Best Practices and New Ideas
May 1–2, 2002

Family Business Invitational Conference

Sponsored by **Kellogg School of Management**
The Northern Trust Company
Heidrick & Struggles

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May 1–2, 2002

Family Business Invitational Conference

15% of the world's 1,000 largest businesses are family businesses

20% of the U.S Fortune 500 are controlled by families

Several recent studies document the superior financial performance of family controlled companies versus anonymously held companies

The family business governance model is gaining appreciation for its example of responsible ownership

More than half of the employees in the private sector of the world's economy work for family firms

Kellogg School of Management

Northern Trust

Heidrick & Struggles
Consultants in Executive Search

A UNIQUE EVENT...

We proudly present the proceedings of Kellogg's inaugural Invitational Family Business Conference, May 1and 2, 2002. The purpose of the Conference is to bring together the best ideas for families in business with leading business families.

This is a unique event in the world of family business. We hope, through the years, to create a community of the most thoughtful business families and a record of the newest research and most effective practices. We are eager to share the results of the Conference with a broader family business audience through this report.

We are most grateful to our Conference co-sponsors, The Northern Trust and Heidrick & Struggles. They not only aided valuably with the means to hold this event, but they invaluably contributed to its content, spirit and leadership. They also helped identify the special families who attended the Conference.

The invitees are families who share much in common—especially the devotion to family business continuity, to planning for continuity, and a willingness to share with others the lessons from their success and struggles. We hope they will reconvene each year to explore new ideas, compare experiences, and to shape our agenda for future research and study.

This annual Conference will follow a common format in the years ahead:

Presentation on the best, most practical, new research in family enterprise

Panels of representatives from leading family businesses who offer especially creative or effective ideas

A new case study written for the Conference

Recognition of a family for the "Kellogg Special Contributions to Family Business Award"

Discussion among the invitees on key new topics of current interest and future importance

We greatly look forward to a continuing collaboration with our co-sponsors to further the field of family business. We also are eager to keep in touch with the Conference attendees as we learn more together to strengthen family businesses—a backbone of our social-economic society.

Lloyd E. Shefsky
Clinical Professor of
Entrepreneurship, Co-Director
Center for Family Enterprises

Barry Merkin
Clinical Professor of
Entrepreneurship

John Nelson, MBA student
Co-Chair, Kellogg Family
Enterprise Club

John L. Ward
Clinical Professor of
Family Enterprise, Co-Director
Center for Family Enterprises

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Northern Trust

John V.N. McClure
Executive Vice President

Greetings to All:

This book commemorates a most historic event: The Kellogg Inaugural Family Business Conference of 2002. Northern Trust could not have been more proud to co-sponsor a forum to present and share the best practices of our nation's premier family-owned businesses.

At Northern Trust, we have had the privilege of advising and working with family-owned businesses and their owners for over a century. Our collaboration with John Ward and Lloyd Shefsky, as well as all of our Kellogg and Heidrick & Struggles partners has allowed for a more comprehensive and creative approach to helping family businesses find solutions. By combining the best practices of cutting edge research, finance, business and practical experience, we wanted to create a special and private environment to assist the Conference participants in managing, growing and protecting their businesses and families.

In the spirit of continued dedication to family businesses, we look forward to future opportunities to collaborate with conference participants and to share best practices.

With great respect and regards,

John McClure

HEIDRICK & STRUGGLES
Consultants in Executive Search

Dennis A. Barnette
Partner

August 1, 2002

Dear Participants and Attendees,

On behalf of my partners, I'd like to thank you for joining us at the 2002 Inaugural Family Business Invitational Conference in May. We were privileged to be among the inaugural sponsors.

We at Heidrick & Struggles have a long tradition of serving family-owned businesses, which has provided us with a unique understanding of their special needs as they add senior executives and board members from outside the family. The proceedings of this first event, summarized in the following pages, captured the issues and concerns businesses like yours grapple with as they position themselves for continued success moving forward. We all appreciate the insights this forum provided.

Sustaining a business through the next generation is as much an art as it is a science, and John Ward and Lloyd Shefsky are skilled at both. We value their friendship.

Best personal regards.

Yours very truly,

Dennis A. Barnette
Partner

DAB:pjk

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Kennesaw State University

New Developments in Family Business Research

New Developments in Family Business

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Kennesaw State University

Given the increased level of interest in the family business sector, it's no surprise that a growing body of global research is being compiled on issues, concerns and challenges in this arena. Presenter Joseph Astrachan presented an overview of some of the better research that's either been recently completed or is underway. A brief review of the research discussed by Dr. Astrachan follows:

FAIR PROCESS

Blondel, Christine, Randel S. Carlock and Ludo van der Hayden. 2001. Fair Process: Striving For Justice in Family Firms. Unpublished Manuscript, INSEAD: Fontainebleau, France.

This research examines what allows people to view decisions made by leaders in a family business as "fair" through the lenses of culture, history, communication and "voice and involvement." They find involvement and communication essential. According to Dr. Astrachan, "It goes back to what I consider a maxim, based on my own work – the essence of fairness in a family business is that people know what to expect and they get what they expect. Whether they like what they expect or not, at least they feel fairly treated at that level."

INTERGENERATIONAL SUCCESSION

Miller, Danny, Lloyd Steier and Isabelle Le Breton-Miller. 1991. Lost in Time: Intergenerational Succession, Change and Failure in Family Business. From the conference: Applying Mainstream Theories Of The Firm To Family Business Research: Toward A Paradigm For The Field, Universities of Alberta and Calgary, Edmonton, Canada.

The premise of this study, based on information tracked on six companies over ten years, is how the past of a company and its family can affect the future strategy of the company, defined in terms of the relationships between the generations of owners. The research looks at the three ways that owners handle transitions – by adhering strictly to the "old" ways, rejecting the past, or blending past and present into new approaches. "It looks at the implications of these tendencies for strategy, governance, organization, culture and performance," said Dr. Astrachan.

IPO RESEARCH

Performance
Astrachan, J.H., and D.L. McConaughy. 2001. Venture capitalists and closely-held IPOs: Lessons for family controlled firms. Family Business Review, 14(4).

In evaluating the performance of family business IPOs, this study found that they outperform non-family business IPOs in the first year. Afterward, however, performance begins to level out.

Debt as Accountability
McConaughy, D.L., ET&P 23.4 (Summer 1999), "Founding Family Control and Capital Structure".

Research in progress by Daniel McConaughy, University of California, Northridge.

In many family businesses, there's a history of debt-aversion, which, as Dr. Astrachan noted, is not bad for business. But this paper suggests that it is bad for control. "The more debt, the more likely that you're going to have someone looking over your shoulder — another form of accountability," he explained. He added that the more debt-averse the family business, the study shows, the more averse it is to outsiders on the board of directors as well as other forms of control.

Ancillary Benefits of IPOs
Mazzola, P. and G. Marchisio. 2002. A Study of Italian IPOs. Family Business Review, 15 (2).

This Italian study points to the various ancillary benefits that accrue to the family enterprise undergoing an Initial Public Offering. These range from additional credibility with suppliers, customers and creditors to creating new relationship networks. Interestingly, a significant number of study participants found the need to be in the capital markets lessened once they began achieving those ancillary benefits and started to pull out, Dr. Astrachan said.

Untapped Potential
Mahérault, Loïc. Is there a Specific Equity Route for Small and Medium Sized Family Business? Unpublished Manuscript, E.M. Lyon: Lyon, France.

This work, based on a French sample, looks at middle-market family businesses and the routes they take to IPO. The author finds that family businesses generally do not take as much or as quick advantage of public markets as they can and that even after they do, they do not do so to an optimal degree, often underutilizing sources of equity. Mahérault's work confirms the benefit of partnering with venture capitalists prior to going public.

STEWARDSHIP THEORY

Zahra, Shaker A. Ownership and Involvement and International Expansion: An Empirical Test of the Stewardship Theory among Family Firms. From the conference: Applying Mainstream Theories Of The Firm To Family Business Research: Toward A Paradigm For The Field, Universities of Alberta and Calgary, Edmonton, Canada.

What does "stewardship theory" imply for the family business? This research finds that stewardship relates to the desire to maximize family wealth with risk-based decisions. But stewardship is not all about strictly business, Dr. Astrachan said of the study's findings. "It's about protecting everything — and that collective action is more important than self-interested behavior," he said. When the family business is imbued with such a philosophy, the study found that it is likely to expand into international markets more rapidly than non-family businesses.

SERIAL BUSINESS FAMILIES

Kenyon-Rouvinez, D. 2002. "Patterns in Serial Business Families: Theory Building Through Global Case Study Research. Family Business Review 13 (3).

With findings based on a European sampling of much older businesses than is typical in the U.S., findings focused on families that organize themselves to have different businesses over many generations. "There is a sense that comes out in this study of a family philosophy in keeping the family together in that it represents a human and intellectual asset, motivation and drive that allows it to be successful in multiple businesses over many generations," recounted Dr. Astrachan.

IMPORTANCE OF SUCCESSION PLANNING

Astrachan, J.H. Initial Results From the American Family Business Survey 2002: Family Business Success Factors. Unpublished Manuscript, George and Robin Raymond Family Business Institute: Alfred, New York.

Initial findings of this research indicate that succession planning is less a factor in a family business' success than having a productive board of directors, having regular family meetings, and strategic planning. This is not to say, Dr. Astrachan noted, that succession planning isn't important. "It's just that it's more important to continually look at where the company is going and make sure that everyone is following the same road map," he said.

FAMILY — POWER, EXPERIENCE, CULTURE

Astrachan, J.H., S.B. Klein, K.X. Smyrnios. 2002. The F-PEC Scale of Family Influence: A Proposal for Solving the Family Business Definition Problem. Family Business Review, 15(1).

Family businesses are on a continuum, this research says, that starts at being very family-like and ends up being completely non-family. Looking at it in terms of three dimensions — power, experience, and culture — it demonstrates how the family influences the business in positive and negative ways. There are many positive benefits (close management, flexibility, care and concern, pride and the like) and these can be measured and their effects measured as well. Where a family business is along the continuum of family to non-family influences on the business largely impacts the family business' options and chances for success, explained Dr. Astrachan.

NON-FAMILY CEOS

Astrachan, J.H., A. Keyt, and S. Lane. 2002. Non-Family CEO's in the Family Business: Connecting Family Values to Business Success. FBN Helsinki Academic Researchers Conference: Helsinki, Finland.
(Research was sponsored by Heidrick & Struggles).

For a non-family CEO to be successful in a family business requires not just the right individual, but his or her "thoughtful" integration into the company, this research shows. "The study shows what needs to be done to make this situation work — and, of course, in some circumstances, it just doesn't," according to Dr. Astrachan. The non-family CEO needs to be a cultural fit who can be statesmanlike and is concerned with building, rather than dividing family unity. Interestingly, Dr. Astrachan added, is that the best appearing candidates tend to be the highest achievers — who normally have high ego needs. "But non-family CEOs with those kinds of egos tend to not work out as well," he said. The following chart depicts a model for hiring and introducing non-family CEO's to the family business.

Dr. Joseph H. Astrachan
Joe Astrachan is the Wachovia Chair of Family Business, Professor of Leadership and Professional Development, and director of the Cox Family Enterprise Center at the Coles College of Business, Kennesaw State University in Kennesaw, Georgia. He also is Distinguished Research Chair of Family Business at Loyola University Chicago's Business School. He is also a principal of The Family Business Consulting Group, Inc. Astrachan is editor of *Family Business Review,* a scholarly publication of the Family Firm Institute (FFI). He has been involved with such lobbying groups as The Committee to Preserve American Family Businesses, Family Businesses of America, and the Center for the Study of Taxation. Astrachan received the Richard Beckhard award, which is the Family Firm Institute's highest honor for contributions to the field of family business. He received the Family Business Network's award for best research paper of 2001 (along with co-authors Smyrnios from Australia and Klein from Germany). He received the International Family Business Program Association's Lifetime Achievement in Research Award. Astrachan is author and co-author of several books, including: *Mergers, Acquisitions, and Employee Anxiety* (Praeger, 1991); *Family Business Sourcebook II; Making Sibling Teams Work;* and *Building Family Business Policies.* Astrachan has also been editor of the *Family Business Bibliography,* on the editorial review board of *The Journal of Small Business Management* and *The Journal of Executive Education,* and a consulting editor for the *Journal of Applied Behavioral Science.* Astrachan earned his B.A., M.A., M. Phil., and Ph.D. degrees at Yale University.

Stages for the Implementation of the Non-family CEO into the Family Business

STAGE 1: EVALUATION

Do you need a non-family CEO?
Yes, if:
1. To bridge the gap between generations
2. For strategic reasons
3. To provide time to resolve distracting inter-family problems
4. Family talent is not available

NO, IF :
1. Family feels that unity and values only result from being a member of the family
2. Family feels executive will jeopardize family unity

STAGE 2: STRUCTURE, FIT, AND EXPECTATIONS

What do you need to do before hiring a non-family CEO?
1. Hire a family business advisor
2. Have a well-defined governance structure
3. Decide the reporting structure:
   a) Owner must communicate the duties/responsibilities of owner and CEO to the Board.
   b) Decide: will the CEO report to the Board or to the owner?
   c) Have a system of checks and balances; do not have one person embody the President, Chairman, and CEO position.
4. Define cultural fitness
5. Discuss expectations of the non-family CEO with Board and family
6. Implement an assimilation program and mentoring /succession planning
7. List and prioritize family members' individual and collective goals

Do you look inside or outside for the CEO?
Search inside if:
1. Have successful mentor system and assimilation program in place
2. Have a bench of potential CEO candidates.
3. Concerned about loyalty/cultural fitness
4. Concerned about the details of the candidate.
5. Family has complex and often conflicting goals.

Search outside if:
1. Company needs new blood.
2. Lack of talent internally.
3. Lack of succession planning
4. Worried about the credibility of the candidate.
5. Owners' goals for the company are simple and family agrees with them.

STAGE 3: RECRUITMENT

Does the non-family CEO candidate exhibit the following characteristics?
1. Emotional sensitivity, innate compassion for others
2. Eagerness to strengthen the company
3. Trustworthiness
4. Secure ego, maturity
5. Share same values as the family—recognize what shareholder value means
6. Cares and admires family members; wants to help them succeed (former relationship with the family)
7. Ability to build consensus
8. Sacrifices for someone else's good/took altruistic approaches in their other jobs
9. Motivators that are in line with the family values.
10. Facilitation and mentoring skills

STAGE 4: COMPENSATION

Through what means should the non-family executive be compensated?
1. Utilize equity or equity-like compensation: i.e. phantom stock, termination agreement
2. Utilize the guidance of public companies to determine market value
3. Develop incentives for non-family CEO to participate in successio
4. Implement "quality objectives" that emulate fairness: have short-term and long-term goals for the CEO in relation to the success of the business
5. Should not make the CEO "take a hit" like a shareholder without being able to share in the equity of the business as well

STAGE 5: MAINTENANCE AND RETENTION

What should the family do to maintain the relationship with the non-family CEO?
1. Give the CEO responsibilities commensurate with his or her experience; specify a career path
2. Engage in open communication regarding the opportunities, or lack of opportunities, of the CEO position to the executive
3. Involve the CEO in strategic planning and decision-making of the family business
4. Show appreciation for the CEO through perks such as company car, office, extended vacation time, etc
5. Do not undermine the CEO by dealing directly with his or her reports

COMMENTATOR: Fisk Johnson
Chairman
S C Johnson — A Family Company

Carnauba: A Son's Memoir

Carnauba: **A Son's Memoir**
COMMENTATOR: Fisk Johnson
Chairman
S C Johnson — A Family Company


Sam Johnson


H.F. Johnson

Waxing Personal

Alcoholism, Anxieties — S.C. Johnson Patriarch Tells All in His Movie

And His Honesty Is Inspiring Some Viewers to Confront Demons in Their Lives

'Gave Me a Piece of His Soul'

By Jeffrey A. Tannenbaum
Staff Reporter of
The WALL STREET JOURNAL

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RACINE, Wis.—When the Golden Rondelle theater here held a screening of "Carnauba: A Son's Memoir," the invited audience had already heard the buzz surrounding the film. According to the publicity, the hourlong movie follows Sam Johnson, multi-billlonaire patriarch of the Johnson Wax clan, as he traces his father's 1935 journey to Brazil to glimpse palm trees prized for wax that helped make the family famous.

James Scalzo, a 33-year-old loan officer at Johnson Bank owned by the Johnson family, settled into his seat expecting the corporate equivalent of a National Geographic travelogue. At first, it seemed, that was what he would get: mostly uneventful footage of an amphibious airplane soaring over sea and featureless landscape, alternating with Mr. Johnson's talking head.

But as Mr. Johnson's narration proceeded, the revelations multiplied: The 73-year-old is a recovering alcoholic. His mother was an alcoholic, too. And for much of his life, he was haunted by his relationship with his father, H.F. Johnson, who was largely absent when Sam was young, and harshly critical of his son later in life. "My biggest doubt about my father was whether he loved me as much as the company, " Sam Johnson says at one point.

The boss's candor inspired Mr. Scalzo. Later that January night, he talked for the first time with relatives and friends about the grief he had kept bottled up since his own father's death from a heart attack last October. "Sam gave me a piece of his soul" Mr. Scalzo says. "I didn't think this film was going to be so emotionally meaningful.

Nor did many of the 8,000 other people who have seen the film. Since late last year, the Johnson clan has been showing "Carnauba: A Son's Memoir" to many of the 16,000 employees of S.C. Johnson & Son Inc. and other family-controlled companies, as well as to friends, associates and others connected to the Johnsons and their businesses. For many, the experience has proved cathartic.

Richard Turner, an audiovisual worker at S.C. Johnson, saw a preview last October. He didn't pay much attention until about 20 minutes in, when Mr. Johnson mentions that his mother was an alcoholic. "I kind of was intense in listening after that" Mr. Turner says.

That same day, Mr. Turner redoubled his efforts to get a loved one into treatment for alcoholism. Mr. Turner says his argument began with: "Mr. Johnson is an alcoholic." Later that month, the relative began treatment

Mr. Johnson says he has so far heard from about two dozen people who, after watching "Carnauba: A Son's Memoir, either entered alcohol counseling or encouraged a loved one to do so. "If the film helps just a few people," Mr. Johnson says in an interview, "that will be worth it."

The movie is shaping up to be an extraordinary exception in the annals of executive image-building. At most big companies, teams of publicists work hard to craft personas for their bosses that are entirely wholesome and upbeat.

In a 1988 book Mr. Johnson wrote to commemorate the 100th anniversary of the family business two years earlier, he inventories the many things he admired about his father, H.F. Johnson—astute chemist, humane boss—with out any mention of their difficult relationship. Nor does drinking enter the picture.

Under Sam Johnson, who cut back his duties in 1993 and fully retired last year, S.C. Johnson evolved into a group of companies with $6 billion a year in sales. In the process, the core consumer products company expanded well beyond the waxes, to include Ziploc bags, Windex window cleaner and dozens of other ubiquitous household products. He and his family—the business is now principally owned by 62 members of the clan—have shared the wealth, donating millions to support local charities, schools and civic projects.

Sam Johnson was born in Racine in 1928, the same year his father took over the old Johnson Wax. When Sam was three, his father divorced his mother, Gertrude. The rest of his childhood, he divided his time between his father in Racine and his mother in Ithaca, N.Y.—one busy with the business (and marrying three more times), the other subsiding into drink.

"The earliest memory I have of my mother and father was not really understanding why they would not be together for the long term, when they got the divorce," Mr. Johnson says in the film. "Years later my father told me the reason that they got the divorce, which was that my mother was an alcoholic."

The Depression took its toll on Johnson Wax. From 1932 to 1936, sales fell from $5 million to $3 million. In 1935, H.F., then 35 years old, hired a pilot and took off on a two-month, 15,550 mile trek in a Sikorsky S38 amphibious plane. The ostensible reason was to scout for undiscovered stands of the carnauba palm and to study the economics of the tree to ensure a growing supply. The fronds of the palm are coated with a wax that is the hardest in nature, making it a crucial material in Johnson Wax.

