

Include the Extended Family in Your Ownership Strategy

Claudia Binz Astrachan (Affiliated Researcher at Jönköping University (CeFEO) and Witten/Herdecke University)

Tom Rösen (Witten Institute for Family Business Foundation)

KEYWORDS: family business advice, Help with a family business, Running a family business tips.

Your "owners' strategy" should consider that in the future, the family firm will likely have many more owners. Take a broader focus when you develop it.

In the US, most family business advisory firms define an "owners' strategy" as a deliberate plan that ownership groups develop to guide the direction of the business. Such a strategy aligns the owners' values, vision, and goals with the business's future by addressing the purpose of ownership, long-term objectives, risk tolerance, and expectations for the company and the ownership group.

That sounds great, right? Only – most "ownership groups," in reality, include more than current owners. They also come with a multitude of individuals who may or may not have the ability of becoming owners in the future, and who should be considered when an ownership group takes the time to develop a strategy aimed at creating an enterprise that lasts for generations to come.

In our experience, based on the decades of work with centennial business families in Germany, this take on owner strategy is far too narrow to support entrepreneurial families in designing a lasting, healthy legacy.[1] There is much to learn from these dynasties – and we'll break it down for you.

From a 'Bare Bones' to a Holistic Family Strategy

One comment before we dive in: We understand that not every privately held enterprise wants to be called a family firm. However, if your intention is to keep ownership concentrated within the family for the

foreseeable future, there is no way around making sure that your current and future generations of family shareholders have the mechanisms in place and the competence to make good decisions that benefit both business and family.

Let's take a look at what we perceive as the prevalent framework used in the US when developing an owners' plan. It typically focuses on the following elements:

- **Purpose:** Defining why and to what end the family owns the business or shared assets, e.g., financial returns, family heritage, social impact, or a combination thereof
- **Objectives:** Establishing financial and non-financial goals, e.g., growth, maintaining control
- **Risk tolerance:** Determining how much risk the family is willing to assume
- **Governance structure:** Outlining decision-making processes, roles, and responsibilities
- **Investment and Liquidity Policy:** Defining how profits are reinvested or distributed and ensuring liquidity for future needs or family member buyouts.

This is certainly a good start – but this "bare bones" approach does not address a range of crucial conversations that need to be had, and important parameters that need to be set in order to ensure longevity of both business and family systems.

Take a look at the picture below. If it looks overwhelming – don't worry, we'll walk you through it. This model consists of 12 topical areas that (may) build on one another – each building block concerns a central question business families should address. While the prevalent US-process addresses some of these topics, it leaves out many crucial components of a holistic and sustainable owners' strategy, for example, identifying

who is – and who is not – a part of the family, and what that means, how we make decisions – and understanding that not all decisions follow the same logic, or how we handle conflicts and crises.

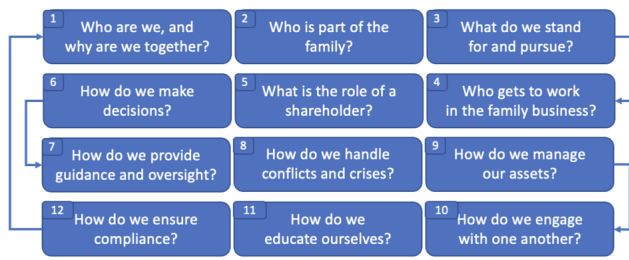


Fig. 1: Family Strategy Development Process (von Schlippe et al., 2021, Rüsen et al., 2022)

Step 1: Shared Understanding and Commitment

In this first step, we develop an understanding not only of what the business means to the family, but also what the family means to the business. Example: Do different generations have a different vision of what the company stands for, and where it should go? Do different family branches have opposing positions?

Discussion questions: Do we want to stay in business together, and why? What role does the business play for the family, and vice versa?

Step 2: Definition of Family

While most families are comfortable with step 1, the next step is often overlooked, even though it is incredibly important. It addresses the question of “who is part of your family, and what rights and responsibilities does ‘being a part’ come with?” This goes beyond the process of becoming a shareholder; it touches on things like inclusion of spouses in education and communication, the treatment of stepchildren and adopted children, and so forth. All of these decisions have far-reaching consequences that are often overlooked.

