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Property entails obligations – across generations
Shareholder competence in family businesses

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Property entails obligations – across generations

Shareholder competence in family businesses

This study provides information on shareholder competences and experience with and offers insights for a professional skill development

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Shareholder competence in family businesses

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Preface

Property entails obligations. This is set out in the German Constitution. Property also refers to ownership of businesses and shares. Therefore the Constitution addresses shareholders as business owners. The awareness of the role shareholders play specifically in family businesses and of their relevance has changed considerably in recent years. Competent shareholders may be valuable to a company and contribute to its survival, just as incompetent shareholders can jeopardize the company with bad decisions and lack of expertise.

Family shareholders frequently perceive their share in the business as borrowed heritage which they cultivate, preserve and develop with a very special sense of loyalty and concern.[1] They need a wide range of specific core competences to perform their role as shareholders properly and do more than just rubber-stamping decision papers and receiving dividends.[2] This expertise, these skills and abilities are required to successfully manage and preserve the family business and assets on a long-term basis.

Shareholder competences and their development are relatively new issues for family businesses and business families but nevertheless of great relevance in ensuring the survival of this type of business and successful transfer to subsequent generations. Little practice-oriented research has been conducted so far to these important and urgent topics. The purpose of the study at hand which is unique and the first of its kind in Germany is to highlight these important issues and underline the tremendous value which owner families may generate through systematic training and further education of owners. The study examines the following aspects:

- requirement profile of shareholders in family businesses, and the challenges involved
- specific competences and functions of active family shareholders, and ways to prepare them for the representation of their owner interests
- existing experience with targeted training in and expansion of shareholder competence in business families
- demands on competence training for shareholders, and how to meet them

The results of the study cast a positive light on attitudes regarding shareholder competence and measures initiated in family businesses in the German speaking area to strengthen such competence. Most of the family businesses have realized the significance of shareholder competences and taken the required steps to promote a competence development. But the structures and degree of organization and professionalization of competence development are still not very pronounced in many of the owner families analysed in this study. This applies in particular to mature and old family businesses who seem to have the biggest backlog demand for competence development. This is why we offer suggestions for improvement and recommendations for action.

[1] Cf. Gómez-Mejía et al. (2007) and Uhlander/Floren/Geerlings (2007).
[2] Cf. Groth/Schlippe (2011).

We hope that you will enjoy reading our study.

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Key results

The study at hand is based on interviews with 263 family businesses and owner families, and offers the following main conclusions:

- Family businesses and owner families ascribe great importance to the topic of shareholder competence: 83% of those interviewed see the development of shareholder competence as a key success factor; 85% are convinced it promotes decision-making processes among the shareholders, and 83% believe it supports cohesion within the owner family. An additional benefit of systematic training and further education of competent shareholders is that it prevents conflicts in the owner family (67%).
- Shareholder competence is not associated with negative effects: it is not seen as a waste of resources (94% negate this statement), nor does it undermine the authority of the leading family member (85%) or give rise to conflicts within the owner family (72%).
- The positive assessment and high relevance of shareholder competence is also reflected in current efforts to develop such competence: 65% of the participants have initiated systematic steps to promote shareholder competence.
- Development of shareholder competence is a young topic: 53% have started addressing the issue of systematic training and further education of shareholders during the past three years. Only 19% have done so for more than ten years.
- 35% have not initiated pertinent measures – 43% of these see no need, 38% believe the circle of shareholders to be too small, 30% say there is no responsible family member to assume this task, and 26% say there is disagreement over the topic among their shareholders. Only 13% give shortage of resources as a reason, and only 7% express disinterest in shareholder competence development at present and in future.
- External consultancy services (55%) and specific training courses, seminars and workshops (48%) are the most frequent formats in current competence development programs.
- As to the subject of such competence training, business economics topics are clearly in the lead: key topics are management and strategy (82%), knowledge of the industry and the market (75%), leadership & organization (66%), investment & finances (64%), and balance sheet analysis (63%). Legal and psychological issues are of lesser importance (44% and 45% on average respectively). So shareholder competence is mainly located on the level of core management issues.
- 43% of those interviewed include only representatives of the current shareholder generation in competence development programs. 41% include the current and the future generation in equal parts, and 85% believe the latter strategy to be ideal.
- 41% of participants currently offer competence development programs to all shareholders alike, independent of their position in the business or among the shareholders. A critical aspect is that measures target only the management in 32% of cases. Only 9% open their programs also to members of supervisory or controlling bodies. Family members without shares (spouses, unmarried partners, minors) who might own shares sometime in the future or gain decisive influence on the

development of successors are included in such programs in only 18% of the questioned family businesses.

- Expectations towards actively and not actively involved shareholders differ greatly. Shareholders who are actively involved in operations are mainly expected to have control and leadership know-how (95%), economic expertise (94%), entrepreneurial skills (93%) and knowledge of the industry (91); shareholders not actively involved are expected to understand the specific characteristics of the family business (72%) and have expertise in legal (46%) and business management matters (49%).
- Shareholder competence is a family matter. Responsibility for planning and implementation of pertinent measures lies with the core family in 42% of the cases, and with a body of family members in 34%. 40% of those interviewed entrust family members with instruction in the subject matter.
- The degree of self-organization in owner families is (still) low: only 27% have tools of family governance (such as family strategy, or family constitution). An average of 83% of the owner families with a family governance tool is currently pursuing a systematic shareholder competence development. The low degree of organization is reflected in the (still) low professionalization of development programs for shareholder competence. 73% and 57% respectively cannot say how much money or time they actually invest in competence development measures.
- Family businesses that make statements on the money and time spent on pertinent measures mainly invest between 5.000 and 10.000 € and one or two weekends (45%) per year.
- The indicator of shareholder competence development resulting from the findings of this study suggests that competence development strategies for shareholders are pursued most systematically in either young or very old businesses, regardless of size and type.

B Introduction - On the relevance of shareholder competence

Shareholders in family businesses require specific competences

Shareholders in family businesses - in contrast to publicly held companies – are challenged to take an active part in the future of the business, from a sense of entrepreneurial responsibility. Their task is to set long-term objectives for management, give strategic advice at eye level, and exert appropriate control. To do so, members of owner families need more than subject-related qualifications such as expertise in accounting, financing, company law, asset management, or knowledge of the family business history, of current and technological demands of the market environment, and future strategies. They must also be familiar with the functional logic and system dynamics of families and family firms. In short: they need very specific expertise, i.e. shareholder competence. [3]

Definition of shareholder competence development

Shareholder competence comprises all skills and abilities in current and prospective shareholders of a family business required for the successful exercise of owner functions, rights and obligations within the owner family. A further element is the ability to handle unexpected situations with confidence. [4]

Definition of shareholder competence

Accordingly, the development of shareholder competence includes all measures taken by members of a family firm to ensure the training and further education in competences required to assume shareholder duties in the family business. Our definition also applies to family members who (currently) do not hold shares in the family business. [5]

Shareholder competence as competitive advantage

Basically, businesses gain a competitive advantage by developing valuable, rare or unimitable resources for which there is no comparable substitute. [6] Such resources are skills and abilities which are created through long-term planning of investments into the company's core competences. [7] Businesses that pursue this far-sighted and strictly focussed strategy of investing into their core competences ensure a continuous expansion of potential through steadily growing expertise. This learning process is difficult to imitate for competitors. [8]

Familiness – a competitive advantage

Competitive advantages for family businesses differ considerably from firms not owned by families. One main reason is their so called familiness: a specific combination of resources arising from interaction between family, its individual members, and the company. This definition of familiness implies a uniform

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[3] Cf. Groth/Schlippe (2011).
[4] The term "professional ownership" is also employed in international academic debate on the issue.
[5] Cf. Groth/Schlippe (2011).
[6] Cf. Barney (1991).
[7] Cf. Dierickx/Cool (1991) and Teece/Pisano/Shuen (1997)
[8] Cf. Miller (2003)

system perspective on performance and competitive advantages in family firms as the main feature that distinguishes them from other business forms.[9]

Competence development of specific importance in family firms

Referring to individuals we define competences in general as those skills and abilities employed by the employees of a business through operational processes to generate products and services and thereby make an essential contribution to the company's competitive position. The strong need to develop competences and thus ensure a company's long-term survival and competitiveness has particular significance in a family enterprise. Inasmuch as shareholder competence helps to avoid misunderstandings and conflicts in the owner family, it serves to maintain the typical strengths and competitive advantages of the family business and at the same time reduces structural risks due to influences from within the family.[10]

Passing on competence to the next generation

Competence and competence development – complex tasks

The overlapping of the two systems family and business makes the issue of competence and competence development in a shareholder family highly complex. How to pass on shareholder competence from one generation to the next and how to identify and use existing skills and pertinent activities among family members, seem to be multi-faceted problems.

Acquisition and expansion of expertise within the family may be formal or informal

A founder's expertise, entrepreneurial perspective, innovative approach and key competences may be passed on to the succeeding generation. Extremely delicate issues for the family in this context are performance, upbringing and education of potential successors. The aim should be to find family members who will either succeed in the operational business and demonstrate the competences, interests and potentials required for successful management, or who will exercise ownership rights as responsible shareholders.[11] The process of building up and passing on this expertise may be formalized and known more or less in the individual owner family. The important thing is that skills and abilities relevant to the jointly owned business assets are developed within the family. The task is complicated by the fact that, apart from explicit and implicit knowledge to be included, it will be necessary to interpret traditions, values, specific obligations and the cultural heritage of the family in question.

Shareholders must be able to unite families, promote business success, and manage their shares

Owning shares in a family enterprise has not only advantages: shareholders are asked to handle a variety of stressful situations in the context of business decisions which do not occur in other types of investments since family relations may give rise to specific problems.[12] In order to make full use of all options as family business owners, the heirs of a family firm (as future shareholders) must be able to

[9] Cf. Habbershon/Williams (1999).
[10] On the specific responsibility of family owners cf. Wimmer (2011).
[11] Cf. Meyer (2007).
[12] "Socioeconomic wealth" is a term used in the literature to suggest that owner families – in contrast to other business forms – are also governed by more personal motives in their strategic considerations. Cf. Gómez-Mejía et al. (2007).

develop competences to manage their future shares with an attitude of entrepreneurial responsibility, and at the same time use the ownership to unite the family and advance the business. [13] Unlike mere "shareholders" the role of the family shareholder therefore also involves the consideration of specific demands made by the owner family.

Shareholders in family businesses

Family shareholders frequently perceive their share in the business as borrowed inheritance which they cultivate, preserve and develop with a very special sense of loyalty and concern. [14] For many owner families, ownership is a complex concept that covers a wide range of interrelated issues and affects many aspects of the business, including the way in which shareholder competence is developed, shared and passed on. Three types of family shareholders may be defined in this context[15]: *active family shareholders*[16], *controlling family shareholders*[17], and *non-active family shareholders*[18].

Different shareholder roles may give rise to conflict

These different roles may give rise to disagreement and incompatible behaviour with regard to competence issues. Family members may disagree on how to achieve corporate goals by improved or expanded shareholder competence. Family shareholders frequently concentrate on divergent (e.g. financial or non-financial) objectives, or there is no consensus among co-owners, which gives rise to conflicts between various family shareholder groups. [19] Conflict situations emerging among these groups may also influence the decision who among family shareholders should attend competence development programs. Conflicts between majority and minority shareholders may also affect the implementation and realization of such programs. [20]

Study focus

Little practice-oriented research has been devoted so far to the important and urgent topic of shareholder competences and their development in family businesses and owner families. The purpose of the study at hand is to highlight the formal and informal mechanisms employed by family shareholders at various levels to advance the development of shareholder competences in the company. The following aspects need to be explored in particular: How do German-speaking family businesses and owner families estimate the significance of shareholder competence and its development? Have they realized its relevance and taken or initiated pertinent steps for systematic competence development in the company? Do we detect differences between the age of a business

[13] Cf. Hamilton/Godfrey (2007).
[14] Cf. Gómez-Mejía et al. (2007) and Uhlaner/Floren/Geerlings (2007).
[15] Cf. Aronoff/Ward (2011).
[16] Family shareholders actively involved in operations with clearly defined (e.g. managerial) responsibilities.
[17] Family shareholders in supervisory and controlling boards on behalf of the owner family (e.g. member or chair of advisory board).
[18] Family shareholders who assume the role of owners exclusively. In the absence of specific family factors, the motivation is merely financial and the main interest is to receive dividends. Distributions are often left in the business for the benefit of "transgenerational inheritance" and family tradition.
[19] Cf. Dahya/Dimitrov/McConnell (2008). On conflicts and crises in family firms see also Rüsen (2008).
[20] Cf. Su/Xu/Phan (2008).

and the influence of the family involved? Where is there potential for improvement? The authors of this study set out to give some preliminary answers to these questions.

C Significance of shareholder competence for the interviewed family businesses

A systematic development of shareholder competence is a key factor for a company's economic viability.[21] A competent shareholder family can exert considerable influence on business development via decision-making bodies and thus ensure the company's survival and long-term viability. The family firms and owner families we interviewed for the study have recognized the high relevance of shareholder competence and its development.

