



Institute for
Family Business

Emotional Ownership

The Critical Pathway
Between the Next Generation
and the Family Firm

Åsa Björnberg and Nigel Nicholson



Lombard
Odier
Darier
Hentsch & Cie
Private bankers since 1796





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Introduction

It is estimated that only one in ten family businesses survive beyond the third generation and younger family members often face special challenges when trying to find their role within the family firm. *Emotional Ownership* is the latest report by London Business School to put the spotlight on the next generation. The aim is to achieve a better understanding of how families can achieve higher levels of engagement with tomorrow's owners and leaders, which in turn will help support their ongoing business success and achieve greater family harmony.

Emotional Ownership explains many of the psychological complexities that make building family capital a rewarding and at times a challenging task. It calls upon the senior generation to examine carefully the way they interact with their offspring, and provides practical frameworks and ideas to help families develop effective strategies to manage generational transitions and to ensure the success and sustainability of their firms.

The IFB Research Fellowship at London Business School has focused on building greater knowledge and awareness of next generation issues. This report follows hot on the heels of our earlier publication *Ready, Willing and Able?* (IFB January 2007). Through this work, and other research commissioned by the IFB, we aim to promote a deeper understanding of the issues which confront family firms.

We would like to acknowledge the authors who developed the project and who have worked assiduously to produce the report.

Both Åsa Björnberg and Nigel Nicholson of London Business School have true passion and commitment for their work with business families, for which we are most grateful.



Grant Gordon
Director General
Institute for Family Business (UK)



Foreword

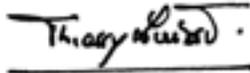
This report addresses a topic that lies very close to the heart of business families around the world: the next generation. It is the first international survey of its size to specifically focus on the bond between the next generation and their family business. In this report a new concept is introduced: Emotional Ownership. It is a vital ingredient of the unique, inimitable advantage that family firms build in the space between family and business. In many ways, it enables them to continue their ventures over the generations with passion and love. It is, indeed, the critical pathway that connects the past with the future and the next generation with the business.

As this report shows, the bond between the next generation and their business is very much a product of the family. It thrives on informality as well as close involvement and inclusion. Few things can stunt the growth of this bond – but badly managed conflict is one of them. Families and businesses evolve constantly, and families that are able to adapt and be flexible are most likely to inspire emotional ownership in their younger members. This also means having a proactive exchange with the next generation, and in so doing adopting an approach that builds on open communication and fair process.

The findings from this report contribute immensely to the family business community and the field of family business research. It is rigorous and practical. I recommend it to all generations of the family firm – whether they work in it or not – to family business advisors

and to those who have a general interest in learning about the unique nature of the family-owned enterprise.

As the head of a seven generation family business, I am deeply attached to the family-owned enterprise model which has been able to develop a balanced management based on economic, entrepreneurial and social responsibilities. My warm thanks and congratulations go to the participants in this survey and to the academics for this valuable addition to the family business field.



Thierry Lombard
Managing Partner
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1. Emotional Ownership as an Origin of Family Capital

This report is about the survival and prosperity of family business. It is based upon the following logic:

- Prosperity comes from competitive advantage.
- Competitive advantage is sustained by having a strong business culture.
- 'Family capital' – the commitment and participation of family members – is a unique source of business culture strength, enabling survival and success.
- In order to survive there needs to be commitment and participation by succeeding generations.

It follows from this logic that to promote strong family businesses we need to understand how family capital is built and sustained. That is the purpose of this report – to analyse and explain the origins of family capital.

We found an answer to this question in an earlier report for the Institute for Family Business (UK)¹ – what emerged was a phenomenon we call 'Emotional Ownership' (EO).

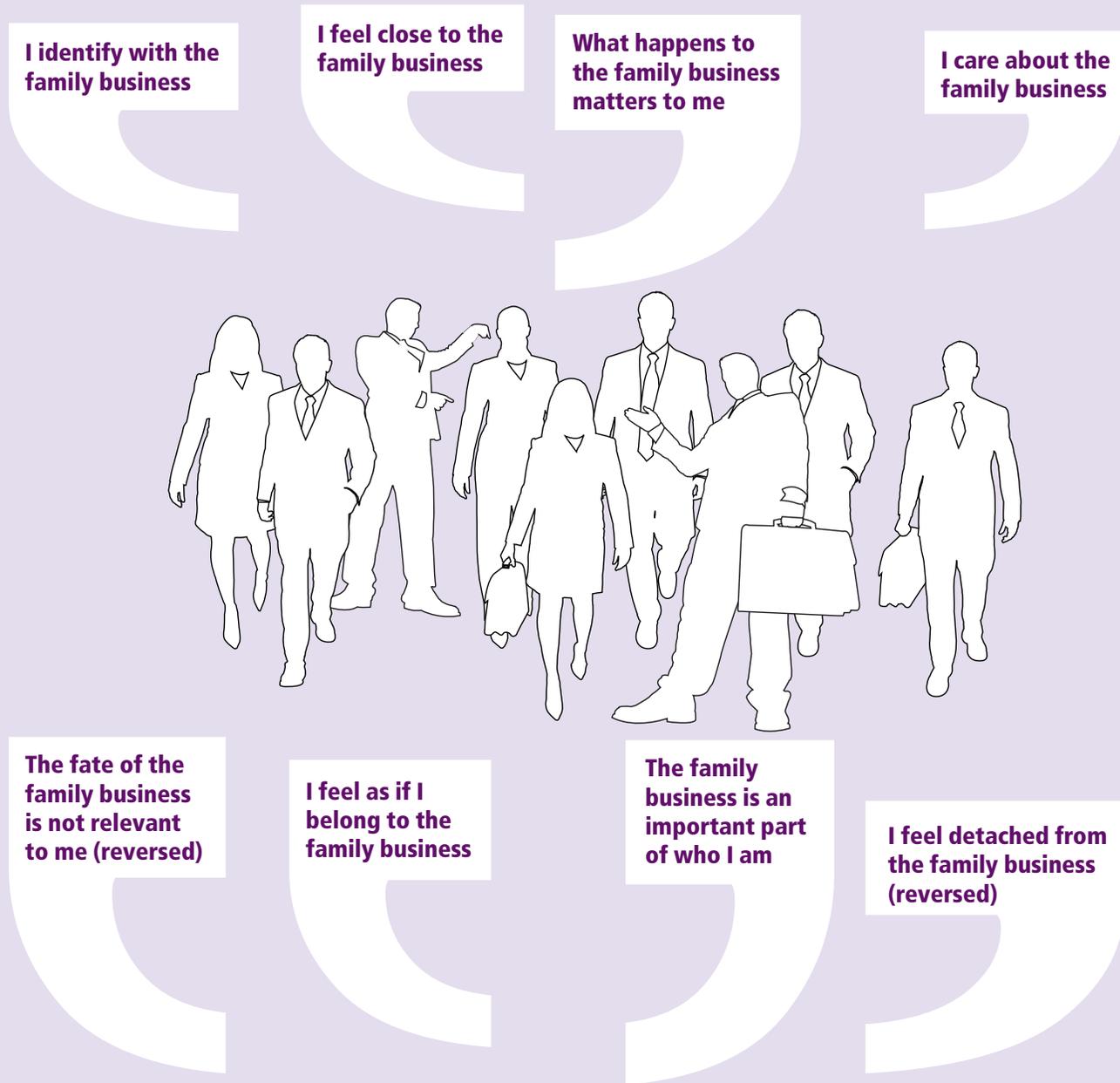
EO is the critical pathway between the next generation (NxG) and the family business. It is palpable – people feel it – but it is also intangible, hard to define and measure. Yet we found it meant something very special in all of the eight case studies we conducted in the

earlier report. We see this bond as 'a golden thread' running from the past, through the present and into the future. Often it seemed to go along with actual ownership, but not in any clear or direct way. We concluded that there are people with major ownership interests in the family business but who care little about it; and on the other side, those who have no material connection with the business yet who feel the pull of a strong emotional connection or bond with the firm.

