

# FFI

RESEARCH REPORT

## PROFESSIONALIZING THE BUSINESS FAMILY

THE FIVE PILLARS OF COMPETENT,  
COMMITTED AND SUSTAINABLE OWNERSHIP



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# PREFACE

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Dear Reader:

Family businesses are frequently reminded that they need to professionalize in order to survive – and, increasingly, business families are advised to do the same.

However, years of research on and consulting with business families from around the world have led us to a somewhat confusing realization. Typical recommendations center around formal means of professionalization and governance and treat all business families the same – regardless of their needs, goals, or family dynamics. However, such tools are by no means effective or even beneficial under all circumstances. Instead, we find that the (sometimes rather generic) governance solutions and professionalization strategies prescribed to business families can have detrimental effects on family dynamics and on the relationship between the family and the business. As a result, they may prevent the family from becoming and remaining a cohesive and effective ownership group, and from harnessing its full potential to the benefit of the business.

With this research report, we hope to inspire controversial discussions among business families, as well as their advisors and other stakeholders. We challenge our readers to question their beliefs on how to best support families in their quest to professionalize, looking beyond formal means of professionalization and governance. We propose a focus on the deeper layers of the family; specifically, the shared values and culture that shape family members' motivations, commitment and goals, the norms that guide family members behavior, and – this represents the core of our research – the **diverse competences that allow family members to adequately perform their various roles**. Taken together, these foundational layers can build a strong and fitting base for the policies, procedures and structures the family puts in place to formalize the relationship between the business and the family.

With this research report, we aim to provide useful and actionable insights for the community of business owners and their advisors that we serve as family business scholars. We are looking forward to a fruitful exchange of ideas!

*Claudia Astrachan, Matthias Waldkirch, Anneleen Michiels, Torsten Pieper, Fabian Bernhard*

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# OUT THE DOOR IN FIVE MINUTES

## KEY FINDINGS FOR SPEED READERS

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### #1 Five Pillars of Professional Ownership

Effective ownership professionalization goes beyond formalization. First and foremost, it requires the family to (1) develop a strong foundation based in *shared values and goals*, (2) strengthen the *psychological glue*, (3) systematically develop *ownership competence* among owners, and to (4) foster *informal ways* of managing the family, and the relationship between the family and the business. The (5) *formal means* of governing, formalizing and professionalizing the family (e.g., family protocols or constitutions) are the literal tip of the iceberg.

### #2 Relationships Trump Process, and Process Trumps Structure

Long-lived business families have learnt that using structural solutions to solve emotional issues never resolves a problem. Quite on the opposite, it often tends to exacerbate the underlying issue. Instead, successful families create opportunities to come together and create shared experiences, acknowledging that relationships thrive as people spend time together and learn about one another. Strong family relationships make family processes productive – and sometimes, they make formal structures almost superfluous.

### #3 Prioritizing the three C's: Communication, Conflict, and Cohesion

Business dynasties know about the importance of family harmony – and the role that effective communication and conflict management skills play in creating and maintaining family cohesion. A high level of family cohesion facilitates decision-making and allows the family to remain capable of action even under pressure – because the family is aligned, and because family members feel connected, and trust another. Such families invest considerable resources to strengthen family member's communication and conflict management skills and make it a priority to spend time.

### #4 Off-The-Rack Solutions Are Powerless and Potentially Harmful

Generic solutions to governing, formalizing or professionalizing the ownership group that do not account for the idiosyncrasies of a particular family serve little purpose other than lining advisors' pockets and providing a false sense of security to the family. Such poorly customized tools are potentially harmful, as they tend to rigidify existing conflicts and impose structures and processes on future generations that lack flexibility, and do not adequately reflect the family's values and goals. And while certain modes of professionalization may be beneficial for some families, they may be unnecessary (or even detrimental) for others.

### #5 Leveraging the Process

During any effort to professionalize the ownership group (e.g., developing a family constitution), families benefit most when they utilize the *process* by fostering an atmosphere that encourages

caring and candorous conversations. In this process, the focus lies on strengthening family cohesion, better understanding the family dynamics, increasing communication efficacy, and improving the family's ability to deal with conflict. Professionalization efforts that fail to utilize the process are missed opportunities that produce formal outcomes that likely offer little long-term value to the family.

#### **#6 Ownership Competence Development is a Responsibility, not a Choice**

Professional business families with a transgenerational vision ensure that members of the extended ownership group are motivated and capable of successfully performing their (various) role(s) in the family and/or the business. Owner families realize that their members can bring unique strengths to the table and that not every family member may need the same competences. Yet, not educating current and future decision-makers to be competent owners means setting them up for failure.

#### **#7 Competence Portfolios Differ – and They Require an Assessment**

Ownership groups that rely on their members' ability to make sound decisions that benefit the family and the business focus on developing business, family, self, and contextual & Zeitgeist competence. Different roles in the family (*e.g.*, head of family council) and business (*e.g.*, Chairman of the Board) ask for different competence portfolios and varying depths of mastery – it is the family's and their advisors' task to assess the current and desired level of expertise in each area, and to identify internal and external ways of acquiring competences that are currently lacking, and need to be improved.

#### **#8 Ownership Competence Development Needs Resources, Advocates, and a Strategy**

Systematic ownership competence development requires a significant commitment in terms of collective and individual family resources: time, money, emotions. Funds need to be allocated, time needs to be made, commitment needs to be secured. Assigning a powerful advocate within the family helps in advancing these efforts. And lastly, an ownership competence development committee should be tasked with developing a strategy detailing the who, what, and when of ownership competence development for the entire ownership group. As the report indicates, ideally this ongoing competence development already starts at an early age.

*“Any family who intends to perpetuate their family business or wants to keep that as an option should professionalize their ownership. You can never start too soon.” (Keyt, 2019)*



*“WHEN OWNERS START TALKING ABOUT THEIR RIGHTS RATHER THAN THEIR RESPONSIBILITIES, A FAMILY BUSINESS IS IN TROUBLE.”*

**(J. Smith Lanier, in Astrachan & Pieper, 2011)**



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


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	Expert Quotations from Interviews
	Excursus

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# TERMINOLOGY

## KEY DEFINITIONS

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### FAMILY BUSINESS

Family firms, which shape the profile of most economies and are the predominant form of enterprise around the world (Bird, Welsch, Astrachan, & Pistrui, 2002), are unique because of the owning family's involvement in the business and the resulting inextricable relationship between the family and the firm. For the purpose of this report, we define **family firms [as] companies where members of the same family, or related family branches, hold a majority interest, where the owning family has a transgenerational interest and exerts a dominant influence on the strategic direction of the firm through ownership, governance, management and vision** (Chrisman, Chua & Steier, 2005).

### FAMILY BUSINESS PROFESSIONALIZATION

Family business professionalization generally entails “multiple dimensions that combine in different ways in various modes among family firms” (Stewart & Hitt, 2012; p. 75) such as formalized structures; the appointment of non-family managers or directors; decentralization of authority; or formal training (*e.g.*, Dekker et al., 2015). It is our understanding that family business professionalization is not a binary variable (professional or not), but **a process of institutionalizing and structuring the family business, which can be driven by hiring outside expertise, developing formal governance systems and/or implementing formal control systems to warrant objectivity and transparency.**

### BUSINESS FAMILY

We define a business family as a **group of legally (through birth, adoption, or marriage), historically and/or emotionally connected individuals whose identity, income and/or wealth are, or once has been and has the intention to return to it, connected to business ownership.**

### BUSINESS FAMILY PROFESSIONALIZATION

Business family professionalization aims to ensure longevity and functionality of the owning family and the business, supporting the family in becoming and remaining a unified and functional ownership group, and an effective decision-making body. We define a professional business family as **a group of legally (through birth, adoption, or marriage), historically and/or emotionally connected individuals whose identity, income and/or wealth are (or once has been and has the intention to return to it) connected to business ownership, and who deliberately manage the intersection between the family and the business, and the roles, responsibilities and relationships within the family.**

## PSYCHOLOGICAL GLUE

Long-lived business families understand that if family members do not share a desire to remain together as an ownership group, the family will eventually fall apart. They therefore make sure that family members feel connected with one another, identify with the family and the business, and feel committed to contributing to the wellbeing of the family, and the success of the business. **Cohesion, commitment and psychological ownership (i.e., ownership perceptions independent of legal/factual ownership) facilitate decision-making and fuel the desire to remain in business together, as opposed to pursuing opportunities elsewhere.**

## OWNERSHIP COMPETENCE

**Ownership competence refers to the knowledge, skills, abilities and capabilities of current and future family business shareholders necessary to enable them to successfully enact their ownership role(s), and to contribute the success of the firm and the functionality of the family** (Vöpel et al., 2013). In addition to the four competence categories, we differentiate between individual-level and collective competences: Collective-level competences refer to the skills, abilities and behaviors of the family ownership group that enable the family as a collective (or group) to add value to the business and the family, and which need to be developed and maintained on a family level. Individual-level competences refer to those skills that are developed and acquired through the individual's personal effort and experience and allow the individual family member to contribute to family functionality and to add value to the business in their respective role(s).

## FORMALIZATION AND GOVERNANCE

**Formalization** refers to the documentation and regular application of procedures and best practices (e.g., De Kok & Uhlaner; 2001), while **corporate governance** is the way in which the firm's suppliers of finance assure themselves of getting a return on their investment (Shleifer & Vishny, 1997), for example through establishing a board of directors, which has a fiduciary obligation towards the shareholders and the responsibility to provide strategic direction and monitoring (Gillan, 2006). We define **family governance**, which refers to the procedures and structures that business families use to self-organize and manage the relationships between the family and the business (Baus, 2012), as the "voluntary mechanisms established by the business family with the primary aim of governing and strengthening relations between the family and the business, as well as the relationships between the members of the business family itself" (Suess, 2014, p. 17).

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# 1 INTRODUCTION

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## OWNERSHIP PROFESSIONALIZATION: WHAT IS IT, AND WHY DOES IT MATTER?

The depiction of family firms as *unprofessional* organizations has a long tradition in management research (e.g., Chandler, 1962; Levinson, 1971; Schein, 1983), advocating that owner families should step back and let professional non-family managers take over the reins (Dyer, 1989). As we gain a more differentiated understanding of what successful professionalization looks like for different types of family firms, a growing number of scholars and practitioners have come to realize that extensive professionalization (which is often masked as formalization) might not be needed or appropriate for all family firms alike (e.g., Hall & Nordqvist, 2008). And while prior research suggests that most family firms, as they grow in size and age, benefit from formalizing certain processes and structures (Stewart & Hitt, 2012), **some family firms have been shown to prosper with minimal, and others with more elaborate, professionalization efforts.** *Why might that be the case?* While we are still trying to understand the drivers of successful firm professionalization, our focus is shifting to the family behind the business, acknowledging that professionalization efforts in the firm and the family (or the ownership group) often go hand in hand (e.g., putting a board in place can trigger a family to rethink important goals and decision-making processes in the family). Interestingly, what we already know with regards to firm professionalization also seems to hold true for the family behind the firm: Formalization of structures, processes and relationships (e.g., by means of a family constitution, or a family protocol) has not been found to be directly correlated with family longevity (Waldkirch, Melin & Nordqvist, 2017). **While some families likely benefit from certain elements of professionalization, others have been found to survive and thrive for generations with little or even no formalization at all.**



This runs counter the long-established belief that families with diverse needs and goals (*e.g.*, Dekker et al., 2015; Waldkirch et al., 2017; Suess, 2014) best rely on a range of formal mechanisms (*i.e.*, structures and processes) to curb conflicts, guide decision processes, and control the influence the family exerts over the business. *What gives?*

Based on many years of working directly with owning families, and an analysis of a variety of qualitative and quantitative data sources (see Appendices B and C for details), it is our belief that the efficacy of professionalization efforts depends on various characteristics of the owning family, such as the level of cohesion and commitment, or the presence (or absence) of a unifying goal and a shared set of values. In other words: Family professionalization is not a one-size-fits-all approach. Any means of governance, be it formal or informal, will only be effective if it adequately accounts for the family's idiosyncracies (*e.g.*, family dynamics, communication patterns, existing conflicts). Generic, "off-the-rack" solutions that are insufficiently customized offer little to no long-term value to the family and are even potentially harmful. Poorly aligned mechanisms, as well as an unnecessary abundance thereof (*i.e.*, "overprofessionalization"; Waldkirch et al., 2017) can rigidify existing conflicts and impose structures and processes on future generations that lack flexibility and fail to appropriately reflect the family's values and goals (Williams, 2015).

*"A few years ago, I was approached by a family that needed help with their family constitution. They had their long-time lawyer set up a constitution for them – and when they went through it, they realized that not only did it not reflect their values and goals in any meaningful way ... there were some parts in there with a different family name. The lawyer had obviously copy-pasted most of the document." (Perry, 2019)*

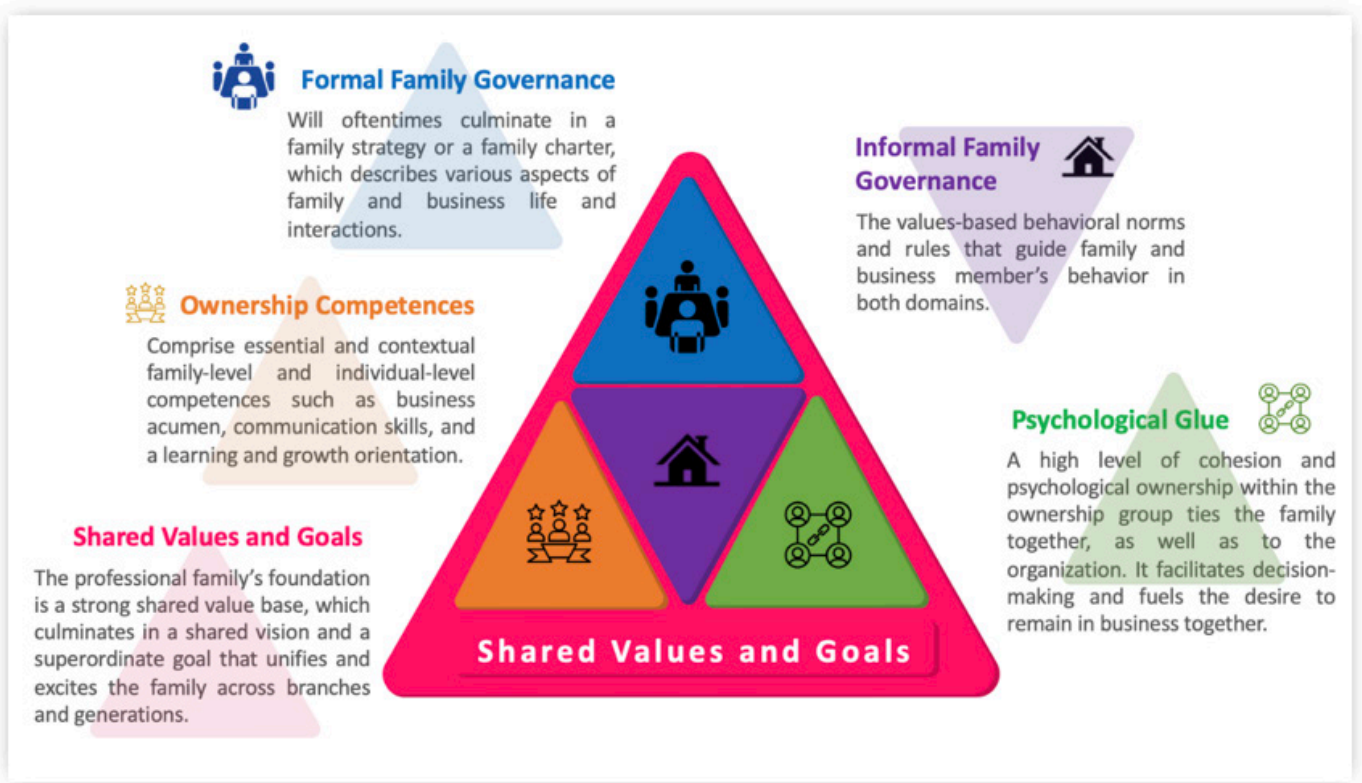
## ELEMENTS OF BUSINESS FAMILY PROFESSIONALIZATION

Business family professionalization goes beyond the family's need to organize themselves to communicate and decide effectively; **the ultimate goal of professionalizing the business family is to ensure the longevity and functionality of the ownership group and the business. To achieve this goal, the family needs to become and remain a unified and functional group, and an effective and competent decision-making body, adding value to the business through their emotional, relational and financial commitment and resources.**

Figure 1 visualizes our understanding of what we consider to be the five pillars of a professional business family: A strong set of shared values and goals; psychological glue that ties the family to one another, and to the business; the competence-based ability to make sound decisions that benefit the family and the business; the informal, value-based behavioral norms, and the formal structures and processes that support managing the family relationships, and the family-business interface.



FIG. 1: THE BUSINESS FAMILY PROFESSIONALIZATION FRAMEWORK



In order to successfully professionalize the family – in a way that conforms with the family's culture and values – it is essential to start from the bottom and to then develop the different layers progressively. Starting top-down is a dangerous, yet, frequently utilized, approach that is driven by the idea that structures are the key to solving emotional issues when in reality, they often aggravate them.

The *foundational level* of the professional family is a **common value base**, which culminates in a **shared vision** and a superordinate goal that unifies and excites the family across branches and generations (Think: *Who are we as a family? What do we stand for? What do we want to be known for? What do we want to achieve as a family? Where do we see ourselves in 100 years from now?*). If a family lacks a unifying purpose that goes beyond financial desires, it will be difficult to motivate family members to remain together and pursue collective goals (that may run counter to individual desires) in the long run, and to instill a sense of commitment and responsible ownership in future generations.

Business families that share a set of values that guides their thinking and decision-making, and a unifying goal that prioritizes the collective well-being over individual goals, tend to experience higher levels of **family cohesion, psychological ownership and commitment** among family members. This “psychological glue” ties the family together and binds it to the family firm. It facilitates decision-making and fuels the desire to remain in business together.

While it is a necessary condition for long-term business family survival that family members are willing to remain members of the family (regardless of whether they are tied to this particular organization, or engage in other endeavours together), it is not a sufficient condition *per se*. In addition, family members also need to be capable of performing their respective roles, be it as a company employee, a board member, a member of the family council, or working for the family foundation. **Ownership competence** enables family members to contribute to business success and to family functionality, in whatever role they choose or are assigned to.

**Informal governance** mechanisms refer to value-based behavioral norms and rules guiding family and business members’ behavior in both domains. While policies and procedures can be formal or informal, relying on shared norms and values as actual behavioral rules, misconduct should be noticed and possibly punished, depending on the severity of the mishap. Policies and procedures bring the family’s motivations and goals to life.

Last, and literally the tip of the iceberg, are **formal governance** mechanisms. Oftentimes, such efforts will culminate in documents like family constitutions, which in more or less detail describe various aspects of family and business life and interactions (*e.g.*, dividend policy, communication rules). It is important to note that the formal structures can only function effectively if the lower layers are in place, and most importantly, if they are aligned and lived in everyday interactions.

Over the course of the next chapters, we elaborate on each component before we synthesize our findings and present a set of recommendations for family business owners and their advisors.

## MORETTI CASE STUDY

*In order to bring our conceptual framework to life, we are using the fictitious case of the Moretti family. They seek the help of a family business advisor to develop an ownership professionalization strategy for the long-term. You will encounter the Moretti family throughout the report.*

The Moretti family is a second-generation wine making family from Tuscany, Italy. Founded in 1957, the wine making company – which also carries the family's name – has consistently grown over the decades and became known internationally after winning a series of awards for their heirloom varietal red blends. In 1988, Gianluca Moretti took over the business from his parents, while his sister Mariateresa chose to stay home with her two young daughters. Both share 50% of the firm's ownership; their parents passed in 2001 and 2003, respectively. Today, *Moretti* is a holding company consisting of three wholly-owned subsidiaries focused on wine making, wine export, and hospitality. Together, they employ over 700 employees and generate a combined revenue of 79Mio Euro.

