

FAMILY BUSINESS

WHEN VALUES ARE A FAMILY AFFAIR



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What values do major companies embrace in their mission statements? Do they differ between family and other businesses? A study carried out by the head of IESE's family business department examines these questions.

VALUES • COMPETITIVE ADVANTAGE • FAMILY BUSINESS • RESPECT • TRANSPARENCY

Integrity, respect and a focus on clients are the three values most frequently cited by big companies - family-owned or otherwise - in their declaration of principles. However, the results of a study by the head of IESE's family business chair suggest that these principles are not the same for every business.

The aim of this study was to see if there are values that specifically apply to family businesses. To this end, the values of the top 100 family firms and top 100 non-family companies were analyzed, using their web sites and publicly available information.

WHAT IS MEANT BY VALUE?

- When we speak of values, what we are talking about, according to Schwartz and Bilsky², is:
- Concepts or beliefs: principles or ideals that underpin our judgments and our actions
- Associated with objects (clients, brand, profits), behaviors (efficiency, integrity, thoughtfulness) or desired ends (comfort, amusement, happiness)
- They go beyond particular sets of circumstances: they are valid in every situation
- They guide our choice and assessment of how people behave, and of things and of events: they are criteria for assessment and conduct

- They have relative importance: there is a hierarchy of values.

CHARACTERISTICS OF FAMILY BUSINESSES

- According to the Schwartz and Bilsky's definition (see Figure 1.) the values embraced by family businesses are concerned with behavior. Among them are values such as generosity, humility, communication, service, quality, excellence, creativity and entrepreneurial spirit. Some of these are also present in non-family businesses but less often. Some values, such as generosity, are exclusive to family businesses.

Generosity is related to the principle of valuing other people³ and is linked to altruism. A generous person is never too busy to help others and enjoy carrying out good works for the benefit of others even if he or she doesn't know them well. **Amancio Ortega**, chairman of Inditex, says his family business is founded on the value of generosity. "I believe that a society is enriched by the work and the contribution of all of its members," he says. "The desire to make the most of my experience led me to set up the Amancio Ortega Foundation. My only wish is that, through the strategies and activities of the Foundation and the Inditex group, the fruit of my personal and professional experience will reach those who are most in need of support and encouragement⁴."

The principles embraced by family business are based on a long-term view



		HIERARCHY OF VALUES			
		NOBLE	USEFUL	PLEASURABLE	
TYPE OF VALUES	OBJECT / OUTCOME	customers, employees, environment, shareholders, excellence	employees, customers, quality, excellence, performance, environment, shareholders	quality	
	END-STATE	happiness		happiness	
	BEHAVIORAL	ATTITUDES	respect, responsibility, care for people, trust, diversity, service, community involvement, transparency	innovation, entrepreneurship, openness, commitment, transparency, professionalism, continuous improvement	innovation, passion
		SKILLS		teamwork, communication, creativity, leadership	creativity
	VIRTUES	integrity, respect, humility, generosity, ethical behavior, honesty, fairness			

Table 1. Classification of the 35 values most often cited in the sample.

and are defined by thinking of future generations. For example, the values of creativity and entrepreneurial spirit. A characteristic of family businesses is a desire to keep up to date and to keep creativity alive as well as the entrepreneurial spirit that led to the establishment of the business and is fundamental to its survival.

The family business Louis Vuitton Moët Hennessy sees values as fundamental. “The success of our group over the long term is based on a combination of artistic creativity and technological innovation: we have always been and always will be creators. Our business is dynamic and motivating. It rewards initiative and the entrepreneurial spirit and offers real responsibilities⁵.”

Other values that stand out in large family businesses are excellence and quality. “Never accept mediocrity,” Alex Manoogian, founder of the Masco Corporation, says. Among his company’s declaration of values is the following: “always make an effort to achieve excellence and maximum quality⁶.”

A COMPETITIVE ADVANTAGE

- When they really mean something,
- values determine every aspect of the family business. They are the essence of its business culture, unique and

inimitable, and become a source of sustainable competitive advantage. Furthermore, each of these principles has positive consequences for the family and the business. For all these reasons, all family businesses should use their values to mark out their difference and to bring value to society.

There are different mechanisms for encouraging values. According to much of the research carried out by psychologists⁷, generosity can be encouraged by putting emphasis on a positive state of mind, empathy and social responsibility. Humility can be encouraged with simple exercises that promote gratitude between family members, such as keeping a daily personal gratitude diary⁸. Good communication can be improved by encouraging people to share their feelings and express their point of view, which teaches people to solve problems in a collaborative manner, according to the psychologist **John Gottman**¹⁰, an expert in family relationships.

