WITTEN INSTITUTE FOR FAMILY BUSINESS

WITTEN/HERDECKE UNIVERSITY

STUDY

OWNERSHIP COMPETENCE IN BUSINESS FAMILIES

CURRENT TRENDS AND DEVELOPMENTS

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Please note: Where this practical guide includes references to persons in the masculine, these apply equally to persons of any gender.

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FOREWORD

We have observed two trends amongst family businesses in Germanic countries over the past few years. On the one hand, transfer of ownership is becoming increasingly egalitarian, no longer favouring only selected descendants. On the other hand, we see less intra-family succession to management roles, especially in larger family businesses. Together, these developments tend to lead to larger business families with a higher number of inactive family shareholders.

With the family business landscape transitioning from a majority of owner-managed businesses towards a majority of owner-controlled family businesses, family enterprises face two major challenges. Besides mastering the fundamentals required by the mental model of the controlling family, they must create conditions conducive to constructive interaction between managing and non-managing shareholders as well as with non-family managers. Against a backdrop of increasingly complex social and economic conditions and external shocks such as the COVID pandemic and the war in Ukraine, the business family's ability to make decisions and act quickly is more important than ever.

Members of business families often see their participation in the family business and their ownership of joint family assets as a temporary heritage, received from prior generations to pass on to future generations of family shareholders. Thus, the role and actions of a shareholder have an intergenerational focus and are guided by the principles of a forward-looking business. To successfully perform this demanding role, family shareholders need a set of competences – a variety of specific skills and abilities. Supporting family shareholders in systematically developing these competences lies at the heart of what has become known as 'ownership competence development'.

For over 20 years, the Witten Institute for Family Business (WIFU) has investigated the question of how business families develop competent owners. This study – an updated version of the first ownership competence development study from 2012 – provides insights into the efforts that Germanic business families put forward to systematically educate and train their family members. The findings are promising, confirming that a growing majority of family businesses recognise the importance of systematically building shareholder competencies, and take appropriate steps to develop the skills necessary to successfully perform the ownership role. Based on the findings from the survey, in conjunction with an analysis of the current body of literature on the topic, we provide several empirically based recommendations for actions.


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We hope that this report will stimulate productive discussions within your business family. We wish you inspired reading.

Witten, December 2022
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EXECUTIVE SUMMARY

OWNERSHIP COMPETENCE DEVELOPMENT: WHY, WHAT, AND HOW?

Successful multigenerational family businesses ensure that family members who make, support or influence decisions in the business or the family are capable of successfully performing their roles. This requires a deep knowledge not only of the business but also of the role of a shareholder, and the values, culture, needs and objectives of the business family. "Ownership competence" enables family members – regardless of their ownership status – to contribute to the success of the business and the cohesion of the family in whatever role(s) they may hold.[1]

Professional shareholders not only understand but also exemplify family values and goals. They know that these must be aligned with internal structures, strategies, and guidelines to ensure the long-term durability of the business and the family. This understanding enables them to make decisions that are value-oriented and economically sustainable (or "enkelfähig" – fit to be handed over to one's grandchildren) for the entire system.

What, though, does ownership competence look like in practice? What do business families understand by ownership competence and how do they systematically develop ownership competence for their shareholder group? We investigated these questions using survey data collected in 2021 from 218 German business families.

[1] The term "ownership competence" suggests that ownership skills are only relevant for current and future shareholders. In practice, many families include family members without ownership in ownership competence development activities. The decision boils down to a simple but central question that each family must answer itself: Who belongs to the business family, and who does not (e.g. spouses, adopted children), and what rights and obligations come with family membership?

KEY FINDINGS OF THE STUDY: THE STATE OF OWNERSHIP COMPETENCE DEVELOPMENT IN GERMAN BUSINESS FAMILIES

How important is the development of ownership competence (DOC)? A majority – 69 % – of the business families surveyed specifically promote the development of shareholder competence. Moreover, DOC programmes have gained importance in recent years: 45 % of business families in the current sample have been involved in DOC activities for over a decade, up from 19 % in the 2012 study.[2]

Conclusion: The importance of ownership competence and systematic DOC is growing.

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

Conclusion: Respondents associate several positive effects for the family and business with systematic ownership competence development.

Why do certain business families not pursue ownership competence development? The 31% of current respondents who do not develop ownership competences systematically name an insufficient number of shareholders (22%), lack of a responsible person (20%), no need (17%), lack of agreement among shareholders on this topic (16%) and lack of resources (2%) as the most important reasons.

Conclusion: Various factors on the family level prevent business families from systematically developing ownership competence.

What is taught in ownership competence development programmes? The content is heavily focused on business administration: management and strategy (78%), leadership and organisation (56%) and balance sheet analysis (55%) are core components of DOC in practice. Psychological issues are becoming increasingly important, with communication and conflict management (51% and 49% respectively) ranking ahead of the economic topics of sustainability (46%), market and sector knowledge (45%) and "business knowledge" (44%). Overall, legal issues are seen as of rather less importance (38%).

Conclusion: Ownership competence development programmes prioritise business topics, with psychological topics around family dynamics becoming more important.

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

Conclusion: Family businesses vary greatly in their target audiences for DOC.

[2] See Vöpel et al. (2013).

Are families with a family strategy particularly open to ownership competence development? Having a family strategy in place is positively related to DOC: 93% of participants with a formulated family constitution specifically promote DOC, as do 72% of those with an informal family strategy. In contrast, fewer than half (44%) of families with no written or informal family strategy are pushing ahead with the systematic implementation of qualification programmes. The fundamental commitment of the business family to self-organisation and the systematic shaping of the relationship with the firm as well as interactions within the business family are strongly related to the targeted development of ownership competence.

Conclusion: Business families with a family strategy are more likely to engage in systematic DOC.

Who is responsible for ownership competence development? Only a minority of business families in our sample, place responsibility for planning and implementing DOC activities in the hands of a family governance body (e.g. the family council) or a managing family member (27% each), and 23% of respondents currently leave the development of such competencies to each individual member of the shareholder group. The results clash with what the respondents consider ideal: A majority of 61% think that a family governance body should be responsible for DOC, and only one in ten believe that family members with management responsibility should be in charge of DOC.

Conclusion: As regards responsibility for DOC, ideal and actual practice diverge widely – the responsibility ideally lies with a family governance body.

How is ownership competence taught? In many cases, the family organises a variety of activities to promote ownership competence, such as family academies or workshops (69%). Working in the firm – for example in the form of internships and summer jobs (68%) – is also an important path to DOC. For the systematic development of ownership competence, there is also increased use of external continuing education offers (e.g. open seminars, training courses or special study courses (67%) or exchanges among like-minded people (65%)).

Conclusion: Business families rely on a variety of platforms and ways to develop ownership competence.

How much time do business families invest in ownership competence development? Since it can be assumed that sufficient financial resources are available for training and further education in the business family, the resource of "personal time commitment" is pivotal. Of the business families that purposefully promote the competency development of their shareholders, only one-third are willing to invest more than five days per year. Just half of these families (16%) allocate more than eight days to the training and development of their competence. Of the two-thirds who invest up to five days in DOC, around half (34%) allocate only one to three days. In our assessment, this is insufficient given the increasing complexity of the corporate environment and the scope of owners' decisions.

Conclusion: The personal time commitment given to the development of ownership competence is limited to a few days per year. This is where the value assessment of DOC diverges from everyday practice in business families.

1 | OWNERSHIP COMPETENCE: AN OVERVIEW

1.1 | OWNERSHIP COMPETENCE AS THE KEY COMPETENCY OF THE BUSINESS FAMILY

Decades of research, coupled with our many years of observations in practice, have led to the insight that shareholders in a family business associate their ownership with more than just interest on capital.[3] Rather, family shareholders see their core, cross-generational task as a transgenerational legacy in the form of the preservation of values and the passing on of business shares to the descendants of the business founders. Consequently, their participation in the family business or their share of family wealth must be managed in such a way that it leaves the family legacy fit to be passed on to future generations. The German business dynasty Haniel coined the term "Enkelfähigkeit"[4] to express this concept.

The joint preservation of the family's transgenerational legacy can easily lead to disagreement, conflict and, in the worst case, an inability to make decisions among the shareholders – especially if expectations diverge and there is a lack of clarity and agreement regarding the shareholder role within the business family. The core challenge for the business family is to simultaneously follow the logic of the family, the logic of the firm and the logic of ownership. Its members may disagree on how to steer and manage the business or on the appropriate path given the goals and values of the shareholder group. However, the way in which the family in the family business manages dissent or differences in attitude towards the business and its focus is decisive in determining whether it represents an asset to the business or its greatest risk.

This is precisely where the importance of ownership competence becomes clear: with a sufficient level of skill and ability to steer and manage the business and the business family, it is more likely that decisions will be made or supported by a (competent) group of shareholders and will be in the interests of the continued well-being of the family business and the associated business family.

In terms of the firm, the overall task of the shareholders is to set long-term goals for the senior managers, advise them strategically on an equal footing, appropriately control them and replace them in an emergency. To this end, the members of a business family need more than a knowledge of leadership, organisation, accounting, finance, corporate law, asset management, history of the firm, current and technological challenges in the market environment, dynamics of digital transformation and a future (sustainability-oriented) corporate strategy. They must also be familiar with the functional logics and system dynamics of business families and family businesses. It is precisely the (potential) interactions between decisions made within the circle of shareholders and the resulting consequences for both individual family members and the shared family business that must be treated with the utmost sensitivity. These can lead to a lasting and destructive disruption of the systemic network of family, business, and property. Responsible members of a business family are therefore required to have not only basic business knowledge but also very specialised – and far more comprehensive – knowledge: "ownership competence".[5]

According to the definition formulated by the Witten Institute for Family Business (WIFU), ownership competence "... encompasses all the skills and abilities of

[3] See among others Berrone et al. (2012); Rüsen et al. (2014); Rüsen (2020); Rüsen (2022) for this.

[4] Business psychologist Anders Indset defines "enkelfähig" as living in a value-oriented way and reconciling this with economic thinking. It is economic sustainability over time rather than on time, where ecology and economy are not contradictory (Indset, 2022).

[5] Ownership competence is "(...) a combination of tacit and explicit knowledge, behaviour and skills that give someone the potential to be effective in task performance" (Draganidis & Mentzas, 2006, p. 53). This gives individuals the opportunity to prove their skills (Ryan & Deci, 2002) – a deeply rooted psychological desire (McMullen & Warnick, 2015).

current and potential shareholders of a family business to successfully exercise their ownership function as well as their rights and duties within the shareholder family. Furthermore, it is about the ability to successfully deal with previously unknown situations in the business and business family."[6]

1.2 | DIMENSIONS OF OWNERSHIP COMPETENCE

Skilled shareholders are capable of more than just reading a balance sheet: they combine entrepreneurial competence, shareholder competence, family competence and individual competence. Thanks to these skills, they can contribute not only to the success of the business but also to maintaining the functionality of the family.[7] However, what exactly distinguishes these competence dimensions – and does each member of the shareholder circle really have to possess all of them?

1.2.1 | ENTREPRENEURIAL COMPETENCE

Not surprisingly, entrepreneurial competence is an essential characteristic of professional shareholders. Its central building block is general business knowledge, such as understanding the basics of accounting and financing. The focus here is usually on understanding of forms of financing and the statements of finance, i.e., balance sheet, cash flow statement, profit and loss statement, and how these statements interact.

With an eye on their own business, professional shareholders know the business strategy and overarching objectives, as well as specific market and competition dynamics, and current developments in digital transformation and sustainability orientation. Thus, they can answer core questions such as the following: What are the specific market and competition dynamics of the business? Who are the most important customers and suppliers? Who are the key employees? Where – and, if applicable, in whom – are the firm's core competencies clustered? In which areas is the firm superior to the competition and in which not? What is vital for the success of the firm?[8]

Entrepreneurial competence gives a family member the ability to talk to, lead or supervise management on an equal footing – in other words, to be a good steward of the business. Entrepreneurial competences are essential also because they allow a non-managing family member to speak in the same language as the management.[9]

1.2.2 | SHAREHOLDER COMPETENCE

Complementary to the notion of entrepreneurial competence, ownership competence aims to understand the legal aspects relevant to the business and the family, but also encompasses the management of the business family's non-business, private or common assets.[10] Here, a knowledge of the firm's legal structure and the resulting opportunities and challenges are not the only key aspects; the ability to recognise these requires a basic knowledge of business and tax law. The challenges resulting from private and family law – for example in marriage, choice of residence, the drafting of healthcare proxies and wills – and their effect on the circle of owners or the family business must be recognised and, if necessary, appropriate measures be taken.

[6] WIFU (2022c).
[7] See Astrachan et al. (2020).
[8] See Rüsen (2020) for more detail.
[9] As part of our analyses, we assume for the sake of simplicity a wide understanding of entrepreneurial competence, which includes the shareholder competence described in the following.
[10] See also e.g. Kögl (2016); Kirchdörfer & Layer (2020); Kögl (2020); Kormann & Rüsen (2020); Kübel (2020); Schreiber (2020); Seyfried & Siller (2020); Schreiber & Kögl (2021).

Moreover, this dimension includes a basic knowledge of the professional management of the "secondary assets" of the business family. This aspect has recently become increasingly important, as it is not sufficient to allow vacant assets to be managed by external service providers without strategic objectives or the ability to exercise adequate control. A basic knowledge of the theory of capital markets and so-called "asset allocation" is imperative. Likewise, the ability to make a targeted assessment of selected investment strategies (e.g. investments that promote sustainability, direct investments in start-ups in the digital sector, etc.) is also an important part of the overarching "skill-set" of a shareholder. Last but not least, it is important to be able to differentiate between and assess various organisational forms (e.g. investment companies, single or multi-family office structures, etc.) in terms of their approaches and procedures.

1.2.3 | FAMILY COMPETENCE

Family competence refers to the ability to make a positive contribution to the functioning of the family. At its core, this includes the ability to communicate effectively, reflect critically on the dynamics of the family system and address conflicts constructively. Thus, people with family competence have sound knowledge of the typical patterns of action and behaviour within the family and they can anticipate and manage them in a way that prevents destructive conflict.

