FABUSS Training Material – “Next Generation Leadership”

PREFACE

Following the completion of the FABUSS “Skill Gaps and training needs” Surveys in the partner countries, the partnership has reached an understanding that training needs and associated material need to be developed along three axis resulting from the distinct problem areas identified in successful succession in family businesses. These needs were be grouped into six Modules that aim at enhancing participants’ family business and entrepreneurial acumen.

This grouping, in terms of training Modules, is the following:

Module 1. “Understanding Family Business Related Issues”
Module 2. “Transnational Similarities and Differences”
Module 3. “Growth Strategies for Family Businesses”
Module 4. “Next Generation Leadership”
Module 5. “Effective Governance & Decision Making”, and finally
Module 6. “Communication & Conflict Management”

The material of the Module in hand will be used during the training sessions organised in each partner country, also making use of the FABUSS Learning Platform through which participants interact among themselves, with the programme’s instructors and transnationally, with family business associated individuals in other partner country(ies).

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DECLARATION

The present module has been prepared solely for training purposes. Its text does not necessarily claim originality, as, besides the authors’ own contribution, it is also based on material from various other sources considered to be relevant, useful for training purposes and transferable. This is dully acknowledged in the text in various ways. The authors however accept responsibility for any failure to fully record all such instances in the text.
Module Outline

The “Next Generation Leadership” training module introduces the notion of leadership within a family business by combining responsible ownership and effective leadership. The focus of the module falls on the elements necessary for the longevity of family businesses. The module will help training participants identify key traits of a successful family business leadership paradigm, drawing theory from leadership studies and combining it with family business dynamics. Participants will be exposed to different leadership types, discuss and evaluate leadership paradigms they have encountered and learn best practices from case studies. The focal point of this course is leading both the business and the family for a common and mutually beneficial future. Ultimately, this course will equip participants with all the necessary knowledge to lead the succession process. Case studies and portraits of family business leaders will enhance the training experience.

The key points of the module can be identified, as follows:

▪ Leadership styles and paradigms;
▪ Leading by example;
▪ Family vs. business leadership;
▪ Emotional intelligence;
▪ Combining family and business life cycles;
▪ Succession as a key element to leadership;
▪ Succession planning and implementation.

After following this module participants should be able to:

▪ Identify different leadership styles;
▪ Understand the concept of responsible ownership;
▪ Help current leaders prepare themselves for succession and stakeholders embrace the change;
▪ Combine different needs in the family-business system to identify appropriate leadership style;
▪ Enhance personal leadership skills;
▪ Identify personal soft skills that need improvement to ensure effective leadership.
Participant Guide

The “Next Generation Leadership” training module is structured in a way, which would encourage participant’s active and conscientious involvement in the training process. In order to facilitate better and more profound understanding of the various concepts, associated with leadership in a family business context, these are supported by case studies, describing real-life situations family companies have been involved in. The case studies include details that are intended to help participants understand the key issues and points, relevant to each module section and include brief description of the respective business, problem identification and actual solutions implemented.

In order to get the most of the training course in “Next Generation Leadership”, while exploring the sections’ content and the case studies provided thereto, participants are encouraged to constantly challenge themselves by asking questions such as:

- How is the concept / situation described related to my family business and what measures we have taken / would take to tackle it?
- Have we as a business family already encountered / is it likely that we will in the future encounter problems, similar to those described?
- If I were in the shoes of the business leaders described in the case studies, how would I respond to the challenges, associated with family business leadership and succession?
- Which of the alternative approaches to facing these challenges, proposed in the text is more suitable to my family business? Why?

By asking and trying to find the answers to these and similar questions, the participants will be able to draw a parallel between the module’s resources and their own family companies, which would hopefully serve to make them better family business leaders. To support participants in their efforts, the “Next Generation Leadership” module offers a number of resources for further reading and exercises, which can be used for discussions and exchanging experiences with other current / would-be family business successors in either face-to-face learning environment or in distant learning / self-learning context, employing a Moodle-based e-Learning Platform, elaborated within the framework of the FABUSS project.
Introduction to Module

All organizations require leadership. As discussed by Nigel Nicholson & Åsa Björnberg of the London Business School, leaders by their style and action set the conditions for the success or failure of every business. Their foresight, vision, values, and abilities are necessary for the essential tasks of every business: strategic direction, cultural strength and coherence, efficient organization, effective networks of relationships, fulfilled employees, and satisfied customers and suppliers.

In family firms the leader is the protector of the culture, the conduit for innovation and the focus of vision and values. The challenge of the role is unique in the family context, yet leadership is one of the most important but least understood topics in the family business field.

Family firms are regularly shown to outperform their non-family equivalents. At the same time, they are especially vulnerable to hazards, many of them originating in tensions within the family or due to divergence between the family and the business. Leadership stands at this critical junction, and what leaders do, makes the key difference between survival or death, between success and failure. In family firms the leader’s role has a level of complexity that is unique and little understood.1

The “Next Generation Leadership” training module thus seeks to supply FABUSS training workshop participants and prospective future users of the FABUSS resources with the skills and knowledge to identify key traits of a successful family business leadership paradigm and focus on the elements necessary for the longevity of family businesses. This course will equip participants with all the necessary knowledge to lead the succession process, whereas case studies and portraits of family business leaders will enhance the training experience.

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1. Leadership Styles

Organizations are constantly trying to understand how to effectively develop leaders for long-term success within their organizations. The systemic problem with this endeavor is that there are many different leadership theories and styles. These options make it virtually impossible for professionals to agree concerning which theory and/or style can best help organizations to develop great leaders. Below, the most popular leadership styles and associated concepts are discussed in brief, to give the reader an overview of their specific features. 

**Task-oriented Leadership**

Task-oriented leadership focuses on completing a job. It concentrates on the tasks that have to be done, rather than who is doing them. Task-oriented leaders can be very autocratic as their primary focus is to get the most immediate task completed. The leader is concerned only with task accomplishment therefore the team often suffers through lack of motivation and retention. This type of leader sets clear goals, directs employees, is organized and plans well, then expects standards to be adhered to and tasks accomplished at all cost. Other elements of task-oriented leadership include: constantly reviewing tasks to ensure the activities are on track, setting and sticking to tight schedules for all aspects of the business activities, reviewing all of the elements of the production process with the employees.

