SHARED LEADERSHIP IN FAMILY- OWNED BUSINESSES

Family Owned Business Resources

SHARED LEADERSHIP IN FAMILY-OWNED BUSINESSES: TRENDS, TYPICAL STRUCTURES AND CRITERIA FOR SELECTING THE RIGHT LEADERSHIP MODEL

The role of owner/chief executive officer has changed dramatically in recent years, with shareholders and investors demanding almost immediate returns and results. The average tenure of any key executive is only two to three years at best. Understanding the results-driven nature of the position, the importance of leadership structure cannot be underestimated.

MANAGEMENT OF FAMILY-RUN BUSINESSES: BACKGROUND, STATISTICS AND TRENDS

When it comes to succession, family business owners and their professional advisors have historically chosen the traditional path of passing leadership from one controlling owner to another.

Having a single leader run the business is less complicated from the standpoint of decision-making (major decisions tend to be made quickly). But as businesses mature, grow larger, and become more complex owners often find themselves involving multiple family members who must work together in some capacity to make decisions.

The trend over the last ten years in family business is toward equality, where businesses have a system of multiple leaders and transition control of the business to the next generation in the form of a leadership group. While team management has become more the norm, desiring equality and creating an environment that supports shared decision-making are two entirely different things.

Family co-owners can be equals in many ways – compensation, ownership percentage, and decision-making authority. But that

Family-Owned Business Facts

- Ninety-one percent of businesses surveyed have two or more family members involved in the day-to-day management of the company.*
- Over 42 percent of these same businesses have considered co-presidents or co-CEOs in their succession plans, with the majority of the owners saying that their companies will have co-leadership in the future.*
- Thirteen percent of family-owned businesses have family members functioning as part of a management/leadership team.
- In at least 66% of family businesses that go through transition after the second generation, siblings and cousins expect to run the company as part of a team in the future.

** Arthur Anderson/Mass Mutual surveys (1997, 2007)* doesn't mean their roles or skills and abilities are equal. Nor does it guarantee equal commitment to the business. Disparate value systems – family vs. business – coupled with unmet expectations are at the root of the dilemma. Family relationships are supposed to be about unconditional love and valuing others for who they are. Conversely, business is about competency, where people are valued for what they do and how well they do it. When family business partners expect the family value system of unconditional acceptance to merge with the equality in a business relationship, the result can often be disappointing (Karofsky).

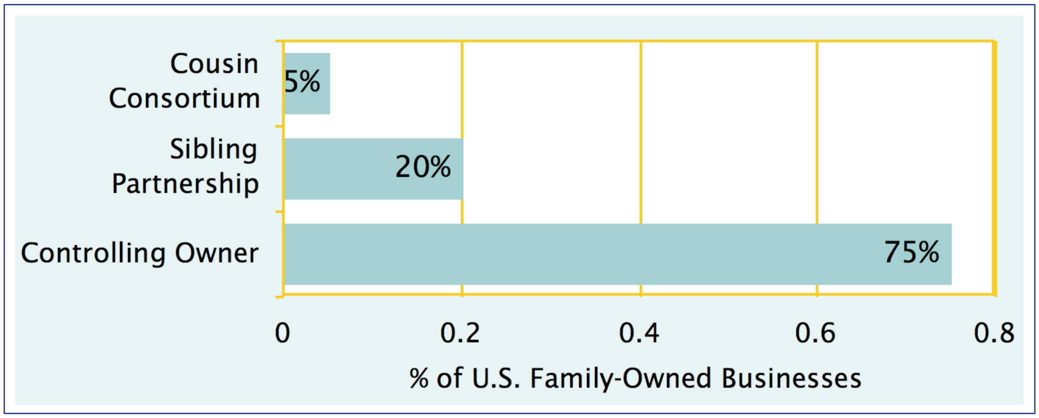
Shared decision making is not a new construct. Organizations create teams as a matter of course. It is more common than ever to hear discussions about collaboration and consensus building as key elements of shared decision-making and problem solving in organizations. Yet, most organizations still operate as hierarchies. This is especially true in family-owned businesses where an entrepreneurial mindset dominates. The values that underlie a group's ability for teamwork are deeply embedded in the company culture; without a framework that supports shared responsibility, executive teams of any type are likely doomed to failure and may simply be viewed as "forced collaboration."

