Institute for
Family Business

Family Business Stewardship

June 2011

tomorrow's
company

FOREWORD

I am pleased to welcome this important report on family business stewardship.

As a steward of a family firm, now in its second generation, I am aware of the responsibility that has been given to me. I am also conscious of the obligation to pass on our business to the next generation in a healthier condition than I inherited it. The four Tomorrow's Company principles of stewardship described in this report are an excellent starting point for family business owners who have the good fortune to be entrusted with this responsibility. Our generation will be judged on how well we manage the resources that are at our disposal and these principles offer a good guide to follow.

This report is full of impressive examples of family businesses from the UK and around the world, and it highlights the skill and creativity they are displaying to make the most of their respective opportunities.

The report also illustrates the importance of the family business sector in Britain, which accounts for over £1 trillion in turnover, and underlines how it is committed to finding ways to make its contribution even more impactful through the adoption of good business practices.

Although its focus is on the family business sector, the report also deserves to be read by business leaders elsewhere. We are seeing a greater interest in stewardship and this can only be good for business and society as a whole.

James Reed, Chairman
Reed Executive

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EXECUTIVE SUMMARY

This report, commissioned by the IFB Research Foundation, sets out an agenda for family business stewardship. It has been informed by the Tomorrow's Company stewardship principles and by research into and dialogue with family business leaders.

Tomorrow's Company defines stewardship as: *'the active and responsible management of entrusted resources now and in the longer term, so as to hand them on in better condition'.* Its four principles of stewardship have been developed and adapted to the family business context.

- **Setting the course**
- **Driving performance**
- **Sensing and shaping the landscape**
- **Planting for the future**

All enduring business success depends upon effective leadership and mutually rewarding relationships. It is through the evolution of these relationships that businesses adapt and prosper. The rapid and unpredictable changes in the global environment make this approach even more vital for all businesses including family businesses. In this report we explore the idea that what makes the best family businesses different in their pursuit of success can be described in terms of stewardship of four types of capital that they accumulate and have the potential to develop and pass on through the generations:

- **Family Capital** – an attachment to their businesses that goes beyond a mere financial relationship. There is a personal identification between the owners and the business. The family becomes a powerful means of transmitting vision and values across generations creating a legacy of purpose and values. As a result the business can have a clear identity and personality.
- **People Capital** – the strength of knowledge, skills, behaviours, energy, loyalty and commitment which exist within the non-family members of a family business. The people who work in a family business often appear to feel a stronger identification with it, a sense of belonging which can be reinforced by relationships which can outlast a single generation.
- **Financial Capital** – prudence combined with a sense of financial responsibility towards future generations. This can be manifested in dividend restraint or ambitious investment timescales rarely envisaged by other forms of business. Another benefit is a greater freedom of the owners and boards to define success in their own terms.
- **Social Capital** – the trust and reciprocity embedded in relationships through which is grown a deep and enduring link between the business and all those around it, to the mutual advantage of all concerned.

There are many synergies to be found between the four types of capital. Each type of capital needs nurturing. And there is a 'shadow side' to each of the assets. Good stewardship involves achieving the right balance between them and particularly manifests itself through:

- effective leadership that creates and embeds an enduring vision and values to achieve alignment between family and business
- governance and succession supporting renewal across the generations.

There is already some evidence that enduring family businesses show stewardship characteristics such as stable leadership, clear purpose, lasting values, a sense of history and a commitment to long-lasting employee and stakeholder relationships. A focus on the four principles can result in stronger stewardship of the family business and open the way to better overall performance in financial and other terms.

INTRODUCTION

The Institute for Family Business (IFB) and Tomorrow's Company have been working in overlapping areas for many years, and we were encouraged to meet and talk about these by business leaders who have had involvement in both organisations. Both share a belief in the importance of leadership, based on clear purpose and values, and an interest in what makes for enduring business success, and both have for some time been advocating the importance of stewardship.

The *Family Business Leadership Inquiry* published by the IFB in 2005 explored the challenges facing family business leaders. This was followed by two reports, published in 2007, looking in turn at next generation issues in *Ready, Willing and Able?* and the issue of ownership in *Family Businesses – Perspectives on Responsible Ownership*. This was complemented by *The UK Family Business Sector* report in 2008 that underlined for the first time the size, scope and contribution of family businesses to GDP. Through the IFB's work, there has been more awareness of the importance of family business stewardship, and the value of progressive leadership and governance practices.

In 2008, Tomorrow's Company published *Tomorrow's Owners: Stewardship of Tomorrow's Company*, a wide-ranging study of the principles of good ownership which acknowledged the huge importance of private and family business. Tomorrow's Company followed this up by studying stewardship in action in all forms of business, and from this work derived the four Tomorrow's Company Stewardship Principles which can be used as basis for any board to assess its own stewardship.

The IFB then made Family Business Stewardship the theme of its 10th National Conference in June 2011 and in preparation for this the two organisations have been exploring the family business experience of stewardship. In this report we have been investigating what family businesses can achieve by adopting good stewardship practices and it is our aim to support boards and leaders of family businesses to become better stewards. Drawing mainly on examples from Europe and North America, we hope that the report will prove useful to business families everywhere.

Tomorrow's Company sees stewardship as an attitude of mind which informs the behaviour of everyone involved in wealth creation. *Why Stewardship Matters* (also published in June 2011) sets out the stewardship agenda on which institutional investors, company boards and policy makers can all act in order to make this vision a reality.

Both Tomorrow's Company and IFB look forward to working together again in the future. We have a common belief in the importance of stewardship to the health of our economy and society, and a common interest in seeing its more conscious promotion in family as well as in other forms of business.

CONTEXT

The changing drivers of value creation and long-term business success

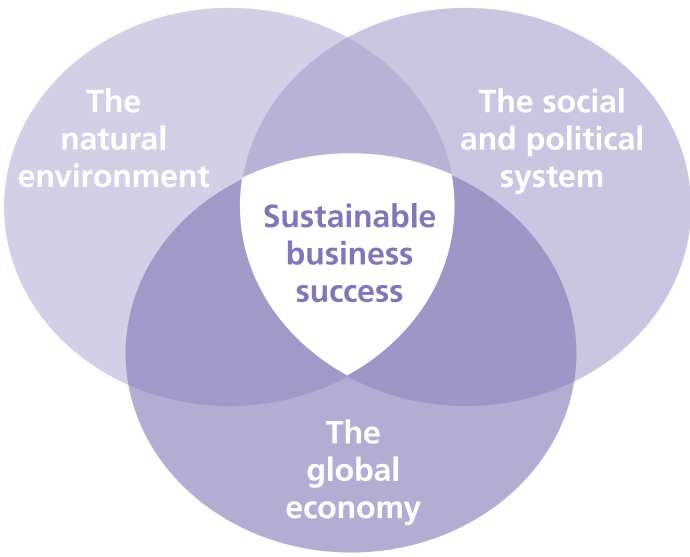
Throughout more than 15 years of working with businesses of every kind, Tomorrow's Company has reinforced its initial conclusion about what makes a business successful in the long-term.

At the heart of every enduring business are strong leadership and healthy stakeholder relationships. Leaders set the purpose and the values, and then ensure that these are strongly reflected in the company's interactions with all its key relationships – employees, suppliers, customers, investors, and the community and society.[1] It is through the feedback and challenge in all of these relationships that companies learn and adapt to change, and stay competitive in a fast changing world.

Figure 1: Tomorrow's Company's 5 + 1 Model of Leadership and Relationships

In 2007, the leaders of major global companies participated in the *Tomorrow's Global Company* inquiry. This project sought to describe the role of tomorrow's global company. The report identified the changes in the business environment that would be crucial to their future success – what Tomorrow's Company calls the triple context:

Figure 2: Tomorrow's Company's Triple Context



"The world is undergoing a period of unprecedented change, characterised by a rising population, rapid economic growth, the spread of globalisation, pressure on the environment and continuing social, political and cultural divisions. These changes represent challenges to the complex global system on which companies depend for their survival and success. This system involves three interdependent sub-systems – the natural environment, the social and political system and the global economy. The collapse of any one of these would result in the collapse of the others. But much remains unpredictable – the pace and consequences of global warming, the incidence of natural disasters, the outbreak of conflict or the impact of terrorism." **Tomorrow's Global Company: Challenges and choices** [2]

This unpredictability has not diminished. In the four years since the report was published, companies have had to contend with the global financial crisis, new threats to privacy and cyber security, major earthquakes and nuclear risks in Japan with consequences for global supply chains, and political uprising in the Arab world. It is in this context that the opportunities and risks of the future will present themselves to the leaders of family businesses of all sizes. Those who own and lead businesses will need to weigh the implications and adapt their strategies and their governance accordingly.

Also in contrast to the old world, in which human talent was judged to be scarce, and natural resources abundant, the companies of tomorrow are contending with a world in which talent is abundant, but natural resources are scarce.[3]

The conclusion of the business leaders involved in the *Tomorrow's Global Company* inquiry was that these new circumstances demanded a different response from business. As they put it:

"Tomorrow's global company should expand its view of success and redefine it in terms of lasting positive impacts for business, society and the environment. Having redefined success, tomorrow's global business leaders should stand firmly behind their convictions and use them as a basis for their business strategy and decision making. Internal processes, especially measurement and reporting and external communications with all stakeholders, need to be consistent with this view of success. Shared values are essential to provide cohesion in a company that is global and diverse. Once values have been established and communicated, they must be rigorously followed in practice and people held accountable for observing them. Tomorrow's global companies need both values and rules, but values provide the bedrock upon which a company's behaviour should be based." [4]

The importance of stewardship

These arguments provoked many readers of the report to comment that such aspirations were admirable, but, in an increasingly volatile and short-term capital market many investors did not have the patience to see them fulfilled. It was this dialogue that led Tomorrow's Company, in 2008, to develop its work on the concept and principles of stewardship – work which grew in importance with the financial crisis and the accompanying erosion of value. The result has been a renewed interest in the stewardship responsibilities of investors and boards in listed companies – stewardship being a joint responsibility between the two. Tomorrow's Company defines stewardship as:

'The active and responsible management of entrusted resources now and in the longer term, so as to hand them on in better condition'.

Tomorrow's Company has since been working with business leaders and investors to explore how stewardship might apply across all forms of finance, ownership type and enterprise. We found examples of good practice across all types of company – the listed company, the employee-owned company, and private or family-owned enterprises. Drawing on this experience, four principles of stewardship have been developed, which can help boards, investors and outside observers judge the effectiveness of stewardship in a particular company. These principles are described in full in Part 3 of this document, but in outline are:

- **Setting the course** – deals with purpose, roles and relationships. Good stewards set a course so that all those involved with the company know its purpose and their part in achieving this end. In future this will mean that boards work out carefully what they believe their mandate to be.
- **Driving performance** – emphasises the need for 'uncomfortable conversations' which continually stimulate improved performance and capability. Without good stewardship, companies can become too lazy and slow to change and fall behind their competitors.
- **Part of the landscape** – is about the way the company anticipates, influences and deals with changes in its external environment.
- **Planting for the future** – reflects the need for consistency between short-term actions and long-term success.

During the course of this study, leaders and owners of family businesses have reaffirmed the validity of these principles with one amendment. In the light of their feedback the third principle has been modified to 'Sensing and shaping the landscape' to make it less passive in its tone.

