Consequences of value-based management for developing the organisational agility potential of a family business

Abstract: Changing environment makes entrepreneurs think differently, work closer with all stakeholders and respond quickly to customer needs, including those which are family-run. These are often focused on building their value in the long term and forget about increasing flexibility. Question how to combine the traditional style of management which is faithful to tradition and family values with a very clear challenge of maintaining business agility becomes one of the most important questions of every manager and business owner. Adding existing specific0 interrelationship between the business and the founding family, makes the management process in a family business very emotional and even more difficult. This process is most clearly evident where the values of the owner, founder and family merge. The founder’s values, which interweave with the values of the family system he / she belongs to, determine the choice of corporate mission and strategy, as well as the way in which company employees communicate with all external stakeholders (customers, contractors, suppliers and other business partners). It is the owners who create the organisational culture of their businesses based on their own, more or less conscious, value systems.

Key-words: family business, agility, value management.

Introduction
More dynamic changes in the external environment provides challenges for contemporary business, including those which are family-run. These chal-

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Challenges are to create value added while working with all stakeholders, adapt to changes easily and respond quickly to customer needs. A business which has such skills was called an agile business and is treated as a new business paradigm [Trzcieliński 2011].

The pace of changes taking place in many areas at the same time and the need to adapt to them are a big challenge for the organisation and people in a business. Before they manage to fully adapt to one change, they are facing another one which brings a new uncertainty and makes the environment more complex. Therefore, the challenge for company owners or managers is to act in turbulently changing conditions which makes it necessary to evaluate the existing management paradigms in both theory and practice. There is a clear management trend of creating agile businesses of higher flexibility allowing them to adapt to ever changing conditions.

This also applies to family businesses which, while being often focused on building their value in the long term, must increase their flexibility. Their strategic decisions are based on the values of the company founder or owner which is why it is interesting to find the answer to the following question: how to combine the traditional style of management which is faithful to tradition and family values with a very clear challenge of maintaining business agility?

The purpose of this article is to try to interpret the consequences of value-based management for developing the organisational agility potential of a family business. To explain the concept of value-based management and show their effect on the concept of an agile family business.

**Value-based management in family businesses**

Although the term family business is used in the popular vernacular, its definition is not as clear as one would think. The difficulty is that there are no clear-cut criteria for distinguishing this group of companies from others. As a result, business of various legal forms, types of ownership, sizes and management methods are included in this group [Sułkowski and Marjański 2009]. Each type of business organisation, whatever its size, legal form or sector, may have a family element as long as the ownership and management system belongs to a family. Therefore, it may be concluded that a family business is an enterprise of any size or legal form whose capital is either wholly or predominantly owned by a family, at least one of its members exerts a decisive influence on the management or has a management role himself/herself with an intention to keep the business permanently in the family’s hands. Thus it is a business whose ownership is controlled by a single family [after: Jeżak, Popczyk and Winnicka-Popczyk 2004] and more than one family member is involved in the operations of such a business [after: Sułkowski and Marjański 2009].

37 A wide review of the family business definition is provided by dr Ewa Więcek-Janka.
The most important characteristic of family businesses is the strong interrelationship between the business and the founding family. It is not possible in family businesses to separate entirely processes which occur in the family from those occurring in the business. The emotional and intellectual processes which define the internal world of a family and processes inside an organisation merge and are interdependent [Sułkowski and Marjański 2009]. This process is most clearly evident where the values of the owner, founder and family merge. Each family and each business has a set of its own values. Within such a meaning, a family is an integral system which is characterised by various variables: a set of norms, internal rules, system of relations and hierarchies, specific measures to maintain the cohesion and vigour of such system and certain goals it tries to pursue. This is similar to a business enterprise. The system of values and organisational conduct form an integral part of corporate culture in every enterprise. It owes to key values that universal rules are understood and respected, and with such rules the management can control, maintain and develop the social communication process between customers and employees, employees and employers, as well as influencing the effectiveness of the organisation in the long run.

