The upsides
Old-fashioned virtues
Patience, distinctiveness, thrift and trust still count

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EVERYTHING ABOUT BERRY BROS. & RUDD'S showroom in St James's Street, London, suggests tradition. The walls are panelled in dark oak. Leather-bound volumes record "the weights of customers of this establishment" from 1765 onwards, sitting alongside a set of weights from a time when the shop sold coffee rather than alcohol. Simon Berry represents the 7th generation of Berrys to run the company, and he looks the part. Sitting in a small office with a roaring fire (gas, alas) and an old-fashioned rotary-dial phone, he talks about the company's Cutty Sark brand of whisky being blended on the table in front of him.

But Mr Berry is not just resting on the company's laurels. He is working hard to expand his family patrimony, particularly in China, where wine-drinking is booming, but also in America. He has a state-of-the-art cellar for 2m bottles in Basingstoke, near London, and another 6.3m bottles at other sites. The neatly dressed shop assistants tap away on computers kept discreetly out of sight. They have all been sent on acting courses to polish their customer service. His father, Mr Berry recalls, liked to say, "it's only money." Today family firms come with a harder edge.

Ask the boss of any family business what makes his company different, and he will mention his long-term perspective. That helps him resist the temptation to make a quick buck and allows him to think in terms of decades rather than quarters. Mr Berry jokes that once you have survived the South Sea Bubble—a financial crisis in 1720 that caused the British economy to shrink by a quarter—you can see the 2008 recession in perspective.

Keep it steady:
More systematic inquiry bears this out. The Boston Consulting Group compared a list of 149 medium-sized to large publicly traded but family-controlled businesses with a group of non-family companies from the same countries and industries and found that family companies performed more consistently than non-family ones. They did not make as much money as other sorts in good times but did better when the going got rough. John Coates and Reiner Kraakman, of Harvard Law School, who studied the tenure of CEOs in the Standard & Poor's 500 in 1992-2004, found that those who held more than 1% of the stock (which includes family firms) were at the helm for an average of 13.4 years, compared with 5.5 years for other companies. Hermann Simon, the consultant, calculated that the CEO of a German *Mittelstand* company sticks around for an average of 20 years, sometimes considerably longer. Horst Brandstätter, the boss of Playmobil, a German toy company, lasted 54 years. He once gave one of his designers a ten-year deadline to come up with a new product. Hans Riegel, the boss of Haribo, a confectioner that invented gummy bear sweets, was in post for 63 years.

This strategic patience has proved particularly useful in two quite different businesses: newspapers and luxury goods. Two of the world's best newspapers are owned by families: the *New York Times* by the Sulzbergers and the *Wall Street Journal*by the Murdochs, who bought it from another family, the Bancrofts. (The Pearson family owns a small stake in Pearson, which owns the *Financial Times*, which in turn owns 50% of *The Economist*.) Family companies have been much more willing than widely held companies to make the sort of long-term investment required to ensure first-rate journalism.

The world's largest luxury brand, LVMH, is a successful family company, owned by Bernard Arnault, that has bought up other family companies such as Bulgari and Fendi. Hermès, another family company, demonstrates the virtues of patience. In the difficult 1970s it refused to compromise on quality, insisting that all its products be made from the finest materials. That left it well-positioned for the subsequent luxury boom.

One of the best examples of the power of long-termism comes from a surprising industry: outdoor advertising. Jean-Charles Decaux, the eponymous CEO of Decaux, explains that family ownership gave his company the scope for the "patient innovation" that turned it into the biggest in his industry. It introduced a series of innovative ideas such as the "freemium model", providing cities with street furniture such as bus stops in return for the right to rent out advertising space on them. The company also pioneered the free-bicycle model that has changed urban transport across the world. The founder, Jean-Claude Decaux, harnessed sibling rivalry to push global expansion, much as Mayer Rothschild did in his day: he put each of his three sons in charge of his own region so they could show their entrepreneurial clout. "The first generation invented the company," says Mr Decaux. "The second generation took it global."

Such long-term thinking is turning into more of an advantage as public companies become increasingly focused on the short term. Not only has the average tenure of a CEO in a public company declined from ten years in 2000 to about eight today, the average period for which owners hold the stock has also fallen with the rise of electronic trading. A growing number of CEOs praise the private-equity model, which provides a longer time horizon, but even that does not stretch beyond five to seven years. Family ownership provides companies with a perspective that is almost impossible to replicate in either public or private capital markets.