On the trip, he bought land for a plantation for growing and studying the carnauba. The trip ended in Florida, when the plane was forced to make an emergency landing, Back home in Racine, he wrote a book about his adventures and had a batch of copies privately printed. Years later, H.F. ordered Wisconsin dairy cows shipped to an area where he had encountered undernourished children. He also had a schoolhouse built in one locale.

Sam Johnson recalls only his father's absence. "For a long time, I couldn't admit that my father wasn't around enough of the time when I needed him," he says in the film. "I felt maybe I was just an instrumentality of his to carry on what he had created, versus genuine affection."

Sam attended his father's alma mater, Cornell University, in the late 1940s. Harvard Business School and a stint in the Navy came before he joined the family company. His duties were modest—among them, answering his father's mail. Eventually, he demanded more, and was put in charge of new-product development

Between 1956 and 1958, he oversaw the launch of Raid insecticide and Off! bug repellant, Pledge furniture polish and Glade air freshener. Within a year of hitting the market, these products accounted for 35% of the company's domestic sales. Sam's responsibilities expanded.

So did his family. In 1954, he married Imogene Powers, whom he had met in college. They had four children: sons Samuel Curtis El (Curt) and Herbert Fisk III (Fisk) and daughters Winifred and Helen.

SETBACK IN NETHERLANDS

Sam Johnson's first big setback came in 1965 while he was overseeing construction of a huge new aerosol plant in the Netherlands. He brought on too much capacity, underestimated start-up problems and overestimated sales. European profits plunged. Sam was recalled to Racine that summer.

Weeks later, on Labor Day, the 65-year-old H.F. suffered a stroke. Sam, still smarting from the sting of his European missteps, became president at age 37. "1 always wondered whether I had given him the stroke because of the mess-up I'd made in Europe," he says in the film.

No longer able to read or write well, and lame in the right arm, H.F. developed a short fuse. During winters, when H.F. stayed in Florida, Sam had to fly down twice a month to brief his father. Good numbers or bad, H.F. would say: "Well, I don't like those numbers. And I don't like you either. And you're fired,"' Sam recalls in the film.

When H.F. died in 1978, Sam received a note his father had written years earlier and saved for posthumous delivery. The note warned him that people would complain to Sam that he wasn't running the company his father's way, but "pay no heed to that because what you have to do is what you think is right for the company and its people at that point in time. " It was signed, "with great fatherly love," Mr. Johnson says in the film

A PATERNAL RELEASE

The letter "released me to be myself and not just a clone of my father," he says. The company prospered. Sales, $171 million in 1965, reached $1 billion in 1978 and $4 billion in 1999. With acquisitions of Drackett Co. in 1993 (Windex and Drano) and Dow Brands in 1998 (Saran Wrap, Fantastik, Ziploc bags), sales for all Johnson family companies combined hit $6 billion last year, when Mr. Johnson retired. (The family-owned Johnson companies don't disclose profit figures.)

Mr. Johnson always liked his vodka, but by the late '80s, his intake had developed into a dependence alarming to his family. He drank at home in the evenings, dozing off right after dinner, then waking up in the middle of the night.

"Eventually, I developed my mother's disease," he says in the film. "I really had a hard time admitting it to myself because when I was a child I said the one thing I never want to be is like my mother in terms of this problem."

His daughter Helen Johnson-Leipold, now 44 and head of Johnson Outdoors Inc., says her father seemed to get no joy from life during this period. Finally, in 1992, Imogene Johnson called a family meeting to confront Mr. Johnson about his drinking.

Afterward, a company pilot flew Mr. Johnson to Minnesota to check into the Mayo Clinic. He had served as chairman of the hospital's board and feared embarrassment, but no one seemed to recognize him. "I kind of blended into the scenery with all the other patients," he says in the interview. Without a drink, he had trouble falling asleep the first night but slept fine thereafter.

Twenty-eight days later, he went home, confident he could stay off the bottle. To reinforce the Mayo treatment, Mr. Johnson joined Alcoholics Anonymous. A college fraternity brother urged Mr. Johnson to join him at an A.A. meeting Tuesday mornings in a Milwaukee church basement He still attends the same group, though infrequently.

Sober and approaching retirement from day-to-day responsibilities in 1993, Mr. Johnson began to think about his father's journey. He had flown for years himself as an amateur pilot, and he resolved to fly the route himself, in the very same plane. From the start, he wanted it committed to film, as a legacy for his family and his companies.

But his father had sold the original aircraft, and it had later crashed in the sea off New Guinea. Five years ago, Mr. Johnson set off with his two sons in search of the wreck, which they hoped to raise and restore.

For about a week, Flying as low as 100 feet above the sea, father and sons worked 10 hours a day using magnetometers and sonar to scan for submerged metal. At one point, Mr. Johnson dived into water 100 feet deep to retrieve a chunk of metal that they thought could have been a piece of the tail. That was all they ever found.

Mr. Johnson still wanted to duplicate his father's experience. "I wanted us to feel how he felt," he says in the interview. "It's so much different flying an old airplane with loud engines and air leaking through the windshield. "

The Johnsons hired Born Again Restorations Inc., Owatonna, Minn., to help them build their own plane. For three years, and at a cost no one will disclose, a team of as many as 17 people worked to duplicate H.F.'s plane. The result wasn't an exact facsimile. The original held 12 passengers; the copy, only seven, allowing space for a writing desk and other luxuries. The new plane has aluminum, not wire, wheels, and advanced navigating gear, in place of a Morse-code radio and two compasses. It does retain the name "Spirit of Carnauba," with "S.C. Johnson & Son" painted on the outriggers.

VINTAGE CAP, 'LUCKY' BELT

On a crisp morning in October 1998, Mr. Johnson donned a vintage aviator's cap, goggles, scarf and the "lucky" leather belt he had crafted while in alcoholism treatment, and took off with his sons. A six-person film crew followed closely in a second plane. The outbound journey took 20 days, with stops in, among other places, the Bahamas, the Dominican Republic, Puerto Rico, Grenada, Trinidad and finally, Brazil, where the goal was to see the carnauba palms H.F. had planted more than six decades earlier in Fortaleza

It sounds exotic, but once back in Racine, they confronted a mountain of film focused largely on an airplane aloft. That was a problem. They were in danger of producing a $5 million exercise in executive self-indulgence. "I don't just want a flying film," Mr. Johnson told Landon Parvin, a consultant hired to help complete the project. "I want a story that people are interested in."

So in February last year, Mr. Parvin sat down with Mr. Johnson at Council House, an S.C. Johnson facility in Racine, and without rehearsing, began to interview him. Initially, "Carnauba: A Son's Memoir" wasn't meant to plumb the depths of Mr. Johnson's life, especially not the alcoholism. "I thought it was a rather personal matter, between me and my family, " Mr. Johnson says in the interview. But after a while, he seemed to forget the camera was there. When the time came to decide what to cut and what to keep, he decided: "The trip itself was maybe something I never would have done, had I not conquered the problem."

When Mr. Parvin showed the rough cut to Mr. Johnson, he feared "that the film was more personal than he would accept" But Mr. Johnson was pleased, and later the same day, he showed it to his wife and three of his four children.

"He lived a pretty tough childhood," says Ms. Johnson-Leipold. "I don't think I had ever put those pieces together." Son Fisk, 42 and chairman of S.C. Johnson, says that before hearing his father on the soundtrack, "I didn't fully comprehend the degree of difficulty he had in the relationship with his father."

LOTS OF LATITUDE

Mr. Johnson had given his own children lots of latitude to establish careers in the family businesses. "My brother and sisters and I have been huge beneficiaries of the relationship that my father had with his father," Fisk Johnson says. "I think my father said to himself, 'I'm never going to put my children through this. "'

Last June, Mr. Johnson showed the film to a group of about 600 people, including many of Mr. Johnson's Cornell classmates. "We still weren't sure how an outside audience would like it," Mr. Parvin says. But afterward, the verdict was clear. "It was as if he were a rock star. People came up all around him."

In October, the first group of employees, in Hong Kong, saw the film. In December, Mr. Johnson held the first U.S. screening for employees, in Racine. In January, he showed it to a group of Racine community leaders.

Mary Berryman-Agard, an organizational-development consultant in Madison, Wis., was in the audience that night: "I seldom see a message with such frankness anywhere," she says. "And I seldom see a male addressing in a public arena the personal problems of his life."

Her husband, Steven Agard, manager of a graphic-arts firm, says that after seeing the film, he resolved to spend more time with his children: "I don't want my kids to have to search for who and what I am."

MODERATOR: Lloyd Shefsky
Center for Family Enterprise
Kellogg School of Management

Video Case Study: The Family Business Board

Video Case Study: **The Family Business Board**

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CAST OF CHARACTERS

J.P. Prince, Jr.
J.P. is the son of the company's founder, chairman of the board, and owner of 50% of the company's stock. He also owns just over 50% of the real estate that is under consideration for sale.

Ian Growe
Ian is one of the company's independent directors. He had been CEO of a highly successful, publicly traded company with over 100 stores and a nationally distributed catalogue. He met J.P. at a trade show where he was a speaker, and J.P. subsequently asked him to sit on the Prince's board.

Brian Paige
Brian is the company's second independent director. He co-founded and owned (in partnership with his son) an office supply catalogue distribution company, which he recently sold for $100 million. Brian has no background in retail sales or real estate.

J.P., III (Buddy)
J.P.'s son, Buddy manages the catalogue operations, including product selection, layout, artwork, printing, mailing, and fulfillment.

Patty
Patty is J.P.'s daughter. She manages store operations, the largest division of the company.

Otto
Otto is married to J.P.'s sister Dora, who owns the other 50% of the stock. Otto worked for Prince after he married Dora until J.P. was named CEO. He is now a successful banker.

One of the biggest challenges faced by a family-owned business lies in the selection and management of a board of directors. Having non-family directors sit on a family business board is viewed by many as an excellent way to gain an outside perspective and add to the experience base that enhances its governance. However, as a video presentation that began the second day of the Family Business Invitational Conference showed, successfully merging the capabilities, skills, personalities and expectations of multiple generations of family members, as well as outside members of the board can be difficult.

A presentation and subsequent discussion led by Professor Lloyd Shefsky, Co-Founder of the Kellogg Center for Family Enterprises, centered on a portion of a board meeting of a fictitious family-owned business, "The Prince Company." During this meeting, many of the issues surrounding the function and role of a board of directors were uncovered. These included the depth of involvement and "voice" granted to inside versus outside directors; the role of the advisory board, versus a fiduciary one; and the chairman's leadership as benevolent dictator versus effective facilitator.

The scenario of the video: The Prince Company, a retail company with a single, large store and catalogue direct mail operation, has a board with two outside, non-family members. We're joining the company during a break in its board meeting, specifically at the conclusion of a presentation by an outside consultant named Ewing Williams in which he recommended the company sell its land and single large piece of real estate — the building that houses virtually all of its operations.

Our story begins as Ewing William finalizes his presentation, concluding that the company should sell its land and building (approximately 200 acres and 76,000-square feet, respectively). The building houses the company's retail store, showroom, printing facility, catalogue fulfillment area, and offices. The sale is projected to generate $25 million. If it is completed, Ewing recommends that the business rents new offices in one of the "over-built" office buildings in town, rents several regional stores (giving the company increased market and efficiencies), and disposes of the printing facility (outsourcing all printing, mailing, fulfillment, etc., of catalogues).

BRIAN IN BREAK ROOM — IAN ENTERS

Ian: Ready to discuss the Williams report?

Brian: I'm ready to discuss it, but I wish we would do more than just discuss and get something done. Sometimes I don't even know why we're here. It's frustrating. They are so good at the day-to-day running of the business. I just wish they were better at making changes to meet long-term strategic plans. That's where we can be most helpful. I hope they can see that.

Ian: I know what you mean. Sometimes I don't even care what they do as long as they do something! This has been dragging on for over nine months now, and we are sitting in exactly the same place as when we started.

Brian: Just like last year, when J.P. was so dead-set on signing a long-term contract with our paper suppliers. At least that was one time when their procrastination paid off. It gave us time to play the suppliers off against each other; we saved them a bundle.

Ian: What was it J.P. said? "Lucky break."

Brian: Do you think the kids are just going along with J.P.? Clearly, J.P. is reluctant to make changes. But I thought the kids would be more "with it" and see the future more clearly.

Ian: It's hard to believe that a family that does so well at disagreeing on family matters can be so indifferent when it comes to making a business decision of such magnitude. It's pretty plain to see that the proposal is what's best for the company and really for everyone concerned.

Brian: Well, let's face it; no matter what happens they are set for life. The other stockholders will take the brunt of it. It's just a shame that we can't help the family maximize its value; they really have a business with great potential.

Ian: Well, all we can do is try our best. I hope they understand that all we're trying to do is help them, and that we have no other agenda.

Brian: I think they know that. Actually, I think Patty is most attuned of all to the long-term goals.

Ian: There is always hope. Well, let's roll!

BRIAN AND IAN ENTER BOARD ROOM WHERE OTHER BOARD MEMBERS ARE ALREADY SEATED. BOARD MEETING RECONVENES

J.P.: Can we call this meeting back to order and get down to business? Patty, can you read back any unfinished business from the earlier session?

Patty: Certainly, J.P. Mr. Williams proposed that we sell our land and building, which as you know houses our retail store, showroom, printing facility, catalogue fulfillment area, and offices. Mr. Williams recommended that we rent offices in town and rent several regional stores, as well as out-source all our printing, mailing, and fulfillment of our catalogues.

J.P.: Thank you, Patty. Well, is there any discussion?

Ian: Well, J.P., Patty's summary is accurate but fails to get to the critical points. We can expect to generate $25 million by liquidating the company's real estate holdings. Renting allows us to consolidate our space, reduce our overhead and be more flexible and better situated to deal with future changes. Disposing of our printing facility not only frees up funds, it will lessen our management duties and allow us to concentrate on growth and securing a firm footing in the marketplace, effectively creating a barrier to large competitors. The capital raised would allow us to modernize all our facilities and expand our locations. If the numbers hold true, we can expect to double our income in the next ten years. That is a pretty healthy return.

J.P.: And if the numbers don't hold true, we could expect to lose our shirts. Without those real estate holdings in our portfolio, all we have are the burdens of merchandise, payables, people, and rent. My father built this company by soundly placing one foot in front of the other, by anchoring his finances in property that has increased in value thirty-fold, by building on that property our functional home, and not by building a house of cards. I, for one, don't want to be a party to self-destruction. This family has always been loyal, and I hope that isn't about to change.

Patty: What about our key employees? Steve is a valuable resource in our catalogue division. If we outsource everything, I'm not sure he'll stay. That would be terrible; we need Steve. And we owe him; he's been loyal to the family.

Brian: I know I'm new to the firm J.P., but your father's not here anymore and you're not a mom and pop operation any more. The market has changed. Foreign and domestic companies much larger than you are positioning themselves to saturate the market. People no longer want to drive as far. Women work and don't have the luxury of getting downtown to shop. People are shopping online. They are deciding where to buy simply by price comparison. You're right. Loyalty is critical. But today, the loyalty that really counts is that of the customer. Generating customer loyalty has never been more difficult, and it will only get worse. It has never been more important to generate customer recognition than it is today. Every person in America is your potential customer. You want them to get an image of your catalogue every time they close their eyes, and when they open them, you want them to see one of your stores. You not only want them to think of you first, you want them to think there is nobody in second place.

J.P. III: I think increasing our market share is the right thing to do. But I am afraid that I would have to agree with my father. I'm not so sure that it would be wise to sell off all our real estate holdings. Real estate is like money in the bank, only a lot harder to lose. There are other ways to increase our market share. A media blitz… Creative advertising… Prince has been primarily mail order for the last 43 years. It may be time to expand our brick and mortar operation, but not by knocking the foundation from under our feet.

Brian: To stay competitive in today's market, business has to be liquid. Not only are you losing money, you don't have available capital to grow. Stop and consider how much you could generate if you freed up capital to expand your retail business. I'm not suggesting, and I don't think Ewing was suggesting, that you totally drop your catalogue business.

Ian: If we outsource our printing, catalogue preparation, and fulfillment operations, we can concentrate on growing. We don't need the headaches that go along with those operations. We're not in the printing business, we are in retail. That's what we know and that's what we should concentrate on.

Patty: While I really want to expand store operations, I am afraid that I agree with J.P. on this one. This business was built on a solid foundation. What you are proposing would knock the foundation out from under us. You would stretch our management, as well as our resources, to the breaking point. It's just too risky!

J.P.: Patty is right. We would risk being a flash in the pan. Sure, maybe in the next ten years we double our revenue, but then what? Our debt will far outweigh our assets. All we'll have left is a pocket full of leases and a warehouse full of merchandise to pay off. Then, the real estate won't be worth a fraction of its current value.

Otto: Unlike Brian, I did know the real J.P. On the surface it would seem that holding onto the land is definitely what your father would have done, J.P. He was a very good businessman, truly. But the business climate has changed over the last 43 years; we need to change. I'll bet if he were here today, he'd recognize the need to change.

J.P.: Otto, I don't get it. At your bank, you loan companies money based on their balance sheet. You always told me that income statements are for venture capitalists, investment bankers, and speculators. We've never been gamblers in the family. There is a lot more to this business than the bottom line. We are more about the family line than the bottom line. Don't get me wrong. We all earn a good living here, yourself included. I don't think anybody in this room has any room for complaint. Some of the people in the plant have been working for us for 20 years or more. They have been loyal to us; they are like family. We have an obligation to them. We are not gearing up for a Wall Street takeover. I intend to leave my father's legacy to my children's children, and their children. Every business I know that has made it through several generations has a property base. My father used to say, "Bricks don't spoil!" And he was right. That's why I was willing to put up my money to pay the mortgage when money was tight a few years ago.

Otto: J.P., I know you saved the real estate. We all appreciate your having done that, but you got an increased share of the building for it. Now the property is worth a heck of a lot more. Just because you own the majority of the property, however, doesn't mean you can ignore the desires and best interests of the minority owners, even though — or maybe especially because — they aren't involved in day-to-day operations. The only thing hanging onto this building is doing is preventing this company from growing. The only thing continuing to hold onto the building will do is invite competition that we can't beat. And when the business fails, the property won't allow the kind of compensation and distributions the family is accustomed to receiving. Don't forget that your father split the company between you and your sister. We have to heed the interests of Aunt Sue and your niece and other son, J.P. They deserve the best return we can deliver for them. They want the dividends that will come with earnings growth. I know you're sentimental about the building, because of your father's statement and because you saved it when the company was short of cash, but we're a board here. We have to pay attention to the interests of all the shareholders, especially those not close enough to know all the issues. Dora is in full agreement with me here. It's time for things to change. Hanging onto this building is not going to put a dime in anybody's pocket. I know, you're worrying about what Buddy and Patty are likely to do. Growth might mean bringing in professional managers and executives. This building isn't security for your kids. In truth, there is no security. Only their capabilities at building the business can provide them security. And, I think they are both pretty good at what they do. You should have more confidence in them.

J.P.: This business carries my family's name, and I am trying to make sure that it continues to retain the dignity which that name deserves. That's unlike you — you only care how much money it will put into your pocket.

Otto: You're right, I am concerned about the money. You're absolutely right. You're a fiduciary. Your job is to protect my assets. You should be worried about that, too. You're absolutely right. I don't think my children want to go into this business, and I doubt that your son, Alex, will leave his medical practice to enter the business. I'm not thinking that my grandchildren will be in this business either. You want to leave this business to your heirs, that's fine. I'd rather make sure mine have enough capital to go into whatever pleases them.

