

# Family Business

## THE GUIDE FOR BUILDING AND MANAGING FAMILY COMPANIES

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### Cultivating ownership in the next generation

*The fundamental challenge for people of college age involves taking responsibility for themselves.*

By Greg McCann

Two areas that often receive inadequate attention in family businesses are shareholders' roles and next-generation development, especially during the so-called college years (ages 18 to 22). Both relate to the deeper meaning of "ownership": taking full responsibility for your life and accepting your responsibility to others.

Research by Jill Thomas (*Family Business Review*, 15[4]:321-36, 2002) indicates that ownership succession has not been studied as thoroughly as management succession. Indicative of how few firms professionalize the role of their owners, one group of researchers has suggested that fewer than 10% of medium-sized private companies have effective boards (John L. Ward and Craig E. Aronoff, *Family Business Sourcebook*, 3rd ed., 1993, pp. 252-3). In the first generation, as the founder transfers control, the family must determine who will take ownership of the business—a challenge that goes far beyond the number of shares family members hold.

As the family and the business grow, more people become involved. There are more non-family members working in the business, and usually more separation between ownership and management. At the same time, the family may be expanding in terms of generations, branches and sheer numbers.

The fundamental challenge for the next generation, especially in a family business, is taking responsibility for oneself. Training and development are important, as they are for other roles in the company. It is never too early to start. Yet even in families whose next generation may start working in the business at an early age, planning and preparation for ownership are often neglected, perhaps because they involve the delicate topics of control and cash.

The risk is that members of the next generation may feel entitled to a position in the business or a share of the ownership—and the attendant wealth and control—without earning it. At this stage of his or her life, a young person is undergoing a major transition: the process of becoming one's own person, or *individuation*. It's hard to be authentic and credible at ages 18 to 22, and it's even harder when your family members are your bosses or seem to have written a better script for your future than you can create.

Instilling a sense of ownership in these young people aligns with the development of the family business's most vital asset—the next generation—to ensure its sustainability.

How do you cultivate this sense of ownership? Start by emphasizing that in order to be involved in the business or its ownership, the next generation must be credible. Credibility has an internal component (self-confidence) and an external component (others' ability to validate that self-confidence). At my institution,

Stetson University, students in a sophomore-level family business class must create a 30- to 50-page life plan. This challenges them to take ownership for their futures.

Recognize that a sense of entitlement is the enemy of credibility. “A sense of entitlement guarantees that eventually you will see yourself as a victim” (Ezra Bayda with Josh Bartok, *Saying Yes to Life: Even the Hard Parts*, Wisdom Publications, Boston, 2005, p. 116).

Consider these questions: From the business perspective, how does one earn the credibility to be an owner? From the family perspective, how do we help our daughter or son develop as a person and as a professional?

## A plan for the next generation

Here are five suggestions for cultivating ownership in the next generation of your business family.

1. **Communicate your family and business values, your company vision and other relevant information to your next generation.** Help them see what it means to you to be an owner. You want to cultivate a sense of stewardship, not consumerism or entitlement.

2. **Insist that your next-generation members develop a clear sense of who they are.** I believe that every college student should have a life plan. I would suggest being able to answer four broad questions:

- Who am I?
- What are my core values?
- What key areas of my personal and professional life are most important for me to work on?
- Can I align any career decision with the insights gained from the first three questions?

3. **General development: Your next-generation members should pursue relevant education, training and experience, specifically as they relate to becoming a shareholder or owner.** They should understand that they must develop their credibility and marketability, create options for themselves and develop themselves by testing their mettle. Hard work, challenging experiences, honest feedback and ongoing learning are vitally important.

4. **Owner development: Next-generation members’ training, education and experience ought to include preparation for the role of an owner.** Do they know how to read a financial statement? Can they articulate the role of a board of directors (versus advisers)? Do they understand the relationship between the owners or board and the family? Between the board and management?

5. **Consider a long-term development plan.** Look at a longer-term time frame, perhaps five to ten years. What would you as a parent and a business owner like to see on the résumé of your next generation in order for them to earn some of the rights, responsibilities and privileges of ownership? This should be factored into the next generation’s life plan.

## How to support the next generation

What can the family and the business do to support the cultivation process?

1. **Communication.** The ability to communicate is key. Talking with your son or daughter builds trust, fosters learning and enables you to pass on your values. Listen to your child and ask questions. Learn how to give advice (it is best when it is asked for) and when to offer support and feedback (both positive and critical). This will help your child make the transition to a credible adult and professional.

**2. Planning.** As parents and business owners, share your vision for the business, your estate plan and your family values. Be able to answer the core questions: Why does this family have this business, and why does this business benefit from having this family involved? Ideally, especially if you are asking your son or daughter to create a life plan, you should have developed—and be willing to share—plans for the three family business spheres (family, business, and ownership).

**3. Accountability.** Be able to separate the roles you play with the next generation. Your role as a parent is to support your children, create options for them and enable them to test their mettle. Your role as a business owner and leader is to think long-term about preparing your offspring for three (potentially) lifelong roles: close-knit family member, (potential) business leader and (potential) owner. In all your roles, you need to protect your children’s credibility and integrity by holding them accountable. Invest in, and support, their long-term development. Here is where the rubber meets the road.

**4. Owner development.** Consider what should be included in a job description for an active owner or a member of the board of directors at your company. Merely discussing this can be educational and informative. In his book *Creating Effective Boards for Private Enterprises*, John Ward suggests including the family in the selection process for board members. This would get the next generation even more involved, informed and invested.

**5. Long-term planning.** If your next-generation members start doing the planning you want them to do, they will inevitably urge you to do the same. Do you have a long-term development plan? Do you have a board of advisers or directors, ideally one that includes outsiders? Do you use your board effectively? Do you have a family council or other body that represents your family not only to the board and management, but also to the wider community?

## Start early

In a family business, everything is interrelated. Since family businesses are inherently more complex and since they have more at stake than other types of companies, planning, communication and development are key. Far too few families try to address ownership issues until it is too late. When started early, the process can be very powerful.

In my experience, most young people are hungry for credibility; they just need support and ongoing feedback to earn it.

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