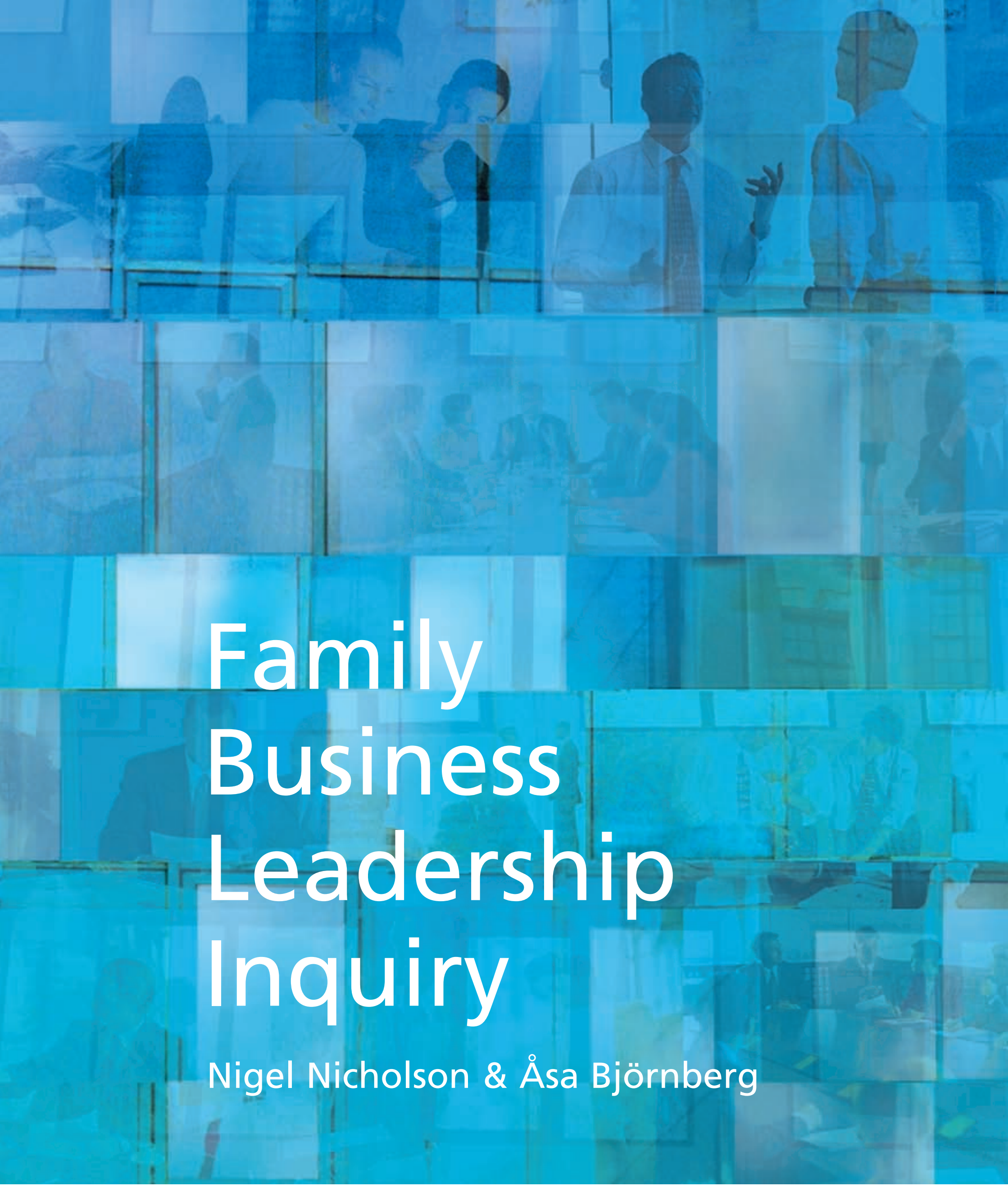

Family Business Leadership Inquiry

Nigel Nicholson & Åsa Björnberg

Institute for Family Business

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EXECUTIVE SUMMARY

All organisations require leadership. In family firms the leader is the protector of the culture, the conduit for innovation and the focus of vision and values. The challenge of the role is unique in the family context, yet leadership is one of the most important but least understood topics in the family business field.

This Inquiry was convened to shed light on its complexities, gathering the thoughts and experiences of a select panel of family business leaders and experts through a series of extended roundtable discussions. The Report summarises the insights and observations of the panel in our three sessions: culture and strategy, family, and governance, and in each area derives lessons for the field.

The first thematic session draws out the unique attributes of family business leadership, the strategic challenges and how to maintain a powerful and effective firm cultural identity. Several issues are highlighted: The importance of emotional intelligence in leadership, family-non-family collaboration at the top, forms of shared leadership, and culture-building activities. In relation to strategy, the role of outside perspectives is a key issue. The discussion continues into the realm of ownership and financial arrangements, and how to incorporate mechanisms that prevent them from becoming a source of controversy and conflict.

The second session looks at family issues as a source of unique advantage to business culture and success, and yet also a notable hazard in many firms. The discussion encompasses ways for leaders to stay in touch with the front line, the challenges of specific kinds of family relationships, and how to handle retirement and succession with confidence. How best to engage and prepare the upcoming generation whilst maintaining a genuine meritocracy also features. The discussion moves into the issue of balance in the key leadership roles of chairman and CEO, how to sustain teamwork between family and non-family, and how conflicts can be best managed.

The third session discusses measures firms may take to give leadership its best chance to succeed, such as governance and ownership arrangements, remuneration, recruitment and the use of advisors. The emerging theme is that no one size fits all, which entails a need for continual adaptation of the governance system. The role and ideal qualities of the non-executive board member and what is best practice in making the system work, are discussed. The discussion moves on to issues to do with equity, transparency and the key role of advisors.

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ACKNOWLEDGEMENTS

We are most grateful for the contributions that have been made by the family business leaders participating in the Inquiry, without whose contributions the content would have been impossible to gather. Throughout the Inquiry meetings we have listened and debated at length with the leaders who have shared their collective wisdom in a spirit of openness.

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Andrew Wates, Wates Group Ltd

Our own team for the Inquiry was comprised as follows:

Tony Bogod, BDO Centre for Family Business
Åsa Björnberg, IFB Research Fellow at London Business School
Grant Gordon, Institute for Family Business
Professor Nigel Nicholson, London Business School & Chairman of the Inquiry.

FOREWORD

By Andrew Wates, IFB Board Member

The IFB Family Business Leadership Inquiry is an important new initiative and I hope you will find within the Report valuable insights and ideas on family firm leadership. The Report is intended to be a practical document that readers including owners, directors, executives and their advisors will find a source of inspiration and encouragement. The project to create this Report was enthusiastically supported and encouraged by the IFB Board. It is consistent with our broad objective to develop the activities of IFB in the field of applied research. Gathering knowledge and best practice is one way in which we can help our members remain successful and make a significant contribution to the national economy.

In order to develop our research activities in 2004 we established the IFB Research Fellowship at London Business School. The funding for this initiative has come from the BDO Centre for Family Business and member contributions, and we are very grateful for this support.

As you read through the pages I trust that you will find in the content many useful tips and advice that will be directly beneficial to your own and your family's thinking with regard to the leadership of your family business. In my own family we have learnt enormously from other people's experiences and indeed have successfully imported ideas that others have tried and tested.

Finally I would like to make an appeal. If you are not already a member of IFB and you are a long-term family business, please give serious consideration to joining the association. The organisation plays an important role in helping support our sector of the economy. IFB is an independent, not-for-profit body and relies primarily on membership for its financial needs.

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'If it works – with your name above the door – there is nothing finer.'

INTRODUCTION: THE FAMILY BUSINESS LEADERSHIP CHALLENGE

All organisations require leadership. Leaders by their style and action set the conditions for the success or failure of every business. Their foresight, vision, values, and abilities are necessary for the essential tasks of every business: strategic direction, cultural strength and coherence, efficient organisation, effective networks of relationships, fulfilled employees, and satisfied customers and suppliers.

Family firms are regularly shown to outperform their non-family equivalents. At the same time they are especially vulnerable to hazards, many of them originating in tensions within the family or due to divergence between the family and the business. Leadership stands at this critical junction, and what leaders do makes the key difference between survival or death, between success and failure. In family firms the leader's role has a level of complexity that is unique and little understood since no one before has sought to distil their wisdom for wider dissemination.

That is what we are seeking to do here: to provide an authoritative examination of the reality of the leadership experience in UK family firms; to capture the collective wisdom of the individuals who have been leading or dealing with change in family firms, and to provide practical advice for the leaders, owners, and managers in family firms, as well their advisors and anyone else with an interest in the dynamics of these important and little-understood entities.

WHAT IS LEADERSHIP?

'Leading people is like herding cats.'

Leadership is perplexing. Each of us thinks we know what it means yet our ideas about it often do not match. One person's image is the leader as hero – another's focuses on the leader as chief servant. And things become no clearer when one consults the hundreds of volumes on the subject on the shelves of the local business bookshop. They just add to the confusion with their various models, and few of them have anything to say about family business. Everyone in a family firm knows that leaders are confronted by special issues and demands, but: Is there a special way of leading the family firm? Are there particular traps to watch out for? How can family influences be a force for good and not a source of disturbance? What specific measures and methods can be used to master the familiar challenges of governance, succession and ownership decisions?

There are three key questions to be answered in relation to this topic, which will interweave our account of the Inquiry. They are as follows:

What is the nature of the challenge in leading a family firm? This encompasses the roles and tasks of the leader, such as the outward facing challenge of leading strategy in increasingly competitive markets, and the inward facing challenge to maintain the culture, family values and stakeholder relationships.

Who should lead? This is especially brought into focus by the challenges around the selection, succession and development of leaders, both family and non-family. What qualities should be sought, and how can the path be smoothed for cooperation, adjustment and achievement?

How should leaders go about their task, in aligning strategy, family, governance and business processes? When should recourse be made to non-family outsiders and advisors? What kinds of ownership, financial and communication strategies will bind together the elements that make a successful family firm?

These questions are interconnected throughout this Report.

RATIONALE, FOCUS AND METHOD

This Report is directed primarily at owners and managers of family firms. Individuals who are associated with family firms such as non-family managers and directors as well as advisors may also find this Report useful to enhance their knowledge about their unique features and leadership.

The method for the Inquiry was a series of three roundtable interview/discussion groups with a panel of eight leaders from some of the most successful UK family firms, plus the Director General of the Institute for Family Business, and the Chief Executive of the BDO Centre for Family Business, who hosted the series.

Professor Nigel Nicholson, London Business School, chaired all the sessions with the co-author of this Report, Åsa Björnberg who recorded the proceedings. Each session was thematic – following planned schedules of topics. The three themes linked together as follows:

- **Part I** The special challenge of leading the family firm: Reviewing types of leadership and the strategic challenge;
- **Part II** The life-cycle of the family business: Critical roles, phases and challenges; and the role of the family as an asset or a liability to the business;
- **Part III** Supporting the family business: Ideas and solutions to the challenges around governance, ownership, remuneration, recruitment and the use of advisors.

Each section contains illustrating examples and stories from family firms, as well as lessons learned.

Examples: Green boxes contain a practical example from a family firm. The example is summarised, and may be generic or specific.

Experiences: Purple boxes contain an experience of a family firm leader, often as a longer quote.

Lessons learned: Orange boxes contains 'lessons learned' that offer practical guidance.

Quotes are in *italics*.

PART I

The special challenge of leading the family firm

I.1. Attributes of the family business leader (family and non-family)

A person who enters a family business in a leadership role is up against a demanding set of requirements. In the words of one of our panel:

> *'You're describing someone with the voice and judgment of Solomon, the patience of Job, the diplomatic skills of Kissinger and the hard drive of Jack Welch – such people aren't necessarily growing on trees – it's an extremely complex equation.'*

It is a daunting task for a family businesses leader to live up to these expectations, whether they are family or non-family. It is equally difficult to recruit and retain such quality in the top management team of a family firm. The challenge has a multidimensional complexity:

> *'In a purely professional, City-focused business, the rational is a much higher driver than the emotional and political…how do you resolve the emotional and political dimension that you inevitably get [in a family firm]?'*

Emotional intelligence is a highly desirable attribute for any leader in a family business. One participant referred to this as *'leadership from the heart'*. This not only entails passion and the need to stay true to family and business values, but also balancing commercial interests with family interests and needs through:

a) Insight into individuals and managing communication between them,

b) Maintaining a balance between past heritage, present needs and future direction, and

c) Providing support and simultaneously managing expectations.