A CLASSIFICATION OF VALUES

- As we have already pointed out, the
- majority of values in family businesses refer to behavior. Within this category fall positive attitudes, which are ways of facing up to life (entrepreneurial initiative, a spirit of service, professionalism), abilities and techniques (communication, creativity, teamwork) and ethical values and virtues (generosity, honesty, respect). Positive attitudes help us to take a positive view of things and technical proficiency allows us to do our work well, while virtues mean that we behave in an ethical way. Some of the behavioral values identified in the study were also considered virtues, such as integrity, humility, generosity and respect.

What criteria can we apply to create a hierarchy among various values? In our search for an answer, we could look to the solid ethical tradition of Aristotle. According to the Greek philosopher, values are grounded in the “good” and the “desirable,” and the basis of these variables may be:

- Noble: they are good in themselves, whether applied to individuals or the community (respect, humility, work).

- Useful: goal-oriented, such as the company's success (transparency, excellence).
- Pleasurable: producing satisfaction or well-being (enthusiasm, enjoying work).

For Aristotle, these three forms of goodness existed in a natural order, with the noble at the top, followed by the useful and the pleasurable. The order of the last two is inter-changeable.

A business that doesn't make a profit is unsustainable. However, this doesn't have to be its *raison d'être*. A business can aim beyond mere financial profit to the common good. Thus, in its declaration of principles, it will probably cite useful values but these must always be accompanied by noble ones. It is less common for pleasurable values to be cited. In any case, it should be borne in mind that the three types of values are not mutually exclusive.

Table 1 proposes a classification of values from a double perspective: the hierarchy of noble, useful and pleasurable values (based on Aristotle) and the classification used by Meglino and Ravlin¹¹, according to whether the values refer to objects, end states or behaviors (see Table 1).

Entity values refer to the value with which a person invests an object or an outcome. An outcome value is the value that an individual places on an object or outcome (e.g., the value one places on pay). End-state values are those self-sufficient end-states of existence that a person strives to achieve (e.g., a comfortable life, wisdom) are pursued for their own sake. Behavioral values are modes of behavior (e.g., honesty, helpfulness) rather than states of existence and describe behaviors that facilitate the attainment of terminal values.

As we can see, the two are compatible. Values that companies list in their declarations may refer to particular objects (brand), behavior (humility) or end states (client satisfaction) and, at the same time, may establish a hierarchy among them in order of priorities. In order to make it easier to understand this classification in two dimensions we have included in the table the 35 values most commonly cited in the sources used in our study. This classification

may be very useful for family businesses given that understanding the values that define them will help them to identify the best means of transmitting them to later generations.

Our research suggests that the main competitive advantage of large family businesses derives from them being grounded on values such as generosity, humility, communication, service, quality, excellence, creativity and entrepreneurial spirit which are developed and enriched generation after generation. These values are a sustainable source of unity and success for family businesses because they give the family heritage something that goes beyond financial gain and which helps all of the members as individuals. Embracing the characteristic values of family business is, without doubt, a source of success and a way of improving society.

1 This study was presented at IFERA Americas (Bogotá, Colombia) where it won an award as one of the best academic papers presented at the congress. Working paper D/916-E, IESE Business School.

2 Based on Schwartz and Bilsky (1990). "Toward a theory of the universal content and structure of values: Extensions and cross-cultural replications." *Journal of Personality and Social Psychology*, 58 (5), 878-891.

3 Peterson, C., & Seligman, M. E. P. (2004). *Character strengths and virtues: A handbook and classification*. Oxford: Oxford University Press: USA.

4 From the web page: www.faoortega.org/es/presentacion.htm

5 According the list in Family Business Magazine, 2009

6 From the web page: www.lvmh.com

7 From the web page: www.masco.com/index.html

8 Carlson, M., Charlin, V., & Miller, N. (1988). Positive mood and helping behavior: A test of six hypotheses. *Journal of Personality and Social Psychology*, 55, 211-229.

9 Emmons, R. A., & Crumpler, C. A. (2000). Gratitude as a human strength: Appraising the evidence. *Journal of Social and Clinical Psychology*, 19, 56-69.

10 Gottman, J. M. (1994). *The marriage clinic: A scientifically-based marital therapy*. New York, NY: Norton.

11 Meglino, B.M., & Ravlin, E.C. (1998). Individual values in organizations: Concepts, controversies and research. *Journal of Management*, 24 (3), 351-389.

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