Summarising the relevance of these principles of stewardship to family businesses Andy Rubin of Pentland Brands plc said:

> *"You set the course. You drive performance of the business. You make sure you are looking outside, and then you think about renewal from what you see."*

Stewardship of a family business

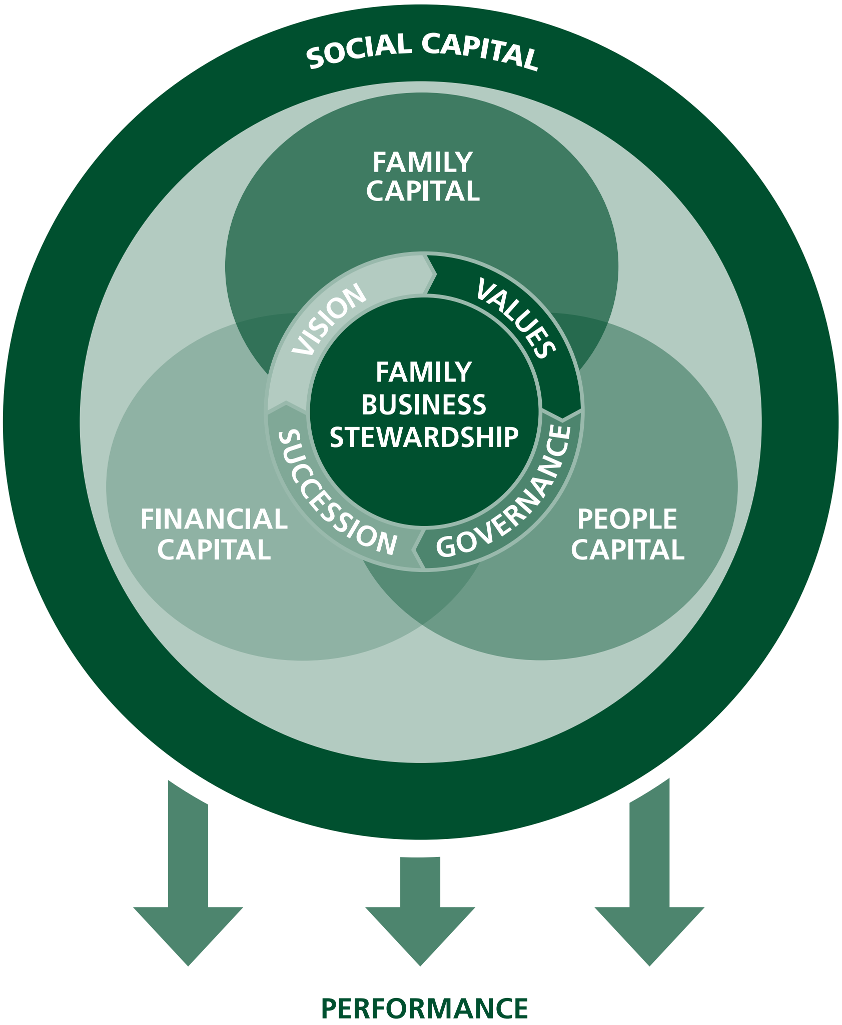
Family businesses are very diverse and range from being small, to medium-sized or large, listed or unlisted companies and make up more than 60% of all European companies and an even greater percentage in the USA, Asia and the Middle East. In 2008, UK family businesses employed more than any other organisational type, with 9.5 million people working in family businesses, compared with 7.5 million in FTSE companies and 2.8 million in private-equity owned firms.[5]

There are numerous definitions for a family business. According to the definition of the Expert Group on Family Business established by the European Commission, a family business is a firm of any size where the majority of votes are held by the person(s) who established the firm, by the person(s) who has/have acquired the share capital of the firm or are in the possession of their spouses, parents, child or child's direct heirs. In addition at least one representative of the family or kin is involved in the management or governance of the firm. Listed companies meet the definition of a family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the voting rights.[6]

All enduring business success depends upon effective ownership, leadership and mutually rewarding relationships. The same is true of family businesses. What is important in the pursuit of family business success can be described in terms of three linked but different types of capital that they have the potential to accumulate and pass on through the generations:

- **Family Capital** – a deep emotional attachment by the family to their businesses and sense of obligation to the past, present and future that goes beyond a mere financial relationship.
- **People Capital** – the strength of knowledge, skills, behaviours, energy, loyalty and commitment which exists in the employees of the business.
- **Financial Capital** – the tangible and intangible assets which a family business builds, inherits, reinvests in and eventually passes on, giving the freedom to lead through maintaining control over those assets.

Figure 3: Family Business Stewardship and the Four Types of Capital



Most successful family businesses inherit each of these forms of capital and will want to build on each as they strive to grow the business for future generations. Yet there are risks with each. Like every institution, and every individual person, family businesses tend to have weaknesses that correspond with their strengths. The story of effective stewardship of a family business is the result of how well they handle this inheritance, how they make the most of the opportunities and mitigate the risks.

The three forms of capital are internal to the business, are interrelated, and there are synergies between them. To get the most from each, businesses need to focus on vision, values, effective governance and good succession planning.

The fourth form of capital is more external:

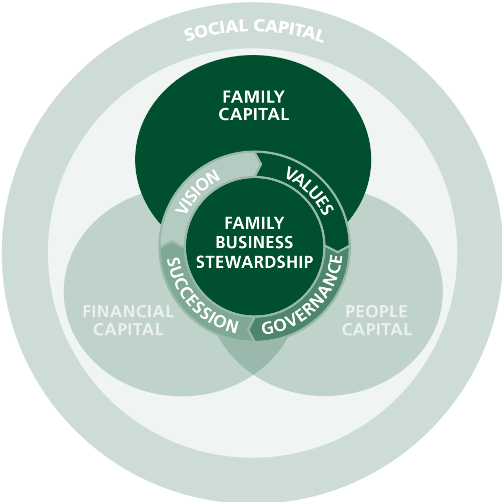
- **Social Capital** – the trust and reciprocity between the business and all those around it, to the mutual advantage of all concerned – the company and its external stakeholders including the communities and society in which it operates.

If through their stewardship family businesses successfully build on their legacy they create the potential for improved performance and can pass the business on in stronger shape than when they inherited it.

The four types of capital, and the interaction between them, make up our family business stewardship model and when managed effectively can result in improved performance. These different elements are brought together in Figure 3 shown above, which is used throughout the rest of the report as a signpost so that readers can orientate themselves within the overall discussion.

PART 1

THE ASSETS – THE FOUR TYPES OF FAMILY BUSINESS CAPITAL



FAMILY CAPITAL AND STEWARDSHIP

"This business is me. It is in my guts and it is in my demeanour and I live it and I breathe it and I sleep it. And as an employee or a shareholder, or anyone else, it is not you, it is part of the portfolio. For families, this is most of what they have. Therefore the alignment with the business is extreme and the implication is that the consistency and skill with which strategies are carried out must be exceptional if the business is to succeed because there is nowhere else for the family to go." **Alex Scott, Chairman and CEO, Sand Aire**

"Adolph Ochs was decidedly an entrepreneur of heroic proportions, with enormous vision for the New York Times and a deep sense of purpose. The New York Times was simply to become the best newspaper in the country. Although Adolph never saw his daughter as leading the New York Times, he shared his love of newspapering with her. When she was a child, say Tifft and Jones, "Adolph delighted in squiring Iphigene around the Times, introducing her to his editors and reporters and gently instructing her in the business of the newspaper... "His primary contribution," write Tifft and Jones, "...was a curriculum of his own cherished values: charity, curiosity, love of family, and the importance of protecting his prized jewel, The New York Times." Adolph served as both family leader and business leader...He often hired family members just because they were family, but he did not shrink from letting them go when he had to – he fired his brother in law for drinking. (He) ran the New York Times from 1896 until his death in 1935 at age 77." **John L. Ward, Perpetuating the Family Business** [7]

In most family businesses there is an attachment to the business that goes beyond a mere financial relationship. There is a personal identification between the owners and the business. The family becomes a powerful means of transmitting vision and values across generations. As a result there is a felt sense of the purpose, identity, culture and obligation in the business – an emotional attachment. This is family capital.[8] Part of the legacy that many family business founders pass on to the next generation(s) is their approach to a way of doing business – the mission, values and sense of pride in the business. The family is an important medium for communicating and passing these on and this process is inseparable from upbringing. As Miller and Le Breton-Miller point out, *"The Nordstrom, Michelin, Lauder, and Cargill kids spent decades at the feet of their parents – at the office and in the living room."* [9]

A family business will work hard to capture the underlying benefits that are latent in family capital. This often takes the form of recounting stories which illustrate what makes the business unique and precious. These stories and legends will be about the soft and hard side – 'moments of truth' when a business defined itself when it had its back to the wall in a race for survival, or renewed itself through decisive leadership. Having a purpose beyond financial returns can help build and reinforce family capital. During this project several IFB members described how a focus upon the wider purpose of the business helped to unify the family owners.

An outstanding example of this wider purpose was the pact which the owners of the New York Times signed in 1986. The Sulzberger family unanimously agreed to rule out any potential sale of the business for another century to maintain their high standards of journalism and editorial independence, as well as to secure the strength and unity of the family and the business. This not only shows the family's long-term thinking – connecting the present generation to the next one and beyond – but also the scale of financial sacrifice a family can make for its business.[10]

Not all enterprises start with the deliberate plan to become a family business. Founding entrepreneurs generally set up a business with a vision to pursue an opportunity that addresses a need in the market; knowing that if they succeed this will provide an income, greater independence and, if all goes well, future wealth. Once the business is successful they may start to think about handing a business on through the generations and their attention turns to stewardship.

Good stewards distinguish between what they wish to preserve and what to abandon as they drive the business forward for the next generation. Through their sense of restlessness and questioning they challenge the status quo and embed a culture of continuous improvement. Such stewards will go the extra mile so as not to be the generation that loses it all. According to Daniell and Hamilton, there are two types of family business owner. In the first group family members view themselves as "proprietors" of their wealth which is at their disposal to use how they see fit. The second category are "stewards" who see their role as owners with obligations to uphold the family legacy, carry the burden of responsibility in relation to risks and rewards, and educate the next generation to be good stewards in turn.[11]

Attitudes associated with patriarchy, traditions and birthright can, however, get in the way of building a twenty-first century business and may lead to stagnation. The strength of emotional engagement can bring with it a resistance to change and reluctance to take risks for fear of betraying the legacy. Too much reliance on past success and prestige can also impede progress. In other instances a patriarch with the best of intentions finds it difficult to let go and holds onto power, locking out fresh leadership from coming to the fore. There is also the risk that family members will take for granted the assets that they have inherited and become complacent. Younger generations may fail to appreciate how hard their forefathers fought to establish the business and how quickly this can be lost. Successful businesses such as Adidas, Gucci and Guinness have fallen out of the control of the founding families due to a combination of these issues and through a general failure to manage the family business risks. In some cases the problems spill over into the family causing disharmony and potentially a breakdown in family relationships.[12]

Clarks

Renewal of a family business

In the history of C & J Clark, one of the key historical events was the high profile public feud of 1993 when a razor-thin majority of shareholders voted against selling the company to Berisford International. This was followed by a period of renewal and radical change in business strategy, sourcing and management systems. It is a time that some recall with mixed emotions, yet most agreed that the company was in need of a move away from its traditional style towards a more modern, flexible and informal culture.

Throughout this period of change in the business the family also embraced new ways of engaging with the business as owners as distinct to owner managers. Progressive governance structures, including a family shareholder council and a strengthened board, in part designed to improve communications, helped to achieve positive shareholder engagement and strategic clarity at the business level. Family education relating to the roles and responsibilities of owners also became a core feature of the new progressive approach.

Nearly two decades on the business has gone from strength to strength and the next generation are emerging as committed owners proud of their heritage.

SC Johnson

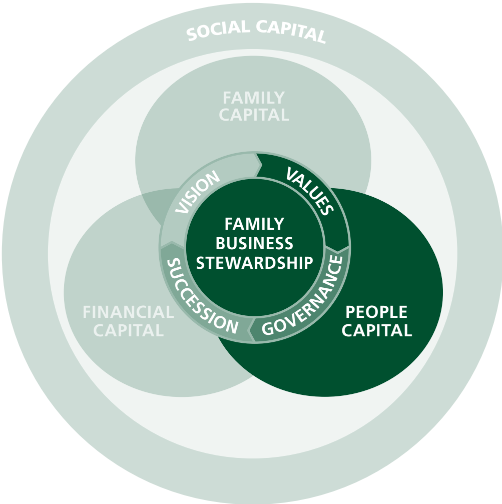
Balancing legacy and values

SC Johnson is a family-owned and managed consumer goods company with more than $8 billion in sales. The company's Chairman and CEO, Fisk Johnson, is member of the Johnson's family fifth generation. He believes that leading the family business comes with a responsibility based on a legacy that helps guide his actions. The mission of this company is to make the world a better place and to pass on to the next generation a strengthened business that remains true to its values and legacy.