The role may feel like a lonely place and the leader may not be given a lot of praise. Strong self-motivation and a thick skin are therefore useful to be successful.

The non-family leader

Being detached and dispassionate – yet simultaneously committed to the family – provides a unique leverage that allows a non-family leader to stop the 'soft issues' from rising too high. Non-family leaders can play a key role in stopping family issues from spilling over into the business.

One participant noted the need for a non-family leader to be both 'tough and soft', have good antennae and be able to take flak. A non-family leader can potentially be seen as a threat by the family or vice versa: the non-family leader perceives the family as a threat. This requires a secure yet sensitive individual, able to detect the nuances of family dynamics and with the strength of character to stand up to the family.

Example: Two types of non-family leaders

Five years ago, this business became 'professionally' managed. The company employed an outside CEO, and the business did better than ever before since the appointment. The firm has since had two non-family CEOs. The first was an 'absolute performer', but always worried and struggled with the shareholders. The second was tougher and softer. This person was described as a more rounded individual, who had a great touch with people.

It is also a matter of clarity and confidence: leadership provides clarity of vision, overall strategy and values.

'Surround yourself with people who are better than yourself. To a certain extent, that is [easier] for the leaders of a family firm, because there is an explicit understanding that they are not going to take your job.'

Lessons learned: Attributes of the family business leader

- Emotional intelligence is an important quality in family business leadership. It is something that can be measured and developed. Leaders should consider programmes and tools that are available to help them enhance their capability in this area.
- Manage the boundaries between family and business systems. Create role clarity – avoid uncertainties about what both non-family and family members are expected to do and how they are compensated.
- Foster board teamwork. If the board is supposed to act as a team rather than a committee of representatives, make sure that is does. Actively build your board team and strive to understand differences

in personality. For example, good teamwork needs regular communication, defined meeting rules and opportunities to celebrate successes. This makes for a psychologically 'safe' environment where people are not afraid to speak up.

- Be aware that family or management can be perceived as a threat by each other. Be vigilant to avoid this possibility.

I.2. Recruiting non-family leaders for the family firm

Providing values, vision and strategy is the core of leadership. If you are lucky, your family members will perform these roles effectively. But the family gene pool is limited, even in multi-generational firms.

> *'You can do all the training you like, but you've got a [limited] selection, as opposed to the whole world to choose from. The truth is that professional management has transformed the way in which we look at our business.'*

It is not necessary for the leader to be a family member. It does, however, help to have family membership in the top team in order for shareholders to retain a close understanding and affinity with the business.

There is always a risk involved in hiring external non-family leaders: Will they share the passion? Will they understand the family and be able to put their ego aside? Will they commit for more than a couple of years? It is actual behaviour, not lip service and agreement in principle that counts. You hire for the relationship, not only the job. This makes the process of finding an outside director or senior manager especially challenging.

Experience: Tissue rejection

'My experience is you can test all you like, but you only find out when they're in post. For example, we brought people in from plcs…the problem is they put themselves above the business. We either part company with them or they leave…they look at our [list] of values and like it, but it's only when their behaviour comes out…and what's fascinating is that those who get it – love it! They buy into that…it's what they would want their own businesses to be like. The ones that don't get it think it's a load of fuss and nonsense.'

Family businesses will always have their quirks and peccadilloes, regardless of size and age. It is part of their heritage and can be a basis for their cultural advantage, which outsiders may not recognise or be sensitive to.

Maturity and wisdom make it possible for non-family leaders (both executive and non-executive) to be committed beyond the needs for personal power or career development. It is a benefit but not a prerequisite that newly recruited non-family directors and senior managers have previous experience working in a family business. The non-family CEO has to carry out his or her role with sensitivity to the family's attachment and emotions. They have to believe in family business and understand the nuances. You cannot steamroller your way in.

Experience: Non-family recruitment

'When we recruited a new finance director, which was the first time we'd recruited someone from outside at board level, we made it very clear during the interview process that we were a family business. So one of the negatives was the share options – there weren't any.

We made great play of the fact that we are a family business – and how did they feel about coming into a business that would have the added dimension of the family interest? Because it's not like going to a venture capitalist who has a business plan and a goal and that's what we're working to, no matter how many toes you tread on…'

Hiring or growing talent

Recruitment needs of the respective worlds of the plc and private family firm differ in the attributes they foster and the qualities they deem to be desirable. It can be difficult to persuade a senior manager to join the board of a family business for various reasons: the perceived insufficiency of financial rewards, apparent lack of objectivity in decision-making, possible unavailability of an equity share in the business, and governance systems that are ineffective in resisting family sentiments and preference.

Once inside the effective family business, the non-family executive may find a uniquely magnetic confluence of people with pride and passion for what they do, as well as vision.

One solution to overcoming the barriers to hiring external talent is to grow it within the business, developing and promoting people who already know the culture and family.

How can the family make it work?

Managing the relationship between owners and managers does not happen by itself, it requires conscious effort, and it helps if there is a process in place. If family members are united and there is harmony amongst them, the pressure on the non-family leader is reduced.

Experience: Formal channels of communication

'….we formed a [shareholder representative group] – an official route through which the family and the management can talk to each other…before that it was all done on an unofficial basis, and it's impossible for an outside CEO to hear all these different messages from different places, and then they're accused of favouring one. It's a nightmare situation...Now we've got it into a process…the argument is within the family now…I think that's incredibly valuable.'

Leaders of family businesses are faced with the complexity that arises from the dynamic interaction between the individuals in the overlapping domains of family, ownership and management. The separation between these is crucial for effective family business leadership.

> *'Distance between ownership and management is absolutely vital…It's a struggle sometimes on our board for the family to think "board" when they are on the board, and think "shareholder" when they're a shareholder… sometimes there is a confusion…we step on it quite hard because [it is] potentially very divisive.'*

Lessons learned: Recruiting non-family leaders

- Hire for the relationship, not only the job. Factor in personality. This can be done using assessment and interview techniques in many different settings, including social settings with family members.
- See to it that candidates talk to other senior non-family members (or an external advisor if there aren't any) to gain an insight into what it's like to work with the family.
- Make sure they know what leading a family business means. If they have little experience with family businesses, present them with various challenging scenarios of the family firm to see how the candidate reacts.
- Benchmark the cultural advantage of working for a family firm, describing why other executives have chosen to work for family firms as opposed to other forms of ownership.
- Help them to share the spirit and ethos of the family culture and familiarise them with the family dynamics through a formal induction programme.

- Establish well-defined relationships between ownership and management including formal channels of communication.
- Be wary of hiring plc executives with significantly different worldviews. This does not mean avoid them completely, but be aware that there may be differences in customs, attitudes and habits.
- You may not get it right the first time around. Re-education of non-family leaders may be necessary.

I.3. Culture and values in the family firm

'It's about taking the best bits of the family culture – and embedding them in a modern philosophy…'

Three basic factors shape the organisational culture of family firms: family culture, national culture/ethnicity (including economy), and business sector and operating/technology model.

Size, maturity and number of shareholders are also significant markers in the family firm culture.

A culture based on family values

Values are implicit – making them explicit is especially important for them to be inculcated in the wider organisation. Such 'culture reviews' are often regarded as a standard management process. The added ingredient you can derive in a family business is that one or more family members are driving it and are seen to be providing leadership.

Experience: How values are cascaded in the business

Step 1: *'We decided what the values were in the family. Then we wrote them down;*

Step 2: *We "sold" them to the senior management team, asked them to contribute. There were challenges and changes;*

Step 3: *On implementation: whenever one of our subsidiaries are doing their strategic plan we always want part of that plan to include how they are going to propagate and grow our values;*

Step 4: *When the values have been integrated, we can walk around the organisation and see for ourselves, test whether it's being done;*

Step 5: We find champions – flag wavers, usually people who have been around for a long while, who understand how we do things.'

Cultural ambassadors feature in many of the participants' family firms. Their role is to uphold, explain and implement values. A cultural ambassador is a person (family or non-family) whose task it is to promote the values and culture of the family firm. They are not always officially designated as cultural ambassadors, but they have an explicit remit to perform this function. They are often long-serving employees and know the firm very well, and they can be found at all levels of the organisation. They perform the role alongside their day-to-day job in the firm. Sometimes the family leader is a cultural ambassador, and it is also a viable role for a retired family member.

Example: Cultural ambassadors

One family firm has a close circle of 10-12 culturally attuned non-family ambassadors. It quickly became apparent that the values of the ambassadors and the family overlapped to a very high degree. The values that emanate from the ambassadors and the family are now part of the company's appraisal system.

Family firms can benefit from periodically reviewing the attributes of their culture, under the initiative of family or executive leaders. Culture management is a key leadership role, whether driven or supported from the top.

Example: Cultural review

Every now and again, this company has a complete review of their culture and the family's engagement with the company. They get the heavy thinking done in the centre of the family – how the company is now and how they want it to be. After that they approach the board, then it is cascaded formally right through the business. This exercise produces the values and vision statement for the company. It is seen as the past meeting the present.

In the last review the collective *'we'* in the group summarised what they thought the values of a *'good human being'* were. The family acted more as a stimulus on this occasion. The strength of this approach was trying to preserve *'the best'* in the family, while moving forward to make it much more relevant for the new market.

One of the fundamental challenges for the leader in culture management is timing the involvement of the family in the process. Family firm cultures in early business life-stages are often dominated by the personality of the founder-owner. The culture may be built on an old culture that has been modified to suit the modern business. Such cultures may go through fundamental changes as the generations shift.

Experience: In search of a new culture

When this person picked up the reins of his family business in the 1980's, the culture was very different from what it is now.

The flaw in the cultural model included the *'hierarchical stuff'* and the view that *'there are managers and the rest are plankton'*. With outside help, a task group began to rewrite the agenda. It was an expensive and laborious process. Some people who wouldn't let go of the old culture had to leave.

The culture was finally defined in terms of what it means to be *'healthy'.* This manifesto is posted on every wall, in every office and used at every appraisal. The shift was to a very strong culture with demanding values at the centre. The main board of this firm insists on reinforcing the culture – if you dislike it, you can argue – but you cannot change it arbitrarily – if you do, you leave.

Lessons learned: Culture and values

- Reviewing values and building culture is a business process – involve family and non-family. It is helpful to have a formal process of cascading the values throughout the business.
- Writing down the values of the family business is a powerful exercise. Both the process and content that emanate are very important.
- Have cultural ambassadors: often those who have been around a while and know the culture well. They could be on all levels of the organisation. Having designated roles and incentives for the ambassadors ensures that they carry out their role effectively.
- Formulate vision/mission statements that encapsulate the values. However, this should not be done 'formalistically', i.e. some empty form of words that is produced out of political correctness, not the result of a felt need.

I.4. Strategic direction and turning points in strategic approach

'Leadership's role is to craft a story.'

'You are most vulnerable when you are most successful, because then [you have the attitude that] we can walk on water.'

Striking a balance between short-term tactics and long-term strategy is a challenge for any business leader. Involving the family is an additional challenge when embarking upon any major strategic change. If the shareholders are united, this becomes an easier task to manage. Turning points in strategy often involve the timely intervention of an outsider – for example a non-family leader, an independent board member or an advisor.

Experience: The value of outside perspectives

'The best thing you can do in terms of invigorating your business is to get a passport. Send your executives out on a regular basis to meet people to benchmark with. Get them to go and look for the industry's best in other countries. I could not motivate them even 10% as much as this experience motivates them.'

Example: Strategic review process with outsiders

Having realised that they were becoming more and more tactical, this firm began doing yearly strategic reviews. These are facilitated by outside advisors who help the leadership in formulating a coherent vision. Once that has been done, the strategic vision is 'sold' to the business. The family in this case was more change-oriented than the executive team, but the latter was driving the process.

Experience: Shake-up by an outsider

'We had a family chief executive, and he recognised the need for change. However, I think that what went wrong was that the family CEO was bogged down by [day to day] management, he couldn't dissociate himself…the management undermined him…and he didn't really have a strategic vision. Then the chairman brought in an outside CEO…who was good at turning companies around…we needed someone from the outside to pull us out…I don't think that anyone in the business could have done it…he just shook us up completely…'

Strategic change – timing and pace

The operational make-up of the business also dictates the pace of change, and whether it can be incremental or achieved in great leaps.