In 1999, Mariateresa's oldest daughter Marina joins the company as part of the Marketing and Sales team of Moretti, her second daughter Alessandra joins just a year later. In 2001, Gianluca becomes a proud grandfather, as the first member of the fourth generation is born to his oldest son, Massimo. With the third generation joining the firm and the fourth generation on the horizon, Gianluca and Mariateresa meet to discuss the future of *Moretti* and the family. Sitting together with a bottle of their newly produced Montepulciano d'Abruzzo, they reminisce about their own journey and struggles at *Moretti*.

While many family firms in the region were struggling with severe conflicts, they realize that they were lucky; apart from the occasional tussle, their relationship is healthy, and they share a clear vision for the family and firm. As the sun sets over the valley, Gianluca and Mariateresa realize that they need to actively work on maintaining harmony in the family if *Moretti* is supposed to continue. Always prone to taking decisive action, they call their trusted lawyer the next day who recommends that they work with a family business advisor who specializes in issues of ownership professionalization.

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## 2 SHARED VALUES AND GOALS: THE FOUNDATION OF THE PROFESSIONAL BUSINESS FAMILY

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### MORETTI CASE STUDY

In late 2002, Gianluca and Mariateresa meet with their new advisor Mara for the first time – and they are surprised by how interested Mara is in learning about the values and the goals they have set for their family. As it turns out, Gianluca and Mariateresa had never really discussed either one of these things; while they live by the values that their parents had instilled in them, they had never given much thought to them. The values were so ingrained in their behavior and so prevalent throughout their entire organization that it hardly seemed necessary to write them down.

Encouraged by Mara, Gianluca and Mariateresa set up a family day a few weeks later, bringing together all members of the second and third generation. After a few short company presentations, every family member presented their perception of the family's core values and shared their vision for the family's and business' future (which they had prepared beforehand). The siblings are happy with the outcome: while the family has vastly different views on where the business should be going, there is a solid foundation of values that all share. Ultimately, the family agrees that more effort is necessary to understand what *Moretti* stands for. Over the next two years, the family meets in regular intervals to discuss the family values. Despite several setbacks and struggles, they arrive at a strong value statement that all family members enthusiastically agree upon:

*Moretti wine carries the tradition of the Tuscan soil, the love and attention of our wine makers, and the passion of the Moretti family.*



## THE POWER OF SHARED VALUES AND GOALS

Arguably two of the most important factors driving family firms are their value system and their long-term goals, both of which stem from the owning family. Through frequent family interactions and the development of common stories (i.e., storytelling), symbols and rituals (Hamilton, Discua Cruz, & Jack, 2017), business families develop shared value foundations, which are often highly idiosyncratic (Sorenson, 2014). Rather than being driven by fads and fashions, the family's beliefs about how business should be conducted is based on their core values, which are firmly rooted within the family firm's culture and tradition (Fletcher, Melin, & Gimeno, 2012). "Typical" organizational values (*e.g.*, quality orientation, customer commitment, or integrity) are derived from the family's values and experiences, and embodied in everyday practices, organizational structures and culture, thereby shaping the identity of the firm.

A unified value system provides family firms with an advantage and creates alignment among goals and, ultimately, among the family members (Long & Mathews, 2011). If the family's financial (*e.g.*, dividends, employment) and non-financial goals (*e.g.*, protecting the firm's reputation, providing for employees) are poorly aligned with their value foundation, such inconsistencies will likely result in conflict over time.

### EXEMPLARY CASE STUDY

The Miller family is a second-generation business family that owns a sizeable manufacturing company with a solid financial base and good returns in Michigan, United States. There are three siblings – Frank is the CEO, while Peter and Nicole serve on the company's board. All receive dividends that contribute significantly to their incomes.

*Continuity* is among the family's core values, which strongly affects their business strategy, as they tend to shy away from any investments that they deem risky. The third generation – mostly in their 20's and early 30's now – has been raised in an environment of abundance, and they have developed expectations regarding being supported by the business financially. The siblings are getting into heated arguments more frequently, as Frank – the CEO – is trying to limit dividend payouts in order to reinvest and build reserves in the company. He often clashes with Peter and Nicole, who are more frequently pushing for riskier investment decisions to support their increasingly higher growth ambitions – which are necessary to meet the growing family's financial needs. *What is their underlying issue?*

The Miller siblings no longer share the same set of values and goals – and they prioritize their individual goals over the collective goal of the family, which is to ensure the prosperity of the business for future generations. They have failed to instill the family's core values in the next generation, failed to explain what these values and goals mean for the relationship between the family and the business, and failed to adjust their (mainly financial) expectations as the family grows over time. **There is a lack of alignment between the family's values and individual family members' goals and expectations, causing friction among the siblings.**

## WHAT DO VALUES AND GOALS HAVE TO DO WITH PROFESSIONALIZATION?

The values provide the family with a foundation on which to build their professionalization efforts. After all, professionalization efforts are particularly promising when aligned with the family and business value system and goals (Waldkirch et al., 2017). Generic solutions to governing, formalizing or professionalizing the ownership group that fail to account for the idiosyncracies of a particular family – their values, needs, and goals – do more harm than good, as they do not adequately reflect the family's values and goals. Thus, it is crucial that the ownership professionalization reflects the values of the family and the firm.

Therefore, while certain modes of professionalization may be beneficial for some families, since they fit to the family's value foundation, they may be unnecessary or outright detrimental for others. A family built upon values of trust can usually resolve conflict without resorting to family protocols and constitutions, while a family built on egalitarian values may rather refer to clear rules of formal governance structures. Yet, in all families there needs to be a shared value base on which professional practices rest. If there is strong mistrust and an absence of cohesion, family protocols and constitutions generally fail to convince family members to simply agree and put aside differences.

*“Family protocols or constitutions are overrated. In the event that conflict arises, the constitution is either completely neglected or could not program conflict resolution.”*

(Kormann, 2019)

During any effort to professionalize the ownership group, families benefit from utilizing the *process* (i.e., developing a family constitution), for example to strengthen their foundation of shared values. Conversations about shared values tend to be fruitful, as they present an opportunity to explore common ground – based on shared beliefs and experiences – and to share stories about the family and the business, which reinforces family members’ identification and sense of belonging.

#### EXEMPLARY CASE STUDY

##### Victorinox: Guided by Family Values – and God

### Victorinox AG

*“130 years of passion”*

**Revenue: 465 Mio. CHF**

**Employees: 2000**

**Founded 1884**

**Number of Generations: 5**

**Industry / product: Knife manufacturer**

*When Karl Elsener founded a knife workshop in the remote village of Ibach in Switzerland in 1884, he laid the foundation for what is today known as the Swiss Army Knife around the world. 135 years and four generations later, the workshop has grown into a globalized and diversified company. Victorinox today is the largest employer in the canton of Schwyz – a fact that would have made the founder proud.*

In the aftermath of September 11, 2001, Victorinox’s sales collapsed by 30%, due to the fact that Swiss Army knives were no longer allowed on airplanes and could thus no longer be sold at airports. For any other company, cutting jobs at the headquarters in Ibach – where all Swiss Army knives are manufactured – would have been a natural consequence, but not for Victorinox.

Victorinox’ commitment to providing employment opportunities for the people of Ibach and the canton of Schwyz goes back to the very reason the company was founded – Karl Elsner, a deeply religious man, wanted to prevent rural depopulation and support his community. Letting people go was therefore not an option for the Elsener family, as it ran counter to everything they believed in and stood for. But they also knew that adjusting to the new situation would take time.

Carl Elsener III, the founder's grandson, and Carl Elsener IV, the current CEO, contacted other companies in the region and managed to temporarily accomodate almost 60 employees. These employees would gather at the Victorinox headquarter in the morning, where a bus would take them to their temporary workplaces. In order to avoid any unnecessary trouble for the employees, Victorinox continued to pay their salaries and maintained all of their other benefits.

Essentially, the Elsener family had no other option. In-line with their Christian values, the family's overarching goal is to contribute to the sustainable development and well-being of their community. Carl Elsener III often says that *"we have been given the company to take care of it, as stewards. It is not our property."* In 2000, the Elsener family decided unanimously to separate the business from the family, and to transfer all of their shares into two trusts. The main trust (90% of the shares) is dedicated to protecting employment, the second trust supports philanthropic activities (Gautier, 2004). The family members do not receive – nor have they ever received – any dividends.

The family's Christian values serve as a foundation for decision-making. Reflecting on their actions after September 11, Carl Elsener IV says that *"just like it says in the Bible – we built our reserves in the seven years of prosperity, so we are prepared for the seven years of famine."*

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## 3 MAKING IT STICK: WHAT KEEPS A FAMILY TOGETHER?

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## MORETTI CASE STUDY

Quickened by the successful value and goal discussion during their first family day, the Moretti family develops a set of measures to engrain their core values throughout the organization. Mara suggested a series of mechanisms to encourage behaviors aligned with their values and goals – some very simple, such as setting up a screensaver on all computers with the core values – and some more sophisticated, such as systematically reward such behaviors through the existing employee appraisal process. In addition, the 2<sup>nd</sup> and 3<sup>rd</sup> generations did town hall meetings together in their various locations, talking about the family's values and their goals for the business. These efforts bear fruit quickly – by 2006, the employee turnaround is lowered by 25%, and *Moretti's* market share in Italy and its key markets is growing continuously.

This success, however, takes a toll on the family. After another exhausting trip, Marina comes back to the winery, where she meets her cousin Massimo and his young son. Realizing she had not seen both in nearly half a year, they arrange a meeting the very next day. Catching up with each other, both agree that the family needs to meet regularly and that they need to make sure that the next generation will grow up as closely as they did. To start a new tradition, Marina and Massimo decide to host a family day in the family's oldest vineyard three months later – which happens to coincide with the very day *Moretti* was incorporated.

Gianluca and Mariateresa are proud to see the family together and spend the evening telling their three grandchildren about the beginnings of *Moretti*. Given her important role in the value process, they also invite their advisor Mara, who is glad to see that the Morettis are investing in their family spirit.

Over the next years, the family regularly spends time together. In addition, Gianluca and Mariateresa invite the whole family on a week-long vacation every year. To this day, the family day remains an important tradition that brings together the whole family.

## WHAT CHARACTERIZES A “FUNCTIONAL” FAMILY?

A functional – harmonious and healthy – family is a unique and valuable resource to the business. Such families are capable of sustaining and regulating themselves, which are imperative requirements for family business longevity (Aronoff, 2004). However, not many achieve this desirable condition.

And while some business families may perceive themselves as functional, they struggle to harmoniously interact in everyday life. Business families plagued by unresolved conflicts are not resilient to outside threats. *“If there is a dominant culture of distrust and lack of appreciation for each other, mutual recriminations can escalate and the willingness to communicate with each other diminishes drastically. In such cases decisions are delayed (...) opening up a vicious circle which is difficult to stop”* (Wimmer, 2011, S. 230). A dysfunctional owning family can destroy even an otherwise healthy business.

Psychologists characterize a functional family by the following attributes: (1) open and frequent **communication** and interactions, (2) mutual **support** and appreciation, (3) deep **commitment** to the family and willingness to defend it against outsiders, (4) common set of **values**, (5) ability to **adapt** to change, and (6) clear **roles** within the family system (Krysan, Moore, & Zill, 1990; Olson, 1986).<sup>1</sup> As families grow and age, they tend to experience challenges such as alienation from the business (Baus, 2012), a lack of motivation in the following generations (Zellweger, Sieger & Englisch, 2015), or difficulties with processes and structures established in previous generations (Keyt, 2019). If not dealt with appropriately, these challenges threaten the survival of the family business.

What is important to remember is that **even healthy families have dysfunctional aspects that should be addressed**, such as an ineffective communication style or a low frequency and depth of interaction. In turn, a dysfunctional family may have a solid foundation of shared values or a strong commitment towards the family – these functional aspects can be built on and help in working on the dysfunctional sides. An external advisor or consultant can be a valuable resource in calming down emotions and initiating constructive dialogue.

## THE ROLE AND BENEFITS OF COHESION & PSYCHOLOGICAL OWNERSHIP

**Cohesion** pertains to how well family members are connected with one another and has been found to be an important determinant of family functionality and commitment. Family members feel connected to the family and the business in different ways and on different levels. Pieper's (2007) cohesion model is helpful in understanding the different layers of family cohesion and describes several measures to increase cohesion towards the family and the business. For each individual, cohesion is primarily driven through either **emotional** or **financial** means and emerges from either the **family** or the **business**. An example: While an annual family gathering (family-emotional) or the business' philanthropic engagement (business-emotional) makes some family members feel connected to the family, others feel committed to the family and the business primarily through dividend payments (business-financial) or educational stipends (family-financial).

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A “dysfunctional” family is generally characterized by the absence of the attributes of functional families as well as the presence of (1) overly strong conformity and (2) perfectionism, (3) abuse and (4) constant and aggressive conflict, (5) unpredictable behaviors and (7) implicit and explicit exertion of control (Olson, 1986).

TYPE OF COHESION	WHAT IS IMPORTANT TO THE INDIVIDUAL?	POSSIBLE MEASURES TO INCREASE COHESION
<b>FAMILY-EMOTIONAL</b>	Emotional aspects related to the family such as identification, bonding, trust, etc.	Regular family gatherings, family holidays, birthday calendar, newsletter, philanthropic and charitable activities
<b>FAMILY-FINANCIAL</b>	Financial aspects in the context of the family, such as loyalty in regard to financial expectations	Material and nonmaterial goods, gifts, heritage, student loans, interfamily loans
<b>BUSINESS-FINANCIAL</b>	Financial aspects in the context of the family, such as dividend payments (Cohesion is regularly related to positive financial performance)	Dividends, investment and business opportunities, above-market salaries and compensations, board involvement
<b>BUSINESS-EMOTIONAL</b>	Emotional aspects related to the business, such as identification with the business and its products/services, pride, etc.	Focus on high quality, archives, museum, artefacts which tell about the business history or special achievements, guided business tours

TABLE 1: MECHANISMS OF COHESION (PIEPER, 2007)

Most family members experience cohesion via multiple dimensions; they react to several different cohesion-creating measures. **For any business family, it is helpful to think about the measures currently in place to identify areas where the family is still lacking.** Experienced advisors understand which family members respond positively to which dimension and suggest suitable measures.

While cohesion describes how family members are connected to one another, the concept of **Psychological Ownership** pertains to the cognitive and emotional attachment family members feel to the business.

Ownership perceptions (even if not based on factual or legal ownership) have been found to have an enormous influence on our behavior and motivations, and our sense of identity. Once we can call an object “ours”, we tend to treat it with extra care, invest more effort, foster and nurture it, and view it as an extension of ourselves (Pierce, Kostova, & Dirks, 2001). This has important implications for business families:

Even family members with little or no ownership (such as younger members of the Next Generation) can experience psychological ownership, which affects their behaviors and attitudes. Prior research identifies three mutually reinforcing mechanisms that foster feelings of ownership: (1) Experiencing control, (2) coming to intimately know the family business and (3) investing the Self into the family business (Bernhard, 2011; Pierce et al., 2001).

DRIVER	HOW IS IT FOSTERED?	POSSIBLE MEASURES TO INCREASE PSYCHOLOGICAL OWNERSHIP
CONTROL	Exerting control leads family members to perceive the organization as an extension of themselves. Controlling the target is a central mechanism in the development of PO.	Consulting with or including family members, even those with little or no formal ownership for business decisions; involving and letting the Next Generation participate in business activities
KNOWLEDGE	Knowing the structures, processes and characteristics of the business creates a feeling of intimacy with the organization.	Continuously informing family members (including minority owners) about the business (e.g., newsletters, intranet, informal meetings, formal brochures)
INVESTING SELF	The more family members invest themselves in the organization, the more it becomes part of their individual selves, creating a feeling of PO.	Giving family members the opportunity to invest their (free) time in the business (e.g., through internships, practicums, or employment for qualified candidates)

TABLE 2: DRIVERS OF PSYCHOLOGICAL OWNERSHIP (BERNHARD, 2011; PIERCE ET AL., 2001)

Allowing family members to experience control, educating them to be knowledgeable about the business, and creating opportunities for family members to invest themselves in the business are powerful ways to strengthen psychological ownership of and commitment to the business.

## PSYCHOLOGICAL GLUE: WHY DOES IT MATTER?

Long-lived business families have learnt that using structural solutions to solve emotional issues generally never resolves a problem but instead tends to exacerbate the underlying issue. These families understand that if their family members do not share a desire to remain together as an ownership group, they will eventually fall apart. These families cultivate **Psychological Glue**: They make sure that the family members feel connected with one another, that they identify with the family and the business, and that they feel committed to contributing to the wellbeing of the family and the success of the business.

Successful – think: functional – business families create opportunities to come together and create shared experiences, acknowledging that relationships thrive as people spend time together and learn about one another. **Strong family relationships make family processes productive – and often times, they make formal structures almost superfluous.** And again – if a family manages to leverage the process of developing – for example – a family constitution by fostering an atmosphere that encourages caring, honest and candid conversation, it means allowing the family to grow closer. In such a process, the focus lies on strengthening family cohesion, better understanding the family dynamics at play, increasing communication efficacy, and improving the family members' ability to deal with conflict. **Professionalization efforts that fail to utilize the process are missed opportunities that produce formal outcomes that likely offer little long-term value to the family.**

*“Family peace and unity and cohesion among family members is a family’s greatest asset. Once the family begins to fight and becomes unable to make reasonable decisions, the business will suffer.” (3rd generation family CEO and Chairman of the Board, Switzerland)*

## 3 WHAT MAKES A **COMPETENT OWNER?**



### MORETTI CASE STUDY

In 2009, sisters Marina and Alessandra attend the annual gathering of Family Business Network International (FBN-I) in Amsterdam – Mara thought that engaging with and learning from other business families would be beneficial for them and suggested joining a dedicated association. Over the extended weekend, they not only meet numerous next generation family members in similar situations, but they also hear about a variety of topics such as family offices, sustainability, or emotions in the family business. Their heads are full when they leave, as are their hearts.

On the plane ride home, they talk about how far they have come over the last seven years, and how much they have learnt about business and the wine industry working at *Moretti*, being closely mentored by Gianluca. Right before they left for the conference, Gianluca mentioned that he was beginning to plan his retirement and indicated that he would very much like to see Marina and Alessandra – and maybe even other members of the third generation – continuing the firm. Inspired by this weekend and having heard much about what it takes to be a responsible owner, Marina and Alessandra decide to address this issue with Gianluca: they strongly feel that if he wants *Moretti* to remain a family-owned group of companies, the family members making the decisions need to not only be unified, but also capable. They think that this would be a good time to begin developing something that another FBN-I participant – a member of the German Merck family – had told them about: a systematic program for ownership competence development.

They see this issue as particularly pressing because there has been some tension on one of the subsidiary boards because the outside board members feel that one of the family board members (Gianluca's son Massimo, a physicist) lacks business-related skills. Monday morning, Marina calls Mara and sets up a meeting. Together with Massimo and Alessandra, they compile a list of online and on-site classes family members with different profiles could attend, and other mechanisms through which they could acquire the competences needed to successfully perform their role(s).

