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Family Business Leadership Governance: *The integrated practices of ASLI framework*

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ABSTRACT: *This paper discussed Family Business Leadership Governance (FBLG) practices: the approach to leading the family businesses, family business strategy, the structure of family business leadership, and family constitution & succession planning. These practices are significant for any family business and must be developed and executed by the Chief Family Business Officer (CFBO) to ensure the proper governance of family business leaders. Further, this paper will introduce the ASLI framework to work on each family business leadership practice. These practices are also interconnected with each other. This framework can be presented as new knowledge in family business management. If the family businesses apply this framework formally, it will play an imperative role in their sustainability and growth.*

KEY WORDS: family businesses, family business leadership governance, chief family business officer, ASLI framework.

INTRODUCTION

A family business is a privately held company with ownership passed down through the generations and is primarily owned by one or more family members (Clark: 2022). According to the Family Business Institute, only thirty percent of family businesses survive into the second generation, twelve percent survive into the third, and three percent continue to operate into the fourth generation or beyond. It is well known that family firms face difficulties with survival, leadership changes, and governance (Araoz, Iqbal & Ritter:2015). Because family dynamics can impede decision-making and lead to conflicts of interest, these companies frequently face particular governance issues (Sabao:2023). Therefore, this paper discusses the practical governance framework for the leaders of family businesses.

LITERATURE REVIEW

In family business systems there are various official leadership positions. The CEO and board chairperson lead the company and, typically, the shareholder group. The traditional family leaders are parents, grandparents, and family council leaders. In these systems, these formal leaders do not make all critical choices. They also don't offer all the advice. They do not distribute every resource. However, families rely on them to play a part in directing and leading their group since they have much authority, influence, and control over resources (Davis:2019). Family businesses are intricate systems, and leadership plays a critical role. Generally speaking, family businesses can have three distinct types of leadership:
1: Pure: Key leadership positions engaged by the family members or just one family member.
2: **Mixed:** Leadership team is a combination of members of the family and external managers.
3: External: Leadership by external managers, where the family just focus on their ownership role.

Family members face a leadership challenge in that they must constantly keep the needs and expectations of their ambitious family in mind. They have two responsibilities to fulfill; they effectively wear two hats: they are leaders in the organization and family members. The expectations put on them can occasionally conflict with one another because of the differences in the fundamental structures of the family and the company. Do they go against family expectations to further the company's interests, or vice versa? They invariably become ambivalent as a result of this. They experience physical and psychological stress as a result. The emotional nature of the family's interactions presents another difficulty. This can even apply at the business level. It can take precedence over the businesses' need for logic. Family disputes can rapidly negatively impact the business, severely hinder its ability to operate, and, in the worst circumstances, even lead to its collapse.

External managers, however, must always consider the ambitious family and its emotionality, even if the family merely concentrates on its function as owner. Decisions that the family does not agree with will not be upheld. Therefore, external managers must be thoroughly aware of the dynamics of the relevant entrepreneurial family. They also need to be reasonably compatible with the family's values. If the differences are too big, they often will not have a long-term future in the business (Caspary:2022).

It's also critical to discuss that a family-owned firm is more than just a company. It's frequently thought of as the most valuable family possession. Because of this, it can be highly challenging for business owners to find and appoint outside leadership to join a family

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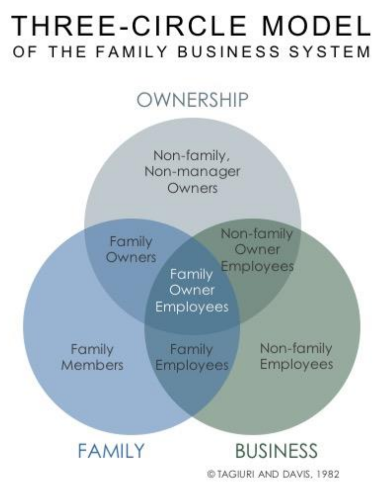
enterprise. The business was initially driven by the founding CEO's enthusiasm and drive, but as it expanded and new generations joined the company, it eventually led to difficult decisions that required the knowledge and expertise of outside leaders (Smith:2023).

