



## Good Business Runs in the Family

*Family-owned businesses thrive, but face tough decisions.*

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WASHINGTON — With so much news about struggling, large multinational corporations, it's easy to overlook the fact that America's small businesses are thriving.

More than 90 percent of all businesses in the United States are family-owned, and almost 35 percent of all Fortune 500 companies are family-controlled, according to a University of North Carolina study.

The Fortune 500 list, published annually by Fortune Magazine, ranks the largest 500 corporations in the United States by five factors: market value, sales revenue, net earnings, assets, and the number of employees.

Although some large, family-owned businesses have issued shares to become public, many descendants of the founders of Fortune 500 companies still hold the majority of the stock in companies such as Wal-Mart Stores Inc., Ford Motor Co., and Anheuser-Busch Companies Inc.

The Institute for Family-Owned Businesses, a division of the University of Southern Maine, published a list of the 100 largest family-owned businesses in the United States. On top of the list is Wal-Mart, followed by Ford, agriculture distributor Cargill Inc., insurer American International Group Inc., holdings company Koch Industries Inc., and semiconductor manufacturer Motorola Inc.

Only around 30 percent of all family-owned firms survive the first generation, and only 3 percent are in business into the fourth generation. Yet, close to 80 percent of working Americans are employed by a family-owned business.

### **The Lure of Buyouts**

Descendants of family-business owners are caving in to the lure of lucrative buyout offers. And offers to acquire family-owned businesses are on the increase, whether from a foreign company trying to gain a foothold in the American market, a large company



trying to absorb a pesky competitor, a firm on the lookout to acquire new technology, or a private equity fund awash in cash.

Bucher Industries AG, a 200-year-old Swiss manufacturer of industrial machinery, acquired Michigan-based Monarch Hydraulics Inc., founded in 1856, during December 2007. The Jackoboice family, who owned Monarch—Michigan's oldest hydraulic power pack manufacturing company—did not disclose how much money they received for their company.

As with many foreign companies, Bucher found it easier to break into the North American market through acquisition, instead of footing the bill for an extensive marketing blitz.

"We were impressed with Bucher's philosophy, products, and personnel," said Tom Jackoboice, president of Monarch Holdings Inc. in a recent press release about the sale of his company. "Monarch's manufacturing expertise, rapid delivery, and customer focus provide a ready platform for Bucher Hydraulics to expand upon, especially in North America."

Descendants of F.W. Henninger and Andrew McSwigan, the founders of 101-year-old Kennywood Entertainment of Pittsburgh, Pa., recently sold the amusement park to Parques Eunidos, a Spain-based amusement park operator backed by a British private equity firm, for an undisclosed amount rumored to be well over \$150 million.

"This has been a very difficult decision for members of the founding families, now numbering over 100 and residing all over the country," said Harry Henninger, chairman of Kennywood Entertainment, in a press release.

Private equity fund Blackstone Group acquired Hilton Hotels Corporation, established by Conrad Hilton in 1919, in mid-2007 for around \$26 billion in cash. The sale was completed in October.

### **Question of Succession**

Children of business owners eventually face a dilemma—to join or not to join the family business. The issue deepens when the family business has been around for a few generations and succession now includes different branches of the family. Family battles, disagreements, and enmity can doom a business—and a family—unless succession is well planned in advance.



"Family businesses have strong cultures and are less likely to be driven by short-term profits, traits that can make change difficult. Likewise, the emotional ties among family members can enrich the business experience—or complicate it," suggested a 2006 Stanford Business Magazine article, "The Decision Tree of Family Business."

Stanford Graduate School of Business MBA students whose families have their own businesses discussed their frustrations and hopes with their professors.

Brendan Bechtel, class of 2007, is the son of Riley Bechtel, CEO of Bechtel Corp., and decided to work for the family business after graduation. He was certain about his choice once he realized that Bechtel also served the interests of environmentalists. He said that Bechtel has proven "a corporate legacy of best-in-class environmental stewardship."

Austin Ramirez, class of 2006, told Stanford professors before taking on a position at his father's company, HUSCO International Inc., that his greatest worry was that others would see him as the CEO's son and discredit his contribution to the company.

"It's hard to go back to something and feel like your success is contingent partly on your last name instead of your abilities," said Ramirez in the article.

### **Think Outside the Family**

Often, hiring non-family members is a good strategy to ensure the survival of a family-owned business, instead of turning the company over to the oldest son, according to a report titled, "Who Should and Shouldn't Run the Family Business," published by McKinsey & Co.

"Any company that considers no one else for the top job automatically excludes better potential candidates in the talent pool," according to McKinsey.

Individuals who believe that succession is a birthright generally won't put much effort in preparing themselves for the job of taking over the family-owned company. Succession planning should start early and take into account the skills of all family members. If skills cannot be found among family members, one should not hesitate to bring in an outsider to fill the position.

According to the McKinsey article, "Someone who expects to lead a company by birthright may put less effort into acquiring the necessary skills and education than do people who expect to compete for their jobs."