

JCG Pyramid of Leadership in Family Business

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Abstract

Family Business, or a Family Business Enterprise, owned and managed by a family, and a Family Owned Enterprise, owned by the family but managed by professional are very prone to conflict (Susanto et al, 2013). The role of its leader is very significant with regard to its sustainability. However, a classic trap of inclination towards “one man show” or “multiple leadership” is observed. The purpose of the study is to discuss the strategic leadership model in family business capitalizing on The JCG Pyramid of Leadership as suggested by The Jakarta Consulting Group, based on the author’s desk research and observation.

Keywords: family business, leadership, jcg pyramid of leadership

Introduction

Family businesses can be classified into *Family Owned Enterprise (FOE)* and *Family Business Enterprise (FBE)* (Susanto, et. al, 2013). FOE is owned by family but managed by professional executives who are not family member, in which the family do not involve in the company’s daily operational activities, while FBE is owned and managed by family members. This paper will focus on professionalizing the leadership of family business.

Family Businesses play a significant role in many parts of the economies, both in developed and developing countries. Based on the data from Family Firm Institute (FFI), family businesses create an estimated 70 to 90 percents of global Gross Domestic Product (GDP) annually. According to Global Family Index 2017, the largest 500 family businesses have total sales amounts to 6.8 trillion USD and employee almost 25 million people. It is the third largest economy after USA and China.

In Canada, approximately 80% of all businesses in Canada are family Business, which are responsible for about 60% of Canada’s GDP per year.

In the United States (US), the biggest economy in the world, the greatest part of America’s wealth lies with family-owned businesses. Family businesses contribute 57% of the GDP and employ 63% of the workforce¹ Some prominent names include Ford Motor Company, Wal-Mart, Hilton, and Marriott Corporation.

In Brazil, Latin America’s biggest economy, the majority of businesses in the country are family owned. Family firms represent 70 percents of the largest Brazilian business groups. In Chile, it is estimated that between 75 to 90 percents of all the firms in the country are family-owned and controlled. Roughly 65 percents of the medium to large size enterprises in Chile are family owned. Chile’s family-owned businesses are typically well-organized corporate entities with decentralized command structures and little day-to-day control by individual shareholders.

In Europe, family businesses also play important role in big economies such as Germany, France, United Kingdom (UK), Spain, and Italy, as well as smaller economies such as Austria, Denmark, Ireland, Norway, Portugal, and Sweden. The situation in former communist Countries in Eastern Europe such as Czech Republic, Estonia, Hungary, Latvia, Slovenia, and Slovakia is no different. In Almost all European countries, more than half of the businesses are owned and/or control by families. Some prominent family businesses from Europe include BMW, Henkel, Merck (Germany); L’oréal (France); FIAT, Parmalat (Italy); H&M (Sweden); Lego (Denmark); Sainsburys (UK); and Camper (Spain).

Around 75 percents of the Middle East's private economy is controlled by 5,000 high-net worth families, with their companies creating 70 percents of the region's employment. Family businesses control over 90 percents of commercial activity. In Turkey, 90 percents of Turkish businesses constitute family firms. Sabanci Holding, the largest industrial and financial conglomerate in Turkey by profit, is one of the most prominent business organizations in Turkey. In Australia, 67 percents companies in the country are family businesses, in which 90 percents of them employ less than 200 people (Thomas, 2006). In 60 percents of Australian family-owned companies, the owning families are directly involved.

However, despite its significance in many economies, the average lifespan of family businesses is short, only 24 years (Welles, 1995), in which it coincides with the number that the founder control and manage the business. After this time, the business may continue to exist, but the ownership and the leadership mean not belong anymore to the family. Another study conducted by Lansberg (1999) finds that fewer than 30 percent of family businesses are passed on to the second generation, and only 10 percent make it to the third generation, although there are some family businesses who have existed and are still controlled by the same families for 100 of years. Recent survey conducted by National Bureau of Economic Research Family Business Alliance (2016) suggests that only 10 percents of Family Business make it to the third generation.

