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Private Equity & Principal Investors Practice

The secrets of outperforming family-owned businesses: How they create value—and how you can become one

Family-owned businesses that combine four critical mindsets with five strategic actions have a chance to quadruple their value in the next decade—while maintaining resilience.

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November 2023

These days, organizations across industries and geographies are doing everything they can to bounce forward from recent economic, geopolitical, and technological disruptions.

For them, resilience may be a relatively new concept.

For family-owned businesses (FOBs)—companies in which founders or descendants hold significant share capital or voting rights—it's just business as usual.[1] Regardless of what the world throws at them, many of these companies have survived and thrived over multiple decades. Some, such as Levi Strauss and L'Óreal, have been operating for well over a century.

FOBs have long played an outsize role in the global economy—a role that often goes unnoticed or underestimated. They account for more than 70 percent of global GDP, and they generate turnover of between $60 trillion and $70 trillion annually. They are responsible for about 60 percent of global employment, and they play a critical role in supporting education, healthcare, and infrastructure development across their communities around the world.[2]

McKinsey's own recent research confirms FOBs' adaptability, resilience, and impact: they have the structures and best practices required to withstand business challenges in uncertain times. And in general, they exhibit stronger performance than businesses that are not family owned, although the extent and drivers of that outperformance vary (Exhibit 1).

To understand FOBs' history of outperformance and how the best among them create value and impact, we analyzed 600 publicly listed FOBs, compared their performance with that of 600 publicly listed companies that are *not* family owned, and surveyed another 600 primarily private FOBs around the world. Additionally, we interviewed leaders of more than 20 FOBs globally.

The findings were surprising.

For instance, while it has been widely known that FOBs deliver higher total shareholder returns (TSR) compared with non-FOBs, the root causes of this outperformance have been less well-known—until now. Our analysis shows that the higher TSR results from better underlying operational performance by FOBs, as compared with non-FOBs. The research also demonstrates how the performance and value creation strategies of FOBs shift as these businesses get bigger and older.

The data tell a compelling story of outcomes and impact, but they also begin to reveal what the highest-performing FOBs are doing differently when compared with peers, in two areas: mindsets and strategic actions.

They demonstrate four mindsets that are common to all FOBs but that take on outsize importance within the high performers, allowing them to gain and sustain a competitive advantage. The critical mindsets are a focus on purpose beyond profits, a long-term view and emphasis on reinvesting in the business, a conservative and cautious stance on finances, and processes that allow for efficient decision making.

The high-performing FOBs then combine these mindsets with five strategic actions in ways that others do not. Specifically, they actively diversify their portfolios, and they dynamically reallocate resources to the most promising businesses, regions, and channels. They are both efficient investors and operators. They maintain a relentless focus on attracting, developing, and retaining talent, and they continually review their governance mechanisms to ensure strong business performance across generations.

We'll unpack this "4+5" formula further in this article. It's important to note that the formula and the lessons it imparts are applicable to both FOBs and non-FOBs alike—and our research suggests

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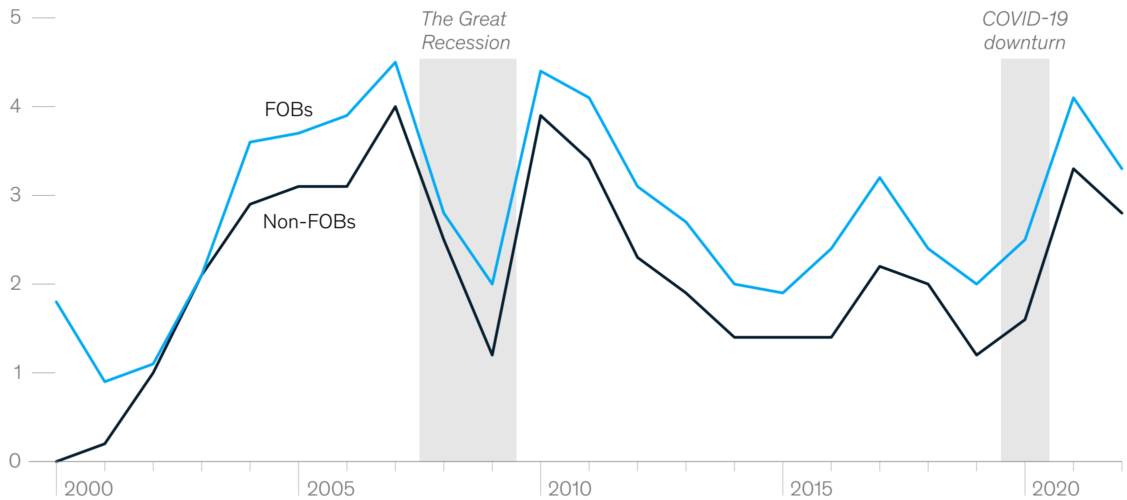
[1] Refers to companies in which the family controls at least 20 percent of owned capital share or voting rights; note that voting rights may be controlling or noncontrolling.
[2] "Empowering family businesses to fast-track sustainable development," United Nations Conference on Trade and Development, April 13, 2021.

Exhibit 1

Family-owned businesses have survived and thrived over decades because they are adaptable and resilient.

Average economic spread for family-owned businesses (FOBs) and non-FOBs,[1] %



[1]The performance of 600 publicly listed FOBs was analyzed and compared with that of 600 publicly listed companies that are not family owned. Another 600 primarily private FOBs around the world were also surveyed.

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that deploying it effectively can pay off over the long term. When we applied the formula to the family-owned companies in our research base, we estimated that it could create a 2.5- to 5.5-times increase in economic profit for them.

