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Strategically aligning family and business systems using the Balanced Scorecard

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ABSTRACT

We take an integrated approach to align issues that influence the family and business, systems. Using innovation action research (Kaplan, 1998) we illustrate how the Balanced Scorecard, that includes reference to family business challenges can be introduced and used to assist family, members, board members and management in a third-generation Australian family-owned business. The process of scorecard development is discussed and the development of the core essence, vision, and mission statements, strategic objectives, measures and targets, which can be scrutinized by family, business stakeholders to ascertain consistency with the vision of the company, is outlined. We suggest, that, in the family domain, the BSC assists in the education of, and communication among, family, members. From a business system perspective, the BSC is a useful tool to link and align the family with, the business, and this too has benefits in communication and education terms. A conceptual mapping, framework is introduced and propositions that will guide future projects are detailed.

1. Introduction

Families in business face unique challenges. These are traditionally attributed to the overlap of the family and business systems where, often, the emotional bonds between family members become intertwined with business issues (Craig & Lindsay, 2002; Lansberg, 1983; Sorensen, 1999). As a result, the family business is rarely viewed as a total system (Schneider, 1989). Family business is usually seen from either the business perspective, from the family perspective, or as two conflicting systems. A family business, from the business system perspective, is a system that is task orientated and competency based (Davis & Stern, 1980). The primary task is the generation of goods and service through organized behaviour for the purpose of making a profit. As a result, social relations are very much influenced and guided by the norms and principles that facilitate the productive process. As such, "the family business is an enterprise that is based upon the concept of merit and is a system that values the person based upon what s/he does" (Lansberg, 1983, p. 42).

Alternatively, from the family system perspective, the family business is a kinship system in which members are related by blood or law. This system operates within the environment of the household, is not a place, but rather a "pattern of appropriate conduct, coherent, embellished and well articulated" (Goffman, 1959, p. 75). In this system, the glue that holds the family together is cooperation and unity, its emotional bonding and affectionate ties that develop between and among its members, as well as a sense of responsibility and loyalty to the group as a system (Aldrich & Cliff, 2003; Schneider, 1989). It is a system largely based on the concept of need. That is, the family's primary social function is to assure the care and nurture of its members. Specifically, "social relations in the family are structured to satisfy family members' various developmental needs and tend toward valuing the person based upon who he/she is" (Kepner, 1983, p. 60). Family business research has now evolved to the point where "to understand the family business we must recognise that the two subsystems (family and business) co-exist and it is their relative powers that make a family business unique" (Sharma, Chrisman, & Chua, 1997, p. 20), a notion recently supported by Basco and Pérez Rodríguez (2009).

Motivated by Basco and Pérez Rodríguez (2009) findings that approaching the family business as a single system yields better overall (family and business) results (see also, Pieper & Klein, 2007; Whiteside & Herz-Brown, 1991), this study is an action-based verification of the "single-system" view which we apply to a novel context (i.e., the Australian eco-tourism industry) and through a different lens, the Balanced Scorecard (BSC).

The purpose of this paper, therefore, is to demonstrate using an accepted strategic management and measurement tool, the Balanced Scorecard (BSC), how family system and business system goals can be aligned. Specifically, we enlist an innovation action research (Kaplan, 1998) process to address the following research question: How can the four perspectives of the Balanced Scorecard, namely financial, customer, internal business processes, and

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learning and growth perspectives, be adapted to align the potentially divergent family system and business system goals that exist in family-owned businesses? We show how the BSC can be adapted to the family business context as a measurement and management, as well as a communication, tool that is easily interpretable by those involved in family business (see also, Craig & Moores, 2005). We address a gap in the literature by focusing our lens on how family goals and business goals can be concurrently addressed. Specifically, we highlight a framework that can assist family businesses understand that, as their firm morphs into an increasingly complex business, strategy becomes increasingly important as strategic decisions affect, and need to be communicated to, an increasingly diverse group of family and non-family stakeholders.

We begin with a brief introduction to the literature that distinguishes strategy in the family business domain. Following this, we present an overview of the BSC including an outline of the foundation vision and mission statements, which are at the core of the scorecard development process. Then, using a case study of a third-generation family business in Australia, we show how the BSC can be adapted to the family business context. We detail the process how the four perspectives of the BSC have been introduced to the family business and include the objectives, measures and targets that the family has established to ensure the alignment of family and business strategic goals. Finally, we include a conceptual process model and introduce a series of propositions that will drive future projects.