Ian: With all due respect, if important business issues like this are going to be decided on the basis of family relationships, I'm not sure what I'm doing here. The question to me is, "What's good for the business?" You folks are getting all emotional about it. This issue needs to be resolved rationally. My investment bankers never would have put up with this sentimentalism. J.P., you know better; we've talked about it. When you invited me to sit on your board, I asked whether this would be a problem. You assured me it wouldn't.

Brian: Please, everyone. Ian's right. This is not about what Johnny said over last Thanksgiving dinner. This is about business and making sound decisions based on sound business goals and practices. But, J.P. has a point too. I don't think it has to be an either/or situation. Why can't we find a compromise where we maximize operating results, while preserving your family values?

J.P.: Thank you, Brian. Obviously, we must do as you say. I suggest we table this matter, give it some thought in between meetings, and get on with some of the important business at hand. Buddy, why don't you explain your proposal for cutting mailing costs?

Ian: J.P., let's not do this again. Whenever a decision is important and difficult, we table it. This issue is very important. Yes, it's difficult for you, but it shouldn't be. Brian and I have spent a load of time studying this. In candor, it's frustrating. If we're to bring value to this company, this family, if we're to help make a difference, these are the issues where it counts.

J.P.: Ian, you and Brian bring a lot to this Board through your analysis and knowledgeable comments; you truly make a difference. Having you on the Board has helped us progress to where we are at today. And I'm sure I speak for the whole family when I express my appreciation and gratitude to both of you. I just need a bit more time to decide. I promise you, I promise all of you, that this topic will be at the top of the next meeting's agenda. Now, if we can proceed. Buddy?

What has been presented is an example of a board meeting that doesn't work for a variety of reasons. The audience at the screening of the video consisted of representatives from family-owned businesses as well as individuals who sit on boards of family-owned businesses. To further the discussion surrounding these issues, Professor Shefsky posed questions to audience members:

Professor Shefsky
The first issue to address is simply, why didn't this meeting work? What was wrong, aside from some of the snide comments?

Audience
There wasn't any kind of substantive discussion around the sale of the building. The issue was presented but not really discussed. The discussion revolved around issues of money, not anything relating to business judgment.

Professor Shefsky
What about the money issue? Did anyone notice J.P.'s opinions about the value of the real estate? When it comes to the business issues at hand, there are some obvious inconsistencies. Comments?

Audience
It seems as though J.P didn't have confidence that the proceeds from the sale would be taken and used to run the business effectively. One of the participants even suggested hiring professional managers, and he didn't seem confident or comfortable with that solution either.

Professor Shefsky
That is the interesting issue — whether or not J.P had confidence in the kids to run the business — and also the inconsistency, especially since his two children are running the business now. There does seem to be a distinction between his confidence in them to run operations versus his confidence in them as board members. Speaking of board members, what about the fact that the two outside directors met privately before the meeting? Should factions within a company have such meetings?

Audience
Open and frank discussion is the key to making board meetings work so there should be no pre-meetings amongst them. The real underlying issue in this particular instance, however, seems to be a tradition of board members not being listened to, especially the outside members. Those two gentlemen should have discussed this issue with J.P. personally.

Professor Shefsky
It was clear the board members were not listening to each other. Why would J.P have brought outside directors to the board and then not listen to them? Comments?

Audience
This raises the issue of the positioning of the board. You can call it an advisory board, but if you say it's a governing board, that's different. J.P. seems to view this as an advisory board with outside members present to create a challenging and inquisitive environment that makes you think, but not necessarily act.

The directors, on the other hand, feel they have a fiduciary responsibility. They are frustrated by the difference in expectations. It's not easy to find good directors. If you really want to have independent thoughts and ideas—and in a competitive business environment it's a necessity—it behooves those in a family-owned business to bring in people who know their points of view will be heard and listened to around the boardroom table. This is on the business side, not the ownership side. There was some confusion surrounding this in the film, as family members were discussing their values, not addressing business issues.

Professor Shefsky
These comments also raise the issue of distinguishing between the quality and the nature of the make-up of the board and the quality and the nature of the operation and process of the meeting. We're looking at the latter — was this meeting being run?

Audience
The chairman of the board should run the meeting, but in this instance he lost control. The two outside directors behaved terribly — they talked down to the children, the family, and even made fun of family values. Ignoring the family values is not going to instill any confidence in their ability to give good advice. Throughout the meeting, the children seemed to be in conflict avoidance mode as a result.

This was an example of a completely dysfunctional board. The outside directors were coming to grips with the fact they were only on the board because J.P. was interested in controlling his brother-in-law, who also happens to be the minority shareholder. He enlisted the aid of those outside directors without their realizing it as a means to block the concerns and demands of that individual.

Professor Shefsky
Interesting observation. There was clearly antagonism between J.P. and his brother-in-law. In this case, it seems that taking control of the meeting has to involve not only taking control of the outside directors but also the outside family member that owns a significant part of the company.

Audience
There is a bigger issue though. Does a chairman who brings in non-family, outside directors really seek their counsel or reaffirmation of the family values? He's really looking to have what he believes in authenticated for the rest of the family.

We see a trend emerging where outside directors are being asked to sign an undated letter of resignation so if they disagree with the chairman, he has the ability to say goodbye.

Professor Shefsky
Too frequently we find the CEO who invited outside directors to the board has expectations of them. What comes to mind is the Disney board of directors, where the compensation committee of three includes two members who are so closely aligned with CEO Michael Eisner that it's almost comical. Is that situation much different than what you find in a family business?

Audience
You are going to find a very different kind of board depending on the culture of the company. For example, I sit on two outside boards and was brought in because I would challenge what had gone on in the past, as the business found the past unacceptable. The consensus was that outside board members were needed to help set a direction. That is the culture in organizations that are moving ahead, which is in direct contrast to the culture of the Prince company, where the culture seems to be a financial death wish.

Professor Shefsky
Let's tie that comment into the question of culture — how you get the right mood or atmosphere in a board meeting. The expectations of outside board members supercede anything that goes on during a board meeting because those who are being asked to sit on the board normally go into it thinking they will be heard, their advice will be taken and they will be respected. But, the individual inviting them to sit on the board may have a totally different agenda. To alleviate this situation somewhat, the use of facilitators in board meetings is becoming popular, along with interviewing a prospective director. Both are valuable in getting people to think and communicate the right way. Before we conclude, are there any more comments?

Audience
It would have been interesting if they had studied the implications of the real estate sale over a number of years. The comments were too focused on not doing it and what it meant in terms of lost income and revenue. The outcome might have been different if it provided a look at the transaction from all sides.

Professor Shefsky
Good observation. This presentation was an example of a dysfunctional board meeting, and through our discussion we've looked at and discussed some of the reasons why. Throughout this Family Business Invitational Conference, these and other issues will be explored in further detail.

Panel: **Best Practices from Business Families**

PANELIST: Grant E. Gordon
William Grant & Sons Ltd.

PANELIST: Norbert E. Schwarz
Foster Farms, Inc.

PANELIST: Benjamin S. Oehler,
Waycrosse, Inc.

Best Practices: Lessons From Leading Family Enterprises to keep the legacy alive

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For family-owned businesses to mature and succeed into successive generations requires a unique melding of business and family issues. How do family members determine what roles they will assume in the business hierarchy as the family expands and the business grows? How important are outside directors? And what mechanisms should be incorporated into the company's governance structure to make sure that the company remains a family-owned business? The "Best Practices from Business Families" panel representing three prominent businesses in their second through sixth generations examined these and other family governance issues. Participants included: Grant E. Gordon, fifth-generation director of William Grant & Sons, Ltd. (Scotland); Norbert E. Schwarz, advisor to the family owners of Foster Farms, Inc.(California), charged with running their educational programs; and Benjamin E. Oehler, President and Chief Executive Officer of Waycrosse, Inc. (Minnesota), the family office of the Cargill and MacMillan families

SHARED VALUES, PRIDE IN FAMILY BUSINESS HERITAGE

It's the pride of family and its shared values — and how they are both brought to life and upheld over time in the business — that is at the core of the successful Family Business Enterprise.

"Our values are the cornerstone of what really holds us together today," said Grant E. Gordon of William Grant & Sons, Ltd. "We are proud we are an independent family company. We are proud of our heritage as a Scottish family company and conscious of the privilege we have of being a family, and naturally take pride in our products and their quality.

> "Our values are the cornerstone of what really holds us together today. We are proud of our heritage as a Scottish family company and… take pride in our products and their quality. But…people are the value creators. And respect for them is a first and foremost value."

"But, naturally, with all successful businesses, people are very much at the heart of it. They are the value creators. And respect for them is a first and foremost value."

Ensuring that the foundation of the Family Business Enterprise remains solid requires responding to changing needs and challenges in governance, education and communications.

GOVERNANCE APPROACHES — FOR THE FAMILY, FOR THE BUSINESS

The most successful family-owned businesses today have sought to nurture that sense of the business as a heritage in succeeding generations. It can be a challenge. As the business grows, family members may become remote from day-to-day operations as professional managers step into the executive suite. As the family grows, keeping it involved at the governance level becomes problematic from the numbers perspective alone.

As the panelists illustrated, families have established different types of governance structures designed for different purposes. For example:

Family assemblies, gatherings or councils
These meetings function as a family governance component. They usually meet once a year and are designed primarily as information sessions, where family members from all generations can meet each other, and ask questions about the family business. They tend to be rather informal, more like the traditional family reunion rather than a corporate annual meeting, but still allow members to feel involved in the business, with available educational components, too.

Outside advisory or director boards
These are typically composed of non-family members who are former or current business executives with expertise in the family business industry. They act as advisors, educators and mentors.

Corporate governance
This is the more formal scenario, which usually includes at least two board layers and management. The generation cycle tends to dictate the composition of the boards, with more family members represented in younger family businesses. The governance could be divided into an outside advisory board that is composed completely of non-family members, and a standard board of directors that is a mix of family and non-family members. It might also include a management group that's either comprised of a combination of family and non-family members, or is 100% family or not, depending on the generation.

In all three families represented by the "Best Practices" panelists, governance is dictated by family structure as well as the corporate structure, and the generation that's in charge. William Grant & Sons, a fifth-generation family-owned business and the fourth largest scotch whisky maker in the world, has taken the additional step of creating a Family Charter. This spells out the family's relationship to the business, covering key issues such as simply being together in business, as well as business strategies.

"We talk about the board of the company," said Gordon, a family director. "What are the rules for deciding whom in the family is going to sit on the board?" Even though the company is run by an outside management team chaperoned by a professional board, "it is important that the family has oversight and we can discuss key strategic issues," Gordon said.

The Grant Family Charter, considered a "living document," can be altered as often as necessary to address family decisions. Aspects focus on any number of areas, from family member entry and exit from the business to how individual financial needs of family members are handled.

But the most common method for broad-based dissemination of information about the company is the staging of some sort of annual family meeting. These are designed to give shareholders of all ages and generations—whether they're in-laws or direct descendants—the opportunity to learn about the business and how the business is operating, and mix with non-family officers or board members. Grant calls its yearly meeting its annual family assembly, while Foster holds its family gathering.

Aside from the family get-togethers, each family has a governance layer composed of family shareholders, called the family council at Grant and Foster's "KT" (for "kitchen table") group. Grant's family council meets three times a year, discussing family values, vision and the charter. This council is considered part of the governance structure because it truly represents the shareholders' interests, and is only for direct descendants. The discussions concentrate on just family-focused issues many that are contained in the Family Charter, such as whether the family is willing to take on extra debt and the accompanying risk.

Because it is headquartered in Scotland, Grant uses a European governing structure that differs from most U.S. companies in that its day-to-day management decisions are overseen by its executive or management board, which consists of company executives. Currently, no family members are on this board. However, the supervisory board, which is made up of one management member, the CEO, and other independent directors who are not active in the business, includes three family members — Gordon, his brother and cousin. Still, the non-family directors are in the majority. This board is critical to the company's success because it is responsible for shaping the company strategy and acting on behalf of the company's shareholders — the family.

"You have a governing structure with, on one hand, the family council, which represents the shareholder group in family issues, the vision, the various other issues under our family charter. And you have the supervisory board, which really sits on top of the business to make sure it's successful," explained Gordon. He feels strongly about the inclusion of outside directors on a company's board because they bring different ideas, experiences and points of view to the party.

"When the family is running the business, notwithstanding the fact that you have independent directors, you tend to see the independent directors crowded out of debate," he said. "The issue for us has been how, in terms of the business governance, we actually create an atmosphere within the board where we are actually listening to everybody at the table."

> "The issue for us has been how, in terms of business governance, we actually create an atmosphere within the board where we are actually listening to everybody at the table."

Cargill faces some different issues. There are roughly 105 living family members, representing generations four, five and six.

Benjamin S. Oehler, President and Chief Executive Officer of Waycrosse, Inc., the family office of the Cargill and MacMillan families, explained that, most of the middle, or fifth, generation family members spent some years working in the business—many chalking up 20-year careers —before moving on. The board, however, is still populated by some family members. Its 17-person membership consists of five managers — the CEO, chairman, CFO and two business unit leaders — six true independent outside members and six family members, two from each of the three family branches.

But the family is most represented by the separate family corporation. It's housed in Cargill's corporate offices, and is owned by the family roughly in the same percentages that they directly or indirectly own Cargill. There's also a separate 12-family member board, plus Chairman Oehler, and a 25-person staff. This corporation handles all family business, including financial planning, tax and estate planning, trust and custody services.

EDUCATION HELPS OFFSET POTENTIAL GROWING PAINS

As in any family, members of a family-owned business don't all necessarily get along, especially when it comes to spouses. Foster Farms, a much younger U.S. company than Grant, started going through those kinds of growing pains as early as the second generation, known as G-2. To combat them, Foster has set up two quarterly sessions — the family meeting, which is relationship-based, meaning any Foster relative can attend, and the Foster shareholder conclave, known as Foster Shareholder University, which is only for owners and direct-descendants. Foster has labeled these meetings as educational sessions out of the belief that greater knowledge about the business and how it is run will trump family in-fighting. These are held in addition to its annual family gathering, which is held over a weekend at a resort with fun activities for all family members.

Norbert E. Schwarz, Foster's educational advisor, was brought in with the sole purpose of guiding education programs planned for Foster Shareholder university, mainly geared to the Foster family's third generation. "The University program objectives are simply to offer owners an opportunity to learn more about their businesses and their responsibilities of ownership," said Schwarz. Key to the education, Schwarz believes, is the ability to bring along the next generation to assure a smooth transition to G-3.

For example, Shareholder University begins with a presentation by company management, giving a company update. That may be followed by a tour of company facilities, which might mean touring Foster's poultry processing plants in Washington State, Colorado or Arkansas. During the tours, "we also talk very frankly with management about the strategic plan and how management is progressing in the accomplishment of it on a quarterly basis, much like in a board meeting," said Schwarz.

The education doesn't stop there. Stockholders are also treated to a presentation on simply understanding the business, which might mean a discussion by the corporate attorney on topics such as tax issues for one meeting, and a presentation on management information systems at another. There's also a section that focuses on the overall family business governance, covering everything and anything related to company or family finances, including a discussion on understanding financial statements. And what University wouldn't be complete without homework? "We provide a lot of reading materials, self-study materials for them to take home," said Schwarz.

This education process contributed to the setup of the Foster family governance structure. The family council, or the "Kitchen Table" group, is made up of people who represent all the shares of the company. The formal board of directors is all family members, and an outside advisory board consists entirely of non-family, independent, non-management members with no fiduciary responsibilities but with the same impact as a traditional board.

COMMUNICATION, COMMITMENT MINIMIZE TRANSITIONAL STRESSES

The future of any family business, no matter how it's structured, is tied to communication. "How do you maintain your strategic position, meeting capital and liquidity needs and helping the next generation to assume leadership?" asked Waycrosse's Oehler. "Communication is huge. You can't do it without communication."

> "How do you maintain your strategic position, meeting capital and liquidity needs and helping the next generation to assume leadership? Communication is huge. You can't do it without communication."

That's because communication among the family members and company managers can help thwart any emotional issues that can arise, especially around transitional stresses, or succession. One way Waycrosse/Cargill have tackled this issue has been to work on family, individual and management visions. "We brought the management directors and the family directors to an off-site meeting for three days to learn about each other, the role of the management people in a family business, and the role of the family members in a family business," Oehler explained. As he noted, sometimes the family vision and managerial vision are not necessarily the same.

To avert those types of problems, at Grant, its shareholder/family council and the non-family supervisory board practice what Gordon calls "cross-communication," via regular meetings between the chairman of the family council and the chairman of the board. "Every time there is a family council meeting, the chairman of the board is debriefed by the chairman of the family council and vice versa," said Gordon, explaining Grant's means of keeping the communication lines open and the relationships firm.

Oehler of Cargill believes that strengthening the family business relationship is critical, especially if the company has moved on to the stage where the family is no longer actively involved in the company's management, as is the case with Cargill. This ties in with the common occurrence of young family members who may feel entitled to a job at the company even though they may not be qualified. "You are always part of the family, but for an opportunity in the business, you have to play according to the business rules," Oehler said.

And then there's that eventual struggle with transition or succession. At Cargill, for example, the company is currently transitioning from the fourth and fifth generations to the sixth generation, moving from a kind of "cousin consortium" that had run the business to a totally professional management with family members as shareholders.

"There are a lot of stresses around the clash of individual dreams and expectations, and management dreams and expectations," he said. That pits senior generation expectations against middle generation expectations, which are often not the same. "All of a sudden they see emotional issues develop at the board level that really are family issues, not business issues."

This can all lead to inconsistent information, limited knowledge, misunderstandings and hurt feelings, which can distract family members and managers from the business of minding the business. The result: communication breakdown. But how can this be avoided? Simple — by instituting a formal governance structure that includes regular meetings and information sessions, and engaging in ongoing education programs so that family members not only understand the business, but also understand their own roles. That means a successful company must have informed and committed shareholders, too. "Because if you are not working in the business and you are not on the board, what the hell do you do other than collect dividends?" Oehler asked.

Indeed, attending meetings, reading materials, and asking questions are important activities for family shareholders. If family members sit on a board, they shouldn't be silent but should actively participate in the debate to add value to the discussion. Because someday, any qualified family member of this generation, or the next, could assume the role of chief executive officer. Family members need to keep in mind that it's a privilege to be part of a family business, and they need to love the business, during bad times as well as good times, so they can truly appreciate the value of what they have.

As Gordon stressed, it's the people who are really the value creators in the business. But Oehler would add to that a need for a sense of history and the love of the business. Combine those elements with a well-run business plus non-family member expertise, and the final end equation is a successful family-owned business that can last for generations.

Norbert E. Schwarz
A principal of The Family Business Consulting Group, Inc., Norb Schwarz was raised in a family business started by his father and has been working with family businesses for over 30 years. His consulting has focused on management, strategic planning, outside boards of directors, and succession planning in multigenerational environments. In addition to his background in consulting, Norb has held positions of chairman, chief executive officer, and chief financial officer in a variety of industries. In addition to speaking before executives and professional groups on a variety of family business and economic issues, Norb has written articles for *Nation's Business, The Journal of Commercial Bank Lending* and *The Midwest Banker* and has been quoted in *The Chicago Tribune* and *Chicago Sun Times.* An MBA graduate in finance of the University of Wisconsin, he also has been an elected delegate to two White House Conferences on Small Business, has served on the Economic Advisory Committee of the Kansas City Federal Reserve Bank, and currently serves on the boards of several family-owned businesses. He and his wife Carol live in Chicago and have three children and five grandchildren.

Grant E. Gordon
In recent years, Grant Gordon has helped launch the UK chapter of the Family Business Network. F.B.N. International is the world's leading association for family companies. He co-founded the Institute for Family Business (UK), an independent not-for-profit association that aims is to promote the success and sustainability of family companies and foster a dynamic family owned business sector in the UK. Grant is Director General of IFB. Gordon's background is in international marketing & commerce. He spent 20 years in the field, involved as a working owner in the development of William Grant & Sons Ltd., a 5th generation family owned company, owners of Glenfiddich and other Scotch Whisky brands. He continues to serve his family firm as a non-Executive board director and member of the Family Council. Additionally he sits on the board of Laurent-Perrier S.A., the French family controlled and publicly quoted Champagne house. Recently he joined the board of MVI Group, a private equity company, specializing in mid-size buy-outs and venture capital development.

