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Another Type of Leadership

Joachim Schwass is Professor of Family Business at IMD, where he co-directs the program "Leading the Family Business" and the IMD-Lombard Odier Darier Hentsch Family Business Research Center.

The world is changing...

Is there something wrong with the economic model which has brought unprecedented growth to the world in the last century? The separation of capital and management has certainly been the driver of wealth creation for an ever-growing part of the population. But a number of highly visible scandals in different parts of the world have raised questions about system weaknesses, which can lead to managements disregarding or disrespecting the rights of ownership. In North America, in Italy, in Sweden and in many other countries we are seeing examples of public corporations where management has enriched themselves beyond moral and legal levels at the expense of shareholders and stakeholders in general. Extreme cases? Many would respond affirmatively. Yet, an analysis of the educational system around the world would reveal that the traditional business education tends to be management centered, at the expense of ownership considerations. In today's economic concepts, ownership is perceived as a necessary evil:

"So what, if the shareholders do not like what management does, they are free to vote with their feet and sell!"

Whilst legal and political entities are introducing new behavioral and punitive guidelines for public corporations, which are supposed to improve the imbalance between management and ownership, there is growing interest in another business model, which is built on the proximity of capital and management.

The family owned business

In contrast to widely held public corporations, family businesses are enterprises where the owning family exercises total or important control of its ownership and thereby influences management directly or indirectly. The shareholder proximity and identity frequently play an enormous and determining role in how the business is being managed. The owning family influence can be seen either as a threat or as an opportunity for the business.

	Proximity	Identity
Opportunity	• In-depth and historic knowledge of the business: Institutional memory • Strongest interest in financial success of the business	• Tangible forms of reference, including "the buck stops here" • The values enacted by the family
Threat	• Not qualified and competent to understand the business • The financial interest too indivually biased: "Milking the business"	• The family identity limiting business opportunities • The values not being supportive of the business

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“ The sense for real, sustainable financial values and emotionally grown, idiosyncratic family values represent a potentially powerful combined driving force for the business. ”

A recently published study[1] of the key success factors of a sample of award-winning multi-generational family businesses has highlighted their capacity to focus on two key aspects relating to both proximity and identity as shareholders.

Firstly, on the ownership level there is the clear formulation and expectation of long-term, sustainable and real financial value creation. These are meaningful and important qualifications which distinguish family owned businesses from widely held public corporations. The time horizon for a family business is typically the next generation. Generational thinking introduces a discipline of sustainable and real – versus paper – financial value creation.

Secondly, the researched family businesses established linkages between the family's values and the business culture. The family's values were always deeply rooted in their history and shaped by the founding entrepreneur and key personalities over generations. In fact, a photographic analysis of the values tends to produce contradictions: on one side a hard-nosed, no-nonsense type of approach to the business, questioning and testing the limits, distrusting authority, and often showing appearances of arrogance. On the other side, an inner personal sense of humility and even insecurity.

A closer analysis of these values over time, seen like a film of the family business over generations, reveals that these very contradictions are in fact the tensions which provide the energy and the logic for the families to continue the value creation process through the family business.

The sense for real, sustainable financial values and emotionally grown, idiosyncratic family values represent a potentially powerful combined driving force for the business. Its successful implementation however, depends on a well-balanced, truly long-term approach to leadership.

The generational leadership cycle

To understand the leadership differences between publicly traded and family owned businesses, an analysis of the evolution over time of the four key interest levels found in family businesses is required. The four interest levels are:

- Family
- Ownership
- Management
- Individual.

The time dimension is separated into three distinct leadership phases which are typical for the generational lifecycle found in a family business:

- Do phase
- Lead to Do phase
- Let Do phase

The “Do” phase covers the starting period of a next-generation family leader actively working in the family business. Typically this is in a lower hierarchy position with the clear objective of learning und understanding the business. The “Lead to Do” phase starts with the promotion to the leadership role with clearly defined authority and responsibilities. Finally, the “Let Do” phase covers the retirement, overlapping with the “Do” phase

Phase / Interest	**Family**	**Ownership**	**Mangement**	**Individual**
“Do”	Child-parent realtionship	Control dependent	Professional assertion	Personal leadership
“Lead to Do”	Adult-adult realtionship	Control struggle	Leadership assertion	Organizational leadership
“Let Do”	Parent-child realtionship	Control vs. vision	Governance assertion	Institutional leadership

of the following generation of family leaders, who in turn experience the same cycle. The matrix opposite summarizes the complexities of the leadership cycle.

The "Do" phase sees the potential next-generation leader enter the business, with the parent generation still exercising an active leadership role. The inter-generational family relationship still tends to be biased towards a child-parent relationship, with the aspiring leader attempting to complete the transition to an adult-adult relationship. On the ownership level, control still tends to stay with the parent generation. On the management level, the aspiring leader focuses on professional assertion attempting to gain outside recognition. The individual challenge is to develop personal leadership, as the "Do" phase is characterized as a period of learning, uncertainty, finding and developing his/her role as an independent individual.