In Indonesia, the author's country of origin, only 61 percents of Family businesses are led by the second generation, according to The Jakarta Consulting Group Data Bank. Those who are able to pass to the third generation are only 24 percents. Across Asia, the numbers are even more dismal: only 33 percents are able to survive to the second generation.

One of the reasons for such phenomena is leadership. Here, we are not only talking about leadership of the first generation or the founder, but also the successive ones. Leadership has always been the organization issue, regardless of its ownership; A company needs a leadership which can encourage its employees to strive for achieving its vision and goals. A leader has to have a clear, credible, and realistic vision and share it to all employees (Susanto et. al, 2013). Unfortunately, not every generation in family business possesses such leadership quality.

This paper will discuss strategic leadership model in family business capitalizing on The JCG Pyramid of Leadership as suggested by The Jakarta Consulting Group. This model is based on the author's observation, desk research, and practical experience in helping many family businesses.

Leadership in Family Business

Leadership in Family Business depends very much on figures and it has the tendency to fall in the so called multiple leadership or one man show leadership trap. (Susanto et.al., 2008).

If many of the family members involve in the early stage of the business, there will be a multiple leadership. But if the company is owned by only one figure, usually there will be one man show leadership. However, one man show could also happen when there is one figure that has a strong personality and leadership skills dominate the company, while at the same time other leaders have relatively weaker leadership. This is despite the fact that the business has several persons who have leadership title.

The family firm should be careful with "superman syndrome" (Susanto et.al., 2007), in which the leader or the owner act as if he is a superman who can play every role and solve various problems in the business.

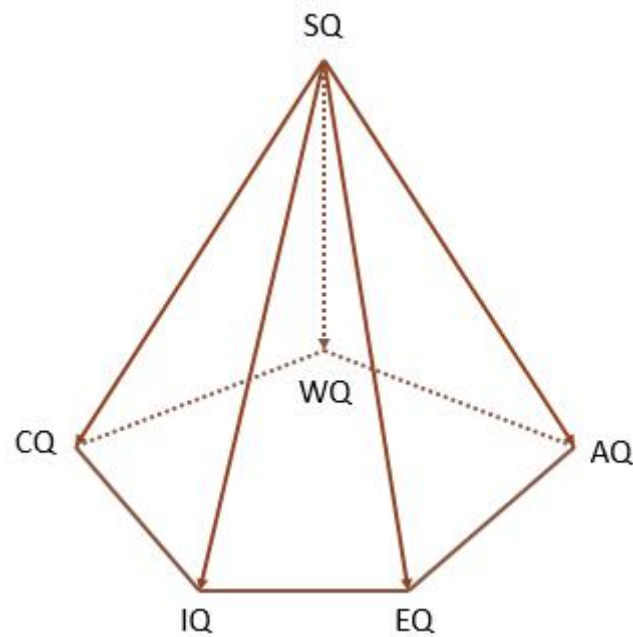
Regardless whether it is a one man show or a multiple leadership, the dominant role of a leader at the early stage is inevitable, since he is the only one who has relatively more knowledge, skills, experience, resources, and networks. Skills include production, marketing, finance, etc. All decision-making powers are centralized in the leaders, based on their intuition and experience (Susanto, 2013). In one-man show leadership, leader serves as owner, manager, entrepreneur, founder, and father figure at the same time (Cheng and Lim, 2012). He has the final say regarding business matters, whether they are strategic issues

or operational ones. He involves in the day-to-day business activities. The family business owner controls the flow of information. He/she only transmits information in a small amount to his/her subordinates so that they become dependent and thus unable to outperform him/her. The amount of information given to a specific subordinate depends on the degree of trust that the leader has for that individual. In such case, leaders often trust his family members only. Without the control of information, the subordinates frequently have to ask the leader for instructions. By observing such characteristics, we can say that leaders of the family business at the early stage as if he is a superman who can do anything.

