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# Introduction

*John L. Ward*

Thirty years ago family businesses were virtually unnoticed. Business schools were focused on developing “professional managers” for those companies whose ownership was separated from its management.

These devoted professional managers often sought lifelong careers in one company. Occasionally entrenched management became powerful and served its own interests. Conglomeration strategies in the 1970s were a notable example. Two decades later some executive compensation schemes seemed abusive. Management’s control of the governance system brought frequent calls of “foul.” Enron and others became the example. Many now cry out that value creation and shareholder capitalism are chasing away corporate values.

Twenty years ago family businesses were virtually unstudied. Research and writing was scant. No school taught a course in family business. The Family Business Network (FBN), the Family Firm Institute (FFI), the International Family Enterprise Research Association (IFERA), did not exist.

Business schools were booming and were the pathway to learn the sophisticated tools of marketing and operations to seek careers with multinationals. Learning the principles of corporate strategy and financial theory often promised exciting jobs in consulting and investment management. A well-embraced theory of business decision-making and success was accepted. No one was asking if family businesses behaved differently.

Ten years ago what was known and studied about family business were its special challenges. Doing business with relatives was felt to be fraught with failures. The subjects were sibling conflict, unsuccessful successions, punishing death taxes, disinterested cousins and parochial management styles. Trying to help these troubled, but usually sincere,

enterprises became, for the first time, a focus of continuing education programs by universities and trade associations.

In business schools many of those from business families led private lives. This was the proud era of entrepreneurship. Working for mom and dad held negative connotations.

The world's markets were opening. Globalization called for scale and focus and adapting to the different cultures of new markets. The family businesses in those markets were often seen as relics protected by sheltered markets. While sometimes true, few noticed the irreplaceable contributions these businesses made for their communities. Few studied how many old family firms were already unusually successful across the world.

Yet fifty years ago, when IESE was founded, the business landscape was crowded with great family companies. Unacknowledged, DuPont, IBM, Cadbury, Fiat, Banco Santander, Merck, Johnson & Johnson, for example, were among the most esteemed places to work and role model companies. Exciting family-founded upstarts like Motorola, Toyota, Samsung, Hewlett-Packard, Cemex, the Ayala Group and Wal-Mart, and scores of others, were examples of excellence. No one noted the family business reasons for their success. Their values and cultures were acclaimed, but not examined.

This symposium and this book celebrates the fiftieth anniversary of IESE, but also marks, in many ways, the coming of age of the field of family business. Recent studies provide significant evidence that family firms have many special competitive advantages, not just problematic familial challenges. There's great new attention to the role of family firms in the healthy development of emerging markets, as well as in corporate social responsibility and in business philanthropy. Family firms highlight the lists of the "best places to work."

Underpinning all these newfound recognitions, of course, is the realization that family businesses are values driven. Distinct, powerful, nurtured values define their ways and means.

Values pervade every aspect of a family business. Values are a driving independent variable shaping every dimension of family business management. The owning family's values drive their key decisions regarding:

- Strategy
- Structure
- Competitive advantage
- Culture

- Employee recruitment
- Governance
- Succession
- Owners' cohesion
- Owners' commitment
- Owners' Constitution or Protocol

The family's values often define the number of business units and which markets a firm chooses, and certainly the degree of risk-taking. The family's values often define the organizational structure: who works where, for whom, and in what areas. The family's values might make quality differentiation or long-term investing the obvious competitive advantage. Or, the key to success may be the goodwill created in their community or country through lifelong relationships and local philanthropy.

The family's values *are* the company's culture. That culture is so important to most business owners that it calls for unique ways to recruit, train and compensate the employees – or members or associates, as many family firms call their employees. The Hilti Company of Lichtenstein recently won the Bertelsmann Award for the most outstanding corporate culture. It is a case example of how family values are operationalized in all aspects of a family company's management system.<sup>1</sup>

The family's values will hugely determine how the company is governed. Does the owning family prefer transparency or privacy? Full control or partnerships? Trusting others easily or not?

Values shape the most problematic family business issue: succession. Does the senior generation see the business as a personal proprietorship or as a steward for the indefinite continuity of the institution? Does the senior generation believe a single leader or a team of leaders is best? Does the senior generation hope that the business will hold together the eventually dispersed crowd of cousins?