Experience: The value of time

'The biggest thing that I have come to realise is the value of time – not making changes because we wanted to think about them a little bit longer, and suddenly another year or more had gone past. The loss of time, partly due to procrastination, puts you on the back foot because suddenly you find yourself having to make up for lost ground fast. That is terribly difficult when it bundles up. Sometimes [however], it served to benefit us.'

Experience: Control versus 'magic'

'We use the word "magic" to describe innovation and rejuvenation. "Go do some magic." Heavy financial control does not create magic; it creates control. What do we do next? If everyone says "more of the same" it's time to go into the dark room. Sometimes feels like skating on thin ice…'

Thinking forward as a leader of a family business means not only being aware of advances in technology and the market, but also being able to anticipate and in some cases even diplomatically steer the family's reaction. This requires sensitivity and psychological insight.

> *'Strategic change takes time, and requires a huge degree of communication and discussion. Family members take time – but eventually come around.'*

Brand strategy & core activity

Many family firms wrap their values in their brand. Brand value is also encapsulated in the degree to which a family firm engages in a single core activity. Transitions and organic change may make leadership consolidate or diversify in a cyclical manner.

Experience: Back to core activity

'My father and his brothers retired 17 years ago…our business was all over the place. We had 11 separate businesses…and the one thing we [in the current generation] did was focus it all into one organisation…so all the workforce suddenly thought, "that's what we are meant to do, is it?" Let's focus on doing one thing properly.'

Major changes in the business might be met with family shareholder resistance. Patience and sensitivity are necessary to gain full shareholder support.

Experience: Consolidation and shareholder attachment

'We have a portfolio that if you sat down and presented it to an accountant to try and get a corporate finance [view] on it, we'd be laughed at…we have so many bits and pieces. We feel very strongly [the need] to rationalise…from the management's perspective it's a sensible thing to do, but all the corporate changes we have done have [had] an enormous shareholder emotion attached to them. We have probably not spent enough time familiarising people with the changes we intend to make.'

Experience: Finding a strategic identity

This firm consulted with customers, shareholders and staff about their needs going forward. The group had grown in a manner typical of a family business in the 1950's and 60's, having wandered into non-core areas. It had become a conglomerate influenced by the personal interests of the generations that had run it.

The reaction was to ask: *'what do we do? What are our strengths? What are we good at? What is the market asking of us? Where is the market going? Let's work out who we want to be.'*

The outcome was a reduction in brand names, simplification of the corporate structure, standardisation and unification of back offices and of course, overall strategy and values.

Some resistance was encountered from family members, who objected *'but my father built that part of the business…'* Fortunately, the family was very supportive of the process in general.

On the other hand, too much focus on one single core activity can also mean that the family business fails to recognise other potentially very lucrative opportunities.

Experience: Encouraging family entrepreneurship

Attempts had been made to retail the product in the high street, but the brand had been unsuccessful in the UK for various reasons. They came up with the idea to launch it overseas instead. This would also provide a good opportunity for one of the brothers, since that opportunity did not exist for him in the UK. The experiment was a roaring success, even award-winning.

The market may even change so radically that its leaders are compelled to steer the business away from their core brand value. Family businesses do not have to be forever, they can be sold without being seen as having failed. After the sale of a business, if the family wants to continue working together, they can co-invest by setting up a family office or by creating a new business together.

Lessons learned: Strategy

- Analyse and research new opportunities. Try to be objective and identify pockets of resistance by involving all concerned parties as early as possible.
- Allow time. Strategic change in family businesses takes time and communication. Having a time lapse between the initial communication and the actual implementation of the change makes way for emotional adjustment. Utilise the period in between for updating information and communication so that everybody feels that they are 'in the loop'.
- Make use of outsiders' perspectives to avoid insularity and to benefit from intelligence about industry standards and benchmarks.
- Feeding family values into the strategy of the firm ensures that family interests are aligned with business activities. Creating such a strategic identity also helps build the company brand into something that is easily recognisable and communicated.
- Foster an entrepreneurial spirit in the family and the firm. Encourage initiatives that involve calculated risk-taking.

I.5. Shared leadership in family firms

Shared leadership is quite a common phenomenon in family firms, and it may take many different forms. There may be compelling family reasons for family firms to combine two or more persons in leadership, such as parental refusal to choose between two or more siblings, or it being too early to make a complete handover between generations.

This is an area where interpersonal relationships figure centrally. Cooperation requires trust, clarity of roles and responsibilities, appreciation of diversity in personalities, experience and skills as well as a healthy family dynamic. It is the ability to utilise differences intelligently and turn them into a combined strength that is more than the sum of its parts. It can be a very powerful and effective model, but not always easy to achieve.

'…When it works well it's fantastic, but equally, it can be completely dysfunctional… [we] put some sort of family governance system in to manage the emotion….I think we've been successful despite ourselves!'

Some family business leaders consider shared leadership to be *'like two people driving a car'*. Somebody has to be in charge and be the ultimate decision maker. Others have found shared leadership to be a good model.

Different types of co-leadership:

Two examples: Being one of three leaders

Three brothers

Official roles in this case are not explicitly designated, although responsibility is clearly defined by geographic area. The leader describes his role as the *'executive chairman/MD type'* and he works with two brothers in leading the firm. Brothers have equal lines of communication with the MD and other directors, which can cause confusion – the non-family directors sometimes get conflicting messages. But the shared leadership also has huge strengths.

Three cousins

This leader has worked his entire career with two cousins, all roughly the same age. They have been very good friends since their teenage years. The reason it works for these three is that they are completely different – their strengths and backgrounds complement each other. They have found three separate areas of expertise that they operate in, which the business has been able to accommodate, although it has been difficult at times.

Experience: Joint MD-ship with non-family

'My father and my "uncle" were joint managing directors, representing two sides of the family…but in practice what happened was that my father was chairman and his cousin was MD. Then when he died and my father retired, we actually did it again – I'm chairman and joint MD with a non-family member. I do the chairmanship and he [runs] the operations side…but I think it only works because I know him very well and went to school with him. I trust him completely…I think if he was a member of the family it wouldn't work…I allow him to get on with [his area of responsibility] and don't interfere, and he does the same with mine…and we know [who does what] quite clearly because we've written it down, so that everybody in the organisation knows…'

A closer look at these types of co-leadership suggests that they are rarely equal. The best can be 'balanced', with roles and power bases distributed according to the qualities, family position and experience of individuals.

Critical Leader Relationships (CLRs)

Leaders commonly have one or a few persons who support them on a regular basis in the most important work-related decisions that they have to make. These **Critical Leader Relationships** (CLRs)* exist both as part and independently of designated roles and hierarchical structures inside and outside the family firm. Listed below are some combinations of CLR partnerships that were found among the participants:

Examples of Critical Leader Relationships

- Family chairman and non-family CEO
- Family leader working closely with three other key individuals in different geographical areas
- Leader has no CLR but engages with the members of the board
- Leader and spouse not working in the business
- Business has joint MDs, family and non-family

Lessons learned: Shared leadership

- Consider if you have made use of opportunities for shared leadership, and whether you have the right kinds in place. No leader can do everything, and no leader should act as if alone.
- Don't maintain fictions about shared leadership. Giving people the same title to save face in a family is a poor strategy for teamwork.
- Clarity of roles and responsibilities is vital in any form of shared leadership. They should be clearly stated and documented.
- Awareness of the co-leader(s)' personality traits makes for a more effective collaboration. It pinpoints complementary overlaps in character traits, so that both parties can take more advantage of both differences and similarities.

*For more on CLRs, see Nicholson, N & Björnberg, Å. 'Critical leader relationships in family firms'. In: *Family Business Research Handbook*. London: Elgar, in press.

- Maintenance of the relationship is also vital. If it's no longer fun to work together, and the costs are higher than the benefits, find out why. Be proactive in finding a solution.
- Use a third party, such as a non-executive director, advisor or external mentor, to give feedback to the leader on their individual strengths and weaknesses.
- A system of frequent and formal communication should be in place in order to avoid stakeholders playing one leader off against the other. This will also help avoid third parties reporting into the co-leadership situation having to decipher conflicting information/messages.

I.6. Models of ownership of the family firm

How ownership is organised in family firms is not an exact science. It is very much related to 'gut feel' and characterised by life-cycle events such as birth, death and divorce. For example, share transfers can be prompted by death after years of virtually no change. Other factors are equally significant, for example taxation policies and other relevant legislation. The rationale for any given ownership structure in a family firm is not only connected to logical planning, but to how family members emotionally relate to their wealth.

How many shareholders and how are they organised?

Number of beneficiaries/individuals with shares varies greatly, from one to thousands, and does not necessarily increase with the size of the company or the family. This depends instead on how ownership is distributed in the family, and how shares are passed down. It also depends on whether ownership is also held in non-family hands (e.g. employees & institutions).

The family shareholders' ownership

Ownership of a family firm rests on two fundamental axes – **economic value** and **emotional value.** Economic ownership refers to the number of shares and their actual monetary value and voting power. Emotional ownership refers to the identity and attachment associated with the family firm and the value that each individual assigns to it, regardless of legal ownership rights. These two components make for a powerful combination, and it is therefore crucial that family ownership relies on trust and recognised mutual dependence for it to be responsible.

The difficulty in teasing apart the roles of family, management and ownership in the family business system can sometimes create a strain. The basic division of labour is normally that the shareholders appoint the board, and the board runs the business, and it is essential to make sure that the shareholders are aligned.

Two experiences: Increasingly demanding shareholders

'What I'm observing with some trepidation is that there was one generation which was timid, reticent and self-effacing. Now you get people who are a bit cockier. They sometimes have no real experience of business at all, but the attitude is "I'm the owner they'll listen to me".'

'Going forward, shareholders are more demanding in terms of dividend payments.'

The payment of dividends is an important process, conveying a message to the shareholder group that their investment is generating a return and providing them with liquidity. However, there are family firms that for various reasons prefer not to pay dividends regularly, but rather focus on reinvestment, or paying down borrowings. This works if family shareholders' expectations are aligned. Managing these expectations is a key leadership role.

Another option for structuring ownership is to hold equity in trusts. This type of structure should not be chosen just because it is the traditional way that the family have held shares historically. The merits and risks of this strategy should be carefully appraised.

Example: Trusts – reasons for and against

For:	*Against:*
Inheritance tax planning	Can be rigid/ lack flexibility
Divorce – easier to resolve	Inherent conflict of interest – different trustees
Separate ownership and control	Can tie family members together where they are incompatibilities
Avoid family members claiming executive rights	
Size of ownership – easier if wide group	

Two experiences: Taking the shares out of the equation: 'emotion x power' using trusts

Trusts as insurance

'I think you have to take the shares out [of the equation]. We are driven by emotion – and when shares are involved, it becomes aggravated. Take them away, put them in trusts – write rules. Before the trusts we had a big risk – we regard [the costs] as our insurance premium every year.'

Trusts to prevent 'wielding the percentage'

'Our shares are held in trust. It was a conscious decision – not to have the 'I have 5% listen to me' – type situation arising. Tax reasons are not overriding for us. The upside is mainly that a rogue family member with a percentage cannot dictate without knowledge.'

Percentage and pruning

Some, but not all family firms have voting rights connected to share percentage, and this adds another dimension of power in the relationship between owners and executives. Different size and spread of shareholder groups present issues when the various subgroups have differing needs and goals. 'Pruning the family tree' or attempting to concentrate ownership by reducing the number of individual shareholders may be a good strategy to bring about greater alignment among the owners. It can be a challenge to implement such a strategy, particularly if ownership is expected to remain private and within the family.

Exit opportunities for shareholders

When shareholders in family businesses do not have an exit route, trust and alignment of needs between the management and the shareholders is paramount. Family businesses often have different ways for their shareholders to exit but some firms have none. For example, some families agree to allocate a specific sum for buy-backs. Other firms have an Employee Stock Ownership Plan (ESOP) that can offer to buy shares from family members who wish to sell. In other cases, shares can be passed across (but not within) generations without any value.

Two experiences: Buying back shares

Captive shareholders

'We have a "buy in your share" market…only existing shareholders can buy the shares, so invariably we have more sellers than buyers: people are stuck

in the business, obviously it's not good to have captive shareholders who do not want to be there…'

Pack-hunters

'We are unashamed pack-hunters. We have two family meetings per year, with external family advisors for [the past] 21 years. If you want an exit, you've got [two occasions] a year to say: "I need some more money". You can say whatever you like in the family meeting, and then we'll go and work on it as a pack. "[X] has put on the table what he wants to do. How can we help him?" Senior family people and external advisors work it out...and then we see what we can do.'

