PRESIDENTIAL ADDRESS

The Family Business

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My assignment tonight, one filled so admirably by Mira Wilkins last year, is a nostalgic one, for it calls for the speaker to be autobiographical-- to look backward in one's career over the whole body of research and writing efforts. This generally is a revealing experience, and it was for me, for I realized how centrally my own efforts in the field of business history have been concentrated on family firms.

There are a number of famous family names in American business history-- the Rockefellers, Fords, Du Ponts, Vanderbilts, Watsons-- yes, even the Binghams and the Quayles. In most cases these have been family businesses in the sense that both ownership and management passed from one generation to the next. Yet it is startling to realize how few major American companies which started this way have been able to carry the family management thread much beyond the second generation, let alone the third. The Du Ponts have done so, counting in-laws; Henry Ford II was, of course, the third generation, but that seemed to be the last of the Fords in top management, although a recent set of articles in the press have suggested that the string, although broken, might be mended. Yet the family business has been an enduring American institution and has lessons to relate, both positive and negative.

For a moment, let me use my own work as examples of the family business in the United States. It is a small set but has the advantage of being one of quite varied businesses. Perhaps most important, in most of them I had the special opportunity of being on the scene studying them just at the point of transition from one generation to the next. I will put particular focus on the issue of transition in my remarks tonight.

My first book, also my doctoral dissertation, was a business history of Norwalk Truck Line company, at the time (1954) one of the half dozen large interstate motor carriers. While it was a corporation, it really was the child of one person, the sole owner. A wonderful old man of German extraction, John Ernsthausen, had started the company in 1920 as a produce wholesaler, driving his own truck from the country into Cleveland, Ohio. By sheer persistence and hard work over 35 years he had built it into a major business. Ernsthausen was unsophisticated and had only a primitive view of the management process, but he gave me an acute sense of how important one individual can be in an organization. He had a naivete about business life that was at once both charming and frightening. For example, he made the

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statement more than once that "I get along with Jimmy Hoffa" (with whom the company dealt throughout its whole system). The "getting along" turned out to be self-deluding; the union ran roughshod over the company. John Ernsthausen had no children, and I witnessed before my eyes an internecine battle among the senior executives as to who would gain control when the patriarch was gone. Sadly, the right combination did not occur at his demise and the whole outfit was swallowed up by a trucking conglomerate. As an equally naive, unsophisticated young academic, I coined my most pretentious title for this book-- *Trucks, Trouble and Triumph.*

Coming to Dartmouth soon after that, I quickly became involved in another business history, once more family-- actually three families in three companies. It was the history of the machine tool companies in Springfield, Vermont. All three had been started in the late nineteenth century by true Yankee tinkerer-inventors. By the time of my story the three companies did well over 10% of the machine tool business of the entire country. Indeed, this small Vermont village was considered by the Defense Department in World War II as being one of the half dozen most important bomb targets in the country.

Each of these was family owned, but with different combinations. In the oldest, Jones & Lamson, a son-in-law had taken over the company and had done quite well until he was elected United States senator. Ralph Flanders became a famous senator, particularly well-known for his courageous battle against Senator Joseph McCarthy, the "red-baiter" of the early 1950s. But Flanders could not pay enough attention to the company and it languished. By the time I was chronicling their history, it had a professional management team, pulling and tugging against each other, and they were not up to the task. Soon Jones & Lamson, too, disappeared into a larger conglomerate.

The second firm, which had a rather strange name, the Bryant Chucking Grinder Company, was also family, just into its second generation of management. In this case there was a single professional manager, for the son of the founder had given up business altogether, becoming a philanthropist and scholar, digging in ancient ruins in Southern Spain. Once more, the professional manager was not suited for the business (though he went on to an outstanding career as chief executive officer of a Canadian company). Was there something especially difficult in stepping into family shoes? I began to suspect so. Finally, this company also was absorbed by a larger enterprise.

The third organization, the Fellows Gear Shaper Company, was in its second generation, too. The family was still in the business, with the chief executive role held by a distant relative of the founder, an outstanding man but quite elderly. Soon he was gone and this company followed the same pattern of being captured by a larger company.

All three companies are still in Springfield but are much smaller, much less effective, and the family links just about eradicated. It was a fascinating study for comparative business history; there were many constants, including the fact that all of the companies were located in the valley of the Black River, where most of the line employees lived. All of the family owners resided on the top of the hills, a telling reminder of late nineteenth century "social

Darwinism." Yet the three firms were very different, and I learned more about why family enterprises are so difficult to perpetuate. Many of the difficulties here lay in personal failings of individuals, some family, others from the outside. In most cases the inability of those families to be self-critical was the central problem.