> *"Being the fifth generation to lead a family company comes with a lot of responsibility. It also comes with a great legacy to guide you. Throughout his life, Fisk Johnson (current Chairman and CEO of SC Johnson) grew up steeped in the stories of this family company – stories about his father, grandfather and previous generations' vision and values, adventures and aspirations."* [13]

The SC Johnson values are:

- Family
- Innovation
- Sustainability
- Partnerships
- Strong brands
- Leadership.[14]



PEOPLE CAPITAL AND STEWARDSHIP

"Huge amounts of loyalty, trust, solidarity and intuition wrapped up in a sometimes confused and even unfathomable relationship. Such is the strength of the culture that sometimes non-family behave more like family than family." **Jonathan Wild, Chairman, Bettys & Taylors**[15]

"Our people are really important to us, we invest strongly in their development and the sites in which they work and the staff retention rates, and the fact that numerous generations from the same family work for us, is testimony to the way that we seek to treat our staff. Everyone is eligible for Profit Related Pay awards and everyone can join our Final Salary Scheme – 7,000 people maintain our reputation every day, and it's right that we treat them well." **Mark Samworth, Director, Samworth Brothers Ltd**[16]

People capital is the asset which comprises the knowledge, skills, behaviours, energy, loyalty and commitment which exists in the employees of the business. Components of people capital include:

- values, behaviours and culture
- discovering, developing and retaining talent
- employees as stewards.

Values, behaviours and culture

The values passed down through the generations shape the attitude of owners to their stewardship of the assets of the business. This can have a viral effect on the people who work in the business.

Many family businesses have a distinct caring instinct which is extended to non-family staff members. This approach to valuing staff means that they go beyond regarding people as merely employees. It often involves a more holistic approach to individuals, such as giving staff transferable life skills, instead of job-specific training. As Mark Addlestone, Managing Director of Beaverbrooks put it:

> *"Consultative paternalism is how I describe the way we run the business... We look after people as if we were a family. We really do listen to our people...The person you are outside work is the person you are in work. The behaviours you exhibit are the same. It's a powerful approach that goes beyond making them better salespeople. People aren't machines."* [17]

There is abundant evidence of a clear link between businesses with strong cultures and long-term success. Collins and Porras found that one of the characteristics of successful companies was that such firms displayed "cult-like cultures" built on strong values. However, the effect of these strong cultures was that employees either loved or hated working for the company.[18] At Bettys & Taylors, the Yorkshire based confectioner and tea and coffee distributor, they find that: *"people tend to stay... (with us)... for one or twenty years. People either love the place and want to stay or quickly realise it is not somewhere they will feel they can fit in."* [19]

According to Miller and Le Breton-Miller, whose research was conducted in North America, employees in family businesses are *"more cherished and better cared for than elsewhere. They are also developed to their* *full potential and thoroughly indoctrinated in company values. In fact, studies have shown that major [family businesses] pay their employees more, give them better benefits, train them more intensively and retain them longer... The personification of the business nurtures loyalty and commitment – a win-win attitude, whereby people feel that by contributing to the business everyone benefits".*[20] They also add that the benefits of working for a family business are more than financial, they are perceived to be more caring for their employees, offer greater job and earnings security, and generate 'a culture of mutual loyalty'. However, in situations where patriarchy is too strong, the attendant "family knows best" culture may unintentionally suppress innovation and change. Bata Shoe faced severe challenges in the late 80s and early 90s. Senior non-family executives were hired to address deep rooted strategic issues but the patriarch Thomas Bata Sr. undermined the executive team and the business stagnated. Only when ownership succession was implemented and the next generation, led by his son Thomas Bata Jr., gained control was the business free to embrace change resulting in a successful turnaround.[21]

Clinton Devon Estates

Retaining innovation and challenge

> *"We aim to hand over the Estate in a better condition than we found it not only for our family but for the wider community."* **Lord Clinton**

Clinton Devon Estates is a 22nd generation family owned rural property and land management business. The business model relied on letting out properties and land for revenue and with return on assets having fallen significantly over a number of years, the family realised that the company was facing a significant challenge. In 2000, a non-family chief executive was recruited who restructured the business and initiated a wide ranging strategic review, considering some very difficult choices about where future innovation and growth would be generated. The business has been successfully turned around and has been awarded the Queen's Award for Enterprise in the Sustainable Development category twice in five years.

Linney Group

Transmitting principles and values to its people

The Linney Group sees its culture as its competitive advantage and makes a great effort to communicate and improve its values. It believes that people make all the difference.

> *"The real difference is culture. Our culture is different from your culture, you instantly feel the culture in our family business."* **Nick Linney, Chairman, Linney Group**

The company's core values revolve around "Four pillars of "healthiness": Healthy Linney Person, Healthy Linney Manager, Healthy Linney Company and Healthy Linney Values. There are four 'constitutional documents', which can be found in every room, describing what healthy means in each particular context, what behaviours are expected and how these should be implemented.[22] These documents are open to challenge and modification on an ongoing basis, one of them is on its fourteenth version. In addition, on the first Tuesday of every month a one day Core Values course is held for people who have just joined the business and for those for whom three years have elapsed since their last attendance.

Discovering, developing and retaining talent

> *"We are beginning to get a feeling that our employees are becoming more demanding. Their expectations of our behaviour are rising... Generation Y are our consumers but they are also our employees. What is different is that they expect an enormous amount of responsibility very quickly."* **Andy Rubin, CEO, Pentland Brands plc**

> *"Companies should think afresh about what they mean by 'talent'. At present most companies reserve the word 'talent' for high fliers who are destined to become top executives or high-level specialists. This is too narrow a view for a world with multiple challenges, needing people with a wide range of capabilities. Talent, we argue, is all around us waiting to be unleashed. Contrary to popular belief and practice we argue that 'talent' should not be seen as a rare quality, but a diverse, multifaceted one that exists in everyone; it is abundant. It is a nice quirk of the English language that talent is an anagram of latent; underlining our view that much talent remains hidden and undiscovered."* **Tomorrow's Global Talent** [23]

According to a recent Family Business Survey undertaken by PwC, family businesses are less likely than other organisations to make employees redundant, or make deep cuts. The staff of family businesses may be more loyal as a result of this attitude, although it can obviously create challenges if a company needs to downsize to survive. However, attracting and retaining good people is still one of the most critical challenges for family businesses, with 46% naming it as a major issue in the PwC survey.[24]

Successful family businesses pay attention to promoting diversity and opportunity and to removing any obstacles, which might stand in the way of the progress of talented non-family employees. One such barrier could be the lack of career opportunities as a result of unintended glass ceilings due to family members taking most of the senior management positions and seats on the board. The issue of remuneration is another critical challenge for family businesses. Defining fair reward for family members working in the business and for non-family executives at board level requires schemes that reward long-term value creation and align managers with owners in achieving the company's strategic goals.

Employees as stewards

The best family businesses create a sense of ownership that extends beyond the family. Miller and Le Breton-Miller talk about the way family businesses *"socialize staff to assure that these values will prevail, and often pamper employees to elicit loyalty, initiative, and collaboration".*[25] Employees identify with the values of the family and feel a sense of stewardship in perpetuating them.

This is reinforced in some family businesses by the policy of recruiting managers from within, on the basis that they have been socialised into the values. The risk that goes with such a policy is that firms may unduly limit their access to the best skills and create an "inbred" culture.

In some instances the term 'family business' not only denotes a company owned and/or managed by a family but also one in which several generations of the same family serve as employees.

NG Bailey

Enhancing people at all levels in the organisation

NG Bailey has been training apprentices since 1934.[26] Their Engineering Academy was opened in 1969 and since then, over 4,000 people have successfully completed an apprenticeship with the firm, many of whom have won national and industry awards, and have progressed to take up senior management positions.

The company continues to develop their apprenticeship programmes as part of their ongoing investment in learning, education and development, totalling in the region of £3 million per annum.

Timpson

Upside-down management

At Timpson, people are seen as the reason for its success. There is a strong sense of what type of person will make a successful, or 'Timpsonised', employee: normal, down to earth, and not afraid of hard work – or, indeed, hard play. Timpson have an upside-down management philosophy. The frontline customer facing employees are at the top of the organisation's pyramid with the rest of the team supporting them. Ideas are generated at all levels and change is perceived as good and part of a culture that delivers outstanding customer service. The family business leaders are highly visible "walking around the organisation" offering their support and guidance.

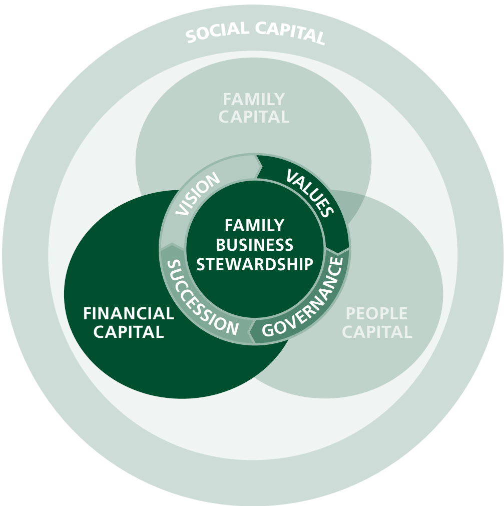
W.L. Gore and Associates

Team-based work structures

Bill Gore founded W.L. Gore and Associates on four principles: freedom, fairness, commitment and prior consultation.[27] The family business operates on a team-based structure, with associates working for general areas, developing careers to match their skills. Traditional organisational and communication structures based on hierarchy are not deployed within W.L. Gore. Instead trust, freedom and innovation are prioritised.

Bill Gore *"studied at what point you get a diminishing return when a team gets too big and you don't see the synergies and the quality starts to fall… He found that when you get more than 150 to 200 people it really starts to change and you get a different dynamic because people don't know each other's names."* [28] As a result when any plant at W.L. Gore becomes larger than 150 people it is split, and another one is created.

Demonstrating Gore's strength as a good employer they have won many awards and are consistently named among the highest ranked The Sunday Times 100 Best Companies to Work For.[29]



FINANCIAL CAPITAL AND STEWARDSHIP

"Our long-term strategy is to build strong and sustainable brands. This requires significant investment over a long period of time. If we were quoted, the market would demand a return on capital investment over a much shorter timeframe. Being unquoted allows us to make utterly unique decisions." **Peter Gordon, Chairman, William Grant & Sons Ltd** [30]

Financial capital is defined as the tangible and intangible assets which a family business builds, inherits, reinvests in and eventually passes on, giving it the freedom to lead and maintain control over those assets.

The economist Michael Mainelli founded the Long Finance Initiative in 2007 to improve society's understanding and use of finance over the long term. In contrast to the short-termism that defines today's economic views the Long Finance timeframe is roughly 100 years. In terms of the logic of most companies this would seem utopian. But there are many family businesses which would be entirely unsurprised by this time horizon.[31] Family businesses think in terms of deploying long-term capital, reflecting both the legacy of assets which both the family and the family business inherit, and the attitudes, obligations, sacrifices and freedoms that go with it.

There are three particular aspects to financial capital that family companies can leverage:

- **The strength of the firm's balance sheet and the associated financial muscle which leads to the ability to invest in line with the family's vision and values over unconventionally long time horizons.** Strengthened by their financial conservatism, the best family firms, according to Miller and Le Breton-Miller, *"were unfailingly generous investors...They put more money into competencies, infrastructure, marketing and training than most of their peers and they were willing to wait longer to receive returns."* [32] Family businesses talk less about sweating the assets to create a financial return and more about burnishing their reputation.

- **The greater freedom to take decisions arising from the independence that comes from concentrated ownership and control.** For the majority of family firms the public equity markets are perceived as incompatible with maintaining their niche status. Equally private equity with its short-term exit horizons is rarely seen as a potential source of finance. On the other hand self-financing has always been the most important strategy for funding business investment, supplemented by corporate lending from banks.[33] The overarching goal of most family business stewards, irrespective of the source of finance, is to retain control in order to have the freedom to set the destiny of the organisation.

