Developing future leaders in family business

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Introduction

Leaders are notoriously hard to develop. It can be safely said that when you combine the emotions and relationships of family to the equation, leadership development requires a focus beginning when the next generation are children. Our belief is the ideas in this article will be useful in contexts outside of the family business as well.

Current writing on leadership in family business primarily focuses on the challenges that incumbent leaders face, in particular as being managers of not only the business, but also the family. Relatively little research has been done on how to cultivate future leaders from within the family business. In this piece we present strategies for developing future leaders and, in particular, we address educational age-specific milestones, the role of self-esteem, shared values and family culture, and specific training methods.

Strategies for developing future leaders in family business

Educational milestones

Education is an important component in developing future leaders in family business. The following table presents a list of age-specific tasks and the appropriate age ranges for these tasks. Each item is discussed in more detail in the following sections.

Educational age-specific milestones

Age-specific task	Appropriate age (years)
Actions-consequences link	3-5
Money	5-8
Trade	6-9
Importance of future (no instant gratification)	6-11
Investing	9-12
Separation of ownership and management	10-15
Emotional differentiation	18-25
Balance sheet, P&L, Cash flows	18-30
Financial analysis (CAPM, DuPont, EVA)	24-35

Actions-consequences link refers to the fact that actions have consequences and that individuals should be knowledgeable about this link. As mentioned earlier, a crucial role of leaders is to hold the management and employees of the company accountable for their actions. In order to do so, leaders must have a sense of responsibility themselves. Otherwise, they risk holding managers and employees accountable to standards different from their own, which leaves room for ambiguity and creates uncertainty. Ages 3-5 represent the appropriate age range for instilling the actions-consequences link because this is the developmental stage where children start recognizing their own limits and are able to make choices between opposing goals. The crucial component in developing this link is that parents should establish clear, consistent criteria through words and action. So when a child engages in a certain behavior, both parents will respond in the same manner – independent of what the child does. This has also been shown to be a key to developing self-esteem.

The meaning and use of money is another important milestone. It is important to begin teaching children the value and use of money at a young age, around the ages of 5-8. It is crucial that children learn that money is not just coin and paper, but represents the value of things and is a promise to pay in goods or services. For example, children need to understand that some things are taken away from them in exchange for receiving other things. Understanding the need to give up some things in order to acquire others will allow them to appreciate their value. Their understanding of money's role and the spending and saving habits they develop early in life will shape their attitudes toward a wide array of financial matters in adulthood.

Trade overlaps with teaching the value and use of money and should be taught between the ages of 6-9. Children who develop a good understanding of the motivations and underlying procedures of trade can bank on this understanding later in life. Trade also emphasizes reciprocity, which is crucial for being a good owner. Reciprocity means, when you make a trade, it should be a fair trade; otherwise one party gets disadvantaged to the benefit of the other which most often will have negative consequences for the partnership in the long run.

In learning about money and trade, it is important to stress the value of the future during the ages of 6-11. A crucial component is the maxim that there is no instant gratification. Research shows that children who are able to delay gratification and wait in order to obtain something they want are better adjusted psychologically and more dependable as persons in later life (Stanford Marshmallow Experiment). Delaying gratification with its many positive outcomes is a desirable trait in business life later on where reward is often a function of endurance, perseverance and patience. Parents can develop the acceptance of delayed gratification in their children by making them wait to get what they want and developing an expectation that getting what you want is the result of something that you do. Obviously, the amount of delay or the activity engaged is contingent upon the type of desire, children's age and other factors.

Once a child is aware of money and other financial tools, learning about investing, ages 9-12, is the next important step. Knowing the importance of the future is a crucial condition for understanding and making investment decisions; especially true for family businesses, where long-term wealth creation is more important than short-term profit maximization. Investing involves learning about risk and reward (i.e., the need to delay gratification to have higher rewards in the long-run), and understanding types of investments (e.g., stocks, bonds, securities). Having children select a stock to invest in, visiting that company and using its products helps them understand elements of ownership. This understanding helps them place others before themselves, which is a true hallmark of mature leadership.

Separation of ownership and management should be taught during ages 10-15. Key to this milestone is the understanding and acceptance that ownership does not automatically make one a manager or future leader. The different roles need to be defined clearly and the requirements for each function need to be explained and commonly accepted. This will prevent feelings of entitlement and wrong expectations from causing conflict in both the family and the business. Understanding boundaries in general helps children develop the ability to delegate and cede control without giving-up oversight and accountability; qualities needed when owning or leading any large organization.

Emotional differentiation is a critical developmental challenge during ages 18-25. Put simply, emotional differentiation is when the emotions of others do not cause an inappropriate emotional reaction in oneself. A good example is a mother who suddenly comes crying into the room where the family is having a serious discussion about the business and without a word having been said, everyone falls apart without knowing or asking why or what she is upset about. The mother's emotions have caused an emotional reaction in the other family members. Achieving emotional differentiation is a difficult task and requires hard, consistent work. In addition, since no two individuals are the same, each requires a different path.