The influence of the owners in family-owned businesses is direct and pervasive, and ultimate power and decision-making authority resides with the owners regardless of whether or not they work in management. This in no way is intended to diminish the importance of managerial authority – it just simply points to the fact that when the traditional distinction between family and business is blurred, ownership rights typically prevail (Lansberg).

THREE FUNDAMENTAL FORMS OF FAMILY BUSINESSES

When viewed from the vantage point of the ownership distribution, and hence of influence over governance, family businesses come in three fundamental forms: (1) Controlling owner business, representing approximately 75 percent of U.S. family owned businesses; (2) Sibling partnership, 20 percent of U.S. family owed businesses; and (3) Cousin consortium, 5 percent of U.S. family owned businesses (Gersick, Taylor, Hampton, Lansberg).

Figure 1: Three Fundamental Forms of Family Business



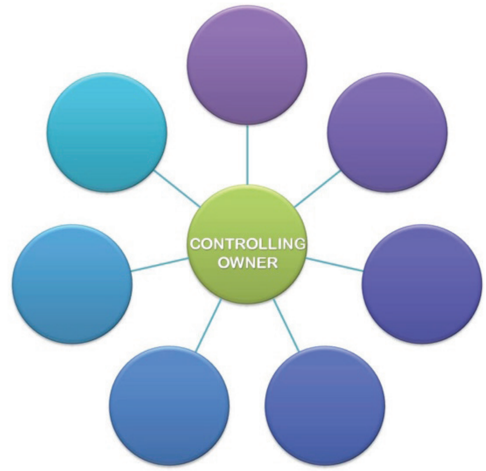
These three fundamental forms of family business have historically been associated with the company's generational stage and lifecycle position. The "controlling owner" is most often associated with the first generation. The company becomes a "sibling partnership" in the second generation as the company is handed down to the children of the founder. The company then assumes a "cousin consortium" ownership structure in the third generation and beyond, as the cousins define their position in the business.

Of course, it rarely happens that a family business adopts any one of these organization structures exactly. The reality is that form changes and adapts over time as strategies change and reporting needs change. Growth in the structure can happen vertically (adding additional reporting levels in the organization) or horizontally (adding new functional or divisional responsibilities). Organizations with relatively few reporting levels are known as flat organization structures and usually have decentralized control, while those with many levels are known as tall organization structures and usually have more centralized control.

Controlling Owner Business

Controlling ownership rests with one individual or married couple, usually the founder. This person builds the business from the ground up and is intimately involved in all operational aspects of the business. They prefer to keep their finger on the pulse of all business operations, so their organizational structure often resemble a pinwheel, or hub and spoke structure, with all business decisions being deferred to the founder's office.

This structure works well in the early growth stages of the company, and the company is often organized in a functional or matrix type of structure. As the company achieves more and more success, this structure can become overloaded. Growth can be both a good thing and a bad thing because owners are not quick to delegate responsibility. They often have what is referred to as a "paper board," consisting mostly of other family members, so it is not considered to be a functioning board of directors.

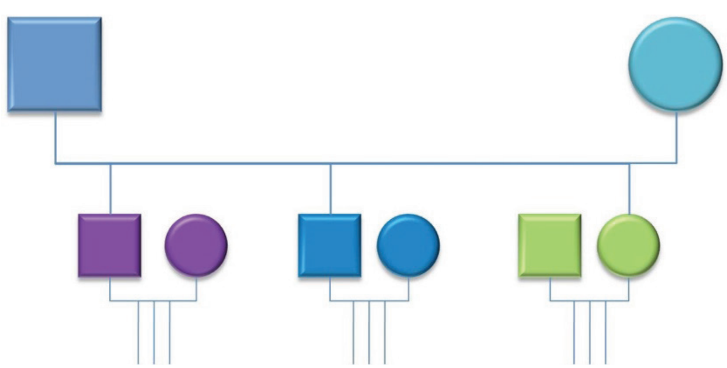


Key challenges for a controlling owner business include:

- securing adequate operational capital for growing the business;
- dealing with the issues of ownership concentration; and
- devising an ownership structure for continuity (Gersick, Taylor, Hampton, Lansberg).

