Loyola University Chicago
Family Business Center

Family Business Stewardship Institute

Leadership

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Conventional wisdom has held that the biggest threat to a family enterprise's survival into the next generation is the family itself. Consider the well-worn stereotypes of the meddlesome relative who thwarts the CEO at every turn, or the layabout heir who draws a hefty paycheck while running the business into the ground.

Such outdated caricatures have been used for decades to justify building a wall to protect the company from the family in hopes of ensuring the business' survival.

A far better approach to building a successful multigenerational firm, however, involves ***creating the kind of family from which the business does not need protection.*** That means ***leveraging the inherent strengths of business-owning families to outperform their non-family peers.***

Seen through the lens of leadership, that approach requires:

- Understanding the demands of situational leadership and the importance of both formal and informal leadership.
- Striving to put the people with the right leadership styles in the most suitable positions.
- Rejecting the popular but baseless and damaging misconception that promoting from within a family is less professional than hiring a non-family CEO.

Effective decision-making in a multigenerational business requires productive interaction among the three key stakeholder groups—***family, business, and owners***.

A thriving family firm will recognize and empower one or more leaders for each of the three groups. It will help those individuals with overlapping roles to determine which hat to where when, supporting them with best-practice documents and mechanisms.

Formal vs. informal leadership

Leadership happens at all levels of a healthy organization and requires an array of strengths and styles.

For formal positions such as board chair and CEO, identifying leadership traits, selection processes, and job responsibilities tends to be transparent and well-accepted.

Particularly in a family firm, however, unelected or implicit leaders can exert nearly as much influence as formal leaders. The patriarch may have retired and passed the CEO's title and day-to-day authority to his successor. But when the business considers a major change, the titular leader who is sensitive to family dynamics will understand the need to elicit the patriarch's support.

Similarly, the spouse's CEO, a non-family employee, or an outside advisor such as accountant or attorney also may wield quiet leadership, with stakeholders looking to him or her on key issues.

Further, leadership can be about observing rather than doing. A *de facto* leader may emerge because of her ability to observe what's happening in the firm and give voice to it, while not necessarily owning it or acting on it.

Leading the family group

Electing titular leaders of the business and ownership groups will be familiar to those with experience in many kinds of businesses.

Deciding who will lead the family group, however, can cause considerable angst and confusion.

While informality can work when choosing the leader(s) of the family group, particularly in a small business, multigenerational firms often hurt themselves by choosing leaders in non-transparent ways that can appear unfair.

The bigger the family, the more formal the selection process likely needs to be. As the business grows in size and complexity, particularly in second and subsequent generations, vetting and selecting leaders will require a more structured process. And particular energy must be devoted to identifying the leaders of the next generation and fully developing their skills and sensitivities.

Traits of successful leaders

Identifying and preparing the individuals who will make good leaders require special consideration in a family firm, where the following traits are particularly relevant:

1. Agility. The leader's ability to shift her style depending on the situation and context is vital to the health of a multigenerational firm. Being forceful may serve the CEO well when she's making decisions for the business. But when the conversation shifts to family concerns, the wise CEO may hang back and let others take the lead.

2. Humility. A good leader puts the well-being of the entire family and business ahead of his personal interests. The humble leader gives credit to others for things that go well and takes responsibility when things don't.

3. Courage and integrity. An effective leader will have developed an internal compass that allows him to see right from wrong. He'll also exhibit the courage to break out of groupthink and say or do what's necessary but unpopular.

4. Sensitivity to family issues, and the skills to manage the system's emotions. If a leader is to advance her vision for the organization, she must ensure her proposed changes don't get derailed by internal squabbling. An awareness of the personalities involved can help her anticipate reactions and tailor her proposals accordingly.

At least as important to effective leadership, however, is the conscious pursuit of self-awareness and skill in managing the emotional responses of others. While some do this instinctively well, virtually every leader will benefit from a concerted effort to refine her skills in managing difficult conversations and emotional reactions.

