



**IFB** Research  
Foundation

FAMILY BUSINESS CHALLENGES

**No. 14**

# **EMBEDDING LONG-TERM ORIENTATION**

Practical guidance for family business owners and managers

SECOND EDITION

## No.14 Embedding Long-Term Orientation

### Section 1. INTRODUCTION

**Long-term orientation (LTO)** is an important attribute of many family-owned businesses, and some researchers argue that it might even be their distinguishing asset. Family firms generally apply longer time horizons in their decision-making than their non-family-owned counterparts. Corporate strategies that are underpinned by LTO can contribute to competitive advantage and sustainable performance.

**The “balancing act”.** The challenge is to ensure that LTO sits in tandem with maintaining short-term flexibility, sustaining entrepreneurship and innovation, and keeping sight of current financial performance. The importance of this balance was summed up well by a family business MD interviewed for an IFB Research Foundation study on LTO: “If you don’t think about the short term,” he said, “then you don’t stay in business long enough to worry about the long term.”

**LTO is a product of the unique characteristics of family ownership.** LTO derives from family owners’ willingness to “postpone consumption” in favour of prioritising investment in the continuing growth and development of the business. Another factor is the trans-generational characteristic of family business: the aspiration that the enterprise will continue to be run by future generations, with owners working to pass their firms on strengthened.

**Delivering patient capital.** Committed shareholders, reinforced by shared feelings among the family of co-ownership and identification with the firm, are a source of patient capital – i.e. capital at the disposal of the company without threat of withdrawal in the short run, where long-term return expectations override short-term profit maximisation.

**LTO influences thinking and reasoning,** providing “rules of thumb” that help simplify complex decisions. This means that, for family firms, the perspectives of “future” and “long term” are taken into day-to-day decision-making much more often and in an easier way than at non-family firms.

Positive outcomes of LTO for family companies that prioritise this approach are potentially significant, bolstering competitive advantage. Areas benefiting include:

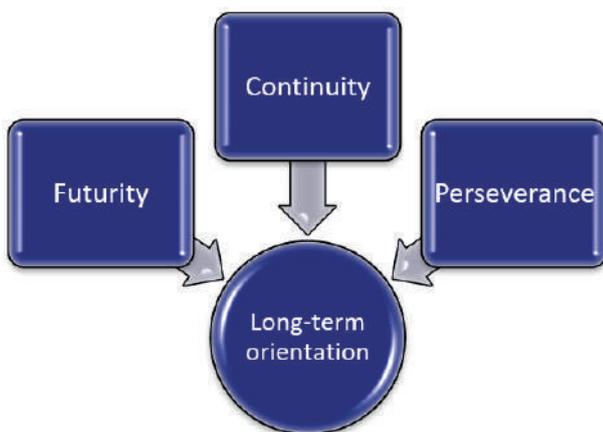
- **Longer CEO tenure** than in non-family companies, reducing risks associated with the “revolving door” in terms of senior leadership.
- **Lower cost of capital,** because longer time horizons for family firm investments reduce default risk.
- **Heightened core capabilities,** operational excellence and superior product quality.
- **More innovation,** proactively seeking opportunities ahead of the competition, underpinned by investment in related capabilities (e.g. brand-building and R&D).
- **Strengthened relationships** with long-standing key stakeholders, including customers, suppliers and employees.
- **Financial resilience** delivered by a willingness to retain earnings, which become a support to the business particularly during challenging times.
- **Focused portfolio strategies** based on core competencies built up over time, coupled with moderate diversification and a preference for organic growth.

**Understanding LTO characteristics.** Family businesses that understand and manage LTO can work more effectively in achieving their long-term goals. An IFB Research Foundation study (see “3 Resources”) offers insights into LTO by breaking it down into three distinct dimensions – futurity, continuity and perseverance (see Exhibit 1):

- **Futurity** involves family business managers evaluating the long-term consequences of decisions and actions with the belief that planning and forecasting for the future is valuable to the firm.
- **Continuity** refers to the importance of decisions and actions that are long-lasting. It’s a key component of LTO because it emphasises the constancy needed to pursue an enduring mission and the value of having a reputation for business longevity.
- **Perseverance** concerns the belief that efforts made today will be valuable in the future because of their importance in generating long-term rewards. While perseverance is needed for day-to-day corporate survival, its effect creates value over time and is reflected, for example, in the willingness to make long-term capital investments.

