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Fostering family value(s)

Managing culture and behaviour in the family business

Family Governance

pwc

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Foreword

The cultural inheritance of the family business

Managers and owners of family businesses are actually holding their businesses in trust for their children and grandchildren. They feel a stewardship responsibility toward future generations. One of the greatest challenges of that stewardship is the prudent management of the family's most important heritage: the family values that are passed on from generation to generation and that underpin the sustainability of the culture within the family business.

It is the responsibility of the managers of family businesses (whether they be from within the family or from outside) to manage that culture – to safeguard it and to embed the vision, beliefs and values of the founders and of the generations that follow them, and also to ensure that family values and core values are adapted as times and circumstances change, for instance in times of increasing expansion, operating across borders, generational change and sale of the business to third parties.

Two sides of the coin

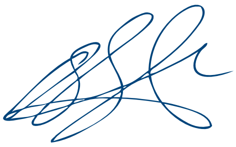
Focussing management of culture requires clear and transparent consideration both of the intrinsic power of the family business in terms of its strengths and also of the risks inherent in a strong culture. How strong is the values-driven culture in the family business? How do you embed and preserve the integrity of the core values and the family values? But also, how do you avoid a strong culture turning into a repressive culture or into a threat to the health of the business? Innovation, internal and external succession, and strategic partner relationships can all so easily come unstuck or be shut out. Do family values enhance growth potential as the business moves forward under the leadership of a younger generation, or do they weaken it? And is the family business open enough to other stakeholders and to society's calls for transparency?

Dealing with day to day dilemmas

We have identified a number of dilemmas from interviews with 93 owner-managers (and their successors), managing directors and supervisory directors (both from inside and outside the family), regarding the embedding and governance of family and core values in the culture of the family business. The family businesses they represent are in a variety of life cycles. Some are still led by the founding or second generation, while others are many decades old. In some cases the shares are closely spread and in some case widely held, with connections to the families being both close and distant. The five most widely experienced dilemmas which we present in this publication will undoubtedly be familiar, given the many illustrations and examples they attracted. We hope that addressing them clearly like this can encourage a valuable dialogue between the differing generations of family directors and shareholders and act as a bridge between internal developments and the external environment.

Managing culture and behaviour

With our vision of managing family values, culture and behaviour in the family business, we hope to provide support to shareholders, managing directors and supervisory directors of family businesses as they implement the outcome of this dialogue and deal with the dilemmas presented. In doing this, we also hope to offer a robust insight to help strengthen and optimize the power and sustainable value creation of the family business. The 21st century is the century of the family business.[1] Safeguarding value(s) is fundamental to being able to meet the ongoing commitment inherent in this and to ensuring that it remains so into the future.



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[1] Peter Swinkels, former CEO of Bavaria

Approach and guide to the study

The study

To prepare for this publication, we held interviews on the subject of managing culture and behaviour with 93 managing directors and supervisory directors of family businesses in the Netherlands. The discussions were structured in line with the Q-sort methodology: the same nineteen propositions were put to all participants with the request to rank these systemically on a five-point scale ranging from totally agree to totally disagree. The participants were then asked to re-rank the propositions with each ranking category being restricted in the number of propositions it could attract, the most extreme categories (totally agree and totally disagree) attracting the lowest number and neutral attracting the highest, thereby identifying the propositions to which the participants allocated the greatest importance and on which they held the strongest opinions. A number of open questions were then submitted.

The Q-sort methodology is based on the assumption that people attribute ranking on a basis consistent with the views they hold, thereby facilitating differentiation and emphasis within a relatively homogenous group. Using factor analysis, differences between the individual rankings are then allocated to one of the three dimensions of managing culture and behaviour in family businesses: building, binding and managing. Each of the three dimensions reflects the style each of the individual managers prefers. A balanced approach to managing culture and behaviour would include all three of the dimensions. A qualitative analysis of the interview material also generated the five most important dilemmas in managing culture and behaviour in family businesses. The nineteen propositions can be found in Annex 1.

The results

This publication sets out not only the outcome of the study undertaken among family business leaders but also provides concrete guidance for managing culture and behaviour. After the Introduction, Chapter 2 addresses the specific characteristics of the family business. Chapter 3 provides definitions and further descriptions of the terms used in the context of family values, culture and behaviour, together with the views of the managers interviewed on these subjects. Chapter 4 addresses the three different dimensions of managing culture and behaviour in family businesses by providing a typology of each of the family leaders: the builder, the binder and the manager. Chapter 5 is devoted to the five most important dilemmas arising in the context of culture and sets out how the three differing types of leaders deal with these. In Chapter 6 we have added a fourth dimension: embedding, integrated management of family values, culture and behaviour. Managers who wish to familiarize themselves quickly with culture and behaviour in family businesses can do that with Chapters 3 and 6. Managers who are looking for recognition, acknowledgement and/or inspiration can benchmark themselves to the dimensions applied by fellow managers in their day-to-day management of culture and behaviour (in Chapter 4) and to the way in which they deal with dilemmas (in Chapter 6).

1. Introduction

The importance to the family business of managing culture and behaviour

In the eighties and nineties of last century family businesses were often still viewed as boring, obsolete, old-fashioned and lacking in innovation. Since the financial crisis we have seen the effects of profit maximisation, misplaced shareholder thinking and short-termism, and the sustainable form of leadership that is commonplace in family businesses is now being widely viewed in a different light.

*Family managing and supervisory directors are well aware of the importance of culture and behaviour for the continuity of their business, and the three dimensions or roles (**building, binding** and **managing**) are characteristic of their management style. PwC adds a fourth dimension to this: **embedding**. Taken together, these represent a well-balanced approach to dealing with the five most important dilemmas that family managing and supervisory directors face.*

Family businesses are much more focussed on continuity and on the long term, they differentiate themselves through responsible management practices and sensible financing arrangements, they take account of the needs of employees, they invest in durable relationships with suppliers and customers, and they are well connected to their local communities. With this sustainable approach to profitability, family businesses create sustainable value, in the first instance for themselves, but also for their stakeholders and society in general. This is the stewardship benefit that many family businesses routinely bring to the table.

The Netherlands has about 180,000 family businesses. Together they make a significant social contribution, generating some 40% of the country's employment. Especially in these times of crisis they are a financial and social buffer - and a particularly resilient one at that. The values, beliefs and ambitions of the families behind these businesses ("the family values") form an important bedrock and a driving force for sustainable value creation.

New leadership

All the recent focus on stakeholder management and sustainable business practices has suddenly brought stewardship to the fore. Now that the excesses of traditional capitalism are under fire worldwide, the notion is fast gaining ground that value creation is far more than the narrow concept of profit maximisation. The principle of *creating shared value*[2] challenges the concept of yield-based thinking and makes the case that organisations can generate more economic value, first and foremost, by creating broader-based value for all stakeholders, not only for shareholders but also for customers, employees and society in general.

Managing for all the value drivers involved requires a new form of leadership. Family businesses have been applying this shared value principle for years in their day-to-day activities, and they can now lead the way as business in general re-focusses, while at the same time using this momentum to create a further edge both for themselves and for future generations.

Family values as a source of strength

The values, beliefs and ambitions of the families behind these businesses ("the family values") form the driving force behind this culture of sustainability. One of the managers interviewed put it like this: "You do business the same way you live your life." That culture is a product of the ongoing interaction between the family and the firms they do business with. Consciously or subconsciously, explicitly or implicitly, family values are passed down from generation to generation, and they become embedded in the culture, values and management of the family business. While a strong culture can act as an extra impulse for family businesses, it can also be a brake on both change and growth. Also, the social context of family businesses can crumble should participation and good governance be deliberately repressed, for instance in such areas as external reporting and transparency.

The importance of family governance

An awarenessof these negative forces and the flexibility to adapt the culture to changing circumstances are both crucial factors in the family business' ability to grow and survive in the longer term. In particular, the current environment of increasing expansion and globalisation could lead to the need, for instance, for strategic alliances or private equity finance. On top of all this, the family business has the additional pressures of generational change as the baby boomer managers look to hand over in the coming decades to the next generation or, indeed, to external management now that internal

[2] Michael E. Porter and Mark R. Kramer, 'Creating Shared Value - How to reinvent capitalism and unleash a wave of innovation and growth'. In: *Harvard Business Review*, January-February 2011.

succession is no longer taken as read. These developments further open up the previously closed circle of family, ownership and management, and this increases the need for good governance, both internal and external. The old cherished values should of course not be jeopardized but, at the same time, they must not prejudice the business' ability to grow and progress. At the same time, family businesses face new external responsibilities: to(re)gain the balance between their own interests and those of stakeholders such as employees, suppliers, financiers and the willingness to take responsibility for the choices they make.

Society's call for external reporting

These developments serve only to strengthen society's call for external regulation for good governance of family companies. A significant number of the managing and supervisory directors interviewed believe strongly that a corporate governance code for family businesses is unnecessary. They believe that the concentration of family, ownership and management attracts a stronger level of social control than the regulation currently applied remotely to listed companies by anonymous investors.

For these reasons they prefer to retain direct responsibility for the supervision of their own governance. However, self-regulation also has its weaknesses, for instance the lack of clear guidance, external reporting and transparency, plus the fact that the concentration of power within family, owners and management constitutes a significant lack of transparency that, intentionally or not, can preclude external dialogue. Good governance in family businesses also requires that culture and behaviour be fully embedded. This gives stakeholders confidence that the leadership is strong enough and that there can be both internal and external dialogue regarding the challenges that the managing and supervisory directors we interviewed face on a daily basis.

The increasing need for focus on family and core values

A PwC survey among 1,600 family businesses in 35 countries underscores the need for boards to reassess family governnance and to put management through culture and behaviour high on their agendas:

- More than a quarter of the family businesses surveyed will be handing over the management reins within five years. Only 53% of these expect management to remain within the family. The growing number of non-family managers results in a growing gap between buesiness management and the (family) owners, and this places increasing pressure on the arrangements in place for family governance.
- The vast majority of conflicts within family companies are value driven. Conflicts relate mainly to the performance of family members who are active within the business, non-involvement of the family, decision-making as to who can and can not work in the family business, and the role of in-laws.
- At the same time, only one third of the family businesses have set up procedures for discussion and resolution of conflicts, such as shareholder agreements, family councils, external mediation, a family charter or management evaluation processes.
- A strong brand, a good reputation and consistent business practices are essential to retaining the loyalty of customers and other stakeholders, and therefore also for the sustainable success of family businesses.

Source: PwC Family Business Survey 2010/11[3]

Building, binding, managing and embedding

While there was a broad consensus as regards the importance of culture and behaviour in family businesses, the managing and supervisory directors interviewed focussed on differing areas of their day-to-day practice. The differing approaches can be summarized into three different dimensions for dealing with family values, culture and behaviour and for resolving the challenges that came out of the interviews. None of the three dimensions is on a higher plane than the others. All three are necessary for good governance within family businesses and, in particular, they all revolve around developments within the family, ownership and business. Each dimension has its own particular strengths and weaknesses.
The three dimensions can also be seen as representing the varying roles that family managing and supervisory directors can fill depending on their individual styles and the life cycle the family business finds itself in:

[3] *Kin in the game*. PwC Family Business Survey 2010/11

- **BUILDING:** (Ongoing) development, support and monitoring of the founders' culture and traditional values; corresponding role: the **BUILDER**;
- **BINDING:** Binding the family, family shareholders and stakeholders; corresponding role: the **BINDER**;
- **MANAGING:** Professional leadership and development of the family business; corresponding role: the **MANAGER**.

PwC also adds a fourth dimension to this:

- **EMBEDDING**: The embedding of culture and behaviour within the family business.

This fourth dimension encourages ongoing dialogue about family values and core (business) values and it provides guidance, to both internal and external stakeholders and to future generations, as to how management of culture and behaviour can be embedded in the family business.

2. The dynamics and lifecyles of the family business

Family businesses have a whole unique character of their own, determined by the dynamics between three elements: business, family and ownership. The culture of the family business is a product of the on-going interaction between these elements and it can be grasped only through this three-dimensional perspective. Before we move on to the results of the study underlying this publication, we would like to put it into context with a definition of the family business and of some related concepts.

Family businesses differentiate themselves from other types of business by the following:

- The business is held by a small or manageable number of owners with close family ties. There is a strong ethic of social control within the family;
- Creation of economic value is only one of the drivers, time horizons vary from long to very long (beyond the next generation);
- The family feels a strong responsibility to the staff and the local community, and great store is placed on long-term relationships with suppliers and customers (and this is reciprocal).