Sibling Partnership

A sibling partnership structure is one that is favored by parents who are handing the business down to their children – where they wish them to function equally as a team – and no one member has a clear advantage over the others. It is clearly more complex than the Controlling Owner structure, because now you have the parents, the siblings, and the siblings' spouses involved in the management structure. The firm assumes a hybrid structure, where the parent is still the ultimate authority.



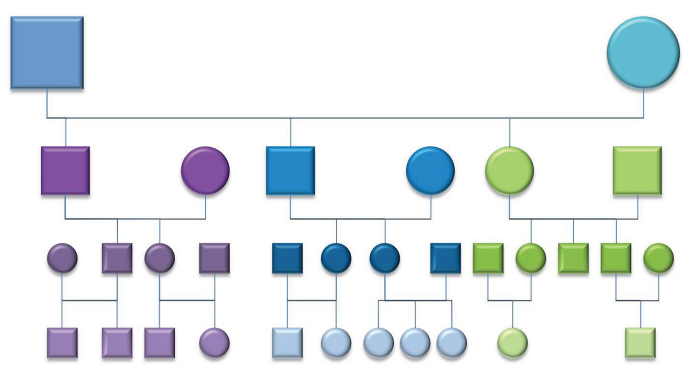
Sibling partnerships come in two forms: first among equals, and shared leadership. The former structure is where there is a single acknowledged leader who must demonstrate his or her business capability to the other siblings and family members and who must also demonstrate a willingness to influence the others without unilaterally managing the firm. Shared leadership is where the siblings not only lead as a team; they also have equal equity positions in the firm and are equally accountable for the well-being and profitability standings of the firm.

A sibling partnership structure works well for companies that are in the growth and early maturity phases. As the siblings begin to establish a niche for themselves in the operational management of the firm, the structure takes a segmentation form, resembling a small business unit structure. Or, depending on the size and geographic footprint of the firm, a geographic division of operations may emerge.

Some of the key challenges faced by sibling partnerships include:

- Designing and implementing a management process that is equitable for all siblings;
- Defining the roles of those family members not actively involved in the day-to-day operations of the company;
- Finding and retaining operational capital;
- Finding an equitable balance between the factional interests of the family.

Cousin Consortium



The cousin consortium structure is characterized by the fragmentation in ownership created through the handing down of the firm over multiple generations. Senior management positions are typically held by family members and represent many different factions of the family enterprise, including non-employee owners and non-family members.

The structure of the firm will depend on the complexity of the management structure, as well as the geographic locations of the family members. Typically a firm of this type will be structured into separate business units and will be managed by a mixture of family and non-family professionals. This firm will be in the maturity stages and with proper leadership, may be able to reinvent itself into a high-growth proposition based on generational influences.

Cousin consortium firms face many dilemmas. One of the most significant is the tradeoff between working capital and shareholder equity. As the family grows, so does the concern, especially by non-employee family members, for the ability of the company to produce a steady stream of dividends. Many non-employee family members want to divest themselves from the firm and collect on their part of the firm's value. A combination of generational levels in the company typically throws the management transitions and ownership out of synch.

One thing to keep in mind, succession and progression do not always follow a predetermined sequence and more than a single type of succession can occur simultaneously in a business.

SHARED LEADERSHIP IN FAMILY RUN BUSINESSES

There is a popular trend within private industry, including many family-owned businesses, to implement the team concept. These teams—referred to as the Office of the Chairman, the Office of the President or the Executive Leadership Team—are responsible for an organization's overall strategic direction and policy.

