



IFB Research
Foundation

FAMILY BUSINESS CHALLENGES

No. 3

DEVELOPING STEWARDSHIP

Practical guidance for family business owners and managers

SECOND EDITION

Family Business Challenges

No.3 Developing Stewardship

Section 1. INTRODUCTION

“Stewardship” - an evolving concept. Historically, stewardship reflected the need for stewards (owners or managers) to account for their actions to resource-providers, but in a family firm the concept takes on a much broader meaning. Families in business often view themselves as stewards of the family wealth: in particular, they have a long-term orientation and the business is managed with future generations in mind.

Family business stewardship is about building, nurturing and passing down an enhanced legacy to future generations. It requires clarity of vision and purpose, and a family-wide commitment to the idea that mutual family interests outweigh the ownership interests of individual family members (see Exhibit 1). Stewardship also embraces broader concepts like trustworthiness, honesty, a sense of responsibility and community.

Exhibit 1: The essence of stewardship

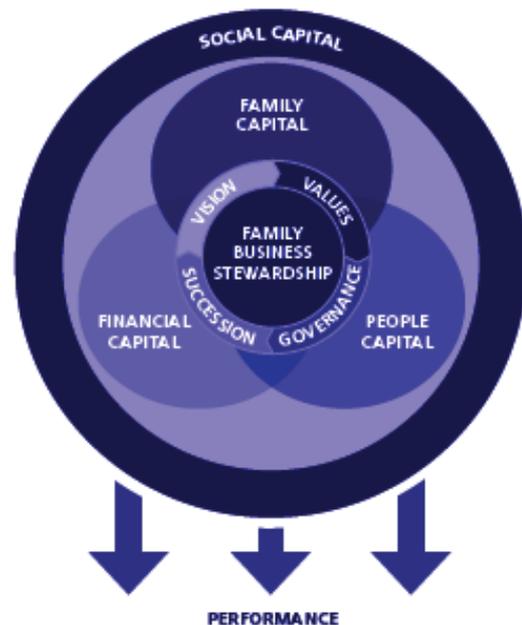


Source: *Family Business Stewardship* (2011), IFB Research Foundation (in partnership with Tomorrow's Company).

Stewardship under stress. While a stewardship culture may be supported as reasonable and achievable in prosperous times, it can become a source of tension if there's a profits downturn, or if seniors have not made adequate retirement provision: pressures build to draw down money from the business rather than to reinvest for the long term.

Reinforcing a stewardship mindset means maintaining family agreement around the idea that the business is a shared asset to be developed for the long-term benefit of the family. It also means making the most of four distinctive types of capital – family, people, financial and social (see Exhibit 2).

Exhibit 2: Stewardship and the four types of capital



• **Family capital** – found at the heart of family enterprises; an attachment to the business going beyond a mere financial relationship.

- **People capital** – the strength of non-family employee knowledge, skills, loyalty and commitment.
- **Financial capital** – prudence and a sense of financial responsibility to future generations.
- **Social capital** – the trust and reciprocity derived from building enduring links with suppliers, investors, employees, consumers, the local community and society.

Source: Family Business Stewardship (2011), IFB Research Foundation (in partnership with Tomorrow's Company).

Opportunities to enhance competitiveness. A “stewardship culture” in family firms translates into extra focus on non-financial and long-term objectives. Owners’ and managers’ shared goals influence motivation and organisational control mechanisms, accentuate trust (see Exhibit 3) and place more emphasis on empowerment, less on strict monitoring. Stewards are generally loyal to their business and they strive to make it succeed, and this stewardship orientation can boost competitiveness through the development of trust, reputation, customer relationships and employee engagement.

Exhibit 3: Trust - a key component of stewardship

“If we had to boil down to a single concept what it is that underlies the competitive advantages and distinctiveness of family businesses, the word would have to be ‘trust’. Trust is the source of long-term perspectives, the ‘family effect’, loyalty, commitment, stewardship and much more. ... Behavioral scientists identify five components of trust:

- **Integrity** – having a reputation for honesty and truthfulness.
- **Competence** – possessing technical knowledge and interpersonal skill required to get the job done.
- **Consistency** – acting with reliability, predictability, good judgment.
- **Loyalty** – willingness to protect, support, encourage.
- **Openness** – freely sharing ideas and information, freely allowing others access to one’s thoughts.”

