

How Family Values and Vision Drive Business Strategy and Continuity

Cómo los valores y la visión de las familias dirigen la estrategia y la continuidad de la empresa



John L. Ward'
Clinical Professor of Family Enterprise
Co-Director of the Center for Family Enterprises
Kellogg School of Management
Northwestern University
✉
johnlward@aol.com
johnward@kellogg.northwestern.edu

What characterizes the strategy-planning process for family businesses? Do the family's values play an important role?

Beyond strategy, what factors promote continuity in family firms, especially as they move well past the founding generation and face inevitable economic decline?

This article addresses these questions and related ones in two sections: (1) how the family's core beliefs and values influence strategy-planning at family firms, as mediated by different visions for ownership-leadership; (2) how "Enterprising Families" promote continuity in their businesses by paradoxically placing the family's needs before the business's.

Understanding these principles and processes can help family businesses navigate the most challenging business and family situations.

I. FAMILY VALUES, VISION, AND BUSINESS STRATEGY

Based on years of study, a growing belief is that family values and family ownership vision tend to drive business strategy. Two observations led to this conclusion: (1) strategy formulation is a very personal process reflecting the desires and prejudices/biases of the



EXECUTIVE SUMMARY

This article examines (1) how business families' core beliefs and values, mediated by their visions for ownership-leadership, influence their strategy-planning and (2) how "Enterprising Families" promote business continuity by placing the needs of the family before those of the firm. The article concludes that business families who understand the relationships among values, strategy, ownership-leadership vision, and the prioritization of family needs are more likely to enjoy sustained business performance and family unity.

RESUMEN DEL ARTÍCULO

Este artículo examina cómo las creencias y los valores de las familias empresarias, mediatizados por la visión de liderazgo-propietario, influyen en su planificación estratégica, y cómo estas familias promueven la continuidad del negocio teniendo en cuenta tanto las necesidades de la propia familia como las de la empresa. Este artículo concluye que las familias empresarias que entienden la relación entre valores, estrategia, visión de liderazgo-propietario, y la prioridad de las necesidades de la familia tienen más posibilidades de mantener la rentabilidad del negocio y la unidad de la familia.

family CEO or controlling ownership team, and (2) no one particular strategy is *uniquely* suitable for a given company at a given time.

The conclusion I draw from these observations is that embedded values tend to lead the strategy-selection process of family businesses. Rational analysis – examination of strengths, weaknesses, opportunities, and threats – is a valuable planning tool, but does not provide a complete answer related to strategy choice. Ultimately, the best strategy is the one consistent with the owning family’s values and vision.

This is a valuable insight because no pre-planned strategy is fool-proof. Unexpected issues will inevitably shake any chosen strategy’s implementation and effectiveness. The key to success is the owning family’s devotion to the business, its resilience in coping with disappointment, and the intensity of its long-term commitment to the business. If these are strengths, strategic adaptation will take place, yielding new, competitive solutions.

Fundamentally, the question is whether the business’s leadership loves its strategy more or the business more. The former risks intransigence and “good-money-after-bad” bets. The latter motivates keen sensitivity to apparent threats and extra energy to overcome the obstacles.

The essence of family business strategy is matching the owning family’s values with the market’s opportunities. But to better understand how families make fundamental strategic choices, we need to understand what values – what core beliefs – drive the family’s business thinking, along with how these motivate an Ownership-Leadership Vision which, in turn, helps guide business strategy decisions.

1.1. Two Examples

Here is a quote from a third-generation owner-leader of a large trading company, at a moment of frustration with strategic-planning: “I couldn’t figure out why everyone was always in disagreement. We all respected each other. Then I realized how we all inherited different versions of our founder’s vision. For example, I’m convinced the founder loved the business so much that he would never compromise the business’s welfare with family considerations. In fact, we bought out his brother-in-law many years ago, when he thought the brother-in-law was no longer devoted to his job. My cousin, on the other hand, argues that it was Grandfather’s dream to promote opportunities for

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his sons and his sons' sons to work in the business and to seek their own destinies through independent, entrepreneurial opportunities the business provided."

In another example, a retail company transitioning from the first to second generation, the founder explains his strategic vision as a "hub with spokes": "Each family member can run their own region of stores. Everything can be coordinated through a central office run by a non-family executive. That way none of the kids will have to work for each other. That's one nice thing about retail. There's plenty of room for growth without stumbling over each other."

