Familiness – fatal flaw or inimitable advantage?

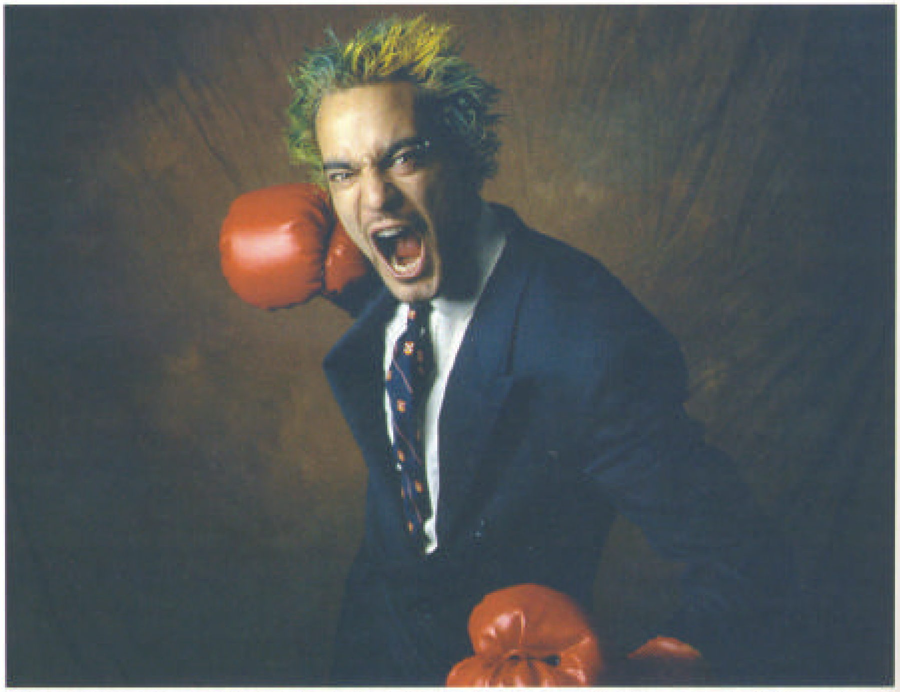
By Nigel Nicholson and Åsa Björnberg

Many a family firm has crashed and burned amid recrimination, but many remain the world's most respected enterprises. So just what is the role of leadership and family culture in the chemistry of success and failure?

"OH, AREN'T THEY a thing of the past?" This was the comment one Plc chairman made when I told him our major new initiative at the London Business School to study family business. He was not unrepresentative, for it is certainly commonly perceived by people outside the sector – including many working in the corporate world – that family firms are an anachronism. Although there has been a long-standing active group of researchers, consultants and commentators with a special interest in family firms, the field of family business has remained hidden to the more general community of business journalism and academia. There are several reasons for this. One is that the textbooks and courses on management take the public corporate model as the standard. Private and small to medium sized firms are scarcely mentioned. Another is family businesses are often very private – sometimes obsessively so – and few see or understand their inner workings. A third reason is that family is seen as a source of emotional entanglement that can only do harm to the rational ideal of running business. A diet of Dallas-style portrayals of internecine family squabbles has poisoned impressionable public perception of what happens because of blood ties in the boardroom.

It is true that family firms crash and burn amid recriminations. But it is also true that many of the world's oldest and most respected businesses are still family owned and controlled. Many of the world's leading corporations, especially in Asia, are family dynasties. A substantial proportion of leading quoted companies in Europe and North America retain a tangible family identity via the influence of substantial family stockholders.

Here lies the challenge for the study of family business. What distinguishes the best from the worst family firms? What is necessary for a family business to do to avoid hazards and threats and find the uplands of achievement? What is the role of leadership and family culture in the chemistry of success and failure?



It is not unusual for family firms to crash and burn from the pressue of blood ties in the boardroom.

The Leadership in Family Business Research Initiative (LIFBRI) programme at London Business School aims to tackle these questions. This is a long-term mission, and here we summarise the first stage of the research and what it signifies: a survey of a cross-section of UK family firms.