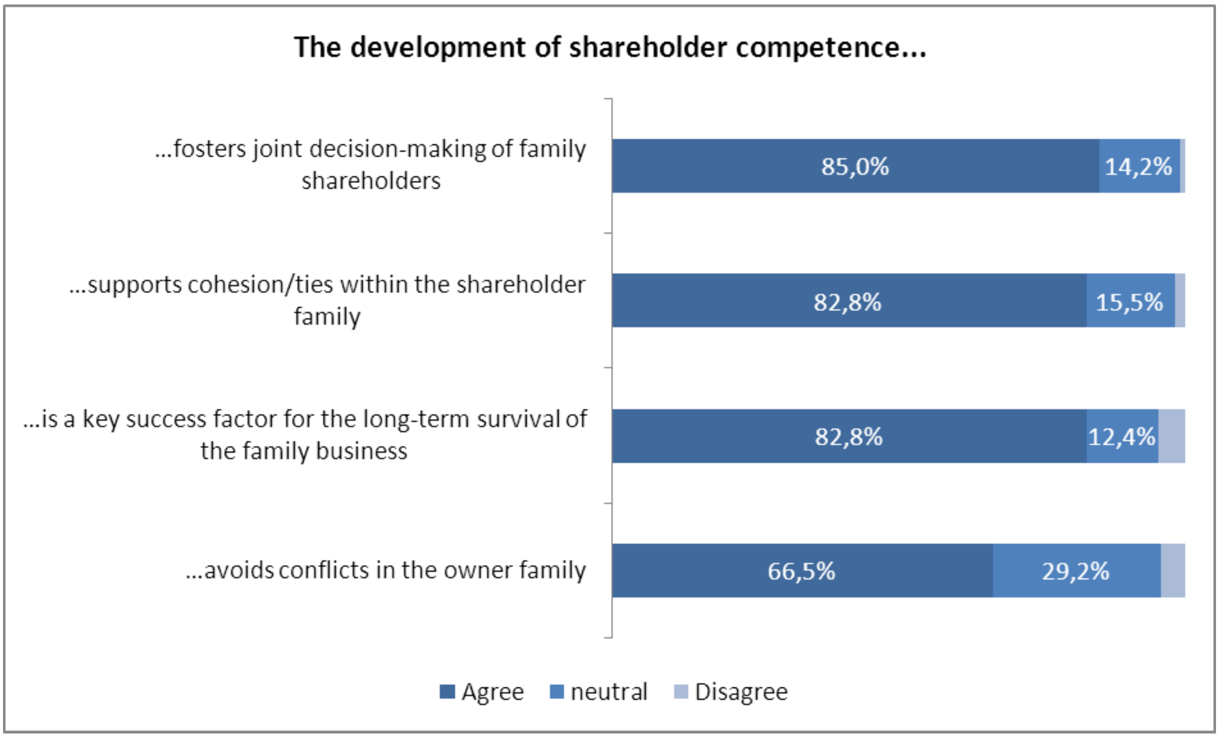


Fig. 1a: Overall assessment of shareholder competence

Shareholder competence prevents conflicts, supports cohesion and fosters joint decision-making

In general, participants in the study perceived and evaluated shareholder competence and its development as positive. 66.5% of the respondents confirm that the targeted development of shareholder competences prevents conflicts within the owner family. A large majority also agree that shareholder competence development supports cohesion and family ties in the owner family (82.8%), promotes joint decision-making among family shareholders (85%) and constitutes a key success factor for the long-term survival of the family business (82.2%).

Shareholder competence has almost no negative associations

Only 2.5% of the interviewees see competence development as a conflict-provoking tool. The majority rejects this statement (71.7%). Basically, shareholder competence and competence training are seldom associated with negative attributes: they are neither seen as a waste of resources (94.4% reject the statement), nor do they undermine the authority of the family member in control. These

[21] Cf. Astrachan/Pieper (2011).

results clearly indicate great sensitivity among German speaking family firms and owner families to the relevance of shareholder competence and its development.

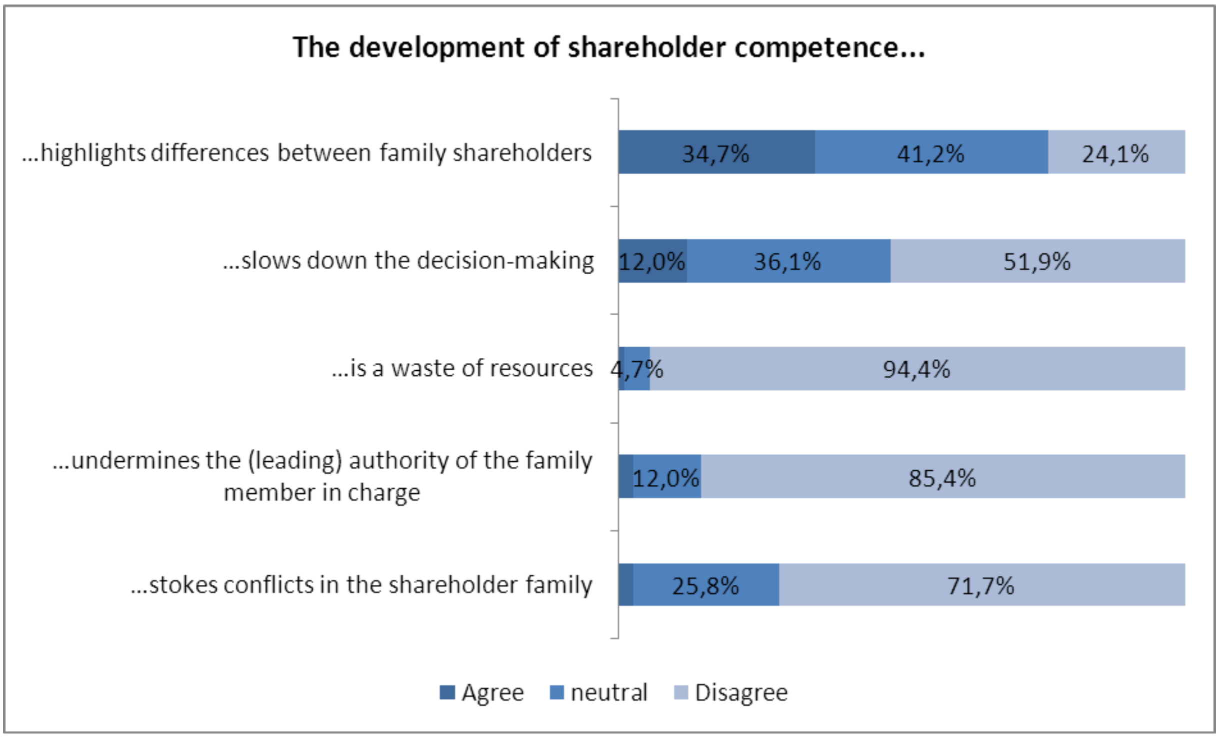


Fig. 1b Overall assessment of shareholder competence

Responsible and informed shareholders need not put up more opposition

Not quite as definite are answers to the question whether the development of shareholder competence makes disagreement between family shareholders more obvious. 34.7% of those interviewed agree, 41.2% are neutral, and 24.1% reject the statement. A slightly different picture emerges with the question whether systematic training and further education of shareholders tend to slow down decision-making in the family firm or among shareholders. The majority of interviewees says no (51.9%); but 36.1% would say it depends on the decision to be taken, or on other aspects. 12% of the participants see targeted training in shareholder competence as an obstacle to decision-making processes, since informed shareholders would rouse more opposition. We believe this reflects an older attitude among shareholders in operational and managerial positions who prefer silent and less competent partners. But study results clearly indicate that this view is becoming increasingly obsolete.

D Experience with shareholder competence among German-speaking family businesses and owner families

The following part explores the degree to which participating German family enterprises and owner families actually take account of the attested significance of shareholder competence and its development in their own company. One focus is on the analysis of specific action to ensure an optimum of qualification, training and further education for current and future shareholders.

Shareholder competence development: an important issue

Competence available, training programs for competence development widely used

German speaking companies are quite familiar with shareholder competence and pertinent training programs: 65.2% of those interviewed are employing strategies of high-quality training and further education for shareholders. Such strategies are most frequently found in family firms with a turnover of 50 to 100 million €, and in those with a turnover of more than one billion € per year. Medium-sized companies and their owners obviously consider such strategies essential to remain competitive. One reason for the strong professionalization of owner families among those with the largest turnover may be assumed to be the necessity to represent the "family position" adequately to external managers in executive and supervisory bodies. In the light of these findings we expect the significance of issues related to shareholder competence and its development to increase further, since the number of family members actively involved in operations is declining specifically in very large family firms. [22]

35% of family businesses do not practice competence development

One third of respondents (34.8%) has not systematically addressed shareholder competence and its development so far, among them a majority of businesses with a turnover from 500 to 1,000 million €. In contrast to very large companies they do not appear to have fully realized the importance of the issue. They probably expect the business to be managed by a family member in future, and therefore believe non-active family shareholders to be less relevant. It is interesting to note that study participants in this group often had between 11 and 20 shareholders. One possible reason for the lack of specific competence training strategies is the positive experience these medium-sized owner families gained with informal structures that have grown over time; this may be why they are still unaware of the need for professional shareholder training, and the advantages involved.

Family firms without competence training programs are at risk

Only few family firms and owner families indicated they plan no such measures, not at present and not in future (7%).[23] We believe these shareholder families are in great danger of falling into the classic "traps of family entrepreneurship" and getting entangled in severe conflicts that ultimately threaten their survival, e.g. in the context of succession. [24]

[22] Cf. Zellweger/Sieger/Halter (2011) and Halter/Schröder (2012).
[23] A differentiation according to cluster, age or turnover does not yield significant differences in this group.
[24] Cf. Rüsen (2008).

Competence development strategies have become the norm over the past three years

Shareholder competence programs introduced in the last three years

The majority of companies which introduced shareholder competence development has done so only recently. 52.7% stated they implemented qualification programs in the past three years. 17.4% have been employing such programs for 4 to 5 years, another 11.4% for 6 to 10 years. Only 18.6% look back on more than 10 years of systematic competence development.

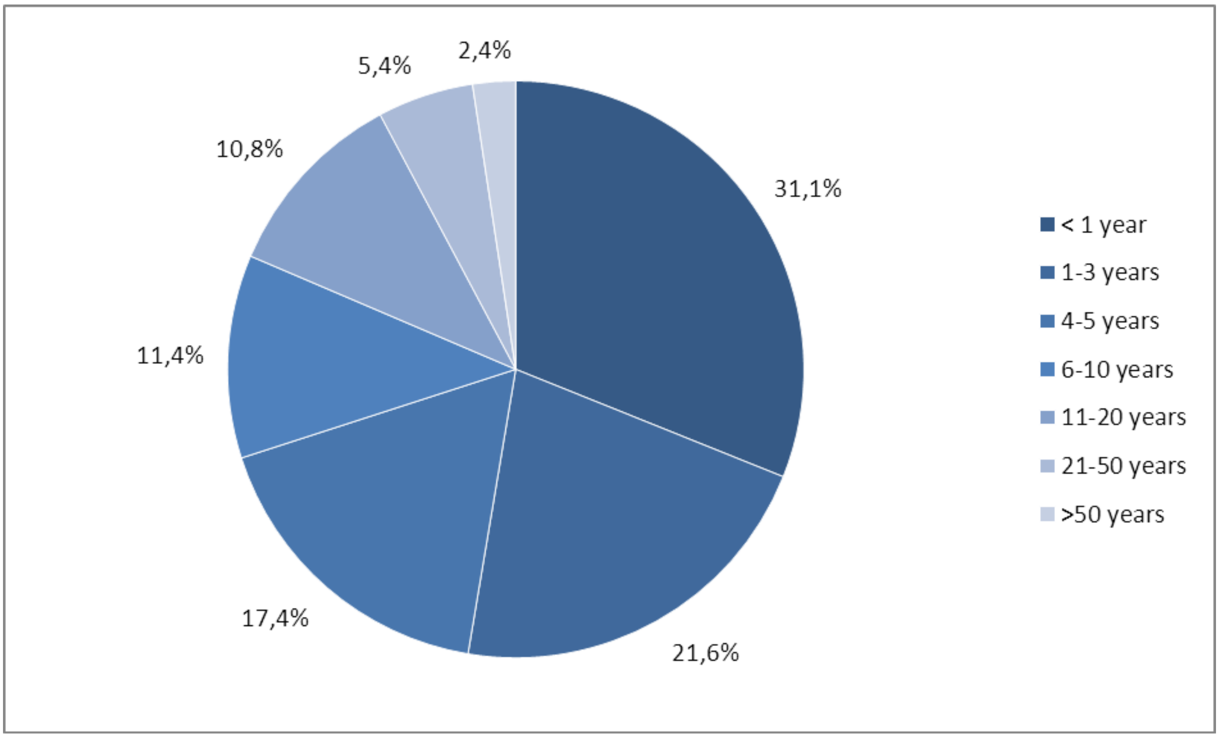


Fig. 2 Time of implementation of competence development measures

Succession as trigger

Impending succession and generation change in the family business are mainly quoted as the triggering events for the introduction of shareholder competence development and the implementation of pertinent programs (49%). Other reasons given are a resolution in the context of the introduction of family governance (10.4%), death or illness of a (senior) member of the shareholder family (8.3%), the family firm's own initiative (7.3%), reorganization/growth of the business (6.3%), disagreements or problems among shareholders (5.2%), tax or property related considerations (4.2%), and external advice (4.2%).[25] The introduction of measures to develop shareholder competence is obviously accompanied by imminent or current processes of change.

[25] 5.1% of family firms or owner families have not provided useful information.

Not a question of money – reasons for non-implementation

No demand, small circle of shareholders, and lack of responsibility speak against competence development

Family businesses who (still) do not address the systematic qualification of shareholders or shareholder family have a variety of reasons. Many of the companies interviewed see no need (43.3%), or believe their number of shareholders too small (37.8%) for systematic steps. In other companies there is no person in charge of such measures (30%), or shareholders disagree on the topic (25.6%). Lack of resources (13.3%), lack of sensitivity to the topic, and lack of a sense of responsibility on the part of shareholders are not often indicated as reasons. Some of the firms participating in the study believe their shareholders to be sufficiently competent. [26]

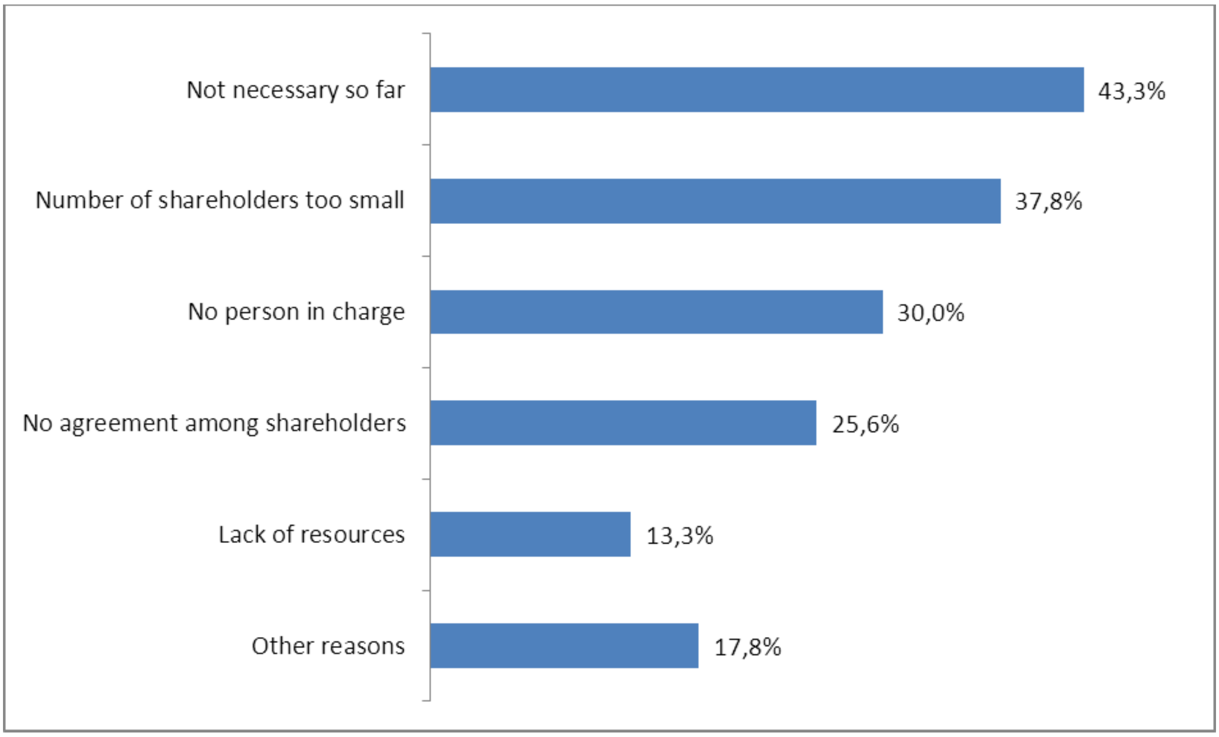


Fig. 3 Reasons for the non-implementation of systematic competence development measures
Multiple answers were allowed.

