Culture in Family-Owned Enterprises: Recognizing and Leveraging Unique Strengths

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Through years of consulting experience and culture research, a fuller picture of family firms began to emerge. It became increasingly clear that family business sustainability and accomplishment were rooted in something deeper, something beyond superficial explanation. Belief in the innate value and uniqueness of family business culture drove collaboration on this project between the disciplines of family business and organizational behavior. The goal was to critically examine family business culture and performance relative to nonfamily firms. The Denison Organizational Culture Survey, a cultural assessment tool that has linked corporate culture to financial performance, was administered to a sample of 20 family businesses and 389 nonfamily businesses, allowing us to compare their cultures. The results showed that the corporate cultures of family enterprises were more positive than the culture of firms without a family affiliation. Family enterprises scored higher on all 12 dimensions of the assessment tool. Despite the small sample, several of these differences were statistically significant. This suggests that family firms perform better because of who they are. In addition, recent research that shows they also perform better because of what they do strategically. Their histories and shared identities provide a connectedness to time-tested core values and standards of behavior that lead to bottom-line success.

Introduction

Succession, governance, and estate planning remain major issues for families in business, but one topic with vast potential appears to go generally unexplored. Although we rightfully search for practical solutions to everyday business problems, we should also keep our eyes on the bigger question of what has allowed today's family businesses to manage transition, prosper, and retain allegiance to their own personal truths—their organizational character. What is that bit of magic that allows a decades-old publicly held company to routinely and confidently demonstrate loyalty to the founders' core beliefs and values and yet remain vibrant and on the cutting edge of modern technology and practice?

Over years of consulting with business families, it became increasingly apparent that large family businesses were frequently ignoring their greatest strength. Retaining a connectedness to the past and simultaneously adapting and living the founders' vision is a tremendous and underexploited asset in family firms. Especially in times of economic contraction when market and competitive variables have been fully addressed and optimized, looking inward may be the next most logical place to search for competitive advantage and organizational coherence.

This article describes a quest to determine if family business culture is stronger and promotes better performance than cultures found in nonfamily firms. If family business cultures are found to be distinctive, in what ways are they different? In gaining self-knowledge and insight, companies can better understand how this advantage may be nurtured and leveraged to take performance to the next level.

Selected Corporate Culture and Family Business Culture Literature

The recognition that business organizations could and did have personalities and characteristics owes much to the pioneering work of Hofstede (1980) and Peters and Waterman (1982). Through Hofstede, it became clear that employees, individually and in the collective, could be influenced as much by what was communicated indirectly as by overt management. Although seemingly intangible, workers were powerfully impacted by informal cues from peers and managers that Hofstede believed were manifested in symbols, heroes, rituals, and values. Peters and Waterman presented this new variable as an asset that could be harnessed for competitive advantage.

As the field progressed, many other insights from the disciplines of psychology, sociology, and anthropology added to the body of knowledge. Deal and Kennedy (1982) embraced the McKinsey perception of culture as "the way we do things around here" and believed that corporate culture exists regardless of whether it is weak, strong, or even acknowledged. Values were understood to be the foundation of culture and that what type of culture ultimately develops in an organization depends also on the business environment, heroes, rites and rituals, and a communication mechanism called the cultural network. Schein (1985) suggested an evolutionary view of corporate culture that used the founder's values and belief system as an anchor but also incorporated new learnings over time, as the organization interacted with the world at large. Goffee and Jones (1998) advanced the discussion through opining that corporate cultures could be viewed situationally, not as absolutes, and could be considered within the framework of four cultural forms based on relative levels of solidarity and sociability. The authors did not pass qualitative judgment on any particular type but rather indicated that a company could usefully employ each, depending on its stage of development and marketing and competitive environment.

The theoretical consideration of culture had been academically intriguing, but establishing a link to performance was the next important milestone. Once the reality of corporate culture started to be accepted and better understood, the next step for inquiry was applying quantitative measures to the discourse. From there, questions arose as to whether weaker, stronger, better, or worse cultures existed and, if so, if culture enhances or predicts corporate performance? Denison

(1990) and Denison and Mishra (1995) posited that strength of culture as described by four primary traits (involvement, consistency, adaptability, and mission) could be evidenced in measures of corporate performance including ROA, ROI, sales growth, and market share. Kotter and Heskett (1992) suggested that: "Culture refers to values that are shared by people in a group and that tend to persist over time even when group membership changes."