Indeed, FOBs around the world that successfully follow this formula have an opportunity to quadruple their value over the next five to ten years—bolstering their market performance, sharpening the resilience edge that has allowed them to keep the lights on for generations, and making an even greater impact across their communities.

FOB outperformance by the numbers

Our research shows that FOBs have created more value and impact than non-FOBs over the past decade—a dynamic that has largely held true regardless of which metrics we used to assess companies' performance and despite the unique challenges FOBs face (see sidebar, "Unique challenges on the road to outperformance").[3]

Between 2017 and 2022, FOBs posted an average TSR of 2.6 percent, compared with 2.3 percent for non-FOBs. In that same five-year period, FOBs achieved average economic profit of $77.5 million, surpassing the non-FOBs average economic profit of $66.3 million.[4] FOBs also generated (on average) an economic spread that was 33 percent higher than that of non-FOBs in the same period.[5]

A broader look at performance among both FOBs and non-FOBs reveals further variations based on the size, age, and maturity level of these companies.

[3] Non-FOBs are defined as any company that does not meet a 20 percent threshold for family ownership in either share capital or voting rights.
[4] Economic profit is the difference between revenue received from the sale of goods and services and the costs of producing those goods and services, including opportunity costs.
[5] Economic spread is the difference between a company's return on invested capital and its weighted average cost of capital.

Unique challenges on the road to outperformance

It's important to acknowledge the unique challenges that all family-owned businesses (FOBs) face—all the better to appreciate how the very highest-performing FOBs in our research base have managed to ascend.

A cautious approach to finances is a trademark of FOBs that helps them weather economic shocks, although it can also delay their recovery. An aversion to taking on debt, for example, might constrain an FOB's ability to enact critical process changes, or it could hinder expansion plans.

Additionally, FOBs tend to underinvest in R&D, which can limit innovation and entrepreneurial initiatives. This challenge can be compounded as the business moves further and further away from the founder's entrepreneurial vision and prioritizes value preservation over high-risk business bets.

Family-owned businesses also face unique governance challenges relating to their ownership. For instance, all FOBs, regardless of size, industry, or regional focus, are confronted with succession-related questions as the business passes from one generation to the next. The founding generation may have been focused on aggressive growth, but subsequent generations may wrestle with maintaining or even transforming the company.

It has been posited that the largest wealth transfer in history will take place over the next 25 years, with an estimated $100 trillion moving from baby boomers to their heirs and charities.[1] Inheritors may find themselves grappling with several new challenges, including a changing global order, a push toward sustainable and inclusive investing, and the AI revolution.[2] How they lead through these disruptions will have a lasting impact on their companies, on business generally, and on society.

[1] "The transfer of wealth from boomers to 'zennials' will shape the global economy," *Financial Times*, August 22, 2023.
[2] "Global flows: The ties that bind in an interconnected world," McKinsey Global Institute, November 15, 2022.

For instance, the midsize FOBs in our research base, with annual revenues between $150 million to $5 billion, performed better than non-FOBs by being more efficient investors. They have delivered 10 percent higher capital turnover over the past five years compared with non-FOBs. Why? These midsize FOBs face fewer of the traditional market pressures to deliver short-term results. Their focus on the long term and their streamlined decision-making processes allow them to be more effective than non-FOBs at identifying investment opportunities that are in line with their purpose and goals, acting decisively, and quickly allocating resources against those opportunities.

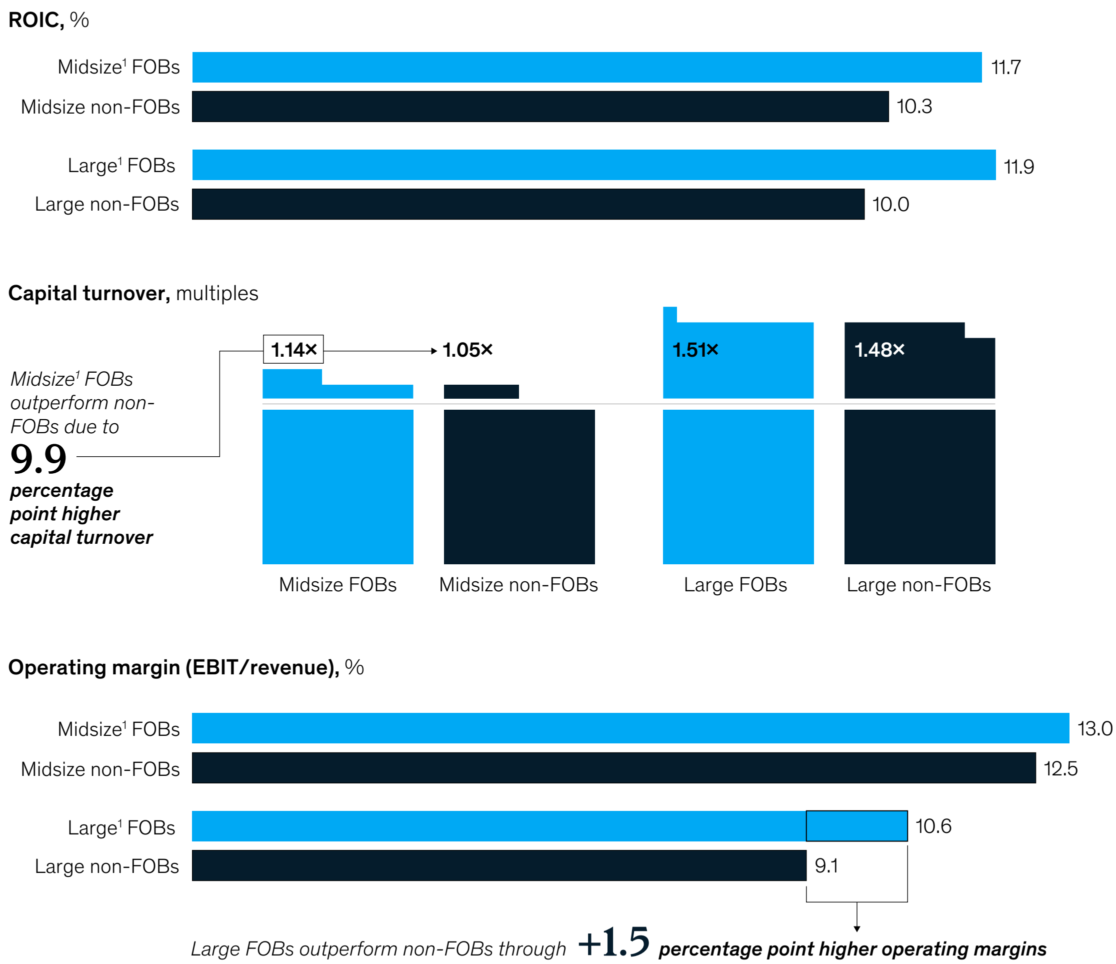
Meanwhile, the large FOBs in our sample, with annual revenues between $5 billion and $100 billion, tend to be efficient operators that have delivered 1.5-percentage-point higher operating margins over the past five years compared with non-FOBs. The numbers likely reflect large FOBs' ability to take advantage of process-related efficiencies and supply chain relationships developed over successive generations (Exhibit 2).

