



Family executive teams can be a great way for families to manifest their values and sustain a powerful company. But creating a balanced and well-functioning team demands continual monitoring and attention

# Creating effective management teams

By Dennis T Jaffe

IN THE DARWINIAN WORLD of struggling economies, companies are responding to pressure by looking to strong new leaders for salvation. So, it seems almost quaint when a family business bucks the trend by supporting its leaders to perform over time, and installs a team of family members at the top.

Many business sages proclaim that there is only room for one person at the top. Yet, many family businesses have experimented with various forms of team leadership, sometimes with impressive results: in the US, the husband-wife co-CEOs Herbert and Marion Sandler successfully run World Savings; brothers and co-CEOs Tim and Richard Smucker have helped The JM Smucker Company reach the century mark; and the department store Nordstrom is presently being led by three brothers and a brother-in-law.

To be sure, there are many disasters when one heir fights for control against others or when a family team has a falling out. But as family firms look to their younger generations and see many different talents, capabilities and interests among their heirs, the attraction of forging a family team to lead the company is clear.

Not every family can create an effective team to share leadership of a firm. When it happens, it offers the company the possibility of a varied set of skills and capabilities, working cooperatively, with a long-term, value-based perspective. But creating a team is not done simply by delegation or election. The groundwork must be set over many years.

## Building trust

Trust is the currency that holds a family team together. While that is true of every team, the presence of a family dimension, including deep family rivalries and emotions, complicates working relationships. But to work as a business team, the family members have to trust each other deeply and implicitly.

Trust builds as family members learn they can depend on each other to come through, to be accountable and to conduct their work with professional competence. Good intentions do not build trust; in fact, as trust begins to erode in a family team, each party brings up their good intentions, which are not supported by their behaviour. Trust takes a long time to build up, but one misstep can destroy it.

## Mentoring new leaders

Most effective sibling teams begin as intergenerational partnerships. The founder/leader must become a mentor/coach to his heirs. The elder generation helps along each heir, with a clear shift of power and control over time across generations. While there is often a natural rivalry in strong competitive business families, it must be tempered by a value of respect and cooperation.

In the Mellon family, whose second generation became perhaps the wealthiest US family in the early 20th century, Judge Thomas Mellon, an Irish immigrant, was a creative and conservative businessman. But he saw his primary mission as the preparation of his sons for leadership. He took time with each one, seasoning them very early with responsible assignments, taking them into partnership and helping them learn from their mistakes. When son Richard wanted to join his brother Andrew in their growing bank, he was immediately offered a full partnership. While his personality was radically different from that of his brother, their sibling partnership lasted the rest of their lives and their divergent roles greatly enriched the family. Their values around family partnership, the example of trust and collaboration, and the mentoring all came from their father. He worked with them for many years, offering them increasing responsibility and authority until, at an opportune time when they were "ready", he let go.

## Carrying their weight

Too often a family will name a sibling to a management position because they feel it is their “right” as a family member. While this may seem fair, this places pressure on more competent and committed family members, who feel that they have to carry their weaker family member. The effects of this on non-family executives and other shareholders can be unsettling. Too often, the family managers will do their best to deny or avoid the issue.

Family teams also break up when one member feels the other is not coming through. For example, the Dupont family had a strong troika of family members in the early 20th century. Then, as two of the partners began to spend more time pursuing politics and personal relationships, their team broke down because one member felt he was taking all the responsibility. One cousin forced a buy-out on the others, alienating him from them for many years.

## Creating a shareholder agreement

Families have a great tendency to keep things informal. They feel that their trust and love means that they do not need formal agreements. This has a devastating effect when there are disagreements, which are inevitable. If there is a family management team, they have overlapping roles as owners, managers and family members. The family team must create a family shareholder agreement, detailing the values, assumptions and operating principles of their team. This should deal with the team’s responsibility to the rest of the family, term of office, decision making and accountability. For example, the third generation of the Rockefeller family consisted of five young men, each of whom evolved a role and responsibility for working with the family’s diverse investments and philanthropic activities. When they were in their 20s, as they began their careers, they crafted a thoughtful value and cooperation agreement, which specified that the welfare of the whole family was to be more important than any of their individual careers.

## Communicating properly

Fairness and accountability of any team is a tricky business. If siblings are a team but manage diverse business areas, they have a great deal of autonomy to make decisions. But as partners, they have a responsibility to inform each other. This can short-circuit later misunderstandings and lead to better decisions. Effective family teams tend to talk daily and give each other more information than they need.

## Sharing leadership

A family team of co-CEOs or a troika in the Office of the President are not absolutely equal. The sharing of titles and leadership in effective teams is a mark of public family support and respect. In private, there is often an agreement that one family member will be the first among equals. For example, in the Bronfman family, brothers Charles and Edgar Sr were rivals early on. They agreed that Edgar would be the public leader, but that major decisions would be shared by the brothers, one in Canada one in the US.

## Assessing performance

Teams and managers fail because of their blind spots. They may think things are going swimmingly and then find a deep fault in their business model or execution. Family business heirs tend to develop a sense of entitlement and are usually not given tough feedback on their performance. But running a business is not a family hobby. An effective sibling or family team must have an independent Board or advisory group, consisting of mature leaders who are able to tell the truth to emerging family leaders and be tough with them. They also must be available and able to develop a trusting relationship with the family leaders. Sometimes, a new family leader has his or her performance assessed, and is mentored, by a key and trusted non-family executive. Either way, there must be some authoritative source where family members can hear the truth and be willing to listen.

## Respecting others

When there is a strong sibling team running a family business, two groups are often suspicious and feel left out: the non-managing family owners and the key non-family executives. The sibling team must be open to each of these stakeholder groups – sharing information, fairly allocating the profits and listening to concerns and ideas. If a sibling team is closed and seen as working for itself, other constituencies can challenge it. The family members can demand to be bought out, a change in leadership or even the dissolution of the company. The key managers can vote with their feet and defect to competitors if they feel unfairly

rewarded or that they are not given real responsibility. Many effective sibling teams have strong outside managers on the management leadership team. They often issue phantom stock or incentive compensation to reward and respect their contributions.

## Specifying terms for the next generation

Retirement and letting go are difficult topics in a family team. A good team tends to want to stay longer than it needs to, or than is good for the company. A new generation is ready to take over long before the old generation is ready to step down. Many promising businesses have been eroded because the older generation would not move on. Effective teams have a clear sense of time and have provisions for bringing in the new generation of leadership. Judge Mellon gave up his business interests to his sons when they were ready. He became restless. Instead of trying to get back into the business or act as a sideline advisor, he simply moved at age 75 and started a new business!

Family executive teams can be a delightful way for families to manifest their values and sustain a powerful company that both builds wealth and serves other societal values. But creating a balanced and well-functioning team demands continual monitoring and attention. ■

### Action steps for building effective family teams

- Hold meetings to talk about all issues at least weekly.
- Craft a shareholder agreement, detailing the core values, operating principles and rules governing the family team.
- Clearly define roles, responsibilities and expectations of each team member.
- Have an outside group review progress and assess accountability and capability of each team member.

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