  The New York Times is a family controlled company that is also listed and has outside shareholders. It is an example of the strength which family business owners have taken from the capital structure, and the independence of the decision-making which has resulted.[34] This freedom can extend to an explicit commitment to balance objectives, and to see profit as a means to an end rather than an end in itself. Such commitments are not impossible in listed companies but they are less frequent.

- **A greater prudence to risking the capital earned by one's forebears together with a sense of responsibility to put the business first through sacrifice and accompanied policy of dividend restraint.** The long-term approach to capital enables owners to take financial decisions within a more liberated framework. Paradoxically it can also introduce prudence, or even a sense of sacrifice that may be lacking elsewhere. This is not risk capital but the money earned by one's forbears. Many family business owners will come close at some stage to betting everything they possess to ensure the success of the business.

Families often demand a lower rate of shareholder return thus lowering their cost of capital. According to Joseph Astrachan *"this can allow the business more room to investigate and experiment with activities other businesses would not because of the probability of a low financial return. Paradoxically, this allows for greater success as more opportunities can be explored."* Typically family firms practise a high rate of shareholder reinvestment. The stewardship obligation often translates into dividend restraint. However there is a danger that prudence can sometimes grow into risk aversion. The sense of responsibility for future generations is desirable, but only if it is channelled into the strategy of the business and not if it is allowed to deflect attention from core business success. The further challenge is that the constraint on capital can prevent necessary expansion leading to stultification of the business over time.

Oetker Group

A focus on reinvestment

With more than 24,000 employees and a turnover of about Euro 8 billion the Oetker Group is one of the largest European family-owned companies.[35] Breaking with contemporary strategic thinking this family diversified across a range of industries including food, brewing, shipping and banking. Oetker Group sets challenging Return on Investment hurdles for each division to achieve. The partnership law structure serves to safeguard the Oetker Group for the long-term. And as stated in its annual report, *"The interests of the company have priority over those of the family."* [36] The eight descendants of the founder each hold a 12.5 per cent stake in the partnership capital of the parent company, Dr. August Oetker KG.[37] In 2009, investments in associated companies amounted to Euro 403 million, an increase of Euro 107 million demonstrating a strong commitment by shareholders and the board to strengthening the business.[38]

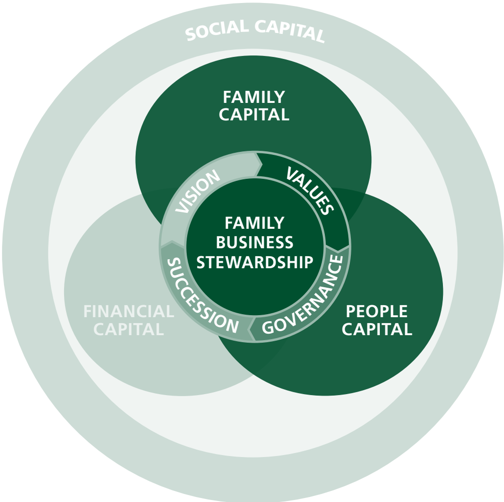
Samworth Brothers Limited

Balance sheet strength

People, Quality and Profit are the three values underpinning this family business. To achieve financial success the company is committed to a programme of strong investment in capital and other assets. Their customers recognise the improved quality and lowered costs that this commitment to investing in first class plant and equipment brings. To support its financial health the company has a philosophy of managing the balance sheet conservatively, avoiding financial engineering such as off-balance sheet financing and writing off exceptional expenses as they occur. Maintaining low financial leverage enables the business to be flexible and ready to take calculated risks when opportunities to innovate and grow are presented. Family shareholders are, of course, not taken for granted as their support is critical to supporting the continuity of the family business. They receive regular dividends but the payout can be varied depending upon the needs of the business.

SYNERGIES BETWEEN FAMILY CAPITAL, PEOPLE CAPITAL AND FINANCIAL CAPITAL

Family, people and financial capital are all interrelated. There are many synergies to be found between them.



Family capital and people capital

"The family that owns Barcelona-based corporation Puig has developed a family handbook that demonstrates how values flow from family to business and back again on an international scale. The company is famous for such brands as Nina Ricci and Paco Rabanne... Throughout the group, the family handbook sets forth the family's expectations in terms of ethics and professional principles. In one instance, managers turned down a proposal for a purported weight reducing product because selling products that make false claims would be a violation of the Puig family ethics."
John L. Ward, Perpetuating the Family Business [39]

We have discussed how family businesses build for the future by "socialising the workforce" – ensuring the values that are held dear by the family are shared across the generations with all who work in the company. We have also discussed the challenge that family businesses face in attracting top talent and promoting diversity and equality of opportunity where there is a glass ceiling with family members taking most senior management positions and seats on the board.

One way in which these issues can be addressed is by finding ways to making 'outsider talent' feel like family by instilling the same emotional attachment that family members have to the business. This is a strategy adopted by Samsung. Its Global Strategy Group targets top talent and hires young, foreign MBA graduates from top schools. The group, located next to headquarters, is given exposure and direct access to Samsung's Chairman Lee and work for him on special projects. As companies grow in size and start bringing in external managers, they must also professionalise the way they manage talent to compete with large non-family corporations.[40].

Arco

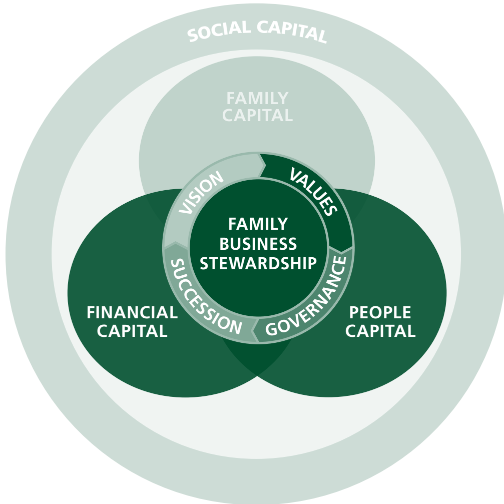
Embedding the company's DNA

Arco is a fourth generation business which is the UK leader in workplace safety. Early on in its tenure the current generation of family leaders made their mark by initiating a process to capture the company's DNA which is defined by three core values:

- respect for people,
- excellence in reputation, and
- hard work and enterprise.

These values have now been in place for some years. It has paid dividends and employees regard the family nature of the firm as a positive contributor to job satisfaction. This has resulted in lower staff turnover. All new joiners are welcomed by a family member, and this is just one of a number of ways in which the family remains visible in the business. The family's professionalism and commitment to good governance has also been a factor in attracting non-family senior management and more recently the family has had success in generating its own senior leadership talent.

People capital and financial capital



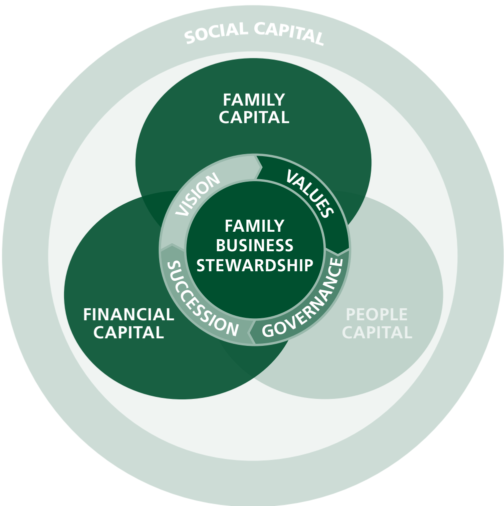
> *"When the business gets into trouble, the family often takes a big hit to keep people on board. In 1956, Hallmark initiated what Fortune magazine deemed America's most liberal employee benefits and profit sharing plan. In 2002 the stock valuations in the plan declined. The Halls offered to fund retirements by purchasing shares from the plan at a huge premium, thereby forfeiting a significant percentage of their personal wealth."* **Danny Miller and Isabelle Le Breton-Miller, Managing for the Long Run** [41]

Engaging employees in the long-term development of the company is common in family businesses. They particularly put emphasis on training, R&D, and employee benefits.

Timken's response to the 1980s recession was not to lay people off, as their competitors were doing, but to put many of their employees to work in R&D. This new direction allowed Timken to stay at the forefront of jet engine design. By finding new and forward-looking ways to engage with employees during tough times, they recreated themselves.[42]

There is evidence from North America that family businesses spend more on human resources, training and social benefits for their staff than non-family businesses. The best offer on-the-job training, courses, mentoring, sabbaticals and job rotation programmes. This ensures that the company nurtures the talent of their employees getting the best out of them and enabling personal fulfilment. Career paths in family businesses are often more flexible with the option for employees to make lateral job changes.[43]

For some family firms sharing ownership with employees is a strategy that has been adopted to foster employee engagement. The use of an ESOP (employee share ownership plan), allows employees to participate in the ownership of their employing company on a significant scale in a tax efficient way. This form of hybrid ownership structure can strengthen employee motivation, and help to sustain good performance. A well-known example of a shared family and employee ownership structure is at Wilkin & Sons, a preserves manufacturer, where shares were transferred to a trust for the employees and which currently holds over half the issued share capital.



Financial capital and family capital

Long-term horizons

> *"The only thing I did smart…99% of people would have sold out when they got their first $25 or $30 million. I didn't sell out. I just hung on." He certainly did. J.R. Simplot did not get to be the potato king of the world by accident. He invested in one long term innovation and contract after another and just kept building, knowing full well it would take him years to get his money back. In 1928, he invested in the first electric potato sorter, and travelled the countryside to serve farmers… It took about seven years to perfect the product and another thirteen to land the first large client: McDonald's!* **Miller and Le Breton-Miller, Managing for the Long Run** [44]

One of the key distinguishing features of family businesses already discussed under family capital is their longer-term horizon for investment and decision-making. The tenure of a CEO often makes a difference to the time horizon for investment and decision-making. There has been much discussion of the short tenure of listed company CEOs, with its implications for a short-term focus. However, according to a study in North America, the average tenure for family business CEOs is four times longer.[45]

Hermann Simon identified a number of smaller, highly successful but less well-known companies that he called 'Hidden Champions'. They are mainly medium-sized enterprises, many of which produce inconspicuous products, but many of these companies have between 70% and 90% of their respective world markets. In Germany alone there are more than 600 companies that qualify as 'Hidden Champions', generally known as the Mittelstand. The large majority (76.5%) of them are family-owned and operated, while 21.1% are owned by larger corporations but partly still managed by the founding family. Only 2.4% of these companies have gone public. A noteworthy leadership characteristic of the 'Hidden Champion' is continuity with senior leaders spending an average of 22 years at the helm.[46]

However, whilst continuity is helpful to long-term decision-making and investment, on the downside it can lead to complacency. There is also the danger that the wrong CEO is allowed to stay in post too long. This, coupled with a strong sense of freedom of decision-making, can lead to what one family business chairman described as "lazy stewardship" that leads to a failure to drive performance and keep a commercial edge in the business. Miller and Le Breton-Miller say: *"The greatest danger facing successful brand builders may be insularity. Firms become so concerned with preserving a brand, its image, and the cultural rituals that support it, that they lose track of the needs of the marketplace."* [47]

They describe how clothing manufacturer Levi Strauss, by their own admission, took their eye off the ball. Bob Haas, CEO of Levi Strauss & Co until 1999, said: *"There's nothing as blinding as success. It's easy to get inbred and forget that businesses go through cycles".*[48]

In the interest of business success the organisation's leadership should fall to the most capable person for the role. When the family talent pool lacks the appropriate person, or if there is a better external candidate available, successful family firms naturally reach out to and develop non-family talent.