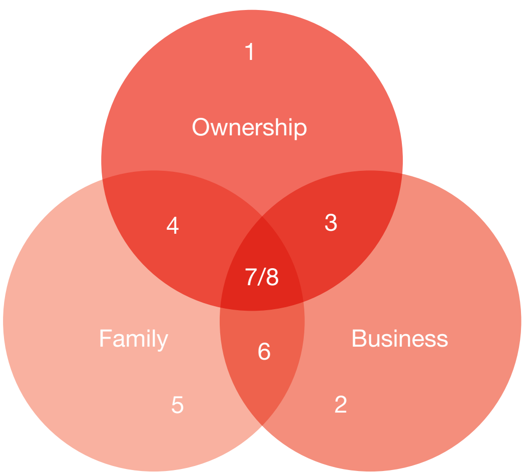
The dynamics within family companies are characterized by the well-known three circlemodel set out below, based on the three elements:

a. A functional entrepreneurial family
b. A professionally managed business
c. A stable and participatory shareholder group[4]

The three elements do not just overlap; they also demonstrate a strong interaction with each other. Different family members and others in the business can fill a wide range of roles. The owner-manager for instance (number 8 in the table below) has a different role than the son, daughter, nephew or niece who is working in the business but is not a shareholder (number 6). That applies also to the brother who does have shares but is not working in the business (number 4). The differing objectives and priorities of the individuals in the three elements can give rise to conflicts within families and within family businesses.

Fig. 1 The three circle model: The three overlapping elements of family businesses (from Tagiuri and Davis)[5]

1. Third party investors
2. External managers and staff (who are not owners)
3. External managers and staff (who are owners)
4. Family owners (who are not working in the business)
5. Family (who are not working in the business and are not owners)
6. Family employees (who are not owners)
7. Family owners (who are working in the business)
8. Owner managers



[4] M. Bruel, J.R. Geerlings and J.A. van Hamel, *Uitblinken als familiebedrijf. Over de inrichting en werking van goed bestuur*. Van Gorcum, 2008.
[5] Tagiuri, Renato and John Davis, 'Bivalent Attributes of the Family Firm', *Family Business Review*. Volume 9, Issue 2, pages 199–208, June 1996.

Each of the three elements – business, family and ownership – have their own stages of development within the lifecycle of the family business (see Fig. 2).

Business

A family business begins as a start-up, gradually expands its activities, increases the professionalism within the organization, and ultimately reaches maturity (and, with it, the consolidation phase).

Family

In the family element, the Mom & Pop business from the very outset is a business the younger family adults also work in,with the various generations working together and eventually handing ondown the generations.

Ownership

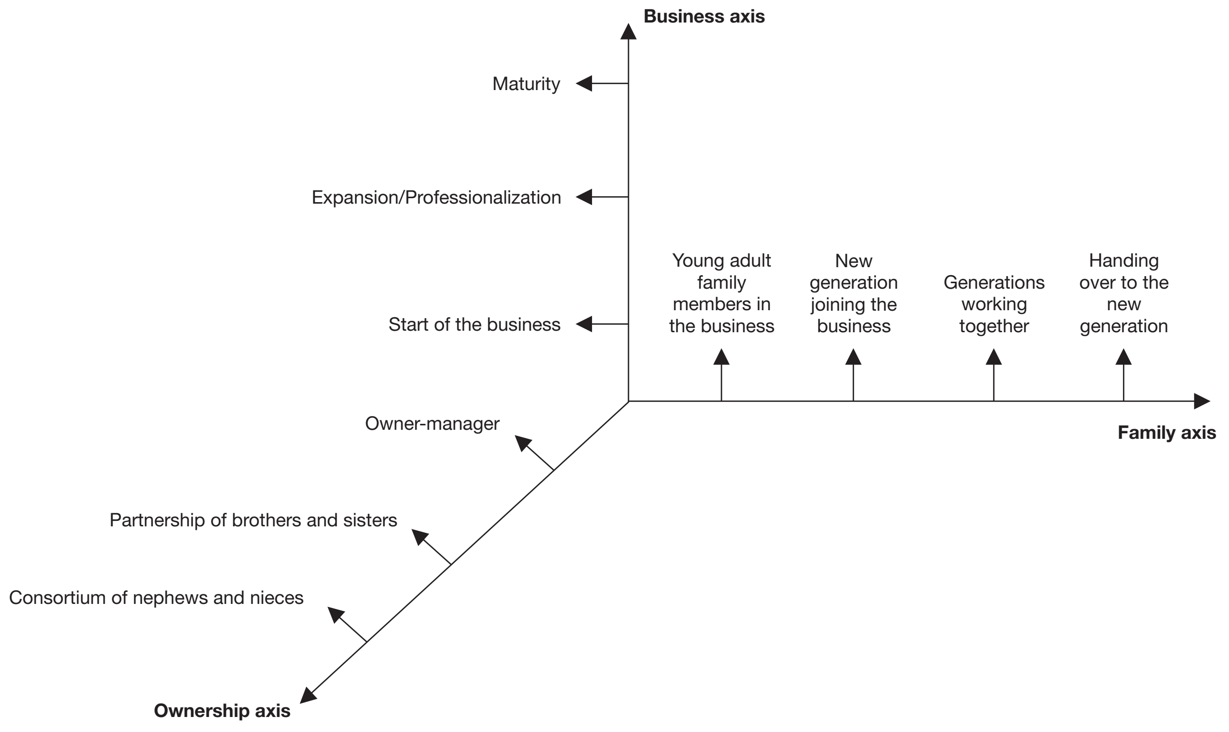
The ownership aspects of family companies develop at their own pace as the shareholdings disperse across the generations and branches of the family- plus any dilution of ownership and control through the issue of depository receipts and the use of a family-custodian or the transfer of shares (including the legal and/ or economic ownership) into a family foundation:

- Owner-manager business
- Brother & sister business
- Consortium of nephews and nieces

And at the right time it may be necessary to raise capital externally, with financing such as:

- (Bank)line of credit
- Private equity (as part-owner and supervisory body)
- Partial public listing (à la ASMI, Heineken and Hunter Douglas)

Fig. 2 The three-dimensional development model (from Gersick et al.)[6]



[6] Gersick, Kelin E., John A. Davis, Marion McCollom Hampton en Ivan Lansberg, *Generation to Generation. Life Cycles of the Family Business*. Harvard Business School Press, 1997.

In summary

While developments within the different elements do influence each other, they also move independently of each other and at their own pace. Moving from one stage of development to another results in significant change both between and within the elements. It is precisely these sorts of movements that present family companies with the greatest challenges.

In terms of culture and behaviour, as we will see in Chapter 5, solutions involve greater (but sometimes temporary) focus on one of the three “building, binding and managing” dimensions (as discussed in Chapter4). But, firstly, in Chapter 3 we address the pattern of norms and values that came out of the interviews.

3. The values and culture of the family business

What exactly do we mean by terms such as family values, core values and culture? This is addressed here, illustrated by the findings that emerged from the interviews regarding the value driven approach, culture and behaviour in family businesses. We then address the opinions of the interviewees regarding the role of the board of supervisory directors in safeguarding culture.

3.1. The culture of the family business

Culture is the sum total of all the messages (formal and informal) that an organisation sends out regarding what is valued most and the way in which staff are expected to behave.

The (family) managing and supervisory directors we interviewed demonstrated a broad consensus regarding the importance of culture and behaviour to the success of family businesses.

They also commented repeatedly that culture is a binding factor for employees in the family business:

'Family businesses create an emotional bond with their staff, and this enables them to bind them more effectively than listed companies can.'

Such a strong culture also has its darker side, and this becomes (sometimes painfully) visible where the family business has a culture which is stifling and resistant to change. As one of the interviewees rather strikingly put it:

'An undue level of loyalty to the business also has its down-sides. No one leaves here of their own accord. The staff are spoilt.'

A strong culture therefore can be not only positive force in the family business but also a negative one (see also the first dilemma in Chapter 5).

3.2. Family values: the key principles underlying culture

Family values are the underlying values, beliefs and ambitions of the (individual members of the) family who are involved with the business. They determine how things are done within the family.

Culture and behaviour hold a special place in family businesses. The values, ambitions and convictions of the (founding) family resonate strongly within the culture of the business and feed unmistakably into the business practices. One of the managers interviewed put it like this:

'You do business the same way you live your life.'

The importance of family values in determining business practices within the family business is clear from the broad consensus among managing and supervisory directors that their business practices are primarily driven by the family values. The stewardship responsibilities, for instance, are deeply rooted in the culture of family businesses. Basic values also include

"The business' identity contributes so much to our success.'

a good employment ethic and a close bond between family and staff. An owner-manager gave the following example:

'I'm always ready to pick up the snow shovel to help get the last driver out on the road. This is appreciated. You find much less of that kind of commitment in other types of business.'

And in this quote you catch the pragmatism of the thoroughbred entrepreneur:

'At the end of the day, money needs to be made.'

Practical illustration

How family values resonate in the culture of the family company

The family company's values matrix is a complex aggregation of entrepreneurial values (working hard, making money, being thrifty), values specific to the family business (stewardship, loyalty to employees), family governance ('first work somewhere else, then you can move into the business'), and ethical standards (honest business practices, care in the community). We came across all these different values in our interviews with the family managers. Here's a selection:

Family values	***Examples***
Respect and wholeheartedness	'Our culture consists ofsharing, not making unreasonable demands, and building and fostering relationships.'
Involvement and social commitment	'Rolling up the shirt sleeves and being proactive; not only in business but also in the social context, sport and volunteering. It's not just about money.'
Honesty	'As a family we are honest, and we expect the same from our staff.'
Trust	'Trust is critical. I trust everyone until proven otherwise. Breaking that trust creates a bad situation which can't be made good.'
Loyalty	'Underlying our culture is a connectedness between the family and the firm's staff.'
Long term thinking and continuity	'Profitability is simply a means to achieve our primary goal: survival in the long term.'
Trading ethos and common sense	'Count the pennies and the pounds will look after themselves.' 'Carpe diem - nothing ventured, nothing gained.'
Good governance	'Our family charter prohibits parents from supervising their own children and does not allow in-laws a role in the business.'

3.3 Translating family values into core (business) values

Family values determine the way in which business is done, and family values are the most important driver of core values in family businesses:

The formulation of core values determines the culture and behaviour that we want to see prosper within the organisation, based on family values, strategy, identity, branding, governance structures, and the expectations of staff, financiers and other stakeholders.

For family companies, translating family values into core (business) values creates a moral compass that guides their entrepreneurial activities. It has been drummed into family managers that you must live up to what you say you stand for, and you must do what you say– 'walk your talk'.

'We focus on the long term. But you can't just say that, you have to actually do it – otherwise you lose all credibility.'

Family businesses are often successful in achieving the culture they aim for. To ensure this, it is necessary not simply to embed the family and core values into the organisation's management structures but also to have it clearly documented – even if only putting in place the professionalism and transparency needed to be able to deal with the challenges of growth, globalization and succession (both internal and external).

'The family members live our family values without any formal documentation. I appreciate that this would constitute a risk should there be succession by a non-family member.'

Practical illustration

Honesty is the best policy

At one family business that participated in the study, it is very clear how the family values ('honest, open and in harmony') are driving the business' core values of 'honesty and integrity, transparency, customer focus, creativity, and social responsibility'.

These core values are anchored into the day-to-day business practices as follows:

Honesty and integrity: Doing business honestly, being honest with each other, being open for and to everyone, being respectful andsincere, and all with a dose of practicality and realism.

Transparency: Asking questions, listening, keeping each other informed, giving and accepting criticism, treating evenyone equally.

Customer focussed: Putting the customer at the top of the pile, putting yourself in the customer's shoes, absorbing customer concerns, sticking to agreements, listening, bringing proactive improvement and professionalism, delivering good quality.

Creativity: Thinking before acting, investing in personal development, allowing room for innovation, not taking the easy way out, being prepared to make mistakes.

Social responsibilty: Worker participation, training, energy efficiency, environmentally friendly production processes.

3.4. Family values and core (business) values often unwritten

Managing culture and behaviour requires that the family values and core values be embedded in the culture of the business, as we will see in Chapter 6.

Many managing and supervisory directors simply take the family values and relationships as a matter of course, as something which needs little further discussion. As one interviewee acknowledged:

'Without really planning for it, we have a broadly applied set of family values, but we have never formalized these.'

And another put it succinctly:

'Core values ought to be simply second nature.'

The real issues are often missed simply because of a lack of knowledge or an inability to bring them up, a fear of changing the 'old ways' or to avoid rocking the boat.

