

Family Owner Development — The Foundation for Continuity

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In our work with family enterprises, we have witnessed some very high-functioning owner teams, both small and large, engage in discussion and make challenging decisions. For example, they have tackled setting ownership goals for growth, evolving their governance process, and structuring future family ownership. A common thread among these high functioning teams is a strong foundation in two areas: (1) trust for each other; and (2) basic competence in an owner skill set.

Such a foundation does not happen by accident. It is the result of an intentional effort to develop the competencies of being an owner and to commit resources to developing the next generation of owners. The effort involves meeting the needs of owners who manage the business (operating owners) and owners who do not (non-operating owners). When owner groups become teams — highly aligned, knowledgeable and engaged — they become a competitive advantage for their family's enterprise.

The process a family enterprise will undertake for owner development is as varied and unique as family enterprises themselves. Variables which impact the process include the size of the family, the size of the owner group and the proportion of operating owners and non-operating owners. James (Jay) E. Hughes, Jr., Esq., attorney and family business advisor, has said, "I have discovered that there is no educational program to teach family members how to be great owners of a family business or of a financial fortune.1" The best process for developing great owners is largely up to each family. Below we outline a framework to use in developing an owner development process that works for your family's enterprise.

Development Objectives

What should an ideal member of an effective owner team embody? It depends, of course. The depth and complexity required by an owner team depends on the factors outlined above — size of the owner family and the business, size of the owner team and proportion of operating and non-operating owners. Regardless of these factors, though, an owner must first be willing to commit the time and energy to building trust and competency. This assumes individuals see ownership as a benefit. Which comes first — the chicken or the egg? As you will learn below, starting early allows prospective young owners to build an emotional connection to the business. This connection paves the way for the commitment of time and energy to learning about owner rights and responsibilities.

One difference that drives some distinctions in owner development is the status as either an operating or a non-operating owner. Overall, the development objective for operating owners is to equip them with the perspective and skills to "step out" of their regular, close-up view of the business and widen their view of direction and goals. For non-operating owners, the objective is to give them the skills and abilities to "step in" to and engage in learning and occasional decision making when they have a much more limited view of their enterprises and industries. So, while the content of development may be the same, the process of development may look somewhat different for these two constituencies.

Finally, the content itself needs to address two dimensions. First, individual skills and abilities. Second, it must build competencies of the owner team itself.

It takes time and practice for a team to form, storm, norm, and, eventually, perform². This process of team development – learning, practicing decision making and having fun together – builds the trust required of a strong owner team.

What to Develop?

A meaningful family owner development program includes identifying the primary competency areas that include:

- Scope of ownership decisions,
- Teamwork,
- Financial matters,
- Legal matters,
- Governance, and
- Strategy

Understanding the **scope of ownership decisions** which family business owners make, as compared to the board of directors and managers, lies at the heart of being an effective owner. With this understanding, owners will be equipped to “stay in their lane” as they carry out their owner role, thereby allowing the board and the management team to carry out their roles more effectively. Lack of knowledge regarding decision making boundaries can create an environment where owners are stepping in front of board members and the management team, leading to chaotic communication and slower decision making.

Next to understanding the decisions for which owners are responsible, the most important competency is **teamwork** — the ability to work effectively as a member of the owner group to achieve a common purpose. This competency enables an owner to apply their talent to positively influence the owner team and the family’s enterprise. Absent this competency, the impact of all other competencies is significantly muted as other members of the owner team will tend to view the owner as less credible. The owner who is adept at advancing their viewpoint and respectfully listening to and incorporating diverse viewpoints adds value to the family’s enterprise.

A baseline level competency with **financial matters** is an integral part of delivering value as an owner. This includes the basics of how to read and

understand financial statements along with how the business impacts individual income tax situations and estate planning.

A grasp of **legal matters** as outlined in ownership agreements such as bylaws, shareholder agreements, partnership agreements and operating agreements, enables an owner to productively participate in discussions and decisions around ownership succession planning, development of the board of directors and shareholder liquidity. These documents provide the formal agreement details as to what decisions owners make and their relationship with the board of directors.

