

Why Don't You Educate Your Owners?

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We yet have to meet a business family that does not want their family members to be competent and engaged owners and stewards. Everyone agrees that having owners who understand finance and strategy, know how to communicate, and can manage conflicts effectively is key to the family business's continuity and future success. So then why do they spend so little time and money on educating their family shareholders?

A survey we conducted of more than 200 multigenerational German families – two-thirds of them running firms with more than 100 million euros in annual revenue -- showed that while business families overwhelmingly believe in the value of developing these skills among current and future leaders, only a small minority dedicates significant effort to nurture those skills.

We know from empirical and anecdotal evidence that family firms that fail to educate their owners are putting their future in peril. In this article, we highlight where business families fall short in their ownership training and outline a simple process to identify the educational needs in your own family shareholder group.

What Is Ownership Competence?

Competent shareholders contribute not only to the success of the business, but also to family functionality and harmony (Astrachan et al., 2020). But what exactly are the skills and experiences that help family shareholders successfully perform their role(s) in the business and the family?

- *Entrepreneurial competence* describes the ability to make a positive contribution to the long-term success of the firm, and manifests as the

ability to understand and speak the language of management. It includes competences such as finance, strategy, and leadership.

- *Shareholder competence* describes the ability to successfully exercise the duties and rights associated with ownership (e.g., tax and inheritance law, managing family assets).
- *Individual competence* describes the ability to develop oneself on a personal level, e.g., to recognize behavioral patterns, to develop one's own non-judgmental communication skills, to self-regulate, to accept feedback and respond constructively to it.
- *Family competence* describes the ability to make a positive contribution to the functioning of the family, e.g., communicating effectively and handling conflicts constructively, and understanding family dynamics and their impact on family member behavior.

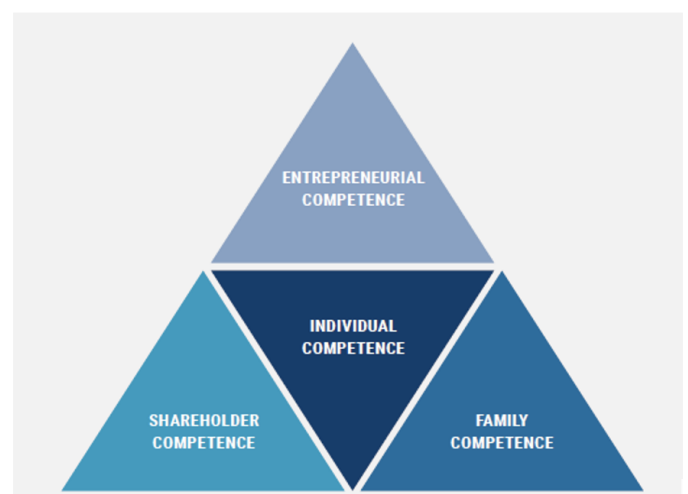


Figure 1: Dimensions of ownership competence

Ownership Competence Development in Practice

The findings below are based on survey replies from 218 representatives of German business families in 2021. Four out of ten respondents were between €100m and €1bn, and 25% were larger than €1bn in revenue. Eighty percent of respondents were in the third generation of family ownership or beyond.

1. **Systematic ownership training programs are on the rise:**

A majority of 69% of the business families in our sample specifically promote the development of shareholder competence. Moreover, these training programs have gained importance in recent years: 45% of business families in the current sample have been involved in training activities for over a decade, up from 19% in the 2012 survey (Vöpel et al., 2013).

2. **Ownership competence has positive effects on both business and family:**

An overwhelming majority of respondents attach great importance to training. They see it as a core success factor in strengthening the family-business connection (86%) and intra-family cohesion (85%). Almost as many are convinced that it promotes the long-term survival of the family business (83%) and the joint decision-making ability of family shareholders (81%). In addition, 68% of respondents attribute a positive side-effect – reduced conflict in the business family – to the systematic education of shareholders.

3. **Not all families are ready for (or interested in) systematic ownership training**

Thirty-one percent of our respondents do not develop ownership competences systematically. They name an insufficient number of shareholders (22%), lack of a responsible person (20%), no need (17%), lack of agreement among shareholders on this topic (16%) and lack of resources (2%) as the most important reasons.

4. **Most ownership training programs prioritize business topics, but psychological topics are gaining ground:**

Most training programs are heavily focused on business topics such as management and strategy (78%), leadership and organization (56%) and balance sheet

analysis (55%). However, psychological issues are becoming increasingly important, with communication and conflict management (51% and 49% respectively) ranking ahead of the economic topics of sustainability (46%), market and sector knowledge (45%) and general “business knowledge” (44%). Overall, legal issues are seen as of rather less importance (38%).

5. **Most ownership training programs are geared towards leadership roles:**

An overwhelming majority of respondents (> 90%) agree that ownership training programs should be aimed at individuals with current or future leadership responsibility in the family business. Still a solid majority (70%) designs training programmes for shareholders only, whether they hold a formal role in the business or family or not. A minority of 33% allow all family members to participate in training programs, regardless of ownership status.

6. **Families with a family strategy are more open to systematic ownership training:**

Ninety-three percent of families with a formulated family constitution specifically promote ownership training programs, and 72% with an informal family strategy. In contrast, fewer than half (44%) of families without a written or informal family strategy offer systematic qualification programmes.