Discussion questions: Who is part of the shareholder group, the business family, the extended family? How do rights and responsibilities differ between these group?

3. Values and Objectives

In a third step, the family defines the values that are important to the family and form the basis for the specific expectations and requirements of the family for the business. This is where the family formulates

parameters for the operative and strategic objectives of the business and for family members as they behave externally and internally and to each other.

Discussion question: Which values do we feel committed to? How do these values translate into actions -- that is, how do we want to live these values?

4. Family Employment

In step four, the family determines whether and, if so, under what conditions, members of the shareholder family can or should perform managerial tasks in the business.

Discussion questions: At what level do we admit family members? What competencies do we require? Who assesses the competence and experience of a family member applying for a C-level position? What do we want to do if a family member does not succeed in the business?

5. Role of Shareholders

Next, the family discusses the rights and responsibilities (other than those prescribed by the law), and process of becoming a shareholder. The family discusses under which circumstances and how ownership is transferred (as codified in a shareholders’ agreement).

Discussion questions: Do we want to stay in business together, and why? What role does the business play for the family, and vice versa? How do we calculate a “fair” price for shares, if sold within the family?

6. Decision-Making

Having a transparent and agreed-upon process for making decisions is the key to long-term family cohesion. Clarity about the decision-making process for material business decisions or amendments to prior agreements, e.g., where you want a simple or absolute majority, where you want consensus, and who gets to participate in the decision-making in both business and family related issues, is absolutely critical.

Discussion questions: How do shareholders make decisions for the business, and are there different decision-making mechanisms for different decisions (e.g. per capita vs. per share)? How do family members make decisions for the family? When should consensus be abandoned in favor actionability?

7. Governance

Long-lived business families institute governance mechanisms for both business and family: Shareholders determine the governance bodies that are useful and necessary for assisting and monitoring management, and the family decides how it wants to organize and govern the extended family group, typically when a family group is larger than 15.

Discussion questions: Who – family and non-family members – should serve on the company board, and how do we elect them? What is the purpose and what are the responsibilities of the council? How do we select and elect family members for family governance, e.g., a family council? Should we pay family members to serve on the board or the council?

8. Conflict and Crisis Management

How prepared is your family for a severe conflict or a sudden crisis? If you've discussed crisis scenarios, and have a conflict mitigation process in place, you'll fare much better. Yet, many families fail to prepare themselves for the inevitable.

Discussion questions: What is the process to handle a family conflict? Do we have outside resources? How do handle a family shareholder with decision-making authority who becomes incapacitated? Who has the central passwords and decision-making power and who can take over temporarily? Is there an "emergency kit" containing all legal and contact information centrally?

9. Dividend Policy and Wealth Strategy

In order to align on the structure and diversification of existing joint assets, the family has to agree on a dividend policy. This requires a discussion of the family's basic stance on the assets attached to the business and generated through profit, as well as other family assets. It's critical to take a holistic view of family wealth.

Discussion questions: Does the wealth of the business belong to me/us, or are we merely custodians of this wealth for the next generation? As a family, what is our stance on dividends vs financing business growth? How and by whom is the dividend amount determined? Do we intend to substantially support family shareholders' financial needs through distributions?

10. Managing the Family

At this point, the family has likely made significant

progress in defining their why, what, and how. Synthesizing and building on the prior work, the family now outlines how to translate these prior agreements into some more specific rules for engagement. A family communication system (e. g. a secured intranet of the family), a family calendar, and document management system merely for owner and family topics are important topics to discuss.

Discussion questions: How often do we want to meet as a family (not as shareholders), and what should the focus of these meetings be? Should we meet in person or via video calls? What information about the business should be provided to which business family members, and how frequently? Should we share information such as birthdays and milestones? Do we have a family calendar, website, newsletter?