Decision-makers on the family side must be fully familiar with the family dynamics of the business family, as these shape and develop family relationships. There are now several practice-oriented theoretical approaches that help to avoid classic misunderstandings and the resulting conflict dynamics. In addition to a basic understanding of the range of roles involved in being a member of a business family[11] and knowledge of one's own "mental model", familiarity with and ways of handling specific communication and conflict dynamics[12] are particularly important here. If problems of trust emerge within a business family and are not systematically addressed, functional and sustainable forms of cooperation within the ownership circle can hardly be expected. Particularly in cases where there is a reluctance to proactively address conflict, a climate of uncertainty often prevails. Furthermore, if decision-making situations arise that are, per se, conflict-prone (e.g. the selection of committee members from the family circle), necessary actions are often postponed or avoided and, in the worst case, the conflict escalates. Here, those business families that can reflect on themselves and have communicative and conflict-solving competencies are at an advantage.

1.2.4 | INDIVIDUAL COMPETENCE

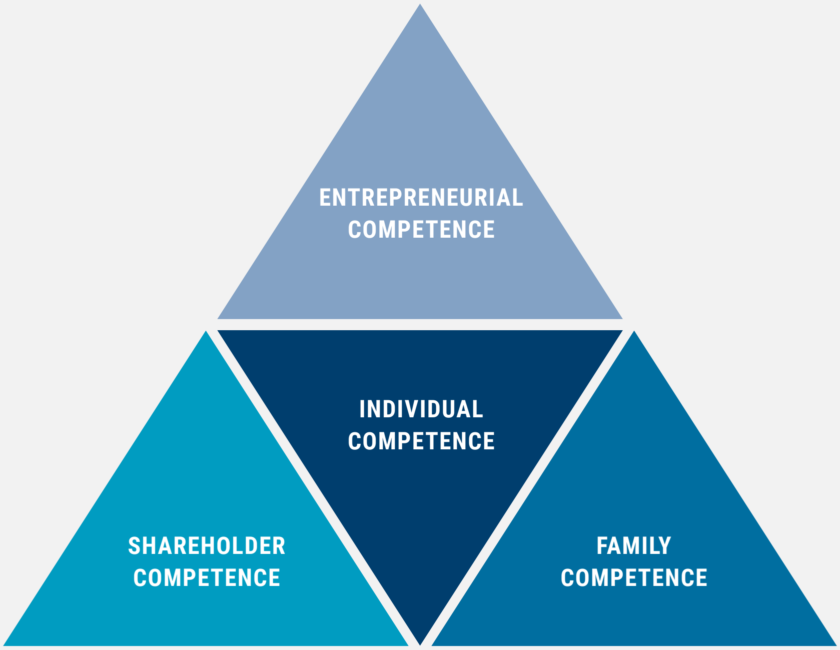
Individual competence is closely linked to family competence – it is difficult, if not impossible, to develop family competence if there is no parallel investment in building individual competence. This includes the ability to grow, recognise role patterns, develop non-judgemental communication skills, accept feedback and reflect on it, and develop a basic learning and development mentality. It also involves setting healthy boundaries and controlling one's reactions to emotions, that is, reacting appropriately and adapting one's behaviour proportionately to the situation at hand. Individual competence also includes self-care –

[11] See also e.g. Kleve (2020a); Rüsen & Heider (2020); Schlippe (2020).
[12] Examples for this are Schlippe (2014); Schlippe (2019); Schlippe (2020); Schlippe & Rüsen (2020).

an approach to action that many members of performance-oriented business families struggle with. It is important in this context to implement assessment centres, which highlight individual strengths and weaknesses, skill and knowledge deficits and development and personal growth potentials.[13] Then, based on the results of objective analysis, individual development programmes may be defined that support, for example, training in a communicative, moderative and social "skill set".

The following figure summarises insights on key points regarding the respective competencies.

[13] See Felden et al. (2020); Feldern & Rüsen (2020); Kleve (2020b).



Entrepreneurial competence describes the ability to make a positive contribution to the long-term success of the firm. Essentially, this includes the ability to lead or supervise management, in other words, to manage the business competently. Entrepreneurial competence allows a non-managing family member to speak in the same language as, and at the same level as, the operational management.

Individual competence describes the ability and willingness to develop oneself on a personal level, to recognise role patterns, to develop one's own non-judgmental communication skills, to accept feedback, to respond constructively to it and to develop a basic learning and growth mentality. It also means setting healthy boundaries and regulating one's emotional reactions.

Shareholder competence describes the ability to successfully exercise the duties and rights associated with ownership (e.g. questions of tax and inheritance law, decisions relating to family assets).

Family competence describes the ability to make a positive contribution to the functioning of the family. On the one hand, this includes the ability to communicate effectively and to handle conflicts constructively. On the other hand, people with family competence have comprehensive knowledge of the typical patterns of action and behaviour within the family, and they can anticipate and address them in a way that avoids destructive conflict.

Figure 1: Dimensions of ownership competence

1.2.5 | WHO NEEDS WHICH COMPETENCIES?

Do shareholders really have to be “qualified” in all the areas of competences described? Yes and no – ideally, each family member, regardless of their role or ownership, will have a basic understanding of their family business and, at least to some extent, an awareness of the dynamics that shape interactions within the family circle. The concrete competency profile of each individual, however, depends entirely on the role they play now in the business and/or in the family or will play in the future.

The fundamental question for business families is which competencies a family member should have and to what depth and breadth. The figure below shows examples of competency profiles of family members with and without formal roles in the firm and family. These competency profiles differ greatly depending on the preferences of each family. While one family may consider it essential that members of a family supervisory board have comprehensive family competence, this may be less important for another family. The position of the circles represents both the relative importance and the extent of each competence. Accordingly, a Chief Executive Officer (CEO) –

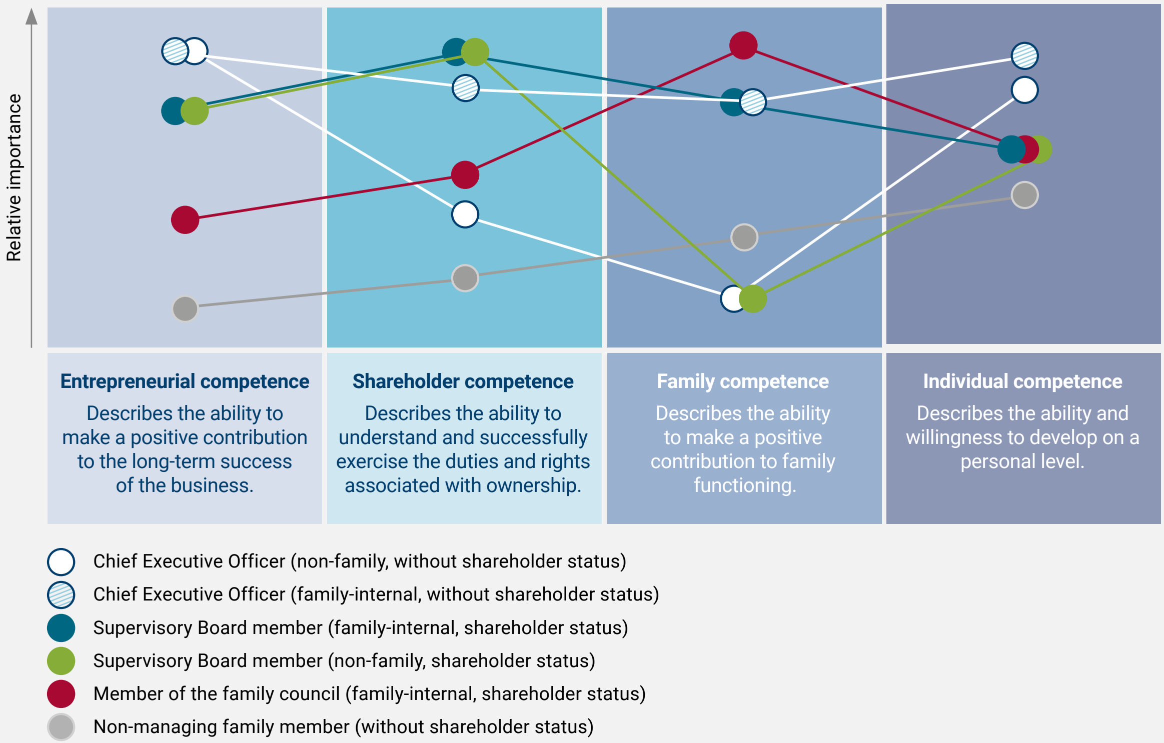


Figure 2: Exemplary professional profiles by role

whether from within the family or not – is expected to have a high level of entrepreneurial and individual competence. For a non-family CEO, ownership and family competence may be less important; for a family CEO, however, these competencies are crucial.

As mentioned above, every business family faces inevitably questions on the form in which and the extent to which the respective professionalism training modules are to be offered. The individual professional elements included within the four dimensions (e.g. knowledge of business strategy as a component of entrepreneurial competence or knowledge of family dynamics as a component of family competency), as well as the desired competency level depending on the role profile, are determined by each business family itself. In our opinion, this step requires a dedicated process within the family strategy that specifically defines the self-image, task profile and role expectations of respective members of the shareholder group, committees, and other family members. Ideally, an "organisation of the business family" – at best a family governance committee – should be formed to be responsible for appropriate training and further education programmes. An appropriate training programme can only be designed when the family has clarity about the areas of professionalism expected from certain role profiles.

1.3 | OWNERSHIP COMPETENCE DEVELOPMENT

1.3.1 | WHAT IS OWNERSHIP COMPETENCE DEVELOPMENT?

The regular and systematic training and further education of ownership competence within a business family can be defined as follows, in line with the preceding considerations:

> ***"Ownership competence development (DOC) includes all actions taken by members of the business family to push for the training and further education of competencies, as well as to support the acquisition of skills and experiences that will be useful to them in performing a role as a shareholder of the shared family business."*[14]**

Particularly initially, proposing further education for family shareholders often causes incomprehension and resistance. Why should anyone acquire competencies and skills "in advance", when it is unclear whether and, if so, when they will ever be needed? Regarding the training and development of younger family shareholders, one frequently expressed concern is also that such programmes could interfere with the individual educational approach of each nuclear family. It is often perceived as inappropriate and unnecessary to undergo further education collectively or individually within the family and to "sacrifice" valuable individual free time for this purpose. Paradoxically, however, in the hope of improving their career opportunities and income prospects, and qualifying for new professional and managerial tasks, the same people happily take up the offer of longer and more intense training and further education classes in their professional environment outside the family.

[14] WIFU (2022c).

The need to secure future dividend payments and to preserve the "transgenerational legacy" through continuous training within the business family is often overlooked. Against this background, it may be worth constructively and critically evaluating and reflecting on the previous activities of the business family as a community as well as the individual members of the shareholder circle. In this context, the family should also examine whether and how those members of the business family who do not, or not yet, hold shares in the family business or those who take on core disciplinary tasks have been included in DOC measures to date.

1.3.2 | THE PROCESS OF OWNERSHIP COMPETENCE DEVELOPMENT

For every business family with an intergenerational perspective, the development of ownership competence is a compelling need, considered indispensable in practical terms. Professional shareholders are familiar with the business, know the values and goals of the family and understand how the two systems are interlinked. Decisions for the business, or rather the cohesion of the family community, can be made based on this fundamental knowledge as well as agreed maxims of action and decision-making procedures.

Nevertheless, we observe that few business families invest sufficient resources in DOC. Often, no systematic training or education is offered, and topics are addressed in an erratic or ad hoc manner. Even if sufficient financial resources are made available, there is a lack of visible willingness to devote time to personal or joint training. In contrast, business families that actively promote ownership competence provide adequate resources for the development of individual responsibility at both the individual and family levels. They organise and support activities that enable individuals and the entire family to acquire and strengthen the competencies they will potentially need.[15]

If the family is clear on the competencies available to it within its members, the ownership group can systematically identify competency gaps and close them at the family level, either by developing competencies that are still needed internally or by drawing on external experience (e.g. from consultancies or board members outside the family). A business family that has defined a development concept for ownership competence in its family strategy has a decisive advantage: it can consistently and transparently even out the expectations and requirements of all family members, reducing the potential for conflict.

The systematic development of ownership competence could be organised by a family committee (ideally composed of members from different generations and branches of the family) under the chairmanship of a family member. Occasionally, in practice, we also encounter "education officers" in a family body who are explicitly responsible for this area. In this case, a corresponding "education committee" is responsible for designing a strategy for the development of shareholder competencies in the family. Such a strategy may include, for example, the targets that the business family pursues in the systematic development of ownership competence.[16] It may also specify which family members should have access to the programme, and to what extent, and the financial and time resources that will be made available on the family side. A committee can then clarify the importance attached to the topic and ensure continuous awareness of it within the family community.

[15] Useful examples here include the ownership competence development programmes of the HGDF business family (see Dethleffsen & Michaelis, 2020) and the Merck business family (see Rüsen & Stangenberg-Haverkamp, 2020).

[16] See Astrachan et al. (2020).

Based on this strategy, the committee identifies the competencies that it considers essential for adept and sustainable ownership (e.g. through interviews with current and former role-holders from its own or other business families). The result of this process is a list of professional categories and priorities for each role. For example, a family member on the supervisory board should have sound financial and strategic knowledge, which a member of the family council does not need to the same extent. Here, social, communicative, and pedagogical skills and abilities are a greater priority.

After assessing the professional profiles, it is important to work out a plan together with the family to identify different ways of acquiring the skills, experiences and abilities that are still lacking – these can be organised or offered by the family or be the responsibility of the individual shareholders. Options include formal educational programmes (e.g. (executive) MBAs, governance seminars and classes on family dynamics), informal exchange with so-called “peers” (this may be institutionalised, e.g. through memberships in working groups, networks, participation in roundtables and exchange formats with other business families) or mentoring and coaching offers.