2. Family business strategy

Aligning family and business goals is a challenge in developing family business strategy. Sharma et al. (1997) point out "family business is more likely to have multiple, complex, and changing goals rather than a singular, simple, and constant goal" (p.17). Harris, Martinez, and Ward (1994) suggest that "the assessment of family business characteristics and their influence on strategy leaves more questions than answers" (p. 171), and Chrisman, Chua, and Sharma (2003) later contended that this situation was still largely the case. However strategic planning and strategy formulation are ways in which family and business goals can be aligned (Astrachan, 2010; Pieper, Klein, & Jaskiewicz, 2008) to achieve the competitive advantages enjoyed by many sustaining family firms (Miller & Le Breton Miller, 2005).

The *integration* of the social-centered family system to the business system is significant in strategy planning terms (Nordqvist & Melin, 2010; Zahra, Hayton, Neubaum, Dibrell, & Craig, 2008). Though seemingly a subtle distinction, simply *adding* 'the family' to the business system understates what distinguishes strategic planning processes in business families. As an example, families have the opportunity to participate in impromptu, informal meetings and discussions that create a valuable sense of unity and consensus about organizational goals and values (Habbershon & Astrachan, 1997). Used as vehicles to integrate family and business systems, these forums act as a valuable source of competitive advantage by allowing the family firm to achieve the many benefits of strategic planning without necessarily having to formalize the process (Eddleston, Kellermans, & Sarathy, 2008; Miller & Le Breton Miller, 2005). While non-family firm members have the opportunity to participate in informal, face-to-face meetings, due to the social foundation around which a family business is centred, such meetings take on greater significance and provide a vehicle for the between and among generation sharing of values, beliefs and goals (Corbetta & Tomaselli, 1996; Fama & Jensen, 1983; Suáre & Santana-Martín, 2004). Families in business are familiar with, and have intimate knowledge of, business matters that is garnered from a long association with the business, and, obviously, the family (Demsetz, 1988; Schulze, Lubatkin, & Dino, 2003).

Strategic differentiation that family firms have over non-family firms, i.e., trust, family culture and family values (Gudmundson, Tower, & Hartman, 2003; Steier, 1998; Zahra, Hayton, & Salvato, 2004), has contributed to them being labeled as strategically conservative. However, this conservatism potentially enables them to be more flexible in relation to formal strategic change while simultaneously making significant incremental changes (Moores & Barrett, 2003; Shepherd & Zahra, 2003).

3. The Balanced Scorecard

Endorsed by many of the world's most successful organizations, the Balanced Scorecard (BSC) was developed by Kaplan and Norton (1992) to link the measurement of financial and non-financial indicators with firm strategy. Though originally developed as a performance measurement tool, the BSC has evolved into an organizing framework, an operating system, and a strategic management system (Kaplan & Norton, 1996). As exclusive reliance on financial measures in a management system is insufficient, the BSC highlights the difference between lag indicators versus lead indicators. Financial measures are "lag indicators that report on the outcomes from past actions" (Kaplan & Norton, 2001, p. 18). Examples of lag indicators are return on investment, revenue growth, customer retention costs, new product revenue, revenue per employee, and the like. These lagging outcome indicators need to be complemented (supplemented) by measures of the drivers of future financial performance, that is, lead indicators. Examples of lead indicators are revenue mix, depth of relationships with key stakeholders, customer satisfaction, new product development, diversification preparedness and contractual arrangements.

The BSC also addresses the measurement and management of tangible versus intangible assets. Examples of tangible assets include items such as inventory, property, plant and equipment (Chandler, 1990) while examples of intangible assets are "customer relationships, innovative products and services, high-quality and responsive operating processes, skills and knowledge of the workforce, the information technology that supports the workforce and links the firm to its customers and suppliers, and the organizational climate that encourages innovative problem-solving and improvement" (Kaplan & Norton, 2001, p. 88). The BSC enables the firm to distinguish four distinct strategically important perspectives: financial, customer, internal processes, innovation and learning. These are individualized by the organization around the vision and the mission, and enable the management team to establish objectives, measures and targets. Theoretically, as Kaplan and Norton point out "the academic literature, rooted in the original performance management aspects of the scorecard, focuses on the BSC as a measurement system but has yet to examine (in detail) its role as a management system" (Kaplan & Norton, 2001, p. 100) and it is our aim to address this in the context of family-owned businesses.

At the core of the BSC, and an integral step before attempting to build what Kaplan and Norton (2001) refer to as strategy maps, is the necessity to review mission statements: why the company exists, the core values and what the company believes in. A strategic vision can then be developed. The vision "creates a clear picture of the company's overall goal...the strategy identifies the path intended to reach that destination" (Kaplan & Norton, 2001, p. 19). The BSC provides a framework for organising strategic objectives into four perspectives: (1) financial, (2) customer, (3) internal business processes, and (4) learning and growth.