Renato Tagiuri and John Davis of Harvard Business School (HBS) developed the Three-Circle Model of the Family Business System in 1978 as the foundational framework for understanding the roles of family business leaders. The Influence of Life Stages on Father-Son Work Relationships in Family Companies, Davis' doctoral dissertation, was the first to publish it in 1982. It was published in Tagiuri and Davis' original work, "Bivalent Attributes of the Family Firm," in the Family Business Review in 1996. The three interrelated and overlapping groups depicted in the Three-Circle Model of the Family Business System are family, ownership, and business.



Within a family business structure, an individual works in one of the seven sectors established by these overlapping circles. The top circle will only contain an owner (shareholder or partner). Family members will be on the left, and workers at the family business will be on the right. Individuals will be in a single circle if they have only one of these roles. If a person plays two parts, he/she will be sitting in two circles at once and in an overlapping sector. A person is in the bottom-center sector if he/she is a family member who works for the company but does not own any shares. A person will be seated in the middle of the three overlapping circles if he/she is a family member who owns and operates the company.

The Model shows the leaders of family businesses in the system. As members of the same family, they could play distinct roles, such as family workers or family owners. These overlap areas in the Model indicate role overlaps and possible role confusion. Each of the seven interest groups the Model identifies has distinct dynamics, aims, concerns, and points of view.

The Model serves as a helpful reminder that all sectors have valid opinions that should be valued. Although there is no more valid point of view than another, the various points of view need to be considered when determining the future course of the family business system. The smooth operation and reciprocal assistance of each of these groups are essential to the long-term viability of family business systems (Davis:2018).

It is important to understand further that most family businesses fail because they lack the discipline, governance structure, and leadership to handle all their challenges. They mishandle or fail to plan for succession transitions. They do not communicate effectively in both family and business. They ignore the need for innovation in a fast-moving world. Therefore, solid and effective leadership cannot be overlooked as they are so strongly linked to the family business's performance. Having one person initially lead the business, ownership, and the family is the natural choice for family businesses worldwide (the "parent-founder-business leader-controlling owner"). However, as they grow in size and complexity, identifying others to share leadership roles is critical to their sustainability (Harland:2016).

Postulation

The literature review of this paper discussed family business leadership, its different forms, challenges, the three-circle model to identify family business leaders in the system, and the need for shared leadership roles for the sustainability of family businesses. The literature review and the research to produce it give a margin to think about how to govern the leadership of a family business through some defined process, its execution, and its executors. It is essential to get the answer to this question. So, this paper postulates that family business leadership needs some strong governance because by governing the leadership of family businesses, leadership will perform effectively for its family and business.
In postulation, following elements to govern family business leadership will be discussed:

- The approach to leading the family business
- Family business strategy
- The structure of family business leadership
- Constitution and succession planning

The details are going to be discussed onward.

1: The approach to leading the family business

It is a widespread belief that an entrepreneurial family has to decide whether the family or the company is more important to them – in other words, if they are a *'family first'* or a *'business first'* family. These two approaches describe a family culture and a corporate philosophy that favors the interests of the family over those of the company - or vice versa (Astrachan:2015).

A "family first" strategy strongly emphasizes maintaining and strengthening family ties. This strategy has several essential features, including using blood rather than skill to determine leadership and appointing less competent family members to important positions. Birthright and family seniority may be prized more highly than aptitude or expertise. The barrier between personal and corporate money is further blurred with the Family First strategy by using business funds for personal costs. It has also been noted that the Family First method offers family members equal pay regardless of their positions or accomplishments. Family harmony is prioritized in the Family First option. The happiness and well-being of the family come first.

In the Business First Approach, Family business problems can never overlap. The business's best interests always come first, fostering a successful organization. The most important is meritocracy. Stakeholders and family members know the inherent differences between business and family duties. Leadership is a quality achieved via skill and merit rather than just being handed down via families. The most competent people take over the business, and when outside talent is required, it is considered. Personal and business funds are kept apart in the context of Business First. One of the most important rules is keeping personal and company finances separate. The business uses its cash flow to reinvest to drive value and growth.

Family members do not divert funds for their own purposes. Professionalism is the main objective of the Business First approach. The family runs the company like any other, emphasizing performance-based appraisals, defined positions, and professional management. Additionally, family members receive the same treatment as executives unrelated to family (Soriano:2023).