The systematic development of ownership competence is a management task in its own right within the business family, for which appropriate financial, time and infrastructural resources must be made available.

2 | PROBLEM DEFINITION, OBJECTIVES, METHODOLOGICAL APPROACH AND RESULTS OF THE STUDY

2.1 | PROBLEM DEFINITION AND OBJECTIVE OF THE STUDY

Our observations highlight that awareness of the role of ownership competence and DOC in business families has surged in recent years. The aim of this study is to “refresh” the findings of a study almost ten years old[17] and to gain additional insights into the needs, expectations, and everyday practice regarding this topic. To this end, we examine the following questions:

- What are the ideal conceptions of ownership competence and its development – and what is the reality?
- Which competencies are considered particularly important – and for whom?
- Who is primarily responsible for DOC in the shareholder circle/in the business family?
- How much time is invested in developing ownership competence? Where do the corresponding financial resources come from?

Through this study, we want to provide answers to these and other relevant questions and thereby develop specific recommendations for action for business families.

2.2 | METHODOLOGY AND SAMPLE

Our study is based on survey data from 218 business families from the WIFU network.[18] The online survey conducted in 2021 covers various facets of the topic of ownership competence and the DOC of family members. The majority of the family businesses represented in the sample operate in the legal form of a GmbH & Co.KG (40%), and around the same proportion (43%) are active in industrial production. Just under one in four family businesses generated a turnover of over one billion euros in 2020. More than half the businesses (57%) are in the third to fifth generation of family ownership, and around 80% are at least 40 years old. A detailed sample description can be found in the appendix.

2.3 | RESULTS

In the following, we present the results of the survey and embed them in current research on DOC. In doing so, we include explanatory approaches deriving from WIFU’s many years of research and practical experience. First, we show to what extent business families currently attach importance to the topics of ownership competence and its development, and how they manage this topic in everyday life. Then we clarify how the ideal conceptions of ownership

[17] See Vöpel et al. (2013).

[18] Many business families from our network have been in close contact with WIFU for some years now, which is perhaps one reason for their relatively strong involvement in family business subjects. The sample is representative of the WIFU network yet cannot, therefore, be seen as representative for all existing business families and family businesses in Germany.

competence and its development deviate from the actual situation in practice (Section 2.4). Specific recommendations for action, based on these findings, are presented in Chapter 3.

2.3.1 | HOW IMPORTANT IS OWNERSHIP COMPETENCE – AND WHY?

The systematic development of ownership competence is a decisive factor in the ability of family businesses to survive across generations. A professional shareholder family can exert significant influence on the development of the business, for example through its decision-making bodies, and thus ensure the preservation and long-term viability of the business. The importance of ownership competence, its development and its positive influence on the family and the business have also been recognised by the business families we surveyed. As shown in Figure 3, 68% believe that the targeted development of ownership competence prevents conflict within the shareholder family. An even larger majority agrees that the development of ownership competence supports intra-family cohesion (85%) and the commitment of the business family to the business (86%), promotes joint decision-making among family shareholders (81%) and represents a key success factor in the long-term survival of the family business (83%).

Ownership competence and its development are rarely associated with negative attributes: 92% of respondents disagreed that it is a waste of resources, and 87% felt it does not undermine the leadership or authority of the leading family member. These results are a clear indication of the awareness of the business families surveyed of the importance of ownership competence and its development.

The picture shifts slightly when it comes to whether the targeted education and training of shareholders slows down decision-making processes in the family business or the shareholder circle. While half of the respondents reject this statement, the attitude of 38% is dependent on the nature of the decision to be made or other factors. Conversely, 13% of the participants consider the targeted development of ownership competence to be an obstacle to decision-making, since they believe mature shareholders increase the level of overall opposition. From our viewpoint, this reflects an older – and diminishing – attitude of managing shareholders who favour more silent and less professional co-shareholders.[19]

[19] See Vöpel et al. (2013), page 17.

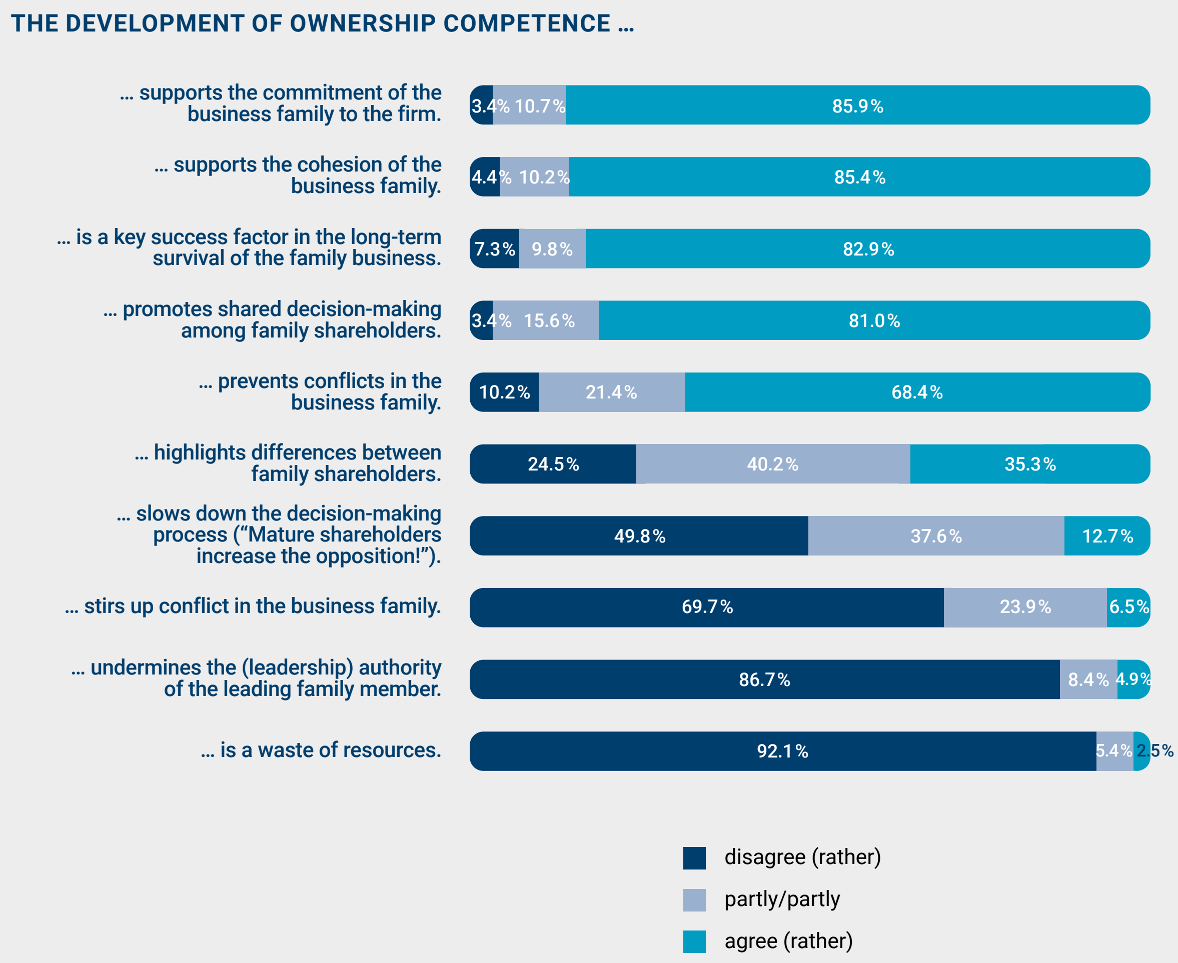


Figure 3: Overall assessment on the topic of ownership competence

2.3.2 | WHO DEVELOPS OWNERSHIP COMPETENCE?

Ownership competence and associated programmes for its development are of interest for the large majority of the business families we examined: two-thirds of those surveyed are already taking targeted measures to ensure the qualified training and further education of their shareholders. The willingness to take such measures tends to increase with increasing business turnover: while fewer than half of family businesses with a turnover of up to 25 million euros promote DOC, 57% of those with a turnover of more than 50 to 100 million euros do so, and over 80% of businesses with a turnover of more than 500 million euros do so (see Figure 4).

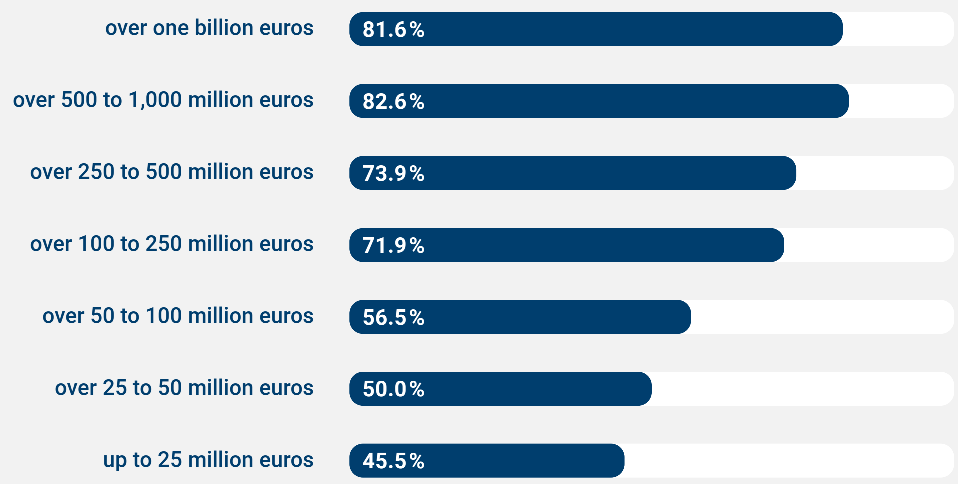


Figure 4: Business families with DOC funding, by turnover class

We assume that, with increasing business size, the strong professionalisation of the shareholder family results – among other reasons – from the need to be able to represent the "family will" adequately in management and control bodies vis-à-vis non-family managers. Given these results, we expect ownership competence and DOC to continue increasing in importance in the future as the number of family members actively involved in the firm tends to decline, especially in very large family businesses.

Despite its critical importance for success, about one-third of the respondents have still not found a systematic approach to ownership competence and its development. These firms tend to be smaller businesses in terms of turnover. Interestingly, this group includes a relatively large number of business families with just two shareholders (19%). We assume that the business families involved here, in contrast to those in larger firms, have not yet comprehensively recognised the relevance of their shareholders' professional development or tend to focus on management tasks. Our observations in practical settings indicate that, in these cases, it is assumed that the business will be managed by a family member in the future. In these instances, the importance of non-managing family shareholders is likely to be considered low.

The majority of companies dedicated to targeted DOC have been involved in this area for some time. Only about one in eight (13%) say they have implemented systematic qualification measures within the last three years, while 10% have had relevant programmes for four to five years, and a further 18% for six to ten years. Finally, one-third of respondents have been systematically developing ownership competence for more than ten years (see Figure 5).

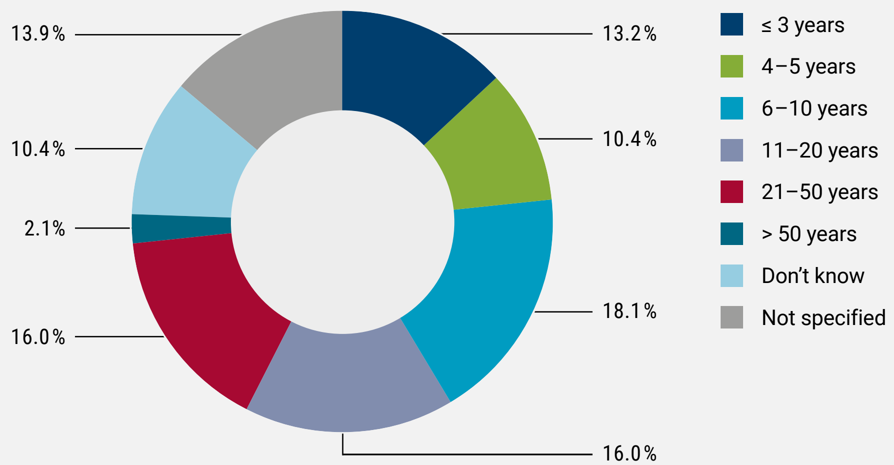


Figure 5: Timing of implementation of targeted measures to develop ownership competence

2.3.3 | WHY IS OWNERSHIP COMPETENCE DEVELOPED – OR NOT (YET)?

The majority of participants cited an upcoming succession or generational change in their family business as the trigger for the systematic promotion of measures for DOC. Other reasons include conflicts within the shareholder circle/family, the creation of a family constitution (also known as a family charter, code or statute), the death of a (leading) member of the shareholder family or the withdrawal of key older individuals, the establishment and transfer of the business to a family foundation, and participation in networking and exchange formats with other business families – for example, within the framework of the WIFU Foundation's Family Business Forum, in executive education programmes for family shareholders or congresses for family businesses. The introduction of DOC programmes goes hand in hand with current or imminent fundamental change processes.

Business families that do not, or do not yet, address the systematic qualification of family shareholders name a variety of reasons for this. As Figure 6 shows, a significant number of the families surveyed consider their shareholder group to be too small (22%) or see the lack of a responsible person (20%) as the reason for not implementing qualification measures. Other reasons given were no need (17%), a lack of consensus within the shareholder group (16%) and insufficient resources (2%). Some participants attribute their decision to a lack of interest, a lack of awareness on the part of key actors or an overestimation of the importance of the topic among shareholders.