In all family businesses, an overall "vision" for the family and the business profoundly shapes strategic thinking. In the first example, though in dispute, the founder's attitude toward his family working in the business was at the base of the problems, as were his ideals for family entrepreneurship. In the second example, the founder seemed worried the business might cause family conflict. His solution was a non-family executive and separate territories for each offspring.

KEY WORDS

Family business, values, strategy, leadership

PALABRAS CLAVE

Empresa familiar, valores, estrategia, liderazgo

1.2. Core Beliefs

Three core beliefs shape the family's influence on strategy (see **Table 1**). The first, and perhaps most powerful, is the family's belief about the purpose of the family and the purpose of the business. Does the family basically believe that the business is a sacred institution, to be protected at all costs from any potential meddling by the business-owning family? If so, the family has a "Business First" belief. There's much evidence of this type in businesses where the founder has established a trust or foundation with independent trustees to control the business explicitly to keep the family out.

Table 1. The Core Beliefs

<p>Business first The business is a sacred institution that must be preserved at all costs</p>	<p>Family first The family is the source of all joy and the business's resources can make life better for the family</p>
<p>Business as family glue Owning a business keeps the family together</p>	<p>Business as a threat to the family Owning a business together is likely to fracture a family</p>
<p>Team empowerment Teams are more effective decision-makers</p>	<p>Individual leadership The buck should stop with one person</p>

On the other hand, some families believe that preserving and enjoying the family is paramount and that owning a business provides resources benefiting the family. An extreme form of this belief is when the business freely funds family needs and activities.

Early signs of this relative emphasis may be seen by how the founder spends his or her time – with the family versus with the business – and whether the business’s early culture is paternalistic or professional. As discussed later, this core belief alone may well describe most of the first generation’s business decision-making.

The second core belief relates to whether the family feels that owning the business is a source of cohesion or conflict. Does the business provide “glue” for the family or is it more likely to be a “threat” to family cohesion? This belief is often translated into one of two outlooks: “If it weren’t for the business we’d probably all drift apart” or “Family businesses usually tear families apart.” Usually, it is easy to detect these tendencies by prompting two conversations. First, which types of family business examples are discussed more – disasters (e.g., Gucci) or success stories (e.g., Gallo)? Second, what is the nature of the family’s rules for working in the business – relaxed or rigid? Often this core belief is shaped by the family’s experience in earlier generations. The business’s function as glue or a threat for the family typically begins to influence family-business strategy in the second and later generations, when the dominant power of the founder and their conception of the business are replaced increasingly by other cultural influences.

Finally, the third core belief regards the nature of leadership. Does the family believe that a single controlling decision-maker is the best way for any organization to work? Or does the family feel that teams are more effective and represent a better social order? If the former, then there is a deep assumption that a single leader must be selected. If the latter, then a group (e.g., siblings or a family council) can be equally empowered to sort things out; consensus and complementary perspectives are valued.

Evidence for this belief can be found in how the family includes or excludes in-laws or females with regard to decision-making. The family’s comfort level with a strong, independent board is also a key indicator, as this suggests the family is open to outside opinions. This core belief about leadership necessarily comes into play in the second generation or whenever the number of family members involved in the business exceeds one.

I.3. Family Ownership and Leadership Vision

While these core beliefs ultimately shape strategy, they do not do so directly. Instead, attitudes about these core beliefs forge the family's vision for business ownership and business leadership. That vision is what more directly drives business strategy. If we accept that family business strategy is a function of the owning family's values, then we are accepting a position on an age-old, fundamental, strategic-planning debate: Does strategy determine structure or vice versa?

Those who argue the former assert that once a business decides where it wants to go, then it designs its structures, systems, and leadership selections to achieve that goal. The latter view is that a company's organization and current leadership prefer strategy options that fit their worldview. Who we are, in a sense, determines where we imagine going.

While both arguments have validity and the strategy-and-structure argument is circular – especially for family firms – structure (and existing systems and leadership preferences) may be viewed to lead strategy. Over time, an owning family's core beliefs become imbedded in particular structural arrangements. These structural “givens” reveal what can be called the family's “Ownership-Leadership Vision,” which shapes what strategies are considered and preferred. For most business families, these connections are unconscious. Thus, making these links in a more explicit manner can enhance and improve family dialogue and decision-making.