A family-first or business-first approach impacts the company's profitability differently. Various management techniques, objectives, and values apply to each philosophy. Choosing a family-first or business-first mindset may have an unavoidable impact on debt, labor, management, and succession decisions. A family-first family business's profitability is used to support family requirements, whereas a business-first family business's profitability is used to support business needs (Iglesias:2015).

2: Family business strategy

The three-circle model can be used as a reference to develop a family business strategy at three levels. The first is the Business Family Strategy, the second is the Owner Strategy, and the third is the Business Portfolio Strategy.

According to the Business Family Strategy, enduring, prosperous business families have a shared sense of what matters to them, what they want to accomplish as a group, and how they wish to collaborate to realize their shared objectives and vision. This tactic allows family members to grasp better what binds them and sustains their relationship. Even though research has demonstrated the value of devoting time and resources to creating a business family strategy, many families that own businesses focus primarily on their business strategy and pay little attention to the business family plan. The family's shared values and objectives, sense of family, and shared dedication to the company comprise the Business Family Strategy. Families in the business world are linked to one another by a company they jointly own. Therefore, their mutual dedication to this firm may be significant. In addition, as the makeup of the larger family shifts, family members are more likely to express opinions about who should be in the business family (i.e., the boundaries). Ensuring everyone knows common values and objectives is another aspect of the business family strategy. The more family members engaged, the more potential for values and goals to diverge and complicate collaboration. Therefore, for a business family to create a plan, they must decide on more general objectives that the family will work toward as a unit. These come from discussions that assist the business family in determining their shared goals. Conversations about common values and objectives provide a framework for family decision-making and guidance for creating owner and business portfolio strategies (Rusen, Botero, Schlippe & Groth:2023).

A family business's Owner Strategy is not the result of happenstance. Instead of an enforced solution, a process produces a strong owner strategy. When creating an owner strategy, difficult questions like Who can become a shareholder? It must be answered. What is the policy regarding dividends? What financial objectives does a family wish to fulfill? How should one invest in startups? How should ownership-related conflicts be resolved? How do you leave the ownership of a business, etc.? To allow the family to express their opinions, it is crucial to create an environment of respect, candor, and understanding (Lin:2020).

In business portfolio strategy, it is critical to realize that building joint family wealth—typically via a diverse portfolio of jointly-held assets—is the key to guaranteeing the robustness and sustainability of a family-owned business. Broad diversification is a complex technique, so families should only try it with the proper procedures and organization. Successful multigenerational families must first and foremost have a long-term vision for the enterprise's boundaries. Successful families understand that once the decision to diversify is made, a significant investment of time and money is required to find, assess, and rank prospects to open up new business frontiers. Ultimately, prosperous families must be prepared to reallocate their resources to only those sectors with a promising long-term prognosis, sell off failing or peak-performing assets, and rebalance their portfolios. Families implementing a successful business diversification strategy can accomplish this by outlining their plan in detail and creating systems and procedures that facilitate efficient management of the varied enterprises (Pendergast: 2022).

3: The structure of family business leadership

Leadership structures in family businesses typically cater to the needs of the business and the family. A well-designed and executed structure offers a foundation for choices and efficient communication specific to the family and company. When leadership structures work well, they bring both parties together. Myriad factors, including the size of the family, the business, and the family culture, influence the leadership structure of a family business. Several entities are employed in the structure, such as the Board of Directors, Family Advisory Board, Family Council, and Family Assemblies (Dunn:2023).

Any family-business-ownership system will have slightly different structures depending on the size and composition of the ownership group, the size, generation, and diversity of the family, as well as the size and composition of the company organization. Not every family enterprise system can benefit from the same governance structure. However, a few organizational structures can oversee the majority of family business systems: the top management group, the board of directors or advisory board, the family assembly or council, the shareholders' meeting or council, the shareholders' assembly. As the business, family, and ownership groups change over time, so must the membership and roles of these governing organizations too. Instead of a board of directors, a first-generation family firm might simply need (or tolerate) a small, informal advisory board. A third-generation family might require a family council to help define family policies and a family assembly, which would gather many family members once a year to learn about and discuss the family business. The board and the family council's functions must alter as family business ownership becomes increasingly fragmented across generations.