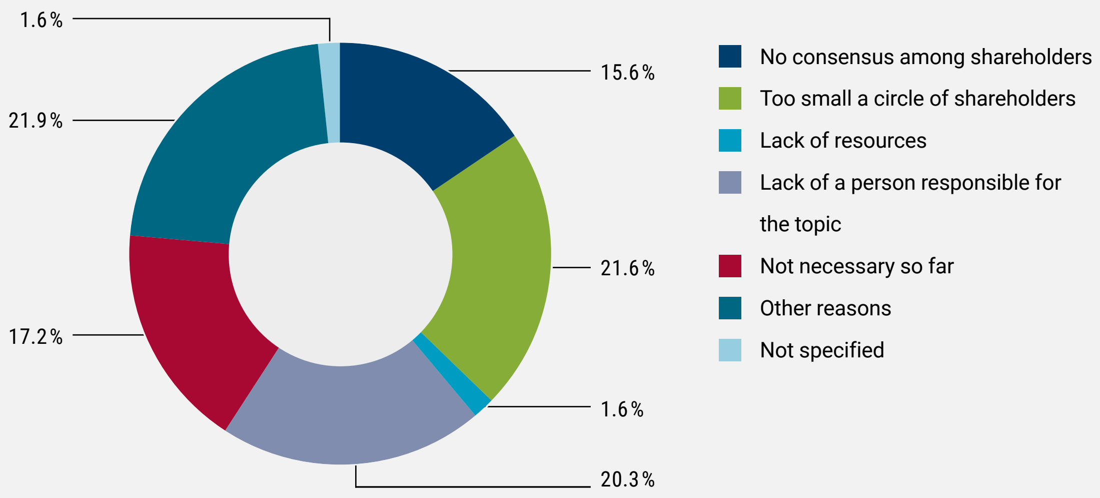


Figure 6: Reasons for refraining from systematic DOC

Of all the businesses that do not consider the systematic development of ownership competence to be necessary yet, those with an annual turnover of up to 25 million euros represent the largest share (40%). We assume here, as explained above, that the focus in these business families is on participation in the firm's managing positions and that shares are primarily transferred to those family members who take on a (co-)managing task. A separate structure of non-managing shareholders is rarely found in these firms, often due to low expectations of dividend payments.

Families with no more than two shareholders consider this *small shareholder group* to be an obstacle to the implementation of DOC measures (50%). One reason for this may be that the degree of self-organisation needed as a business family tends to be lower among small numbers of shareholders, and this is an obstacle to the systematic use of family governance mechanisms, including DOC programmes.[20] Most of the participants who attribute the lack of relevant programmes to the small size of the shareholder circle had an annual turnover of up to 25 million euros in 2020 (29%).

Those families with a very small number of shareholders see *"no consensus among the shareholders"* as a particular reason for not implementing development programmes to promote professionalism: 30% of the respondents in question have only three family shareholders. The same proportion has a formulated (in some cases not yet finalised) or informal family strategy. This relatively low percentage suggests a disproportionately high degree of scepticism towards family strategy measures in these shareholder groups. Here, too, we assume that the entrepreneurial task is focused primarily on the management of the business; thus, the shareholder role is not addressed separately as an independent entity.

The majority of business families that name the *lack of a responsible person* as the reason for their decision not to pursue DOC have only four or five shareholders (46%). Here, too, it seems reasonable to assume that the shareholder role tends to take a back seat in light of the small size of the shareholder group, and that attention is primarily focused on management tasks.

The results indicate that in smaller family businesses, or those in which the shareholder circle comprises only a few people, the systematic development of ownership competence is essentially dependent on the personal attitude of the shareholder family's leading member(s). These members are usually completely absorbed with the steering and management of the business and see the targeted professionalism of non-managing co-shareholders as unnecessary in a creative period, and sometimes even counterproductive. Frequently, this baseline attitude only changes when insufficient interest or a lack of skills in the succeeding generation becomes evident in the course of succession planning, and then the firm must either be sold, or its management placed in the hands of top executives from outside the family. Only in a situation like this does the realisation crystallise – usually under pressure of time – that the shareholder role requires certain competencies to be exercised meaningfully. The changes in the *mental model of the business family* that take place during this process are often associated with a substantial shift in the willingness to undertake training and further education.

Essentially, it can be assumed that the attitude within the family to learning and the systematic develop-

[20] This assumption further confirms a statement by one respondent: "small shareholder circle and yet no entrenched system [for the systemic promotion of DOC; author's notes.]"

ment of ownership competence is decisively shaped by the head of the family. Learning heuristics up to this point tend not to follow a strategically based procedure but, rather, a demand-driven “family” pattern of action – in which family members seek information only in case of need.

In our opinion, this logic is incompatible with the standards of professionalism in a business family, because it impedes the emergence of ownership competence circles. Against this background, reflection on the fundamental attitude of a business family to its standards of competencies and professionalism as owners is a key component of any family strategy.

2.3.4 | HOW IS OWNERSHIP COMPETENCE DEVELOPED?

Of the business families surveyed, 69% currently offer – or will in future – offer self-organised further education programmes to impart skills. These include family academies and workshops. Similarly popular are work offers from members’ own firms, for example, internships and summer jobs (68%), as well as external continuing education offers (e.g. open seminars, training courses or special courses of study (67%)). Only slightly less frequently promoted is exchange among peers (65%), and 46% of the families surveyed state that they make use of external counselling offers. The following figure visualises the results.

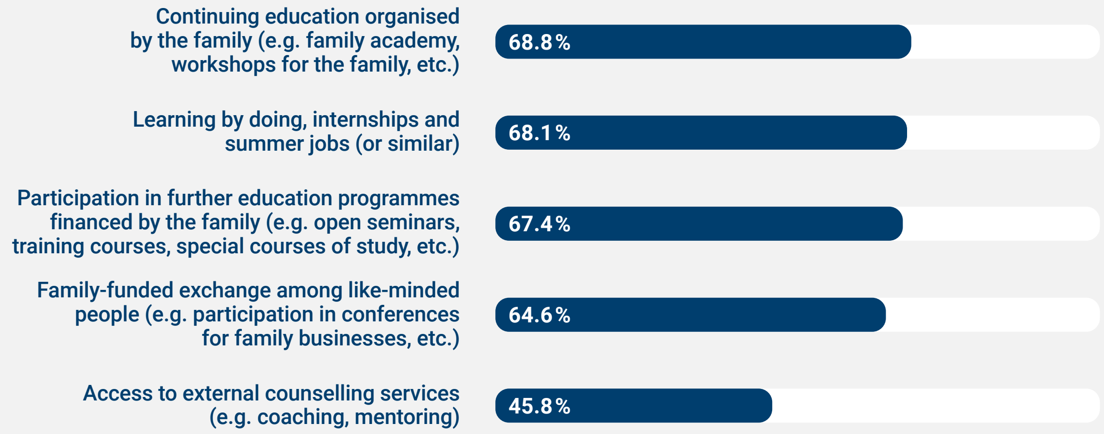


Figure 7: DOC measures offered by families (already implemented or planned)

Figure 8 illustrates personal involvement in DOC. For example, the majority of family members surveyed have attended (or plan to attend) events specifically aimed at members of business families (83%). Systematic exchange with other family businesses (74%) and the targeted study of specialist literature (67%) also rank highly, while 58% intend to attend specific courses and workshops. Around one in three has completed an executive master's or a master's degree course or would like to do so (35%).

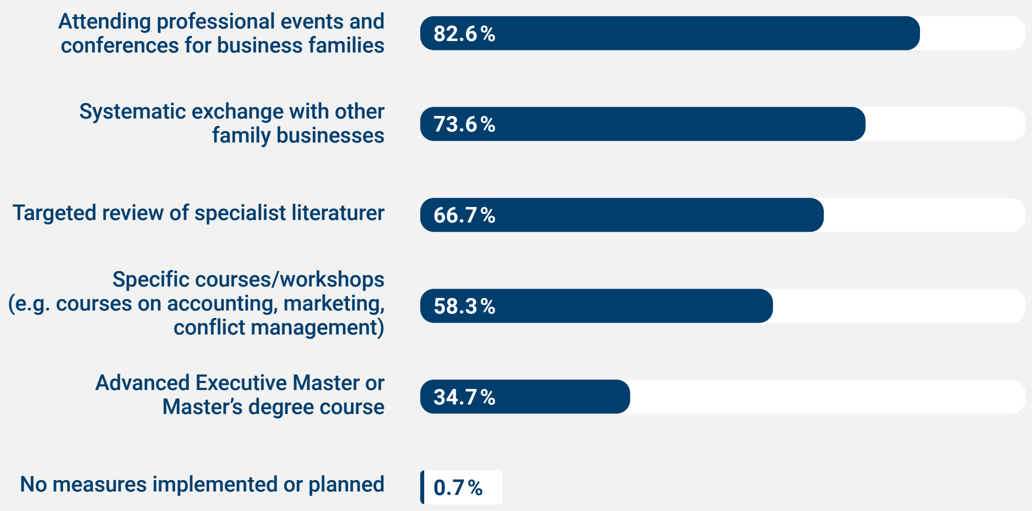


Figure 8: Personal DOC measures (already implemented or planned)

2.3.5 | WHAT CONTENT IS TAUGHT IN AN OWNERSHIP COMPETENCE DEVELOPMENT?

In terms of content, the measures to develop ownership competence focus primarily on business management topics: management and strategy (78%), leadership and organisation (56%) and balance sheet analysis (55%) top the list of respondents' preferences. In mid-table, alongside other business-related topics, are topics related to psychology and family dynamics, such as communication (51%) and conflict management (49%). Legal topics such as corporate and tax law (44%) as well as inheritance law (43%) are also regularly considered.

A comparison with our earlier DOC study from 2012 reveals some striking shifts. At that time, the top five ranked topics were all related to business administration: management and strategy (82%), market and industry knowledge (75%), leadership and organisation (66%), investment and financing (64%) and balance sheet analysis (63%). Although ownership competence continues to be concerned primarily with classic business administration topics, psychological and legal topics are increasingly becoming part of the family-internal continuing education programmes. The "subject rankings" from both surveys are shown in Figure 10 and Figure 11.

Figure 9: DOC in business families

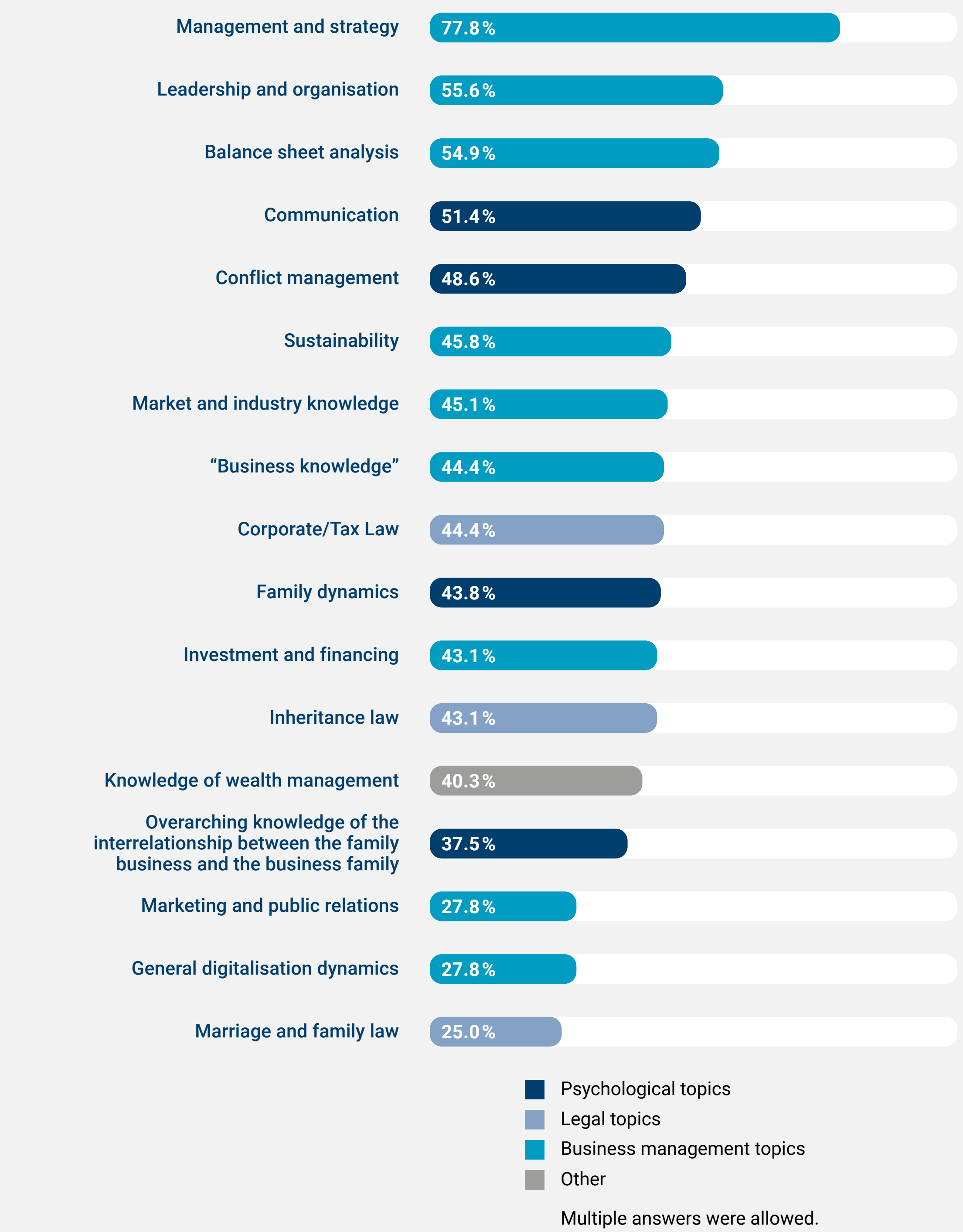


Figure 10: Thematic orientation of DOC (2021)

