The Success of Family Owned Businesses

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**Executive Summary**

The objective of this report is to identify the main criterions behind the success of and failures of family owned businesses. It takes it further and discusses the management succession of the McGraw Hill business and how they managed to develop the family business and maintain its success year after year.

There is a growing indication stating that family owned businesses have always outperformed non-family owned businesses in different sectors and fields including the publics sector. These finding have been reflected in different research papers but mainly in the [Credit Suisse Research Report](https://www.credit-suisse.com/about-us-news/en/articles/news-and-expertise/the-family-business-premium-201809.html). The report highlights the fact that at many times, family owned businesses grow faster and generate higher profits and margins than other type of companies especially during recessions. The term “family business” has been defined in different ways by different people but the best that describes it was by R. G. Donnelley - “Family business is a firm which has been closely identified with at least two generations of a family and when this link has had a mutual influence on company policy and on the interests and objectives of the family.” Not all family businesses succeed, as a matter of fact many do fail but the ones that break through the clutter and succeed, owe that to different reasons such as being frugal. You rarely see a family owned business with fancy and luxurious offices such as google or Apple and family firms seem imbued with the sense that the company’s money is the family’s money, and as a result they simply do a better job of keeping their expenses under control they tend to practice minimalism and do not fall for the temptations of the modern world and thus owners are careful about what they invest in and what value it adds to the business. On the other hand, family businesses do not prioritize profit maximization, it is true that they seek profits but to them there are other priorities such as maintaining customers, focusing on their products and maintaining their employees. Moreover, family businesses tend to succeed internationally as a matter of fact they generate about %49 of their revenues in outside their home markets compared to %45 of non-family businesses. However, family businesses usually achieve foreign growth organically or through small local acquisitions without big cash expenditures and they are very patient once they enter a new market unlike non-family businesses. A good example of a family business would be McGraw Hill an American publishing company which was founded in 1988 by James McGraw and John Hill who joined hands and created what was the known as ***“The McGraw-Hill Book Company”***. This company ran for three successful generations before the board of directors decides to split the company into McGraw Hill Learning and McGraw Hill Markets. McGraw Hill has always been seen as a family business despite the fact that Harold McGraw, the great grandson of James McGrow, only owning 4% of the company.

The majority of family businesses fail to live beyond the first generation and very few do make it for several generations ahead. Family businesses that manage to succeed generation after the other owe this to succession planning at the company level in addition to the preparation of successors at an early stage and the relationship between the predecessors and successors. Succession and succession planning are a key issue for the success of companies as poorly organized successions are the main reason for the disappearance of many family owned businesses. The succession process of capital as well as the directors know how is what really differentiates a family owned business from a non-family owned business. Researchers define the succession process as “a dynamic process during which the roles and duties of the two principle groups of actors, namely the predecessor and successor, evolve in a [mutually] dependent and interrelated manner, with the ultimate goal of transferring to a member of the next generation both the management of the business and its capital.” The succession process is divided into four stages: Initiation phase where predecessor is in total control of the company’s management with an intention that one day he will hand over the company he created to his children. The integration phase is the time where the successor is integrated into the system and builds his technical knowhow and managerial skills and will start using those skills to ensure the continuity and development of the company. The third phase is the joint management phase, here the successor assumes his title and duties and this phase includes a progressive transfer of responsibilities, know-how and authority. This phase may also witness some conflicts between the two generations regarding decisions responsibilities that is why it is important that agreed responsibilities are shared between the two to avoid conflicts. The fourth and final phase is the disengagement phase and this is completed when the predecessor has completely retired and there is a complete transfer of responsibilities, leadership, authority and ownership. Succession requires deep and strategic planning and must be perceived as a management activity requiring deep preparations that should begin at the early years of formatting the business so that the transition can happen at the right time rather than under any forced reasons such as retirement or health issues or business difficulties. The planning process will only begin when the predecessor has expressed his desire to maintain the stability and the growth of the business by transferring it, at the right moment, to his descendants. Having said all the above, the planning process begins only when a competent successor appears who has integrity and interest in the business. Succession planning is not as easy it seems as there are different resistance factors which can affect the planning process. Individual factors are related to issues such as fear of ageing, denial of death, refusal to remove oneself from a business that he considers as his baby in addition to many other factors related to the first-generation owners. Some interpersonal factors can also cause resistance to the succession process. Things such as the worry of fairness of all children, fear of family conflicts, fear of the death of parents are all factors that can affect the succession plan. Organizational factors such as the difficulty of raising the subject with directors, fear of change of the managerial level of the organization, and awareness that they are ageing are all factors that can also create resistance to the succession process. Finally, environmental factors such as clients being dependant on the founder and certain cultural values can be barrier to successful succession planning. Another main factor for the success of family owned businesses is that they have a unified vision, innovation and growth plans. Every member of a family business has an objective of developing the business and making it successful and work hard for the continuation of the business unlike public companies where employees work for their targets and incomes. Another aim of a family business is that it runs from one generation to another and here comes the role of succession planning that was previously discussed. Moreover, trust and honesty is also a main success factor for family owned businesses since the relationship between family members is based on trust. In addition to the fact that customers tend to have higher confidence and trust with family owned businesses.