7. **When it comes to who is responsible for ownership training, reality and ideal diverge:**

Even though most respondents (61%) believe that a family governance body (such as the family council or a dedicated committee) should be responsible for planning and implementing ownership training programs, the reality looks quite different: In only 27% of cases, the family council is responsible for ownership training, and 23% of our respondents currently leave the responsibility to a single family member – far outside what they consider ideal.

8. **Ownership training is developed both within and outside the family and business:**

Many families organize a variety of activities to promote ownership competence, such as family academies or workshops (69%). Working in the firm – for example in the form of internships and summer jobs (68%) – is also an important path to ownership training. For the systematic

development of ownership competence, there is also increased use of external continuing education offers (e.g., seminars, training courses or special study courses (67%) or exchanges among like-minded people (65%).

9. Ownership training is not a priority: Assuming that sufficient financial resources are available for ownership training initiatives, the ultimate constraint becomes “personal time commitment.” Of those that actively promote ownership training only one-third are willing to invest more than five days per year – and about half of the other two thirds spend less than three days on ownership training per year. Only eight families in our sample (4%) invest more than eight days to the training and development of their professionalism. These numbers reveal a stark misalignment between the importance the respondents attribute to ownership training, and the actual time they put into systematically developing it.

Our findings highlight areas of misalignment between what the respondents consider ideal, and the ownership training strategy they pursue in reality – in terms of the time invested, the individuals in charge, the content, and the audience. In our work with large shareholder groups, we find it valuable to go through the systematic process (described below) of first identifying which shareholder competencies they value the most, and based on these learnings, to systematically develop a curriculum customized for their needs.

Who Needs (Which) Ownership Competences?

Ideally, each family member, regardless of their role or ownership status, should have a basic understanding of their family business and, at least to some extent, an awareness of the dynamics that shape interactions within the family. The specific competence profile of specific individuals, however, depends entirely on the current or future role(s) they play in the business and/or in the family.

Figure 2 shows examples of competence profiles of family members with and without formal roles in the business and family. These profiles will differ greatly between families depending on which competencies they prioritize. The position of the circles represents the

relative importance of each competency, which also speaks to the level of acumen expected. Accordingly, a chief executive officer (CEO) – whether from within the family or not – is expected to have a high level of entrepreneurial and individual competence. For a non-family CEO, ownership and family competencies may be less important; for a family CEO, however, these competencies would be essential.

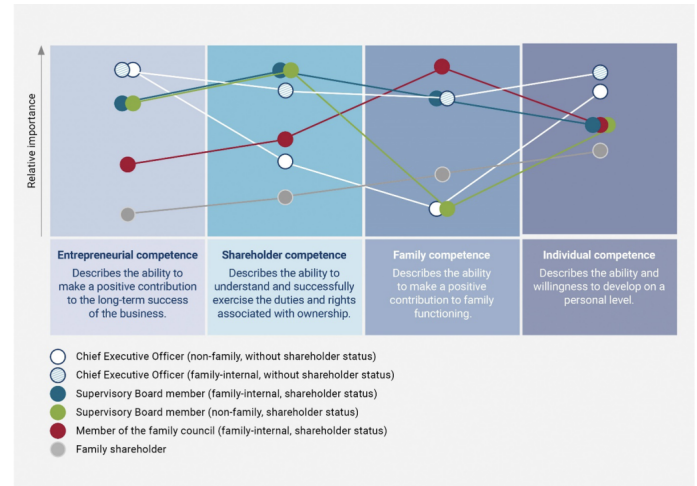


Figure 2: Exemplary professional profiles by role

Each competence dimension is made up of multiple components. For example, knowledge of business strategy is a component of entrepreneurial competence, and knowledge of family dynamics as a component of family competence. Learnings from multigenerational families suggest that each family should go through the process of identifying the individual components required by each role a shareholder might take on in the business and the family. This can be done by asking current and former individuals who held these roles about which competencies best served them (both in your family and your business, or those that are similar in terms of their complexity and organization). Our data suggest that this process is best led by a dedicated group, such as the family council, or even an ownership competence committee. Based on the information gathered they can develop an appropriate educational curriculum, which typically consists of activities organized by the family itself as well as outside providers (e.g., peer learning, universities, family business centers, advisors).

Takeaways

Systematic ownership training should be a central component of any family management system (Rüsen et

al., 2023). Given that families think ownership training is vital to the functioning of family and business, the lack of time dedicated to it is surprising, and, in our opinion, problematic. In summary, these are the most important takeaways from our study:

1. Prioritize ownership training by putting in place a dedicated committee (and not just a single family member working in the business!), and sufficient resources to develop and implement a customized ownership training program that fits the specific needs of your family.
2. Balance the curriculum by incorporating both business-related (e.g., finance, strategy, ESG, governance) and family-related topics (e.g., communication, conflict), and make sure you understand which roles require which level of knowledge in each area.
3. Make ownership training an integral part of your family strategy. Educated owners are not just more competent, they are also more connected to the business and the family, more engaged and committed, and ready to pass on their knowledge to the next generation.

Systematic ownership training is not a choice for families with a multigenerational vision, and a desire to nurture an engaged and committed business family – It is a responsibility. Therefore, we couldn't agree more with the family entrepreneur who said during a discussion around ownership competence that, *"If our shareholders spent ten percent of their time used for private hobbies on training shareholder skills, we would certainly be one of the best family businesses on this planet."*

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