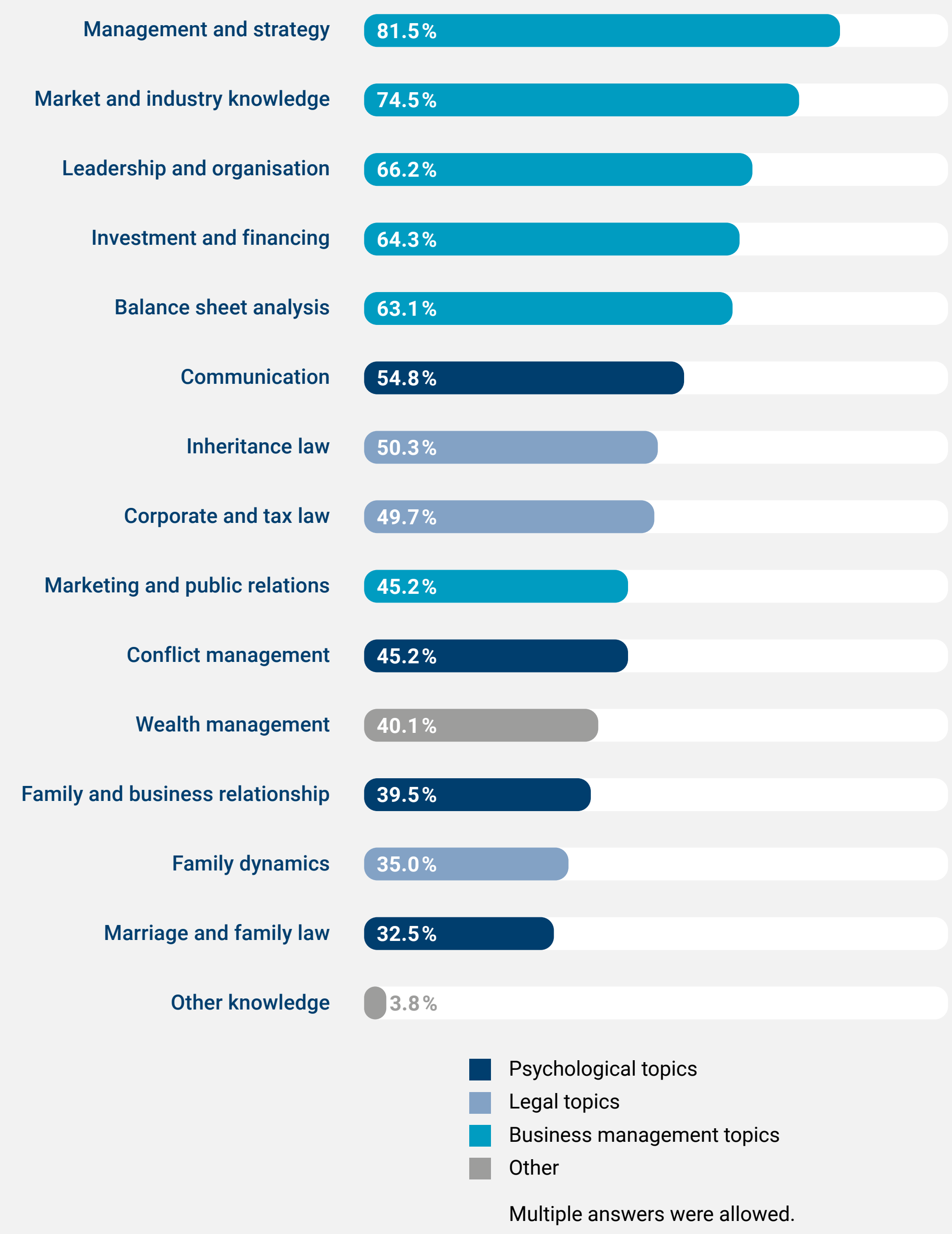


Figure 11: Thematic orientation of DOC (2012)[21]

[21] See Vöpel et al. (2013).

The continuing dominance of business management specialisations is not unproblematic, since conflicts in business families are rooted less often in factual or business management areas than family-related aspects (for example, over the expectation of equal treatment of all children).[22] As a rule, misunderstandings arise over the assessment and evaluation of decisions regarding, for example, the transfer of shares to the next generation or competency assessments of family members. Family expectations often collide with business development requirements. Insufficient knowledge of the various roles that members of a business family may hold frequently leads to misunderstandings, which have a negative impact on the relationships between family members. In practice, we often see that, due to a lack of knowledge of typical conflict dynamics in business families or a lack of professionalism in managing conflict, escalations arise that later threaten the existence of the family business.

2.3.6 | HOW MUCH TIME IS INVESTED IN OWNERSHIP COMPETENCE DEVELOPMENT?

The amount of time (and other resources, such as money) invested in the development of ownership competence indicates the importance attached to it and the degree of organisation or professionalisation of the family. In the present study, we wanted to know from the participants the time budget allocated to DOC and how this is resourced. In practice, we have repeatedly found that the financial resources available for ownership competence are rarely insufficient.[23] Rather, such programmes stand or fall with the willingness of each family member to "sacrifice" time for DOC, and time is thus a pivotal factor in the success or failure of any effort to develop ownership competence.

The results shown below confirm alarming feedback already heard from family representatives of business families during various events, such as workshops and working groups, in recent years: The willingness to invest personal time as a shareholder or member of a business family for the development and expansion of specific skills and knowledge is classified as "very limited".

As shown in Figure 12, of the 69% of business families who specifically promote DOC, only one-third are willing to spend more than five days per year on such training. Just half of these families (16%) invest more than eight days in DOC. Of the two-thirds who invest no more than five days, around one third (34%) invest only one to three days.

We take a critical stance on these results, as only one-third of the participating business families who conduct relevant training dedicate over half a day per month to such skills development. Measured against the challenges that family businesses currently face and will face in the future, and the visible dynamics in business families in German-speaking countries, it seems to us that the willingness to learn in practice is insufficiently pronounced among the majority of respondents.

[22] See Vöpel et al. (2013).

[23] In the context of this study, only 2% of respondents without DOC programmes stated that their decision not to pursue such programmes was due to insufficient resources. See Section 2.3.3.

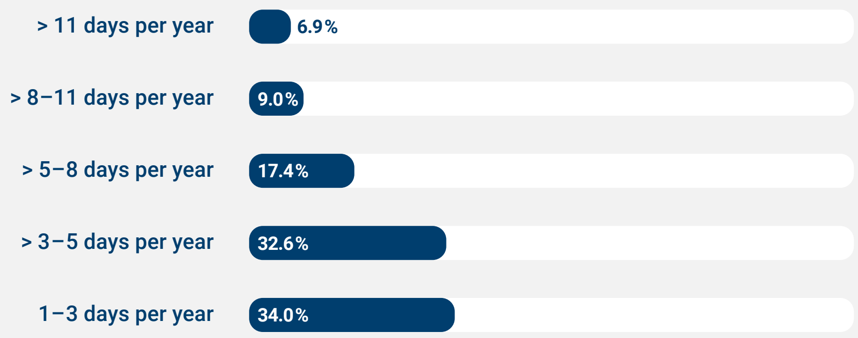


Figure 12: Time allocated for the development of ownership competence

Following our assessment, the shift in the mental model towards a controlling family in combination with an increased number of shareholders leads to a structural professionalism deficit that may have existential consequences. Critical voices are already increasing among board members and non-family top executives, who note knowledge and experience deficits combined with a reluctance to make personal time available to compensate for these. In summary, it can be stated that many of the business families surveyed recognise the importance of educating and training their shareholders but are not willing to invest an appropriate amount of time in this goal, considering that other commitments take precedence. We consider this subject to be so fundamental that we encourage critical dialogue on it in every business family.

When asked about the source of finance to support the professional development of the shareholder family/business family, the majority of respondents (69%) state that DOC is financed from the "family pot".[24] In almost four out of ten cases, individual shareholders use private funds (39%). Several participants state that the family business pays for the costs and that this then leads to charges on respective loan accounts.

[24] These are mostly separate financial means that are collectively obtained from the tax profits and used for activities benefitting the family community.

2.4 | IN-DEPTH ANALYSIS: THE IDEAL VS. REALITY

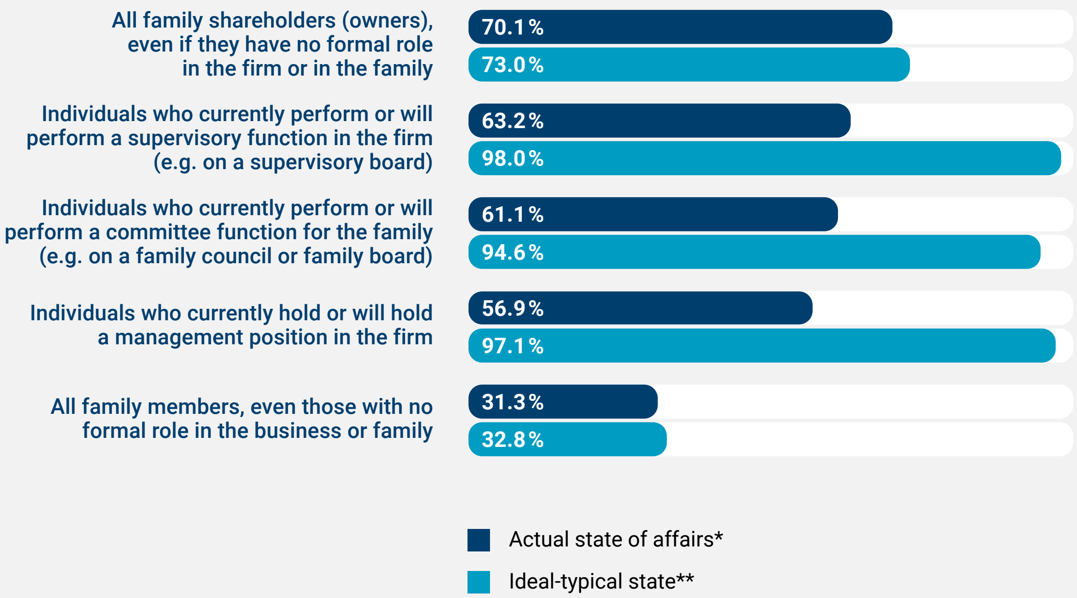
2.4.1 | TARGET GROUP

Almost all of the business families surveyed (98%) believe that particularly those family members who currently have a supervisory function in the firm, or who will do so in the future, should be involved in DOC. Only slightly fewer respondents (97%) are of the opinion that family members who currently hold management positions in the firm, or who will do so in the future, or who carry out a committee function for the family (95%) should be the target of systematic qualification programmes. A clear majority (73%) is still in favour of training all family shareholders. One-third of business families (33%) adopt the broadest definition of the target group, these families believe that all family members should undergo qualification programmes equally, irrespective of whether they hold a formal role in the business or the family. A comparative look at the DOC study from 2012 indicates that a considerable change in awareness has taken place over recent years: in 2012, only 16% of respondents wanted systematic DOC for all family members.[25]

A comparison of the ideals outlined above (and listed below as comparative values) with practice reveals significant discrepancies between desire and reality: notably concerning family members who currently or in the future i) perform a supervisory function in the firm, ii) hold a management position in the firm or iii) perform a committee function.

Family members with a supervisory function in the business are involved in DOC in 63% of cases (comparative value: 98%). For those with no supervisory function but with a management function, the corresponding proportion is only 57% (comparative value: 97%); for family members with a committee function, the proportion, in reality, is 61% (comparative value: 95%). All three groups of people are, therefore, targeted far less often than desired by the participants. If, on the other hand, we look at the business family as a whole and the family shareholders as a sub-group, there are comparatively few shifts: 31% of business families considered include all family members in systematic DOC measures (comparative value: 33%), family members with shareholder status are addressed in 70% of cases (comparative value: 73%). Figure 13 shows the results in graphical form.

[25] See Vöpel et al. (2013), page 28-30.



* Multiple answers were allowed.

** The percentages shown take into account the data "tend to agree" and "fully agree".

Figure 13: Target groups for DOC measures – ideal vs. reality

2.4.2 | PROFESSIONAL PROFILES AND EXPECTATIONS ACCORDING TO FUNCTIONS AND ROLES

When asked about expected competencies, a complex picture emerges: almost all family representatives believe that entrepreneurial competence is primarily relevant for *shareholders actively involved in the business*. Thus, 92% of respondents consider market and industry knowledge to be the most important competency for managing shareholders, closely followed by business management competencies (91%), digitalisation competencies (90%), entrepreneurial instinct (89%) and management and leadership competencies (89%). For individual competence, only three elements have similar support: self-management (92%), dynamic thinking (89%) and effective communication techniques (88%). Family competence, on the other hand, plays less of a role for this family group, with values reaching a maximum of 71% (for family and business history).

When, however, we asked about desirable areas of professionalism for *non-managing shareholders*, we saw considerable shifts, influenced significantly by whether the actors in question belong to a supervisory or family body or have any other role. The members of a supervisory board tend to be expected to have more entrepreneurial skills (most frequent mentions: business skills (90%) and entrepreneurial instinct (82%)), while members of a family board should, according to the respondents, be better equipped with family skills (most frequent mentions: family and business history (94%), family governance (93%) and family dynamics (93%)). In addition to entrepreneurial competence, shareholders with a role on the supervisory board are also expected to have strong individual competence: three of the four key competencies in this field are considered relevant by more than 80% of respondents. In the view of an overwhelming majority (90%), shareholders with a role on a family board should have one individual competence above all: knowledge of conflict management. Figure 14 shows the results in detail.

It is striking, but not entirely surprising, that expectations of shareholders with no formal role are comparatively low across all areas of professionalism. Many respondents believe that such actors need no significant entrepreneurial, individual, or family competence to adequately exercise their role as owners. However, this position fails to take into account the resulting lack of potentially professional shareholders for future tasks and roles. Further, it does not recognise that insufficient knowledge or a lack of skills can lead to destructive dynamics in critical decision-making situations among the entire shareholder group. Particularly in the case of large shareholder groups, care must be taken to avoid a substantial "competency gap" between officeholders and other shareholders.

