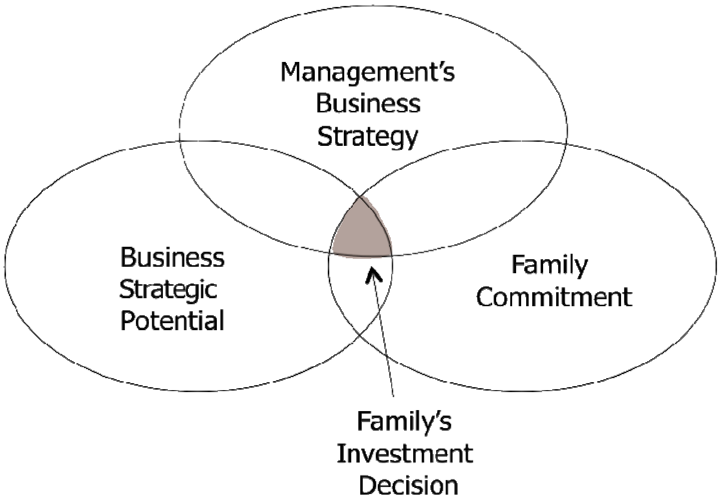
The Wates case demonstrates the importance of a family strategy that ensures the next generation of family leaders is ready for the new roles and relationships resulting from changes in the business and family. The decision to have a non-family chair and CEO meant that the Wates needed to create a new governance structure in the form of a family holdings board to ensure accountability and maintain family influence. This new holdings board retains the family's control and active contribution to the core business as well as other family interests. The holdings board, chaired by the former Executive Chairman and senior family member, also created another tool for the family to share knowledge and support the continued development of the next generation. As the family and business mature, the family's role increasingly becomes governance. Alignment of family and business governance processes among family, owners and management is therefore an important family responsibility.

Investing the Family's Human and Financial Capital

The owners' investment decisions represent their level of commitment to the family business' future. After the founder and sibling phases, owners directly influence the business through their financial investment and active participation in ownership and governance roles (we will discuss human capital later in this section). Deciding on the level of financial investment is one of the most important outcomes of planning for business-owning families. This decision, on the level of reinvestment versus dividends or other family payouts, clearly demonstrates the owners' level of commitment to their business. A family that regularly takes an 80% dividend has a very different vision of the family business than a family that takes a 20% dividend. Maintaining family commitment is important because high-potential businesses need the family's leadership and financial support for their continued growth. When a family business is performing well it is easy to become complacent and expect the dividends to continue to increase. Yet without investment this is highly unlikely.

A business family that seriously wants to explore its ownership thinking in economic terms needs to answer three questions about its investment decisions (see Figure 5 below). First, what is the Business' Strategic Potential for long-term value creation? Second, what level of financial investment (reinvestment versus dividends) and human capital (family leadership and governance talent) is required to support the management's business strategy? Third, is the family committed to making the required investments? The model does not specifically address psychological or emotional motivations for family business decisions because it is intended to link investment with management's strategic business planning. This does not mean these other factors are unimportant but rather that they should be considered after the economics of the investment are objectively assessed. Some shareholders may choose to follow the Cargill example discussed later in this article and pursue a stock buy-back to liquidate their holdings.

Figure 5: Strategic Alignment of Business Potential and Family Investment



Family investment or disinvestment decisions are difficult because they impact on so many family concerns: individual life styles, wealth creation and protection, the family legacy and the family's psychological ownership. The owners' decision about how much of the firm's profits should be reinvested versus paid out to shareholders is the point at which a business strategy moves from planning to implementation. The investment level and dividend policy is not a one-time discussion but rather an ongoing dialogue among the owners, board and management. Most firms find it is prudent to keep a relatively low dividend or payout rate so that cuts are not required for special investments or during tough economic times. The board can always increase the dividend if there are strong results or if the business does not need the capital.

The Family Business Investment Matrix is a framework (see Figure 6 below) to support discussion and planning so that thinking and the exchange of ideas can occur. The Family Business Investment Matrix does not recommend an investment decision but rather operationalizes the decision using different performance and investment criteria. It is a tool to help families engage in a meaningful discussion about how their vision and shared commitment are expressed by their financial investment. The owners still have all the options; they can choose to sell a strong business or keep a weak business for non-financial reasons.