We decided that EO could and should be made tangible. We wanted to measure and study EO, so that we could understand it better. Further, we wanted to identify the forces surrounding EO, including the factors that increase and diminish it. We also wanted to learn more about its consequences and conditions. This report is the first systematic investigation of these questions, drawing on a multi-national survey of NxG family members.

¹ See Björnberg, Å. & Nicholson, N. (2007). *Ready, Willing and Able? The Next Generation in Family Business*. London: IFB.

Figure 1. EO – Breakdown of the concept: How do you feel about the family business?



2. Emotional Ownership – What is it?

Our starting point is human psychology. The great 19th century psychologist William James said: 'The instinct of ownership is fundamental in man's nature'. In a healthy growing family it is normal for the children to have a sense of 'owning their family and what it possesses'. This is the default condition. Does this extend to owning a family business? Alas, the instinct of ownership is easily disturbed. This is especially true when it relates to a business. EO towards a business has to be built in the first place. Families have to take the right measures to create and sustain EO, or they have to foster the conditions under which it will grow naturally.

We will be analysing how this happens. Through this survey we shall explore: what EO signifies, where it comes from, what sustains it and what consequences it brings.

We have approached our analysis in three ways. First, we went to the prime sources of theory and ideas within psychology and the study of families in order to establish exactly what the concept of EO might mean as something measurable and relevant for family business. Second, we set out to measure it and find out how it functions. Third, we look at the factors surrounding it and how they affect it. The analysis of these factors occupies most of this report.

Defining and measuring EO

EO is defined as a sense of closeness and belonging to the family business – what psychologists call 'attachment'. This is more than just a warm fuzzy glow – it penetrates below the surface of the mind into the identity of the person who experiences EO. EO is something to do with the subject (the NxG family member) as well as the object (the business). EO captures the idea that the business is, in some sense, part of who you are as a person. This is what psychologists call 'identification'.²

Previous studies have demonstrated beyond any doubt that psychological aspects of ownership are promoted by active engagement. The more positive and two-way the relationship between the NxG member and the business, the stronger EO will be. In other words:

- The more the business actively involves a family member the more it will raise his or her EO.
- The higher the NxG's EO, the more inclined they will be to give service and to be involved.

We have measured EO by means of a short but powerful survey scale of eight items: as detailed in Figure 1 (page 2).

² Readers who wish to learn more about the theory of EO are referred to: Nicholson, N. & Björnberg, Å. (2008). 'The shape of things to come – Emotional ownership and the next generation in the family firm'. In: J. Tapies & J. Ward (Eds.) *Family Values and Family Creation. How do Family-owned Businesses Foster Enduring Values?* New York: Palgrave.

Figure 2. **Degrees of EO**

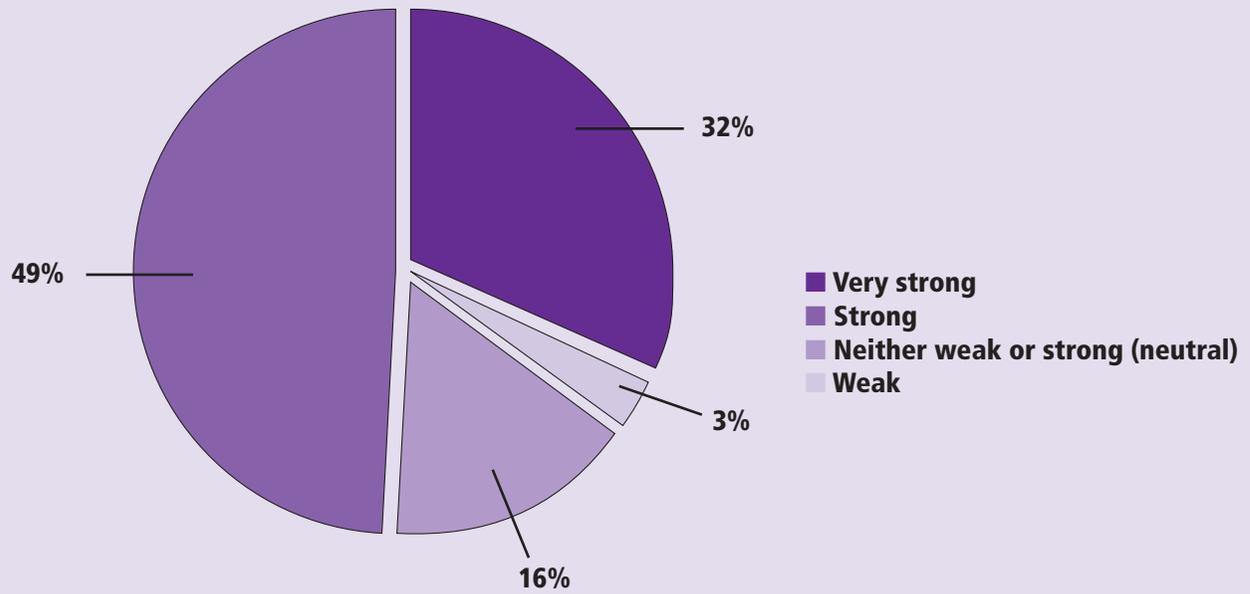


Figure 3. **Positive vs. negative emotions about the family business**

	Not often negative	Often negative
Not often positive	16% 'Neutral'	12% 'Disillusioned'
Often positive	61% 'Supporters'	11% 'Contrarians'

3. Results

Overview of sample

Our sample consists of over 600 NxG members from 67 different countries. We simply asked the NxG to self-select for this survey – no prior definition of ‘next generation members’ was utilised. Most of our respondents are between the ages of 22-40 years, with the largest age group being 31-40 years. Just over one-third are female. Close to half of the sample do not have an ownership stake in the business, and half do not work in the family business. For more background information on the sample demographics, please see the Appendix (page 32) or contact the authors.

Factors supporting Emotional Ownership

Four out of five respondents indicate strong or very strong levels of EO, though there is a minority (19%) of NxG family members who are neutral or negatively disposed to the business (Figure 2, page 4). It seems as if the default position is high EO, yet there is quite a lot of variation. What causes this?

When we combine all the factors in our survey and identify those which have the strongest influence, a very clear pattern emerges. EO comes from:

- Involvement and personal career investment in the business.

- Coming from a flexible adaptive family.
- Having and using support structures.

We also find some strong cultural effects. One of these is that EO is especially strong among many Latin cultures.

Looking at the effects of EO – there are many, but one general factor jumps out of the analysis. It is linked with life satisfaction. This we see as a two-way street. High EO creates satisfaction, and people who have a positive and proactive orientation to life tend to develop higher EO.

Digging deeper into the essence of EO, we related it to a separate set of questions, asking people how often they had positive or negative feelings about the business. This gives us four groups (Figure 3, page 4).

The ‘supporters’ have high EO and the ‘disillusioned’ have low EO as one might expect, but what of the other two groups? The ‘neutrals’ merge in with ‘disillusioned’ – their EO is similarly low and detached in character.

But the most interesting observation is that the ‘contrarians’ – people who are both positive and negative simultaneously – have EO at roughly the same levels as ‘supporters’. In other words EO is not compromised by having critical thoughts and feelings about the firm. This is an important finding.

4. Emotional Ownership and the Family Firm

Are certain kinds of family firms more likely to generate EO than others?

We looked closely at the characteristics of the family firms the NxG members in our sample come from.

Three findings emerge. EO is higher in larger businesses but not in older ones. This suggests that EO develops where there is an established entity, but is not related to its ability to survive. This also implies that it is business uncertainty rather than the youth of a firm that weakens EO.

We checked if there was any relationship with perceptions of firm performance. There is none. This is significant. It means two things:

- Having high EO in the family is not directly a cause of business success.
- EO is not a 'fair weather' factor, which people only feel when the firm is doing well. It comes from deeper sources, as we shall see.

