The Enduring Advantage of Family Business

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FORCES OF CHANGE AND DISRUPTION

- Environmental Degradation
- Technological Advances and Digital Disruption
- Socio-Politico-Economic Forces
- Globalization
The world tomorrow will be significantly different from the world today... literally

Singularity University
THE FUTURE OF…

Business and industries
Ownership
Families
Human longevity and development
Leadership
Family offices
Capital sources
Investing
Social impact activities
Education
Wealth and society
FAMILY BUSINESS LONGEVITY
PERFORMANCE DIFFERENCES

Non-Family Business

Family Business

X_{nfb}

X_{fb}

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CONTINUITY OF FAMILY BUSINESSES

- Inadequate response to challenges and industry changes
- Mismanagement
- Unpredictable challenges
- Consumption of needed assets
- Family conflict
- Loss of family interest
- Succession problems
- Sale of the business
HOW WILL FAMILY BUSINESSES FARE?

STRENGTHS

- Long-term approach
- Financial stability
- Loyalty
- Quality focus and innovation
- Community and values approach

WEAKNESSES

- Control focus obsession
- Operator mindset
- Loyalty
- Reluctance to let go
- Prefer slower changes:
  Can you be “slower but better”?
BUSINESSES COME AND GO. BUT THE FAMILIES BEHIND THESE BUSINESSES CAN LAST FOR GENERATIONS.

The FAMILY is the enduring value-creation entity.

John A. Davis
FAMILY (WEALTH) SUSTAINABILITY
THREE-GENERATION RULE

“Shirtsleeves to shirtsleeves in three generations.”

“Pai Rico; Filho Nobre; Neto Pobre”  
(Rich father; noble son; poor grandson)

“Dalle Stalle Alle Stelle Alle Stalle”  
(From the stables to the stars and back to the stables in three generations)

“Padre Bodeguero; Hijo Millionario; Nieto Pordiosero”  
(Father–merchant; son–millionaire; grandson–beggar)

“Fu bu guo san dai”  (Wealth never survives three generations)
FAMILY WEALTH PATHS

- Quick Descent Path
- Three-Generation Rule Path
- Regeneration Path
FAMILY WEALTH PATHS

Three-Generation Rule Path

$
SHIRTSLEEVES PATH: 
THE VANDERBILTS 1810-2013

1ST GENERATION
Founder, Commodore Cornelius Vanderbilt, built a shipping company and left his heirs more wealth than held in the U.S. Treasury.

3RD GENERATION
Scaled railroad business and then sold it. Generations 3-4 characterized by extravagant lifestyle.

2ND GENERATION
His son, Billy Vanderbilt, doubled the family's wealth in 8 years, selling the shipping business and migrating into railroads.
VANDERBILT FAMILY’S WEALTH PATH, 1810-1980

WEALTH IN MILLIONS AS OF 2013 DOLLARS

1810 1817 1830 1853 1862 1877 1883 1885 1900

1st Gen
Cornelius

2nd Gen
Billy

3rd Gen
Billy’s Branch

4th Gen

5th Gen

Gloria & Cooper

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FAMILY WEALTH PATHS

Quick Descent Path
FAMILY WEALTH PATHS

1st Gen 2nd Gen 3rd Gen

$ Regeneration Path

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HARTWALL FAMILY, 1836-2016

1836: G1, Family business founded in bottled water industry

1886: G2, Expansion into soft drinks and later beer

1957-1998: G4, Distribution partnership w/ Coca-Cola

1980: Enter Russian beer market

1989: World’s 5th largest beverage company

1991: Joint venture w/ brewer Pripps

1991: Family Council created

1993: Family strategic plan drafted

1998: Partner w/ Pepsi

2000: Acquired by Heineken, family exits beverage industry

2002: Merge w/ British brewer Scottish & Newcastle

2008: Acquired by Heineken, family exits beverage industry

2009: 50% of sale to individual family owners, 50% to Hartwall Capital

2013: G6, Family reenters beverage business

Erik Hartwall G6 Leader

1991: Family Council created

1993: Family strategic plan drafted

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REGENERATION PATH

HARTWALL FAMILY, 1836-2016

1860s: Soft drinks created

1938: Produce 10 million bottles

1980: Enter Russian beer market with 40% market share

1991: Expand into new markets

2013: Re-enter beverage industry

Heineken sells Hartwall brand to Royal Unibrew (Denmark)