The relevance of different types of Ownership-Leadership Vision depends on the stage of ownership evolution of the family. Common family business theory (see Ward, 1991) presents three stages of ownership evolution:

- I. Owner-Managed:** One person has ownership control and leads the business
- II. Sibling Partnership:** Several family members, typically brothers and sisters, co-own the business
- III. Cousin Collaboration:** Many family members participate in a fragmented ownership group

Table 2 presents the connections between the core beliefs and different types of Ownership-Leadership Vision for each stage of ownership evolution.



Table 2. Core Beliefs and Ownership-Leadership Vision by Stage of Ownership Evolution

I. OWNER-MANAGED STAGE		
CORE BELIEFS	OWNERSHIP-LEADERSHIP VISION	APPLICATION
Family First	(1) Partnership	The owner-manager conducts the business for his own personal interests, including making the business a personal legacy.
Business First	(2) Capitalist	The owner-manager seeks to maximize business wealth with limited thought of family continuity.
II. SIBLING PARTNERSHIP STAGE		
CORE BELIEFS	OWNERSHIP-LEADERSHIP VISION	EXPLANATION
Business as Family Glue; Team Empowerment	(3) Co-Managing Partners	Two or more family members co-lead and co-own the business.
Business as Family Glue; Individual Leadership	(4) Caretaker	One family member is selected to look after the business and the welfare of other family members.
Business as Threat to Family; Team Empowerment	(5) Investment Partnership	Someone else runs the business for the family, who see themselves primarily as governors and investors looking for returns.
Business as Threat to Family; Individual Leadership	(6) Recycle	One family member receives the business; others receive other forms of inheritance.
III. COUSIN COLLABORATION STAGE		
CORE BELIEFS	OWNERSHIP-LEADERSHIP VISION	EXPLANATION
Family First; Business as Family Glue; Individual Leadership	(7) Holding Company	One family member leads company; others welcome to play roles as division heads.
Business First; Business as Family Glue; Individual Leadership	(8) Governing Owners	Family members serve on board, full- or part-time, overseeing non-family CEO's strategy.
Family First; Business as Family Glue; Team Empowerment	(9) Confederation	Each family member runs a business – loosely connected at the board.
Business First; Business as Family Glue; Team Empowerment	(10) Venture Fund	The board reviews and funds various family members' entrepreneurial proposals as merited.
Family First; Business as Threat to Family; Individual Leadership	(11) Golden Share	One family member given super voting power. Others participate in wealth.
Business First; Business as Threat to Family; Individual Leadership	(12) Trusteeship	Ownership votes rest with independent trustees. Family are beneficiaries.
Family First; Business as Family Glue; Team Empowerment	(13) Enterprising Family	Business is organized to fund family interests in philanthropy or collective family office investing.
Business First; Business as Threat to Family; Team Empowerment	(14) As if Public	Everything works as if the business is publicly traded – leadership, liquidity, governance.

I.4. Business Strategy

Each Ownership-Leadership Vision leads to a likely strategic profile containing four elements: Scope of Strategy, Sources of Capital, Risk Level, and Leadership Decision. **Table 3** provides the elements and their assessment criteria.

Table 3. Elements of Business Strategy Profile

SCOPE	Focused or Diversified
CAPITAL	Closed (family) or Open (outside sources)
RISK	High or Low
LEADERSHIP	Family or Non-Family

A strategic profile for each type of Ownership-Leadership Vision exists. The profile brings together the four elements above in specific configurations, as depicted in **Table 4**. Remember that each Ownership-Leadership Vision emerged initially from the family’s core beliefs.