Although acknowledging an organization's capacity to host several subcultures simultaneously based on geography or discipline, for Kotter and Heskitt, culture cast an overarching shadow on long-term corporate performance that was discrete from strategy or structure. Barney (1986) explored the role of core values in the innovation and flexibility that enables a firm to remain viable. Cultures able to sustain high levels of performance over the long term had to possess three attributes: be value added to the bottom line, have uncommon characteristics, and be "imperfectly imitable." Deal and Kennedy (1982) thought a strong culture could positively impact performance by imbuing employees with such a clear sense of purpose and expectation that unparalleled commitment, motivation, and efficiency resulted.

When considered in the context of family business, culture takes on an even more complex dimension. Because of the dominant role of the founder, not only during the entrepreneurial period but also potentially through successive stages, values and owner motivations are powerful cultural drivers. Family firms may meet Barney's (1986) thresholds for sustained performance as their very character finds expression in uniqueness and a desire for a highly personal form of achievement. Barney looked to the founder as the imperfect embodiment of company culture. As founders are individuals and hold sometimes contradictory opinions and values, so these are reflected in the companies they establish. This cultural uniqueness, if understood and nurtured, can be one of a corporation's greatest advantages.

Ownership and control bring an element of freedom to families in business. Stafford, Duncan, Dane, and Winter (1999) observed that ownership carries with it the option for families to define success on their own terms. Beyond profitability, family members may see success in the ability to live and operate the enterprise according to a personal value system or merely to pass the founder's legacy to the next generation. The authors captured the complexity and nuances of this system as follows.

> Sustainability results from the confluence of family success, business success and appropriate responses to disruptions . . . [and] also requires consideration of the ability of the family and business to cooperate in responding to disruptions in a way that does not impede the success of each. (Stafford et al., 1999)

Hollander and Elman (1988) argued that the interplay of forces as potent as business and family impacts events in each realm. Although earlier literature appeared to seek the withdrawal of the family from business operations on the grounds of rational management, current thinking generally acknowledges that these two powerful entities are partners in enterprise and that their relative strength or power is based on the ebb and flow of everyday challenges. Hall, Melin, and Norqvist (2001) contradicted the family incompetence theorists by observing that culture in family-owned enterprises may, in fact, be stronger as family members often pro-

mulgate the founder's values by taking active and long-term roles in management. As leaders, family members may prove more formidable figures within a corporation because they can derive legitimacy from two sources: their position in firm management and their position in the family. Jaffe (1988) saw great power in the shared history and identity of family members when remarking: "The personal history of a family business is very special, because it is the story of a family and its way of making its mark in the world." Indeed, Jaffe felt that neither family nor business could be viewed in isolation, even suggesting that problems in the business should be approached within the specter of the family.

Dyer (1986) encapsulated family business as a unique culture by offering four main cultural types: paternalistic, laissez-faire, participative, and professional and based on seven categories of assumptions of how organizations view self, society, and the world. Family priorities loomed large for Dyer (2003), who believed that family could impose its agenda on business strategy and management. This "outside" influence often results in greater emphasis on altruism and an inclusive stance toward stakeholders that makes family firms different. Although many corporations are now uttering allegiance to better governance and broader constituencies, the differentiating factor lies in the fact that the behavior of family companies emanates not from external pressure but from a deeply ingrained, learned-at-the-dinner-table sense of history and morality.

Research Question

Whether barely acknowledged or actively managed, culture in corporations exists.

Family firms are in a unique and enviable position in that their link with strong beliefs and core values is real and alive. The role of the founder is crucial to establishing an organization's identity, core beliefs, and purpose. A founder's influence often lingers past his or her lifetime and into succeeding generations without regard to ownership structure, location, size, or industry. However, in the quest for long-term success and viability, even the most inspired culture must remain responsive to its environment and the styles and individualism of successors. Acting as trustees of the founder's values, while remaining true to one's personal beliefs, poses both an enormous challenge and an opportunity for family. This broader sense of self and focus on values, manifested as practices in the enterprise, frequently results in high-performance behaviors that naturally lead to superior business outcomes. Comprehensive measurement, assessment, and understanding of firm-specific cultures can aid these organizations by indicating where strengths lie and which areas of their collective culture could benefit from greater management attention.

Constant reconsideration of a company's value proposition is essential to ongoing vitality. This field of inquiry becomes especially relevant in difficult economic conditions in which technical, market, and competitive changes have already been undertaken. A thorough understanding of an organization's cultural character may be management's last, best weapon. Thus, our research questions: Is the organizational culture of family businesses more positive than that of nonfamily businesses? Which aspects of organizational culture differ the most?

