Understanding the Strategies and Dynamics of Long-lived Family Firms

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If a handful of recent indicators are harbingers of a trend, family firms are back in business as a focus of academic interest. A practice and policy journal commenced publication in the late 1980s, several university-based entrepreneurial centers have taken special interest in family firms, and consultants offering expertise in family dynamics have surfaced across the nation. The British journal, *Business History*, is devoting a special issue next year to family firms in several countries, and an international working group headed by David Jeremy is considering family companies as elements in its comparisons of regional industrial restructuring. While it is doubtful that such enterprises will ever again play the sizable role they held in the early and middle stages of American business development (roughly through World War One), the perception of them as inherently inefficient or indeed pathological seems to be receding [5, 7, 16]. This shift may in part be due to the growing recognition that principles and practices of general management are not universally effective and that the personalism which family companies often foster has value in building and conserving firm-specific capacities for innovation and resilience in crises.[1] This feature can easily be overemphasized or romanticized, to be sure, but in an environment of executive job-hopping and "vulture" entrepreneurialism, the long term commitments that family firms feature seem to have renewed appeal [3].

This paper is a preliminary attempt to conceptualize several dimensions of family firm strategies in American manufacturing across the century following the Civil War, focusing on long-lived companies that completed generational transitions and remained active for fifty or more years. Though succession issues have dominated recent policy discussions, it is also important to consider how family firms manage expansion, how they deal with changing technical and market conditions, and how they use organizational assets to benefit kin-group members. This thematic quartet thus includes two points on which such companies overlap with standard managerialist enterprises and

[1]Research on family business is also developing from another perspective, that of social historians concerned with reconstituting family life-paths and strategies, for which see [1].

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two that are germane only to their particular format. Though the cases used here as raw material all derive from industrial settings, it is possible that this topical array and the various practices discussed under each heading could be found consistent with family firm dynamics in construction, finance, or other sectors, were researchers moved to undertake such inquiries.

The materials on which this effort is based in no way derive from a systematic sampling of family enterprises, a caveat that must be stressed at the outset. Instead, the dozen firms represented are largely drawn from my library and archival work on batch manufacturers, with one mass production company included for contrast. They include Connecticut's Bridgeport Machine Tool, Philadelphia's Bromley, Doak, Schofield, and Dobson textile firms, the Globe Dye Works and Disston Saw, Camden's Campbell Soup, the Textile Machine Works in Reading, Wilmington's Pusey and Jones, a machinery and shipbuilding firm, and the John Widdicomb and Herman Miller companies, Grand Rapids furniture makers. With two exceptions these are mid-Atlantic firms, and with another exception, all derive from Anglo-American ethnic roots, leaving space for further explorations of regional and ethnic variations. Hence, this paper is both limited and tentative, more a sketch of possibilities than a firm agenda. These boundaries noted, let us proceed to examine strategies for growth, response to technical and market change, kin provision, and succession, respectively.

In general, when ultimately-durable family firms begin to expand, they manifest needs for capital, credit, and managers which are more difficult to resolve than hiring additional workers. Capital ideally could be drafted from kinsmen, but in none of the cases reviewed here was this significant. Instead, funds for expansion came from harbored surpluses that were the counterpart to initially modest self-payments by company founders, supplemented by mortgages on new factory buildings secured through local financial institutions after careful scrutiny of firms' accounts, by floating and renewing personal notes, and by negotiating long credits from machinery suppliers. These facilities depended critically on reputation and trade contacts, rather more than on a Dun's rating, I suspect. For example, Pusey and Jones expanded facilities between 1870 and 1873, increasing its mortgage and personal bonds outstanding from $20,000 to $89,000 in the process. When several note-holders demanded full payment the following year, P&J was unable to comply, the notes were protested, yet the senior partner's brother and the firm's lawyer stepped in with bridge loans to forestall receivership or liquidation. At the Textile Machine Works, partners Henry Thun and Friedrich Janssen relied on a Reading bank for a series of quickly-retired mortgages when they doubled and redoubled their manufacturing space shortly after 1900, but the notably erratic John Widdicomb, who had split off his firm from the original family furniture business, was in those same years afforded no such help. Instead, he borrowed tens of thousands from a New York mirror importer, one of his suppliers, and a New York furniture retailer, one of his largest customers, so as to increase capacity, and followed up with scores of letters appealing for extensions and further funds (with considerable effect) [10, 17, 19]. Through World War Two none of the companies issued stock as a means to raise capital, though both TMW and Campbell, once

solidly established, did market corporate bonds successfully [11, 17]. Such capital-raising strategies carried short- to medium-term risks which were more palatable to family firm members than transferring shares of ownership to unknown outsiders through market mechanisms.