This book had one of my better titles, perhaps because it was picked by my students in one of our Dartmouth morning coffee breaks. It was called *Precision Valley*, and soon there were all sorts of Precision Valley offshoots in Southern Vermont-- Precision Valley Airlines, Precision Valley Motel, etc.

My next endeavor was not strictly a family business history, although one of the entities within it had a unique, quite macabre family involvement. This was my book, *The Molly Maguires*, about a whole set of companies in an industry highly concentrated in one geographical location, the anthracite coal country. The Pinkerton National Detective Agency had made a contract with Franklin B. Gowen, the rail and coal mogul, to infiltrate the Miners' Union with the hidden agenda of picturing them as Molly Maguires, the old Irish secret society that had been brought in by the Irish miners. Allan Pinkerton was the founder and head of the agency, a complex individual, publicly professing righteousness and probity under the rubric "We Never Sleep," but privately planning and executing terrible acts-- and passing on his unethical behavior to his two sons, who were also in the business. Allan Pinkerton's own letterbooks of the agency had remained intact, having been given by later family under restrictions to the Library of Congress, not to be opened until 2025. However, I was able to persuade the fourth generation president of the Pinkertons, Robert Pinkerton, to let me see these, and I soon found some startling evidence in them, particularly an incriminating letter that Allan Pinkerton had been personally responsible for a famous vigilante killing associated with the Molly Maguire story. It had been planned and executed just like the same effort done a few months before by the Pinkerton Agency, in that case an attempt to murder by ambush Jesse and Frank James at their home, planned by Allan Pinkerton but carried out by his eldest son, William. I gingerly extracted from Robert Pinkerton his willingness to have the story told, with no restraints, whatever I happened to find. Later, when the book came out, this story about the vigilante action surfaced and I am sure it must have been a shock to Robert Pinkerton. By this time, in the fourth generation, the company had gone through a complete metamorphosis in company values. Homestead had occurred, Clarence Darrow had made a monkey of Pinkerton agents as he defended Big Bill Haywood and the IWW, the company had been traumatized by the heat of public opinion. The company and the family were now very different and did not want to be reminded of the past.

The next study was family in its most all-encompassing sense. It was done in the late 1960s on the Rockefeller family's international development corporation, the International Basic Economy Corporation. IBEC had been founded by Nelson and Laurance Rockefeller with involvement also from other members of the family to bring socially responsible private enterprise to Latin America and other parts of the developing world. There is probably no family name better known than Rockefeller, as I came to see as I visited the various operations. The name itself opened all sorts of doors, but also was taken advantage of constantly, and always had to be protected. Although designed as a profit-making business, IBEC also took on characteristics of a foundation. It was to carry out a Rockefeller "service to mankind." IBEC was founded in part to "save" the world, not just to produce a service or product. This resulted in a continuing conflict between personal goals and business goals. Often these two are not congruent. In cases where the product or service *is* the goal, this can become a real source of pride for the employees. Being a "missionary," which was IBEC's objective, is a laudatory goal, too, but much more difficult for employees and even management to grasp. And it is much more difficult to assess progress.

This conflict is more frequent than one might guess in the family corporation. One side of the owner-manager is making a personal statement, many times attempting to fulfill family social or personal goals. This lends itself readily to ambivalent leadership.

When Nelson gave up the position as chief executive to go into politics, a professional manager was hired. He was to be an interim until the next generation of Nelson's family could take over. This transition did come to pass but did not last. As perhaps an ultimate irony, IBEC was taken over by a British firm-- a well-known international, colonial company.

My next effort, again international, was *The Village Entrepreneur*, a study of small-scale, rural businesses in South India. My focus was on rice millers and fertilizer distributors, both dominantly family run, the former often into its third or fourth generation, the latter typically a first-generation father/son enterprise. The contrast between IBEC and these firms was striking. These Indian firms were self-serving, narrowly-based entities with little concern for long-range planning. But they *did* know how to make money in the short run. Family succession in India was most often to the eldest son, and my analysis convinced me that such an arbitrary, tradition-bound rule was often unwise.

