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FEBRUARY 13, 2006

SPECIAL REPORT -- FAMILY OWNED BUSINESS

By Stacy Perman

Taking the Pulse of Family Business

From behemoths such as Ford to mom-and-pop shops, they share a set of common challenges in today's business climate



Family-owned businesses continue to form the backbone of the American economy. Consider the following statistics reported by the University of Southern Maine's Institute for Family-Owned Business: Some 35% of Fortune 500 companies are family-controlled. Family businesses account for 50% of U.S. gross domestic product. They generate 60% of the country's employment and 78% of all new job creation.

Indeed, some of the world's largest corporations, from Wal-Mart ([WMT](#)) to News Corp. ([NWS](#)) to Ford Motor ([F](#)) are family businesses. And regardless of size, all family businesses face significant challenges of continuity, longevity, and ultimately success.

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Generally speaking, the failure rate for all private businesses is high. According to the Small Business Administration's Office of Advocacy, 580,900 new businesses were launched in 2004, the most recent date available for data, while 576,200 closed. Given that only one in three family businesses succeeds in making it from the first to the second generation, it's clear they have their own inherent risks.

Each succeeding generation has its own ideas about taking the company forward -- or if, indeed, it wants to join the family business at all. Successful transition has always been crucial to the continued success of family businesses -- and the next 10 years will see a major increase in the number of companies facing that hurdle, as more baby boomers begin to retire.

"GREED FACTOR." Accordingly, the question arises as to whether and how boomers will pass the baton along to their children. The issue is fast becoming a critical one. The challenges to longevity are substantial.

For starters, many of the concepts that have been traditionally associated with family businesses have eroded and new sources of potential conflicts have arisen, as have new opportunities and challenges. Compared with 10 or 20 years ago, the sense of duty and obligation to join the family business has weakened, while the sense of entitlement has grown.

"There's always a decent greed factor out there, whether it's between father and son or between established business executives," says Tom Holly, a tax partner with PricewaterhouseCoopers' Private Company Services practice, who works with a number of family-owned businesses. "But I think there's a substantial entitlement discrepancy between the first and second generations." At the same time, Holly says: "I'm not seeing the second generation as actively involved in the business as they were 15 to 20 years ago."

BURGER FLIP. When internal conflicts spill out into the public, it exposes just how important formal succession plans are for the future of a company. Last year, when Lachlan Murdoch, the son of News Corp. CEO Rupert Murdoch, resigned from the post of deputy chief operating officer of the family media empire he was expected one day to run, speculation ran rampant. Was this the result of a feud between father and son over strategy? Did it concern the elder Murdoch's unwillingness to cede more of his authority? Both remain open questions for the company.

Similarly, in January, a series of lawsuits between family-owned In-N-Out Burger and one of its executives, who is also a board member, gave rise to claims of a potential internal power struggle over the 58-year-old California-based burger chain. Esther Snyder, the 86-year-old matriarch, remains president, but the company's only living blood heir is her 23-year-old granddaughter, leaving many questions about how and who will ultimately run this fiercely private, family-run firm.

Another trend that has been unfolding over time is that increasingly daughters and granddaughters are taking over the family business. Three years ago, MassMutual Financial Group and the Raymond Institute American Family Business Survey released a report that found that woman-owned family businesses have increased by 37% in the last five years.

DAUGHTER POWER. According to the study, these are substantial businesses with \$26.9 million in average annual revenues, with some reporting \$1 billion in sales. Moreover, the report also stated that women-owned businesses were more likely to focus on succession planning, have a 40% lower rate of family-member attrition, tend to be more fiscally conservative, and carry less debt than male-owned businesses.

"In many cases," says William O'Hara, founder and director of the Institute for Family Enterprise at Bryant College in Smithfield, R.I., and author of *Centuries of Success*, "daughters get along with their fathers better than sons do. There isn't that male competitiveness in those relationships, and more are coming into the forefront." Moreover, O'Hara says that in researching his book, which examines family

businesses around the world that have survived 200 years or more, he found that "in cases where families allowed women to provide leadership, they saved the family business."

Going forward, every challenge also creates an opportunity. The hurdles posed in the past over succession have, according to industry watchers, pushed more and more families to bring in outside experts and begin the process of implementing formal plans and infrastructures. Indeed, a proliferation of family-business institutions -- many tied to business schools -- have emerged all over the country. And while generational differences in values may introduce friction, according to O'Hara they also offer a spur to change, which can be positive.

NEW GOALS. "There's a contrast of value systems playing out," O'Hara says. "But it's also a [sign] that society isn't as wedded to the traditions as they were years ago. We're a more explosive society in terms of what can be done. A lot of young people are using that to their advantage [in terms of] what can be accomplished. There aren't necessarily the same limits. They aren't confined to doing just what dad or uncle did 20 to 30 years ago."

The critical factors and issues facing family businesses will be the focus of this multi-part special report to be rolled out over the next four days on BusinessWeek Online. The first part will spotlight some of the oldest, continually run family-owned businesses in America. Parts two and three take a look at transition, first from the perspective of boomers who are preparing to let go of the business, and then from that of the younger generations getting ready to take over. Finally, part four will consider the various options available to families that decide it's time to exit the business.

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