Filling the managerial posts that expansion created was simple for those postbellum companies that had male kinsmen to draw upon. Henry Disston brought in his four brothers as his saw enterprise grew, and Edward Bullard engaged two nephews to run Bridgeport Tool's New York sales office while he oversaw production at the plant. So too did Sevill Schofield and James Dobson employ brothers, cousins and nephews. As his son was nearing adulthood when he struck out on his own, John Widdicomb commissioned him to buy timber tracts to assure hardwood supplies and manage their exploitation. Yet not all proprietors had these options, due to the absence or unreliability of their male relatives [6, 14, 16, 19].

In sales, this problem could be finessed by working through agents and roadmen, but at the enlarging plant, direct help had to be located. Thun and Janssen used the labor market route, as did John Dorrance at Campbell, simply hiring executives, firing the ineffectual and rewarding the skilled with bonuses, or in some cases, a profit percentage, so as to cement ties for the longer haul. A second path was charted at Pusey and Jones, whose owners seduced Thomas Savery from a shop superintendent's position with the Pennsylvania Railroad's prestigious Altoona works by an offer of advanced pay and the chance to rejoin his extended Quaker family networks near Philadelphia. When, after two months, Savery gave in his notice, as a sweeter bid had come his way, the senior partners matched it and pledged to provide him a fortieth share in annual profits and to open the way to a partnership within three years.

This strategy proved prescient, for later the same year, the Cambria Iron Works courted Savery by dangling an assistant plant manager's position at double his P&J salary. Contrasting his anticipated ownership position at the Wilmington machinery works with the prospect of being a senior manager at Cambria, he chose proprietorship and turned down the offer without mentioning it to his colleagues. Within eighteen months, arrangements were completed for Thomas Savery to become a one-fifth partner at Pusey and Jones, with most of the $54,000 price to be deducted from his future partnership earnings. He remained with P&J for the balance of his career, and built its trade with his technical ingenuity (accumulating a dozen patents) and ability to quote machinery prices that built in comfortable profit margins.[2] Family firms' addition of partners was not uncommon, and could be a capital-raising device (the "sleeping" partner, excluded from management), but rarely are the dynamics of the process as closely documented as in this case [10].

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[2]P&J made both Savery's patented machines and a variety of specials constructed to user's specifications, along with coastal ships, with which he had little to do, and below-cost quotes for which (presumably made by other partners) he noted repeatedly and pointedly in his journals.

The third means to bring in managers also had long term connections at its center, and was closely linked to succession. Here proprietary fathers (or brothers) brought their daughters' (or sisters') husbands into the firm. This was routine in Philadelphia textiles, and happened at the Textile Machine Works and Campbell as well, but direct insights into the intricacies of these relationships cannot be drawn from the sources I have thus far encountered. As this maneuver breaks from the male-gendering of power and decision making so common among family firms in this era, it matters a great deal when, how, and whether men in essence arranged strategic marriages, were active but not determinant influences on women's choices, or were peripheral to the process of mate-selection, expected instead to find a place at the firm for the incomer. It is most likely the diaries and correspondence of daughters, rather than firm records, that will illuminate these gender dynamics and such shifts in expectations and practice as accompanied wider patterns of cultural and social change.

In the category of response to technical and market changes, unlike expansion, there seems to be no striking difference between the behavior of family and managerial firms. To be sure, a number of the companies here considered demonstrated genuine adroitness and decisiveness, but others became mired in static product classes and gradually lost their vitality, just as "professionally" managed firms regularly did. Certainly, family firms' typically flat administrative hierarchies could allow for quick shifts in product mix, location, or marketing strategy, but also facilitated foolish ones. The Bromleys can be featured at both ends of the spectrum. This clan of Philadelphia carpet manufacturers twice moved aggressively to invest in new product lines and technologies, lace-making in the 1890s and full-fashioned silk hosiery knitting just after World War One, reaping millions for their cutting-edge venturing. Yet in the 1930s, the family sought to achieve scale comparable to the hosiery industry's three biggest firms by acquiring regional mills and starting a new one in the South, sidetracking a nascent investment in knitted outerwear. Their bet was wrong, as the hosiery enterprises faltered badly even as knit sweaters and accessories became a substantial growth pole [11].

Savery's entry at Pusey and Jones helped focus their energies by the 1880s on production of Fourdrinier paper machines, neatly intersecting the rise of mass circulation newspapers, magazines and cheap books and advances in wood pulp technologies, and hence, demand for paper-making equipment. In time, Savery and his partners started their own pulp mills to implement his design for a patented wood grinder and profit from burgeoning materials demand. Textile Machine Works similarly both promoted and tested its innovative braiders by setting up a braid-twisting factory adjacent to its metalworking shops, and repeated the pattern a decade later when the firm commenced building full-fashioned hosiery machines. The second follow-through mill became both a laboratory for design improvements and, when the silk hosiery craze hit full stride in the 1920s, one of the sectoral giants the Bromleys' chose to challenge. The DePrees at Herman Miller anticipated the shift from wood to metal in upmarket office furniture, reorienting their production facilities and bringing on board three leading

modernist designers in the 1930s and 40s, leading the restructuring of Grand Rapids' regional focus from household to business furnishings. On the mass production side, once in full command at Campbell, Dorrance dropped the firm's diversified canning lines for a singular focus on condensed soups, successfully harnessing nascent "convenience" demand in its earliest stages [2, 10, 11, 17].