Next came the John Deere book, published in 1984. Here we have what often is cited as the archetypical family company. The company had been founded in 1837 and there had been a Deere or a Deere in-law in the role of chief executive for five straight generations. Deere & Company had gone public back in the 1920s, but a large bulk of ownership (though not controlling interest) was still held by the family. Three of these five CEO's were, indeed, sons-in-law, and in all three cases were great successes. It is difficult for a blood son to follow a father. A whole set of expectations about adolescence, slips and failures, and sibling rivalry color the case before the fact. The son is being brought up in part to fulfill the father's own self image, and the sons of successful fathers have an abiding, sometimes overweening need to be successful in their own eyes. Few fathers that are powerful, busy, and emotionally involved in their businesses make good mentors. A son-in-law is fresher on the scene, easier to mentor by fathers-in-law or others, and easier to disengage if not up to the job. The son-in-law may carry other disabilities-- his wife has all those family pasts and can slip into mixed loyalties. Still, my small sample of sons-in-law makes the model seem quite attractive, other things equal.

Here at Deere I once again had the opportunity to see the revealing transition from the fifth generation leader that represented the family (a son-in-law) to a professional manager. There is no Deere family person in any post of management in the company today. There are capable children, but they have chosen other careers, so this transition is probably final. It has been accomplished by the new CEO with extraordinary grace, due particularly to the qualities of the man, schooled by 32 years as a Deere executive.

My last family company study is still in progress, a business history of Cargill, Incorporated, founded in 1865. In some respects this is even more archetypical than Deere, in that while in its fifth generation of family management, it still remains totally owned by family and privately held, the largest such company in the United States.

This is actually a two-family situation. The Cargills founded the company, but MacMillans became the majority owners. Both families still make up all of the ownership of the company and both families still have several members in top management. Once again I am having the privilege of being in the middle of a transition-- from the fifth generation to the sixth. In this case, however, there are younger members of both families in their 30s and early 40s currently working in the company, with potential to become senior managers, perhaps one of them a CEO. Yet the transition problems are enormous. Whereas the present generation has had only five members in management itself, the next generation has forty-two separate possibilities, only a few of whom are interested in being involved in the company. It makes for a tense and revealing process of interaction and I will be following it with great interest over the next two years or so, before the first volume of the study is completed.

What can be said about family businesses as possible generalizations from which we can learn? My sample is small, so I put the following ideas forward quite tentatively. Let me pose this quest for generalization by asking four questions and attempting some observations about each.

First, are family businesses more oriented toward the long run? By a narrow definition this almost inevitably has to be answered yes. Families do extend over full generations, transitions take into consideration that longer time frame, whereas the transition period for most major corporations with professional management is something in the nature of five to seven years. To be sure, professionally managed companies also are interested in management development and are looking down into the organization for future CEOs, but with a much wider pool and these different time lines. So it is *not* the same process that occurs in the family company.

American business is faulted widely today for being too short-term oriented, too conscious of the quarterly P&L statements, etc. I have not found the family companies that I have worked with any less concerned about these matters, so I suspect that in real terms family companies also must remain interested in these shorter time frames. But the fact remains that there is something very important about trying to plan for an organization to extend into the next generation. It does indeed give a different perspective, and there are more insights that can be drawn from this more complex transition process.

A second question that might readily come to mind is this-- are employees of family companies more loyal? There has been much writing recently about the lessening of corporate loyalties, due perhaps to LBOs, the spin-off of corporations, sometimes with loss of employee rights, etc. Company loyalty is critically important and quite ephemeral. Family companies are perhaps in a more exposed position in terms of relations between owner and employee. A family name carries with it certain remembrances from previous generations. These are not always good memories (as can be seen in the Pinkerton saga), and it may be that a poorly-run family company can have more problems here than usual. Nevertheless, I would be willing to postulate that we can learn much from the variegated interactions between a family owner and the employees, an equation that may be rather unique. I felt this strongly in the Deere case, for there was almost a mystical feeling on the part of the employees about their company and about the Deere family. There is something of the same in the Cargill situation, although here it is not directed so much at individual members of either of those two families as it is to the company as a whole. Still, I would guess that much of this high degree of loyalty stems from Cargill's thoroughgoing family influence.

A third question-- are family companies more entrepreneurial? While I hate to sound dogmatic, I believe I can answer this question, out of my own experience at least, with an unequivocal no. Just by the nature of the family at the transition point and the concern about passing along ownership and control, I think it is more likely than not that a family company turns out to be less entrepreneurial than at least some of its more vigorous counterparts among publicly held companies. There is a certain essential truth to the axiom, "from shirtsleeves to shirtsleeve in three generations." Implicit in this belief is the guess that the son cannot live up the father-- and this is often just what happens and is why the third generation sometimes has nothing left over.

