

Developing Competent Owners and Stewards for a Lasting Family Business



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The ultimate goal of many enterprising families is growing a prospering organization stewarded by a committed group of united family owners. And while many succeed in developing a successful organization, they struggle with managing the increasingly dispersed and diverse family group. As the family – and with it, the shareholder group – grows, it tends to grow apart: Family members become more distant over time, both geographically and emotionally. With many more relationships involved, some relationships naturally get more attention than others, diminishing the overall strength of family relationships over time. What is more, with every generation, the connection between individual family members and the business tends to get weaker, unless the family takes continuous and significant efforts to keep the family engaged and knowledgeable about the business (Baus, 2012).

Systematic ownership competence development can greatly enhance family capability and unity and strengthen the connection between the family and the enterprise. It enables family members to contribute to business success and to family functionality, in whatever role they choose or are given. Yet only few families dedicate enough resources to ensure that their family members become capable stewards of the family enterprise and stay that way (von Schlippe, Rösen & Groth, 2021).

The Value of Competent Owners

The success of any long-lived family enterprise depends on the quality of decisions made by its leadership. On the business side, this might include the top management team, the board of directors, and in some cases, some influential shareholder. On the family side, decisions are made by family shareholders, and very often members of the extended family without ownership. Ownership competence means nothing more than having the ability to make decisions that benefit the longevity and prosperity of the family enterprise system.

In some families the decision-makers may not have the business acumen one would expect to see; instead, their primary purpose may be to represent the family. For example, a family member serving as a board director may have no prior executive or even non-executive business experience. Yet, they are being asked to make decisions about business strategy, major acquisitions or divestitures, or human resource issues.

Successful, long-lived family enterprises rely on the ownership group's intent to act as responsible and competent stewards of the family business. This includes owners' ability to make timely, sound and well-informed decisions, and the capacity to remain a unified, aligned group even in the face of diverse interests and objectives (Binz Astrachan, Waldkirch, Michiels, Pieper, & Bernhard, 2020). For a family with a multigenerational vision, educating family members to become such competent, responsible stewards of the family enterprise is a responsibility, and not a choice.

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What is Family Ownership Competence?

Family ownership competence refers to the knowledge, skills, and capabilities that enable family shareholders to successfully perform their role(s) as owners and stewards and make sound decisions that contribute to the success of the firm and the functionality of the family (Vöpel et al., 2013). These competencies fall into three broad categories:

- *Business*: Competencies related to one's own family business (e.g., knowing about and making use of the firm's history, key customers and suppliers, industry trends), as well as general business competence (e.g., finance, strategy)
- *Family*: Competencies related to nurturing a healthy and unified family (e.g., family dynamics, communication, conflict management)
- *Individual*: Competencies related to individual development and growth (e.g., boundary management, giving and receiving feedback, growth mindset)

Competence profiles differ depending on the role(s) a family member holds in the business and/or the family. For example, a family CEO or a family board chairperson ideally has strong competencies across all three dimensions: They intimately know their industry; they have a deep understanding for how family dynamics shape communication and conflict patterns; and they have a growth mindset that allows them to deal with feedback constructively. While it may be beneficial for a non-owning family member to also develop these competences, it is not a necessary requirement for them to successfully perform their role as a family steward (Binz Astrachan et al., 2020).

Ownership Competence Development in Business Families

Business schools generate tremendous revenues educating individuals who lead organizations on all levels of the hierarchy. Comparably fewer efforts are made to educate the individuals who own those organizations, and who oftentimes set the strategic course for managers to execute. Ownership education may be limited because we have so little research on ownership competence and what it takes to be a competent owner. However, given the economic and societal contributions of family enterprises around the world, business schools might be well-advised to address this shortcoming!

In their survey of 263 family firms, Vöpel and colleagues (2013) found that the majority consider developing ownership competence to be a decisive success factor. Respondents said ownership competence increases family cohesion and the ability to develop a shared set of goals (83%), and that it helps mitigate conflicts in the ownership group (67%). But while the respondents agree on the importance of ownership competence, the survey also showed they are not willing to make it a priority.