Young and small family businesses (yet) too much involved into daily business

Mainly young firms (< 20 years) and those with a turnover below 25 million € believe systematic competence training for shareholders to be unnecessary. Owner families in such businesses frequently have to give day-by-day operations their full attention in order to survive in the long term. Systematic shareholder education has a low priority here, in particular when succession is not imminent.

Familial handling of the topic, especially in small family businesses

A small number of shareholders, e.g. one to three, speaks against a systematic implementation of programs. These are mainly companies with a turnover from 25 to 50 million €. One reason may be

[26] The answers given under "other reasons" (17.8%) may generally be assigned to the above categories.

that competence development is addressed on a family basis in such small families, and not systematically. This socialization oriented view assumes that the young generation will grow into the role assigned to them with no need of specific competence training.

No-one in charge of competence training in family-controlled companies

Family-controlled businesses[27] where shareholders are no longer as firmly rooted in the business as in pure family companies often complain that they have no person in charge of shareholder competence development. The reason may be that shareholders belong to several small families, and that there is no overriding organizational form of a common will (the logic of an extended family). In very old family businesses (more than 100 years) and companies with between 11 and 20 shareholders, there is often no-one in charge of such matters. Obviously it is particularly difficult to reconcile the views and wishes of all shareholders and family members in these companies, above all if the shareholder family shows a low degree of organization[28]

Disagreement among shareholders more frequent in the group with 11 to 20 shareholders

"Disagreement between shareholders" is the main reason not to introduce systematic shareholder competence training given by medium-sized companies with 11 to 20 shareholders. This suggests that the number of shareholders is perceived to be (still) too small for a high degree of professionalization and organization, but too large for easy agreement. Very old companies often quote this reason.

As expected, young family firms and those with an annual turnover of up to 50 million € often mention a lack of resources as preventing the systematic planning and implementation of shareholder competence development.

Shareholder competence development depends on shareholder (family) attitude

Results suggest that a systematic development of shareholder competence mainly depends on the personal views of the executive member(s) of the owner family. The head of the family appears to dominate a familial structure of learning and competence development. Typically, family members do not "learn ahead" to stockpile knowledge but acquire specific expertise if and when a need arises. If this family logic is applied to shareholders, it is understandable why no systematic training is initiated. Events like the expansion of the circle of shareholders beyond the core family and an imminent generational change may trigger an awareness of the problem.

Preference for external services in shareholder competence training

Mainly external advisors in charge of competence development

The majority of interviewed family businesses use external offers and services to develop shareholder competence. More than half (55%) engage external consultants for competence training. 47.5% attend courses, seminars and workshops, or visit trade fairs and congresses (42.1%). Inhouse training (30%) and university studies parallel to a job (16.7%) to train and expand shareholders' skills and abilities are still the exception.

[27] Cf. part H3 on definition and categorization of family firms into clusters.
[28] The – in our view - low degree of organization in the owner family due to family governance tools clearly needs to be developed (see p. 32 ff.)

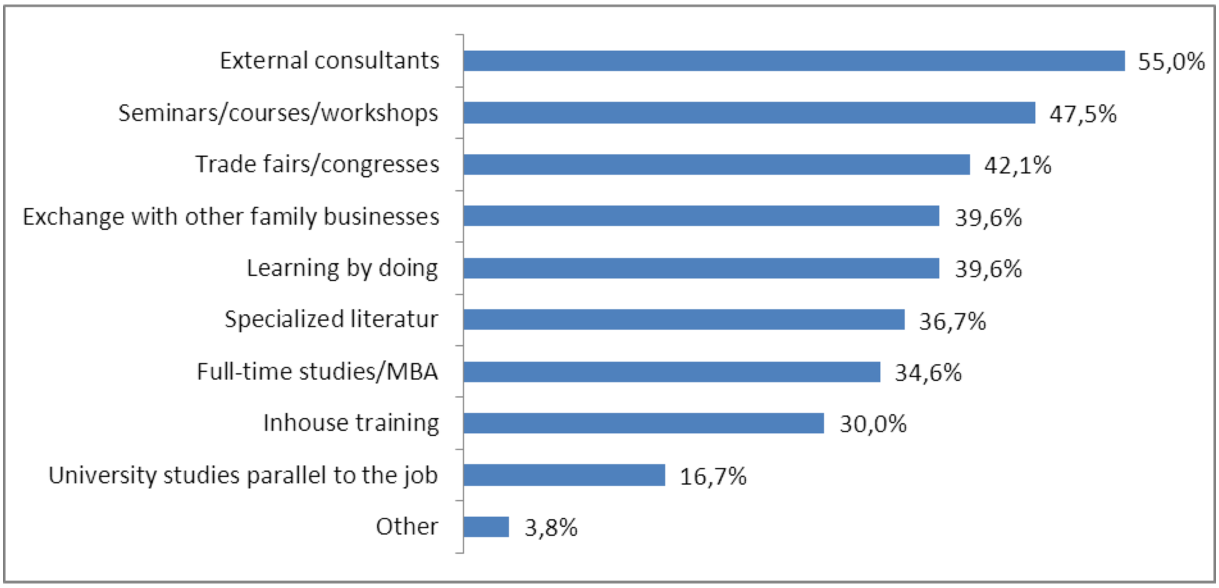


Fig. 4 Specific measures of a systematic development of shareholder competence
Multiple answers were allowed.

Shareholders favour seminars, workshops and self-study

The individuals interviewed also make personal use of measures listed above. 44.6% have already attended seminars, courses and workshops, and trade fairs and congresses are most popular (37.5%). In addition, shareholders set great store by systematic studies of specialist literature (41.7%) and personal exchange with (befriended) family firms (39.2%).[29]

Workshops and exchange with other family businesses exceptional important in the future

Irrespective of measures they already employ, many owner families plan to introduce specific seminars, courses and workshops to foster shareholder competence in future (21.3%). An additional 20% intend to intensify exchange with other owner families. This suggests that shareholder families like to learn and profit from the experience, problems and performance of other families in the same situation. Study participants believe that the current high relevance of external consultants for competence development will increase to a lesser degree in the future (13.3%).

Where companies already use seminars, courses or workshops or external consultants to train their shareholders, they plan to attend trade fairs and congresses more frequently. Businesses in an on-going exchange with other family firms and owner families plan to complement their shareholders' competences with systematic literature studies.

The aim: comprehensive portfolio of educational measures

Therefore many of the interviewed family businesses and owner families intend to introduce a diverse portfolio of measures to ensure an optimum of competence training and further education for their shareholders in the foreseeable future.

[29] This form of learning also reflects the visibly increased attendance of shareholder families at congresses, forums of exchange etc. in recent years.

Subject-matter: focus on business economics issues

Content focus: management & strategy, knowledge of market and trade

The topics addressed in shareholder competence development have a clear focus on business economics issues: management & strategy (81.5%), leadership & organization (66.2%), investment & finances (64.3%), and balance sheet analysis (63.1%). In addition, many interview partners set great store by knowledge of the trade and the market environment (74.5%). Psychological and legal issues are of medium to lesser importance. Soft skills and soft knowledge (such as conflict management, an understanding of correlations between family business and owner family, family dynamics) are basically seen as less important compared to core business issues (cf. fig. 5) So shareholder competence is mainly located at the level of key management issues.

Fig. 5 Topics covered with a shareholder competence development
Multiple answers were allowed.

Required: more attention to family dynamics and relations between family and business

Results are problematic in parts, since causes of conflict in owner families are known to arise less from logical and/or business-related issues but rather from familial expectations (e.g. the expectation that all offspring be treated equally). As a rule, misunderstandings result from "valuation issues" regarding decisions taken in the context of, for example, a takeover. Family expectations often clash with the requirements of corporate development. Ignorance of the various roles played by members of a shareholder family often causes misunderstandings and polarizes communication and relations within the family.[30] Resulting conflict dynamics are frequently at the root of a subsequent threat to the family firm's existence.[31]

Legal competences less pronounced in family shareholders

Legal know-how less common

It is interesting to note that existing competences among respondents were least pronounced in the field of legal expertise. Only 46.4% claimed solid expertise in family, inheritance, company and/or tax law. Familiarity with the family history and business development (91.6%), leadership and management competences (90.5%) and knowledge of the industry (82.5%) were ranked higher in comparison. 55.5% of respondents reported expertise in property issues. Asked for personal skills and strengths, family shareholders named knowledge of business economics and technical know-how, psychological and communicative skills.

Shareholders actively involved in operations have managerial and segmental expertise

Individuals who are actively involved in business operations show leadership and management competences more often compared to those in supervisory and control bodies, while the latter are believed to be more proficient in legal matters. All respondents without exception who are still without shares also have knowledge of the family history and development of the family business. This group may be assumed to have acquired this knowledge within the family in preparation of their future roles as shareholders.

Sharp contrast between expectations from shareholders involved and those not involved in active operations

Shareholders actively involved in operations are required to have business and sector know-how. The level of knowledge expected from shareholders also reflects the focal points in currently implemented measures of shareholder competence development. Almost all interviewees think that actively involved shareholders should have expertise in management and control (95.1%), business administration (93.5%), entrepreneurial instinct (93.2%) and knowledge of the industry (90.9%). To some lesser degree they expect legal know-how (73.4%) e.g. in company, tax, inheritance or family law, and knowledge of the specific characteristics of family businesses (73%).

[30] Cf. Williams (1992), on conflicts in family firms: Kellermanns/Schlippe (2012), on values and conflicting values in family firms: Schlippe (2012).
[31] Cf. Rüsen (2012).

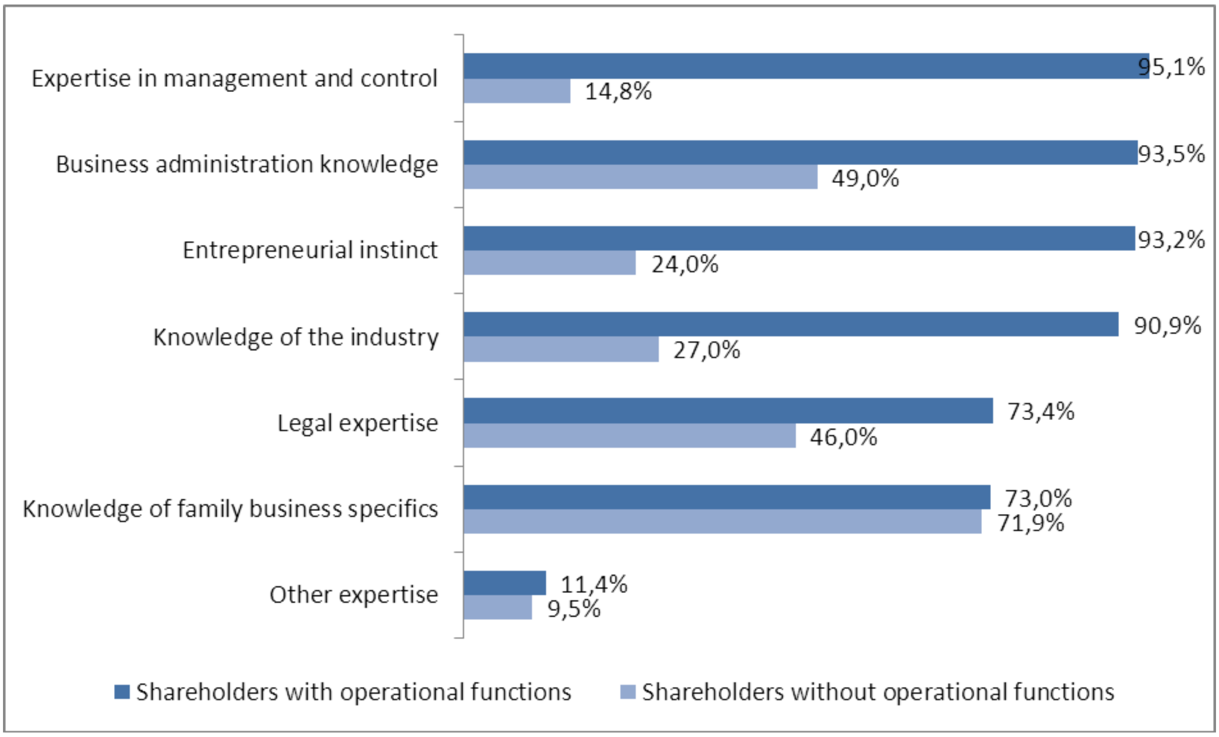


Fig. 6 Expertise considered desirable for family shareholders – the ideal situation

Shareholders without an operational role should familiarize themselves with the specifics of family firms

In contrast, shareholders without an operational role are basically expected to have less or different key competences. Respondents set great store by knowledge of the specific characteristics of family firms (71.9%), and expertise in business administration (49%) and legal issues (46%). It is conspicuous that they believe non-operational shareholders to need less competences and expertise in general compared to shareholders with operational functions (cf. fig.6). [32] This implies that the shareholder family still expects family members with operational functions to be capable of taking relevant cross-divisional decisions. In cases where no family member has operational functions, the survival of the business as a family enterprise depends on the family shareholders' ability to evaluate the performance of the hired management. We believe this discernment to be a core element of shareholder competence, specifically in view of a visibly declining will to succeed in the operative business of family firms. [33]

The great emphasis placed on management and leadership competences may be due to the fact that the majority of respondents are actively involved shareholders in managerial functions (73.1%).

Competence development for both generations equally

Competence development concentrated on the present generation

Initiatives to develop shareholder competence mainly address the present generation in 43% of interviewed family firms and owner families. Almost the same percentage (41%) includes the present

[32] The highest value for passive shareholders not directly involved in operations (71.9%) is still below the lowest value for actively involved shareholders (73.0%).
[33] Cf. Zellweger/Sieger/Halter (2011) and Halter/Schröder (2012).

as well as the future generation in such programs to the same degree. Our findings reveal that a substantial part of respondents thinks competence development should be first developped in the current shareholder generation before the succeeding generation is considered. Only 16% address the future generation exclusively with competence training; these owner families obviously believe their current shareholder generation to be sufficiently qualified for their functions.

