

# LEADING THE FAMILY BUSINESS SYSTEM: IT TAKES A VILLAGE

## PART TWO: STRUCTURING LEADERSHIP ROLES

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My last article outlined what we know about leadership in family business systems worldwide, including how leadership affects performance. As an example of very capable leadership of a high performing family enterprise, I introduced Nelson Sirotsky, Chairman of RBS, who just passed the baton after leading his family's media business as CEO for decades. Whether you adopt the one-leader model for your own family enterprise, as RBS has done, or whether you build a team of leaders, you still need to design, structure and allocate all the necessary *leadership roles*.

Why? Because wherever I see poorly designed, badly structured and slap-dash leadership roles in action, I hardly ever see the decisiveness and unity that a family business system needs for long-term performance.

How do you design, structure and allocate all the leadership roles you need? That's what this article will focus on.

First recognize that for any group or organization to be successful, it needs to be led, managed, and governed well.

### **LEADING, MANAGING, AND GOVERNING**

Governance provides a broad sense of purpose or mission for the group and gives the group a sense of stability. Without stability, we cannot plan long-term. *Family business systems have an enduring advantage over all other kinds of enterprise in large part because*

*of their long-term goals, plans and commitments.* Without stability, you lose your built-in advantage. Without adequate governance, you don't have adequate stability. The family business system absolutely must be governed, and governed well for success.

Good governance for any group assures us that plans can be made, problems solved, leaders developed and chosen, and disputes settled in a way that preserves the purpose and unity of the group. Discipline and trust grow. Good governance is the product of having useful rules, policies, agreements, and plans, as well as forums (like boards, family councils, and annual meetings of the owners) to develop the plans, agreements, rules and policies, to address important issues, and to work out differences.

One very wise person with legitimacy, a lot of authority and good intentions can provide good governance for a business, family and ownership group. But unitary leaders, like the rest of us, only have so many hours in a day, and they can only focus on so many individual concerns before losing effectiveness. So in one-leader systems, governing well almost always requires that key stakeholders join together into one or more groups:

- A shareholders' council and an annual meeting of the owners to serve the governance needs of the owners;
- A board of directors to serve the governance needs of the business and owners; and/or
- A family council to help provide governance for the family.

These groups all need their own good leaders to function well.

So you can see that a family business system leadership team could number four or more people: a leader of each governance forum plus an ultimate leader. The business leader could be different than the chairman of the board. The leader of the owners tends to be either the business leader or a group of leading owners. Often, the family council leader is different than the real family leader. Often the family leader is also the business leader, but not always. Even where there is a strong unitary leader of the family business system, there are usually deputy leaders that lead the different parts of the system in close coordination with the ultimate leader. This was the case for the RBS system.

## **LEADING**

Besides developing, supporting and participating in the governance system, leaders need to lead people, and this is different from managing their work. Leading is fundamentally

about identifying where the group needs to go (developing a compelling vision for the future), strategizing how to get there, and getting people to change in order to get there. This is done by inspiring, persuading, and motivating people to work together to reach important goals, and by building coalitions to support needed change.

Leading is a very personal activity where the leader connects with people and convinces them, making use of compelling ideas and character appeal. Followers follow the leader because of their loyalty, because they identify with the leader, because they identify with the leader's cause, and sometimes because of all of those things. Followers need compelling reasons to file in behind any leader for the long-term, or for difficult missions. Since family business is always focused on the long term, the family business leader or leaders must be personally compelling, not just good at making plans and managing activities. As the saying goes, you lead people into battle; you don't manage them into battle.

You need leadership roles because wherever I see poorly designed, badly structured and slap-dash leadership roles in action, I hardly ever see the decisiveness and unity that a family business system needs for long-term performance.

Effective leaders can have a charismatic style, like Nelson, or a more quiet approach. Regardless of style, the most effective leaders I have seen in family business systems are clearly "servant leaders" or more to the point, "servant partners." These leaders typically have strong ideas and principles about how their companies should be run, what their co-owners should invest in, and how their families should behave. They also have egos, personal needs and sensitivities. At the same time, they want to do their best for their followers. They believe in partnering with others and treating partners fairly. And they behave like servants of the greater good. Finally, they are able to make tough decisions to protect the standards and aspirations of the group.

## **MANAGING**

Managing, as opposed to leading, is about getting a group to operate efficiently and effectively. Managing is done by planning and budgeting, organizing, analyzing problems, building and using management systems, prudently allocating resources, and providing performance feedback. Managing is a complement to leading.

So much of business and family success has to do with good execution—getting jobs done well, on time and on budget. Thank goodness for good managers of businesses and families. Like all CEOs that I teach, Nelson Sirotsky spent a lot of his time as CEO of RBS managing (that is, developing the efficiency and effectiveness of) particular aspects of the business. He did a lot of planning, organizing, and problem solving.

Most of the family business leaders that I see are strong managers. There is room for improvement in some management techniques, but these leaders are programmed to manage things. In fact, too much...to the point where they focus so much effort on management that their companies tend to be over-managed, under-led and under-governed. It's natural for CEOs, particularly family members who grew up in the family company and know it well, to become focused on its operating effectiveness. But too much focus here generally means they give too little attention to the leadership and governance needs of the organization.

I often wish there was an Owner-President Management program for the leaders of families! Families that own business have similar management problems. Many business families could do a better job of managing their financial life by setting clearer goals and by controlling spending better. They usually need to devote more attention to the development of the next generation. And business families, like all families, are typically poor at giving performance feedback to their members. These are all management issues.

But in my opinion, more problems in families are due to their lack of governance and leadership. In the governance area, family members are not clear about the family's mission or core values; or they lack adequate rules and policies to guide behavior; or maybe they haven't developed a forum and process to discuss important issues and mediate differences among family members fairly. In leadership, they lack a clear vision for the future; or they haven't accepted the need to change in order to adapt to the environment; or they are uninspired. It takes deep inspiration to tackle important challenges.

Governance, leadership, and management: businesses, families and ownership groups need all three of these activities. If you observe an effective leader of a family business system—like Nelson Sirotsky—over the course of a month, you'll see him or her engaging in all three of these activities. The amount of time spent on each activity or group will vary with the leader and circumstances. Some leaders favor leading and let others manage; some leaders spend most of their time governing the system. A parent also does these three things in the

family he or she leads. A good Chairman of the board or family council leader also does an appropriate amount of all three. In this way and others, leadership of a business, family and ownership is similar.

In my next article, we'll take a look at what capable leadership actually entails for each of the three circles.

## ABOUT THE AUTHOR

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John A. Davis is a globally recognized pioneer and authority on family enterprise, family wealth, and the family office. He is a researcher, educator, author, architect of the field's most impactful conceptual frameworks, and advisor to leading families around the world. To follow his writing and speaking, visit [johndavis.com](http://johndavis.com) and twitter [@ProfJohnDavis](https://twitter.com/ProfJohnDavis).

## ABOUT CAMBRIDGE INSTITUTE FOR FAMILY ENTERPRISE

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The Cambridge Institute for Family Enterprise is a global research and education institute dedicated to the real issues facing family enterprises. It is a place where progressive members of family enterprises come to learn, exchange ideas, develop themselves and position their enterprises to be not only successful, but sustainable over generations. Its sister organization, Cambridge Advisors to Family Enterprise, advises multigenerational families around the world on strategies to sustain their success over generations.