'Dialogue is avoided. People prefer not to speak-up and rock the boat.'

Starting this dialogue therefore requires leadership and courage. Putting forward so called 'soft' aspects and opening them up for discussion should prevent family company management from becoming dominated by hidden agendas or increasing conflict or frustration within the family. Some family managers have already come to that conclusion:

'Because we haven't yet sufficiently embedded our family values, we don't have enough experience of external management techniques, which makes it difficult to find a new manager from outside.'

3.5 Preference for unwritten rules over formalization

Most of the managing and supervisory directors interviewed feel that formalization of culture, behaviour and governance is not necessary. This applies not only for internal documentation of values but also for external behavioural rules.

Detailed rules regarding good management are the last thing managers of family businesses are waiting for. They would much prefer a limited set of governance principles designed by themselves which they can apply to their specific situation.[8] The consternation caused by a number of government initiatives is therefore not at all surprising. Rather than generic meddling from outside, what the managers need is a flexible form of governance that takes account of the diversity of values and culture within family companies. This fear of external regulation also comes through clearly in the interviews. While the interviewees acknowledge the importance, for stakeholders outside the family, of good governance and clear arrangements therefor, they prefer to make informal arrangements:

[7] *Ondernemen als familie. Aanbevelingen voor goed bestuur in het familiebedrijf*. Tilburg, FBNed, 2003.
[8] Bik, O.P.G., L.A. Goossens-Kloek, S.N. Hogewind en G.A. van der Leest, *Baas in Eigen Zaak – Ondernemers aan het Woord over Bestuur en Financiering*. Den Haag, SMO, 2004.

'I really hate rules and regulations. You should just do what you say, and you don't need rules for that.'

Others are clearly opposed to rules, codes and legislation. They point to the significance of family values as a guarantee for good governance. Many of the managers interviewed believe that the concentration of family, ownership and management renders external involvement unnecessary.

'In family businesses the issues of greed and bonus culture do not arise, so the family business needs a different sort of governance to that applied to listed companies. We can regulate ourselves just fine.'

'Family business have unwritten governance codes. These do not need to be formalized.'

On the other hand, some countries do have regulation in place for governance in family businesses, for instance the German Kodex for family businesses (issued in 2004 and updated in 2011)[9] and the Belgian Code Buysse (issued in 2005 and updated in 2009).[10] The recommendations made in these cover, for instance, the relationships and dialogue between (family) owners and the business, succession and conflict follow up and avoidance. They also promote tools such as the family forum and the family charter/code (and we address these later in this publication).

Governance on the increase

In relatively small family businesses it is conceivable that management is prepared to provide only a limited amount of transparency to those outside the family and a small number of direct stakeholders, as this touches on the family's private wealth. Even large multinational family businesses have a tendency to opacity, despite the political and social calls for transparency and social responsibility. The "listed family business" which has publicly traded shares (whether a large or small number) holds a unique place in this discussion. These businesses (such as ASMI, Heineken and Hunter Douglas) must comply fully with the generic reporting requirements and corporate governance codes. They have had to make the jump from opacity to transparency. This results in a clash between the normally relaxed dynamics of the family environment and the demands of a public listing, for instance having to allow limited say to minority shareholders.

Practical illustration

I do it my way

An owner-manager consults with the Works Council on a monthly basis rather than on the required biannual basis. Because this is much more often than legally required, the consultation is always fairly informal – at least it was until a change in the Council membership. The new members have had some training on the subject of Works Councils and now want everything to be documented in writing. The owner-manager responds to the new Council members by explaining that the informal nature of the consultation is also in their best interest, on the grounds that this is the only way to be able to conduct the proceedings frequently and cordially. Despite being sensitive to the needs of the employees and to the need for good contacts with the Council, the owner-manager here takes the classic position of the family business employer: Participation is fine, but I set the rules!

[9] Governance Kodex für Familien-Unternehmen. Leitlinien für die verantwortungsvolle Führung von Familienunternehmen. Bonn-Bad Bodesberg, Die Familienunternehmer, ASU und INTES Akademie für Familienunternehmen GmbHm, 2011.

[10] Code Buysse II. Corporate governance. Aanbevelingen voor niet-beursgenoteerde ondernemingen. Brussel, Unie van Zelfstandige Ondernemers (Unizo), 2009.

3.6 Supervisory directors: Sounding board for good governance and culture

Good governance is an area where independent supervisory directors can really play a crucial role. Indeed they are responsible for the representing the interest of all stakeholders, not only those of the family shareholder(s). At the heart of this balanced representation of interests lies good supervision, with the family values and core values well founded and embedded in the (governance) culture and in behaviour. Family managers are becoming more and more aware of the sounding board role their supervisory directors play in this area, though they do see them primarily as an adviser and sparring partner.

'I involve the supervisory board mainly when I need advice. At the end of the day, I am the one leading the ship but I need a regular sparring partner.'

'The supervisory directors actually have no power. In the end, it's owner-management that takes the decisions.'

Restricted level of authority

The influence of the supervisory directors on a family business' culture is often restricted to advice, and they get little chance to fulfil their role as supervisor and "employer". As long as the family business' supervisory board is allowed voluntary, all decision-making power vests with the owner-manager, the managing directors and/or the family shareholders, and the supervisory directors do not have the authority to dismiss the owner-manager. For the larger companies the responsibility for appointment and dismissal tends to vest formally with the supervisory board. The dynamics of the family business render the dismissal of the managing directors by the supervisory directors a sensitive issue.

Shareholders who are managing directors can also dismiss the supervisory directors. In some cases, a form of co-option is used whereby it is not the shareholders, but the supervisory directors themselves, who decide who is appointed to and dismissed by the supervisory board.

The managers interviewed, therefore, have little interest in an unduly powerful or regulatory role for the supervisory board - though (remarkably) the vast majority of them do have a preference for the two-tier board structure (which segregates the management and supervisory roles).

'It's right that the supervisory directors operate from a distance. Otherwise the SB would undermine the authority of the management board, because more people then need to be consulted.'

Changing over to a one-tier board structure, an option which the Management and Supervision Act (Wet Bestuur en Toezicht) has put in place, allows family businesses to appoint family shareholders to the supervisory board. Nevertheless, there seems to be little interest for this among those interviewed:

'External supervisory directors are important. Without them, a former managing director may be too dominant in the SB. A one-tier board is not good for the business.'

Supervisory director for culture

Through their role as sparring partner and as relative outsiders, supervisory directors are very well able to hold a mirror up to the managing directors and also to facilitate dialogue regarding any concerns as to culture and behaviour within both the family and the family business. Where does the business stand in terms of its culture? What are the strengths and weaknesses of its culture? How does the business culture fit with the family's values? What signals are being given out by the tone at the top and by the decisions made and systems in place (see also Chapter 6)? With this type of substantive questioning, supervisory directors are able to help the families and managing boards of family businesses to get their culture and behaviour moving in the right direction.

The managers interviewed are well aware of this. Although they prefer that supervisory directors are not given powerful, formal roles, they are positive regarding the critical sounding board role that an SB can play in the areas of culture and behaviour. As one of the managers offered:

'We have installed a supervisory board of our own accord to keep us on the ball and to raise critical issues.'

Furthermore, supervisory directors of family businesses are also able to visit the shop floor themselves. Some family managers actually encourage this.

At the same time, they expect that their supervisory directors are prepared to look critically in the mirror also at themselves through some form of self-evaluation.

'I do wish to know whether and how the supervisory board assesses its own performance. I often wonder why I never hear anything about this.'

In summary

The translation of family values into core values clearly gives the culture of family businesses an added dimension. In terms of culture, the situation on the ground is often not far short of what the business is aiming for. But it is still the case that family values and core values are often unwritten. Most family managers have little interest in documenting and formalizing their own values. And external regulation for the governance of family business is generally rejected. Supervisory directors act mainly in an advisory role, while their role as supervisor and employer is rather limited. Despite this, as a critical sounding board they can play an important role in leading culture and behaviour in the right direction, in looking after the interests of all stakeholders in a balanced fashion, and in the presentation of external reporting (transparency vs opacity). This final issue constitutes one of the five dilemmas involved in managing culture and behaviour in family businesses. We discuss these further in Chapter 5. But, before that, in Chapter 4, we look at the three dimension/roles which can be attributed to managing and supervisory directors of family businesses in terms of culture.

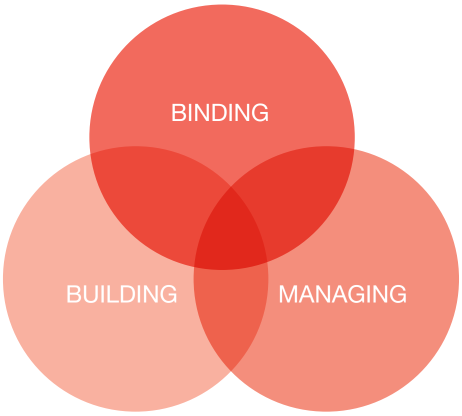
'Our supervisory directors must develop a feeling for the shop floor, and know what the issues are there. I will be bringing this up for discussion in the near future.'

4. The three cultural dimensions: Building, binding and managing

The managing and supervisory directors we interviewed view culture as an important strength of the family business. The values provided by the founder and the generations that follow give them the guidance they need in their day-to-day activities, and there is ongoing interaction between the business and the family. Family businesses simply "walk the talk" in what they do, often as a matter of course. In doing so, family business managers have a different focus: the three dimensions we have identified in managing family values, culture and behaviour. These dimensions also categorize family managing and supervisory directors according to their personal attributes and the life cycle the family business is in.

The three dimensions are as follows:

- BUILDING: (Ongoing) development, support and monitoring of the founders' culture and traditional values; corresponding role: the **BUILDER**;
- BINDING: Binding the family, family shareholders and stakeholders; corresponding role: the **BINDER**;
- MANAGING: Professional leadership and development of the family business; corresponding role: the **MANAGER**.



The three dimensions mirror the dynamics between the three elements: business, family and ownership. BUILDING and MANAGING are directed mainly towards entrepreneurship and business operations, and BINDING is directed towards (the relationship with) the family and with ownership. As for the three circle model (see fig. 1 in Chapter 2), the dimensions overlap.

4.1. Balanced management in each life cycle

The three dimensions and categorizations described (building, binding and managing) can be specifically and narrowly defined or they can be expanded to clarify any differentiating subtleties. They very specifically have no particular positive or negative bias. All three dimensions contribute uniformly in a structure of well-balanced management of family values, culture and behaviour.

Family managing and supervisory directors generally prefer to act in only one of the three dimensions, depending on their own personal character and the life cycle the business is in (see the three dimensional development model in Chapter 2). The owner-manager prefers to focus on nurturing and maintaining the founder's culture through growth and expansion (the BUILDER). The leader of a family business already into its fourth generation will have a more professional approach and aspirations (the MANAGER), a function also of the management training which the newer generations tend to have. Handing over to the next generation – bringing brothers, sisters and their families into the business and a more diluted share ownership – will result in a move to greater involvement of the family and other stakeholders as managing or supervisory directors (the BINDER). Sometimes temporarily the three dimensions can become more intense and charged. For instance, when the family business is confronted with the need for succession from outside or additional capital or joint venturing, this can lead to conflicts with its own culture, require further professionalization and make further distancing from the family unavoidable.

Strong and balanced management of family values, culture and behaviour therefore involves all of building, binding and managing, either combined into one person (the owner manager or the chairman of the board of supervisory directors) or dispersed among others in the company or family or in the management structures (managing and supervisory boards). As we will see later, these three dimensions ultimately come together in our fourth dimension: embedding. While the focus can temporarily be on one of the dimensions, too long or too one-sided a focus by managing and supervisory directors on one single dimension will jeopardize the management balance. While they all have their preferred style, many of the managing and supervisory directors interviewed do also seem to integrate aspects of other dimensions into their daily work.

4.2 Three dimensional leadership

Within each dimension, each of the five dilemmas discussed in Chapter 5 has a different weighting in the minds of the managing and supervisory directors.

BUILDING

Each family business was once built from nothing, generally not much more than a vision and unwavering self-belief. The early development years are often crucial in shaping the family business' culture. The beliefs and values of the founder(s) resonate and are the guiding lights for the many generations that follow. The business and the family – mainly the entrepreneur's immediate family – become one and the same. As a **BUILDER**–type entrepreneur put it:

'I am the company.'

Such strong leadership is common also to later generations, in particular when the business needs to expand or finds itself in troubled times.