JCG Pyramid of Leadership as a Leadership Models in Family Business

As the company grows and develops, the one man show, as well as the multiple leadership approach cannot be sustained. In managing growing family business, it would be necessary to groom and appoint qualified leaders. Professionalism is a key for success in family business; it increasingly becomes a standard for reference in assessing family members working in the company (Aronoff, 1998). Furthermore an active and effective outside directors are the most important resources for a family business. They will improve the corporate strategy and ensure the continuity of the company's operations (Ward and Aronoff ,1992). Family dimension means that professional management is integrated with family values, family perspective, and ownership. Family relation should not be a reason for the lack of discipline, accountability, consistency, and responsibility.

In order to build a strong leadership The Jakarta Consulting Group (JCG), A Strategic Management Consultant in Jakarta has introduced JCG Pyramid of Leadership which is applicable for many kinds of organization, especially for family businesses.



The JCG Pentagon

There are five foundations of JCG Pyramid of Leadership namely Intelligence Quotient (IQ), Emotional Quotient (EQ), Adversity Quotient (AQ), Creativity Quotient (CQ), and Will Quotient (WQ). At the top of the pyramid lies Spiritual Quotient (SQ).

Intelligence Quotient (IQ) relates to the hard skill and knowledge possessed by someone. Emotional Quotient (EQ) discusses how someone deals with his/her emotions such as anger, sadness, and anxiety. Adversity Quotient (AQ) discusses how a leader deals with adversity both it is professional and personal life. Creativity Quotient (CQ) discusses how a leader could solve problems and deal with environment

dynamics in a creative manner so that he could bring the organization forward. Will Quotient (WQ) discusses how someone is willing to do and achieve something.

In today's volatile, uncertain, complex, and ambiguous business environment, high IQ is not enough. Leaders often have to deal with a situation creating emotional discomfort. The ability to overcome such discomfort will enable leaders to optimize their skills and knowledge benefiting the business. Leaders with high EQ are excellent in conflict resolution, coping with high-pressure situations, cooperating with people from diverse backgrounds and skill sets, listening, receiving feedback, and making strategic decisions.

In many situations, we find that life adversity can only be solved through a creative way. That is why leaders must have both high AQ and CQ. Leaders must have the ability to endure any adversity, particularly when it comes to dealing with organization issues. At the same time, they must use all their creativity to find any solution.

Achieving high IQ, EQ, AQ, and CQ requires a strong willingness (WQ). In turn, this will create a stable SQ. In order to manage the family business successfully, there are four strong elements that must exist, namely leadership, people, culture, and 3S (strategy, structure, and system).

Leader is the one put who has the utmost responsibility to bring the business forward. A family business needs a reliable leader, who could direct his or employees and manage the organization to accomplish its goals and objectives. Such Leader is expected to be able to influence every organization member so that he or she will have the same vision so that the organization goals and objectives can be accomplished.

In any organization, quality people are the utmost prerequisite so that it could progress and survive. A family business is no exception. It needs people with high knowledge, attitude, competency, and motivation.

Along with its growth and development, a family business needs to shift its paradigm. Strategy in accomplishing its vision should be well-planned. Then an organization structure and system should be designed to support the strategy. In the growth phase, a family business should focus on developing systems and procedures, which must be prepared so that the business will not become too dependent with the owner. A founder with strong leadership ability and vast networks should be supported with strong and professional managers.

Leader has the responsibility to develop a strong and suitable culture. A culture is A set of excellent values, elaborated to become the guidance (direction, attitude and behavior) for organizational members in performing their duties, as to create organization integration, as well as to face business challenges, and to deal with external constituents (Susanto et. al, 2008) . At its early stage, a family business usually embraces a paternalistic culture, characterized by leader's strong domination in decision making, hierarchical relationship, lack of trust to non-family members, and tight supervision. However, as the company grows bigger, it adopts a more egalitarian approach, in which employees will have a bigger say.

Conclusion

Family businesses provide significant contribution to many economies. Unfortunately, in several countries their lifespan is relatively short to various reasons. However, efforts to professionalize the management and leadership are highly favorable. To overcome this situation, The JCG Pyramid of Leadership can be applied, in which potential leaders will be groomed in the multiple intelligence regarding their IQ, EQ, AQ, CQ, WQ, and SQ. As well as supporting them by having proper people, strategy, structure and system to bring the business forward.

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