

Developing Culture in Family Business

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Abstract

In this article, we have made an attempt to highlight how culture influences and impacts various aspects of running a family business by answering to certain questions such as:

- How does culture influence the strategic thinking in a family business?
- Why is that we need to have the right culture aligned with the context?
- Can multiple cultures coexist in a family business?
- How do we develop this culture in a family business?
- Is there a way of assessing what is the predominant culture?

Keywords

Family business, culture, strategy, professionalisation, collaboration, cultivation

Importance of Culture in Family Business

Culture in family business is a set of values, norms and standards that influences how members and professionals work to achieve their mission and goals. Culture shapes the behaviour. It becomes more and more distinct as and when its members become more similar. The virtue of these shared values and common culture is that they increase integration and improve coordination among institutional members.

Family-owned businesses are as unique as the families that run them. But they tend to have one trait in common—progressively slowing growth after the founder steps down.

In fact, PwC found that in the first generation, 42 per cent of businesses have double-digit sales growth. By the fifth generation, only 22 per cent do, and 48 per cent are in the single digits.

Reasons for such slow growth include risk aversion, market changes and succession problem—these differ, just as the businesses do. But meagre growth can often be traced back to one thing: *the misalignment of leadership with culture in family business*.

Every business can fall a prey to leadership misalignment but the problem is pronounced in family-owned businesses, especially in the generations that come after the founder. The founder's ambitions,

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ethos and vision become part of the organisation's DNA. However, it is important that the succeeding generations adapt to the changing environment and market conditions to develop the organisation and family culture for sustainable growth.

Why is it Important for HR Professionals to Understand Culture, When Working in Family Business

Developing the culture is the core—what type of organisational culture is being developed for effective functioning of professionals and family members who are in the business. Family businesses which are in the band of 5 billion–15 billion typical, face a dilemma—‘They are too small to be big, but too big to be small’. There is a choice that needs to be made: either we continue to be small and do very well in whatever we are doing and build accordingly or grow with market opportunities. The latter requires new technology, talent, business models, methods and processes leading to the professionalisation of the organisation. All of these capabilities will not be available within the existing family business. When the family business is small and growing, the focus is more towards encashing available market opportunities—the organisation is more entrepreneurial and performance oriented. In most of the family business at this stage, the strategy is driven by family members with support from limited professionals, networks close to the family and native knowledge.

As the family decides to grow based on market opportunities and moves to the next level, the capabilities of the existing family tends to become limited and professionalisation becomes a necessity. Entrepreneurs recognise it because they feel like they are losing control, and the old levers that they used to pull to move the business forward, do not work anymore. Often the business model, does not have a unique value proposition that is scalable, is based on the talent of the entrepreneur, and talent is captive in the current business.

One of the key and critical aspects to be addressed for a growth in family business is *cultural transformation*. New business models, products, market segments, methods and practises and technology adoption will require a different mindset aligned to strategic objective of the family business.

The first step is to understand that ‘how do we do things around here to succeed’?

The second step would be to understand that ‘how do we change for growth in the changed context’?

This can be used as a starting point—understand where the family business is and curate a new direction. Any change has to grow from the inside of the family business and has to rely on the strengths of the current culture. Imitating or copying the culture of another family business will not be sustainable.

There are four aspects to look for:

- *Control culture*: How do we delegate power and manage?
- *Collaboration culture*: How can we be more inclusive and work together?
- *Competence culture*: How do we build a culture of world-class solution which creates a differentiator?
- *Cultivation culture*: is about learning and growing to develop unique capabilities for growth

All these four cultural quadrants are good in their own contexts. Based on the context, one cultural aspect may be more prominent than others. It is not that cultivation culture is better than collaboration or competency—these are driven by context in the family business

Of course, there are more than four cultures, and in reality, no family business is identical with another, but the core culture model can be reduced to a few important characteristics which play a role.

