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The 4-L framework of family business leadership

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Abstract

The 4-L framework for learning family business leadership is a practical model based on empirical research into the learning experiences of second or later generation family business owners who attained the CEO role in the family firm. The strength of this framework is that it takes account of:

• The special characteristics of firms run primarily by blood-related members of a single family;
• The paradoxes family firm leaders have to manage in combining two conventionally unrelated systems: business and family.

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What is the 4-L Framework?

The 4-L framework for learning family business leadership is a practical model based on empirical research into the learning experiences of second or later generation family business owners who attained the CEO role in the family firm. The strength of this framework is that it takes account of:

- The special characteristics of firms run primarily by blood-related members of a single family;
- The paradoxes family firm leaders have to manage in combining two conventionally unrelated systems: business and family.

The framework clearly resonates with business owners. They find it a formidable tool both for reflecting on, and understanding, their learning experiences and as a clarifying framework for the skills and training needed by successor CEOs.

It has also proved useful as a pedagogical tool and is used in university courses on family business and in professional development seminars for family business owners (Craig 2013). The framework has also been used in academic research to examine women's experiences of family firm leadership.

The framework is comprised of four discrete, sequential leadership learning phases found in successful family firms, together with the *priorities* of each learning phase, specific *paradoxes* created in each learning phase, and the *pathways* found to have been followed in successful cases to manage the paradoxes. Two of the phases are about *apprenticeship* or learning to lead a family firm. Two are about *stewardship* or how leaders continue to learn on the job and plan for succession.

Family firms are different

Family Controlled Businesses (FCBs) face the same pressures to maintain competitiveness as non-family firms, but also need to manage the pressure of the family system impacting the business system. At the simplest level, people in family firms eat, sleep and generally live out their lives in the company of their work colleagues to a much greater extent than people in non-family firms.

Management paradoxes manifest themselves in all firms and these paradoxes need to be managed. That is, people need to cope with truths or realities that are in tension or even contradiction with each other, but which cannot be made to disappear. In FCBs, an additional set of management paradoxes arises because of the overlap of the family and business systems which, equally, cannot be made to disappear.

For example, the family and business experiences of male and female CEOs is often different. Male CEOs in FCBs tended to follow the four phases in sequence, women's progress through the phases often misses one or more steps, which then needed to be completed later. In general, women leaders' progress was much less strategic. Women who do not make it to the top in their family firm can generally pinpoint precisely which phase they did not complete successfully and how they had been derailed (Barrett & Moores 2009).

Introducing the 4-L Framework

Successful family business leaders understand the progression through two stages: apprenticeship and stewardship, each comprising two discrete learning *phases*:

1. ***Apprenticeship***: Learning business; Learning our family business; and,
2. ***Stewardship***: Learning to lead our business; Learning to let go of our business.

The first two phases involve learning as an ***apprentice*** before assuming leadership of an FCB, while the remaining two phases focus on ***stewardship*** and occur after leadership starts. Each learning phase is associated with a specific *learning priority* and a particular *paradox* emerges for each learning priority. Successful firms find specific *pathways* to manage each learning phase's paradox in accordance with its learning priority.

The following discussion centres on the insights successful family firm leaders have gained about each learning phase.

Apprenticeship

Phase 1: Learning business

All CEOs need to learn the skills of managing a business regardless of the firm's ownership structure. However, some special attitudes and skills are needed to run a family owned business, and there are some special ways of acquiring them. Moreover, this initial learning must be done outside the family business. The views of the owner of a major fruit and vegetable business were typical:

> *I would rather send them off to Sydney, to stay with another sister or somebody like that, and let them work for [name of major department store] or somebody else for two years, to see what it's like working for somebody else in the retail trade. Where they can't just walk out the door and get in the car and go to the gym.*

Learning priority: Personal proficiency

The most important skills future family business leaders need to learn outside the firm are personal proficiency skills, especially self-management, people skills, and the technical skills of business. Self-management skills and people skills are the most important.