The Denison Organizational Culture Model

This study relied on a model and method developed over the past 15 years, with data from more than 3,000 organizations and more than 100,000 respondents (Denison, 1990; Denison & Mishra, 1995; Denison & Neale, 1996). This model has described a theory of organizational culture that is linked to company performance. That is, the model and results generated by its Organizational Culture Survey equip senior decision makers to fully leverage a company's existing strengths and identify potential weaknesses. This approach has provided both a strong base in research and a useful tool to provide insight and options to managers on the frontline making business decisions.

The Denison model first gathers information from various levels of management on their perceptions of their company's culture as manifested through its actions and activities. Then, data from respondents is described using a two-dimensional model highlighting the crucial issues of internal versus external focus and flexibility versus stability and their impact on performance and viability. These two dimensions can be viewed more as relative tradeoffs rather than choices, as both an internal and an external focus are necessary for business success, as are both flexibility and stability. An important goal of the model is to provide a mechanism for generalizing rather than highlighting uniqueness, in order to enhance comparability among organizations.

Utilizing these two important underlying dimensions, Denison posited that while beliefs and assumptions lie at the core of corporate culture, they are expressed and identified via four cultural traits: adaptability, mission, consistency, and involvement. In turn, each of these traits is broken down further into three indices as shown in Figure 1. Associations between these four traits and indicators of corporate effectiveness, namely, ROA, ROI, sales growth, market share, quality, employee satisfaction, and product/service development, were found to be significant (Denison & Mishra, 1995; Fey & Denison, in press).

Adaptability acknowledges Schein's idea of an organization's struggle to continually balance internal identity with external events and impetus for change. Adaptability is measured by the three indices: creating change, customer focus, and organizational learning. A corporation's goals and vision for the future are expressed as *mission*. A well-developed sense of purpose and raison d'etre is measured by the following: strategic direction and intent, goals and objectives, and vision.

Consistency describes the unified approach to goal achievement and problem resolution that can provide internal resonance essential to dealing with outside challenges and unexpected situations. This trait is measured by: core values, agreement, and coordination and integration. Finally, the empowerment and teamwork necessary to address the competitive environment can be expressed as *involvement*. Indices measuring involvement are as follows: empowerment, team orientation, and capability development.

