

Beyond the gene lottery – leadership in family firms

I WAS TALKING RECENTLY to the Chairman of a financial services organisation, telling him about my interest in family business and my desire to establish a new international centre for the study of leadership in family firms at London Business School. The Chairman was interested, but after a while asked “Aren’t they a thing of the past in the UK?” This is not the first time I have heard this belief expressed, and by people who you might think would know better.

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Around three years ago it was estimated that 75% of all British businesses were family-owned and -managed. This statistic holds up around the world. In fact the proportion is probably higher in many European countries, such as Italy, Spain and Finland, and as you head east (the former communist bloc excepted) through India to China you reach a world where firms are either massive state run enterprises or family-owned and controlled, with little else in between. Even among the biggest and most successful businesses on earth, as represented by the US’s *Fortune 500* list, well over a third have substantial family interests. The fact is that family firms employ a substantial proportion of most national workforces in just about every country. In every economy they are one of the principal engines of business growth and innovation, generating a large proportion of the GDP.

So where does the view that family business is a modern-day irrelevance come from? It emanates from the stock markets of the world where people are exclusively absorbed with publicly-owned companies, often forgetting how many were recently owned by a family and how many still retain a substantial family interest. Many of the household family names in business may now be no more than the marquee on the bonnet of a public corporate engine, but that does not mean that all the rest are just

mom and pop corner shops. Yet sadly in the dealing rooms of the financial capitals many people have no other imagery, for it is the big corporations who mainly set the agenda for how we talk and think about business. Look at what is taught in management education, discussed in the financial press and represented on the business bookshelves – the cases one finds there are rarely family firms. Most of the generalisations about corporate finance, marketing, strategy and leadership are based on the Wall Street model of business.

Does this matter, if the conditions are the same, as some economists might assert? They would be profoundly wrong. Family businesses really are different, as anyone who has worked closely with or been part of one knows. What I call ‘gene politics’ – the ties of blood that run through their business structures and the biases they bring with them – give a unique character to the feeling and the substance of how they operate.

Tolstoy opens his novel *Anna Karenina* with the words:

“All happy families are alike, but each unhappy family is unhappy after its own fashion”. This is an exaggeration, perhaps, but it does contain a truth about family firms that lends them great fascination and importance. At their best, family firms generate a culture and spirit that is unrivalled for its capacity to endure, integrate, motivate, nurture and innovate. They are held together by ties of trust, they have unrivalled flexibility in decision-making and power in execution. They have a steadiness at their centre making them highly attractive as employers, especially in an era when large public corporations are loosening their contractual obligations, in increasing numbers of cases to the point of breaking faith with their longest serving staff.

But when it comes to the dark side of the family firm the possibilities do seem endless, as the Tolstoy quote implied. One can watch with macabre fascination as Shakespearean dramas are acted out in them. Parents get figuratively bumped off by kids; offspring engage in internecine tribal warfare; interlopers attempt to induce family splits; managers find their authority undermined by capricious family intervention; heads of families refuse

to let go. These sagas and more are well known in their rich dysfunctional variety.

So what accounts for the difference between the best and the worst? The answer more often than not is leadership. In all the literature on the family business there is a strange silence on this subject. Much more is written about governance and how one can make arrangements that protect against breakdowns of relations.

Through the Institute of Family Business (UK) (see Box), and in collaboration with FBN, I am planning a fresh research initiative on this topic that is completely different to anything ever undertaken previously in the field. The research will have two stages. Stage 1 will be a membership survey addressed to FBN members in which families tell their leadership story. At Stage 2 I shall select from this a sample of families for detailed psychological profiling of their leading members to unlock the secret of effective leadership.

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Currently I hold a database of around 2,000 executive personality profiles, obtained with the most powerful and reliable scientific assessment tool available. Profile analysis reveals three kinds of biases that a person is likely to exhibit in their approach to leading and managing. The first is a preference for particular kinds of situations and roles. For example, some people seek change, innovation or entrepreneurship while others look for stability, structure and regularity. The second is people’s preferred way of enacting relationships. Some only want to lead while others are happy to follow. Some want close teamwork, but others prefer to act and work as loners. The third is the influence of character flaws, hotspots and foibles. These are often ‘strong’ personal-

ity features – features that are part of the secret of success, but which also have the capacity to derail leaders. Examples would include the creative personalities who cannot leave well enough alone and upset smoothly running operations, or the risk takers who are often great at getting enterprises up and running but become a liability at other times. It is these and the chemistry of how they interact that often determines the fate of the family business. This is gene politics at work.

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Can people not change their character to fit circumstances? It seems to be near impossible for most people. Personality has a strong genetic component and one’s character, once formed in early adulthood, retains its main features and biases throughout the rest of our lives. Yet despite the inheritance of personality each one of us is born different from both our parents

and our other family members. How is this? Even though we inherit our genetic make-up from our parents, character traits are the product of complex and unique gene combinations, modified by early experience. This means that our children emerged with a character and temperament that is entirely their own and which we, as parents, have surprisingly little capacity to mould or influence. This is the gene lottery that causes so many dilemmas of leadership roles and succession in family firms.

The secret of success requires three things:

- Insight into the personality biases of leading members.
- Role allocation according to those biases, including the flexible use of non-family talent.
- Processes that aid the adjustment of people to changing roles and relationships.

We cannot guarantee by these means to create a universe of happy families, but a systematic approach to the leadership of family firms should give more of them a fighting chance of surviving and prospering. ■

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IFB (UK) recruits its first members

The Institute for Family Business (UK), the 15th and latest chapter to join FBN International, has recruited its first members from the family business community.

Christopher Oughtred, an IFB Founder Member and Chairman of Yorkshire-based 5th generation family business concern William Jackson & Son commented, “We joined IFB because of our strongly held conviction that increasing knowledge about the unique issues we face as family business owners will be a key factor in sustaining the long-term success of our business. We believe IFB will give a big boost to our family’s learning through the programmes and events they will be offering.”

IFB aims to support the ongoing development of the dynamic family-owned business sector in the UK. Oughtred added: “We are looking forward to meeting other families through the IFB network and exchanging best practises.”

The new UK association is set to become the leading independent family business forum in the UK. IFB Trustees Chairman and family business owner Alexander Scott has, in a recent letter, appealed to over 250 of the UK’s leading family companies “to join IFB: our power comes from our membership. We look forward to strengthening IFB with your family’s unique contribution.”

All UK-based family firms are encouraged to sign up as Founder Members.

IFB National Forum Conference Governance for Longevity in Family Companies

IFB’s educational and events programme will kick off with the Inaugural IFB National Conference taking place on June 14th in London at the Radisson Portman Hotel. The keynote academic speakers include Professors Alden G Lank and Joachim Schwass, respectively Chairman and Executive Director of the FBN and Professor Michael Hay, Deputy Dean, London Business School. Leading UK family companies will be sharing their experiences with the audience in what promises to be a unique day in the calendar of UK family business. The meeting will be a private gathering for owners, their families and directors. The format aims to offer a learning experience where delegates can share their knowledge and best practices.

IFB’s mission is to support through learning the ongoing development of a dynamic family-owned business sector in the UK making a powerful contribution to the overall economy. IFB also supports research into the key success factors driving the stewardship of family companies. The

group is a not-for-profit association and was set up by families for families in business. The Founder Members are drawn from among the UK’s leading family businesses and the association aims to grow by attracting family firms who attach a strong importance to learning and the careful preparation of the next generation of owners.

For enquiries regarding the conference and membership contact:

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