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Family Firms Prosper When Shareholders Think Like Trustees

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A trustee mentality helps make large families with many shareholders more cohesive, and preserves wealth for generations.

Business families with many shareholders and family members who have remained economically successful for centuries are called dynastic business families. These families must find ways to protect and grow their wealth over generations. To do this, shareholders need to think long-term.

This article shares practical tips, based on our research, on how families can develop a "trustee mentality" to secure their wealth and future. Strong family ties are key to business success. While we have only observed the trustee mentality in large business families so far, even small family businesses can learn from their approaches and best practices. By applying these insights, business families of all sizes can strengthen cohesion and achieve lasting success.

Two trends in family businesses are shaping ownership: Wealth is being shared more equally, spreading it across more family members. In addition, more family members are becoming shareholders and many of them are not involved in daily operations. These changes make it harder to maintain strong family ties to the business, increasing the risk of the business breaking apart and loss of continuity.

Our study explored how large business families create strategies to manage and grow their wealth across generations. We observed that these families develop a "trustee mentality" to handle the challenges of having more shareholders and weaker family ties.

How Trustees Think and Act

The "trustee mentality" occurs when family members define themselves as caretakers of the family's wealth, rather than just heirs. It differs from stewardship theory, which is well-known in family business research. Stewardship theory focuses on the idea that family and non-family executives act as responsible stewards in management, prioritizing non-financial goals. While the trustee mentality also involves selfless behavior, it focuses on the role of shareholders, particularly the connection between current and future generations of family owners. Unlike stewardship theory, which explains leadership behavior, the trustee mentality emphasizes preserving and growing assets for future generations. This mindset helps keep the family and business aligned with long-term goals.

A trustee is someone appointed to manage assets responsibly on behalf of others. While they have the authority to make decisions, their actions must always serve the interests of those who own the assets. The trustee mentality is about seeing oneself as a steward for future generations. In large business families, each generation views its role as preserving and growing family wealth for the next generation. The trustee mentality is a subjective idea in the minds of the shareholders. It has nothing to do with a legal relationship between the shareholders. Instead, it reflects loyalty to the family.

It encourages creating a "transgenerational vision," where current and future shareholders discuss how to manage company shares and private assets. The trustee mentality helps nurture and formalize shared values that keep family members connected, even when they are not bound by blood or direct ownership. It strengthens relationships and ensures that the family's unique qualities are preserved.

Based on this observation, our research aim was to find out how dynastic business families manage to create a trustee mentality over generations. We discovered four practices used in dynastic business families that create the trustee mentality. These relate to the family, emotional, personal, and financial dimensions of the business family.

These practices have helped family businesses in Germany thrive for centuries. Today at least 30 family firms in Germany have more than 50 individual shareholders. As the number of these large, long-established families grows, their significance in family business research is likely to increase significantly.

What We Studied

Our four practices resulted from an analysis of recorded conversations with family members and workshops with family firms in Germany. Our data came from a research project involving representatives of business families with between 100 and 400 family shareholders. The youngest company we investigated is run by the 5th and 6th generation of the family. The oldest company is in the hands of the 11th and 12th generations.

We addressed the following question in our investigation: What practices do large German business families use to actively build strong family and shareholder connections, fostering what they call a “trustee mentality” within their shareholder group?

We assumed that family relationships do not just exist—they need to be actively created and maintained. As this idea is important for our research, we applied this concept to business families. It becomes clear that it is essential to actively build ties and a shared identity among family shareholders.

What We Found

Through our research, we identified four practices where family members need to actively develop the trustee mentality: familial, emotional, personal, and financial practices. These represent the levels where families must truly engage. Each of these practices requires attention and effort to strengthen family bonds and the family identity. Business families must take concrete steps to integrate the four levels into their systems for managing the family owners.

Family Practices

One of the main challenges with complex business families is that major and minor shareholders hold varying numbers of company shares. This sometimes creates social comparisons within the family, in which the shareholders develop feelings of rivalry. In the families studied, some members compare themselves based on dividends they receive. One of the family members shared this insight: *"For those at the lower end, there’s no point talking about building secondary assets. They simply look forward to the ‘May rain’—the dividends that help make life a little easier throughout the year."*

In that regard, developing family practices of the trustee mentality can help create a sense of value and belonging for all family shareholders, regardless of the size of their shares. The goal of the family practices is to ensure that even those with smaller shares feel respected and included. As one participant said: *"We open our arms and say: We are one family. It doesn’t matter how many shares you own—you are part of this proud, long-standing family."* By fostering this sense of worth and fairness, family cohesion and long-term commitment to the business are strengthened.

Here are some best family practices that we found:

Ensure the right to participate: It is important that all shareholders, including those with smaller shares, feel valued in decision-making processes. While their voting power may differ due to the size of their shares, it is essential to give all family members the opportunity to voice their opinions at shareholder and family meetings. This helps foster a sense of belonging and recognition.

Avoid minority share clauses: These clauses in the shareholders' contract result in automatic exit from the group of shareholders. Originally, they were put in place to ensure that the shareholders’ group does not become too fragmented. Therefore, if a shareholder's stake drops below a certain threshold (e.g., 0.3%), they automatically exit the group and receive compensation. By waiving these clauses, you prevent sending negative signals to the circle of owners.