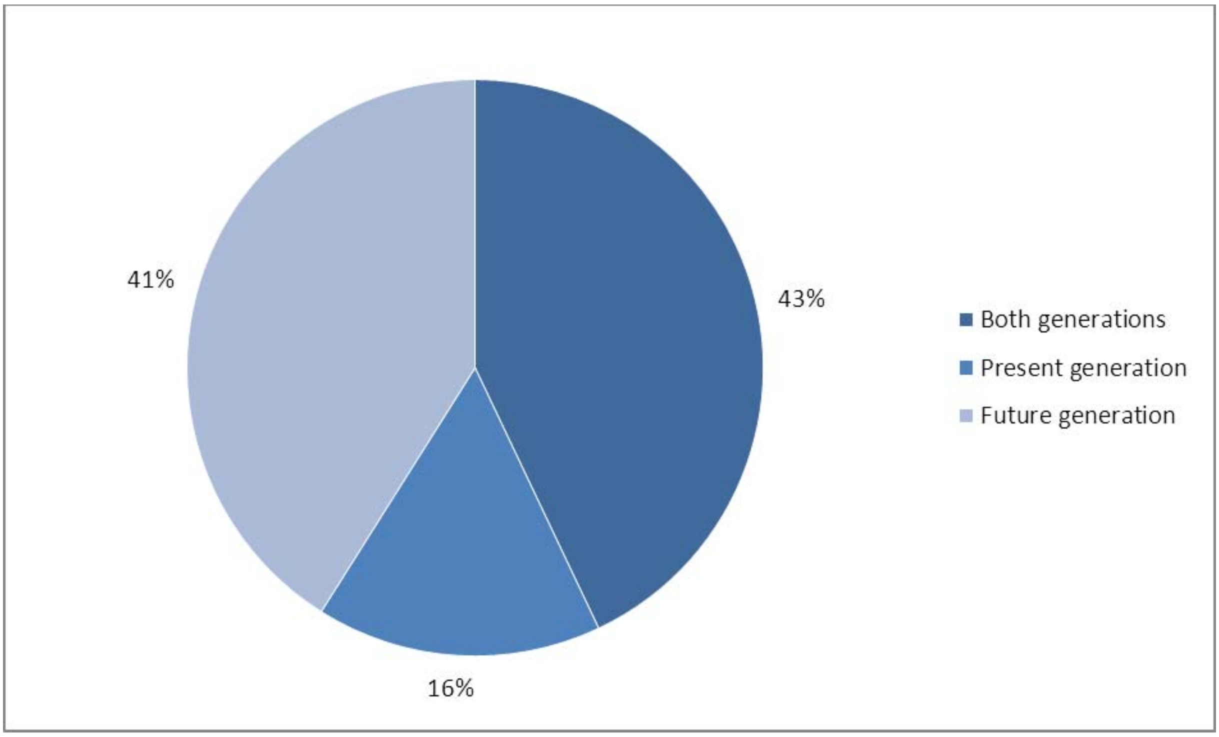


Fig. 7 Addressees of a systematic shareholder competence development

A detailed analysis of findings shows that competence development programs in businesses with strong family influence[34] have a significant tendency to address the current generation only. Here the training seems to be used to maintain and protect the family's influence on the business for the present. Many of the either young or more mature family businesses (< 50 years) also concentrate on the current generation. There is an obvious interest to provide optimum competence development to the present generation before the next generation is included in pertinent training.

Mainly older and purely family-owned firms include all generations

Mainly older and purely family-owned businesses integrate both generations equally in competence development. These appear to realize the need to familiarize successors with future roles and duties at an early time. It is interesting to note that businesses that involve both generations in competence training are also represented with more than one generation in supervisory and controlling bodies. They seem to have developed an "organized" awareness of the shareholder role beyond managerial functions. Businesses with several generations in the top management, however, often involve only representatives of the present generation. One obvious reason is that these families are busy coping with the family dynamics and communication within the management system, and additional competence training programs would go beyond the scope.

[34] Cf. section H3 on description and categorization of family firms in clusters.

Competence development should transcend generations

Ideally all generations should be involved.

Asked for the ideal situation, the interviewed family businesses declared their intention to expand systematic competence development programs to comprise the present as well as the next generation: 85.2% are convinced that both generations, i.e. present and future shareholders, should be involved in competence development to the same degree. A large majority favours an early involvement of the successor generation as ideal preparation for future shareholder responsibilities. This assessment might correspond to the logic identified in another WIFU research project and described as follows: a good pool of potential successors facilitates the selection for positions to be filled in the future. [35]

Required: a professionally organized shareholder structure

The demand to involve both shareholder generations equally may prove a difficult task and increase pressure on a family if shareholder competence development is not planned coherently and systematically. Professional "human resources development" as an organizational phenomenon is alien to the family. A professionally organized shareholder structure must first be established to meet this ambitious claim.

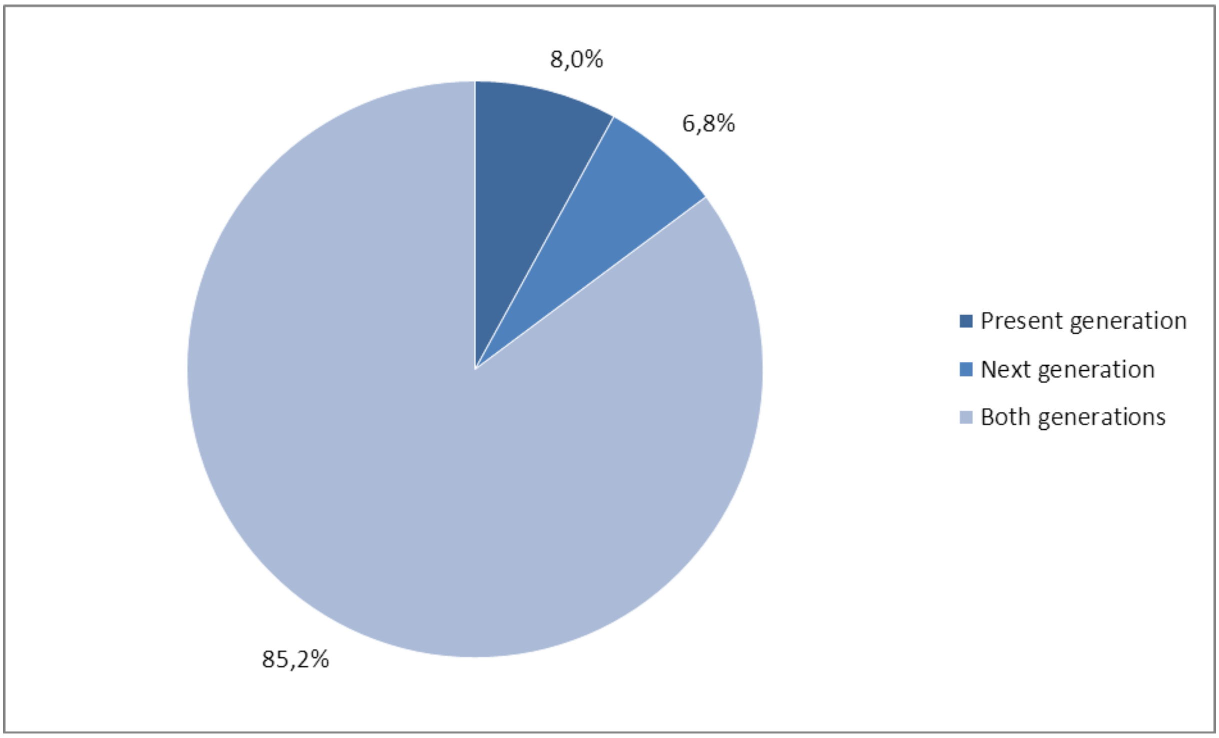


Fig. 8 Addressees of a systematic shareholder competence development – the ideal situation

Only a few respondents think that only the present generation should be involved

A small minority of 8% believe competence development strategies should address the present generation exclusively. This view was mainly expressed by family firms with an annual turnover of up to 50 million € and by mature family businesses with a history of 20 to 50 years. One reason may be

[35] This insight is one finding from an on-going WIFU research project on the development of family strategies over generations, with the continuous cultivation of a familial resource pool as a key requirement for survival.

that they expect more competitive advantages from investment into training for the currently active generation than from an equal distribution of available resources to both generations.

Successor generation in the focus of very large companies

Mainly large companies with an annual turnover of more than one billion € are among those 6.8% of study participants who believe a focus on the future generation to be expedient. These larger and older family firms with a large group of shareholders are obviously more aware of problems involved in the succession to ownership functions. Individual statements from respondents support the findings. Many of them demand from their family business or shareholder family to familiarize the successor generation early and systematically with the issues at stake, and to plan the education of this generation, even where this is not already the case. They also express a wish for joint activities with the present and the next generation, such as trade fairs or excursions. They mention further potential for improvement with regard to services for shareholders below 20, e.g. in the form of competence training parallel to school or university education during holidays and weekends. [36]

Shareholder competence for all family members

41% involve all family shareholders in competence development

32% of family firms interviewed mainly involve current shareholders with managerial functions in competence training programs. A further 9% expand training to include (senior) family shareholders with board functions. The majority of respondents, however, favours a broad approach in shareholder competence development. 41% say they offer qualification programs to all shareholders equally.

Only 18% include all family members in programs

Only 18% of family businesses do not limit systematic competence training to family shareholders but open pertinent programs to all members of the shareholder family. They include present and potential family shareholders as well as spouses and life partners in competence development. This result surprises since only a small percentage of study participants currently sees the inclusion of all members of the shareholder family as making sense. The potentially decisive role of spouses and life partners in the upbringing and early education of the next shareholder generation appears to have no great impact on considerations of competence training. In our view all members of a shareholder family should ideally be invited to competence development programs. [37]

[36] Answers to an open inquiry for potentials to improve shareholder competence development in the respective family firm.

[37] Cf. Astrachan/Pieper (2011) in particular on early education of the next shareholder generation.

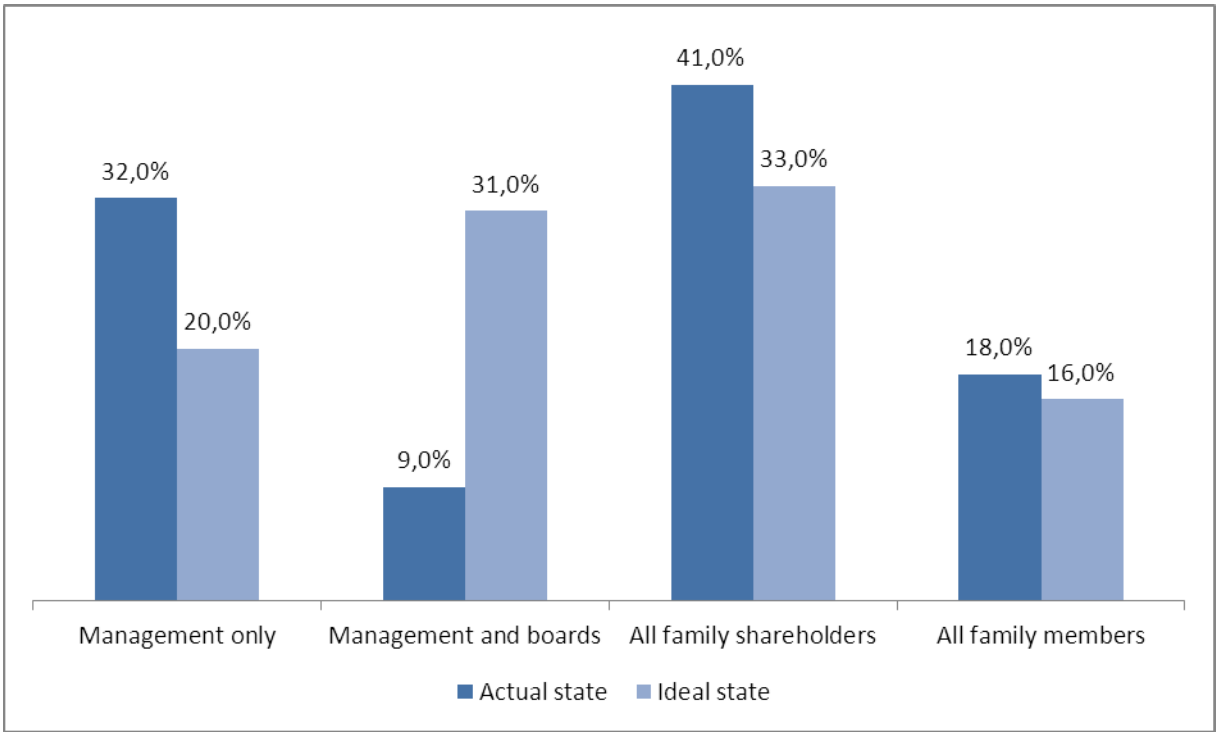


Fig. 9 Assignment of addressees to specific hierarchy levels and/or fields of activity

One third believes involving all family shareholders to be ideal

The question for the ideal state of affairs revealed a shift in preferences. 33% of respondents expect that all family shareholders continue to be involved equally in qualification programs. Despite a minor decrease by 8% compared to the status quo, this continues to be the most favoured group of addressees. We heard this answer most frequently from shareholders without operative functions who obviously realized the great significance of specific competence training for all shareholders. The same views were expressed by young entrepreneurs up to the age of 20. We assume the idea is that a focus on family shareholders in management positions and committees aims to raise first of all the family competence level which is immediately responsible for economic success.

This inference explains the even more significant increase in the case of members in management and committees. Only 20% think that competence training should be limited to shareholders with managerial functions. Respondents come mainly from purely family-owned businesses that hold 100% of shares and exert most influence and from businesses with a tradition of medium length (20 to 50 years). These companies obviously demand a very high degree of professionalism from family members in the management.

Involvement of board members important for older family businesses

A far greater number of study participants demand an expansion to family members in (senior) board positions (31%). Older family firms (50 to 100 years) and respondents over 60 of age tend to be one step ahead. They attach specific importance to competence training for board members. A process of rethinking seems to have started among the interviewed businesses, to give up the focus on those in management in favour of an inclusion of board members. This is particularly important for shareholder families where no family members are actively involved in operations.