In addition, the family-owned businesses in our research base that are 25 years old and younger tend to have an aggressive growth mindset, increasing revenues twice as fast as non-FOBs as they channel the entrepreneurial energy of the

Exhibit 2

Midsize family-owned businesses tend to be more efficient investors while large family-owned businesses tend to be more efficient operators.

ROIC contributors, by size, family-owned businesses (FOBs) and non-FOBs



[1]Midsize companies in our sample have annual revenues of $150 million to $5 billion, while large companies have annual revenues of between $5 billion and $100 billion.

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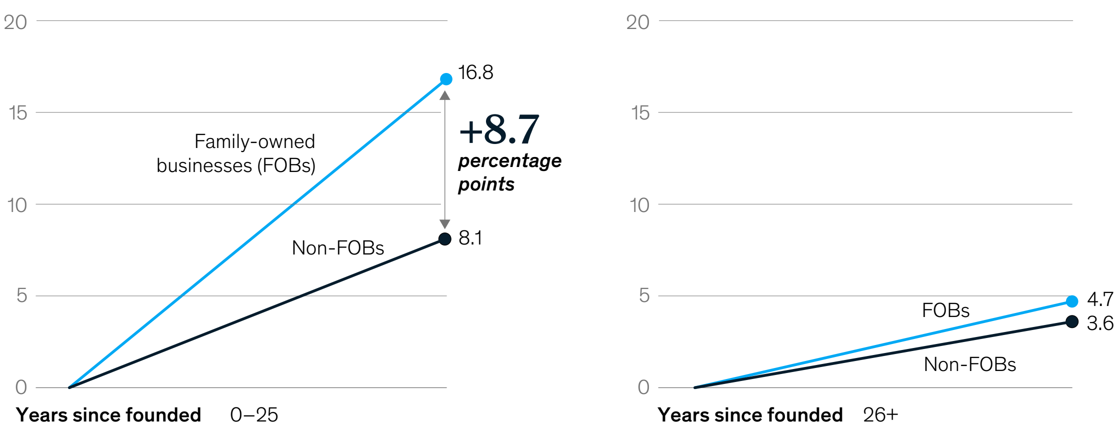
founder. As they mature and transition into new generations of leadership, however, some FOBs start thinking less about big bets and more about preserving value. Others just lose the founder's entrepreneurial edge. Their growth slows, falling more in line with that of non-FOBs (Exhibit 3).

Exhibit 3

Younger family-owned businesses target aggressive growth—at first. The focus changes to value preservation as they mature.

Revenue year-over-year growth, by age, %



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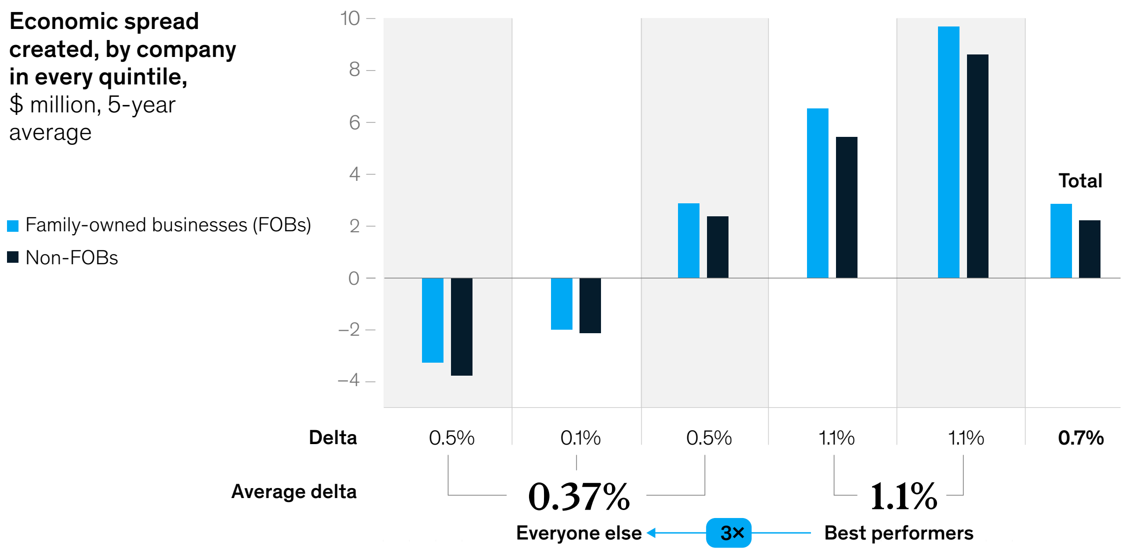
4+5 equals FOB outperformance