**Transactional Leadership**

Transactional leadership refers to the use of an authoritative leader setting specific parameters, guidelines, rules and expectations, then rewarding those that follow them and reach predetermined goals and objectives, while punishing those that fail to do so. Transactional leaders focus on the job with production being more important than treatment of employees. Transactional leadership enables followers to perceive the consistency in leadership behavior as well as the reliability of their leaders. The leader secures agreements on the requirements of the job and rewards others in exchange for satisfactorily carrying out the assignments. This builds trust, dependability and perceptions of consistency with regard to leaders, all of which form a basis for effective group performance.

**Charismatic Leadership**

This leader exudes enthusiasm within his subordinates in an effort to inspire them to achieve desired results. The charismatic leader commands the room and works diligently to empower subordinates individually. He pays attention to the surroundings to understand how he must act in order to maintain the focus of the group. He is theatrical in nature and persuasive through use

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*The overview of leadership styles in this section is based on material, found in: Russell, E. (2011). Leadership Theories and Style: A Transitional Approach.*
of voice and body language. Subordinates’ success however tends to hinge on the leader in a charismatic leadership environment, therefore when the leader is not present, performance may lag. Charismatic leaders are often more concerned about their self-interests and if this becomes apparent to the subordinates, it can often lead to resentment. Additionally, charismatic leaders can sometimes become self-absorbed when over-confident, leading to disastrous results.

**Democratic/Participative Leadership**

Democratic or Participative leadership is exemplified by the leader encouraging subordinates’ participation to contribute to the decision-making process. This motivates subordinates to work harder as it gives them a sense of belonging and ownership. The leader still makes the final decisions but everyone gets involved in brainstorming and discussion. This type of leadership works exceptionally well when the focus is quality and not quantity or speed. Communication is the key for this type of leadership to work. Subordinates must be able to communicate their ideas or opinions effectively so that the leader fully understands their position, if the leader is going to use the subordinates’ input to help complete the task. Additionally, to make this type of leadership effective, the subordinates must have a working knowledge concerning the intricacies of the organization. Without this knowledge, the subordinates cannot provide informative input or make relevant suggestions.

**People-oriented/Relations-oriented Leadership**

People-oriented or Relations-oriented leadership is the opposite of task-oriented leadership. Leaders are completely motivated to concentrate on supporting and developing their subordinates. Not only does the leader develop relationships with the subordinates, but he also encourages subordinates to develop relationships among one another. The emphasis on dignity, respect and camaraderie will help develop trust and instill a focus on team performance. The leader provides a more supportive role in this atmosphere though he remains in control of the organization.

**Transformational Leadership**

As discussed by Borvander Annelie et al., transformational leadership can be defined as increasing the interest of the staff to achieve higher performance and developing the commitment and beliefs in the organization. The transformational leader focuses on taking care of the employees, supporting the assumption that if the employees are treated well, feel of value to the organization and believe to be a part of the team, then they will be more likely to produce the desired results. Transformational leaders usually invoke positive change within the organizations they lead. These are leaders, who intellectually stimulate workers, encourage

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creativity and workers accept challenges as part of their job. Transformational leadership has a profound positive effect on the organizational learning process. An interpretation of the elements, characteristic of transformational leadership, is shown in Figure 1 below.

**Figure 1. Elements of Transformational Leadership**

*modified version of Northouse model, 1997*

Attributed charisma is one important element of transformational leadership, which is associated with the ability to display a sense of power, confidence and remain calm during crisis situations.

Idealized influence is another factor that characterizes a transformational leader. By this, the leader shows his/her most important values and beliefs to the followers and tries to obtain everybody’s commitment to these values and beliefs.

Intellectual stimulation involves the leaders’ encouraging the followers to be creative and question what has not been previously questioned. These leaders encourage non-traditional thinking to deal with traditional problems and support their subordinates when they try new solutions.

Inspirational leadership is associated with looking optimistically at the future and providing continuous encouragement for followers. The leader expresses confidence that the company will achieve its goals.

Individualized consideration is related to leaders’ ability and willingness to view followers as individuals rather than as members of a group. These leaders act as coaches and provide useful advice for the subordinates’ development.
Leading by Example

“Anyone can try to be a leader, but to be a successful leader can be a real challenge” Peter Thatcher says in his book ‘Leading by Example’. A leader needs to be able to draw on a vast array of skills and attributes and apply them at the right time and in the right way. Above all, a leader has to recognize that his/her success will ultimately depend on the people that he/she leads which means creating an environment in which all of these people can flourish.

What does a leader need to do to create this environment? It is considered that this depends to a great extent on the example set by the leader, whose behavior sets the tone and creates the culture for a team or an organization. If the leader is not always honest, how can team members be expected to be? If the leader is not committed to the vision, how can team members be expected to be? Put simply, a successful leader has to behave at least as well as he/she asks of everyone he/she purports to lead.

People are influenced by example, good and bad, and the example set by any leader will have a significant impact on the long-term success, or otherwise, on their team or organization, especially if it is of a family business type. People consciously or subconsciously seek role models to see how they do things and then replicate those behaviors.

Why is example so important?

Put simply, example, like laughter, is infectious – it is capable of affecting the emotions and attitudes of anyone who is exposed to it. So, whether they like it or not, leaders lead by example. Leaders are role models. Of course, people can, and should, make independent choices and they should not just be blind followers doing whatever the leader does, but the leader’s behavior is a reference point. A leader’s behavior will affect the behavior of others and so clearly leaders need to focus on setting a good example to encourage positive behaviors from the people that they lead.

