

**A REFLECTION ON THE ROLES AND RESPONSIBILITIES OF EACH FAMILY  
MEMBER AS AN OWNER OF THE FAMILY ENTERPRISE IN A FAMILY  
GOVERNANCE SYSTEM**

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During the past few years in my work with families, I have discovered that there is no educational program to teach family members how to be great owners of a family business or of a financial fortune. There are, on the other hand, multiple programs on how to be good managers of businesses or fortunes. A frequently forgotten fact is that all of the MBA programs grant degrees in Business Administration and not in business ownership. This dichotomy of learning opportunities creates the seeds of much of the disharmony within family enterprises. In the balance of this reflection, I will use the term "family enterprise" to encapsulate both families that own businesses and that own financial fortunes.

Another frequently forgotten fact when families and their professionals view the structure of a family enterprise is that nearly all of the family members who directly or indirectly own interests in the enterprise made no affirmative original decision to invest in it. In most cases they received their interests by gift or inheritance. These owners are not called to enterprise ownership and governance the way affirmative investors are<sup>11</sup>. They make no conscious decision to invest in the enterprise. In many cases, such owners are not even conscious that they are owners since their interests are held through partnerships or trusts. Indirect ownership frequently removes them from any sense of ownership and then from the conscious responsibilities ownership requires if it is to be exercised excellently.

The misunderstanding by families and their leaders of the fact that every member of the family is an owner of the enterprise, even if not directly so, frequently leads to failed family governance and then to the failure of the family enterprise.

How might a family's leaders and its enterprise avoid and/or overcome such misunderstandings regarding family members as owners?

In excellently operating family enterprises, families seek to govern themselves to the end of overcoming the universal cultural proverb, "Shirt sleeves to shirt sleeves in three generations."

Or to put it another way, to insure the preservation and growth of their family assets; their human, intellectual and financial capitals.

In families that own enterprises, normally all of the family members are owners, directly or indirectly, while only a few family members will serve as managers of the enterprise. Simply given the vast difference in the number of family members involved, the reader can already see how beneficial it will be to the long-term success of a family's wealth preservation efforts, if, each family member in his or her role as owner, is educated to play his or her role excellently.

Now that I have posed the issue, think for a minute, as a member of a family enterprise whether you have ever had anyone suggest that you needed to learn how to be a great owner. In fact, you have not and yet, as I have said, I am convinced this is the critical question if a family is to successfully grow and preserve its enterprise.

A family seeking to preserve its wealth must understand the need for all of its members to be thoroughly educated on how to be owners of the family enterprise so that its family members will be competent to make risk taking decisions as owners together.

In most enterprises the owners are investors who make individual risk assessing decisions to participate in the enterprise. Such individuals normally educate themselves fully on the nature and activity of the enterprise before investing in it. Once they make the decision to invest they actually work as owners to see that their risk is properly rewarded. They put not just their fortunes but their own selves in the game. In my experience with family enterprises the majority of owners receive their interests by gift or inheritance. They are never called on to make the personal risk taking decisions that are so fundamental to the vitality of an enterprise.

In family enterprises, it is often more difficult to maintain the entrepreneurial competitive edge necessary for the enterprise to compete successfully with enterprises formed by risk taking investors. For family enterprises to succeed the enterprise must have owners who can act with the same degree of entrepreneurial spirit as guides the enterprises with whom they compete. For this spirit to be kindled family members acting as owners must be educated to act as excellent investors with the same competence and skill as the entrepreneurs with whom they compete. Family members must understand and feel the nature of ownership.

Turning to another family enterprise ownership issue, if family members do not understand their roles and responsibilities as owners of the enterprise, how can the managers

possibly manage the enterprise successfully given that they are directly responsible to, and working for owners who, in this case, are intellectually absent? All of us know that absentee landlords do not do well, but at least the land does not disappear. In the case of a living organism like an enterprise, it needs care and feeding through excellent decision making by all of its governing parts every day. Without the active role enterprise governance expects from the owners, management cannot be successful.

In far too many families this problem of failure to perceive the role of each family member as an owner of the enterprise becomes even worse when the family leaders make the Orwellian mistake of thinking that family members acting as managers are more equal than family members acting as owners. The work of each family member is of equal value.

Any family attempting to work together for the more than three generations necessary to know whether the "shirt sleeves" proverb is being kept at bay has to have all of its assets, all of the family members on its family balance sheet, working actively and harmoniously. Whenever the family leadership begins to make invidious comparisons regarding the work to which each family member is called, the family's internal structure begins to fail.

Each human being is called to an individual life journey. To discover one's calling is the single most important duty of each human being. To actively pursue that calling is each human being's responsibility, not only to himself or herself, but to his or her family and to society. A family leader's principal responsibility, if the family is to prosper for many generations, is to work to preserve the family's principal wealth generating assets; its human and intellectual capital. To successfully preserve such wealth the leader must provide a family environment which enhances each individual family member's ability to pursue his or her individual calling. When such an environment is created and cultivated, the individual family members will eagerly wish to participate in it, and the sum of these individual parts will provide the whole family system with the nourishment it needs to flourish.

The inability of family leadership to appreciate the danger of the Orwellian problem of perceived inequality, or worse to foster it by their actions, is to fail the family. All too often such apparent inequality between those family members who are called to manage the family enterprise and the callings of all of the other family members brings the family governance system into disharmony, and sadly, often to breach. Each calling is of unique and equal value in

forming the family mosaic and must be seen as equal by all family members, especially by the family leaders, if the family is to flourish.

Unique among the multiple relationships which family members share is the fact that as owners of the family enterprise, every family member shares this role with its responsibilities, regardless of whether he or she has a role in the management of the family enterprise.