Our research also revealed a notable gap in performance among FOBs and non-FOBs on our economic profit power curve, with a performance edge appearing across *all* quintiles. And the best-performing FOBs fared much better than the best-performing non-FOBs: the top two quintiles show a performance gap three times larger than the average of the lower quintiles. What's more, the highest-performing FOBs capture the largest share of economic profit and drive outperformance across the entire FOB category (Exhibit 4).

The highest-performing FOBs capture the largest share of economic profit and drive outperformance across the entire FOB category.

Exhibit 4

The gap in performance between businesses that are family-owned and those that are not grows across quintiles.



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Who are these outperformers? They comprise more than 120 FOBs in our research base, with ages ranging from under a decade to several centuries. They span ten sectors and operate across the world. Their average annual revenues range from $1 billion to $95 billion, with average economic profit of $730 million and average EBITDA margin of 20 percent.

Through our analyses, we learned that these top FOBs display four mindsets that are common to other FOBs but that are more pronounced in the outperformers. And, unlike most other FOBs, the outperformers combine the four critical mindsets with five strategic actions that help them achieve and sustain top-quintile performance that truly differentiates them (Exhibit 5).

Four critical mindsets of outperforming FOBs

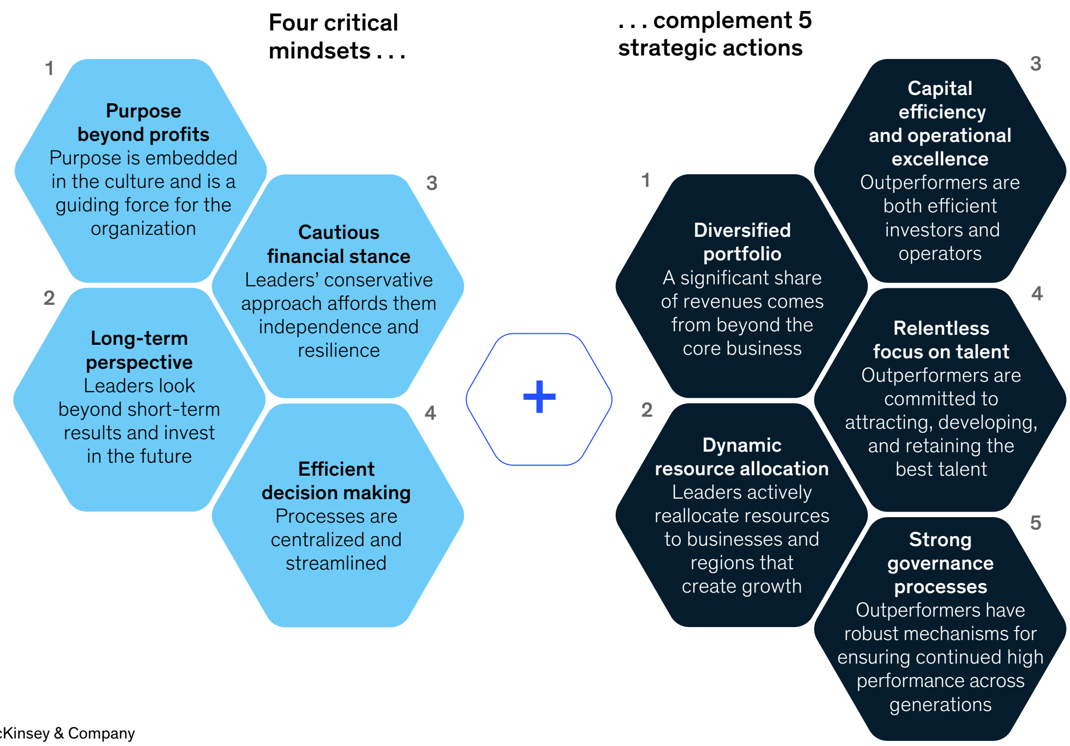
Traces of the following four critical mindsets can be found in the DNA of all family-owned businesses, but these mindsets are more pronounced in the highest-performing FOBs relative to others.

1. They focus on purpose beyond profits

Our research shows that 93 percent of respondents from the highest-performing FOBs believe their company has a clear purpose beyond creating value for shareholders, as compared with 86 percent of the overall group of FOBs we surveyed. This sense of purpose can take many forms. It can be inward looking and focused on building the company's legacy—for instance, by maintaining a strong reputation, protecting the brand image, or nurturing a strong company culture. Or it can be outward facing, focused on maximizing value for customers or generating positive impact in their communities. Whatever its nature, FOB respondents say they are willing to spend the time and resources needed to bring this purpose to life. Of the respondents from the highest-performing FOBs, 91 percent say they have formal mechanisms to ensure that employees understand, appreciate, and role model their purpose and values , as compared with 84 percent of the overall group of FOBs surveyed.

Exhibit 5

Family-owned businesses can apply a 4 + 5 value creation formula.