Through the administration of the survey, employees provide perceptions of their company's existing culture as measured according to the 12 indices. The survey results are expressed as percentiles for each index. When graphically portrayed as in Figure 1, the more positive the corporation's culture, the more complete the circle. Once an organization identifies areas for improvement, it can pursue a course of action designed to
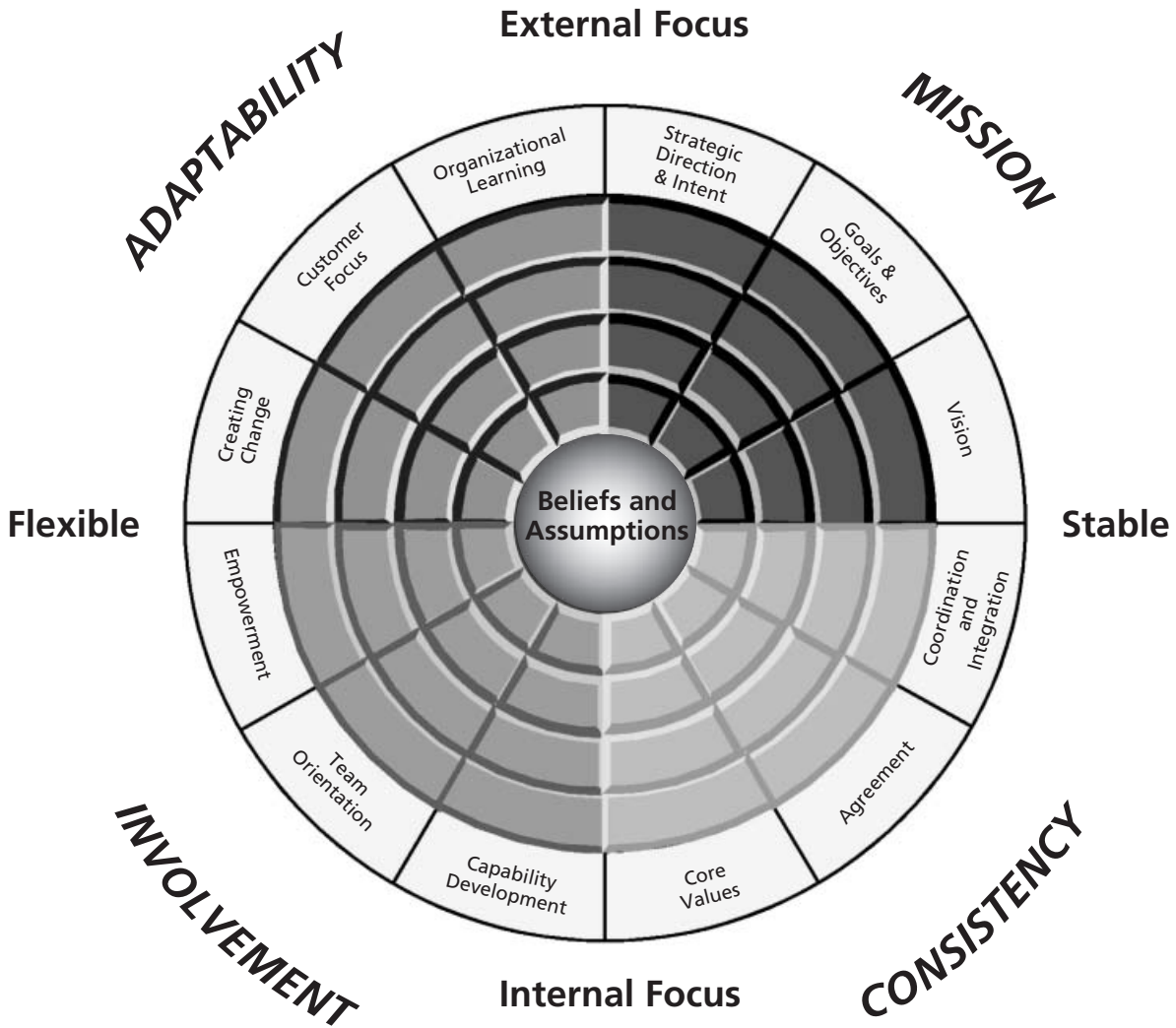
Figure 1 Denison Organizational Culture Model.

correct vulnerabilities and accentuate cultural assets.

Following years of anecdotal evidence that corporate culture in family businesses is unique and could be a distinct competitive advantage, testing of these ideas seemed to be the next logical step. By using the method and model developed by Denison, we could explore the relative advantages of family business culture. Providing tangible proof that

family enterprises are multidimensional, yet singular, organizations that claim a shared rich history and can survive and prosper long after the personality driven founder-as-leader stage has passed was the motivating force. The focused, purposeful cultures found in many family businesses often go unrecognized as a source of competitive advantage. Some companies may, in fact, hesitate to identify themselves, internally or to the broader market, as

family businesses. The generally disparaging nature of management literature on nepotism and ownership may frustrate family-owned enterprises from arming themselves with perhaps their most potent commercial weapon—the realization that their strong past can portend immeasurable organizational cohesion and success for the future, if acknowledged and expertly managed. The aim of this project then, was to lend empirical credence to the concept of family business culture as distinctive, robust, and winning. Ultimately, families could be empowered to lead their organizations to realize their fullest potential in congruence with the rich histories, values, and core beliefs of the past.

Method

This study examines the culture profiles of 20 family-owned firms and compares those results to a larger data archive of 389 firms that are not family owned. All data were collected between 1998 and 2003. The organizations represent a cross-section of industries, geographies, ownership structure, and size. The number of participants responding to the survey in each organization varied widely, as did response dispersion among management and nonmanagement layers. All organizations had to have at least 20 respondents to be included in the survey, and they had to be in some way representative of the organization's population as a whole. All organizations elected to take this survey and thus both samples were of organizations that saw value in the concept of organizational culture. For the purposes of this study, we included as family enterprises those firms that (1) had family voting ownership of 15% or more, or (2) had family members holding critical leadership positions, or family control of the

company's governing body. Both publicly held and private companies conforming to the definition expressed above constituted the sample of 20 firms. The 20 family firms analyzed represented all the family firms in the Denison database.