5. Who has Emotional Ownership?

The study also looks at the demographics of the NxG: what are the characteristics of individuals with differing levels of EO.

Ownership

Our first port of call was ownership or having an equity stake in the business. One would expect that the larger the shareholding you have in the firm the higher would be your EO. We found this to be true, but with major qualifications.

The relationship is not very strong. There are plenty of people with no ownership who have high EO, and conversely, people who have a big ownership stake in the business but whose EO is not particularly high. Yet having an ownership stake raises EO, for five reasons:

- The connection becomes tangible.
- You get more information about what is going on.
- You have some statutory responsibility.
- You have rights as an owner.
- You have a financial investment.

We also looked at the degree of concentration versus dispersion of share ownership. We reasoned that EO might be higher where it was concentrated – implying a stronger culture. Not so. Again, it seems that EO comes from a deeper well.

Looking beyond ownership to a range of demographics, further clues begin to emerge about the origins of EO.

Nationality

We analysed the different nationalities in our sample and a clear picture emerged. We expected EO to be mainly dependent on local and immediate factors. This is true, but overlaying this is a visible cultural effect. There is a strong family business culture effect that is most strongly connected with Latin cultures. We found the lowest EO levels in our samples from Sweden, the Middle East and Africa – intermediate levels in Europe, India, the USA and Mexico – but the strongest in Spain and several South American and Caribbean nations (Figure 4, page 8).

Age

We looked at the age of respondents. We expected EO to increase with age. So it does, but not as an even trend.

EO is strongest in the 'years of early adulthood' – 31 to 40. Up to that time it is building. Over the age of 40 it fluctuates around its plateaued level. There is a visible dip in this period. In general EO seems to rise to a peak in mid-life (Figure 5, page 8).



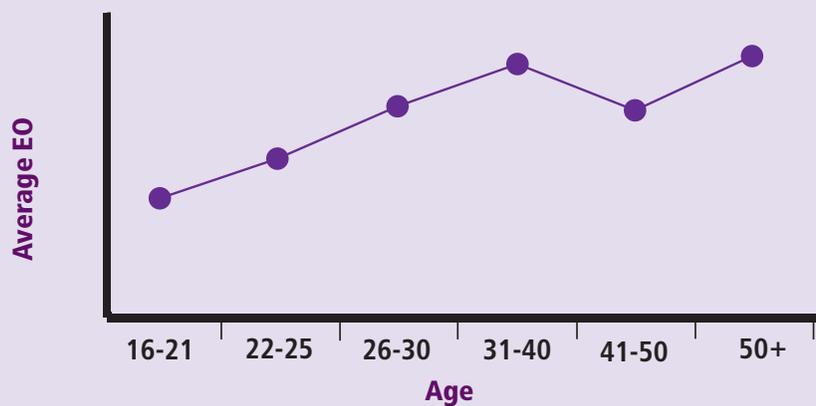
The greatest dilemma in my family is that the family business is composed of two different firms... but with different share ownership among family members.

NxG participant

Figure 4. **Regional differences in EO**



Figure 5. **Average EO across age groups**



Sex

Males have higher EO. This is a disappointing finding, since one would like to assume equality of the sexes in their attachment to the family firm. However, it seems that various forces are encouraging more EO in males than females. For example, our sample shows that families have different expectations about the respective careers of young men and women in relation to the family business.

Lifestyle

We also found being in a stable relationship for either sex enhances EO. Other data confirms that EO is associated with aspects of a settled life. Having children also works in the same direction – but the effect is stronger among men. It may be that the role of the family business as a provider is seen as more important among fathers, thus strengthening the bond.

Education

Possession of an MBA, not just any higher degree – raises EO. The MBA is the business degree par excellence, and one might expect it to stimulate interest in the business. Again we found a gender difference. Men are more likely to have an MBA, another indicator of the more pro-business orientation of the men than the women in our sample.

Some overarching conclusions can be drawn from these findings – NxG family members will have heightened EO if:

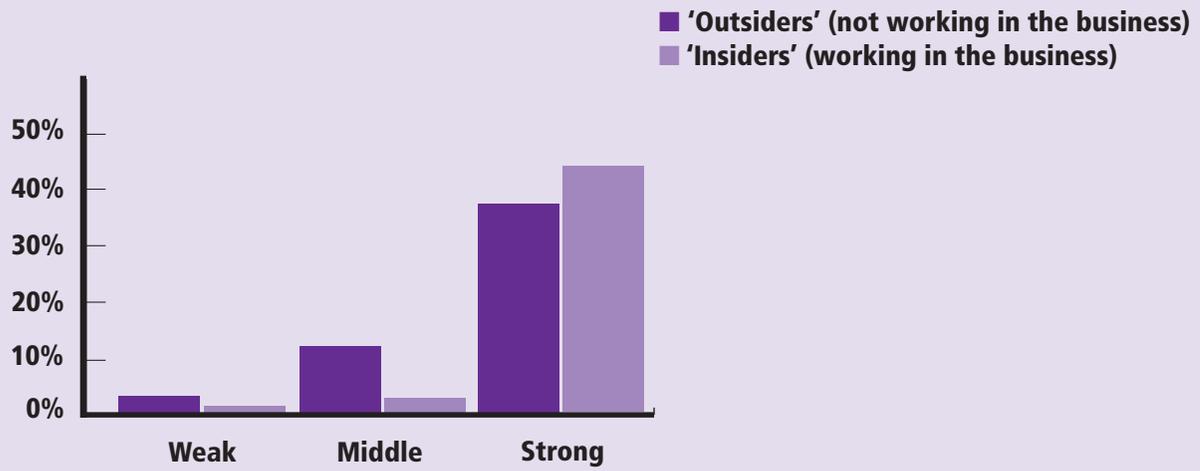
- They belong to a culture that supports a strong future vision of NxG involvement.
- The firm has weight and substance.
- The family member is at a life stage where their choices could include some involvement in the firm.



Some members of the family spend too much [money]... They do not teach the new generation how to be hard workers, austere and cautious. That is what worries me the most; the lavishness.

NxG participant

Figure 6. **Working / Not working in the family business and Emotional Ownership**



6. Roles and Experience and Emotional Ownership

We examined whether the experience of working in the business affects EO (Figure 6, page 10). We would expect it to. The results are intriguing. The sample divides half and half between people who are and those who are not working in the family business – we shall call them ‘insiders’ and ‘outsiders’.

We find ‘insiders’ quite clustered at the high EO end of the scale. ‘Outsiders’ have a much more varied profile: some feel highly connected; others do not. It appears that working in the business brings you closer to it, increasing your attachment.

We also checked to see if this is just for ‘insiders’ in the most senior positions. Job status makes no difference. EO is high regardless of the level ‘insiders’ are in the business. Nor does gender make a difference. There is no difference between the sexes in their representation in the ‘insider’ and ‘outsider’ groups. The most encouraging finding here is that more than one-third of the NxG ‘outsiders’ nonetheless retain a strong sense of EO.

We wanted to see if the ‘insider’ bias would also apply whenever NxGs had worked in the firm; in other words whether any earlier ‘insider’ experience would lay a foundation for future EO.

We tested for this and found a clear effect. Whether full-time, casual or part-time, any kind

of previous work experience in the business increases a person’s EO. This points to a kind of positive ‘imprinting’ taking place. The seeds of EO are planted by even quite small and early exposures to the firm.

Figure 7. **Family climate and EO (ranked in order of strength)**



7. Family Dynamics and Emotional Ownership

Family dynamics are the key to understanding EO. It is in the family that EO is nurtured, and it is in the family that it can be destroyed. We set out to look closely at how this might occur, examining in detail two aspects: family structure and family climate.

What about family structure?

