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Company Values – A Case Study of the Family Enterprise August Storck KG

ABSTRACT

Objective: The article's purpose is twofold: 1) to demonstrate how a corporate culture influences an enterprise's success, and 2) how important it is to follow its values throughout the business down to each individual employee.

Methodology: The study shows how the structure of a business and its success are affected by being family-owned company. The paper is based on expert individual semi-structured in-depth interviews with selected board members as well as the Chief Operating Officer (COO) of a foreign subsidiary.

Findings: The findings illustrate how the guidelines set up by the mother company affect daily activities. Furthermore, the results indicate how the company's objectives are accompanied by the defined corporate values, and how they are transferred to the management team and each employee.

Value Added: The study, which is rather of a practical nature, proposes some management rules applying to the daily work of the Board, the COOs and the units abroad. This policy gives an insight how the family enterprise communicates its values and beliefs in order to maintain definite working practices around the world.

Recommendations: The paper gives an insight into the international market challenges for family-owned businesses, using August Storck KG as an example. In any firm, corporate culture should be built on stable and timeless values repetitively displayed, reflected in all activities and internalized by the entire team. The key is the need to connect the company's goals with the values resulting from being a family business. Consequently, employees have a great interest in a positive development of the firm and hence give their best working expertise to ensure it.

Key words: family enterprise, company culture, corporate values, internal market, external market.

JEL codes: F23, L20, M12, M14.

Introduction

In recent decades, there has been a constant decrease in the average life expectancy and run-down of family-owned companies. Family enterprises (FEs) are vanishing from international markets and their survival is a greater challenge than it used to be – today more than ever. Ward (2011) presents a table entitled "Life Expectancy of 200 Successful Manufacturers, 1924-1984", showing the dramatic, negative development of FE and their disappearance. Ward's findings conclude that 80% of the businesses no longer exist and only 13% are still owned by the same family as at the beginning of the study. The remaining 7% were sold, went public, or were no longer controlled by

the founding family (Ward, 2011). Likewise, Sievinen et al. (2018) claim that only 30% of family firms survive into the second generation, and only 15% reach maturity and survive until next generations.

This paper contributes to this line of research. It is based on data collected among the board members and one foreign COO of August Storck KG. The company was established in 1903 by August Storck, called Oberwelland, in Werther (Germany, county of Westphalia) and started as a confectionery factory. August Storck started with three employees, and in 1909 he already had a dozen employees and was able to supply other cities around Westphalia. However, during the World War I the firm fell into stagnation and then August Storck unfortunately got ill. Thus, in 1921 his youngest son, Hugo Oberwelland, became a personally liable partner in the business. In 1934 he invented the “Storck 1 Pfennig RIESEN”, which was an individually wrapped candy (August Storck KG, 2019). This first branded hard candy turned out to be a best-seller. By 1937, 71 employees worked for Storck.

Figure 1. The Storck “1 Pfennig RIESEN”



Source: August Storck KG 2019.

In order to re-establish the business after the World War II and to facilitate further growth, the company moved, and a new production plant was built in Halle (Westphalia).

Figure 2. Production facility Halle (Westphalia), after the Second World War



Source: August Storck KG 2019.

The factory, which was situated near the German railway, was modern and left room for expansion. Soon, further innovative confectionary goods followed the “Storck RIESEN”: Storck launched Mamba, nimm2, Campino, Werther’s Original and Toffifee. In the meantime, improvements for staff were also implemented. In 1966, for example, Hugo Oberwelland introduced the “Storck Loyalty Medal” for employees who proved their loyalty through many years of affiliation. In 1971 Klaus Oberwelland took over and heralded a new era: the third generation. Shortly before, the first subsidiary was opened in Austria followed by numerous ones abroad (Storck USA, Netherlands, Belgium, Switzerland, etc.). In terms of innovativeness, the product “Toffifee” led to further growth. Owing to new technologies applied, more inventions appeared on the confectionary and chocolate market. Internationalization as well as expansion of production and sales dominated in the company’s strategy over the next years.

Figure 3. Excerpt from product portfolio



Source: August Storck KG 2019.