By their own example, leaders need to instill in the people that they lead the right values and behaviors. Thus, leaders should not rely on rules and regulations to set down how people should behave. People are contrary beings. If told not to do something, there is a temptation to do the opposite. Telling people how to behave, threatening them with punishment if they fail to behave in the right way or offering financial incentives for positive behaviors are likely to achieve only short-term success. In the long-term, people need to recognize for themselves why behaving in a certain way has positive results and the leader’s positive example will undoubtedly be a powerful influence in this respect.

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A leader’s words and actions set the tone for the people he/she leads. A leader is never off duty, his/her behavior is constantly being scrutinized for verbal and non-verbal signals which will be interpreted, commented on and copied. How the leader approaches opportunities and meets challenges actively influences the approach of everyone he/she leads. Leaders need to consistently and persistently behave the right way and then encourage those good behaviors to pervade the whole organization.

If leaders’ behavior is to influence that of the people that they lead, then they must behave in a consistent manner. They need to behave consistently every day in their response to similar situations and in the way that they meet different challenges. They also need to demonstrate consistency between their actions and words. It is no good adopting a ‘do as I say’ philosophy as this will quickly dampen enthusiasm and morale and the levels of cynicism will rise. Why should anyone follow an instruction that the instructor is not following themselves? Leaders must adopt a ‘do as I do’ philosophy. Only by maintaining this consistency can leaders hope to embed positive behaviors in their team and create the positive culture that they should be aiming for.

Finally, while setting the right example does not ensure that everyone will follow that positive behavior, setting the wrong example is very unlikely to result in people behaving well. Leaders cannot behave in a way that they ask their people not to. The way that leaders work and behave will be the best that they can reasonably expect from the people they lead. If leaders set low standards by their own actions and behaviors, then they are to blame for low standards in the people that they lead.
IKEA

IKEA is a Swedish company established in 1943 by Ingvar Kamprad and is an example of a very successful family business with a charismatic leader/owner. In 1954, IKEA had only 15 co-workers and, since then, IKEA has expanded to include a large number of home furnishings stores and support companies around the world. Today IKEA has more than 194,000 co-workers around the globe. The features of Kamprad’s leadership style, which can be defined as Transformational Leadership, is summarized in Figure 2 below.

![Diagram of Transformational Leadership: Ingvar Kamprad](image)

Source: Leadership Changes in Family Businesses – A Case Study of IKEA, Jönköping University (1999)

**Figure 2. Ingvar Kamprad’s leadership style**

IKEA has a unique company culture, largely influenced by Kamprad’s leadership style. Kamprad has been involved in the company as a leader from the start, but has already handed over the “formal” leadership role. He is still the owner and very much an informal leader for the company. He has always been the front figure for IKEA and is a very charismatic leader. As long as he is a part of the company, the culture and vision can live on, but there is a question as to what will happen when Kamprad ends his involvement in the organization.

As an important factor for keeping the company culture alive, that has been identified by IKEA top management, besides continuing along the same (or similar) line of leadership on part of Kamprad’s successors, is recruiting the right people from the beginning. The people that start working within IKEA have to share the same values as the existing company culture. It is very important that the future personnel share values like cost-awareness and honesty. It is also important that the existing personnel act as good role models for the incoming employees.
Whether or not IKEA will succeed in maintaining the culture created by Kamprad will remain a question until he actually ends his involvement with the organization. It is possible that the company’s culture will be carried on by his successors and the employees who have come into contact with Kamprad and have experienced his leadership example, but it is most likely that difficulties will be encountered when a new generation of employees replace the ones who personally met IKEA’s original leader.


Section Summary Points

Leadership styles

✓ Organizations are constantly trying to understand how to effectively develop leaders for long-term success within their organizations, whereas the familiarity with the different leadership styles can be very useful in this endeavor.
✓ Task-oriented leadership’s primary focus is to get the most immediate task completed, which may result in lack of motivation and retention among subordinates.
✓ Transactional leadership is associated with setting specific parameters, guidelines, rules and expectations then rewarding those that follow them and reach predetermined goals and objectives while punishing those that fail to do so.
✓ The charismatic leader exudes enthusiasm within his subordinates in an effort to inspire them to achieve desired results.
✓ Democratic or Participative leadership is exemplified by the leader encouraging subordinate participation to contribute to the decision-making process.
✓ People-oriented or Relations-oriented leaders are completely motivated to concentrate on supporting and developing their subordinates.
✓ Transformational leadership can be defined as increasing the interest of the staff to achieve higher performance and developing the commitment and beliefs in the organization.
✓ Leading by example is associated with the understanding that a successful leader has to behave at least as well as he/she asks of everyone he/she purports to lead.
2. The Family Leader and the Business Leader

Family leadership – business leadership

As discussed by Nigel Nicholson & Åsa Björnberg of the London Business School, unlike leadership of the business, leadership of the family can be either institutionalized or unofficial. It can be separated from executive leadership, or be a jointly-held role. Where family leadership is institutionalized, the most common form is as chairman of the family council or its equivalent. The role may also be held by the chairman of the board. An unofficial family leadership role could be a non-appointed representative or spokesperson who has power rather than invested authority through an official role on the board. An example of such a position is a family matriarch who is the unofficial ‘chief emotional officer’ outside the business. Most family firms split the roles of family and business leader in order to avoid conflicts of interest.

The family or the firm – which should come first?

Many but not all family firms operate under the assumption that having family involved in the business is important. If the positive aspects of having the family involved are there, then it is easier to get through the problems that inevitably occur. It fosters a sense of longevity.

Although it may be difficult if not impossible to prioritize one over the other, some family businesses may find themselves in a position where they ask themselves: How far do you go before you let a family destroy a business? Is the family a support for the business or the business a support for the family? If you get to the point of exit because the relationships aren’t working, then the business is not going to save the family relationships. Equally, one must recognize the degree to which other stakeholders, such as employees, are depending on the continuation of the family business.

Size, in terms of the number of family members, is also relevant. In firms with multiple family branches, the ‘sense of family’ is harder to achieve. This also depends on how much value they accord to togetherness/cohesion. To some, the notion of ‘happy families’ who spend a lot of time together can feel like an artificial concept. Family members who work together may have a lesser need to create social cohesion.