Benjamin S. Oehler
Ben Oehler is President and CEO of Waycrosse, Inc., the family office for the Cargill and MacMillan families. Prior to joining Waycrosse, he was an Investment Banker for 20 years, last as Managing Director and Group Head at U.S. Bancorp Piper Jaffray. Ben's transaction experience includes public offerings, private placements of debt and equity securities, mergers and acquisitions, fairness opinions, and valuations of private companies. From 1972 to 1979, Ben was an administrator at the Minneapolis College of Art and Design, last as Director of Extension Programs. Trained as a journalist, he worked at the *Minnesota Daily* and the *Twin City Observer* from 1970 to 1972. Ben is a graduate of the University of Minnesota College of Liberal Arts and has completed course work at the University of Minnesota Carlson School of Management. From 1990 through 1999, Ben received training and experience as a Stephen Minister, providing counseling to individuals during times of transition and loss. Ben has played leadership roles in a number of non-profit organizations including Plymouth Congregational Church, Lake Country School, Theatre de la Leune Lune and the Minnesota Zoological Society.

The Family Business Heirloom
PRESENTER: Annelie Karlsson Stider,
Stockholm School of Economics

Family Business in Emerging Markets
PRESENTER: Tarun Khanna,
Harvard Business School

Achieving Change in the Family Business
PRESENTER: Barbara Murray,
Glasgow-Caledonian University

Best New Ideas from Academia

Panel: **Best New Ideas From Academia**

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As we have learned throughout this conference, there are many different avenues available to families to help them explore how to best govern, operate and pass along the family-owned business. This session adds the academic element, introducing the research conducted by three family business experts who studied the businesses from the perspectives of a social anthropologist, a strategic statistician and a psychologist. Even though their research focused upon European, Asian and Latin American family-owned businesses, the information is practical and relevant to most any family business, and could be applied to U.S.-based businesses as well. A family business can be viewed as an heirloom to be cherished and nurtured, through a statistical approach that measures the role of family members, and via a birds-eye view of the phases of the succession journey. The "Best New Ideas from Academia" panelists presenting their findings on these studies are leading family-business researchers: Annelie Karlsson Stider, social anthropologist, Stockholm School of Economic; Tarun Khanna, strategic statistician, Harvard Business School; and Barbara Murray, psychologist, Glasgow-Caledonian University.

THE FAMILY BUSINESS HEIRLOOM

Annelie Karlsson Stider, Social Anthropologist
Stockholm School of Economics

Stider's research looked at Scandinavian families who had been in business for several generations. She focused on the Bonnier Group, a multi-generational, family-owned publishing and media conglomerate based in Stockholm, Sweden, that has been in business for more than 100 years. In her discussions with family members, they talked about tradition and legacy, issues not ordinarily associated with family businesses. These concepts did not refer to the financial condition of the company, though. And "capital" also took on additional meaning, going beyond the common definitions usually applied to business balance sheets. "They did not talk about wealth. They did not talk about money," Stider said. Instead, they viewed their family business as an heirloom, something to be cherished and cared for, like a Masters' painting or antique jewelry. "And that was more valuable than financial capital to them. That was the basis of what they inherited," she said. To the Bonnier family, money was a means to an end, not the sole purpose of the family's relationship to the business. Their primary role is as stewards of the business for future generations. The Bonnier family business that is passed along from one generation to the next is its heirloom.

STIDER DISCUSSED THE FOUR DIFFERENT ELEMENTS OF THE HEIRLOOM:

Financial capital
Despite the obvious description, this form of family capital could also be labeled the financial legacy. But it is not just about money. "To them, the financial capital or financial legacy was something else. It was not business. It's about owning products, owning services," Stider said. That has formed the basis of what they've inherited. For this media company, it's their newspapers, magazines and broadcast operations.

Cultural capital
This is the profession of the family business, so for the Bonnier family it's their various media properties. Included in this form

of capital is a set of values on how business is conducted. For a media company like the Bonnier Group, this also adds another layer — free speech and how the family business handles that privilege. "It's about being the humble servant of the free speech," she said. Perhaps that's why Bonnier has published several Nobel Prize winning books. As Stider explained it, cultural capital is basically a way of life, an integral part of each family member's being. If Bonnier were a brewery family, for example, they would have beer coursing through their veins.

Social capital
This capital refers to the relationships the family business has built up over the years with business associates, such as suppliers, customers and employees. Stider said these people need to be cared for, too. For example, a Bonnier family painting from the early 20th century shows family members gathered with authors and journalists, listening to one author reading from a book that Bonnier published. "And so for several generations, they brought artists home, to their family mansion, where several generations of publishers could interact with the cultural world in Sweden and learn the trade that way," she explained. "They even talk about it as inheriting authors from their fathers and mothers." She believes the Bonnier family illustrates how family members should recognize their place in a country's society, and realize that they are just as professional as the non-family professionals, because they also bring a different and important kind of knowledge to the business. "You should try to transfer it to next generations," she said.

Symbolic capital
This is capital that family members inherit which is not necessarily connected to the business. A prime Bonnier family example is the family mansion, where there's a portrait gallery of all the authors that Bonnier has published. The family socializes at the mansion with Nobel Prize winners, customers and clients, and holds its annual meeting here. "This is where the family can host dinner parties and wedding receptions and so on. It is also where they gather once a year for a Christmas party," said Stider. Part of the symbolic capital is also inheriting the responsibility for ongoing family activities, such as an annual award-giving ceremony, that should be transferred to the next generation.

In addition to these four types of capital, family members inherit a position within the group, which translates into a sense of "belongingness." This feeling of responsibility becomes even more apparent once family business heirloom owners have children. Then the passing on of the family heirloom takes on even more significance for future generations. As Stider explained, the Bonnier family seems to fully understand its responsibilities as stewards of the family business. "As some members of the Bonnier family put it, 'I didn't do anything to deserve this. I don't own it. I just steward it for previous and coming generations.'"

The Bonnier family viewed their family business as an heirloom, something to be cherished and cared for, like a Masters' painting or antique jewelry. "And that was more valuable than financial capital to them. That was the basis of what they inherited."

When thinking of a family business as a family heirloom, perhaps it's most important to separate the heirloom activities from the business activities. "Managing an heirloom is different than managing a business," she said. This way, should the family decide to sell the business, it will not also sell the heirloom. So to address that possibility, the Bonnier family has relegated the family mansion, its award programs and other family activities into a foundation, an action Stider recommends for family businesses to preserve the heirloom. Family members should also recognize that the company's outside professionals can certainly help maximize the return on assets, "but you can never expect them to watch over your heirloom the same way that you do." That is why she recommends the family have representatives on the board of directors and also members actively working in the business. "Having family members actively involved in the business is seen by both the family and the employees as a competitive advantage," she said.

Tarun Khanna, Strategic Statistician
Harvard Business School

As a financial strategist who has studied family businesses through the lens of a statistician, Khanna has spent most of the past decade focusing on businesses in Asia, Latin America, and in parts of Europe and Africa. During that time, privatization and deregulation activities have accelerated, therefore intensifying competition. Khanna is especially interested in the "magnitude of the changes in the intensity of competition" and not the gradual changes caused by actions such as NAFTA. A member of a family business based in India himself, Khanna said he has measured the intensity of competition as increasing by as much as 10 to 50 times in his home country. So he and his team chose to investigate the responses of family businesses to intensifying competition caused by outside factors, such as economic and political turmoil.

In order to derive the types of empirical evidence appropriate for his measurements, Khanna used what he called "the Harvard Business School tradition" method, that is meeting with the company CEO for two to three days and immersing himself in all the minutia of the company so he could better understand it. To illustrate the themes of his research — the role of families in times of distress and crises and how families engage in entrepreneurship and set up a whole new set of businesses — Khanna focused on two projects.

Project One
The role of families in times of distress and crisis, as exemplified by economic transition, was illustrated in India when a huge foreign exchange currency crunch spawned numerous new regulations in 1991. So he measured what happened to the family company in the mid-1980s and mid-1990s. At about that same time, Chile suffered a major transition from a socialist to a market economy when the son of the dictator Pinochet took over. The companies Khanna studied had revenues of roughly $20 billion to $30 billion in U.S. dollars, and were well established, some for as few as 20 to 30 years and others for several hundred years.

In looking at theses two critical economic backdrops, "I was interested in understanding whether family businesses fall apart in distress, under this kind of economic and political distress. Or, do they somehow strengthen and re-enforce the mechanisms that hold them together," Khanna said. He defined these mechanisms as family councils, the means of interacting and communication. To his surprise, the most successful companies were those where the families managed to strengthen the bonds that held them together. "They were the companies that actually did a lot to bring together the members of the family," he said. The success encompassed improvements in shareholder value, profitability, market share and other critical business measurements as well.

Project Two
Regardless of where the family business is based, "family businesses have played a major, in fact the major role, in new venture creations," Khanna said. For this ongoing project, Khanna and his team studied family companies in Argentina, Chile, Brazil, Mexico, India, Hong Kong and some in South Korea and South Africa, covering a broad range of political and economic environments. His study revealed that the families had harnessed the resources that were spun out from their existing businesses and directed them towards other lines of businesses. Therefore, they launched some very successful new businesses, "in ways you tend not to see in this country," he said. Unlike in the U.S., where venture capital funding is plentiful, he said this phenomenon is due to the lack of the more traditional funding opportunities in many of these countries. "So society ends up relying on the existing mechanisms, recycled cash and funds towards new enterprises, and that is generally what you see in most of these places," he said. As a result, families have emerged as agents of new venture creations. The companies studied all had well-established core businesses, and had successfully accommodated the diverse interests of subsequent generations. For example, at a Mexican steel company, a member of the next generation earned a college degree in finance and wanted to set up a financial services company. That was successful because the family business supported the other interest. However, the company had to make sure it had the appropriate governance mechanisms in place so that the core business was not harmed. "With the appropriate governance processes there is case after case of that having been done successfully," Khanna said.

"Family businesses have played a major, in fact the major role, in new venture creations…in ways you tend not to see in this country." [This is partially] due to the lack of the more traditional funding opportunities in many of these countries.

At the same time, because global capitalism is running rampant in these countries, the family businesses must contend with the increasing competition from U.S. companies setting up shop in their own backyards. But Khanna was impressed that the native family businesses have been flexible enough to maneuver around their larger U.S. competitors and have performed well.

Following the outcome of his first project, where he looked at whether family businesses could survive economic and political turmoil, Khanna's team gathered additional data from Argentina, and found two different types of family involvement that was evident during a period of rapid change. He called these the "blanket family involvement" and "constrained family involvement." He found that families arrived at these involvement levels through trial-and-error and experimental processes that may have lasted over a couple generations.

1. Blanket family involvement means that most any family member can become involved in the family business. This type of involvement can raise what Khanna calls the "dissonance measure," which can signal communication problems within a company. In many countries around the world, family business operations may be divided into five or six very different businesses, or divisions, each run by a separate entity, which is held together by an umbrella organization. The measure of dissonance is the degree to which the different businesses don't tie together. Khanna found that management difficulties or the lack of communication within the business was much more related to the unconstrained involvement. Therefore, this system can negatively affect a company's ability to compete.

2. Constrained family involvement, on the other hand, gives very detailed specifications and direction on when and how the family should intervene in the business, and under what circumstances. In other words, it provides a roadmap for family involvement, which may cover entry and exit rules, dispute resolution mechanisms and the entry of outsiders. This system tends to raise the measures of profitability and return on assets, while the blanket involvement does not. As for the measure of dissonance, this constrained involvement does not affect it at all.

Of course the impact of these levels of involvement can become more pronounced as the company grows and operations become more complicated. That introduces the argument against this precise listing of guidelines and family involvement rules that suggests that companies only need a vision and a major philosophy that can guide the family decisions because it's really too difficult to spell out every anticipated issue. Khanna confesses that this is what he expected to find. Despite his actual findings, he still believes vision is important. "I think what it says is that the vision must be supplemented by pretty detailed guidelines of who does what when. At least that is what these data seem to say in this one country," he explained.

Still, his research concluded overall that "families appear to add a lot of value in turbulent times," he said, as was revealed in this first project. He found no evidence that family businesses pulled back in response to increasing competition. Instead, he believes the disciplined, constrained family involvement system appears to correlate much better with success than the "carte blanche" model, which allows family members to do as they please. "That really seems not to work well, especially in competitive times," he said. And it's unlikely that intense competition is going to go away anytime soon.

Barbara Murray, Psychologist
Glasgow-Caledonian University

It's not often that a psychologist is invited to become intimately involved in studying the dynamics of a family business, but that's exactly what happened when Murray entered the lives of five family businesses operating in the United Kingdom for five years, starting in 1994. This research gave her the opportunity to look at what she calls the family enterprise system. Most researchers who have studied transitions and successions have looked at the family business from the perspective of one particular constituent group, such as fathers and sons, or the effects of transitions on the company's performance. But she believes she is the first researcher to study the family enterprise system the way she did. "I do not think anybody, to my knowledge, had really studied the family enterprise system, meaning everybody in the ownership, the family and the business, everybody and every group and department that has a vested interest in the outcome of the journey of a succession," she said. It involved trying to understand what kind of process, or journey, the whole system goes through. As part of her procedure every three months she collected data from husbands and wives, the whole families, and the boards of directors. She is still in touch with the families today.

During the succession transition, when a family business moves from the controlling ownership of the old to the leadership of younger members, they have to blend together, but that usually results in turbulent, sometimes chaotic transition periods. "When a family business goes through a transition period, as happens during the succession period, when people have to think about continuity of the leadership of the business and continuity of the ownership business, there is a time when some of the old is there and very dominant, and there is a time in which some of the new is coming in and trying to become more dominant," she explained. It's certainly clear why this situation can cause chaos. There's pushing and pulling, and arguments about whose way is best. This can happen whether it's moving from a controlling ownership to a sibling partnership or from a sibling partnership to a cousins' consortium. However, despite the turmoil the transition can cause, it also offers the opportunity to review how the company had been operated in the past and to contemplate what the family would like to achieve in the future. "And somehow during that window of time we can do the communicating and the talking and the deciding to establish a structure that will work for the next stage," Murray explained. "That is what transition times are all about."

"When a family business goes through a transition period, as happens during the succession period, when people have to think about continuity of the leadership of the business and continuity of the ownership business, there is a time when some of the old is there and very dominant, and there is a time in which some of the new is coming in and trying to become more dominant."

What she set out to uncover in her research was why some family enterprise systems seem to sail through generational transition periods rather smoothly, while others have a difficult time navigating through the choppy waters. Her overall findings were:

1. Succession is a journey, and by studying the data gleaned from a birds-eye view, or as she called it, "helicoptering above people's lives and the individuals and the businesses," she determined that there are some discrete phases or stages in the transition periods.

2. The most important component, the "real meat" as she calls it, is the exploration phase, which is critical to the succession outcome.

The time frame of the journey can take much longer than some families might expect, a daunting process. "It is an astounding finding that these generational transition periods can take sometimes upwards of five, six, seven or eight years," she said. "People are not used to thinking about being in transition for that length of time." Instead, most people are conditioned for an instant solution, otherwise something is seriously wrong.

Murray uncovered seven discrete phases of the transition journey:

Phase One
Technically, this activity is not within the phases, but is still considered part of the process because it's when the system is preparing for the transition. Family members are acknowledging that even though the old way of operating the business has served them well, it's probably becoming somewhat obsolete. That realization can be a bit unnerving, because if they continue to operate as they have, that may not work well for the company's future efforts. "So it is a sense of unease in the key players and in the system as a whole that something may need to be done here," she said.

Phase Two
This is more of an instant phase that combines an inclination to suggestion that perhaps the company needs to adopt some new ways of conducting business, with a "triggering" event that puts the action in motion. The triggering event could be a change in government or legislation, a major health issue with the patriarch such as a heart attack, a birthday or even a wedding. But first the family system must be in a state of readiness in order to act quickly.

Phase Three
Murray calls this the resting phase, because following the triggering event, there's a perception that the outside world will think the family is disorganized and the activities are chaotic. A lot of pent-up energy has been released. So the system needs to calm down, and act like the outside world expects by creating an instant solution. It's seduced into thinking that the company is not really in transition and it can return to operating the way it had been before the triggering event. However, this phase is really just a false start, because the trigger has already happened and future expectations about change have been discussed, so it only lasts for about a year. Underneath the sense of calm there's the realization that the company needs to change.

Phase Four
This phase can last anywhere from two to five years because it involves a great deal of communication among the members of the system about their dreams and aspirations for their own lives, for the business, for their inheritance and heirloom attitudes. Only after that lengthy timeframe does a real, workable solution begin to emerge.

Phase Five
As the family members move through the exploration phase, a sense of exasperation begins to set in because they're tired of not knowing what the ownership structure or who the leadership team is really going to be. They need and want some answers. So this phases essentially shuts down the exploration phase so that the family can study its options and move to the next phase.

Phase Six
In this phase all the energies are channeled toward identifying and articulating a choice of action. This involves creating the necessary legal, managerial and operational structures that will set that choice in stone, and effectively shut down the period of transition system so it can move on to the final phase of stability.

Phase Seven
Stability. The changes and the necessary operational structures are in place, so the company can begin operating in its new mode with its new leadership.

Of all these phases, Murray believes the exploration stage is the most critical. As an example, one family business she studied went through the entire transition cycle, with a few bumps in the road. The old structure had been operating well, but then there was a triggering event when the second-generation father became seriously ill, causing a great deal of anxiety about the company's future. However, as the father recovered from his illness, he created a solution, thus reducing the level of anxiety. That was followed by five years of battles about change between the father and son. "There was resistance to change because it was scary, but there was an impetus for change because they knew it was needed," Murray said. The son made it clear that if the family continued to operate according to his dad's rules, he wasn't going to stick around.

The family did engage in a healthy exploration phase, but then encountered yet another triggering event — an acquisition opportunity. The son was entrusted to take over the acquisition, which he operated successfully, and the situation calmed down, and eventually the family moved on to the next generation. Murray calls this situation the "model of balance because there was a healthy balance between the pushing and pulling."

However, there's also a danger of letting the exploration phase go on for too long with no resolution. That's what happened with another family that Murray studied, and "sooner or later people run out of steam," she said. Families run the risk of losing talented non-family managers, and family employees can become very disillusioned with the business. In fact, this could lead to disintegration of the business.

Of course, the key to all these transition activities is communication, especially during the exploration phase. The discussion should cover "what do we actually want for our lives, what are we aspiring to, what does this business offer and what is feasible in terms of what we can achieve," she said. Family members must also keep in mind the difference between content work and process work. Content work, for example, is engaging in estate planning or career development planning, while process work looks at how the family is doing as a system, in managing themselves through the transition journey and the phases.

To make the transition period more palatable, Murray recommends that families prepare for the inevitable. "If you know that there are these phases coming up in a transition period, then you automatically have the chance to, mentally and educationally, prepare yourself for what the tasks are of each of those phases," she said. As she points out, "surprise is the enemy of succession." Also, she conducted this research using her "helicoptering" method, which allowed her to study the families in a dispassionate way so she could get a better handle on what was going on. She doesn't believe a member of the family system would be able to truly step back and look at the system in the same kind of objective manner, so it may make sense to bring in an outsider to coach family members through the process and help identify the different phases. "It really is about preparing the system for change, for nurturing the system through the process and then helping the system feel confident that it has got the right structure for the next age," she said.

