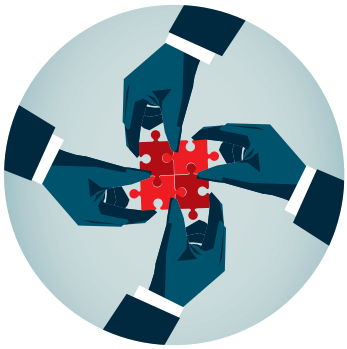

The critical role played by ownership strategy

Benefits of active and responsible ownership

by Andreas von Specht and Nick Harris

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Why good ownership matters

More than 80% of all global Family Businesses (FB), representing USD 1.6 trillion in assets, will seek to transfer to new owner generations in the next decade. 60% of FB owners are over 50 years old and one-third of those plan to retire within the next five years. Half of all FB owners claim that their business is heavily or even completely dependent on them and two-thirds of all owners have not yet organised their own succession. Think about these amazing statistics and add to them the learning that only 30% of businesses with family ownership manage to survive the 2nd generation, and that just a tiny fraction (3%) still exist in the 4th generation or beyond. If active and successful ownership entails founding, growing, preserving – but then also successfully transferring ownership to the next generation – many entrepreneurs risk failing in their mission.

Only 20% of discontinued family ownerships are due to well-planned and prepared divestments such as Management Buyouts. The main reasons for unsuccessful FB transfers are a lack of trust and communication issues among family shareholders – often accompanied by underlying or even openly hostile conflicts. Frequently, the next generation is insufficiently prepared to take over responsibility as shareholders, let alone as managers. Interestingly, (inheritance) tax issues are not among the main reasons for unsuccessful successions. Truly great entrepreneurs demonstrate that they can both develop a business and manage its transfer to the next generation; both imply thorough and careful planning, but the latter also includes the ability to “let go”.

Succession and the transfer of control is of course not the only challenging situation for owners. They are often confronted with other exacting family situations – the cousin who is in need of

money and wishes to sell, the brother who wants his son to be elevated into a senior leadership role, or the sister who wishes to be represented by her lawyer on the Supervisory Board. From an owner's perspective, some of these challenges may bring with them an opportunity to make a desired change or optimisation, but more often they are perceived as an unwelcome disruption and potential risk.

If these situations are managed with diligence, care and emotional intelligence, FB owners can fully benefit from the advantages that a FB clearly has in comparison to other organisations, e.g. long-term thinking, strong values, etc. But if they are ignored or badly managed, then both the business and the family can suffer badly. Emotion, money and control are the ingredients of a potentially lethal cocktail.

Succession management as the tipping point of good ownership

With ownership comes both privileges and responsibilities. Entrepreneurs need a special skill-set to guide a FB through challenging times. Courage, decisiveness, strategic oversight and, crucially, a combination of IQ and EQ are essential. Functional management skills and market knowledge also do not do any harm, of course. Last but not least, there is the requirement to manage not just a commercial organisation but also a family closely intertwined and related to this business. This can add significantly to the complexity. In our interview (third article of this edition of The Trusted Advisor), Andreas Jacobs talks about the "three dimensional" leadership of a family: horizontally, as a balancing-act between siblings; vertically between generations and the today and tomorrow. On top of that comes the family-leader role, which requires the foresight and independence to know when to let go – and to whom to hand over the torch.

Succession as such comprises two different levels that should be clearly differentiated: the succession of ownership and the succession of management. Both questions, i.e. who is entitled to own and who is entitled to manage the business, are at the core of the development of a Family Business Strategy – the family governance framework needed to give good ownership a professional structure.

The main elements of an ownership strategy

Less than 30% of all FB globally have already developed a specific Family Charter, or Constitution, which is the final output of a Family Business Strategy development. However, it is not the final document itself that is decisive. More important is the discussion process and journey that leads to its definition. Owning families increasingly understand the significance of such a process, which is normally moderated by an external facilitator. They wish to strengthen their family identity and legacy, foster harmony and secure stability within the family. Unlike a Shareholder Agreement, a Family Charter is not a legally binding document, but it defines and strengthens the DNA of a family and of their business. It thus becomes a morally binding document for the owning family and, over time, it turns into a crucial success factor. In our experience, families with such a Charter are more respectful of their own rules and governance structures, and this produces better leadership as well as more effective "checks and balances".

During workshops with the owning families, we try to ask far-reaching questions, such as: “To whom does your business belong – and who exactly is considered family?”, “What happens in cases of conflict?” and “Can family shareholders sell their shares – and if yes, to whom?” And then there are, of course, important questions regarding “roles” in the FB, especially when it comes to leadership: “Who decides – and how – who will be entitled to manage the FB?”, “Can family members apply for leadership roles if they meet certain qualifications, and are there even certain roles ‘reserved’ for them?”, “Is it actually desired that next generations should grow into executive roles, or should they be excluded altogether from operational involvement?”.

These are hugely important questions, which often require a considered thought process and intense discussions among family shareholders before arriving at a satisfactory conclusion. They touch upon all aspects of ownership including the Family’s wealth management, inheritance, the legal structure of the FB, dividend policy and the implementation of a Supervisory Board.

The “Family Business Spirit” and good governance

In well governed and successfully run FB you find what we describe as a special “Family Business Spirit”: the company culture is strongly influenced by the owning family and determined by a mix of ethical beliefs, strong values and a modus operandi (including clearly defined do’s and don’ts) to which both the owners and the management subscribe. This often includes a long-term orientation, flat hierarchy, fast decision-making and also e.g. loyalty of staff. A family business can turn these positive aspects into a huge competitive advantage.

The Family Charter contains the guiding principles for good family governance. This can function as a disciplinary frame for the owning family itself – but it will also be carefully observed by other stakeholders outside the family. This will be explored in further detail in our second article “Do’s and don’ts of successful company ownership” by Christian Bühring-Uhle.

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