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Try to make the distribution of assets more equal: Offer secondary assets to roughly equalize wealth distribution among family members.

Emotional Practices

Emotional practices allow family shareholders to emotionally connect to their ownership stake. This goes beyond feeling unified as a family and emotionally attached to the business itself. Our analysis shows that six elements can support this emotional connection to the share:

Emotional ownership: Cultivating a sense of emotional ownership and educating shareholders on trustee principles. This should start during childhood -- for example, involving children early in family forums, or other specific events dedicated to shareholders' children, such as Next Gen academy.

Emotional return: Supporting the creation of emotional returns for the shareholders, that affect the increase of shareholders' subjective company value. Examples include pride and social recognition, which can be cultivated by family philanthropy, internal prizes or other activities that foster non-financial returns in relation to the business family.

Traditions and stories: Using family traditions and narratives to create and maintain storytelling that reinforces the trustee perspective across generations -- i.e., through stories from the company and family history that older shareholders tell at family events, through the writing of a family constitution, through business families anniversary celebration.

Network: Supporting the network of the business family with social capital resources, serving as a special club where it is a privilege to belong. The network offers access to special economic and social resources. This might include an account at the family bank or the diverse knowledge of the many family members and shareholders: As one respondent pointed out : *"Many of the shareholders in our business family are very intelligent. Some are even professors who present their concerns in a very economic way."*

Societal engagement: Promoting wealth culture and practiced wealth via societal and social activity. The families we studied set up philanthropic organizations or foundations that support healthcare, environmental causes, or other goals.

Free sale of shares: Allowing family members to sell their shares at market value whenever they choose. This approach makes staying in the shareholder group a conscious and active decision. It can be compared to the situation of a bird in a cage. When the cage is locked, the bird feels trapped. But once the cage is open, staying becomes a deliberate choice.

Leadership Practices

Leaders in family and/or supervisory boards play a key role in keeping family members committed to the ownership group. Acting as stewards or figureheads, they inspire unity and promote a trustee mentality. As simply quoted by a participant: *"At the top, we need preservers."*

This leadership is not about managing the business but about guiding the family, like a "tribal chief" who serves as the family's face and trusted leader. These leaders project authority. They act as spokespersons during key activities, such as shareholder gatherings or shared meals, giving these events importance and a sense of dignity through their presence. Such a leader can strengthen shareholders' identification with the family business and deepen their sense of responsibility toward it.

To strengthen this practice, appoint family members to supervisory or family boards to bind the family together through personal stewardship roles.

Financial Practices

These practices help business families address shareholders' liquidity needs. They ensure that the shareholders have access to the money they have invested in the company. Financial practices help to prevent resentment among family members who do not receive a regular salary from the family business. Considering - and discussing - financial expectations is crucial to avoid family disputes. Business families should not only define it in their frameworks; they should also make it good practice for shareholders who are not actively involved in the business to receive regular liquidity. The following actions are subcategories of financial practices.

Dividend policies: Develop dividend policies that address both emotional and financial issues. A dividend policy is created on the basis of the business family's values and financial convictions. It can, for example, specify the absolute amount of the dividend and its

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certainty in order to provide security for the shareholders. A clear dividend policy helps keep shareholders happy with their investment, as it usually reflects the different needs for money.

Shareholder loans: Offer interest on shareholder loans to foster financial attachment to the company. Paying interest on capital that is reinvested in the family business helps meet the shareholders' need for money.

Financial services: Provide services for tax and legal matters to reduce complexity and increase security.

Takeaways

Our research highlights two key actions for large family businesses to strengthen a trustee mentality and ensure long-term preservation of family wealth:

Foster Emotional Bonds and a Trustee Mentality

Shareholder cohesion depends first on emotional connections and second on a shared sense of purpose. To achieve it, several actions can be taken:

- Encourage Family Traditions and Narratives: Share family stories and traditions that reinforce the sense of belonging and unity.
- Build Emotional Ownership: Create programs that help family members connect emotionally to the business.
- Establish Exit Paths: Ensure the paths to keep the door open for share sales. Paradoxically, by having the option to leave, it ensures that people in the group stay because they want to be there.
- Incorporate Trustee Values Early: Address the trustee mentality in family governance early to maintain alignment as the shareholder group grows.

Implement a Family Governance for All Shareholders

To establish family governance aimed at valuing all shareholders, business families should:

- Clarify roles and rights: Define roles and participation rights clearly, even for those with minor stakes.
- Support fair wealth distribution: Implement wealth practices that balance financial and emotional needs. Give a chance to those who have been less able to build wealth in the past because of their small number of shares.

Conclusion

By building a trustee mentality, large family businesses can ensure that each generation understands its responsibility to protect and grow family wealth. This requires focusing on family, emotional, personal, and financial practices. These steps help preserve the business and maintain a strong family legacy.

The four practices represent an opportunity for business families to sharpen family members' consciousness of wealth. They thus contribute to the survival of the family business over generations.

Explore the Research

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