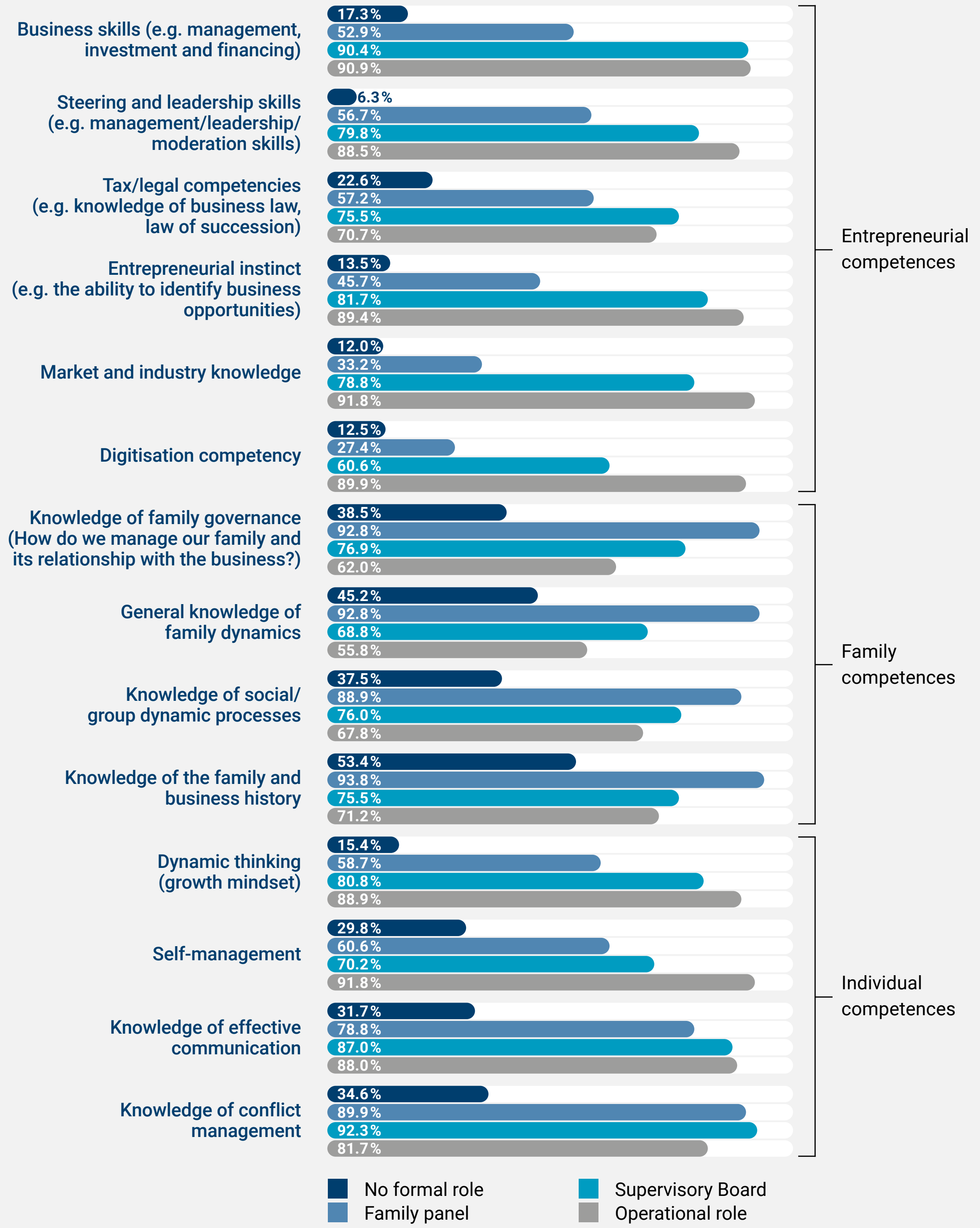


Figure 14: The ideal competencies of members with shareholder status, depending on role

2.4.3 | INDIVIDUALS RESPONSIBLE FOR THE DEVELOPMENT OF OWNERSHIP COMPETENCE

To "locate" the responsibility for implementing DOC measures, the survey asked about those responsible for the systematic development of relevant areas of professionalism within the business family. In addition, it asked the respondents what they considered to be the ideal situation. On the one hand, we aim to clarify to what extent certain family members and organisational units within the firm have responsibility for such measures. On the other, it is important to identify possible shifts in the future regarding the discrepancy between the actual and the ideal-typical target states.

Figure 15 shows that 27% of respondents leave the development of ownership competence to a family governance body. A comparison with the ideal-typical state shows a significant gap between expectation and reality: a clear majority (61%) believe that DOC should be the responsibility of a family governance body, but 23% of those surveyed currently leave the development and expansion of professionalism to the individual shareholders themselves, while only just under one in seven (15%) think that this is how it should be. More than one-quarter of the business families surveyed (27%) entrust managing family members – such as members of the executive board or management – with DOC within the shareholder circle but only one in ten considers this to be the ideal situation. Third parties outside the firm (4%) and organisational units of the firm (3%) are rarely entrusted with professionalism-building measures in practice, and only about one in 13 respondents think that such responsibilities are in safe hands with these two groups. There is clearly a need for action here: these results reflect a largely inadequate "organisation" of these tasks within the participating business families.

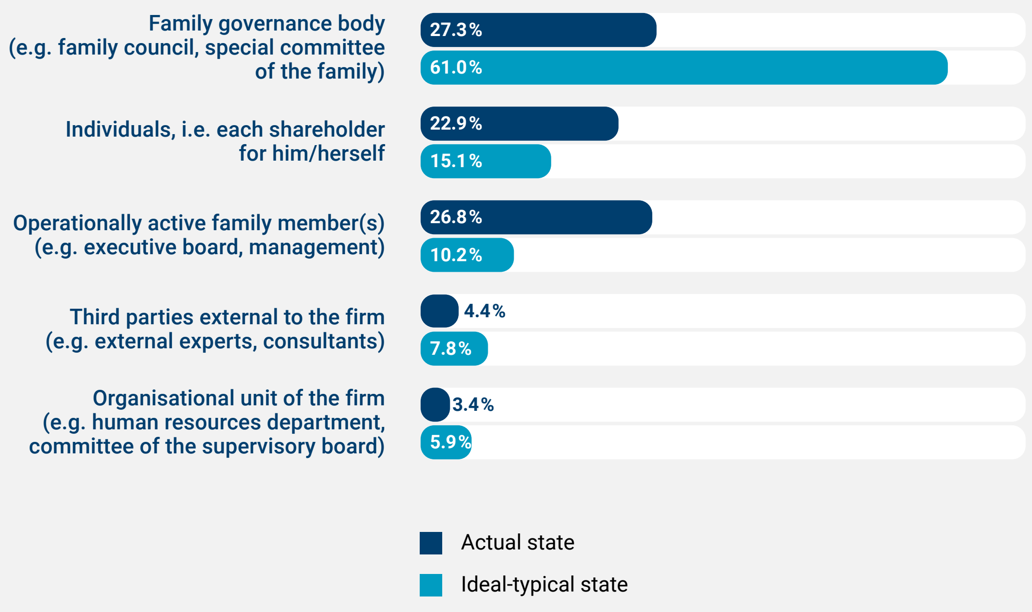


Figure 15: Those responsible for DOC – ideal vs. reality

2.4.4 | THE IMPORTANCE OF FAMILY COHESION FOR OWNERSHIP COMPETENCE DEVELOPMENT AND FAMILY GOVERNANCE

A more in-depth analysis of the survey results[26] reveals a close connection between the strength of the family bond and the time that the respective business family invests in DOC: closely-knit families invest more time in skills development than those that do not describe themselves as united. However, the origin of the correlation remains unclear: are families with a strong family bond willing to invest more time in building ownership competence, or does the greater time investment lead to stronger family cohesion? Perhaps there is also a reciprocal effect here? We believe that it would be worthwhile not only to critically reflect on this connection in business families but also to examine it within the framework of a long-term study.

We also found a relationship between the strength of family cohesion and the extent of the family governance measures (e.g. fully formulated family strategy, employment policy criteria for family members) that the family implements for organisational purposes. It also seems to hold true that the family's progress in implementing family governance grows with stronger bonds between family members. Again, we cannot determine the causation here: it is unclear whether stronger family cohesion leads to greater family governance or whether increased efforts in the development and implementation of family governance strengthen family cohesion.

Finally, as the number of generations in family ownership increases, so does the range of DOC measures used by the business family: for example, in addition to internal (family-organised) training, older business families are increasingly using external approaches to DOC, participating, for example, in conferences and events specifically for business families. This opens a wider range of learning and development opportunities for family members and is likely to significantly increase the proportion of qualified associates.

These findings from the in-depth analysis suggest interesting avenues for family dialogue in practice as well as further research projects in academia – for example around the interplay between family cohesion, DOC and family governance.

[26] Further data analysis was conducted using exploratory factor analysis (SPSS) and structural equation modelling (PLS-SEM). To measure family cohesion, we used the scale established by Zahra (2012), which measures the degree of family cohesion through the following dimensions: members of the family (1) support one another; (2) are proud of being part of the family; (3) depend on each other; (4) are not engaged in dysfunctional conflicts; (5) stick together in difficult times; (6) care deeply about one another; (7) would do almost anything to remain together; (8) work closely together to accomplish family goals.

2.5 | STARTING POINTS FOR IMPROVED OWNERSHIP COMPETENCE DEVELOPMENT IN THE BUSINESS FAMILY

Some of the respondents have very specific ideas about what needs to be done to advance DOC in their own families. In response to the question "What could be done better in your family with regard to DOC?" many ideas and suggestions emerged, which can essentially be summarised as follows:

- Move away from an erratic to a systematic approach to DOC;
- Formulate defined training and development goals and a programme based on these;
- Improve communication about the purpose and background of DOC; measures should not appear as orders "from above";
- Increase time commitment and frequency (e.g. in terms of training offers) and require a greater commitment from all stakeholders.

These statements show clearly that business families would like to see a more systematic approach to DOC. On the one hand, this requires an open and collaborative dialogue within the shareholder group to clarify the expectations and willingness of individual shareholders around participation in DOC activities. On the other hand, everyone must agree on the competencies expected in certain roles – both in the firm and within the family. Here, it can be helpful to talk to non-family managers and supervisory board members to find out more about the missing competencies. On this basis, constructive discussions can be held between family representatives on the board and members of the business family on a level playing field, thus laying the foundations for tailor-made programmes that use internal and external offers to build up ownership competence in a targeted manner and close existing competency gaps.

However, a coherent programme alone cannot achieve results – the devil is in the implementation. It is essential to establish clear relationships in terms of responsibility for the implementation of DOC. Ideally, there should be a family governance body whose explicit task is the conception, execution, participation in and quality control of DOC activities. The danger is too great that any effort will result in nothing if the family responsibility for DOC is not clearly defined internally.

And finally, in terms of time commitment and regularity, we see from experience that it is usually impossible to motivate the entire circle of shareholders in DOC activities. It can take a long time before individual family members are willing to make use of existing DOC offers on their own initiative. Thus, it can be helpful to understand DOC as an "open invitation" as such initiatives can hardly be successful in the long run when implemented under pressure. In this context, it has proven useful in practice to regularly discuss self-image as a shareholder within the family. The willingness of the business family to build skills and abilities in line with this self-image can then be critically evaluated and discussed.

3 | RECOMMENDATIONS FOR ACTION AND OUTLOOK

3.1 | PRIORITISE DOC MEASURES

The shareholders of a family business often associate their shareholding with more than just interest on capital. Rather, they see it as a form of “borrowed heritage” that they treasure, maintain, and continually develop. To fulfil their role as guardians of this heritage, they need a wide range of competencies. Only by combining specialised knowledge with the skills and abilities necessary will they be able to successfully manage and monitor the family business and maintain the cohesion as well as the assets of the business family in the long term.[27] Therefore, for business families with a cross-generational vision, DOC is not optional: it is the family’s responsibility to continually inform, engage and keep the shareholder circle fit for future steering and management tasks while maintaining commitment and decision-making capacity. Our survey shows, however, that significant action is still needed regarding the development and expansion of ownership competence in German business families, despite positive developments since our last survey over ten years ago.

Moreover, many business families surveyed recognise the importance of education and training for their shareholders but are not willing to invest an appropriate amount of time in these activities. They see other time commitments as taking precedence. We consider the issue to be so fundamental that we encourage every business family to engage in critical dialogue on it, based on a catalogue of questions, for example, within the framework of a family day or following a shareholders’ meeting.

QUESTIONS FOR THE BUSINESS FAMILY:

- How important is DOC to our family? What have we done so far to respond to this importance?
- What resources (time, money, emotions) do we use to systematically build and maintain ownership competence? What stands in the way of these efforts?
- How do we ensure that family members with leading roles in the firm or family can perform them successfully?
- How professional do we consider our managing and non-managing shareholders to be? How professional, in terms of the business and the family, are our non-shareholder family members?

[27] See Rüsen (2022) as well as Rüsen (2020); Astrachan et al. (2020).

3.2 | APPOINT A DOC CHAMPION

Systematic DOC is particularly successful when a “DOC champion” has been appointed within the family, or the family has a family governance body such as a “training committee” composed of one or more members of the family council. This person or group is then explicitly entrusted with the conception and implementation of the DOC programme.

Our survey highlights substantial differences between the ideal and reality: although the majority of respondents (71%) would like to see DOC placed with a family governance body, in reality individual shareholders (23%) or managing family members (27%) take on this task. This shows that in many business families DOC is not prioritised; it is left to the individual or “imposed” on a family member (in addition to their management tasks), which means that the individual in question is unlikely to give it the necessary attention. This also explains why so many of the interviewees consider their own firm’s DOC efforts to be unsystematic, or even erratic: there is a lack of strategy, clear objectives and, above all, resources (especially time) to implement DOC holistically. As a result, DOC often remains a marginal project that consumes resources with no lasting positive effect.

Business families should make the effort to identify a person or group willing and adequately resourced to devote in-depth attention to the design and implementation of the DOC programme – it is a strategic task that needs appropriate attention.

QUESTIONS FOR THE BUSINESS FAMILY:

- Who is responsible for DOC?
- Can the person in question live up to this task?
- What alternatives do we have?