Source: Family Business Advisor Newsletter (2017), Family Business Consulting Group (available at: www.thefbcg.com/trust-the-basis-of-family-business-advantage/).

Sustaining a stewardship perspective is a predictable challenge for family businesses, so plan early. Make formal and informal commitments to four principles:

- Setting the course – attention to independence and clarity of purpose.
- Driving performance – attention to performance, continuous improvement and governance.
- Being part of the landscape – attention to the wider world.
- Planning for the future – coherence between the short and long run.

Practical steps. Consider drawing up a “Stewardship Declaration” as part of your family constitution or mission statement, and support this with detailed rules about:

- managing family and business assets
- dividend distributions
- personal financial planning
- succession planning
- the mutual obligations of family members.

The best family businesses manage the present while investing in the future. They put resources into areas not immediately linked to short-term profitability, like training, research, infrastructure, marketing and next generation leadership development (see Exhibit 4). Successful family firms are managed by “enterprising stewards” who think about:

- capital investment as well as revenue growth
- succession planning as well as performance management
- family business reputation as well as results.

Exhibit 4: 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 life cycle stages of their business to two key elements:

- Leadership that creates and embeds an enduring vision and values to achieve alignment between family and business.
- Governance, succession and renewal across the generations.”

Source: Family Business Stewardship (2011), IFB Research Foundation (in partnership with Tomorrow's Company).

Section 2. ACTIONS TO CONSIDER

- Have family members developed an agreed view on the importance we attach to passing on our business to the next generation in a healthier condition than when we inherited it?
- Do our family and business values support long-term ownership and investment in the business?
- In both financial and non-financial terms, how do we define, measure and benchmark business success?
- How do we balance shareholder liquidity versus business investment needs?
- Are we taking sufficient steps to communicate a stewardship philosophy to the next generation?
- What is our vision of a successful business in one or two generation's time?

Add Your Questions

CASE STUDY: Bettys & Taylors Group

BETTYS & TAYLORS GROUP

A GREAT YORKSHIRE FAMILY BUSINESS

Stewardship and sustainability underpin the business model at Bettys & Taylors, the independent Yorkshire family business owned by descendants of the Swiss confectioner, Frederick Belmont, who set up the first Bettys Café Tea Rooms in Harrogate in 1919. The business has been handed down through the family and, in the early 1960s, they bought Taylors, a family-run tea and coffee merchant.

Today, Bettys is a famous institution, with six Tea Rooms, a craft Bakery and a Cookery School, all located in Yorkshire, while Taylors of Harrogate is one of the UK's leading tea and coffee specialists, and blenders of Yorkshire Tea. The group shareholders are Frederick Belmont's great nephew, Jonathan Wild, his great niece Liz Barnes, and eight other members of the family from the second, third and fourth generations.



"We recognise that the long-term survival and prosperity of the business depends on sustainable relationships," explains Lesley Wild, Chair of the Board, who has worked in the family business for 38 years. "These relationships embrace staff, customers, local and global supply chains, communities and the environment."

The family business's record of long service – one in five staff have more than ten years' service – evidences their commitment to being "an employer of choice". There's a strong ethos of training, learning and development, recognising that this is a core ingredient in the health and sustainability of the business, providing the ability to manage change and live the firm's values.

Locally, Bettys & Taylors supports the community in many different ways, including fundraising for local charities and supporting schools.

Over the past 16 years its Cookery School has given more than 6,000 school children the chance to enjoy a practical lesson in bread-making, with a further 3,000 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 long-term partnerships with their tea and coffee suppliers through their pioneering approach to ethical sourcing – Taylors Sourcing Approach – which is making a positive difference to social and environmental conditions on the farms by working in partnership with suppliers and the wider industry.

Since 1990 the business has supported the planting of over 3 million trees around the world and has supported rainforest conservation through its Trees for Life appeal. Bettys & Taylors has been awarded the Queen's Award for Sustainable Development on three occasions – most recently in 2017 in recognition of its work to create a resilient and sustainable tea and coffee supply chain.