An important responsibility of ownership is to make decisions as to how the business will be governed. Having a baseline level of knowledge about **governance practices** and the importance of evolving governance practices over time as the owner team and the business evolves helps an owner contribute more fully as part of the owner team. For example, as the size of the owner team changes over time and as the proportion of operating and non-operating owners evolves, having insight into how to evolve the governance structure to continue to best represent the interests of the owner team is an invaluable competency for an owner to possess.

Lastly, owners’ understanding the family enterprise’s **strategy** which is being employed by management and the board to achieve owners’ objectives helps the owner team have realistic expectations regarding growth, risk, profitability and the degree of reinvestment required to execute the strategy. These realistic expectations help to create an environment where the owner team is supportive of the board and management, balanced with having clear performance milestones.

In the end, a well-crafted and implemented owner development program covering the above competencies will better enable an owner team to take risk when making decisions together. Absent baseline competencies in the above areas, decision making is impaired. The pace of team decision making will tend to slow to the pace of the owner with the least understanding or lowest trust level.

When to Start Development?

One principle of estate planning is to transfer wealth as early as possible to the next generation, including ownership of a family business. This allows for future

increases in value to accrue to the next generation. We believe the same principle applies to owner development. By starting early, the trust and competencies required of great owners has longer to accrue.

Starting “early” – when children are in elementary school – requires a lot of foresight and customization of the content to fit those young age groups. The benefits are many. First, the deliberate engagement of young folks in learning about the business creates the opportunity for emotional connection with the business. This is challenging to replicate after young adults leave college and transition to lives outside of their nuclear families. Second, starting early allows you to instill owner skills regardless of the eventual continuity of the business enterprise. You don’t have to promise ownership – only prepare next gens for the possibility. Possessing the skills of ownership would be a boon to any young adult whether they go on to own a business or not. Third, starting early provides the vehicle for cousins to get to know each other at a young, impressionable age. Those early experiences with each other provide an opportunity for sometimes far-flung cousins to build trust – one of the foundations of a strong owner team.

How to Develop?

Developing as an owner is a challenging assignment whether you are an operating owner or a non-operating owner. First, the breadth and depth of the content itself can be daunting. Individual family members will have varying levels of time available, motivation and ability to learn and stay up to speed. Depending on where one is in their personal life cycle and what has come along with life itself, individual family commitments with one’s spouse and children, career commitments, and other personal interests are all competitors for time and energy to devote to developing as an owner. Having some structure which allows for individual choice about how to learn helps make it more feasible for individual owners to fit ownership development activities into already busy days.

The family and the business can provide some of this structure through family meetings and periodic business updates. Family businesses are leveraging available technology such as video conferencing and recordings, webinars, electronic informational portals along with in-person meetings to provide multiple venues for family

owners to learn and to stay up to speed on the most current business information.

Learning options include self-study on individual topics, online classes, seminars and executive programs. “On the job” learning includes other career experiences which overlap with the ownership topics, owner team task force assignments, family council work and non-business leadership experiences. Relationships are a powerful learning approach and include such activities as peer groups, observations at board meetings, participation in board committees, mentoring by other family business owners and elder storytelling. Lastly, related activities can include family business conferences, trade association events, and facility tours.

As you think about expanding the options available, give yourself permission to experiment using pilot projects. Sometimes you simply do not know how well an activity will work until you try it out. “Pilot projects” have the advantage of learning about a new way of doing things without making a permanent commitment to devote resources to the activity. Know for sure that as your family and your business evolves, evolving your owner development practices will pay off.

Summary

Providing your family’s enterprise with the competitive advantage of an effective owner team requires foresight and the commitment of significant family resources to both the planning and delivery of development opportunities. The good news is that despite a daunting list of competencies required, if you start early, you have plenty of time to influence potential owners.

Whether the impetus for owner development comes from operating owners and/or non-operating owners, be assured that your hard work in this area will be rewarded in the future. An effective owner team serves as a foundation for the continuity of your family business, the smooth operations of your management team and healthy relationships of your family.

[1] A Reflection on the Roles and Responsibilities of Each Family Member as an Owner of the Family Enterprise in a Family Governance System. Hughes, James E.

[2] Tuckman, Bruce W (1965). “Developmental sequence in small groups”. *Psychological Bulletin*. 63 (6): 384–399.



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