There is a popular trend within private industry, including those run by families, to implement the team concept, but there is little guidance on how to best structure a group and there is no consistent definition of the overall responsibility of the office.

However, there is little guidance on how to best structure a group and there is no consistent definition of the overall responsibility of the office. In light of few structural guidelines, the benefit to companies is that they are free to build their leadership teams to meet specific business needs in an increasingly complex business environment. Moreover, there is evidence that when multiple family members manage the business there is broader knowledge, deeper monitoring capabilities, more multi-faceted stewardship and higher financial returns.

Most Common Models of Shared Leadership

The sibling partnership and cousin consortium are most relevant and generally follows two forms:

1. **First Among Equals**

   The first among equals model involves a group arrangement where there is a single acknowledged leader. Typically, the leader cannot always act without the input of the other members, and s/he may give a "final stamp of approval" to a decision. Members generally use a consultative style to reach consensus, but in some cases majority rule is the system of choice. The lead sibling's role may be formally recognized and differentiated from other members (through title, ownership, etc.), or their influence may be of an informal nature only. In this arrangement the lead sibling often struggles to balance his/her authority in both business and family relationships. In the end, to be given a title without the requisite decision making responsibility can end badly for the leader in this arrangement unless each member is disciplined in rigorous and intentional communication.

2. **Shared Partnership**

   The shared partnership model is a shared leadership arrangement where partners have equal ownership and decision-making authority. There may be distinctions in individuals' function and responsibilities, but decision-making is shared and equal. This model can sometimes end badly for the business as productivity slows.

Either model may dilute the overall perception of power at the top of the organization, unless perceived solidarity remains intact. Moreover, if the group fails to make decisions efficiently the ability of a business to respond quickly to changing internal and external conditions may be impaired.

Challenges of Shared Leadership

There are also a number of challenges associated with such a relatively untested practice. In particular, role conflicts increase with multiple family members in leadership roles, because it is difficult to separate family and emotions from the business. The lack of documented examples or case studies to follow as precedence for best practices and lessons learned makes it difficult to identify a clear developmental process for business owners to follow.

Other common problems associated with shared leadership include:

- Developing a method of decision making about key business concerns;
- Using team member resources and talents wisely;
- Representing unified leadership to customers, stakeholders, and community;
- Determining the policies and practices needed to guide operational and personnel decisions;
- Making a shift from thinking about individual success to developing a sense of stewardship for the business.

Creating a Shared Leadership Team

The decision to form a leadership team takes considerable forethought regarding how the group will operate. The team should consist of the most capable leaders who are able to participate in the creation, implementation and evaluation of business strategies. Perhaps even more basic to success are clearly defined roles and responsibilities and the ability of team members to identify and manage conflict effectively.

There is no one reason that dominates the literature for creating a shared leadership team. In many cases, change is centered on succession planning for the future or as a result of merger/acquisition. In conjunction with the reasons listed below, the size of the company, the organization's culture and values, the complexity of the business and the relationships between family members are a few of the more common considerations involved in this type of change.

Common Considerations in Creating a Shared Leadership Team

- Size of the company
- Organization's culture and values
- Complexity of the business
- Relationships between family members

WHY FAMILY-OWNED BUSINESSES CREATE SHARED LEADERSHIP

Executing Against a New Strategic Plan

Any successful business needs to set long-term goals and objectives and execute against them in order to remain competitive. New, objective-focused strategic plans need objective-focused leadership and accountability. The identification of a management or leadership team is an intentional attempt to assign accountability, to guide an organization in serving its customers, to achieve stronger market growth, to improve focus and execution and to increase operational efficiency now and into the future.

Preparing for Succession or Retirement of Key Positions

Savvy companies have identified and begun to develop and mentor at least the next two layers of leadership. The creation of a shared leadership team provides a practice area to develop leadership and cooperation. Accountability can be developed under the guidance of more senior executives before decision-making becomes a critical part of the day-to-day operation of the business. Companies that place a continuing emphasis on resource allocation and leadership development have their thumb on the pulse of their current and future talent needs. This is critically important to implementing the strategic direction of the organization. An effective shared leadership team contributes to corporate growth and increased shareholder value.

