Shareholder competences in family firms:
Best practices and influence on success

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Shareholders of family firms shape or strongly influence the strategy of the company, its mission and values. Academia could not find clear evidence whether family ownership is beneficial or detrimental for a business. This might among other things relate to the differences in the owners qualifications and indicate that shareholder competence has a significant influence on the companies' success.

I. Comprehensive definition of shareholder competences in family firms

The work contributes to a comprehensive definition of professional ownership in family businesses. The selection of the relevant aspects of shareholder competence is based on the responsibilities of family business owners. The conducted expert interviews served as a first validation of the selection and comprehensiveness.

Ownership attitude - Commitment, involvement and learning

- ❖ Self-perception as stewards of the business: Genuine interest in the family's company, identification, involvement, empathic proximity, loyalty, awareness of responsibilities as well as the willingness to add value to the company and to preserve it for future generations.

Dimensions of shareholder competence

- ❖ **Business and economic competence:** Understanding of accounting, controlling, financing, evaluation of investments, governance and organisational issues to evaluate the status quo of the company as well as proposed changes.
- ❖ **Company and industry knowledge and ties:** Knowledge of the company's history, inner workings, competitors, industrial and technological trends as well as valuable ties to important stakeholders.
- ❖ **Assessment capability:** Understanding of corporate and family strategy, the processes that lead to them in order to evaluate decision proposals by management, to question management's strategies on equal terms and to make sure they are aligned with the family interests.
- ❖ **Communication and conflict competence**: Ability for shared decision-making, open communication, conflict resolution and development of shared values.
- ❖ **Systemic competence:** Self-awareness as a family business, its dynamics and potential issues as well as an understanding of roles and the development of family governance mechanisms.

II. Shareholder competence development is important for the family firms longevity

A conclusive reasoning for the importance of the respective dimensions in relation to the long-term success of the family business was given through a consideration of different theoretical approaches, i.e. the resource based view, resource dependency theory, principal agent theory, stewardship theory and the three-circle paradigm. Despite the lack of general empirical findings on the influence of shareholder competence on firm success, an analysis of empirical studies on specific aspects reveals the influence of aligned interest, commitment, communication and conflict competence and systemic competence on performance.

The practitioners confirmed that all aspects of shareholder competence are important to responsibly fulfil the ownership task and that an investment in shareholder competence is important – if not crucial - for the long-term prospects of the family business. The examined cases of successful multigenerational family businesses had in common that the family shareholders have the wished for mind-set, which in turn helped the firm's success in the past. The lack of competences by some family members might then be compensable when all share the right mind-set and adequate processes for information sharing, decision-making and conflict resolution are in place.

III. Identified best practices for the development of shareholder competences

Derived from four case studies of German multigenerational family businesses that successfully invested in the development of shareholder competence and from previous research, best practices for the improvement of each aspect of shareholder competence have been identified.

Ownership attitude	***Early involvement:*** Inherited feeling of responsibility and empathy ***Fostering stewardship behaviour:*** Articulation of purpose, appreciation of individual contribution ***Personal connection:*** Roles for active engagement ***Encourage entrepreneurship:*** Mentoring, provision of seed financing
Economic and business competence	***Professional training:*** Workshops or self study on accounting, controlling, performance measurement, financing, evaluation of investments, organisational design and business governance
Company and industry knowledge and ties	***Early introduction to the company:*** Kids program at shareholder events ***Build opportunities to get to know the company:*** Company visits, internships, holiday jobs ***First-hand knowledge transfer:*** Mentoring, informal meetings, newsletters, family business archive ***Build industry knowledge and network***: Attendance of industry congresses, work placements in the industry
Assessment capability	***Preparation for strategic decision making:*** Workshops on strategic management, meetings with advisors ***Proximity to management:*** Informal meetings with management ***Understanding the challenges:*** Leadership experience
Communication and conflict competence	***Emphasis on the development of interpersonal skills:*** Coaching on communication skills ***Development of shared values:*** Family strategy process and revaluation ***Shared experiences:*** Regular meetings and trips, work on social projects ***Formalization of information sharing and communication*** ***Proactive development of resolution processes and conflict management***
Systemic competence	***Self-awareness as a family business and self-education about related issues:*** Workshops, exchange with other family businesses and experts, self study of relevant literature ***Development of effective family governance:*** Family Charta, Family Board ***Formal structures and processes to support continuous learning:*** Career consulting, regular seminars ***Strict and early professionalism of the family firm:*** Corporate Governance

IV. Best practices need to be adapted to the peculiarities of any family business

Family businesses vary along various dimensions; therefore also the presence and importance of the different dimensions of shareholder competences might vary. In what aspects and in which form to best invest should therefore depend on the context of the family firm, i.e. the number of owners of the family business, the roles taken on by shareholders and the firm's maturity. Since the examined family businesses vary along those dimensions it was surprising to find that they use similar practices to develop shareholder competences. Consequently, the identified best practices might be more general applicable than previously thought.

Nevertheless, the differences that were present suggest that the extend and focus of investment as well as the degree of formalism should still be adapted to the peculiarities of the family business. A different aspect of shareholder competence was perceived as most important depending on the respective needs of the family and the business. A mature business with more shareholders in different roles demands also a more formal approach regarding conflict, communication and systemic competences and in general a more elaborated system and a wider range of practices. This seems to underline the increasing importance of shareholder competences the more complex the family and the business.

Therefore, practitioners need to be aware of the peculiarities of the focal family business, before implementing any of the suggested practices, which have successfully worked for other family businesses. In order to gain optimal results they should be selected and adapted depending on the strategy and context of the family business as well as based on the capabilities, priorities and objectives. As a prerequisite for any successful attempt to develop shareholder competence, the shareholders need to adopt a mind-set that is characterized by commitment and the willingness to change their behaviour and educate themselves. What is therefore closest to a perfect shareholder is one who acknowledges his or her responsibility, involves him-/herself in the business with the genuine intent to put the company's needs first, and is aware of the consequences of his personal action and capabilities. Based on that, the suggested framework of important dimensions of shareholder competences and the identified means to develop or enhance them can serve as a valuable guideline.