Values: the Cornerstone of Family Businesses

In times of volatile financial markets and corporate scandals, when many executives and even the general public bemoan the lack of values in business, family businesses are emerging as a model to follow. They strike a balance between financial, organizational and social objectives; their long-term vision contrasts with others' short-term outlook; and they have an ironclad (though not always articulated) value system that guides them.

Executive Summary

Family businesses are about much more than just wealth creation. Their goals extend beyond the purely financial to include transmitting certain values and providing for their communities. If anything makes these companies stand out, it is their ability to analyze the past and look toward the future, always with an eye on the horizon. These features make family businesses look particularly robust in the current economic climate, which is tainted by a general crisis of values. This article brings together the main conclusions of the 4th International Family Business Conference held on IESE's Barcelona campus in June.

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Early in the 20th century, academics and others began to study management disciplines. But the family business has not attracted scholars' interest until relatively recently. Not long ago, family businesses were considered second-rate. Fortunately, this view has changed and these companies now enjoy the same respect as any other successful firm.

Most companies are born, grow, mature and die within a relatively short period of time. It remains to be proven whether this time period is longer for family businesses. What we do know is that many centuries-old companies, when studied, turn out to be real family dynasties.

In view of the above, a study of family businesses could reveal knowledge that is valuable for all companies. In light of IESE's 50th anniversary, the "4th International Family Business Conference," hosted by IESE's Family Business Chair, took on an international dimension with the participation of scholars, business leaders and participants from around the world.

The event's focus was how to foster family business values and make them sustainable. The day prior to the conference, over 50 academics from the world's most prestigious universities discussed the topic in a workshop. Their contributions highlighted certain trends and keys for the future of family businesses. I will summarize them briefly.

A model in times of crisis

Why are family-owned businesses an example to follow in times of crisis? What sets them apart from other companies? Broadly speaking, there are four factors that characterize family businesses: the ultimate purpose of the organization, how they plan strategy, how they adapt to their external environment, and their corporate culture.

Without a doubt, their long-term vision transcends the current generation (in contrast to the short-term-ism that prevails in other businesses). Their strategy is based on prudence and planning, and their objectives are social as well as financial. Their owners are families who embrace the obligation to transform society through the wealth-creation tool known as the company. And this is the legacy they seek to pass on from generation to generation.

It is important, of course, for family businesses to have the necessary knowledge and experience to successfully manage their

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financial capital, but it is equally relevant for them to develop their intellectual and human capital and uphold a solid and permanent value structure that can be passed on from one generation to the next. In this regard, it can be argued that the family business is the sum of its bottom line, its values and a deliberate desire to serve the community through the company and the family itself.

Having a shared vision and values is essential to any company. And in this regard family businesses have an advantage because the family embodies their vision and values.

Values as a guarantee of continuity

Behind every family business there is a specific value system that shapes the essence of the company and plays a major role in its continuity across generations. Values play a crucial role in creating a unique corporate culture that directly impacts the business concept and its application to managing the business. Each family has its own value system. Just as there are no two identical families, no two family-owned companies are exactly alike.

These values stem from the principles that make the family what it is. They remain essentially unaltered except for some minor adjustments as they are transmitted from generation to generation. These principles are part of the family's DNA, the core of the family's identity. They are transmitted naturally as company owners raise their children. Upholding these principles is crucial because they are the stepping-stones toward developing the company's values.

Instilling virtues should be a priority for every parent. According to a study carried out by the IESE Family Business Chair some years ago, there are five basic virtues common to all successful family businesses: excellence, a strong work ethic, initiative, simplicity and frugality. In other words, company owners must drive continuous improvement; cultivate a culture of diligence and risk-taking, and avoid unnecessary spending.

Analysis capability

If anything characterizes family-owned companies, it is their ability to analyze the past and look to the future, always with a vision far beyond the present. Family businesses are about much more than just wealth creation. They are a mix of assets and values, a balance of tradition and leadership.

Those at the helm of family businesses adapt to the environment to ensure the firm's survival, putting continuity ahead of immediate profits. This nuance is important: the company's focus is not only on the present, but also on learning from past mistakes with an eye to ensuring the company's sustained, stable growth.