The first structural factor we looked at was size of the nuclear family, measured by the number of siblings. This has a positive effect on EO – although it is not a strong relationship. We reason that it occurs because in a larger family a buzz around the business is more likely to arise – where NxG have more siblings with whom to share thoughts and feelings about the family business.

Following the age-old tradition of male primogeniture, one might expect that being first-born would automatically prime you to have higher levels of EO. However, we found that this was not the case – not even among the sons.

Our data also tells us that being first-born makes absolutely no difference in terms of expectations for joining. Primogeniture is not a strong feature in this contemporary sample, suggesting that this method of succession is losing favour in the modern family firm.

So family structure gives relatively few clues as to the origins of EO.

What about family climate?

As we expected, this turns out to be a really crucial factor underpinning (if it is good) or undermining (if it is poor) the development of EO in family firms. In earlier research³ we showed that there are six interlinked themes to family climate.

All these themes are related to EO, with varying strength (Figure 7, page 12). Our study demonstrates that a dynamic, cohesive, flexible and loving family is the best guarantor of EO among the next generation.

The only surprise is with intergenerational authority, which is equivalent to ‘power distance’ of seniors from juniors. We expected this to have no relationship or a negative relationship. Here it is the weakest of the factors, which suggests that EO may flourish in somewhat paternalistic families – where seniors offer clear leadership and boundaries to juniors.

Conflict between family members

We expected certain types of conflicts to have a negative effect on EO, particularly those that are outside the working confines of the business. An example would be ownership conflict. This typically polarises ‘insiders’ (working in the family business) and ‘outsiders’ (those who are not). Our assumption proved right – ownership conflict lowers EO.

³ See Björnberg, Å. & Nicholson, N. (2007). The Family Climate Scales – Development of a Measure for Use in Family Business Research. *Family Business Review*, 20, 3, 229-246.

All other conflict types (around strategy, organisation and management) were unrelated to EO. Moreover, people who report that there is no conflict of any kind do not have higher EO. It would appear that ownership has a special potency as a conflict issue that can undermine EO.



Our conflicts are sometimes functional and sometimes dysfunctional.

NxG participant

8. Emotional Ownership and the Governance of the Firm

A major question is what a family business can do to stimulate the EO of the next generation. We reasoned that good governance would help, for example if the business had in place documented rules regarding NxG entry to employment in the firm, share transfer, family strategy or structures such as a formal family council.

The majority of our sample reported that their companies did not have any of these governance processes. This absence can be explained mainly by the youth and small size of most of the sample's businesses (Figure 8, page 16).

To our surprise, we found that none of these individual governance mechanisms associated with EO – when analysed one by one. Taken together, however, there is an effect, in which having a family council comes out as the central element.

Our analysis suggests that family governance mechanisms only yield higher EO when they are used as part of an integrated approach to manage the diversity of views and arising conflicts by providing a voice for family members. Single measures alone are not enough.

However, we also found that formal meetings about the family business are paradoxically associated with lower EO. Almost half of the businesses never arranged formal meetings (Figure 9, page 16).

Our explanation is that formal meetings (such as Annual General Shareholder Meetings) are often associated with impersonal processes. Reliance on formality may alienate NxG members. It would appear as if there is a balance to be struck between informality and structure when it comes to governance and the NxG.

Informal procedures seem to be a preferred route to evoking EO. Especially, informal discussions about the business in the early school years (6 - 11) – the typical 'dinner-table' talk – is a foundation for EO. This kind of early inclusion creates higher levels of attachment and identification that persist later in the person's life.

We have established that close involvement with the family business through work experience increases EO. But what about other ways of getting to know and gain information about the business? Does it matter what sources of information are used?

It appears that a variety of sources of information (Figure 10, page 17) are effective for creating or sustaining EO. It is probably also true that people with high EO actively seek out more information. Either way, knowledge about the business forms a two-way positive channel between the NxG and the firm. The one exception is the news media route, which is too impersonal to impact EO.

Figure 8. **Formal procedures, documents or rules**

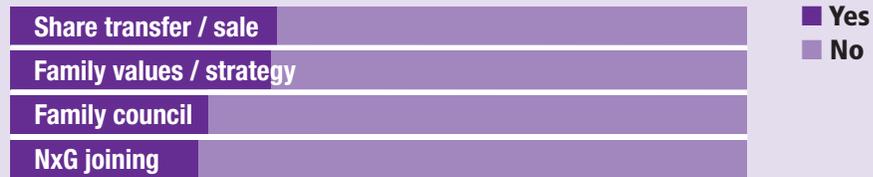


Figure 9. **Do family business owners meet in a formal way to talk about the family business?**

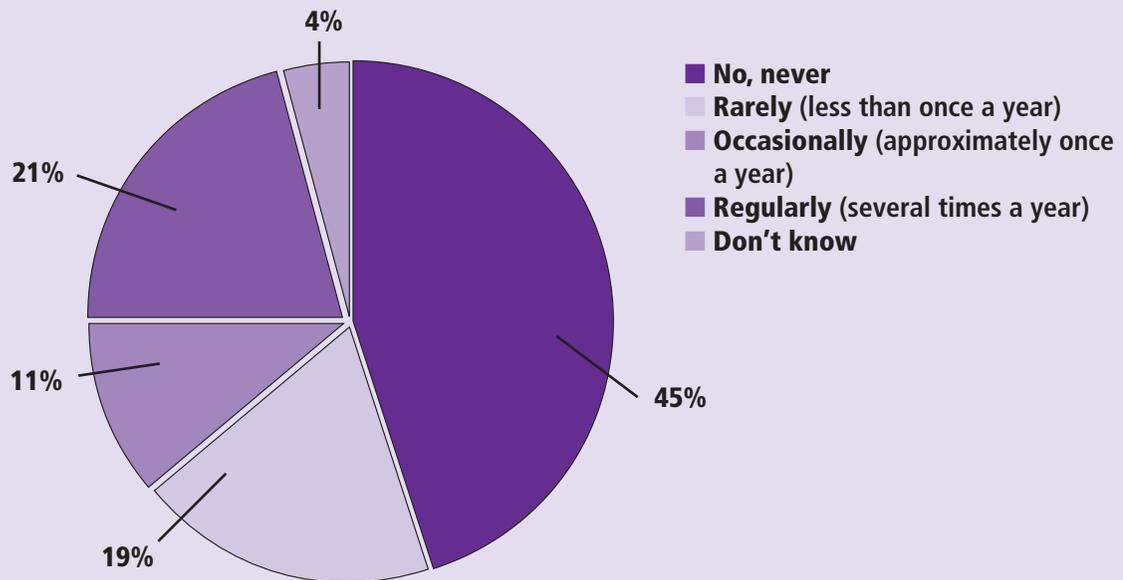


Figure 10. **Ways in which the NxG seek information about the family business and EO (ranked in order of effectiveness)**

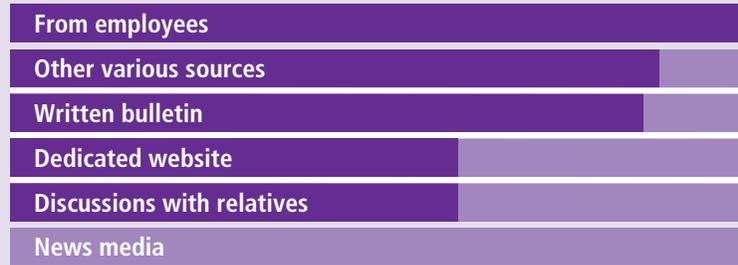


Figure 11. **Involvement of NxG 'outsiders'**

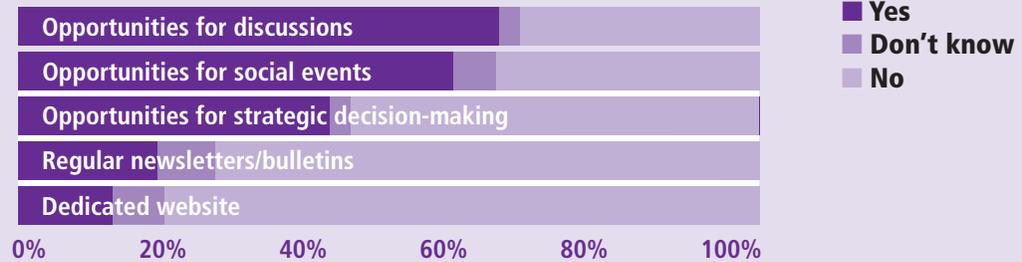


Figure 12. **Involving the 'outsider' NxG – relationship with EO**

Business efforts	Related to EO?
Information via newsletter and bulletin	X
Dedicated website	X
Opportunity to partake in discussions	✓
Opportunity to partake in strategic decision making	✓
Social events in a family business context	✓

X = No
✓ = Yes

Engaging the 'outsiders'

We examined family business efforts at engaging the 'outsiders' – NxG not working in the business (50% of the sample) (Figure 11, page 17).