Dr Annelie Karlsson Stider

Dr Annelie Karlsson Stider is Assistant Professor at Stockholm School of Economics, Sweden. She teaches corporate governance, organizational behavior, human resources and strategic management. Dr Karlsson Stider directs the research program, focusing on corporate governance at SSE and is also the Program Director of Family Business Management Academy (FBMA). FBMA is an executive education for families in business in joint cooperation between Executive Education at Stockholm School of Economics and Family Business Network Sweden. Her teaching experience also includes establishing an O&B course at Stockholm School of Economics in Riga, Latvia. In 1997, she was involved in an Advanced International Management Program for executives from developing countries at IFL in Sweden. She also is Executive Director and founding Board Member of the Family Business Network Sweden, which includes 50 member companies and has been the main promoter of Next Generation issues in FBN International. Dr Karlsson Stider was part of the organizing committee for the l0th Annual FBN World Conference in Stockholm, Sweden 1999. For the last decade, she has been the leading figure of family business research and practice in the Nordic countries.

Dr. Tarun Khanna

Tarun Khanna has been a member of the faculty of the Harvard Business School since 1993, as part of the Strategy group. He holds a Bachelor of Science in Engineering (Electrical Engineering and Computer Science) degree, summa cum laude, Phi Beta Kappa, from Princeton University, and a Ph.D. in Business Economics from Harvard University. He has served as course head for the required Strategy course in the MBA program, and teaches in HBS executive education programs worldwide. He has also taught the Corporate Strategy and the Global Strategy and Management electives at HBS. Professor Khanna's current research focuses on understanding how company strategy should be tailored to suit country context. He is particularly interested in studying the drivers of entrepreneurship in emerging markets. This research has been conducted in several emerging economies in South and East Asia and Latin America, including Argentina, Chile, Hong Kong, India, Indonesia, Malaysia, Mexico, South Africa and South Korea. His other main interest is work on the appropriate structuring and use of alliances, joint ventures, and networked organizational forms.

Dr. Barbara Murray

Barbara Murray is a prominent teacher, writer, researcher and consultant on family business matters, and is Director of the world association for family business education and networking known as Family Business Network (FBN). Barbara was the founding director of the Centre for Family Enterprise (CFE) and Reader in Family Business at Glasgow Caledonian University, Scotland, and she is also an associate with Lansberg Gersick Associates, a Connecticut-based firm specialising in family business consultation, research and education. Barbara's other roles include Editor-in-Chief of Families in Business magazine; founding Editor of The Family Business Client; and member of the Editorial Review Board of The Family Business Review. Barbara has spoken at many conferences and teaching programmes around the world on family business issues, and she is a founding Fellow of IFERA, the International Family Enterprise Research Academy.

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Kellogg School of Management

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RECIPIENTS/SPEAKERS: Nan-b and Philippe de Gaspé Beaubien

The Kellogg Special Contribution to Family Business Award appreciates and honors a business-owning family for their contributions to other business families and to the field of family business study. This Award, recognizing a business family for sharing with others and helping others, is unique.

NAN-B AND PHILIPPE DE GASPÉ BEAUBIEN: ADVANCING KNOWLEDGE AND THINKING ABOUT THE FAMILY BUSINESS ENTERPRISE

Nan-b and Philippe de Gaspé Beaubien were introduced by Donald Jacobs, Dean Emeritus of the Kellogg School, who shared some observations about their achievements before presenting them with the school's first Special Contribution to Family Business Award.

Over the last decade, the family business enterprise has increasingly come into its own as a distinct and vibrant economic force with unique challenges. This has given rise to a whole new arena of academic course work, research and business consulting specialties. Our own Center for Family Enterprises and correlating MBA course sprang from this phenomenal growth in interest.

Few family business enterprises have done as much to advance the thinking and the knowledge base about this field as Nan-b and Philippe de Gaspé Beaubien, founders of the Telemedia Corporation group of companies and of the Business Families Foundation.

We at Kellogg feel a special link to Nan-b and Philippe. Philippe's roots go back many generations to Chicago's origins. Their business represents the 12th generation of family business ownership. But it was recognition of a specific, related challenge that led them to found the Business Families Foundation: None of those 12 generations could figure out how to successfully pass the baton on to the next generation. Each generation started its own business!

Finding a lack of study on this particular issue and on family businesses in general, Nan-b and Philippe figured out a way that they could make a contribution to the field of knowledge on family business ownership. They not only founded a significant presence in the Foundation but also figured out how to successfully pass that baton for leadership of Telemedia Corporation on to the next generation — their children.

Nan-b and Philippe are an extraordinary couple who have made an extraordinary contribution to this area of study, which ties so well with what the Kellogg Center for Family Enterprises stands for and hopes to also help advance. Therefore, it's highly appropriate that they receive this special award recognizing their contribution to family business.

After receiving the award, the de Gaspé Beaubiens shared their experiences and lessons gleaned, firsthand, from research and through their non-profit organization, Business Families Foundation.

Philippe began by disclosing that his dream of building an enduring business family led to the couple's examination of issues concerning family businesses. Their family's biggest issue in the past was that they could not pass ownership on to a succeeding generation — they were always starting over. His wife, Nan-b, revealed that as a psychologist and family therapist, she has seen firsthand the effects that poorly conceived family business management tactics have on both the family and the business, which she called "devastating."

LACK OF PROFESSIONAL RESOURCES LEADS TO 'FAMILY DISCUSSIONS'

Until recently, navigating difficult family business issues was akin to sailing through uncharted waters. Academics weren't interested in the business dynamics unique to family-owned companies, while management consultants tended to focus on more traditional business skills and issues, ignoring the day-to-day issues that all too often accompanied family business operations.

That's what the de Gaspé Beaubiens said they initially confronted when they turned to business schools and professional consultants, whom they believed would have the answers as to how to best prepare for the issues they faced as a family business. To their surprise, none of them were capable of providing helpful information.

"Professors would say to me, 'this is not a teachable subject,' and called me crazy for even trying to gain knowledge about it," Nan-b told conference attendees. "Consultants — who, for the most part were lawyers and accountants who advised families on tax matters — could tell us how to save millions of dollars, but felt the softer issues such as how certain tax schemes might affect future generations, were not important."

Frustrated with the lack of assistance from professionals, the de Gaspé Beaubiens did primary research of their own, seeking out families from around the world who had succeeded in transferring business ownership to their children at least once in their lives.

After interviewing more than 1,000 families, the de Gaspé Beaubiens returned with valuable lessons and new ideas that they tried out on their own children. These lessons were compiled into their Governance book, "which we refer to as our Bible," Philippe said.

At the same time, the Beaubiens were active members of the Young Presidents Organization (YPO), and were often approached by other members who wanted to know what they had learned from other families and their attempts to adapt the lessons into their own family business.

"Both Philippe and I felt a strong need to help these families just as others had helped us in our learning process," said Nan-b. "We began organizing family retreats on the weekends, but we soon realized that there was a need for this type of service that we could not provide on our own."

Strangely enough, the unexpected sale of one of their companies during this period gave them the opportunity and funds they needed to provide greater services.

"We had often talked with our children about starting a foundation we could all be involved in, and that had a single focus," Nan-b said. "We agreed that helping other family businesses was important because our research showed that these businesses were the economic foundation of most communities throughout the world."

And so the Business Families Foundation (BFF) was born. BFF, a non-profit organization designed to help business families and their businesses address and resolve issues, develops and delivers educational programs based on innovative research and educational programs. These are delivered through the International Centres for Business Families in leading Canadian universities, and courses are directed to business family members, their advisors and students involved in the field.

Based on their research and working through their Foundation, what lessons have they learned?

"One of the first things that struck us was that the issues family businesses face are the same the world over; they are built into the system," Philippe said. This information was revealed when the couple hosted a business family workshop in Thailand. "We were encouraged to realize that we were not facing our issues alone," said Philippe.

> "One of the first things that struck us was that the issues family businesses face are the same the world over. We were encouraged to realize that we were not facing our issues alone."

HANDLING CONFLICT SITUATIONS

The second key issue they learned is that conflict is a normal occurrence among families in business.

"Every family has their conflicts — this is normal," Philippe said during the presentation. "The important thing to figure out is how to manage them."

Philippe referenced a World Economic Forum they attended at which they gathered valuable information that gave them many of the ideas to develop what they have in place today. The Forum was made up of families from 50 different countries, all of which were looking for guidance and answers to various conflict issues. Through the Forum, attendees were able to discuss and find different ways to resolve conflict issues.

"Our family, for example, developed a number of conflict management mechanisms in order to manage conflict," Philippe shared.

One of the mechanisms they have in place is a Council of Elders, made up of the older family members. Conflicts are referred to the Council, and everyone is in agreement that what the Council says is final. "The family thought this would be a better solution to handling serious issues than involving lawyers to handle our problems," said Philippe.

Another valuable lesson the de Gaspé Beaubiens emphasized to conference attendees is that family planning can have a large impact on avoiding or minimizing conflict. "Families just don't 'happen;' it takes a lot of work," Nan-b stressed. "If family members don't take time to discuss a family plan that includes issues such as values, career pathing, entry and exit rules for the business and philanthropy, the family becomes more vulnerable to serious conflict, especially during the succession process," she said.

CREATING HARMONY: IMMEDIATE FAMILY, IN-LAWS

"However," Nan-b warned, "Sometimes we can 'businessify' the family too much. I once asked my daughter-in-law her opinion of our family meetings. I'll never forget her response — she said the meetings were okay, but they sure weren't much fun!" Nan-b confessed. "Although I was a bit taken aback by her reply, I realized how right she was."

"Speaking of in-laws," Philippe added, "one of the most important things we've learned along the way is that they play a key role in a family business." That role can be positive or negative depending on a number of factors.

It is essential to help make in-laws feel part of the family circle regardless of differing viewpoints, the de Gaspé Beaubiens said. "One must remember that in-laws are the parents of the next generation," Philippe instructed the audience.

To make their in-laws feel like part of the family, the de Gaspé Beaubien family instituted a welcoming ceremony, which included the family ring being presented. "They are also given an equal voice as members of the Family Council," Philippe said.

Something the couple revealed they learned the hard way is that although leadership is essential, it must be different for business, family and ownership, referred to as the "Three Circles." Philippe spoke of his own experience of assuming the leadership position in the family.

"As a typical entrepreneur, my leadership style was to act as any good business leader would," he admitted. "I incorporated a proper agenda of business items for discussion, along with a time allocation for each point. Although we always finished on time, this style did not go over very well with our children as they grew older and wanted to discuss their own agenda."

The family eventually elected Nan-b as the leader, or 'speaker,' of the family: "She did a much better job than I ever did, even if we never got to all the items on the agenda!" Philippe laughed. "Her style was very different from mine, and she spoke a different language with the family."

THE NEED FOR EFFECTIVE COMMUNICATION

These experiences emphasized the need for effective communication, another valuable lesson the de Gaspé Beaubiens became aware of. "Improved communication between family members opens the door to open sharing and trust in each other," Nan-b said. "Our family learned that one of the reasons we could not openly share and trust was because we did not know how to speak without treading on 'sacred ground,' that part of ourselves we want to protect because we feel vulnerable. We also didn't know how to give and receive negative feedback. While I can't say we've mastered this ability, we have improved greatly. Much of that is due to the development and agreement of a Code of Conduct, then trying to put it into practice."

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Philippe reiterated that the Code of Conduct significantly improved communication between the family. The code let others know when they were treading on 'sacred ground', and signified that they should change the subject. "Code 62 came about as a result of our daughter, Nanon, after being teased relentlessly about her boyfriend one evening during dinner," Philippe confessed. The de Gaspé Beaubiens found that these codes minimized conflict situations — and hurt feelings — before things got out of hand.

PASSING THE BATON

The de Gaspé Beaubiens also shared two key, concrete lessons about succession with conference attendees.

"First," Philippe instructed, "spend a lot of time — about five years — in the process of passing the baton to the next generation." But, he stressed, it is just as important to think about the next generation 'taking the baton' as well. "We did not spend enough time thinking about this process," he said. "Families should be prepared to invest a significant amount of time into succession planning; it is a long process that takes time. It took our family 15 years, and we are still working on it!"

"The second thing we learned is that the succession process is more than the transfer of shares, power and wealth," Philippe said. “It is really the process of empowering the successor generation. At times I wonder how well we did this…However, you cannot give up.”

“The succession process was very difficult for Philippe,” says Nan-b. “He realized that if the next generation was really going to ‘own’ the issues, it would be necessary for him to give up his office and titles, which was not easy to do.” Philippe later gave up his position on the Board of Directors after ensuring that the next generation had a strong board of independent directors in place to help guide them.

“When we passed the ownership over to our children, we wanted to make sure they understood the magnitude of what they were receiving,” Philippe said. “I said to them, ‘this is a pretty big gift we are giving you.’”

To Philippe and Nan-b’s pleasant surprise, the children not only realized what they were taking on, they were fully ready and willing to accept the challenge.

“My eldest son said to me, ‘No, Dad, this is not a gift, because it’s not something we get to benefit from effortlessly. It is a stewardship that we must preserve, nurture and grow for further generations.’”

“When we passed the ownership over to our children…I said to them, ‘this is a pretty big gift we are giving you.’ My eldest son said, ‘No, Dad, this is not a gift...It is a stewardship that we must preserve, nurture and grow for future generations.’”

GIVING BACK

The de Gaspé Beaubiens also learned valuable lessons regarding philanthropic endeavors. “We’ve found that incredible benefits can accrue to a business family that comes together to give back to their community. It’s as important a vehicle as the business; it puts into practice their values and traditions, and teaches them about the needs of their society,” Philippe said.

Nan-b concurred, “Philanthropy can be a wonderful way for grandparents to involve their grandchildren and teach them important skills such as investments, accountability, and working together for the common good.”

It was a difficult issue the de Gaspé Beaubiens—and many business families — face in living in an age of affluence, “where the definition of success is based on money, power and the accumulation of things,” Nan-b said. “We’ve learned that business families have a greater chance of enduring when they follow the “10/10/10” rule, where

- 10% of family income goes into savings;
- 10% goes to charity; and
- the family lives 10% below the level they can afford.

“However,” she admitted, “we also know how difficult it is to live by these tenets.”

Philippe agreed, “We have made some progress in this area, but we can do a better job of modeling for the next generation.”

MORE TO LEARN

As Philippe and Nan-b closed their discussion, they confided that even after more than 46 years, they feel they still have a lot to learn about business families. However, they believe the process has been well worth all the time and effort, including the mistakes made and, at times, having to start over.

“I think our whole family would agree that we are better and stronger because of our family business,” said Nan-b. “Personally, I have always had a tremendous concern about giving money to the next generation; I have seen first hand the enormous disservice it can be when used too easily as a means of protecting individuals from having to live with the consequences of their mistakes.

“But,” Nan-b continued, “Passing on the family business offers the next generation the opportunity to develop competencies in the business, live with accountability and responsibility, and develop a sense of self-worth that can only come through real accomplishment. Mind you, the children must be willing to accept the challenge, but I can think of no greater gift parents can offer to the next generation.”

“Even after a 40-year journey as a family in business, looking for continuity, we are still awed by the tremendous power of a caring and sharing family,” Philippe said. “We always remind ourselves that a strong family can build a strong business, but a strong business can never build a strong family.”

Philippe & Nan-b de Gaspé Beaubien

Philippe and Nan-b de Gaspé Beaubien are the founders of the Telemedia Corporation group of companies, a privately owned media and communications company started in Montreal, Canada in 1968. They relinquished the ownership of the company in 1998 to their three children, Philippe III, Nanon & François. The de Gaspé Beaubiens are well known for their expertise in the educational field of Families in Business. They are the founders of the Business Families Foundation, which has been helping business families since 1990. The mission of this international non-profit organization is to help families and their businesses address and resolve their issues, by developing and delivering stimulating educational programs based on innovative research and educational programs. Nan-b and Philippe are Co-Chairs of the Board of the Business Families Foundation. They have spent more than 40 years studying numerous families around the world that recognize the complexities of combining family and business. They have written and spoken about their philosophies in addressing the special issues that arise in a family enterprise and the family that controls the enterprise including conducting workshops at the World Economic Forum in Davos.

Case discussion

SCJohnson—
A Family Company
A Story of Succession and Continuinty

The SCJohnson - A Family Company case was written expressly for this Conference. We are grateful to all the family for their support and cooperation with the case — especially to Sam Johnson, Chairman Emeritus, for more than six hours of interviewing. We were fortunate that Fisk Johnson, Chairman of the company and fifth generation family member, attended the entire Conference and participated actively in questions and answers about the case and the Johnson Family experience during the case discussion and throughout the Conference.

QUESTIONS AND DISCUSSION SUMMARY

Why have the Johnson business and family continued so well for five generations?

Business strategy of moderate risk, innovation and diversification.

Strong articulation and sense of values—particularily transparency, sense of adventure and optimism that problems can be solved.

Shared family interests (i.e. outdoor, aviation, art, etc).

Shared family hardships (i.e. alcholoism, divorce, absentee father, etc.).

Family pride in company reputation, family contributions to community, and family supported social institutions.

Exceptional and caring professional advisors, including James Allen and Harold Stassen.

Single person control per business per generation.

Motivation for each generation to avoid failure during "their watch."

Careful and long range estate planning.

A large business that makes funding family interests and needs readily possible.

What are succession issues the Johnsons and all families face?

Should the succession process and solution evolve organically depending on next generation interests and goals or be proactively planned and orchestrated by the senior generation?

Should the ownership succession plan be prescribed by earlier legal arrangements or flexible to future eventualities?

How to allocate power and authority when there are several family shareholders—one controlling leader or a mutually dependent team of leaders?

How to govern and resolve future shareholder issues? (The Johnsons established a council of advisors to vote and resolve issues if the family cannot.

What are some of the ingredients of a successful succession plan that we might learn from the Johnson case?

Process to articulate and communicate and teach family values.

Financial freedom and encouragement for family member to free pursue their personal passions and interests.

Conflict resolution method.

Regular family meetings.

Efforts to share and promote the reputation and accomplishments of the business with all the family.

What are the issues for the Johnsons and for all families to prepare a larger generation of cousins for ownership and business leadership?

Connecting a widely dispersed—in geography and in age—generation to each other and to the business

Providing more formal education in the family's values and principles

Creating opportunities for next generation family members not involved in the business to contribute to the family and to appreciate the business

Selecting from among each branch ownership authority and leadership without alienating the others of that branch

Avoiding family branch fiefdoms where each branch feels proprietorship over the business or activity for which they have been responsible

Succession and Continuity for Johnson Family Enterprises (A)[1]

"I read every article in major publications about family enterprises. We think about what are the things that destroy family enterprises."[2]

(Sam Johnson)

"Every family dynastic situation has to find its own solutions (to succession), and they have to be tailored to a family's particular quirks and personality."[3]

(Alex S. Jones)[4]

It was late afternoon on a Friday in the summer of 1989. Sixty-one-year-old Samuel Curtis Johnson (Sam), CEO of his family's 103-year-old S.C. Johnson & Son company, sat at the controls of his Cessna Caravan Amphibian airplane. He was flying northwest from his home and company headquarters in Racine, Wisconsin to meet his wife, Imogene (Gene), and extended family members at their vacation place in northern Wisconsin that his grandfather had developed in the 1920s.

Flying in his own plane, as his father had before him, gave Sam pleasure under any circumstance. But, he especially enjoyed when he was flying solo because it provided the solitude to sort out his thoughts, to reflect on the past and prepare for the future. That afternoon, he thought about his hopes for the family's businesses with their estimated $3 billion in sales and over 13,000 employees worldwide. As the fourth generation family business leader, keeping the family enterprises on course was always on his mind. And, this included thoughts of leadership and ownership succession while maintaining stability and continuity.

Earlier in the decade, when his four children were in their twenties, Sam was conscious of their need to develop and test their own capabilities, interests and styles apart from the business into which they were born. Still, he was passionate about the family enterprise and had been watching for flickers of that passion in his offspring. Since the company's centennial three years earlier, each of the children, then in their late twenties and early thirties, had separately recommitted to the family business in their own way. This excited Sam deeply:

"Almost as far back as I can remember the company has been a part of my life. Someone asked me how I separated the company from who I am. I said, 'I can't.' If my father had sold the company and just left me money, I wonder if my life would have had the purpose that it has had."