The founder's culture represents the business' first success and the bedrock for the business as a whole. It is therefore not unusual for BUILDERS to guard their values jealously right from the outset. The BUILDER hasn't just set the business up, he has also steered it often through difficult times and onto new strategic challenges. The founder nurtures his culture, even if by later generations he is viewed as dominant or pig-headed. One of the owner-managers we interviewed commented:

'My values as owner-manager are what counts. The values of the family do not matter'

The BUILDER is down-to-earth and decisive when it comes to leading the business or guiding the culture:

'You just have to get on with it and not talk too much about it. That way you cut out the unnecessary clutter.'

Consequently, documenting the family values and core values is often not felt to be necessary or desirable. Also, he/she much prefers to keep full control, to avoid unwanted meddling by family members. The BUILDER also much prefers either to have full or majority control of the business or an ownership structure concentrated in a small number of family members who are kept informed on an informal basis. The supervisory board is sometimes rather restrained or not functioning at all, or sometimes acts only as an advisory board.

In summary

It is up to succeeding generations to anchor the qualities of such forceful, even patriarchal, leadership into the culture and then to build on the traditional values and adapt these on a timely basis.It is this very diversity that should help secure the continuity of the family business.

BINDING

The BINDER strives to achieve a strong contact between the family business and the family shareholders), and positions him/herself as the 'pater familias' who, on a collective basis, wants to move the business forward for future generations. The BINDER places great store in dialogue and commitment and sees the close-knit connection with (and within) the family as one of the business' great strengths:

'Through dialogue comes success -particularly in this fastmoving world. You can't know everything yourself.'

The culture then is shaped not (only) by the individual owner-manager or the family managers. Strong involvement on the part of the family (shareholders) also comes through loud and clear in the ethos of the business.

'Our core values are very real for us.'

The BINDER sees the development of common values as a process which must not be forced, but which must be allowed to come to fruition in its own time through regular family dialogue. The BINDER often involves the family in decision-making, for instance through shareholder influence or a seat on the supervisory board. Such a family supervisory director does not provide independent supervision, but uses the board position to keep an eye on the family heritage and acts as an intermediary between the management of the business and the family (shareholders).

'The family has a high level of trust in me as director. But, in the interests of risk management and consensus, I do prefer that strategic decisions are made together.'

In summary

The BINDER realizes that close involvement of the family (shareholders) represents not only a fundamental strength of the family business but also a tool to effectively manage potentially destructive forces which may arise.

Conflicts within the family and with the business managers can seriously jeopardize the stability, and ultimately the continuity, of the family business. Maintaining good contact with the family (shareholders) can prevent conflicts or nip them in the bud. The BINDER therefore is also a sort of risk manager.

MANAGING

The hallmark of the MANAGER is a rational approach to the family business and a recognition of the need for professionalization if the business is to prosper. Although the MANAGER may not have the 'fire in the belly' of the true entrepreneur, he/she does very much see the strengths of a strong, family-driven culture. The MANAGER also knows how to anchor and build on this added value, for the long-term success of the business, through business-like leadership, such as consistent strategies and differentiated market positioning. Family capital represents an easily accessible and patient alternative for bank debt or private equity.

'As a family business, we agree a long term strategy and we stick to it, whereas other (non-family) businesses change theirs every three years.'

But the MANAGER also sees the pitfalls of a culture which is too dominant or unwritten. For non-family members (whether on the shop floor, in middle management or in the boardroom), unwritten rules can form an invisible barrier against the professionalization of the business and governance that could carry it forward. From a strategic point of view, a strong culture can also frustrate mergers and acquisitions (see also how the second dilemma in Chapter 5 is handled). For this reason the MANAGER devotes much attention to formalizing core values, culture and behaviour.

‘Our culture is our strength. But we are also sometimes to loose, too informal. That creates difficulties and we need more formalization.’

The MANAGER also works on professionalizing governance. This involves maintaining a suitable distance from the family (shareholder) and setting this out in a family charter that creates segregation of roles between management of the company and the family wealth. The MANAGER prefers the sort of segregation between ownership and control that depository receipts provide, where the voting rights are managed by an independent custodian, or some other governance structure such as the use of a family foundation.

The MANAGER welcomes input from the supervisory directors in his quest to professionalize the business, and will often move to install a supervisory board irrespective of whether or not this is required by law. Such a supervisory board would consist entirely or primarily of independent members who can act as a sounding board and who may also get out into the business and its operations.

In summary

The MANAGER facilitates dialogue about the dynamics of the three different elements of the family business, and then ensures that the agreements made are reflected in governance structures and documents such as the family charter. This makes the business less vulnerable to regular grilling from the family. The MANAGER must also continue to invest to maintain the family values as a strong differentiating factor for the business. A once-sided drive for formalization can result both in an unravelling of the bonds between the business and the family (with the consequent threat to continuity) and also in undue rigidity and bureaucracy.

5. Five dilemmas in managing family values, culture and behaviour

The interviews we held highlighted that Builders, Binders and Managers all have some real practical dilemmas to deal with as they proceed to manage family values, culture and behaviour. This is particularly the case for owner-managers (both the founder and also later generations), because all the elements and dimensions of the family business then fall to one person.

The following dilemmas are the most significant, and these are the ones we address in more detail:

- The upsides and downsides of family business culture
- Tradition vs evolution
- Engagementvs distance
- Formalization vs unwritten rules
- Transparency vs opacity

5.1 DILEMMA 1: The upsides and downsides of family business culture

There is no "one size fits all" culture for family businesses. Businesses differ so much from each other, both in form and in life cycle (maturity). Nevertheless virtually all the interviewees value highly the strengths of the culture of their own family businesses. The MANAGERS in particular also see the downsides of such a strong culture.

Culture as a strength: Involvement and loyalty

The managing and supervisory directors interviewed are generally fully agreed that the distinctive culture of the family business is one of the most important factors in value creation. In addition to long-term focus, cost awareness and ethical standards, the aspect most often noted was employee involvement. In family businesses this is often more prevalent than in non-family businesses.
One founder said:

'Our culture determines our success. The significant level of staff involvement blurs the boundaries between business and personal, and leads to a tightly knit and motivated group of employees.'

This strong identity, loyalty and enthusiasm contribute to a distinctive positioning in the labour market:

'My employees would rather work for a family business than for a listed company.'

Practical illustration

Shared control means double the involvement

This owner-manager of a large family business binds his staff not only with a tightly-knit culture but also with far-reaching concepts of stakeholdership. All major business decisions are mmade jointly with the staff. Power thereby vests very clearly not only in the business' management or the family, but is shared with employees. The driver behind this is that each employee must perform satisfactorily for subordinates as well as for superiors, and not direct their performance only for 'the boss' or the shareholders.

This owner-manager has anchored this concept firmly in the culture by issuing priority shares to two 'large companies' ('structuurBVs'), as a result of which all major investment decisions are to be submitted to the three-man boards of each of the large companies. One of the three directors is appointed by the employees, one by the owner-manager's holding company and the third by the employees and the holding company jointly.

'As a family, we are committed to our people from cradle to grave. In return, the staff demonstrate a high level of loyalty, and this translates into strong engagement and lengthy periods of service.'

‘I view my employees as family. That makes it difficult to fire people. I delay that moment for as long as possible.’

The downsides of a dominant culture: too socially-focussed dynamics and gut feeling

A strong culture also has its downsides. The social ethic of the family business and the loyalty from and to the employees can also hinder taking the business decisions that need to be taken. This owner-manager we interviewed, a BUILDER,is looking to get the right balance between a social and a results-focussed culture:

‘Particularly in these difficult economic times, the danger is that employees think they are OK simply because they work for a family business. You must avoid people taking it easy.’

Getting the right balance between managing on the basis of long-term commitment to employees and managing on the basis of financial results in the short-term is recognized as a dilemma, particularly for the BINDERS.

A family manager’s notion of loyalty to staff sometimes brings to mind the saying ‘desperate times call for desperate measures’:

‘Anyone who betrays our trust has to leave. But, in practice, I don’t accept this too easily - everyone has their good points.’

Practical illustration

Making savings on the basis of gut feelings

It is not only an overly social atmosphere that can impede rational decision-making. The entrepreneur’s “gut feeling” plays a part in the culture of many family businesses, and this can lead to curious decisions from a business perspective. This was evident from the following case provided by a successor manager:

‘We use a lot of energy in the factory, it’s a significant part of our product cost base. My father and I are always keen to be as sharp as we can in our energy procurement pricing. We’re very proud of our successes, and I make this clear to fellow entrepreneurs, who then want to know how I do it. Dad and I both really enjoy this. We also invest in energy-saving equipment without knowing whether that is really the most cost-efficient thing to do. But the knowledge that such a machine saves energy day in day out makes me feel good.’

The example provided by the manager of another family business shows that external influences can cut through the culture:

‘In the past we often took decisions based on gut feeling.That was the culture in the business: ‘It feels good, so let’s do it.’ Partly through the influence of our American partner, we now first figure out what any given investment will return - and then the feel good factor can suddenly drop away. With gut feeling alone, we would never have been so successful.’

It is mainly the MANAGERS who have come to the conclusion that hard business decisions need to be taken. One manager commented:

'We are looking into how we can make our culture less 'soft'. We have become a bit too 'social'.'

'Because staff often stay for many years, family businesses hold on to the 'old ways' for too long and do not sufficiently anticipate new developments.'

On the other hand, there are managers to be found in family businesses who are sufficiently focussed on continuity that they are not distracted by excessive notions of loyalty to staff, family or business associates:

'Employees are a resource whose main objective is to facilitate the continuity of the business. We aren't in business to provide people with careers.'

In that respect, one BUILDER's core values include a certain amount of self-centredness:

'The pillars of my entrepreneurship are respect, trust and egocentricity. Why egocentricity? You can only provide for others if you have provided for yourself. There is a difference between generosity and loyalty.'

In summary

Managers of family businesses must learn how to discover the leverage culture can bring - the balance between strengthening power while reducing the negative influence of any dominant family values and core values. The emphasis varies for each dimension. The BUILDER and the BINDER need to learn to let people go immediately they start to obstruct the development of the business, even if this affects family members or staff who are regarded as family. The MANAGER needs to find the balance between social value added and firm leadership through HR policies that are both appropriate to the family business and professional at the same time.

5.2 DILEMMA 2: Tradition vs evolution

This dilemma addresses the conflicts between old and new values and the culture that can arise from differences between the generations in the family business. On the one hand, family businesses strive to nurture their traditions and hold on to the beliefs and values underpinning the founder's culture. This, after all, is what has supported the success of the business and has been the glue within the family. Having said that, family businesses are only able to survive in the longer term when they are prepared to embrace the insights contributed by later generations.

Nurturing the founder's culture

The founder of the family business will often have (or have had) a dominant influence on the business' culture. His/her business practices and individual values have contributed to the success of the business and will have formed the basis for the shared values the family holds. In long-standing family businesses, the personality of the founder sometimes takes on mythical proportions and his/her 'teachings' and vision are passed on from generation to generation in the family history. In the early years of the family businesses, the owner-manager (or the first generation) sets the foundations for the business' culture, and this acts as a compass for later generations (a kind of 'history in the making').

It is, therefore, primarily the BUILDER who influences the culture of the business and the family. As the founder of a successful mid-sized family business put it:

'It's mainly my personal values that determine the culture of the organisation, not those of my brothers and sisters.'

It is clear from the interviews that you find the BUILDER not only in the founder but also in later generations. A second-generation owner-manager who had bought out his brother commented:

'Culture is determined by the man who's running the ship.'

Family values are passed down from generation to generation through the upbringing each generation receives from its predecessors. Children are spoon-fed the beliefs and values of their parents and those of the generations before them. How tangible that influence can be in a family business is demonstrated by the following reflection by one of the entrepreneurs:

'Despite the fact that dad's no longer a director, his individual values drive the culture of the organisation. He still potters about a lot, chats with folks and tells them what he thinks they're doing right and wrong.'

Accepting new influences and insights

The founder's cultural heritage must be nurtured and cared for. This "historical capital" helps assure the distinctive aspects of the family business' quality and continuity. But too dominant a founder (and his or her culture) can also jeopardize the survival of the family business and risk the growth of a mono-culture: rigid, inward-looking, and prone to conflict.

'The values that father gave us remain pivotal. But the more distant the founder becomes, the more the interpretations vary.'

Sticking to tradition for too long and too rigidly can become stifling. In the previous dilemma we noted that the power of culture also has its downsides. Likewise, valuable traditions can also obstruct changes that are needed. Most of the managers interviewed realize how important it is to accept new insights and influences. A manager (who is primarily a BINDER) said:

'We pass family values down from generation to generation. But they aren't all necessarily accepted. Some new values get added and some old values fall by the wayside.'