Section 3. RESOURCES

Articles and reports

Family Business Stewardship

The IFB Research Foundation, in partnership with Tomorrow's Company (June 2011, and available at: www.ifb.org.uk/share/publications/).

Successful family businesses stress leadership with a clear vision, values, good governance and succession planning. The authors argue that these traits can be drawn together as principles of – and an agenda for – family business stewardship. The report includes case studies of stewardship exemplars, plus a practical section where family businesses can assess how effective they are as stewards and identify areas for change.

Stewardship: A Very Practical Family Business Theory

Justin B. Craig (2017), Family Business Advisor Newsletter, published by Family Business Consulting Group (available at: www.thefbcg.com/stewardship-a-very-practical-family-business-theory/)

The author points to the rich pedigree of theoretical work on the nature and significance of stewardship, but goes on to argue that this does not prevent it from being the most practical family business theory, explaining how different aspects of the academic research provide practical insights and guidance for family businesses.

A basic introduction to the concepts underlying family business stewardship.

Books

Leading a Family Business: Best Practices for Long-Term Stewardship

Justin B. Craig and Ken Moores, published by Praeger (2017).

The discussion in this planning guide focuses on four areas in which family businesses differ from other firms – management structures, governance mechanisms, entrepreneurial advantages and stewardship practices. The

authors present a firm-level analysis focused on these four topics (Chapter 5 is on “Stewardship”) alongside a leadership-level approach (see Chapter 7, “The Steward”).

Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses

Danny Miller and Isabelle Le Breton-Miller, published by Harvard Business School Press (2005).

A reference book on stewardship principles. The authors argue that the same attributes that have sometimes been vilified as weaknesses of family companies – stable strategies, clan cultures, lifetime tenures – have actually created formidable competitive advantages for many of these firms. Among other unorthodox business priorities, they advocate fostering stewardship and continuity via the pursuit of a lasting mission of substance, not short-term financial gain.

Stewardship in Your Family Enterprise: Developing Responsible Family Leadership Across Generations

Dennis T. Jaffe, published by Pioneer Imprints (2010).

The book discusses practices, skills and activities to promote success and fulfilment in the next generation, and the long-term continuance of a shared family enterprise. Part One in particular focuses on stewardship, emphasising that while the terms “wealth” or “capital” commonly refer to money, there are in fact multiple types of wealth / capital that can be inherited.

When Family Businesses are Best

Randel Carlock and John Ward, published by Palgrave Macmillan (2010).

A statement of “Values and Stewardship Principles” drawn up by India’s fifth-generation Murugappa Group is reproduced on pages 57–59. In Chapter 10 the book also includes a thought-provoking short essay on stewardship, entitled “The Men and Women Who Plant Trees”.

Video

Focus on Family Business Stewardship

Three videos prepared by the IFB and available on YouTube at www.youtube.com/user/IFBorgUK/videos

The series comprises interviews with (i) Professor Nelson Phillips, Abu Dhabi Chamber Chair in Innovation and Strategy at London's Imperial College Business School; (ii) John Elkington, an authority on corporate responsibility and sustainable development; and (iii) Stella David, non-executive director of C&J Clark Limited, and formerly (from 2009 to 2016) CEO of William Grant & Sons.

Family Business Challenges

The Family Business Challenges second edition series includes 18 guides overing three areas:

Family business dynamics

- No.1 Understanding Family Business
- No.2 Maintaining Family Values
- No.3 Developing Stewardship
- No.4 Engaging the Next Generation
- No.5 Planning Succession

Family business governance

- No.6 Building Family Governance
- No.7 Managing Differences
- No.8 Fostering Responsible Ownership
- No.9 Strengthening Family Communication
- No.10 Professionalising the Board
- No.11 Enhancing Communication with the Board
- No.12 Employing Advisers

Family business management

- No.13 Fostering Entrepreneurship
- No.14 Embedding Long-term Orientation
- No.15 Promoting Sustainability
- No.16 Maximising People Capital
- No.17 Branding the Family Business
- No.18 Selling the Family Business

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Simon Perry, Author. Simon is a law graduate and trained as a barrister. He moved into publishing in the early 1990s. His work focuses on family businesses, writing academic and practitioner analyses and family enterprise histories.

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