These three components of LTO have been summarised (see the source note to Exhibit 2) as: “I have aspirations for others” (futurity); “I have respect for the lessons of tradition” (continuity); and “I believe sacrifice is rewarded” (perseverance).

**Exhibit 1: A model of family business long-term orientation**



Source: Eric Clinton, Vanessa Diaz, Martina

Brophy and Jordan Gamble (2018) *Long-Term Thinking in UK Family Business. An IFB Research Foundation Working Paper.*

**Non-economic goals influence family firms to engage in long-term thinking.** Such goals include retaining the business within the family, continuing family values, promoting and preserving family reputation (including fostering sustainability) and maintaining family unity. They are family-centred goals and are reinforced by embedding LTO into the family’s values.

**Fostering LTO through leadership.** Maintaining a commitment to long-term aspirations and continuing the legacy of current and previous generations requires conscious leadership attention. Professor John Ward has summarised academic thinking on how family firm leaders can pursue strategies and practical steps that help promote and consolidate long-term thinking (see Exhibit 2).

**Exhibit 2: Facilitating LTO**

“Recent research ... offers clues to the nature of LTO and proposes three ways to facilitate long-term thinking:

1. Framing: Emphasise attractive, vivid, compelling, non-economic outcomes for the benefit of stakeholders. For instance, ‘Let’s look forward to celebrating our 100th anniversary in 2025’; ‘This decision will really make a difference for our community.’
2. Self-control: Develop self-control, avoiding the natural emotional temptations of short-term orientation. For example, establish accountability systems (boards, councils, frequent reporting) and be public with commitments.
3. Anticipation: Provide positive reinforcement on the journey to the long-term goal – ‘We’re doing something special’; ‘Let’s celebrate what we’ve accomplished so far!’; ‘The journey is great for us.’”

Source: Adapted from Professor John L. Ward (2013) “Building the Long-Term Orientation”, Blog on Family Business, Family Business Consulting Group (available at: [blog.thefbcg.com/building-the-long-term-orientation/](http://blog.thefbcg.com/building-the-long-term-orientation/)).

**Achieving the right balance in terms of diversification.** Undue adherence to a far-sighted mission can generate over-prudent, over-cautious mindsets that threaten

entrepreneurial resourcefulness and dynamism, resulting in restricting investments that build competitive advantage and spread risk. For family owners seeking to manage the risk in the context of a portfolio strategy, diversification may be important. Owners have to reconcile any desire to remove money from the company in order to diversify their personal assets, with the investment requirements of the business (see Exhibit 3).

### Exhibit 3: Successful family businesses usually renew their portfolios over time

“While some family firms have a wide array of unconnected businesses, most focus on two to four main sectors. In general, they seek a mix – some companies with stable cash flows and others with higher risk and returns. Many complement a group of core enterprises with venture capital and private-equity arms in which they invest 10 to 20 per cent of their equity. The idea is to renew the portfolio constantly so that the family holding can preserve a good mix of investments by shifting gradually from mature to growth sectors.”

Source: Christian Caspar, Ana Karina Dias and Heinz-Peter Elstrodt (2010) “Organization Practice: The Five Attributes of Enduring Family Business”, McKinsey Quarterly, January (available at: [www.mckinsey.com/business-functions/organization/our-insights/the-five-attributes-of-enduring-family-businesses](http://www.mckinsey.com/business-functions/organization/our-insights/the-five-attributes-of-enduring-family-businesses)).

## Section 2. ACTIONS TO CONSIDER

- To what extent do our perspectives prioritise the long-term success of our company?
- What drives LTO in our family business? Are we embracing LTO within the wider family, individual family members, the board and management team, as well as with employees?
- Are we making the most of the opportunities provided by our LTO approach – e.g. fostering reliability and trustworthiness with key stakeholders to boost our competitiveness?