These conclusion are interesting when compared with the results of research that defines corporate longevity potential. It turns out that the factor on which a long life of a business is conditional are consistent values and their impact on the internal and external environment of the organisation. Results of research conducted for more than six years by J. Porras and J. Collins demonstrated that the source of endurance and development of an organisation are the core values, and more specifically a strong awareness of one’s own core values, their invariability in a changing environment and conscious value management i.e. implementing them in every aspect of the business [after: Stachowicz-Stanusch 2007]. G.R. Sullivan and M. V. Harper point to the key importance of values in business activities: The practice has shown businesses with a highly developed sense of organisational values to be the most successful and their success to last longest [Stachowicz-Stanusch 2007, p. 36].

“Value” is a concept in economics which has many centuries of tradition and is of fundamental importance to the discipline. It has been a philosophical concept only since the 19th century which is not long ago [Tatarkiewicz 2007]. Value is the most general standard of behaviour, an idealised norm, thus a concept on the basis of which more detailed social, environmental and cultural norms are designed. However, values are interpreted differently in different cultures, societies and even local communities [Kosewski 2008]. Value is considered to be everything that is valuable, and, according to U. Schrade, what is valuable is determined by human needs.
and desires [Schrade 1992]. The scale and hierarchy of values applies to both life and collective activity, as well as individual lives and conduct [Michalik 1980]. According to M. Scheler [1987], values are objective and prescriptive (moral obligations). Morality is about making choices in line with such value hierarchy. The higher the value, the more lasting it is, less dependent on the body, gives more profound satisfaction and is easier to share with other people. Each person can, according to his/her own criteria, be attached to one’s own or other value hierarchies to a different extent. One would consider honesty to be more important than justice, another one may prefer proper conduct to effective action [Kosewski 2009].

With its high stability and a much stronger expression compared with non-family businesses, the system of values in a family business may play a very useful role [Jeżak, Popczyk and Winnicka-Popczyk 2004]:

- it causes family members to identify their own ways in life with the development and success of the business, support business continuity and preservation of the family tradition;
- modifications of the styles of conduct in a business are controlled and are rather evolutionary changes which results in a more gentle and better prepared change implementation process;
- it consolidates and brings the family together around the business, making it become a business success factor and not an obstacle to growth.

The above discussion of the benefits arising from the identification of the key shares values of a family business resulting from the values of the founder, family and employees is supplemented by results of the research conducted by B. Poustner and J.M. Causes, who concluded that shares values [after: Stachowicz-Stanusch 2007]:

- promote a high level of corporate loyalty;
- facilitate consensus on the main goals of the organisation;
- stimulate ethical conduct;
- reduce the level of stress and tension at work;
- develop a strong belief in the need of personal effectiveness;
- develop satisfaction from participating in the organisation;
- develop teamwork.

The founder’s values, which interweave with the values of the family system he/she belongs to, determine the choice of corporate mission and strategy, as well as the way in which company employees communicate with all external stakeholders (customers, contractors, suppliers and other business partners). It is the owners who create the organisational culture of their businesses based
on their own, more or less conscious, value systems [Sułkowski and Marjański 2009]. This is why this factor may, after it has been properly formalised, naturally become an essential part of competition as it is an authentic link that makes up the company’s identity which is genuinely believed in by the founder, and, as a consequence, by the key personnel. This is because it is important that an enterprise acts in line with what it declares and the values it subscribes to in every aspect of its business [Zarębska 2008]. The source of success in this respect is in management which comprises not only the corporate process or technologies, but also human hearts [Skrzypek 2004]. The focus on identifying and strengthening the shared and most important values for the business is often characteristic of family businesses which do it intuitively as it were. Consequently, it is worth analysing how value-based management affects the market agility of those businesses.

Conditions of an agile businesses

Agility is the skill of responding to changes. However, it differs from flexibility. The latter refers to the ability of a business to quickly change the tasks which are performed in a routine manner. Each new situation is identified by the business in advance so the procedures which a necessary to implement changes that are needed are devised and prepared earlier. The traditional dimensions of flexibility relate, among other things, to the product or service, e.g. value, product mix, flexibility of specifications, and also with the process: changes in the use of machinery, flexible working time and scope and flexibility in innovations. Therefore, to become agile, a business needs to cope with unforeseen changes on the market and changes of market demand [Goldman 1995]. Agility may refer to every dimension of flexibility.

