

A development plan for the next generation

Nearly a decade's worth of data from the Family Enterprise Leadership System (FELS) offer insight into how to cultivate human capital and leadership capabilities. **BY FRAN LOTERY**

AS FAMILY ENTERPRISES anticipate a future generational transition, a number of critical questions emerge:

- What does the next generation need to be prepared for?
- How big is this challenge, and how will it be met?
- What is the priority? Is it to develop the human capital of the family or future leaders, or a combination of both?

Family firms today face many challenges, including a rapidly changing local, regional and global environment and the need for effective oversight of their portfolio of holdings (liquid as well as illiquid investments). Additionally, as the stakeholder group grows more diverse and individual family member agendas become more complex, a new kind of talent will be required to oversee the assets and to manage shareholder liquidity demands.

Whether the family elects to march into the future as an economic unit or to unbundle its assets, it will confront

the task of choosing knowledgeable, qualified and credible people to carry out specific role responsibilities.

Building next-generation leadership

More than a decade ago, Fredda Herz Brown and Mark Rubin, then partners in The Metropolitan Group, created the Family Enterprise Leadership System (FELS) as a tool to help family enterprises better prepare the next generation of stakeholders—whether they be owners, leaders, managers, shareholders, beneficiaries or family or business leaders.

Herz Brown and Rubin observed that the next generation typically did not receive adequate feedback regarding their performance. Most significantly, they observed that next-generation members lacked a constructive model of how to proceed along a career path. They also recognized a critical need to objectively identify the capability profile of a future family enterprise contributor or potential leader.

Family Enterprise Leadership System

Capability categories and subcategories

I. Interpersonal Presence

Enterprise vision and goals
Conflict management
Professional development
Flexibility
Decision making
Leadership style
Feedback style that enhances others' development
Group participation
Defining and managing self as a leader
Demonstration of interest and availability to others

II. Organization

Financial management
Results oriented
Management of meetings
HR plans and policies
Organizational development

III. Industry & Community

Management of key external relationships
Knowledge about customers
Supplier relations
Presence/voice in the industry
Community presence

IV. Family

Family relationships
Family stewardship
Family values

V. Ownership

Board processes
Development of owners
Ownership vs. management

FELS is a 360-degree survey that allows all stakeholders to weigh in on what capabilities the future leader will need in order to be successful in the family's particular enterprise. It measures capability across five critical categories: *Interpersonal Presence, Organization, Industry & Community, Family* and *Ownership*. Each one of these categories has subcategories or scales that measure distinct capabilities

In today's world, more women are expected to play leadership roles in their family enterprise. Yet these findings suggest that women need encouragement to participate at higher levels.

within the context of a family enterprise. (See page 33 for a complete list of categories and subcategories.)

At the launch of FELS, I was brought in to refine the survey and create a feedback process that would enable the future leader (the person being assessed) to create a development plan that could be monitored and measured.