During that airplane flight in 1989, Sam allowed himself to think about the future and see that succession within the family might be possible. The next step was to figure out how…

THE COMPANY'S BEGINNINGS AND ITS LESSONS

First Generation: Samuel Curtis Johnson (1833-1919)

As his plane climbed to cruising altitude, Sam thought back to his entrepreneurial great-grandfather, also named Samuel Curtis Johnson (SCJ). (See Exhibit A1: Family Chart of Descendents of SCJ.) In 1886, at age 53, Sam Johnson purchased the parquet flooring business of the Racine Hardware Company where he had worked four years as a flooring salesman. When he noticed his customers asking how best to preserve their new flooring, SCJ diversified by developing a product that met customers' needs. He researched the best preservative of the time (beeswax used to preserve wood floors up to 300 years in castles in France), tested, mixed up and canned batches of paste-wax in a bathtub and sold it to customers after installation. News of his new product, Johnson's Prepared Wax, spread beyond customers of his flooring and soon he was manufacturing on a larger scale and selling across the Midwest. In 1888, the product reached a national market after SCJ placed his first advertisement in The Saturday Evening Post magazine. A decade later, sales of the firm's wax products outpaced flooring, which was eventually phased out in 1917. By the time SCJ died at age 86 in 1919, his company had over 200 employees in the US. "Johnson's Wax" had become a household word both in the US and abroad with overseas subsidiaries in Britain and Australia.

Second Generation: Herbert Fisk Johnson Sr. (1868-1928)

SCJ and his wife had two children. His daughter, Jessie, was 21 when he founded the firm and was never involved in the business. His son, Herbert Fisk Johnson Sr. (Herbert), was 18 when the company started and joined the business two years later in 1888, when the paste-wax product went national. He and his father worked closely together. In 1906, they officially became partners and changed the name of the firm to S.C. Johnson & Son. During the time of their partnership, the company instituted many enlightened policies for employees including paid vacations (1900), group life insurance and annual profit sharing of pre-tax profits (1917). Herbert did not become president of the firm until after the death of his father in 1919. That same year, he constructed the first organized research laboratory, believing that chemical knowledge and technology were critical to the company's future. To that end, he also sent his son, Herbert Fisk Johnson Jr. (HF), to Cornell University for a degree in chemistry to help the firm. During the decade Herbert was in charge, he introduced dozens of chemical products used for cleaning, restoring, preserving and maintaining; established a subsidiary in Canada; instituted a 40-hour workweek for employees; and founded the Racine Community Chest.

When Herbert took over, he was 51-years-old, just two years younger than his entrepreneurial father was when he founded the firm 33 years before. At the time Herbert became president, he and his wife had a daughter, Henrietta, aged 17, and HF, aged 20, who worked at the firm during college breaks before joining full-time in 1922.

Herbert prized highly the trust of the consumer in his company's products. During his annual Profit Sharing Day speech in 1927, he reminded employees what he considered important:

"When all is said and done, this business is nothing but a symbol and when we translate this we find that it means a great many people think well of its products and that a great multitude has faith in the integrity of the men who make this product. In a very short time, the machines that are now so lively will soon become obsolete and the big buildings for all their solidarity must some day be replaced. But, a business that symbolizes can live so long as there are human beings alive, for it is not built of such flimsy materials as steel and concrete, it is built of human opinions that may be made to live forever. ***The goodwill of the people is the only enduring thing in any business. It is the sole substance… The rest is shadow!"*** [5]

Possibly because Herbert was in partnership with his father who worked as the company president until his mid-80s, Herbert failed to plan early enough for his own succession and the continuity of the business. He died unexpectedly in 1928 at age 60 without leaving a will and with everything in his name. Ownership of the business was unclear. It took lawyers over a decade to sort out the ownership issues with HF and his sister, Henrietta (by then, the wife of John J. Louis.) The result of the negotiation was a two-thirds/one-third split of shares that gave HF the majority of shares, management control, and laid the foundation for future generations. **(See Exhibit A2:Overview of Leadership/Ownership/Share Structure)**

Third Generation: Herbert Fisk Johnson Jr. (1899-1978)

On the eve of the stock market crash of 1929, while estate and legal issues were being worked out, HF, who was then only 28-years-old, became President and Chief Operating Officer of a business that had grown to 500 employees and $5 million in sales. Even though he had help from two relatives, his brother-in-law John J. Louis, who ran an advertising agency in Chicago and provided marketing leadership, and a distant cousin Jack Ramsey, who was a manufacturing manager, it was still a mammoth responsibility for someone so young. At the time, HF was also newly married with three children under four years old—Karen, Henrietta and Sam. Sam was born the same year his grandfather died and his father took over running the firm.

HF may have been less outgoing than his father and grandfather, but he was equally thoughtful, risk-taking and adventurous. During the 1930s, he steered the business through the Great Depression without laying-off a single worker, even as sales fell 40% to under $3 million by 1933. He also incorporated S. C. Johnson & Son, established subsidiaries in France and Brazil, introduced more than two dozen new products, started pension and hospitalization plans for the employees and became active in charitable philanthropy.

At the same time that he was holding things together in business, HF was having severe difficulties at home. In 1931, his daughter Henrietta died at age 4, his wife developed an alcohol problem, the couple divorced and his two surviving children (Karen, then aged 7 and Sam, aged 3) split time between HF in Racine and their mother who had moved to upstate New York. When HF traveled for extended periods for work or pleasure, the two children also spent time with their Aunt Henrietta, her husband and three sons.

Even with all of the pressures he faced, HF still had time to plan and dream on behalf of the business. In 1935, he bought a Sikorsky S38 amphibious plane that had been on exhibit at the 1933 Chicago World's Fair: "A Century of Progress."[6] He hired two pilots and left with four associates for a three-month 15,000-mile trip to a remote Brazilian jungle.[7] The plan was to scout for new growths of the carnauba palm tree, to study its properties and the economics of cultivating more of it. The wax from the carnauba palm was the key distinguishing ingredient of the firm's wax products. The trip made the national news. (See Exhibit A3: Time Magazine Article 10/14/35.) HF came back a changed man, more energized and directed about the business. He published a book about his life-altering adventure and inscribed a copy to his 8-year-old son,

"Sammy, I hope you take this trip someday."

After the trip, HF took more proactive, visionary steps for the firm to become a major national manufacturer. He signed up Johnson's Wax as the sole sponsor of the new weekly show, "Fibber McGee and Molly"[8] in the fledgling entertainment radio industry. Sponsorship of this show gave the Johnson Wax brand national visibility, making it a household name. He also hired one of the world's best contemporary architects, Frank Lloyd Wright, to design the company's Racine headquarters that opened in 1939,[9] and his family's home called "Wingspread." The headquarters' design was revolutionary for its time. The main feature was an open floor plan to encourage cross-fertilization of ideas and impromptu interaction among people of different departments and functions. HF led the company as president until 1958 when he assumed the added role of Chairman until 1966 as a non-family executive became president. Through nearly four decades of HF's leadership, there were many more accomplishments. Subsidiaries in at least 23 more countries were established. Dozens and dozens of new products were launched. New facilities in research and development, agricultural experimentation, and packaging were built. The family's philanthropic organizations were expanded. Employee benefits grew to include deferred profit sharing, major medical, non-contributory hospital and group life insurance, a resort and a park just for employees.

HF also vowed to plan for succession and continuity of the business because he did not want other members of his family to go through what he and his sister had upon the death of their father. Because of his experience, he believed that the business needed one clear decision-maker and primary shareholder in charge. To help him accomplish this goal, he enlisted the help of esteemed advisors. One who was particularly influential was attorney Harold Stassen, a former three-term governor of Minnesota, past president of the University of Pennsylvania, co-founding delegate of the United Nations and a top disarmament consultant to President Eisenhower during the Cold War.[10] Stassen strongly advocated family trusts with discretionary "sprinkling" powers for the trustee, telling HF,

"You're going to need the maximum financial flexibility that you can have to be able to assure continuity for the next generation."[11]

The HF and Louis families each set up three similar trusts. Planning took place with separate lawyers, but the overall guidance of Harold Stassen assured that both families were in agreement on objectives and death tax saving methods.[12] In his will, HF named Sam his successor as business leader and trustee. And, long before he died, HF started to move the company's common stock to future generations of the family through trusts. **(See Exhibit A4: A Description and Conceptual Map of HF's Estate Plan, Developed in the 1950s.)**

Fourth Generation: Samuel Curtis Johnson (1928-)

As Sam entered cruising altitude, he began to think of his own tenure in the family business. When newly married and 26, after a degree in economics at Cornell, a master's degree in business from Harvard and two years service as a U.S. Air Force intelligence officer, he started work as his father's assistant in 1954. Soon after, HF devised a career path for Sam that would equip him with the skills necessary to run the business.

"(My father) once set Booz, Allen and Hamilton after me. He said, 'I think you're a pretty good young man and some of my associates agree. But I really don't know if we have the right plan for you to be able eventually to take over leadership of the company. I want (the consultants) to look at you and the kind of career track you should be taking, so we'll have a solid plan, based on the best opinions available, for you to follow.' The consultants prepared a report that came in one of those gold-embossed black books that was titled "S. C. Johnson: A Ten Year Management Development Plan". And, because it flatly laid out my strengths and weaknesses, it turned out to be a valuable document presented in a way I might not otherwise have listened to."[13]

The consultants also reported to HF that new product innovation was needed in the business. So, the next year Sam was put in charge of the freshly created New Products Department. Two years later, he had diversified the business in totally new market segments with the successful launch of four new products developed in his department: Raid insecticide, Off! bug repellant, Pledge furniture polish, and Glade air freshener. By 1960, when these products accounted for 35% of the company's domestic sales, Sam was also the father of two girls and two boys ages five and under.[14]

Sam continued to value the advice of consultants who were also his father's peers.

"If there was anybody in my life that was most like a mentor it was Jim Allen (of Booz, Allen and Hamilton) because I saw him a lot early in my business career and he was the person I could talk to about my father. He was the best listener I ever knew—the strong silent type. Then he would come up with a few wonderful words that were memorable because they were sparse, important and on target."

In 1965, Sam's father recalled him to Racine after Sam blundered a business decision in the Netherlands. Sam was overseeing the construction of a large new aerosol plant there when he overestimated sales and capacity and underestimated start-up problems. This led to a big drop in European profits that amounted to half of the company's profits for the year. A few weeks later, his father suffered a debilitating stroke from which he never fully recovered. Sam wondered if his missteps had been the cause. Nevertheless, he was forced to carry on, becoming President of the $171 million firm at age 37 in 1966 and Chairman of the Board in 1967.[15]

Until his father died in 1978, as the company reached $1 billion in sales, Sam briefed HF twice a month in person on the company's business figures.[16] Sam also codified and published the basic principles guiding the business since its inception entitled "This We Believe." (See Exhibit A5: "This We Believe") After HF died, Sam received a letter written by his father years before with instructions that it be read posthumously. It gave Sam advice to:

"…pay no heed to people {who complain if he is not running the company his father's way} because you have to do what you think is right for the company and for its people at that point in time."[17]

This message freed Sam to be himself "and not just a clone"[18] of his father. During the 1970s, Sam led the company into new types of consumer products such as financial services and recreational goods. He wanted to broaden the business' focus, lessen its risk from competition, government regulation and taxes, and offer a liquidity vehicle in case the next generation did not want to participate in the business management.

"For a family business, diversifying is a hedge against risk. If we have pockets of entrepreneurship, we have more than one shot at being in business 100 years from now."

In 1979, Sam took a sabbatical from the company to think about the future and how he wanted to spend the second half of his life. He returned a year later with renewed vigor and focus for the business, much as his father had in 1935 after his trip to Brazil.

Sam diversified further the manufactured product lines and increased international expansion to 45 countries. To maintain harmony with the ownership families, he kept dividends going up ahead of the rate of inflation, while holding back enough cash to continue to grow the business.[19] He took the recreation goods company public in 1987. He also developed a plan to set up trusts for his children and grandchildren to downstream the family assets, minimize death taxes, and help assure the long life of the family business.

Fifth Generation: Curt (1955-), Helen (1956-), Fisk (1958-) and Winnie (1959-)

As Sam approached the lake near his vacation home, he reflected on the paths that his children had taken before committing to the family firm. All four had graduated from the private college preparatory Prairie School in Racine founded by their mother and funded initially in large part by their grandfather, HF. After that, they all followed their parents and grandfather to college at Cornell University. Curt's degree was in economics, then he obtained an M.B.A. from Northwestern University and co-founded a successful venture capital firm where he worked for five years. Helen's degree was in psychology. After that, she worked for a hotel, opened her own restaurant and took a position at Foote, Cone & Belding ad agency in Chicago. Fisk had a double degree in chemistry and physics. He then stayed at Cornell for a Master's degree in engineering, a Master's degree in physics, an M.B.A. and a Ph.D. in physics. Winnie attended Vassar and Cornell where she studied chemistry and economics.

Now, in 1989, they were all working at S.C. Johnson & Son. Curt, aged 34, was in business development and mergers and acquisitions. Helen, aged 32, was in marketing and product management. Fisk, aged 31,was working in new products and technologies. Winnie, aged 30, was a public affairs manager.

If the enterprises were to continue in the family for the next generation, a lot of questions needed to be answered. What options were open to the family with its unique structure and dynamic? Were one or more of the children qualified (beyond ancestry) to take over the family business? Could the children distinguish themselves in the business without stepping on each other's toes or causing family rancor? What succession options existed that met the needs of both the business and the family, not just one or the other? What lessons from the company's past could be applied to the process and the solution? And, how much time was there to decide?

Sam touched his plane down on the lake and taxied to the dock. As he emerged from the cockpit, he was happy to see a large group of family members— his wife, children, grandkids and a few cousins— waiting to have dinner with him. It was going to be a good weekend.

EXHIBITS FOR CASE A

Exhibit A1: Family Chart of the Descendents of Samuel Curtis Johnson (1833-1919)

Exhibit A2: Overview of SCJ's Leadership/Ownership/Share Structure

Exhibit A3: Time Magazine Article on HF Johnson Jr.'s Trip to Brazil Oct. 14. 1935

Exhibit A4: Description and Conceptual Map of HF's Estate Plan, Developed in the 1950s

Exhibit A5: "This We Believe" S C Johnson's Corporate Values and Beliefs

EXHIBIT A1: FAMILY CHART OF THE DESCENDENTS OF SAMUEL CURTIS JOHNSON (1833 — 1919) AS OF MARCH 2002

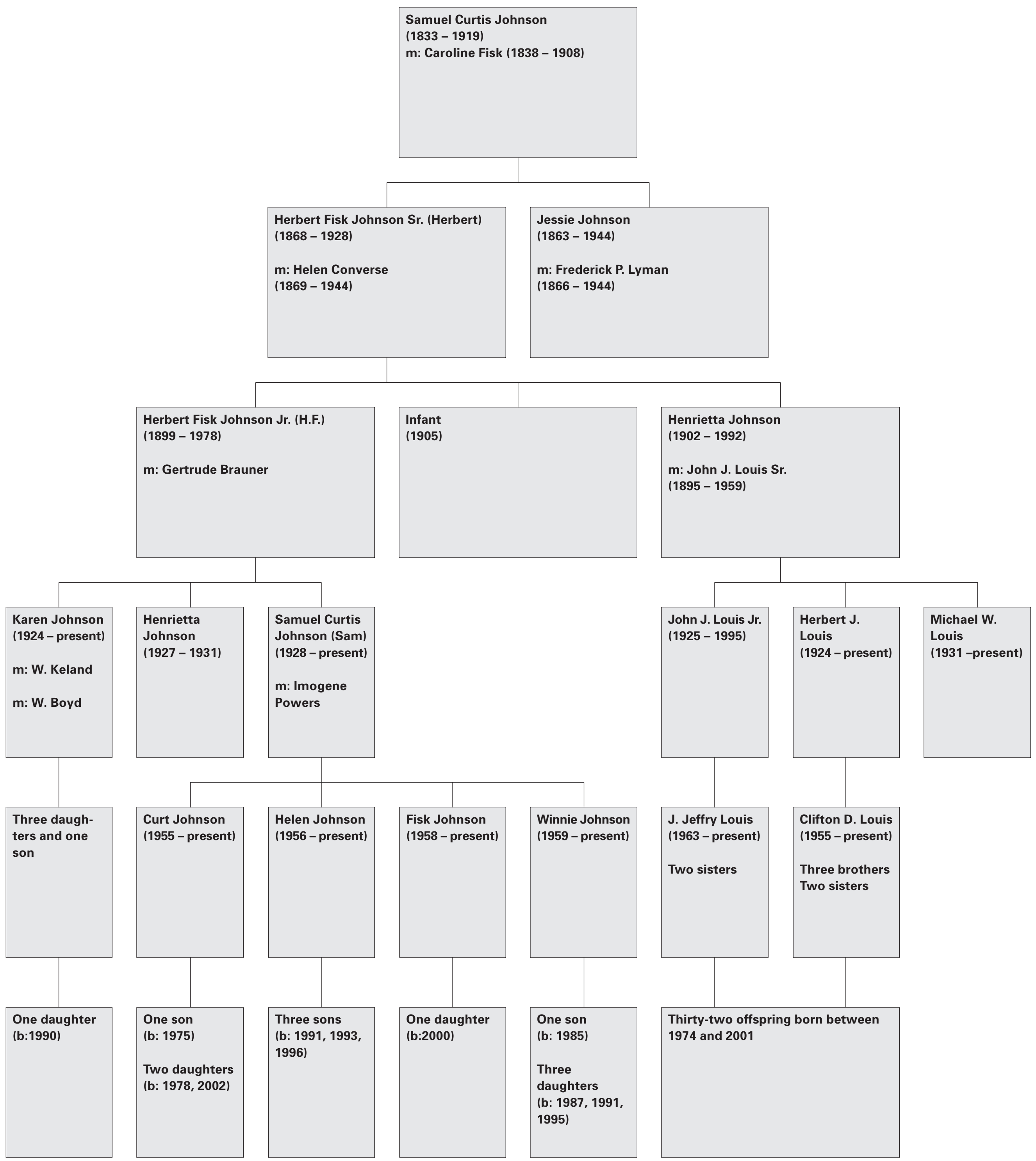

EXHIBIT A2: OVERVIEW OF S. C. JOHNSON'S LEADERSHIP/OWNERSHIP/SHARE STRUCTURE

TIME PERIOD	**1886-1906**
RAN THE COMPANY	SCJ
OWNERSHIP	SCJ—100% ownership
CONTROLED THE TRUSTS	—
TIME PERIOD	**1906-1919**
RAN THE COMPANY	SCJ and HFJ Sr. together
OWNERSHIP	SCJ and HFJ Sr. 50/50 partnership
CONTROLED THE TRUSTS	—
TIME PERIOD	**1919-1928**
RAN THE COMPANY	HFJ Sr.
OWNERSHIP	HFJ Sr. 100% ownership; died without a will
CONTROLED THE TRUSTS	—
TIME PERIOD	**1928-1939**
RAN THE COMPANY	HFJ Jr.
OWNERSHIP	Ownership was unclear between HFJ Jr. and his sister, Henrietta Louis
CONTROLED THE TRUSTS	—
TIME PERIOD	**1939-1944**
RAN THE COMPANY	HFJ Jr.
OWNERSHIP	Two classes of common stock were set up—Class A for management control and Class B for non-controlling. Common stock was split 66 2/3% for HFJ Jr. and 33 1/3% for Henrietta Louis. (Their mother received preferred stock to live on until she passed away.)
CONTROLED THE TRUSTS	HFJ Jr.
TIME PERIOD	**1944-1965**
RAN THE COMPANY	HFJ Jr.
OWNERSHIP	Common stock split as above. In late 1940s approximately 10% of the firm's value was set aside for management equity (actual stock) shares. Starting in the 1950s, they began to move the stock to the future generations through trusts.
CONTROLED THE TRUSTS	HFJ Jr.
TIME PERIOD	**1966-1999**
RAN THE COMPANY	Sam
OWNERSHIP	Common stock split as above. In the 1960s and 1970s the business diversified into commercial products and non-competitive consumer products—recreational equipment with Johnson Worldwide (now Johnson Outdoors) and financial services with Johnson Financial Group.
CONTROLED THE TRUSTS	Sam

EXHIBIT A3: TIME MAGAZINE ARTICLE ON HF JOHNSON JR.'S TRIP TO BRAZIL OCTOBER 14, 1935 PAGES 64,66,68

" WAX HUNT— Last week, Herbert F. Johnson Jr., president of S. C. Johnson & Son, posed in front of his two-motored Sikorsky Amphibian at Milwaukee Airport, informed newshawks that he was leading a 22,000-mile expedition into the wilds of Brazil. He was disturbed, he said, by a shortage of carnauba wax. With him were a Johnson research chemist, a Johnson purchasing agent, two pilots, field laboratory equipment, specimen cases, cinema cameras, guns and fishing rods. Heading for Para, Brazil was Dr. B. E. Dahlgren, botany curator of Chicago's Field Museum. Although the expedition had the earmarks of a happy combination of pleasure and publicity, Johnson's President Johnson announced that he would search for new growths of carnauba palm, whose leaves supply the basic substance of high-grade wax and polish.