The relationship principle between structures—the distinct roles of the board of directors and the family council—must also be mentioned. Family-related policies are established by the family council, which also suggests policies to the board (such as those about family employment in the company). In addition to establishing company policy, the board of directors has the authority to advise the family council on business-related issues. While ideally, the board and family council will coordinate their efforts, they shouldn't encroach on each other's territory (Davis:2001).

Another component of the structure that a family uses to run the family business is a family office. Family offices are known to provide most or all of the following services, albeit each family will have very different needs in terms of which services are offered, by whom, and to what extent. the services provided by a family office typically include investment strategy, financial and tax planning, record keeping and reporting, family succession and estate planning, trustee and company management, philanthropy, risk management and security, lifestyle (usually non-financial) services, family governance, and family education

(Macdonald, McMullen & Moore:2019).
By implementing precise and efficient governance frameworks, family businesses may ensure seamless leadership changes, preserve family peace, and provide a strong basis for future growth. To ensure the continued success and longevity of the family business, it is critical to continuously enhance and modify these structures in response to shifting family dynamics and business needs (Tamplin:2023).

4. Constitution and Succession Planning
Family companies are intricate, and the roles that family members play in them usually evolve from non-planned events and circumstances. Unlike non-family businesses, disputes inside family businesses are frequently more complicated and challenging to settle. In this case, a family business constitution is crucial to handle the intricacy (Vasquez:2017). A family company constitution is an essential document that originated in the Anglo-American legal system, where the phrase "family business protocol" first appeared. The family constitution is known as the "Family Charter" or the "Family Protocol" in Germany. Family enterprises are often thought to benefit from the family constitution (Ulrich, Speidel:2023).

A family business constitution is a document that formalizes the rules governing the less formal aspects of the firm and is signed by family members. A non-legal document known as a constitution outlines the policies, practices, and processes that govern the family's interactions with the company and with one another as shareholders. These documents serve as a basis for resolving unpleasant situations when they do emerge and can assist in addressing awkward issues before they develop. Because every family is different and has its own culture and business, its involvement is crucial to a healthy constitution. A constitution is often created in three steps. The family first determines each member's unique needs together. The family then works together to develop the constitution. Last, the family pledges to ongoing evaluation and modification, ideally at predetermined yearly intervals (Vasquez:2017).

The process of writing a family constitution is particularly important because it gives family members a great chance to get together, define and express their beliefs, and lay out a plan for how the family will continue to work toward its mission and goals for future generations. As members get to know one another, the family's background, and common motivating principles, creating and implementing a family constitution can strengthen bonds within the family (Prangley, Warren:2023).

In addition to the constitution and the process of writing it, succession planning is crucial to family businesses. It is the process of finding and training people to fill important roles in a company so that the present owners can leave. It guarantees business continuity, lessens family strife, and aids in maintaining the family's legacy. It results in managerial and cultural shifts from one generation to the next. Succession planning helps to find and nurture the family's strong performers. The next generation can acquire the abilities, know-how, and practical experience needed to run successful businesses through this process. It equips them for future leadership and progressively allows them to take on more responsibility. Establishing trust between stakeholders, such as family members, clients, vendors, staff, and investors, is facilitated by effective succession planning. A well-defined plan provides a sense of stability and certainty about the company's future. For example, when a major owner or manager dies or becomes unwell, a well-thought-out succession plan can help lower the likelihood of financial loss (Agrawal:2023).

Conceptual Framework

This paper proposes a conceptual framework based on the above postulation. This framework covers the approach to leading the family business, family business strategy, the structure of family business leadership, and family constitution & succession planning as Family Business Leadership Governance (FBLG) practices. Each practice is denoted with the word and the alphabet by which the word starts, i.e., approach to leading the family business as **A**pproach, family business strategy as **S**trategy, structure of family business leadership as **L**eadership Structure, and family constitution & succession planning as **I**mperatives. The A of word Approach, S of word Strategy, L of word Leadership Structure, and I of word Imperatives are introduced as the ASLI framework, representing the practices of Family Business Leadership Governance (FBLG).