## WHAT IS OWNERSHIP COMPETENCE?

Competences are *“a combination of tacit and explicit knowledge, behavior and skills, that give someone the potential for effectiveness in task performance”* (Draganidis & Mentzas, 2006, p. 53) and are invaluable for any profession or job<sup>2</sup>. Competences provide an individual with the opportunity to prove their capabilities (Ryan & Deci, 2002), thus feeling confident about a specific task – which has been shown to be a deep-rooted psychological need (McMullen & Warnick, 2015). Prior research has identified a range of managerial and entrepreneurial competences linked to firm growth and success, such as problem-solving or communication skills (Abraham et al., 2001; Dierdoff & Rubin, 2009; Mitchelmore & Rowley, 2010). Given that managerial competences are primarily learned through experience (McCauley et al., 1994), **one may wonder how competences can be acquired if an individual – for example, a non-operational family member serving on the company board – is not exposed to such learning experiences.**

There has been no systematic research focused on identifying competences that contribute to (family) ownership performance – which may be related to the fact that defining ownership performance is not an easy task. Given how much time and effort business schools spend in educating managers, it is surprising that ownership competences receive so little attention. If we assume that business families, for the most part, have a transgenerational vision for the business, intending to keep it healthy for future generations, we could reason that **the ultimate measure of ownership performance goes beyond financial success, and might in fact be family unity and longevity**. Following this reasoning, ownership competence supports the owning family in their quest to retain control over a prospering business, while remaining a unified and actionable decision-making body; as one of our interviewees pointed out, this may include letting go of family members working against the family, in an effort to protect family harmony.

The sole survey on ownership competence by the University of Witten/Herdecke (Germany)<sup>3</sup> demonstrates the practical relevance of the topic: The majority of the 263 German family firms investigated consider developing ownership competence to be a decisive success factor that positively affects family cohesion and the ability to develop a shared set of goals (83%) and helps mitigate conflicts in the ownership group (67%). The families surveyed prioritize business-related skills such as management and strategy (95% agree that operative family shareholders should have those skills, versus 15% for non-operative family shareholders), finance (94% vs. 49%), entrepreneurial orientation (93% vs. 24%) and industry knowledge (91% vs. 27%) – despite stating that appropriate communication and conflict management skills are necessary to maintain family cohesion. While the respondents agree on the importance of systematically developing ownership competence, the numbers tell a different story: Less than half invest only one to two weekends, and only up to 10,000 Euros for ownership competence development per year. This is relatively little effort to systematically develop critical skills and capabilities to serve the business's and family's current needs – let alone their future needs, in terms of digitalization, artificial intelligence or disruptive innovation, for example.

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<sup>2</sup> **Competence** is the possession of the knowledge (i.e., theoretical or practical understanding of a subject), *skills* (i.e., proficiencies learned through the transfer of knowledge (training) or experience), and *abilities* (i.e., (innate) qualities of being able to do something) to fulfill current needs, while **capability** refers to the ability to develop to meet future needs. Competence and competency are sometimes used interchangeable, even though competence usually refers to an individual's general ability, while competency pertains to an individual's ability to perform a certain task.

<sup>3</sup> <https://www.wifu.de/bibliothek/gesellschafterkompetenz-in-familienunternehmen/>



The survey shows that there is not a lack of awareness, but instead, **a lack of willingness** among owners to make a concerted effort to tackle this issue they clearly regard as important. It seems as though business families currently lack the foresight or interest to dedicate sufficient resources to adequately educate the family group to successfully perform their current and future ownership roles. Furthermore, **their understanding of what constitutes a competent owner seems short-sighted, situational, fragmented and overly reliant on the business side.** While many families have a long-term vision that goes well beyond 20 or 30 years, they neglect to invest sufficient resources for preparing the next generation of owners so they can adequately perform their rights and responsibilities over this period of time. There clearly is much room – and need – for improvement.

## FAMILY OWNERSHIP COMPETENCE: A HOLISTIC VIEW

*You need to figure out what ownership means to you, figure out how you can become good owners. You're not born a competent owner. What can you contribute to the business? What do you need to understand to be beneficial to the business? What do you need to know to not be 'run over' by external board members?" (Hall, 2019)*

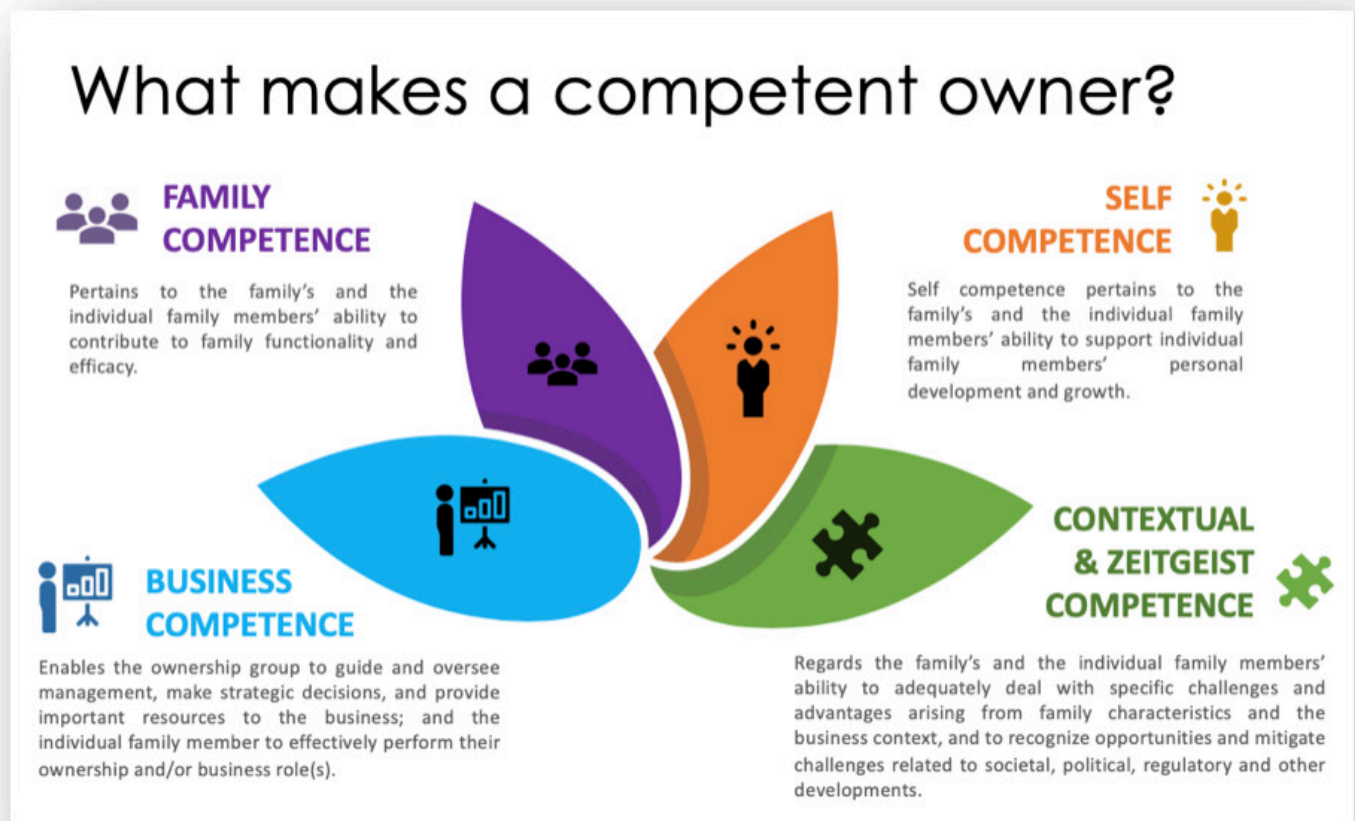


FIG. 2: FAMILY OWNERSHIP COMPETENCE PROFILE



Through our research we have identified four competence categories that constitute a competent ownership profile: **Business Competence, Family Competence, Self Competence, and Contextual & Zeitgeist Competence.**

Figure 3 presents a categorization of ownership competence. Please note that the contextual and Zeitgeist competences listed in particular are not exhaustive, but mere examples of relevant competences, since those are highly dependent on the family’s idiosyncracies.



FIG. 3: OVERVIEW OF OWNERSHIP COMPETENCES

*“The more it is possible to anchor family membership as an integral and essential part of one’s own identity, the more likely it is for family members to preserve and grow the business to the benefit of future generations; and not to exploit it.” (11<sup>th</sup> generation former Chairman of the Family Board, E. Merck KG, 2011, p. 117)*

Next, we provide high-level descriptions of each competence with exemplary short cases of experience-based real-life situations alluding to the relevance of selective competences. Detailed descriptions and an overview of all competence categories and sub-dimensions, as well as internal and external acquisition mechanisms can be found in Appendix H.

### EXEMPLARY CASE STUDY

Jack is a non-operational family board member of a 3rd generation business family. He wants to leave the board because he is unhappy with his performance, feeling overwhelmed and not competent enough as a board member. Jack lacks in-depth financial knowledge and does not know much about business strategy, because he never went to business school (but otherwise has a successful career in an unrelated field). During board meetings, Jack often feels like he makes – or supports – ill-founded decisions due to his lack of business acumen. As a result, Jack thinks that the other board members do not respect him and believe that he is only there because he is a member of the family. He feels that despite being a successful professional in his main line of work, he does not add any value to his family business's board. This puts a strain on Jack's relationships with his siblings and cousins who occupy operational positions. Because he works full time besides his board commitment, he feels unable to enroll in an MBA or EMBA type program to further his business skills. *What advice do you have for Jack?*

Whether on a basic level for owners who do not (yet) hold a decision-making role, or on a more sophisticated level for those who already do – business competence is one of the most essential competences for family business owners. If owners are unable to understand and properly interpret **financial indicators and methods**; if they do not intimately know their **industry(ies) or market(s)**, if they are not familiar with the cornerstones of **business strategy**, and if they lack some **basic regulatory and legal knowledge**, they will have a difficult time making **sound decisions** that benefit the business, and that are aligned with the family's goals and values. On top of that, family members in leadership positions need excellent **social skills** and a **strong vision** that they are able to imprint on layers of their workforce.

However, business competence is not a requirement for operational family members only, as Jack's example shows. So where can operational and non-operational members of the ownership group acquire business competences? The answer to this question largely depends on the individual's age, and their current and future role(s) in the business as well as the family. For Jack – this was a real-life case – we advised pre-board mentoring sessions (depending on the complexity of the issues, 45 minutes to 2.5 hours turned out to be a good time frame) with the non-family CFO (usually the afternoon before the board meeting, and sometimes the weekend, depending on Jack's work commitments). This allowed Jack to feel more comfortable asking questions – he now feels like the questions he asks are no longer mundane – which contributed greatly to his learning curve and boosted his self-confidence.

For other individuals and roles, more formal means of education might be more appropriate – MBA or EMBA programs, or targeted programs focusing on specific skill development such as accounting classes, or programs specifically designed for governing owners such as the Loyola Governance Institute. If there are no non-family members available within the business that might serve as mentors, independent directors are often great resources, as well as as professional coaches, or even senior-level employees in other family businesses within the family’s network (see Appendix H for more ideas).

*“Regardless of whether you have an operational or a strategic role, and even if you currently do not have a formal role in the family or the business: you must know the industries you’re involved in. If you are not intimately familiar with your competitive landscape, with technological trends and such, you cannot make sound decisions. The ability to make sound decisions based on sufficient information is what makes you a good, responsible owner.” (4th generation family CEO, Switzerland)*

## **Family Competence**

### **EXEMPLARY CASE STUDY**

The Schmidts are a 5th generation business family, and owners of a thriving construction and real estate company. They family has consistently pruned the tree, thus keeping ownership concentrated. Today, there are four siblings that share ownership of the company. Two work in the business; the younger sister is the COO of the real estate company, and her older brother serves on the holding company board. The youngest two – male twins – chose careers outside of the business. The father – founder and patriarch – recently passed away, and conflicts are erupting more frequently. In fact, the friction between the four branches has begun to affect the next generation of owners: The siblings regularly criticized one another in front of their children, which drove (or even forced) the cousins to pick sides and caused them to drift apart. At first glance, the sibling feud seemed to be driven by feelings of inequality; the twins often complained that their insider siblings were being paid too much for their roles, and that dividend payouts were too low. Addressing these concerns, and following outside advice, the board introduced best practice policies for compensation and dividend payouts. These measures (think “resolving relational conflict with formal structures”) did nothing to alleviate the conflict. Instead, the two outsiders became even more frustrated, as they felt that the board had ganged up on them, invalidating their seemingly rational sources of criticism. But what was really going on here?

Family competence is an essential set of skills any owner should develop. If family members lack a **profound understanding of family dynamics**, they are unable to appropriately interpret why family members act – and react – the way they do. Only once we understand the dynamics at play, we become able to change unhealthy family patterns. Families are also well-advised to invest in improving their **communication and conflict management skills**. A simple analogy: If we want to improve our golf skills, we hire a trainer or take classes – we need to take a similar approach to improve our capacity in dealing with conflicts or making our communication more effective. Without effective communication and the ability to address conflict in a non-emotional way, our decision-making ability is compromised.

From a family dynamics point of view, we have to ask what we are really fighting about (which usually is not what people think or say they are fighting about – see the example of the Schmidt family above). Problems and difficulties arising from family dynamics are often the reasons behind classic “business” problems (e.g., dividend policies, risk tolerance, hiring and keeping employed children who are damaging to the business, complaints about compensation policies, corporate image and the like). When family dynamics are taken into serious consideration and when they are improved, these other issues often quickly resolve. The real-life case from Germany shows how family dynamics – and underlying issues – can spill over to the business. The Schmidt siblings were raised as competitors – and not as a team – consistently trying to impress their father, who rarely expressed any sign of affection or appreciation. The outside siblings were jealous of the insiders for being able to interact with their father on a daily basis – whereas the insiders were resentful that the outsiders did not have to be around him, as he was controlling and demeaning in most interactions. The source of the conflict was not inequality – it was competition<sup>4</sup>, and a culture of blame within the family, and what aggravated it was not acts of entitlement, but lack of effective communication and support between the siblings. These issues were unearthed during a series of family meetings, and the siblings committed to dedicate a considerable amount of their time to working through these issues collectively – with their spouses – in order to repair their relationships to the benefit of the entire ownership group.

Family competence can be developed using a variety of methods such as coaching, family therapy or individual therapy, online and physical classes (or self-directed reading) on family psychology and family dynamics and learning from and interacting with other business families that often experience similar issues (see Appendix H for other examples).

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<sup>4</sup>And other issues stemming from childhood and multi-generational family issues: psychological reasons rooted in experience.

*“Family dynamics change and evolve constantly, it’s not like at one point you got it – we continuously have to work on our relationships (...) what I find particularly important is to keep those that are not operatively involved in the business engaged; they have to know what we’re doing and why we’re doing it, and they have to agree with the overall direction.” (6th generation family CEO and Chairman of the Board, Switzerland)*

## **Self Competence**

### **EXEMPLARY CASE STUDY**

Vladislav is the 47-year old founder of a company offering distribution and retail all over Ukraine. The company has seen impressive growth over the course of the last 20 years, which put a lot of pressure on Vladislav. In 2011, he lost his wife, who also was his partner in the company – they shared one child in their blended family of five.

Over the years, Vladislav has made a tremendous effort to deal with the pressures from both the professional and private domain, and he has put in a lot of time dedicated to self improvement, taking educational classes, founding the Ukrainian Chapter of the Family Business Network (FBN) in an effort to connect family businesses, taking on mindfulness practice, and practicing sports. He has even come to accept the fact that he does not have unlimited energy, which forced him to delegate and place trust in other people. He has learnt to better interpret and deal with other people’s reactions, not jumping to conclusions based on his prior experience and beliefs, but instead, using the frameworks and ideas he has learnt during his many executive education programs. He stepped back from being an over-controlling founder to respecting people’s boundaries and using mindfulness practice to remain aware of how he comes across in certain moments. And while Vladislav and his current wife – who is also a successful entrepreneur – both blend the work and family domains, they still dedicate a good amount of time to enjoy as a couple and as a family.

Self competence is best characterized by a strong desire to **continuously improve oneself**, and a high **openness to feedback** (even actively seeking it). Self competence usually develops naturally over time – with the right attitude, which can be fostered through an appropriate value foundation and family culture. If children are raised to be responsible stewards of their businesses, and valuable members of their families, in a culture that values honesty and transparency, a strong work ethic and a self-improvement orientation, the right attitude will likely evolve. Self competence can be strengthened from a very early age on, through consistent parenting, teaching about actions and consequences, delaying gratification (see, e.g., Astrachan & Pieper, 2011). Many families provide access to resources (i.e., coaching, mentoring) to support family members in acquiring self competence.

While a self-improvement orientation seems like a natural characteristic of a responsible and successful entrepreneur, the second facet of self competence may be a little less self-evident. **Leading a balanced life** – honoring not only work but also personal obligations, respecting one’s own (as well as other’s) boundaries and mental and physical limitations, and not viewing self-care as frivolous and unnecessary. Assuming responsibility for one’s own health and well-being is an essential pillar of being a responsible owner, and a requirement that successful, healthy owners understand and take seriously. The ability to say no, to protect one’s boundaries, privacy and relationships, and the ability to self-regulate are essential qualities needed to effectively function under pressure – and these usually do not evolve on their own but need to be cultivated systematically (see Appendix H for more ideas).

*“You have to learn how to distance yourself, anything else is not healthy or sustainable. I had to stop waking up in the morning and answering emails first thing, going to bed and dreaming about the firm (...) I realized I needed to balance my life, that I was allowed to turn off my phone – I built a strong team that I can trust, and I no longer feel indispensable – which is a good feeling.” (3rd generation family COO, Switzerland)*

### **Contextual & Zeitgeist Competence**

#### **EXEMPLARY CASE STUDY**

The Villalongas are a 4th generation business family in Colombia, with ownership over a portfolio of companies operating successfully throughout Latin America. A man named Gabriel is the current family CEO of one of their larger companies – he is 67 years old, and his health has decline rapidly over the course of the last 10 years.

His immediate family suspects that he shows signs of Alzheimers, a sickness that took both his mother and his aunt. The family is large – they have over 80 shareholders – and they lack the capacity to (quickly, but really even slowly) make decisions together, especially when they feel that they are under pressure. The family is afraid to confront Gabriel's branch of the family – let alone Gabriel himself – since he is known to have terrible outbursts; they are also afraid that he will make a brash decision if he feels forced to step down. *What is the best way to deal with this situation?*

Contextual and Zeitgeist Competence pertains to particular abilities that account for a family's idiosyncratic circumstances, or circumstances shaped by the current time (hence, *Zeitgeist*). It is impossible to compile an exhaustive list, given that all families are different and change over time, but there are several contextual competences that families should at least think about, such as **health management** competence for the Villalongas. The family can for example recruit family members to supply the characteristics and skills that are missing in the family leader with a medical disorder. The advantage of this is that it gives some family business leaders with MDs considerable scope to exploit their unique skills, while at the same time being supported by kin who understand them deeply and complement their abilities (Miller et al., 2019). Another example is **security competence** for any high-profile families, or for families that live in country with weak regulatory environments, in war-plagued zones or areas with high levels of criminal activity.

As for Zeitgeist, one competence that is becoming increasingly relevant for business families of all shapes and forms is **digital readiness**, which pertains to the family's awareness and understanding of how digital technologies shape our interactions, and our public perceptions, and the threats that come with it. Keeping the family out of the (negative) spotlight is getting increasingly difficult with fast-spreading news, and with members of the younger generation becoming more visible through their social media profiles. Also, fostering an ability to think outside the box might be particularly interesting for the next generation. Families that actively invite ideas (*i.e.*, inspirational speakers on the digital revolution, AI, and other societal, regulatory, technological and scientific advancements, or green innovation and resource scarcity) from different areas and disciplines spark ideas and imagination in the family and the business (see Appendix H for more examples).

