Telling your story to the American public

Before expecting any political help on estate taxes, family businesses have to reverse some negative images.

By Ivan Lansberg

IN A FAMOUS laboratory experiment, a frog dropped into boiling water leaps from the beaker the instant it hits the scalding liquid. In the second condition of the experiment, the frog isn't quite so lucky. The frog is placed in water at room temperature that is then gradually heated. The water gets hotter and hotter, but the frog does not appear to notice. It continues to swim around in the beaker until finally, it is boiled alive.

This experiment, showing that organisms can gradually adapt to changes in their environment that threaten their existence, is often cited as a metaphor for the dangers of complacency in business. By and large, family business owners, too, pay little attention to what is happening in the water they swim in every day. The fact is that many of them are not very good at managing the political and economic environment in which they operate. Despite stiff inheritance taxes that diminish the likelihood of their continuity as a family enterprise, despite capital gains taxes and punitive double taxation of income that cut into profits, they are not easily roused to take action. These are the kinds of conditions in which good businesses can be boiled alive.

The so-called Family Owned Business Act of 1995 — passed by Congress but sunk by the President's veto of the budget bill last December — was a hopeful sign. The 80 or so business organizations that for months pushed the Congress to pass that modest estate tax relief did an admirable job of making legislators aware of the threat to the existence of many such businesses from estate taxes.

To concentrate on estate tax reform and lobbying the government, however, is to ignore the deeper problem, which is the negative image that many people still have of family companies. The common stereotype of family companies as small, inefficient systems, riddled with nepotism and psychological dysfunction, shows how ineffective owners have been in "telling their story" to the American public.

Contrast this with what family businesses in some other industrialized countries have been able to accomplish. Just this spring, for example, a new tax bill was adopted in Spain that reduces estate taxes for family businesses by 95 percent. This legislation was the result of a concerted effort by the Spanish Instituto de la Empresa Familiar, an organization that brings together some of the country's largest and most prominent businesses. Though the Instituto is led by very large, multinational, family enterprises, however, it looks after the interests of all family businesses; in other words, it has managed to forge a common family business identity among companies of all sizes and industries.

Unlike their counterparts in the United States, the large European companies take great pride in being viewed as family enterprises. Their leaders have long understood favorable tax legislation is unlikely without making the larger public aware of the positive values of family entrepreneurship and of the myriad ways family businesses — large and small — contribute to the greater good of their country. After all, in the absence of a compelling argument for supporting the continued existence of these companies, the public is likely to view I lobbying to curtail estate taxes as "an effort by the rich to get richer." Hardly a cause likely to be endorsed by savvy politicians.

For the past seven years, the Instituto de la Empresa Familiar has been a major sponsor of family business research and education. Its leaders recognize that they cannot win public support without adequately documenting the facts about the contributions of family companies as well as their vulnerability. The Instituto serves as a clearinghouse of information about family companies. It ensures that the media and the public will hear not just stories about family businesses that are going through difficulties (as is typically the case in the U.S.) but also about the many extraordinarily successful Spanish family companies.

In a matter of a few years this effort has dramatically changed the public's perceptions about family enterprise in a country where support for socialism has deep roots. Once widely regarded as an exploitative elite, the family business today is perceived as a vital element in Spanish society by everyone from the King of Spain to many leaders of the political parties of the left. The leader of the Instituto, Mariano Puig, a principal in a large, family owned perfume company in Spain, has been asked to mount a similar campaign for the European Economic Community.

Even though the U.S. has been in the forefront of a professional field devoted to the study and strengthening of family business, we have lagged considerably behind the Europeans in helping family business owners define a collective identity and speak with a unified voice. Business owners I talk with offer a number of reasons why this is so. For one thing, work in the political arena requires taking time out from the business, which in most cases they cannot afford to do, especially in small and mid-sized businesses that are chronically understaffed. Rather than getting directly involved, many business owners would rather delegate responsibility for managing the political and economic environment to others. As one business owner told me: "Our industry association is supposed to do that work on our behalf. If those people don't lobby for us, then what are we paying them dues for?"

The problem is that industry representatives typically deal with myriad other industry issues and fear they will diffuse their focus and reduce their effectiveness if they also embrace the broader cause of family business continuity. Moreover, any incipient family business lobby lacks the statistical ammunition to make its case. As the research analysis in the Spring issue of this magazine indicated, the impact of family companies on the economy is hard to pin down, largely because the data is fragmentary (estimates of their contribution to GNP, for example, range from 12 percent to 49 percent). Any educational

campaign by family companies will require an ongoing effort to gather reliable information about what these businesses actually contribute.

There maybe another reason to be a little skeptical of the business owner's excuses and evasions. Work in the political arena to reform estate taxes could raise the same kinds of psychological resistances that steer many away from estate planning itself. Quite simply, death taxes are a reminder of mortality. Not many entrepreneurs like to think about it, let alone devote time to doing something about it.

Perhaps the biggest barrier to forging a common identity among family businesses is the stigma that still attaches to such companies like the proverbial tar baby. Many of the country's most admired companies remain controlled and managed by families: Levi Strauss, Motorola, Gore Associates, Marriott International, to name a few. But some family business owners seem unwilling to declare themselves and "come out of the closet."

Although it took five generations of the Houghton family to build the enormously successful Corning Inc., for example, the last issue of Family Business quoted a spokeswoman at the company as saying: "The Houghtons don't see Corning as a family business." Well, one wonders whether this reaction is simply the personal view of one PR executive. It's hard to believe that the Houghtons are not proud of what they have accomplished as a family.

The Johnson family of S.C. Johnson & Son, in contrast, makes no secret of the fact that they intend to keep it that way. The Johnsons don't seem to feel that family ownership and management should embarrass them with either the public or their own employees (see "The wise use of outside service," below).

The resistance in government to estate tax reform is not based on the revenues that would be lost, which add only a very modest amount to the federal pot. What's more, if one considers the costs of collecting these taxes — and the enormous amounts that business owners spend on financial planners and estate planners in order to reduce them — the social costs of estate taxes probably outweigh the social benefits of the system.

The real obstacle to reform is ideological. For reasons dating back to the Jeffersonian era, the country has always believed inherited wealth is somehow inconsistent with a democracy, that every generation should start with a level playing field. But aren't other values just as important to us as meritocracy? Much has been made in recent elections of the need to restore the place of family in American life, to teach the need for sacrifice, to instill a respect for tradition, and for the work ethic.

Family business owners have not yet effectively educated the public to make the connection between these virtues and the continuity of family enterprise in general. The America we know was built upon a firm foundation of these values by countless immigrant families who created their own businesses. These businesses were not built just by lone individuals but by entrepreneurial families. Scotch and Irish, Italian and East

European, Greek and Armenian, the Korean shopkeepers in New York, Chinese and Indians in California, Cubans in Miami — their stories are not only about heroic individuals but about families facing adversity and triumphing against great odds together. We glorify individual accomplishment but "edit out" the essential contribution made by families to the building of great enterprises.

For these families, the business is not just a way of putting bread on the table. It is a place where the young are mentored for their future careers, where they are taught the fundamental values of responsibility, hard work, respect for customers, and duty to the community. It is now the job of the owners of these companies to let the public know what they have always stood for and why the businesses they have created should continue into the future.

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