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One place where this mindset is most strongly reflected is in the highest-performing companies' efforts to support their communities. In our survey, leaders in 58 percent of the outperforming FOBs strongly agree with the assertion that their companies "embrace social responsibility and sustainability," compared with 39 percent of leaders of other FOBs. One example of community support is a family-owned financial-services company in Latin America that tracks its environment, social, and governance efforts as closely as it does its financial performance. To foster transparency and accountability, it participates in all major market indexes that monitor sustainability and governance—both domestically and abroad.

The purpose-driven mindset is also reflected in the outperforming companies' approach to hiring, promotion, and retention. Loyalty is a key value in most of these companies and, in our interviews, leaders revealed an ability to look "through the cycle" and avoid layoffs in crisis periods. One Indian conglomerate with roots dating back to the 1800s has basically adopted a "never fire" approach to talent management.

2. They take a long-term perspective and reinvest in the business

Leaders of outperforming FOBs cite their long-term perspective as one of the top three reasons for their success, alongside the ability to innovate and to expand into new markets and regions. They ruthlessly optimize for the longevity and resilience of the organization, even if it comes at the expense of short-term performance.

Ownership structure plays a critical role in the outperformers' ability to maintain this long-term perspective: 92 percent of outperforming businesses in our research base have at least a 40 percent family ownership. Since they are not beholden to the demands of shareholders or the pressures of quarterly earnings reports, they can take a more patient and strategic approach to investing, which can ultimately lead to sustainable growth and success. One family-owned European retailer, for instance, had for decades remained resolutely focused on an “always buy, never sell” philosophy. In the late 1990s, it acquired an unprofitable brand, and, over a six-year period in which the acquired brand’s performance remained low, the company weathered public scrutiny and pressure to sell. Over time, however, the waiting game eventually paid off and the brand became one of the company’s most successful acquisitions.

Our research also revealed that FOBs, in general, tend to reinvest in the business rather than extract as much as they can from the company through dividends (Exhibit 6). They are not under the same pressures that non-FOBs are increasingly under to prioritize higher dividends to meet shareholder expectations. Indeed, over the past five years, FOBs worldwide delivered dividend yields that were 12 percent lower (on average) than those of non-FOBs.

3. They are financially conservative and cautious about debt and high-risk investments

In general, FOBs tend to be financially cautious, with leverage ratios that are, on average, six percentage points lower than those of non-FOBs. The outperforming FOBs have even lower leverage ratios, by nearly ten percentage points (Exhibit 7).

Interestingly, however, the outperformers say they take on more debt compared with other FOBs. For instance, about 40 percent of the outperformer respondents told us they use debt to finance more than 50 percent of their investments. By contrast, other FOB respondents told us they use debt to finance only 12 percent of their investments. Given that they are using their own money, FOBs often prefer to invest their funds in marketing, sales, manufacturing, and other parts of the business where there are clear paths for growth and some precedent for returns, rather than invest in high-risk areas such as R&D.

This cautious approach to finances also helps the outperformers weather significant economic

Exhibit 6

Family-owned businesses on average distribute lower dividends than businesses that are not family owned.

Average dividend yield, family-owned businesses (FOBs) and non-FOBs %

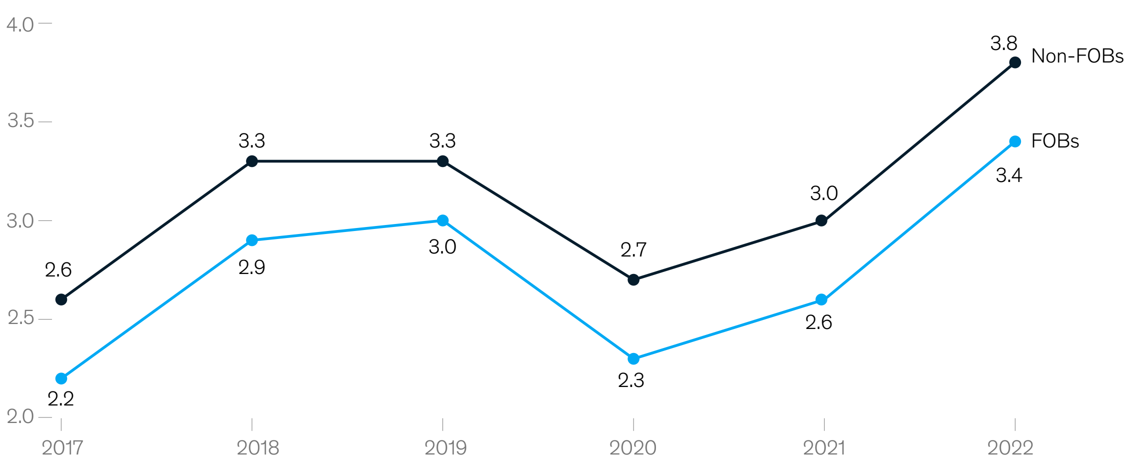

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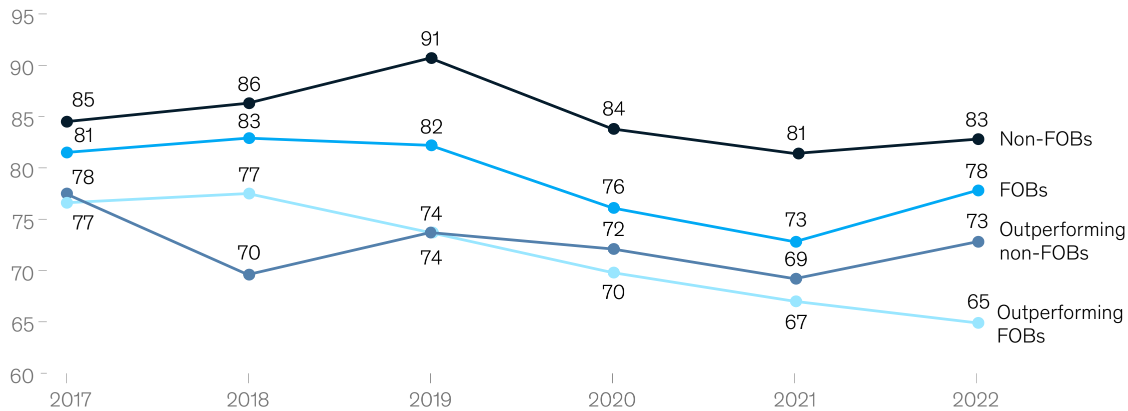
Exhibit 7