Yet every saga of innovative practice has a stagnant counterpart. The Doaks, Dobsons, and Schofields all held fast to their woolen yarn and fabrics outputs while supply price rigidities and incursions by substitutes thinned markets in the 1920s. The Disstons' missed every hint that a market in household, farm, and construction site power tools awaited development; and a disastrous, catch-up, portable chain saw venture mired the firm in debt, triggering the loss of family control. Such inattention to shifting contexts seems little different than big steel's overlong commitment to the open hearth or Detroit's love affair with gas-guzzlers. These family firm stumbles only suggest that across different organizational forms, there may be features of institutional culture that set impermeable boundaries to corporate imaginations, a matter that may merit more systematic study [8, 12, 16, 18].

Long-lived family firms often have to contend with felt needs to employ corporate proceeds to provide for an extended family increasingly populated by non-producers, most particularly women excluded from active participation but also second or third generation men likewise outside the firm. The line of tension here runs between support and dependency on one hand and ownership shares and "interference" on the other. The experience of four firms can illustrate six ways in which this challenge was addressed, well or badly. Before most family firms incorporated, provision for kin, if attempted at all, rested on a family pact, either informal or contractual. The Schofields and Disstons exemplify the two variations. As testimony during its turn-of-the-century bankruptcy and reorganization revealed, Sevill Schofield's kinswomen received annual gifts from the proprietary surplus following the yearly settling-up, the amounts being evidently sizable but unstated. Reciprocally, these women, including Schofield's wife, were expected to amass savings funds that could be borrowed by the firm should they be needed for working capital. Losses late in the 1890s depression trimmed such payments to token status, even as Schofield failed to pay interest on, much less redeem, family notes. Their protests to his brother-in-law, James Dobson, who also held past-due notes on the firm, led the latter to force the firm into receivership so that management could be shifted to the founder's sons. Dobson squared the obligations to kinswomen, and the sons ran the firm for the next 40 years, for Sevill's welching on unwritten duties to kin had precipitated his displacement [12].

By contrast, Henry Disston devised a scheme of life partnerships to provide for his incoming brothers' families without diluting his ownership or undermining succession to his own sons. On entering the firm each of the brothers was made a "subpartner" without expectation of capital contribution,

entitled for life to a share in such dividends as Henry chose to declare.[3] On each brother's death, the firm "repurchased" the subpartnership by paying his widow or family a lump sum, the last of which was disbursed in 1899, some 21 years after the founder's own demise. This contractual form of profit sharing and life insurance affirmed family bonds, conserved the authority of the founder and his sons, and permitted the selective inclusion of promising nephews in the second generation's management team. Perhaps this novel and effective means of governing the firm/family boundary was unique in the pre-corporate era, but one might suspect it drew on Anglo-American business customs familiar to the immigrant Disston [16].

Incorporation, which often was done to handle kin provision at the founder's death, brought the creation and distribution of shares. At Disston, this came in 1886, after seven years spent untangling Henry's sloppy finances. His widow received 20 percent of the shares, the three sons a clear majority, with a residual 24 percent delivered to 20 other family members, chiefly women and grandchildren. Custom was that the working family members determined policy and the others assented, an unproblematic arrangement until dividend failures after World War II threatened the incomes of thirteen female Disston descendents holding 42 percent of the stock. Their revolt at a Schofield-like breach of trust in kin provision facilitated a 1955 takeover by conglomerator Samuel M. Evans that ended family control. A generation after Disston's incorporation, Thun and Janssen took a different route, sharing Textile Machine Works enormous success with sisters and daughters through the device of creating $2 million in 5% preferred shares. This skillful stratagem was succeeded by another in the 1920s, as the aging founders each created stock trusts for holdings in other firms bought either on company account or with their private resources. On their deaths, their shares of TMW went into the trusts to be managed by professionals for the heirs benefit, but without their input.[4] When TMW and its associated companies ceased producing machinery and fabrics in the 1960s, the financial strength of the family trusts was little affected [16, 17].

