

Shared Vision and Effective Next-Generation Leaders: Two Sides of the Same Coin

By Stephen P. Miller, Ph.D.

A survey of family business owners conducted a number of years ago by John Ward, co-founder of The Family Business Consulting Group, found that lack of a shared vision for the family business and weak next-generation leadership were two of the top three threats to long-term family firm success. John's finding was one of the inspirations for my own research on developing next-generation leadership talent in family businesses.

In my study of several hundred family firms, it turned out that those two factors were highly related. A shared vision for the family enterprise was strongly predictive of the presence of effective next-generation family leaders.

Value in Vision

During my research, I learned about a family enterprise that had grown exponentially over the past 30 years. It has a clearly articulated vision of acquiring and turning around failing businesses in a specific niche market. The third-generation corporate CEO and his fourth-generation daughter, who is now CEO of one of the acquired turnaround companies, are rated as highly effective next-generation leaders by those with whom they work. Both can tell you exactly what they look for in an acquisition and about the strategies they employ to turn performance around. They can also explain how pursuing their strategic vision achieves family shareholder goals.

Another family firm I interviewed also experienced strong growth as a niche player in the construction industry. The company grew under the leadership of the entrepreneurial founder but began to stall as the founder aged. In addition, the second-generation family leaders in the business squabbled over the small stuff and failed to give much thought to the future direction of the firm.

Without a clear vision about how to grow the company for future generations, the family put the company up for sale as a means to protect the wealth that had been created. The family learned the hard way how their failure to develop next-generation leadership talent, strategic direction, sound management practices, and good governance negatively affected the company's valuation. The deal to sell the company fell through.

Developing a Shared Vision

So, if shared vision is so important, how does a business-owning family go about creating it? My research demonstrated that open and transparent communication in the family is one of the keys, as it strongly predicted the presence of a shared vision for the business. On the other hand, a senior generation that exercises unquestioned authority and makes all the rules was even more strongly predictive of the lack of a shared vision. That kind of autocratic leadership style shuts down the open communication that is so

necessary to the development of shared vision.

The two examples cited earlier illustrate the research findings on communication. The family that owns the turnaround firm holds family meetings in which owner goals and corporate strategy are regularly discussed. The G3 corporate CEO and his G4 daughter communicate frequently, but dad gives daughter enough rope to let her succeed or fail on her own. She is held accountable by the company board and accepts responsibility for her own leadership results. In discussing his approach in overseeing his daughter, dad explained: "It's sink or swim, but with a safety net." In other words, he is supportive but not dictatorial. He celebrates her successes and helps her recover from her failures, but he doesn't shield her from the risk of failure or the consequences of her leadership decisions.

As for the construction company, family meetings or other structured ways to communicate were not available to the second-generation family leaders as they entered the business, nor were they given much decision-making authority by their father. When it came time for them to take over leadership in the firm, they found they were not prepared for the task.

The good news is that the failed sale made them aware of management practices and governance processes that could help transition the family business to a more professionally managed firm with a clear vision and strategy for the future. The G2 family owners created a formal board of directors, began having regular family meetings with current and future family owners, and hired outside management talent to help them grow the business. The G2 family leaders are rightfully proud of their efforts to improve communication and better prepare G3 family members for future ownership and leadership responsibilities-and the company is now on a profitable growth trajectory.

How to Put the Research into Practice

Most of the family business leaders I work with are pressed for time. The challenges of managing the day-to-day operations of the business often seem to leave little time for communicating with family members, reflecting on vision and strategy, or developing next-generation leadership talent. Yet the research is clear that if family business owners want to set the stage

for continued success through multiple generations of family ownership, finding time to tend to these three tasks is critical.

The time-saving news in my research is that family business leaders can kill three birds with one stone. I encourage the family businesses I work with to set aside at least one day a quarter to focus on discussing vision and creating strategies to respond to changes in the marketplace and achieve owner goals. I encourage the senior-generation leaders to include next-generation family and non-family leaders working in the business in those meetings when appropriate. Doing so facilitates open communication, exposes the next-gen leaders to the challenges of leading a family enterprise, and encourages commitment to the selected course of action.

