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Can the values-first company survive?

Business today is no respecter of the past. Family companies have to renew values that are energizing and revise those that prevent them from competing.

By Dennis T. Jaffe

In a much quoted Harvard Business Review interview a decade ago, Bob Haas, CEO of Levi Strauss, held up his family company as a model of how a corporation needs to live by its core values. Haas had taken the company private again in 1985 in large measure so it could preserve those values. For most of the ’90s, the manufacturer of Levis jeans maintained its reputation. The company founded by Haas’s great-great-grand uncle publicly affirmed its traditions of caring for its numerous employees, making its products in the U.S.A. at its own factories, maintaining the quality and consistency of its core product, and serving the San Francisco Bay area community. Levi Strauss was admired as a leader in promoting workplace diversity, AIDS education, and participative management. Its values were clearly stated in an Aspirations Statement, and Levi executives were compensated for how well they lived up to those values, not just financial performance.

Then came the fall. The company began to rapidly lose market share to newer, trendier, more aggressive brands and designer labels, including the Gap, which had begun as a reseller of Levis jeans. The Levi brand lost luster and relevance to the younger generation. A heralded billion-dollar re-engineering project failed to save money, as projected, or to help Levi Strauss focus its business. In February 1999, the company announced it would close half its factories in North America, laying off 5,900 workers,

and, for the first time, begin to move manufacturing offshore. Fortune magazine taunted the company for putting its social values ahead of profits, implying that far from being an asset, those values had contributed to its inability to adapt to new marketplace realities. Even though the company remains highly profitable, it has decided on a major change in leadership. In August, Bob Haas step ped aside, turning over leadership of the company for only the second time in its history to a nonfamily CEO, Philip Marineau, a former Pepsico executive whose strength is in revitalizing brands.

If a giant company with a hundred years of cachet and a global brand can be so challenged so quickly, how can a smaller family business operating in a single community or region hope to survive with its values intact? In industries from newspapers to drug stores to funeral parlors the trend is to consolidate, and many small, independent businesses are hard pressed to remain competitive. Today the business environment is no respecter of the past. The same traditional ways may have a "dark side," leading a well-intentioned company into deep difficulty and turmoil (see "Light and shadows in the business," below). Can family business traditions and core values become a millstone which in hard times must be thrown overboard? What are the prospects for small or medium-sized family businesses to survive and keep their values alive in this more difficult environment?

Light and shadows in the family business

Traditional value (Light side)	**Negative possibility** (Dark side)
· Lifetime employment	· Tolerance of mediocrity · Entrenched fiefdoms · No new blood to shake things up
· Respect for customers · Individualized service	· Neglect of new information technology · Not identifying more profitable customers, new market niches
· Assured employment for family members	· Diminishing capability and motivation · Inability to attract management talent
· Family environment of acceptance · Loyalty prized over results	· Inability to hold people accountable for results

· Traditional ways of doing things	· Lack of tolerance for new ideas · Lack of strategic planning
· Family member benefits and perks from the business	· Lack of capital or credit to invest in the future · Not looking at profitability of company
· Traditional products, services	· Aging product line, vulnerable to new products and technologies

There are two possible paths that can be taken by families facing this dilemma. First, they can work to overcome the dysfunctional tendencies of their values; they can look for ways to reinterpret those values to fit the new business climate, to innovate and change in order to preserve what is best from the past. The second alternative will be considered less desirable by many families, but can, nevertheless, turn out to be a positive choice: If the business can no longer be preserved in a form the family can be proud of, they can sustain their values by utilizing their wealth and investments to serve the family and the community.

Before explaining the two paths, let's look at a few examples of families that have been wrestling with these issues and reached different solutions, starting with the company that was long held up as the model—Levi Strauss.

What went wrong?

CEO Bob Haas forcefully disagrees that the company's recent slide negates its underlying values. The values remain the same, he believes, even if how they are applied must now change. I have been a longtime observer and admirer of Levi Strauss, whose headquarters is several blocks from my office, and I have worked with them over the years in implementing their values and in dealing with change. I see their challenge as adapting values to new realities, rather than as a message that values are a luxury that a company can no longer afford.

For example, the value-based tradition of respect for their employees and promoting from within may have a dark side to it. At Levi, long-term managers became used to doing things in a certain way, and began to act as gatekeepers with tremendous power from their long tenures, keeping new ideas and new blood at a distance. Since the company was so generous and committed to its employees, the job security at the top kept young merchandisers with new ideas from finding a place there. "We set the pace," an attitude that had been a form of pride and corporate self-esteem, led to a culture which rejected any new idea if it was "not invented here."