*"I think today more than ever, with all of the technological advancements, innovation is more important than ever. Everything happens so fast, and if we don't embrace the changes, we will die. We depend on people who have a vision and who can think outside of the box."* (6th generation family CEO and Chairman of the Board, Switzerland)



## EXEMPLARY CASE STUDY

### Davidssons: Keeping the family in the business – by bringing in an outsider

#### Davidssons\* Cars

*“Happy car ownership in the long run”*

**Revenue: Around 800mio SEK**

**Employees: Around 150**

**Founded: 1930s**

**Number of Generations: 3**

**Industry / product: Car retailing & service**

*As retirement drew closer for Peter Davidsson\*, he felt sad that he would likely have to sell his 3<sup>rd</sup> generation family firm. Thirty years ago, he had taken over Davidssons Cars from his father and had since then significantly grown the business. His children, Kajsa and Olof, had successful careers in completely unrelated industries – but both wanted to keep Davidssons in the family. But how could this be done?*

Keeping ownership of the business without being operationally involved provided several challenges for the Davidssons. Who would run the business? Could Kajsa, an architect, and Olof, a physicist, acquire the knowledge necessary to both support and control the company? And what was Peter’s role going to be?

After much consideration, they decided that they needed to create a fitting arena for the next generation to learn and take enough time to transition the business to the next generation. A short while after the decision was made to keep the business in the family, Peter asked the financial officer, whom he trusted, to take over the reigns of the business, while he moved down into the top management. Despite the concerns of several employees, the solution worked well and provided Peter an important learning experience for letting go of the firm. When three years later, the non-family CEO went into retirement, Peter had a clear idea of the profile of the next candidate and his own role as an owner. At the same time, the family developed the advisory board of the firm by bringing in two industry experts that would both support and mentor Kajsa and Olof. Especially Kajsa became increasingly interested in the firm and decided to reduce her normal job to be able to dedicate more time to the firm.

When the next CEO came into the company, he was aware of the importance of taking the next generation on board and helped them define their role as owners. While not integrating them in operational positions, Kajsa and Olof were often at the company and remained highly visible. To them, it was very important, as it allowed to keep the family values alive and preserve the feeling that Davidssons was, indeed, still in the hand of the family. Peter, on the other hand, reduced his involvement in the company, transitioning into a mentor role for his children as well as the new CEO. While he was active in the supervisory board in the first years, he left it shortly after his 70th birthday. With both next generation members finding their footing in the firm, he felt that it was the right time to pass on the leadership in the family.



## 5 THE TIP OF THE ICEBERG: INFORMAL AND FORMAL MEANS OF FAMILY GOVERNANCE

### MORETTI CASE STUDY

By 2012, all members of the third generation have taken part in programs offered by the Family Business Network. Even Gianluca's son Massimo, who never showed much interest in the firm, was enthusiastic to learn more about being a good, responsible, and competent owner. Especially Alessandra was fascinated to learn more about family governance. Having talked several times to Kajsa, the successor of a Swedish car retailer who invested in family governance, she is adamant that Moretti would profit from more structure in the family.



Coming back home from the latest workshop, especially the idea of a family council has stuck with Alessandra. Enthusiastic to try out the idea to create a meeting where the family can discuss their involvement in Moretti, she organizes a first meeting together with her sister Marina a few weeks later. Renting a cottage by the seaside near Livorno, they invite all family members to spend a weekend together and discuss their role at Moretti. Adamant to try out something new, the meeting soon falls back into old patterns. Gianluca takes over the meeting and leads it like a regular management meeting, Massimo quickly loses interests as the discussions turn around their investments in Cyprus, and Marina leaves the meeting several times to talk with an important client. At the end of the day, Alessandra is deeply frustrated about the failed attempt to start a family council. Returning to the FBN meeting, she recounts her seaside setback, as Marina jokingly refers to, to the other participants. Many of the family owners attending start to laugh in a friendly manner, recognizing the situation from their own experience, and share their stories of how they were able to overcome the initial resistance in the family. Sitting down with Kajsa at the end of the day, Alessandra decides to give the family council another try, knowing that she has to set it up differently.

Encouraged, Alessandra calls for the next family council a few months later, which she and Massimo chair. She starts the day by explaining the role of the family council and passing on what she has learned from Kajsa and the other participants. Setting a different agenda from the beginning and moving away from everyday operations, the family leads a long conversation about the succession process and the coming years at Moretti. Sitting together at the foot of their vineyard in the evening the Morettis are hopeful for what the future has in store for them and their family business.

Professional business families often use both informal and formal ways of managing the family as well as the family-business relationships and shaping family members' behaviors and decision-making. Keeping in mind the power of alignment between the pillars of business family professionalization, it is important to remember that any governance instrument will only be effective if it is truly reflective of the particular family's value foundation.

## **INFORMAL WAYS OF GUIDING AND MANAGING THE OWNING FAMILY**

Informal, value-based norms provide strong guidelines that shape family members' behavior and thinking. In order to instill, preserve, and develop the family's core values, families foster informal family governance mechanisms among the member of the ownership group.

Such norms often stem from the founder's imprint on the business and often persevere over many generations, rooted in the family's value system (Pieper, Smith, Kudlats, & Astrachan, 2015). Informal governance facilitates communication, establishes accountability in the organization, and can provide means to curb and solve ensuing conflict. While not a competence in the classic sense, developing the right attitude as an owner family and establishing it through informal governance mechanisms is an important way for owner families to establish harmony, take group decisions, and shape a positive influence on the business (Gersick & Feliu, 2014; Suess, 2014).

An important tool for owning families in creating and passing on norms in the business is through **role-modelling and storytelling**. Several of the family members we interviewed highlight how the way their parents and relatives carried themselves was instrumental in learning and understanding the family's values, norms and expectations. One family member recounted how her father had clearly explained the rationale behind every decision to her already at a young age, while another recounted how she was impressed by hearing employees talk about her family, wanting to live up to this role model. Some of the companies we interviewed even created a museum or family firm academy, in which these stories are passed on to family members, employees and other stakeholders. Stories provide collective ways how norms are recounted and passed on in the business (Hamilton et al., 2017; Zwack, Kraiczy, Schlippe, & Hack, 2016). Especially in multigenerational firms, stories are an important part of transmitting an entrepreneurial legacy that nurtures transgenerational entrepreneurship (Jaskiewicz, Combs, & Rau, 2015). While stories provide a template for desirable behavior, they also outline undesired behavior and create informal control in the organization.

However, while informal governance mechanisms can provide cohesion and social control and positively influence commitment among all organizational members (Zahra, Hayton, Neubaum, Dibrell, & Craig, 2008), they may sometimes also inhibit renewal in family firms. Certain stories that highlight powerlessness can inhibit innovation in family firms (Kammerlander et al., 2015), making it important to reflect about which stories should be told. In the worst case, family firms do not transmit values but bad habits across generations (Kidwell, Eddleston, & Kellermanns, 2018). An important task for family firms is to collectively explicate, maintain, and develop the informal governance systems and its underlying norms. Key to such development are everyday interactions between family members that create communication paths, shape wellbeing in the family, and establish an open exchange in the family (Nordstrom & Jennings, 2017). Yet, also formal arenas can help owner families to establish, discuss, or potentially even break norms.

## FORMAL FAMILY GOVERNANCE MECHANISMS

While a sibling partnership is often manageable without much formalization, a cousin consortium usually already requires some coordination on behalf of the family (Gersick, Lansberg, Desjardins, & Dunn, 1999). Thus, formal family governance mechanisms provide an important supplement to informal, values-based mechanisms (Dekker et al., 2015; Stewart & Hitt, 2012). Large family firms in particular, such as German Haniel with almost 700 family shareholders, need to create mechanisms to ensure family cohesion, and remaining capable of making decisions and taking action.

Despite the possible benefits of formal family governance mechanisms, it is a common misconception among practitioners and researchers to equate a ‘formalized’ business family with a competent (and functional) one. Indeed, good governance ties the family and business side together and makes sure that both sides profit from each other. **A critical function and key objective of all formal governance mechanisms is to keep the family and the business together – and not to excise one from the other.\**

**Formal governance mechanisms by themselves do not lead to longevity. They may – if aligned with the other pillars of professionalization – serve as a platform for families to talk and provide an arena for the family to create consensus, discuss goals, shape harmony, create a family visions, or plan for succession.** Formalized family meetings, ranging from breakfast conversations to family gatherings or family councils with an elected leadership can represent powerful family governance tools. Through a family council, the family can speak with a unified voice toward the business and ensure that goals are being followed. Councils and meetings further provide an opportunity to discuss family-related questions such as succession, integrating the next generation, or financing decisions (Melin & Nordqvist, 2007).

*“When I took over from my father in 2007, we only had a board of directors – and only one non-family director. We kept discussing family-related topics in the board room, which was very inefficient and also inappropriate, since family dynamics should stay out of the board room. I put in place a family council, and that is where we now talk about our dividend or investment policy, or the direction we’re taking in general, so we’re all on the same page, which has been great.” (6th generation family CEO and Chairman of the Board, Switzerland)*

As the complexity of the family increases, various issues (e.g., family member employment) require codified answers. A family constitution, is a *“normative agreement including fundamental principles and guidelines according to which the family organizes its relationship with the business”* (Suess, 2014, p. 140). Such clarity aids the perception of justice among different parts of the family. As several interviewees and advisors outlined, the process of creating a family constitution is often as, if not even more important, than the constitution itself. Often, discussions around the constitution bring larger conflicts in the owner family to the surface and force the family to address the “elephant(s) in the room”. Similar to informal governance mechanisms, it is important to periodically revisit the family constitution to ensure that it represents the current consensus among family members.

*“Families tend to lead with structure because it calms their anxieties (...) but what they are really doing is creating structure that exacerbates the underlying emotional/relational issues. Solving relational problems with structural solutions never works.” (Keyt, 2019)*

**EXEMPLARY CASE STUDY**  
**Merck: Taking Family Management Seriously**

**Merck & Co.**

*“Inventing for Life.”*

**Revenue: 14bn EUR**

**Number of family shareholders: >200**

**Number of Generations: 13**

**Industry / product: pharmaceutical**

*In continuous operation for more than 350 years, Merck KGaA employs around 52,000 people in 66 countries. Given the size of the family and its ever-increasing complexity through marriages and geographic dispersion, Merck emphasizes professional family management as a necessary condition to keep the family unified and functional.*

Merck KGaA, the oldest pharmaceutical, chemical and life sciences company in the world, remains majority owned by the descendants of Friedrich Jacob Merck, who founded an apothecary in 1668 in Darmstadt (Germany), where the company is still headquartered today. In order to maintain family cohesion and functionality among the over 200 active family members, Merck uses a two-tiered governance structure consisting of bodies to assure family cohesion (including a partner assembly which elects a family board, which in turn nominates a board of partners) as well as corporate business governance (with the more traditional executive board and supervisory board) (Neumann & Tàpies, 2007). The key focus of these formal governance mechanisms is to create alignment and stability among family members and shareholders on the one hand, and to facilitate communication and exchange between family and business on the other.

Other mechanisms that Merck uses to secure the stability and involvement of the family include 1) social definition of family membership where spouses of biological descendants as well as adopted children are considered members of the family and can be voted into governance positions; 2) communication through a family intranet (including an interactive family tree, featuring latest news and developments in the family and the business), regular social events and informal meetings at locations around the world; 3) next generation training where family members between the ages of 15 and 29 participate in 2 to 3-day programs once per year where they learn about the Merck culture, the industries in which the firm operates, and the strategies that it uses (Neumann & Tàpies, 2007). These mechanisms are consistently supplemented with initiatives to foster mutual familiarity, interpersonal contact, and teambuilding. In addition to these efforts and in order to prepare the members of the next Generation for future board functions, the “Merck Family University” recently developed as an family internal education program lasting 20 days over 18 months, where key competences (e. g. learning the history, leadership skills, law and corporate governance, principles of finance and accounting, family dynamics) are taught by top managers from the company and professors from business schools and universities (Ramachandran, 2019; Rösen, 2019).

## EXPERT ROUNDTABLE: INSIGHTS FROM OUR EXPERT FAMILY BUSINESS ADVISORS

*Our Experts have a combined experience of over 130 years and have worked with over 500 business families around the world.*

**You all work with business families from around the world. Reflecting on your experience, how do families professionalize differently across cultures?**

**Andrew Keyt**, *consultant, educator, board member (US)*: In my experience, the more developed the economy, the more exposure that a family business will have to objective business education and practices. I believe that families in developing economies operate with more implicit governance structures and shareholder education and more developed economies move towards more explicit governance. I think that this is also a function of the age and complexity of the business, the bigger and older the family or business – the greater the need to shift to explicit governance methods.

**Hermut Kormann**, *board member, consultant, researcher (DE)*: I see that owners from less developed regions have a stronger desire to learn in formal and structured “programs”, primarily conferences; they have a stronger need for experience and theory-based know-how, and a higher willingness to get access to this know-how.

In comparison, the owners in Germany participate less in formal programs but have large informal networks with other owners and form their opinions based on this communication in the peer group.

**Pedro Vazquez**, *educator, researcher, consultant, board member (AR)*: For Latin America, I can say that equality is very important. I have seen many families where grandparents are paying for the education of all grandchildren. I also feel that the emotional tone is different; discussions are much more emotionally charged in Latin America.

**Joe Astrachan**, *educator, researcher, board member (US)*: I see professionalization primarily as an issue of family and business size, rather than local culture. How families professionalize and how easy it is or what obstacles they face are far more related to family wealth and size. While cultural differences are real, there is no culture that I have come across that is in any way more favorable to professionalization: Open and honest conversation is hard to develop in every culture.

**Kirsten Baus**, *consultant (DE)*: I agree – I do not think the cultural context matters as much in terms of how business families professionalize, since each family is different.

**Tom Rüsen**, *educator, researcher and consultant (DE)*:

I do think that there has been a shift in the last 10 – 15 years in Germany. Due to egalitarian transfer of shares there has been an increase of shareholder families with 50+ members. Families realized that they needed to be trained as owners.

**Keyt**: Yes – you’ve got geographical culture and you’ve got family culture. My belief is that all forms of family governance need to match both the family and geographic culture. I don’t see the actual structures as being all that different, but the little nuances in how family meetings and family councils operate vary by the family’s culture and the country’s culture.

**Roger King**, *educator, researcher, consultant (HK)*:

I see that Chinese family businesses that manage to survive for centuries often have a simpler ownership structure. Without exception, those families pruned their ownership structure, unusually in the second or third generation. Another interesting observation is that the next-gen of all those long surviving family businesses attended Western universities and are able to introduce some form of structure into their management.

***What is usually the trigger point for family businesses to professionalize their ownership?***

**Vazquez:** As professionalizing ownership usually means changing things, a rather strong state of discomfort with the current state by all or by a coalition is what triggers looking for help.

**Astrachan:** Yes, it's often some type of conflict or business problem.

**Baus:** From my experience, the typical triggering point is ownership and management succession. Family members start to understand, that they will have to act and decide under different circumstances than the predecessor(s).

**Rüsen:** We see that trying to find well-educated members of the younger generation for board positions fosters the willingness to invest in family internal trainings and academies.

***What do you wish families would and would not do in terms of professionalization?***

**Vazquez:** I wish they would choose their board members or advisors more carefully.

**Kormann:** Yes, they should take into account their personality. Sometimes I have the impression the owners are strongly attracted by the persons with whom they will definitely have problems afterwards (The big shot from the large public companies). If the owners choose the wrong advisors, this will soon change the character of the family business.

**Astrachan:** I wish they would have frequent meetings to strengthen the family in general

and develop their ownership competences.

**Rüsen:** I would love to see a "HR manager" in every family, taking responsibility for the family education program.

***Which formal and informal means of family governance do you find the most overrated – and which the most underrated?***

**Astrachan:** Family protocol or family constitution are the most overrated.

**Kormann:** I fully agree! In the event that conflict arises the Constitution is either completely neglected or could not program the conflict resolution. But all families which have one are proud that they have this document – even if they have difficulties to remember the content.

**Vazquez:** Yes, many family businesses believe that writing a family constitution is the simple solution. It's like you want to lose weight and you say 'well, just give me a pill and I will be thin.' Of course, it doesn't work like that: you need to work out, eat healthy etc.

**Rüsen:** It is not the constitution as a piece of paper but the process of developing it that counts. Therefore, families need to speak about the content and the experience while developing it, rather than pointing at it as a "guideline".

**Keyt:** I think families tend to lead with structure because it calms their anxieties. I would say that structure itself can be overrated because families create structure to feel like they are addressing a problem sometimes, and what they are really doing is creating

structure that exacerbates the underlying emotional/relational issues.

**Baus:** Each family is different. It depends on whether a family takes means seriously or not. A Family Day can be meticulously planned – if nobody is willing to engage themselves, to be a part of it, it won't work. A family governance is what the family makes of it – the formal *and* the informal means.

***What do you consider essential competences of a capable owner? What should a competent owner know and be able to do?***

**Baus:** Obviously, a keen interest in the business is essential.

Besides that, a competent owner should absolutely be able to cooperate with the other owners in decision making, and they should also have legal and economic basic knowledge.

**Keyt:** They also need to have a range of relational, governance, strategic, and financial knowledge.

**Rüsen:** Besides the managerial competencies, family dynamics, communication and conflict resolution skills are essential from my point of view.

**Kormann:** It is disappointing how these "simple" basics on finance and strategy are not adequately dealt with at most university courses either. And as the market for shareholder education is dominated by lawyers and family sociologist or psychologists these topics are not emphasized by these "moderators" either. I would like to add that another important skill is the ability to develop a realistic view of what one can expect from other people.



**Vazquez:** Also, owners should be aware of role confusion. The one key thing each family member performing different roles should know is: what am I expected to do/know for each role? Being a competent top manager is not the same as being an effective owner.

***How are ownership competences usually developed in business families?***

**Astrachan:** In my experience, they sometimes are developed by chance, but usually they are not developed at all. Some larger family businesses have the next generation go to business school, which then allows these family members to develop some of the competences needed. Unfortunately, it is all too often left up to the individual family member to try and figure out what they need to know to be competent and that is an impossible task for people without experience.

**Kormann:** I have the same experience, the next generation is generally invited in the family business way too early, which means they did not get the appropriate amount of time to develop a broad, diversified experience base.

**Vazquez:** I, too see too many family business owners, even at the age of 40, who still don't know what they are expected to do. They often miss fundamental knowledge such as understanding financials, the ability to read a business plan, or they lack knowledge about their political or economic rights.

**Rüsen:** As mentioned earlier, in "best practice families" they

often have a dedicated person from the family who acts as a family internal "HR manager". Unfortunately, this is still rare – probably also because learning together, within the family often feels awkward.

***How can and should they be developed?***

**Baus:** Networks like FBN, workshops on family strategy or a Family Day can be very valuable in developing some of these competences.

**Keyt:** Yes – they can also be obtained via educational programs of institutes or universities, seminars sponsored by service providers, via books and other written materials. Astrachan: There are also courses that are developed by the family, where they build family unity and provide educational experiences at the same time. The best example of this is the owners' university developed and run by the Haniel family.

**Rüsen:** There should be a "trainig day" event in every business family's calender, where a structured program is offered.

**Vazquez:** Business families with a long-term vision should start working on developing ownership competence at a very young age, so they can prepare the children to become owners by, for example, teaching them about and engraining the family's values.

**Keyt:** Agreed – you can never start too soon. Any family who intends to perpetuate their family business or wants to keep that as an option should professionalize their ownership.

***Looking into the future, which competences do you consider core for next generation of family business owners?***

**Baus:** Most importantly, a positive attitude towards the family's business, and the understanding that money does not come from the socket!

**Keyt:** I think that the next generation will need superior relational skills – and they need to understand how the emergence of technology is helping or hurting our relational skill sets. The rest of the competences are pretty universal and not time bound.

**Kormann:** The NextGen will have to understand how Digitalization and AI are incorporated in all business models. The seemingly or actual disruptive innovations (Internet of Things, Digitalization, Artificial Intelligence, etc.) are beyond the competences of the previous generation.

**Rüsen:** Besides a digital openness and readiness, the ability to enter and develop networks with other owning families all over the world is a key factor for futures success.