There are noteworthy exceptions to this belief. Deere and Cargill are prime examples. Interestingly, both had difficulties in the first generation. John Deere, an innovative genius but untutored and financially inept, had run out on his debts as a blacksmith in Vermont to come to Illinois. When the firm was almost driven to bankruptcy in 1857, his son Charles took over at age 21 and became caretaker to nurse the firm back to strength, and in time to participate in the agricultural expansion and growth of the West. Yet to do this he first had to solve the problem of financial control within the organization, build sound finances, and then introduce new decentralized structures to fit the rapidly-growing business environment.

In the case of Cargill, W.W. Cargill had built a great empire, but built it on shaky financial legs. His view of control was something like this: "I told Hayden I wanted some different accounting but I did not want too much red tape, that things had to be practical rather than system ... the verification of the accounts I told him to drop and call it collecting, and to get around and collect the accounts and not have a whole lot of red tape about verification and two or three bookkeepers and collectors ..." When W.W. died in 1909 and son-in-law John MacMillan, Sr. took over, thorough-going financial controls were desperately needed and MacMillan came down solidly on the side of centralization under a powerful chief executive officer: "there are only two ways I know of, of doing business; one is to trust your men and let them run everything as they please and turn out what results they please, and the other is to put in an accounting system that keeps you informed as to what is going on everywhere. The latter system is certainly the up to date way of doing, and the only way I can keep track of things. We got a pretty good taste of what it amounts to, to let things drift. The great trouble has been that they do not enter into the spirit of what modern accounting means."

Sometimes a status quo, an inflexibility, can set in. At Deere the management had to force the third-generation family CEO to accept the gasoline engine tractor, and it took fifteen years of arguments to bring him around. Cargill had an interesting transition into the third generation, too. Here the problem was almost opposite. John MacMillan, Jr. was brilliant, creative, arrogant-- moving too fast, so that good financial and administrative controls and ongoing public relations needed to be brought to the organization through other men. The need is always present for a carefully chosen management team to accompany a new president. The family firm has a particular problem here, for it is often difficult to find the right alter egos who can function within the constraints of a strong-willed family CEO.

Sometimes the problem seems to be exacerbated by primogeniture. The question I always asked in my study in India, whether the CEO of those little businesses I was studying was a first son of an entrepreneurial father, gave me real clues to an understanding of entrepreneurship. In most cases the more entrepreneurial were not-- they were sons, but not first sons. I am not certain how I could extrapolate from this to the United States but my guess is that there is some common line running through both.

My fourth question can be answered, I think, with little doubt. Are family companies more idiosyncratic? My answer here is a resounding yes. There is a quite labyrinthine set of nuances operating in most family businesses, and in more cases than not these lead to personalized decisions made only partially on business parameters. I have alluded to some of these earlier (the mixed agendas at IBEC, for example). There may be inter-family or intra-family struggles that add untoward tensions. Idiosyncracies do not necessarily have to be equated with weaker or poorer decisions; sometimes they can provide for a positive thrust, but my guess is that this happens less frequently than the opposite.

If my hypotheses are accurate so far, namely that there are identifiable differences between the family company and the professionally run company, then it should follow logically that there are also differences in writing the business history of the family company. The business historian might find the following in attempting a business history of a family company.

First, I think it is more daunting to persuade a family to have its company chronicled. Just by the nature of the sensitivities of internal family interactions it is difficult to persuade all family members that chronicling the professional growth of a company will be important and valuable to them, rather than keeping family secrets within the family. There have been a number of outside exposés of family business-- the Bingham story being a recent case. There seems to be a great temptation to sensationalize family life. Ralph Nader did a great deal of this in his book on CEOs, *The Big Boys*. For these and other reasons there have been few really good internal business histories of family companies, written with independence and centering on the company rather than family gossip.

Some aspects of management itself are more difficult to assess in a family company. In particular, the question of governance turns out to be highly complex. Even in cases where there is a single owner with "absolute" control there is always a set of governance questions that go beyond those inherent in the professionally managed firm. Governance means just that-- the ability to govern. Sheer ownership alone does not, and should not, guarantee that senior management will willingly follow. The professional senior management always has a stake and a quasi-ownership position that must be recognized. There are often palace intrigues on the part of senior management in family companies about how they might be able to wrest control from the hands of owners who do not seem to have their own goals. I have seen this in operation, at least in an incipient sense in just about every one of the situations I have studied.