Impact of family members often misjudged

Only 16% of participants, i.e. two per cent less than is actually the case, see systematic competence training for all family members as ideal situation. Family members not involved in operations, for example individuals with board functions, are most often convinced of the need. Mainly participants between 21 and 40, and those in young and very old family firms appear to be more aware of the importance of the entire family. Non-operative family members seem to play no great role in general expectations. We view the apparent prevailing assessment of family shareholders critically, and believe there is much development potential here, and a great need for information among owner families in the German-speaking area.

Shareholder competence development – a family matter

Shareholder competence is a family matter – clear lines of responsibilities required

One aspect explored in the study was who in the family business or owner family is mainly in charge of systematic shareholder competence development. The purpose was to determine responsibilities for the planning, implementation and practical organization of pertinent measures.

Core family responsible for planning and execution

Education and further training for shareholders are clearly a family matter. 41.9% answered they assign this task to the immediate (core) family. 45.2% believe this to be the ideal situation. A further 34.1% currently entrust competence development to a circle of family members; but only about one fifth (20.9%) think this is exactly as it should be. 20.2% - mainly more mature family firms with a tradition of 20 to 50 years – leave the decision to build and expand competences to each shareholder. More than one out of ten (11%) want competence development to remain the personal duty and responsibility of each individual shareholder.

Non-family managers and company divisions of minor importance

Managers hired from outside the family (8.5%) or a specific division in the company (3.9%) play a minor role in the systematic planning and organization of shareholder qualification programs, at present and for the future. Advisory and executive boards or external consultants are in sole charge of competence training in only a few cases. In some instances, two or three of the above-mentioned groups share the responsibility.

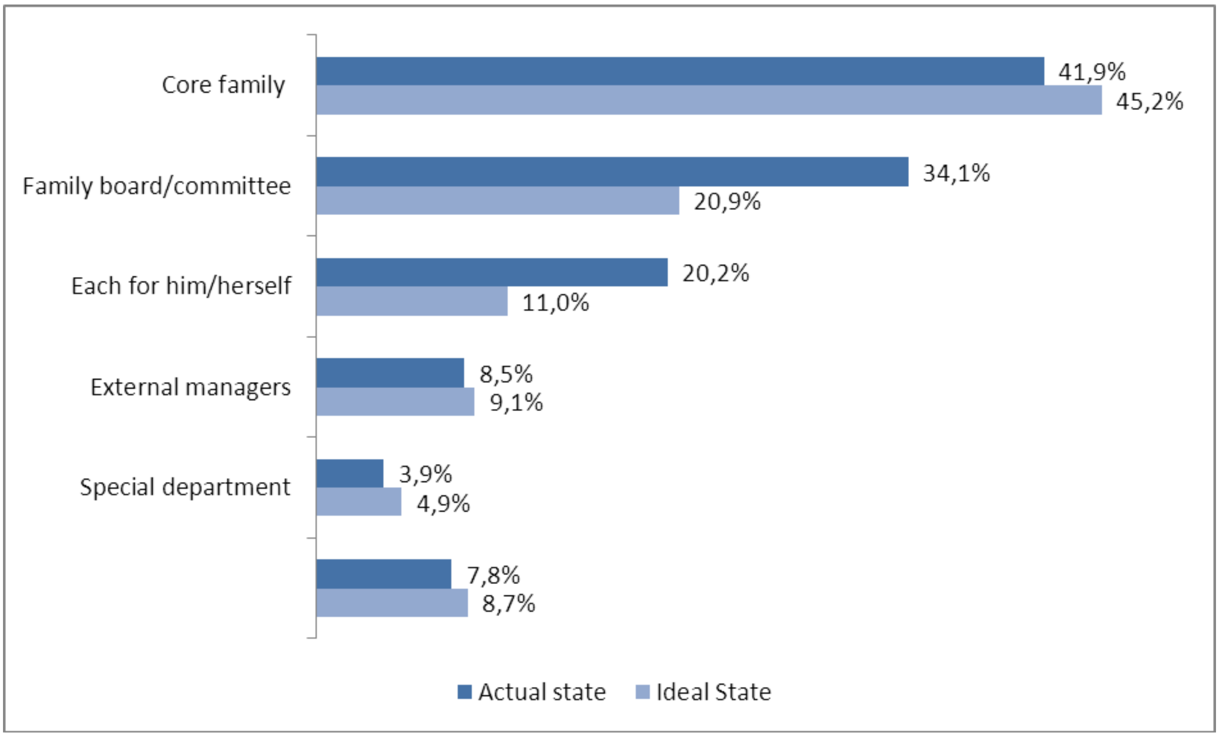


Fig. 10 Persons in charge of planning and organization of shareholder competence development
Multiple answers were allowed.

Family-influenced businesses tend to rely more on external managers

Detailed analyses reveal that family-influenced businesses entrust managers from outside the family with the planning and organization of shareholder competence development quite frequently. In this type of business the owner family appears to be more likely to rely on an employee with detailed knowledge of the day-to-day business for the education and further training of shareholder competence. This is understandable since shareholders in family-influenced companies are not actively involved in operations.

Family firms with a tradition of between 50 and 100 years, and medium-sized family businesses with an annual turnover between 50 and 100 million €, name the immediate family as in charge of competence development relatively often. The circle of shareholders in these companies is rather limited and therefore (still) easier for the family to control and influence.

Young and very old firms entrust family committees

Almost all young family firms and also many of those with a tradition over 100 years opt for family committees. For the very old firms (> 100 years) this may be due to a high degree of organization in the shareholder family. Shareholder competences being a still young topic, young businesses have the chance to systematically address the issue from the start and by doing so implement a high degree of organization. Mainly more mature family firms between 20 and 50 years old currently leave the decision to acquire competences to each shareholder him or herself.

Clear responsibilities advisable

Results clearly indicate that the development of shareholder competences is a family matter, and should remain so. However, owner families wish for a clearly defined responsibility in the hands of a central entity within the shareholder family. We believe this to be an advisable step towards a more systematic and professional organization of shareholder competence development.

Family and consultants in charge of implementing programs

Family members and external service providers in charge of competence training

A similar picture emerges for the actual implementation of targeted measures to develop shareholder competence. 39.6% of respondents rely on expertise acquired within the family. It is interesting to note that almost the same percentage (37.5%) prefer external service providers. Professional and executive staff of the family firm as instructors in know-how plays a minor role only in this context (17.5%).

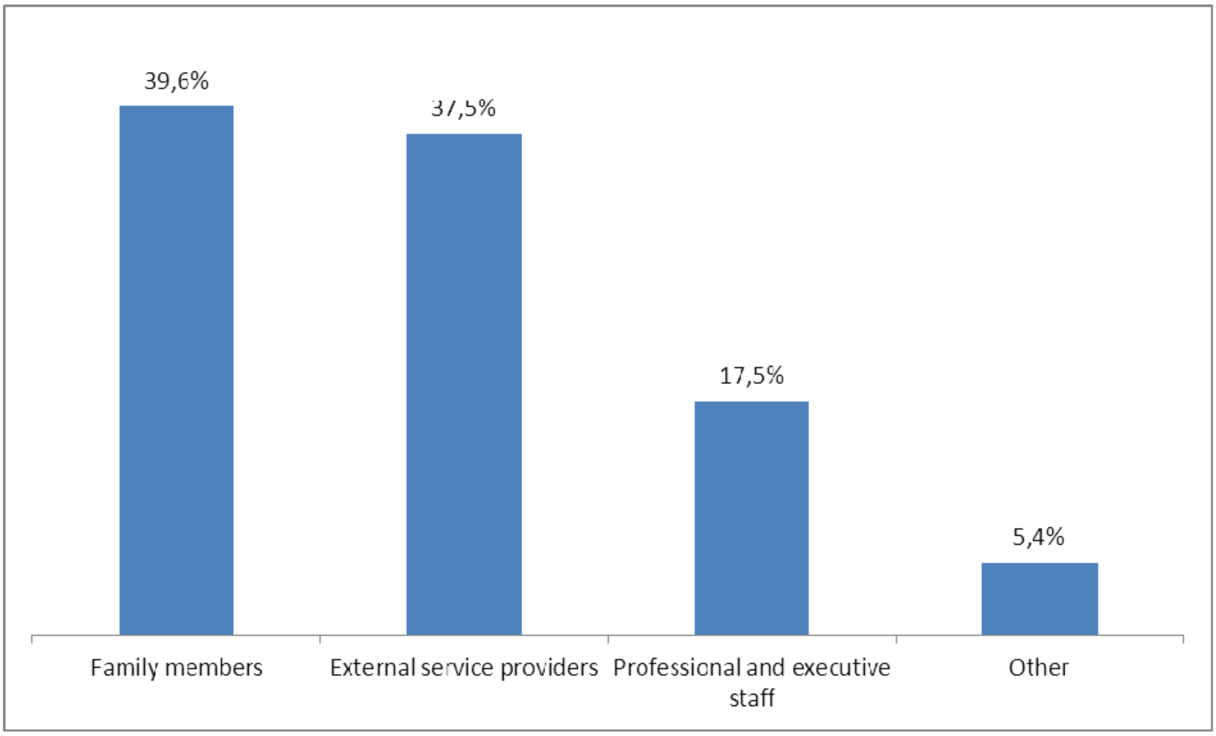


Fig. 11 Persons in charge of conveying the contents of competence development

Other persons or entities named as in charge of implementation were other family firms or owner families, the family executive, or the advisory board. This allocation of responsibilities makes sense since knowledge of the family business and history and its founder is best passed on within the family itself and through relatives. On the other hand it is appropriate to employ external service providers for specialized topics such as business economics, technical or legal expertise, or family dynamics.

Degree of organization in owner family still low

Shareholder competence as part of family governance

The implementation of competence development programs is considered as part of an elaborated family governance.[38] A point to be clarified first is therefore the existence or absence of pertinent structures and systems among study participants, and modes of systematic organization within the owner family. The degree of organization and professionalism in shareholder competence development should then be determined in a second step.

27.4% of the family businesses have family governance instruments

Fig. 12 illustrates that only about one quarter of interviewees has a family governance tool at their disposal. 27.4% employ an explicit family strategy which, however, only 16.6% have explicitly fixed in a written family constitution. 24.1% hold regular family gatherings. Other tools such as family council (17.6%) and family office (10.1%) are employed rarely. Only four among all interviewed family firms (1.3%) have a family academy which is typically created for the purpose of systematic instruction. The seminars, courses and workshops and in-house training in fig. 4 are obviously not perceived as elements of a family academy. It is particularly noteworthy that respondents in their majority report on-going targeted shareholder competence development, but existing mechanisms of explicit family governance seem to be poorly developed. This suggests a generally low degree of organization in owner families.

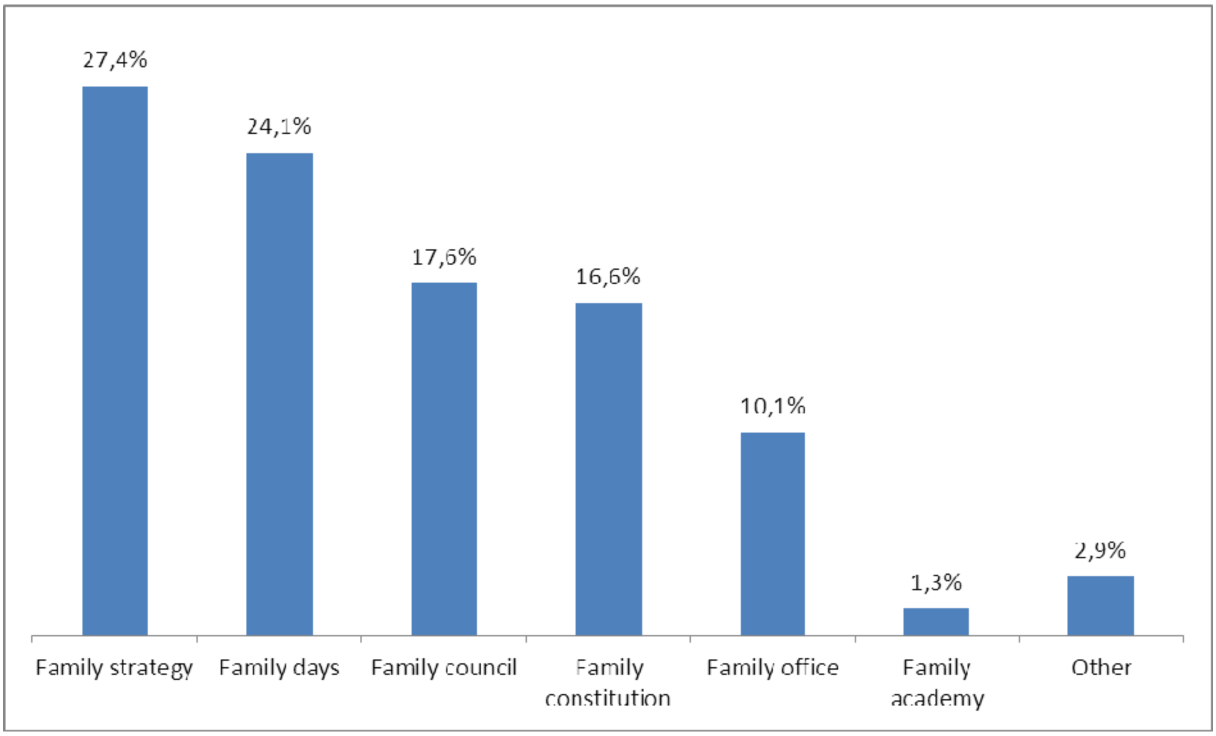


Fig. 12 Tools of family governance in interviewed owner families
Multiple answers were allowed.

[38] Cf. Groth/Schlippe (2011), Wimmer (2011) and Meyer (2007).

Governance tools mainly employed in very old family firms and those with particularly large turnover

Detailed analysis reveals that the largest family businesses with the highest turnover rates most frequently employ a corresponding governance tool: an average of 40.1% of firms with a turnover of more than 1 billion € report that their owner family uses family governance tools for systematic organization. The figure for firms with a turnover below 25 million € is only 14.3%. Also as expected, very old family businesses (> 100 years) frequently have one or more governance tools (26.3%) since structures grown over long periods within a shareholder family must be cultivated with special care, and this applies in particular to family firms with a steadily growing circle of shareholders.

A quarter of the young firms also employ family governance tools

Surprisingly, about one quarter (24.4%) of young businesses (< 25 years) also have family governance mechanisms. One possible reason is that the growing range of services offered for training and research on the issue has created an awareness of the need for such instruments and thus stimulated early efforts. No significant differences were found between various types of family businesses. Experience and the specific family situation seem to have been more reason to install a family governance tool than the possibilities to influence business decisions. [39]

Family businesses with governance tools pursue systematic competence development

An interesting question was whether owner families who have established one or more explicit family governance tools attach more importance to competence development in shareholders compared to those without family governance tools. An average 82.6% of shareholder families with a family governance tool actually pursue a systematic form of shareholder competence development.