Sometimes the existence of an exit route stops shareholders seeking to sell out. However, institutionalising and regulating exit routes can be a difficult undertaking. It depends on how large and unified the shareholder group is. Being non-prescriptive and settling each case individually is the preferred method among many family firms.

Experience: Creating an exit

'In the last 2 years, [we have agreed on] a fair exit price for disenchanted shareholders. It is the first time in 120 years it's been offered to the family. It was more successful than we expected. Now it's real, this thing called choice – works extremely well – it was well received and equal for ALL. [In our case] the company buys back the stock.'

Non-family shareholders

Most family businesses prefer to maintain 100% private family ownership. Some family businesses have schemes that offer minority shares to their employees such as ESOPs and phantom shares, but there are special challenges associated with these models.

Experience: Non-family owners

'The second you let any non-family member buy [your stock], then it's a completely new ball game. Then you have fiduciary duties which are beyond the family commitment…it is more difficult.'

Lessons learned: Ownership models

- There are many possible models of ownership. Each needs to be adapted to the situation and times allowing scope for inventive solutions.
- Take the owners' needs into account – create an ongoing dialogue with the shareholders so that communications do not arise only when there is a need for change. Be aware that family members may not want 'all their eggs in one basket'.
- Plan capital events years ahead of time – to give both shareholders and management time to prepare and adjust.
- Create policies defining ownership rights, including how (if at all) the family wants to prescribe and limit them. Also, it is useful to cover procedures for buying and selling shares – or creating an internal market for shares.
- Trusts may be an ideal solution to structure ownership in the family firm. They are not a device for all family structures and cultures however. The pros and cons need to be dispassionately weighed up, taking a long-term view.
- Ownership models do not have to conform to a single mould. Family firms value the possibility of being creative and inventing solutions that are tailored to their needs.

I.7. Financial strategies and risk

Having a clear strategy is essential to any financial undertaking in family firms. For example, the raising of capital is a big issue. Family shareholders should be informed or consulted about decisions made by the board of directors.

Experience: Handling emerging financial strategy

'The executives come to the group board with an emerging strategy – the group board knocks it about. On the group board, we have four family members…there is a cohesive shareholding at the moment in our business…we interface with the family…As a group board we have gearing level and interest cover targets…there are some hard and fast rules – we can't dispose of businesses [etc.] – but they are quite sensible and not particularly prescriptive.'

Two examples: Inform or consult?

Inform

This firm has a dozen family shareholders. The board informs the family after *'the money has been spent'.* They apply no rules on borrowing. The route followed is a very professional one, where hard performance is seen as creating trust.

Consult

The majority of shareholders in this firm do not work in the business. They are kept *'informed and comfortable'.* There are very strict payback criteria on investment. Shareholders have to be consulted on acquisitions and divestments. There is a risk committee and the leadership is very focused on identifying risk.

A family office may be useful at higher levels of complexity and firm development. This is a structure set up to manage wealth and philanthropy, taking the strain off family members, governance structures and advisors.

Lessons learned: Financial strategy

- Clear rules about the dividing lines for decision-making need to be known, accepted and shared.
- Being sensible yet not prescriptive, and planning well ahead for capital events is important.
- Decisions about dividend payments vs. other uses of profits such as investment need to be clearly flagged, communicated and explained. People need to see what rationale and logic are underlying the firm's financial strategy.
- Financial control should not kill off innovation and entrepreneurship. The approach should balance investment for growth with risk management.
- Adopt a prudent approach to risk and diversification but don't keep 'all your eggs in one basket'.
- Owners are more likely to accept inequalities in distribution when they perceive that the process of distribution is fair. However, if the process is perceived as unfair, it can cause deep division and dissatisfaction in the system.

Some final thoughts on strategic family business leadership

‘A curious mind. Openness.’

‘Communication. Ability to balance a multitude.’

‘Business is about people. Get the top quality people.’

‘Don’t get sucked into the engine of family. Keep your head above water.’

‘Family cannot tell the difference between a small and big issue.’

PART II

The life cycle of the family business: Critical roles, phases and challenges

II.1. The Spirit of Leadership

Passion and love are golden threads that run through many family firms and underpin their values. This spirit is both a driver and a key to long-term continuity. When they infuse product or market positioning the results can be exceptional.

> *'It is commitment above and beyond the call of duty. You have to live it – the core group are very passionate – and hope it rubs off. It's for life.'*

Family passion is directly related to how family members' leadership is seen as being 'authentic'. Being authentic entails accepting the position as a role model, and behaving in that role without pretence. Doing business 'as you are' and engaging with the workforce to spread the passion and create commitment. Employees in family firms are sensitive and very observant of the family, and particularly the family-member leadership.

Experience: Genuine leadership

'You have to be genuine. Senior and junior employees spot a fraud in miles. Because you are on the pedestal, people are watching you all the time…If your name is over the door, you should never have to play a role, if you're good…If people see you not playing that "boss role", then they say that "OK, around here, you don't shout". How the family behaves…sets the tone for how the business and the organisation works…Of course when you get bad family – that is very destructive.'

One way of being authentic is by *'having wool on your back'* – in other words, having done time on the shop floor with the employees, as a youngster or even in a senior position. Long-serving employees might also have known the leadership as children or teenagers, playing in the shop, and perhaps worked alongside with them on summer holidays. Some firms have made it a practice for executives to return periodically to the shop floor, re-engaging with the people and basic operational issues. This can create a powerful and positive ethos, engendering a sense of connectedness and stability.

Four experiences: Doing time on the shop floor

'I only did it for 2 weeks but the myth is that I did it for 4 yrs…!'

'I worked my university vacations: "I remember you – it's John and Harry". When the family fits in the business, it's the touchy feely thing.'

'The fact that you've done it for a period – you never forget it. When you are walking around, I think it helps the mindset – you can relate to people, listen and talk.'

'We have a tradition…that all senior management work at the tills in our shops. [This creates a] network of people you can pick up the phone and talk to – who tell you how it really is.'

Family firms take pride in trying to be good, caring employers. Conveying a sense of familiness when connecting with the workforce is a vital part of the family business identity, and leaders of family firms take it very seriously.

Culture gone awry

The dark side of passion for the business can, however, create strategic constraint. For example, stubborn product loyalty can prevent a firm from exiting a core business even when the tide goes out, losing opportunities to refocus the business strategy. It can also lead to energies being directed inwards, isolating the leadership and making the business system rigid and inflexible.

Experience: A period of introversion

A family member/leader of a previous generation brought many family members onto the board who were described as *'very intelligent and intellectual, but uptight'*. The generation of that time had a fairly large number of individuals of a similar age, and competition among family members was also rife.

In addition, the industry was going through major changes, and when crisis finally hit the business, the whole board (composed of family members only) left. The business was de facto leaderless for quite a while, creating a rift between the ownership and the management.

Differences between family business cultures can be wide. Less attractive forms of family business cultures can for example, be patriarchal and rigid. Sticking to tradition is fine, but it can be stifling and lead to inflexibility. When conflicts or inappropriate behaviour are displayed by family members, 'bad' values get cascaded down.

Over-attachment among family members to the business, coupled with an inability to face and confront family problems, can also have an impact on business strategy and investments.

Lessons learned: The Spirit of Leadership

- Identify the emotional connection of the family to the business, and maintain ties of loyalty and commitment where possible.
- Celebrate loyalty as a value, but don't let it become a value that steers decision-making towards bias and caution.
- Cultivate closeness between the family and the business by engaging and encouraging 'back to the shop floor' experiences for family members and leaders.
- Reappraise from time to time how you would define your family culture, and consider what you might need to do to keep it healthy.

II.2. Family Relationships

Leadership and gender

Traditions can be hard to change. In the case of leadership inheritance in family firms, tradition has favoured sons rather than daughters. One of the issues that face the generational gap is the increasing awareness of the opportunity to include female family members as leaders.

There are family firms that take this proposition seriously, and have designed succession planning that includes education and training programmes that engage family members of both sexes.

Experience: First female director

'One of the things we've tried to do to change our culture is to appoint our first female board director – a non-exec from outside. It was just to try and change the board culture to get a more rounded view of the problems. There was the odd shocking moment of patronisation from a certain family member but once they got over that, they've actually got on quite well.'

Example: Gender biased ownership succession

As a family business at the turn of the 20th century, there were three sons and five daughters. 90% of the business ownership went down through the sons. The daughters got 2% each, totalling 10% owned by the daughters. Now in the fourth generation, the ownership is very diluted.

Some family firms have a traditional view regarding ownership, where only persons who have the family name are entitled to shares. This cuts out women family members who marry. In other families share ownership is restricted to bloodline descendants.

'For a certain generation it's very hard to see a young woman running a business bigger than they ever ran…'

Father-son relationships

'It's the young stag, old stag.'

The panel of leaders discussed father-son relationships as the one that they had seen most at close quarters and which is often problematic, yet often also rewarding for both parties.

Four experiences: Fathers and sons at work

Old school approach

One leader found it very difficult to work for his father. It was never intended. He was reporting to his cousin, who died suddenly, and thus left him having to report to his father. His father was of *'the old school'*, not very good at teaching, reprimanding or encouraging – he never said *'well done'*. He wasn't opposed to anything his son wanted to do, but he never supported it either.

Managing the transition

This leader has two sons – one reports to him *'whilst he's growing into it'.* He describes the situation as being quite closely managed. The other son has had a mentor outside the business. It has worked reasonably well, providing quite a strong framework.

Giving praise

One leader had a mentor, and worked with his father. When the son's wife told the father very sensitively that he never used to tell his son when he was doing a good job, it was a real lesson for the father. The son says: *'for a while [he] said "well done" to me all the time'.* The son didn't know that his wife had told his father, who took it really well. It was also a lesson for the son that he has carried forward into the way he behaves with his own children.

Difficult relationship

'The hardest challenge of all is the father-son relationship. Dealing with my father was difficult to the point that it was completely untenable – partly to do with personalities, stubbornness, rivalry and hard-headedness of individuals. Fathers may not give praise but sometimes it can even be the opposite, to an extreme. I remember successfully finalising a transaction that had taken months to negotiate. My father walked into the room saying "this is the worst deal we've ever done".'

Research shows that, in general, the closer the age gap between the father and son, the bigger the chance that the needs of the two generations will clash. This renders the relationship more difficult to manage. If there is a mix of genders between generations, establishing a good working relationship can be easier than when both are of the same sex.

Example: Fathers and daughters at work

Fathers and daughters generally experience less conflicts and less rivalry. If the daughter is in there, established in a leadership position, she has already gone over all the hurdles, all of the chauvinistic attitudes have been pushed aside and let her through.

Education

The difference in education the generations experience can create a divide in terms of expectations of family members. Members of a generation who grew a business may find themselves in a much-changed world twenty or thirty years later. The business might be much larger, and the young generation may have a much better grasp of technology and management skills. This may lead to confrontation and conflict with the elder generation.

Lessons learned: Family relationships

- Gear the preparation of the next generation towards both male and female involvement. Including women leaders provides an opportunity to provide leadership and continuity based on the right skill set within the family.
- Fathers and sons need to take time to consider the special nature of their working and personal relationships and which models will be best for both of them.
- Open communication and honesty are vital. Getting an outside perspective (e.g. from an advisor or non-executive) may well assist.
- Forums where experience can be shared of how to manage these relationships are potentially of special value.
- Face up to the challenge of change – be kind and forgiving to yourselves and each other as you go through transitions that can be painful and contain a sense of loss.
- Divided expectations are normal – try to maintain a dispassionate dialogue to accept the reality of different worldviews. Also, try to find ways of reconciling different perspectives keeping them in proportion.

II.3. Retirement and succession

Succession planning has a particular significance in family firms because of the involvement of family members and ownership. Developing the next generation is tackled in different ways by family firms. Some are *laissez-faire* – wait to see what the kids want. Others are more proactive, making provision for prospective candidates through a development programme coupled with meritocratic assessment. This is advisable to avoid accusations of nepotism and ensure that the best talent is included in the leadership, whether family or non-family.

Giving the next generation an opportunity requires confidence – in the person letting go and in the person taking over. Classic problems associated with succession in family firms include the senior male reluctant to let go to the younger generation and rivalry between relatives competing for the same position. Other issues that face family firms include shortages of suitable family members due to widening age gaps between generations, fewer children being born and a growing variety of alternative career opportunities.

