

# SURVIVAL'S SECRET SAUCE

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**CAMBRIDGE**  
INSTITUTE FOR FAMILY ENTERPRISE

The secret sauce of long-term business success can't be captured in numbers. As the operations manager of a leading and fast-growing Brazilian business recently explained to a reporter, "There's a secret sauce in this business [but] it's almost impossible for a financial analyst to model it." Agreed. But long-term success—even for a family company—can be explained in a rather simple, straightforward way. Here are some high points to consider.

## **GROW EVERY GENERATION**

In order to stay alive commercially as a family, you have to grow your assets (what's left of your assets after taxes and inflation) faster than your family or business consumes them. Needless to say, growing families and businesses are both good at consuming assets. For many family companies we have researched, their sustainable real growth rate<sup>1</sup> is 6 percent. That might seem easy to achieve but it isn't.

Returns on assets tend to wane over time as an industry matures and ultimately declines. To maintain high returns and keep your family company modern and competitive you need to make well-timed, significant bets in growth businesses. Some of these bets can regenerate your core business, but others might diversify your business activities, moving away from your original business. If you can't consider diversification and entrepreneurial efforts, you are probably not going to survive long-term.

<sup>1</sup> The annual rate of real growth (subtracting inflation) that the family must achieve to at least maintain its current wealth, given what it reinvests in its enterprise and family expenses (taking into account how the family is projected to grow, family lifestyle, and family dependency on its business) plus the cost of any non-asset-producing expenses (such as philanthropy).

## IDENTIFY AND DEVELOP FAMILY WEALTH CREATORS

I've written several articles about how important it is to develop the family talent you need in your family enterprise. You need good family owners to support your company and good family board members to guide the company. You also need one or more members per generation who are wealth creators—who know how to make winning bets that produce the financial returns you need.

I am studying family wealth creators around the world. Entrepreneurs like Alexandre Birman at Arezzo, often show an interest in business between the ages of 8-14. Develop these wealth creators by providing the right opportunities to learn about business, in your core business or outside. Wealth creators need to be stretched beyond their comfort zones in their understandings and capabilities. Give them real projects and don't protect them from failure.

The secret sauce for surviving from generation to generation has three main ingredients: Growth, talent and unity.

## BUILD FAMILY UNITY

I can't overstate the importance of building family unity if you want to succeed over generations. Family feuds that result in ownership splits weaken a family and greatly reduce its assets and returns. You need a program to bring together the family behind the business, to strengthen trusting bonds, and build family commitment to your company. A good shareholder agreement is very useful. I don't advocate keeping people together when there are fundamental disagreements over a company's direction. But even these rifts must be managed in a respectful and careful way, ultimately with a commitment to preserve family unity and assets.

The secret sauce for surviving from generation to generation has three main ingredients: Growth, talent and unity. It should be your mantra if you want to achieve multi-generational success.

## ABOUT THE AUTHOR

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John A. Davis is a globally recognized pioneer and authority on family enterprise, family wealth, and the family office. He is a researcher, educator, author, architect of the field's most impactful conceptual frameworks, and advisor to leading families around the world. He leads the family enterprise programs at MIT Sloan. To follow his writing and speaking, visit [johndavis.com](http://johndavis.com) and twitter [@ProfJohnDavis](https://twitter.com/ProfJohnDavis).

## ABOUT CAMBRIDGE INSTITUTE FOR FAMILY ENTERPRISE

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The Cambridge Institute for Family Enterprise is a global research and education institute dedicated to the real issues facing family enterprises. It is a place where progressive members of family enterprises come to learn, exchange ideas, develop themselves and position their enterprises to be not only successful, but sustainable over generations. Its sister organization, Cambridge Advisors to Family Enterprise, advises multigenerational families around the world on strategies to sustain their success over generations.