However, the key difference between these concepts is fast response to unforeseen market changes. Companies implement a variety of specific strategic practices aimed at promoting agility and enriching the customer. R. Vokurka and G. Fliender [1998] identify numerous internal and external strategic initiatives that promote agility. The authors cite examples which include the following:

– reductions in manufacturing cycle times and order-response times,
– partnership,
– outsourcing,
– schedule-sharing,
– supply-channel performance improvements,
– postponement,
– teamwork and cross-functional management teams,
– employee education, training and empowerment,
– business process re-engineering.
An agile business is in many respects different from a traditional one. The following table focuses on the HR-related aspects in a business and identify distinguishing features of both types of businesses by set criteria (including also references to researches in the field).

### Table 1. Distinguishing features of traditional and agile firm

<table>
<thead>
<tr>
<th>Criteria-Distinguishing features</th>
<th>Traditional manufacturing company</th>
<th>Agile manufacturing company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organisational structure</strong></td>
<td>Vertical, traditional and line</td>
<td>Flattened, and team managed</td>
</tr>
</tbody>
</table>
| **Devolution of authority**      | Lack of empowerment, centralized and informal authority | Self-autonomous and empowermen-
<p>|                                  |                                   | [Maskell 2001; Vernadat 1999; Crociott, Youssef 2003; Zhang, Sharifi 2000] |
| <strong>Employee status</strong>              | Existence of specialists, no exposure to other functions and skills, inflexible and ignorant of changes | Learning employees, multi-skilled and multi-functional, self-committed [Maskell 2001; Hoek, Harrison, Christopher 2001; Vokurka and Fliedner 1998; Meredith, Francis 2000; Hormozi 2001; Bustamante 1999; Assen 2000; Zhang and Sharifi 2000; Sohal 1999; Yusuf Adeleye, Sivayoganathan 2003; Ribeiro, Fernandes 2010] |</p>
<table>
<thead>
<tr>
<th>Employee involvement</th>
<th>Very little involvement of employees in decision making, ideas and knowledge are seldom shared or utilised</th>
<th>Fully empowered employees, ideas and knowledge of employees are fully utilised [Gunasekaran 1999; Meredith and Francis 2000; Vernadat 1999; Hormozi 2001; Hoek, Harrison, Christopher 2001; Bustamante 1999; Meredith, Francis, 2000; Crociott and Youssef 2003; Jin-Hi, Anderson, Harrison 2003; Almahamid, Awwad, McAdams 2010; Ribeiro, Fernandes 2010]</th>
</tr>
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<tbody>
<tr>
<td>Nature of management</td>
<td>Autocratic and stagnant</td>
<td>Participation based management and susceptible to changes and improvements [Hoek, Harrison, Christopher 2001; Crociott and Youssef 2003; Bustamante 1999; Hooper, Steeple, Winters 2001; Ribeiro, Fernandes 2010]</td>
</tr>
<tr>
<td>Role of leadership</td>
<td>Focuses on the relationship between the leader and the supporters in the context of their role in the organisation</td>
<td>Strategic leadership which combines a vision with operational management [Hambrick, Pettigrew 2001; Crociott and Youssef 2003; Avery 2009; Grzesik 2011]</td>
</tr>
</tbody>
</table>

S. Goldman, R. Nagel, K. Preis [1995] identified four key dimensions of agile competition:

- enriching the customer – this entails quickly understanding the unique requirements of each individual customer and rapidly providing them.
- co-operation – (intra-organizational and inter-organizational co-operation such as supplier partnerships and perhaps emerging virtual relationships with competing organizations) in order to enhance competitiveness,
- new organizational structure – to master change and uncertainty through techniques such as concurrent engineering and cross-functional teams,
- impact of people, information and technology – recognizes the importance of employees as a company asset, placing greater emphasis on education, training and empowerment.