Many families maintain brands or divisions of the family business for legacy reasons. What is important is that the process encourages communication among the owners about how their investment impacts the family's wealth, business stewardship and family relationships.

Figure 6: Family Business Investment Matrix (FBIM)

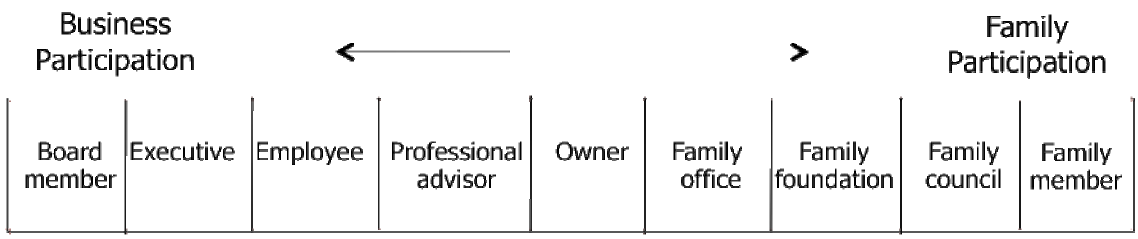
A Business Strategic Potential	**B** Family Commitment	**C** % of Funds Reinvested	**D** % Dividend Rate
Strong	Invest	60-100%	0-40%
Medium	Hold	40-60%	40-60%
Medium	Harvest	10-40%	60-90%
Weak	Sell	0	100%

The Bancroft case demonstrates how the Family Business Investment Matrix could have provided a more rigorous decision-making approach to business strategy and investment decisions. Even the *Wall Street Journal* reported on the family's lack of an ownership direction and internal conflicts: "The dissension was quashed 20 years ago and again the late 90s, but this time it could not be ignored, as even older members of the family had developed doubts about the company's performance." Some of the Bancroft family members realized the need either to sell the business or to support and fund a reformulation of the business strategy into new markets like financial information. The lack of family consensus on investment and ownership resulted in the business being sold for less than its value 10 years earlier to a competitor, despite the family's distaste for his journalistic and commercial practices.

Human Capital Investment

A committed business family also needs to consider its investment of human capital. This second form of investment, especially through active ownership and capable leadership, represents the family members’ personal commitment to supporting the family business (see Figure 7 below). When qualified family members serve the business as executives or board members or the family as active owners or family council members, it strengthens the business’ ability to act and to mobilize its stakeholders around critical decisions and actions. As the Wates case demonstrates, a family cannot guarantee next-generation family participation but it can develop family talent and create a climate where family service and stewardship are reinforced by the family’s values. The family can also formulate plans to support the development of experienced family and non-family candidates for executive, director or advisor roles in order to represent the family’s ownership interests.

Figure 7: Family Leadership, Governance and Ownership Roles



A critical factor in the family’s participation in ownership and leadership roles is ensuring that qualified members are selected and that they perform on the job. This is where family agreements play an important role in mediating disputes over how family members are selected for family and business roles. It is important to have clear criteria and a well-communicated nomination process that are applied consistently to avoid damaging conflicts between family members. The next section on governance is closely related to the idea of ensuring family performance. Effective family-governance and business-governance mechanisms can prevent family members from claiming roles they are not prepared for or from continuing in roles where they are not performing.

Family and Business Governance

Business boards encourage planning, decision-making and accountability in addressing the firm's social, legal and economic tasks. Business families have the same challenges with the added complication of emotions. The board's strategic role is to govern by supporting the creation of sound business strategies, monitoring the business' performance and ensuring that the business has capable leadership. In the founder (G1) and sibling (G2) phases the business board also provides *de facto* governance for the family because of the strong overlap between the two systems. As the family grows and the siblings (G2) begin to think about succession and the involvement of the third generation, the need for separate family and business governance activities becomes evident. The informal discussions at work and the shared authority for decisions need to be replaced with structures like regular family meetings or a family council and written family agreements. Also, as the business grows and professionalizes, informal family governance is no longer effective for planning and decision-making with highly trained executives and a strong board of directors.