With more than 7 million Google entries on leadership

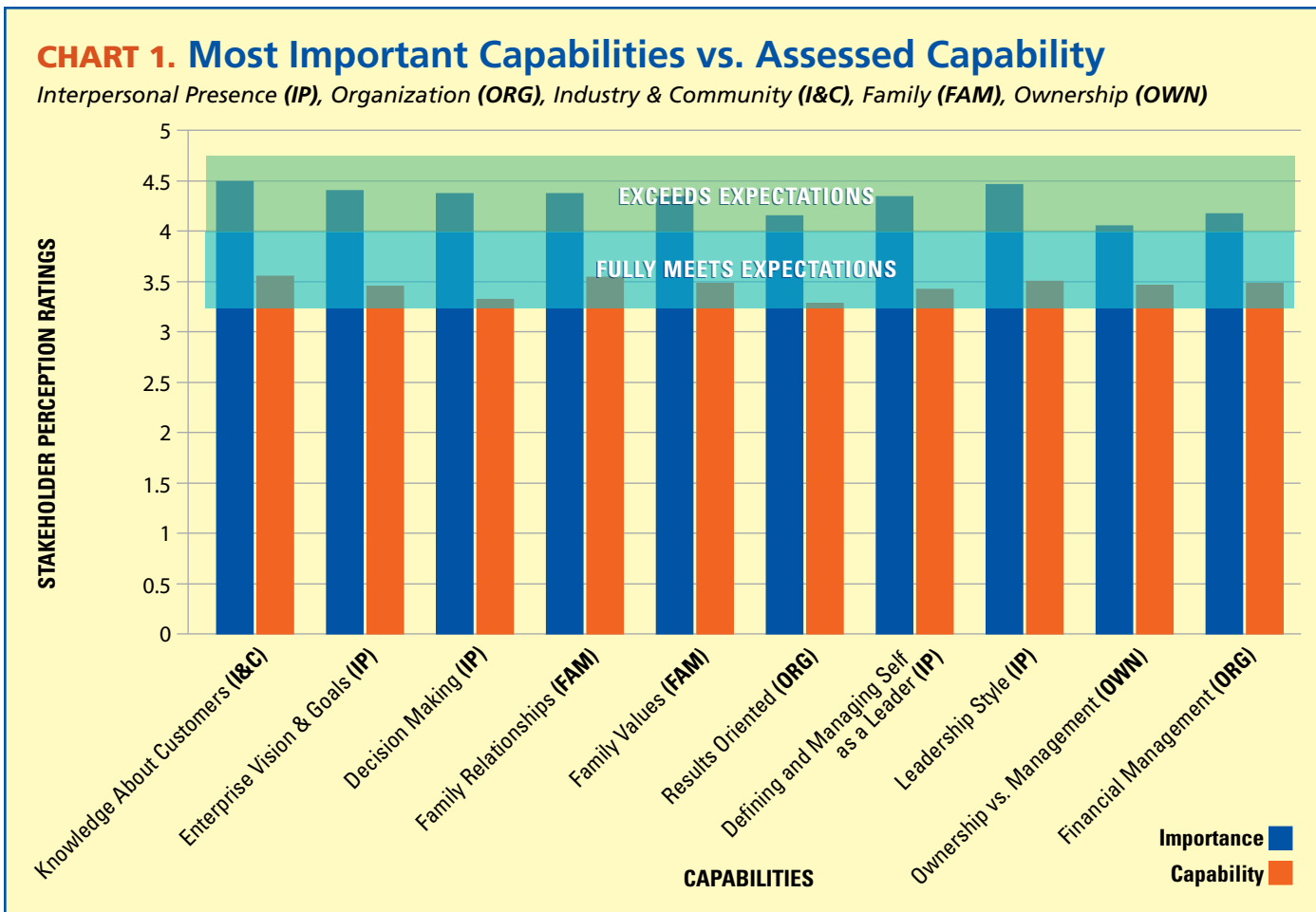
development, clearly there is interest in understanding the characteristics that define leaders and what can be done to foster them. While theories and quantitative research abound on leadership traits, there is little, if any, quantitative research specific to the family enterprise. Most studies of family business leadership are anecdotal.

Now, after nearly a decade of deploying FELS, we have data that provide insight into how to develop a family's human capital. FELS helps us answer questions like:

- Are family members receiving enough attention or guidance in their career development?
- In stakeholders' opinion, what capabilities are essential for a next-generation family member to develop?
- Are there differences between how men and women perceive their own capability, and how stakeholders perceive male and female next-generation members? If there are differences, what is their significance?
- How can family enterprises use this information?

The FELS research project collected data from three different broad groups of stakeholders. A total of 555 raters from 32 different family enterprises assessed 40 next-generation members, who ranged in age from 27 to 45 years old. (The median age was 34.) Generations 2 through 4 were represented; their tenure in the family enterprise averaged eight years. Men outnumbered women by more than 3:1.

Raters included high-level stakeholders (such as board members and senior leaders), workplace colleagues (peers



and direct reports) and family members (including those who worked for the company as well as those who did not). Additionally, each of the next-generation members provided a self-assessment.

FELS Research Project findings

Our findings provide insight into the capabilities that stakeholders consider the most important (Chart 1). In general, the capabilities with the highest rating are in the *Interpersonal Presence* category. They include the ability to create a story for the future (the *enterprise vision and goals* subcategory), to be self-aware (the subcategory of *defining and managing self as leader*), to focus on stakeholders (the *leadership style* subcategory) and to carefully consider how decisions get made and hold decision makers accountable (the *decision making* subcategory).

Knowledge about customers (a subcategory of *Industry & Community*) requires relationship-building skills, an understanding of others' needs and the ability to clearly articulate your vision. People who are *results oriented* (a subcategory of *Organization*) support and develop *family relationships* and live by their *family values* (both subcategories of *Family*). They are able to control budgets and drive profit (the *financial management* subcategory of *Organization*).

