

Developing Next-Generation Leaders in Family Business

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Engineering a successful generational transition is often the issue that most concerns entrepreneurs who hope the businesses they have created will thrive through multiple generations of family ownership. In a survey of family business owners, Family Business Consulting Group co-founder John Ward (1997) found that weak next-generation leadership was perceived as one of the top three threats to long-term family firm success.

In his classic work, “Family Wealth: Keeping It in the Family,” James Hughes argues that the most effective way for business-owning families to preserve and grow their wealth is to develop their human and intellectual capital (Hughes Jr, 2004). Unfortunately, many business-owning families let a focus on ownership structure, estate tax and investment policies dominate their thinking about succession planning. As advisors to family-owned businesses around the world, FBCG consultants have observed that transitions occur more smoothly when heirs are better prepared for leadership positions.

What can family firms do to develop next-generation leaders who can successfully negotiate the complex challenges of leading a multi-generational family-owned enterprise? How can next generation family leaders earn the respect of those whom they will lead while often “living in the shadow” of a successful entrepreneur, who

also happens to be a father, mother or other close relative? How can next-generation leaders do the hard personal developmental work of differentiating themselves from the family when so much of their identity is defined by the successful business-owning family?

I recently conducted extensive research to identify and explore factors that influence the development of next-generation leadership talent. While many factors that were examined in my studies emerged as worthy of interest, in this article I will focus primarily on the impact of next-generation family business leaders accepting responsibility for their own decisions and actions.

How to Develop Personal Responsibility among the Next Generation

One finding of the research was the influence of family climate on the level of emotional and social intelligence reflected in the leadership behavior of next-generation family leaders. Family climate influenced next-generation emotional and social intelligence through its influence on the propensity for next-generation leaders to accept personal responsibility for their leadership behavior. The implication is that a positive family climate is more likely to create a safe and supportive environment for next-generation family members to take responsibility for the successes and inevitable failures that come with practicing leadership behavior.

A family climate characterized by open communication, shared values and norms, and a senior generation that devotes attention to the welfare, needs and concerns of the younger generation is more likely to produce next-generation leaders who accept responsibility for their own actions and decisions, which in turn is strongly related to their expression of emotional and social intelligence. On the other hand, a family climate characterized by senior generation family members who wield unquestioned authority and set all the rules is more likely to result in next-generation family leaders who shun responsibility and demonstrate lower levels of emotional and social intelligence in their leadership behavior.

A brilliant young woman who is the next-generation leader of a division of her family enterprise reflected her acceptance of personal responsibility when she told me the following story:

“It was a turnaround facility. And so it was off the radar in the sense that it wasn’t something my dad actually knew a lot about, wasn’t something my grandfather had done... it was very much a distress situation, so it wasn’t easy, and it’s still not easy. But, whether it died or thrived, I felt it was on my shoulders. It’s my sink-or-swim, but I very much felt like when our trustees get their board book, and there’s a profit and loss statement in there, that’s my name that’s next to it. It’s been a really successful turnaround story... but for me, it could have potentially gone the other way.”

This highly effective next-generation leader belongs to a business-owning family that has devoted a tremendous amount of time and effort to developing effective governance systems, including family meetings to foster open communication, articulate shared values and provide leadership training opportunities.

On the other hand, a senior non-family executive in another family enterprise described instructions from the senior-generation CEO to create jobs to shield next-generation family from the risk of failure when they came to work for the family firm. In telling me their story he said:

“One of the criteria that (the senior-generation family CEO) and I defined was that whoever came into the business (referring to next-generation family members) could not fail. We had to provide a location and a task that would allow them success because exposure of the family name really did not have any taint of failure, and it would be devastating for any one of the youngsters to enter the business and to become a failure... they were sheltered. We created jobs so they would not fail. That was wrong in hindsight. I should have stepped up and said, ‘damn it, we gotta give these kids an opportunity to fail.’”

The family CEO of this enterprise was a brilliant entrepreneur who had built a highly successful business, but his authoritative leadership style had resulted in a family climate characterized by a high level of conflict. The family had no structured way of resolving the kinds of differences in points of view that are common to all family businesses. The next-generation leaders in this family enterprise told me how difficult this made it for them to develop their own leadership styles and credibility within the organization. The irony in this story is that the effort to shield them from failure actually made it more difficult for them to succeed,

Recommendations

It is often the case that the demands of the family business are so great that it seems little time is left for family matters. My studies suggest that working to create a positive family climate characterized by open communication, attention to the developmental needs and concerns of the next generation, and shared values and norms may be just as important to the survival of the family business through multiple generations of ownership as working to create positive business results. Family business owners would be wise to create a reasonable balance between time and energy focused on the business and time and energy focused on family relationships.

My studies also suggest that the rugged independence, decisiveness and single-minded focus that often seem to serve entrepreneurs so well in building a successful family business may work against them when it comes to preparing next-generation family members for future

leadership responsibilities. Senior generation leaders who make all the decisions and set all the rules can unintentionally deny next-generation family members the experiences they need to develop their own leadership skills. They would be wise to provide next-generation family members with age- and experience-appropriate levels of responsibility and decision-making authority to help them gain early leadership experience, including the risk of failure that can teach valuable leadership lessons.

Finally, the studies suggest that next-generation family members interested in playing a leadership role in the family business should take responsibility for their own development of leadership skills, particularly emotional and social intelligence competencies. They would be well-served to suggest or create some area of the business for which they can take personal responsibility and be held

accountable by others. If the senior generation refuses to consider it, then the potential next-generation leader may be wise to seek opportunities to gain job experience with genuine responsibility and accountability outside of the family firm.

The good news is that leadership skills can be learned. Forward-thinking family enterprise owners should focus as much or more on the development of their human capital, including next-generation family leaders, as they do on their financial capital. And they should work just as hard to build positive family relationships as they do to create positive business results.

Strategies for Developing Next-Generation Leaders

Family firms that develop effective next-generation leaders often employ the following leadership development strategies:

- **Ensure next-generation leaders have job assignments with real responsibility, accountability and risk either inside or outside the family business:** Next-generation leaders need opportunities to make complex decisions and experience the results of those decisions;
- **Provide accurate feedback on performance, often from trusted non-family leaders in the business:** Next-generation leaders benefit from knowing how others perceive their leadership behavior in order to learn the emotional and social intelligence competencies that account for more than 85 percent of a top leader's performance;
- **Create a positive and supportive family climate:** Families that work hard to foster open communication, establish effective conflict resolution and governance processes, and create an overall positive family culture enhance the chances that next-generation family members will develop effective leadership skills;
- **Start early:** Learning leadership skills takes time, so wise family business owners encourage next-generation family members to gain leadership experience through activities in which they are personally interested at school and early in their careers.

References

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