Learning and understanding how to read a balance sheet, profit & loss statements, and statements of cash flows are important milestones at ages 18-30. Future leaders who have this ability can interpret the financial and business information provided to them and gain a better understanding of the situation at hand from a high level. This is especially important for future leaders who do not have a business education and are less familiar with these matters. Understanding relevant business information will allow future leaders to ask the right questions and hold management and employees accountable for their decisions and actions.

Finally, financial analyses – such as the Capital Asset Pricing Model, NPV, DuPont Model, Economic Value Added and managerial accounting – are important developmental milestones to be taught during ages 24-35. The capability to assess the viability, stability and profitability of a business, business unit or project is important in deciding whether or not to maintain an investment. Specifically, it provides information about whether to maintain or discontinue an operation or business unit, whether to make or buy materials necessary for the production process, or whether to use debt or equity to invest, to mention but a few critical business decisions. Knowing about and being able to process these decisions themselves allows future leaders to think more critically and to make better-informed decisions for their businesses, and for their personal wealth and that of current and future generations.

While the above educational milestones focus on the individual, another crucial element, especially among siblings, but also other family members, is to force them to make decisions together. Making decisions together not only helps build a routine for working together, but – paired with self-esteem – it also establishes trust. This should be done at all ages.

Developing self-esteem

The previous discussion has largely revolved around teaching future family business leaders financial skills. But it is also important to mention that developing future leaders should put equal emphasis on developing self-esteem in individuals. Self-esteem, an individual's evaluation of his or her own worth, is important because individuals with a healthy level of self-esteem trust their own judgment and feel secure enough to express their thoughts, and are sensitive to the needs and feelings of others.

Self-esteem can be developed in the following ways:

- Consistency in childhood: This is the most important of all the tactics described here. Parents should not respond differently to the same behavior. Coherence among words and actions is important in raising children. It allows children to anticipate the consequences of their behavior and thereby helps enforce guidelines for behavior.
- Actions and consequences are connected: Realizing that actions and consequences are connected to one another allows children to trust their judgment and develop their sense of self-esteem.
- Sense of control over self: Having a sense of control over oneself gives individuals confidence to act independently and also to support others in need.
- Mastery of tasks: Mastering tasks is important because it gives a sense of accomplishment and pride. It is important that children master their assigned tasks by themselves and make mistakes in order to learn and improve for the future. Recovering from mistakes is essential to self-esteem.
- Accurate feedback: Parents should not over-praise their children when they perform below what was expected. But at the same time, they should also not spare their praise when their children perform above the expected. Furthermore, in addition to being appropriately critical, with regard to praise, rather than giving general praise, it is important that parents are specific about what particular actions or behavior of the child they are praising. Specific praise will give the child a sense of control over his or her actions and allow the child to adjust his or her behavior accordingly. Accurate and specific feedback instils confidence and reflects consistency. It communicates that parents trust their children by telling them the truth.
- Familial support: Familial support is important because it shows the individual is not alone but has a support system on which to rely. The presence of such a safety net gives confidence to encounter and deal with failures and difficulties.

- Being listened to: Knowing one is heard shows that others care and are there to listen to concerns and eventual problems. Ultimately, it shows individuals that they are valued. Knowing that others are there to listen provides a sense of security that individuals with self-esteem can then render to others.

So far, we have talked about educational milestones and self-esteem as important building blocks for developing future family business leaders. These measures should be tightly integrated into a set of shared values and the specific family culture. We look at these aspects in some more detail in the following section.

Shared values and family culture

Shared values represent the fundamental beliefs and principles that constitute the culture of groups or organizations and guide the decisions and behavior of their members. A set of shared values is in many ways a set of guidelines or intents, commonly accepted and internalized by the members of the group or organization. For example, if one of the family values is "*we do not lie*", family members and, by extension, employees in the business know that lying is unacceptable.

Families are 'primary groups' that socialize their members from an early age and form the basis for an individual's ideals. Early socialization provides families – unlike other groups – with the advantage to instil shared norms, beliefs and values in their members over an extended period of time. Therefore, it is important for a family to determine what its values are and to reiterate these values consistently and on multiple occasions.

Values determining what goals the family wants to achieve and how it wants to achieve these goals help regulate individual behavior. Values also help individuals understand the boundaries of appropriate behavior; that is to say that the strength of and common agreement on values help family members know what behaviors are acceptable or unacceptable. In this respect, shared values help coordinate and synchronize the actions of family business owners, their leaders and employees and help build cohesion in the family and the business.

A set of shared values and the early internalization of such values may also help to harmonize the preferences and choices of family members, thereby reducing potential ambiguity and conflict. This is especially important when the ownership group has grown large and preferences can no longer be assumed to be equal. Shared values also communicate to in-laws who marry into the family what is important to the group and further help reduce potential ambiguity and conflict.