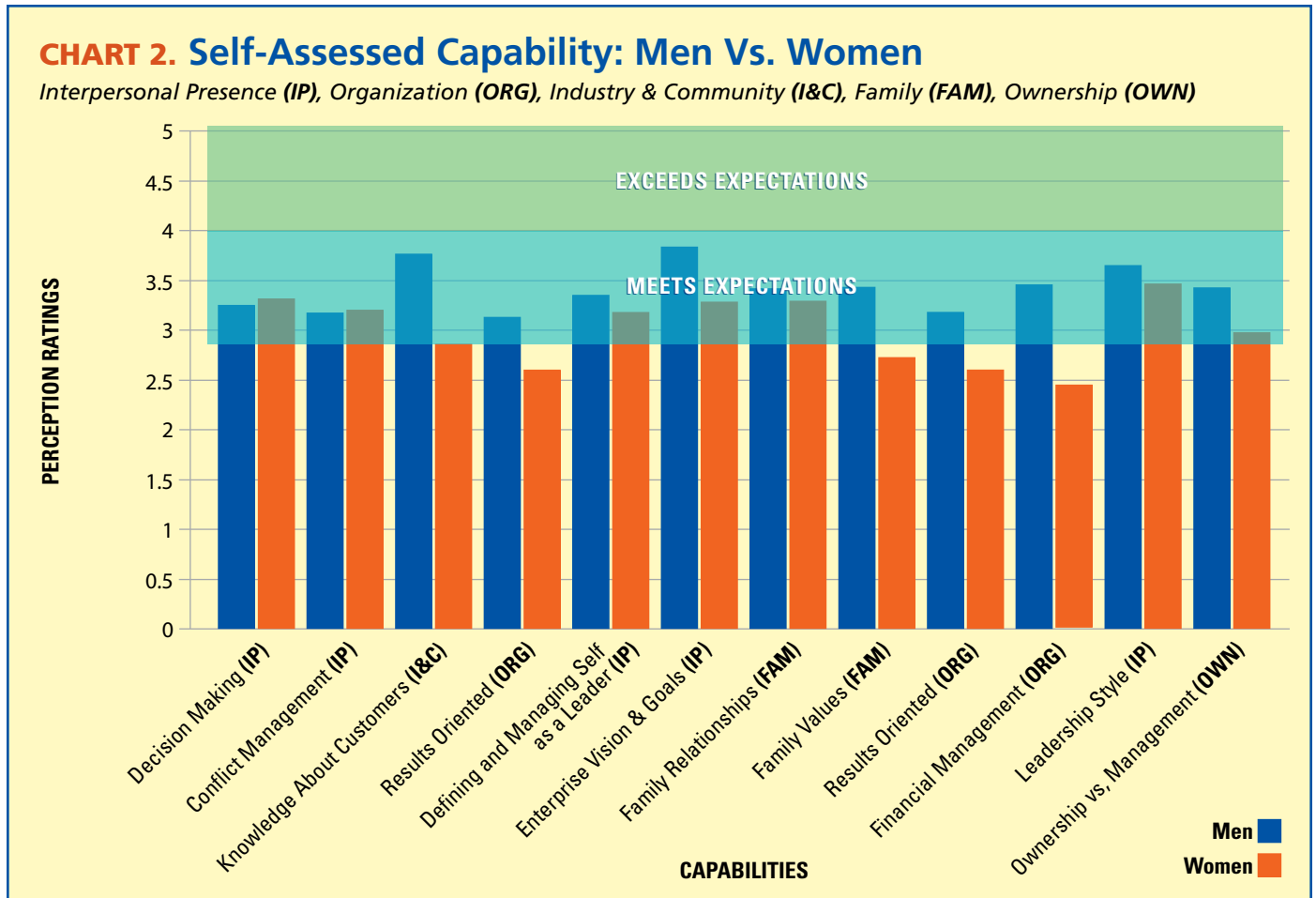
Chart 1 also shows how stakeholders view the next generation's current capability. On average, stakeholders observe the next generation as at least "meeting expecta-

tions" on the capabilities they considered important. But will there be enough talent to fulfill potential critical leadership roles in the family, the business or the ownership group? What is missing? What capabilities will separate those considered "good enough" from those who "exceed expectations"? How will the stakeholders know when a leader has emerged?