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## 6 REALITY CHECK: RESULTS FROM THE FFI ADVISOR SURVEY

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### METHODOLOGY

We conducted an online survey within the Family Firm Institute (FFI) network in August of 2019. After one reminder email, a total of 177 usable responses were collected, 155 of which came from active FFI members. The sample is global, with a focus on North America (43%) and Europe (29%), and a smaller group of respondents from Asia (13%), South America (9%), Australia/New Zealand and Oceania (4%), and Africa (3%)<sup>5</sup>. In order to retain information, we included partially completed questionnaires for our analysis. The respondents have considerable experience in consulting with family firms.<sup>6</sup>

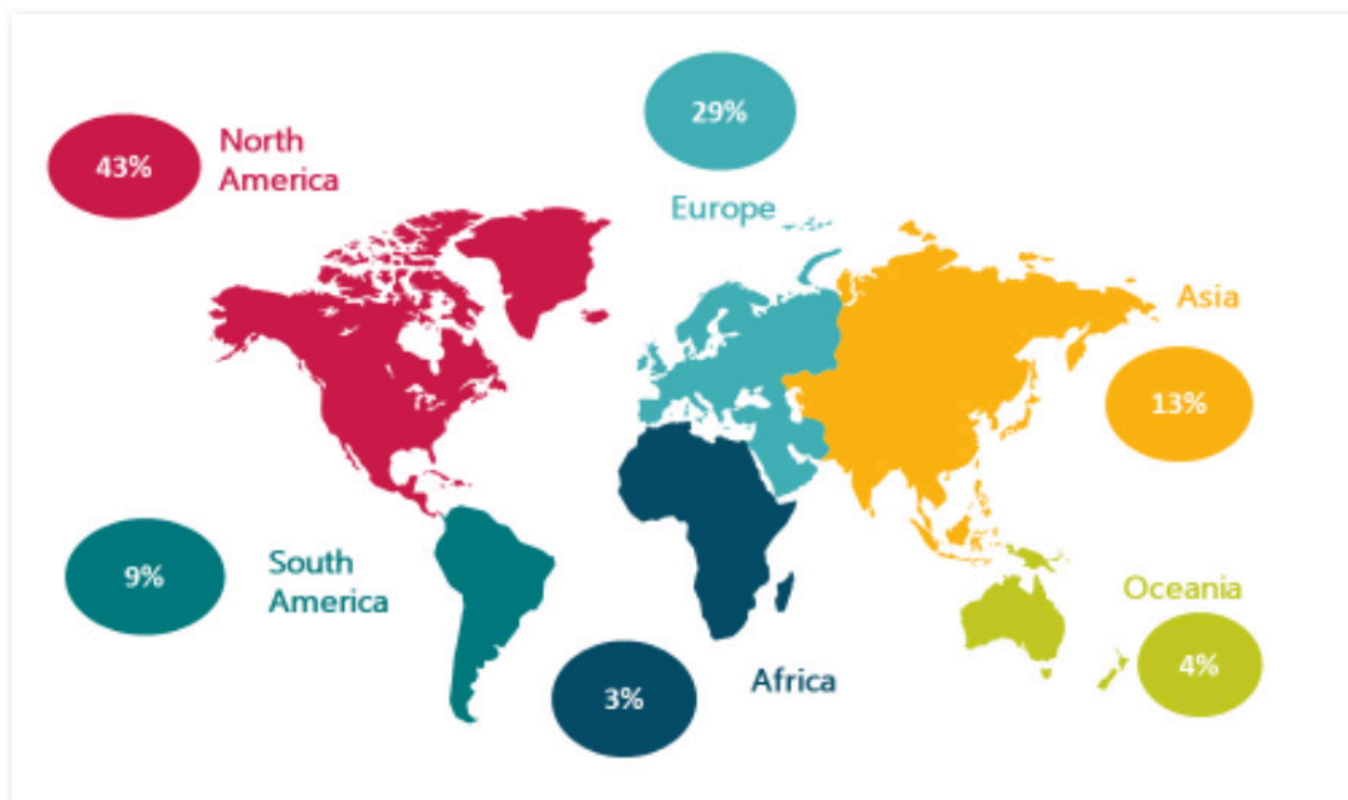


FIG. 4: GEOGRAPHICAL SAMPLE DISTRIBUTION

The survey consisted of four parts. Part I pertained to the participants' experience regarding their clients' governance mechanisms. Part II focused on individual as well as collective ownership competences, as well as the best way how to acquire ownership competences. Part III assessed the respondents' view on the most frequent sources of conflict in business families. Part IV gathered demographic information on the respondents. We then analyzed the data using a variety of statistical tools and software, including STATA (Version 12) for preliminary statistical analysis and Smart PLS (Version 3.2.8) for advanced structural model testing (for the complete questionnaire and further information on data collection and analysis procedure, see Appendix C).

<sup>5</sup> Given the limited number of responses, we were unable to test for statistically significant differences between the geographical regions.

<sup>6</sup> Our analysis shows some differences between senior (>11 families; 11-15: 8%, >15: 56%) and junior (<11 families; <5: 17%, 6-10: 19%) advisor perceptions, which we will point out throughout this section.

# RESULTS

## GOVERNANCE MECHANISMS IN BUSINESS FAMILIES

In a first step, the survey participants were given a list of options (based on prior empirical research and conceptual literature) and asked to select the **top three family governance mechanisms** they consider the most important for their family business clients.

Interestingly – and unlike what is usually indicated in family governance research – the survey respondents considered non-formal governance mechanisms as equally, if not more important than formal mechanisms.

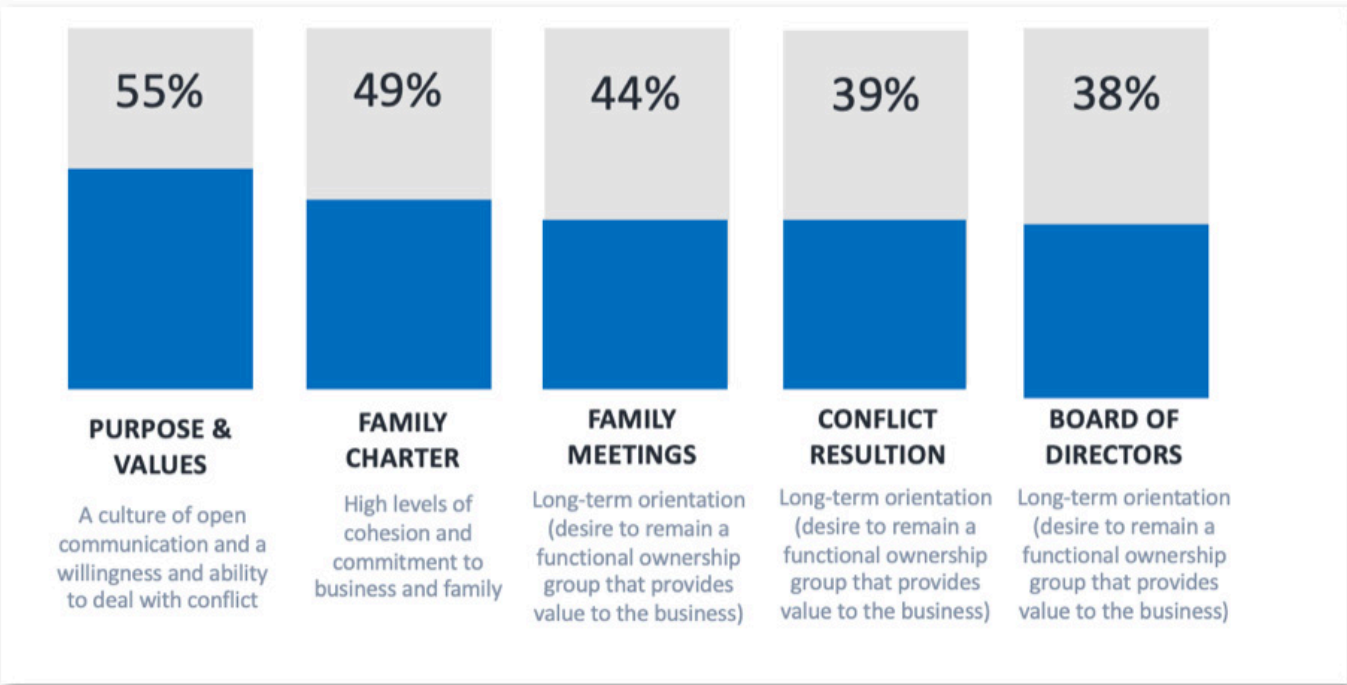


FIG. 5: TOP FIVE GOVERNANCE MECHANISMS

The overwhelming majority of respondents (55%) chose “*Developing a common purpose, shared values and joint vision (e.g., philanthropic engagement or other family goals)*” as the most powerful and beneficial governance tool for the long-term well-being and success of owning families. A shared foundation was followed by a more formal governance tool, a *family charter (also referred to as family constitution; giving guidance to the family, the business and ownership)*, which 49% of the respondents selected as one of their top three options. The third most popular option was formal family meetings (e.g., family retreats, family council meetings, committee meetings), chosen by 44% of the survey participants. There were no significant differences between junior or senior advisors on this question.

## GOVERNANCE MECHANISMS IN BUSINESS FAMILIES

Next, we were interested in the respondents' take on ownership competences of both the individual and the collective level, *i.e.*, the family. We assessed their perception by asking, **which abilities do you think are essential capabilities of a competent owner (individual) and ownership group (collective)**, respectively – again asking our respondents to choose their top three options.

While here, business-related competences are deemed highly relevant (which confirms the findings from Witten-Herdeck University study), **we were not surprised to see that family dynamics was selected as the top individual competence for a family business owner.**

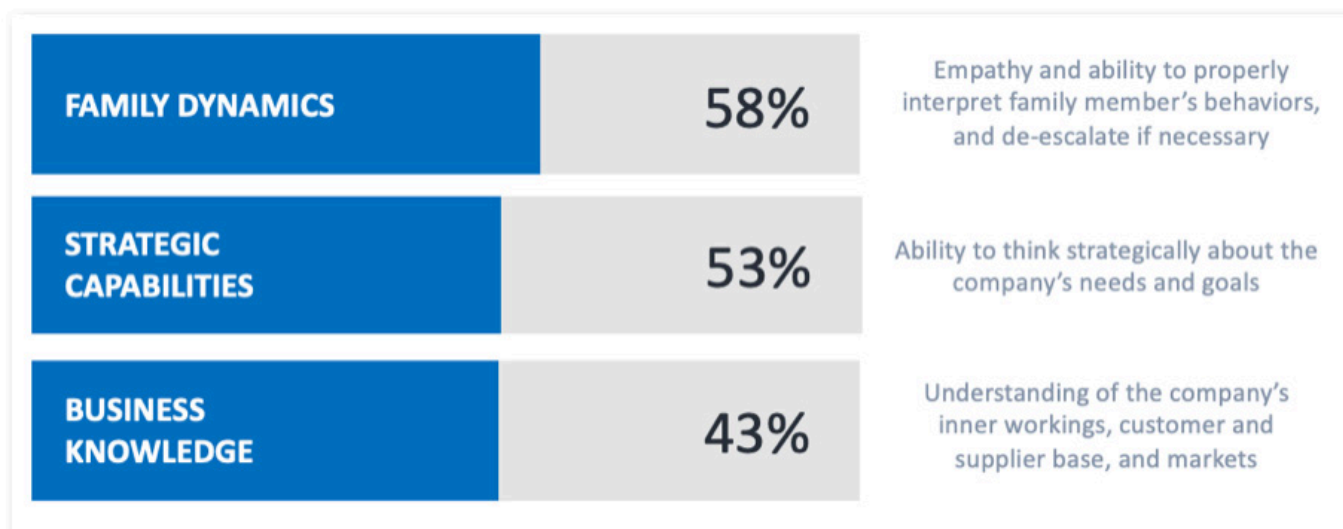


FIG. 6: TOP THREE INDIVIDUAL COMPETENCES

A majority of 51% considered a *solid understanding of current family dynamics* one of the key competences of responsible owners. The next three top competences (*strategic capabilities*, *knowledge about the business*, and *leadership abilities*) are strongly business related. Interestingly, senior advisors placed more emphasis on *knowledge about the business* and less emphasis on *understanding the current family dynamics* than junior advisors.

With regard to collective ownership competences, our respondents considered a *culture of open communication and conflict management abilities* as strong asset for an ownership group, followed by a high level of *family cohesion*, and a *long-term orientation*. Junior advisors more often indicated *exemplifying the values and culture* and *long-term orientation* than did senior advisors.

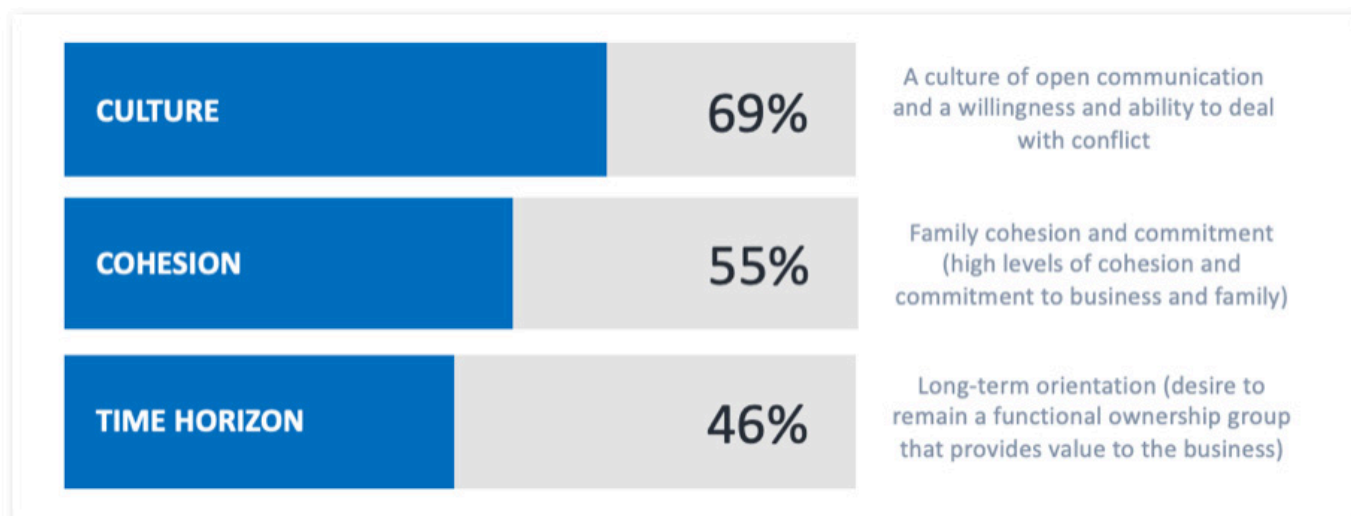


FIG. 7: TOP THREE COLLECTIVE COMPETENCES

Next, we asked our survey participants what they thought were **the best ways for the Next Generation to develop ownership competences** (open question). We received 76 suggestions that we then clustered into five broad ways of learning (in order of importance), namely (1) learning inside the family business, (2) learning outside the family business, (3) formal education, (4) informal education and mentoring, and (5) learning through family meetings, board participation and committees.

Interestingly, next generation competence acquisition has not been researched systematically in the literature. There have been few studies arguing that family members benefit from working their way up through the ranks – but these findings do not necessarily imply that inside learning is the method of choice for next generation competence acquisition. We also know from prior research that outside experience in a corporate setting with highly developed governance systems has been suggested to be the way to go – but at the same time, bringing in practices from the outside that are misaligned with the family business culture can also have negative effects. Hence, while there are a lot of assumptions surrounding what benefits the next generation the most in terms of becoming capable owners, the research is far from being conclusive.

*“My first role in the family business was a non-leadership position, which was great: I had worked in different leadership roles outside of the firm for a decade, but in an unrelated industry. I started in business development, which allowed me to look into all areas of our company, and I could ask any question – even stupid ones (...) I could ask “why can’t I turn off the light here?”, and people would have told me all the reasons why there was no switch there. In a leadership position, I would have simply been forced to decide whether to turn the light on or off. This allowed me to intimately get to know the company without having to make any decisions before really knowing our business or industry very well (...) this way I didn’t make any grave mistakes that would have disappointed our employees.”*

(6<sup>th</sup> generation family CEO and Chairman of the Board, Switzerland)

The last two ways of learning should, in our opinion, receive more attention in academic research, as these are powerful tools that are also rather easy to implement (maybe even more so than the other three). The survey participants consider **informal ways of education** as well as **mentoring** as highly valuable. This includes learning from and exchanging views with peers and family members, as well as senior members from one's own or other business families – this can be done in a structured and systematic way (e.g., organizing a “best practices” roundtable that meets four times a year), or also informally, by agreeing on an open-door and open communication policy between the parties involved.

*“I learnt a lot from participating in industry associations and exchanging best practices with competitors and also employees – we have a very friendly market environment here, I regularly meet with the other automobile retailers in the area. You can just ask, “hey, how do you guys do this”, and they’ll give you an answer.”* (2nd generation family CEO and Chairman of the Board, Switzerland)

Other sources of expertise include professional coaches, advisors or top executives, but also – maybe more importantly – board members, preferably outsiders that have considerable business acumen as well as experience with business families. Another great way of learning is to **participate in family meetings** and to **join the company board** and the various committees as an observer – this can and should be done from a very early age on.

*“Two years ago, we invited external coaches, and all senior-level employees (including myself) have access to these coaches, they can discuss private or professional matters, and it’s fully confidential, I find this incredibly helpful.”* (6<sup>th</sup> generation family CEO and Chairman of the Board, Switzerland)

## **KEY SOURCES OF BUSINESS FAMILY CONFLICTS**

While conflicts in the business families can manifest in different ways, we wanted to understand what our respondents thought were the most **frequent sources of conflict**. The following table summarizes and ranks the top responses. However, we should note that there were quite some differences between the answers we received from junior versus senior advisors. Senior advisors thought *lack of conflict management skills* and *lack of business acumen* to be more important than junior advisors. Conversely, junior advisors more often indicated that *a lack of cohesion* and *a culture that prevents open communication* as main sources of business family conflicts.

Given that our respondents indicated that they considered *a culture of open communication and a willingness and ability to deal with conflict* as the most essential collective competence, we were not surprised to find that communication, cohesion, conflict management, culture and family dynamics were also indicated as their main sources of conflict.

We were somewhat surprised to see that a lack of business acumen and a weak understanding of financial indicators scored relatively low – we were not necessarily expecting that, since we often heard complained about unqualified family members serving on boards (but that might be, in the grand scheme of things, are relatively small number). Nevertheless: In our many interactions with non-operative family members that also serve as board members, these individuals have expressed serious self-doubts about their abilities to serve on the board, and many talked about how that leads to friction on the board and conflict among the board members.