Below, a number of key points are presenting in an attempt to provide some general recommendations regarding family leadership:

- The family leader’s role entails:
  - Being a conduit and maintaining communications between family and firm;
  - Creating ‘social glue’ and affirming relationships;

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Being the ‘human face of the company’;

Engaging the shareholders in various ways;

Picking up on and conveying family values/culture.

- Clarify where the owners sit on the spectrum of family or business first. Identify the potential areas where there may be a fracture line in the firm, and where it may be best for family and business interests to be disentangled.

- Family leadership is needed. The family leader and business leader should ideally not be the same person. Families without designated family leadership should consider who will be their leading spokesperson and representative.

The concept of Responsible Ownership

Owners of family businesses constitute a group of investors with a special set of responsibilities. The family-owned firm often represents not only a key part of a family’s overall monetary wealth but also of that family’s tradition and legacy. Owners often perceive their participation as a heritage on loan, which they need to cherish, sustain and help to develop. To protect this heritage, and to continue building its wealth, family owners generally want (and are expected) to do more than the typical investor. They have a personal and emotional involvement in the business in which they are investing. They act as stewards of the family wealth, both to guard their investment and to assist in its growth, either through patient capital or more active means.

With many such families, success is to leave to the next generation more than they had inherited. This notion of stewardship is an important aspect of “responsible ownership”, which might be defined as ‘ownership behaviors that contribute to the interests of the collective group of owners, as opposed to behaviors that selectively serve the shareholder’s own interests’. But what are the types of behaviors involved in responsible ownership and what attitudes are associated with it? Below, the most popular types of responsible ownership behaviors and their links with responsible ownership attitudes are identified, as indicated by various studies.¹

Responsible ownership behaviors

- Serving as a resource to the family enterprise through “patient capital” (i.e. the tendency of owners to keep their investment in the business as long as needed), willingness to delay dividends to facilitate capital improvements, and, more generally, owners making themselves available to the family enterprise.

- Acting professionally towards the family enterprise, which includes respect for lines of authority in the family enterprise, discussion of long-term goals with management, being clear about current and future intentions regarding investments – i.e. plans to hold, sell or buy shares – and being careful not to interfere with internal affairs in the firm unless this is part of formal duties.
Working proactively for the family enterprise, which includes making outside contacts, monitoring the work of management, and putting in considerable effort beyond what is expected in order to make the family enterprise successful.

Keeping informed about the family enterprise through activities such as attending shareholder meetings and reading annual reports.

Enhancing interpersonal relationships by listening to other owners’ opinions, treating other owners and employees with respect, and fostering team spirit among owners.

Acting according to agreements, such as shareholder agreements or the terms of the family constitution.

In addition to behaviors, a number of responsible ownership attitudes can be identified – that is, feelings, thoughts and values owners usually find to be associated with responsible ownership actions or behaviors. The main categories of attitudes are presented in Figure 3 below.


Figure 3. Responsible ownership attitudes

Four experiences: What the family brings to the business and vice versa

- ‘It’s a huge incentive to keep a family business going. We are incredibly fortunate in this generation – everyone needs to understand that.’

- ‘Sometimes families are actually together because of the business...if it wasn’t for this business, I suspect that as brothers we would be further apart. The business gels families together and vice versa.’
We did an exercise in our family: what benefit does the business bring the family? And what benefit does the family bring the business? The latter question was harder to answer. The family: commitment. The business: a unified goal, a means of getting them together.

‘If you make business decisions for family reasons then you probably got it wrong.’


Section Summary Points

The Family Leader and the Business Leader

- Unlike leadership of the business, leadership of the family can be either institutionalized or unofficial. It can be separated from executive leadership, or be a jointly-held role.
- Most family firms split the roles of family and business leader in order to avoid conflicts of interest.
- Many but not all family firms operate under the assumption that having family involved in the business is important.
- If the positive aspects of having the family involved are there, then it is easier to get through the problems that inevitably occur. It fosters a sense of longevity.
- Size, in terms of the number of family members, is also relevant. In firms with multiple family branches, the ‘sense of family’ is harder to achieve. This also depends on how much value they accord to togetherness/cohesion.
- The “responsible ownership” is most generally defined as ‘ownership behaviors that contribute to the interests of the collective group of owners, as opposed to behaviors that selectively serve the shareholder’s own interests’.

3. Emotional Intelligence in Family Business

Emotional intelligence is the ability to manage emotions well in yourself and recognize others’ emotional needs. Leaders who are emotionally aware have a knack for: a) recognizing family strengths, b) reducing conflict and c) building lasting relationships. These are three qualities that are beneficial to businesses of all kinds, but particularly family businesses, where the line between personal and professional matters is easily blurred.

Thus, to build healthy relationships in the family business, family members need to recognize the importance of emotional intelligence. Emotional intelligence helps family members make decisions better because they are aware of their feelings and can use them the right way when making decisions. Emotional intelligence also helps family members manage differences between certain family members which helps create more positive family relationships for the benefit of the business. Emotionally intelligent families would be able to manage differences well, which will ultimately reduce potential conflicts. Emotional intelligence is critical to managing family relationships in the family business and individuals high on emotional intelligence are more likely to have better working relationships with other family members.

When one leads with emotional intelligence, he/she can improve attitudes and levels of motivation among family and non-family members alike. Leading and developing emotional intelligence in a family business can thus result in higher performance, more productivity, cooperation and collaboration for family and non-family members. Emotional intelligence is hence a highly desirable attribute for any leader in a family business and might be referred to as ‘leadership from the heart’. This not only entails passion and the need to stay true to family and business values, but also balancing commercial interests with family interests and needs through: a) insight into individuals and managing communication between them; b) maintaining a balance between past heritage, present needs and future direction; c) providing support and simultaneously managing expectations.

