All in the Family

What do founder-run companies know that gets them on "best-of" lists?

By Larry Farrell

The evidence is pretty overwhelming. The entrepreneur-led model of running a business is outperforming the professional-manager model. What are entrepreneurs doing that's putting their businesses on everyone's rosters of hot companies? First, the evidence:

Since the first Fortune 500 back in 1955, about 70 percent of the original companies have fallen off the list—always replaced by newer and more entrepreneurial upstarts. And that trend is accelerating. Of the hundred biggest on this year's list, a startling 30 percent were either unknown start-ups or not even in existence three decades ago. To top it off, within the Fortune 500, the companies that are still being led by their founders are outperforming the others by a mile: Over the past decade, the entrepreneur-led firms had an average annual profit growth of 19.6 percent vs. 11.7 percent for the entire 500. What's going on here? What's their secret?

The "*Business Week* 50" annual ranking of America's top growth companies also contains some real jewels. One-third of the top fifty high-growth companies are led by their founders. Apple Computer leads the list, followed by such entrepreneurial stalwarts as Qualcomm, Amgen, Cisco Systems, Starbucks, and FedEx. If you drop the oil businesses from the roster, on the premise that your pet turtle could turn in good growth numbers in that industry today, the entrepreneurial companies comprise half of the remaining list. And keep in mind that all of the entrepreneur-led companies on this list are large, publicly traded firms—not the small start-up businesses we normally associate with entrepreneurs. So, once again, what's the magic? How does FedEx founder Fred Smith keep his thirty-year-old, $30 billion company, with 216,000 employees, on the list of America's fifty top-growth companies? Or for that matter, what does Steve Jobs actually do, day in and day out, to make Apple the country's No. 1 growth company?

Then there's *Business Week*'s November 2003 special report "Family, Inc.," which began with the headline: "Surprise! One third of the S&P 500 companies have founding families involved in management," either as chairman, CEO, or significant shareholders. "And, in what may be Corporate America's biggest and best-kept secret," the report continues, "they're beating the pants off their nonfamily-run rivals." None of these 177 family-run companies are Silicon Valley start-ups that will disappear next year—or anytime soon. They're large, established enterprises like Walgreens, Wrigley, Oracle, FedEx, Anheuser-Busch, Wal-Mart, Microsoft, and Southwest Airlines. The ten-year financial comparisons are dramatic—annual profit growth of 21.1 percent versus 12.6 percent for nonfamily S&P companies. So when the family name is on the

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door, is it just genetics at work? Or is something else at play?

Finally, I recently reviewed *Fortune*'s "100 Best Companies to Work for," looking for common threads among these great people companies. It didn't take long to find one. All I had to do was read down the list of names: Genentech, W.L. Gore, J.M. Smucker, SC Johnson, Whole Foods Market, Cisco Systems, Starbucks, Microsoft, American Fidelity,

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Yahoo!, Wrigley, Marriott, Nike, etc. The list is jam-packed with family and entrepreneur-led companies. It shows, once again, that entrepreneurial companies are not only growth leaders but also beacons of good employee practices.

Now, how do you get some of this magic and make it your own? How do you transform your over-the-hill bureaucracy into the high-growth entrepreneurial enterprise you want it to be?

Passion for the business. Entrepreneurs simply care more about the businesses they create and grow than most "hired hand" CEOs ever will. "It would be truly devastating to me if this company ever failed," says Jim Sinegal, co-founder of Costco (and one of the lowest-paid CEOs in the Fortune 500). Kari Stefansson, founder of deCode Genetics, the world's hottest biotech organization, described his business to me this way: "We are studying the most sacred information that exists: the information that goes into designing you." And as McDonald's founder Ray Kroc loved to say, "You've gotta see the beauty in a hamburger." So the challenge for non-founder CEOs and their professional managers is to find the beauty in their own work and duplicate the entrepreneur's passion. A great place to start is to do something you love and not be satisfied with just drawing a nice salary for forty years.

Product/market guru. If you invent it, make it, and sell and service it yourself, you are the guru the market listens to and the employees idolize. You are Soichiro Honda, auto mechanic and race-car driver, making the most wonderful machines in the world. You are Walt Disney, literally believing, "The inclination of my life has been to do things and make things which will give pleasure to people in new and amazing ways." And you are Steve Jobs telling the true believers at Apple that "the computer is the most remarkable tool we've ever built. . . . The most important thing is . . . to get [them] out there to as many people as possible." Of course, the good news is that all corporate leaders can—and should—become "product/market" experts and champions in their own right. In this competitive game, product and market expertise is king.

Fast action. Akio Morita, the great founder of Sony, called moving quickly the entrepreneur's secret weapon. Consider Chiron co-founder Ed Penhoet's race to discover the vaccine for hepatitis B, which has saved millions of lives. Years after Chiron had developed the vaccine, he told me: "Biotech is a horse race. Everyone in the industry knows what the opportunities are, but the winners are the ones who get to the finish line first." Ross Perot embellished this point, as only he could, after becoming General Motors' newest board member and largest shareholder: "Where I come from, when you see a snake, you kill it. At GM the first thing you do is form a committee on snakes, next you hire a consultant, then you talk about it for a year." And perhaps the best advice comes from Larry Hillblom, co-founder of DHL, who told me how he started up 120 country offices over the course of a decade with no financing, headhunters, or even a business plan. "We did it because we had to," he explained. "You have to learn to do what all the consultants and bankers tell you is impossible." Nothing has changed, and making fast action a hallmark of your managerial style is a *must-do* part of being a more entrepreneurial manager.

Commitment: a two-way street. Most entrepreneurs simply won't tolerate sloppy or lazy work. But they also practice what Thomas Watson at IBM called "respecting the dignity of every employee." And no modern-day entrepreneur does that better than John Mackey, with his 33,000 "team members" at Whole Foods. Here are some of Mackey's paradigm-busting practices—which every executive reading this column should at least consider—that are producing unparalleled commitment and performance at Whole Foods: (1) Every three years, all employees vote to choose the health-and-benefits package they want the company to offer. (2) Award 90 percent of all stock options to non-executive employees. (3) Set a salary cap on executive compensation at fourteen times the average pay of full-time personnel. (4) Open the financial books to all employees and publish everyone's compensation, including that of executives.

Of course, you don't learn this stuff at business school. But try it. It works! ♦