Experience: Rivalry between relatives

'The next generation of our company has a fifteen year spread: my oldest uncle, who was Managing Director, died young leaving a vacuum. There was a mighty punch up between nephews and uncles wanting to flex their muscles and then two members of the next generation also died young. The dispute has continued despite independent non-executive directors being involved.'

Letting go equals death

For some senior family members, letting go of the family business can be seen as tantamount to a death sentence. This is partly a natural product of the inevitability of ageing and transition, but it also represents a very real fear that the inactivity of retirement and loss of engagement in an institution to which they feel deeply attached, and which they may have spent a lifetime building up, will actually hasten their demise. Research on retirement shows that this fear may be reasonable. However, the negative consequences of blockages to the upcoming generations are also extremely severe. Therefore, there is a pressing need for the whole family to find creative solutions to the problem of a departing leader, including new roles and ways of being engaged that do not impinge on the new generation of leadership.

When to retire?

Having a clearly stated, non-negotiable retirement age can help leaders to prepare for the transition rather than trying to prevent it. However, not all family firms have adopted that rule:

Three experiences: Retirement

Keeping going

'I used to think that 65 was a good time to stop – [now I'm two months away from 65] and I'm thinking – how about 70? I have a lot of interests – [but] I get a buzz from the business – I will miss it.'

Stepping down early

'I'm stepping down – I'm 53. We are assessing the rest of the family team. After 12 years of chairmanship and 30 years in the firm, I think that I've

given all my good ideas. I've got some talented family members who cannot wait until I'm 65.'

Mandatory retirement

'We have to go at 63. There is no ability for us to stay. In terms of the contract of employment for board directors, it states you cannot serve past 63. I do not believe that it is in any business' [family business or otherwise] long-term interest to have an ever-ageing senior management team that goes on forever.'

After the official 'letting go'

Overcoming the mental hurdle of letting go can require tremendous effort and soul-searching. What happens in the actual retirement period is also dictated by the extent to which the *unofficial* letting go has been fulfilled. The chances of interfering with the day-to-day running of the business may be slimmer but there are viable options other than the business to keep the retiree occupied.

Several of our family business leaders reported having given substantial amounts of their time to seniors who were previously in charge, and whose need to share and know had not diminished. However, the need for regular briefing chats does diminish over time. Generally, this was not resented by our panel, but rather seen as a legitimate but costly payback.

Four experiences: When seniors need more time than you have

'….and then if you let them stay on – my father retired but became president – entitled him to come to boards although he couldn't vote – nodded off in board meetings – which is very difficult when you're chairing the board.'

'….we are lucky – but we do have our occasional hiccups…retired family members sometimes forget that they are retired. Generally, they are very supportive and involved…"I just wanted to find out about so and so – but I don't want to interfere." On other occasions they will pick up that they may have interfered a little bit around the edges.'

'….he comes and repeats to me with great regularity numerous stories …. Now it's more infrequent…'

'It's a nightmare – [my father's] senior did exactly that – talk – until my father said "I cannot spend one and a half hours per day talking about the business with you – schedule an hour per month". My father learnt from that experience, so he does not interfere with my work.'

Filling the shoes of the older generation is a pressure that succeeding generations have to deal with. On the other hand, they may also benefit from support and wisdom accumulated over their years in the business.

Two experiences: Succession well managed

Synchronised transition

'I was very lucky – my dad was the senior member of the previous generation and they all four retired on the same day, the youngest being 57. He said: "I'm retiring, and so are you lot" – and they all went and never interfered in the business. Could not have been dealt with better… I was 30 when I started shadowing [a director] sitting at board meetings not knowing what to say, I was so inexperienced. It worked extremely well – father retiring, having a non-family chair. I'm in a senior position but in the middle of a learning curve.'

Fast handover

'On December 5th 1980 I had a meeting with my father. I asked him: "Is everything OK?" He said: "No – I don't want to do it anymore". I became MD that same day. Did he retire completely? No. He became executive chairman. He never leans over my shoulder. He and his brother are both on the board, both in their eighties. They are extremely sharp.'

Presiding generations are the ones who must take charge of succession. Leaving it to the next generation to persuade their elders to step down and then having to sort out rivalries or misconceptions amongst themselves does not create an ideal platform for the next generation to build their leadership on.

Preparation of the next generation

Visible hurdles and a defined structure outlining clear expectations are essential ingredients in grooming the next generation. If the family has agreed on meritocratic principles of training and recruiting family members, expectations of parents and children can be more easily managed, and disappointment avoided. These often include university education and experience outside the firm before appointment. Mentoring by a third party outside the family can also be a valuable tool.

Experience: Setting boundaries and disappointing family members

'We had a case of [a family member who had a] massively exaggerated view of their capabilities – had to be told to get real. A senior member of the family told them. We spoke to other family businesses [who have] tangible,

visible hurdles, such as learning another language. We do not have that. It is a grey, nebulous area.'

Experience: Peer groups to avoid perpetuating rivalry

'We had a peer group with team building, development and assessment, externally facilitated. In these groups, they confronted one another about their strengths and weaknesses. We basically said: "Sort yourselves out". We could have imposed a solution – but they were absolutely remarkable in how they responded.'

Some family businesses favour the reverse of the model described above, emphasising the importance of recruiting family members at a younger age and not loose vital training time by attending university at that age. Experience in this case is gained by 'working your way up' and by spreading their experience across all major functions of the organisation. Young family members then get a more rounded view of the firm's structure and functions.

Experience: The reverse model of education and training

'Taking the view that all children must go to university and gain outside experience in "proper" jobs, you lose vast tracks of time. These are crucial times, since not everybody is prepared to come back and join the business at age 27, sweeping and doing night shifts, when the "prime age" is around 30. A family member who starts from scratch has a deeper insight into the entire business operation. They can always get an MBA or extended university education at a later stage.'

In cases where the age gap between the generations is too large for one generation to succeed directly after the other, family firms may appoint an 'interim' non-family leader or 'professional bridgehead', whose role it is to lead the business over a specified period of time, until the younger generation is ready to step in.

Ownership succession

Ownership succession is also challenging, with an equal need to prepare the upcoming generation for responsible ownership and wealth management. This is related to their personal development and cannot be treated purely as financial training. There are also issues about how this changes governance and decision-making. Economic and executive power may be separated by how voting rights are structured in relation to ownership. In ownership succession it is more about how it is handled than what is done. Assumptions are often made, which can have a major unseen influence on outcomes.

Lessons learned: Retirement and succession

- Succession planning systems should require people to think about options well ahead of time, whilst retaining flexibility about the possibilities.
- Young or old, you have to give your family time. Over the life cycle, family members need time and care in different ways and amounts.
- There is no single best way of dealing with succession, apart from the fact that it is a process that needs to be managed, anticipated and planned.
- Rivalry needs to be healthy and open, not suppressed. Make the issues transparent and related to contexts.
- Don't duck issues to avoid disappointing people. Keep the personal separate from the business issues.
- Early thought should be given to creating lifestyle and meaningful projects for retiring generations of leaders.
- Educating upcoming generations for executive responsibility and for ownership roles alike cannot be seen as a purely technical type of training. Attention to the personal development of young people is also essential.

II.4. The family leader and the business leader

Family leader – business leader

Unlike leadership of the business, leadership of the family can be either institutionalised or unofficial. It can be separated from executive leadership, or be a jointly-held role. Where family leadership is institutionalised, the most common form is as chairman of the family council or its equivalent. The role may also be held by the chairman of the board. An unofficial family leadership role could be a non-appointed representative or spokesperson who has power rather than invested authority through an official role on the board, for example. An example of such a position is a family matriarch who is the unofficial 'chief emotional officer' outside the business.

Most family firms split the roles of family and business leader in order to avoid conflicts of interest. It is most common that a family leader is a family member.

Example: Splitting the role of family and business leader

This family non-executive has taken the official role of family leader in the family council. Any letters to the shareholders from the council has this family member's name on it. The role is described as *'trying to engage people and be the human face of the company'.*

Experience: Combining the role of family and business leader

'I took the family [leader] role for people right across the board, uncle, father and sons. They are aged between their 30's to their 80's. I'm 53 and a hybrid with my foot in both camps, as both chairman [of the board] and family leader.'

The family or the firm – which should come first?

Many but not all family firms operate under the assumption that having family involved in the business is important. If the positive aspects of having the family involved are there, then it is easier to get through the problems that inevitably occur. It fosters a sense of longevity.

Although it may be difficult if not impossible to prioritise one over the other, some family businesses may find themselves is a position where they ask themselves: How far do you go before you let a family destroy a business? Is the family a support for the business or the business a support for the family? If you get to the point of exit because the relationships aren't working, then the business is not going to save the family relationships. Equally, one must recognise the degree to which other stakeholders, such as employees, are depending on the continuation of the family business.

Four experiences: What the family brings to the business and vice versa

'It's a huge incentive to keep a family business going. We are incredibly fortunate in this generation – everyone needs to understand that…'

'Sometimes families are actually together because of the business…if it wasn't for this business, I suspect that as brothers we would be further apart. The business gels families together and vice versa.'

'We did an exercise in our family: what benefit does the business bring the family? And what benefit does the family bring the business? The latter question was harder to answer. The family: commitment. The business: a unified goal, a means of getting them together.'

'If you make business decisions for family reasons then you probably got it wrong.'

Size, in terms of the number of family members, is also relevant. In firms with multiple family branches, the 'sense of family' is harder to achieve. This also depends on how much value they accord to togetherness/cohesion. To some, the notion of 'happy families' who spend a lot of time together can feel like an artificial concept. Family members who work together may have a lesser need to create social cohesion.

Example: Widening participation

One family business leader has recently started to widen the conversation with family who are not shareholders, such as spouses. He thinks that it's a good move, since these people are a source of influence. He decided on having a presentation and a drinks evening once or twice a year, to try to build their awareness of what's going on.

Lessons learned: The family leader

- The family leader's role entails:
  - Being a conduit and maintaining communications between family and firm
  - Creating 'social glue' and affirming relationships
  - Being the 'human face of the company'
  - Engaging the shareholders in various ways
  - Picking up on and conveying family values/culture
- Make explicit the roles and functions of the family leader, as listed above.
- Clarify where the owners sit on the spectrum of family or business first. Identify the potential areas where there may be a fracture line in the firm, and where it may be best for family and business interests to be disentangled.
- Regular social and other sharing events are helpful devices to cement family bonds and foster stronger family identity.
- Family leadership is needed. The family leader and business leader should ideally not be the same person. Families without designated family leadership should consider who will be their leading spokesperson and representative.

II.5. The chairman and CEO in a family business

There is more than one way of dividing labour between the chairman and the CEO. One common model is for the CEO to exert authority and oversee operations, while the chairman is entrusted with managing the external network and the guiding vision for the business. Within this model, responsibility for culture building and strategy formulation may be shared. This should not become a source of disagreement either through conflicting and overlapping responsibility, or through a gap being created due to insufficiently formulated role descriptions.

The non-family CEO and family chairman

Among the reasons why family firms often choose a non-family CEO and a family chairman is because it is harder to hold a family member accountable to the board, and when things do not work out it is also harder to fire a family CEO. Additionally, having a family chairman usually enhances the alignment of family and business interests.

Experience: Chairman and CEO – crucial but also fraught

'My job as chairman would be much easier without a family member as MD – it's very time-consuming to manage the family interaction. It would be easier to manage a professional CEO.'

Migrating from CEO to chairman: Can the leopard change its spots?

It frequently happens that family member CEOs and MDs migrate into non-executive chairmanship in 'semi-retirement' for an interim period, or for a longer and even indefinite period of time. Although this is not seen as the most appropriate practice by governance watchdogs, many family companies take this route in order not to let go of very valuable experience and support from senior family members.

Experience: From MD to non-executive chair

'When my father retired I became MD, my sister was not interested. He carried on as a non-executive chairman – a role that we swapped, so now he's deputy chairman – I've taken his chairmanship. It is a really strong position – people do sense our culture.'

Entering into chairmanship from being MD/CEO means assuming a more distant relationship with the business, adopting a more strategic-visionary role, being less hands-on and operating from behind the scenes. Knowing when to and when not to intervene is fundamental. For some executives this transition does not work. It can cause stress in the boardroom if the former CEO is second-guessing their successor, and does not give space for the next generation to develop their own vision.

Example: The overarching perspective of the chairman – a view from above

A family member who becomes chairman looks further forward, creating an overarching vision and strategy. If there are 'speed bumps' on the road, the role of the executive management is to flatten them, fix problems, and take the business through a particular cycle. The chairman is then free to focus on that sense of longevity at the top while the executive management takes you down the road. If issues and hiccups occur, management's job is to take that heat, while the chairman can keep the momentum and continue at that level.

