



## Next gen stewards or inheritors?

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When a founder passes and leaves the business to his children, it can have many implications if the children do not get along, writes Christian Stewart

In an Asian family business, the traditional approach is for the founder to leave ownership in equal shares amongst his children. Whilst the founder is alive the family is kept united. But when the founder is no longer around, can the siblings work together as equal owners to continue the family firm?

Family governance expert James E Hughes, author of *Family Wealth: Keeping it in the Family*, notes that in his experience the members of the second generation will either see themselves as an "inheritor" or a "steward".

"Steward" refers to a member of the second generation who wants to work together with his or her fellow siblings to see the family business continue under family ownership.

On the other hand, an "inheritor" sees their ownership more in terms of an arms-length investor. Importantly, they want to be their own person, and do not want to feel like they have to work together with their siblings.

Hughes says that the paradigm of a steward is very different from the paradigm of an inheritor; neither is inherently right or wrong. There should be no question of judgment here; you cannot convince an inheritor to become a steward; and it is vitally important that all the siblings can have "adult-adult" conversations about their ownership philosophy.

If all siblings see themselves as individual inheritors, you know there is little point in attempting to get them to work together as a family team. Without a new controlling shareholder emerging, it is reasonable to predict that a family business controlled by a group of inheritors will disintegrate. This will be because of internal family conflicts, or when the shares start to pass to the cousin generation.

The second scenario is one where all of the second-generation owners see themselves as stewards. By our definition, this implies an intention or motivation to want to work together. However, are good intentions enough to make a difference?

You could have a group of stewards who feel very committed to the family legacy, but still struggle to work together because they lack the necessary skills for effective communication, decision-making and conflict resolution. Having good intentions is one thing. Having the rights skills is another.

The third alternative is some members of the second generation will see themselves as stewards, and some see themselves as inheritors. This is probably the most common scenario that you see, particularly in Asia. The danger with this scenario is that it has the potential to paralyse things if the siblings are unable to discuss and reconcile their differing views. Often in this situation, it is hard to talk. In an Asian family, the stewards may not be comfortable to move ahead on their own, leaving the inheritors out, fearing this will imply the family is not united. One of the best things to do here is to make sure there is an exit mechanism in place.

These two groups will have different goals and expectations for their shares. They represent two different ownership philosophies. If the siblings are not even able to acknowledge their differing points of view, unable to "agree to disagree", or if they cannot discuss mechanisms for bridging their differences, there will be no leadership for the family firm. If the shareholders are frozen or in confusion, how do the directors know how to govern the business? How can you plan for the future if you cannot talk about what each owner, as an adult, really wants to do? This all points to the importance of being able to have an adult conversation.

In an "adult-adult" conversation you are not able to impose your perception of what someone else should, ought or must do; or what "father would have wanted". You cannot invoke "family obligation or duty" against your sibling. Such conversations require a respect for differences. It includes being able to "agree to disagree", and being able to work with people who have different views from yours.

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