In partnership with the Institute for Family Business (the UK chapter of the FBN) and the BDO Centre for Family Business who sponsored the research, we gathered a sample of 151 British firms. This is a wide cross-section in terms of coverage of sectors, size, and age, with a bias towards the high performance end in a volunteer sample. The respondents were all leading executives in their firms, usually chairman, CEO or MD.

Our survey gauged family involvement in several ways. We examined family continuity through questions on history, structure, ownership and governance. We found that leadership positions were held almost exclusively by direct descendants of the founder with few entering by marriage. Around a quarter have outsiders as CEOs but almost exclusively under a family chairman. In larger firms we found non-family executives playing a part in running the business, within generally quite lean senior management teams. However, at board level there was little use of independent non-executive directors, even in the larger firms. Ownership too was tightly held within the family circle. Around 60% of the firms were wholly owned by four or fewer family members. This is related to size – and as businesses increase so do the number of owners – but control remains firmly in family hands in almost every company in the survey.

Risks or benefits?

What are the risks or benefits? The benefit is continuity and identification of the family with the business over time. This delivers security, loyalty and commitment – the business is part of the bloodline. The risks are that reliance on this model reduces the options for effective leadership where the family is unable to deliver top talent, an inability to control the tensions that may arise, or failure to be sufficiently broad based enough to make strategy in a complex business environment.

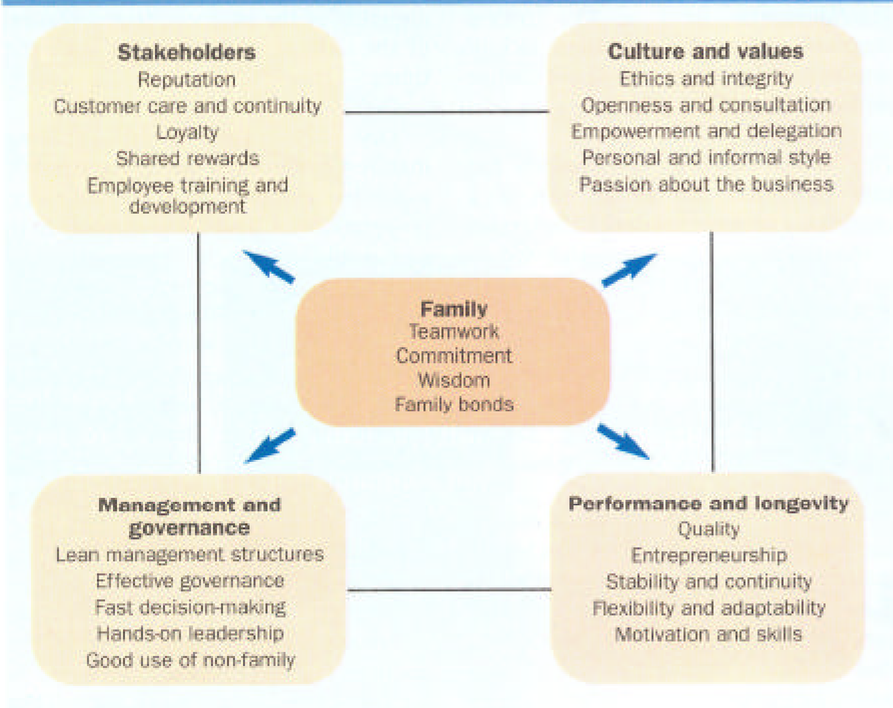
We came closer to diagnosing these challenges in a number of ways. We asked firms to identify difficulties from the past and what they anticipate as being challenging in the future. The results are intriguing: family is seen as having been a source of problems in the past much more than it is anticipated in the future, where the focus is on strategic and operational challenges. Further questioning on the management of conflict revealed that difficulties arising from family tensions are often severe and unexpected. It seems that family issues are in danger of being taken for granted when people look ahead. Overconfidence in this area is likely to be exacerbated by an absence of outsiders. One governance mechanism to mitigate family conflict is the family council, sometimes additionally supported by a constitution or statement of shared values. These mechanisms are valued by those that have them, but were present in fewer than one in five firms.