Family-owned businesses on average have lower leverage ratios than businesses that are not family owned.

Average net debt-to-equity ratio, family-owned businesses (FOBs) and non-FOBs %



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shocks such as the 2008 global credit crisis and the recent COVID-19-triggered downturn—and emerge in better shape than other FOBs and non-FOBs. For example, a family-owned logistics business in Europe credits its financial conservatism as a critical factor in its relatively quick recovery from global supply chain shortages in 2021. Through the crisis period, the company held a steadfast focus on the long term and prioritized preserving its strong cash position, which allowed it to avoid bankruptcy the past few years while others were falling prey to industry contraction.

4. Their internal processes allow for efficient decision making

Our conversations with leaders in outperforming FOBs point to greater efficiency in decision making, in part because of two factors: centralized but flexible processes and engaged employees.

Despite the existence of investment committees, for instance, the big decisions taken by leaders and teams in outperforming FOBs are usually highly influenced by a single individual or several members of the family who can act more decisively than leaders in non-FOBs. The non-FOBs usually rely on multistage, multiparty processes that can be difficult and time-consuming to navigate.

Interestingly, the outperforming FOBs distinguish between efficient decision making and fast decision making: when family members agree, they make choices quickly. But when family members disagree, the outperformers take advantage of their flexible structures and processes to consider all the different points of view. They understand that decision making can be both quick and deliberate—and that the ability to adjust as needed is a true differentiator in performance.

The benefit of having engaged employees is that “once the CEO has a strategy in mind, it is easier to implement any changes,” leaders at one Japanese FOB told us. This approach to decision making has allowed the company to execute major category and market expansions every ten to 15 years.

Five strategic actions that set outperforming FOBs apart

Through our analyses, we discovered that the very best FOBs combine the four critical mindsets just described with five strategic actions that truly set them apart.

1. They actively diversify their portfolios
The outperforming FOBs in our research base have highly diversified portfolios. One conglomerate reaches more than one billion customers across its consumer goods, agriculture, and real estate divisions, among others. Another FOB started in waste management but has expanded into logistics, clean energy, and mobility solutions. Indeed, our research shows that 40 percent of the outperformers garner more than half of their revenues from streams outside their core businesses. By contrast, only 7 percent of other FOBs had a similar share of noncore business revenues (Exhibit 8).

Moreover, 70 percent of the outperformers told us they will prioritize expansion beyond the core over the next five years by moving into new industries or geographies or by targeting disruptive businesses.

M&A seems to be the go-to diversification strategy for these organizations. Some 66 percent of respondents to our survey told us they pursued M&A to access new technologies, 63 percent to enter new industries, and nearly 60 percent to tap into new geographies.

Of course, not all M&A pursuits yield the same returns. Previous McKinsey research has found that programmatic M&A—that is, carefully choreographing a series of deals around a specific business case or M&A theme, instead of pursuing more organic, episodic, selective, or large transactions—is far more likely to lead to stronger performance and less risky for any organization. FOBs seem to be taking this message to heart: when asked about their M&A activity, about 40 percent of all FOBs told us they had pursued two or more small or midsize deals per year for the past ten years.

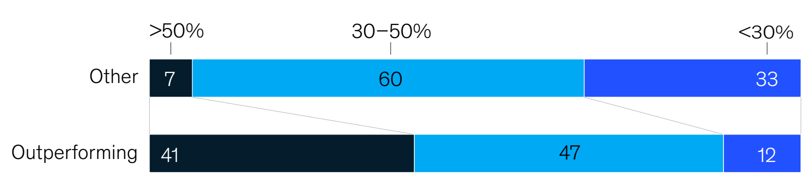
The current findings support previous McKinsey research that shows FOBs tend to make smaller but more value-creating deals than non-FOBs. Leaders at a family-owned industrials company in Europe told us they actively try to avoid "core myopia." For years, they said, they had failed to recognize growth opportunities in recycling and sustainability. Now, they prioritize and pursue small acquisitions that they think can enhance their market position. They decide which companies they intend to acquire and for how much, "remaining patient and avoiding rushing into transactions until the opportune moment arises."

Further, many of the outperforming FOBs seemed more willing than peers to take bolder risks on occasion, with 58 percent indicating they had pursued at least one large deal in the past ten years, compared with 36 percent of other FOBs indicating the same.

Exhibit 8

Outperforming family-owned businesses have a substantial share of revenues that come from beyond their core businesses.

Share of company revenues that come from activities outside core businesses,
% of respondents



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2. They dynamically reallocate resources
Previous McKinsey research confirms that dynamic resource allocation is one of the best ways to achieve growth in an organization. Companies that reallocate more resources more often have been shown to generate significantly higher returns to shareholders, experience less long-term variance on returns, and have a higher likelihood of avoiding acquisition or bankruptcy.