To keep the culture up-to-date and regularly refreshed, some family companies specifically require the next generation to first get experience and a broader grounding outside before they take on a role in their own family business.

'Keeping the family philosophyin place by being good role models forthe children.'

Practical illustration

First look elsewhere

In the case of one mid-sized family business the next generation is welcome in the business only after they reach the age of thirty. They must first get business experience elsewhere. If they wish to take on a leadership role in the famliy business, they must first demonstrate that they have done this successfully elsewhere. On top of that, they must be better qualified than other staff. This approach not only protects the business from the continuity threats posed by poor leadership but also allows the upcoming family managers to develop a broader base and thereby bring new ideas in from outside.

A successor-in-waiting:

'I worked elsewhere for ten years before joining the family business. That experience is invaluable both to me and to the business.'

New generation, new ideas

Each generation has its own different perspective on life, and brings a fresh approach to its role in the family business - formed and shaped by their education and work experiences outside the business. A young successor commented:

'My father was the typical entrepreneur; he saw opportunities everywhere. But he didn't consider whether and how these various initiatives might all fit together. These days other competencies are needed.'

And, sometimes, there are cultural clashes between 'dad' and the following generations:

'Taking over from my father was not easy; he didn't fully trust me. I'm not one to shirk dialogue, but it was difficult to discuss things with my father. He's dead against any kind of change.'

Our interviews indicate that evolution of traditional values is not always easy for the older generation to accept. Some clearly have difficulty accepting the different ways their successors approach things. A former owner-manager, now a supervisory director with the family business, put it like this:

'Our children try to maintain a good work-life balance, and the business does not always come first. In a family business everything else must come second to the needs of the business.'

One supervisory director from outside the family sees a sort of natural logic in this:

'The founder often started with nothing. The children move in only when it has become a successful business. Their approach is therefore bound to be different from that of their parents.'

Adopting such a different approach does not generally result in a complete break with the past. A recurring theme in the interviews is that it is not so much the underlying family values that change, but simply the ways in which later generations apply them.One former owner-manager looking back on his own succession:

'The core values of trust, honesty and hard work haven't changed. My successor just approaches business differently. And that's good – the business has to move with the times.'

'I will have to accept that he is my son and not my clone.'

External talent and strategicpartnerships

While people who work for family businesses generally do so because of the close-knit culture, this does not necessarily appeal to all and sometimes capable employees decide to move on:

'The strength of our family business is that it's a close-knit group of people of similar mind. It would be difficult to put an outsider in a directorship role. There would be too much conflict.'

'People who join from outside often have great difficulty adapting to our culture. We try to help them along, but if it doesn't work then they have to leave.'

In merger and acquisition situations, a strong culture can also endanger continuity because family managers have great difficulty giving up their own identity and making compromises on their business culture. Going into partnerships or merging with other (family) businesses can also be troublesome. Even when it makes good business sense, many managers take the view:

'We will never sell the business.'

Merger situations require continuous dialogue. Hard work is needed to keep the relationship working well.

Even the most experienced managers can have difficulties with cross-border partnerships. These often involve clashes of culture, with international cultural differences coming on top of family cultural differences.

'Cross-border partnerships fail so often because of conflicting family cultures.'

In summary

Both the old and the new generations must get the best out of the strengths that traditional values offer, and they must do this while also avoiding the risks of rigidity. BUILDERS must learn to be open to the more contemporary approaches of the younger generation to traditional family values and core values. BUILDING means not only looking after the ongoing culture, but also BUILDING on it for future generations. Furthermore, the BINDER also has a role to play here in terms of facilitating early and regular interaction with the younger generations. Also the MANAGER will want to formalize and document this evolutionary process.

Practical illustration

Scenes from a wedding

Two owner-managers, both founders of their businesses, saw a good business and strategic case and sufficient common ground to support merging their two companies. As things progressed they found themselves disagreeing more and more on small, but important, details. The ongoing aggravation resulted in the owner-managers and their merged businesses gradually moving apart. The cultural mis-match undermined the fundamentals of the partnership. The consequences became clear as the hand-over to the next generation approached. A conflict arose because the eldest son of one of the founders was ready for the directorship role sooner than the daughter of the other founder. The conflicts and the underlying cultural differences could no longer be bridged, and the businesses had to be de-merged.

5.3 DILEMMA 3: Engagements vs distance

This dilemma addresses the power plays between the family business and the family itself. Mutually held family values can strengthen the family business because they provide a guide for business success. But they can also cause the business to be weakened by conflict or by reduced family involvement, for instance in a nephew and niece consortium or where shareholdings have been diluted. The family managers we interviewed do not all agree on this point. Some try to involve the family as much as possible in the business and keep the feeling of unity as strong as possible. Others actually try to orchestrate a professional distance between the family, the shareholders and the business.

Distance preferred?

Not all those interviewed are in favour of close involvement of family and shareholders. One owner-manager, a BUILDER, would indeed like the family ties to be rather loose:

'The family only sticks to its family values when it suits them. Sometimes they can act very differently. As director, I have to deal with this.'

On the other hand, another manager has the problem of a family that wants to keep more distance from the business than he would like:

'There aren't enough family members committed. Sometimes I wish that the family was more involved. On the other hand, this does mean I can make my own mark on the business.'

Who to involve and who not to involve?

Family involvement in the business varies per family member, and the business must be protected from poor leadership and fragmented control. The issue as to which family members should be actively involved in the various life cycles of the business is heavily dependent on the beliefs and values within the family. In many families this is a key issue and one which does not always haveone clear answer:

'You must avoid creating false family expectations as to ownership and roles within the business. My mother was far too protective of my brother, and that was not so smart.'

So choices have to be made. Pre-determined values regarding family governance can act as a guide for the various family members here, and thereby avoid conflict.

'Leading a family business is fine provided you don't have too much to do with the family. My family does whatever it wants with the business.'

Practical illustration

All in the family?

Which family members should get a role and/or a share in the business and which should not? Our interviewees make it clear that family governance tends to push family business into emotionally charged decisions of all kinds:

- 'In our business you can only become a shareholder if you are in the board or part of management.'
- 'I want to encourage my children to move into the business. But if they end up having to work with nephews and nieces, then I see problems on the horizon - too many differences in outlook.'
- 'In-laws may not work in the organisation.'
- 'Granddad believed that share ownership should apply only to family members working in the business and not to other branches of the family.'
- 'Success is badly effected when too many family members are meddling in the day-to-day business. Three of four is about the practical limit.'
- 'Pay a decent dividend to shareholders who are not working in the business. It is crucial that this group maintains an affinity with the business.'

'The business is not a family game.'

At the heart of all these views lies the belief that "business goes before family".One of the managing directors we interviewed put it very unequivocally:

'The family ranks behind the business.'

This inevitably leads to dilemmas and personal crises, for instance when family governance results in decisions that have unpleasant consequences for individual family members.

Passing on value(s) to the younger generation

Succession can provide the culture with new impetus, but it can also lead to culture clashes between the values of the older and younger generations, and this can in turn lead (perhaps temporarily) to lack of continuity.

Each passing of the baton to a new generation creates greater distance from the ideals of the founder which in turn forces those involved into a discussion regarding all three dimensions (business, family and ownership): the strategy of the business, the involvement of the older generation and the rest of the family in management and oversight, and the re-balancing of ownership aspects such as control, dividend policies, and the mechanisms for shareholders to cash out. Even such 'moments of truth' and decisions on hard issues are driven by soft values.

Other scenarios include situations where the younger generation is not thought to be suitable for succession or choses a career outside the family business.These are also situations that require collective decisions.

Only my brother and I are still in the business, with my dad and uncle in the supervisory board. The others didn't have the right DNA. But they are looked after financially. Our motto is: Share the benefits not the control.'

'We have to teach our children to be good shareholders. It's not at all clear whether they will become managers in the family business.'

‘Family ties can only be kept close by frequent and open dialogue.’

Dialogue about family values
To the question as to how important a constructive dialogue about family values is to the relationships between business and family, the following response came up often during the interviews:

‘We don’t need to talk about family ties, they speak for themselves!’

Some family managers therefore find that a dialogue about shared values is often not necessary. Others say they do see the value of such dialogue, even though it may not always be formalized.

It is particularly the BINDERS who believe that a good dialogue about family values is essential and who tend not to evade the difficult discussions. They also realize that the need for dialogue increases as the share ownership becomes more widespread:

‘The family shareholders have had varying sorts of education, and you see that in their behaviour. As a result, the family values become less clear. It is important to address this every now and then.’

In earlier generations or life cycles, the close relationships between the managers and the shareholders were often a mirror of the close family ties. The new generation appears to be aware that there is still a need to encourage mutual involvement:

‘My uncle and my father met every Sunday, even if there had just been a row. The personal ties strengthened the business ties. But these ties are less strong in the generation thereafter.’

It is primarily the young MANAGERS who want to give the dialogue about family values some structure and organization tailored to the family’s needs.

‘We often refer to family values such as: Amongst ourselves anything goes. We want to have an open dialogue about things and to strengthen it in a somewhat different way by organizing family events’

Practical illustration

Learn early and don’t forget

At what stage do you start to involve the next generation in the management and ownership of the family business? Many managers struggle with this question. One of the managers interviewed was kept completely out of the family business as a child, right up to the time she completed her studies. The parents were very keen to give their child a reasonably care-free youth and the opportunity to make her own career choices. Now that the manager in question has her own children, she is keen to introduce them to the business at an earlier stage. Early knowledge sharing about the business and the related values can be seen as an expression of trust, and also encourages a sense of responsibility and commitment. Consequently, the manager has now opened the discussion within the family as to when (and how) to introduce the children to the family business. As part of this process, they are considering transferring a small part of the family wealth to the next generation at age sixteen for investment purposes.

At another family business, no discussion along these lines is necessary. The children are involved in the discussions about family values from a very early age. The reason:

‘The younger generation must understand that the business is not simply a cash register.’

Practical illustration

Let's update

Both the governance and the management of a family business involve looking ahead. At some point, the younger generation will come up for succession and/or shareholder consideration. This young successor strives to encourage this involvement at an early stage by making it a part of the formal structure. A family council takes place twice a year and involves all members of the family from a certain age

'I update the next generation (my own children and those of my three brothers) on what the family business stands for, how it's doing, and how things get done.'

In summary
Both too extensive and too little involvement on the part of the family have their downsides. What is crucial is getting a good dialogue going around family values and about the decisions regarding both the level of family involvement and how this is embedded. It is the founding BUILDERS and earlier generations who typically find this dialogue unnecessary, preferring to keep the family at a distance because of fears of unwanted meddling. The younger generation is often well aware of the need to share beliefs. Often this younger generation belongs to the BUILDERS group, which prefers to bridge any emotional or moral distance between the business and the family. Young MANAGERS primarily look to the rationality and importance of "managing" the family by means of clear agreements on family governance.

5.4 DILEMMA 4: Formalization vs unwritten rules

This dilemma relates to the tensions that exist between formalizing and documenting the family values and core values in the interests of internal governance and external transparency (on the one hand) and the effects thereof on the uniqueness of the family business.

Many managing and supervisory directors of family businesses stress that the informal cultures of family businesses do not lend themselves to formalized rules. The core values are implicit and they have deliberately not been formalized. But large family businesses often see the advantages of anchoring their family values and core values, for instance to attract management from outside. At smaller, less mature family businesses, the lack of formalization of family values (for instance in the area of governance) does not need to be problematic in and of itself. As the business grows and develops, some form of formalization (such as a family charter) often becomes inevitable to avoid disappointment and conflict, for instance in such sensitive areas as succession and ownership.

Practical illustration

Embed it or face a bloodbath

At one mid-sized family business the fear of formalization led to a succession crisis. There was no family charter and no documentation as to who could, or could not, be considered for succession, nor as to what selection criteria needed to be applied. This led to an invidious situation when, out of the blue, one of the nephews put himself forward as a candidate for succession. As was expected, it was not him but another family member who was selected as the new director.

The family manager involved looks back on this with mixed feelings:

'That rejection was really difficult for my nephew, because his circle saw it as a personal failure on his part. The succession is still a bloodbath.'

Practical illustration

A dynamic shareholders' agreement

Increasing dispersal of ownership over various branches of the family inevitably brings with it the risks of fragmentation of control, dilution of family values, and a fall off in involvement on the part of the family shareholders. Time to get the relationships formalized, thought the director of a growing family business. He asked all shareholders in writing how they saw the family's ownership and control developing in the future. A shareholders' meeting was called and a custodian arrangement was set up. The route they chose is not rigid, but flexible:

'Every three years we assess whether this shareholders' agreement is still fit for purpose, in part also because the children are getting older.'