Investing in the next generation

James Hughes says that family firms regularly fall prey to the cycle of wealth creation, stasis and dissipation. In his view, the reason is that they fail to develop fresh human and intellectual capital that can enable them to excel as stewards of their financial capital. Developing such capital is largely a qualitative process requiring a dedication to education and hard work. According to Hughes the 'seventh-generation thinking' approach requires great patience to be rewarded and success is measured not in quarters or years, but over generations.[49]

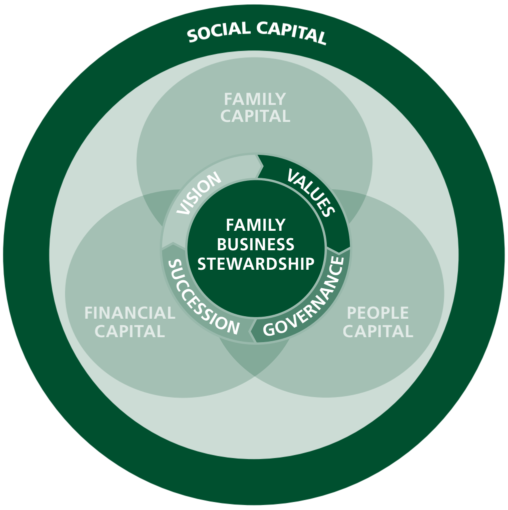
At Warburtons, the UK's leading bakers, next generation members are encouraged to acquire work experience in the family firm during their college years, and will be using external internships and courses during their holidays that will help with aspects of their career development and in increasing their understanding of family business dynamics.

Some of the best family businesses go to great lengths to invest in education which will perpetuate the purpose and values of the business into the next generation.

Over the last decade the Smith family, owners of Rington's Tea, have created an education programme to develop younger family members' talents, skills and experience. It focuses on the responsibilities that come with ownership but also aims to stimulate entrepreneurial drive and encourages the next generation to consider starting their own businesses. Family members can seek capital from Ringtons' investment business if they wish to set up their own company. The non-family chairman also has discussions each year with family members over the age of seventeen about the business to help the intergenerational transition process.

In a world of disruptive global competition cultures that have a bias in favour of entrepreneurship, innovation and renewal have an advantage. The best families foster entrepreneurship in the next generation. They encourage young family members to pursue opportunities in their lives inside or outside the family business. The French Mulliez family recognises that entrepreneurial creativity is important. It invites any family member with their own business idea to seek investment from the group and to guarantee up to 500,000 Euros funding to those who want to try their hand as entrepreneurs. In this way the company is involved in a constant hunt for the next generation of entrepreneurs.[50]

Tom Rogerson has a 'five step' process to help prepare the next generation including their stewardship of financial capital. The first step is determining the issues. Then there is a communication test, followed by a values test to establish the family's mission and vision. The timing for the final two steps – philanthropy and governance – is up to the children. When they are ready, Rogerson tackles step four, the family making philanthropic decisions together based on their values. And finally, he encourages them to think of the tough governance questions. *"My objective is to become an advocate for the children…you prepared the money for your family, but have you prepared your family for the money?"* [51]



SOCIAL CAPITAL AND STEWARDSHIP

"Ikea did not wish to let anyone down. We wanted to be part of [their] development (…) I detest capitalists who go to underdeveloped factories and buy up everything they have – ten thousand bicycles straight off – and then leave. Our way is to return, build up a relationship, contribute with our knowledge, draw up long term contracts, emphasise the importance of delivery on time, quality and the environment. (…) That is what we did in Poland, in Yugoslavia, in Hungary, in the Czech Republic, and that is what we are doing in Taiwan, Thailand, Vietnam and China." **Miller and Le Breton-Miller, Managing for the Long Run** [52]

In any business, success depends upon the health of a company's relationships with its suppliers, investors, employees, consumers and society. Those relationships, in turn, are developed by the actions of leaders who create the climate in which such relationships flourish. When a well-led business, whether or not it is a family business, creates strong and enduring relationships, it begins to build a network of contacts and goodwill which strengthens its own position and adds value to the communities in which it operates. The result, for the well-led family business, is a fourth capital, which is described here as social capital.

Social capital is the trust and reciprocity that can be developed and embedded in these relationships through finding and nurturing common ground, mutual understanding and mutual benefit. This creates a vital connection between the business and all those around it. In his influential study *Bowling Alone* the American social scientist Robert Putnam explains that social capital has both an individual and a collective aspect. It helps the individual to be well-networked. But it also helps society. *"A society characterised by generalised reciprocity is more efficient than a distrustful society."* [53]

Being part of a network built on such characteristics creates opportunities for both individuals and organisations to benefit. This is enlightened self-interest coming into play. Putnam points out that in the leading study comparing Silicon Valley with its East Coast equivalent, the Route 128 Corridor, it was found that Route 128's "I'll succeed on my own" philosophy among firms was largely responsible for its poor performance relative to the more open and networked approach favoured in Silicon Valley.[54] Indeed when trust increases transaction costs go down and the speed of the transaction goes up. Following on from earlier work by the economist Oliver Williamson, Stephen MR Covey refers to this as the 'Speed of Trust'.[55] Developing social capital can open up new opportunities for benefit where a business may be introduced via a trusted network to a new supplier, a new customer or another party with whom the business would not otherwise have been linked.

While this is true for all businesses, family businesses have a unique opportunity to create enduring social capital based on long-lasting relationships fostered and strengthened across the generations of the family business. Miller and Le Breton-Miller suggest that family businesses enjoy four crucial advantages that help them build connections.[56] First they are preoccupied with behaving in a trustworthy way to preserve the family reputation. Second they tend to be stable. Third they will pass on their contacts down the generations. *"I dealt with your father"* is a sentence that can be commonly heard in family business relationships. And fourth, because they do not face the same disclosure requirements as listed companies they are better placed to keep information confidential.

Some research suggests that customer loyalty is greater towards family businesses than non-family businesses. In the UK, a 2010 YouGov survey, commissioned by the IFB, showed that the public recognises family firms provide better customer service than other types of business.[57] In an age where levels of trust in business generally have been declining, this is an important contribution by family business to social capital.

Bettys & Taylors

Building lasting relationships

Bettys & Taylors of Harrogate is a third generation family business with a constitution embodying a sustainable stakeholder model of purpose and governance. It recognises that the long-term survival and prosperity of the company depends on sustainable relationships embracing staff, customers, local and global supply chains, communities and the environment.

Locally, Bettys & Taylors supports the community in many different ways – including fundraising for local charities and supporting schools. Over the last 10 years, its Cookery School has given more than 3,600 schoolchildren the chance to enjoy a practical lesson in bread-making, with a further 2,000 children attending school holiday courses. Local schools, businesses and groups also support Bettys & Taylors Cone Exchange – a community recycling initiative, championed by 'Captain Rummage' who turns 'trash into treasure'. Globally, the family business is committed to building long-term relationships with tea and coffee suppliers, paying fair prices and working to improve social and environmental conditions on farms. The firm's Yorkshire Rainforest Project is enlisting the support of customers to protect an area of rainforest the size of Yorkshire.

The family business holds a Queen's Award for Enterprise for Sustainable Development.

Grosvenor

Community engagement

In 1999, Liverpool City Council approached a number of property companies to help deliver the city's vision for the 21st century, and selected Grosvenor to develop a 43-acre city centre site now called Liverpool ONE. The scheme is Europe's largest city centre redevelopment incorporating several community amenities including a 4.5-acre park, a bus station and a Quaker Meeting House.

The success of the project was dependent on the support of the Liverpool community, from the Council officers and elected councillors to members of the public. The impact of the redevelopment has resulted in greater numbers of people living in the heart of the city. The restaurants and bars bring local people and visitors to the area, and the landscaped park is the heart of the scheme helping to bring the whole city centre community to life.

During the construction phase Shop for Jobs, a two-year programme, helped to train local people and fill many of the 4,000 jobs created in an area of high unemployment.

Liverpool ONE is now owned by a group of investors, which include Grosvenor, two pension schemes, two other family investment vehicles and a number of banks. Early on a charitable foundation was established and the Liverpool Fund is now administered by the Merseyside Community Foundation whose new offices are also within the scheme. The fund supports local community groups and projects across the Merseyside area selected by a panel of local people.

Marshall of Cambridge

Adventurism and ethical values

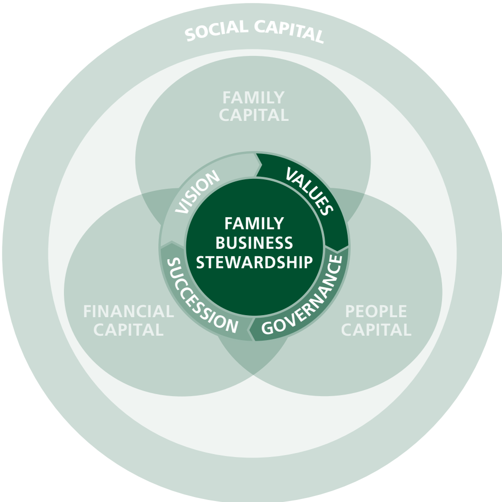
Marshall of Cambridge is a family business, founded 100 years ago by the grandfather of the current chairman. The founder's vision of adventurism and high ethical values is a compass guiding this Cambridge-based family business. Principles embodied in a code of business ethics start with integrity; doing what is right every day. It is about to enter the fourth generation of family ownership. The business stretches into a number of markets ranging from aircraft designs, military utility vehicles and mobile hospitals, to truck bodies, cars and refrigerated transport vehicles.

Marshall supports its communities in a large variety of ways, but with special focus on causes with educational objectives. Local schools are offered dedicated staff from Marshall to help with projects related to science, engineering and mathematics. The company has taken on young apprentices every year, without exception, since 1921. Furthermore, their values encourage reciprocal loyalty and staff often stay at the firm for life, where internal awards for 30 and even 35 years of service are commonplace.

In its own words the company holds itself to the same standards in corporate governance as a top FTSE 100 company, and encourages its staff to volunteer in their communities, with employees currently working as part-time firemen, teachers and nurses. Marshall of Cambridge has a proud and successful management team that cares about the community and the local region. They are proud not only of the family name “Marshall”, but also the area and history attached to the name “Cambridge”.

PART 2
ACHIEVING A RETURN ON THE ASSETS

Stewardship means the active and responsible management of entrusted resources. Those who own and lead family businesses have been entrusted with the family capital, people capital, financial capital and social capital that their predecessors have built up. Each asset needs active and responsible management. Without this each has the potential to turn into a liability.



THE ESSENCE OF GOOD STEWARDSHIP

In their quest to pass on the business to the next generation in better condition, those who own and lead family businesses come back again and again, during the different lifecycle stages of their business, to two key elements:

- effective leadership that creates and embeds an enduring vision and values to achieve alignment between family and business
- governance, succession and renewal across the generations.

They believe that these elements lie at the core of good stewardship, and underpin the robust business performance without which the family business has no hope of prospering into another generation.

Leadership, vision and values

Leadership

Part of leadership is the process by which a clear vision and values are defined and communicated, and high standards of performance established and upheld. In family businesses legacy plays an integral part in leadership – family business owners look at the past to help them build for the future. As the Duke of Westminster put it recently, when speaking about Grosvenor, his family business:

> *"It's about leading the family business in a way that takes the best from the past and applies it to the present in order to make the best of the future."*

Family business leadership reflects the role of leaders as stewards. Block argued that the term leadership should be replaced by stewardship. He defined this as *"the willingness to be accountable for some larger body than ourselves – an organisation, a community"*. It is to do with *"our choice for service over self-interest",* with being *"willing to be deeply accountable without choosing to control the world around us."* [58] This was echoed by Robert Greenleaf in the concept of the 'servant leader' – that great leaders are those who serve others – which he developed over many years.[59]

Leadership as stewardship was also identified as important in a study of leadership in family businesses sponsored by the IFB.[60] In the discussions for this project it was suggested that the leader's role *"means many things: orchestrator, steward, keeper of the vision, and symbol of the family identity. The family firm is not the possession of the leadership – even if they own the business – but it is merely in their trust."*

Vision

One of the key leadership roles is to set the family business' vision to create a clear sense of direction for all stakeholders.