A clear pattern emerges (Figure 12, page 17). Personal media enhance EO. Impersonal media – bulletins and websites – do not. In order to stimulate the EO of 'outsiders' – NxG members not working in the business – allow them to participate in face to face meetings, where they can use their voice: taking part in discussions, decision-making and social events. This is much more effective than relying on written material such as bulletins and websites.

Another conclusion is that the routes to EO are always active and never passive. EO comes from social inclusion and proactive engagement. It is a mistake to regard all 'information' as something objective, rational and neutral. In the context of family communications, the medium sends signals about inclusion and exclusion.

The more personal the form of communication, the more powerfully it will bind people together. For 'outsiders' this kind of human linkage is essential to put them on a par with the 'insiders'.

9. NxG Futures: Careers and Expectations

EO is intimately connected with career development. We examined career paths and how they might draw the NxG away from the firm, or on to a parallel track to it.

Our first step was to ask: how clear is the NxG's career plan? Would clarity strengthen or weaken EO? The results show that people who are most clear about their career have higher EO. Our interpretation is that less uncertainty in one's career gives the next generation the psychological freedom to attach securely to the family firm.

There is a mild positive linkage between receiving career advice and EO. NxG members who are proactive in their approach to career search do so from a platform of confidence in their relationship to the firm.

In the survey, we asked possibly the most critical question for many families: How interested are you in joining the family business? This shows a clear positive relationship with EO – demonstrating that if a firm wants to build and maintain family involvement in terms of working in the business, they should foster EO (Figure 13, page 20).

More than half of the sample profess a definite interest in joining – soon or at some point in the future. We see a significant difference between the sexes when it comes to interest in joining (Figure 14, page 20).

This seems to be linked with share ownership. Greater interest in working for the family business is related to share ownership among the NxG – and we also see that men tend to have larger ownership stakes than women.

Expectations of family members

We wondered whether other people's wishes would influence the NxG's EO – especially the expectations of family members about working in the family business. Does it make a difference if there is a desire for them to be involved in the business? We would expect so. The results confirm this simple linkage (Figure 15, page 20).

- Those NOT expected to join have a lower average EO than the other groups.
- Those who were ALWAYS expected to join have higher average levels of EO than the other groups.

Only one in five families specifically raise the NxG with the expectation that they will join the business. Here again we see a difference between the sexes: women are less expected to join the family business.

Regardless of specific expectations about joining the family firm, opinions of others about the NxG's career may influence EO levels (Figure 16, page 21). We found that in some of the cases, strong views – in particular from



I don't know whether I'm capable of taking the family business to greater heights than my father did. I'm not sure about my technical capabilities.

NxG participant

Figure 13. Career development and EO



Figure 14. Interest in joining – male and female NxG

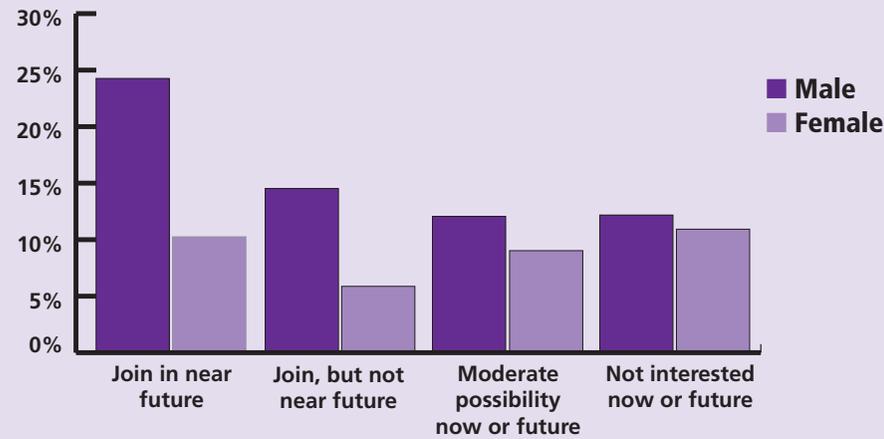


Figure 15. Expectations for joining the family firm

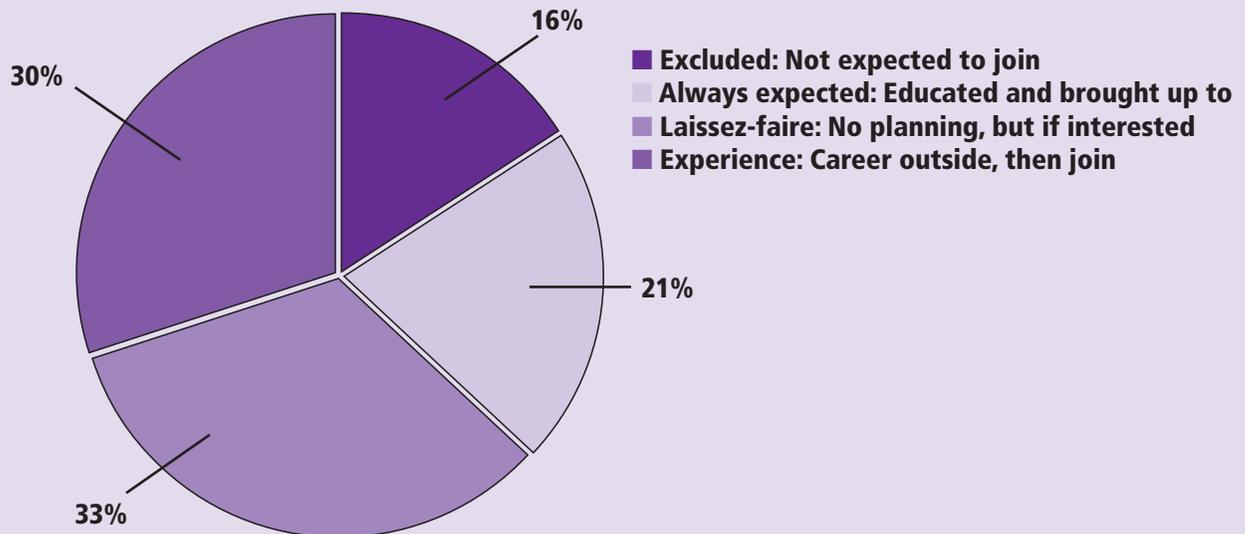


Figure 16. **Do people close to you have a strong view about what you should do in your career?**