Retaining the senior talent in the business is viewed as a major benefit when there is open exchange and learning flows both ways. But over time the contribution of seniors diminishes, with an accompanying need to change both their role and perspective. This can be a point of conflict between generations.

Four experiences: Transitions to the chairman's view from above

'It was difficult for a while, but it was a very worthwhile process. Little, trivial things change. We operate 364 days a year – in our firm, tomorrow is already finished. You have to elevate yourself above the [day to day] world. As executive chairman, there is no more flitting round – I'm not in the loop, so I have to be a real grown up and stand back. My role is [to be] thinking about where business is going to be in 10 years.'

'It's difficult, [a bit] like being a retired footballer – sitting [on the sidelines], thinking: can't you see the ball is over there?'

'You feel left out – like nobody loves me! Make sure not to step on people's toes – it is a fine line. I know less and less of what is going on. Now it's more about being invited. [At] first I was constantly cc'd on emails but that has reduced.'

'When things start to go wrong – knowing when to jump in and how far to go [is important]. Your business instinct tells you when something smells wrong. What to do is go down to the lowest level – it sends a ripple out and you learn a lot more.'

Having a formal structure and clear role definition makes this transition easier. Training and good advice is necessary in these circumstances. Not being kept in the loop can be stressful for somebody who has been used to it for many years. A phasing out period may also be necessary.

The non-family chairman

A non-family chairman, in addition to facing all the challenges of a non-family leader, operates in a structurally exposed position. He or she might end up in the 'firing line' between the family and management, or between shareholder groups where there is a lack of unity. However, with the right individual, it can bring substantial value.

The calibre of the individual is crucial for the demands that this type of situation can create for the non-family chairman. Participants reported contrasting experiences in terms of having a non-family chairman – for some it opened up the situation to 'warfare', for others it brought only benefits.

How is the chairman selected?

The primary rule is transparency, so that everyone knows how the process will be guided and implemented. The possible mechanisms are varied. Wherever it comes from, there needs to be collective acceptance. This is typically the domain of some mechanism such as a special nomination committee. This can include shareholders who are not on the board to help ensure that the chairman is a good fit for their needs.

Two examples: Selecting the chairman and/or directors

Nominations Committee

This firm sets up a nomination committee of non-family non-executives to choose new directors. Names are then given to the committee. The process is egalitarian. It is designed to produce a logical and rational result.

Broad consultation process

The choice of both the CEO and the chairman in this case is decided by the board, in consultation with the shareholders. The basic attitude as conveyed by the shareholders is that the chairman does not have to be a family member. If the family have strong views, the process will take these into account.

Lessons learned: Chairman and CEO

- Avoid ambiguous arrangements in terms of role responsibilities, such as phoney 'semi-retirement'. Beware of unworkable situations or roles that look good on paper but are lousy in practice.
- Coaching during the changing of roles is a good way of handling the transition within a support structure that offers advice.
- The value of a good non-family, independent chairman should not be underestimated. To be effective this person needs broad support among the owners.
- Migrate between roles with an understanding of the change dynamic. Be prepared to let go of family behaviours and perspectives and to embrace new and often untried demands.

II.6. Conflicts in the family firm: Types, traps and solutions

Sources of conflict in family firms

Conflicts are inevitable in all organisations. Family firms are prone to a particular range of conflicts due to the delicate complexity that arises from the overlapping interests of management, ownership and family.

Conflict arises from incompatible actions, interests and goals. Two or more parties involved in a conflict may share the same goals and interests, but it is their actual behaviour that is the source of the conflict.

Healthy conflict in families occurs when two groups or individuals in a conflict are not at odds with each other personally. It is a fundamental ingredient in learning and development that conflict does not have to be a win-lose situation.

Types of work-related conflict

It is said that three types of conflict predominate in groups: task, process and relationship conflict. Task conflict is to do with *what* should be done, such as decisions on resources or interpretations of facts. Process conflict is about *how* things should be done, such as procedures and policies. Relationship conflict occurs at a *personal* level e.g. personal tastes, style or values. This is the conflict zone that has most capacity to generate dislike and hostility in family firms, and is potentially very destructive.

A common mistake is to dismiss something as a personality conflict when in fact it is a matter of task or process. Also, competition does not equal conflict.

Competition can lead to diminished conflict and better communication, when it is of a healthy and challenging nature.

Having conflict management processes is vital for the sake of keeping conflicts within the non-destructive range. Family governance arrangements provide a good framework and ensure that there is awareness of what should be done on different levels to resolve conflicts. Such arrangements function best when they are balanced between structure and process, i.e. when the system is robust with steadfast rules but simultaneously allows for change and flexibility.

Family relationships

Each family seems to have their own perception of which relationships are the most conflict-ridden. Simply being close to the persons you work with, even if the relationship is good, can be difficult and therefore needs to be moderated by outside influence.

Experience: Difficulties working with somebody you've grown up with

'I love my cousin to death, but it's damn difficult to make things happen with somebody you have grown up with. We know each other too well.'

The panel noted that parental love can also be problematic – especially the situation where a parent, usually a mother external to the business, starts vigorously promoting the interests of her spouse or children. Succession conflicts can arise in this way.

Rivalry is normally more inflamed between siblings than between cousins. This may be aggravated by situations in which parents are unable to choose a successor.

Two experiences: Two relatives

Unjustified expectations

'A mother thought that current family members in the executive management were just lucky passengers who happened to jump on the last carriage on the train. She wanted her son to be the leader. I had to say to this person's mum: he couldn't run [the business]. It was a very tough conversation to have.'

Difficult shareholders.

'I think that the most difficult is the aunt whose father was in the business, not the children. She is extremely difficult to deal with. At the AGM she

blows fuses left, right and centre. In a family business, no one is sitting on the fence – they all have a view.'

In-laws can also end up in difficult situations. Conflicts arise where their wishes for their spouse's success in the firm (for whatever reason) causes irate or disturbing behaviour. In these cases, domestic issues are inappropriately pushed into the work sphere.

'Older people can be pushed [out the house] by their spouse. She tells him: "go back to work – it's your business!" We have to reckon with that.'

Spouses may hear about disputes, for example between siblings working together, but may be unaware when these are actually resolved at work. Hearing only about the conflicts and not the enjoyment provides them with a lopsided view. Grudges and paranoia on behalf of their family can emerge where relationships are generally fine at work but outside they begin to deteriorate.

Schemes created to manage one family member

Difficulties experienced with one member of the family, or indeed, handling multiple, competing successors in one generation, can create a situation where a scheme is created for one person as an attempt to resolve them. Such schemes are not purely based on a sound business case, but created as a compromise for somebody who would otherwise have been left out of the family business. These endeavours are usually set up to fail, since the fundamental problem is not confronted.

However, certain compromise schemes may be very effective. Powerful partnerships and conglomerates have evolved in entrepreneurial families as a result of these attempts.

Two experiences: The 'compromise scheme'

Supporting a family member

'We fell into that trap and created a chain of other businesses, run by a relative. However, the size of the chain made it less competitive – you had to be either very large or very small. So we came out of that business and tried another business idea – which also did not work. With hindsight – it was a compromise for my relative. The family was muddled up in the business.'

Facing the issue of inadequate capability

'We kept one family member happy by allocating profit every year to spend

on a succession of businesses that all closed over 15 years, rather than face up to the problem. Wouldn't it have been better to deal with the family issue, rather than throw away money on fancy schemes just to keep one family member quiet?'

These 'solutions' invariably have a long-term effect on interpersonal relations and the way of working with other family members in the business. Sometimes it is not the model that is wrong, but the person and the opportunity. Finding and creating opportunity is easier for families who are naturally entrepreneurial.

The 'difficult' person

It is often perceived that there is one 'difficult' person in the family (in some cases this *is* the situation). However, in complex systems such as family firms, cause and effect are tied together in an intricate and delicate web of past, present and future aspirations, actions and exchanges.

In the family business, people run the risk of scapegoating and forming sub-systems that single out individuals. Before simply dismissing somebody as 'difficult' it is worthwhile figuring out why this perception came to be and how more openness and honesty in communication can turn it into shared problem-solving.

What conflicts can cause…

The demise of so many valuable family firms due to conflict speaks volumes. In many cases, not only the firm falls apart, but rifts are also created in the relationships between family members. These may be very difficult to repair. Trust takes a long time to create but is easy to tear asunder.

The external glare of publicity can heighten this and adversely affect the reputation of the firm.

Two experiences: Destructive conflicts

Failure to stop infighting

'The focus of the organisation goes inwards, and can implode quite quickly. The brand can become synonymous with fighting shareholders. We have had more than our share of disputes with shareholders [in] the last 25 years and it is very destructive. In our family, conflicts have caused enormous frustration and disappointment.'

Maintaining privacy

'Conflicts used to be behind closed doors until one family member discovered

the power of the press. Destruction of the brand value that we'd tried to build up was terrible. It felt like a freak show at the extreme. [My advice is] take it out of the public eye – including employees and stakeholders – and sort it out behind closed doors. Get commitment for that – lock yourselves in.'

Preventing conflicts from happening is impossible, although one can do as much as possible to be shielded from fall-out by creating an atmosphere of openness, psychological safety and trust. There is no one solution.

Managing the family shareholders

Conflict between shareholders and management is something that most, if not all, family firm leaders have to deal with. Family governance mechanisms play a large role in this context. A clear structure and routes of communication are the basis of a sound family governance system. Family councils/shareholder assemblies and written family constitutions/guiding principles can all form part of a toolkit to encourage healthy relationships among owners and with the business.

Trust and transparency are important practical concepts in the relationship between management and family shareholders. In their absence, the shareholders will often end up exercising their option to change management.

Experience: Communicating with shareholders

'I'm a shareholder as well as a family member. And they are also my relatives. I don't think you can turn around to them and say: "I can't talk to you, I can't tell you what's going on"…I believe that a chief executive, whether it's a public company or private company, has a responsibility to communicate with the shareholders, and understand where they're coming from…'

Experience: An Annual General Meeting – From 8 minutes to 1 hour

'Our AGM has been significantly changed. I think that our record time was 8 minutes. Now it's 1 hour, with presentations on advertising, products and so on…until they say "shut up so we can have a glass of wine". I made a point of saying that "you never got anything from the previous generation, now I'm going to over-deliver on this". I aim for over-communication, but I'm not interested in playing happy families…'

Example: Dealing with feelings of entitlement

A minority shareholder might say: 'I'm working myself to death – but it seems that your great uncle is helping himself to lots of money that he feels entitled to because he is working in the firm.' In this case, the leader would sit down with the uncle and go right through the whole game plan, get him to agree not to take any more or less than he needs.

How to approach conflicts in family firms

'Common sense is not so common.'
Voltaire

There are three steps to dealing with conflict. First is to define it. This may sound rather simplistic, but there are as many views of a conflict as there are people involved. The leader's first responsibility is to achieve a preliminary analysis of this multi-faceted reality. Next, the leader needs to set a conflict reduction goal to be achieved and a method for doing so. Third the leader's role is to oversee an effective process, through which listening, forgiveness, and problem-solving can take place, as merited by the situation. It is important to define guidelines before a conflict arises; agreeing on acceptable behaviours and how processes are to work.

Outside family firm advisors may be necessary to help resolve a conflict. An outsider can facilitate conflict resolution in family firms, and provide a process for family firms to deal with problems in a structured and time-bound fashion. They can bring a neutral and different way of looking at the conflict.

Lessons learned: Conflicts

- Beware of 'triangulation' – one family member being drawn into a conflict between two others.
- Be careful about any attribution of causes of conflict. Focus on desired outcomes, not the nature of the problems or the individuals. Use structural devices and procedural rules to regulate conflict, but do not set these up just to confront one particular problem.
- Strategies to mitigate and eliminate relationship conflicts are particularly important due to their potential positive effect on satisfaction and trust.
- When task/process conflicts emerge, try to manage them constructively. This works only when there is a high level of feeling of psychological safety and trust among members. Strategies fostering openness are likely to help reap benefits.

- Separate analysis from objectives and problem-solving methods, so that a proper appraisal of the multiple sides of a conflict can be grasped before rushing into action.
- Create advocacy groups. This is appropriate when the conflict pertains to an issue (not relationship conflict) that has elicited opposing camps and involves a number of people. This entails creating two discussion groups consisting of equal numbers (as far as is possible) of for, against or neither, and instructing one group to prepare arguments for, and the other group to prepare arguments against. The groups will go through all the arguments to enhance openness/understanding between opposing viewpoints. Remember, everyone's view as they see it should be valued.
- Recognise that input from experienced outsiders can be very powerful in resolving conflict situations.

