

BUILD A LEADER AND YOU BUILD THE FAMILY BUSINESS BALANCE SHEET

Leaders who do not understand the emotional value a family derives from a business and the importance of attending to this put their credibility as guides in jeopardy, says **Andrew Keyt**. What to do?



We hear again and again that one of a family business's greatest strategic advantages is having a unified shareholder base. A unified shareholder base indicates that family members have a strong sense of the value of ownership. This is also an indicator of higher levels of trust which provides many benefits. Trust increases a family's ability to

communicate effectively, reduces monitoring and compliance costs in the family business, increases sales activity and motivation and is a source of benefit in and of itself. In short, family owners value trust itself. Trust can reduce pressure on the business to provide immediate financial payout to shareholders.

Recent work by, professor Joe Astrachan distinguished research chair Loyola University Chicago, and professors Frank Adams and George Manners of Kennesaw State University discussed the need to balance "emotional returns" (or emotional losses) with financial returns. These authors suggested that the greater the emotional returns, the reduced pressure for financial returns, which increases business flexibility, making it more likely that new projects with uncertain returns will be accepted, which can increase overall financial returns, and of course, increase shareholder satisfaction and family unity.

In many senses, what this faculty is presenting is the need to manage the family business' total balance sheet'. Unlike non-family businesses, the total balance sheet includes both financial and emotional value. Managing this total balance sheet is a challenging project for a family business.

Through the years we have come to understand that there are three critical components to managing this family business balance sheet: having a strong board of directors to hold management accountable (business governance); having an ongoing and inclusive strategic planning process to assure the businesses viability; and having a strong family governance system that typically consists of family meetings and may include a family council.

The challenge for the family business is to keep these processes and mechanisms from stagnating, and to ensure they are viable and dynamic. How do we keep these processes from stagnating? Perhaps the most important thing we can do to prevent this stagnation is to prepare strong leaders throughout the family business system.

UNITY IS CRITICAL

Unfortunately, when leadership development is discussed in the family business world, the topic is how to develop viable successors to lead the management of the business. Volumes of work addressing the development of successors have been written. The focus on developing successors for business leadership, while important, is perhaps not the most important task, or even close, it is very likely that keeping family unified, attending to non-financial returns, and developing family resilience is far more important and far more difficult. It is also likely that the personality characteristics needed for this complex task-set is much more mature and selfless than what is required for business leadership alone.

TRUST INCREASES A FAMILY'S ABILITY TO COMMUNICATE EFFECTIVELY

One of the things we have learned in educating family business leaders in the Next Generation Leadership Institute at Loyola University Chicago, is that both family and business leaders need to develop their knowledge of their personal strengths and weaknesses, a knowledge of their family history and culture, and a knowledge of their family's business. In short, family business leaders need to have a sense of what the emotional side of the total balance sheet is and how to manage it, as well as an understanding of the importance of developing leaders on both sides of the balance sheet.

A business leader's domain is the financial side of the total balance sheet. The business leader is responsible for developing strategies and managing the business to assure that it achieves

EMOTIONAL BALANCE SHEET

Assets	Liabilities
Trust	Destructive family conflict
Pride in family history	Sibling rivalry
Staying connected to extended family	Family conflict hurting employee morale
Stature in the community	Pressure to provide financial payout
Strong conflict management skills	

FINANCIAL BALANCE SHEET

Assets	Liabilities
Cash and equivalents	Accounts payable
Accounts receivable	Accrued expenses
Short term investments	Short term debt
Long term investments	Long term debt
Inventory	

the financial objectives of the family which hopefully includes the goals of financial self-sustainability (it reinvests enough money to maintain its health). Common advice is to reward these leaders based on financial performance. However, the exclusive focus on financial returns can lead to a neglect of the emotional side which can quickly and catastrophically tear a business and family apart.

LEADERS NEED TO KNOW THE POTENTIAL HOT BUTTONS THAT CAN BE DESTRUCTIVE FOR THE FAMILY

WHY EMOTIONS MATTER

A business leader's domain also needs to be the emotional side of the total balance sheet. Perhaps working hand-in-hand with a leader exclusively devoted to the family welfare, the business leader needs to create and manage communication with the family to build the emotional value of the family business. The challenge to this is that a family system is not generally a meritocracy. A family is an emotion-based system that typically rewards based on emotions and needs rather than performance.

The skills necessary to manage a meritocracy are very different from those needed to manage a system where rewards are based on emotional need. While all agree the business leader needs to know what the financial drivers of the business are, such leaders also need to know what the family's emotional drivers: those non-financial activities, communications, and rewards that the family values.

It is precisely these differences in the way these systems operate that often makes business leaders hesitant to embrace family authority regarding the business. They don't understand the importance of building emotional value, they feel that managing a system based on emotion is out of their comfort zone or is too complex, and so they don't want to invest in developing the family with time and money. This fear originates because in the

absence of family unity, family chaos is a legitimate threat to any organized activity.

So what do leaders need to know about the family and how can we develop strong leaders on the family side of the balance sheet? Managing an emotion-based system requires knowledge and practice. The list of topic areas worthy of study include family dynamics, facilitation, conflict management, meeting management, family governance, the role of shareholder, and listening skills.

CONSIDER OTHER FAMILIES

Leaders need to understand their family well enough to know what investments in the family will have the highest family unity yield and generate the greatest emotional value. Likewise, they also need to know the potential hot buttons that can be destructive for the family. If leaders try to deal with these issues at the wrong time, an emotional asset quickly becomes an emotional liability. Some suggestions to help leaders build and practice these skills, include interviewing family members about the issues most important to them as individuals and a family, studying other family businesses to deepen their understanding of family dynamics, and finding a confidential group of peers to share with and learn from.

Business leadership must accept and embrace the fact that an investment in the family governance system is an investment in building the emotional value of the company and that by increasing the emotional value of the company they are increasing the probability of business success. Business leaders need to invest in family business education for interested family and connect them with forums where they can learn from their peers. This investment comes in the form of both time and money.

Developing these family leaders starts early. In order to build strong family you must raise children with strong self esteem, and you need to involve children in making important decisions that affect both them and the family. Family need the opportunity to practice leadership and communication skills in arenas where the stakes are not quite as high, before they step in to other leadership roles. Involvement in planning family meetings and family philanthropy are two common areas where family members practice these skills.

Family is the *raison d'être* for a family business, any leader who loses sight of this puts family and business at risk. Any leader that cannot understand the emotional value a family derives from a business and the importance of attending to this places their career as a leader in jeopardy. Any family ownership group that allows a leader to focus only on the business and developing business leaders is placing its integrity at risk. A family must prepare family leaders and this requires investment. Investment in the family is not a wasted expense. Investment in the family builds trust, builds value, builds family commitment, and provides leadership with freedom to act and benefit all. ■

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