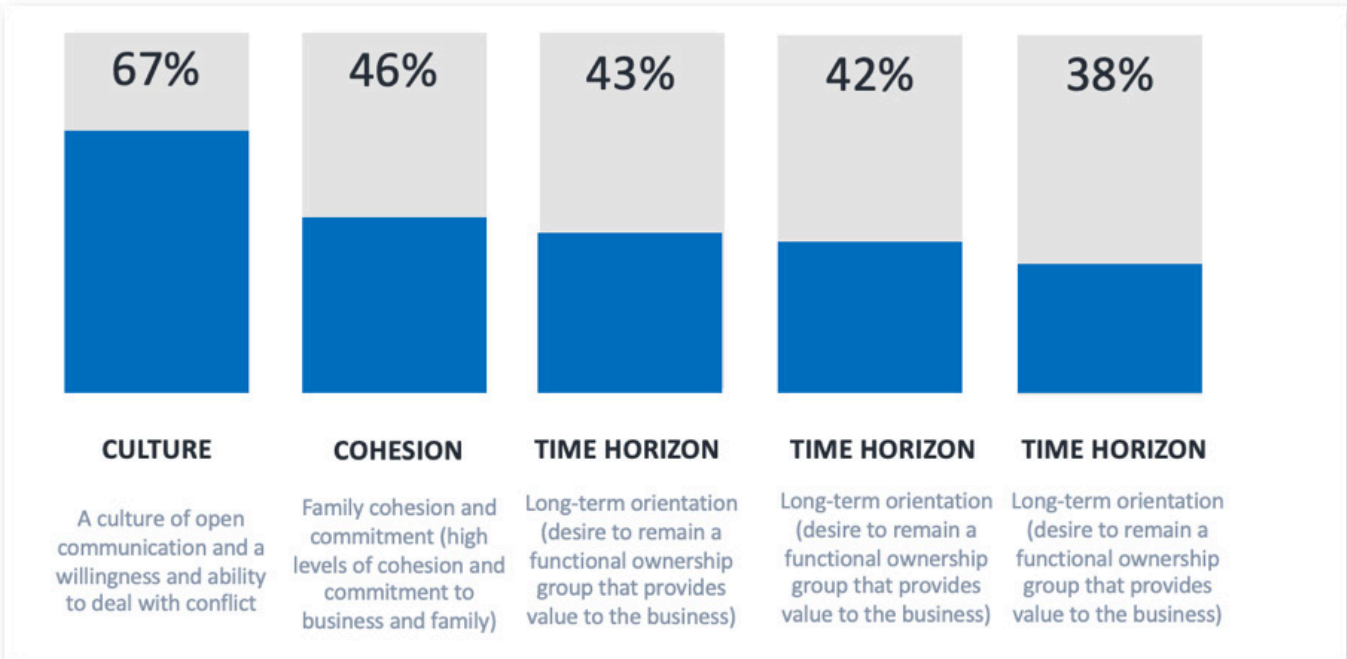


FIG. 8: TOP FIVE SOURCES OF CONFLICT

While our data do not allow us to further look into this issue, we still feel that this should be something that business families need to take seriously: Family members serving on the board not only have an important decision-making position; they also represent the family. They should feel competent to perform and provided with learning opportunities to grow into this role, to effectively leverage their potential.

## SUMMARY THOUGHTS ABOUT THE FFI ADVISOR SURVEY

The FFI advisor survey provided us with initial insights related to business family professionalization. The survey highlighted the importance of family and self competence, as well as the relevance of informal means of governing the family. In combination with our qualitative data, it provided a well-rounded empirical foundation upon which we could develop our recommendations for business families and advisors.



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## 7 OWNERSHIP COMPETENCE IN PRACTICE

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### OWNERSHIP COMPETENCE AND BUSINESS FAMILY PROFESSIONALIZATION: WHAT NOW?

With the academization of society, many of the assumptions of the past – like the one that family members are generally unqualified for their business roles – no longer hold. Today, many potential successors have university degrees and MBAs, in addition to outside experience they collected before entering the business. However, while successors are generally well educated, this often does not – unfortunately – hold true for the ownership group as a whole. Non-operative and non-voting family members (many of whom have exert influence on the family and the business informally) are too often poorly prepared to make decisions in the best interest of the family and the business, with potentially hazardous consequences for both business and family.



Competences are a rather tricky concept, insofar that individuals may be unable (or unwilling) to identify the things they are able or unable to do. This could be because the acquisition of competences is often implicit (e.g., Civelli, 1998), which might make individuals unaware of the fact that they are well capable of mastering a certain task. It could also mean the opposite: That people can easily claim to be capable of something that they are actually not capable of, as no proof of competence acquisition is required (or possible) – and then, only time will show if indeed, they are.

So: What does this mean for business families, who rely on family members' ability and desire to act in the best interest of the business and the family? In this closing chapter, we propose a series of recommendations for family businesses and their advisors with regards to ownership competence development and discuss possible obstacles families might encounter as they embark on this journey.

### MORETTI CASE STUDY

*'What a journey this has been'*, exclaims Gianluca as he symbolically passes on the keys to the wine cellar to Alessandra and her sister Marina. After preparing the succession for several years and transferring ownership shares to the third generation already in 2015, in the summer of 2019 Gianluca finally passes on the leadership reigns of the company to the next generation, who will lead Moretti with a shared leadership structure. All family members are present and celebrate this important moment in Moretti's history.

Standing in the back, the family's adviser Mara smiles to herself, feeling proud of the Moretti family and her ability to help them organize for the future. Over the past years, the family was able to overcome several challenges. In 2013, Mariateresa was involved in a severe car accident, which was a shock to her daughters and the family. Using the flexibility that being a family firm provided, both Alessandra and Marina took several weeks off to help their mother recover, and also their cousin Massimo was supporting Mariateresa. Shortly after, a particularly bad harvest in 2014 provided a large challenge for the family firm: given the low quality of the grapes, the family was uncertain they could produce some of their best quality wines. Should they do so anyway, risking producing a lower-quality wine, or take the losses and uphold their values? In the end, the decision was unanimous, and for the first time in Moretti's history, the company did not produce their widely beloved Montepulciano. As Mara looks back, she is certain that many other families she was working with would have started a fight over this decision; yet, the value foundation and cohesion among the Morettis allowed the family to circumvent conflict.

After the ceremonies, Alessandra, Gianluca and Mara meet with Daniel, Massimo's son, who is interested in learning more about the family business. Taking inspiration from other family firms, they propose Daniel to become an intern at the company, getting to know several parts of the business. Even though not active in the business anymore, Gianluca proposes to mentor Daniel over the next months and pass on his knowledge. Seeing the excitement in Daniel, Gianluca and Alessandra share a side-glance, both smiling, glad to see the next generation moving into *Moretti*.

## RECOMMENDATIONS FOR FAMILY BUSINESS OWNERS

If you are a business families with a transgenerational vision, wanting to created a lasting legacy, you must ensure (1) that you have a strong, shared *value base*, (2) that family members are *committed* to one another and to the business, (3) that the ownership group has the *competences* necessary to make sound decisions that benefit the family and the business, (4) that your family members understand and adhere to your values-based *behavioral norms and rule*, and (5) that your *formal means* of organizing and governing the family are sensible, conservative and aligned with your core values.

### #1 Make Family Unity and Cohesion a Priority

Long-lived business families prioritize family unity and cohesion. They try to **spend a lot of quality time** together and actively encourage their children to **build and maintain relationships** with their relatives – across family branches (*e.g.*, by encouraging their children to wish their cousins a happy birthday or setting up WhatsApp groups to help them feel connected). Oftentimes, these families task a family member to oversee the efforts to manage their family relationships, and they provide adequate (*i.e.*, financial, time, emotional) resources to support these activities.

What characterizes a cohesive family? Unified families **do not shy away from conflict** – they have learnt that conflict is a natural occurrence in every group, and particularly prevalent in times of change (think: succession or other changes in the family system, like marriage, divorce, or death). They look closer when conflict erupts, knowing that people rarely fight about what they claim to fight about. They **communicate effectively**, which means **often, transparently, and respectfully**. They establish how information flows from the family to the business – and vice versa – and these communication routes are being adhered to.

What facilitates family cohesion and harmony is a **superordinate goal** that goes beyond the financial. Such goals can range from “Glorifying God Through our Work” (for religious business families such as Chick-fil-A’s Cathy family), to “Providing Access to Education and Healthcare for our Community”, to simply wanting to stay together as a harmonious, unified ownership group. Cohesive families that are committed to the pursuit of a shared goal can deal with conflict better than families whose interactions are based in the business and focused solely on economic success. **A superordinate goal that family members across generations and branches can get behind – and excited about! – has a unifying effect; it strengthens identification and commitment to the family and the business.**

#### **Family Time! Let’s Talk About ...**

- Are we one family – or are we a collection of several branches?
- What unifies us, and what divides us?
- Do we have a superordinate goal that unites and excites us?
- How often do we spend time together as a family (other than making decisions for the business *i.e.*, simply to be together)?
- How much conscious effort (and resources!) do we put into becoming and remaining a unified ownership group?
- Do we speak about our siblings, and other members of our family in a positive light?
- Do we make sure that our children have a positive relationship?

#### **#2 Align the Five Pillars of Family Professionalization – and Don’t Go Overboard!**

Any business family tackling the process of professionalization needs to decide which family- and business-related issues might benefit from formalization, and which issues benefit from retaining their informal character. Popular areas of formalization include (but are not limited to) information flow, communication patterns and conflict resolution mechanisms, employment or dividend policies, or shareholder agreements (buy/sell options). The ‘fit’ largely depends on the core values as well as the superordinate family goal, but also on the level of cohesion, and the family’s ability to communicate effectively and deal with conflict, and the expectations they set for the family in terms of involvement in business operations.

**Not all families benefit from sophisticated formal governance structures to control the family-business interface, and highly formalized modes of professionalization aimed at managing family relationship and ensuring family member commitment.** Highly cohesive families with a unifying, superordinate goal usually do not need them – they are the “icing on the cake” – and families that lack these qualities cannot be saved by introducing these formal means of family management. Generic solutions in particular used to governing and formalizing the ownership group that fail account for the idiosyncracies of the family are potentially harmful, as they tend to rigidify existing conflicts and impose structures and processes on future generations that lack flexibility.

Long-lived business families have learnt that using structural solutions to solve emotional issues generally never resolves a problem but instead tends to exacerbate the underlying issue. These families prioritize creating opportunities to come together and create shared experiences, acknowledging that relationships thrive as people spend time and learn about one another. Strong family relationships make family processes productive – and sometimes, they make formal structures almost superfluous: **Formal means of governing, formalizing and professionalizing the family are the literal “tip of the iceberg”.**

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\* These are exemplary questions

#### **Family Time! Let's Talk About ...**

- What aspects of the family-business interface tend to create tension in the family (e.g., family employment, dividend policy, compensation policies)?
- Are there any underlying issues that might fuel these conflicts that are worth addressing (*i.e.*, what is the “real” reason we are fighting about)?
- Do we tend to “solve” emotional issues with structural solutions (*e.g.*, putting best practice policies, for example regarding promotion or remuneration) in place to deal with ongoing arguments?

### **#3 Create Awareness for Competence Requirements and Allocate Resources**

**For any business families with a transgenerational vision, ownership competence development is a responsibility, not a choice.** Such families ensure that members of the extended ownership group are motivated and capable of successfully performing their (various) role(s) in the family and/or the business. **Not educating current and future decision-makers to be competent owners means setting them up for failure.** Systematic ownership competence development requires a significant commitment in terms of collective and individual family resources: time, money, emotions. Funds need to be allocated, time needs to be made, commitment needs to be secured. **Assigning a powerful – think well-connected, respected, and liked – advocate within the family helps in advancing these efforts.**

In Chapter 4, we discussed the competences that any responsible member of an ownership group should consider developing (for a more detailed discussion, see Appendix H). Any business family wanting to ensure systematic ownership competence development for current and future owners is well advised to put in place an **ownership competence committee (OCC)** – this could also be a responsibility of an education committee, if you already have one. An OCC helps in guiding and overseeing the process of developing an ownership competence strategy, formalizing the process, and providing resources – and it also highlights that this issue matters to the family, creating awareness. Furthermore, dedicating a well-liked and accepted (across branches and generations) – advocate within the family makes the success of these efforts much more likely.

In terms of defining which competences are deemed relevant for different roles in the family and the business, the family can either develop a list of competences from scratch, including corresponding items to measure each competence expression – or adapt a more generic framework like the one proposed in this report to fit their needs. Once the desired competences that support the family in reaching their long-term goals and levels of mastery for the various roles have been defined, the family can assess the competence level across the family as well as with individuals (be mindful that family members might feel reluctant or ashamed to be assessed – especially if the assessment is done by another family member).

And one last, but very important point: Responsible ownership means prioritizing your responsibilities over your rights – and that is learnt behavior. It is never too early to start educating the next generation of owners. Children as young as three years old should understand the concept of actions and consequences; starting at age five, they should be educated about the value of money; at age nine, they can be introduced to the idea of investing, and so forth. Not educating future owners to appropriately handle the responsibilities linked to their ownership rights means setting up for failure (Astrachan & Pieper, 2011).

#### **Family Time! Let's Talk About ...**

- Do we think that ownership competence development matters?
- Are we willing to invest money, time and emotions in this process?
- Who can help us achieve this goal – within and outside of the family?
- What competences are particularly important to us?
- Are there any competences missing that speak to our specific situation?
- Are we appropriately preparing our children for their ownership responsibilities?

## RECOMMENDATIONS FOR BUSINESS FAMILY ADVISORS

Business families that pursue the goals of becoming and remaining a cohesive ownership group capable of decision-making and educating their children to be responsible stewards of their ancestors' achievements benefit from learning about the why, how and when of business family professionalization.

### #1: Normalize (But Do not Downplay!) the Family's Challenges

Even though each family is unique, there exist common challenges that most growing and ageing families face. Such challenges include the family drifting apart over time, intra-family conflicts affecting the family group or the business, prioritizing individual over collective goals as well as conflicting goals in general, or the lack of a unifying goal for the whole family. **Business families that have not had much exposure to other (long-lived) business families may not be aware that what they are experiencing – while challenging – is actually rather normal.** As their trusted advisor, talk to them about what families are experiencing over time, and share examples of well-known business dynasties around the world and how they overcame the challenges associated with this process (e.g., there has been much written about German *Haniel Group* in this regard).

Such families often feel left alone with problems which they believe to be exceptional to their situation. **Advisors can help by encouraging business families to observe, understand, and learn from others in similar situations within their peer group, for example by partaking in best practice exchanges** (e.g., roundtables) **or specialized family business events** (e.g., local or regional Family Business Roundtables organized by Universities or service providers, Family Business Network, Young Presidents). Business families will soon realize that these are not unique to their case but are “normal” among individuals and families in their situation.

#### Let's Talk About ...

- What difficulties related to expanding and aging is the business family currently experiencing, and what do they foresee for the future?
- What have they done to address these issues?
- What kind of exchange does the family have with other business families?
- Do individual family members frequent family business social or educational events and programs?
- Would the family like assistance in determining what events, programs and associations might be valuable platforms for family member networking and education?

## #2: Educate the Family about the Pillars of Business Family Professionalization

Business families benefit from professionalizing certain processes and structures over time – but they are well advised to carefully weigh the benefits of formalization with the potential downsides, as the efficacy of professionalization efforts depends on various characteristics of the owning family, such as the level of cohesion and commitment, or the presence (or absence) of a unifying goal and a shared set of values. **While some families likely benefit from certain elements of professionalization, others do just fine with little or even no formalization at all.**

Professional business dynasties have learnt that professionalization goes beyond formalization, and effectively rests on five pillars: a solid foundation of **shared values and goals**; **psychological glue** that ties the family to one another and to the business; the **competence-based ability** to make sound decisions that benefit the family and the business; the informal, **value-based behavioral norms**, and lastly, **the formal structures and processes** that support managing the family relationships, and the family-business interface.

In order to successfully professionalize the family – in a way that conforms with the family's culture and values – it is essential to develop these layers progressively, and from the bottom up (starting with values and goals). Starting top-down is a dangerous, yet, frequently utilized, approach that is driven by the idea that structures are the key to solving emotional issues when in reality, they often aggravate them.

### Let's Talk About ...

- Are all family members (including in-laws) and external stakeholders (e.g., employees, business partners) familiar with our values? Do the family members consistently exemplify these values when interacting with one another as well as external stakeholders?
- How do individual family members contribute to achieving the family's goals?
- Is building and maintain cohesion a priority for the family? How does the family strengthen cohesion and commitment? How effective is the family at communicating and resolving conflict?
- Does the family have criteria or policies in place for family member employment, or appointments of family members to roles within the family? How transparent is the process?
- Do family members know what is expected of them for a certain role? Are they encouraged to and supported in acquiring said competences?
- Does the family use role modeling, story-telling and informal value-based behavioral norms to reinforce desired and punish undesirable behavior?
- Which processes and formal structures currently in place serve the family – and which run counter to the values, goals, and the informal, values-based behavioral norms and expectations?

### #3: Encourage Systematic Competence Development

Regardless of whether or not family members have operational roles in the business – **if they want to be professional owners, it is a prerequisite for family members to educate themselves to be knowledgeable about the business and understanding of the family’s values and goals as well as the dominant dynamics shaping their family interactions.**

Few families systematically and strategically invest time and money to develop a long-term plan for ownership development. **Professional families that prioritize ownership education provide adequate resources for ownership competence development on both an individual and family level and organize, support and encourage activities that allow individuals and the family as a whole to acquire and strengthen critical competences.**

Understanding specifically which competences a family possesses allows the ownership group to systematically enhance missing competences either by developing them internally, or by inviting outside experience (e.g., advisors, non-family board members) to complement their family-level ownership competence. **A family that has an ownership competence development strategy has one critical advantage: It makes expectations and requirements consistent and transparent for all family members, which reduces conflict.**

Systematic ownership competence development could be overseen by a (possibly interbranch and intergenerational) ownership competence committee (OCC), chaired by a chosen family ownership competence advocate. The OCC is tasked with developing a systematic ownership competence development strategy for the family, detailing aspects such as the goals of their activities, the roles affected by it (*i.e.*, who should be assessed and possibly educated – do we have an inclusive (*e.g.*, in-laws) or exclusive understanding (*e.g.*, only family members working in the business of ownership competence development), a timeline, and resource (time, money, emotion) requirements.

Based on the strategy, the OCC identifies – based on their core values, goals, and family and business roles – the competences that they deem essential for competent, sustainable ownership (*i.e.*, through interviews with current and past role owners). The result of this process is a list with first (*e.g.*, business acumen) and second order competence (*e.g.* financial knowledge) categories.

Based on this list, a list of measurement items is created (see Appendix H for exemplary questions) that allows for the assessment of a person’s level of mastery in each competence. There is no doubt about it – the list of questions will be extensive, and the process of deriving these items will be time-consuming.



Lastly, individual family members are assessed – this could be a combination of self-assessment and an assessment by a third party closely familiar with the individual’s role and competences, results are shared, and a systematic ownership competence development plan for the group as a whole, as well as for the individual owners, is developed.

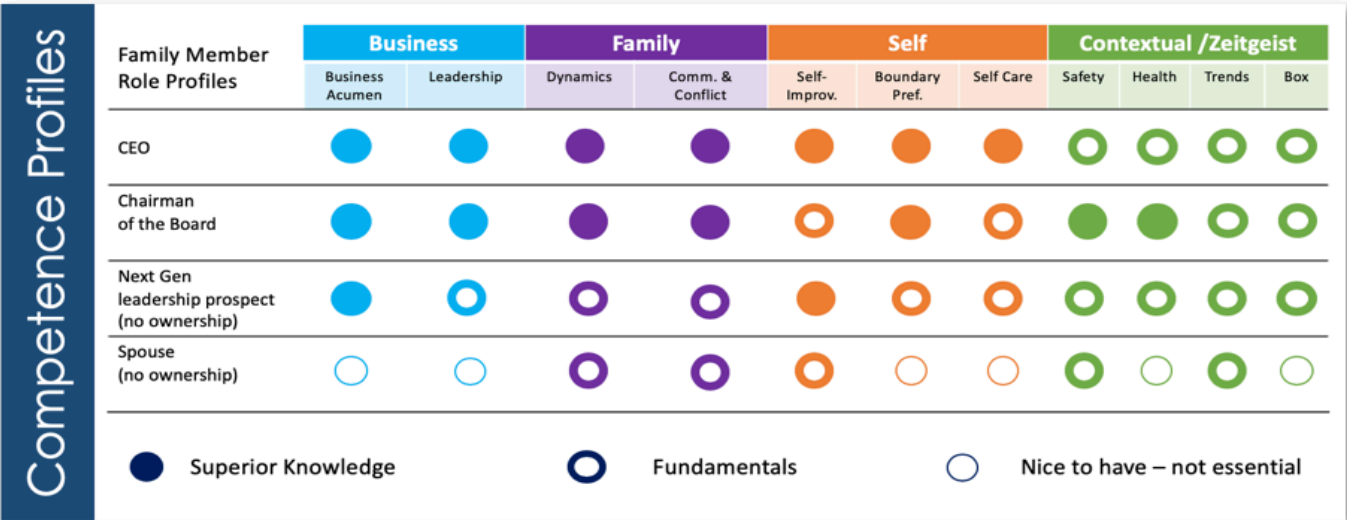


FIG. 9: EXAMPLE OF COMPETENCE PROFILE ASSESSMENT MATRIX

Figure 9 above is an exemplary visualization of what such an ownership group competence profile might look like – this matrix is something that should be developed with the family.

