

TOP LEADERSHIP: WHO IS ARCHITECTING YOUR FAMILY ENTERPRISE?

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HOW DO HIGH-PERFORMING AND ENDURING FAMILY ENTERPRISES, WITH A BROAD PORTFOLIO OF ACTIVITIES, ACHIEVE SUSTAINED SUCCESS? Have we understood all of the roles and activities that truly make a difference?

Lasting performance of large family enterprise systems over generations is sculpted thoughtfully and stewarded over long periods of time. An essential ingredient to success is having an engaged *family enterprise leader*: An active owner seated at the top, or at the heart, of the family enterprise, with the highest- and broadest- level view of the entire system. This leader constantly shapes the enterprise and helps to steer the family on its journey together. We call this person (often one individual, but sometimes a few) and this role *family enterprise leadership*. Consider it the ‘top leader’ of a family’s shared activities and assets.

While vital to success, the *family enterprise leader* is an often over-looked, unnamed, and under-appreciated role. This top leader is typically the family’s most capable, long-term thinking, integrative strategist in his or her generation. The role increases the probability of a family sustaining significant value creation over multiple generations.

This article describes the *family enterprise leader* role, what is unique about it, and its main areas of focus. It also highlights why nurturing such a role and preparing for its succession and transition is critical. The profile provided is aspirational: we thank the numerous successful family enterprise leaders we have worked with for inspiring this collective account of benchmark behaviors, skills and mindsets.

ROLE OF THE TOP LEADER: FROM LOOSE COORDINATION TO PROACTIVE SHAPING OF THE ENTERPRISING FAMILY'S DESTINY

The job of the *family enterprise leader* is complex and sometimes unseen. The leader does not work alone, but in conjunction with other leaders and stakeholders in the family enterprise system. The top leader's primary drive is to *foresee and plan for how the family enterprise system needs to transform in order to sustain long-term value creation*.

The leader keeps setting or proposing a broad direction for the long-term interests of the family, and tenaciously drives strategy to reach these goals. The leader is working and thinking about the system-wide decision-making needs and the governance architecture as a whole, as he/she connects, aligns, and coordinates individual members, entities, and decision-making forums. The leader foresees gaps and risks,

and anticipates how to allocate key resources and talent across the family's various endeavors and activities. Perhaps most importantly, the leader is often an enterprise unifier, aiming to build alignment across the family, family owners, and their entities and assets.

This top leader's role focuses on forward-movement: shepherding the system onward to develop and implement a family vision. The leader also aims to safeguard the family's values and reputation while ensuring that important decisions occur and adaptation to the system takes place. The leader tries for the system to maintain momentum particularly during delicate transition periods, including leadership succession. And when these transitions stall, it is often the *family enterprise leader* who has the influence and authority to reignite movement, always keen to learn about good practices and approaches and to reach out to expert advisors.

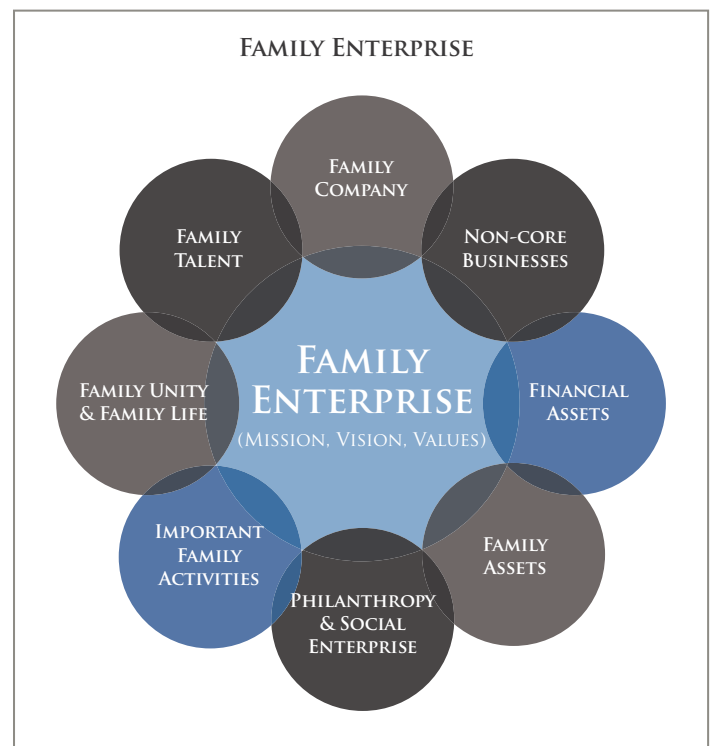
THE FAMILY ENTERPRISE LEADER IS TYPICALLY THE FAMILY'S MOST CAPABLE, LONG-TERM THINKING, INTEGRATIVE STRATEGIST IN HIS OR HER GENERATION. THE ROLE INCREASES THE PROBABILITY OF A FAMILY SUSTAINING SIGNIFICANT VALUE CREATION OVER MULTIPLE GENERATIONS.