- For the family the vision provides the raison d'être for the family enterprise.
- For the organisation it creates a sense of clarity and direction in terms of business goals and allows strategic decisions to flow naturally because the course has been set.
- For external stakeholders the vision helps them to capture the essence of what the organisation stands for and gives context for relationships that can be developed.

Family unity is more easily achieved when the owners have a common understanding and shared belief about the organisation's vision. Owners will commit more readily, whether it be financially or in other ways, when there is a strong degree of goal alignment. This also applies to the next generation. Their commitment will have to be built over time and they may end up shaping the vision themselves. When owners act in strong unison this is arguably the underlying factor that creates the family business stewardship advantage.

In the early stage of the family business the vision is usually in the eye of the founder. Over time the vision will be open to change and remodelling. In shaping the vision, Ward and Carlock suggested four questions that need to be considered:

- What family values support continued ownership and investment in the business?
- What is the business potential to create value for the family and stakeholders?
- What do the family owners expect from the business?
- How does the family add value to the business?[61]

Once there is a clear vision it becomes easier for the organisation to set a strategy. Owners will be better informed about the direction in which the company is heading and will be able to see how their family values have helped to shape the mission. The owners should also be able to see how entrepreneurship plays a role in achieving the organisation's mission and how they can contribute individually to risk-taking initiatives that support the family's goals.

Values

According to Randel Carlock, stewardship – leaving your business in a better condition than you inherited it – is an overriding value in high-performing family businesses and is key to the growth of the family enterprise and ownership continuity.

> *"Family values are a powerful competitive advantage for family businesses simply because, if I'm competing against a widely-traded company with a million shareholders, it potentially has hundreds of thousands of different goals and expectations. If I'm with my family and we've taken the time to talk about what values are important to us and how those values shape our vision, then we've accomplished 50 per cent of the strategic planning process already. But on top of that, we have focus. We have a clear idea and we are all going to the same place. So values and vision are really a distinctive competence of family businesses if it's done right."* [62]

The IFB recommends that business families should write down their values.[63] Statements of values are most useful when they are not couched in "fluffy" language but are described more as a set of behaviours and principles against which peoples actions can be judged. In the early stage of the business the values are often dominated by the personality of the founder. Defining the values provides a good stepping stone to formulating the family business vision. Culture and values should be clearly stated to improve family and business governance.

A.F. Blakemore

Defining values to attain excellence

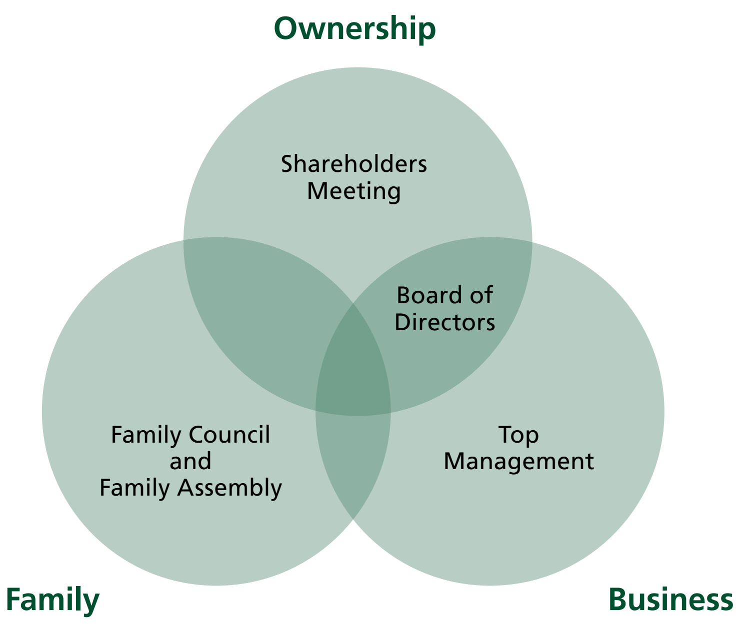
The Blakemore Way grew out of a fear that this family business, which has grown into a £1 billion wholesale and retail food business, risked losing its values which the owners and the board believed were critical to their ongoing success. A process was undertaken involving the whole organisation to capture the essence of what the company and its 5000 employees stood for. This helped to define the purpose of the organisation which is to grow a family business in ways that are profitable and sustainable to the benefit of their staff, customers and community. With the vision and values clearly defined and put onto paper the organisation now benchmarks itself against its stated values, through surveys and consultation groups. A critical part of putting the values into practice is the interview process that assesses whether potential hires share the company's core values. Staff are encouraged to get involved in local community groups and related activities. The Blakemore Foundation is an integral part of the company's efforts to strengthen social capital through a variety of activities including a matched fund donations programme aimed at supporting A.F. Blakemore employees.

Governance, succession and renewal across generations

Governance

Governance is the discipline which holds leaders to account, reviews the health of all key relationships; upholds the highest standards of performance, behaviour and risk management. It also ensures adequate clarity and separation of roles between owners and directors, and focuses attention on the different issues that emerge as one generation gives way to the next, including the development of the leaders of tomorrow. Above all an effective governance system creates clarity in the relationships between a business, its board and its shareholders.

Figure 4: Governance structures and the Three Circle Model[64]



In family firms this clarity is even more important. This is because of the risks associated with what family business leaders and owners describe as the three-cornered hat – the failure of family members in a position of high responsibility to separate the roles of owner, family member and director or manager. The lack of role clarity can spark conflict and family divisions.[65] What is vital for long-term success is to ensure that the family's role in the business is explicitly defined. This applies to family members who are not in the business, family members who work in the business and indeed non-family members who work in the business. Clear accountability ensures that judgements are not muddied by whether the decision maker is or is not a family member.

Good governance in a family business is about managing and connecting two key components: family governance and business governance. Effective stewardship of the family relies on governance processes that secure effective communication between different family members. A helpful starting point is for the family to write down its values and the business to do the same in a way that reflects the family's values. If the family, the owners and leaders of the business are clear about vision and values, the conditions then exist for effective governance, both of the family and the business, and for the alignment between them.

It is also important to define how the owners are engaged with the business and how the next generation will be prepared for its ownership role. The governance needs to promote clarity of purpose and fairness between different owners. In the best examples active listening and information sharing are encouraged so as to ensure that policies are applied consistently to all family members.[66]

Having dealt with due process for the interactions of the family, the system should then deal with the governance of the business, ensuring that the directors of the business are exercising effective stewardship and giving the owners a proper account of this stewardship. According to a recent study by McKinsey, large and durable family businesses tend to have strong governance.[67] Members of these families participate actively in the work of company boards, where they monitor performance diligently and draw on deep industry knowledge gained through a long history. Linked to this is a greater propensity for family firms to rely more heavily on "inside" directors (family owners or senior executives) compared with non-family companies where the typically three out of four board members are independent non-executive directors. UK style unitary boards have many characteristics that sit well with progressive family corporate governance practices. Some of the most important transformations in family businesses are prompted by the contribution of effective and independent non-executive directors.

For example, the Scott family, who were the owners of the Provincial Insurance Company, took a bold decision to turn their backs on ninety years in the insurance business and build a business which concentrated on investment rather than underwriting. The new business, Sand Aire, is in wealth management, and now developing into new markets beyond the UK. The decision was taken because the board believed insurance was becoming more volatile, and that, as the business had moved through the generations the risk profile had changed. It was not easy for a family business to decide to withdraw from a business that has defined it for generations. Alex Scott, now Chairman of Sand Aire, comments that the family owners were only able to contemplate such a radical departure as a result of the challenge made by truly independent, non-family non-executive directors.

Among the most important criteria for any effective system of corporate governance is whether it has helped the business develop strategic clarity, strong leadership, now and for the future, and a healthy culture in the organisation. Even with clarity of roles and accountability, "charismatic" authority may stay vested in a long-standing member of the family long after retiring from any active involvement in the business.[68] It is vital to recognise and manage the effect of such residual influence, and to ensure that it does not stop the business from renewing itself across the generations.

William Jackson and Son Ltd

Addressing the problem of the three-cornered hat

William Jackson and Son Ltd is a group of food businesses headed by the Oughtred family. The strength of its family governance lies in how the family has reconciled continuity with necessary change, and by extension engaged future generations with the business. After experiencing family tensions it was realised there was a need to communicate formally, both with the family and the business. In doing so the family asked for the help of external advisors.

What has evolved over the last fifteen years is separate business and family structures with the family governance elements comprising:

- a regularly revisited constitution
- a Family Steering Group
- regular family retreats and
- a Development Advisory Group engaging with the next generation and identifying family talent.

The Development Advisory Group is a platform created to engage with the inheritors and to help them with their personal development. This clear governance structure helps to bring together different generations and enables younger generations to understand the mission of their family business, which the present Chairman, states as:

> *"What William Jackson strives in all we do is to be a business to be proud of. This helps guide us because if we aren't proud of our products or the way we do things, then we are doing something wrong. And if we aren't proud then neither will our customers and our communities be – and we need their support and confidence today in order to make progress tomorrow."*

Succession and renewal

The issues surrounding succession are now more challenging than ever. In a complex and rapidly changing business environment it is vital that considerations of competence take precedence.

Poorly managed generational transitions will often result in instability for the business and lead to corporate decline and failure. This issue is regarded by many as the 'Achilles heel' of the family business. Difficulties often arise out of a lack of appropriate planning and an absence of good governance processes.

The family needs to avoid preferential treatment of family members while ensuring that talent in the family is retained and succession managed well – a difficult balancing act. Nepotism can lead to the downfall of an otherwise successful organisation. The board of Seagram, a listed family company, appointed third generation family scion Edgar Bronfman Jr. to lead the business instead of reaching out to a non-family CEO. In this particular case, poor leadership led to a destruction of shareholder value for family and outside shareholders alike. Emotions often run high when decisions about the future ownership and leadership of the organisation are being considered. These can be times when decision-making is clouded by emotion both among those approaching the twilight of their careers as well as the rising generation who are moving up the ladder. Good governance practices can help to ensure that appointments are merit based. One way in which family businesses can create advantage is through promoting an equal opportunity policy for male and female family members, ensuring access to as wide a talent pool as possible. Barbour, Specsavers and many other family businesses with strong women leaders are highly respected in their chosen fields.

Whatever the level of competence and expertise, heirs to family businesses bear not only the name but the weight of expectations that accompany it and may feel pressured into joining the business. At the other end of their careers the danger is that senior family members will cling to their appointments longer than will be beneficial to the business. Good succession planning is therefore not only planning who in the next generation should enter and when but also when the seniors should exit.

Primula

Renewal across generations

The stewardship of resources has been vital to the continued success of this fourth generation Finnish bakery established in 1908. Baking is a particularly competitive business in Finland. Risto Varynen, 35, and his cousin Juha Valkamo, 45, wanted to offer something different to their customers. They decided to sell off their most profitable branch of the business and restart the company as a carbon neutral operation. This required the 101-year-old family company to change its business model, restructure corporate governance and address its succession plan, which had been in place since the business began.

