

# LEADING THE FAMILY BUSINESS SYSTEM: IT TAKES A VILLAGE

## PART FOUR: WHAT CAPABLE LEADERS KEEP DOING

John A. Davis, Cambridge Institute for Family Enterprise

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In this series, we've been taking a survey tour around a huge building site called "leading the family business system." When we stopped to examine capable leadership in detail, we saw that the first thing capable leaders do is forge a leadership team that helps meet the basic needs of the system.

Then capable leaders turn to the daily work of nurturing the health and guiding the growth of their businesses, their owners, and their family members.

### **CAPABLE BUSINESS LEADERS**

Despite the Hollywood image of CEOs dreaming big dreams and making big decisions behind a big desk, guarded by a stern secretary, the lives of CEOs are quite different. It turns out that CEOs (especially in small and medium sized private companies) do a lot of managing—planning, budgeting, staffing, organizing, controlling and problem solving. CEOs generally need to do some amount of these things themselves, but they generally spend too much time managing things and not enough time leading and governing the company.

I find that successful executives, in order to grow and improve their companies, need to delegate more management activities and increase their focus on leading and governing their companies. Capable leaders of any group do not need to directly manage much, as long as they feel accountable for the proper management of the company. They need to know that these activities are done well. They must have the will and the skill to hold others accountable for their performance in these activities.

This movement away from direct management is a challenge for most CEOs. It may have something to do with how good it feels to be needed in the thick of the action, and to know that they are great at planning, analysis, problem solving, and making operating decisions. These are people who thrive on action and progress, after all. Managers have a daily feedback loop that reinforces that feeling. Leaders have less immediate feedback on their actions and must trust themselves and advisors to know they are doing the right thing.

In terms of leading, job one for the leader is to create a compelling vision for the future. Having a compelling vision combines three elements that leaders develop through insight and practice. First, foresight about one's industry. Second, foresight about the world. Third, being able to imagine the future potential of the company and the family.

Capable leaders nurture the health and guide the growth of their businesses, their owners, and their family members.

I tell CEOs that they need to work *on* their business not *in* their business. With adequate altitude, a business leader can see what's happening in the industry and economy and envision a workable future for the company. Then the leader needs to design a process for change to get the organization into the future. During change, the leader motivates and inspires people to improve performance. At the same time, the leader builds coalitions of supporters to move the company in the right direction. All this needs to be done while supporting a culture in the organization that is compatible with the family's core values and behaviors that help the company stay competitive.

The leader also needs to strengthen and support good governance—having the necessary rules, policies, agreements and governance forums (board, shareholder meetings, family council, owners council). The leader participates constructively in these forums and follows its rules, agreements, and policies. Good leaders “get” what good governance is all about.

Whether leading or managing, a business leader must protect what's best for the company. He or she must be willing to have tough conversations about performance with members of the group. It's difficult to have tough conversations about performance with family members, but this capability often separates good leaders from weak leaders

in family business systems. At the very least, a good leader will make sure that someone delivers clear performance feedback and will support the person giving this feedback.

### **CAPABLY LEADING THE OWNERSHIP GROUP**

The importance of capable leaders for the family ownership group is generally not appreciated—until the ownership group is in trouble.

Any business relies on the unity and support of the owners. Good owners stand together on the mission of the company and on important issues like reinvestment, diversification, and risk taking. They take a sustainable dividend from the company and don't ask for jobs or benefits they don't deserve or that the company can't afford. When the unity of the ownership group crumbles or the owners take too many unearned benefits from the company, companies falter. Keeping the ownership group together and acting responsibly requires good governance (sensible shareholder agreements, clear voting rules, a forum for the owners to be informed and to discuss issues) and, again, strong leadership to make sure the good governance is in place and that the owners are doing their jobs.

### **CAPABLY LEADING THE FAMILY**

As any parent can tell you, leading a family (especially a family of adult members) is very challenging. Still, as the rise and fall of family business dynasties so clearly points out, families in business need leaders who will help provide and support the management, leadership and governance that the family needs.

Families form the ultimate foundation of stability and support for a family business. When families are united, and when they contribute to the business—as productive employees and managers, as good owners and board members, and as good ambassadors in their communities—they build the stability and resilience of the ownership group and strengthen their family company.

Encouraging supportive behavior in families requires good governance (policies and rules for family behavior, a sense of family mission, a forum to be informed and to discuss important issues affecting the family) and capable leadership.

But leading a family is challenging and getting more so, partly because since the 1970s, whether in a nuclear family or in the extended family, the real authority of formal family

leaders has been steadily shrinking. Where once, parents and perhaps even grandparents could decide or heavily influence a family member's choice of education, occupation, living location, and spouse, these decisions are now largely left to the individual family member. As a fourth generation leader of a prominent family company once told me, "I used to ask my father's permission to ask him a question. Now I ask my children's permission to give them advice."