Self-management skills involved acquiring attitudes and personal qualities such as personal discipline, attention to detail, and a sense of pride, responsibility, and self-reliance. For example:

> *Above all, what I learned in those early days is that it's pretty well up to me how things turn out. This doesn't mean I think I can do anything, but that if something's got to happen, it's going to need me to see it through.*

People skills, or getting the best from one's staff, are next in importance. The CEO of a motor dealership franchise as a family business said about her son, who went to work in a different franchise interstate:

> *He then had to feel the brunt of his staff, getting the best out of his people, doing deals, keeping within budgets, buying cars, etc. […] What he really had to learn was how to produce the results by getting people to work as a team.*

The technical skills of business are important and also best learnt outside the family firm. Finance and accounting skills are the most important, but selling, knowing the current market, having the ability to pick where the market could go, are also more easily learnt from early mentors outside the family firm. Two values underpin this early learning. They are:

- The value of ongoing learning;
- The value of pragmatic practical knowledge about how to 'just push ahead with it' rather than theoretical knowledge about business.

The paradox of phase 1: The inside vs. the outside

'Going outside' to gain personal proficiency creates the first paradox about learning family business: the 'inside-outside' paradox. 'Going outside' in order to 'return inside' later is both necessary and a threat. The younger generation must develop skills they cannot acquire by staying in the family business, but going outside threatens the survival of the firm *as a family firm*, because the person who leaves may never come home. Virtually all family business owners and CEOs have, at some time, contemplated not working in the family firm. However, successful CEOs lead their company skilfully and precisely because they originally envisage *not* doing so, and develop a career elsewhere.

Pathways through the 'Inside-Outside' paradox

There is only one viable pathway through the inside-outside paradox: 'go outside anyway'. This means members of the family business need to accept uncertainty and keep the route back to the family firm open.

Phase 2*: *Learning our business

Learning general skills is not enough. Family business leaders find learning *our* business – the family business – is different from learning business in general.

Learning priority: Valuing values

After completing the first stage of learning, the learner typically returns to the family business and focuses on the importance of *family business values*. For example, CEO parents' capacity for hard work, determination and capacity to admit mistakes.

The paradox of phase 2: 'Continuing Differently'

Learning *our* business means 'valuing the values' of this particular family firm. But because the growth needs of the firm change with its position on the life cycle curve, the older generation's values often need to be 'continued differently'. For the second generation in the business, **'**feeling the freedom to interpret traditions in the light of the world as it is today and not as it was when the tradition was formed is very important.'

Two pathways through the paradox of 'Continuing Differently'

People generally use one or both of two pathways to manage the 'continuing differently' paradox.

Pathway 1: Maintaining the previous generation's broad management philosophy rather than the detail. For example, the younger generation sticks with the firm's broad philosophies such as honesty, hard work, and a cautious approach to debt.

Pathway 2: Recognizing and developing the *market* value of a family business. This pathway redefines 'valuing values'. Levels of family firm involvement can alter, such as when firms begin to use professional management. Nevertheless, customers value a visible family presence. One CEO, a grandson of the founders of a mountain resort business, which had recently had a major influx of professional staff, expresses it this way:

> *People still come up here and still feel that it's a family business. In fact guests have much more chance of meeting the family now. V. and P. [the two founders] turn up in the morning and cook the toast, and people say, 'Isn't it great to see the family business still going here'.*

Stewardship

Phase 3: Learning to lead our business

Learning to lead our business imposes new demands on the leader to professionalise the FCB while retaining a culture of trust.

Learning priority: Perspicacity

Family businesses are those *controlled* by a family, whether through share ownership, presence of family members on the board, or by the dominance of family members as managers. The last of these is the most common even if elements of control through share ownership and governance structures co-exist. This definition of family business points to two vital issues in family firm leadership. These are:

- Leading the family firm so that family and business work together;
- Leading the family firm in relation to its life cycle.

Managing these two issues requires *perspicacity* to control the internal responses of the family business organisation in relation to its internal and external context, as well as the family context.

The paradox of phase 3: Informal formality

Achieving the perspicacity, or insight, needed to lead a FCB centres on knowing how to use apparently contradictory approaches to management control at the same time. A kind of 'informal formality' is needed to run family firms. Successful FCB leaders seem to be intuitively aware that clan or social type controls have a major role to play, ensuring the existing high levels of trust between family members is used to determine the broad thrust of the business.