The family charter

A family charter can be a sensible guiding light in the dynamics of family businesses often plagued by emotions, expectations and individual interests. The issue here is not so much what is put in place; more that something is put in place so that all parties' expectations are clear. Again, no one size fits all - individual families will want to make their own individual arrangements. This owner-manager (who has agreed unambiguous arrangements with the family and shareholders) put it like this:

'The family is unpredictable. So the shares are in the hands of a custodian. This secures stability of control, and I have little trouble with my shareholders.'

'We restrict control to those family members who are working in the business. We have made this clear in a family charter, though this does still have to be formally signed.'

Committing the governance principles to writing in the family charter is of particular importance to the younger generation, especially in a growing family with multiple branches. It is important that their involvement and roles in the family business be clear. It is particularly the MANAGERS who see the importance of committing the dialogue on family values to writing (see also paragraph 6.5 regarding the family charter).

Linking family values to core (business) values: Defining and communicating

Ask businessmen about the importance of agreeing and communicating the business' core values and you get conflicting responses. While the BUILDERS often attach little importance to formalization, the BINDERS are very keen to get the family values translated into core values, and the MANAGERS are keen to anchor these into the management and governance of the business.

'All that fuss about core values!'

The level of scepticism (and maybe also the lack of familiarity with the need for core values) comes through clearly in this quote:

'I do not particularly want to have to do business like a puppet according to some predetermined core values. I like my flexibility.'

Some managers we interviewed think that the biblical Ten Commandments provide sufficient guidance for the basic mores and ethics within a family business. This suggests a primary focus on integrity, and not on strategic core values, as the basis for sustainable success and creating distinctive business and brand value. Many managers are reluctant to document core values because they are afraid that such a process may clash with the culture. This owner-manager of a mid-sized family business also believes that a separate document about core values is unnecessary:

'Everybody in the business knows our simple motto: Cut the crap. Just do it!'

Growth, succession and internationalization

Smaller family businesses may perhaps make do with such unwritten values. But the larger and internationally operating businesses have an increasing need to document their core values, as one MANAGER is starting to realize:

'Now that the business has activities abroad, I wonder whether they really understand what I'm looking for. Maybe it would be a good thing to define our norms and values much more clearly.'

Larger and expanding family businesses often set out their core values in a publicly available document, but they must be able to live up to them internally. Publishing core values does not in and of itself achieve the desired result:

'Our motto is: Experience it, enjoy it, and learn from it! This is built into our staff performance appraisals and into our employee and customer surveys.'

'How do you effectively apply your core values in practice? A glossy brochure isn't enough. You have to hold people responsible for their behaviour.'

Managing culture and behaviour in a family business requires more than simply documenting and communicating. The core values also need to be embedded.

Embedding core values into the culture of the family business

Embedding the core values not only increases the business' ability to create value, it also gives the business some protection against continuity risks, while unwritten rules can make it vulnerable – for instance when a manager suddenly leaves and no longer able to act as role model in terms of culture:

'I've not actually been anchoring the core values for future generations. So, when I'm out of the picture, there is a real risk that the business can easily move in a whole new direction.'

Also when succession comes from outside the business, an unwritten set of cultural attributes can create insurmountable barriers, as we saw earlier. Managers and staff who did not grow up in the business may feel themselves excluded or held back, as they run up against these invisible customs and barriers. They may even unwittingly strip the business of its culture.

'We live up to the family values in our business without having to formalize them. This does mean you run the risk of diluting values when you have succession from outside the family.'

Core values can be anchored into the culture by making them an integral part of the behavioural, decision-making and remuneration processes (see also Chapter 6).

That last aspect is not always the case in family businesses:

'People are not held accountable for their performance in our company. There are no KPIs. You just have to do your work well.'

But what 'doing your work well' means is often left undefined.

Practical illustration

Embedding through tone at the top

What was striking from the examples provided by the managing and supervisory directors we interviewed to illustrate how family values and core values are anchored in their businesses, is the direct link between this and, for instance, the behaviour and decision-making processes within the organization's management team. The principle of 'walk the talk' is applied in practice across the board. One owner-manager commented:

'Transparency and respect are crucial in our bussiness. I appreciate it when people criticize and disagree – and I get angry when they don't.'

Lack of integrity also attracts an uncompromising response:

'If a staff member is dishonest, then he's out on his ear – even if he's a high-flyer.'

In summary

Most managers have little interest in formalizing the values they have been nurturing for years. On the other hand, formalization and documentation of family and core values does provide greater clarity, both internally and externally. BUILDERS must look to overcome their scepticism for formalization. BINDERS can play a major role in getting a family charter in place and bridging to the core values. MANAGERS will need to concentrate on anchoring family values and core values into behaviour, decision-making and systems.

5.5 DILEMMA 5: Transparency vs opacity

Family businesses are often closed by nature. Financial results are not made public and the annual report is often not published. Family businesses prefer to go their own way. Supervisory directors are sometimes seen as busy bodies and have little influence. Family managers are also slow to accept interference from for instance works councils, labour unions or government. And on top of that many family managers have difficulty with prescribed governance requirements, highlighting instead their ability to self-regulate and the social involvement of their businesses. On the other hand, family businesses are being faced with calls for external accountability reporting, and they can contribute greater transparency through a higher profile in, for instance, the labour and M&A markets and through the professionalization inherent in expansion and going international.

Social engagement renders external responsibility reporting unnecessary

In Chapter 3 we saw that family managing and supervisory directors prefer not to have formal governance requirements forced on them, preferring instead a limited set of principles that recognize the pluriformity of the family business. Family managers often take the view that they do not owe the outside world any responsibility reporting because of the loyalty they display to their employees and their traditional values such as long-term vision, sobriety (absence of bonus culture) and aversion to risk.

‘To us stewardship is one of the most important family values.’

In addition to this, many highlighted the family businesses’ social responsibility, stemming from their long-standing involvement with the local community. Such involvement is commonly expected and taken for granted the community:

‘As a family business we often feel that too much is asked of us by the local community. Sadly, we had to decide this year not to make a donation to the local aquarium.’

The conflict between transparency and opacity is widely recognizedby the managing and supervisory directors we interviewed. Why must more transparency be forced on them? After all, they say they are clearly open to the needs of the family, the staff and other direct stakeholders. But the dilemma does become more critical as the family company gets bigger and/or when the business is about to make some sort of strategic leap on one of the three axes (business, family and ownership). At that point the question arises as to how much more transparencyand greater influence on the part of the different internal and external stakeholders is appropriate for the life cycle the business finds itself in.

Being open for a supervisory board?

The bigger a business becomes, the closer it comes to needing a supervisory board – either voluntarily or imposed by law. This also requires a certain degree of transparency – providing information as well as being open to advice and even oversight by third parties. The views the managers we interviewed have as regards the usefulness of and need for a supervisory board are somewhat varied. In the main, the BUILDERS who were also the founders of the business are not at all keen on what they see as interference by supervisory directors (an attitude consistent with the start-up phase.) Said one owner-manager:

'We know what we need to know, and we don't need a sounding board. For the time being, this obstinacy has been successful.'

'There's no supervisory board here – and there isn't one coming either!'

Nevertheless, BUILDERS do see the need for a sounding board, but they prefer this to be a fellow businessman (someone they see as an equal) or a group of 'old hands' whether in the form of a regular advisory board or not:

'I really do not need supervisory directors. I often get the best advice for free from other businessmen I know.'

From sounding board to oversight?

Family businesses often install an advisory board when they have regular need of a sounding board. Sometimes such an advisory board can be a prelude to a supervisory board. For the most part BINDERS recognize the importance of the contribution that outsiders can make. In addition to offering advice and allowing access to their networks, supervisory directors often take on the role of intermediary vis à vis the family and shareholders, they can provide an independent view on key issues such as succession, and they can provide legitimacy to the outside world. But BINDERS are looking primarily for advice while retaining power very much for themselves.

'The supervisory board is simply a sounding board. At the end of the day, I'm the one who decides.'

It is mainly BUILDERS and BINDERS who do not want to be forced into installing a supervisory board, though they do take a somewhat nuanced view of this:

'The corporate governance legislation clashes with ethos of the family business - it's a strait jacket. It is important that you get views and critical questions from outside, but not in through formal oversight role.'

MANAGERS, in the other hand, point to the importance of oversight of family management, though they too are reluctant to cede control:

'A strong oversight function is essential because not all shareholders are on the board. It's the role of the supervisory directors to keep me on the ball.'

Practical illustration

The wise old uncle or aunt

Supervisory directors act not only as a sounding board or in an oversight role, but can also be an objective intermediary between the business and the family – for instance, where the family is quite distant from the business, the relationships are not close, or in very specific situations such as succession or change of ownership.

This family manager handles the contact with the family himself:

'The family operates almost as a one-tier board, given the extensive consultation that takes place. If something's up, I call my sister (and fellow shareholder), and her son sits in on any discussions with the bank.'

In other family businesses, the relationships are less self-evident, and the SB bridges the gap. Says one owner-manager:

'Finding the right structure was a bit of a puzzle, but in the end we did set up an SB. This is also an important part of the accountability back to the family.'

‘You think you’ve got your values well embedded, but it’s still useful to have a supervisory board that keeps an eye on things and provides feedback.’

Nevertheless, many managers continue to wrestle with opening up the closed family fortress and getting individual family members to cede some of their influence. They also understand that this openness can ultimately contribute to the continuity of the business:

‘As board, you shouldn’t be afraid of a supervisory board or even of a works council. They contribute to the wellbeing of the business, the staff and management.’

But also where the supervisory board’s oversight role is well embedded, its role as employer often does not come to the fore. Of course it is not an easy task for a supervisory board to dismiss a dysfunctional management board. In fact, in reality, it works the other way round – the shareholders in the management board can dismiss the supervisory board.

‘One of our basic values is trust. If the supervisory directors no longer have faith in what we tell them, then we have a big problem.’

Welcome at the kitchen cabinet?

In line with the principles of good governance, putting a supervisory or advisory board in place, either in an oversight role or as a sounding board for management, requires professionalization both of management and of oversight - for instance, the role of the supervisory or advisory board to provide feedback to management in terms of culture and behaviour and how they pull together the information they need to do this. Family managers are not always keen on providing supervisory directors with the direct and proactive access to the business that they need to get a proper insight into the culture within the family business.

Most of the managers we interviewed do not actually have a problem with the supervisory directors making their own enquiries within the organization. Once family managers have ‘opened the kitchen door’ to supervisory directors, they apparently then leave it wide open and, surprisingly enough, they are less troubled than some listed company CEOs by supervisory directors independently gathering the information they need. One of the BUILDERS actually sees a proactive role for supervisory directors here:

‘The supervisory board must be able to make its own enquiries into the tone at the top, the monitoring of the culture and the challenging of values.’

Another manager also confirms that he has no objections, but it must be done in consultation with the managing board:

‘I am more than happy for the supervisory directors to have the run of the place and to ask questions of anyone they wish. But prior consultation is a must.’

Practical illustration

Getting down onto the factory floor

What do the BUILDERS, BINDERS AND MANAGERS think about supervisory directors venturing onto the factory floor?

THE BUILDER
'The presence of supervisory directors at informal gatherings such as staff meetings and receptions is very much appreciated. This also gives supervisory directors opportunities to find out for themselves what the issues are.'

THE BINDER
'It makes sense that supervisory directors don't just accept what the owner-manager tells them about culture and behaviour. They need to talk to others in the business and get a sense of what goes on in the workplace and in the factory.'

THE MANAGER
'Everyone needs to be open to criticism, that's how you learn. It is important for the SB to see the shop floor for itself and to experience the culture and behaviour within the business.'

How open are family managers (and supervisory directors) to evaluation?
It is clear from the interviews that, as an increasing number of governance codes prescribe, there is still progress to be made in the area of self-evaluation of both the managing board and the supervisory board.

Managing and supervisory directors are well aware of the importance of a thorough self-assessment, but they lack know how and experience in the area. Says one manager:

'I have no idea whether (or how) supervisory directors evaluate their own performance. They ought to be doing that - management is evaluated, after all. They should also be representing my interests as majority shareholder.'

It seems that some supervisory directors in family businesses are already involved in some serious evaluation:

'Behaviour is addressed as part of the evaluation process. We keep it on a business-like level, otherwise it doesn't work.'

We are seeing more and more evaluation of board performance in family businesses. In particular, the younger generation is trying to move this forward.