The process was started by their decision to professionalise the company board, a difficult move in a family business that has afforded its sons a directorial role since its inception. Before the reorganisation, the board was made up completely of third-generation family members and Juha, who had held the CEO role for nine years. Risto and Juha are an example of the positive impact the next generation can have if they are afforded responsibility and control at a relatively young age. Risto Varynen, Managing Director, Sifter Group, observes:

> *"I think it is important for members of the next generation to get involved as early as possible because we are living in an era where things change pretty quickly… We owe a huge credit to the third generation as they were brave enough to leave the board and actually give us the power. Not too many family businesses that I know are ready to do that for the next generation."* [69]

Wates Group

Managing the process of succession

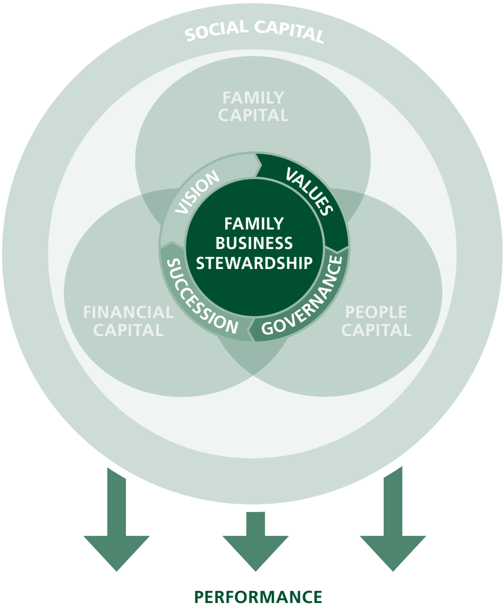
At UK construction group Wates the owners instituted a robust process to prepare themselves for the transition from generation three to four taking nothing for granted. Their holistic approach was a multi-year process that included examining the family's strategic vision and their values as well as the commitment of all family members as owners of the business. Provision was made for those family members who did not want to participate in the future of the company. In people terms they examined the strengths (and weaknesses) of individual family members and where their skills could match the needs of the business ownership, as well as the education needs of both the family and of the next generation members. Their governance architecture was also re-examined including how the family engages with the business and vice versa. Last but not least they reviewed the leadership requirements for both the family and the business exploring the profile for the roles and then identifying and appointing people to fill these vital roles. Throughout the process the family sought out information and best practice from a variety of sources including reliable networks as well as their trusted advisers.

The lifecycle stages of the family business

Another layer of complexity is added through the link between the fortunes of the family and the cycle of family life. The vulnerability of the family business to the forces of birth, maturity, decline and death adds to the difficulty of sustaining long-term growth, development and stewardship. The lifecycle stage of the family business has implications for each of the forms of capital as summarised in Figure 5. Governance needs to evolve according to the stage of development and complexity of the organisation.

Figure 5: Lifecycle stages and the Four Types of Capital

	Family Capital	People Capital	Financial Capital	Social Capital
Owner/ Manager	Founder instils strong passion and values. Challenging to know when to delegate and to eventually let go.	Founder sets example of strong work ethic; employees display loyalty in return. Risk of developing too strong a patriarchal culture. Ensuring family members that join the firm bring useful skills.	Income sacrifice to get the business started and reach critical mass. 100% reinvestment often the norm. Liquidity required to support retirement of the senior generation.	Building initial key relationships, such as with suppliers. Extending relations into the community.
Sibling Partnership	Values passed on to the second generation through conversations and parents example. Importance of sustaining healthy family climate. Sibling rivalry a key risk.	Embedding people culture with clear accountability and shared responsibility. Employee turnover may increase as culture evolves.	Continued policy of reinvestment to support business growth. Shareholder dividend pressures emerging. Developing responsible ownership and ability to assume wealth.	Successors capitalise on previously built relationships. Giving back becomes further embedded, enhancing the company’s reputation.
Cousin Consortium	Growing dispersion of equity. Owner’s needs can diverge. Emotional attachment important in achieving family engagement.	Further strengthening the culture to empower and motivate employees. Unity of purpose retained when owners have shared vision.	Increasing liquidity calls from shareholders not working in company. Continuing requirement for reinvestment.	Further evolving and strengthening external relationships. Opportunities for the family to get involved in community relationships and philanthropy.



STEWARDSHIP AND PERFORMANCE

The diversity of family businesses makes it hard to generalise about performance. Different families will have their own definition of what successful performance looks like and the term family business covers a variety of different types of company and stages of development.

Whilst there is no clear evidence that family firms in general perform better or worse than non-family firms, for a study of stewardship and family business, it is important to look at the performance of those which have survived to at least the second or third generation, exploring the characteristics of some of the most successful among them, and to ask what others may learn from their approach to stewardship.

There is already some evidence that enduring family businesses show strong stewardship characteristics such as stable leadership, clear purpose, enduring values, a sense of history and a stronger commitment to long-lasting employee and stakeholder relationships. Seasoned observers of family business Ward and Carlock believe that US-quoted family firms in the S&P500 outperform their peers because of four key values:

- Greater stability and tenure of leadership
- Staying in touch with their history and legacy
- Values that are more durable, powerful and of meaning to the organisation
- More positive belief in human nature.[70]

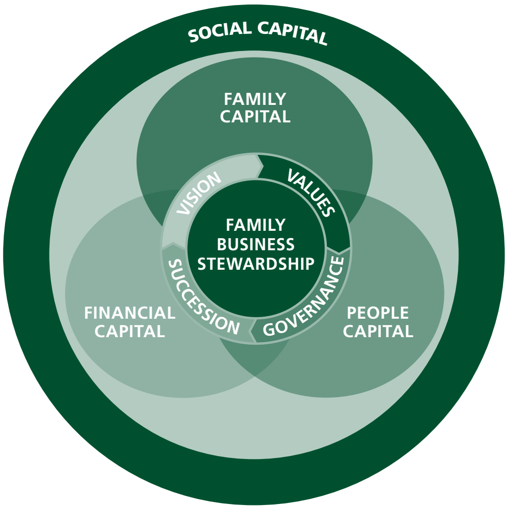
Miller and Le Breton-Miller have chosen to focus on large family-controlled businesses which outperformed non-family peers on many performance dimensions, and also out survived them. As described elsewhere in this report they have concluded that family businesses invest more in human resources and training, in social benefits for their people and in modernising plant and equipment. They enjoy better cash positions, lower debt to equity ratios and more stable earnings.[71] They have in common four driving priorities:

- Taking command – insisting on the freedom to be decisive, speedy and innovative in running and renewing the firm
- Cherishing continuity of the business and its contribution to the world pursuing a consistent mission and the core competencies needed to achieve it
- Building a cohesive community of employees and creating a 'clan culture'
- Striving to be good neighbours and create enduring win-win relationships with customers, suppliers, partners and the community.

The McKinsey study on the five attributes of enduring family businesses draws attention to research comparing family businesses with peer companies.[72] The study found that family firms have lower financial leverage, a finding also evidenced in an IFB-commissioned survey of UK family firms that confirmed this pattern of balance sheet conservatism.[73]

PART 3

FAMILY BUSINESS STEWARDSHIP IN PRACTICE



ACHIEVING STEWARDSHIP IN A FAMILY BUSINESS

There are many arguments about the relative merits of different forms of ownership. Some business leaders swear by the disciplines of the private equity model. Others assert the superiority of mutual ownership or employee ownership. Family businesses, like any other form of ownership, can be well or badly led and governed. Ownership varies; businesses vary. What is constant across ownership types is the essence of good ownership behaviours, and the leadership and governance that good owners need to achieve their objectives. If a family business can better understand the common principles that characterise good stewardship in any sector, then it is well placed to compete with all-comers, and to capitalise on the particular advantages accumulated.

The pursuit of enduring business success is rich in dilemmas. How does a company properly balance its focus on today's performance with the needs of tomorrow? How does it maintain sufficient focus on its internal processes and efficiency, while simultaneously staying alert to the new risks and opportunities offered by changes in technology, generational attitudes, environmental risks, and globalisation? How do its owners or managers decide which parts of their inheritance to dispense with and which to hold on to? When to delegate and when to intervene? Companies want to become bigger but as they grow, they risk losing their entrepreneurial spirit: how do they preserve this?

All these dilemmas are evident in the experience of family businesses as they strive to make the most of their particular inheritance. What comes through from the best of these family businesses in terms of good stewardship practice is:

- They keep their independence of thought. They are clear about their purpose, their direction, their vision, their values, their culture and what makes them unique
- They have the prudence that goes with knowing that a founder or previous generations fought to accumulate what they have inherited. They are acutely aware of the need to maintain the focus on excellent performance that is essential to maintaining their freedom
- They work hard to separate the roles of owner, director and manager and to issue clear mandates and establish frameworks for communication and accountability between them all
- They balance emotional commitment with professional detachment, sometimes walking away from the products and services that might have been felt to define them
- They deliberately expose themselves to non-family influences to reinforce this detachment and to help challenge their strategic thinking
- Their passion for their business is infectious and spreads to their (non-family) workforce
- They look outwards, are proactive and connect naturally with the communities in which they operate with a strong conviction that the more they put in the more they get out
- They invest far into the future with faith and confidence in their own longevity
- They start early on the task of succession planning. They are committed to education and to prepare the next generation for ownership responsibility.

ASSESSING STEWARDSHIP IN A FAMILY BUSINESS

So what does this all mean for family businesses in practice? How can they ensure that their capacity to act as stewards is enhanced? Drawing on the stewardship experience across all forms of company, Tomorrow's Company has developed four principles which can help boards, investors and outside observers judge the effectiveness of stewardship in a particular company. The first – **Setting the course** – deals with purpose, roles and relationships. Good stewards set a course so that all those involved with the company know its purpose and their part in achieving this end. In future this will mean that boards work out carefully what they believe their mandate to be. The second – **Driving performance** – emphasises the need for 'uncomfortable conversations' which continually stimulate improved performance and capability. Without good stewardship, companies can become too lazy and slow to change and fall behind their competitors. The third – originally called "Part of the landscape" – is about the way the company anticipates, influences and deals with changes in its external environment. This principle has been adapted as a result of our work on this programme from "Part of the landscape" to **Sensing and shaping the landscape** to reflect the concern of family business owners who felt that the principle needed to be expressed in a more proactive way. The fourth – **Planting for the future** – reflects the need for consistency between short-term actions and long-term success.

The Tomorrow's Company Stewardship Principles

1

Setting the course: attention to clarity of purpose, roles and relationships

Stewardship exemplars insist on clarifying purpose and respective roles and relationships. This includes being transparent about what the organisation is for, what it believes, and to whom it is accountable. The focus is on the arrangements for accountability, and how the different parties which are needed to make stewardship effective will work together and whether they are investing sufficient resources to achieve this. This principle reflects the need to insist on clarity, transparency and consistency in how the company is run.

This means being involved, thorough, honest and uncompromising in upholding the importance of stewardship – defining and communicating the purpose and philosophy of the company, making a clear, public statement setting out the relationships between the owners, the company and its other stakeholders, and the roles and responsibilities of each party. And it means being both open about and faithful to these commitments, and being accountable for the long-term as well as the short-term health of the company.

2

Driving performance: attention to performance and improvement

Unless an organisation gets the basics right, it will not survive. Stewards have an eye on the current and future operational performance, looking at the organisation's approach to all its relationships and resources and asking whether they are making the most of the opportunities available. They are making sure the organisation is as robust and resilient as it can be and that it is in a position to respond quickly to the unexpected. Good stewards are always looking for improvement – better products and services, better relationships, better suited to the environment. No matter how good things are there is a sense of confident restlessness.

Good stewards engage in uncomfortable conversations that challenge the status quo and the assumptions that underpin the business model. They insist on evidence. They encourage constructive challenges to current practices and adapt readily when required. Outstanding performance is a cause for celebration, but also for challenge, so that the underlying levels of risk are understood and managed.

3 Sensing and shaping the landscape: attention to the wider world

Good stewards look outwards. They act on the basis that they are a part of a system that can be influenced. They recognise that the success of the company is bound up with the health of its surroundings. Good stewards engage with key stakeholders, picking up external perspectives. Through this engagement they are aware early of new threats and opportunities that are emerging from the external environment. They handle challenges effectively, acknowledging that others have positive contributions and testing all perspectives for their impact on the future of the company. They see the connections between the prosperity of a company and its external context – in terms of training, talent, social stability, environment and all those other factors that affect its capacity to operate, and get involved in those issues. They safeguard the company by seeing it as part of something bigger and are clear of its place in the external environment.

This means achieving the company's objectives through paying attention to more than the narrow interests of shareholders, employees, or any other stakeholder. It means seeing the company as something more than the tangible benefits employees or shareholders take from it – and believing that the more you put into a company, the more you and all its stakeholders will get out. Some people would describe this principle as enlightened self-interest; others express it as 'we are all in this together'. Others have seen the company as a force for good. Whatever the label, this principle is not about the sacrifice of corporate interests to those of others: it is about the intelligent pursuit of self-interest through mutual advantage, and the fresh opportunities and improved risk management that come from a heightened peripheral vision.