Furthermore, emotional Intelligence is considered a key prerequisite in the family business succession process, as a large number of successful leadership transitions are implemented when people involved in the process demonstrate a high level of emotional intelligence skills, whereas emotional intelligence has been even identified by some as the most important element of true leadership. Hence, the true successors’ dilemma might turn out to be not the power struggle but the emotional mismanagement of the situations, arising during the succession process.

Defined as the ability to perceive and manage one’s own and others’ emotions, in the context of family business succession process, emotional intelligence entails the acknowledgement that a multitude of strong emotions are bound to exist in the leadership transition. By using emotional intelligence skills however, people involved in the succession process are able to think clearly about how they can cope with the changes.
In the figure below, the leadership styles, discussed in Section 1 above, are re-defined and enriched in the context of emotional intelligence, identifying the competencies, required to practice them.

<table>
<thead>
<tr>
<th>LEADERSHIP STYLES</th>
<th>Emotional Intelligence Competencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commanding</td>
<td>Drive to achieve, initiative, self-control</td>
</tr>
<tr>
<td>Demands immediate compliance</td>
<td></td>
</tr>
<tr>
<td>Visionary</td>
<td>Self-confidence, empathy, change catalyst</td>
</tr>
<tr>
<td>Mobilizes people toward a vision</td>
<td></td>
</tr>
<tr>
<td>Affiliative</td>
<td>Empathy, building relationships, communication</td>
</tr>
<tr>
<td>Creates harmony and builds emotional bonds</td>
<td></td>
</tr>
<tr>
<td>Democratic</td>
<td>Collaboration, team leadership, communication</td>
</tr>
<tr>
<td>Forges consensus though participation</td>
<td></td>
</tr>
<tr>
<td>Pacesetting</td>
<td>Conscientiousness, drive to achieve, initiative</td>
</tr>
<tr>
<td>Sets high standards for performance</td>
<td></td>
</tr>
<tr>
<td>Coaching</td>
<td>Developing others, empathy, self-awareness</td>
</tr>
<tr>
<td>Develops people for the future</td>
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**Figure 4. Leadership styles and corresponding emotional intelligence competencies**

The importance of harmony: Family values in family business

A family business, operating in the personal care products sector was set up in 1960s and has since then grown its portfolio to over 200 products, some of them market leaders. It stands out from many other family firms by having made it successfully to its third generation. Personal care is a particularly fast-moving segment, driven by changes in consumer taste, new fashion, celebrity endorsement and new product development. The company management encourages a working environment where new ideas can come from anywhere, not just an office marked ‘Innovation’. This inclusive culture reflects the values, which are important to the family and which they apply within the business as well.

The same values have helped the family manage its own affairs, especially in an increasingly fast-moving world. The Executive Director – a third-generation family business leader – claims
that the secret to company’s success is that the family understands the importance of harmony and emotional intelligence: “There will always be some disagreements among family members, and differences of opinion about the direction we should take, but we give each other the benefit of the doubt instead of immediately passing judgements. We make an effort to clarify and understand the issue before we come to conclusions.”


Section Summary Points

Emotional Intelligence in Family Business

✓ Emotional intelligence is the ability to manage emotions well in yourself and recognize others’ emotional needs.
✓ Leaders who are emotionally aware have a knack for: a) recognizing family strengths, b) reducing conflict and c) building lasting relationships.
✓ When one leads with emotional intelligence, he/she can improve attitudes and levels of motivation among family and non-family members alike.
✓ Leading and developing emotional intelligence in a family business can thus result in higher performance, more productivity, cooperation and collaboration for family and non-family members.
✓ Emotional intelligence is hence a highly desirable attribute for any leader in a family business and might be referred to as ‘leadership from the heart’.
✓ Emotional intelligence is considered a key prerequisite in the family business succession process, as a large number of successful leadership transitions are implemented when people involved in the process demonstrate a high level of emotional intelligence skills.
4. The Family Business Life Cycle

In his paper on succession planning, Eric Clinton says that “In long-lived family businesses, only one certainty exists: the minefield that is intergenerational succession cannot be side-stepped.”\textsuperscript{VI}

And for the fortunate minority that overcome the dangers, the dubious reward is the prospect of negotiating it all over again once the generational cycle comes full circle. Thus, the most significant challenge faced by family businesses is survival from one generation to the next. Optimizing the likelihood of business survival requires family businesses to lay forth a workable plan in securing next generation’s involvement.

The normative family business life cycle encompasses four distinct phases, according to Moores and Barrett’s 4Ls framework\textsuperscript{2} which identified these four phases as: learning business; learning our family business; learning to lead our business; and learning to let go of our business (see Figure 5 below).

The first two phases, known as the apprenticeship stage, involve individuals working ‘in the business’. During the final two phases, or stewardship stage, individuals work ‘on the business’. Each phase has a set of priorities, paradoxes and pathways.

In ‘learning business’, the business aspirant discovers both practical and theoretical skills required for leadership, but where best to do so is a topic of universal debate. In the first phase of the cycle, learning sourced outside the family business can prove advantageous. The skills and knowledge acquired outside could later be transposed to the family business. The caveat, of course, is that once outside, the aspirator may not desire a return to the family firm.

Learning the business

While concentration is focused on preparing the successor for eventual leadership, it must be noted that not everyone will be the leader. During the phase, ‘learning our business’, preparing the successor may run concurrently with planning the incorporation of other family members into the business; possibly by appointment to leadership roles in a non-operational capacity.

The core values of the business, and the incumbents and those who created the business must be examined by those planning to take a leadership role. Continuity of these core business values is essential for upholding a longstanding business image which both external and internal stakeholders will recognize. However, business leaders must adapt to the continuously changing market, especially when products or industries become obsolete. The next generation must consider how they will ‘continue differently’ in the business.

Acquiring business knowledge and knowing how best to implement it are two different things. However, the gap between the two is bridged by what is called ‘a special perspicacity’, which is the insight upon which the third phase ‘learning to lead our business’ is based. Thus, leading any company is a difficult undertaking, but due to the increasingly expansive family system, leading a company with family involvement is exponentially more challenging.

