

Family Business: What Makes It Unique?

Family owned and family-controlled firms account for between 80 and 95 percent of all incorporated businesses in the United States, where approximately 17 million family firms (including sole proprietorships) operate. A full one-third of all *Fortune 500* companies are family-controlled, and about 60 percent of all publicly traded firms remain under family influence. While many family businesses are small, as of 2001 there were 138 billion-dollar family businesses are small, as of 2001 there were 138 billion-dollar family firms in the United States alone, with 19 such firms operating in France, 15 in Germany, 9 each in Italy and Spain, and 5 each in Canada and Japan. In the United States, family firms account for 49 percent of the gross domestic product, 85 percent of private sector employment, and, along with entrepreneurial firms, about 80 percent of all jobs created in the last two decades. Arguably, family businesses are the primary engine of economic growth and vitality not only in the United States but in free economies all over the world. The contributions of family businesses to the United States and world economies are summarized in Exhibit 1-1.

On the downside, approximately 85 percent of all family businesses fail within their first five years of operation. Among those that survive, only 30 percent are successfully transferred to the second generation of the founding family owners. This high failure rate amounts to the squandering of a significant opportunity for job and wealth creation in many communities. Not all family businesses that are not passed down to the next generation go to close their doors, but many do. And the odds get worse in the transition between second and third generations, when only 12 percent of such businesses remain in the same family, seeming to prove true the old adage “from shirtsleeves to shirtsleeves in three generations.”

Today, there is a widespread myth that a company is prehistoric and on the road to extinction unless it is “high tech” or has grown to be very large, diversified multi-national corporation. Ironically, this myth is often promoted by news media that are largely family-controlled; such leading newspapers as the New York Times (the Sulzbergers), the Washington Post (the Grahams), and the Wall Street Journal (the Bancrofts) come to mind. Yet, on the basis of global hypercompetition, many forms of family businesses are thriving. They are the agile, niche-focused, high-quality customer service providers—precisely the profile of so many successful family-controlled businesses. You might be surprised to learn that Smucker’s, Perdue Farms, Gap, Levi Strauss, L.L. Bean, Motorola, Mars, Anheuser-Busch, Hallmark, Fidelity Investments, Timken, Marriott, American Greetings, Ford Motor, Kohler, Nordstrom, SC Johnson, Bigelow, and Wal-Mart are all family-owned or –controlled. And then there are thousands of smaller and less well known, but just as successful, family-owned businesses—companies that build homes and office building, manufacture unique products, and provide custom services; that are the backbone of most supply chains and distribution channels; and that retail much of what consumers buy.

Poza, Ernesto J. Family Business. Mason: South-Western, 2004.