Results

For each of the 12 indices, a mean score for the sample of 20 family firms was compared to the mean scores of 389 nonfamily firms. As shown in Table 1, family-owned firms had higher mean ratings on all 12 indexes and, consequently, on all four traits. However, the only statistically significant difference in mean ratings between respondents from family-owned and nonfamily-owned businesses was for the capability development index, $F(1,407) = 5.32$, $p < 0.05$, showing that family firms, on average, have substantially greater investment in the development of their people than nonfamily firms.

Because of the small sample size of family firms available for this study, it is also worth noting other indexes that were marginally significant. Out of the 12 indexes, four other indexes had significance levels <0.20. Notably, two aspects of consistency, core values and agreement, appear to be advantages for family firms. Two aspects of adaptability also achieve marginal significance, creating change and organizational learning. As the sample of family-owned firms in this database grows, these differences may become significant.

Because the differences between family-owned and nonfamily-owned businesses were extremely consistent, we also examined these results using a sign test. This test indicated that finding higher means for the family-owned businesses on all 12 indices was highly unlikely to have occurred due to chance, $z =$

Table 1 Culture Index and Trait Means for Family-Owned and Nonfamily-Owned Businesses

Indexes and Traits	Family-Owned n = 20		Nonfamily-Owned n = 389		Comparison		
	M	SD	M	SD	F	p	d[1]
Involvement	3.48	0.25	3.38	0.27	2.32	0.13	0.37
Empowerment	3.40	0.28	3.32	0.29	1.55	0.21	0.28
Team orientation	3.47	0.24	3.41	0.30	0.73	0.39	0.20
Capability development	3.56	0.28	3.42	0.26	5.32	0.02	0.54
Consistency	3.33	0.20	3.26	0.25	1.66	0.20	0.28
Core values	3.57	0.22	3.49	0.27	2.12	0.15	0.30
Agreement	3.31	0.20	3.21	0.26	2.84	0.09	0.39
Coordination & integration	3.11	0.23	3.08	0.29	0.22	0.64	0.10
Adaptability	3.33	0.19	3.26	0.23	2.05	0.15	0.31
Creating change	3.25	0.25	3.15	0.27	2.57	0.11	0.37
Customer focus	3.51	0.22	3.47	0.25	0.52	0.47	0.16
Organizational learning	3.24	0.27	3.16	0.26	1.92	0.17	0.31
Mission	3.35	0.26	3.29	0.29	0.85	0.36	0.21
Strategic direction & intent	3.43	0.33	3.38	0.34	0.41	0.52	0.15
Goals & objectives	3.51	0.22	3.44	0.29	1.09	0.30	0.24
Vision	3.12	0.28	3.06	0.28	0.96	0.33	0.21

Note: d^1 refers to a standardized mean difference, computed by dividing the difference between two means by their pooled standard deviation.

3.46, $p < 0.001$. This gives further support to the idea that there may be some clear advantages in the culture of family firms.

Discussion

For several generations, conventional management wisdom has supported the notion that publicly traded corporations with clear separation of ownership and control are a superior organizational form compared to the family-owned firm. The results of this study clearly call that wisdom into question. The results not only show that there are no clear cultural advantages associated with nonfamily firms, they show that there are several cultural advantages associated with the family-owned firms.

The purpose of this study was to learn if a family firm's culture can be operationally described, contrasted to the culture of nonfamily firms, and related to company performance. The results indicate that family-controlled firms do have a distinct, performance-enhancing culture. Much further research is needed: How is that culture best transmitted through the generations? How does time, through the passage of generations, affect the culture's strength? How is culture translated into strategy and business performance? Do family firms with stronger cultures follow more distinct strategies? How can leadership best optimize the seemingly inherent advantages of culture in a family firm?

The most plausible explanation of these results involves the role of continuity of the founder's values in the company's culture. The distinct background and character of entrepreneurs led them to establish cultures that were not only rich in core values and performance-enhancing behaviors, but also commercial environments conducive to learning and encouraging flexibility. Because these founder cultures are nurtured by succeeding generations of family, culture in family-owned firms is difficult to replicate and so may be a source of strategic advantage. Gaining full benefit from its distinctiveness in order to compete most effectively is an obligation owed to the shareholders and the legacy of the founder.

Much conventional wisdom suggests that family firms are typically autocratic, inflexible, ambiguous in their direction, and resistant to investing in people. These views, from this data set, seem, on average, unfounded. Instead, family firms are apparently rife with culture advantages. Further survey research can help identify and measure other dimensions of business culture that might play a unique role in family firm behavior. Case study research can reveal how these advantages are nurtured and translated into strategic and financial benefit.

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