Our own surveys and interviews [Binz Astrachan and colleagues (2020), and Binz Astrachan and Botero (2021)] have found that while families view ownership education as a key to family enterprise continuity, many families struggle with dedicating resources to developing and delivering a relevant and engaging curriculum. Some families lack a champion for ownership competence development within the family, which limits their access to financial educational resources. Other families are fragmented and disconnected from the business, which requires tremendous efforts to get family members to commit to spending time together for educational purposes. Or, as Doug Baumel so thoughtfully added when reviewing this piece: *"There's got to be something 'in it' for each stakeholder to participate. When ownership is fragmented such that the financial value of ownership becomes insignificant – and the emotional value of ownership of the family legacy asset has been diluted for lack of attention -- there is little incentive for owners to carve out time."*

What is more, we've seen that our respondents recognize the importance of educating family members on "softer" issues of the family enterprise system (e.g., communication, family dynamics). However, educational content heavily focuses on the business side of things. For example, data collected in 2021, for an updated version of the Witten/Herdecke study on ownership competence, shows that while 88% of respondents perceive communication to be a critical skill, only 51% currently include communication in their current curriculum.

In summary, a business family's understanding of what constitutes a competent owner seems short-sighted, situational, fragmented and overly reliant on the business side. While many families have a long-term vision that goes well beyond 20 or 30 years, they don't invest sufficient resources to prepare the next generation of owners so they can adequately perform their rights and responsibilities over this period of time. With so much need for improvement, adding ownership competence development as a standing item on the family council's meeting agenda would be a first great step to seizing this opportunity!

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The Ownership Competence Development Curriculum

There is no ideal curriculum – and families are well advised to customize any blueprint to their own context, need, and objectives. The limited research and anecdotal evidence says that most curricula prioritize business-related skills such as management and strategy, finance, and industry knowledge. Family-related skills such as the family history and family dynamics, effective communication and conflict management are viewed as critical, but are often not an essential part of the educational journey.

Takeaways

1. Ownership Competence Development Requires Resources, Advocates, and a Strategy

Systematic ownership competence development requires a significant commitment of collective and individual family resources. Funds must be allocated, time must be made, commitment must be secured. Assigning a powerful advocate within the family helps in advancing these efforts. An ownership competence development committee should prioritize developing a strategy detailing the who, what, and when of ownership competence development for the entire ownership group. The first step is starting the conversation by discussing some of the following questions:

- What do we want our family members to know about the business and the family?
- Are we appropriately preparing the next generation for their ownership responsibilities?
- How much money, time and emotions are we willing to dedicate to this process?
- Who should be in charge of ownership education? Do we need outside help?

2. Identify Paths to Ownership Competence Development for Different Roles

The individual's age, and their current and future role(s) in the business as well as the family, will determine how they acquire competencies. For a newly elected family board member, pre-board mentoring sessions and post-board meeting de-briefings with a seasoned director or an executive like the CEO are great learning opportunities. Other roles may require more formal education (EMBA programs, or targeted programs focusing on specific skill development such as accounting classes, or programs specifically designed for governing owners such as the one the Loyola Governance Institute offers. Coaches can help with personal development. To build family business competency, involve key executives in putting together presentations for the family. This is a great way to connect the family to the business and signal continuity to key associates, while conveying knowledge.

3. Hold the Family Accountable

Regardless of whether family members have operational roles in the business, family members who want to be professional owners must thoroughly understand the business, the family's values and goals, and the dominant dynamics shaping their family interactions. Agree, as a family, on competence expectations for different roles. Make the path to acquiring this competence clear, and make access to the right training accessible. Ownership comes with a unique set of rights – and with many responsibilities.

Educating current and future decision-makers in the family enterprise is a responsibility, not a choice. Without preparing them to be competent owners and responsible stewards, you risk setting them up for failure...and putting at risk the many stakeholders depending on the firm's sustained success.

I want to conclude by sharing an important observation Dough Baumuel made when reviewing this article: *"Owner education – both 'hard and soft' – is important (...) but so is owner alignment. [Consider wealth disparity between branches], which can make even the best educated owners have very different views regarding their shared assets. Anticipating this can be helpful. In addition, values differences can drive differences in owners' intentions; some may not want to be owners of a meat processor or gun manufacturer. My point is that having educated, engaged owners is not always sufficient: Exit options to help those educated owners who remain forge better alignment together is also an important part of the equation (...) development of ownership competencies as an important and necessary condition for success – but, like all initiatives, not sufficient alone for generational success."*

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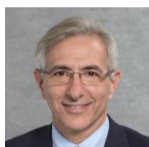
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