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## Family-controlled companies present unique blend of potential risks, benefits

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None of the analysts who follow Anheuser-Busch Cos. Inc. was surprised when the brewer named August Busch IV as its CEO last week. After all, members of four previous generations of the Busch family have each had a turn leading the company, all the way back to Adolphus Busch in 1880.

Still, some on Wall Street quickly let it be known that the new CEO needs more than a familiar name to win its confidence.

"Mr. Busch now has the center stage for himself but it remains to be seen if this is indeed his company and if he has the will and the full support of the board to move The King of Beers in the bold new direction it must go to deliver for shareholders," Bear Stearns analysts wrote in a note to investors last Wednesday.

Despite Busch IV's heritage and a long resume that began with a job as an apprentice brewer 21 years ago, the powers-that-be of the investment community have a sort of love-hate relationship with public companies that are, to some extent, still family businesses.

The ascent of Busch IV came just three weeks after Bill Ford, the great-grandson of Henry Ford, stepped down from the top job at Ford Motor Co. After five years of trying to turn the struggling automaker around, Bill Ford determined that his family's business needed more leadership than he could offer.

It also comes as another family-run public company, the cable TV operator Adelphia Communications Inc., is liquidating under bankruptcy protection following the conviction of its founder, John Rigas, and one of his sons for looting the company and hiding more than \$2 billion in company debt.

Besides such outright fraud, there are other risks inherit with family-controlled companies, experts say, including nepotism, family feuds and disregard for independent directors and minor shareholders.

Family-controlled businesses can also be perceived as sleepy and self protective, thereby less adept at changing and growing with the times, according to Joseph H. Astrachan, editor of the academic journal Family Business Review and director of the Cox Family Enterprise Center at **Kennesaw State University** in Georgia. As a result, Astrachan suspects, the stocks of many companies controlled by families are discounted compared with peers that are not family controlled.

But research shows that this bias may provide buying opportunities, Astrachan said, especially for investors looking for buy-and-hold stocks rather than quick profits.

The return on assets of family businesses among the Standard & Poor's 500 is 6.6 percent greater than those of non-family businesses, while another measure of performance known as economic value added which looks at profits minus a charge for the consumption of capital is 5.5 percent greater when founding families maintain an ownership stake, according to a 2004 study by Ronald C. Anderson of American University and David M. Reeb of Temple University.

The same study, which culled data from three separate research papers, showed that family companies in the S&P 500 have

lower costs for debt and pay their CEOs on average 10 percent less than their non-family counterparts. And the best performing group, the study said, was companies with CEOs who are members of the founding family.

"I'd consider it, in general, to be a plus if the company's being operated ethically," said James McRitchie, publisher of CorpGov.net, a corporate governance Web site. "If you're a family member who plans to keep the company in your family for a long time to come, and your heirs are going to be living off that income as well, you're looking at the long term."

When it comes to Annheuser-Busch, the challenge for the new 42-year-old leader will be balancing more than a century-and-a-half of corporate and family history with the changes the brewer needs to make to address a slowing U.S. beer market as many young drinkers turn to microbrews, imports and liquor instead of Bud and the company's other beers.

"Perhaps having a younger generation at the head of the company will accelerate plans to expand into other areas, including spirits," wrote Prudential Equity Group analysts.

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