At the end of these strategy workshops, we assign next-generation leaders specific tasks as follow-up assignments. Those projects often include researching changes in the market to identify opportunities and threats, identifying the company's core competencies and those they need to develop, and suggesting strategic alternatives. Not only does this serve as an effective way of training next-generation leaders, but it also taps into the way the next-gens see the world. Emerging next-generation leaders may prevent more senior leaders from making decisions about the company's future based on outdated ways of understanding customers, employees and contemporary culture.

Embracing Change

One company I work with achieved a market-leading position for their primary product line by employing a unique distribution strategy. The strategy worked quite well for decades and produced high margins. Several years ago, the market shifted and sales through that channel rapidly declined. What had been the most profitable division in the family enterprise became a money loser for the company.

The senior-generation family CEO of the enterprise and the non-family leader of the division made several attempts to turn things around by staying with that channel, but those efforts produced even more losses. Relationships among the primary family owners remained positive, but the family CEO put a tremendous

amount of pressure on himself as being responsible for the decline in profitability.

The tendency to stay with the strategies that worked in the past when market dynamics change is a common scenario among successful family businesses. The senior and next-generation family leaders working in the organization, along with a primary family owner not directly involved with the business, are now meeting on a quarterly basis to squarely face the situation's realities and develop a new vision and strategy for the family enterprise. The next-gen family members are promising young leaders and are doing much of the analysis and research to inform the development of a new vision for

the company. The senior-generation CEO welcomes their input and seems relieved to have the support of his family members in seeking a new direction.

Communication in these strategy workshops, while sometimes difficult, is open and honest. The senior generation is modeling for the next-generation how to work through a challenge to the business with a unified approach, and the next-generation is learning from a truly challenging work assignment. They are killing three birds with one stone: reflecting on vision and strategy, communicating openly and transparently as family owners, and providing an outstanding training opportunity for the next-generation family leaders.

Ideas for Conducting a Family Enterprise Vision/Strategy Workshop

Keep family owners' goals front and center in creating vision and strategy for the family enterprise. If the family owners have not developed specific goals, meet with them first to help them work through a process of developing realistic goals. They will likely need help from the family business leaders to understand what is possible.

Hold strategy workshops on a quarterly basis with the senior leadership team. Include next-generation family leaders working in the business when possible. This may be more appropriate in small- and mid-market family firms than in very large family enterprises, but even in larger firms exposure to strategic thinking about the business for the next-generation is important. In very large firms, next-gens who are not yet included in the senior leadership team can gain experience in creating strategy at the division or department level.

Create a vision and an overall strategy for the business that is grounded in an understanding of market dynamics. Researching and analyzing market data can be an outstanding assignment for emerging next-gen leaders.

Imagine a future for the business in which all things are possible. Traditional business education teaches us to focus on solving problems. While problem solving is an important skill, creating an inspiring shared vision for the family enterprise requires suspending our focus on constraints — at least for a while. Using a technique like Appreciative Inquiry is quite effective in helping leaders see new possibilities.

Identify and develop plans for closing performance gaps. While envisioning a new future for the family firm and developing strategies to capitalize on market opportunities are exciting and motivating, it is important to close performance gaps in the execution of current strategies first. It is sometimes tempting to try to correct a performance problem by introducing a new product or service, employing a new strategy, or even creating a new business, when the real issue is poor execution of the current strategy.

Creating a vision for improving execution is just as important as creating a vision for a new strategy or business line. Closing performance

gaps and developing strategies for capitalizing on new opportunities are “both/and” rather than “either/or” propositions.

Remember to communicate on a regular basis with the family owners, including those who are not active in the management of the business, as you make progress in creating vision and overall strategy for

the business. The goal is to create a shared vision and that requires input from all major stakeholders. Owners may modify their goals once management has helped them understand what it takes to meet those goals. The process tends to be an iterative one, with plenty of back and forth communication between owners and management.

This article was contributed to the Family Business Advisor® by Stephen P. Miller, Ph.D., the Adjunct Assistant Professor of Strategy and Entrepreneurship and Co-Founder of the Family Enterprise Center, Kenan-Flagler Business School, University of North Carolina at Chapel Hill.

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