

DON'T OVERLOOK OWNERSHIP SUCCESSION

Cambridge Institute for Family Enterprise

CAMBRIDGE
INSTITUTE FOR FAMILY ENTERPRISE

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At a succession crossroads, it is common to hear bystanders ask: “*Who will be the next business leader?*” They ask who will lead the family’s philanthropic giving, financial investments, and even who will lead the family itself. These are natural questions about leadership continuity in a family enterprise.

However, these questions overlook one of the most essential roles in a family enterprise: the role of owners. The ownership dimension of succession planning is often considered by families as a legal matter that is delegated to corporate lawyers and estate planners. But ownership is a multidimensional part of a succession plan, and deserves meaningful attention by the family. At a succession crossroads, the key question to ask is: “*Are family members prepared to be **owners** of the family enterprise?*”

RECOGNIZE THE IMPORTANT ROLE OF OWNERS

The role of an owner is powerful within a family enterprise. Owners make critical *capital, investment and risk management* decisions regarding the family’s wealth; they decide on the *strategic direction* of their businesses; they oversee the *performance* of their company and assets; they protect the family’s *values and culture* in the enterprise; they *choose and oversee talent* for important roles (e.g. board members, business leaders, family office leaders, investment professionals, auditors, trusted advisors). Moreover, they typically *select their own successors*, which gives their branch influence over the enterprise when they are no longer owners.

A job this significant requires a unique set of capabilities and behaviors. Owners need business and financial knowledge, investment and risk understandings, strategy and governance comprehension, talent evaluation skills, and clarity on the owners' values, vision, and mission, among other competencies. Behaviorally, owners must actively participate in relevant meetings and be able to represent the interests of all owners (not just their own or their branch's). In the second generation and later, owners must function as a team, collaborate and negotiate together, and communicate with one voice to the board and CEO.

EXPAND THE PURVIEW OF OWNERSHIP

In our work with enterprising families, we encourage families to expand their notion of ownership beyond the legal and financial dimensions. We consider the psychological, decision-making, leadership, and emotional intelligence aspects of ownership to be vitally important.

When one's view of ownership expands like this, two needs become evident:

- Develop owner talent in the family in a methodical and intentional way; and
- Include ownership as part of a comprehensive succession plan for the family enterprise.

DEVELOP OWNER TALENT IN THE FAMILY

The best owners are those who recognize that they are not born knowing everything they need to know about ownership. They have a perspective of humility and continuous learning. They typically have curious minds and work hard to understand how to assume their role, including in partnership with fellow owners.

The following three development paths are common among family members who proactively prepare to be owners:

Path 1: Self-Study

These individuals feel both an obligation and commitment to train themselves to be good owners. More often than not, these individuals do not have corporate backgrounds, and the role of owner can feel overwhelming or intimidating. Their deep pride for the family enterprise, their desire to be a part of the ownership team, and their appreciation for the benefits of ownership drive these individuals on their learning journeys.

They prioritize these development activities:

- Attend every meeting to which they are invited; prepare for and debrief after meetings with the help of board members, executives, and advisors
- Contract tutors to learn to understand information provided such as financial statements, organizational updates, strategic plans, M&A opportunities, due diligence investment reports, and profiles of key executives or board members
- Attend education programs, conferences, and networking opportunities related to the activities of the family enterprise
- Get to know family members as adult peers to genuinely learn the interests, perspectives, goals, and needs of fellow owners

Path 2: Professional Development

Individuals with professional careers in for-profit or non-profit sectors often gain skills and experiences through their work that are relevant to the role of owner. These individuals might be entrepreneurs following personal passions, or lead divisions or teams in companies, or be involved at a board or board committee level. They bring relevant knowledge and ideas to owner discussions in a credible way.

Where they often need development is in the following areas:

- Recognize the diversity of talent among family members without traditional business backgrounds, and engage them to contribute
- Gain altitude to connect the family enterprise as a whole in a coordinated manner, to leverage resources and align goals across the entire system
- Develop patience to manage the coordination of multiple stakeholders for unified decision-making
- Ensure a communication and information-flow strategy that allows all owners to follow key discussions on ownership topics.

These individuals typically accumulate this training by way of mentoring by senior owners and trusted advisors, and by attending advanced courses on ownership governance and leadership. Individual coaching is also helpful.

Path 3: Family Owner Preparation Program

Families sometimes provide customized development programs for family members who are on track to become owners. This helps all family members be exposed to the same information about historical and current aspects of the family enterprise. It also provides a team-unifying experience as family members move through the training together.

These programs often start at a beginner level; over time, as the family's familiarity with these concepts strengthens, the training steps up to intermediate and advanced levels. These programs are typically organized and funded by the family council.

As an illustration, the beginner level of an owner development program may last 1-3 years and include foundational topics such as these, taught in age-appropriate ways:

Family Enterprise Related

- History of the family and enterprise
- Family values and philosophical beliefs
- Roles that family members can assume within the enterprise
- Organizational structure, entities, and leaders within the enterprise
- Governance structures and functions
- Industry outlook: main competitors, consumer trends, potential disruptors
- Social impact, philanthropy, and community-building activities
- Team-building activities
- Short-term projects in the enterprise

Business & Investment Education

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- Basic governance: family, business, family office, and ownership
- Basic business topics: finance, accounting, industry and market analysis, opportunity analysis, strategic planning, negotiation, leadership
- Basic investment topics: asset classes, stock market, return, risk, liquidity
- Personal finance: banking, budgets, saving, credit, mortgage, prenuptial agreements

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DEVELOP AN OWNERSHIP SUCCESSION PLAN

Generational transitions are complex with multiple components. They often take place gradually over a 10-year period, assuming there is no emergency that precipitates a faster transition.

Once family members are prepared for the owner role, ownership succession requires the eventual passing of:

- *Investment Authority*: decision-making about liquid or non-core investments
- *Ownership Benefits*: dividends and other perks of ownership
- *Ownership Control*: voting control over core business decisions

To prepare for these major ownership changes, meaningful orientation, discussion, and revisiting of agreements are necessary. The following areas, among others, are important to explore with new owners:

- Owners' values, mission, and vision for the family enterprise
- Current ownership and trust structure
- Shareholder agreements and decision-making processes
- Liquidity plans for the family
- Reinvestment plans for the business
- Roles and responsibilities of owners
- Important stakeholder relationships
- Timing of ownership transition (by generation and branch)

STRONG OWNERS MAKE STRONG FAMILY ENTERPRISES

Enterprising families are greatly aided when they spend adequate time understanding, discussing, and training for the owner role. Avoidance of this preparation can lead to lack of interest, lack of proper understanding, misbehavior, and lack of clarity on the part of management and the board regarding what the owners really want.

Your goal is to develop strong, capable, contributing owners in the next generation. If the next generation in your family is young, you have time to develop them with well-designed preparation programs—but start early. If the next generation in your family is not as young, it is not too late. Fast track the necessary learning and development for the owners.

This is one of the best investments a family can make for its future.

ABOUT CAMBRIDGE INSTITUTE FOR FAMILY ENTERPRISE

The Cambridge Institute for Family Enterprise is a global research and education institute dedicated to the real issues facing family enterprises. It is a place where progressive members of family enterprises come to learn, exchange ideas, develop themselves and position their enterprises to be not only successful, but sustainable over generations. Its sister organization, Cambridge Advisors to Family Enterprise, advises multigenerational families around the world on strategies to sustain their success over generations.