Having objective data allows stakeholders to assess true fit between next-generation family members and the roles they aspire to fill (or are expected to fill). The family can better determine how far along next-generation members are in their development of the capabilities that are most relevant to the future of the enterprise.

Chart 2 shows the self-assessment results for men compared with the findings for women. There are decidedly some gender differences in how one views one's own capability—even accounting for the fact that less than one-fourth of the study participants were women. On the capabilities considered most important by all stakeholders, women tend to underrate themselves, while men tend to overrate themselves. This is not an unusual finding. The literature on performance self-assessment by women vs. men corroborates our research.

Chart 3 shows development needs—the gap between the importance rating and the capability rating—as assessed by all stakeholders. When we look at the capabilities stakeholders believe next-generation family members need to be



effective leaders, the differences between men and women become more pronounced: Women are seen as needing less improvement than men. If there is a gap of at least 0.5 *vis à vis* a particular competency, the individual needs to develop that competency.

In next-generation members' self-assessments of development needs (Chart 4), there is an even more pronounced gender difference. Yet both men and women perceive a need for improvement. They agree with the overall assess-

Next-generation members with high leadership capabilities are aware of stakeholders' needs and desires because they take the time to build relationships.

ment of all stakeholders that there is a development need; the difference is in the degree of perceived need.

In today's world, more women are expected to play leadership roles in their family enterprise. Yet these findings suggest that women are less bold about their desire to lead and need encouragement to participate at higher levels. If they don't receive this encouragement, the enterprise could lose talent.

The ideal future leader

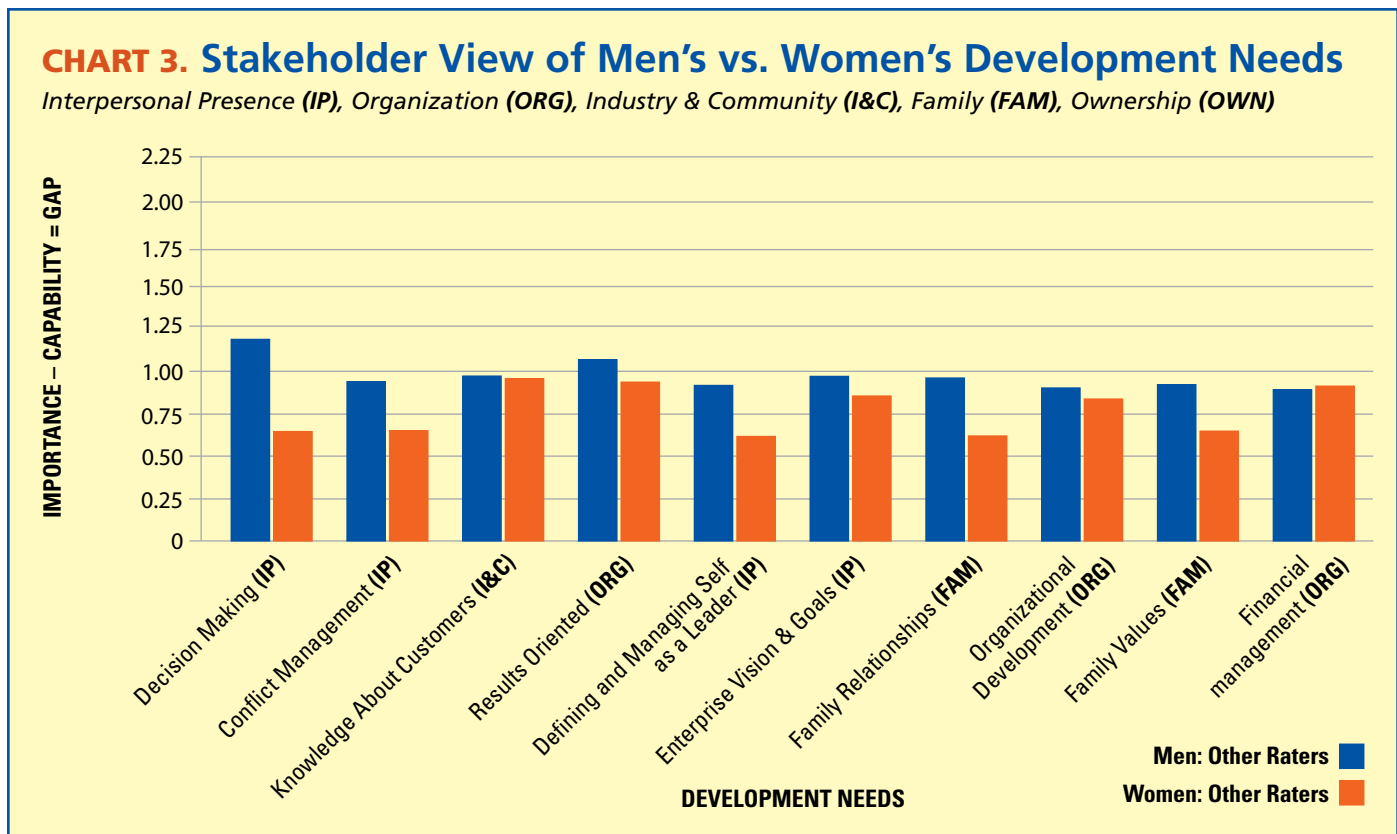
Our research offers insights into which next-generation