4 Planting for the future: coherence over time

While maintaining a relentless focus on the organisation's current health, good stewards balance this with a sense of its potential and future health. Short-term survival is a part of stewardship, yet there is a consistency and coherence between the actions taken in the short-term and the long-term objectives.

For boards, this can sometimes mean being robust in resisting the pressure from some owners for premature distribution of profits. For owners, this can sometimes mean supporting the directors' desire to invest in areas which may not immediately be linked to short-term improvements in profitability – like talent or leadership development, or health and safety. It may sometimes mean stimulating the company to grow organically or through acquisition, but it could also mean restraining the 'empire building' tendencies of acquisitive CEOs whose desire to run a bigger company may not be in the interests of shareholders.

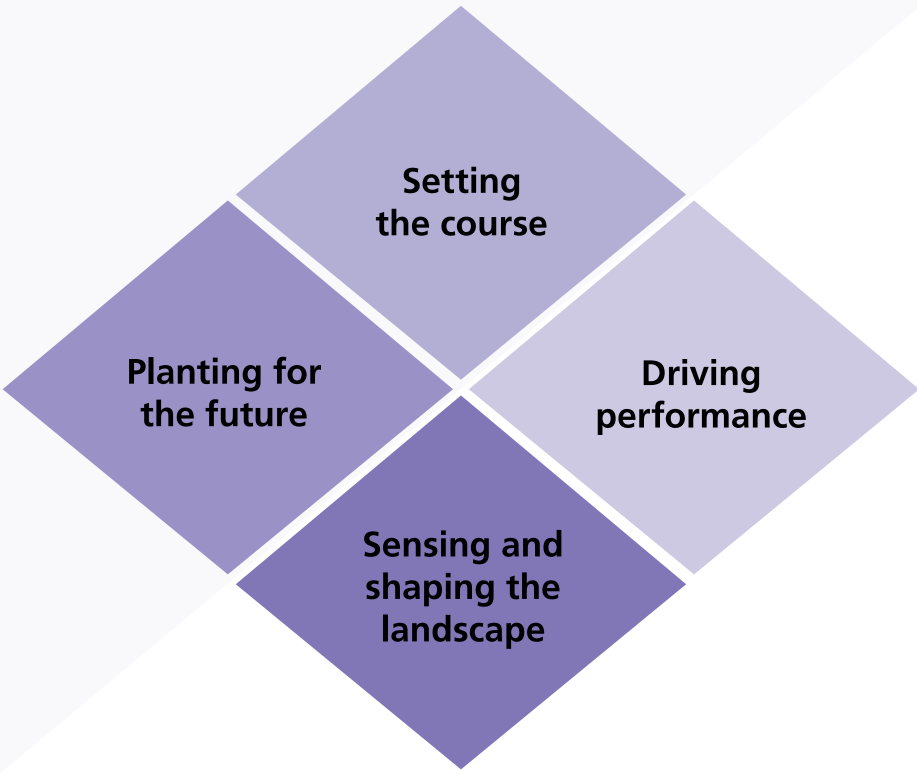
This is not about saying that the long-term is more important than the short-term. Companies and their boards need to balance both. This principle is about recognising that short-term and long-term success are both important, and ensuring an adequate focus on, and investment in, talent and infrastructure for the future without unduly neglecting the present. Stewards are aware that a series of short-term decisions can undermine a long-term objective and act to maintain the consistency between the short and long-term.

AN AGENDA FOR STEWARDSHIP IN A FAMILY BUSINESS

"I see my role as being a steward, to leave the business in a stronger position than when I came to work here for the first time...That's a big part of why I get up in the morning; a restlessness to be better, to improve the business, to leave a legacy for the family. There is no doubt that it's very important that my immediate family feel proud of what we have and what we have achieved." **Jonathan Warburton, Chairman, Warburtons** [74]

This is an agenda to help family businesses consider the extent to which they act as stewards of their businesses and identify areas for change. The questions are organised under each of the four principles. They are not meant to be exhaustive and it is hoped that each business can build on, and refine these questions as they explore them through discussion.

Figure 6: Tomorrow's Company Stewardship Principles



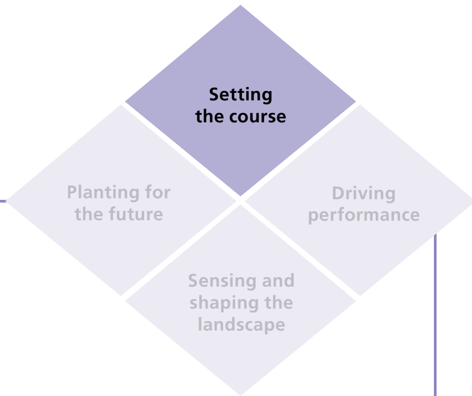
Principle one:
Setting the course: attention to clarity of purpose, roles and relationships

Clarity of purpose and direction

- How has the purpose of our family business changed throughout the generations?
- What are our goals and aspirations as a family business today? How are these translated into our vision?
- What family values and business values support continued ownership and investment in the business? How are these created, elicited and reviewed?

Aligning the family and the business

- How does the family add value to the business and vice versa?
- What governance processes and structures are appropriate for our situation?
- How do we separate family decision-making from business decision-making? Are there clear rules of engagement?
- What are our processes for dealing with grievances and conflicts?
- How can we make effective use of our board of directors including our NEDs?
- What are the channels of communication between the family, the board and the company?
- What is our process for dealing with conflicts of interest?



1 **Add your own questions here**

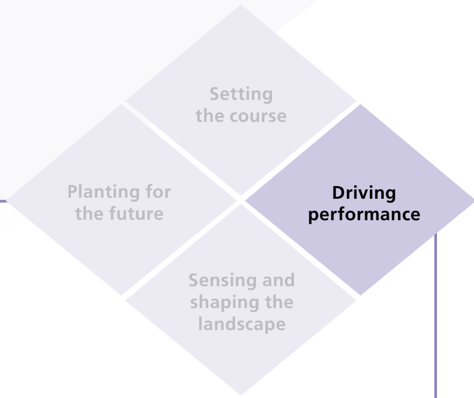
Principle two:
Driving performance: attention to performance and improvement

Defining business success

- Are we making the most of our unique inheritance as a family business?
- What does success for the business look like in both financial and non-financial terms?
- How do we ensure that family emotion doesn’t bias judgements?

Measuring and improving performance

- How do we measure success?
- How do we monitor performance and quality?
- What is the mandate from the family and board to the CEO and the management team?
- Over what timescale do we expect the board and management to deliver results?
- How do we ensure we retain and develop the skills of our people and suppliers?
- What are we doing to ensure that our people feel trusted, highly valued and proud to work for us?
- How do we ensure that our values inform our behaviour and underpin performance?
- How do we foster a culture that drives performance and innovation?



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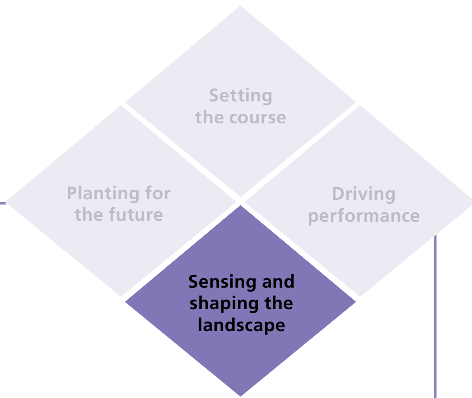
Principle three:
Sensing and shaping the landscape: attention to the wider world

Sensing the landscape

- How do we scan the external environment?
- How could our ability to compete be severely damaged in the short or medium-term?
- What are the new risks and opportunities that we need to keep abreast of (e.g. globalisation, technology, changing trade patterns and new social attitudes)?
- What do our stakeholders think and feel about the business?
- How do the board and shareholders keep abreast of the customers' experience?
- Against whom do we benchmark ourselves externally? And what do we learn from this process?

Shaping the landscape

- How do we manage the new opportunities and leverage the associated risks?
- What are the opportunities for our business to provide ever better goods and services in ways that are profitable, ethical and respects the environment, and the communities in which it operates?
- What are we doing to help shape the regulatory and policy environment – to support family businesses and our industry?



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Add your own questions here

Principle four:

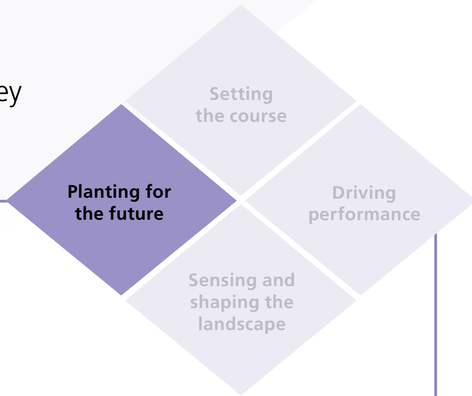
Planting for the future: coherence over time

Time horizon

- What is our vision of a successful business one generation from now?
- How can we draw on our unique strengths? And what are our weaknesses and how can we mitigate these?
- How can we future proof our company by leveraging our financial freedom and control of our organisation?
- How do we balance shareholder liquidity aspirations with the business' needs for reinvestment?

Family and business succession

- What is our plan for ownership and leadership succession?
- How do we recruit, develop, retain and motivate non-family talent?
- How do we ensure that we communicate effectively with the next generation and help them understand the challenges and opportunities that come with being part of a family business?
- How do we ensure that the next generation of the family are engaged, educated and equipped to become responsible owners and support driving the business forward?
- How should our governance be structured so it can survive (and out-live) current generations?
- How are the senior generation preparing themselves for when they will no longer be actively involved in the family business?



4

Add your own questions here

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Grant Gordon, IFB Director General
Mark Goyder, Founder Director, Tomorrow's Company

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Traditional authority – Traditional authority is readily accepted and unquestioned by individuals since it emanates from deeply set customs and tradition. Traditional authority is found in tribes and monarchies.
Charismatic authority – Charismatic authority is gained by those individuals who have gained the respect and trust of their followers. This type of authority is exercised by a charismatic leader in small and large groups alike.
Rational-legal authority – Rational-legal authority stems from the setup of an organisation and the position held by the person in authority. Rational-legal authority is exercised within the stipulated rules and procedures of an organisation.
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Methodology

This report is aimed at all those who work in or are connected with family businesses.

The research has involved:

- desk-top based research including a literature review
- two focus groups with six family business owners
- reviews by family business experts
- individual conversations with family business owners.

In total we have consulted 25 individuals across 24 family businesses.

ABOUT US

About the IFB Research Foundation

The IFB Research Foundation is dedicated to promoting a deeper understanding of family business which makes a significant contribution to the economy and society. The knowledge fostered through the Foundation helps ensure the continued success and sustainability of the UK family business sector. The Foundation is a registered charity (no. 1134085) and its activities are divided into two principal areas:

Research – developing an enhanced understanding of best practice and seeking fresh insights into the sector for the benefit all stakeholders including owners, policy makers and the general public.

Dissemination – enabling the sharing of best practice through publications and other means.

The Foundation works closely with its sister organisation the Institute for Family Business which is an independent, not-for-profit, politically neutral, membership association supporting the UK family-owned business sector through Education (IFB Forum) and Representation. The IFB is a member of FBN International, the global network for family businesses.

The IFB positioning is politically neutral and the organisation is uniquely equipped to contribute constructively and positively to policy debates on family business issues.

www.ifb.org.uk/research-foundation

About Tomorrow's Company

Tomorrow's Company is the agenda setting 'think and do' tank which looks at the role of business and how to achieve enduring business success. We focus on strong relationships, clear purpose and values as the foundation of effective leadership and governance.

In our programmes we challenge business leaders around the world to work in dialogue with others to tackle the toughest issues. We promote systemic solutions, working across boundaries between business, investors, government and society.

We believe that business can and must be a 'force for good'. This in turn requires a strengthening of stewardship by shareholders in partnership with boards of companies.

We argue that the Age of Sustainability has begun, and that in the future success and value creation will come from recognising the triple context – the links between the economic, social and environmental sub-systems on which we all depend, and the opportunities this brings.

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