However, more conventional accounting-based output controls are used for day-to-day operations, particularly when leaders are dealing with 'outsiders' or when they judged it is time to 'professionalise' the business.

As well as being the most effective way to both control and harmonize the firm's family and business elements, this dual approach allows a uniting of transactional and transformational approaches to leadership. Leading family and non-family is not easy, particularly in times of change.

For example, as FCBs grow, many leaders recognise the need for a professionalised approach to staff issues, such as greater formality of job roles. This means formal control rather than the informal controls, which often characterize FCBs before growth. Adopting formal controls, a 'business' idea, means accepting that not all employees within a business are equal. But this runs counter to a common 'family' idea that siblings are entitled to equal rights.

Pathways through the paradox of phase 3: Address structure, strategy and systems

Maintaining control in complex situations demands more information, and, more information requires more formal and complex means to provide it. Sophisticated computerised systems come to dominate management control systems in successful family firms, but the value of less formal controls remains high. Leaders need to be 'formally informal' or 'informally formal'.

Another way leaders achieve perspicacity as the firm becomes more complex is to exert more formal control through directors' meetings. All our Ceros' businesses had boards of directors, with most requiring regular meetings and at least some non-family members. This was partly to counter informal types of control exercised by the family, which could hinder change.

Phase 4: Learning to let go our business

All organisations undergo transitions as they change, particularly when a new CEO has been appointed. However, because of the overlap between family and business, handing over control is perhaps the most crucial issue in FCBs.

Learning priority: Prescience

The first three learning phases are directed at placing the eventual leader at the head of the family firm. But letting go means the paradox of leading for when the leader will no longer be the leader. The priority in learning this aspect of firm leadership is prescience: knowing when and how to let go. This means answering two questions:

(1) What needs to happen if the business is going to continue in the family?

(2) How should the successor be appointed and the retirement process of the present CEO be managed?

The firm's climate, its stage of development, the influence and desires of the family, and the current CEO's desires for the future, all impinge on these issues.

The paradox of phase 4: Leading by letting go

For second-generation (or later) members of the same family, the question of selling the firm does not arise. The decision to keep the firm 'in the family' has already been made. In these cases the key issue is to decide what qualities the new leader needs. CEOs agree that the best results come from matching the new leader's role to the business's life cycle stage, e.g model of Adizes (1988). Answering question 2, how to manage the incumbent's retirement, signals the need for a successor who has learned business, learned *our* family business, and is now ready to *lead* that business as CEO. But, even if an appropriate successor is available, various barriers to exit from the business may make succession difficult (Sonnenfeld 1988).

Pathways through the paradox of leading by letting go

Managing the exit process is key to overcoming the barriers to exit from the business. Several parties are involved: the incumbent CEO, other members of the family, the 'outside' managers, and any non-family owners. FCB owners have identified three useful and practical steps: Define a timeline; create management development systems; and stick to the plan.

Develop a defined timeline for retirement: Most CEOs support having a defined timeline for the retirement process. Moreover, the timetable works better if the founder has developed it and done so early.

Create management development systems: Valuing and creating management development systems is part of all three earlier learning phases, but most interviewees pointed to the need for management development systems to support 'a clear line of succession'. However, in some FCBs, leaders are convinced that a tacit approach to succession works.

Stick to the plan: CEOs needed to plan for retirement and build peer networks. Various advisory and professional organisations in the family business community internationally can help with this.

Summary of the 4-L Framework

The 4-L Framework is presented in Table 1 and the image below summarises the four discrete learning phases, along with the relevant priority, paradox, and pathway of each.

Apprenticeship			
Learning Phases	**Priority**	**Paradox**	**Pathway**
Learning **Business**	Proficiency	Inside-Outside	Go outside
Learning **Our** Business	Perpetuating Values	Continuing Differently	Keep philosophies not details Learn market value of family business values
Stewardship			
Learning to **Lead** Our Business	Perspicacity	Informal formality	Address learning tasks associated with strategy, structure, and systems
Learning to **Let go** Our Business	Prescience	Leading to leave	Develop timeline for retirement Create management development systems Stick to the plan

Table 1. Family Firm Leadership Learning Phases

References

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