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New Zealand is a land of small businesses owned and operated by families and founders. We may think this is a New Zealand phenomenon but family enterprises are the cornerstone of economies around the world. One third of the world's largest 1,000 companies are family owned.

Some of these businesses are so well known that we tend not to think of the family connection – Roche, BMW, Hewlett Packard and News Corporation.

Family businesses have a number of features that give them a competitive advantage – a strong culture, a long-term commitment, entrepreneurship and vision, and a level of motivation that's not always seen in non-family owned businesses. The emotional connection in family businesses is huge as the business is not just a career or interest; it is often the mainstay of the family and the source of heritage and family pride.

But the positive characteristics of family businesses can sometimes be their undoing as well. Family businesses can become insular, incestuous and resistant to change and progress. They can be managed and steered by family members who are qualified more by their bloodline than their competence.

The other real risk for family businesses is a lack of succession planning. This risk has been amply demonstrated by the scandal surrounding Rupert Murdoch's News Corporation empire.

Many a News Corp shareholder is now asking whether the problems swirling around the company have been caused by the family ownership and the reluctance of Rupert Murdoch to "loosen the reins".

In the past five years, the News Corp share price has more than halved, from a high of \$A32.60 to a low of around \$A14 per share. How could a successful and enormous empire, controlled by the world's most powerful media baron, come unstuck so badly?

In the US, analysts refer to the "Murdoch discount" which is the amount that shares in News Corporation are discounted because of the controlling stake held by the Murdoch family.

Investors never like powerful shareholders because their impact can be so significant. Around 40% of the voting capital of News Corporation is owned by the Murdoch family, Rupert Murdoch has put his family members in key positions all around News Corporation, he has ensured that he is chairman and CEO of the company (a best practise no-no) and he personally selects both executive and non-executive directors (another big no-no).



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The phone-tapping scandal comes on top of poor decisions that some argue wouldn't have been made had Rupert Murdoch done the right thing and retired (he is now 80 years of age) or introduced independent, non-family people to management and governance positions.

Murdoch paid \$500 million for Myspace and then sold it for \$35 million. He paid \$615 million for his daughter Elisabeth's production company. He then bought Dow Jones, publisher of the Wall Street Journal, for \$5.7 billion and then wrote off \$2.8 billion.

Obviously not all family businesses have issues of this magnitude - chance would be a fine thing! But the Murdoch woes are perhaps a reminder of the downside of "keeping it all in the family".