S. Meredith and D. Francis describe a project of the Agile Manufacturing Research Group (AMRG) which was formed to conduct research into the agility of SMEs. The research methodology used a case study analysis which resulted in the creation of a 16-dimensional “agile wheel”. The resulting model is a business audit tool allowing to measure the agility level and ensure a common definition for all agility components. It is not a coincidence that the model is illustrated by a wheel. The authors aimed to show that individual components of the model are closely interrelated. Consequently, if any of them is missing, the wheel turns slower, similarly to agility which requires all sixteen components to be integrated and developed. The wheel was divided into four sections [Meredith, Francis 2000, pp. 138–142]:

1) **agile strategy** – requires skills in four areas:

- environment analysis – which is defined by corporate procedures which allow to collect data from the environment;
- strategic commitment – this refers to the top management’s desire to adapt agile procedures;
- full dislocation – adaptation of agile procedures and practices in all departments and at each employee level;
- agility evaluation – defines the degree to which agile procedures and practices have been implemented in the business;

2) **agile process** – focuses on organisational processes which support agility, such as:

- flexible assets and system – aiming at “lean” resources and systems which means no more wastage and maximising effectiveness in all aspects of the given process;
quickly “obtaining” new products – this refers to the way in which businesses improve their product offering, which does not always mean in-house product development as new products can also be developed working with third parties;

swift problem resolution – which requires the skill of quickly identifying signs of problems and arranging the necessary resources which, when implemented, will allow to resolve the problem;

reach information system – it allows to ensure that decisions are made effectively, as agility requires frequent and fast decision-making;

3) agile connections – this refers to external connections which enable agility:

agile benchmarking – it ensures comparative foundations for defining agility objectives; knowing best results of rivals allows to set criteria;

profound customer analysis – it ensures a very close relationship with customers, whether existing or potential; Sony corporation described this as “taking customers’ body temperature every day”;

working with suppliers – this aims to pull down barriers between the business and supplier, share goals together and build a long-term relationship;

cooperation results – meaning improved abilities resulting from cooperation, businesses create connections which enable them to form virtual organisation; agility and flexibility is more advanced (improved) where businesses connect to share their key competences to create an ad hoc enterprise;

4) agile people – agility in this area requires the following practices:

structures able to adapt – bureaucratic organisational structure does not favour agility, developing adaptive corporate structure requires corporates to reconfigure and adjust to use the opportunities which arise;

multifunctional flexible teams – agile businesses are less dependent on systems and more on the intelligence and opportunism of its employees; abilities, skills, commitment and empowerment of employees are the key and critical features of an agile firm;

quick decision making – this is possible with advanced information systems and fast and effective information flow;

continuous learning – is defined by the openness of employees to new ideas and a continuous process of learning and improving one’s skills.
Value management versus family business agility

At the stage of establishing a family business, actions taken by the founder are determined by his/her individual values and have a fundamentally affect the creation of shares values with all the employees involved, while the stage of growth requires that those values be consciously identified, and, with time, even skilfully managed. Value-based Management (VM) is a process of passing the core values of an organisation from one generation to the other by assuming the duties which arise from such core values and protecting them on behalf and for the benefit of the organisation and its members by institutionalising them [Stachowicz-Stanusch 2007]. There are at least several ways in business practice of identifying the main corporate values. They include: the guiding questions method, selective choice method and aided indications method. The process of identifying and institutionalising shares values in a family business may also take the following stages [Blenchard and O’Connor 1998]:

- The owner (founder) defines his / her own key values.
- The management and other members of the owner family define the key values without the founder’s presence.
- The results of both analyses are compared.
- Values of key employees are identified.
- Values which are important from the business perspective in relation to customers, business partners, employees and other significant stakeholders are determined.
- All the proposals are synthesised, the founder chooses the key values.
- The core values are integrated into the mission, vision and day-to-day operations of a family business.

Businesses operating worldwide define their own identity both in the context of competitiveness and ethical conduct. One of the most universal, and increasingly more popular, tools of defining one’s own identity is the set of corporate values (core values). Values are like the corporate DNA, they determine the conduct, internal conditions and corporate image. Where they are defined properly, they help promote certain attitudes of the personnel and facilitate recruitment on the one hand, and help to build a corporate image in the environment which is consistent with its character on the other. The translation of values to each level of internal operations in the organisation and external relations are what humanises management which thus creates a new dimensions of corporate functioning. Value-based management is both the philosophy of management as well as practical actions aimed at focusing on practicing the
fundamental values in a firm and adapting them to the corporate mission and vision for the future [Lachowski 2012].