Also the degree of organization of shareholder competence (still) very low

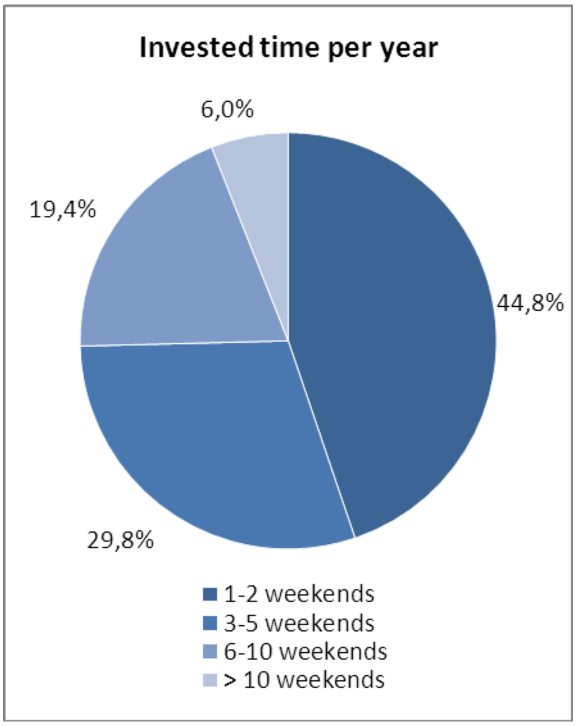
In order to ascertain the degree of organization and professionalism of shareholder competence development we asked study participants which resources they invest into pertinent programs per year.

Low awareness of invested time and costs

65.2% of family businesses confirm that they support competence development for their shareholders with a variety of targeted measures; but the majority is unable to state how much money (72.9%) and time (56.8%) they invest in such measures – a surprising result since systematic time and cost management should form part of any professional competence development program. We conclude that many study participants have realized the significance of competence training and further education for shareholders but that pertinent measures are mainly driven by opportunity, without a complete picture of invested resources, and without systematic planning.

The majority of firms who know their expenditure on competence training in time (43.2%) and money (27.1%) invest up to 10.000 € per year (see fig. 13). Programs cover one to two weekends per year as a rule.

[39] Cf. Calabrò/Mussolino (2011) and Calabrò et al. (2012).



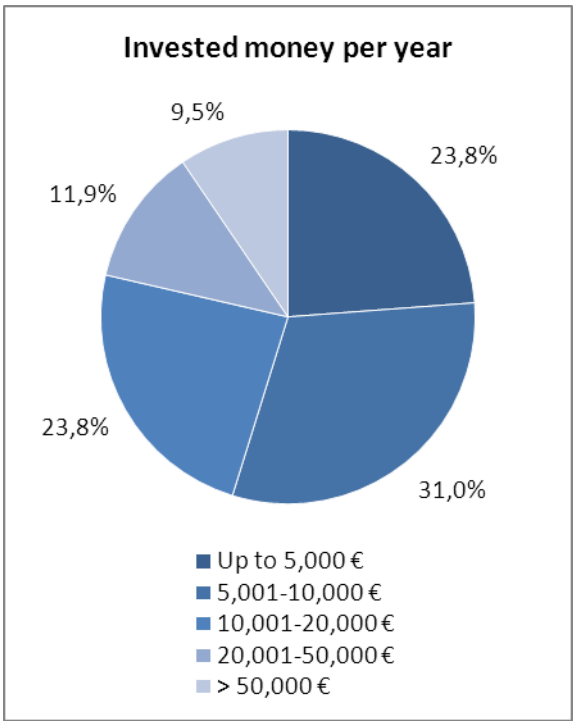


Fig. 13 Resources invested into shareholder competence development (time/costs per year)
(There is a direct and positive correlation between money and time invested in training programs. i. e. the more time firms invest, there more money they invest as well, and vice versa.)

Primarily family businesses with an annual turnover of 50 to 250 million € and young firms (< 20 years) can give an estimation of resources expended and appear to have understood the importance of systematic cost and budget planning in competence development. The will to invest slightly declines with age but rises again in the case of very old family firms (> 100 years). Another noteworthy fact is that businesses with the first generation still active in operative management invest time and money more frequently. No significant difference was found between firms with hired management and family-managed companies.

Qualification programs for shareholders are tax relevant

“Common pot” for competence development

Asked for the origins of funds used for competence training, the majority of interviewees said these were funds from the family’s “common pot” (58.4%). In 18.2% of cases the shareholders have to pay for qualification programs from their own private assets. [40]

Hidden profit distribution? Tax review advisable

Independent of a company’s legal form, all competence development training for shareholders in family businesses will always raise the fiscal issue as to whether such measures are prompted by the company, may therefore be assumed by the company and are tax deductible. Where competence training for a shareholder is prompted by the shareholder structure and not the company, the respective expenditure is not tax deductible as an operating expense; it constitutes a covert

[40] 2.6% did not furnish particulars; 20.8% mentioned other sources.

distribution of profits (in capital firms) or preliminary withdrawal of capital (in business partnerships) that must not reduce a company's income, i.e. has to be assumed directly by the shareholders.

Not all types of competence development in company's commercial interest

If shareholders are employed in the family business it may basically be in the company's commercial interest to assume costs for their competence development since further education implies an additional profit for the business. However, a predominantly commercial interest of the company cannot be automatically assumed in case of costs incurred for a shareholder's university studies or vocational training for offspring of shareholders who are expected to be actively involved in the company's operations sometime in the future. [41] It is always advisable to check whether qualification measures for shareholders would have also been assumed for a third party. [42] Expenditure is tax deductible in this case only.

Caution is indicated with courses in personality development

A court ruled for example that the attendance of a managing shareholder at courses in personality development and the assumption of costs incurred by the company constitute a covert distribution of profits. [43] In this specific case the general correlation of the expenditure with operations through the creation of positive conditions was not considered sufficient to assume business reasons. As a consequence, the expenditure was not tax deductible. [44] In practice, shareholder families therefore give part of taxed profits into a "common family pot" from which they finance, e.g., joint development programs or elements of a family management system. [45]

[41] BFH (Federal Court of Finance) ruling October 27, 1997, Bundessteuerblatt 1998, part 2, p. 149 f.
[42] Frotscher/Maaß, KStG (Austrian Corporation Taxt Act) annex to § 8, covert distribution of profits, training.
[43] FG (Financial Court) Nürnberg, ruling September 10, 1999; EFG (European Financial Court) 1999, 1249.
[44] In another case, a managing shareholder of a GmbH/limited liability company in the computer sector attended a further education seminar organized by a major computer manufacturer in the US. The GmbH assumed costs for the seminar, accommodation for the duration, and flight tickets. The managing shareholder had first attended the seminar and after completion gone on a round trip. Costs for the seminar were considered as prompted by business reasons and therefore not as covert distribution of profits; the same applied to accommodation for the duration of the seminar. Flight costs however must be divided up between job-related activity and private holiday. Costs incurred during private holiday were ruled to be covert distribution of profits.
[45] Cf. Rüsen/Schlippe/Gimeno (2012).

E Conclusions and potential for improvement

Relevance of shareholder competence accepted, but no specific measures implemented

Most of the family businesses we interviewed understand how important it is to promote shareholder competences and know-how, and have introduced a number of programs for this purpose. But in the absence of required structures and systems many programs are not sufficiently target directed and result oriented, and the degree of organization is moderate. There is a general awareness of the important issue of shareholder competence; but a mainly familial approach to the problem causes a lack of information about market and services. Many respondents began promoting shareholder competences during the last five years. This suggests that they want to acquire some experience in the field but do not want to commit themselves as to details of organization and resources. An increasing degree of organization in the owner family will probably result in an equivalent increase in the organization of competence development which will help to solve development issues.

Potential for improvement identified: improved structures, reliability and long-term commitment

The family businesses and owner families we interviewed want to see above all improved structures in existing shareholder competence development and the development of a clearly defined concept for this purpose. One participant: "I wish for a well-structured course of action, such as multiannual planning, to expand existing competences." The need for something like a target agreement was identified: the definition of developmental steps for all shareholders to be passed at certain intervals, which would ensure sufficient attention and a systematic effort. Respondents also demand that initiated programs should be organized on a regular and long-term basis (more than 20 years). These statements correspond to the above-mentioned deficits in the organization and professionalism of shareholder competence training. The inclusion of targeted shareholder competence development in family documents such as the family constitution is also considered appropriate in this context.

Early inclusion of shareholders and appreciation of senior generation would be welcome

Potentials for improvement were also defined with regard to the circle of addressees for competence development programs. Many respondents favour an early introduction to the issues under consideration, and continuity in competence development. One reason given was the need for shareholders to accept that competences must be developed and are not inherent qualities. Young respondents in particular want more support from the senior generation and the advisory board's backing for such measures. A list of requirements for successors was suggested as a useful tool to identify talent at an early time and assess a candidate's eligibility for responsible positions. One study participant described open and honest ways in dealing with an individual's personal limitations as desirable.

Competence development for the entire family

Respondents suggested to include the entire family in competence development, specifically new members, e.g. by marriage, and not only the successor generation. This statement is in line with study results. Some even demanded to make attendance obligatory: "All shareholders should complete a defined extent of further education."

Improved communication and coordination within the owner family

Many participants expressed a wish for improved communication and coordination within the shareholder family. In the words of one respondent, "dialogue among shareholders must be more continuous and above all must address future strategy decisions." The same applies to communication between retiring and succeeding shareholder generations. The wish for joint activities like visits to trade fairs or excursions including the current and the future generation expresses the same idea.

More formats and topics

Many interviewees demand more time to be invested in shareholder competence development, and they also demand a wider range of formats and topics. Here they mention external service providers, the addition of specific training units and seminars, and an exchange with other family businesses. A more thorough analysis of services offered in the field of competence development is considered useful. As to the subject-matter of competence development, suggestions for improvements cover sensitivity to psychodynamics in family firms and shareholder families, but also knowledge of the industry, and employment law issues.

Diversified competence development programs may be expected

The majority of respondents were managing partners (73.1%) who typically exert much influence on the governance and development of the family firm and the shareholder family. As a consequence we may expect that suggestions and wishes for improvement as outlined above will be implemented increasingly over the coming years. Study results indicate in general that at least a majority among the family enterprises and shareholder families interviewed have initiated a diversified competence development scheme.

F Indicator for shareholder competence development

Correlation between age of business and degree of competence development

The results of the study reveal frequent correlations between the systematic implementation of a shareholder competence development scheme and the age and/or life cycle stage of the family business. This correlation may be described by an indicator for shareholder competence development (SCD) that relates these two aspects. It illustrates the significance of the topic over time and the extent to which a systematic development is a function of the age of family firms.

SCD Indicator reflects relevant aspects of systematic shareholder competence development

Mainly those aspects were integrated in the calculation of the indicator that suggests a professional and systematic approach to the issue. A wide circle of addressees and the degree of organization and structure of shareholder competence development are of specific importance in this context. The following aspects were considered in the calculation of the indicator:

1. Shareholder competence training has already been established on a systematic basis.
2. Both generations are integrated into competence development to the same degree.
3. Measures address the entire shareholder family.
4. Circle of family members is in charge of planning and organization.
5. One or more family governance tools have been implemented.
6. The resources invested in measures to promote shareholder competence are known.

For all above-mentioned aspects, the percentage of the respective age group within those family businesses was determined which show an optimum arrangement. Age groups were divided into four categories: young family firms (under 20 years), mature family firms (21 to 50 years), old family firms (51 to 100 years) and very old, i.e. long-lived family firms (over 100 years). Between 1 and 4 points were assigned on the basis of the percentage distribution, with a maximum indicator value of 24. The following table shows the distribution of points.

	1.	2.	3.	4.	5.	6.	Sum
Young family businesses	1	1	3	4	3	4	**16**
Mature family businesses	4	2	1	1,5	2	2,5	**13**
Old family businesses	2,5	3,5	2	1,5	1	1	**11,5**
Old-heritage family businesses	2,5	3,5	4	3	4	2,5	**19,5**

Fig. 14 Distribution of indicator points based on age groups

Largest pent-up demand in old family firms

The graph illustrates the relation between age of family firm and degree of competence development. Shareholder competence development appears to be most pronounced in young firms and also in long-lived family businesses, with the largest pent-up demand in old family businesses.

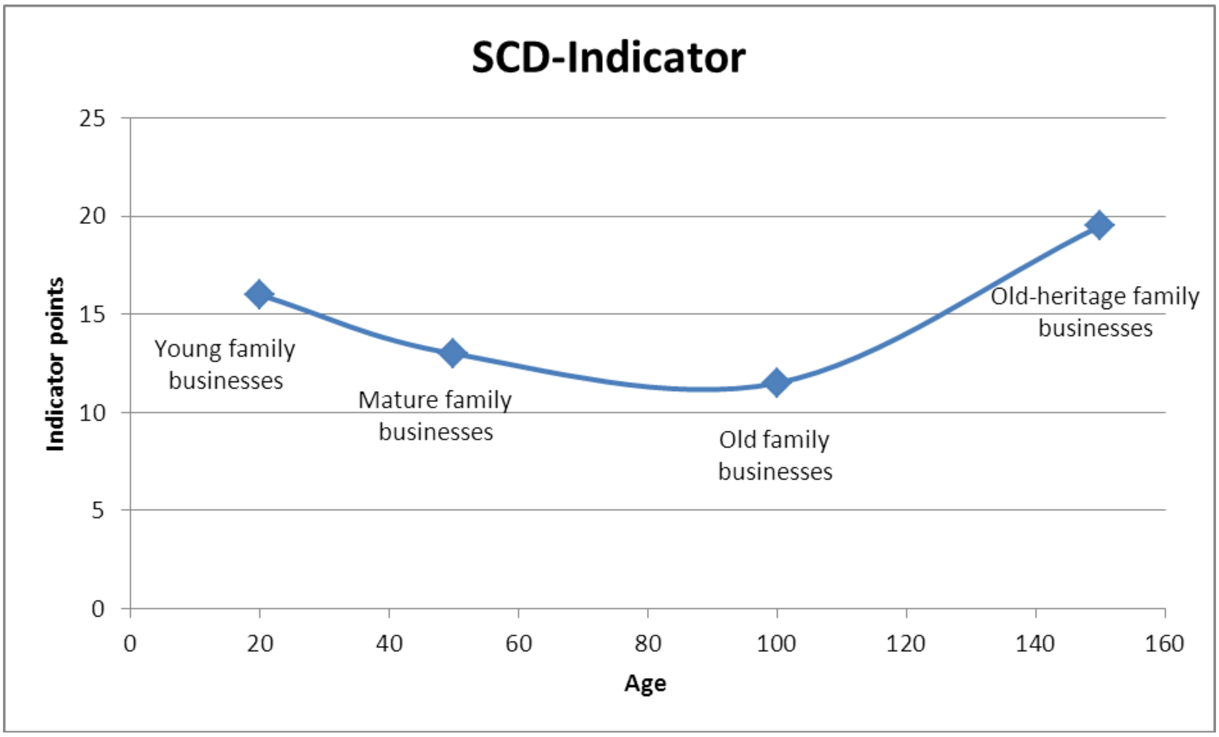


Fig. 15 Graphic illustration of the SCD indicator as a function of the age of the family business

The analysis produced a number of observations and explanations. But findings require further qualitative and quantitative studies for a more detailed exploration of specific measures as a function of age, size and type of the family enterprise.