11. Education

To make sure that these efforts bear fruit, competent and engaged shareholders and stewards are essential. Educational programs typically include, at a minimum, content related to the family business as well as business in general (i.e., financial literacy) and the family history.[2] More comprehensive programs may offer content related to personal development, e.g., communication and conflict management skills, or a basic understanding of family dynamics.

Discussion questions: Should our educational program be mandatory or voluntary? Who is in charge of designing and implementing the curriculum? Who bears the cost?

12. Compliance

Finally, two central questions remain: What is the process of revising and further developing the family strategy, and what are the consequences of non-compliance with the family's self-imposed rules?

Discussion questions: How should the family constitution be amended/adjusted/updated? How does the family treat one-time and repeat breaches of the family constitution and its rules?

How to Manage the Family Strategy Process

You just covered a lot of ground. Now, let's talk about how to actually take your family through this process. The sheer volume of conversations suggests that this

may be a lengthy process, and indeed, it is. Depending on your family's size, the diversity of the opinions and potentially disagreements between different factions, and your family's communication style and conflict culture, this can take anywhere between six months and a few years.

Also, please don't see this as a one-and-done process, as there is always value in revisiting these assumptions as the family changes and evolves, as family members leave and new ones enter, and the family assets change over time.

First things first: Determine a champion who will, for now, lead and oversee this effort, and make sure the family agrees that the selected person is well-suited for this role. Once you have your champion, a good way to do this is to set up a series of family meetings, in-person or virtually, facilitated or self-organized. The best family meeting is the one that takes place, so if your family can't agree on a time to meet in one place, opt for a virtual or hybrid solution instead of trying to find a date that may be three years out. Once you have these meetings set up, the champion – possibly with the help of other family members or an outside facilitator – designs the meeting agenda(s), discussion questions, and exercises. Don't do too much at once! Each of these steps could be one (or more, for example in the case of the governance conversations) separate family meetings, depending on how deep you go, and how much conversation and discussion takes place.

After each meeting, make sure to share what has been discussed and agreed on with everyone involved. These documents will likely serve as the foundation for something like a family constitution, or more formal policies such as a dividend policy or a family employment policy.

Last Words

Owners' strategies are great – if they expand beyond the narrow focus of the ownership group. It's important to acknowledge that for long-term, generational success of the family enterprise, the larger family group must be engaged.

Also, please understand that none of this is contractually binding; it's not the goal of this work to build a legal foundation that encourages compliance. The very process of engaging the family in these discussions is what strengthens the group – not having

a written document. Trying to give everyone a voice in the process, and to understand even opposing perspectives, is time-consuming and at times frustrating. At the same time, this is what builds family cohesion – the very thing that lasting dynasties bank on.

References

Rüsen, T. A. & Löhde, A.-S. (2021): The Business Family and its Family Strategy – Insights into the lived Practice of Family Governance. Study by the Witten Institute for Family Business (WIFU). Witten: WIFU.

Rüsen, T. A., Kleve, H., Schlippe, A. v. (2021). Managing Business Family Dynasties. Between Family, Organisation and the Network. Cham: Springer International Publishing (forthcoming).

Rüsen, T. A., Orenstrat, R., Binz Astrachan, C. (2023). Ownership Competence in Business Families - Current Trends and Developments. WIFU Study

Rüsen, T. A.; Schlippe, A. v. & Groth, T. (2022): Family Strategy Development in Business Families – Content and forms of family governance and family management systems. Practical Guide of the Witten Institute for Family Business (WIFU). Witten: WIFU.

Schlippe, A. v., Rüsen, T. A., Groth, T. (2021). The Two Sides of the Business Family. Governance and Strategy Across Generations. Cham: Springer International Publishing.

[1] This framework is based on WIFU's decades of research with dozens of private enterprises in Germany that are older than 100 years. See Schlippe et al. (2021), Rüsen & Löhde (2021), Rüsen et al. (2021), Rüsen et al. (2022)

[2] Rüsen et al. (2023) deliver a wholistic framework therefore. Vielleicht ein Verweis auf Deinen Best-Download Beitrag bei familybusiness.org zum Thema GKE?