Family governance is a much more complex topic than business governance because the structures and processes required depend on the family's characteristics and shared experiences. A second-generation business owned by two siblings who both work in the firm requires much less family governance than a fourth-generation firm comprised of multiple generations and branches. It is not so much a matter of creating family governance as formalizing what already exists. "Family meetings" are a part of everyday life in founder and second-generation firms with informal meetings occurring whenever family members are together for meals, holidays or even at religious events. As one INSEAD MBA and next-generation member shared, "I can't remember a meal or family gathering where business was not discussed." As the family grows in size and complexity (geography, branches, ownership, etc.) this informal communication needs to be replaced with planned family meetings or, if the family is larger, a family council. The family council is created when the family grows too large or geographically dispersed for members to meet together easily on a regular basis.

A family meeting (or council) serves as a board for the family but instead of focusing on business issues it works to maintain effective family relationships by improving communications, providing a forum for planning and decision-making and improving family accountability. The family meeting, just like a board meeting, is about developing plans and taking decisions to address family concerns created by the family's business ownership.

Topics for family meetings can include family values and vision, family policies and agreements, management succession, philanthropy, ownership education, dividend and investment decisions, the election of family directors or any other topic important to the family's functioning and/or relationship to the business. In very large families there may also be a separate owners' assembly that specifically addresses ownership concerns and relationships with the business.

When a Family Lacks Effective Governance

The lack of effective family governance can have devastating effects on a family business when unresolved conflicts spiral out of control. The McNeely family experience demonstrates the consequences of weak family- and business-governance structures. Space Center Enterprises was a family business founded in 1916 by Harry McNeely, Sr. and later managed by his two sons, Donald and Harry, Jr., who joined in 1937 and 1949 respectively. After the brothers had successfully managed the business for many years, however, the existence of Space Center was threatened, not by any economic or competitive forces but by a family discord that pitted the two brothers against their two sisters, who were minority owners.

Consequences to the family and business were disastrous. After losing a bitter court battle the brothers were forced to split off some of the company's holdings to pay the court judgment in favor of their sisters. The courtroom drama convinced Don, the oldest brother, that he never wanted the family involved again, whereas Harry, Jr. still believed in the advantages of family ownership. These differences over the future vision resulted in the remaining family firm being again restructured into two separate holding companies, each led and owned by one of the brothers.

Harry, Jr. determined that the second split was his opportunity to recreate a family business that reflected family values of fairness, professionalism, social responsibility and family commitment. His first step was recruiting a group of experienced outside executives to sit on a new board of directors and to support his goal of rebuilding the family business. He also determined that the majority of the board members would be outsiders and that each of the next-generation family members would serve a one-year term to learn about governance firsthand. He also began to educate his children to be effective owners, directors and possibly directors by sending them to family business leadership programs at a well-respected business school.

Harry Jr.'s experience with his brother and sisters helped him realize the importance of communication and of using family and business governance as tools for making decisions that support both business performance and family unity. When his oldest son, Paddy, returned to Space Center, ready to take on top-level operational responsibilities after working outside the company for ten years, it was the board of directors, supported by family meetings that crafted a succession plan and clarified his role. As the issue of ownership transitions to the next generation unfolded Harry again relied on his board and family meetings to make plans and decisions that satisfied the needs of the family, business and other stakeholders.

The McNeely family will always share the heartbreak of an unresolved family business conflict (Don never again spoke to his sisters) and a prolonged legal dispute. The positive aspect for this family is the resulting deep appreciation of governance activities in helping a family work together. Beyond rebuilding their business, Harry has also united the cousins from all of the family branches, including those that that sued, to serve on the board of the family foundation. The interaction of sound governance and a core family value about working together has enabled the third generation to continue their grandparents' legacy of service to others through philanthropy.