'There is little enough evaluation taking place – never mind evaluation based on core values and behaviour.'

Practical illustration

360 degree feedback for the owner-manager

The position of the owner-manager used to be unassailable. As the founder, leader or cultural role model of the business (and often as all three at the same time), he (there were few female owner-managers in those days) would be treated by both the family and the staff with a mixture of awe and respect. Open criticism of his performance was unthinkable, even if it was damaging the business.

But times change. Either from their training or from experience they have had in other companies, the younger family managers have generally had experience in taking feedback. They are therefore more open to assessments of their performance and they see this as an integral part of a healthy business ethic. In one of the family businesses taking part in this study, the boss and his fellow directors deliberately open themselves up to an annual 360 degree evaluation by members of the management team.

This young owner-manager has also set up his own feedback process:

'Taking feedback in my position is difficult, of course. But I don't avoid it. In my father's day, no one criticized his performance. To my mind, it's important to open this up for discussion.'

In summary

Transparency vs opacity: This dilemma becomes more and more acute the more the business expands and gets higher visibility and the greater the pressure coming from both internal and external stakeholders. Staff want some say, society at large wants more public accountability and transparency, and governance regulation from central government is getting closer and closer to the family business. Supervisory directors can help family businesses in their step-by-step path to greater transparency while still maintaining consistency with the business' culture. The BUILDER will have to put to one side his aversion to outside involvement, the BINDER will have to get the family on board with this new level of transparency, and the MANAGER will need to get the structures in place to deal with it.

6. The fourth cultural dimension: Embedding

We saw in the previous chapter that managing and supervisory directors of family companies underline the importance of culture and behaviour – but also that they differ in the ways in which they address and tackle the dilemmas they come across. And we saw that the (often unwritten) management of culture and behaviour in family businesses takes place across three different dimensions.

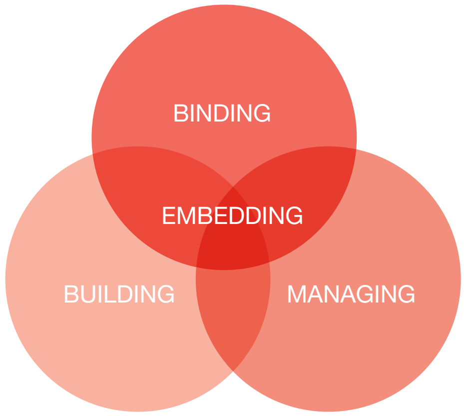
These three dimensions are:

- BUILDING: (Ongoing) development, support and monitoring of the founders' culture and traditional values; corresponding role: the **BUILDER**;
- BINDING: Binding the family, family shareholders and stakeholders; corresponding role: the **BINDER**; and
- MANAGING: Professional leadership and development of the family business; corresponding role: the **MANAGER**

Each dimension is important in managing culture within the various elements of the family business, and each is a driving force for internal connectedness and sustainable success. The optimal level of management is achieved when there is balance between the three dimensions and they each strengthen each other. To achieve this, managing and supervisory directors need to combine all the three dimensions into their leadership or oversight and advice: building, binding and management of the culture, family values, core values and behaviour within the family business.

PwC has combined these three dimensions into the fourth dimension:

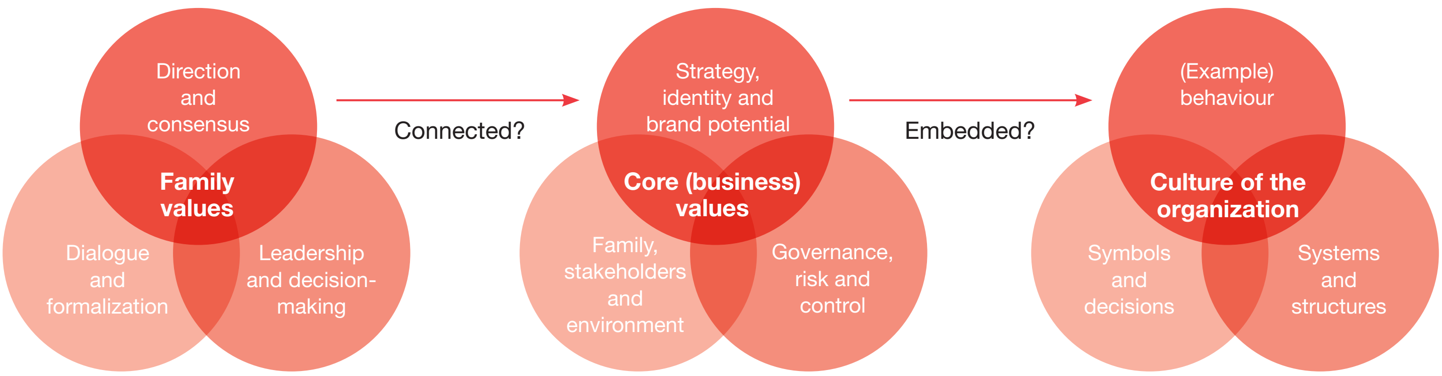
- EMBEDDING: Anchoring culture and behaviour into the family business.



This fourth dimension acts as the glue between the three other dimensions, and helps them strengthen each other. In the diagram above, each dimension overlaps the other two dimensions. Together they make up the building blocks for **EMBEDDING** culture and behaviour into the family business.

6.1. Managing family values, culture and behaviour

Managing family values, culture and behaviour is directed towards connecting and anchoring family values and core values with a view to achieving sustainable success and robust value creation for future generations. This involves a one-on-one reconciliation or alignment of the family values, the core values and the actual culture of the organization, along the following lines:



Achieving this connection and embedding involves four inter-related steps:

1. Direction over family values: (Re-) defining the family values, focussing on those which will be adopted and upheld by all with a view to keeping the family dynamics in balance;

2. Linking family values and core values: Linking the family values with the core (business) values in the family business, to act as a compass for appropriate interaction between the family and the business;

3. Anchoring them into the day-to-day culture: Anchoring the family values and core values into the organization's culture and into the management ethos of the family business (or businesses);

4. Embedding and monitoring of culture and behaviour: Anchoring the family values at the level of the family itself (by means of a family charter) and anchoring the family values and core values into the business (using cultural assessment processes, succession planning and valuation).

These steps are further described in the following paragraphs. Each step consists of three elements, as indicated by the three circles.

6.2. Direction over family values

When putting in place protocols for interaction between family values, core values and the day-to-day culture of the organization, taking control of the family values is the first priority. In this, the managers find themselves in the overlap between the elements of family and business. While the business is (or ought to be) run on a rational and professional basis, emotion in the family and between family members comes into play. To any avoid emotional and relationship issues within the family and between family members getting the upper hand, it is important that there be one mutually shared vision of family values. Or, as one owner-manager we interviewed put it:

'It is important that everyone in the family understands what we do and why we do it. I have no time for yes-men. I'm all for passion, but we all need to be pulling our weight!'

It is precisely because family values are the driving force behind a successful family business that it is absolutely crucial that control be maintained over these values such that their power is fully utilized and dysfunctionality is avoided. So managing culture and behaviour in family businesses firstly involves bringing family values and core values into line with each other, including the strategic and governance objectives. The challenge here is to create a mutually acceptable level of involvement, a broad base of acceptance among the various generations, and a respect for the differing roles within the family, while at the same time managing firmly through functional family values – values which can be the baseboth for the core values and for the desired culture within the business now and for future generations.

Refreshing the values

It is important that family businesses see generational differences as an opportunity to update and refresh their traditional values. In the dynamic world of family businesses, evolution is needed to secure the continuity of the business and of the differentiating aspects of its culture in the long term.

‘I would like to put the significance of family values on the table for discussion. For the business it’s crucial that all nephews and nieces display the same basic values.’

To achieve this, managers need to get a dialogue going with the family about a common set of family values, and then agree jointly whether any of these family values are (dis)functional to the business. A robust dialogue like this around the dynamics between family, shareholders and the business, coupled with an optimal agreement between them, contributes to a successful business environment and to continuity, solidifies the long-term involvement of the family, creates a good base for future generations, and helps prevent conflict.

Some managers we interviewed are already well aware of this:

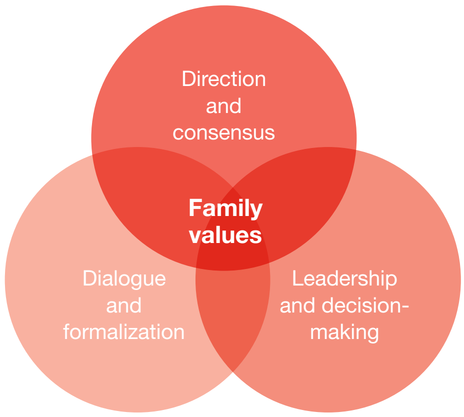
‘I want to start off with a dialogue about a sensitive issue like succession. A number of people in the family haven’t yet got that far. So now is the time to get the dialogue started.’

‘Dialogue is needed to keep the family connections strong. For instance, if you don’t make it clear why some family members can work in the family business and some can not, then all you get are raised eyebrows.’

Control over family values: a ‘3 act play’

Dialogue is the key aspect of good control over family values. Managing family values consists of three elements:

- **Direction and consensus:** Insight into and awareness of the pluriformity of the individual family members’ values, beliefs and ethics that form the basis of mutually shared family values (or, put another way: ‘how things are done within the family’);
- **Dialogue and formalization:** Dialogue about how the family values should be set up and documented in order to keep the interaction between the family and the business in balance (family governance);
- **Leadership and decision-making:** Managing the values (dysfunctionality or otherwise) to achieve (a) good relationships within the family, (b) sustainable and responsible shareholdership, and (c) consistent management of the business.



Practical illustration

An anniversary of some note

This owner-manager, with 25 percent of the shares of a large family company, waited for a suitable moment to apply a more stringent control over the family values – the end of the five year period during which family shareholders could opt to leave the company.

'At that point, I wanted to get a discussion going about how we interact with each other, what we stand for, and what my role isin all of this.'

6.3. Linking family values with core (business) values

Culture and behaviour are the driving forces behind value creation in sustainably successful family businesses. So, once the family values have been formulated, they need to be translated, through discussion, into core values and culture so that they become an integral element of the behaviour within the business.

Some family managers do indicate that they are aware of this:

'Our values are clear for us as the family, but they are not yet clear to everyone in the business. So we are now formalizing them into our core business values.'

'We want to focus more on our core values – think about who we are and who we want to be, how we achieve that, and what sort of behaviour we should be expecting from everyone.'

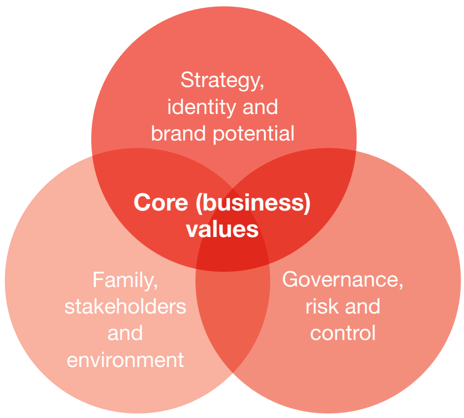
As indicated earlier, the need to engage in this dialogue increases as the business develops, for instance as it expands, goes international, and/or comes up against succession.

Three steps to core values

Formulating the mission, strategy and core values represent the first step in clarifying the culture that the business wishes to get in place. This involves a thorough analysis and definition of the basic principles, and this can be done in three steps:

- **Determination of what the core values should be**, in terms of:
  - the strategic objectives, client needs and brand;
  - the family values and the expectations of the broader group of stakeholders (both internal and external) in the environment the company operates in;
  - the governance objectives, including risk management and management control;
- **Having a dialogue** about what core values are needed and what core values are currently in place;
- **How the core values need to be mobilized** in order to achieve the desired culture and behaviour in the work place.

This is summarized in the following diagram:



6.4. Anchoring into the day-to-day culture

You don't build a powerful culture by what you say, but primarily by what you do. As we said earlier, on this point the managing and supervisory directors we interviewed are entirely agreed. One of those interviewed stressed the importance of consistency:

'Without consistent behaviour you will not be accepted by your customers and vendors.'

'You must be consistent in what you say and in what you do.'