Family companies are also particularly careful with money, even though many of them operate in luxury niches that depend on extravagance. Some of the most successful ones are bywords for frugality. Mars has famously modest headquarters in McLean, Virginia, and Walmart asks middle managers to economise by sharing rooms when they travel.

Once again research confirms these impressions. BCG notes that the family firms it studied are better than other companies at keeping their costs under control because their owners keep a much closer eye on them. As a result, they had to make fewer lay-offs during the 2008 financial crisis.

Another strength of family companies is their powerful internal culture. Whereas public companies have become increasingly bland, many family companies are islands of distinctiveness. They have their own way of doing things, often derived from their founders' strong convictions. When Heinz-Peter Elstrodt and his colleagues at McKinsey examined 114 family firms and 1,200 other large companies for their "organisational health", they found that family firms scored significantly higher on things like worker motivation and leadership, though they lagged slightly on innovation.

The personal touch

These internal cultures give family companies three interconnected advantages that are increasingly valuable in a world where so much is commoditised. The first is a stable base of employees. Holger Mueller and Thomas Philippon, of New York University's Stern Business School, suggest that family companies tend to have better labour relations than other firms. They keep their workers for longer and can call on deeper reserves of loyalty. John Davis, of Harvard Business School, says that many family companies are like tribes: they want to recruit loyalists who will be around for a long time rather than high-flyers who want to burnish their CVs.

The second advantage of family companies' strong internal culture is a distinctive set of stories that they can tell their customers. These stories are sometimes about their age: Molson likes to boast that the family has been brewing beer "since before there was a country called Canada". Sometimes they are about the quirky personality of the founder: Ingvar Kamprad, the founder of IKEA, a giant Swedish furniture retailer, habitually flew economy class despite his wealth. And family companies are increasingly using their ownership as a selling point in its own right.

The third plus is trust, which is particularly important at a time when capitalism is in danger of losing its legitimacy. Edelman, an American public-relations firm, publishes an annual "Trust Barometer" which shows that across the world people trust family businesses more than other kinds of companies. (Edelman, as it happens, is a family company, started by Dan Edelman in 1952, currently run by Richard Edelman and now bringing on the third generation.)

Fans of family companies like to point to another advantage: value-based leadership. To be fair, not every family company has it. But there is something to this idea. A striking number of the world's great family companies were created by members of religious minorities who embraced a strict ethos. These minorities put particular emphasis on both business and the family because they were excluded from public-sector jobs and because they had to look out for themselves. The Jews are just one example. In Britain the Quakers are another. The Cadburys and the Rowntrees created chocolate companies to try to wean the British off alcohol, and the Barclays started banks to fund their co-religionists. In India the main example are the Parsees. The Tatas and the Godrejs prided themselves on running companies that offered other Parsees honest work. In America the Mormons have created many highly successful family companies, such as Marriott (hotels) and Huntsman (energy).

Lastly, family businesses offer scope for unlikely successions. They have led the way in promoting women, who sometimes take over when a husband or father has died. On August 3rd 1963 Katharine Graham heard an ear-splitting noise from a downstairs bathroom. Her husband, with whom she had just had lunch, had shot himself. Mrs Graham had no business experience: she had been happy for her tycoon father, Eugene Meyer, to leave his media business to his son-in-law rather than to his daughter. Her husband's suicide left her with little choice but to step in. She became the first female CEO of a *Fortune*500 company in 1972 and proved to be one of the 20th century's greatest newspaper proprietors. Under her iron reign the *Washington Post* brought down President Nixon with its investigation into the Watergate break-in and challenged the *New York Times* for the title of America's most illustrious newspaper.

Likewise, Maria-Elisabeth Schaeffler succeeded her husband in 1996 as CEO of INA-Schaeffler, the world's second-largest manufacturer of ball and roller bearings, and turned out to be much better at the job. Family companies have also sometimes made bets on relatively inexperienced people. Hartmut Jenner became CEO of Karcher, the world's market leader in high-pressure cleaning equipment, at the age of 34, and Robert Friedmann took control of Würth, a $10.7 billion conglomerate, at 38.

The best family companies can draw on a wide range of assets, from patient capital to social trust to brilliant widows, none of which can be easily replicated by widely held public companies. But each of these assets also has the potential to turn into a terrifying liability.