- Are we maximising opportunities for LTO to increase the firm’s commitment to innovation (e.g. longer time horizons stimulating experimentation and creativity)?
- Do we foster LTO in our family business by framing (emphasising compelling outcomes for stakeholders), self-control (avoiding the natural emotional temptations of short-term orientation) and anticipation (providing positive reinforcement on the journey to long-term goals)?
- Are we watching out for business “game-changers” – disruptors like climate change, cyber security, natural resource depletion, urbanisation – that have the potential to undermine our long-term business success?
- How can we manage the tensions that exist in our firm’s strategic decision-making, between respecting family traditions (our values and heritage) and embracing change and renewal?
- Have we reviewed how we manage the balance between short- and long-term orientation – including governance, organisation and business functions (human resources, marketing, operations, finance and R&D)?

Add your questions

## CASE STUDY: OCS Group



Shareholders and executives devote a lot of thinking time to sustainability at fifth generation facilities services group, OCS. It's one of Britain's largest privately owned companies, generating over £1 billion in revenues and managing some 90,000 people around the world.

Founded in 1900 by Frederick Goodliffe, OCS's history demonstrates some of the challenges of family ownership. The group started life as the New Century Window and General Cleaning Company, but as Frederick's three sons took over they began an era of diversification and expansion. Today, OCS is trusted by over 70,000 clients around the globe to deliver essential and sustainable facilities management services 24 hours a day.

In the 1990s (then under fourth generation management) the first external non-executive directors joined the board, and family governance began to transform. In 2015, Peter Slator was appointed as OCS's first ever non-family Group Chief Executive.

"Everyone has worked hard to embed and establish good governance as part of a sustainable business model," explains Marianne Holgate, Director of Corporate Affairs, "but there's no complacency." Recently the family shareholders – of which there are some 150 – embarked on a fresh review of governance, beginning by asking themselves the pivotal question for family enterprise sustainability – "Why are we all in business together?"

The company worked with advisers to undertake a comprehensive governance review, which included at the outset a schedule of "town hall" meetings designed to capture shareholder views, which then informed the construction of a survey circulated to all family shareholders. The resulting survey data was presented to a Governance Committee, comprising family members elected by the shareholders and

chaired by the OCS Senior Independent Non-Executive Director. The committee prioritised the issues and agreed a set of recommendations, which included the development of a compact of principles and guidelines – the family's agreed Statement of Common Shared Purpose (SP).

The SP clearly articulates that the family is concerned not just with financial returns, but with how those returns are generated. It emphasises the family's long-term commitment to the business, and provides the guiderails by which both the board and executive team work to balance sustainable income and capital returns for the family, today and for the future.

Shareholder communication is included in Marianne's remit, and she sees the SP as very significant: "The SP sets out the agreed parameters against which family shareholders can evaluate decisions," she explains, "and when we communicate decisions we do so with reference to the shareholders agreed priorities. Transparent, clear communication is vital in establishing a unified and cohesive family understanding and ongoing affirmation of the strategy for the business, and in transmitting our values. We want to build a business for the long term, recognising environmental, social and governance responsibilities to customers, our colleagues around the world, and the wider communities within which OCS operates."



*Marianne Holgate, OCS Group  
Director of Corporate Affairs*

## Section 3. RESOURCES

### Articles and reports

#### Long-Term Thinking in UK Family Business: A Working Paper

Eric Clinton, Vanessa Diaz, Martina Brophy and Jordan Gamble (2018), published by the IFB Research Foundation (available at: [www.ifb.org.uk/share/publications](http://www.ifb.org.uk/share/publications)).

The findings of an investigation into the nature and extent of LTO in UK family businesses. As well as exploring what LTO means for family firms, the study examined how it manifests itself, how it can best be measured, and the nature of the potential differentiation versus non-family companies that it offers. The concluding section of the paper identifies practical recommendations that families might adopt and pitfalls to avoid.

#### Long-Term Orientation and Intertemporal Choice in Family Firms

G. Tom Lumpkin and Keith H. Brigham (2011), *Entrepreneurship Theory and Practice*, 35(6), pp.1149-1169.

An academic paper setting out a framework for studying LTO in family firms. The authors define LTO as a multidimensional construct composed of three dimensions: (a) Continuity describing the bridging of the past, present, and future in a way that places importance on endurance and long-lasting tradition; Futurity referencing a firm's belief that the planning and assessment of long-run future goals are valuable; and (c) Perseverance suggesting that long-term oriented firms work hard to create future value.

