Promoting Strategic Growth
It’s about . . .

• Looking at current competitive context
• Regenerating and ensuring continued competitive fitness of the business
• Giving the next generation the opportunity to be entrepreneurs
• Improving the odds that the business will continue into future generations
Don’t Forget . . .

- Creating value for customers is primary objective of any company
- Creating customer value results in healthy profit margins and cash flows . . .
- Leading to increase in value for shareholders
Characteristics of Today’s Economy

- Hypercompetition
- Increasing “commoditization”
- Rapidly changing technology
- Rapidly changing supply chains
- Shorter product life cycles
- Need for new products/services
- Need for new growth opportunities
- Declining profit margins
- Declining or plateauing sales
- Next generation that doesn’t want the responsibility of running the company or innovating
Zero-Sum Games

- Zero-sum dynamic exists when there is no business growth
- When the pie is not growing, family members fight over size of their slices
- Zero-sum dynamic is precursor to business failure and family disharmony
- Strategic planning can be way out because it stresses growth
Sources of Value

- Financial resources
- Physical assets
- Value of product, price, and performance
- Brand equity
- Organizational capabilities
- Customer–supplier integration
- Family–business relationship
Unique Business Model

• Sources of value combine to create unique business model
• Unique business model rooted in core competencies of business
• Unique business model creates value for both owners and customers
Financial Resources

• Financial resources of public companies generally much greater than those of family businesses
• Financial constraints are barrier to growth of family businesses
• Financial resources not likely to be a source of value for unique business model
Has Your Business Ever Obtained / Is Your Business Currently Seeking Any Private Equity Investment?

- No: 88.50%
- Yes: 4.50%
- We are seeking at the moment / We might seek in the future: 2.20%
- Prefer not to answer: 4.60%
Physical Assets

• Seldom major contributors to value creation
• Consider sales to physical assets ratios; examples:
  – Microsoft
  – U.S. Steel
• Physical assets have unfortunate ability to become liabilities
Product Price and Performance

- Product is superior to competitors in terms of price and/or performance
- These sources of value often associated with technology firms, but may also be created in low-tech environments
- Example:
  - Honey-Baked Hams
Brand Equity

• Well-known source of value for family-controlled companies
• Products or services have edge over offerings of other firms even where product is not inherently superior
• Examples:
  – Levi-Strauss, Ralph Lauren
  – The Washington Post
  – Marriott, Anheuser-Busch
Organizational Capabilities

• Organization has skills that set it off from competitors in terms of
  – Internal integration
  – Flexibility and responsiveness
  – Quality of service
  – Speed to market
  – Integration with customers, suppliers, allies
Customer–Supplier Integration

• Traditional distribution systems modified to distribute products to customers in ways that benefit the customer
• Digitally enabled distribution enhances
  – Speed
  – Trackability
  – Customization
  – Convenience
Family–Business Relationship

- Interaction between business and family can be source of value
- The more unified the family, the more effective are management and governance
- Meetings, retreats, and councils foster family unity and pay off for the family business
- Steps taken to promote family unity make strategic planning more likely
Customer-Oriented Company

- Any time, any place, any way
- Relies on core competencies translated into competitive advantage
- Importance of customer perspective on products/services
- Strategic planning required from generation to generation because customer needs constantly changing
Turning Core Competencies into Competitive Advantages

- Low performance
  - Unimportant to customer
    - Stop production
  - Important to customer
    - Pull resources out
- High performance
  - Important to customer
    - Turn core competencies into value drivers
  - Unimportant to customer
    - Pour resources in, to change/improve
Stages of Business Development

Vision

Start-Up → Growth → Maturity → Regeneration

Decline
Inherent Competitive Advantages

• Speed to market
• Flexibility in response to customers and competition
• Strategic focus
• Concentrated ownership structure
• Lower overall costs
• Quality of product/service
• Capacity for customization
Governance

- Can be provided for through classes of voting and nonvoting stock
- Can be enhanced by contributions from
  - Boards of directors/advisory boards
  - Family councils/assemblies
  - Annual shareholders’ meetings
  - Top management teams
- Can provide essential help in governing family–owner–management relationship
The Critical Role of Nonfamily Managers
Nonfamily Managers . . .

• Provide critical skills to the business
• Establish benchmarks for managerial performance
• Help govern relationship between family and management
• Are essential to health and continuity of family-owned businesses
Nonfamily CEO When. . .

• There are no qualified successors
• Potential successors need training from interim manager
  – Nonfamily manager can be both bridging president and mentor of next generation
  – May sometimes serve as bridge across entire generation of owners
• Family can’t agree on succession
• Business needs a dramatic change
Value of Other Nonfamily Managers

• Entrepreneurs often poor trainers of successors
• They bring unique and complementary skills to firm management
• Children may lack dedication and commitment to business
• Sibling rivalries lead to power struggles
• Founder/CEO can’t choose between children
Other Nonfamily Managers, continued

• Create a benchmark for merit-based compensation
• Co-CEOs, management by committee of family members may lead to paralysis
• Family successors may not be trusted by nonfamily employees or other family members
Perspective of Nonfamily Managers

• Nonfamily managers tend to regard their firms positively
• Perceptions of business differ from those of family members in areas of
  – Management and governance
  – Capacity of firm for innovation and change
  – Qualifications of potential successors
  – Their own positions in company
Compensation Issues

• Nonfamily managers less satisfied than family managers with compensation and benefits
• Nonfamily managers generally paid less than counterparts in public corporations
• Other issues include benefits, inflexibility, and lack of career opportunities
• Drawbacks may be offset by rewards and advantages of working in family business
The Future
Can the Family Business Compete and Thrive?
Importance of Agility

• Family businesses use agility to respond rapidly to changing business needs
• Next-generation leaders often sensitive to need for quick action toward change
• Other competitive advantages allow family businesses to rejuvenate themselves
Business Rejuvenation Matrix

100%

Degree of Innovation

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Degree of Customer Focus

- Dot-Coms
- Enterprising Businesses
- Mature Declining Or Cash-Cow Businesses
- Business Reinventors
Value Creation and Next Generation

- Next generation more likely to accept new technologies that create value
- Complementary skills and perspectives often help older businesses update or create new sources of value
- Difference in vision across generations can cause tension
- Good leader recognizes need for change to maintain competitiveness
Competition and the Value Chain

• Competition encourages firms to create new links in value chain

• Digital strategies create customer value by
  – Reducing costs
  – Providing differentiation and customization
  – Improving delivery times

• Digital strategies also increase inventory turnover and enhance return on capital
Organic Competencies of Family Companies

- Organizational capabilities: people, skills, systems
- Customer–supplier integration: relationships and systems
- Product/service price and performance
- Brand equity: reputation
- Concentrated ownership structure
- Family unity and business opportunity
Interpreneurship

• Interpreneurship: intergenerational entrepreneurial activity
  – Keeps family company young
  – Provides entrepreneurial opportunities for next generation

• Intergenerational growth improves odds of continuity

• Growth without unique strategy should be avoided
Global Opportunities

• Family companies often reluctant to go global because of
  – Conservative approach to fiscal management
  – Propensity for risk avoidance
  – Large size of domestic markets

• Companies minimize risk by making alliances with foreign family companies
Positive-Sum Dynamics

• Next-generation members can help adapt business to new competitive conditions
• Family unity leads to use of proper managerial and governance practices and perception of growth opportunities
• Continued growth avoids zero-sum dynamics