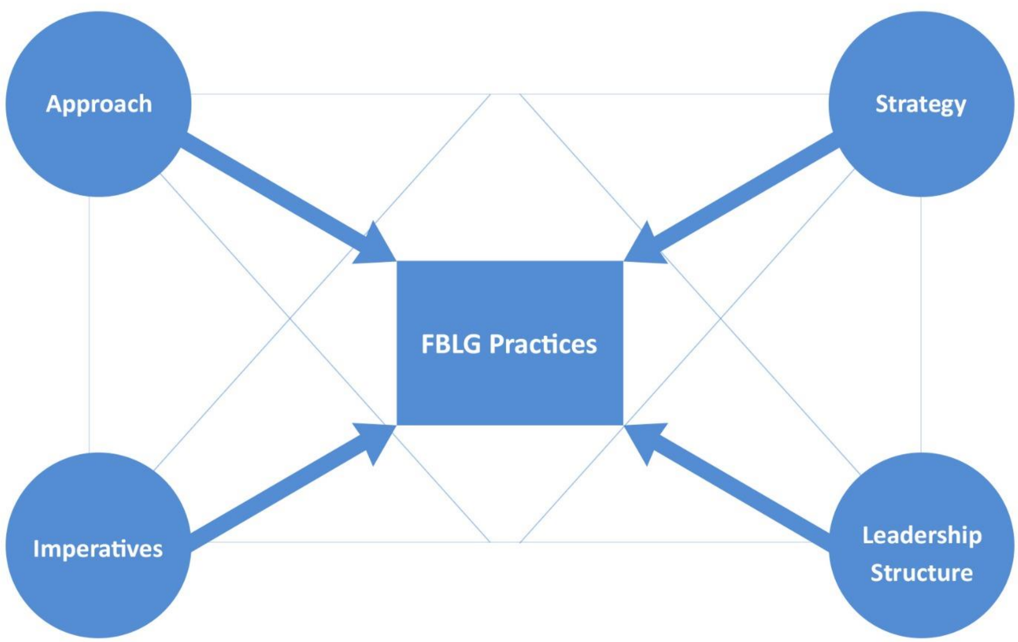


Figure 1: ASLI Framework of Family Business Leadership Governance (FBLG) practices

Thus, ASLI Framework of Family Business Leadership Governance (FBLG) practices depict that selecting an approach of Family First or Business First is the starting point of FBLG practices. Once the approach is selected, the second practice is to craft the strategy on three levels, i.e., Family Strategy, Owner Strategy, and Business Portfolio Strategy. The third FBLG practice is to create the family business leadership structure based on the Family Council, Board of Directors, and Family Office. The fourth practice of FBLG is to develop and implement imperatives of family business, which are Family Constitution and Succession Planning.

Further, the Approach, Strategy, Leadership Structure, and Imperatives are integrated. Approach (Family First or Business First) impacts setting the Strategy (Family Strategy, Owner Strategy, and Business Portfolio Strategy) because the approach sets the tone to craft the strategies. To execute the strategy, there must be some leadership structure (Family Council, Board of Directors, and Family Office) that will execute the strategies. The imperatives of Family Businesses, which are Family Constitution and succession planning, are also developed and executed by the Leadership Structure.

In summary, the Family First or Business First approach, Family Business Strategies, Family Council, Board of Directors, Family Office, Family Constitution, and Family Succession Planning are integrated into a family business's governance. By integrating these elements, a family business can effectively manage the complexities of family dynamics while ensuring the long-term success and sustainability of the business across generations.

Impact

The paper introduced the ASLI Framework of Family Business Leadership Governance (FBLG) practices. This conceptual framework can be presented as a new comprehensive knowledge in Family Business Management. The books can be written based on this framework to teach university students at business schools worldwide and to train management professionals to prepare them for the senior career levels in the family office of family businesses.

It is also suggested that FBLG practices of the ASLI framework can be performed by any professional family business specialist, such as the Chief Family Business Officer (CFBO). The role of a CFBO may involve overseeing the governance of family business leaders in their family business. This position can lead the family office and is crucial for ensuring the continuity and success of the business across generations while balancing the interests of the family and the company.

CONCLUSION

The ASLI framework of Family Business Leadership Governance (FBLG) practices may appear simple, but it is applied and helpful for family businesses for their sustainability and growth. The FBLG practices must be developed and executed by the Chief Family Business Officer to ensure the proper governance of family business leaders. But if there is an absence of alignment and interconnection among the FBLG practices, then it will be useless to develop and execute them. Therefore, it is essential to use the ASLI framework to work on each of the practices and align them with one another for the required results.

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