Table 4. Matching Family Vision with Business Strategy Profile

OWNERSHIP-LEADERSHIP VISION	BUSINESS STRATEGY
STAGE I: OWNER-MANAGER	
(1) Proprietorship	Focused scope; closed capital; lower risk; family leadership
(2) Capitalist	Diversified scope; open capital; higher risk; family leadership
STAGE II: SIBLING PARTNERSHIP	
(3) Co-Managing Partnership	Diversified scope; closed capital; higher risk; family leadership
(4) Caretaker	Focused scope; closed capital; lower risk; family leadership
(5) Investment Partnership	Diversified scope; open capital; lower risk; non-family leadership
(6) Recycle	Focused scope; closed capital; higher risk; family leadership
STAGE III: COUSIN COLLABORATION	
(7) Holding Company	Focused scope; closed capital; lower risk; family leadership
(8) Governing Owners	Diversified scope; open capital; higher risk; non-family leadership
(9) Confederation	Diversified scope; closed capital; lower risk; family leadership
(10) Venture Fund	Diversified scope; open capital; higher risk; family leadership
(11) Golden Share	Diversified scope; closed capital; higher risk; family leadership
(12) Trusteeship	Focused scope; closed capital; lower risk; non-family leadership
(13) Enterprising Family	Focused scope; open capital; lower risk; non-family leadership
(14) As If Public	Focused scope; open capital; higher risk; non-family leadership

1.5. Family Values, Family Vision, Business Strategy

Family business members and other involved parties should discuss the family’s core beliefs and compare them with the Ownership-Leadership Visions proposed here. Next, they should consider whether the business strategy matches the proposed profile.

Families can also reflect on their core beliefs during their strategic-planning process. If the beliefs do not lead to the strategy the family or the management team would like to pursue, they should explore the historical foundations of those beliefs, to determine whether they have become less relevant. If so, the focus can shift to revising the firm’s culture before reviewing or embracing an inconsistent strategy. If the family’s core beliefs are incompatible with the chosen strategy, the chances of successful strategic implementation and harmonious family ownership decrease. If core beliefs and strategy are compatible, ownership and leadership commitments will overcome any likely strategic change or adversity.

While alignment of beliefs, Leadership-Ownership Vision, and strategy are important for sustaining family businesses, most family enterprises face inevitable decline. The next section details a common path this degradation takes, along with a Leadership-Ownership Vision and corresponding mode of operating that promotes family harmony and business performance long term: the Enterprising Family.

2. THE ENTERPRISING FAMILY: THE ULTIMATE VISION FOR BUSINESS CONTINUITY

Several inevitabilities threaten the unity of most business families. But many longer-standing families have found that a different way of defining themselves and their business addresses those issues and even strengthens the family’s commitment to continuity. They have discovered the importance of shifting the family’s focus from the business as the glue of the family to the *family* as the glue of the family, yielding a vision involving multiple new ways for the family to participate in its welfare and to be proud of its identity.

Next I describe the all-too-common decline for business families, followed by the vision of the Enterprising Family.

2.1. How It Begins: The Business of Origin Declines

As the strategic environment shifts, in most cases the business built by the founder generations ago loses economic viability. Still, relinquishing that business, which is so deep in the family’s heritage and



so connected to it emotionally, is very difficult. Though family members managing the business see the economic realities, those uninvolved in the business may view giving up as heretical. The business drains precious resources, and efforts to resolve the situation can prompt significant family conflict.

2.2. What Happens Next: Rebellion, Resentment, Blame

Over time, most business families make gaining employment with the company a very selective process. Consequently, with the family growing exponentially, the business growing more slowly or even declining, and the family encouraging fewer people to feel qualified, family members feel less and less attached to their business. Pressures for liquidity, even sale, mount.

Moreover, while many family members accept that the business must be run like a business – especially as it grows – others resent exclusion. To them, the rules or processes will feel unfair or flawed. Resentful members will find justification and allies. Those serving and protecting the business will feel unappreciated, even angry. Factions develop.

Many in the family may begin to ask, “Why should we work so hard and make so many sacrifices to keep the business going?” Building or preserving the business, per se, tends not to capture family members’ hearts and souls. As the generations increase and family members become more distant from the founder, their sense of responsibility to the business wanes. As members spread geographically and emotionally, a family’s *raison d’être* becomes more important, but less obvious.

Over time, more family members may argue that the business is more a disaffecting burden than a source of salvation for family unity. The business and the effort required to maintain it become easy targets for those displeased. After all, they reason, the business – once the passion-driven common interest – has become an institution that threatens the welfare of the family and family members. The more those still devoted to the business observe this attitude, the more defensive they become. Lines are drawn: is it the family that matters or the business? This devolution is unfortunately common.

2.3. A Different Vision: The Enterprising Family

Now consider a different scenario. Imagine that over time the focus has evolved away from the business of origin. Other enterprises

emerge as sources of family pride. In fact, the founder's legacy is one of constant adaptation, and the creation of new enterprises, rather than the preservation of the original products. Holding onto the business of origin is not the point; building a sustainable portfolio is. And *how* the family does business is more important than what business the family does.