Our analyses show that outperforming FOBs aggressively and dynamically allocate their resources toward businesses, regions, and channels they believe will drive the most growth. In fact, about 60 percent of the outperformers said that, over the past five years, they had shifted more than 30 percent of their capital across businesses or regions, targeting higher-value opportunities. By contrast only 20 percent of other FOBs had done the same (Exhibit 9).

In general, FOBs enjoy an advantage in this area compared with non-FOBs. Their focus on purpose along with their longer-term perspective and efficient decision-making structures allow them to avoid the politics and inertia that can drive allocation discussions off the rails.

Leaders from outperformer FOBs we spoke with say they take specific actions—in some cases, even cultural changes—to guard against inertia. A century's worth of diversification has given one family-owned conglomerate in Asia footholds across a wide range of sectors—from petrochemicals to energy, retail, and telecommunications. But to balance out its strategic pursuit of growth, the conglomerate has also built into its finance and strategy discussions formal reevaluations of business performance. It periodically divests underperforming divisions and reduces its ownership interests while reinvesting those resources in higher-growth opportunities. This culture of growth through continuous improvement is so strong that last year the company announced a multibillion-dollar plan to transition from its core business in petrochemicals—which at one point accounted for more than three-quarters of the company's revenues—to new opportunities in renewables.

Leaders attribute the company's success to the founders' direct, personal involvement in identifying big bets and building the financial, operational, and talent competencies required to reallocate resources and act on those bets.

3. They are efficient investors and operators
As mentioned earlier, at the outset of their tenures, FOBs tend to perform better than others because they can allocate capital more efficiently. But as they grow and scale, their outperformance tends to come more from efficient operations. Interestingly, the very best FOBs can do both.

Our data shows that the high-performing FOBs have a capital turnover ratio of 1.4—in line with that of outperforming non-FOBs and higher than that of all other FOBs in our sample. The high performers also

Exhibit 9

Outperforming family-owned businesses reallocate resources more aggressively than others.

Capital that has shifted between businesses or regions, past 5 years, % of respondents

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report operating margins that are almost 10 percent higher than that of outperforming non-FOBs and nearly twice that of other FOBs in our research base (Exhibit 10).

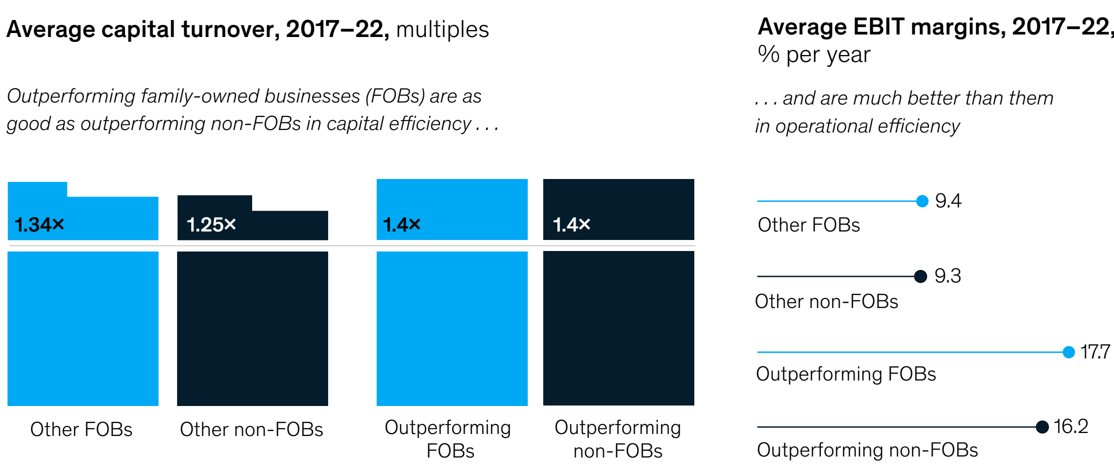
Their higher-than-average investment and operating performance is driven by three factors. First is their operating DNA, which is passed down through generations and shapes the way their businesses operate, including decision making, customer service approach, talent management, and even developing functional expertise. In South Korea, for instance, the chairman of a family-owned apparel and footwear manufacturer has visited the production line daily for decades and knows each worker by name. Such direct involvement from the company founder has helped foster a sense of loyalty and ownership among employees. Through this access, workers are also getting a first-hand perspective on the operational challenges and opportunities across the organization—and, as a result, are deeply motivated to weigh in with potential solutions.

Second, compared with the other FOBs in our research base, the outperformers use a broader set of data to evaluate organizational performance. For instance, these businesses used more key performance indicators (KPIs) to measure executive performance, including top- and bottom-line figures and valuation metrics. When we asked all the FOB respondents in our research base which of seven designated metrics they had considered in evaluating executive compensation, the outperformers were 10 percent more likely, on average, to indicate that they were tracking all the KPIs we listed.

The last and arguably biggest differentiator is that outperforming FOBs focus on innovation. They invest twice as much in R&D as other FOBs do, and back up those investments with performance management systems. One US-based family-owned company that provides telecommunications and automotive services established a series of programs to support the creation of a tech-venture ecosystem in a part of the country that has not traditionally been a tech hub. The company launched an accelerator for tech start-ups and a not-for-profit program to drive job creation in adjacent industries. Through direct and indirect investments in these programs and companies, the company is

Exhibit 10

Outperforming family-owned businesses are efficient at both investing and operations.



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helping others while ensuring its own access to top technology innovations and talent in the region.

