

# THE STORY OF LEADERSHIP IN FAMILY FIRMS

Much has been written about leadership and how it affects a business' recipe for success, but where are the voices of the leaders themselves? **Nigel Nicholson** and **Åsa Björnberg** investigate how leadership feels from the leaders' perspective

**W**hat is the true story of successful family business leadership? It was with this quest in mind that we embarked on the Family Business Leadership Inquiry – a series of roundtable no-holds-barred discussions about the meaning, feel and challenges of leadership, as perceived by leaders from eight notable and highly successful UK family firms: Blackwell, Tilda, OCS Group, C & J Clark, Linney Group, William Jackson & Son, Warburtons and Wates Group. We emerged with over 15 hours of taped conversation from the three in-depth discussions hosted by the BDO Centre for Family Business, distilled into a volume and published by the Institute for Family Business.

The story of family business leadership can be told in three ways: in terms of change and how to manage it; in terms of structures used to support the task of

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leadership; and in terms of the unique facets of family business leadership.

Leaders of family firms need to be deeply involved in all three dimensions, and be crucially aware of the shifting contingencies within each area and how these affect each other. Such is the complexity of these tasks that the outcomes for one business may be very different from another. We found sharply different views, arising from diverse experiences from type of business, family character, and the unique imprint of their history over generations. Here are three stories, selected to illustrate these themes.

## Managing change in family firms

### *Consolidating in the face of 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."

### *What does this story tell us?*

First of all, it tells us about complexity. The strategic development of this firm has evolved into a diversified business, as happens in many family firms.

Second, there is an overt tension between sense and sensibility. In this particular case, 'sense' (rationality) is represented by management, and 'sensibility' (emotional responsiveness) by the family. Family member leaders are caught in the middle of this. Knowing your perspective is thus particularly important: Am I speaking as a family member? As a shareholder? As a business leader? It is equally important that the shareholders have a (unified) voice with which to address the leadership. This enables family vision and values to be fed into the strategy of the firm, thus aligning family interests with business activities.

Resistance to change is something that all leaders have to deal with. So why is it special in family firms? The identity and emotional ownership is more acute and profound in family firms. It's hard to deal with arguments such as 'but my father built that part of the business – how can we sell it?' For this reason, family business leaders must take time to communicate how and why the changes are taking place. The main objective is to achieve emotional adjustment. The long-term perspective of family firms enables them to do that; conversely, the need for emotional adjustment reinforces the long-term perspective. The leadership's role is to craft a story that all stakeholders can understand, and which takes them from the past and into the future.

## Support for leadership

### *The two-tier board*

Many family firms have split their boards into two entities - in this case referred to as the 'main' board (occupied by family members) and the 'executive' team (a mix of family and non-family, with an operational remit):

"The main board is a buffer between the family and the executive team... it helps enormously in succession, and we can move the wisdom and knowledge of senior family members [there] and relieve them of executive pressure. The main board's job is risk analysis. They are supposed to be dispassionate and think as investors.

I 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?

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.”

*Why have the leaders of this family firm chosen to organise themselves this way?*

Having two boards with different functions allows the leadership to create a space between the family and the management, yet retain certain issues in the business sphere - such as governance and succession, culture and values. It also allows for a strategic ‘helicopter’ view from above, removed from day-to-day operations. In effect, the main board offers a space for reflection and thinking ahead, something that most businesses do not allow nearly enough time for. However, the two-tier board does not replace family meetings, which are an essential feature of most successful family firms.

This division highlights the leadership’s role in managing boundaries between entities in the business. Clarity of task and remit has to be clearly stated for this structure to be effective. In handling the boundaries, keeping up the communication between the ‘brain’ and the ‘legs’ of the two structures is fundamentally important. This requires due diligence, most pointedly in terms of documentation.

In the case highlighted here, the main board is said to handle risk assessment, taking the stance of dispassionate investors. It can also be the focal point of much passion, the space where family feeling can intrude and seep into the rest of the business.

From this particular case, we also learn that a main board can be a place where the talent of ageing family members is retained and made use of. This presence of senior family members on the board is a contentious point. Opinions and practice vary widely in whether they have rigid cut-off ages for the seniors to be quietly but firmly put out to grass. Some lack the stomach to be so blunt, and then have to face the consequences of possible irritation, frustration and interference.

### **The uniqueness of family business leadership**

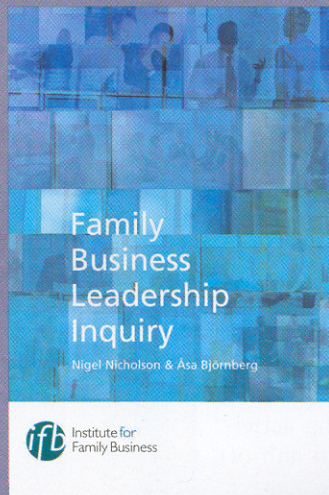
*What do family firms look for in a non-family leader?*

When this company employed an outside CEO, the business did better than ever. 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.

*What can be learned from this experience?*

Being a ‘worrier’ obviously worked to the disadvantage of the first leader in this case, despite his formidable performance. The second leader, whose personality combined a thick skin with sensitivity, was better suited. This tells us something about emotional skill-set and ability to handle emotional complexities; that it is equally if not more important than instrumental skills and a single-minded focus on performance. The focus here is on maturity, self-insight and the ability to leave your ego at the door.

### **ALL YOU NEED IS LEADERSHIP**



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. Copies of the Leadership Inquiry are available for £9.99 (plus P&P) from Blackwells Online [www.bookshop.blackwell.co.uk](http://www.bookshop.blackwell.co.uk) or via [www.ifb.org.uk](http://www.ifb.org.uk)

This story also tells us how valuable outside leadership can be in terms of firm performance.

Family businesses have very high expectations and place tough demands on their leaders, family and non-family alike. As summed up by one of our participants:

“...someone with the voice and judgment of Solomon, the patience of Job, the diplomatic skills of Kissinger and the hard drive of Jack Welch...”

*Where do you find, let alone motivate, such a person?*

It is often said that family firms are especially unattractive for outsiders, due to the lack of opportunities to share in the ownership of the business, and the limited horizons that arise from an owning and controlling family. Yet it does not have to be this way. In some enlightened family firms, non-family leaders are given great trust and significant powers. This plus the unique attractions of the family business culture – warm, communal, pragmatic, value-driven – make them especially attractive to the minority of executives who know the truth about family business. The world of family business can offer a refreshingly humane and flexible vision of leadership. ■

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