McGraw Hill is an American company and one of the biggest education publishers in the world that provides customized educational content, software and services from pre-K all the way through post graduate education. In 1888 James H. McGraw created The McGraw Publishing Company. In 1899 the cofounder John A. Hill had also formed The Hill Publishing Company. Later in 1909 there was an alliance between the two publishing companies and The McGraw Hill company was formed. In 2011 the company split into McGraw Hill Markets and McGraw Hill Education and the latter is the company we are studying. McGraw Hill Education’s vision is “to unlock the full potential of each learner” and their mission statement is “to accelerate learning” according to McGraw Hill, this can be accomplished by “creating intuitive, engaging, efficient, and effective learning experiences grounded in research. We're helping create a brighter future for students worldwide by applying our deep understanding of how learning happens and how the mind develops.” Throughout the years, McGraw Hill played a major role in the digital transformation of education impacting the lives of millions of people all over the world being students or educators alike. Across the years, McGraw Hill acquired several magazines and many companies in the financial and education industries. McGraw Hill built a business empire across the years and today McGraw Hill Education is worth more than $1.8 Billion dollars today while McGraw Hill Markets is surely worth a considerable monetary value as well.

There is no doubt that McGraw Hill is one of the most successful family businesses in the world. Many factors stand behind the success of this empire but one of the main factors is the succession of management from one generation to another and always working hard towards achieving the company’s vision and mission. So how did this succession take place? James McGraw Jr. headed the McGraw Hill since 1935 and became president in 1948 after being in the company for some time working in sales and other departments. During this time Curtis another son of the founding McGraw was being trained and prepared to succeed Jr. In 1950 James McGraw Jr. retired ad Curtis led the company for three short years before his sudden death in 1953 and he was succeeded by his brother Donald who was also part of the company. In 1974 Harold McGraw Jr. became the president of the McGraw Hill company and during his leadership the company witnessed a lot of success and expansion. The success of McGraw Hill made it a target of several takeover attempts the most famous one was by American Express in 1979 where Harold McGraw Jr. fiercely fought the takeover attempt and stock buyout and managed to defeat the bid of ownership. After about 25 years, Harold McGraw III also known as Terry the son of Harold McGraw Jr. became the president of McGraw Hill and the led the company from 1998 all the way till 2013. When Harold joined the company in 1980 there were many doubters despite the fact that his name was on the building. Even after a decade at McGraw Hill, the company his great grandfather founded, many thought Harold was just another unqualified heir who got lucky. In the 12 years of leading the company, the stock price of McGraw Hill has risen from $8.2 a share to $44 a share. Even the biggest doubters would give Harold credit for streaming McGraw Hill from a group of 15 business units into three core businesses that have witnessed major growth in the United States and the rest of the world. Peter Appert, a media analyst said “What Terry has done very smartly is manage McGraw-Hill's portfolio, moving the company away from slower-growing low-return businesses toward faster-growing higher-return businesses, in an evolution of the asset mix.” Harold confirms that he never planned to go into the family business but when his father fought the battle with American Express he was dragged into the business and his father initiated the succession planning and process. The McGraw family played a major role in the success and growth of the McGraw Hill company for 120 years and the succession from generation to another was perfectly done at most of the times. On the other hand, McGraw Hill, is a global leader in educational services including content, assessment, training and platform innovation. It is one of the world’s largest educational companies with products and services in more than 60 languages and 130 countries. All of those factors in addition to being one of the oldest companies in the field of education which has been running for over one hundred years and led by best minds in the sector made McGraw Hill a trusted and an iconic brand that students and educational professionals depend on to meet the demanding educational needs of a rapidly changing world. Moreover, McGraw Hill was a partner that thousands of educational institutions and millions of students around the world depended on during the COVID-19 pandemic where institutions where suffering and needed the right educational tools to be able to support students and the entire educational system.

To sum this up, family businesses have proved to be very successful in different fields and sectors and managed to generate big revenues and growth levels. The key for success of family businesses is proper planning for succession of the business leadership from generation to another. This planning needs to happen according to long and well-structured process starting as soon as the decision is made that the company needs to live beyond the life of the founder. Brand trust is another factor for the success of any business but family businesses in particular need to build brand trust with all stakeholders. McGraw Hill is the perfect example of a family business that was led by family members for more than 120 years and the success story behind it is simply remarkable. McGraw Hill managed to successfully transfer the company leadership from generation to another while maintaining consistent growth across all the years and stages. McGraw Hill is also a well trusted brand that all stakeholders in the education field trust and use to educate students all over the world.

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