members are likely to become the best leaders. These future leaders are skilled at making decisions, including identifying and communicating the decisions that need to be made. They delegate when appropriate yet also hold themselves accountable.

Those with high leadership capabilities have their own unique story to tell about how they see the future unfolding, what they will do to get there and what is needed from stakeholders to reach the desired destination. These next-generation family members are aware of stakeholders' needs and desires because they take the time to build relationships. They don't effect change by using persuasion; rather, they are able to assess the culture's readiness for change because they are self-aware and interested in others. They consider return on investment to be important, but not at the expense of family relationships or family values.

The ideal future leaders are confident yet unassuming, thoughtful rather than impulsive, and other-directed as opposed to self-serving. Because they are open to learning and look for win-win solutions, managing conflict positively is a top priority. Disagreement is expected and desired.

By the same token, the enterprise that encourages the development of an ideal future leader is focused on setting up the structures and processes that allow stakeholders constructive channels to express their viewpoints. It provides stakeholders with the information they need to participate in making decisions that will affect them. Creating a culture of responsible owners, regardless of position or role, requires a commitment to openness and transparency. Developing stewardship in family owners is fundamental to this family enterprise mission.



Building human capital capacity

What can we learn from the FELS research about developing and mentoring next-generation members? Building the family's human capital capacity—creating a culture of responsibility, connection and stewardship—prepares leaders and responsible stakeholders. Here are ten steps the family enterprise can take, whether a generational transition will occur in the near or distant future.

- Develop a culture in which family members must earn their successes through their own accomplishments. There is no other way to gain self-esteem.
- Create inter- and intra-generational connections. These are the relationships that will help family members understand each other as branches develop.
- Promote leveling experiences. It makes one more human to have experiences that do not hinge on the family's influence or affluence.
- Encourage joint decision-making experiences and the making of mistakes. The best way to learn is by considering what went wrong.
- Provide models and encouragement for self-awareness and self-management in a variety of settings. Learning is limited if one never moves out of his or her comfort zone.
- Encourage and accept thinking about individual dreams. Everyone has a dream; it is important to know it and own it before choosing to share anyone else's dream.
- Create an open forum for thinking about and planning for the future. Inclusion and participation lead to a sense of ownership, responsibility and accountability.
- Make financial responsibility and financial management a real experience. People without limits don't think

about boundaries or the need to achieve financial goals.

- Allow for, encourage and expect participation in family governance. This provides a living laboratory for working together to achieve a goal.
- Ensure there is transparency in decision making within the organization. This promotes thoughtful participation. Stakeholders must have all the facts and consider others' agendas and motivations.

Navigating the issues

Enterprising families face many hurdles when a generational transition is on the horizon. Future leaders must navigate issues such as family dynamics, ownership and governance, management and return on investment.

As a family engaged in economic enterprise grows larger, their ability to continue their success into the future requires a financially literate and industry savvy stakeholder community as well as a diverse talent pool. With a larger ownership group, business and wealth oversight will involve greater complexity.

In addition to preparing the next generation educationally to manage the family's portfolio of assets, family enterprises must prepare their young members for managing their relationships with other stakeholders and dealing with the intricate balance of emotions. Having data on leadership development will help enterprising families to effectively cultivate their human capital. FB

Fran Lotery, Ph.D., is a principal in Relative Solutions LLC, a consulting firm to family enterprises (www.relative-solutions.com).