HOW IS FAMILY ENTERPRISE LEADERSHIP DISTINCT FROM CEO LEADERSHIP OF A FAMILY BUSINESS?

As a reminder, the *family enterprise*¹ comprises all the meaningful activities and assets that a family is collectively trying to sustain through, or pass to, the next generation. This may include:

- The family's core business(es)
- Other businesses, investment companies, and direct private equity
- Family assets and long-term investments
- Possibly a Family Office
- Trusts
- A Family Council; Shareholders Council; Boards of Directors; and other governance bodies
- Philanthropic foundation or social impact activities
- Other important activities that carry the family's name and reputation or reinforce the family unity

¹ The *family enterprise* concept and framework was developed by Dr. John A. Davis, founder and chairman of the Cambridge Family Enterprise Group, in 2013.



John A. Davis, 2013.

The role of the *family enterprise leader* is different from the role of the CEO of a core business, or the role of Chairman of the Board, or Head of the Family Office—although oftentimes the top leader may also hold one or more of these positions. That is not to put a shadow on the crucial CEO leadership of the main company (or family office) where most of the family’s financial wealth is generated or nurtured.

The *family enterprise leader* is a coordinator of, and complement to, the chief executive(s) of the family’s core business(es). Think of the top leader role as the “Air Traffic Control” center of a busy airport, indicating to pilots (CEOs) how to coordinate landings and takeoffs, and managing the overall system’s risks—in the family, business, ownership and wealth. Given the diversity and complexity of activities of a family enterprise over time, its top leader oversees a broad scope of activities—broader than (and inclusive of) its core businesses.

So, what characterizes the individual (or sub-group of active owners) with a high enough view of the system and relevant skills set and authority to help shape the enterprise?

THREE ARCHETYPES OF THE FAMILY ENTERPRISE LEADER

There are three reference models of a *family enterprise leader*:

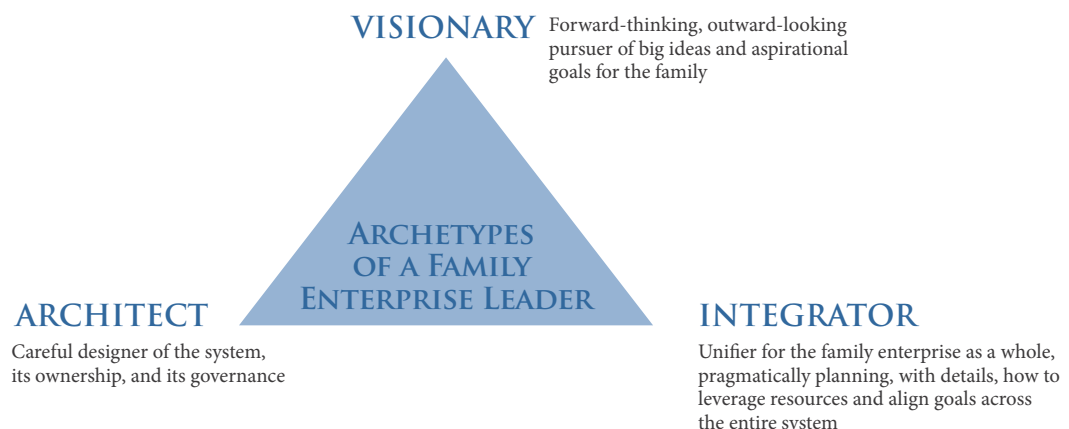
1. Visionary
2. Architect
3. Integrator

All three approaches are essential to a sustainable family enterprise. Sometimes one individual is agile enough to assume all three profiles. But often, a leader is not adept at all three and will tend to surround himself or herself with critical resources: family partners, non-family talent, advisors, coaches or mentors.

THE FAMILY ENTERPRISE LEADER IS A COORDINATOR OF, AND COMPLEMENT TO, THE CHIEF EXECUTIVE(S) OF THE FAMILY’S CORE BUSINESS(ES).

