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## Executive Summary

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In today's typical large public corporation where ownership is often far removed from operations, the guiding philosophy may be summed up as: "Follow the letter of the law, but by all means, maximize profits." Thus, today's publicly traded corporation sometimes sacrifices long-term good for short term gains, with the kind of results that have led to scandals and massive bailouts driving many Americans to Occupy Wall Street gatherings. The good news, family business consultant Greg McCann says, is that family-owned enterprises like Bird Technologies Group have found ways to incorporate concepts like interdependency, community and sustainability into a business management model. He suggests that same kind of thinking could be designed into the large public corporation.

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# Business *Family Style*

The Economic Value of Thinking like a  
Family-Owned Enterprise

**BY GREG MCCANN**

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CATALYST STRATEGIC DESIGN REVIEW focuses on the consequences of design. Our current ways of doing business were designed to allow firms to externalize certain costs. There are costs of doing business that are not paid by the business. Economists call these costs externalities—the cost a business incurs but does not have to pay. But there is a consequence to externalizing costs. For example, externalizing the cost of pollution and large-scale layoffs transfers the ecological and social costs to society. Designing externalities out of their cost of doing business allows companies to ignore the reality of resource interdependence. We all depend on clean air and on economies that create jobs.

## Strategy in Action

### >> *Align*

values to empower management and decentralize decision making

### >> *Acknowledge*

the principle of interdependency

### >> *Connect*

with all stakeholders for an accurate shared-value analysis

### >> *Analyze*

short-term profitability versus long-term risk for the company

### >> *Align*

value with strategy; it nourishes customer loyalty and trust

FAMILY BUSINESSES are not perfect, but they are usually more fully aware of the consequences that their actions have on the communities in which they do business. They are more likely to breathe the same air as their community stakeholders or to encounter laid off employees at a Little League game. So, what can we learn about business design from examining the family enterprise? As we will see, family enterprise is a major creator of economic value.

The national advocacy group, Family Enterprise USA, says family enterprise reflects the country's typical businesses, constituting up to 90% of American companies and about 1/3 of the Fortune 500. Family enterprises employ about half the US workforce, produce about half the Gross National Product (GNP), and will likely generate more than  $\frac{3}{4}$  of the new jobs that will lead us out of this recession. A business is considered a family enterprise when two or more members of a family exercise significant control over it; the term includes both for-profit and nonprofit entities. If managed well, the "family factor," management's commitment to family and the family's commitment to the enterprise, creates a strategic alignment with shareholder value. In this way, family enterprise is designed to emphasize the human element of business.

Of course, not all family businesses are model enterprises, but they are all designed to encourage their leaders to think of a family of stakeholders with long-term interests rather than an anonymous mix of shareholders committed until share price drops. The company is more likely to plan for the long term, use capital more patiently, and to invest in longer term development and retention of employees. Such companies tend to be governed by people with an interest in the long-term viability of the business and who take factors like history and legacy into consideration. When the family's involvement is intentionally considered in the operating design, a family business is likely to incorporate values-based decision making. Family businesses are designed to encourage a focus on how to create economic value within the values framework of the family. The family-owned business model may suggest what is too often missing from the design of the large publicly traded firms—defining the link

between ownership's values, management's decisions and the consequences not only to the company's shareholders, but also to other stakeholders like employees, suppliers and the community over time.

Although some well-managed large publicly traded companies attempt to do this, it seems the inherent structure of these larger firms makes it harder to translate what society values into the goals and metrics of management. Designing externalities out without designing a family stewardship model in does not encourage a balanced approach to creating economic, social and environmental value. It overweighs the creation of economic value.

What if all business was designed to encourage the creation of robust and lasting economic value for an interdependent world in which the human family might be expected to thrive?

### BIRD TECHNOLOGIES GROUP: A FAMILY AFFAIR

Bird Technologies Group ("Bird"), a global supplier of radio frequency products, has been owned by one family for three generations. The company's operating strategy points out some important differences between the structure of a family enterprise and that of the typical large publicly traded firm, and it reinforces something that research suggests—that big business could benefit from incorporating some key elements inherent in the design of family enterprises.

For Bird, it starts with leadership. Bird's owners and directors see the role of the CEO differently from than that of a publicly traded company—their job, as they see it, is not just to reap copious short-term profits, but to preserve a family-owned business so that it will be viable for generations to come. In this case, that includes protecting and integrating the family's key values into business actions. Six years ago, CEO Mark Johnson and an insightful advisor, Keith Vanderburg began an initiative to incorporate the owners' values into the company's business operations. They began to formalize values-driven practices that were already ingrained into company culture.

As a result, along with typical bottom-line profitability objectives, Bird managers were



### Greg McCann

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specifically asked to incorporate three key relationships into their decision making: the relationships with employees (the company calls them associates), the relationships with customers and those with suppliers. They were also asked to focus on innovation, which also became programmed into the corporate objectives. Valuing people and valuing learning was designed in. According to Johnson, "In our view, to be a sustainable business you need to continuously improve not just products and services but business models, processes and customer experiences as well." Ultimately, the goal for Bird Technologies Group is to add customer value and to develop innovations that can range from extensions of products and services, to larger efforts that improve the company's best business practices and operations. Thus, the values held by the family became a new starting point for defining the values for the company. These values are now cornerstones that guide management's decisions, reporting, and assessment of performance. As CEO Mark Johnson described it, "We can operate more effectively knowing what's considered out of bounds and where the goal line is." By including these principles and values in the employee handbook, the company fosters inclusion of its employees. "We want each associate to think they are part of the business—to feel connected to the higher purpose" of what the company is trying to accomplish and how Bird wants to be viewed by customers and other stakeholders. This leads to fewer turf wars and less "silo thinking," Johnson says, since everyone is committed to the big picture.