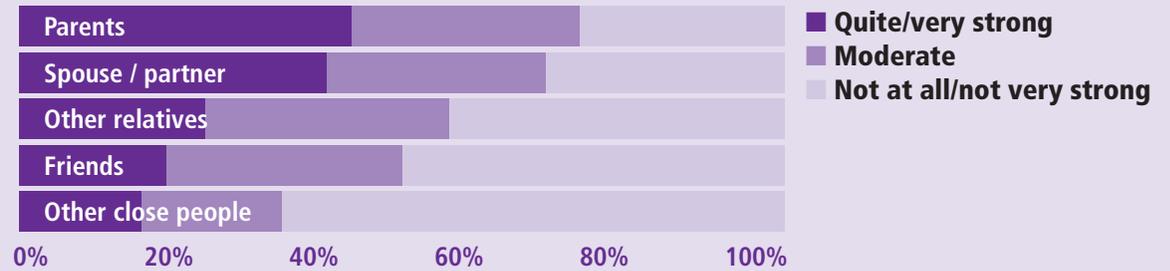


Figure 17. **To join, would the following be an advantage or disadvantage?**

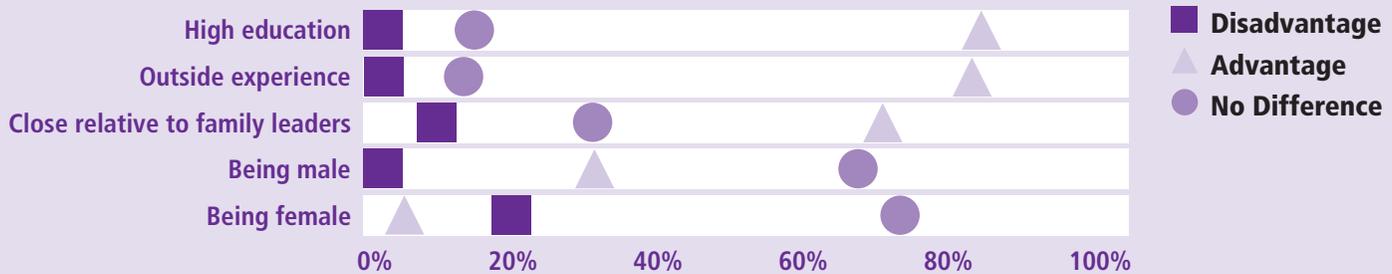


Figure 18. **Types of support associated / not associated with EO (ranked in order of strength)**

Type of support	Related to EO?
Education seminars	✓
Network of other NxG	✓
Professional career counselling	✓
Mentor from inside the business	✓
Mentor from outside	✗
Exchange programme with other family business	✗

✓ = Yes
 ✗ = No

parents, spouses/partners and other relatives were accompanied by stronger EO. Friends and other people regarded as close had no similar influence.

We also considered whether the sample perceive any basis for discrimination in favour or against certain groups of NxG members. For example, are there specific qualities that would make it easier or more difficult to get a job in the family firm? We wished to see if these preferences increase or decrease EO (Figure 17, page 21).

Being closely related to the family leaders had no effect on EO, whether it was considered advantageous, disadvantageous or neutral to joining. EO levels were higher in family firms where education and outside experience were considered an advantage.

In firms where education and experience made no difference to the recruitment process, EO levels were in fact lower. Companies with a selection bias for males have lower levels of EO – and EO levels are higher in firms where there is no sex bias. This clearly reinforces the idea that families who are inclusive and egalitarian are more likely to be rewarded in terms of EO.

What types of support offered to the NxG are linked to EO?

We found certain forms of support to be more effective than others in promoting a high level of EO (Figure 18, page 21).

Having a mentor from outside the business and taking part in an exchange programme with other family businesses were not associated with EO. These forms of support are to be commended for the benefits and development they bring to the NxG more generally. However, other forms of support (as listed in Figure 18, page 21) are more effective for building EO.



Our first generation founder wants to let go (of leadership) – but he is only willing to hand over important decisions if we (the second generation) do what he would have done.

NxG participant

10. Principles of Emotional Ownership

Emotional Ownership is shaped along three axes: the firm, the family and the individual. These axes are distinct yet interdependent. There are three main components that promote and foster EO – support structures, family flexibility, and personal work involvement.

Summary of the principles that govern EO:

→ EO levels are naturally high in business families

Where this is not the case, it is a sign that something is wrong – family capital is not being fully utilised in the business.

→ Negative and positive emotions accompany EO, but negative emotions do not always diminish it

EO can be a negative force in the family business if it is the battle cry of the disaffected members of a family.

→ EO is robust – but not impervious to certain types of conflict, discrimination and excessive formality

A key question is, how hard is it to regain EO once it is lost?

→ EO is associated with share ownership

Share ownership does help to build EO, but it does not guarantee EO. EO can also be strong among NxG who do not own shares.

→ EO requires leaders to cultivate a climate that combines open-mindedness and stability

The next generation need both 'roots' and 'wings' for the EO bond to grow strong.

→ Life stage affects EO

Signs of maturity, such as age and being settled in a relationship stimulate higher levels of EO.

→ EO is strengthened by informal sharing

Communications regarding the family business will enhance EO if conducted in an informal and personal way.

→ Family climate is critical to the formation of EO

A positive family business climate also links with long-term beneficial consequences.

→ Knowledge about and closeness to the family business enhance EO

Work involvement in particular offers this.

→ EO is awakened in families who have an inclusive and non-preferential approach to involving the NxG

Where they are accorded recognition on the basis of what they have achieved rather than who they are.

11. Recommendations for Firms, Families, NxG and Advisors

In the following section, we list some recommendations and best practices for the development of sound EO. These can be applied in the firm, the family, and at individual levels.

What can the firm do?

Communication, education and integration

EO builds in the younger years, a time when the family firm may not be on the top of an individual's list of interests. The challenge for seniors is to adjust the type and amount of effort needed to engage the next generation.

This is particularly true for the 'outsiders' (NxG not working in the family business). For this group informal, interactive and personally engaging activities are essential in order to create EO.

- Nurture family pride and values – for example arrange company site visits.
- Organise social and educational activities – for example: NxG workshop away-days around topics such as personality, entrepreneurship, negotiation or financial know-how.
- Help the NxG set up a philanthropic programme. This will give them good professional skills such as team-work, strategic planning, project management and managing finances.

- Encourage the NxG to get involved in business activities. For example: establish an entrepreneurship fund where the NxG can apply for grants or loans to start up their own business, possibly drawing upon expertise from within the business.

Governance

If your business does not currently have governance mechanisms ask yourself why? You may not see a need for such structures right now, but what about preparing for the next generation's involvement? Remember, governance does not have to be complicated or cumbersome; it can start in even a young family business with minimal structures for meeting, talking and making decisions.

- Make sure your ownership structure is not a breeding ground for conflicts – do not postpone addressing these issues. In the mature firm it may be necessary to prune the family tree to avoid diluted ownership.
- Draft your estate plan and ensure that you have clear rules regarding the sale and transfer of shares.

Combining informality with a structured approach – which the NxG seem to favour – seems to be the most effective attitude to adopt. Therefore, your governance structure should integrate more intimate face-to-face encounters.

- Ensure that your family governance is founded on fair process – transparent and just decision-making. It should also be inclusive and flexible enough to allow senior and junior generations to make adjustments to family charters/protocols, for example.

Support

Make the career development of your NxG a key priority of the business.

- Use the family business community to provide sector experience to the NxG.
- Create opportunities for the NxG to have work experience in the family business, from a relatively young age. In the very early years this can include simple tasks to provide visible exposure to the business but in later years it is best to devise targeted projects that involve real development tasks.
- Become members of a family business network. Send family members to relevant conferences and educational programmes.

What can the family do (especially seniors)?

Family climate

The ideal goal is to foster an adaptive family; one that takes a problem-solving approach to conflicts and difficulties; it maintains clear boundaries about what is and what is not within the family's domain of action, and it has an agreed model of family leadership.

- Practise openness and honesty when communicating – aim for dialogue rather than monologue. Avoid making assumptions – ask and answer questions, share and listen.