Because managers were no longer hungry or accountable for results, they stopped learning. They were so inwardly focused that they missed great changes in the fashion world. They placed great store on respect for one another and collaboration. Those values made it more difficult for the company to take swift action, however, since each executive had to obtain buy-in from scores of groups and committees. “Respect” began to look a lot like not ruffling anyone’s feathers.

A consultant who has worked with both the Gap and Levi Strauss said to me, “At Levi you had a group of 50-plus-year-old males who had never worked anywhere else, defining fashion tastes in endless discussions, taking their time, while a few blocks away at the Gap, you had a bunch of Generation X males and females, straight and gay, coming from all sorts of other companies, not looking ahead more than six months, but exquisitely attuned to every shift of fashion and taste all over the globe. Who do you think was able to capture the hearts and pocketbooks of young people?”

Old strengths, new realities

A traditional strength of the family business was that it often stood for something beyond profit that remained consistent, a bulwark against change. The family took pride in providing quality products, personal service, fair treatment. The family name and tradition was associated with respect for people—customers, employees, and members of the community. In return, the community rewarded the business with honors, influence, profits. The family was able to manage succession even though the next-generation leaders might not have the spark, creativity, or drive of the founders. The franchise was solid, almost an annuity.

For countless businesses, that is no longer true. A family auto dealership in the Midwest that I consulted with tells an increasingly familiar story. They had always been known in the community for fair dealing, and profits came along with respect for the family. A second generation family leader was in place, with the talent and the commitment to carry the business forward. This leader’s siblings wanted more of the profits to be distributed, so there were some tensions in the business. Although reluctantly, however, the siblings had agreed that profits needed to be invested in the business to support their tradition of quality and service. The community, and their employees, appreciated and acknowledged this commitment.

The patriarch of this Midwestern dealership was in the process of transferring ownership to his sons and daughter when he was approached by a large national chain with a very attractive offer to buy. Believing that the chain was unlikely to maintain the family’s commitment to service or to the community, the patriarch was at first deeply opposed to such a sale. When he looked at his options, however, he became scared.

Although theirs was the leading dealership in the area, the family had some excellent competitors. The message behind the offer was that if they didn't sell, the chain would buy their direct competitor. The patriarch saw the resources and money that the larger company could put into the other dealership, and knew how hard it would be to compete. He saw his profits—and his family's future—eroding. If he rejected the offer out of pride, he was leading his sons and the rest of his family down a very uncertain path. Sadly and reluctantly, he decided to sell. Afterward, he and his offspring felt a lot of guilt about what they felt they had been forced to do. They wondered: "Was the offer worth it? Should we have stood firm?"

This is by now a familiar scenario in almost every industry. Whereas a few years ago pride and tradition would have dictated a firm rejection of the offer, many owners today are not letting their egos get in the way of prudent self-interest for themselves and their families. For retailers like this auto dealer, the security that came from a generation of investment in the community, building trust, and offering personal service is no longer enough to ensure survival. When a category-buster discount store opens a mile away from your store, when direct sales on the Internet begin to take away your customers, or when a new technology or consumer preference threatens to make your company the buggy-whip manufacturer of the new millennium, you can no longer take your traditional values to the bank.

The path of internal renewal

The story of Ardath ("Ardie") Rodale, whose family owns the large and prosperous Rodale Press in Emmaus, Pennsylvania, a publisher of magazines and books on health and fitness, shows how a family can renew its values by rethinking and reinterpreting them for a new generation. For 30 years she was the non-working spouse of Bob Rodale, who grew many times over the business he had inherited from his father. When Bob was killed in a tragic accident in 1990, Ardie was suddenly faced with a dilemma: what to do with the business. While potentially interested in the company, none of her children were ready to take over ownership. Ardie considered various options—selling the business to employees or to a larger company, or hiring an outside leader to take charge. Eventually, she chose the approach that she felt would best ensure the continuation of Rodale's values—she took on the job of CEO herself.

Rodale Press was devoted to physical, emotional, and spiritual health and well-being of people. Those values had always been the company's beacon. The company began 60 years ago with Organic Gardening magazine and not long after created such successful publications as Prevention, Runners'

World, Bicycling, New Woman, and Men's Health.

I met Ardie Rodale four years ago, after she had taken charge. She made it absolutely clear that the purpose and starting point of the company was its values. "We never forget that we are about making the world a better place," she told me. "We have always believed in the importance of the world being healthy—ranging from the soil, to our food, to our minds and spirit." Ardie's commitment had always been to those values, to the health and well-being of her children and Rodale's several thousand employees, and to the community.

Rodale's success had spawned competitors, and about the time Ardie took over, the company was being challenged by a growing number of publishers of books and magazines on health and fitness. She was a non-professional with little experience suddenly presiding over a $200 million company. Outsiders might have predicted disaster. But the new CEO devoted herself to learning what the business had to do to compete more effectively. She began asking thoughtful questions and listening to her employees' ideas about how the company needed to change.