G Summary, outlook and recommendations for action

Competence development still in the early stages

Overall study results describe a generally positive picture of the current state of attitudes and approaches to shareholder competence in German speaking family businesses. The companies which participated in the study perceive shareholder competence and its systematic development as a requirement for a viable shareholder structure, and thus for the viability of the family enterprise. There is a growing awareness among the majority that a professional approach is demanded in dealings with the owner family, and that they must initiate and organize training in the competences and skills required in responsible shareholders. Our analysis revealed that in the past years family firms and owner families in their majority have realized the need to provide systematic competence training and further education for their shareholders, and have already implemented first steps to this purpose.

Low degree of professionalization – competence development a family matter

The topic is still young and has become a focus of attention very recently. So the structures of competence development and its degree of organization and professionalism are still low in many shareholder families we analysed. Knowledge creation and knowledge transfer are based on familial relations and are therefore mainly determined by opportunity and not very systematic. This is quite natural since competences in general, and shareholder competences in particular, are generated within families and passed on over time, and not on a systematic basis as for example in the context of staff development programs. An area of considerable tension originates between family logic and business logic, which affected shareholder families, must be aware of in order to define and pursue qualification strategies that are best suited to their specific situation. [46]

Boost competitive advantage via competence training

Many respondents are aware of the problem, which suggests that the issue will be (more) extensively and systematically explored in future with a view to the degree of professionalism and organization. Those family enterprises in particular whose circle of shareholders becomes larger and more diverse with time will have to promote competence development more strongly in future. Many of the interviewed companies face an imminent transition from the third to the fourth generation, which is seen as particularly critical (cf. fig. 18); systematic shareholder competence training may ensure competitive advantages for these businesses and have a positive impact on their long-term chances of survival.

Recommended course of action for owner and/or shareholder families

Shareholder competence development is a key success factor for a family company's capacity to act and communicate. Depending on the extent of pertinent measures, the shareholder family is made fit for the ownership role in an efficient and target-oriented manner. Using this as a basis, the following course of action may be recommended for business and shareholder families:

[46] Cf. Groth/Schlippe (2011).

- Check the forms in which shareholder competence development is practiced systematically in your business, and which subject-matters in competence training are driven by opportunity (situation analysis).
- In the absence of any shareholder competence training, start a discussion in your shareholder family and introduce pertinent measures. It is important to involve all shareholders and family members in the process of decision-making and implementation. Ideally you align this topic and the degree of implementation with family strategy considerations.
- If shareholder competence development is already being practiced, check who benefits from qualification and who has not been included (to date). See to it that the services of shareholder competence development are opened to the largest possible part of the shareholder family, specifically to the succeeding generation and those family members who are (still) without shares.
- Make sure that competence training conveys not only classical management and financial issues but also wider subjects such as legal and psychological expertise, and specifics of your own family business and family businesses in general.
- Competence training programs for future generations should differentiate between the scheduled roles as shareholders or those with active functions. The skills and competences required from a shareholder not actively involved in operations differ much from those expected from an executive. But they may expand considerably for shareholders who assume (leading) functions in boards and committees (chair in supervisory board etc.).
- Make sure that shareholder competence development becomes a systematic part of your family management scheme and therefore will be organized and structured. This comprises an exact definition of subject-matter and of admission requirements.

Against the background of our study results we expect to see an increased introduction of training and further education programs in the shareholder families of German-speaking family firms in the years to come. This increasing demand will probably lead to new training and further education programs being offered by university and consultancy affiliated institutions.

We wish the family businesses much success in the implementation of measures to promote shareholder competence!

H Approach

1 The survey

Survey of German-speaking family businesses and business families

The study on shareholder competence and the development of such competence in family enterprises and business families is based on a survey conducted nationwide among businesses of this type. A total of 283 family businesses and owner families participated in the survey between September 3, 2012 and October 15, 2012. Several businesses from Austria and Switzerland were also included. Participants received the questionnaire in print as well as a digital online version. Some questionnaires were returned incomplete so that 20 data sets had to be excluded from evaluation. Accordingly, the study is based on data collected from a total of 263 family firms and business families.

Family businesses of all sectors, sizes and generations represented

High diversity among participating businesses

Family businesses were asked to answer 41 different questions on experiences and expectations in the field of shareholder competence and shareholder competence development. The responding companies are highly diverse and reflect the entire landscape of German family firms, representing a variety of sectors, sales ranges and generations. As a consequence, the study is based on a meaningful spectrum of family firms. The family businesses interviewed are in their majority engaged in industrial manufacture and with an annual turnover of up to 50 million € belong to the classical medium-sized type (see fig. 16 and 17).

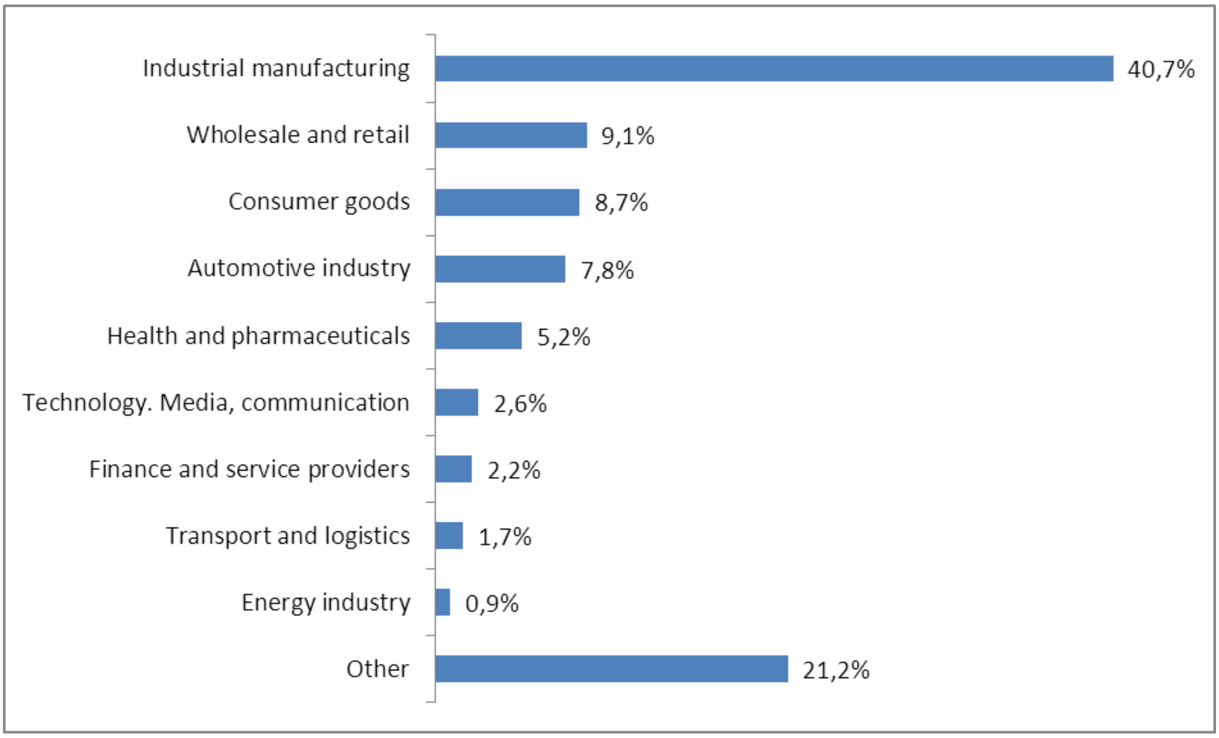


Fig. 16 Study participants by sector

(Other sectors: conglomerates, services, craft, construction and civil engineering, chemistry, tourism, publishing, real estate.)

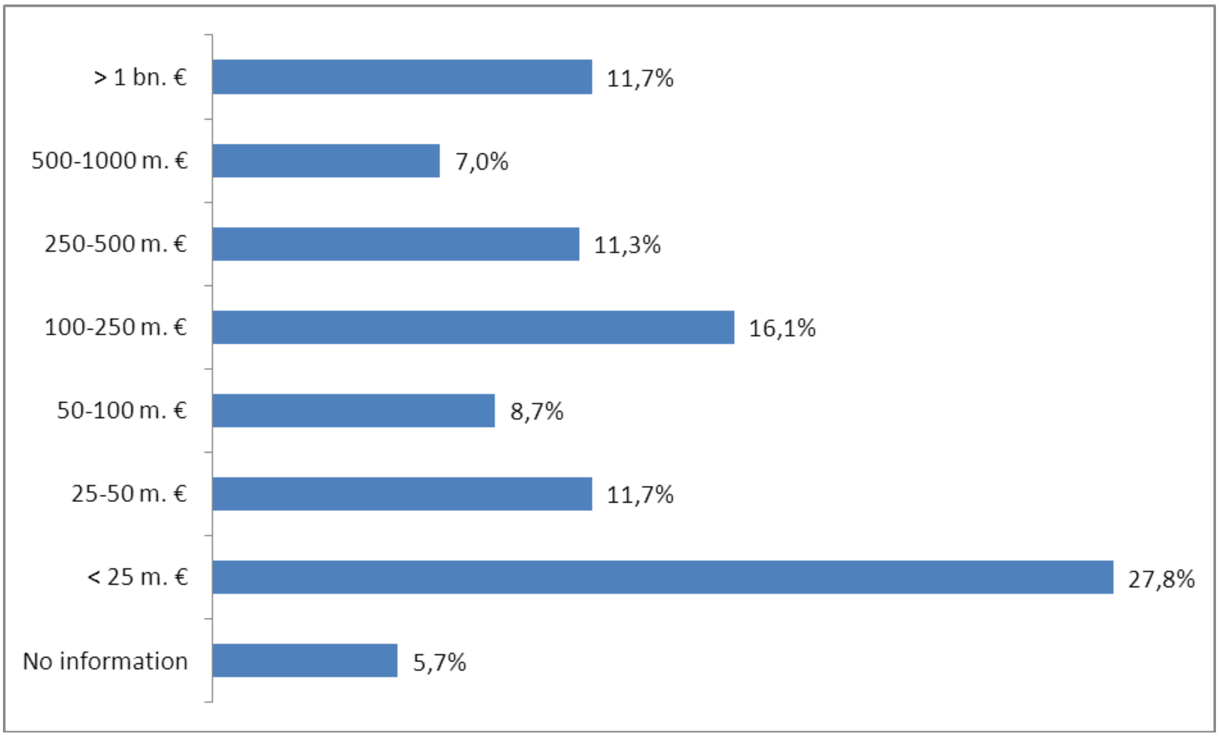


Fig. 17 Study participants by turnover in the business year 2011

Over 80% have seen generational change

More than 80% of family businesses interviewed have already seen a change from one generation to the next; family businesses in the third generation were strongly represented in the survey.

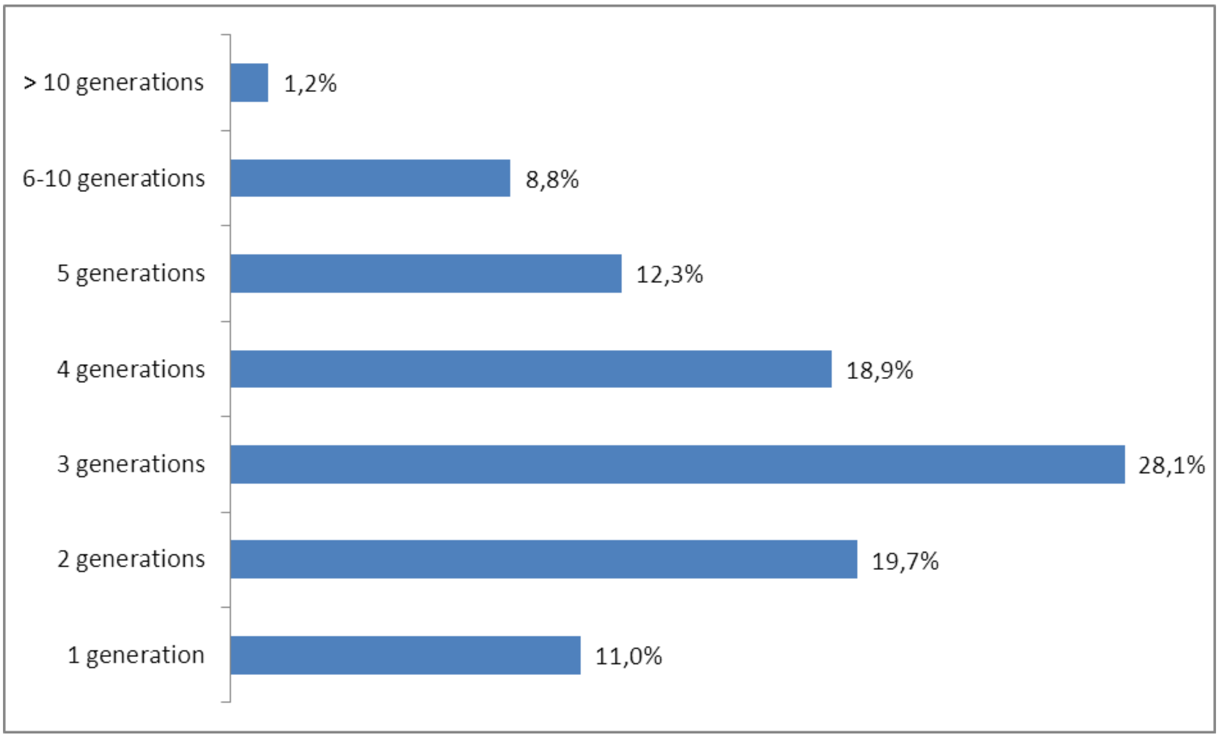


Fig. 18 Study participants by generation

High percentage of managing shareholders

Study participants mainly majority shareholders

Most participants in the study are among the majority shareholders (47.9%), followed by minority shareholders (38.4%). Members of the shareholder family who currently (4.6%) or in general (2.7%) do not hold shares were few among respondents. The same applies to non-family members (6.5%).