Firm culture

The costs and benefits of 'familiness' emerge principally when one looks closely at firm culture. Culture is a difficult and fuzzy concept, yet everyone agrees that it exists and that it matters. Firms differ in their character – healthy cultures underpin high performing firms and unhealthy cultures derail well-engineered businesses.

We asked, "What is most distinctive about the culture of your family firm?" with respondents listing the positives and negatives separately. Familiness emerges as both the greatest source of strength and the greatest source of weakness – often at one and the same time in a business.

Distinctive cultural strengths – a map of the territory



The illustration on distinctive cultural strengths (above) summarises how family is at the heart of the strong family business. Key features are a confident, consistent and long-term commitment to leading the business and a powerful network of highly positive and mutually supportive relationships with stakeholders, built on an intensely held bedrock of values. The sense of common purpose is palpable. Although several pointed to effective governance as a source of advantage, it is also an area where problems recur. The dark side to family culture is a clutch of weaknesses that stem from the limitations of the strongly identified family business. Six featured prominently.

Type 1: Enmeshed. This label denotes the feeling expressed by many firms who feel that their familiness has become ingrown and cut off from the rest of the business with non-family executives 'locked out' of the key areas of business activity and decision-making. The family becomes isolated and members 'over-involved' with each other. The firm becomes unattractive to external talent, and often fails to promote internal talent.

Type 2: Deficient. Insufficient external input means that executives feel they have shortcomings in knowledge and competence. This is sometimes characterised as a tendency to make bad judgements, or to be short-sighted and amateurish.

Type 3: Cautious. A great many comments pinpointed risk aversion and a lack of entrepreneurial spirit as the critical weakness. Excessive consultation, lack of ambition, slowness, politeness and change resistance were all mentioned.

Type 4: Uncontrolled. Respondents felt that familiness can bring with it a miscellany of unprofessional tendencies – the negative side of positive values such as informality, loyalty and affiliation. Associated are varieties of poor communications and relationships that are too 'soft', 'personal', open or honest. Overt family conflicts are also a form of 'un-control' when family problems overspill into the business.

Type 5: Over-controlled. One hazard of familiness is an excess of patriarchal or matriarchal power associated with the owner-manager as autocrat. Responses variously indicate management regimes that are too tough, authoritarian, top-down, inflexible, over-reliant on a single leader, and lacking in delegation.

Type 6: Adrift. The last category brings together a variety of comments that indicate uncertainty, dislocation, and an absence of planning. This is reported around succession, strategy, general direction of the business, fragmentation of the culture, and misfitting with the times.

One of the most striking manifestations of the last of these points was the evidence we gathered on preparation for leadership succession. In a sizeable group of companies the leadership was moving towards an advanced age but still had no clear plans in place for succession. Much uncertainty surrounded the 'fitness' of the next generation, and their possible interest in being involved in the business. Families in the UK seem to be quite ambivalent on this issue – not willing to push or plan for the introduction of the next generation, matters are left to drift.

So how does the balance sheet on 'familiness' stack up? In general the positives outweigh the negatives, and in the many firms where they co-exist, the firms say that the problems are ones they are intent on mastering. Indeed, the fact that the firms recognise and describe them is in itself a sign of healthy insight and capacity for adjustment.

There are several elements necessary to keep firms on the high road to success:

- Leadership insight into executive capabilities and weaknesses.
- Judicious use of advisers – not too much, not too little, and not too compromised by family relationships.
- Governance structures that help the family to speak with a single voice and which give expression to the guiding values and principles of the firm.
- Executive processes and recognition that integrate non-family with family in decision-making.
- Networking and participation in training or exchange with family business owners from other sectors and with sources of expert knowledge on best practice. ■

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(This work is supported under ESRC grant – RES-051-27-0086. For a more detailed report of the survey findings or further information contact the London Business School. www.london.edu/family_business/)