Ardie has presided over a process of reinvestment that has expanded the company's book and magazine titles and more than doubled the size of the business. Far from letting Rodale's traditional values interfere with new thinking about where the business had to go, she has invoked them to inspire the staff to make changes necessary to preserving those very same values. One of the challenges Ardie faces is in replacing long-time employees who understand the founder's vision and are now retiring. To help new people learn about those values, six or seven years ago the company published a memorial volume to Bob Rodale containing insights that will continue to be important in guiding the company.

Respectful change

Another example of how internal change can be carried out in a way that is respectful of tradition is a manufacturer I worked with, the Specialty Display Equipment Corp. (not the real name). For two generations, the family owners of Specialty Display carved out a niche for themselves with a high-quality product that was of such limited application that competitors did not want to bother competing. But there were storm clouds on the horizon. With the advent of new technologies, the product was becoming less and less necessary in the industries that used it.

Like many companies, Specialty Display's owners were able to leverage their capability and reputation to offer their customers related services, which they delivered with the expected quality and customer focus. The second-generation leader, call him Ed, looked with pride and satisfaction at

how things were going. But Ed was in his 60s. The company still had many senior managers beyond retirement age or approaching it. The business had not changed in decades. The question was whether the customers would continue to need their service, and whether it could support all the members of the next generation.

Ed had been fortunate in the development of his four children. With his encouragement each of them had pursued a technical or business education, and after graduation worked outside the family business before joining it. At the time I consulted to the company, two of the sons, a daughter, and her husband were working with the father. I helped them form a family council, and to mediate the entry and development of the next generation into the business.

The younger generation, in a series of meetings, began to re-vision the business. They appreciated Ed's combination of technology with service, but they were concerned that demand for their product might decline rapidly as companies moved to new technologies. How could they leverage the loyalty of their long-term customers? After going out and talking with them about their needs, the young family leaders reinvented the business as a service company, expanding their focus, for example, to include information systems. They were aided by a sizable acquisition of a competitor that had new technology. These changes meant shaking things up drastically, which ruffled the feathers of some of the long-term employees. The sales, manufacturing, and human resources chiefs had long done things in a certain way, and they were getting older. Like Ed, they were not convinced the business needed to change. Their values had become traditions, then dogmas that could not be questioned. They had, in short, become set in their ways.

The new generation saw that the company needed to adapt, and quickly, to avoid a fall. They asked Ed to work with his staff to design a speedy but respectful exit for himself. If Ed was willing to step aside, he could ask the others to do the same. Ed patiently sold the aging staff on the need for change, and then set an example. Of course, the change, once set in motion, felt very fast and sudden to Ed, and he had some second thoughts. "I hired you to do succession planning, not succession doing," he said to me at one point. But as the new generation took charge, they put a new stamp on the company. The equipment maker began to find a new focus and expand again.

Ed's hurt feelings were balanced by pride in the new vision. The energy within the company was visible. With all the change, the family and the employees never had the sense that they were saying goodbye to the traditions of service and caring and entering a new, Darwinian marketplace. Rather, the feeling was that traditions were being cleaned up and dusted off

to fit the new business realities.

Few family businesses today are immune to the pressures to adapt their organizations to competitive realities. If a family wants to sustain both its business effectiveness and its values in the current business climate, it must take steps to ensure its continuing vitality. These include measures to create a clearer boundary between the family's participation and the business itself, and processes to keep from rigidifying and using tradition to avoid changes in the marketplace. Values are no substitute for aggressive marketing, smart use of new technologies, and sound strategic planning. Family businesses need to look clearly at the new market environment before invoking traditional values. Every company has to maintain an internal climate of accountability instead of entitlement. There is no single key, but rather a set of practices that a family has to adopt in order to sustain its continuity:

- Pay attention and learn new technologies.
- Keep track of what your competitors are doing, as well as changing markets and consumer tastes.
- Constantly question current ways of doing things by looking at their effects on the bottom line.
- Keep recruiting new blood from other companies, and from larger businesses.
- Have a clear developmental strategic plan.
- Invest in "skunk works," small groups working on potential product innovations or new strategic directions (both inside and outside the family).
- Benchmark for best practices with public companies that are industry leaders.
- Make top managers and their staffs, in cluding family members, accountable for business results.
- Make the company attractive and recruit excellent managers—family and nonfamily, young and talented along with seasoned pros.
- Develop and demand competence and performance in reviewing family managers.

The path to renewal is to become more like the adaptable, change-capable organizations that are becoming dominant everywhere in the world.