3.3 | LEVERAGE THE PROCESS

A top-down controlled process is efficient and can be successful – but it is hardly to be recommended for DOC. In this context, it is important to know what excites the group of shareholders, and this requires giving the individual shareholders a voice in the process. This may delay the process, but it ensures their consent is secured in advance and does not have to be laboriously obtained afterwards. What does a collaborative DOC process look like?

1. *Determine the status quo:* clarify whether, and if so in what form, DOC is practised systematically and in a structured way in your organisation. Are there already targeted DOC measures, or is the content opportunistically driven?

2. *Initiate a discussion on DOC:* invite the shareholder circle to an open discussion. What is of interest? Where are the gaps? What time commitment are individuals willing to make? Who should have access to which services?

3. *Determine the target group:* As has already been shown, this depends very much on the family's understanding of who is considered a family member. The authors know from experience that an inclusive approach is most beneficial for the majority of families, which is why we suggest that the plan ideally include all family members – regardless of whether they own shares or not (i.e. including spouses and partners of shareholders as well as minors, for example). This creates trust within the family circle. Moreover, no educational investment within a family community brings negative "returns".

4. *Design the programme and create professional profiles:* The individual(s) in charge of programme development create(s) a DOC programme based on previous experience, and feedback from corporate and family governance bodies and the shareholder group. Ideally, the programme will combine topics from all professional dimensions, not only classic business topics around strategy, management and financing, and a developed proposal will be presented to the shareholder group to obtain further feedback. In addition, the DOC programme should be differentiated according to individual roles in the shareholder group or firm (professional profiles). The content-related requirements to develop the skills and abilities of a non-managing family member are essentially different from those of a shareholder with management responsibility. Again, other requirements arise if, for example, a committee function – such as on the supervisory board – is performed as part of the shareholder role. Members of a family body – such as a family council – must focus on yet other aspects.

5. *Formalise DOC:* Ensure that DOC becomes a systematic part of the family management of the business family and is thus organised and structured. Ideally, DOC should be included in family strategy considerations and firmly anchored in the written family strategy.

QUESTIONS FOR THE BUSINESS FAMILY:

- How do we ensure that our shareholder group has a voice in the DOC process?
- How do we integrate DOC into the existing family governance?

3.4 | DON'T REINVENT THE WHEEL – AND DON'T OVEREXTEND YOURSELF!

Not every business family is able to set up its own Family Academy – nor is this necessary. The results of the study indicate that the proportion of business families that design a customised DOC programme will continue to increase; however, this does not necessarily have to be done in-house. The range of corresponding high-quality education and training programmes has become noticeably more comprehensive in recent years, with a significant increase in specific training offers. In the German-speaking world, for example, universities that address the topic of "family entrepreneurship" offer targeted education and training programmes for members of business families.[28] Private banks specialising in family businesses, law firms, tax consultancies and other advisory professionals have additional training services available for their clients. In addition, a variety of new digital and face-to-face formats is offered by established networks and associations for family businesses that aim to promote the skills of their members.

Thus, DOC for business families should not fail due to a lack of available training. We hope that family businesses will make greater use of suitable external offers.

Finally, take sufficient time to build professionalism. It is hardly possible to teach current or potential shareholders within a few days all the skills they need to successfully exercise their ownership function and their rights and duties within the business family. DOC is the basis for the future set of skills and abilities that will lead the family business into the future. Accordingly, ensure there is sufficient basic motivation among members of the business family to invest time in appropriate measures. The following statement by a family entrepreneur in a WIFU working group may point the way here: *"If our shareholders spent ten percent of their time used for private hobbies on training shareholder skills, we would certainly be one of the best family businesses on this planet."*

QUESTIONS FOR THE BUSINESS FAMILY:

- Which competencies can we best teach internally, and for which do we need external support?
- What can we learn from other firms in our network in relation to DOC?
- How do we ensure that our DOC programme inspires our shareholders instead of overwhelming them? How do we stay in dialogue?

[28] This includes among others the WIFU at Witten/Herdecke University, the WHU – Otto Beisheim School of Management, the Zeppelin University (ZU), the University of St. Gallen, the Lucerne University of Applied Sciences and Art, and more.

3.5 | OUTLOOK

DOC is an investment in the future of the business family and the individual shareholder. Through targeted DOC, shareholders are enabled to understand decisions, make good decisions and thereby be a part of the decision-making process. This builds trust and strengthens cohesion – two of the most important prerequisites for long-lasting business families. Share this study with the members of your business family and initiate an appropriate discussion. Even if you have been running DOC for many years, there are usually still meaningful opportunities for adaptation or improvement. Today more than ever, this is a particularly fruitful topic given the explosion of virtual learning and training platforms.

We wish all business families the best in training and developing the skills of their members!

4 | ANNEX

4.1 | DATA COLLECTION AND SAMPLE CHARACTERISTICS

This study on DOC is based on a nationwide survey of members of business families from the WIFU network. A total of 218 families were recruited to participate, and the survey covered the period from July to October 2021. The questionnaire was made available to potential participants as a digital online version. Most of the questions were optional; only in a few cases were mandatory questions used. Since some participants took the option to skip certain questions, the evaluation results are partly based on response numbers of less than 218.

In the first and second parts of the questionnaire, participants were asked about the topic of ownership competence and its development among family members. The third part requested information about the individual, the business and the family. The heterogeneous group of participants represents a wide range of legal forms, sectors, sizes and turnover on the business side and a considerable variance on the family side with regard to the lifespan of the business family, the size of the shareholder group and the type of family involvement in the business. Figure 16 shows that the GmbH & Co. KG (40%) and the GmbH (22%) are the dominant legal forms among the family businesses surveyed.

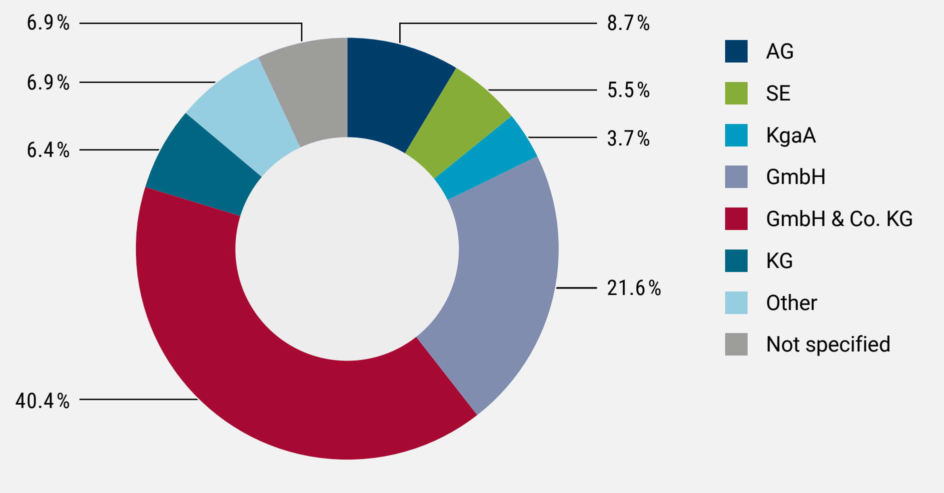


Figure 16: Legal form of family businesses

Just under one in four family businesses in our sample has generated an annual turnover of over one billion euros in 2020. The other turnover categories are all represented by 10% to 16% of the sample, indicating that companies of very different sizes are covered (see Figure 17).

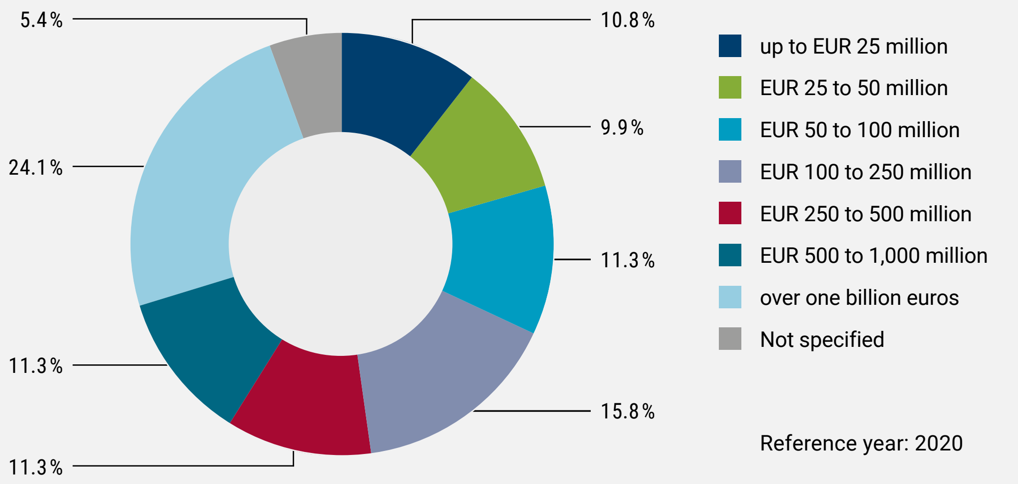


Figure 17: Turnover classes of family businesses

By far the most represented sector is industrial production (43%), followed by the consumer goods industry (11%) and the automotive industry (9%). Figure 18 shows these and other industry shares.

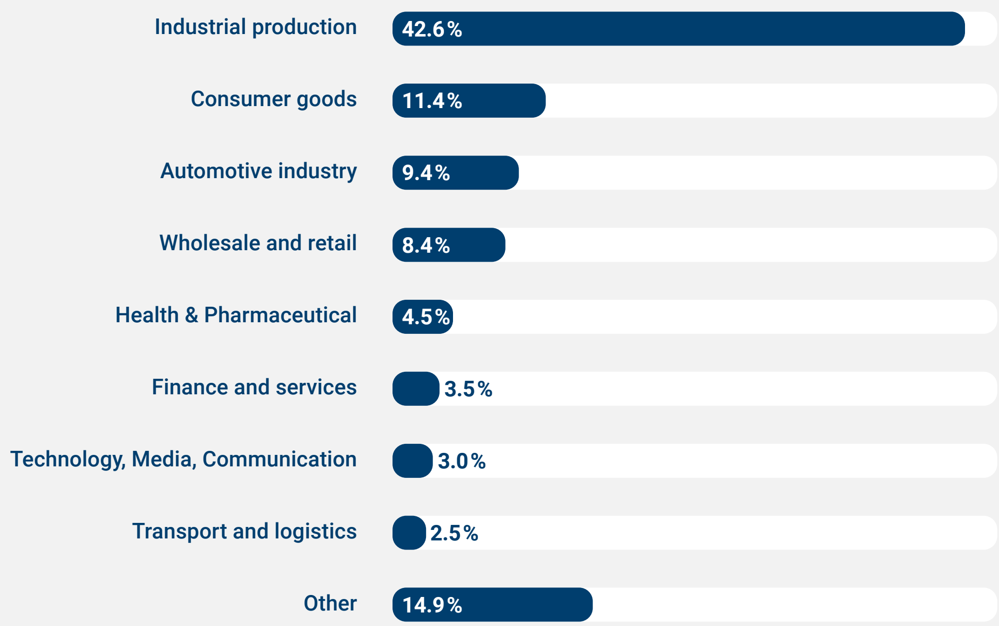


Figure 18: Industry affiliation of family businesses

As shown in Figure 19, most of the family businesses in our sample are in the third, fourth or fifth generation of family ownership (57%); the majority are at least 40 years old (see Figure 20). The oldest business was founded in 1447, and the newest in 2018.

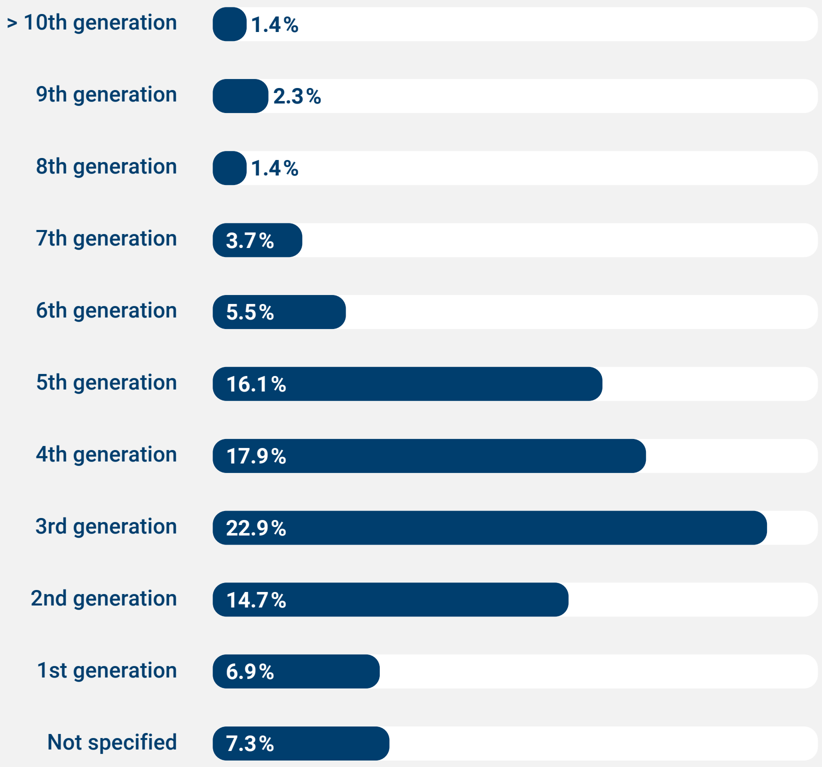


Figure 19: Age of family businesses by generation of owners

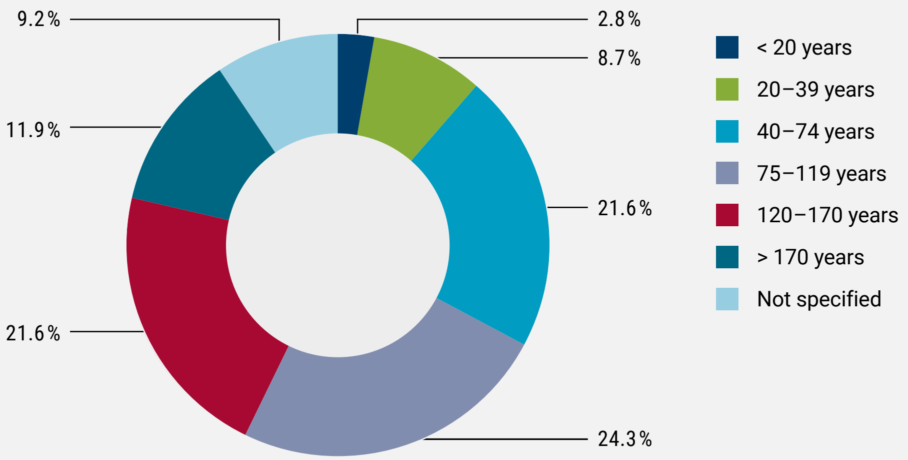


Figure 20: Age of family businesses by year of foundation

As can be seen in Figure 21, the majority of respondents (56%) have two to ten shareholders in the business family. Larger shareholder circles with 11 to 50 members form 23% of the sample. Individual owners and very large shareholder circles with more than 50 members are about equally represented, with 7% and 6% respectively.