5. Self-knowledge and self-care. Supported by governance systems, an effective leader will strive continually to know himself, understand his skill sets, and acknowledge the roles and demands of the position. He'll routinely obtain objective feedback about what he thinks, says, and does—from colleagues as well as from an outside advisor. He'll gain perspective and confidants by participating in peer networks.

The mindful leader will cultivate his own well-being—maintaining his physical and mental health, and pursuing leisure activities away from the business.

Deciding where the buck stops

The effective leader models accountability himself and sets the standard for everyone around him. But with many potential leaders in a family organization, who decides who is accountable for what?

Even in a small family business, formally laying out roles and responsibilities will ease the confusion, resentment, and misdirected energy that results from having too many cooks in the kitchen—or none at all.

With a document such as the Accountability Matrix in place (*see **Figure III.1.)***, a family business can sidestep many of the potential dramas that drain energy and productivity.

More roles for the leader(s)

In addition to creating a culture of accountability, the effective leader draws the link between roles/ responsibilities and vision/strategy.

That leader:

- **Creates a vision of what the company will look like in five or 25 years.** He aligns constituencies to outline strategies and inspires those teams to work toward desired changes.

- **Balances the need for urgency with the benefits of tradition and stability.** Evolution shows us that families that achieve stability and predictability thrive, ensuring the healthy development of children and future leaders. In business, however, changing market conditions require a business to continually adapt—or face extinction. The leader must balance these competing demands.

  Further, effective leaders understand how aging and diminished energy can dull their performance. Unless the company commits to a rigorous process of identifying and preparing young leaders and giving them increasing authority, the older generation of decision-makers risks getting stuck in endless discussions and failing to act.

Toolbox: Accountability Matrix

The Accountability Matrix, customizable for any family business, helps an organization create clear expectations and lines of authority. Note that, in the fictional business described in this excerpt:

- *Owners are accountable for strategic direction, but the family controls any secondary decision-making.*
- *In hiring family members for full-time posts, the family is accountable and must decide unanimously.*
- *With exec team compensation and employee contracts, accountability resides solely with the president.*

Topic	Category	CFO/ Fin Leader	HR/ HR Ldr	President/ Sibling 1		Exec Team/ Owners	Family/ Fam Members	Owners/ R Estate Owner	Board/ Non-Fam Bd Mbrs	Secondary Decision Process
		Individual Accountability				Multiple Persons Accountable				
Capital Spend >$100K	Capital Purchases					Consult		Accountable	Consult	Family Majority
Rules re: Vac Property	Family						Accountable			Family Majority
Establish Fam Values Non-Negotiables	Family		Inform				Accountable		Consult	Family Majority
Annual Budget Line of Credit	Finance	Consult		Accountable		Consult				
Owner Expense Policy	Finance	Consult						Accountable		Family Majority
Hiring / Firing (Position>$100K)	HR		Consult					Accountable		Family Majority
Family Compensation	HR		Consult	Accountable						
Fam Members Role Hiring /FT	HR	Consult	Consult			Inform	Accountable			Family Unanimous
Family Members Role / PT	HR		Consult	Accountable		Inform	Consult			
Profit Sharing Distrib Amt	HR	Consult		Accountable				Consult		
Healthy Growth Bonus Amt	HR	Consult		Accountable				Consult		
Exec Team Comp Non-CFO	HR	Consult	Consult	Accountable				Inform		
Ee Contracts	HR	Consult	Consult	Accountable			Inform			
CEO / Compensation for Role	HR - Owners							Consult	Accountable	Board Majority
Family Member Compensation	HR - Owners	Inform						Consult	Accountable	Board Majority
Owners Distribution	HR - Owners	Consult		Consult				Accountable		Board Majority
Co. Values Statement	Strategic			Accountable		Consult		Consult		
Strategic Direction	Strategic					Consult		Accountable	Consult	Family Majority

Figure III.1. Sample Accountability Matrix

- **Resists mythologizing the founder or the family itself.** Multigenerational firms tend to *mythologize*—or perpetuate distorted stories about—the founder or the family. With strong mythologies in place, the family may resist looking at and learning from the failings of the founder or previous leader.