Letting go

Transitioning to the final phase, ‘Learning to let go of our business’ requires a degree of foresight and preparation. Adequate planning is a prerequisite of a smooth transition, as is the willingness of the incumbents to lead their own departure, rather than simply to acquiesce to it. In the 4Ls framework, there are three main guidelines to follow when stepping out of a leadership role: develop a defined timeline for retirement; create management development systems; and most importantly, stick to the plan.

Stepping out of the business is almost uniformly the most difficult and unnerving part of the succession process for incumbents, and can be particularly challenging for first generation founders of the company. While the incumbent managing director may initially stay back to oversee the aspirator’s transition into the new leadership role, this overlap should not be unnecessarily lengthy. Transparency and communication is a key factor when such a huge change is taking place and stakeholders, both internal (staff and management) and external (customers, suppliers, financiers), should be made aware of how this transitional stage is being managed.

Incumbents have an essential role in facilitating the appointment of their successor. During the ‘learning to let go’ phase when the potential leader is learning about the family business, they may question the business structure or the traditions held by the incumbent. Communication, therefore, is vital. Any business-oriented queries, concerns or taboo topics should be aired. Incumbents should encourage aspirators to gain outside knowledge and experience, but the
decision of potential successors to join the business or pursue a leadership role should be made voluntarily. Also, an incumbent leader should recognize the possible need for an outsider to fill a managing role, either temporarily or indefinitely.

Family businesses which embrace the learning curve set out in Moores and Barrett’s 4Ls model are considered to position themselves as ‘families in business’ or ‘business families’. By signaling to the next generation that, while the incumbents have concentrated on a particular business which has served the family well, the leaders appreciate that a certain industry or a particular business may not be as attractive or have the same meaning to following generations. In turn, this attitude fosters entrepreneurship and encourages innovation. The core business resources can enable the next generation members to pursue their own entrepreneurial activities.

**Beyond the fifth generation: From ‘family business’ to ‘business family’ in Finland**

The Ahlström family are one of Finland’s most significant industrial dynasties, with a tradition of entrepreneurship and philanthropy that goes back 165 years. Their most prominent achievement was founding the Ahlström paper company back in 1851, which is now one of the world’s largest and most successful fibre-based businesses. The family own Antti Ahlström Perilliset Oy, a private holding company, which in turn is the largest shareholder in Ahlström Capital Oy, a private investment company managing around €1.5bn of investments in industry, real estate, and forestry.

So how have they done it? Thomas Ahlström is Managing Director of Antti Ahlström Perilliset Oy, and a fifth-generation member of the family. When asked about the secret of their success, he said “We have always been a very tightly knit family”. “That’s definitely part of it. We spend a lot of time together, and we share a strong sense of social belonging and pride in our heritage. And we’ve always worked hard to ensure we have the right governance measures in place, both for the business and the family.”

The key, he believes, is to get governance in place, incl. on family business life cycle issues, before it’s actually needed. “You don’t want to be trying to put measures in place in the midst of a dispute. You need the framework in place to deal with issues before those issues arise, and then you need to adapt it over time as the landscape changes. After five generations, our family has over 300 members – that needs a very different governance structure to a family of ten or twelve. That sort of challenge is what attracted me to the job I do now, but I got it on merit not because of my name – as a member of the family I was contacted to see if I would
be interested, but after that it was the same recruitment process as for everyone else. And it was a very rigorous interview!”

Good governance is vital, but it’s not enough on its own. “You need strong and visionary leadership, and you need to be looking ahead to each new generation to find it. We invest a lot of time in succession planning, and we have a four-year development plan for our next generation, and find opportunities for them to get work experience in our subsidiaries.”


Section Summary Points

The Family Business Life Cycle

 ✓ From the life cycle’s perspective, the most significant challenge faced by family businesses is survival from one generation to the next.
 ✓ Thus, leading any company is a difficult undertaking, but due to the increasingly expansive family system, leading a company with family involvement is exponentially more challenging.
 ✓ Hence, optimizing the likelihood of business survival requires family businesses to lay forth a workable plan in securing next generation’s involvement.
 ✓ According to the 4Ls framework, the four phases of family business lifecycle can be identified as: 1) Learning business; 2) Learning our family business; 3) Learning to lead our business; and 4) Learning to let go of our business.
 ✓ Regarding the final phase above, adequate planning is a prerequisite of a smooth transition, as is the willingness of the incumbents to lead their own departure, rather than simply to acquiesce to it.
 ✓ During the ‘learning to let go’ phase when the potential leader is learning about the family business, they may question the business structure or the traditions held by the incumbent – communication, therefore, is vital.
5. Succession Planning and Implementation\textsuperscript{VII}

Succession planning has a particular significance in family firms because of the involvement of family members and ownership. Developing the next generation is tackled in different ways by family firms. Some are laissez-faire – wait to see what the kids want. Others are more proactive, making provision for prospective candidates through a development program coupled with meritocratic assessment. This is advisable to avoid accusations of nepotism and ensure that the best talent is included in the leadership, whether family or non-family.

Giving the next generation an opportunity requires confidence – in the person letting go and in the person taking over. Classic problems associated with succession in family firms include the senior individual reluctant to let go to the younger generation and rivalry between relatives competing for the same position. Other issues that face family firms include shortages of suitable family members due to widening age gaps between generations, fewer children being born and a growing variety of alternative career opportunities.

\textit{Letting go equals death}

For some senior family members, letting go of the family business can be seen as tantamount to a death sentence. This is partly a natural product of the inevitability of ageing and transition, but it also represents a very real fear that the inactivity of retirement and loss of engagement in an institution to which they feel deeply attached, and which they may have spent a lifetime building up, will actually hasten their demise. Research on retirement shows that this fear may be reasonable. However, the negative consequences of blockages to the upcoming generations are also extremely severe. Therefore, there is a pressing need for the whole family to find creative solutions to the problem of a departing leader, including new roles and ways of being engaged that do not impinge on the new generation of leadership.