That's easier said than done, of course. It is easier to say how we want to behave than it is to anchor the right culture into our day-to-day dealings and into the way we do business. One of those we interviewed acknowledges that more is needed:

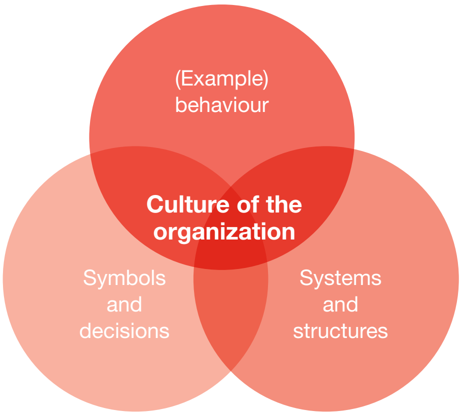
'A glossy leaflet summarizing the core values doesn't cut it.I am still not happy with the extent to which we actually reflect them in our behaviour.'

No family business can afford to be something else to what they pretend to be, certainly not in these times of social media pressure for absolute transparency and merciless exposure of any questionable behaviour. Consistency between the talk and the walk – between what you say and what you do – is critical in building and retaining the trust of customers, staff, family members, financiers and other stakeholders. In comparison with other businesses, family businesses often do come close to achieving pretty much the culture they are aiming for. A growing and self-made family business generally insists on its values, culture and behaviour being properly anchored in in order to ensure that this continues to be so.

The three pillars of an organization's culture

In order to achieve the culture intended by and formulated in the core values, it is important to know that behaviour is driven by what is really valued within the organization. And, again, that is brought home not by what is written down in theory but by what actually happens in practice. The messages given out as regards the type of behaviour that is really valued within the organization come through clearly in its day-to-day practices. They have their roots in three aspects (pillars), which together shape the organization's culture:

- **Tone at the top** the behavior of management and others within the organization (e.g., 'tone at the top' and 'peer pressure'),
- The **symbols**, or the decisions made concerning time, money or other scarce resources (for instance, who will make which promotion and why? Mainly those who achieve their financial targets? Or those that behave in line with the core values?), and
- The **systems and structures** within the organization (e.g., rules and codes, the remuneration structures, or the performance management system).



Consistency is the key

In terms of managing culture, and the influence that this has on behaviour, consistency is of the essence, consistency in the messages given out and consistency in the decisions made on a daily basis. To illustrate the effects that each of the dimensions has on managing culture and behaviour, and the roles that managing and supervisory directors have therein, we go back to a number of quotations and real-life examples from the interviews we held with managing and supervisory directors in family companies:

- **Tone at the top**
  'Because of our open and transparent approach, staff come to discuss their problems with the family. By asking open questions and taking the time, you show that you're interested and you build trust.'

- **Symbols and decisions**
  'We focus on the long-term. Some of our staff push sales in December for bonus purposes, but we don't accept this because it does not benefit the long-term.'

- **Systems and structures**
  'We apply four core values: winning, helping, communicating and learning. These guide our business practices and are reflected, as far as possible, in our performance evaluation processes.'

These examples demonstrate that the core values are not just words but that they are reflected in the way things are done. They are signals that people believe that the documented core values really are important are applied in practice. Such signals also determine how staff believe they should behave in their day-to-day work.

6.5. Safeguarding and monitoring of culture and behaviour

Once the family values have been formulated and translated into core values and the actual culture has been brought into line with the desired culture, the focus then shifts to the fourth step: EMBEDDING. Anchoring family values and core values into the family business' culture and behaviour is a necessary step in maintaining the strength of the family business in a changing environment while at the same time retaining sufficient flexibility to anticipate upcoming opportunities and threats and to ensure continuity.

Three instruments for embedding

Anchoring of the family values and core values is achieved by means of three specific instruments:

- The family charter, anchoring the family values at the level of the family;
- Evaluation of the culture, anchoring the family and core values into the culture of the business; and
- Arrangements for succession and transfer ofownership.

> 'I have put family governance on the agenda, so that the business is assured of good management and supervision into the future.'

The family charter

The managing and supervisory directors we interviewed are not too concerned about what is put in place, simply that something good is put in place. This is clear from the interviews (see also Chapter 5.4). They also see the importance of clarity and documentation of the governance principles within the family, though each family will want to make its own choices in this regard.

The family charter is particularly well suited to documenting the agreements made within the family, in other words: EMBEDDING. The code offers plenty of room for the family to decide amongst themselves which agreements should be included and how they should be included. What is important here is that the decisions families take are well balanced (see the table below).

Putting it into practice

The family charter

Families in business could address any of the following issues in their family charter:

- The objectives, beliefs and opinions of the family, including the family values and standards for culture and behaviour;
- The positions of family members in terms of the various potential roles (such as owner-manager, next generation, in-laws etc);
- Positions for family and non-family members in the business, including qualifications required, work experience, job descriptions, training plans, career development, arrangements for incapacity to work, and pension plans;
- Shareholding structures, dividend policies and control structures, including disposal and valuation of shares, transfers and mergers;
- Management, supervision and accountability, for instance the installation of a family council or supervisory board (and the qualifications needed for these), together with policies regarding communication and the provision of information (both financial and non-financial);
- Family wealth management and structures therefor (for instance, tax structures), including the possibility of introducing a family office;
- Support for good causes and consistency thereof with the family values

Putting it into practice

Assessment of the culture

The evaluation ofculture falls primarily into three steps:

- Review of the culture actually in place, to assess how close it is to the desired culture;
- Determination of the steps that need to be taken to bring them into line with the core values;
- Monitoring of the culture's ongoingalignment with the family values and core values.

As this assessment of culture enables any problematic areas to be addressed in clinical fashion, surgical change is no longer the invasive, abstract (and therefore unmanageable) process that family managing and supervisory directors fear. Rather, it becomes an automatic part of daily life, and this slowly but surely generates a stronger culture.

Assessment of the culture

In the first dilemma in Chapter 5, we saw that culture is a strength in family businesses, but that it also clearly has downsides. It is therefore important that managers regularly assess how they can maintain their family values and core values anchored in a balanced fashion into the culture and behaviour of the family business (see Chapter 6.4). We also saw earlier that the supervisory (or advisory) board is ideally placed to hold a mirror up to family managers.

This 'mirror' must be such that both the model behaviour and the messages and structures within the family and the organization are crystal clear. Are the purported family values really being maintained? Are the personal dynamics and behaviour of the key players consistent with the core values which have been determined? Do the tone at the top, the daily decision-making and the systems and structures support adherence to these core values, or do they actually hinder it?

Answering these questions requires some structured information about the actual culture and where it does not match up to the desired culture. This can be achieved, for instance, by evaluating of the culture in this way. This provides managing and supervisory directors with the tools to manage culture and behaviour. PwC Behavioural & Cultural Governance has developed a model which measures, analyses and manages the extent to which the actual culture matches up to the desired culture. The model also provides a clear and objective evaluation of the culture in the family business, the extent of which dependson the various optional levels of depth, scope and focus.

Succession planning and transfer of ownership

To facilitate transfer tosucceeding generations, it is important that family businesses devote attention, on a structured basis, to succession planning. This involves not simply handing the management baton over to the next family manager, but also getting in place the appropriate financial, legal and fiscal aspects of the transfer or sale of equity (share ownership). A key element of this is to put a financial valueon the family values and company culture (these being the most important value-generating assets that the family company has). Key questions that arise here are:

- What is the business worth?;
- How important is the family to the value creation process of the business?
- What is the value of the business without the family and/or without the family values?
- What plans are in place to protect the value that has been created, including the value of the culture?

The answers to these questions are key to determining the value that best reflects the real value of the family business.

> 'There is one particular part of our business where we don't walk the talk any more. I want to put this on the agenda for discussion.'

‘In the next family meeting with my brothers and sisters, I intend to brainstorm about succession strategies and carefully evaluate all the options.’

By embedding the succession strategy, families can give some direction, for instance, as to how the emotions inherent is succession should be managed, how the business can best be prepared for sale, or how best to restructure fiscally after a hand-over to the next generation. All of these situations carry risks to continuity and must therefore be well addressed in advance in order to preserve the value-creating power of the family and of the family business for future generations.

6.6. Ten questions to ask about culture and behaviour

How can managing and supervisory directors (both family and non-family) apply the insights provided in this publication to their management of culture and behaviour in the day-to-day operations of the family business? To provide concrete guidance on this, we have put together ten questions. In responding to these questions, they can quickly get a snapshot of the culture in their own family business: Is the purported culture really still in place? Has it developed negative influences? Does it need updating? The various elements of the family business are always moving with the times, and it is critical to anchor and monitor the application of the intended culture on a continuous basis. That applies to all those involved, whether they be BUILDERS, BINDERS or MANAGERS.

1. What are our family values, what do we stand for, and how do we interact with each other?

2. To what extent (and how often) do we seriously talk about how we put our family values into practice, and how much consensus do we have about them within the family?

3. Have we anchored our family values into any form of family governance, for instance into a family charter (with sufficient financial and fiscal structure to it)?

4. Have we translated our family values into core (business) values and reflected them in the culture we want to achieve for our family business?

5. Have the core (business) values and the desired culture been defined clearly and unequivocally enough in the type of behaviour we expect to see in the workplace?

6. As family and management, what signals do our choices and decisions send out?

7. Is our appraisal and remuneration of staff consistent with the family values and core values (or are we simply rewarding staff on the basis of financial performance alone)?

8. Do we properly reflect family values and culture in our succession planning and in our valuations of the business?

9. Do the family managers have access to a critical sounding board and to sufficient independent outside thought, for instance through a supervisory or advisory board and through timely involvement of the next generation in the business?

   And for supervisory directors:

10. As supervisory or advisory directors, how do we obtain enough insight into the family business to be able to hold a serious dialogue with management about the strengths and weaknesses of the culture?

Annexes

I The 19 propositions put to the managing and supervisory directors

1. It is the culture of our business that has made us so successful.
2. Communications about core values are often nothing more than empty words and window-dressing, and certainly not a fundamental aspect of business.
3. It is the broadly held and clear set of underlying family values, values that we hold dear and nurture, that makes the family so.
4. The way we conduct ourselves in the business has nothing to do with the way we, as a family, live our lives.
5. It is primarily the individual values of the owner-manager/founder that determine the culture in the organization, and not those of the family.
6. As the number of family shareholders increases, some dilution of family values becomes inevitable.
7. The most significant cause of succession difficulties in the family business lies in a fundamentally different set of core values between the old and the new generations.
8. Our business culture is clearly defined by our core values
9. Anchoring family values within the organization is of great importance to the success of the next generation.
10. A constructive dialogue about the importance of our family values is critical in keeping the family ties strong.
11. By anchoring our family values into the organization’s culture, the safeguarding of these values is less dependent on the need to have a family member take over.
12. Family values are often so dominant within the business that cultural differences with other family businesses are often a stumbling block tosuccess.
13. Culture is not about what you say, but about what you do.
14. Our core values drive everything we do in the organization.
15. The strength of the family business lies in the underlying family values. You can not replace these with rules, codes or protocols.
16. The continuity of the family business is best assured with a one-tier board structure.
17. The supervisory/advisory board needs to do its own fact finding when it comes to assessing culture and behaviour.
18. Staff in our organization are managed, evaluated and remunerated on the basis of their behaviour.
19. Our core values, behaviour and interaction with each other are not covered in the self-evaluation processes of our management and supervisory boards.

II PwC Behavioural & Cultural Governance for family businesses

PwC Behavioural & Cultural Governance supports family businessesin their evaluation, management and embedding of values, culture and behaviour. The approach can vary in terms of scope (the managing board, the supervisory board, only one single part of the organization or the whole organization), focus (family values, core values, strategy implementation, board evaluations, governance objectives, or soft controls) and extent (from quick scan to full evaluation).

PwC provides value-added services to families, family councils and managing and supervisory directors of family businesses in many areas, including the following:

- **Facilitate the dialogue about (re)formulating family values**, in particular the creation of shared values designed to generate and maintain a balanced set of family dynamics (for instance by means of a family charter)

- **Linking family values to core values** as a compass for appropriate interaction between the family and the family business, including a strengthening of the (consensus regarding) the vision of the business or creating a new esprit de corps within the boardroom

- **Assessing the culture in the business:** Evaluation of the culture provides an indication of the extent to which the actual culture is in line with the desired culture and into the aspects in which they diverge. Depending on the scope, focus and extent agreed, an evaluation of culture can provide the managing or supervisory board with the information they need to focus the culture sharply and to be able to measure progress on the steps taken

- **Evaluating the management culture** provides insight both into the group dynamics and into the effectiveness of the managing or supervisory board's performance as a team (whether or not as part of a formal evaluation process).

For more information about managing family values, culture and behaviour in family companies, please contact Olof Bik, by email (olof.bik@nl.pwc.com) or by telephone (+ 31 (0)88 792 51 68).

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