  Especially if he is dead, that person's position on the pedestal may be so firm that merely hinting at his flaws—perhaps he was a heavy drinker who flew into rages—would be considered blasphemous. But failing to speak of the founder's flaws may suggest that such behavior in a leader would be tolerated today.

  Similarly, negative mythologies—inaccurate stories about the "lazy child," for example—also harm the enterprise and family.

  The emotionally mature culture will acknowledge that the family itself and each of its leaders embody both positive and negative traits. By looking honestly at how the range of traits present in a family can lead to success or failure, a multigenerational firm increases its odds of long-term success.

A word about non-family CEOs

Which makes a better CEO for a family firm: a relative or an outsider? Opinions and experiences differ depending on many factors.

According to the 2007 American Family Business Survey[1], some 20 percent of family businesses studied employ non-family CEOs. Research suggests that share is rising.

The decision to hire an outside CEO depends on many factors. In smaller companies, promoting from within the family tends to create a better fit. For a family firm whose sales have grown to exceed many millions of dollars, however, recruiting an outsider is more likely.

When the leader is a family member, emotions typically run higher. On the other hand, a non-family leader may not share as much commonality with the family and may struggle more to devise and execute strategies consistent with the family's wishes and values.

The wisely run family firm will not make knee-jerk decisions or follow rigid patterns but will carefully assess the pros and cons of both family and non-family CEO strategies and candidates.

Conclusion

As family firms grow in size and complexity, so too does the need to identify the right skills and the right individuals to fill an array of leadership positions, and to commit to ongoing training of the next generation of leaders.

Taking a methodical and best-practice approach to identify, prepare, and empower leaders at all levels increases the odds that the family firm will thrive into the next generation.

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[1] American Family Business Survey, MassMutual, Kennesaw State University, Family Firm Institute. 2007, www.massmutual.com.

About the Family Business Stewardship Institute

The Family Business Stewardship Institute (FBSI), a program of the Quinlan School of Business at the Loyola University Chicago Family Business Center, prepares family business owners, shareholders, and stakeholders (including non-owner spouses and future owners) for effective stewardship of their enterprises. Using a comprehensive, real-world curriculum, FBSI equips stakeholders, both financial and emotional, to navigate the significant and unpredictable transitions and decisions that determine the success and continuity of the family business.

*Each of the six modules—**Managing Relationships, Governance, Leadership, Strategy, Finance, and Managing Transitions and Family Business Continuity**—consists of two- to three-day sessions taught by Loyola faculty and nationally recognized family business thought leaders. Participants engage in confidential small group discussions and peer group and social media networking. Those who complete each facet of the program earn certificates.*

Continued online education, follow-up events, and connection to a lifelong network of professionals facing similar challenges help participants apply their new knowledge to current and future business challenges.

Participants in the Leadership module of the Family Business Stewardship Institute can expect to:

- *Better understand situational leadership, which varies as contexts change and requires proper allocation of leadership skills and styles.*
- *Examine the importance of informal leadership.*
- *Discover how productive interaction among the three key stakeholder groups—family, business, and owners—depends on identifying and empowering the right leader(s) for each of the groups.*
- *Develop skill in assisting individuals with overlapping roles to determine which function to execute when, supporting them with best-practice documents and mechanisms.*
- *Gain awareness of one's own life-cycle stage and that of other key players.*
- *Recognize the risks in mythologizing past leaders, and instead encourage honest analysis of the range of leadership styles present in the firm and how those styles advance or hinder the enterprise.*
- *Acquire strategies to help lead change in the family and business.*
- *Assess, clarify, and plan for future leadership development and coaching at all levels.*
- *Become more objective about the criteria for promoting from within vs. choosing a non-family CEO.*
- *Learn how to help family leaders transition out of the organization.*
- *Nurture a healthy work-life balance.*

For details or to enroll, visit luc.edu/fbc, email us or call 312.915.6490.

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