\textit{After the official ‘letting go’}

Having a clearly stated, non-negotiable retirement age can help leaders to prepare for the transition rather than trying to prevent it. However, not all family firms have adopted that rule. Overcoming the mental hurdle of letting go can require tremendous effort and soul-searching. What happens in the actual retirement period is also dictated by the extent to which the unofficial letting go has been fulfilled. The chances of interfering with the day-to-day running of the business may be slimmer but there are viable options other than the business to keep the retiree occupied.

In a study on family business leadership, several of the interviewed family business leaders reported having given substantial amounts of their time to seniors who were previously in charge, and whose need to share and know had not diminished. However, the need for regular briefing chats does diminish over time. Generally, this is seen as a legitimate but costly payback. Presiding generations are the ones who must take charge of succession. Leaving it to the next generation to persuade their elders to step down and then having to sort out rivalries or misconceptions amongst themselves does not create an ideal platform for the next generation to build their leadership on.

**Preparation of the next generation**

Visible hurdles and a defined structure outlining clear expectations are essential ingredients in grooming the next generation. If the family has agreed on meritocratic principles of training and recruiting family members, expectations of parents and children can be more easily managed, and disappointment avoided. These often include university education and experience outside the firm before appointment. Mentoring by a third party outside the family can also be a valuable tool.

Some family businesses favor the reverse of the model described above, emphasizing the importance of recruiting family members at a younger age and not lose vital training time by attending university at that age. Experience in this case is gained by ‘working your way up’ and by spreading their experience across all major functions of the organization. Young family members then get a more rounded view of the firm’s structure and functions.

In cases where the age gap between the generations is too large for one generation to succeed directly after the other, family firms may appoint an ‘interim’ non-family leader or ‘professional bridgehead’, whose role it is to lead the business over a specified period of time, until the younger generation is ready to step in.

**Ownership succession**

Ownership succession is also challenging, with an equal need to prepare the upcoming generation for responsible ownership and wealth management. This is related to their personal development and cannot be treated purely as financial training. There are also issues about how this changes governance and decision making. Economic and executive power may be separated by how voting rights are structured in relation to ownership. In ownership succession, it is more about how it is handled than what is done.

**Lessons learned: Succession Planning and Implementation**

- Succession planning systems should require people to think about options well ahead of time, whilst retaining flexibility about the possibilities.
- Young or old, you have to give your family time. Over the life cycle, family members need time and care in different ways and amounts.
- There is no single best way of dealing with succession, apart from the fact that it is a process that needs to be managed, anticipated and planned.
- Rivalry needs to be healthy and open, not suppressed. Make the issues transparent and related to contexts.
- Don’t duck issues to avoid disappointing people. Keep the personal separate from the business issues.
- Early thought should be given to creating lifestyle and meaningful projects for retiring generations of leaders.
- Educating upcoming generations for executive responsibility and for ownership roles alike cannot be seen as a purely technical type of training. Attention to the personal development of young people is also essential.

Succession and responsibilities: A manufacturing heritage in Italy

FLO S.p.A. was founded near Parma in 1973 by Antonio Simonazzi and is now Europe’s largest manufacturer of plastic vending cups as well as a leading player in the production of disposable tableware. The company’s annual turnover exceeds €100 million.

Antonio’s son, Daniele, joined the family business after completing a degree in mechanical engineering and undertaking Italy’s compulsory military service. It wasn’t assumed that he would join FLO but his father’s passion for his company seeped in to the family’s DNA and, as a result, Daniele, his sister Erika and her husband all joined FLO in executive positions.

Following a period developing FLO’s business opportunities, Daniele became CEO of the company on the death of his father. Daniele’s mother became chairman of the board, holding the majority of shares but without an operational role in the company.

On taking over the running of the business, Daniele became aware of the huge weight of stakeholders’ expectation on his shoulders. “People who had worked alongside my father, who had been with the company from the very start – my father’s trusted advisers – were now looking to me to fill his shoes. My father left us suddenly and they were not ready for the changeover. I could sense their concerns about my moving in to this senior role. It was a really steep learning curve at the start.” For example, he had little if no idea about the full implications of being a director when he first took over. “Being a director isn’t just about running the business – there are wider legal and risk issues as well. What are you liable for? I
didn’t know.” He needed advice to help him understand and manage effectively the legal consequences of the decisions he was making.

Looking to the future, and the role of next generation members, Daniele wants to avoid what he refers to as “the family business obsession”. He says he doesn’t talk about FLO with his three young sons, nor does his sister Erika with her three sons, as they don’t want them to feel under any pressure to join the firm unless they want to. “We’d be delighted if they did, but we’d want them to develop a career outside the company first. And if they do join, they’ll have to have the right skills. Family businesses go wrong when family members are given jobs they’re not suited to. If they join the company they need to have something to offer in whatever position they may take, not necessarily an executive one. It’s tough enough being a family member”.


Section Summary Points

Succession Planning and Implementation

✓ Succession planning has a particular significance in family firms because of the involvement of family members and ownership.

✓ Developing the next generation is tackled in different ways by family firms – some are laissez-faire (wait to see what the kids want), while others are more proactive, making provision for prospective candidates through a development program.

✓ Giving the next generation an opportunity requires confidence – in the person letting go and in the person taking over.

✓ Classic problems associated with succession in family firms include the senior male reluctant to let go to the younger generation and rivalry between relatives competing for the same position.

✓ In order to ensure a smooth leadership transition there is a pressing need for the whole family to find creative solutions to the problem of a departing leader, including new roles and ways of being engaged that do not impinge on the new generation of leadership.

✓ Leaving it to the next generation to persuade their elders to step down and then having to sort out rivalries or misconceptions amongst themselves does not create an ideal platform for the next generation to build their leadership on.
Ownership succession is also challenging, with an equal need to prepare the upcoming generation for responsible ownership and wealth management – this is related to their personal development and cannot be treated purely as financial training.
Module Summary

The “Next Generation Leadership” training module introduces the notion of leadership within a family business by combining responsible ownership and effective leadership. The focus of the module falls on the elements necessary for the longevity of family businesses. The module helps training participants identify key traits of a successful family business leadership paradigm, drawing theory from leadership studies and combining it with family business dynamics. Through their involvement in the training process, participants are exposed to different leadership types, discuss and evaluate leadership paradigms they have encountered and learn best practices from case studies.