All of the four cultures have specific ways to handle authority, power, leadership, decision-making, performance measurement and relationships with partners and customers

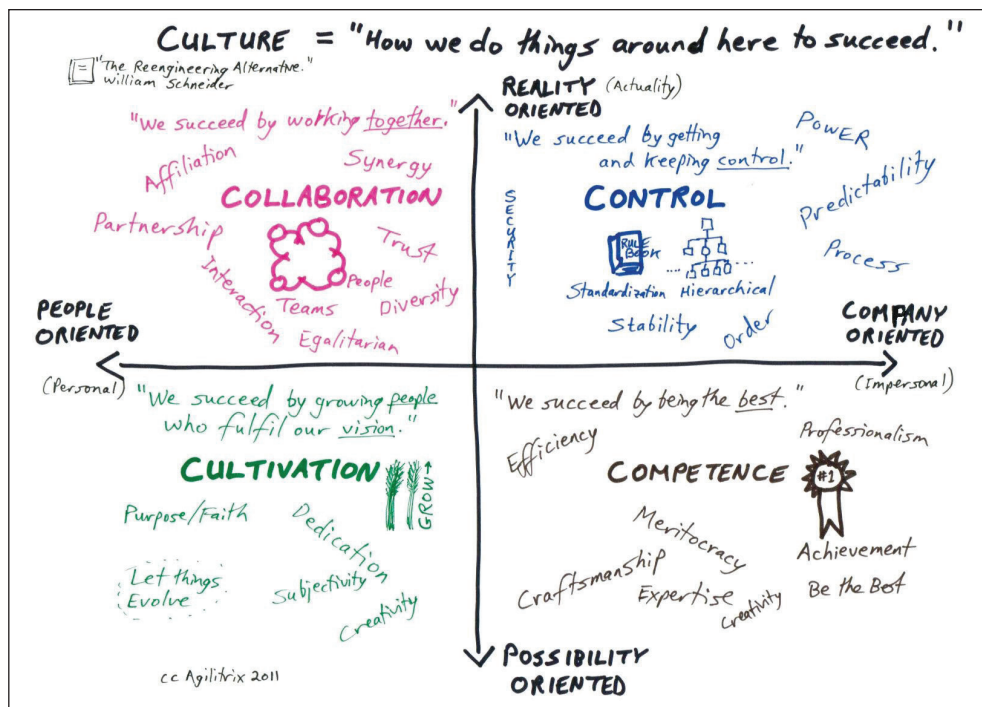


Figure 1. Culture Building Model

Source: Reengineering alternative by William Schneider.

The predominant culture prevalent in family business is control culture especially in the early generation of family business. The primary reason is the tight control exercised by the founder/founding generation. The role and position inside the hierarchy give authority. Information flows top down and bottom up rather than horizontal. Conflicts are not seen as being healthy and are usually suppressed. Large control cultures tend to be bureaucratic. Family business tends to prefer this culture since it gives them a sense of security and that people are made more accountable. It serves its purpose in the early stage of family business when it is more entrepreneurial and performance driven. The other reality is that frugality tends to be more predominant than risk taking due to scarcity of resource.

As opportunities grow and the family decides to enter new markets with the existing product, they require more talent to replicate success in other geographies. That is when the realisation creeps in that dependence on family members alone will not suffice. We do require dependable professionals to associate with the family business for its growth and perpetuity. The other realisation is that not all talent resides within the family and that they need to go beyond the boundaries of the family for talented intrapreneurial professionals.

The culture that we need to build at this stage is 'collaboration culture' where members of the family business partner with professionals for growth. The boundaries of functioning are defined with clear demarcation of autonomy and dependency. To make a family business professional, the members of the family business need to think 'professional' first. The collaboration culture is more egalitarian than other cultures. Like an orchestra, all individuals behave at their best, for the optimal overarching result.

It would be interesting to understand the concept of ‘no man’s land’ for more clarity about professionalisation of family business (Figure 1).

There comes a stage in every family business when they realise that the existing products/services have become run of the mill and no competitive advantage or differentiator exists to attract the market. The hunt for new products/services/new ways emerges as market response declines. The ability to sense this in advance is very critical for family business to survive in the volatility, uncertainty, complexity and ambiguity (VUCA) world. It is critical for the perpetuity of family business.

