

Helping Family Businesses Prosper Across Generations



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The Competitive Advantage of Culture in a Family Business

By Kelly LeCouvie, Ph. D. and Kent Rhodes

For many years now we've been thinking, gathering different group's experiences and writing about the particular role culture plays in organizations in general and in businesses owned and operated by families in particular. Our research and work with enterprising families leads us to believe that family business cultures tend to be stronger, sustainable over a longer period of time, and more clearly visible and describable for people both inside and outside the business. It is usually deeply linked with the founder's worldview and his family's unique culture as well, making it a formidable force in the success of the business.

When we asked our colleagues at the Family Business Consulting Group, Inc. (FBCG) what key words or phrases they would use to identify common cultural traits in family businesses their responses give us a snapshot of the unique nature of culture at the core of the family enterprise: family feel; extended family includes employees; clear values; caring; loyalty; humility; and deep commitment to community; were just a few of the insights provided.

Yet culture is about more than the ongoing "feel" of a place, as it also directly impacts key decisions in the company and can strengthen the enterprise. Further, we suggest that in the face of growing competition due to industry consolidation, price wars, new competitors and the effects of technology, among others, businesses need to invest in key competitive differentiators. The culture of your organization might not come to mind first as a key competitive advantage, but recent research on culture



of family businesses suggests that there is a positive correlation between superior financial performance and superior corporate culture. IKEA is a perfect example.

IKEA is a Swedish family owned and operated enterprise in the home furnishings retail space. Broadly known as the world leader for designing, manufacturing and selling modernly designed and cheap functional furniture, first generation founder Ingvar Kamprad originally started out as a "one-man mail" company in 1943. Today, the firm counts approximately 70,000 co-workers and realizes more than \$33 billion turnover through 332 stores and 30 franchises spread throughout 38 countries.

Ingvar Kamprad's personality had a major influence in shaping the company's organizational culture, which is informed by his core values of cost-consciousness, simplicity and efficiency. These values have also tangibly translated into IKEA's recipe for success: selling good-quality practical furniture at cheap prices. The multinational founder nourished the company's commitment to cost saving long before he first introduced the self-assembling IKEA-way.

Anders Dahlvis, IKEA's CEO from 1999 to 2009, described the firm's culture as informal, cost-consciousness and with a down-to-earth approach. It has been famously reported that when IKEA management organized a buffet-dinner for employees several years ago, Ingvar served himself last and made sure to shake hands with every worker before they left. Through this genuine and authentic action, the culture of IKEA was further solidified simply because this humble interaction with employees demonstrated the culture at work in the bones of the organization.



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The Competitive Advantage of Culture in a Family Business Continued

In fact, IKEA's current CEO, Mikael Ohlsson, had this to say about the strong cultural influence of the company's founder in the Financial Times last November: "If we share the same values and the same vision we can put more trust in people working in the organization; we can have a very flat and un-bureaucratic organization. We always recruit through values and we spend an enormous effort in strengthening the values: Togetherness, Down-to-earth and Hardworking."

While the definition of culture in any organization can vary, says Dr. John Ward, depending on one's perspective, we tend to see three primary frames used to describe it: "A Passive frame describes culture as 'the way we do things around here'; A Scientific frame might define it as something of 'a system of informal, unwritten, yet powerful norms, derived from shared values that influence behavior.' But an Active frame offers a more practical approach: 'Culture is the result of what a particular group of people think and share together as being most important to them (values) and as a result, their shared basic beliefs influence the ways they interact with each other and with the world around them.' We find this Active frame to be most descriptive for family businesses, and the one that helps us best understand the links to success, and the role the family can continue to play in building and preserving this advantage".

1. In fact, while the founder clearly sets a great deal of the tone of his or her family business culture, in order for that advantage to be sustained over time, the family must continue to play a role in building and maintaining this dimension of their family's business. When we asked our FBCG colleagues how they believe family contributes to the culture in a family business, their responses centered around four roles that are played by family whether they work in the business or not, and often even if they are shareholders or not. Family members impact culture because: They are "engaged" owners, helping to ensure that the family's values are represented on the board, in how the company treats employees, customers, vendors, the environment, etc.;
2. They determine the family's risk tolerance and therefore the strategic decisions around how much capital is reinvested in the business versus how much capital they take out of the business;

3. They are positive in public-showing pride in the community as part of the owning family-often participating in community causes like hospital fund-raisers or serving on local non-profit or educational boards;
4. They naturally think of themselves as guardians or ambassadors of the company and its values and make an effort to meet employees, speak at orientations for new hires or write the history of business and family.

Family enterprises are often led and stewarded by family members who are guided by values that were ingrained in the day to day operations of the business by the founder, and have transcended generations of owners. Those values often garner loyalty from family and non-family who are strongly connected to the legacy of the business. The longevity of those values also helps sustain idiosyncrasies that support a unique culture-perhaps an entrepreneurial and pragmatic culture that embodies priorities beyond profitability such as employees, the community and the environment. Ironically, research has shown that family companies with a broader focus than just on profits are more profitable.

What's interesting about culture is that on some levels one can observe it and possibly describe it. Yet it is impossible to imitate, primarily due to its complexity. This makes culture unique, like a fingerprint. A strong culture emerges in family businesses from the permanent prints left by the founder, but also from the adherence to core principles that have guided the family, often for many generations.

Culture must be nurtured and evolve over time to reflect industry changes and internal adaptation. Yet the underlying permanence of family values and beliefs creates stability that even through leadership transitions and industry upheavals persists. This is unique to family businesses, and a significant advantage.

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