Family leaders still need to represent and enforce family values. They still need to encourage, motivate, and inspire the family (and certain members in particular) to change and improve. But parental levers that allowed them to direct and shape family member behavior and maintain family discipline and unity are much weaker now. Family leaders must now lead more through inspiration and persuasion, using broadly supported goals, rules and policies to guide family behavior most of the time, and using rewards and sanctions when necessary.

As you outfit your toolbox for leading the family, keep this in mind. Too much emphasis by the leaders on what is expected of inheritors, and not enough on the needs of members, and the system begins to feel like a prison or a garrison. You can almost predict rebellious behavior. On the other hand, too much laissez-faire attitude by the leaders, and the system starts to look like a five star hotel catering to guests, not vital contributors. You can almost predict slacking and disintegration.

By the second or third generation you face the important question: Who should lead the extended business family? Extended families struggle with how to lead the "big family." They may understand that the family needs leadership, but because of status sensitivities among the brothers and sisters and the desire to have peace among them, they typically don't identify or support clear leadership. That's unfortunate, because clear leadership (even collective leadership) can help the family address collective interests, set collective goals, and enforce collective values and rules.

Parents are generally seen as leaders of their nuclear family. Grandparents—as long as they are vital and have significant influence over their offspring—are generally the formal leaders of the extended family. In some cultures, after the grandparents retire as leaders or die, the grandfather's oldest son is accepted as a formal leader of the family and the business. But even when there is an accepted formal leader of an extended family of sibling or cousin households, and even when that leadership is backed up with

real authority and control over resources, leadership of a sibling or cousin family is a delicate matter and usually requires a coalition of leader-supporters in the various family branches. Extended family leadership truly is a team sport.

Families don't necessarily need to have one leader. Some do well with a small group of leaders who collaborate well. Just remember, families need leaders who have the ability to motivate and the power to instill family discipline. Too often, families soften the leadership role, making followership essentially voluntary. The result is that family members and branches drift apart, lose their unity and sense of mission, and typically lose their companies. Later they will regret their mistake. I always raise my glass to enterprising families who seek, and find, good family leadership from generation to generation—balancing it, of course, with followership that is just as good. This is a very tricky balance.

### **HOW DO YOU DEVELOP NEW FORMAL LEADERS IN THE FAMILY?**

For families in business, here is the undeniable truth. *How you do it is more important than anything else.* Unless the formal leader in any domain is chosen by some process regarded as legitimate and represents the natural order of things as seen by the family, family members tend to resist his or her leadership. For example, children will accept the leadership of their parents or grandparents because they are “natural” family leaders who usually have enough moral and economic power to enforce discipline. They will generally resist one of their brothers, sisters, or cousins becoming a formal leader of the family, ownership group, or even business unless the selection process is seen as legitimate and the new formal leader fits with the natural order of the family. For a younger sister or brother to be accepted as the CEO of the family business, the selection process must be seen as fair and the choice overwhelmingly convincing. So families in business need to devote a lot of effort to developing fair processes for the selection of leaders—even more than non-family groups do.

In place of a clear family leader, some extended families create more formal governance for the family. At least this helps build family unity and discipline. A family council can act as a collective leadership group, sidestepping the sensitive issue of who is “the leader” of the family. But even in these cases, the family council needs a capable formal leader who is accountable to get the council to do its work, who encourages the family to support council initiatives, and who is willing to discipline poor performance when necessary. Without an accountable and capable formal leader, family councils do not perform nearly as well. Some families are so nervous about establishing family leadership

roles they struggle to come up with a title for the family council leader that sounds very collegial and not very powerful. They often choose low status titles like coordinator, or they install co-leaders to reduce this tension. If a family needs to take this step to accept formal family governance, then this is acceptable. But as soon as they are politically able, families should give their family council leader the role, title and authority he or she needs to lead the council.

Whatever the title, the leader of the family council is not always the natural leader of the family, the person whom family members turn to for advice and to bless family decisions. Quite often today, the family council leader is a next generation member who manages the council but doesn't have the credibility to actually lead the family. In this case, the family council leader needs to team up with the natural family leader, typically an elder, so that together they can provide the leadership the family needs. Definitely develop capable leadership of the family council, but don't assume that this alone fulfills your need for leadership of the family.

## CLOSING THOUGHTS

There are many good leadership structures in family business systems but only three important principles: capable leadership is critical to everything working well; leadership teams are usually needed and must be aligned; and new leaders must be identified, developed, and empowered. Good leadership isn't the only ingredient for success but you can't do without it. Ultimately, everything depends on it.

## ABOUT THE AUTHOR

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### PROFESSOR JOHN A. DAVIS

Founder and Chairman, Cambridge Family Enterprise Group  
Senior Lecturer, Family Enterprise Programs, MIT Sloan School of Management

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. He leads the family enterprise programs at MIT Sloan. 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.