Some final thoughts on conflict resolution

'We solved it by having no family in management at all – the flip side of nepotism. All our disputes happen at the shareholder level rather than in management.'

'All families will quarrel. It's a fact. What you need to do is try to isolate those conflicts from the business. Try to isolate and go to the business with one voice and resolve it.'

'Sibling rivalry needs consensus and listening. We don't vote.'

'You have to step back and agree [on a process] when family members are in conflict.'

'Educate your shareholders.'

PART III

Supporting the family business

III.1. Board structures of the family firm

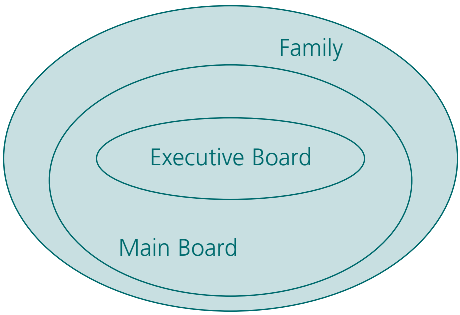
Two-tier boards

Board structures of larger family businesses are sometimes split into two separate entities. One tier is normally dedicated to business operations and is referred to as the 'executive board', 'executive management team' or the 'operations board'. The other tier has a somewhat more elevated position, dedicated to the strategy, vision and business environment. This is normally referred to as the 'main board', 'holdings board' or 'supervisory board'. These are not static. They evolve.

The main board (or equivalent) is a statutory board and should thus not be confused with the family council or equivalent.

Three examples from three family businesses: Board structures

Example 1.



The role of the executive board is to run the businesses – *'to bring the bacon home'.* A non-family CEO runs this team. A family non-executive chairman and a family non-executive deputy chairman head the main board. The discussion there is different. It is shareholder territory, and its remit is non-executive. Issues under the main board control include the management of wealth, culture, talent and succession. Two directors sit on both boards. Having two separate boards is described by the leader as being *'10 times [more effective] than a single board'.*

Example 2.

This firm has two boards: a main board and an operations board. On the main board sits the chairman, MD, part-time director (family) and two independent non-executives (non-family). The 'operations board' is executive. On this board sit the company secretary, finance, commercial, purchasing and HR directors. The MD sits on both boards.

Example 3.

The board structure of this business is evolving towards a two-tier structure. However this is not yet formalised. The family representatives sit on the main board. The executive board is separate, and in fact a separate subsidiary company. At the moment, the family sits on both. In the future, it is likely that the family will sit on the main board only, possibly with non-family non-executives.

Size & membership of board

Board size is critical in terms of effective and creative decision-making. Research on teamwork shows that a team should not be composed of more than around nine members in order to function effectively. Dynamics in the boardroom change as size increases.

The main board is generally composed of senior family members sitting alongside non-family directors, who can either be executive or non-executive. Family input at main board level is essential to keeping shareholder goals aligned with the vision for the business.

Boundaries between board structures

The leadership should be tough about the distinction between functions of the separate boards, and maintain a balance between structure and process. The structure should determine who is involved and how often the boards convene. The process involves models for approval/permission and maintaining boundaries of tasks and decision-making. One leader describes this:

> *'The first 18 months were challenging in terms of role division between the main board and the executive board. It was a matter of learning. A few times I had to turn around to say: "we've got a team that's appointed to do operations. That's not your territory".'*

There should be clear guidelines as to what the different board entities should be doing. For example, the main board may meet every two months and go through the minutes of the executive board. The operating procedures and responsibilities of the board, such as approval of executive decisions or risk analysis, should be defined.

Two experiences: Issues on the margin

Defining the board's mandate – The 'private equity' approach

'There is continuous tension. Where do you draw the line? It's a daily battle. We're going through the process of [determining] the things that need permission from the main board. Standard stuff – risk, capital investment, orders over a certain scale – holdings board want to know about that. We looked at what a private equity firm might do – what are the kind of things that you are required to inform a PE investor [of] for agreement?'

Establishing individual role clarity

'We have very few [issues]. My cousin who is the MD is very close to me. He rang me today saying that [a] note is going to go out Thursday, "is that OK with you?" He doesn't have to ask me. My job as a chairman is to be the link between the operations board and the [main] board.'

A constant dialogue between the key persons (such as the chairman and the MD) in the two-tier structure is necessary for it to function smoothly. Open communication makes for fewer surprises and misunderstandings regarding decisions and how they should be made.

The role division in two-tier structures described above may possibly be less attractive for some non-family executives if a significant amount of high-level visioning and strategy are solely the province of the main board. Two-tier board structures can reduce interference from family by acting as a buffer between management and the board.

Experience: Benefits of a two-tier structure

'I would challenge the executive team all the time as to how much they know about the strategy of the business. Are they close enough? Do they know what's happening?

The main board's job is risk analysis. They are supposed to be dispassionate and think as investors. The main board is a buffer between the family and the executive team. Two other benefits are that 1) it helps enormously in *succession, 2) we can move the wisdom and knowledge of senior family members to holdings and relieve them of executive pressure.*

It would still not work genuinely if we did not have family-only meetings as well where we get close and personal with each other.'

Lessons learned: Board structures

- Leaders need to support the documentation of the tasks and responsibilities of the two main boards and other key bodies. Also document what types of activities need to be approved/ratified by the main board.
- Be clear about why certain structures are used. A two-tier structure can exist to increase family influence in terms of strategy and vision, but does not replace having a family council or family meetings.
- Remember, the kind of power structures you implement will influence the kind of leadership you get at lower levels.
- Keep boards lean in their structure and relevant in their membership.
- Maintain a dialogue about how structures are functioning and being used. Consider the amount of time being given to the issues of greatest importance to the business, such as the appointment of key executives, innovation and market strategy.

III.2. The role of the non-executive

In any firm, leaders require independent voices to both challenge and support them. As firms grow beyond the dimensions of owner-management to higher levels of complexity this input is needed more formally within governance structures that include non-executive board members. In order to provide a strong, meaningful and independent voice, non-executive directors should bring a sound business acumen, knowledge (possibly industry specific) and experience. In the family firm, additional special qualities are necessary – familiarity with the dynamics of family firms and the psychological qualities to be able to navigate the politics of a close-knit family with confidence.

Three experiences: Non-executive director qualities

'A punchy non-executive is absolutely vital [in a family firm]. In our case, he knows that he [has] that position because he is not in any way frightened of the family. He provides a diverse view – without it, myopia can set in.'

'We are three leaders – "lads" in our early 40's – having a couple of greybeards around is very helpful.'

'Our non-executive clips us around the ears when we start squabbling [like siblings].'

Non-executives also provide a helpful balance in terms of family and non-family mix, as well as the experience that comes with maturity.

Maintaining control in terms of relationships, behaviour and communication on the board level may also be part of the non-executive's remit, as well as ensuring that fair process and business ethics are upheld on several levels of the business.

Number of non-family non-executives

The number of non-family, non-executive (independent) directors varies from family business to family business. For large family businesses, more is better in terms of independent voices, so that the temporary absence of one NED does not deprive the board of this function.

'We are constantly advised to have non-family non-executives. It is more a matter of us being comfortable with it than us being conceptually against it [that we do not have any as yet].'

Example: How many non-family non-execs do you have?

0 Among the roundtable participants, the number of non-family non-
1 executives varied from zero to four, averaging two per company. Some
2 of these sit on the main board, and some on the operations board. In
2 two cases, the former non-family finance director had changed roles
2 to become a non-executive director.
3 The overall perception among the discussants was that rules about
4 prescribed numbers of non-executive directors are too mechanistic.

Recruiting non-executive directors

Using recruitment consultants to find non-executives for family firms will generally be useful for hiring them but it may not suffice. Headhunters can be *'fishing in a pool of large plc director talent'* with executives who are not experienced in family business governance or do not have the cultural fit. Many non-executive director appointments are made informally, by word of mouth and with help from close advisors and other family business leaders.

Experience: Swapping board members with other family firms

'We have swapped board members with another family firm so that each of us has a director on each other's board. This arrangement means that we both have on our respective boards a director who has first hand experience in dealing with family business related issues.'

How non-executives are recruited can have an impact on their acceptance by family shareholders. Generally it is not advised to appoint old business acquaintances of the chairman or other senior family members.

Non-executive directors' length of service

'The non-executive role is permanent – the individual is not.'

Family businesses sometimes let their non-executives stay for too long. The benefit of having long-serving non-executives is that they come to understand the family. However, the downside is that he/she may become too entrenched and less able to provide an independent point of view over time. Thus their roles become compromised.

Non-executives' length of service can be stipulated in a contract after which they are effectively timed out, or an appraisal process begins to decide whether the term should be repeated.

The difficulties family firms face are mainly in finding non-executive director candidates with the right qualities, cultural fit and experience. Some firms solve this by specifying that the chairman's job, possibly in conjunction with a board nominations committee, is to identify future non-executive candidates. Complementing the non-executive, some families use a trusted advisor or *consigliere* (a trusted family friend who is also able to offer insightful business advice). None of our panel had a formal role for such individuals, but informally they are often welcomed for their committed and moral input.

Lessons learned: Non-executives

- Utilise other family businesses' experience and talent: directors of family businesses can serve on each others' boards where appropriate.
- Replace/reassess non-executives at regular intervals. They have a "sell-by date" that is arrived at when they lose their independence and begin to act as insiders.

- Have clear written policies regarding terms of service and renewals.
- Create and/or access formal and informal networks to increase the availability of non-executives who have the experience to be effective as non-executives in a family company. Do not underestimate the importance of experience in dealing with family dynamics.
- Consider informal pooling or exchange relationships with other family firms, to increase the supply of quality NEDs. However, ensure that it does not become an 'old boys network' – quality and independence must be upheld.
- Make sure that recruitment consultants are well-versed in the dynamics of family firms and have a thorough understanding of the company culture. Also ensure that their networks extend beyond the plc world. Recognise that the recruitment process can be very sensitive.

III.3. Governance tools

Leaders need to take responsibility for governance systems – which can be broadly defined as the power and decision-making rules and systems that regulate accountability, communications, and use of control/authority in the relations between the family, ownership and management domains of the family business. The goal is not just decision effectiveness, but also fairness and transparency – in other words, governance plays a part in the management of firm culture.

As the family business matures, or changes its shape and size, governance systems need to adapt. What works for one stage of development may be a barrier to progress at another time. Not all family businesses have a formalised family governance system which is needed to manage the additional complexities of the family dimension.

The family council

In the more mature family firm, a family council is one such ancillary body used to ensure that family members can be effectively represented. They aim to make diverse families able to find and speak with a single voice. In most family councils members are shareholders. Family businesses set up family councils in different ways and with different aims, but their overall function is to create a formal channel of communication between ownership, management and family. Sometimes they take the form of 'the family shareholder group'. In others, family councils come into being with informal family meetings operating as forerunners to a more structured family council. It is not uncommon for family councils to spring into existence as a result of some traumatic challenge or conflict that a family has undergone, or to pre-emptively avoid conflicts from escalating.

The family council should not have any formal powers. This will help ensure that the relationship with the board is kept positive and that there is no confusion as to where the power for decision-making lies.

Some of the functions of family councils are:

- As a channel of communication and education
- As a forum for conflict resolution within the family business sphere, away from the public eye
- As a place for shareholders to raise demands, as opposed to the AGM
- For family members to become engaged and build better relationships
- To avoid the situation where one 'difficult' person always makes his/her voice heard to the management
- To agree on processes for succession and development for the next generation
- Keeping the shareholders together, making it easier for the leaders to manage their task
- Consultation on issues such as major business investments or disposals

Should all family businesses have a family council?

> *'Family businesses should choose solutions for the times they're in. They may want to look and see what others are doing and ask themselves – how would that work for us? If the family cannot get the board to lead the business, they shouldn't try to do it through the council.'*

The things that councils can provide – such as transparency, clarity and communication – are good for business. However, there is no 'one size fits all' solution. Leaders of family businesses may choose different routes to achieve the same thing. The process of creating a governance structure generally has more impact than the end result.

Four experiences: Family councils

'Our council has worked for us. It has created an enormous understanding and makes sure that interest in the business is fostered in the family.'

'We don't have one. If you pay the shareholders good dividends, they leave you alone.'