But what of values? Does becoming adaptable, or innovative, clash with values associated with family business—predictability, consistently good service, reliable products, respect for people, and loyalty to employees?

Those values are not at all inconsistent with the new demands of business, in my view, and, indeed, they should not come at the expense of good business practices. Support for long-term employment and a traditional preference for an informal manner of operating should not become excuses for mediocrity, or a mutual-protection racket. As one long-term family leader put it, "It isn't 'respectful' if keeping employees who are not producing is a suicide pact for the company." If the non-producing employee is a family member, of course, reinterpreting the value can be fraught with conflict. But it is increasingly necessary.

Another path: philanthropy

While few families are happy to sell their business, what if the company cannot survive independently? Selling the family's flagship business does not have to be the end of the world for a family and what it stands for. Unless the family suffers from inflated, unrealistic financial expectations, or unless it has tried to go it alone for too long and the value of their core asset has declined precipitously, a sale usually leaves the older generation comfortable and able to retire, and the younger generation with money and shared assets with which to continue the family's values and traditions.

To be sure, when a family business is sold, there is initially a deep sense of loss, a grieving. The older generation as well as other family members working in the company have long been identified with its reputation. They have been recruited for community organizations and received many honors because of their name and stature. For some of the senior leaders, who may have never worked anywhere else, the loss is deep and personal. Younger family members suddenly have to test themselves in a job market where their name is not a ticket to the top. The money from the sale affirms the value of what they have built, but it doesn't offer a guide for the future.

The experience of the Claybourne family (their real name is well known) shows how values and traditions can survive the sale of the business, and how the sense of loss can be transformed into a new vision. For five generations the Claybournes had been associated with a public company in which they were the largest shareholders. A fourth-generation family member was CEO and other family heirs participated in management. With other valuable assets as well as shares in the business, scores of family members enjoyed great wealth. Like Levi Strauss, however, the company was in trouble and no longer performing well; its stock price was very low. A large company made an unsolicited tender offer, and the company was in

play.

The offer created dissension within the family. There were four branches, each with a representative on the board. Two branches had family members working for the company. The family CEO wanted to resist the offer. He felt he was taking steps toward recovery and didn't want the family name removed from the business. The board was split and found it difficult to reach a decision on the offer. Pressure mounted.

The real discussion had to take place at the family level. Hired as a consultant, I helped the two largest branches create family councils that defined their values and gave input to the board managing the family's investment in the company. Each branch came together separately to define what the members wanted for the future. The family members did not view the offer in purely financial terms. They worried mostly about the effects of the sale on how they viewed the world and themselves as a family. The company was the glue that had kept the extended family together. The members deeply valued working together, and the reputation for quality in their family name. They cared about treating employees decently. And they had given consistent support in their philanthropic activities to preserving the natural environment and educating children.

It had always been there, a core identity that unified the very disparate family branches. Now, they needed to separate their identity as a family from their business. After considerable discussion, the members of the two main branches decided, reluctantly, that it was time to sell their stake in the company. But all four branches wanted to maintain their connection and preserve their values through their philanthropic activities.

The real work for the family began after the sale. They had a series of meetings to define their core values and goals, which now had to be pursued independently of the business. Looking beyond the sale, the four branches agreed that the largest part of their assets would be managed jointly, by the family itself. They decided to put their investments, and also their charitable work, under the control of a family office. The office would not just operate for the financial gain of the family investors, but would follow certain family values. The extended family defined a mission statement and a set of values for investment, and gifting of stock, that refined the traditional concerns of family members for education and ecology. Those values were communicated and accepted by a board representing the four families that directed the members' investments, made the operational decisions, and hired financial and business advisers. They developed a diversified portfolio of investments in line with the family's values.

The work of the Claybournes' family office reflected their tradition of

working together. They created ways for younger members to learn about the family investments and become involved. In addition, a large portion of the proceeds from the sale of the business was placed in a family foundation. This foundation had a separate board, which enabled more members of the family to assume leadership roles in implementing the family's mission. The foundation became as active in the community as the company had been, keeping the family name and its tradition of community leadership alive.

In the years since the sale of their core business and the departure of all family employees from it, the family has strengthened and renewed its commitment to values set generations before by the business founders. The whole family still comes together once or twice a year to review their investments and philanthropic activities. While investing their wealth just to make more did not interest them very much, many members of the younger generation have become excited by the work of the foundation and participate in it. The work keeps this family's cherished traditions alive and keeps the four branches in close touch.

The Claybournes demonstrate that while selling a business can be a painful decision, it can also be an opportunity for thoughtful reconsideration of the family's vision of its future. The new paths may not be the same as the old, but they sometimes open up a different route to the same goals of strengthening the family and providing opportunities for younger members to exercise their talents and realize their dreams.

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