The carnauba palm is "the tree of life" to native Brazilians, who use its wood for cattle pens, its leaves to thatch huts, its fiber for baskets and fishing nets. Industrially, carnauba wax is used mainly in floor, shoe and auto polishes, and has no substitute.[20] After the rainy season, it forms on the succulent carnauba leaves, sealing up moisture for the arid months. Natives cut the leaves twice a year, dry them in the sun, and beat them with clubs until the wax scales off in white, greasy flakes. Most prized is the golden wax taken from the eye of the palm. Some natives boil the wax in water; others toast it in a dry kettle. Finally, they strain it through a cotton cloth and leave it to cool. From 1,500 to 2,500 leaves are required for one arroba (32 lbs.) of wax.

Brazil is the only source of carnauba wax. Last year, exports totaled 13,500,000 lb., more than half of which when to the U.S. Principal uses are: floor and furniture polish—Johnson & Son, A. S. Boyle Co.; shoe polish—Gold Dust (Shinola, 2-in-1, Bixbee), Whittemore, Griffin; auto polish—Simoniz, Du Pont.

Having no organized market, wax is handled by a group of Manhattan importers. Because prolonged rains reduce the carnauba's need for hoarded moisture, the wax crop varies widely from year to year. This year the rains came early, stayed late. Result is a delayed crop, a rise in price per lb.—now $0.38, almost four times that of the 1932 bottom, but far short of an $0.80 peak price in 1918. Few U.S. waxmen agree with Johnson's President Johnson that there is a serious shortage.

Founded half a century ago in Racine, Wis. by Samuel Curtis Johnson, who developed wax as a sideline for his hardwood floor business, S. C. Johnson & Son now accounts for more than one-half the U.S. wax business. Prosperous, family-owned, famed for its model employee benefit plans, the company is now headed by the founder's grandson, Herbert Jr., no salesman but a trained chemist who likes technical problems, supervision of new products. Every year he flies in his own plane to Canadian wilds for three months of hunting and fishing.

"There is a photo accompanying the article. It is of HF in front of his plane surrounded by gear. The caption reads: "Johnson's Johnson: He seeks the "tree of life."

EXHIBIT A4: DESCRIPTION AND CONCEPTUAL MAP OF HF'S ESTATE PLAN DEVELOPED IN 1950[21]

Voting Trust: Controls Family Business
Sam, Trustee

Family Trust: Discretionary Distribution of Some Dividend Income ("Sprinkling") Sam, Trustee

Income Trust: Distribution of Some Income from Dividends to Johnsons and Kelands
Sam, Trustee

Johnson Foundation: Private Foundation
Family and Public Trustees

When second generation Herbert Johnson died in 1928, all the family and business assets were in his name without a plan for ownership succession. There were no preparations on how to meet death taxes or how to distribute the company's shares between his two children, HF and Henrietta.

HF, as the elder and only son, the one working in the business, and the heir apparent president, felt his father had all along promised him the business. But, most all of the family's assets were in the business, and Henrietta's husband, John J. Louis, also was engaged in the business providing marketing leadership, as well as running an advertising agency in Chicago.

Striking to Sam, upon reflection of that time, is that his father and aunt struggled for ten years trying to resolve the estate planning issues and distributions. Finally, a plan was developed that not only settled things between HF and Henrietta, but also laid the foundation for future generations. HF never wanted another generation to have to endure the challenges and pain he and his sister faced due to lack of planning.

As HF was leading the company, he and Henrietta concluded that a controlling majority of the business shares would be held by the HF family. They also used the most sophisticated estate planning techniques available to provide clarity for future generations and to lessen the cost of inter-generational transfer taxes.

The HF and the Louis families each established three similar trusts. One, which we'll call the "Income Trust," was to distribute some dividend income annually to each of the individual family lines. For example, the 4th, 5th, etc. generations of Sam's and Karen's families would receive equal dividends. The same was true for each of the lines of the Louis' three offspring in their 4th generation.

A second, we'll label the "Voting Trust," held the voting power for the family's business, but not much of the business's equity value. HF, followed by Sam, controlled the vote on behalf of the entire extended family. One member of the Louis family in each generation was also designated to control that family's voting shares to assure a single person would represent the Louis family's ownership.

A third trust, described as a "Family Trust," held a large percentage of each family's economic shares—for both the HF Johnson and the Louis family branches. The Family Trust, also referred to as a "sprinkling trust," gave one family member the sole discretion to distribute Family Trust dividends amongst the family in a way intended, according to HF, to assure family unity and harmony. Following HF, Sam Johnson was designated with that responsibility for the Johnson and Keland families. Some shares were also gifted outright to each individual family member for their sole discretion to hold or sell.

Estate planning laws in the United States, at the time, allowed these trusts to last 21 years beyond the death of the last living member of the 5th generation for each family. The Johnson family has also established another entity, the Johnson Foundation, a conference convening foundation with public and family trustees. It organizes and hosts national conferences on a variety of subjects including education, the family, the democratic process and sustainable development and the environment. The foundation was set up by HF on behalf of both of his children, Sam and Karen. Sam and Gene Johnson have also established a Johnson Family Foundation that receives assets from their family to distribute to their family's distinct interests. Part of the succession planning is how to perpetuate the governance of these trusts and foundations into the future.

EXHIBIT A5: "THIS WE BELIEVE"; SCJOHNSON'S CORPORATE VALUES AND BELIEFS

SCJohnson—A Family Company
This We Believe

Our company has been guided by certain basic principles since its founding in 1886.

These principles were first summarized in 1927 by HF Johnson Sr., in his Christmas Profit Sharing speech:

"The goodwill of the people is the only enduring thing in any business. It is the sole substance… The rest is shadow!"

Since its adoption, *This We Believe* has served us well by providing all employees with a common statement of the basic principles which guide the company in all the different cultures where we operate. It has also provided people outside the company with an understanding of our fundamental beliefs. It communicates the kind of company we are:

We Believe:
That the fundamental vitality and strength of our worldwide company lies with our people.

In earning the enduring goodwill of consumers and users of our products and service.

In being a responsible leader within the free market economy.

In contributing to the well-being of the countries and communities where we conduct business.

In improving international understanding.

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NOTES:

1 This text was prepared solely as a basis for class discussion by Research Associate Carol Adler Zsolnay and Professor John L. Ward. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

2 Quoted in the NYT 8/22/1999

3 Ibid

4 Mr. Jones is an author of books about two of the largest newspaper publishing families in the U.S.

5 Johnson Wax Magazine 1886-1986 One Hundred Years of Leadership, p. 11

6 The 1933 Chicago World's Fair hosted 39 million visitors. It served as an escape from the realities of The Great Depression.

7 These were pioneering times in aviation history and a lot was making news. Within a year of HF's trip, Howard Hughes set his aviation speed record of 352 miles per hour, two co-pilots completed the first transatlantic round-trip airplane flight, an explorer and his pilot flew to Richard Byrd's base camp in Antarctica, and a married pilot couple set a world record for sustained flight of 27 days aloft using air-to-air refueling. (PBS.org)

8 "Fibber McGee and Molly" was about a husband, wife and their neighbors and was filled with vaudeville humor and Midwestern sensibility. It was the most popular radio show of its day, playing from 1935 to 1959. Johnson's Wax was the show's sole sponsor from 1935-1950. The show and sponsorship was conceived by John J. Louis' advertising agency. The concept was a brilliant marketing idea that continues to this day as the afternoon "soap" operas.

9 The corporate headquarters is still in use for its original purpose today.

10 Looking at Stassen's vast experience with diplomacy, is it possible HF thought, "Gosh, if Stassen can negotiate with Super Powers to develop the UN, quell the Cold War, jockey the needs of state legislators and placate university professors, think what he can do for a Family Business!"

11 This is what Harold Stassen said, as paraphrased by Sam Johnson. "Sprinkling" refers to the trustee's ability to disburse the money in the trust using his or her own discretion to maintain harmony within the family.

12 The Henrietta and John J. Louis branch had set up its own enterprises to build assets so it did not need its Johnson stock for liquidity. The Johnson side had no responsibility for the Louis assets, and with minority ownership interest, the Louis family did not control the dividends paid on the Johnson company stock. This plan continues today.

13 Johnson, S. C. The Essence of a Family Enterprise p. 161-163

14 As of 1960, Sam's sister Karen was also married with a family that included three daughters and a son. She was (and still is) an artist who was very close to her father and actively involved with his art and architecture endeavors with Frank Lloyd Wright. She never worked in the family business, but her first husband, Willard Keland, did for a while. They later divorced and she remarried. None of her children has worked in the business. She has one grandchild. As of 1960, Sam's first cousin, John J. Louis Jr., had worked in the company for eight years. He left the company amiably in 1963 to found Combined Communication Corp., which eventually merged with the Gannett Co. providing liquidity for his family. However, he continued as a director on the Johnson company board and was always supportive of the Johnson family business and its leaders.

15 Initially after HF's stroke, Sam became the company's principal controlling shareholder, president and CEO, but not the Chairman of the Board. He named to that position a valued and trusted employee who was the president of the firm, but who was not a member of the family. As HF recovered, he kept insisting that it was not right for a non-family member to hold the position of Chairman. Months later, when no one could persuade HF otherwise, Sam became Chairman and the employee moved to the position of Vice-Chairman.

16 After his stroke, HF tried to return to the board meetings, but he became so agitated, verbally combative and frustrated trying to communicate that his presence made the meetings difficult and uncomfortable. Several independent board members told Sam that they would not attend the meetings if HF were present. Because of this, HF's trusted advisors, Allen and Stassen, persuaded him that it was not good for his health to attend the meetings. From then on, he received the same briefing materials as all board members, but shared his views of the business through Sam. Sam's bi-monthly briefings with his father continued even in the winter when HF resided in Florida. During that season, Sam would fly to Florida twice a month to meet with his father.

17 WSJ May 7, 2001

18 Ibid

19 The payout on earnings for dividends was about 30% of after-tax profit. Since about 1917, the profit sharing to employees was 25% of pre-tax earnings after a 10% return to shareholders. Five percent of pre-tax profits went to charity.

20 (This footnote appeared at this point in the article) Before carnauba wax was first used commercially about 50 years ago, beeswax was used for polishes. Today most beeswax goes into Catholic altar candles, which must be at least 51% beeswax to meet old Church law based on the supposed virginity of bees. No such rule governs votive candles, sold in great numbers to the faithful. These may be made of ordinary stearic acid and paraffin.

21 The estate plan described is not precisely accurate. It expresses the basic concepts and uses descriptive names rather than actual names for trusts. The actual estate plan is very complex and detailed, of course. The purpose of the description in the case is to help convey the intentions and to help the reader focus on some of the issues important for the next generation of the Johnson family and for all families in business.

Succession and Continuity for Johnson Family Enterprises (B) [1]

"My great-grandfather got the enterprise rolling. My grandfather…diversified the fledgling product line of waxes and polishes. My father took a regional manufacturer…and turned it into an international company. I've diversified further into new manufactured product lines, financial, commercial, recreational goods and services and expanded to 45 countries. Not only is it important that the next generation bring something new to the enterprise, it is equally important that they feel great satisfaction from contributing a new dimension to the business."[2]

(Sam Johnson)

"When I was in my second year of Harvard Business School, my father told me to talk with Jim Allen (of Booz, Allen and Hamilton). I told him that I was thinking of working for other companies and that sort of stuff, but I eventually wanted to come back because I wanted to run the family business someday. I told him that I'd worked there in the summertime and thought it was a pretty good place. At the end of the conversation, Allen finally said, 'Sam, if you're not **the best person** to run the company someday, then there is no reason that you should.' I was insulted. I thought there was some sort of birthright being a member of the family. I said, 'Mr. Allen, what do you mean by that?' He said, ' What I mean is that if you aren't the best person to run the company, there is no reason that you should because there are so many people dependent upon you as the person in charge.'"

(Sam Johnson)

It was an afternoon late in December 1999 and Sam Johnson had just returned to his office from his company's 82nd annual employee Profit Sharing Day festivities. It was an upbeat event he always enjoyed for the sense of continuity it provided his family's business—past, present and future. This year, the family enterprises' 15,000 employees were sharing in the profits from nearly $6 billion in sales. Sam reflected that it was not only the last Profit Sharing Day of the century, but also probably the last Profit Sharing Day he would be Chairman, a role he had served for over 30 years. That was because there had been a transition of family leadership in three of the four enterprises.[3] (See Exhibit B1: Johnson Family Enterprises) Two of his four children, Curt and Helen, had each become chairman of one enterprise. Another child, Fisk, was about to take over as chairman of the third enterprise in fall 2000, thus assuring the fifth-generation of ownership and management. Winnie, the youngest, decided against a full-time management role in the businesses because she was raising her family in another state. Instead, she took on the role of president of the Johnson Family Foundation and board member of Johnson Financial Group.

It had been a decade-long transition of family leadership and the results were something of which Sam was proud.

"Everything is in place. The management is in place. The product line-up is in place. There are no looming problems. I can step aside without any serious worries. It's up to my children. I can't operate from my grave." [4]

However, Sam mused that the structure and leadership now in place for the family enterprises were the results of a fluid interactive process and strategic business goals, not of a fixed 10-year plan. It was also interesting for Sam to realize that his children, each in turn, had made their ambitions known to him according to birth order. As he sat at his desk, his thoughts returned to his children and the recent past…

THE RANDOM WALK TO LEADERSHIP TRANSITION

Sam recalled that when his children were in their teens and twenties, his wife, Gene, was more the cheerleader for the business with them. She communicated enthusiastically that SCJohnson was a great company with a lot of opportunity for them to contribute professionally, personally and as a family. In contrast, Sam did not want to direct his daughters and sons too much.

"My children were all bright and capable. But I had no master plan for them. I did not want to tell them to come back to get into a management development program. I preferred to see what they wanted to do. I thought they all ought to have some experience outside the company and some international experience. And, I did not want them to ever work for each other."

In the late 1980s, when the children determined that they each wanted some kind of role in the business, certain alternatives became more viable. Sam believed one way to benefit the company and support the possibility of several successors interested in leadership roles was increased diversification of the enterprises.

Curt: He wanted to run something on his own someday.

During college, Sam took notice when Curt said that he liked business and wanted to run something on his own someday. In preparation for these future plans, his father encouraged him to get his MBA, which he completed in 1983 from J.L. Kellogg School of Management. Curt spent the next several years as a founding partner in a venture capital group before deciding to return to Racine. As Sam recalled, Curt, then in his mid-30s, married with two children said,

"I'm ready to come back to Racine and put my children in Prairie School. What can I do at the company?"

For the first few years, Curt worked in the acquisitions group. Then, Sam suggested Curt get international experience and put him in charge of the company in Mexico for three years. In Mexico, Curt significantly increased sales and profits and developed a new, more aggressive strategy for the business going forward. Back home, Curt once again discussed with his father the possibility of running something on his own. This got Sam thinking about the commercial products side of S.C. Johnson & Son. He remembered what consultant, Jim Allen, had often said of commercial products,

"The one forgotten, underdeveloped business you've got in this company is the commercial piece."

For many years, Sam had been interested in separating out the commercial side because he felt it had great potential to blossom out of the shadow of the consumer products. It was already informally split from the factory floor to the customer, but it shared technology and factories with the consumer side. Sam felt it was a high-margin/low-capital business with global possibilities and it would flourish with its own strategic focus, priorities and resources. Coincidental to the time Curt showed interest in running his own business, the general manager of the commercial side was about to retire, so there was going to be a leadership opportunity. Sam spoke to Curt about the position and recalled the conversation:

Sam: "This is a business that really needs some push, some leadership. While it is not a glamorous business, it is a business that has a great future."

Curt: "If that's the business we can develop and grow the fastest, then that's the business for me."

After Curt ran the business a few years as general manager, he moved up to CEO. In the fall of 1999, the commercial and consumer sides of the businesses were totally separated in all aspects including legal, facility, research, sales, etc. This was done to enable the commercial business to realize its potential as a stand-alone enterprise and to effectively reward its executives, if successful. Curt became Chairman of the Board of the commercial side, which was renamed "S.C. Johnson Commercial Markets, Inc." At the time, it included 3,000 employees in over 50 countries with estimated annual sales of nearly $1 billion.[5]

Helen: She was committed to marketing and being a full-time professional.

Helen always knew she wanted to be in business and had an interest in marketing, but she decided not to work initially for the family enterprises, opting instead to get work experience elsewhere first. Sam saw qualities in Helen that fit with commerce and described them thusly,

"Helen is a 'people person'. People like working with her and she has a good marketing sense."

He helped arrange for her employment at the company's long-standing ad agency, Foote, Cone & Belding in Chicago. She worked there for eight years in account management on packaged goods accounts such as Kraft and at the same time pursued other interests, such as opening a restaurant with some partners. Thoughts of working in the family business were on her mind, but she said of that time period,

"It was good to get experience outside of the company. It gave me the opportunity to prove myself to myself."

According to Sam, one day in the mid-1980s Helen was talking to him and said,

"It's time to come back."

She joined the firm's consumer side as a member of the marketing team and moved up the ranks, eventually working as a vice president of global marketing services. She decided to consider a move to the firm's publicly traded recreational goods company, then called Johnson Worldwide.[6] There was about to be a management vacancy on the North American business and she thought that her marketing skills would be a good fit for the position. She held the position of Group VP for a year and a half, then, went back to the consumer side as Business VP for North American Furniture, Floor and Personal Care from 1997-1999. During these years she remained on the board of Johnson Worldwide. When Sam knew there was going to be a vacancy for the top position at Johnson Worldwide, he asked Helen if she'd be interested in returning to the company as the boss. She considered it and agreed, becoming Chairman and CEO in March 1999. Sam thought that Helen took advantage of the opportunity "to prove herself as a leader of a business." Almost immediately, Helen brought her strong marketing talent and background to the recreational products enterprise by refocusing its business objectives and renaming it Johnson Outdoors Inc. At the time she took over leadership, the company had 1,400 employees and sales in excess of $300 million. (See Exhibit B2: Summary of Johnson Outdoors Inc. Financial Performance 1996-2001.)

Fisk: He prepared with the scientific education of HF; the business education of Sam.