In the case of Deere the company solved the problem in part by going public, back in the third generation. In Cargill's case, there is an intricate set of parameters that govern board positions-- a totally inside board-- in order to both represent the two families accurately and to have significant representation (though no ownership whatsoever) by the senior management. In sum, the question of governance has all of the difficulties of the publicly held corporation, plus some further constraints that themselves make for important new problems.

There is an interesting parameter that you might not think of in the family corporation, namely, the presence of adequate records. Solid sets of records always have been the *sine qua non* of good history. In the case of the family company it is likely, first, that the family will have saved more records than would the comparable public corporation. This is not to say that the family is going to be willing to make these available. That is quite another question. Nevertheless, the combination of a family's desire to have its business records preserved, plus the fact that family personal correspondence can mean much more in ferreting out company understandings than it would be in a comparable publicly held corporation makes the question of access to records and the adequacy of them an interesting dimension of writing business histories of family corporations. The Rockefeller enterprises had been beautifully documented. There has long been a formal Rockefeller archives with a professional archivist. Fortunately, too, the Cargill records are outstanding, particularly for the seminal time when the first two MacMillans put the modern corporation together (although archivally they were in terrible shape, much of them stored in the attic of the headquarters in a jumbled mess). Unfortunately, at Cargill, as soon as an inside professional-manager CEO took over in the early 1960s to act as transition until the present family generation again took over, the record keeping became very sparse and limited (though the CEO himself did a superb job of carrying the company through this transition). Sometimes a management throws away not because of lawyers' fears but simply because they lack a sense of history, and that, I think, was true here. Today, once more, this next generation of Cargills and MacMillans is considerably more records oriented.

The business history of a family company also tends to have more than the usual amount of ego built into it. Rather than being the record of a particular CEO and his few years at the helm, here it is a dynasty. Inevitably, there are family icons, and these can become very tricky when trying to get at the truth and in being able to state it. There is a special problem, I believe, in teasing out the full story from a family situation. One is dealing with a range of people all the way from highly professional senior-management family members to the weaker, less interested members from the fringes, sometimes even the "black sheep." Wives are more important than they would be in the professionally run company. And these stories often are not just gossip, but a major source of why certain decisions were made. Yet at the same time the professional historian can sometimes perform a very special, unique role for a family, by putting into factual and historical perspective all of the various pieces of misinformation, prejudice, and various other shibboleths. In Cargill's case, for example, there was a particularly tense battle between the two families over ownership and control back in 1925. This situation has been remembered down to the present, sometimes with less than accurate judgments on the part of each of the groups about the other. In the process of putting together early materials on the Cargill book, I have reconstructed this story in detail and have shown this to all of the family members. I believe this has performed a very useful catharsis for them in the process.

Can we, then, generalize about the family business and the writing of business histories about the family business? My guess is that we can. In the United States, they have been of a particular genre, albeit not a terribly important one. It is revealing that so few American businesses stay within the ownership of a family over any length of time. The second generation seems to be crucial. It puts into place and formalizes the practices giving life to the corporate philosophy. It brings into this process the employees, hopefully with deep loyalties. In this second generation it often seems critical to establish sound financial controls before expansion takes place. Only after this can creativity occur and the broader political and environmental factor be addressed.

Some of the reasons why these transitional crises seem so dominant may lie in our overall history of the country. People came to the United States seeking change. They were willing to break with family and tradition to seek something better for themselves. It would be unusual for Americans to find their outlet just improving things with the status quo-- far better to look for change to solve problems. In Britian's, India's, and Japan's tradition, status quo is far more valued.

This is why comparative business history is most productive here. The lessons from British firms are quite revealing and thought provoking. Patterns of family ownership in India are most pronounced, and my brief brush with this special form of family company begs a comparison both with the British and with us.

Similarly, family business has been vitally important in its impact in Japan over many years. Even today, the family corporation there is one of the dominant forms. They seem to have been able to draw on the best of family values, and actual members of the family, for leadership positions. Yet, when a family member is not up to the task Japanese family companies have quickly moved to professional management. As Tsunehiko Yui, who addressed our meetings last year, has put it, Japanese families have learned well to "reign not rule."

Why have these examples in other parts of the world been so much more successful than here in the United States? What is there about the family corporation in our own milieu that makes it more difficult to preserve over time, and why is that we have only a few good business histories of American family-held corporations? These are questions that intrigue me. Comparative research on family companies seems to me to be a promising field for further research.

DISSERTATION SESSION