Nimble family and non-family CEOs of operating companies must work with the active owners and board of directors to adapt and pivot operations as needed: addressing the universal challenges of developing business activities, partnerships, product lines and geographies which have value-creating potential, and reducing or dismantling business units or initiatives that destroy short-term or long-term value. Differently, the role of overseeing strategy coordination across *all* businesses, endeavors and activities of a family, all while positioning the entire enterprise for success into the future—that complex responsibility inevitably rests with the *family enterprise leader*.

Some leaders choose to form a team of two or three active owners who together exercise the full role of the *family enterprise leader*. Other times, this small group of active owners welcome independent advisors to their group and form a top board (we call this a “portfolio board”) to fulfill the role. A holding company is not always set up; sometimes it is a non-legal board. In all cases, successful top leaders build upon strong governance bodies and leaders throughout the system.



VISIONARY

Forward-thinking, outward-looking pursuer of big ideas and aspirational goals for the family

VISIONARY ROLE

- Anticipates how the enterprise should morph and what will be needed in order to create, reinvent or sustain significant value creation
- Understands that a clear mission for the family is paramount, and all activities are linked to this drive
- Sets direction, and guides people over hurdles that require growth and adaptation

VISIONARY ATTRIBUTES

- Has foreseeing abilities; thinks about what will change in the internal and external environment
- Understands that the enterprise is in constant evolution, and that his/her greatest contribution is to guide it through needed change
- Deeply understands the family's skills, their highest and best use, and their limitations
- Excited by change; fluidly embraces change and adaptation; Adept and fast at detaching from old paradigms and shifting to new ways of thinking, new activities and new technologies
- Decisive about high-level governance changes, including where and how the most critical decisions will need to be made

ARCHITECT

Careful designer of the system, its ownership, and its governance

ARCHITECT ROLE

- Oversees the high-level design of the total family enterprise and the type/number of governance forums and helps steer its journey through time
- Thinks about and strengthens the building blocks that make for a solid, sustainable family enterprise
- Constantly foresees big questions around ownership strategy and governance changes in the system, and what needs to be reinvented, regrouped, or kept separate and more loosely connected

ARCHITECT ATTRIBUTES

- A disciplined strategist; big picture thinker with an analytical mind who spots opportunities and potential
- Great negotiator; persuasive and sophisticated in his or her ability to exert influence
- Likes messy, complex, ambiguous problems; is not a binary thinker; believes in “yes, and” rather than “either-or” thinking
- Adept at mobilizing resources to get things accomplished
- Embraces working with top talent, both thinkers and doers, to keep building a long-term view and enduring system
- Nurtures external relationships that will benefit different parts of the system

INTEGRATOR

Unifier for the family enterprise as a whole, pragmatically planning, with details, how to leverage resources and align goals across the entire system

INTEGRATOR ROLE

- Scales value creation, integrates risk management, and accelerates the incremental and disruptive innovation agenda across the system
- Constantly searches for more sources of synergies, cross-fertilization, and ways to leverage resources and diversity of talent among the entities
- Redefines or redesigns major leadership roles as needed

INTEGRATOR ATTRIBUTES

- Understands how parts fit together to make the whole, and how one decision will affect another; able to connect moving parts of a complex, dynamic system; adept at holistic rather than segmented thinking
- Constructively faces tensions and opposing ideas and works at better integrating them
- Pragmatic while exploratory, looking for possibilities of opposition and trade-offs, and seeking opportunities for synergy
- Aligns people, motivates them, and inspires them to move forward in the same direction

10 AREAS WHERE THE FAMILY ENTERPRISE LEADER IS ACTIVE

A capable *family enterprise leader* anticipates and shapes these 10 critical areas or aspects of the family enterprise:

1. IDENTIFIES VALUE-CREATING ACTIVITIES & INVESTMENTS

- Identifies what businesses, investments, and activities the family ought to consider engaging in together
- Identifies strategic partners that can help achieve the family vision
- Broadly engages analyses of where the system is too exposed, destroying value or 'leaving money on the table'
- Pushes the innovation agenda and the cross-fertilization of ideas; leverages opportunities so that the enterprise keeps generating more value than the sum of its parts
- Identifies the risks that may build up in various parts of the system (for example, in the core business(es), in investments, or adjacent businesses), and how to mitigate them
- Foresees opportunities in various entities part of the system, or in businesses that the family hasn't created or invested in yet