Hartwall Capital buys 9.09% of Unibrew (and buys back Hartwall brand)
SUSTAINING FAMILY SUCCESS REQUIRES THREE KEY INGREDIENTS:

GROWTH of Family Assets

Family and Organization UNITY

Family and Non-Family TALENT

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SUSTAINING FAMILY SUCCESS REQUIRES THREE KEY INGREDIENTS:

- **GROWTH** of Family Assets
- **Family and Organization** UNITY
- **Family and Non-Family** TALENT

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In order to sustain families and family enterprises financially, you need to:

**GROW** family-owned assets at a

**GREATER RATE** than the family and its enterprise

**CONSUME** them
BUSINESS LIFECYCLE

Scaling & Diversification is typical in successful companies.
REINVENTION IS A BOLDER PATH
THE STENBECK FAMILY

Hugo Stenbeck
1st Generation, 1930’s
Forestry & agriculture

Jan Stenbeck
2nd Generation, 1960’s-2000’s
Steel, auto & telecom industry

Cristina Stenbeck
3rd Generation, 2000’s-Now
Entertainment & e-commerce
Disruption

Growth

Industry Lifecycle

Disruption

New Growth Investments

Time
Families need to consider themselves stewards of their assets and values in pursuit of a compelling family mission.

This gives families wide latitude to define their activities in any generation, while still seeing themselves as an enterprising family.
FAMILY SUSTAINABILITY REQUIRES

GROWTH of Family Assets

Family and Organization UNITY

Family and Non-Family TALENT

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KEY ROLES

RESPONSIBLE OWNERS & BENEFICIARIES of the family assets

GOVERNANCE MEMBERS
Members and leaders of the Board of Directors, Family Council, or Owners Council

WEALTH CREATORS
Intrapreneurs
Entrepreneurs
Portfolio Builders

BUSINESS LEADERS
And managers of operating company, holding company, investment company

FAMILY LEADERS & UNIFIERS
Working on the family’s overall strategy & direction
Managing change, conflict and fairness

SOCIAL IMPACT LEADERS
Building better communities
WEALTH CREATION APPROACHES

**INTRAPRENEUR**
Organization Builder
Builds value within existing businesses: scaling and diversifying business

**ENTREPRENEUR**
Organization Founder
Creates new ventures

**PORTFOLIO BUILDER**
Builds direct investment portfolio of operating businesses

- BILL MARRIOTT, JR.
- ALEXANDRE BIRMAN
- JAY PRITZKER
FAMILY SUSTAINABILITY REQUIRES

GROWTH of Family Assets

Family and Organization UNITY

Family and Non-Family TALENT

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UNITED, INDUSTRIOUS CONTRIBUTING FAMILY

LOYAL, CAPABLE OWNERS

CAPABLE, ALIGNED MANAGEMENT AND ORGANIZATION

HIGH PERFORMING, ENDURING COMPANY

FOUNDATIONS OF FAMILY BUSINESS SUCCESS

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1. Have a compelling mission
2. Structure your organization to reflect key interests and needs
3. Consider alliances, JV’s, strategic partners, entrepreneurial businesses
4. Decide, innovate, experiment faster
5. Let go sooner
6. Emphasize talent and development: enterprise, family, advisors
7. Figure out what the family is good at and place family members (with professional standards) in the right roles
8. Partner across generations in the family and in the organization
9. Build family unity to embrace diversity, foster decisiveness, accept constructive conflict, weather adversity
10. Build a strong balance sheet and a “prudent boldness” fund

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NEW FAMILY BUSINESS PROGRAMS, 2018 - 2019

FUTURE FAMILY ENTERPRISE:
SUSTAINING MULTIGENERATIONAL SUCCESS

OCTOBER 7-12, 2018 | CAMBRIDGE, MA

For multigenerational families that have survived beyond the founder stage.

FOUNDER TO FAMILY:
SUCCEEDING THE FOUNDER IN THE FAMILY ENTERPRISE

MARCH 10-15, 2019 | CAMBRIDGE, MA

For families as they encounter the founder-to-second generation transition.

These programs are designed for family teams of 4 or more individuals. No single participants are admitted.

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COMMENTS & QUESTIONS?

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THANK YOU!

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