4. They maintain a relentless focus on attracting, developing, and retaining talent

Talent management is an obsession for the highest-performing FOBs. In our survey, 86 percent of respondents at outperforming FOBs agree or completely agree that their company attracts the best talent. More than 90 percent either agree or completely agree that their company successfully identifies, trains, and develops top performers.

One family-owned luxury retailer in Europe takes an end-to-end approach to talent management. To attract recent graduates and younger workers, the company developed and launched a two-year, nine-part social media campaign—a series of "day in the life" posts filmed by and with existing employees. It also established a program to identify and train thousands of internal ambassadors to help and onboard newer workers. Partly due to these initiatives, the group has been voted a top employer among business school students for 18 years in a row in the retailer's home country. At the senior-leader level, the company focuses on offering competitive salaries, which it benchmarks constantly. It also provides leaders exclusive proximity to members of the founder family, which creates a sense of personal attachment and accountability for the company's results among senior leaders.

As a result of these efforts, the company boasts an average length of service between six and seven years—about three times higher than the typical tenure for employees at luxury retail companies. Almost one-quarter of the company's workforce has been employed there for more than 15 years, and of these, more than 70 percent have been with the company for more than 20 years. The leaders' perspective is that recruiting exceptional talent and retaining them for long tenures has allowed the company to build and maintain a strong culture of artistic expression, attention to detail, and long-term vision—traits that are crucial to success in a business that hinges on creativity and reinvention.

Also in our survey, more than 80 percent of outperforming FOB respondents report that their companies have built effective training programs to develop the next generation of family members. A family-owned electronics retailer in Africa, for instance, puts all family members interested in joining the company through a rigorous interview process (even tougher than their standard recruiting process) and places them in jobs that are aligned with their skill sets. An Asian FOB in the apparel industry mandates that family members do a series of role rotations, periodically tasking them with initiating new M&A deals, ventures, or resolving existing challenges to evaluate their problem-solving skills.

5. They continually review their governance mechanisms to ensure strong corporate performance across generations

Our research reveals that outperforming FOBs take the separation of family and business matters very seriously. About 80 percent of the outperformer company respondents reveal there is formal documentation in their companies with clear guidelines on the roles and responsibilities of family members. More than 90 percent of the outperformer respondents told us there is an effective and independent board of directors in place, compared with 72 percent of respondents from of all other FOBs who say the same. And 85 percent of respondents from outperforming FOBs report that their companies have a formal forum that meets regularly to discuss family and business issues, compared with only 66 percent of all other FOBs in our research base.

In interviews, leaders in the outperforming FOBs touted the benefits of having strict guidelines about family member roles and responsibilities, especially if the business is still family-led. At a second-generation 100 percent family-owned healthcare services business in the United States, two siblings share leadership roles. One is the president and focuses on strategic responsibilities across three business units, while the other is the chief growth officer and focuses on sales. Their positions very intentionally intersect but don't overlap. And the siblings bring unique and complementary skills to the leadership team. Before they reached their current positions, however, the siblings spent time in different parts of the company to develop a sense of ownership and connection to the company culture, deepen their understanding of processes, develop their management skills, and most importantly, earn the trust and respect of the broader organization. What's more, this pathway to leadership has been institutionalized at the company: a third-generation family member is on a similar development journey and currently serves as chief of staff.

Family governance, when well-executed, can be a powerful way to build corporate culture. However, FOBs may also want to look outside blood lines for leadership. Research has shown that professional management, when well identified and given the right conditions to prosper, can produce better results than family-only structures.[6] Indeed, FOBs are increasingly tapping into the expertise of professionals from outside the family, and our research shows that the outperformers do so even more. For instance, 95 percent of the outperforming FOBs in our research base indicated that they actively involve nonfamily executives in setting portfolio strategy, compared with 85 percent of all other FOBs in the research base.

One outperformer, a CPG company based in Latin America, decided last year to break a generations-long sequence of family leadership and hire a CEO externally. A family-owned European pharmaceutical company did the same. Both organizations followed practices that would be standard for any company, family-owned or not. For example, both engaged a global recruiter to conduct their searches and asked them to focus on talent rather than cultural fit. As FOBs grapple with the question of succession, they would do well to keep their focus more on longevity of the business rather than on continuing family stewardship.

This formula of four critical mindsets plus five strategic actions can help to ensure that FOBs capitalize on the potential for significant, profitable, and sustainable growth. The value at stake is substantial: companies that have implemented this formula successfully have been able to climb higher on the economic-profit curve over the past five years, moving up one or two quintiles. Others that follow this formula can do the same and potentially realize a fourfold increase in value creation over the next decade, according to our estimates.

The implementation will of course look different depending on the organization. Companies facing imminent generational transitions may need to focus first on shoring up their governance mechanisms and succession planning. Businesses in stagnant or vulnerable industries may want to focus first on dynamic capital allocation practices to boost their investments in R&D, new business building, and M&A. The formula must be applied judiciously, and with careful attention to what will be most effective given their specific circumstances.

Regardless, the 4+5 formula provides a path for FOBs (and non-FOBs), of all sizes and ages, to improve their performance and continue to do what they have done for decades—support sustainable and inclusive economic growth, raise employment, and improve healthcare and education in communities around the world.

[6] Nicholas Bloom, Raffaella Sadun, and John Van Reenen, "Family firms need professional management," *Harvard Business Review*, March 25, 2011.

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The authors wish to thank Aliyah Allie, Michael Birshan, Fredrik Dahlqvist, Gemma D'Auria, Heinz-Peter Elstrodt, Avinash Goyal, Franck Laizet, Ari Libarikian, David Quigley, Liz Hilton Segel, and Sergio Waisser for their contributions to this report.

Designed by McKinsey Global Publishing