Increasing Organizational Focus and Accelerating Decision- Making

Businesses that operate in multiple countries, regions, product categories or are geographically dispersed often find they become "silo-ed" and are unable to be responsive to market conditions, making them non-competitive. A shared leadership team can assign decision-making accountability to match their organizational structure, maintain their responsiveness, or predict future market conditions. Placing focused attention in the areas is required for competitiveness, growth, and profitability.

Managing Organizational Realignment

When a company goes through a significant change or transition – either a downsizing, a restructuring, or during an acquisition when two or more organizations are folded together – a shared leadership team may allow for focused leadership to mitigate morale issues and can help to maintain productivity and motivation during the critical transformational period early in the process.

Realigning Corporate Focus on Global Brands and Multinational Strategic Implementation

There are businesses that operate as multi-national, globally branded organizations, many of which are manufacturers of consumer products or food product companies. Examples of such organizations include Coca-Cola, Procter and Gamble and Conagra. In order to operate in a multi-national environment, there are cultural, regulatory, production and labor laws and restrictions that require focused management. Creating an executive leadership team with decision-making authority and accountability by region or division can increase profitability and efficiency.

MAKING THE TRANSITION TO SHARED LEADERSHIP A SUCCESS

Before making key leadership assignments, current owners should evaluate their due diligence in leadership assessment, succession planning, development of potential successors as well as their operational and resource commitment to their strategic plan. Owners must assess candidates based on their knowledge, skills, and abilities as well as the current and future needs of the business. It may be that leadership is best structured around a single successor rather than a group of talented siblings or cousins.

As a part of transitioning leadership, particularly to a model of shared leadership, owners should consider the following activities early in the planning process:

- Developing a rigorous skills assessment program to identify and cultivate leadership skills in candidates;

- Implementing a highly specialized development, training, and mentoring program for the candidates; and

- Implementing a leadership/management rotation program for exposure and training.

While there is significant literature in the areas of teamwork, leadership, and the value of shared decision making in organizations, most businesses should be moving from a hierarchical and control culture. Moving toward shared decision making requires a more collaborative mindset and requires a concerted effort at all levels. And while cultural change is possible, learned value or behavior systems that are not necessarily collaborative are not quickly or easily impacted.

Based on research in family-owned business literature, there are some reasonably compelling reasons for using a shared leadership model. The benefit to companies is that they are free to build their leadership teams to meet specific business needs in an increasingly complex business environment. Moreover, there is evidence that when multiple family members manage the business there is broader knowledge, deeper monitoring capabilities, more multi-faceted stewardship, and higher financial returns.

ABOUT FAMILY OWNED BUSINESS RESOURCES (FOBR)

Family Owned Business Resources is a portal to and for the world of family owned business. It is a site that offers useful tools and resources at a modest price point to people who own, work in and are around family business. The people who work here have been practitioners working with family owned businesses for fifteen years. During that time we have learned a lot and come to have great respect for the owners, operators and governors of family owned businesses. We would like to share with you what we have learned and help you be even more successful than you are today.

Our Mission:

- Our mission is to provide best in class information, products, and services to the family owned business stakeholder community. Our team brings a deep understanding based upon years of experience as practitioners in the field of family business advising.

Our Vision

- FOBR is the resource of choice for rigorous, affordable and relevant information critical to the success of family owned businesses.

Our Core Values

- Our commitment is to enable family owned businesses to flourish beyond three generations, by using seventh generation thinking.
- We are ethical: We maintain high ethical standards in the conduct of business.
- We are accountable: We are accountable for the quality of our resources, the responsible dissemination of the resources we have developed.
- We are constructive: We will be selective in the information we disseminate, ensuring that it is constructive and additive to the family business community.
- We are collaborative: We work collaboratively, seeking the input of those who are affected by our work, internally and externally, and partner with like-minded groups to achieve our mission

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