Assume further that the portfolio of the family becomes highly diverse, including not only businesses but also philanthropy, collective investing, and an organization serving family members' needs (*i.e.*, a family office). More opportunities for family participation emerge, their variety attracting family who were never much interested in business, but were eager and able to contribute in other ways.

Finally, envision that the business-owning family becomes as proud of its philanthropic contributions as it is of its business success. Further, the family becomes engaged and enraptured in the supportive services the business provides all members. Family member education, values acculturation and provision of the highest quality of personal services for family members become a very significant part of the family's sense of purpose and pride.

The result? The extended family feels its purpose as family-centered rather than business-centered. Meaning is derived from how the family pursues its goals rather than what kind of business it manages. Multiple rich opportunities exist for a wide variety of family members to participate. That is the orientation of the *Enterprising Family*.

The Enterprising Family sees family as the central purpose. It sees innovation, quality, and significance – *how* it conducts its affairs – as core values. The Enterprising Family creates opportunities for most or all interested family members to participate and contribute to the collective good. The Enterprising Family defines its central challenge as maintaining personal family leadership of the family's priorities. The Enterprising Family has the privilege of supporting all members, especially those with special needs. Great care is taken to match talents to corporate needs.

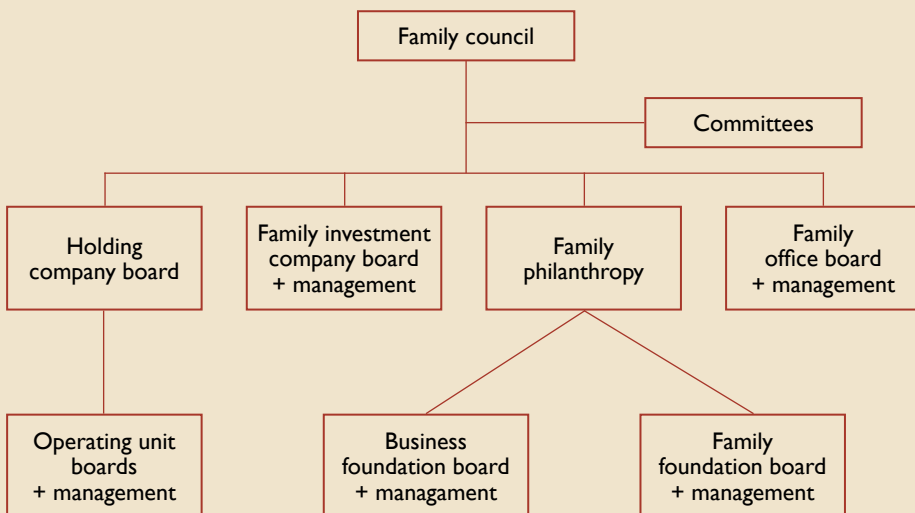
"Enterprising" in this context means that the family is skilled and successful at building new ventures and institutions and adapting to the changing family and external circumstances. The Enterprising Family solves one of the most complex family business paradoxes: Which should come first—the business's interests or the family's?

The paradoxical resolution is that when the family comes first the business is able to run more like a business. That is because family

interests are addressed through the whole system, not exclusively through the operating business; in fact, the family's primary involvement is typically through the boards. Thus, running the business like a business more clearly serves the family's real interests because of the ongoing need to fund and support other family enterprises.

Binding the diversity of the Enterprising Family's involvement is "values synergy," or how the values of each family institution can reinforce those of the others. The family's identification with and pride in how each institution works become stronger. Adaptation of each enterprise is even more possible as the values are not tied to one enterprise but are more abstract and family-oriented. **Figure 1** provides an illustration of the different institutions and their relationships within an Enterprising Family's organization.

Figure 1. **Governing the Enterprising Family**



In these ways, the Enterprising Family addresses many of the most critical challenges to family continuity. Though it may take more than a generation to develop, it is a vision for all families to keep in mind as they formulate their future plans and policies.

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NOTE

1. Contact author: Director of the Center for Family Enterprises; Kellogg School of Management; Northwestern University; 2001 Sheridan Rd; Evanston, IL 60208; USA