Contrast that relationship based and interdependency-aware philosophy with Milton Friedman's, or, more recently, that of Albert J. "Chainsaw Al" Dunlap, the business leader famous for his ruthlessness. Dunlap has proudly asserted that management's only job is to follow the law and maximize profits for the shareholders. This perspective ignores the interdependency of the various stakeholders and the shareholders and the importance of relationships over time.

In both family-owned businesses and large publicly traded corporations, ownership is in the hands of shareholders. However, there is a fundamental difference between the design

of a privately-held family business and a large, publicly-traded business. In publicly traded business, company shareholders hold retirement funds and other financial investments, which are focused on risk and rate of return. More often than not, management is required to ensure that quarterly returns on shareholder investment are competitive with the other firms in that industry or the market overall. There is a big flaw in that design. While it may be better for the short-term bottom line, it ignores a

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simple fact—while we may be shareholders in a handful of corporations; we are stakeholders in a much larger number and in a shared world.

The strong link between ownership and management in a family enterprise, especially a private one, means owners can more effectively manifest their values in the operation if those values are made explicit and are designed into the business strategy. Thus management is empowered to act with those values in mind and to report on how it is delivering on these values. The short term is important but sustaining the business over the long term is essential. Short-term profit seeking may actually interfere with long-term viability.

At Bird, management reports to the owners twice each year, not only on its profitability, but also about the company's performance in other areas. So while the company's profit margin is a consideration, management also has to report

on key performance indicators and metrics related to employee turnover, how well the company served its customers, whether its suppliers are paid on time, and how well the company stays on the edge of innovation. Management issues a report detailing how management's business decisions were made in alignment with the family's focus on the values of relationships and innovation.

The metrics acknowledge both the internal and external interdependency of Bird with not only its employees but also with people outside the business. This is not just a feel-good nod toward ethics for PR's sake, Johnson says: "It's good business, even when it may not be immediately felt on the bottom line." Incorporating the family's broader values regarding relationships and innovation into the design of the company not only empowers management and employees to work towards a higher purpose, but it also acknowledges the principle of interdependency, both within the company and between the company and its environment.

## STANDING BY VALUES

Suppose an opportunity to turn a quick buck, or a lot of quick bucks came along. Suppose that opportunity was sure to be highly profitable for family-owned Bird Technologies Group but not in keeping with Bird's values on relationships and innovation. And suppose along with the substantial rewards came potential long-range harmful consequences for Bird's industry and operating environment. In other words, what if this was the electronics industry's answer to the credit default swap? The financial industry seized upon credit default swaps as an opportunity to seize profit. The consequence of that decision has been largely "externalized" to citizens and governments worldwide. Would Bird Technologies Group CEO Mark Johnson turn down an opportunity like that? And if so, would the company's owners back his decision?

"Absolutely," Johnson says. "I'll give you an example. We decided to end a relationship with a customer whose values didn't align with ours. It cost us substantial revenue, which we would need to replace. But we knew the own-

ers would support us." In an economic climate where companies are encouraged to maximize short-term profits regardless of the risk and the potential damage to the operating environment involved, a company like Bird offers a refreshing contrast.

## CATALYZING CHANGE

No design is perfect, few are meant to last forever, and all require implementation consistent with design intent. The publicly traded firm is a great design. It allows for the aggregation of capital from diverse investor groups and enables the use of that capital in ways that limit risks to those investors. We need designs like this to gather and deploy capital especially for large and risky ventures. But most of human endeavor is less large and should arguably be less risky.

In a way, the family of man owns all enterprise activity. We generate it and staff it and take our living and our daily bread from it. The idea that a business model can legitimize decisions that impact the human family and its habitat needs to be re-examined. The consequence of business needs to be internalized into the cost structure and the decision making of all businesses.

Family-owned business, at its best, knows this. Family enterprise is not perfect. It is filled with the dynamic tension that characterizes most families. But, it is one place to look for how to re-imagine an enterprise where values are at the core of strategy and relationships are built for the long run. And, it is a much larger part of our global economic market than we sometimes think when we read the business press.

So, if you are thinking of running your own family business, design it to reflect what you value. Our enterprise is literally what we do in the world -- how we express ourselves. It might be wise to consider what you are reflecting in the design of your business. Many new business forms are emerging--B Corps, social ventures and social businesses among them. But, even within the more traditional models there is much to be learned from family owned enterprise about how to balance a bottom-line orientation with a triple bottom line emphasis on profit, people and planet.

## CATALYST Insight

The Family Business Management Model approach enables a new framework for comprehensive value creation: it widens the scope to appreciate the interdependency of different actors. Therefore, it enables the detection of new profitable and sustainable opportunities for the long term, even multi-generational, without compromising the company's core values.