#### Managerial Long-Term Responsibility in Family-Controlled Firms

Dietmar Sternad (2013), *Management*, 8(2), pp. 93-107 (available at: [www.fm-kp.si/zalozba/ISSN/1854-4231/8\\_093-107.pdf](http://www.fm-kp.si/zalozba/ISSN/1854-4231/8_093-107.pdf)).

A summary and discussion of the importance of LTO in contributing to the sustainable performance of family-controlled firms, this article also introduces the concept of long-term responsibility as a managerial characteristic constituting a major driving force behind creating LTO. The approach helps to explain why family businesses tend to be more long-term oriented than other types of firms.

#### What You Can Learn From Family Business: Focus on Resilience, Not Short-Term Performance

Nicolas Kachaner, George Stalk and Alain Bloch (2012), *Harvard Business Review*, November, pp.1-6 (available at: [hbr.org/2012/11/what-you-can-learn-from-family-business](http://hbr.org/2012/11/what-you-can-learn-from-family-business)).

The authors argue that family businesses tend to be managed with resilience, sustainability and long-term perspectives in mind, and that this influences their strategies on seven key issues – costs, capital expenditure, debt, acquisitions, diversification, overseas expansion and talent retention.

#### Why the 21st Century Will Belong to Family Businesses

Josh Baron (2016), *Harvard Business Review*, March (available at: [hbr.org/2016/03/why-the-21st-century-will-belong-to-family-businesses](http://hbr.org/2016/03/why-the-21st-century-will-belong-to-family-businesses)).

Highlighting five areas – talent, investment, reputation, organisation and governance – the author argues that qualities often associated with family businesses that were a handicap in the 20th century are turning out to be sources of advantage. Under the investment heading, he points up family firm access to “captive capital” that will not easily migrate to other firms, with owners often thinking in generational terms: “Without external markets to please, they can take a long-term perspective and make decisions on the basis of sustainable economic value.”

### Books

*Managing for the Long Run: Lessons in Competitive Advantage from Great Family Businesses* Danny Miller and Isabelle Le Breton-Miller, published by Harvard Business School Press (2005).

The “lessons” and conclusions on LTO the authors draw from their study of 24 large, mature family businesses emphasise four factors in particular: *Leadership* that is independent and courageous rather than imprisoned by quarterly financial targets; *Strategies* (identified as brand-building, craftsmanship, superior operations, innovation and deal-making) that focus on, and are orchestrated for, long-run capabilities, rather than distracted by tangential opportunities; *Cultures* that are

cohesive, caring and single-minded, rather than individualistic or bureaucratic; and *Relationships* with the external environment that are enduring (and win-win), rather than fleeting transactions.

### Strategies for Longevity in Family Firms

Guido Corbetta and Carlo Salvato, published by Palgrave Macmillan (2012).

An analysis of strategic concepts and tools designed to foster the longevity of family-controlled businesses. Chapter 4 on “Successful Family Firms” summarises the work of researchers and practitioners seeking to identify and build on the distinguishing features of family firms.

## Family Business Challenges

The Family Business Challenges second edition series includes 18 guides overing three areas:

### Family business dynamics

- No.1 Understanding Family Business
- No.2 Maintaining Family Values
- No.3 Developing Stewardship
- No.4 Engaging the Next Generation
- No.5 Planning Succession

### Family business governance

- No.6 Building Family Governance
- No.7 Managing Differences
- No.8 Fostering Responsible Ownership
- No.9 Strengthening Family Communication
- No.10 Professionalising the Board
- No.11 Enhancing Communication with the Board
- No.12 Employing Advisers

### Family business management

- No.13 Fostering Entrepreneurship
- No.14 Embedding Long-term Orientation
- No.15 Promoting Sustainability
- No.16 Maximising People Capital
- No.17 Branding the Family Business
- No.18 Selling the Family Business

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**Grant Gordon, Editor in Chief.** Grant is a trustee of the IFB Research Foundation and co-founder of the Institute for Family Business. He is co-author of *Family Wars* (Kogan Page, 2008), focusing on managing conflict in family firms.

**Simon Perry, Author.** Simon is a law graduate and trained as a barrister. He moved into publishing in the early 1990s. His work focuses on family businesses, writing academic and practitioner analyses and family enterprise histories.

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### **FAMILY BUSINESS CHALLENGES**

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