- Do not push too hard to engage the NxG, talk down to younger members, or apply heavy pressure on them. An informal approach is the most effective – exchanges can be serious without being stifling, and fun without being superficial.
- Increase your level of emotional intelligence. This is a skill that can be learned – essentially, it is about empathy – the ability to put yourself in the other person's shoes and to manage your own emotions.
- Take care not to sweep conflict under the carpet. Tackle differences in views head on, whilst acknowledging other people's views even if you don't agree with them. Bring in a qualified facilitator to help the process of addressing conflict.
- Make yourself accessible to the NxG – avoid letting the business 'steal' you away from them. Young family members learn by observing their parents, and are likely to emulate work-life balance if they see it being practised at home.

Engagement

The aim is to support the development of young people, encouraging them to explore whilst offering a secure base so that they can find their own place in the world.

- Support young people's career decision-making by showing interest and discussing options.
- Do not exclude young members from dinner table business conversations – this intimate and personal setting is perfect for stimulating EO, and is welcomed by the NxG. However, take care not to put too much of a gloss on the reality of

the business. They need to see the problems as well as the successes.

- Capitalise on the diversity which exists in the family. Top management teams that are gender-diverse are more innovative and deliver higher performance. Family firms can be better than their non-family counterparts at breaking the glass ceiling. Beware of the tendency – which may be unconscious – to give female family members less exposure or involvement in various aspects of the life of the business. They may be your best hope for the future.

What can the NxG do?

Interest and proactive approach

Engagement with the family business is a two-way street – the NxG can both be engaged and engage themselves. Those who are positive and proactive are more likely to get real benefits from being part of a family business – whether they work in it or not.

- Seek out information – ask questions. Get to know the employees, where appropriate.
- Understand your role in the family company. As young, interested family members you are providing a unique contribution to the business even when you are not doing anything specific in relation to it.
- Make sure you find out what you need to know to carry out your role as an owner effectively. How will you keep yourself updated about what is happening in the business and the family?

Career

It would be a mistake to regard a person's

career development as only an individual responsibility – it is closely tied in with the family. At the same time, young people's dreams and aspirations should be safeguarded, since these can easily get overlooked or swamped by the overwhelming presence of the family business.

Get the support you need for your developing career

- Make sure you have good exposure to businesses other than the family business. Outside experience helps build confidence and credibility. It also keeps your CV competitive.
- Get a mentor. The role of the mentor is typically to give industry-specific knowledge and advice in an informal way. Mentoring is especially important for NxG leaders. The mentor can be family or non-family.
- Coaching is particularly useful for new leaders, but also for any young professional who wishes to develop his/her leadership skills. It involves getting to know your strengths and weaknesses, understanding family business dynamics and acquiring 'soft' skills training. Coaching is more of a formal arrangement, and takes place over a finite period of time. Ensure your coach is a professional who is well-versed in family business dynamics.

Issues for advisors

- **Be aware of the dark side of EO**
It is a sharp sword that can be wielded to cause much damage in family businesses. It is important to remind clients that identifying and being attached to the

family business does not give you rights. Problems arise in family firms when one member claims rights over another. Battles for the soul of the business by family members claiming different visions are the cause of many a family war.⁴

→ **Pay attention to the role of family dynamics in the NxG's career development**

Check out what 'scripts' – stories about what should happen – are in play, and help the NxG to write their own, rather than get captivated by the scripts of others. Joining the family firm in an executive position is not a 'life sentence' or even a necessity. It has to be a choice. It does not have to be for ever. It is like any other career choice, a step into a role where one has something to contribute.

→ **Self-help**

Encourage the family to form networks and peer-groups. It is important for NxG members to meet people in similar situations and to feel less alone. It is equally important to have a space for exchange between seniors and juniors. Encourage them to participate in family business conferences and programmes – this provides a great reflective space taken out of the context of day-to-day life.

⁴ See Gordon, G. & Nicholson, N. (2008). *Family Wars*. London: Kogan Page Ltd.

Figure 19. **What do you think NxG leaders need to support them in their leadership role?**

The knowledge that it is OK to make mistakes.

Absence of suffocation by older family members.

Having back-up and support from senior family leaders.

Information about the business and the possibilities to get involved.

The understanding that just because you join the family business you don't have to stay there for the rest of your life.

An invitation to join and take part in meetings from an early age.

Education seminars on family business dynamics and leadership development.

A clear communication to the employees about the position and roles of the next generation.

12. Special Advice for NxG Leaders

Being a next generation leader in a family business is fraught with particular challenges. We asked respondents to formulate what NxG leaders need in order to prepare for and support them in their leadership role. Success factors overlap with many of the elements that encourage EO. They also go beyond EO. Here are the factors listed as necessary preconditions or qualities for taking up a leadership role:

→ **Character traits**

Such as courage, audacity, insight and endurance.

→ **High levels of education**

This means formal as well as practical and non-traditional education, including cross-disciplinary training and understanding of the nature of family business.

→ **External awareness**

Which may come from travelling and learning from other family businesses.

→ **Mentoring and/or coaching**

By an outside party. This should vary in form and content according to the specific development stage of the NxG.

→ **Cultural insight**

NxG leaders need awareness of the special symbolic value they carry and how to use it to create value in the family firm.

→ **Leadership skills**

With special emphasis on emotional intelligence, mediation and communication skills to be applied in a family business context.

→ **Clear role within the family firm**

Supported by the trust of family members and employees.

→ **A framework of values**

Derived from the family; typically including: ethics, fairness, honesty and hard work.



NxG leaders need to understand 'management of symbolism' – that they are 'seen' differently than other managers due to the fact that they are [family]. Emotional intelligence helps in such an environment.

NxG participant

13. Summary

Figure 20. What are the factors associated with higher and lower EO? Which factors are neutral?



14. Conclusion

We have found that our attention to this topic – the involvement of the next generation in family business – has been richly repaid with insights. EO is a golden thread – the life line through which family firms survive and pass between generations. Much more knowledge remains to be unearthed, but in this work we have begun to open up one of the key pathways to perpetuating the family firm.

Emotional ownership exists independently of actual ownership or career participation in the business. It is perhaps best viewed as a state of mind to be aspired to – a linkage that could bear fruit in the future. It widens the options for the next generation member and for the family firm.

It does have a hazardous potential where family members feel entitled, on the strength of EO, to make demands or assert themselves as guardians of the firm's culture, strategy and vision. Mostly its effects are more benign. It is an individual's response to a community that they feel connected with.

We have shown how quite simple measures can stimulate EO at an early stage. Indeed, it may be harder in later years to develop the EO of family members who haven't been previously engaged.

Our report points to family climate and culture as critical elements. Just as shares are

passed down the generations, there is also an emotional inheritance. Successful business families are able to create an open, embracing and flexible environment in which young family members can play a meaningful part. They are flexible enough to embrace change, yet stable enough to provide a secure base. These business families stand the best chance of transitioning through succession to the next generation with their prosperity reinforced by the competitive promise of their 'family capital' – the commitment and participation of family members.