The focal point of this course is leading both the business and the family for a common and mutually beneficial future. The course equips participants with all the necessary knowledge to lead the succession process. Case studies and portraits of family business leaders will enhance the training experience. Furthermore, the key points covered by the module include: Leadership styles and paradigms; Leading by example; Family vs. business leadership; Emotional intelligence; Combining family and business life cycles; Succession as a key element to leadership; Succession planning and implementation.

Learning Activities

**ACTIVITIES:**

*Activity 1 (compulsory):*

Regarding the leadership styles described in Section 1, answer the following questions and then discuss the responses with your peers, in order to exchange views and experiences:

- Which of the leadership styles presented best corresponds to your family business?
- Who has imposed this style on your company – you or your incumbent?
- Do you think it is effective for your family business? Can you give an example?
- Have you already changed / do you plan to change the leadership style, provided that you have the authority for that?
- How do you or your incumbent “lead by example”? Can you describe situations, when succeeding/failing to do so has led to positive/negative effects for your company?
**Activity 2 (compulsory):**

Which of the following alternative approaches to the preparation of the next generation for family business succession described in Section 5 is being employed in your family company? From your perspective, do you think it is the right thing to do? Why?

- University education and experience outside the firm before appointment, possibly combined with mentoring by a third party outside the family.
- Recruiting family members at a younger age, gaining experience by ‘working your way up’ and spreading experience across all major functions of the organization.

**Activity 3 (compulsory):**

Can you identify in which of the following four phases of the family business life cycle 4Ls framework, as described in Section 4 you personally are positioned? Can you describe the challenges, associated with family business succession form that perspective? Discuss with your peers and see what differences/similarities you can identify.

- Learning business.
- Learning our family business.
- Learning to lead our business.
- Learning to let go of our business.

**Activity 4 (non-compulsory):**

Discuss with your peers and try to identify which of the following BEHAVIORS described in Section 2 of the Module, associated with the concept of “responsible ownership” in family business, you have witnessed on part of your incumbents in your family company and what positive effects did these have on the business?

- Serving as a resource to the family enterprise.
- Acting professionally towards the family enterprise.
- Working proactively for the family enterprise.
- Keeping informed about the family enterprise.
- Enhancing interpersonal relationships.
- Acting according to agreements.
EXERCISES:

Exercise 1 (compulsory):

Based on the content of Section 3, identify at least one emotional intelligence competency, associated with each of the leadership styles, listed below:

A) Commanding leadership style.
B) Visionary leadership style.
C) Affiliative leadership style.
D) Democratic leadership style.
E) Pacesetting leadership style.
F) Coaching leadership style.

Correct answer:

A) Commanding leadership style: drive to achieve, initiative, self-control.
B) Visionary leadership style: self-confidence, empathy, change catalyst.
C) Affiliative leadership style: empathy, building relationships, communication.
D) Democratic leadership style: collaboration, team leadership, communication.
E) Pacesetting leadership style: conscientiousness, drive to achieve, initiative.
F) Coaching leadership style: developing others, empathy, self-awareness.

Exercise 2 (compulsory):

Bearing in mind the perspective of the concept of “responsible ownership”, presented in Section 2 of the Module, group the following behavioral characteristics into two categories – BEHAVIORS and ATTITUDES:

- A long-term view of the family enterprise.
- Serving as a resource to the family enterprise.
- A common vision of the family enterprise.
- Acting professionally towards the family enterprise.
- Keeping informed about the family enterprise.
- Psychological ownership.
- Working proactively for the family enterprise.
- Enhancing interpersonal relationships.
- Social responsibility.
- Acting according to agreements.

Correct answer:
BEHAVIORS – Serving as a resource to the family enterprise; Acting professionally towards the family enterprise; Working proactively for the family enterprise; Keeping informed about the family enterprise; Enhancing interpersonal relationships; Acting according to agreements.

ATTITUDES – A long-term view of the family enterprise; Psychological ownership; A common vision of the family enterprise; Social responsibility.

Exercise 3 (non-compulsory):
Which of the following characteristics is associated with Transformational Leadership, as described in Section 1 of the Module?

A) Leader’s primary focus is to get the most immediate task completed.
B) Leaders encourage creativity and workers accept challenges as part of their job.
C) For the leader, production is more important than treatment of employees.
D) The leader is often more concerned about his/her self-interests.
E) The leader encourages subordinates’ participation in the decision-making process.

Correct answer: B

Suggested reading

Notes and References

Notes

2. The 4L framework was elaborated by professors Ken Moores and Mary Barrett in their publication “Learning Family Business: Paradoxes and Pathways” (2002).
3. The study was implemented within the framework of the Family Business Leadership Inquiry, undertaken by the Institute for Family Business at the London Business School in 2005.

References

FABUSS Project’s description

Family businesses have always constituted a very important characteristic in many countries’ economic structures and an important source of employment. They are also important in ensuring continuity between generations, while allowing potentials for innovation, change, firms’ upgraded competitiveness and progress. The European Commission recognizes Family Businesses’ importance and their role for the European Economy and promotes the creation of a favourable environment where family businesses can grow and develop. One of the key challenges is the transfer of business, which, in the case of Family Businesses, requires efficient and successful transition from one generation to the next. The FABUSS Project aims at helping young persons related to Family Businesses become able and effective successors. FABUSS is a 24 months ERASMUS+ YOUTH project which started in February 2017 and will end in January 2019. The FABUSS Partnership is coordinated by the Athens Chamber of Commerce and Industry and is composed of nine organisations from five EU countries (Greece, Bulgaria, Cyprus, Italy and Portugal) and the Former Yugoslav Republic of Macedonia.