When Loyalty Becomes a Liability to Family Firms

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Staying true to your roots can foster inertia when innovation is most necessary.

Recent research has punctured the stereotype that family firms are staid and lacking in innovation. In fact, their cultural differences can be the source of a **decided innovation advantage**. But those same strong values can make it harder for family firms to find a new business model when the old one suddenly becomes a roadblock to success.

Loyalty to the firm is a distinguishing family asset as this intrinsic quality gives owner-managers a competitive advantage in the long-term development of the business. But when it comes to business models, loyalty for the sake of loyalty can become a liability. Too much loyalty can limit success, since it can inhibit founders of family firms from adopting innovative business models until it is too late.

The ultimate decline of Laura Ashley

A good case in point is the textile firm founded by Laura Ashley in 1953. Born in Wales in 1925, Ashley learned how to make clothes as a child from her quilt-making grandmother. As an adult, she made headscarves, napkins, table mats and tea towels that were adored by her friends and family. Her designs recalled her grandmother's old-fashioned quality of life, where British women tended to the home and garden in serenity. It was an ephemeral lifestyle wedded to a country-of-origin effect. Ashley realised she had invented a business model that powered her exceptional rise to success.

Ashley married an enterprising fellow who gave up his job in London to supervise the production of textile products printed with his wife's designs. They moved the operations from their tiny flat in London to a large factory in Wales, employing staff at wages well above the average local salaries. The Laura Ashley brand quickly acquired a solid reputation as a premium fashion player, labelling all products "Made in Wales." The business took off, providing employment opportunities to the couple's four children. From a fierce loyalty to her Welsh roots sprang a business empire that enabled Ashley and her family to run a global network of 500 shops and employ 1,000 people by 1975.

But in 1985, tragedy befell the family and the firm when Ashley died unexpectedly at the age of 60. It was a period when many of the firm's rivals were beginning to outsource their production to countries on the periphery of Europe, developing major supply chain networks in Morocco and Turkey.

At the same time, the exotic but far less costly garments being sold by its rivals opened up a completely new competitive environment for the Welsh firm. Some pundits even claimed that the "Laura Ashley look" was *too* British and was outdated. Women in the 1980s needed more assertive clothing in line with their growing status in the workplace.

Following the death of Ashley, her husband and their children struggled to find a response to the changes in the marketplace. The core of their business model, however, was left untouched. In honour of their founder, they announced to their staff that both the manufacturing and logistics operations would stay in Wales. Yet within five years, the company was in deep financial trouble and an outsider CEO was hired in 1991, followed by a string of other CEOs. The family lost control of the firm after an Asian company became the major shareholder in 1998. The company is now nothing more than a licensing entity.

This sad ending to a dream-come-true journey reflects the hardships any family business could face when internal and external roadblocks suddenly appear at the same time. To avoid such a fate may not be as difficult as most observers believe, however, if owner-managers institutionalise innovation in the core of their business model.

Business model innovation at Zara

Take the example of Zara, a fashion company founded in La Coruña in northern Spain, by Amancio Ortega and his wife in 1975. After 10 years of selling inexpensive garments throughout Spain, Ortega decided to institutionalise innovation in the firm's **business model**. He believed he could beat the well-known brands like Laura Ashley at their own game by reducing lead times and quickly responding to trends.

While remaining loyal to the employees who worked at his original factory, Ortega was careful not to make future investments for the sole benefit of his compatriots. He decided to open plants in neighbouring Portugal, as well as in Turkey and Morocco. Ortega connected the factories with a state-of-the-art logistics network. The rest is history. A highly responsive supply chain now ships garments twice a week to Zara's 2,100 stores located in 88 countries. Furthermore, the creative process of designing new garments based on changes in fashion trends has been sped up to the point whereby the new designs on Zara's drawing boards reach the stores as fully finished garments within two weeks.

By not being too loyal to his operational geography while at the same time institutionalising innovation throughout the supply chain, Ortega transformed Zara from a fashion discounter into the world's largest apparel maker, managing up to 20 clothing collections per year. In contrast to Ashley who was bound to her operations in Wales, Ortega decided to transform the existing design, manufacturing and distribution processes entirely. He demonstrated the value of breaking old habits and created an entirely new business model based on continuous improvement.

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