After 100 years, on the occasion of anniversary in 2003, Axel Oberwelland became director and thus introduced the fourth generation. Among others, Zellweger (2017) presents "Typical strengths and weaknesses of family firms", where different forms of business management are explained. Under consideration of these findings, in connection with the "Bivalent attributes of family firms" (Zellweger, 2017, p. 42), showing the attributes which affect the business because of being family-owned, one can therefore deduce a categorization for each FE. Resulting from Zellweger's classification, August Storck KG's corporate governance is defined as one-tier board and hence, Axel Oberwelland serves as director of the board. Including the chairman, the board of the August Storck KG consists of seven board members, who are also executive directors of the main business areas: sales (which is divided into three areas), finance, marketing and production & engineering. The board members, except Mr. Oberwelland, do not belong to the founding family, whereas the family members, namely Mr. Oberwelland's siblings, are shareholders.

Context of the Study

The study was focused on identifying the methods applied by the executives in order to communicate the corporate values down to each individual employee, and how it became possible that Storck's code of conduct was never questioned nor changed in the past. In general, values constitute a company's culture as its crucial elements (Chmura, 2011; Murphy & Mowry, 2017, Vantrappen & de Jong, 2018).

There is evidence that organizational or company-culture has become an issue for discussion since the early 1980s. How a company is led has been defined as its core quality and the type of leadership depends on how employees think, feel and work. Hofstede (1993) brought it to the point when he defined "corporate culture" as "the psychological capital of a company, with whom one can predict what will happen within the next five years with the company" (Hofstede, 1993, p. 33). He further explained that "organizational culture is integral, shaped by a company's history, depends on objects of anthropology (rituals and symbols), has a social structure, is soft, but hard to change" (Hofstede, 1993, p. 203). Concerning the origin of a company's culture Hall et al. (2011) gave another insight and argued that it all was due to the founding family and their beliefs. Denison et al. (2004) underlined that corporate culture of FE was more positive compared to non-family ones. Moreover, they claimed that FE were more coherent in their culture in terms of fundamental values and agreement. The role of culture is substantial from family business studies' perspective. Culture, besides power and experience, belongs to the three dimensions in the F-PEC scale of family influence (Astrachan et al., 2008).

There are numerous theories concerning corporate culture and values. Guiso et al. (2015) summarized corporate values stated on firm's websites in order to find values which were named repeatedly. Their findings conclude that there are nine major categories: integrity, teamwork, innovation, respect, quality, safety, citizenship, communication, and hard work / reward (Guiso,

Sapienza, & Zingales, 2015). At August Storck KG corporate culture and its leadership values aim to hold the employees in high regard and enable them to interact in a specific manner (table 1). Therefore, the management team can be described as living leadership by example.

Table 1. The Company's Corporate Culture and Leadership Values

August Storck KG Corporate Culture

"Our corporate culture rests on traditions established in the course of more than 100 years as an owner-managed company. Today, we are a globally active family business with 20 international subsidiaries. One major reason for our ongoing success: our employees are authentic people who reflect our passion in their everyday working lives, and communicate it to others."