Campbell's John Dorrance had a different problem. As the master of a national-scale throughput giant, he disdained much of the managerial catechism and set up his estate so as to preserve his effective control over the firm from beyond the grave. At his death in the late 1920s, his holdings of Campbell stock went into a set of trusts reserved for his children, then all minors, trusts that would be dissolved, freeing the shares, only upon their later, sequential demises. The trustees turned the soup company into a proper managerial enterprise; family members enjoyed ample incomes, but

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[3]Brothers' dividend shares ranged from $400 to $3000 annually in the later 1870s and 1880s. Henry was cautious, not cheap.

[4]Neither had sons, but an incomer son-in-law handled company finances and legal affairs alongside veteran managers with small shareholdings.

none had a signal role in policy making over the ensuing 50 years. Recently, third and fourth generation heirs squabbled in public over whether to sell off and diversify their multi-billion dollar portfolios when Campbell earnings stumbled, but fresh executive leadership restored healthy profitability despite the gathering recession, staving off the dissolution of family ownership, at least for now [11]. At a minimum, these cases suggest that classic devices of business practice - contracts, shares, or trusts - were employed by family enterprises to provide for kin and protect them and the firm in ways broadly different than would be expected at managerial operations. Only more intensive research will indicate whether such strategies served to impede company development or established reliable boundaries that protected enterprise activists from distracting interference.

Succession is the most widely-discussed feature of family companies' strategic challenges. Here, for economy's sake, only one element in this complex process will be treated: training and preparation for succession. Like kin provision, the training of successors for active management has changed gradually over the last century. For at least a generation after 1850, it was routine for sons to enter apprenticeship in the founder's craft, as at Disston, learning the trade in the shops for four to six years, then working as a regular journeyman for a period before being "elevated" to partnership. By the turn of the century, this mutated into the "manufacturing apprenticeship," which meant a briefer rotation through the various departments of the firm following completion of commercial or high school education, the course followed by Charles Doak at Philadelphia's Standard Worsted Mills [13, 16].

An alternative to this scheme, one pursued by Thomas Savery's son, was enrollment in a college engineering course that featured shop training (in this case the Sibley School at Cornell), leading to supervisory posts at the home site after graduation.[5] Collegiate business education at the same time was less attractive, not being "practical", i.e., sectorally relevant, instruction, as even sponsor Joseph Wharton averred in his repeated bouts with Pennsylvania's faculty. With the definition and promotion of "general management" principles, c. 1910-30, such resistance was gradually overcome; yet of five Bromley heirs attending college in these decades, only one went through Wharton, with the rest shipped off to the older Ivies or Williams more for polish than practicality, very much like the Dorrances' elder son (Princeton) [9, 10, 12, 20].

This sixty-year transition toward formal education, and curricular shifts from shop practice toward textbook principles, left a real gap in the training-for-succession program at family firms. Inexorably, potential company leaders knew less and less of the life of the factory floor. No heir sent to

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[5]This track was sharply limited by the metalworking focus of most early engineering education. Lathe and grinder work was of little direct relevance for the sons of furniture, shoe, publishing, or textile company proprietors. Specialized trade schools in textiles did enrol owners' sons as an alternative (or supplement) to college attendance, and similar printing schools may also have done so.

learning production was easily integrated into a work team, but the common or high school graduate was a more likely shop learner than the Yale alumnus or Cornell engineer. After 1918, no sons among firms surveyed here were rammed into overalls at Dad's company. Instead, three options other than simply drawing dividends took shape. First, college- or technically-trained sons became "instant" managers, in the office or in production planning or quality control, depending on their backgrounds. Second, sons were pressed to seek initial job placements at firms other than the family business, sectorally in production or sales or indeed, as at the Globe Dye Works, in entirely different fields. On this model, either valuable experience could be gathered without potentially disrupting the core operation or alternatives to the family business could be tried out by the next generation, with fathers covertly hoping that a return to the fold might follow in due time.[6] Third, and unique to the Bromley clan in this group, prospective successors might be set up in separate businesses on their own account, in substance an exercise in sponsored entrepreneurship whose outcome would powerfully indicate capacities for succession at the core firm(s). This cluster of strategies for preparing the generational transition surely does not exhaust all possibilities, but it suggests the diverse means through which manufacturing families contended with institutional changes and operating necessities while facing the enduring problem of constituting able successors [4, 11].

The conjectures which abound in this paper are terribly fragile, for they are based on scattered documentation for a tiny group of durable companies, not on an in-depth study of hundreds of such enterprises. Were such an inquiry mounted (and appropriately well-funded) it might well help satisfy the need for multiple, conceptually precise case studies of family firms that could help us determine: 1) to what extent and in what ways family companies actualize strategies significantly different from managerial businesses; 2) how and why family firms selectively appropriate management innovations; and 3) what business environments prove conjuncturally best situated for family firm accumulation as against a managerialist format, again why, and how such advantages are eroded or elaborated. If this paper can serve to stimulate initiatives along those lines, its purpose will have been achieved.

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