As shown by the research published within the “Corporate Values Index 2009” report, the majority of firms operating in developed market-based economies declare that they defined the system of values which is in effect in the business. It means that the recommendation by J. Collins and J. Porras is put to practice.

Therefore, when analysing the source of decisions with respect to individual areas of an agile business (strategy of processes, connections and people), it should be noted that they result from the values acknowledged by the founder. The values subscribed to by the founder, and thus also by the business family and management team, are directly linked to the agility of the business.

38 The “Corporate Values Index 2009” project covered more than 3,800 businesses from 11 countries all over the world. The countries in which the research was conducted included: Poland, Germany, France, Italy, Austria, India, Holland, Spain, the UK, Ukraine and the US. The “Corporate Values Index 2009” report provides a summary of the second edition of the research carried out over the last year in 11 countries all over the world by companies of the international ECCO Network. It provides answers to the questions about the scale of value application in business as a concept of management and marketing strategy planning. The idea behind the report is to show differences between systems of values defined by businesses which operate in different conditions, http://www.onboard.pl/data/file/pdf/RAPORT_CorporateVALUES2009.pdf.
A research was conducted into a group of family businesses participating in two family business-dedicated projects carried out in a similar period. The purpose was to diagnose the strongest values influencing strategic decisions in family businesses. These two projects were:

- the Family Businesses (*Firmy Rodzinne*)\(^{39}\) partnership project of the Polish Agency for Enterprise Development and the Family Businesses Initiative (*Inicjatywa Firm Rodzinnych*), a pilot project devoted to the support for family entrepreneurship in Poland (The research was among those

\[^{39}\] The Family Business Training and Advisory Programme (Program Szkoleniowo-Doradczy Firmy Rodzinne) was implemented from the end of 2009 to the end of 2012. It is a partnership project of the Polish Agency for Enterprise Development and the Family Business Initiative (*Inicjatywa Firm Rodzinnych*). It is a pilot, hence also a research, project. The needs, expectations and problems of project participants were continuously monitored and checked, while the goal, programme and course of the project were formulated on a regular basis in order to best match the expectations of participants.
beneficiaries of the Family Businesses programme who took part in two-day workshop sessions devoted to development strategy) and

- the international *Business Transfer Programme II (BTPII) project*[^40] (The research was conducted among those beneficiaries of the BTP II programme who took part in two-day workshops devoted to corporate development strategy).

The outcome of the research allows to conclude that entrepreneurs base their decisions on values which, when assigned to agility categories, can be outlined as follows:

- **Potential for agile strategy** – it requires founder’s values related to the desire to create new business areas, courage, risk management ability, adaptability in new circumstances.

- **Potential for agile processes** which is a factor in such values as: openness to change, striving for personnel development, professionalism, accuracy, flexibility.

- **Potential for agile connections** – this refers to external connections which enable agility and are, in turn, based on such values as: competition, but also social involvement, building relationships, importance of local communities.

- **Potential for building an agile team** – it results from behaviours based on such values as dignity leadership, teamwork, self-improvement, discipline, acknowledgment, valuable rivalry, contacts with people.

**Summary**

Increasing the awareness as to the identification of the core values affecting managerial decisions and conduct may have a positive effect on the development of the family businesses’ agility potential. While the vast majority of business owners have so far treated values as something they are not conscious of, or internal decision-making signposts, when one wants to increase organisational flexibility and business agility, it would be worth identifying them in an in-depth manner as they are what can hamper, or, conversely, stimulate such potential. The need to increase organisational agility makes such an analysis a worthy pursuit.

[^40]: An experienced team of scientists and representatives of training and advisory firms from seven European countries (Austria, Finland, Holland, Poland, Portugal, Spain, Sweden) formed an international consortium for two years (01.11.2010 – 31.10.2012) to collaborate on a project concerning family business ownership transfers. The name of the project was “Business Transfer Program II (BTPII)” and is based on a pilot BTP project in which a tailor-made training programme was designed and tested combined with a tool scanning both sides of the transfers – the acquirers and acquirees. BTP II is a project co-financed by the European Commission as part of the Leonardo da Vinci programme.
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