The owning family's cohesion comes in large part from their shared values. Which values to embrace and how to pass them from one generation to the next is at the core of long-term ownership unity.

The owning family's commitment, too, is a function of its values. Commitment comes from pride in the business – for how it treats its people or how it makes a difference in society or how its brand builds the family's reputation and social networks.

Finally, the family's values are the critical assumptions underlying the Family's Constitution or Protocol. Does the owning family believe that making policies on a family-first basis is best, or on a business-first

basis? How the owning family even defines family membership is a judgment from values.

The chapters in this book examine how family business values create value – for the owners, for society, for all the stakeholders. Which values are essential and fundamental to family firms are identified. How those values are nurtured and supported and transmitted from generation to generation in the owning family are examined. The family office plays an important role in support of the owners and preparation of the next generation. The impact of those values – particularly in Spain – is illustrated. How values shape the family firm’s strategy and its governance is presented.

In my own research I find that the culture of family controlled firms is, on average, much stronger than in non-family firms.<sup>2</sup> And that this stronger culture provides competitive advantages far superior to create market performance.

There are, of course, several explanations for such a stronger culture. There is the much longer, stable tenure of leadership. There is also a more celebrated and preserved history that reinforces the founding values of the business and that is part of new employee orientation and training. Family firms are notorious for investing in the “values fit” of new employees, new directors on the board, even new strategic partnerships.

In fact, a close examination of the successful examples in the popular book *Built to Last*<sup>3</sup> shows a disproportionate number of family firms. And the family firms in that study have stronger cultures than the successful non-family firms.<sup>4</sup>

Moreover, what my studies show is that the values at the foundation of the culture of family firms are different. Examining the values statements of family firms and non-family firms shows interesting patterns (Table 0.1)

The values of family firms are more human, more emotional, more fundamental. The values expressed in values statements of non-family firms are more transactional, more impersonal, more driven by outcomes. I believe this difference is instrumental in the stronger cultures found in family firms.

My studies also indicate other ways family firm values are different. Family firms emphasize collectivity more than individuality; family firms emphasize past and future orientation to time more than a present orientation; family firms have a stronger belief in the “natural goodness of man.” More research of these differences, of their impact on organizational culture and on company performance, is needed.

*Table 0.1* Values common in non-family firms versus values common in family firms

<b>Values Common in Non-Family Firms</b>	<b>Values Common in Family Firms</b>
Innovation	Courage
Empowerment	Dignity
Performance	Reputation
Teamwork	Fairness
Change	Open-Mindedness
Leadership	Authenticity
Efficiency	Hard Work
Profitability	Stewardship
Quality	Dependability
Communication	Empathy
Creativity	Curiosity
Learning	Humility
Continuous Improvement	Discipline
Entrepreneurship	Prudence
Excellence	Loyalty
Add Value	Sincerity
Customer Service	Respect

Certainly a basic value that both rewards and challenges family firms is their “familiness.” Family companies often emphasize a “family-like” workplace. Some find they attract many relatives of other employees into their workforce. Perhaps counter-intuitively, they encourage this.

Family-oriented family firms are also challenged, though, by their “familiness.” Too much family orientation can lead to unprofessional practices in order to avoid family conflicts. Several chapters in this book look at how to bring balance to the “family-first” or “business-first” values inherent to all business families.

It is fitting that this symposium and this book are part of IESE's Fiftieth Anniversary Celebration. IESE has itself, from its founding, been values driven and a leader in business ethics. IESE has also been a pioneer and leader in family business recognition and research over the past 20 years. IESE is the home of the first Europe-endowed professorship of family business. IESE Professor Emeritus Miguel Angel Gallo, the first holder, is a founder of the Family Business Network (FBN) and the International Family Enterprise Research Association (IFERA).

The IESE family business area has produced many research papers and numerous books. The current team, led by Professor Josep Tàpies, is a partner in bold new research initiatives on global family firms and on family offices.

If and how family values create shareholder value in business and inherent value in society are the topics of this book. IESE's leadership in this subject is a great gift by the school as it celebrates its first 50 years.

## Notes

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