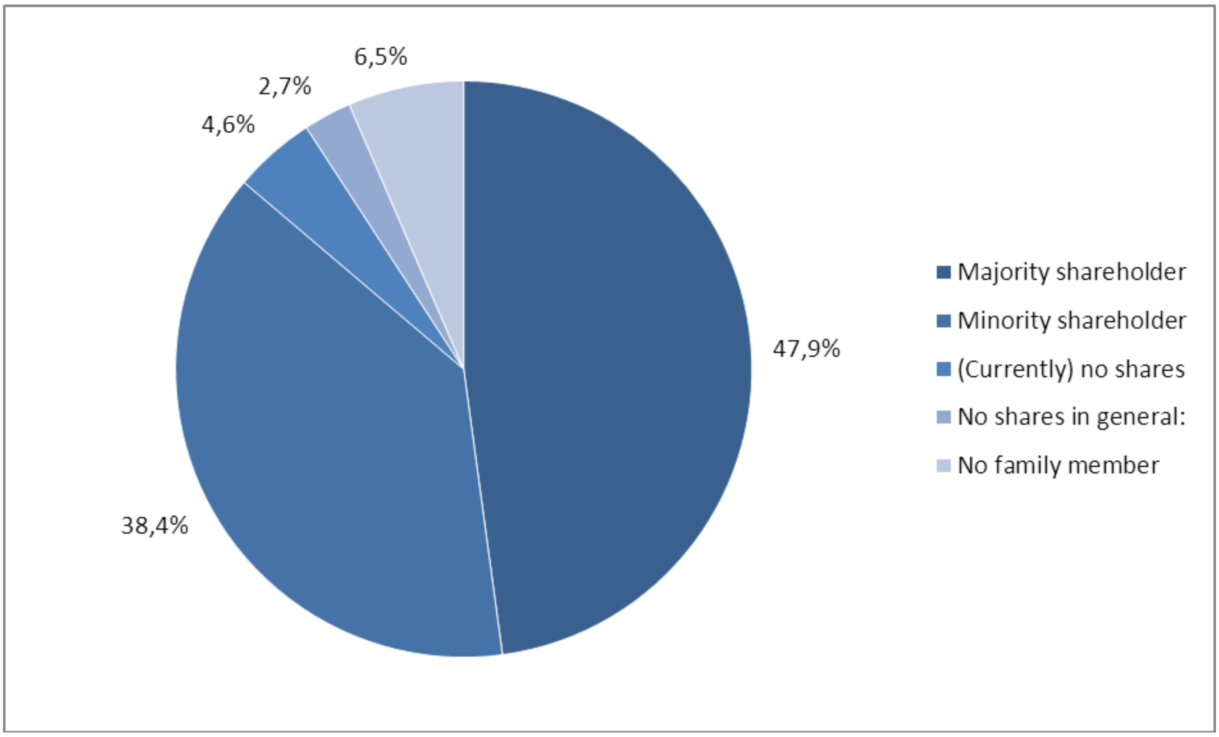


Fig. 19 Study participants by function

Majority in executive positions

50.6% of respondents hold executive positions in the family business (managing director/executive board) in addition to their role as shareholders. A further 18.9% are members in bodies such as supervisory board, shareholders' committee or family council, 9.8% in leading positions. The number of managers and department heads is small (7.4%), and 5.5% have no further position or function in the family business.

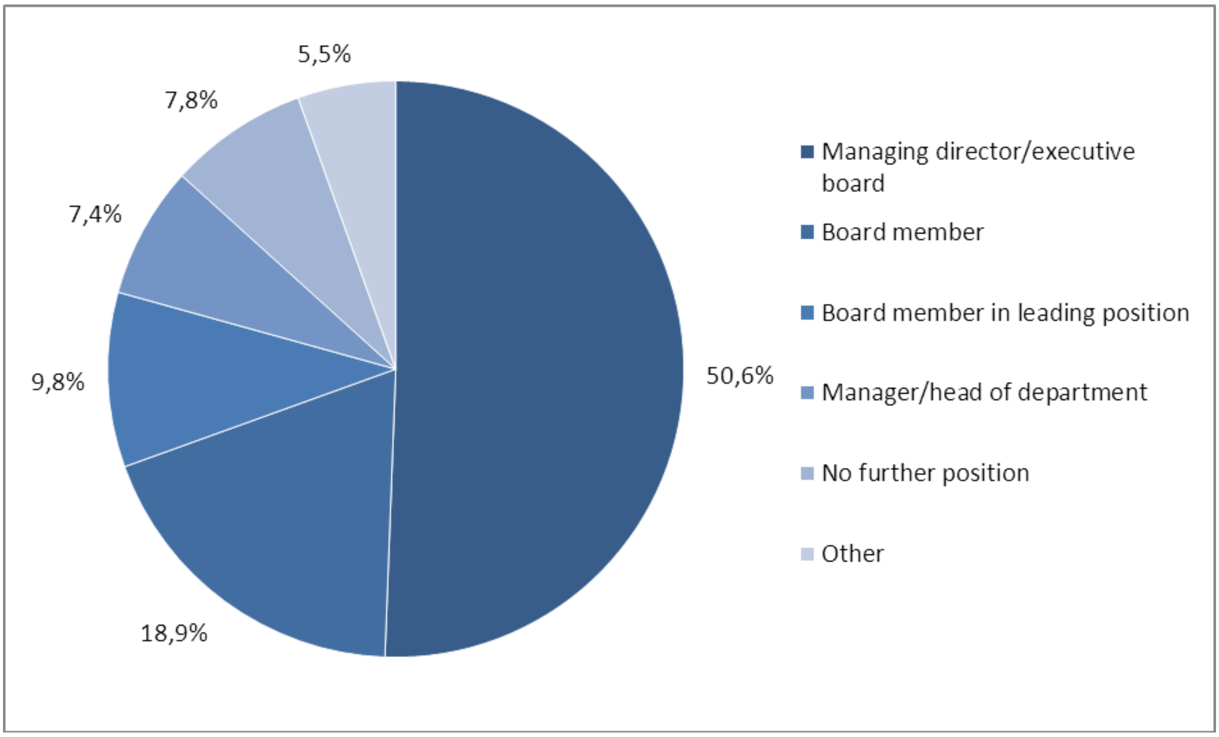


Fig. 20 Study participants by position in the family business

Almost 75% managing shareholders

The correlation of ownership structure and position in the family business reveals that a total of 73.1% of study participants are active as managing partners in the family enterprise. Systematic planning, organization and implementation of shareholder competence development will therefore be a management and/or family matter in most cases. At any rate, an awareness of the great relevance of the issue appears to be most pronounced in the group of managing partners.

2 Definition of family business

One third of large scale enterprises are family-run

Family businesses form the backbone of the German economy. A glance at the statistics confirms that this statement is justified and not only a catch line. Studies reveal that 92% of all German businesses are family firms, with more than 60% of overall employment and 51% of total turnover. But these are not only small or medium-sized companies. One third of Germany's large scale enterprises are controlled by business families. [47]

Transgenerational aspect decisive for family firms

When speaking of a family business we refer to a company that is entirely or in parts owned by one or several families or family associations who determine the economic success to a significant degree in line with a concept of entrepreneurial responsibility. The owner family assumes such responsibility in the form of executive and/or supervisory functions, irrespective of the company's size and legal form. The transgenerational aspect is of overriding importance in a family business. Consequently, a business may strictly speaking be called a family firm only if the family plans to pass the business on to the next generation.

[47] Cf. Stiftung Familienunternehmen (2011).

In the light of the above, we speak of a business family where a group of individuals are related to each other, and in their development are determined by a business or association of businesses owned by one or several family members, and where this group or part of the group addresses the question of how to pass on this ownership within the family. The specific form of the solution found in each instance (confederation, single controlling owner of next generation, extended family) is not relevant in this context. [48]

3 Interviewed family businesses – classification

Family and business in family businesses – two different logics

Family businesses have two different types of logic to which they align their rules, values and expectations – the family, and the business. [49] The complex and heterogeneous nature of the issue makes it difficult even for researchers in the field to establish a generally applicable definition of this type of business. [50] From a wide range of possible criteria to be used for typification of family firms, the following ones appear most suited in the context of this study: ownership structure, active involvement of family members in management, and the will to pass the business on to the next generation.

Classification according to ownership structure and family influence on management

Participants in the study were divided into different groups or clusters to facilitate evaluation of results in the appropriate context. The following criteria were applied:

- **Ownership structure**
  The number of shares a family holds in a business is a basic criterion to assess the degree of family influence. [51]
- **Family influence on the management**
  Another primary factor is the influence family members exert on the management of the business. Ownership structures do not always allow conclusions regarding family influence, but this is different for the family's participation in management or in supervisory and controlling committees. [52] The percentage of family members in top management on the one hand, and their percentage in supervisory and controlling committees on the other, was calculated in order to determine the precise extent of influence. [53]

[48] Cf. WIFU definition family businesses and business families, www.wifu.de/forschung/definitionen.
[49] Cf. Tagiuri/Davis (1982), Flemons/Cole (1992) and Groth/Schlippe (2011).
[50] Cf. Litz (1995), Sharma/Chrisman/Chua (1996) and Sharma (2004).
[51] Cf. Craig/Dibrell (2006) and Classen et al. (2012).
[52] Cf. Lubatkin et al. (2005), Miller/Le Breton-Miller (2006) and Chrisman/Sharma/Taggar (2007).
[53] Cf. Calabrò/Mussolino (2011) and Calabrò et al. (2012).

The following three clusters of family businesses were defined on the basis of the above criteria:

One third is purely family-owned businesses

Purely family-owned businesses
These are businesses wholly owned by the family (100% of shares) where the family is in exclusive control (all positions in management, supervisory and control committees held by family members exclusively). One third of study participants fall into this category.

Almost 37% controlled by family

Family-controlled businesses
We speak of family-controlled businesses where the family owns the majority of shares (51 to 99%) and exerts considerable influence on the management and on the supervisory or controlling board (51 to 99% of seats). This cluster covers 36.8% of interviewed family businesses.

Almost 30% family-influenced businesses

Family-influenced businesses
These are firms where the family holds a large portion of shares (ca. 50%) but is involved in management and control to a minor degree only (less than 50% of seats). 29.8% of study participants form part of this group.

The described clusters permit to explore in detail whether and to which extent the various forms of family firms exert influence on formal and informal initiatives for shareholder competence development taken in shareholder families.

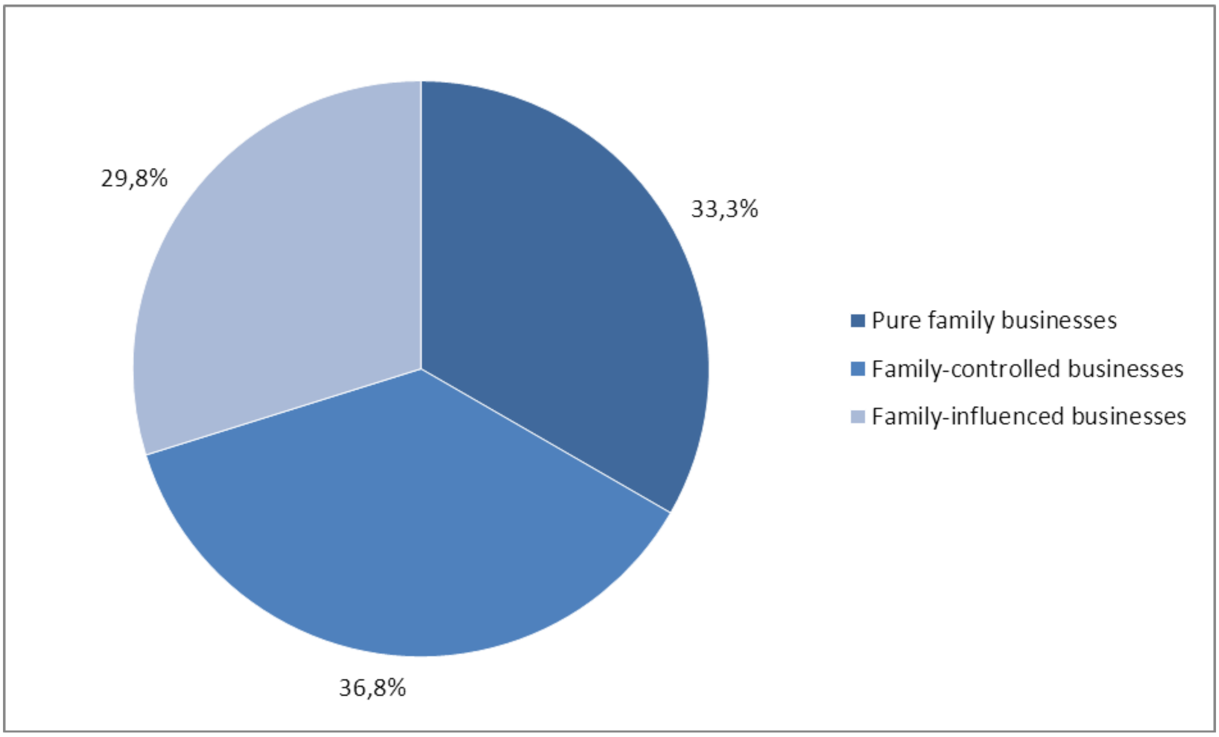


Fig. 21 Distribution of interviewed family businesses to the defined clusters

The very concept of family businesses is based on the idea of continuity. [54] Transfer of values, expertise, emotional ties and conflicts over generations plays a significant role. It is therefore important to include the age of the family firm in the analysis since it provides valuable information about the firm's history. The family enterprises that participated in the study were therefore also categorized according to age. The table below shows a total of 12 different types of family firms.

	Cluster				
		Pure family businesses	Family-controlled businesses	Family-influenced businesses	Sum
Alter	> 100 years	9.6%	14.9%	11.8%	36.4%
	51-100 years	10.1%	12.7%	11.8%	34.6%
	21-50 years	9.6%	8.3%	5.3%	23.2%
	< 20 years	3.9%	0.9%	0.9%	5.7%
	Sum	33.3%	36.8%	29.8%	100.0%

Fig. 22 Distribution of interviewed family businesses to clusters and age

It is conspicuous that the group of family-controlled firms over 100 years of age is represented most frequently, and the group between 51 and 100 years is the second most frequent. Family-influenced businesses from both age categories are in the third position, followed by purely family-owned businesses in the age group 51 to 100 years.

[54] Cf. Chua/Chrisman/Sharma (1999), Simon/Wimmer/Groth (2005) and Wimmer et al. (2005).

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