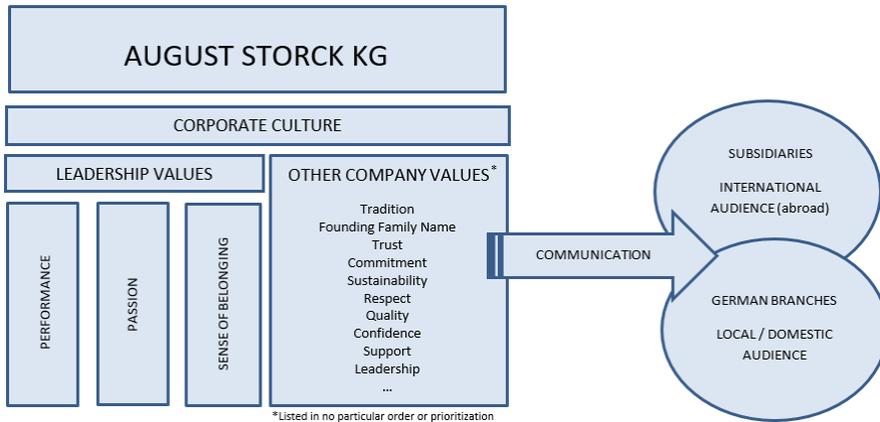
August Storck KG Leadership Values

"*Performance – passion – sense of belonging* – these three qualities guide Storck's leadership values. In keeping with these values, we expect a high level of dedication from our staff, and repay them with outstanding support and encouragement. Every day, our managers put their heart and soul into what they do, which wins them the enthusiastic support of their teams. They demonstrate excellent cooperation and create an inspiring working atmosphere, because we know: Storck can only maintain its continued success in collaboration with all of our employees."

Source: August Storck KG 2019.

Literature on FE explains the importance of the distinction of roles and underlines the fact that especially within family firms, a definite role allocation is needed in order to produce further growth (Witt, 2003). Based on the above-mentioned insights, the motivation for the study is on the one hand to classify in how far the August Storck KG integrates these findings in the daily business and on the other hand to find out in how far corporate culture contributes to its success. Figure 4 shows two major pillars of the company's culture. Among the "other values" one can notice those respected by the company as viewed by the managers – respondents.

Figure 4. Communication of Corporate Culture and Values



Source: own elaboration.

Research Method

The article is based mostly on data collected during interviews conducted among four selected board members of August Storck KG and one COO from a foreign subsidiary. As mentioned before, all participants are not members of the founding family. Access to the respondents was possible because one of the authors is employed in the firm in question. The interviews were carried out in December 2018, in the form of semi-structured expert interviews with a scenario (a very brief questionnaire) which included 8 open questions.

First, the COO of the foreign subsidiary located in Warsaw, Poland was interviewed. The enquiry focused on his experiences at August Storck KG and its values. To the corporate values in question belonged:

- 1) Performance, which can be classified in terms of Guiso et al. (2015) as teamwork.
- 2) Passion, which can be classified in terms of Guiso et al. (2015) as respect and quality.
- 3) Sense of belonging, of course refers according to Guiso et al. (2015) to citizenship

The aforesaid COO has been employed with August Storck KG for 13 years. As it turned out later, it was a quite short affiliation to the company in comparison. An average period of employment in that FE usually exceeds a decade, particularly among the management team. Four selected board members were also interviewed in order to get a realistic cross-section. Each of them held a position of executive director in one core business unit within the company, so that the questionnaire contained questions of different focus, depending on the business unit. The major purpose of the inquiry was to find out why the code of conduct of August Storck KG and its employees, is a living concept and more than just a frame accommodating words.

Findings

Social Responsibility

Beal (2014) defines one of the purposes of business activity as far as Corporate Social Responsibility (CSR) is concerned: "to contribute to economic well-being of the social system of which it is a part". Sims (2003) introduces another distinctive feature and adds ethical values: "a commitment to ethical values in the workplace legitimizes managerial actions, strengthens the coherence and balance of the organization's culture, improves trust in relationships between individuals and groups, supports greater consistency in standards and qualities of products, and cultivates greater sensitivity to the impact of the enterprise's values and messages" (Sims, 2003, p. 20). He further states that "criticism of business over the years has led to an increased concern for the social environment and a changed social contract" (Sims, 2003, p. 43). While considering family businesses, it is worth mentioning that according to the research conducted by Bingham et al. (2011), FE are involved in higher levels of CSR, having stronger relations with their stakeholders. Similarly, Panwar et al. (2014) claim that consumers perceive FE more positively than non-family ones regarding CSR. There is much more literature on this topic

and surveys from the recent years lead to the conclusion that social responsibility has been developed into a standard pillar of today's businesses. This study found that social responsibility for August Storck KG firstly means, among others, responsibility for its employees. Hence, working instructions were introduced to define the cooperation internally in the workplace. One of the working instructions of August Storck KG states clearly that empowered staff and mutual trust, are the maxim of all efforts.