The social dimension

Internal and external social responsibility is part and parcel of family-owned companies. Internal social responsibility focuses on the need to build a stable company, while external social responsibility translates into ongoing concern for the good of the community. One of the consequences of external social responsibility is that, in the long term, owners with objectives other than the strictly financial are less likely to face pressure to sell than those exclusively concerned with maximizing returns for shareholders. A sense of belonging plays a key role in this area.

Philanthropic efforts also benefit family businesses in two aspects. They foster family cohesion and promote the transmission of values, two aspects that are particularly relevant with the second generation. Another feature of philanthropy in family businesses is that the decision of who to support rests squarely on the family, which does not have to justify its decision to third parties.

Shareholders should, of course, receive their share of the wealth created. Maximizing wealth creation is the best way of guaranteeing value creation for shareholders, and this is something that most family businesses see very clearly. "There is a big difference between making money for yourself and creating wealth for others," says Jamsetji Nusservanji Tata, founder of the **TATA Group**, the Indian conglomerate founded in 1860, which reported revenues of over $28 billion in 2007.

Responsible owners

One cannot discuss family businesses without mentioning the issue of fairness. One of the pervasive themes in any in-depth study of family companies is the clear differentiation between business and family. This distinction, in the area of business succession, drives the future owner to ensure that beyond the *potestas* he is entitled to by family ties, he earns the necessary *auctoritas* to wield his power responsibly. To paraphrase Goethe, the successor could be told: "Cultivate what you inherited from your parents and make it yours."

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Potestas is a Latin word meaning power or faculty. Potestas is inherited, whereas auctoritas has to be earned every day and can be lost in a second, by commission as well as by omission.

If, for example, there is a serious issue within the company and the son or daughter of the founder fails to take corrective measures, he or she begins to undermine the authority that the company had previously given him or her. He or she will continue to be the child of the owner and enjoy the undisputed power (potestas) that comes with it, but he or she will lack authority (auctoritas).

Auctoritas is closely related to an individual's actions. It is also closely linked to the concept of leadership, which consists of getting others to do things. A leader motivates his or her colleagues by sparking their interest and by his or her own commitment. A leader's level of engagement inspires others to follow him or her. One might think that it is also possible to get people involved by force, but that would be negative. Team members would obey out of fear rather than conviction. That is why leadership is not possible without authority. Being in a position of power cannot be considered leadership.

These concepts are particularly relevant in the context of a family business because one of the conditions for its survival is precisely emotional leadership. A successor needs to earn that authority, and there is only one way to do this: through a spirit of service.

Only if the leader considers him or herself to be at the service of others will he or she gain this authority, unlike those who rule from above and expect others to serve them. It goes without saying that there are some basic, minimum attributes that a person must have to become a good leader, but many of these capabilities can be developed with practice and the right attitude.

To do this, it is best if the successor spends time working outside the family company, so that he or she learns to get by on his or her own merits. Besides great personal satisfaction, this experience will earn the successor kudos from colleagues within the family company as a self-made person whose position has been hard-earned.

A meritocracy is the only system for gaining the authority needed to head the family business. This is especially true of the second and subsequent generations, when the indisputable leadership of the founder no longer exists. This is also the time to establish more formal governance structures that will be particularly useful beginning with the third generation, when the number of shareholders rises as cousins come on board. The great challenge will be to have committed shareholders rather than mere investors.

Planning succession

Succession is one of family companies' greatest challenges. It should be seen as a process and not an event in time, a process which outgoing and incoming generations should plan together. It is a generational transition that holds great opportunities for the future.

This process will run more smoothly if the new generations share the family values that underpin the family business. This is why it is so important to educate and prepare future generations from an early age. If they can be instilled with the family spirit, the pride of belonging and the responsibility of being owners, the future of the company will be reinforced.

Interaction is basic

Researching, creating and fostering networks were the goals of this conference and have also been the mission of the Family Business Chair since it was established in 1987. We believe that direct contact between scholars and family business leaders is the best way of advancing and learning from each other. Family businesses themselves network in two different ways: through the members of the board of directors who serve on other companies' boards – networking in its basic form; and through the owners' social networks and activities beyond business circles.

Future challenges

Family-owned companies face three major hurdles in the future. One is common to all companies: keeping the business profitable and sustainable. The other two are specific to this type of company: continuing as a family business and staying united as a family. ■