"Family gravity": The force that balances "family" and "business"

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One of the fundamental challenges of any family business is maintaining the balance between "family" and "business." Within the owning family, there will be the same complex, interpersonal dynamics and conflicting aspirations and priorities that occur in any other family. But in a family business, those conflicts and differences don't limit themselves to the dining table. As families get larger, those disputes become more complex and carry over into business disagreements about succession, decision-making, strategies and roles. These disagreements undermine the ability of the enterprise to maintain its cohesiveness, grow in new markets and ensure its continuation. The delicate equilibrium between how a family works with the business and how it works with itself becomes unstable.

In our work with family businesses, we have seen the tension between "family" and "business" increase significantly in the last decade. Evolving social mores and technological change have brought a greater emphasis on personal freedom and self-actualization as family members are exposed to a wider array of possible life choices. At the same time, the business environment has become much more unforgiving. Family businesses are just as vulnerable as non-family businesses to disruption from new competitors and new business models. There is less and less room for infighting or other distractions.

When there is a lack of clarity between what is good for the family and what is good for the business, family leaders sometimes act in the hope that that things will sort themselves out over time. However, the opposite usually occurs. The problems caused by poorly defined boundaries and governance norms rarely disappear on their own. For example, we are familiar with one company, owned by a family but run by a non-family CEO, in which the patriarch responded to a series of strategic missteps by suddenly placing four family members—until this point uninvolved in the business—in management roles. Without clear remits or performance standards for the newly installed executives, mistrust and confusion spread through the management team. In another case, the board, made up of family members, was consumed by disagreements about payouts and a succession battle over who will be its next chair.

This is why governance is so critical in family businesses. Tools such as a family constitution, business succession plans and a family council help maintain the balance between family and business by clearly defining mechanisms for resolving conflict, determining roles, entering and leaving the business and other key issues. Professionalization—bringing in non-family members to the board and/or senior management and adopting some of the best practices of non-family enterprises—can also be a powerful source of stability.

But good governance and professionalization are only effective if the family is united around a common vision for the business and the family's relationship to it. (Consider that in our first example, having a non-family CEO didn't prevent the family from mishandling the issue of integrating the next generation.) But how does a family arrive at that common vision? Many families turn to what we at Egon Zehnder call *family gravity*—the central values of the family business. These values might manifest themselves in the relationship of the family business to its community, markets to which the family is committed to serving and the family's aspirations regarding its treatment of employees, suppliers and customers.

In early-stage companies, family gravity often resides with the family's elder statesperson, who is usually also either Chairman of the Board or CEO. In later-stage businesses, it resides in the values and legacy of the firm that have built up over time. Family gravity is a significant intangible asset—and one a wise leader will leverage *before* there is a rift or crisis[1].

We worked with one board chair who founded what had become a multibillion-dollar engineering company. He knew that a family business of this size could only be sustained by rigorous governance at multiple levels—and that the entire family would have to feel ownership of these frameworks. He began by establishing a Family Business Board comprised of family members tasked with creating a three-year plan for the business, including where the sprawling conglomerate should strategically divest and where it should focus its resources. Next, he created a Family Council to define and assign leadership roles and to create compensation and decision-making policies. The process culminated in the drafting and signing of a Family Constitution, which addressed issues such as management succession, ownership succession, control and power sharing.

None of this was easy. The discussions—which stretched over three and a half years of family meetings—were at times acrimonious and painful. However, this collaborative effort resulted in well thought-out guidelines for business strategy, leadership and governance based on the values and priorities to which everyone agreed. From this foundation, the family now is in a strong position to optimize its practices and resolve conflicts that arise along the way. Doing so may involve

[1] For more on family gravity, see "Leadership Lessons from Great Family Businesses," Claudio Fernández-Aráoz, Sonny Iqbal and Jörg Ritter, *Harvard Business Review*, April 2015.

professionalizing the processes of the board and management, making the company in places more like a business and less like a family. But the company only got to this point because the board chair was able to call upon the collective sense of purpose that came from the "family" part of the family business.

By leveraging family gravity before any major conflicts arose, the board chair was able to balance the tensions between "family" and "business," resolve differences between individual and collective interest and take a major step toward securing the long-term success of the enterprise.

For more information

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