The competence culture is future oriented. Strategic considerations are taken seriously, and derived actions performed with consequence. While the control culture tends to be tilted towards operational efficiency and effectiveness (run the business), competence culture drives innovation and creativity (build and change the business). There is an important concept in family business which states that ‘family outgrows business’. The size of the family grows as it transitions from one generation to another. However, the business may not grow at the same rate to accommodate all family members. It is important for the family business to develop a competence culture to diversify and transition from a family business to a business family.

The zenith of any family business is to be an institution in perpetuity—where the ‘systems trust’ and ‘governance trust’ supersedes everything. It is a learning organisation. Personal development, the exploration of own potential, is the central motif. Values give orientation. There are not many explicit rules but ethical behaviour is essential. The functioning of the family business is ensured through mutual commitments to shared values. A member who is not trustworthy or not dedicated to the values of the organisation will be suspect. On the other hand, if someone is recognised as being trustworthy but delivered bad performance, a second chance will surely be given, possibly in another, better-suited function, with better conditions to grow.

In the *cultivation culture*, family members are oriented towards the higher level of purpose. Future is an adventure. Relationships are personal, cooperative and interactive. Communication style is open and direct. Ideas of others enrich our own ideas. Among all the four core cultures, the cultivation culture can handle the change best. The ability to anticipate ‘what if...’ situations and exploring possibilities is very critical for any family business. What could be is more important than what is. Continuous improvement, as well as ideal solutions, are being searched for and appreciated, while still following values and ethics, which are paramount in family business.

Typically, any family business has three components from a business model perspective—run the business, build the business and change the business. If we were to map these models to the dominant culture, it would be: run the business: control, build the business: collaboration, change the business: competence and cultivation. An overlap and intersection of cultures in each component of the business model is certainly possible

Culture informs every stage of the ‘HR-life cycle’ in a family business (Figure 2). The way we hire, onboard, develop and deploy people as part of the transition and succession in family business is extremely important. Culture is like the soil in which the seed is sown. Every seed requires a conducive soil to sprout. The seed is the talent that we attract into the family business or nurture within the family business. The soil enables the seed to fructify. It is up to the members of the family business along with professionals to create the soil to nurture the seed and attract talent that it requires for the business. Every family business needs to get the seed (talent) conducive to the soil (culture) created or create a soil appropriate to the seed to be sown.

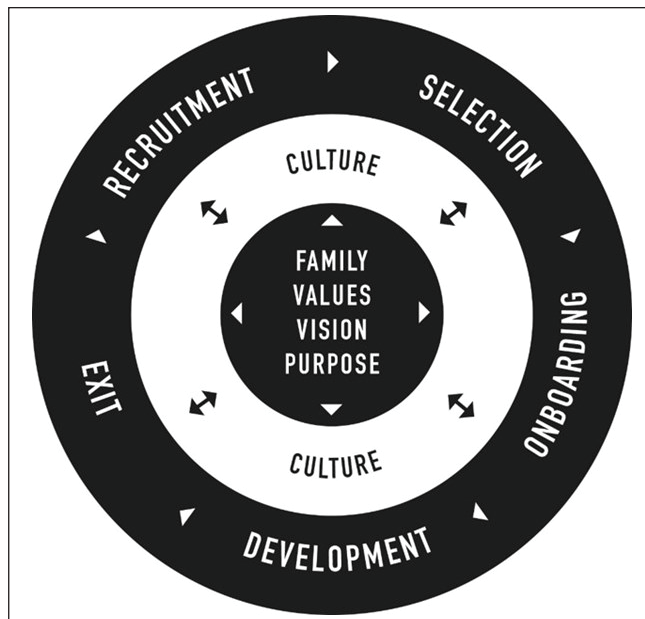


Figure 2. Stages of HR Life Cycle

Source: The FBCG Group.

An Ayurveda Pharmaceutical family business, which is in existence for the last 80 years, has grown into an small and medium-sized enterprises (SME) organisation of ₹ 2 billion—family business managed by the second generation family members who are doctors by profession and run the business with the help of professionals. In order to continue the business in ‘run the business’ model, a mix of a control and collaboration culture was sufficient. However, to create competitive advantage and differentiators, they had to ‘build and change’ the business model with innovation. This required talent to be attracted from modern medicine industry to blend the benefits of both industries together. The talent that came from the modern medicine industry was exposed to a different culture (cultivation and competence) especially in the area of product development and R&D. The soil had to be prepared accordingly to attract these talent to fructify. The process took close to around two years, some of it is still in progress. The focus of the third generation is to build and change—building on competence and cultivate to diversify into new areas and attract new talent. At every stage from hire to retire in this family business, the culture plays a significant role which is also a differentiator. The foundation of this family business is in its legacy, heritage and culture with deep-rooted values cultivated generation after generation for perpetuity.