Family Ownership as a Competitive Advantage

Research shows that family businesses financially outperform their widely traded peers and we believe that this competitive advantage can be attributed to effective family ownership values and specifically family commitment. Identifiable owners, who share values and a vision for the business and family, can serve as the social glue to unite the employees, management and stakeholders. This shared sense of purpose is something that is missing in most organizations today. The family's commitment to participating and providing financial investment creates a platform for the employees and management to strengthen their long-term commitment. The advantage of well-defined values backed up by focused behavior is clearly being demonstrated during current economic difficulties by many family businesses.

The performance of family firms in the banking and automotive industries, the hardest hit by the recent financial crisis, clearly shows the advantages of family ownership and influence. While many banks struggle to recover from risky investments and poor decisions, and the largest publicly traded automakers enter bankruptcy and reorganization, family firms in both industries are steadily moving their organizations into stronger competitive positions. It is no coincidence that few family-owned banks are in trouble. Why have the family-controlled banks, including Banco Santander, Julius Baer Group, C. Hoare & Co., Pictet & Cie and Lombard Odier Darier Hentsch & Cie, not faced serious losses? The main reason is their commitment to a set of values around long-term performance and value creation. Their strong business cultures supported organizations where employees, management, directors and owners all focused on building their clients' long-term wealth rather than short-term profits and bonuses for themselves.

The same observation can be made in the auto industry, where despite devastating sales conditions across the industry BMW, Fiat, Peugeot, Porsche, Tata Motors, Toyota and Volkswagen are positioning their companies for the future. These firms are long-term players with strong family leadership and ownership looking at new strategies to consolidate the industry and strengthen their financial and competitive positions. The difference between the widely traded and family-controlled car firms is identified as family leaders and owners who are planning for the future by investing their financial and human capital. They are working to create exciting organizations and innovative products that are technologically and emotionally rewarding to build and own, thereby delivering value to their customers, employees, stakeholders and owners.

When Family Businesses are Best

Families are about people and businesses are about money, so conflict between the two is inevitable. A Parallel Planning Process helps business families become what we call *professionally emotional.* One of the best examples of this focus on professionalizing emotions is one of the world's largest family-controlled firms, Cargill. The Cargills and their in-laws, the MacMillans, have successfully owned the world's largest agribusiness company for over 150 years despite a family history filled with conflicts and recriminations. The business was founded and controlled by the Cargill family until the early 1900s when a son-in-law from the MacMillan family became the CEO and his family the majority shareholder. This difficult ownership transition, to an in-law, and the subsequent loss of the Cargills' control generated strong resentment between the two families. Many Cargill family members believed that their business had been "stolen" from them, while the MacMillans felt unappreciated despite having "saved" the business from financial ruin.

The resulting animosity between the two families did serve one useful purpose; it focused both families' attention on building a shared vision based on their core values of entrepreneurship, fair play and a commitment to long-term family ownership. Early on, the families began planning to ensure that the business was protected from family strife and that professional management roles were earned based on qualification and performance. Family members competed with non-family executives for promotions and often the non-family members won. A global growth strategy, based on low dividends and high investment, was implemented. Cargill invested in a state-of-the-art communications system and was an early user of computers giving it a significant competitive advantage when agriculture markets crashed or economic trends were bad.

The link between the business' strategy and sound planning for the family was evident in other activities: the family education programs; the five board seats reserved for family directors (with five for independents and five for management); regular family meetings; the family investment office; and a strong family council. The link between Cargill's business and ownership strategy was completely blurred when management and the family organized a stock buy back to purchase the shares of family members who no longer felt a commitment to the business and wanted to exit as owners. The stock was then sold to an employee ownership trust making Cargill's employees the single largest voting block—not a bad way to build employee commitment. The Parallel Planning Processes at Cargill meant that, despite inter-family conflicts, the business was protected from family interference and was able to perform effectively.

The 21st century is a new era of global opportunity for human creativity, particularly for family businesses around the world. Family-owned businesses have a competitive advantage when they align values, vision, strategy, investment and governance to make both family and business activities more professional and mutually supportive. We know that our advice to use planning to "treat the family like a business" may appear counter-intuitive but our experience shows that professionalizing family interactions supports harmony, trust and stronger relationships. We also believe that "treating the business like a family," driven by values and concern for human needs, creates an organization with motivated people working together to create long-term value.

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