Once the competence landscape has been assessed, the task at hand is to – in collaboration with the family – develop an ownership competence development plan, which also details different ways of acquiring those competences that are still lacking need to be evaluated (for a comprehensive overview of internal and external ways to acquire different ownership competences, see Appendix H). Options include **formal education** (e.g., university programs such as (Executive) MBA’s for business family members, ownership competence as well as governance seminars, family dynamics courses), **informal exchanges** with peers (this could be institutionalized, e.g., through Young Presidents’ Organization (YPO) meetings or roundtables of local/regional business families), or **mentoring** (see Appendix H for a complete overview). While there are many ways in which ownership competences can be acquired, the best way depends on the type and the level of competence needed, the timeframe, and aspects such as current and future role requirements.

It is our belief that a more inclusive approach is more beneficial for most families, which is why we suggest that the plan ideally includes all family members, whether they are current or future shareholders (*i.e.*, children of all ages) or not (*e.g.*, in-laws). And while we have highlighted this point many times throughout the report: This process, too, can be leveraged to the benefit of the family, if we refuse to treat it as a mere means to an end (*i.e.*, to create the ownership competence development plan). **The process can be an incredibly powerful tool in unifying the family if family members feel that they are given a voice, and when they feel engaged and emotionally committed – this requires them to be able to safely express their opinions and feelings, which creates mutual trust.**

#### **Let's Talk About ...**

- Is the family committed to building ownership competence on both a collective and individual level?
- Who could lead this effort on the family side?
- How much resources (financial, time, emotional) is the family willing to commit?
- What is the time frame?
- What help do you need from the outside?

## **WHERE DO WE GO FROM HERE?**

We cannot stress enough the importance of pro-actively developing competence among any ownership group – but we would be naïve to ignore the many difficulties that families and advisors might face as they take on this endeavour. Here are some potential obstacles that should be acknowledged – and better, addressed – before embarking on this journey:

**Admitting Weakness:** The tricky part about the ownership competency assessment – maybe trickier than figuring out which competences should be assessed – is the fact that family members may feel threatened by the prospect of being ‘evaluated’ by their fellow family members. They may feel embarrassed, knowing that they have certain shortcomings, which may cause them to dismiss or heavily criticize the process. The ownership competence development advocate – as well as an advisor sensitive and knowledgeable about these dynamics – can help mitigate these issues, as can making the process (of course!) voluntary, and not disclosing results on an individual level.

**Building an Inventory of Competences:** Given the resource constraints that many – particularly smaller – families face, it is not surprising that building an inventory of competences is not a top priority for many: what good is it to prepare people for ownership when they are 20 years away from any role in the family and the business? However, considering that most families have a rather long-term vision – 20, 30 years not being an exception – for their business, it seems shortsighted that they would not apply the same criteria for preparing their ownership group for success.

**Resource Constraints:** Everyone is busy, and family members that do not have an operational role are usually working outside the company or taking care of their own families. Time is limited, and this is an issue that is particularly difficult for family members that do not have a formal role in the family or the business. How can they justify wanting to be educated, if they are currently not even doing anything? This limited perception of adding value through formal roles only needs to be overcome by developing a more inclusive understanding of the different formal and non-formal roles through which family members can add value.

**Piecemeal Process:** This last one is a major constraint: there are very few programs for family business owners that allow them to systematically develop these competences. Instead, families have to follow a piecemeal approach of internal and external measures, internships, mentoring, formal education and informal best practice groups to educate their owners. For a family that is large enough to justify this, a great alternative could be to develop their own ownership academy, specifically designed to educate family members of all different ages for different roles in the family and the business.

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## 8 OUTLOOK

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Emotional challenges usually cannot be solved with structural solutions – however, in our everyday interactions with family businesses in the US, France, Belgium, Germany and Switzerland, this is exactly what we observe leaders trying to accomplish. In an attempt to professionalize the family alongside the business, owning families are encouraged to put in place policies, processes and structures that are aimed at avoiding or mitigating conflict. In reality, we find that these (often generic) solutions often have a detrimental effect on family dynamics and the relationship between the family and the business, and do not allow the family to harness its full potential to the benefit of the business. During our interviews, many families and experts voiced concerns over families being pushed to overprofessionalize, or to purchase “off-the-rack” solutions that turned out to be meaningless to them, which indicates a slight disconnect between what some advisors think benefits families the most, and what families think they need and want.

Many family business owners and family business advisors understand that formalized structural solutions are not what makes a business family ‘professional’. It is rather the family members’ individual as well as the family’s collective ownership competences as well as their commitment to the family and business that drive the family to behave in the best interest of both the business and their family for the long term. Our data support the assumption that families actually need less formalized structure, but more systematic and structured (as in, advisor-facilitated, goal oriented), informal efforts to bring the family closer together – since family members are not likely to commit to formalized structures and processes that they do not feel emotionally connected with anyway. As advisors, we therefore need to think twice about imposing rigid structures as it may have negative effects on the family – not just for the current, but also for future generations.

We need to encourage business families to increase awareness and willingness among their family members to engage in this journey – which may be difficult and painful, but can be navigated, especially with the help of a trusted advisor that can navigate through these waters. Forward-looking business families make sure the next generation of owners is being raised as responsible and competent owners. They allocate sufficient resources to educating the next generation, and they provide (age-)appropriate learning opportunities to acquire these competences. They let their children fail, and suffer age-appropriate consequences, and they prioritize ownership responsibilities over ownership rights. They raise their next generation to be responsible stewards of a prospering business, and valuable members of a functional ownership group.

*“Families are well aware of the importance of systematically developing ownership competence, but their efforts often fall short. This may seem surprising, given that most people are eager to learn in their professional career – but they are not when it comes to their ownership role. In my experience, family members have a hard time admitting weaknesses – especially among other family members – and families are reluctant to learn anything before it is needed (...). My feeling is that they wrongly consider it a waste of precious resources to build competence before they actually put them to work.”*

(Rüsen, 2019)

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# PROJECT, AUTHORSHIP AND ACKNOWLEDGEMENTS

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## ABOUT THE RESEARCH PROJECT: PROFESSIONALIZING THE BUSINESS FAMILY

This applied research project, which was funded by 2086 Society and the Family Firm Institute (FFI), investigates the simple question of (which, turns out, is not so simple after all) *“what characterizes good owners”*. Many studies have investigated the issue of professionalizing the family firm, but the question of what the owning family needs to become and remain a qualified ownership group has not been researched systematically.

Business families are often urged by well-meaning outsiders (or even family members) to “professionalize” and “formalize” the family. But what does that mean? With this research, we look beyond what such efforts usually look like in reality: A family constitution, some family protocols, and a range of bodies (e.g., family council) or activities (e.g., family day) – all of which are commendable and sometimes necessary. We focus on what is needed on a deeper level – for the individual family member and the family as a whole – by asking: **What competences are needed to become and remain an effective, healthy and qualified business family that adds value to the business and the family? What is needed to ensure that family members remain committed to the family and the business?**

For the purpose of this research, we first performed an exhaustive review of the scientific and practice-oriented literatures in both German and English (since much work has been done on the topic of family professionalization and in particular on family strategies in German). We then analyzed existing qualitative and quantitative data (see Appendix B) related to business family professionalization and governance available to the project team, which are based on conversations with over 130 business families and business family advisors from Europe, the United States, Asia, and Latin America the team members had held over the past decade. Based on our findings, we developed a research framework as well as the survey questionnaire. The survey was sent out to a global sample of family business advisors in August of 2019. In addition to the survey, we interviewed several business families with a proven record of family professionalization for the mini case studies, and eight non-family directors to gather their perspectives on ownership competences between June and September of 2019. For more information on data collection and analysis, see Appendix C.





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## ACKNOWLEDGEMENTS

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Secondly, we thank our experts – both the business families and the family business advisors and board members – that we were able to interview for our research. The invaluable insights they provided allowed us to gain a deeper and more comprehensive understanding of the issues of business family professionalization and ownership competence, and the intricacies of cultural and familial context.

Lastly, we appreciate those who participated in our online survey distributed by the Family Firm Institute, and we are particularly grateful for the large number of comments the respondents provided us with, which allowed us to identify additional dimensions for the framework we are proposing.

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## APPENDICES

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### APPENDIX A: FFI GLOBAL ADVISOR SURVEY QUESTIONNAIRE

#### PART I - FAMILY GOVERNANCE

Please pick **the top three** family governance mechanisms that you consider the most important for a business family's success and well-being (*random arrangements of items*):

- 🍏 Family Charter (also referred to as family constitution; *giving guidance to the family, the business and ownership*)
- 🍏 Board of directors (*governing body that holds management accountable, may or may not include family members*)
- 🍏 Shareholder and Buy/Sell Agreements (*specifies the legal and contractual understanding among shareholders*)
- 🍏 Communication measures (*e.g., newsletters, birthday calendars, intranet etc.*)
- 🍏 Formal family meetings (*e.g., family retreats, family council meetings, committee meetings*)
- 🍏 Informal family meetings (*e.g., family holidays, birthday parties, family gatherings*)
- 🍏 Developing a common purpose, shared values and joint vision (*e.g., philanthropic engagement or other family goals*)
- 🍏 Investing in protecting and maintaining family harmony (*e.g., making family cohesion an explicit family goal*)

- 🍏 Honoring the family legacy (*e.g., family business archives, family museum, artifacts that reflect the business history or special achievements*)
- 🍏 Developing intra-family conflict resolution capabilities (*e.g., improving communication and conflict management among family members*)
- 🍏 Did we miss something? (please fill in up to three options)

## PART II - OWNERSHIP COMPETENCES

In your opinion, which of the following **individual and collective competences** are essential capabilities of any **owners that currently have or will have decision-making capacity**? Please select the top three attributes for each type of competence (*random arrangements of items*):

Which abilities do you think are essential capabilities of a **competent owner** (individual)?

- 🍏 Financial knowledge (*ability to understand and interpret financial company data*)
- 🍏 Strategic capabilities (*ability to think strategically about the company's needs and goals*)
- 🍏 Knowledge about the business (*deep understanding of the company's inner workings, customer and supplier base, and markets*)
- 🍏 Leadership abilities (*ability to lead and motivate people*)
- 🍏 Social capital (*individual network and ability to connect and connect with people*)
- 🍏 Knowledge of family history and values (*profound understanding of the family's and the business' roots*)
- 🍏 Understanding of current family dynamics (*empathy and ability to properly interpret family member's behaviors, and de-escalate if necessary*)
- 🍏 Actively seeking feedback and accepting criticism (*having a desire to learn and grow*)
- 🍏 Preferring collaboration over competition (*seeing value in and actively encouraging team work*)
- 🍏 Ability to deal with pressure and stress (*resilience*)
- 🍏 Did we miss something? (please fill in up to three options)

Which abilities do you think are essential capabilities of a **competent ownership group** (collective) (*random arrangements of items*)?

- 🍏 Culture of Learning and Failure (*acceptance of mistakes and willingness to provide opportunities to learn and grow*)
- 🍏 Transgenerational Entrepreneurship (*Openness to continuous renewal, ability to recognize opportunities and willingness to take risks*)
- 🍏 Exemplifying the Values and Culture (*living by the family values*)
- 🍏 A culture of open communication and a willingness and ability to deal with conflict
- 🍏 Family cohesion and commitment (*high levels of cohesion and commitment to business and family*)
- 🍏 Long-term orientation (*desire to remain a functional ownership group that provides value to the business*)
- 🍏 Strategy for individual ownership competence development (*systematic approach to developing current and future generations of owners*)
- 🍏 Did we miss something? (please fill in up to three options)

In your opinion, which is the best learning ground for members of the next generation to develop ownership competences (*open question*)?

### PART III - SOURCES OF CONFLICT

What is often the initial **source of problems or conflict** in the business families? Please select the **three items** you encounter most frequently (*random arrangements of items*)?

- 🍏 Lack of cohesion among ownership group
- 🍏 Lack of understanding of family dynamics
- 🍏 Culture that prevents open communication
- 🍏 Lack of conflict management skills
- 🍏 Culture of blame and refusal of feedback and criticism
- 🍏 Lack of business acumen among family shareholders
- 🍏 Weak understanding of financial indicators
- 🍏 Unforeseen disruptions
- 🍏 Did we miss something? (please fill in up to three options)

### PART IV - INFORMATION ABOUT YOURSELF

- 🍏 Main geographical region for advising (United States / Canada / Europe / Latin America / Pacific Rim / United Kingdom)
- 🍏 Number of families you have worked with (0-5, 6-10, 11-15, >15)

## APPENDIX B: DATA SOURCES

For this research project, in addition to the qualitative and quantitative data we collected in 2019, we drew from a variety of earlier data sources (2012 – 2018):

#### *Qualitative data:*

- *Eight interviews with family business owners focusing on next generation leaders' personal and professional competences (Switzerland)*
- *Six interviews with family business owners and advisors regarding family strategies and family professionalization (Switzerland)*
- *Four case studies on the role of family strategies and family business boards in the context of professionalizing the owning family (Switzerland)*
- *Ten case studies focusing on the relationship between family management and professionalization and family business longevity (Switzerland)*
- *Eight interviews on family conflict and the role of the board in conflict mitigation (Switzerland)*
- *Three interviews with family business owners regarding their expectations related to family business advisory services (Switzerland)*
- *Three interviews with family business advisors regarding their experiences related to advising family businesses (Switzerland)*
- *Ten interviews with representatives of seven multi-generational business families with ties to businesses ranging between 150 and 300 years in age (Germany)*
- *Eight interviews with next generations of family businesses regarding education, triangulated with seven parents and a professor (USA)*

### *Quantitative data:*

- Survey (n=81) with family businesses regarding their level of family professionalization (Switzerland)
- Survey (n=500) focusing on the relationship between family cohesion, commitment and performance/growth (United States)
- Survey (n=200) with private family businesses focusing on compensation practices, social capital, psychological ownership and financial results (Belgium)
- Survey (n=560) with private family businesses regarding their succession, level of professionalization, family goals, family success, stagnation and financial results (Belgium)
- Survey (firm level n=52 family businesses; individual level n=229) focusing on psychological ownership, commitment, performance (Germany)

## **APPENDIX C: DATA COLLECTION & ANALYSIS**

### *Qualitative Data Collection & Analysis*

We conducted interviews with family business advisors and family business board members, and interviews with representatives from business families that have a proven track record of ownership competence development. An overview of the interviewees can be found in Appendices D and E.

Data were collected using a variety of methods, ranging from personal, to phone, to email conversations, as well as written questionnaires. Secondary data were gathered through desk research and included journal and newspaper articles that were available online, as well as (corporate) websites.

We analyzed our data using content analysis software (MAXQDA, Version 18.0.0).

### *Quantitative Data Collection & Analysis*

The survey consisted of four parts. Part I pertained to the participants' experience regarding their clients' governance mechanisms. Part II focused on individual as well as collective ownership competences, as well as the best way how to acquire ownership competences. Part III assessed the respondents' view on the most frequent sources of conflict in business families. Part IV gathered demographic information on the respondents. We then analyzed our data using a variety of statistical tools and software, including STATA (Version 12) for preliminary statistical analysis and Smart PLS (Version 3.2.8) for advanced structural model testing.



# Survey Sections

## FAMILY GOVERNANCE MECHANISMS



Which of the following governance mechanisms do consider the most valuable for your family business clients (please select three)?

## OWNERSHIP COMPETENCES



Which are necessary capabilities for a competent individual owners, and a competent ownership group (please select three)?

## NEXT GENERATION COMPETENCES



What are the best ways for the Next Generation to develop individual and collective ownership competences (open question)?

## DEMOGRAPHICS



Please provide your geographic region and level of experience with advising business families.

## SOURCES OF CONFLICT



Which are the most frequent sources of conflict in the business family (please select three)?

## APPENDIX D: OVERVIEW OF INTERVIEWEES – BUSINESS FAMILIES

Industry	Interviewee(s)	Country
<b>CAR DEALERSHIP</b>	3 <sup>rd</sup> generation family member 4 <sup>th</sup> generation family members Non-family CEO	Sweden
<b>HOLDING COMPANY</b>	6 <sup>th</sup> generation operative family member	Colombia
<b>BAKERY</b>	3 <sup>rd</sup> generation family CEO Senior-level non-family employee (COO) Senior-level non-family employee (head of Marketing)	Switzerland
<b>PHARMACEUTICALS</b>	11 <sup>th</sup> generation former Chairman of the Family Board, (E. Merck KG)	Germany
<b>CONSUMER GOODS</b>	3 <sup>rd</sup> generation non-operative (retired) family member 4 <sup>th</sup> generation family CEO 4 <sup>th</sup> generation non-operative family member 5 <sup>th</sup> generation non-operative family member	Switzerland



## APPENDIX E: OVERVIEW OF INTERVIEWEES - ADVISORS

Country	Name	Primary Role	Level of Experience
US	Joseph H. Astrachan	Board Member	> 35 years
SE	Christine Blondel	Advisor	> 25years
SE	Annika Hall	Advisor	> 10 years
DE	Kirsten Baus	Advisor	> 20 years
US	Andrew Keyt	Advisor	> 20 years
HK	Roger King	Advisor	> 10 years
DE	Hermut Kormann	Board Member	> 10 years
IT	Daniela Montemerlo	Advisor	> 20 years
SP	Santiago Perry	Advisor	> 10 years
DE	Tom Rüsen	Advisor	> 15 years
AR	Pedro Vazquez	Advisor	> 10 years

## APPENDIX F: EXEMPLARY INTERVIEW QUOTES

DIMENSION	EXEMPLARY QUOTE
<b>Psychological Glue</b>	<p>“Family peace and unity and cohesion among family members is a family's greatest asset. Once the family begins to fight and becomes unable to make reasonable decisions, the business will suffer.” (3rd generation family CEO and Chairman of the Board, Switzerland)</p> <p>“When you are a family business owner, your faith is tied to the business. It is a different type of commitment, and a different level of engagement.” (2nd generation family CEO, Switzerland)</p> <p>“Governance is not the issue. Planning is not the issue. Structure is not the issue. What it all boils down to is if you love your family, no matter what the performance or the circumstances of the business, you're going to want to keep working with them. And if you hate your family, it doesn't matter what the performance, structure, or governance is, you're going to want to leave.” (Astrachan, 2019)</p> <p>“Each family is different. The success of any measure depends on whether a family takes means seriously or not. A Family Day may be meticulously planned – if nobody is willing to engage himself, to be part of it, it won't work. A family governance is what the family makes of it – the formal and the informal means.” (Baus, 2019)</p>

## **Formal and Informal Governance**

“You have to have rules, people have to know what they can and cannot do, what the expectations are. You should not be able to join the business simply because you are a family member (...). So, we put together a board, and over time we realized that we often discussed family-related issues during board meetings, which was not a positive thing. So we started a family council to deal with these issues separately, and that has been great.” (6th generation family CEO, Switzerland)

“We have a strong culture, strong values (...) I would not call them strict rules, it is more like something that was passed on through mother’s milk – we just know, that is what we live, and that is what counts.” (3rd generation family CEO and Chairman of the Board, Switzerland)