The "Lead to Do" phase begins with the next-generation family member being appointed to a clearly defined leadership position. On the family level, the relationship with the parent generation has now shifted to an adult-adult nature, with the successor in turn creating a new nuclear family. With the inter-generational distancing, the senior generation often perceives ownership as a vehicle to exercise control – or at least prolong a dependency – of the next generation. A struggle for the control over the family business ownership creates frustrations and uncertainty, also for other stakeholders. This difficult relationship is often also carried to the management level with a lack of boundaries as the next-generation family member attempts to assert his leadership control. On an individual level, the key focus of the new leader now shifts to the organizational leadership.

The "Let Do" phase mirrors the other side of the "Do" phase, as the leader now in turn sees his own potential successors standing in line. On the family level, the perspective changes to a parent–child relationship with the new generation. On the ownership level, with control being achieved in this phase, the key concern is to develop a vision, which builds on multi-generational ownership and continuity of the family business. On the management level, a shift to a governance role – on the board – takes place. On the individual level, a most difficult transition takes place, as the distancing from the center of power signifies a different and decreasing role in the family business. The individual life achievement objective is now being defined less by own achievements but to a greater degree by the creation of opportunities for others.

Family businesses are thus exposed to more complexities. In a widely held public corporation, the leadership does not need to be concerned with family considerations. These are issues of the personal domain which stay outside the business. In fact, ownership does not play the same role in the public corporation as it does in the typical family business. The greatest similarity of leadership in a public versus a family owned business takes place at the management level. The central focus is clearly and simply the business, throughout each of the three distinct phases, with its own built-in potential for power struggles. On the individual level, a family member leading the family business is confronted with additional constraints and often difficult choices. Working with other family members from the previous, the same, or the next generation often brings dilemmas, which the public corporation leader simply does not encounter.

"The complexities found in family businesses need not be a liability or an additional burden for leadership."

From complexity to competitive advantage

The complexities found in family businesses need not be a liability or an additional burden for leadership. In fact, the very existence and proximity to management of family and ownership interests can provide strong and sustainable economical and social benefits to a broad range of stakeholders. This, however, can only be meaningfully achieved if the family business leadership sees the family and ownership interests as legitimate and supportive of the business itself. Most family businesses do not adopt this mindset: the family is perceived as a disturbing element which must be kept at bay. But the truly successful multi-generational family businesses, as seen in the study of the award-winning family businesses, have turned the complexities into a competitive advantage. They fully acknowledge the existence of the four distinct interest levels, and rather than just managing conflicting interests they have pro-actively created a simple, consistent and sustainable approach towards defining common objectives, which have the

Interest levels	Objectives
Family	Harmony by providing personal growth opportunities for all
Ownership	Wealth preservation and growth
Management	Business growth
Individual	Sense of purpose through personal growth

potential to align the four interest levels. The most successful family businesses have identified growth as the key driver of their business and ownership strategies. But they go one important step further by internalizing growth as a mindset, which is instilled into each individual through the family culture. The families behind these businesses therefore subscribe to a personal growth culture which impregnates the ownership and business cultures. And it is here that a key difference to the widely held public corporation can be found: the corporate culture is deeply anchored in the family culture, which – through its proximity to the business as well as its identity – establishes a cross-fertilizing system of checks and balances. The outcome is a business model, which is built on combining generational benefits for all four interest levels. They always favor evolutionary – rather than revolutionary – growth, and often unconventional strategies distrusted by public investors with a non-generational horizon.

An example: The Zegna Group – Italy: Generational business growth strategies

The Zegna Group is a fourth-generation highly successful family business active in textiles.[2] The business growth strategy of each generation maintained the earlier generation's achievements and enhanced them with another distinctive strategic component in the value chain. This example of vertical integration, where each generation adds another component to the value chain, is powerful in the sense of demonstrating a most effective linkage of the successful historic achievements with new growth opportunities. The evolutionary approach implies that the previous generation's achievements are still valid and recognized, thereby creating a basis of inter-generational trust and family harmony. This positive spirit facilitates the entrepreneurial growth, which in turn validates the achievements of the next generation as successful leaders and entrepreneurs in their own right. The Zegna Group example provides a particularly clear understanding of how the complexities found in the family business can be put to a competitive and sustainable advantage. There are many other examples, in different industries, which confirm the benefits of this type of wise growth and leadership: Henkel / Germany; Bonnier / Sweden; S.C. Johnson / USA; Murugappa / India; Puig / Spain; etc.

When values lead to financial value...

When analyzing the system deficiencies of widely held public corporations and why the separation of capital and management has its limitations, it is worthwhile looking at the other end of the spectrum and attempting to learn from strengths provided by a system of overlapping capital and management. Whilst family businesses also encounter limitations, the existence of family has a potential to provide very long-term, sustainable and values-based ownership guidance to management. The result can be a powerfully cohesive and credible culture built on meaningful growth.

Generation 1	Spinning			
Generation 2	Spinning	+ weaving		
Generation 3	Spinning	+ weaving	+ confection	
Generation 4	Spinning	+ weaving	+ confection	+ retail

1 *Wise Growth Strategies in Leading Family Businesses*, by Joachim Schwass, Palgrave Macmillan, 2005

2 *The Zegna Group*, by Joachim Schwass, http://www01.imd.ch/fbcenter/awards/

IMD
P. O. Box 915, CH-1001 Lausanne,
Switzerland
Tel.: +41 21 618 0111
Fax: +41 21 618 0707
info@imd.ch
http://www.imd.ch

Editor: Roger Whittle

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