Therefore, the corporate values have to be seen in a global context of CSR, for which the firm's philosophy and its guidelines for leadership and cooperation set the foundation. The management of the August Storck KG is convinced that setting the following corporate values is one of the keys to a company's success. At Storck, each decision made is rooted in a strict code of conduct based on the before mentioned core values.

Unique characteristics of common customs in connection with corporate values within August Storck KG

The responses received from the directors revealed a number of unit-specific methods to incorporate corporate values. However, the findings also showed very common, shared understandings and interpretations of the corporate values. Eventually, it was clear that the corporate values were inherited and therefore they were present in almost every action on daily basis.

The corporate values are always present and, even more than that, they guide and advise the respective person. During the application process, for example, the supervisor observes whether a candidate would fit into the company in line with corporate values. At August Storck KG each new employee undergoes a so-called induction course. This introductory period takes two days and brings new colleagues together, enabling them to get to know each other and the company. Different lectures can be attended, a factory tour is offered and (in case the event takes place at one of the

production plants, far away from home) overnight stay at the company's expense is included. Here, the presentation starts with corporate values and guidelines addressed to the audience. The lecturer from the human resources department, discusses each single aspect in detail, so that all new employees understand their meaning. In due course, new employees will soon very clearly see how those corporate values are put into practice. They are reflected in such activities as:

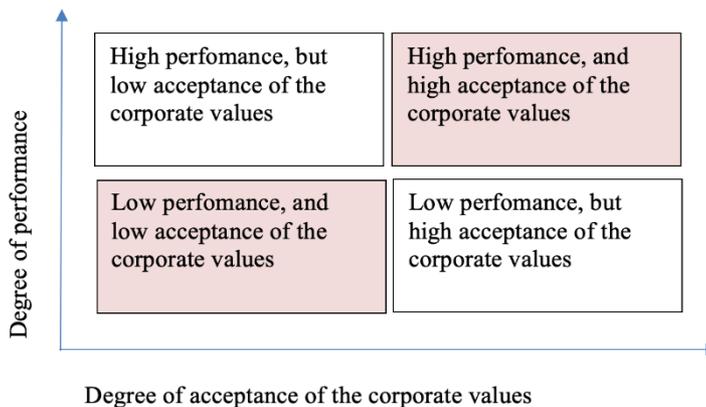
- Reception of external suppliers: The inviting person picks up the visitors at the company entrance and accompanies them to the meeting room.
- Visitors from other subsidiaries: Every employee will know at the entrance, shall there be visitors from abroad because the respective national flag is flagged at the entrance.
- Anniversaries: Every 10th, 25th, and 40th working anniversary is celebrated. There are many awards, complementary gestures, and benefits related to it. Each year, a corporate dinner is held at the company for all employees who reached their working anniversaries within the past twelve months, with HR and executive staff present at the dinner tables.

Apart from the aforementioned customs, there are a lot of other circumstances in which corporate values become directly visible. The interaction of the above-mentioned corporate culture and leadership values were reflected in the answers of the survey. At August Storck KG, corporate values were described as a catalogue the employees had internalized, thus enabling a more sufficient cooperation. The members of the management team confirmed independently that when it came to corporate values, communication differed depending on the communication partner. Furthermore, the research found that the corporate values were always present, with different intensity, yet never neglected.

Initiating relations with new employees

New employees are treated in a special way during their first days at Storck. The domestic procedure does not differ from the international one. Much attention is paid to the communication of the corporate values and far more. Emphasis is put on the code of conduct, how people treat one another, visibility and behaviour in public, as well as corporate rules regarding discretion and esteem. The training phase also includes training on the job and sharing the desk with a more experienced colleague. For new colleagues coming from abroad a trip to the parent company in Germany is possible. This, of course, depends on the tasks: those, which tangent international cooperation or need a close cooperation with colleagues from Germany, are preferred for a trip abroad. The aim is to ensure a good start for new employees, but also the mutual examination whether someone responds positively or negatively to the corporate values. During this period employer and employee get to know each other. A crucial question after this training phase is: "Should we keep the employee, or not?", "Should she/he stay at the company, or not?" The management team has a simple, but unequivocal decision matrix for this (figure 5):

Figure 5. Decision matrix



Source: own elaboration.