“In my experience, family protocols or family constitutions are the most overrated governance tools (...) rules and regulations may be a short-term remedy for a dysfunctional family – but never a long-term solution. For functional families, they are superfluous at best.” (Astrachan, 2019)

“Families tend to lead with structure because it calms their anxieties. I would say that structure itself can be overrated because families create structure to feel like they are addressing a problem, and what they are really doing is creating structure that exacerbates the underlying emotional or relational issues. Families need to solve structural problems with structural solutions, and relational problems with relational solutions. The problem comes when families try to address relational problems with structural solutions.” (Keyt, 2019)

“Almost all effective governance tools are informal. Family Protocols or Constitutions are highly overrated. In the event that conflict arises, the Constitution is either completely neglected or could not help to resolve the conflict anyway. But all families that have one are proud to have it – even if they have difficulties to remember the content.” (Kormann, 2019)

DIMENSION	EXEMPLARY QUOTE (ctd.)
<b>Competence – General</b>	<p>“About a year ago, we hired professional coaches for the entire management team, including myself, and that has been a great decision. I discuss personal stuff, business-related stuff – a variety of issues. It has helped me tremendously.” (6th generation family CEO, Switzerland)</p> <p>“Owners need to be able to cooperate with the other owners in decision making, they need to have a keen interest in the family’s business, legal and economic basic knowledge. They need most of all a positive attitude to the family’s business, and they need to know that money is not coming from the socket.” (Baus, 2019)</p> <p>“A competent owner needs to be able to develop a realistic view of what one can expect from other people (in the organization, in the governance, etc.). Realistic means: Being able to assess the vested interests of other persons, the prerequisites of their loyalty, the enormous potential an owning family has to gather loyal teams around the family representatives. That requires that there are persons representing the whole family – non-family staff members, partners or clients (...) the family has to make sure that they can act/communicate/influence as one institution and this requires representatives which have the trust of the whole family.” (Kormann, 2019)</p>
<b>Competence – Business</b>	<p>“In a small business like ours [50 employees] you have to be an all-rounder. I have to know specifics about our industry, but also business strategy, HR, and on top of that, I have to be a sales person.” (2nd generation family CEO, Switzerland)</p> <p>“Owners should have a basic understanding of personal finance and budgeting, and of how to responsibly manage their own money. The need to understand financial ratios and basic valuation concepts, as well as the balance sheet. They should understand sources and uses of capital and return on capital, and the financial drivers of their company, as well as estate planning (at a basic level). They should understand the role of family, business, and ownership governance, and why and how their company governance structures were created as well as their strengths and weaknesses. They understand the importance of boards and how boards work. They have a basic understanding of general business strategy as well as their own business strategy, and a good understanding of the competitive forces at play. “ (Keyt, 2019)</p>

DIMENSION	EXEMPLARY QUOTE (ctd.)
	<p>“I see a need for basics in Family Business Strategy: Prerequisites for a Niche Strategy, Financing, Profit Distribution, International Expansion, M&amp;A. These “simple” basics are not dealt with at University, and they are neglected in research, too, or if dealt with, mostly the context of SMEs. As the market for shareholder education is dominated by lawyers and family sociologist/psychologists these topics are not emphasized by the “moderators” either. Also – one of the most underrated competences is the capability to choose the right personalities as Board Advisors or Managers. The average life-time of a non-family executive (President) is 30 months – this is a shame. Sometimes I have the impression that owners are attracted to those individuals that will cause them the most problems – for example the “big shot” from a large public company.” (Kormann, 2019)</p>
<b>Competence – Family</b>	<p>“You have to understand and improve family dynamics – and they change and evolve constantly, it’s not like at one point you got it, and then everything goes smoothly. We’re all humans, and we continuously have to work on our relationships.” (6th generation family CEO and Chairman of the Board, Switzerland)</p> <p>“Competent owners have a high level of self differentiation, a good understanding of family dynamics, adult development theory, communication and conflict management, and psychological biases in decision making, for example prospect theory and confirmation bias.” (Astrachan, 2019)</p>
<b>Competence – Self</b>	<p>“You have to learn how to distance yourself, anything else is not healthy – nor sustainable. I had to stop waking up in the morning and answering emails first thing, going to bed and dreaming about the firm (...) I realized I needed to balance my life, that I was allowed to take a vacation once a year, and to turn off my phone – this requires someone to be there who is capable, and I had to build such a team to have that, but in the end, that made us much stronger.” (3rd generation family COO, Switzerland)</p> <p>“Owners should have self esteem and a sense of self confidence, and they should be differentiated, which means being able to hold an opinion that’s different from their family members while staying connected with them. The need to be able to collaborate and work with other family members, and to resolve conflict. They should know their family history and the behavioral patterns and understand and bring objective insight into complex family dynamics.” (Keyt, 2019)</p>
<b>Competence – Context &amp; Zeitgeist</b>	<p>“I don’t think the core competences will be changing, but going forward, owners benefit from a basic understanding of technology, as it relates innovation and disruption.” (Astrachan, 2019)</p>



DIMENSION	EXEMPLARY QUOTE (ctd.)
	<p>“I think most ownership competences are universal and not time-bound. However, the nextgen will need to understand relational skills as well as how the emergence of technology is helping or hurting our relational skill sets.” (Keyt, 2019)</p> <p>“One of issues I am personally very interested is the impact of Fourth Industrial Revolution on the longevity of family businesses. I believe one of the key competences is the ability to identify and tackle technology disruptors.” (King, 2019)</p> <p>“The current generation has incorporated the “green” feature as a mandatory requirement into all business models. The NextGen will have to incorporate Digitalization and AI in all business models. I guess this will be a hygienic element – as “greenness” is hygienic only – and not a game changer for the players in the markets. (...) However, seemingly or actual disruptive innovations (Internet of Things, Digitalization, AI) are beyond the competences of the previous generation. This situation seems to be similar to the transfer in the 19th century. The senior was a craftsman, the junior an industrialist. The senior was scared of the new age and the initiatives of the junior.” (Kormann, 2019)</p>
<b>National Culture</b>	<p>“I think how easily a family business professionalizes is more related to firm and family size – and family wealth – than national culture. Small businesses almost always eschew professionalization. This is all to say that while cultural differences are real, at the family business professionalization level, there is no culture that I have come in contact with that is in any way more than marginally favorable for family business professionalization. Open and honest conversation is hard to develop in every culture.” (Astrachan, 2019)</p> <p>“You’ve got geographical culture and you’ve got family culture. My belief is that all forms of family governance need to match both the family and geographic culture. I don’t see the actual structures as being all that different, but the little nuances in how family meetings and family councils operate vary by the family’s culture and the country’s culture. (...) I feel that the more developed the economy, in general, the more exposure family businesses have to more objective business practices. The more rigid the family structure the more resistance to the practices and changes that are needed to grow and evolve as a family business.” (Keyt, 2019)</p> <p>“I see that owners from less developed regions have a stronger desire to learn in formal and structured “Programs” – primarily various programs of Conferences. In less developed countries there is a stronger need for experience - or theory – based know-how, but there is also a higher willingness to get access to this know-how. The owners in Germany participate less in formal programs but have an intensive informal network with other owners and form their opinions based on this communication in the peer group.” (Kormann, 2019)</p>

## APPENDIX G: DETAILED RESULTS FROM THE GLOBAL FFI ADVISOR SURVEY

Family Governance Mechanism (perceived importance)		%
1	Developing a common purpose, shared values and joint vision (e.g., philanthropic engagement or other family goals)	55
2	Family Charter (also referred to as family constitution; giving guidance to the family, the business and ownership)	49
3	Formal family meetings (e.g., family retreats, family council meetings, committee meetings)	44
4	Developing intra-family conflict resolution capabilities (e.g., improving communication and conflict management among family members)	39
5	Board of directors (governing body that holds management accountable, may or may not include family members)	38
6	Shareholder and Buy/Sell Agreements (specifies the legal and contractual understanding among shareholders)	27
7	Investing in protecting and maintaining family harmony (e.g., making cohesion an explicit family goal)	25
8	Informal family meetings (e.g., family holidays, birthday parties, family gatherings)	11
9	Communication measures (e.g., newsletters, birthday calendars, intranet etc.)	6
10	Honoring the family legacy (e.g., family business archives, family museum, artifacts that reflect the business history or special achievements)	4

*Note: This table is based on 176 responses*

## Individual Ownership Competences (perceived importance) %

1	Understanding of current family dynamics (empathy and ability to properly interpret family member's behaviors, and de-escalate if necessary)	58
2	Strategic capabilities (ability to think strategically about the company's needs and goals)	53
3	Knowledge about the business (deep understanding of the company's inner workings, customer and supplier base, and markets)	53
4	Leadership abilities (ability to lead and motivate people)	45
5	Financial knowledge (ability to understand and interpret financial company data)	30
6	Knowledge of family history and values (profound understanding of the family's and the business' roots)	30
7	Actively seeking feedback and accepting criticism (having a desire to learn and grow)	21
8	Preferring collaboration over competition (seeing value in and actively encouraging team work)	20
9	Ability to deal with pressure and stress (resilience)	15
10	Social capital (individual network and ability to connect and connect with people)	11

*Note: This table is based on 154 responses*

## Collective Ownership Competences (perceived importance) %

1	A culture of open communication and a willingness and ability to deal with conflict	69
2	Family cohesion and commitment (high levels of cohesion and commitment to business and family)	55
3	Long-term orientation (desire to remain a functional ownership group that provides value to the business)	46
4	Transgenerational Entrepreneurship (openness to continuous renewal, ability to recognize opportunities and willingness to take risks)	44
5	Strategy for individual ownership competence development (systematic approach to developing current and future generations of owners)	34
6	Culture of Learning and Failure (acceptance of mistakes and willingness to provide opportunities to learn and grow)	31
7	Exemplifying the Values and Culture (living by the family values)	30

*Note: This table is based on 154 responses*



Main sources of Business Family Conflicts (perceived importance)		%
1	Culture that prevents open communication	67
2	Lack of cohesion among ownership group	46
3	Lack of conflict management skills	43
4	Culture of blame and refusal of feedback and criticism	42
5	Lack of understanding of family dynamics	38
6	Lack of business acumen among family shareholders	26
7	Weak understanding of financial indicators	13
8	Unforeseen disruptions	8

*Note: This table is based on 155 responses*

## APPENDIX H: OVERVIEW OF COMPETENCES

CATEGORY	COMPETENCE	EXPRESSION	EXAMPLES	INTERNAL ACQUISITION	EXTERNAL ACQUISITION
BUSINESS COMPETENCE	Business Acumen	Financial	<i>On a 10-point scale, how well do you understand the three statements of financial condition (Statements of CF and P&amp;L, BS) and how they are related, i.e., how changes in one would affect others?</i>	Educating family members on finance, either by setting up calls to go through the financial statements upon their release every quarter (or annually, or monthly), and offering non-operational family board members mentoring sessions led by the CFO or other internal experts. Another possibility is to hire coach or educator to develop a specific program. <b>Letting family owners without a board role attend board meetings as observers is a great way to familiarize them not only with the inner workings of the board, but also the acquaint them with making sense of business strategy, finance and other issues.</b>	Online classes and on-site educational programs (e.g., MBA/EMBA programs) on finance, strategy or governance, such as Loyola's Governance, Stewardship, and Next Generation Leadership Institutes, programs offered by associations such as FFI, the Private Director's Association (PDA) or the National Association of Corporate Directors (NACD) in the United States. Service providers such as EY often offer (sometimes free) courses such as <i>Finance for Non-Finance Managers</i> .  Industry associations or large suppliers sometimes provide non-industry related training; e.g., the automotive industry provides training for individuals working in dealerships; (e.g., Axo Nobel provides training for paint store owner/managers)
		Strategic	<i>What is the biggest weakness of your strategic positioning in the market?</i>	Learn about strategy frameworks such as Porter's Five Forces Model or SWOT analysis and read books like Collin's <i>Good to Great</i> or Christensen's work on disruptive innovation	
		Industry-Related	<i>What are the three largest trends in your industry?</i>	Read industry magazines (e.g., <i>Automotive News</i> , <i>Construction Today</i> ) as well as online content (e.g., blogs, business websites such as Forbes)	Attending industry events such as trade shows or conferences to learn about industry trends, and establish a network
		Regulatory & Legal	<i>What is the biggest regulatory threat your company is currently facing?</i>	Learn about contract and business law (e.g., law firms publish relatively understandable documents that provide a solid basis for beginners) and expected changes in the regulatory environment	Take online or on-site courses on business law, associations like PDA or NACD also offer courses on the legal responsibilities and legal issues that board members need to be aware of
		Decision-Making (includes probability statistics and psychological biases, e.g., loss aversion)	<i>Read Daniel Kahneman's book 'Thinking: Fast and Slow'. How many of the biases he describes do you recognize in your own decision making?</i>	On an individual level, read about probability theory, statistics, and books such as Taleb's <i>Black Swan</i> or Janis and Mann's work on <i>Decision-Making</i> . On a group level, scenario exercises and encourage team-building and group exercises such as Prisoner's Dilemma or the Delphi Method to improve trust and group-level decision-making capacity	Take online or on-site courses on statistics, probability theory and decision-making (e.g., Wharton and Yale offer such courses, among many other local and regional colleges), or attend (sometimes free) courses offered by service providers such as PwC

CATEGORY	COMPETENCE	EXPRESSION	EXAMPLES	INTERNAL ACQUISITION	EXTERNAL ACQUISITION
	Leadership	Strong social skills; ability to provide a vision, inspiration and value-based guidance to workforce	<i>How do you personally foster behaviors aligned with your core values in the organization?</i> <i>Is 'exemplifying the core values' part of the employee appraisal?</i>	Familiarize yourself with the extensive literature on values-based and inspirational leadership, and on leading people in business and other environments (i.e., the family). Raise your awareness about when and how you exemplify the family's and business' core values (and when not), and think about how to encourage and reward behavior (by employees as well as family members) that is aligned with those values	Take online or on-site classes on leadership – many courses are offered for free (for clients or prospects) by service providers such as EY and PwC, or some of the major national or even regional banks.
FAMILY COMPETENCE	Family Dynamics	Interpretation	<i>Have you ever read any literature on family dynamics?</i>	Read the classics on family dynamics; e.g., Bowen's family theory, McGoldrick & Gerson's genogram. Dedicate time during family meetings to educate the family about the roots of behavioral dynamics and identify patterns across generations/branches	If needed – or deemed beneficial – engage in family therapy or invite an expert to do a genogram with the family, which will reveal many of the behavioral patterns and current dynamic that shape the family's interactions and behaviors today.
		Family-Business Spillover	<i>Can you think of any family conflicts that play out in the firms?</i>	Develop a sensitivity for whenever the family is trying to "solve" an emotional problem with a structural solution	Find a trusted advisor that can guide the family in developing a set of formal processes and structures that align with their values, goals, and their identity
		Building Cohesion	<i>Do you send business-related information to non-owning family members?</i>	Create opportunities for family members to spend time, interact, communicate, and learn about one another; encourage your children to interact with their cousins; call a family member to chat (unrelated to the business)	Attend training sessions dedicated to building group cohesion, e.g., Center of Creative Leadership ( <i>Transform my Team</i> ) or hire a professional to develop a program that specifically fits the needs of your family
	Comm. & Conflict Management	Candor	<i>How much do you know about communication strategies / conflict management strategies?</i>	On a group level, invite a trusted outsider to facilitate family meetings to aid family members be more candorous – but not hurtful – with one another. On an individual level, read about effective communication and conflict management in group settings, particularly the family).	On an individual level, take online or on-site classes on communication styles and conflict management skills.  As a group, design a communication and conflict management course or sessions with an expert on these matters.
		Differentiation	<i>How strongly are you affected by family member's emotions?</i>	Understand what it means to be emotionally differentiated from family and try to stay emotionally unaffected in conflict situations	Individual therapy helps, as can educational (formal) programs, but the process is lengthy for those that are deeply indifferntiated to begin with.

CATEGORY	COMPETENCE	EXPRESSION	EXAMPLES	INTERNAL ACQUISITION	EXTERNAL ACQUISITION
SELF COMPETENCE	Self-improvement orientation	Openness to Feedback & Continuous Learning and Growth	<i>Do you actively seek out opportunities for self-development and growth (e.g., reading, taking classes)?</i>	De-sensitive yourself to feedback until you no longer react emotionally. Read self-help books on understanding and dealing with feedback, and on lifelong learning) such as Burger's Five Elements of Effective Thinking	Take online or on-site courses on dealing with feedback, and developing a learning orientation; oftentimes, such courses are offered in the HR and personal development realms
	Understanding Boundary Preferences	Understanding integration vs. separation preferences	<i>How much time do you spend weekly on yourself? What do you do to distance yourself after work?</i>	Self-assess to identify your tendency to integrate or separate. Assess your immediate family and co-workers to identify and learn about their boundary preferences	A trusted coach, therapist or advisor can help you grow as a spouse, a brother/sister, father/mother, family member, and business professional, and give you some (sometimes, much-needed) perspective, and a reality check when you are being too harsh on yourself, or pushing yourself too hard
	Self Care & Performance Under Pressure	Viewing self care as essential (vs. frivolous), ability to deliver results even when feeling pressured	<i>On a 10-point scale, what is your average level of stress in the business?</i>	A strong work ethic does not mean having to work yourself to death. Self care is anything but frivolous – it is essential. Learn to recognize when your resources are depleted, and act accordingly. Look into mindfulness practice to learn about how to stay in the moment – even during chaos	
CONTEXTUAL COMPETENCE	Safety & Security	Digital Smarts & Reputation	<i>What would criminals be able find out about your family if they had your everyday movement data?</i>	Educate family members about digital footprints and social media etiquette, cyber crime and online safety; develop a family digital guideline. Raise family members' awareness about how their behavior reflects on the family and the business. Develop a strategy for dealing with reputational fallout (e.g., family or business scandal)	Invite experts (e.g., social media and digital experts; security experts; health care / mental health experts) to speak to the family. Attend events or classes on issues such as online safety, health care / nutrition individually or as a group.
		Threat Awareness	<i>To what extent do you plan for criminal actions against your family?</i>	If this is relevant for your family, discuss extreme events such as kidnappings or blackmailing in the family, and develop a strategy for reacting to such incidents	Have a security specialist and health care specialist assess your family's situation.
	Health Management	Prevention & Preparedness	<i>What would happen if the (family) CEO of your company had a heart attack tomorrow?</i>	Educate family members about the family's health history; develop a family guideline for dealing with health issues (e.g. family members that are diagnosed (possibly without diagnosis) with mental illness or dementia) Provide support for activities that contribute to family members' health (i.e., fitness membership, shared mindfulness practice, nutrition classes).	

CATEGORY	COMPETENCE	EXPRESSION	EXAMPLES	INTERNAL ACQUISITION	EXTERNAL ACQUISITION
ZEITGEIST COMPETENCE	Ability to Recognize Changes and Trends	E.g., changing configurations of 'family' (societal trend), raising awareness for sustainability issues (‘green policies’)	<i>Do you include your children's partners (non-married, same- sex) and unadopted children in family activities?</i>	Have “the” conversation: Who belongs to the family – and who does not (spouses, adopted children, same-sex partners), and what does that mean in terms of information policy and inclusion in family events and ownership rights and responsibilities?	Look for best practices: how do families that have a similar set of values treat this issue? Who do they include – how does information flow?
	Thinking Outside the Box	E.g., willingness to encourage and reward controversial thinking (e.g., by inviting inspirational speakers) and corporate venturing (next generation)	<i>Do you encourage and reward controversial thinking among family members?</i>  <i>Do you financially support family members' business ideas?</i>	Invite inspirational speakers to family events; encourage and reward controversial thinking	Provide support and funding for family members to attend think tank events and other conferences

# FFI

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