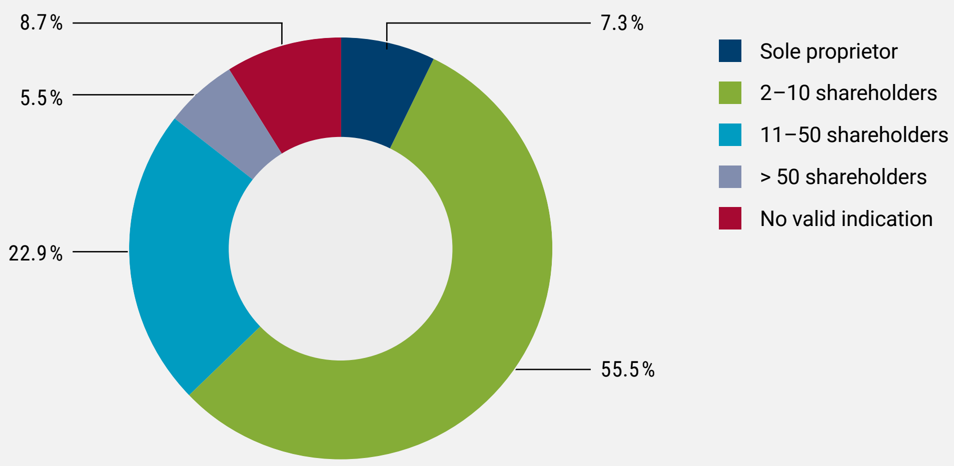


Figure 21: Number of family shareholders in the business family

Approximately one-third of the respondents come from comparatively small families with up to ten members. Just over 40% come from business families comprising 11 to 50 people and are proportionally the most strongly represented in the sample, with just 12% of participants belonging to families with more than 50 members (see Figure 22). Following the definition of Kleve et al. (2018), the latter group is comprised of business families of the "extended family" type.

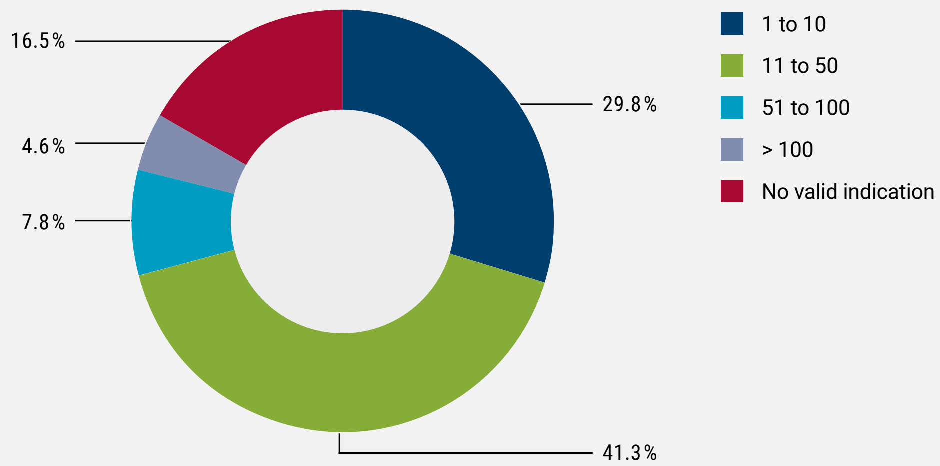


Figure 22: Size of business families by number of members

Figure 23 shows that more than half of participants (57%) come from the top management level; about one-quarter are members of a family committee (26%) and/or a shareholder committee (24%) and just under one-third are members of a business committee (30%). The participants thus represent not only the perspective of managing shareholders, who usually have significant influence within the business family, but also those shareholders of the business family who are not involved in the day-to-day business of the firm and thus have a different perspective.

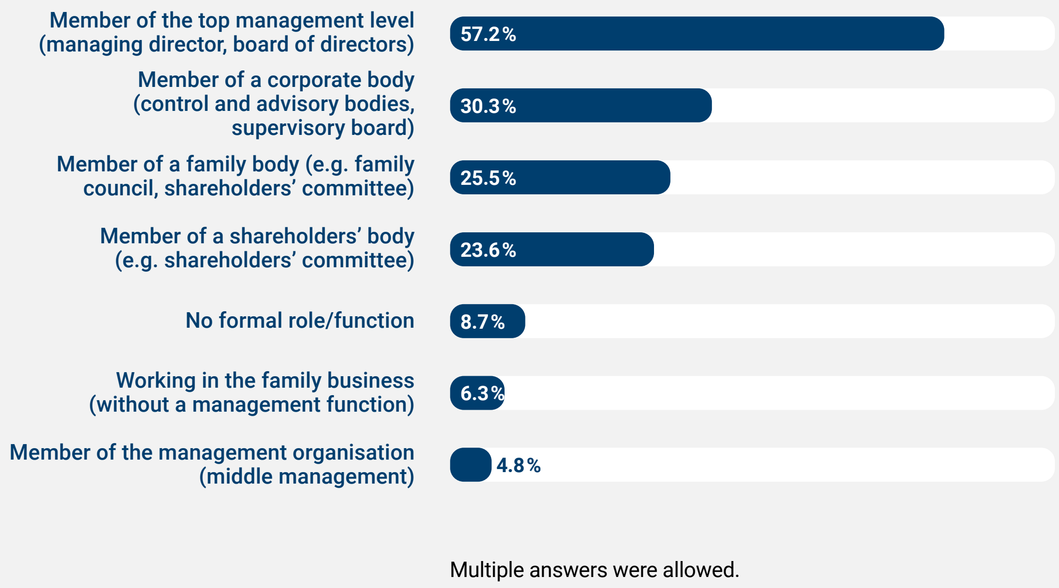


Figure 23: Roles/functions of interviewed members of the business family

With regard to the role of the family in decision-making, it is apparent that a majority of respondents prefer strong family involvement. For example, just under one in three respondents state that the supervisory and control bodies in the family business are primarily staffed with members of the family, and in almost two-thirds of the business families surveyed, non-family executives and committee members are appointed by family members. In almost 80% of the cases considered, members of the business family exercise control over strategic decisions, and 43% state that at least one family member should always be part of the management team. These figures underline the enormous importance of systematic DOC: if the family is to play a leading role in strategic goal-setting and decision-making, it is pivotal that the members entrusted with this task are also able to make professional decisions.

Other features of the sample:

- The participants are predominantly male and middle-aged: 69% male, 27% female (3% did not specify); the average age of the respondents was 52 years (range 20–88 years).
- Family-owned business shares: One-quarter of business families hold less than 100% of the business shares; the remaining 75% hold all shares.
- Size of workforce: The participating businesses employ an average of 5,552 employees (full-time equivalent) with a range from three to 60,000 employees.

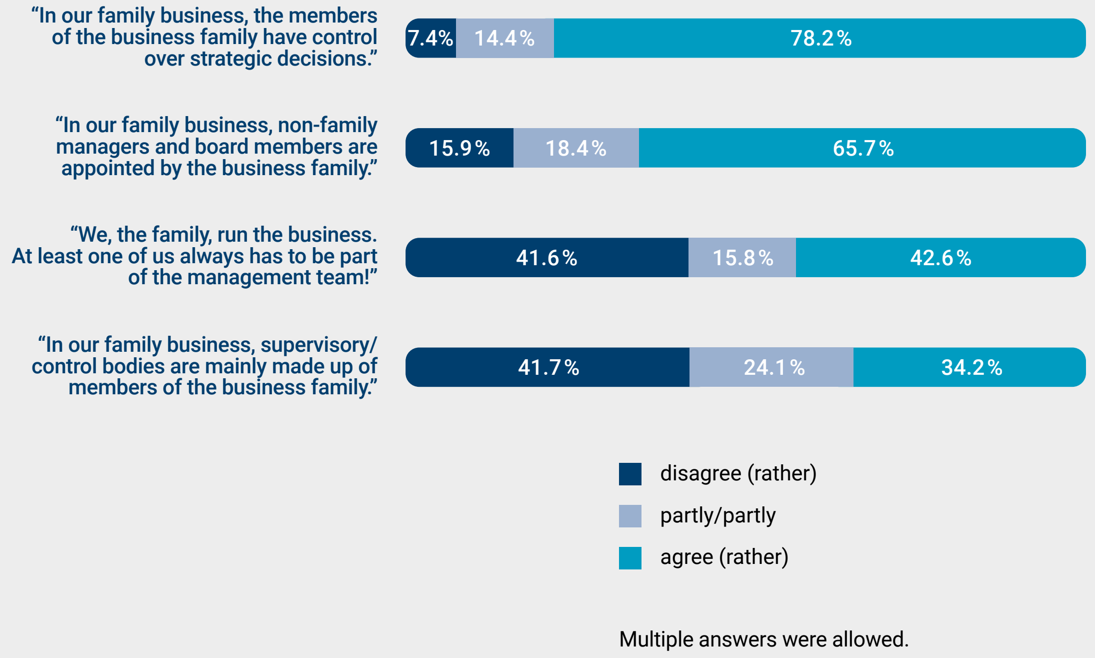


Figure 24: Respondents' statements on decisions, roles and functions in the family and in the business

4.2 | DEFINITIONS OF TERMS

4.2.1 | FAMILY BUSINESS

According to the WIFU definition, a family business is always referred to as a family business when it is different from other types of business in that:[29]

- it is wholly or partly owned by one or more families or family groups;
- the owning families decisively determine the development of the firm and have entrepreneurial responsibility;
- this responsibility is exercised either through a management or supervisory function or both;
- within the family, it is planned to pass the business on to the next generation.

Thus, the “transgenerational moment” mentioned in the last point is essential for family businesses; in contrast, the legal form and size of the business are immaterial except that start-ups or owner-managed businesses are not (yet) family businesses in this sense.

4.2.2 | BUSINESS FAMILY

Analogous to the understanding of family businesses, we speak of a business family in the following instances:[30]

- a group of people in a kinship relationship whose development is shaped by a firm or association of firms owned by one or more family member(s)
- this group – or parts of it – is concerned with the question of how this property is passed on within the family unit.

The form of solution found in each case (tribal association, so-called crown prince regulation, extended family organisation, etc.) is not significant.

4.2.3 | FAMILY BUSINESS GOVERNANCE

In general, governance is understood as the principles of responsible corporate management. While the term is used differently in political and economic contexts and also in different disciplines, it generally has to do with the control of complex systems. In economic contexts, governance is concerned with the management of an organisation: one speaks of corporate governance or business governance. The term family business governance (or family governance) thus places equal attention on the management of family and business issues. In family business governance, family governance and business governance are juxtaposed, with the aim to create rules for the family and its dealings with the business. The family council/shareholders’ committee and the family office are seen as central bodies, and conflict management, family activities, DOC and social commitment as central instruments.[31]

[29] WIFU (2022a).
[30] WIFU (2022d).
[31] WIFU (2022b).

4.2.4 | OWNERSHIP COMPETENCE

WIFU defines ownership competence as follows:[32]

Ownership competence encompasses all the skills and abilities of current and potential shareholders of a family business to successfully exercise their ownership function as well as their rights and duties within the business family. Furthermore, it is about the ability to successfully deal with previously unknown situations in the business and the business family.

According to this definition, the degree of ownership competence in a business family can be described as the sum of the existing competency levels of individual family shareholders as well as their spouses and partners.

4.2.5 | OWNERSHIP COMPETENCE DEVELOPMENT

The regular and systematic training and further development of the established level of ownership competence of a business family are defined for further consideration as follows:[33]

DOC includes all the measures that members of a business family take to promote the training and further education of competencies and to support the acquisition of skills and experience that are useful to them in their role as shareholders of the shared family business. Our understanding also includes family members of the shareholder family who do not (yet) hold shares in the family business or who take on pivotal educational tasks.

4.2.6 | STRATEGIC MATURITY OF A BUSINESS FAMILY

Following Kane et al. (2018), we understand the strategic maturity level of a business family as the extent of self-reflection, communication and collaboration systems that promote decision-making and cohesion within the business family. Thus, the maturity level provides information on the scope, content and degree of implementation of an implicit or explicit family strategy as well as the family governance or (self-)management of a business family based on it.

[32] WIFU (2022c).
[33] WIFU (2022c).

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6 | LIST OF ILLUSTRATIONS

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WITTEN INSTITUTE FOR FAMILY BUSINESS (WIFU)

The Witten Institute for Family Business (WIFU) of the Faculty of Management, Economics and Society of Witten/Herdecke University is a pioneer in Germany's academic research and teaching on the special features of family businesses. Three fields of research and teaching – business administration, psychology/sociology and legal sciences – mirror the factors shaping family businesses. This has enabled the WIFU to develop a unique expertise in family businesses, made possible by a group of more than 80 family businesses. As an institute for family businesses, the WIFU can thus work to support family businesses on an equal footing with them. With its current 16 professors, the WIFU has made significant contributions to the cross-generational viability of family businesses for almost 25 years.

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