This decision matrix leads to the key question: What does the management team do with that information after the training phase? According to the case study, the authors summarized the findings below:

- “High performance, but low acceptance of the corporate values”
- It will most probably lead to a negative decision regarding further employment. Corporate values are the basis and principle argument in all business undertakings.
- “Low performance, and low acceptance of the corporate values”
- It would most definitely lead to a termination of the contract of employment.
- “High performance, and high acceptance of the corporate values”
- It is the desired combination and here the most trustworthy employees could be found.
- “Low performance, but high acceptance of the corporate values”

This combination was the most challenging one. The management team decides depending on the character of the employee, answering the question: “Is there anything the company can do in order to transform a low-performer to a high-performer?” If yes, any chance is used to help the employee to develop his/her skills further. If not, unfortunately this would lead to a negative decision regarding further employment.

Discussion and Conclusion

In the study, it was found out that transferring corporate values, which constituted the August Storck KG’s culture, began at the top management level. They are demonstrated at all times, from top to bottom, so that employees internalize them to such degree that acting accordingly becomes natural. The management board at August Storck KG underlines the corporate values wherever possible and treats their employees, in particular, with large respect. It turns out that this behaviour towards one another is a key factor for successful cooperation within the company and underlines that it is family-owned. At August Storck KG there is no

distinction regarding corporate values in terms of “domestic” or “international”, they are valid for all.

Corporate values are values which differ from national values, the ones we grew up with, the ones which are rooted deep within us. The reason why people stick to the corporate values may be that they are “corporate”. A company portrays a social system where employees can consciously decide whether they agree, or not, to the values presented. Far more, employees can actively be a part of the business and its undertakings and it is also left to each individual to decide whether one follows the values outside the company or even to terminate the business connection (Hofstede, 1993).

Obviously at August Storck KG it was not possible to find many examples of the negative kind as regards the acceptance of corporate values. In fact, the opposite was the case. After the survey it became clear that employees like to work at Storck and that they appreciate the advantages which a family enterprise has to offer. It is the esteem one receives and also the value the company brings forward to its customers. This leads to loyalty and is the motivation for securing the company's success. The interviewees cited at least one example when employees had spoken extraordinary positively about August Storck KG as an employer. It is not unusual, according to the experiences of the board members. Consequently, employees have a great interest in a positive development of the firm and hence give their best working expertise to ensure it.

Corporate values are reflected in the marketing strategies linked to a brand's image. Familiarity, closeness, trust and security are values which are repeatedly displayed in the advertisements broadcast and always leaned on leadership values “*performance, passion, sense of belonging*”. The key is to repeat and visualize corporate values, demonstrate trust and security at all times and thus ensure that one is appreciated.

The study has certain limitations that provide opportunities for further research. It relies on practices from one family enterprise, thus do not allow any comparative analyses. These limitations notwithstanding, we believe that the paper makes a number of important contributions to the literature

on family enterprises. We believe that further prosecution of a modern approach is needed in order to meet today's challenges in the marketplace. FE have, among other, the advantage that in the best case, no external power can influence or impair their decisions, undertakings, management rules, etc. Through the executed study we have learned, on the case of August Storck KG, that economic success is in direct connection with employee satisfaction. However, one question must be permitted: Does the above described model work for all generations? Management needs to change its focus, in particular regarding employees. Generation change leads to a new angle of view, which shall not be neglected and it will affect family-owned businesses at the same time as non-family-owned-enterprises. Janssen (2016) postulates openness for a new angle of view. He is the owner of a FE and after the death of his father, he was selected for succession. He faced a dramatic status among his workforce. He admits that the employees are those who make a difference, not only the management team. Based on this realization, Janssen decided to undertake a paradigm shift within his company. He put employees on the assets side of his balance sheet and reasoned that employees were a firm's active capital and not passive (Janssen, 2016). To enable such changes, the three prerequisites should be met: much time, faith in employees and investments for re-structuring business organization. On the other hand, such an approach is possible because the firm's type of business is a "family enterprise". Through this short digression, the authors wanted to underline the importance of employees as key basis for the future success.

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