'We're a small business and have family meetings where we bring outsiders in to [give] advice in specialist areas such as wealth management.'

'It is extraordinary to have that channel of communication to regulate what can be an anarchic situation.'

The family constitution

This refers to a written document that outlines the family's views on significant issues like vision, culture, values, decision-making, succession, ownership, liquidity and development of the next generation.

Committing processes and guidelines to paper before problems arise forces leaders to confront difficult issues and define boundaries. As in the case of the family council, it is the process of developing a constitution that may have most immediate value, by creating a new dialogue among the parties. It is therefore important to make it a 'living' document that is regularly updated, which family members in all generations feel that they have ownership of.

For a family governance system to be complete, a family council normally requires a set of written rules for guidance. It is difficult to have one without the other.

Two experiences: Family constitutions

'Family constitutions stem from insecurity – people [create] them because it's the "done" thing.'

'If you believe that "solution is communication" – the more you can build structures where people challenge each other, the better. I'm process-driven and a fan of [family councils/constitutions].'

Constitutions are not normally legally binding, but some family businesses have made some key policies in their constitution part of the company by-laws or articles of association.

Example: A legally binding family constitution

This family business has integrated their family constitution in the company articles. They are also part of the 'strategy document' that the board adheres to, thus aligning family values and governance with business strategy.

Lessons learned: Governance tools

- Family businesses instinctively favour informality. This can make them 'under-governed' and many need to give more and earlier attention to the need for governance structures.
- Governance systems are not desirable for their own sake or for appearance, but to do a job. The governance elements necessary for effective business decision-making need to be defined.
- There is no 'one size fits all'. Find what's right for you, and keep changing it as the business moves through transitions of growth and change.
- Undertake the development of governance mechanisms as a discipline and an exploration of what you want and who you are as a family and a business.
- Better too early than too late, when it comes to introducing family councils and other such devices. The process of creating a structure is critical. It needs to be 'owned' across the family.
- Constitutions are helpful for making norms and rules explicit; but not if they are formulaic and rigid. They should be purpose-driven.

III.4. Remuneration and recruitment

Benefits to working family members

Differential treatment of family members is something that many family firms wish to avoid. Benefits for family members who work in the business is thus an issue that needs to be handled with sensitivity.

However, the need to retain family talent in the business is equally important.

Two examples: Family employee benefits

Needs-based remuneration

One firm supplies a total remuneration package, which depends entirely on where you are based and what lifestyle is expected with no connection to the job done.

Strongly incentivising family members

The policy is that if you join as a family member, it will be very advantageous for you. Between ages 28-50, working family members get a wide and generous range of benefits. At the end of your career you have an income stream that enables you to retire without depending on an income from an executive role in the business.

It is important to maintain a distinction between share ownership and salary. They are unrelated but can be confused, particularly when family members not working in the business are envious of those who have jobs and receive salaries.

Appraisals of family members

Appraisals are problematic when they roll together development and evaluation. The general rule is to avoid conducting appraisals between family members. Here, non-executive directors have a key role to play.

Three examples: Family appraisals

Family managers

The family governance system in this firm outlines how appraisals of family members should be carried out. For example, appraisals of a family member have to involve a non-family executive. This should not be left to the family.

Appraisal of the family CEO

The chairman of the remuneration committee carries out the appraisal of the CEO. This is done using 360-degree feedback.

Avoiding family appraisals

'We don't do appraisals [within the family]. It would be extremely hard for me to appraise my cousin who is the MD and be as truthful with him as I should be.'

Firing family members

This is a sensitive topic, and unless the family member is in flagrant breach of conduct, a very tough decision to make. In general terms, the same rules should apply to family and non-family members. If a family member is consistently underperforming, and attempts at development have been unsuccessful, then dismissal may be the only option.

There should be clear guidelines on how the dismissal should it be done, and who should be the person communicating it. This varies from case to case. There is no 'one size fits all' solution. However, leaders should be prepared for the eventuality.

Having procedural rules that the whole family agrees upon is essential.

Remuneration & Salaries

'My [retired] father asks me from time to time: "How much are we paying so-and-so?" I always tell him, but for him the amount is not as important as asking the question and getting a reply.'

Establishing competitive salary rates for senior executives, whether they are family or non-family, can be done using a remuneration committee with independent directors. Family leaders can benchmark themselves against remuneration levels applied by other private firms in their industry and of a similar size.

Lessons learned: Remuneration and recruitment

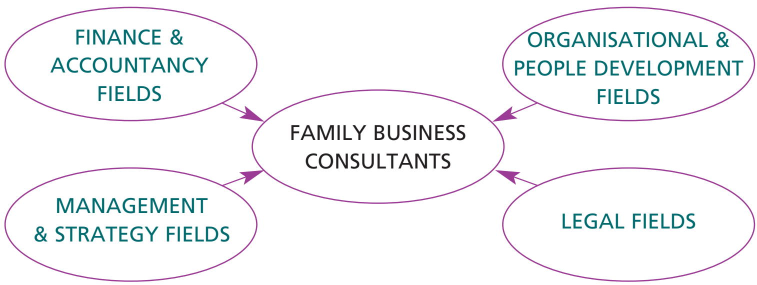
- Institute and maintain effective performance review systems and management processes to support them. Avoid appraisals between family members.
- Establish clear quantifiable expectations for performance. Targets are easily established in sales, but are fuzzier in other areas. Try to set out targets for these areas too.
- Get independent advice when establishing salary levels for existing employees or for recruitment.
- Reward appropriately and equitably – pay market rates or better to get top-quality executives.
- Be ready to fire non-performing family members, just as one would non-family. Open communications about expectations is a necessary precondition.

III.5. Using advisors

The timely use of advisors has helped many family firms through crises, tough decisions and major transitions. A high degree of trust is required, not only from the top management team, but also from other members of the family.

There are four general fields in which advisors mainly operate when working with family firms. Some consultants have two main areas, but it is rare to have more than two. Family business advisors should have some knowledge of all areas, and thus be able to identify situations that require expertise beyond their own.

THE FIELDS OF FAMILY BUSINESS CONSULTANCY



In general terms, the range of services includes technical solutions, such as completing a sale or settling trusts, and non-technical issues such as conflict resolution and setting up family governance systems. Most family business consultants who are hired to provide general advice will insist on being 'engaged' at the whole family's request, including those out of the business.

Advisors can be vital catalysts to change, sources of support for leaders through change and lend confidence and credibility to tough decisions. In the words of one family chairman:

> *'An external advisor has far more credibility with members of family than me.'*

Some family firms make frequent use of advisors, and are generally very positive about what they bring to the family. Continuity is a key issue in the advisor's relationship with the family firm. Long-term relationships are the norm.

Example: Recruiting an advisor

The advisors have to be acceptable to the family. Before this family firm take someone on, they conduct interviews and have dinner with the prospective advisor in their family home.

Lessons learned: Advisors

- Make sure that you get the right person for the right job by looking at the consultant's background and credentials. It is beneficial if the advisor applies a multi-disciplinary approach and has a network of professionals to call on in areas where they are not experts.
- Decide who in the firm is to be the client. Most family business advisors choose to work with the whole family business system as

their client, since this is most effective. Too much focus on only one party can cause bias for the advisors and suspicion on behalf of other client members.

- Consideration of the rules of engagement and interaction is fundamental to the family firm-advisor relationship. The family assist the process by agreeing upfront the terms of reference and putting them on paper.
- When engaging with an advisor/consultant, it is the leader's responsibility to make sure that his/her intentions are honest and clear. Hidden agendas are a risk to the process, such as seeking to abdicate responsibility for a tough decision to an outside party. It is not uncommon for family business advisors to find out that they have been hired as a 'hit man' to get rid of an unwanted 'difficult' person or a family member who is not performing. That is a waste of time for both the leadership and the advisor.
- Be aware of becoming 'addicted' or using the advisor as a crutch for lengthy periods where help is really no longer needed. It is up to both advisor and client to recognise this situation – so maintain a dialogue about the process with the advisor.

Use of external advisors – some final thoughts

'Some advisors have no understanding at all for family firms. They just want to sell you a lot of products.'

'As a family, we don't make use of external advisors, which frustrates me. We could use a psychologist.'

'Don't put them on your board.'

'Advisors should be challenged all the time.'

CONCLUDING COMMENTARY

We opened this Report with a discussion of the 'who', 'what' and 'how' of family business leadership. The findings and insights from our Inquiry show that these aspects of leadership have a special character.

The 'who' question is all-important, especially when leadership is being imported. Non-family leadership is inevitable in every family business, at some level. But it is also true that any incoming leaders – family and non-family – need a deep appreciation of what it means to deal with family dynamics in a business context. The 'what' question is therefore the need to appraise the life-stage of the business and its current challenges, and indeed where the family is in its development. The 'how' question revolves around the decisions leaders have to make in a range of domains, many of which we have reviewed in this Report.

There are three dimensions of leadership that our Report has highlighted that can inform the 'who', 'what' and 'how' of leadership. They are these: feeling vs. reason; integration vs. differentiation; and stability vs. change.

Feeling vs. reason. In every organisation this duality is a problematic dynamic, especially in the family firm. Managers everywhere are increasingly urged to be more people-centred, but the rationality of business is also increasing in the shape of greater demands to comply with the logic of systems and markets. Compared with non-family businesses, family firms have the advantage and disadvantage of more emotional and people-centred cultures. This needs to be preserved and yet channelled, so that it does not become self-indulgent, wayward and risky. The family business leader has to tread this line with deep appreciation of both its sides, because this is the key to seizing competitive advantage through firm culture.

Integration vs. differentiation. It is the binding quality of family firm cultures that gives them market power, identity and harmony. It may often be a cliché to talk of firms as one big happy family, but family businesses do routinely achieve this – drawing in outsiders to be part of the extended clan. Leaders have a key role to play in facilitating community spirit, but they also need to be vigilant about the risks. The leadership has to ensure that this does not become a kind of conformity that stifles entrepreneurial spirit. Family firms, no less than any others, need to be able to capitalise on diversity of talents and perspectives. So the family firm leader has a special role to play in counteracting or at least mitigating, the powerful normative impulse of the family firm.

Stability vs. change. The market advantage of family firms comes from their ability to adapt to short term market changes, whilst remaining stable in long-term continuity and culture. The leader's role to make this happen therefore means being many things: orchestrator, steward, keeper of the vision, and symbol of the family identity. The family firm is not the possession of the leadership – even if they own the business – but is merely in their trust. In their most outstanding manifestations, family business leaders cultivate a unique style – preserving value and embracing change.

This Report has sought to show in specific areas and conditions how these challenges are being faced, managed and resolved by some of the UK's most successful and effective family firms. There are of course other experiences and examples that a different review might have produced, but the main themes are universal. Case studies and academic reports converge around the issues we have been discussing, but none of them provides the kind of eyewitness testimony that we have sought to provide here. It is our hope that it provides a light of recognition and insight to family firms of all types and ages that are courageously seeking paths to success by facing up to the challenges that they encounter.

The **Institute for Family Business (UK)** is an independent, not-for-profit organisation supporting a dynamic family-owned business sector in the UK through education, research and advocacy. The association is the UK chapter of the Family Business Network linking members with an international network of over 1300 family firms. IFB conferences, seminars and research programmes seek to increase understanding among families with respect to the unique challenges and opportunities they face. IFB's events offer family business owners, their families and directors the opportunity to exchange ideas and best practice through networking with their peers and by providing access to world-class knowledge.
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www.london.edu/family_business

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The **BDO Centre for Family Business** was launched in 1993 and is the UK's leading organisation dedicated to serving the needs of the family business community. Its work involves guiding and advising family-owned businesses on how to structure and organise themselves in order to mitigate against the common pitfalls and challenges they face. BDO Stoy Hayward generously supports the IFB Research Fellowship at London Business School.
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Family Business Leadership Inquiry

London Business School

Nigel Nicholson &
Åsa Björnberg

All organisations require leadership. In family firms the leader is the protector of the culture, the conduit for innovation and the focus of vision and values. The challenge of the role is unique in the family context, yet leadership is one of the most important but least understood topics in the family business field.

This Inquiry was convened to shed light on its complexities, gathering the thoughts and experiences of a select panel of family business leaders and experts through a series of extended roundtable discussions. The Report summarises the insights and observations of the panel in three sessions: culture and strategy, family, and governance. Readers will find a wealth of stories and examples of leadership challenges, methods and ideas. Practical lessons are included throughout, making this Report a must-read for all family business leaders and their advisors.

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