When Aligned with Strategy and Leadership, a Strong Culture Drives a Successful Family Business

Consider the case of a best-in-class luxury hotel chain in India run by a family business. They had viewed its first priority as providing top-notch guest service as its differentiator. It accomplished this

with a simple rule: Do right for the customer, encouraging employees to use their judgment when providing service. This required members of the family and professionals to internalise the core values and beliefs. This also required autonomy and self-discipline to do the right thing for the customer. A core HR training practice was developed to educate staff that guest interaction is an opportunity to create ‘service stories that become legendary’. Employees were reminded to define service from the guest perspective, to constantly engage guests with questions geared toward understanding their specific needs and preferences, and to go beyond their expectations. The members of the family business had to lead by example, setting standards for the professionals working with them.

In measuring the culture of this family business, we found that like many other chains of hotel, it was characterised primarily by a combination of *results* and *caring* (*control* and *collaboration*). Unlike many other hoteliers, however, it had a culture that was also very flexible, *learning* oriented and focused on *purpose* (*competence* and *cultivation*).

Further, the family business values and norms were very clear to everyone and consistently demonstrated through their manifested behaviour. They had historically focused on developing leaders from within—who were the natural culture carriers—recruiting outsiders became necessary as it grew to bring in the competence. They preserved its culture through this change by carefully assessing new leaders and designing an onboarding process that is aligned to the family business values.

Culture is a powerful differentiator for this family business because it is strongly aligned with strategy and leadership. Delivering outstanding customer service requires a culture and a mindset that emphasises achievement, impeccable service and problem solving through autonomy and inventiveness. Not surprisingly, those qualities have led to a variety of positive outcomes for the family business, including robust growth and international expansion, numerous customer service awards and frequent appearances on lists of the best companies to work for.

Making Culture a Competitive Advantage

Culture is incredibly powerful and it needs to be intentionally designed. Culture, however, is not a ‘set it and forget it’ concept. It must be cultivated, managed and evolved.

Family businesses understand that culture impacts all aspects of the business, including attracting and retaining talent and laying the foundation for decision-making and communications that impact execution.

When members of the family business make culture a priority and ‘walk the talk’, employees will follow suit. In fact, every employee should be able to recite the company’s mission, vision and values. They should also truly understand the customer and business model.

An example of a company with culture as a competitive advantage is a large jewellery company in South India. As the company scaled, the founders realised it was getting harder to ensure everyone understood/lived the culture.

So, they created the ‘culture expectation’ to ensure:

- Every single employee knows the mission and vision we are working from the founding generation of the family business
- Every single employee knows what our company stands for, who our customer is, and its legacy and heritage clearly articulated by the members of the family business
- Every single person knows what each person actually does as part of the family business. The role and responsibility of each member was understood with its impact on the business

- Every single person looks forward to enhancing customer experience—they do not just buy a piece of jewellery from our store, they own a piece of art, which appreciates in value every day.

To change the culture of any family business is difficult and requires commitment to change by the family members in the business. Since the leaders from the family largely create and shape the cultural patterns of the business, they must understand the effect of these cultures on both the business and the family. Family business cultures can either contribute to success or be a major stumbling block.

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Bio-sketch

N. Krishnan has a work experience of two decades across manufacturing, IT, ITES and infrastructure industries covering diverse functions such as Industrial Engineering, Engineering Design Service, Business Development, Talent Management, L&OD and BE & KM. He has consulting experience in the areas of Strategic HR in India, US, UK and the Middle East, Talent Management, Leadership development, Organization Development, Design Thinking and Change Management. He has worked in leadership positions in companies like TVS Group, Wipro Technologies, DELL International Services and GMR group.

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