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Lessons in Competitive Advantage for Families

A popular work in the field of Family Business is Miller and Miller's *Managing for the Long Run—Lessons in Competitive Advantage from Great Family Businesses* (2005). This book attempts to explain why certain family-controlled businesses—firms such as Wal-Mart, S.C. Johnson, Bechtel, Cargill, etc.—have continued to out-perform their peers over many years. The catalyst for this study was that the 10-year survival rate for the family businesses included in Collins' classic study, Built to Last, was much higher than that of non-family businesses so profiled (3X better). Why was this so? What differentiates highly successful family businesses from their non-family peers?

What comes through loud and clear in Millers' work is that there are many high performing family businesses in this country and even more in Europe and Asia. That is not to say that family businesses are always better than their non-family peers… the failure rate of family businesses is very high. Less than 20% of family businesses survive until the 3rd generation. There is also significant evidence that the financial performance of even the best performing family businesses diminishes considerably once the founder/entrepreneur steps aside or is no longer in a leadership position. Nevertheless, lessons can be learned from these iconic, family controlled and led enterprises.

From a financial point of view, successful family businesses share a number of characteristics. They tend to be in slower growth industries, such as retailing and distribution, and in less capital-intensive industries. They typically have lower debt levels than their non-family owned peers and less interest in growth by acquisitions. They are more focused on long-term financial performance and not on quarter to quarter changes. In many cases, the level of profitability is not their highest priority—success is more likely defined as being in business for the long term AND staying controlled by the family.

Families, of course, have similar motivations for long-term survival and success. Just as is the case of a family business, a family has to do a lot of things right to maintain their financial stature over multiple generations. Hard work, personal responsibility and financial discipline are all important. Taking less financial risk and avoiding excess leverage are certainly on the family to-do list. Also on that list are effective risk management, tax planning and a sound approach to investment management, among other things. Miller and Miller refer to these as "hygiene issues"—businesses and families must get these right or they don't stand a chance of multi-gen survival.

Perhaps most interesting are the "strategic" challenges that family businesses must tackle—things such as succession, leadership and vision. As in any business, these are all important—but to do it successfully in the context of a family is all the more difficult. Miller and Miller identify some unique aspects of family businesses that seem to give their owners a competitive advantage in this area. They are referred to as the "four C's". They are the attributes of Command, Continuity, Connection and Community. They are what makes many families the respected and resilient social organizations they are and give them competitive edge.

Command refers to the natural hierarchy of a family. Parents have authority over their children and,

among children, seniority by birth is the predominant order. There is also the innate resiliency of a families and what could be called the "interchangeability" of the parts. In crisis or subject to a challenge, a family is a very effective and responsive social organization—roles can be switched instinctively, and very informal communications are often sufficient. Formal communication may not be required at all to get a point across or for a call to action. Everyone simply knows what to do under the circumstances.

Continuity refers to the seamless and often effortless way families transform over time. Whether it is parent to child to grandchild or cousin to cousin, there is a natural progression and evolution of leadership and responsibility. Over time, the people may change but the roles and the general way they are performed have consistency and reliability. Dropping the ball or otherwise not executing is highly unusual. In each generation, there is always a leader.

Connectivity refers to the way families interact with non-family members. If you know one family member, you know them all. If you do work with one family member, you are working with all of them. We feel connected with a particular family through a relationship with just one of its members. It is a two-way street…if you are a friend of my sister or brother, we are all friends. It is not surprising that family businesses prefer to work with other family businesses.

Community reflects the external connections families are known for. The family is a member of a larger community. You have a family reputation and status. What you do (or don't) reflects on the reputation of your family in the community. Family businesses tend to be good community citizens. It is not just the right thing to do but reflects well on the family's reputation in the broader community. This may give the family business a sense of purpose that is often lacking in other firms.

It is easy to see how the four C's contribute to the success of a family business. These characteristics are a competitive advantage for families generally and can be critical to multi-generational survival.

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