Fisk was the only child who followed in the footsteps of his grandfather, HF, to the study of science. He obtained a BS in chemistry, a BS, MS and PhD in physics and a Master's degree in engineering. Like his father, Sam, Fisk also obtained his MBA. Upon completion of these degrees Fisk returned directly to the family business in 1987. As he said of that time,

"I always knew I wanted to come back. I thought we had something unique here." [7]

Then, he negotiated with Sam to be Director of New Products and New Technologies, a position he held for 2 1/2 years. After that, Sam offered Fisk the job of running Johnson Canada, which he did for over three years. Sam made observations about Fisk from that time,

"Fisk did a brilliant job running Johnson Canada. He was a vocal believer in the company's (principles) 'This We Believe' and I saw how much people liked to work with him. It seemed he had the leadership qualities and technical qualifications of my father. I liked that a lot."

After Canada, Fisk was Vice President for home care products and then promoted to President of Asia Pacific and India, both managed out of Racine. Sam started to think about transitioning leadership of the consumer business to Fisk. At this point, Curt and Helen had each carved out their parts of the business and Sam was 71 and still in charge of the consumer business as Chairman of the Board. When Sam's other two children took over their businesses, they had filled leadership vacancies. There was no vacancy of leadership in the S.C. Johnson & Son consumer business. Furthermore, Sam did not want to disrupt the current non-family President/CEO. So, he evaluated several alternatives for Fisk, such as making him a Co-CEO with the non-family member, a Co-Chairman of the Board with Sam, a Vice-Chairman of the Board, or creating a new position for him called Office of the Chair. In the end, Sam decided it was time to step aside and offer Fisk the Executive Chairman position. At the time, the consumer business had 9,500 employees and sales of more than $4 billion.

Winnie: She was supportive of the business, but decided against a role in managing it.

After college, Winnie worked in public relations for S. C. Johnson & Son. She was bright and very supportive of the business, but once married with a family and living in another state, she opted not to pursue a full-time management role. Over the years, she helped with public relations activities and remained active in the family's philanthropy, becoming president of the Johnson Family Foundation. She is also a director of Johnson Financial Group.

THE NITTY-GRITTY OF HOW THIS ALL WORKED

How Each of the Businesses Were Organized at the Top
In the distant past, Sam was both President and Chairman of each of the companies. Then in the recent past, Sam shifted to a

structure of a non-family President/CEO and a family member Chairman both running the company together, but serving different functions. The role of the President/CEO was to drive business strategy and results, deal with the management committee and lead the operations of the business. The Chairman served as the family's representative of ownership and focused on the long-term strategy, acquisition planning and company culture. Until the recent leadership change, Sam served the Chairman role for every business. Now that his children are each running a business and he remains Chairman of Johnson Financial Group, Sam says,

"I am out of the formal decision-making of three of the businesses, but I talk to my children and they talk to me. They seek my advice and I am pleased with that role. In a way, I feel more engaged in the businesses than when I was getting paid for it!"

Bringing the Board and Other Family Owners Along with the Succession

To ease the transition of power, Sam had his children regularly attend board meetings so the board members and representatives of the Johnson and Louis families could get to know each other. Then, at the end of each board meeting he would have an executive session in which succession would be one of the topics discussed.[9]

In addition, family members attended meetings together every two years. Global Conferences[10] were held abroad every four years and meetings of shareholders were held locally every four years, on a staggered schedule so that one of the meetings took place every two years.

Shift from Four Generations of Patriarchal Leadership to Leadership by Committee

The patriarchal model of leadership had been in place in the company for over 110 years. Sam reflected,

"I was the fourth generation head of family, head of business and head of ownership. That will never happen again. Maybe with the new structure, we've sown the seeds of eventually splitting up the enterprises. The glue is the culture, the values, the history and the traditions of the company."

The Family Business Council: An Owners' Decision-Making Body

To make the transition from the patriarchal model, the family developed a decision-making body for the enterprises called the Family Business Council (FBC). This committee is composed of nine people: Sam, Gene, Curt, Helen, Fisk, Winnie and three trusted advisors with substantial experience in the business. Currently, the three advisors are the retired Vice Chairman of SC Johnson, the retired Chairman and CEO of Johnson Outdoors Inc. and the retired President of Johnson Keland Management, The Family Office. The FBC has no chairman, but makes decisions by consensus. The head of the Family Office serves as executive director of the FBC and facilitates the agenda, but is not a member and has no vote.

One goal of the FBC is to identify and cultivate talent in the Johnson 6th generation by making sure that those with interest and promise get the experiences in the businesses they need to develop into leaders. A second goal is for the FBC to function as an owner's council in order to prevent fiefdoms from developing by the individual family members running their specific businesses. The FBC does not replace individual corporate boards nor attempt to perform any functions of the boards. In addition, the governance of the enterprises was developed so that each enterprise has one additional family member involved on its board in addition to the Chairman.

The STARC Committee: A Trustees' Decision-Making Body

The leadership of the trusts is also changing. Currently, Sam is the trustee of three of the trusts and Gene is trustee of the fourth. Neither has named successor trustees. Instead, in each of the trusts, both have designated that a STARC Committee (Successor Trustee Appointment and Remover Committee) determine by majority vote the replacement trustees. The STARC Committee is composed of Sam, his wife, four children and three outside advisors. If voting results in a tie among the family members, the advisors together cast one tie-breaking vote. The successor trustee to each trust does not have to be the same person, as was the case with Sam who served as trustee for the majority of the trusts. The STARC Committee mechanism provides a means for selecting successor committee members and successor advisors. (See Exhibit B3: Description and Conceptual Map of Sam's Estate Plan.)

Sam gathered up his belongings to leave the office for home. He reflected that he felt comfortable with the new succession arrangement from both a business and family standpoint.

"I like the word 'sustainability'. I learned it in the environmental field. It means sustainable in the community, customer and technology environments where we can stay alive and flourish. That means we can survive in the long run, as a species, if you will. We are sustainable enterprises."

As he turned out the lights, Sam wondered if the succession solution that had emerged would provide for a "sustainable" family. He worried whether he had done all he could to protect and to preserve the family business for another one hundred years.

EXHIBITS FOR CASE B

Exhibit B1: Johnson Family Enterprises

Exhibit B2: Summary of Johnson Outdoors Inc. Financial Performance 1996-2001

Exhibit B3: Description and Conceptual Map of Sam's Estate Plan, 2001

APPENDIX FOR CASE B

Appendix BI: NYT article from 11/21/01: SCJ Commercial buys DiverseyLever

EXHIBIT B1: JOHNSON FAMILY ENTERPRISES (AS OF 2002)

S. C. Johnson & Son, Inc. is the manufacturer of consumer household products. In 2000, it operated in over 60 countries, with 9,500 employees and annual sales of over $4 billion. It sells hundreds of products in over 100 countries. Some of its most well known products are Raid, OFF!, Edge, Windex, Pledge, Glade, Vanish, Drano, Saran Wrap, Ziploc, Fantastik and Shout. Ownership of the business is approximately 60% Johnson and 30% Louis. Fisk Johnson became the 5th generation involved in running the company, serving as Chairman since fall 2000.[11]

S. C. Johnson Commercial Markets, Inc. is the manufacturer of business-to-business products. In 2002, it employed 3,000 people and had annual sales of over $1 billion. Its products were sold in 50 countries. The business consists of two divisions. Johnson Wax Professional supplies cleaning and appearance products using a direct sales force and a network of over 300 distributors around the world. Johnson Polymer is the manufacturer of polymers for the printing, packaging, coating and adhesives industries. It distributes through a direct sales force. Ownership of the business is approximately 60% Johnson and 30% Louis. Curt Johnson became the 5th generation to run the company, joining the business in 1992 and serving as Chairman since 1998.

Johnson Outdoors Inc. is the manufacturer of outdoor recreational products. It operates in 30 locations worldwide, has 1,400 employees and sales of over $350 million. Some of the popular brand names include: Scubapro (diving), Old Town (canoes and kayaks), Minn Kota (motors), Camp Trail (backpacks) and Eureka! (tents). Johnson Outdoors was purchased by the Johnson family as part of a leveraged buyout in 1987. The Louis family chose not to participate in the buyout and has no investment in the business. All of HF Johnson's descendents still participate in this company's ownership. It is also the only family enterprise that is publicly traded. Helen Johnson-Leipold became the 5th generation to run the company, serving as Chairman and CEO since March 1999.

Johnson Financial Group is the financial services company including banking, trust, insurance and investment management. It has 850 employees, $2.2 billion in assets and over $173 million in total capital. Johnson Financial Group was started within S.C. Johnson & Son, Inc. in 1970, then spun off in 1971. The economic and voting shares of Johnson Financial Group are distributed much like those of S.C. Johnson & Son, Inc. with both the HF and Louis families participating. Sam Johnson is still the Chairman of this enterprise.

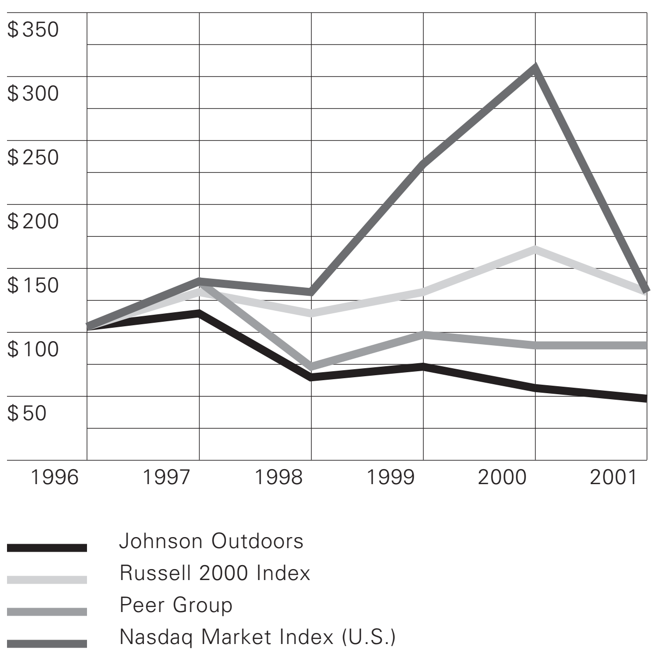
Johnson Keland Management, The Family Office, provides corporate governance, financial, tax and advisory services to individual members of the families of Sam Johnson and his sister, Karen Boyd. It was founded in 1979 and maintains a staff of 22 people. In the past year, the Johnson family has begun to develop ways The Family Office might serve the needs of the 6th generation, including some family education resources and family values discussion roles.

EXHIBIT B2: SUMMARY OF JOHNSON OUTDOORS INC. FINANCIAL PERFORMANCE 1996-2001

(in thousands)	1997	1998	1999	2000	2001
NET SALES	$ 242,351	$ 274,005	$ 310, 198	$ 354, 889	$ 345,637
OPERATING PROFIT	$ 13,881	$ 18,356	$ 19,513	$ 24,719	$ 15,718
NET INCOME (LOSS)	$ 2,056	$ 5,212	$ 7,022	$ (16,983)	$ 5,365
DEBT/EQUITY					
RATIO	.96	1.0	.96	1.03	.92
Family Ownership %					A—47.0 %
Class A and Class B Stock					B—95.6%

(Sources: Johnson Outdoors Inc. 2001 Annual Report and Notice of Annual Meeting of Shareholders 2/19/02)

Five-Year Cumulative Total Return
(Fiscal years ended June 30)



The graph compairs on a cumulative basis the yearly percentage change since 1996 in the total return to shareholders. The graph assumes that $100 was invested on September 27, 1996. The peer group index was selected and includes the company, K2, Inc. Brunswick. and Huffy Corp.

EXHIBIT B3: DESCRIPTION AND CONCEPTUAL MAP OF SAM'S ESTATE PLAN 2002

Voting Trust:
To Control Each Business Enterprise

- For SCJohnson & Son—Sam is Trustee. Successor will probably be Fisk
- For SCJohnson Commercial Markets—Sam is Trustee. Successor will probably be Curt
- For Johnson Outdoors—Gene is Trustee. Successor will probably be Helen
- For Johnson Financial Group—Sam is Trustee

Family Trust:
Discretionary Distribution of Dividends To Assure Harmony and Unity of Johnson and Keland Families

Sam is the Trustee

His successor is Gene

Succession is passed to the STARC Committee that determines the successor trustees

Income Trusts:
To Continue Distribution of Dividends for Each Family Branch on Its Holdings

Sam is the Trustee

Succession is passed to the STARC Committee that determines the successor trustees

Family Foundations:
Family and Public Trustees

Sam inherited a system developed by HF that had him as sole trustee of the "Voting Trust" that controlled the company, of the "Family Trust" (a "sprinkling trust") that discretionally distributed dividends to both his family and his sister's family for the purpose of assuring family unity and harmony, and of the "Income Trust" for his wife and four children. He also needed to consider the future of his family's private "Family Foundation."

He concluded that the trusteeship of the "Family Trust" would first pass to his wife, Gene, then to a committee, called the "STARC Committee." This committee would include his four offspring and three long-time family advisors. The advisors were available for counsel as well as to address any possible differences among the four in the next generation.

Further, Sam intended that the original "Voting Trust" would be eventually subdivided so that SCJohnson, S.C. Johnson Commercial Markets and Johnson Outdoors Inc. could eventually be controlled by the family member directly involved. Currently Fisk holds Sam's voting proxy for SCJohnson, Curt has Sam's voting proxy for Commercial Markets and Helen holds Gene's proxy at Johnson Outdoors Inc. As of 2002, Sam remains the trustee on Johnson Financial Group.

The "Income Trusts" will continue to distribute income as they do now, until some years after the death of the last member of the 5th generation. The "Family Foundation" currently has six trustees: Sam, Gene, Curt, Helen, Fisk and Winnie. Each of the children can select a successor, so representation can be kept in family lines of the 5th generation and beyond. The family intends to continue to fund the Family Foundation through lifetime gifts and bequests at death.

The Louis family has prepared similarly with Jeff Louis designated as that family's fifth generation ownership representative, succeeding his father, John Jr.

Sam reflects, "It took the third generation about ten years to settle their estate plans. It took me (4th generation) about 8-10 years to prepare for the 5th generation. Now preparations are underway to prepare for the 6th generation."

APPENDIX BI: NYT ARTICLE FROM 11/21/01: SCJ COMMERCIAL BUYS DIVERSEYLEVER

From the New York Times Wednesday, November 21, 2001
BUSINESS/FINANCIAL DESK

Company News; Johnson Wax to Buy a Cleaning Business for $1.6 Billion

The cleaning products company Johnson Wax Professional said yesterday that it would buy the commercial cleaning business of the consumer products group Unilever for $1.6 billion. The deal for Unilever's cleaning business, Diversey Lever, would give Unilever a one-third stake in the privately held Johnson Wax for five years, Johnson said. The new company is expected to have sales of $2.6 billion. Unilever said it would receive $1 billion in cash from Johnson and a $279 million loan note, and said its stake in Johnson would be worth $300 million, bringing the value of the deal to an estimated $1.6 billion.

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Executive Vice President of J/K Management Services, Inc. (The Family Office of S. C. Johnson)" (Interview conducted by Professor John. L. Ward)

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NOTES

1 This text was prepared solely as a basis for class discussion by Research Associate Carol Adler Zsolnay and Professor John L. Ward. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

2 Family Business Magazine May 1990

3 The three enterprises under new family leadership were SC Johnson & Son, Inc., SC Johnson Commercial Markets, Inc. and Johnson Outdoors Inc. Still to be resolved (as of 2002) is the future family leadership of the financial services company, Johnson Financial Group. This business has always been very successfully run by a non-family executive, while at the same time incorporating the culture and values of the family. As of 2001, Johnson Financial Group employed 850 employees, had assets of $2.2 billion and over $173 million in total capital. (Source: Johnson Keland Management, Inc.)

4 NYT Article 8/22/99

5 Figures are according to the brochure published in 2000 by J/K Management Services, "The Johnson Family Business Enterprises." In November 2001, the company agreed in principle to acquire DiverseyLever, the commercial cleaning business of Unilever, for $1.6 billion. (See the article about this in Appendix BI.)

6 The name was changed to Johnson Outdoors Inc. in 2000.

7 NYT Article 8/22/1999

8 The Louis Family had a board representative who attended all board meetings and was privy to all of the board's materials. It was up to this individual to keep the others in the Louis Family informed. The current representative to S. C. Johnson & Son, Inc. and Johnson Financial Group is J. Jeffry Louis, a businessman with a KSM MBA and a son of Sam's first cousin John J. Louis Jr. Another Louis family member, Clifton D.Louis, also a businessman and son of Sam's first cousin Herbert J. Louis, serves on the board of S. C. Johnson Commercial Markets, Inc.

9 Sam suggested that family businesses end every board meeting with an executive session, even if there is little or nothing to discuss, so that it is an expected part of the agenda and not something that raises concerns if it takes place.

10 These conferences are held once every four years for senior executives worldwide.

11 Prior to Fisk taking over as board chairman in fall 2000, the board was comprised of the following members: Sam as Chairman of the Board and Chairman; Richard M. Thomson, retired Chairman and CEO of The Toronto-Dominion Bank as Vice Chairman; William D. Perez, President and CEO of SC Johnson; Robin Burns-McNeill, President and CEO Intimate Beauty Corporation and Victoria's Secret Beauty Company; Dr. Lester E. Coleman, retired Chairman and CEO of The Lubrizol Corporation; Dr. Herbert J. Louis, orthopedic surgeon; Steven S. Rogers, Clinical Professor-Finance J.L. Kellogg School of Management; William P. Stiritz, Chairman, CEO and President of Agribrands, Inc.; Michael W. Wright, Chairman, President and CEO of SUPERVALU INC.; and H. Fisk Johnson, PhD, Vice-chairman of SC Johnson & Son, Inc.

Succession and Continuity for Johnson Family Enterprises (C)[1]

"In a family business, if you lose your sense of adventure, you lose your creativity."

(Sam Johnson)

It was the start of the new millennium. Filmmaking consultant, Landon Parvin, sat in his office surrounded by hours and hours of amazing film footage, yet he thought he had a problem on his hands. He had been hired to pull together a film the Johnson family had been working on since 1993. That year, Sam Johnson decided to make the same journey to the jungles of Brazil with his sons that his father, HF, had made in 1935, hopefully in the same plane.

"I wanted to feel how he felt. It's so much different flying an old airplane with loud engines and air leaking through the windshield."[2]

So, in 1995 a film crew was hired to accompany Sam and his sons, Curt and Fisk, on a diving expedition off the coast of New Guinea. The goal was to find parts of his father's original Sikorsky S38 amphibious plane that had crashed into the sea after it had been sold in the late 1930s. The mission to find the wreckage was unsuccessful, but the film footage included scuba divers in pristine waters filled with undulating sea life and poignant views of native villagers. Later that year, a film crew was brought in to record the three-year construction of an exact replica of the original plane at a small manufacturing shop in Minnesota. The film footage captured the workers' care and painstaking attention to detail as they used their hands to bend heated metal over wooden frames. Finally, in 1998, a film crew was engaged to fly a separate plane and accompany Sam and his sons on their 20-day trip retracing the flight itinerary of Sam's father in 1935. This time, the result was aerial views of the plane aloft over 15,000 miles of breathtaking scenery. That was the problem with all of the footage, Landon thought. There were lots and lots of wonderful images. What was missing was the context to make the film and journey meaningful, especially to its intended audiences—the extended Johnson family, their family businesses' 16,000 employees and close associates.

After giving it some thought, Landon decided what he and his crew needed to do. They made an appointment to interview Sam on camera in a relaxed setting in Racine. Before the filming started in February 2000, they took a gamble and, according to Sam, they said, "Sam, we want you to be totally honest with us and with yourself. This is your chance to speak to your children and grandchildren and to the great-grandchildren you may never know. This is your chance to explain some things that they need to understand about you, your father, and the company."

The unrehearsed interview lasted less than three hours. But, when the crew finished filming, they knew they had something special. A corporate flying adventure was about to be turned into a touching film with universal implications about family business, executive leadership, corporate culture, inter-generational relationships, overcoming challenges, honesty and sharing.

Now, please view the film, "Carnauba: A Son's Memoir".

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2 Sam Johnson in NYT article 5/7/01