Hopefully, by now you appreciate the critical importance to the success of the family enterprise of:

- (1) every family member being educated to be an excellent owner of the enterprise and then actively participating as an owner in the enterprise; and
- (2) the need for a family governance structure and leadership which values all of the life callings of the individual members as of equal importance.

How, then, does each individual family member succeed in becoming a great owner?

**FIRST:** The family must build and then foster an education program in which:

- (a) All family members participate; and
- (b) which teaches the virtues, values, stories and myths which explain the family's "differentness".

The varying ages, learning styles and abilities, and life journeys of the different family members will be areas of consideration in the formation of such a program. I firmly believe that inter-activity between student and teacher is a critical part of how we learn. I strongly encourage that all elements of the education program be taught as inter-actively as possible.

As an example, if you are teaching about a corporation, have each family member act at a mock annual meeting as a shareholder, as a Board of Director member, and as a member of management making a report. If you are describing trusts, have each party act as the founder of the trust, the beneficiary and then as the trustee in dealing with a particular issue.

**SECOND:** Each family member should agree, as a part of his or her responsibility to the family as a whole, to complete a basic financial education program. I suggest that the program be entitled a Financial Education for Poets" to give a clear indication to the "right-brain" dominant family members that this program is designed for them. I also suggest that the financial cases

studied be based on the family enterprise's actual situation. If the family's principal assets are a business, use its actual balance sheet and income statement as examples. If the family assets are principally a portfolio of assets, use companies, governments, private equity investments, etc., as examples. I also recommend that some of the courses be given in consultation with the family's regular teachers, the executives who actively administer these assets to give even more real world feeling to the cases being studied.

**THIRD:** Each family member should agree to read, comprehend and accept the responsibilities conferred on him or her by the legal documents underlying his or her role as owner. When I mention this phase of the education program to the families I assist, I never fail to be surprised how few of their members have ever read, much less comprehended, this critical part of their personal relationship to their own property. However, I am always equally delighted with how much these same family members welcome this learning and the feelings of independence they express when they have mastered this material. By mastery, I do not mean earning a law degree, I simply mean the basic understanding necessary for an adult to conduct his or her affairs as an equal in his or her relationships with their partners, trustees, investment advisors, accountants, attorneys, and enterprise managers.

**FOURTH:** Part of the definition of being an excellent owner involves the ability to make competent decisions regarding the stewardship of one's assets when requested to do so by the people you have asked to represent you in connection with those assets. In this role, the educated owner becomes a partner with his or her representatives. The owner, acting as partner, knows he or she can give his or her representatives appropriate discretion to carry out their duties. His or her representatives will exercise that discretion with the full knowledge that the owner will always be present both intellectually and physically when called on to make decisions.

Frequently, family members do not understand that they are always owners even though they may wear many hats among them shareholder, partner, or beneficiary. Each of these roles assumes a relationship between the owner and, for example, a Board of Directors, a General Partner, or a Trustee. In each of these relationships the owner is represented by the second party. In both cases the second party is accountable to the owner. For each of these relationships to function optimally, both parties must fully comprehend and participate actively in the roles assigned them by the relationship. If each family member carries out his or her responsibilities as

an owner at a level of full comprehension and active participation, the entire family financial governance system will function in a healthy manner.

**FIFTH:** Each family member should agree to actively participate in family meetings, to attend annual shareholder meetings, to attend annual meetings of family partnerships, to attend annual beneficiary/trustee meetings, and to attend any other similar meeting which relates to his or her role as an owner of family assets. For an owner, in any capacity, to feel he or she has fulfilled his or her responsibility to the particular relationship by reading written material submitted by a representative is not enough.

All relationships ultimately rise and fall according to the investment of human and intellectual capital the partners are willing to make. As an owner, not to know and appreciate the human beings who represent us is to suggest to them that, at best, we do not care about the relationship so we simply tolerate it. At worst it is to behave in such a way as to denigrate the relationship by suggesting we are above such people and, therefore, absolutely do not care about the relationship. How can we expect excellent performance in these relationships, which are so critical to our future financial health if we do not exhibit a deep commitment by putting ourselves in the game? These relationships, if managed successfully, provide us with the financial rewards necessary to enable us to pursue our own individuals journeys of happiness. Human beings need positive reinforcement to do anything well; they need to feel our active commitment and appreciation. As owners, we will receive the fruits of what we invest in these relationships, no more and no less.

If each family member takes to heart and embraces the bargains made between himself or herself and the family as a whole, then all the other family members will work to enhance his or her individual journey of happiness. If he or she will make the reciprocal bargain with all of the other members of the family, the entire family will prosper. Part of that bargain requires each family member to accept and actively participate in the family governance roles that are assigned to him or her by the family as a whole. As we have learned, all family members are assigned the role of owner of family assets in the many forms ownership takes in family enterprises. As each family member achieves excellence in this role the family's human capital grows as the risk of dependence of its members decreases. As each family member learns how to be an owner the family's intellectual capital increases as its apathy and lack of knowledge decreases. Finally a

family of excellent owners will, over time, make many more positive than negative decisions and, as a result, the family enterprise will flourish.

With growing human, intellectual and financial capital, the family wealth will be preserved. Most importantly, the human beings who make up the family will have a sense of equality, opportunity and sharing of responsibility that will make them as Benjamin Franklin said, "want to hang together," so the family as a whole will prosper.

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<sup>11</sup>The determination by an individual of his or her calling in this life is a critical component in achieving happiness. In the Aristotelian sense, personal calling is in my opinion the ultimate goal of each of our lives.