Given their crucial role in guiding behavior and coordinating actions, shared values of the ownership group should also be integrated into the organization via its culture. A culture based on stewardship seems conducive to developing shared values and therefore appears particularly suitable to family businesses. Stewardship stems from medieval times when a 'steward' was assigned to prepare the young prince for his future reign and, ultimately, make him a successful king. The meaning has not changed much nowadays. Individuals with a stewardship mentality are good team players who do what is in the best long-term interest of the group or organization to which they belong. A stewardship culture is one that nurtures and facilitates responsible, pro-organizational and trustworthy behavior among individuals. While a stewardship culture should ultimately permeate the entire organization, family business leaders should lead by example and be good stewards of the family business.

Stewardship works best where individuals are intrinsically motivated and identify with the group or organization to which they belong. These conditions are commonly found in business families with high levels of cohesion (i.e., where the members are close to one another) and capable of transferring this closeness to their managers, employees and other stakeholders. Stewardship is commonly associated with long-term wealth creation rather than short-term profit maximization. Strong indicators of a stewardship culture among family businesses are statements like "*We want to build a business that will last for generations and contribute to the greater benefit of society*." or "*Our goal is to pass this business along to the next generation in a better condition than it was given to us*."

As we have seen earlier, developing future leaders in family business should begin in early childhood. Educational milestones, development of self-esteem, internalization of family values and developing a stewardship mentality are attitudes that should form part of early upbringing. It includes educating family members to build a consciousness of self and others, and to understand money and other tangible assets, thus preparing the ground for becoming responsible leaders. Following childhood, there are further specific training measures that can be taken to prepare the next generation for their leadership role. We will turn to these measures in the following section.

Specific training

Before we discuss the various specific training measures to develop future leaders, it is important to reiterate that whatever programs a family business puts in place to develop future leaders must fit that specific family business' culture and aim to reinforce cohesion in the ownership and family group; our research shows that cohesion is a crucial element for securing the long-term survival of the family business.

> When ready, next generation members should attend family meetings and shareholder assemblies where they become familiar with extended family, thus increasing their identification with and sense of belonging to the larger family group. As adolescents, next generation members are further sensitized to the fact that the business represents an important emotional asset, which increases their attachment to the family business. Professional training – such as seminars on financial management – and regular meetings around the business allow next generation members to apply their emergent financial skills in a business realm and help strengthen their identification with the family business and the ties among next generation members. These activities also help reiterate and internalize core values of the extended family, and thus increase bonding to the family and business. Regular meetings also help next generation members to identify potential candidates for future leadership positions early on so that a widely shared and well informed decision can be reached later on as to whom is most capable of leading the family business.

Plant tours and internships provide additional opportunities for developing future leaders in that they help build a deeper knowledge about the business and allow individuals to identify with the business, its employees and products. Getting to know first-hand what the business does and meet the employees instils a sense of responsibility for the family business legacy.

Apart from formalized training opportunities, learning from good role models is another opportunity for developing future leaders in family business. Good role models can be family members, but also non-family members, individuals who live the values and display the kind of responsibility for which the family strives. It is often advisable for families to go visit with other families in business that they respect and consider to do a first-rate job in managing both the family and the business. Such visits provide opportunities to exchange and learn from others to improve one's own skills.

Conclusion

Our key suggestions for developing future leaders in family business can be summarized as follows.

- Develop a business sense in childhood: The earlier business sense is developed, the sooner children adapt a mind frame that is conducive for family business. The various educational milestones discussed earlier are all geared toward building this foundation. They should be supplemented with developing self-esteem in individuals.
- Learn to work and make decisions together: A crucial element – especially among siblings, but also other family members – is to force them to make decisions together. Making decisions together not only helps build a routine for working together, but – paired with self-esteem – also establishes trust.

- Accept delayed gratification: As mentioned earlier, the ability to delay gratification in early childhood comes with many benefits in later life. This trait will be of special importance when making financial, investment and business decisions for the family business, since sacrificing short-term gains for long-term value creation typically facilitates survival in the long run.
- Integrate good values, morals and ethics: Good values, morals and ethics are the glue that cements everything the family does to develop future leaders and responsible owners. It does not really matter what these values are, as long as most (ideally all) members of the family and the business agree to and share them. When values are shared by everyone, they provide guidelines for behavior, they communicate expectations, and they harmonize preferences, which together ultimately increase the cohesion of the owning family and the business overall.
- Understand stewardship: A stewardship attitude and culture seems most appropriate for long-term family business survival. Stewardship instils a sense that serving the business is a more important responsibility than serving particular individual interests.
- Attend family meetings: Attending family meetings allows for good communication and development of strong relationships. When the family has grown large, regular meetings allow establishing relationships and bonding with the extended family.

Finally, we encourage parents not to shield their children from knowledge, good or bad. Children should be given exposure to a broad array of knowledge to make them well-versed and responsible future leaders of the family business.