2. DESIGNS OWNERSHIP STRATEGY

- Oversees or coordinates the design of the right ownership structure, including the number of entities in the system, and how the family should own them
- Understands or builds understanding of how each entity's ownership should evolve (or be substantially transformed or dissolved)
- Sees how to group or ungroup some businesses
- Explores where the family office fits, and the need for and roles of holding companies
- Oversees ownership succession to ensure control is passed to the right owners, and that buyouts and liquidity options are accessible to owners
- Foresees tax planning issues with the right specialists

3. SHAPES THE GOVERNANCE MAP

- Shapes governance across the system (including the number and types of boards of directors and how they interconnect)
- Analyzes where there are needs for boards of directors, at what level, and what their roles are (top "portfolio" board, subsidiary boards, and so on)
- Helps ensure effective governance (decision-making ability) throughout the system, and looks to fix incoherency and inconsistency
- Designs or proposes a hierarchy and communication system for governance forums and entities to coordinate effectively
- Determines or proposes how the family office will be governed
- Devises a plan to maintain the family council as a strategic group
- Ensures that owners as a group are high functioning

4. ANTICIPATES AND PLANS FOR RESOURCE ALLOCATION NEEDS

- Determines how to allocate and share resources among different entities in order to sustain long-term value creation, including strongly investing in human capital
- Pushes leaders to foresee where to streamline or simplify; what new entities to spearhead or initiatives to dismantle
- Oversees innovative financial engineering and social engineering to engage in new businesses or investments that will shape the future value creation abilities of the family and its future skills set while maintaining a controlling position
- Ensures integration of these plans with the design of ownership strategy

5. OVERSEES STRATEGIC TALENT

- Anticipates how to address family talent development and non-family talent attraction and integration
- Depicts how different leadership roles and transitions interconnect (for example, between the core business(es), the investment activities of the family office, the family council, and some newer, possibly stand-alone enterprising ventures)
- Analyzes how to potentially redefine some of these leadership roles and their boundaries and overlap
- Encourages various leaders of different entities in the system to talk and coordinate some of their actions
- Identifies in what parts there are current and future leadership voids and how to build a talent bench

6. ANALYZES WHERE THE FAMILY BEST FITS IN THE ENTERPRISE

- Thinks about roles where individual family members can add value
- Ensures family members have the resources and attention needed to develop to their full potential, to strengthen the enterprise, and to maintain the family's reputation
- Ensures that the family remains connected to their enterprise
- Ensures that family values are embedded in the organizations
- Understands the needs of nuclear families that are part of the larger family, and goals and aspirations of individual family members

7. FORESEES WHERE THE FAMILY IS HEADING

- Ensures that a family mission and family vision are reviewed as needed, clarified, inspiring, and attainable
- Tries to foresee pockets of conflict among family members that could block momentum
- Ensures there are family unifiers who maintain family unity and alignment

8. PREPARES FOR GENERATIONAL TRANSITIONS

- Visualizes how to pace transition among leadership roles and the entities according to age groups and generations
- Orchestrates the planning of transitions across the system, inclusive of, but not limited to the CEO leadership of the main business

9. CONSTANTLY THINKS ABOUT CONNECTING DIFFERENT PARTS OF THE SYSTEM TO GAIN VALUE-DRIVEN LEVERAGE AND SYNERGIES

- Proposes how to connect active investments of operating businesses and more passive investments of the family office
- Thinks about how to connect for-profit investments and non-profit investment between the operating businesses and the family philanthropic organization(s) or initiatives
- Considers how to best integrate family and non-family talent in senior leadership, ownership, and governance roles

10. ADDRESSES ONGOING CHANGES, EXTERNAL AND INTERNAL SHOCKS AND CONFLICTS

- Works to help the family recover from bad experiences, stalled momentum, talent gaps, or periods where the family destroyed more value than it created
- Keeps the family focused on constant adaptation in the face of strong headwinds

TOP LEADERSHIP OF A FAMILY ENTERPRISE MATTERS

As the world experiences accelerated disruptive change, having one or more active family owners truly dedicated to this top leadership role is essential. Each enterprising family would benefit from better understanding, defining, and celebrating this role. It is not by surprise that in systems where we see important risks building up and some trends toward significant value destruction, the *family enterprise leader* is either a vacant position, or is filled by the wrong person (or team) for the role, or are the right one(s) but are blocked in their ability to lead by the rest of the system.

It is fundamental to plan for the evolution, succession and transition of this crucial role from generation to generation, which is the topic of our next article.

To discuss your family enterprise's top leadership needs, contact us at CFEGinquiries@CFEG.com or +1 (617) 871-2740.



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