APPENDIX

Sample Demographics

Figure A1. Age

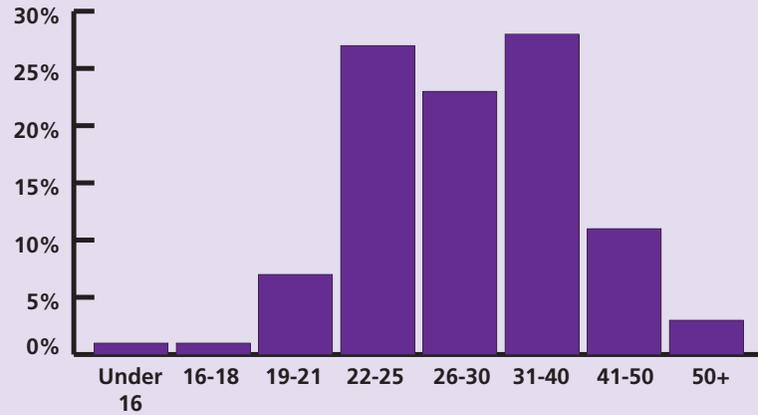


Figure A2. NxG equity ownership stakes

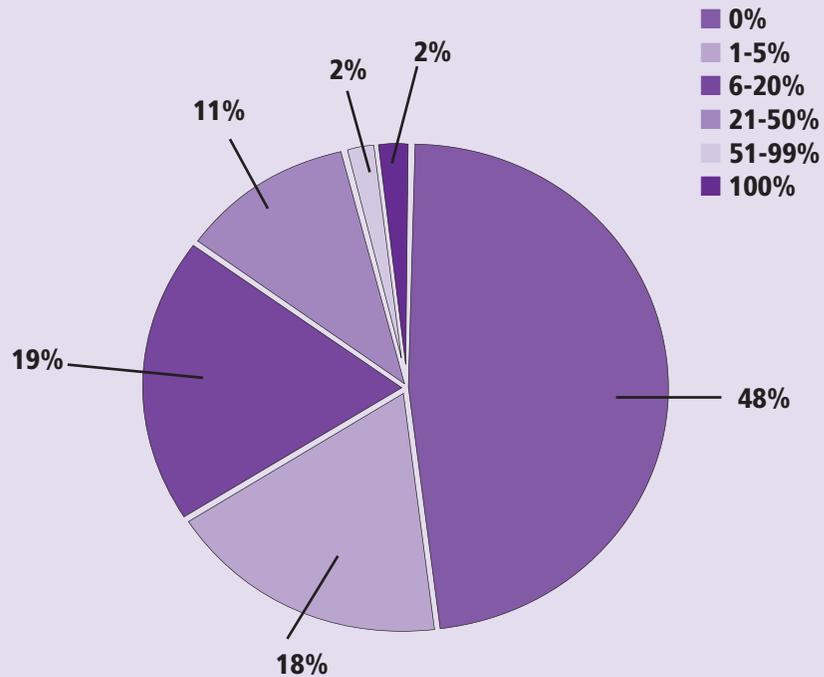


Figure A3. **Generation of the firm**

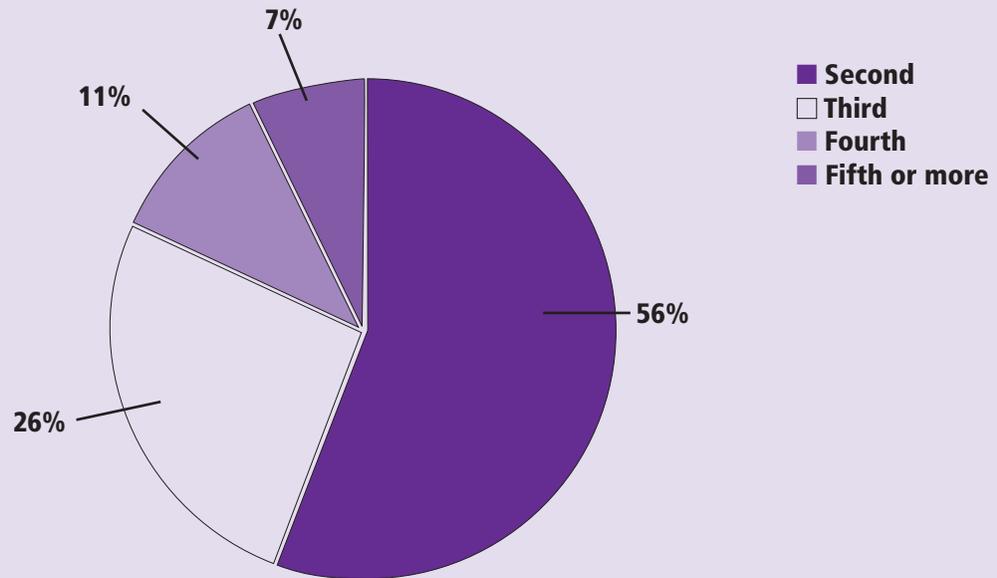


Figure A4. **Nationality (countries with more than 20 respondents)**

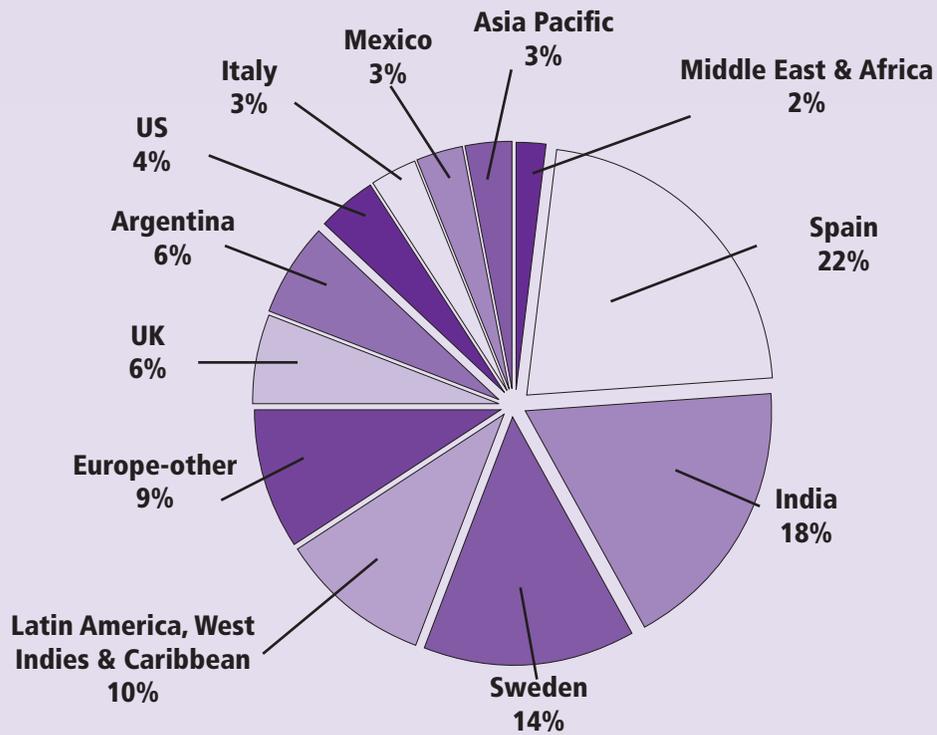
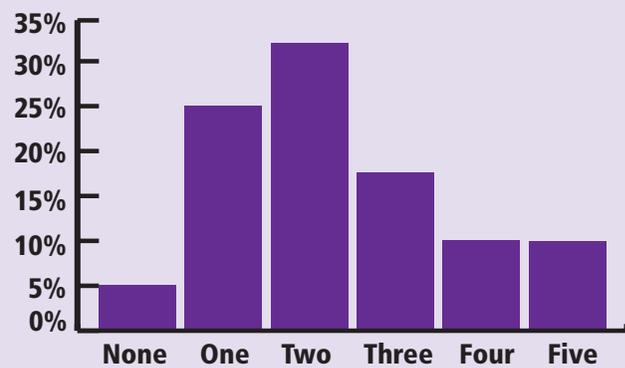


Figure A5. **Siblings of the NxG**





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Nigel Nicholson is Professor of Organizational Behaviour and a former Deputy Dean of London Business School. He has written over 200 academic and practitioner articles, and 18 books/monographs including most recently *Family Wars* (2008), *Traders* (2005), and *Managing the Human Animal* (2000). His research interests are wide ranging including family business, executive careers, behavioural risk in finance, leadership and personality. He is a sought-after public speaker, and is frequently in the media on many topics in management. He is a leading executive educator and consultant, running several high profile executive development programmes at London Business School.



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Emotional Ownership

The Critical Pathway Between the Next Generation and the Family Firm

Åsa Björnberg and Nigel Nicholson

What is Emotional Ownership? Emotional Ownership is a sense of closeness and belonging to the family business. It is the critical pathway between the next generation and the family business – a ‘golden thread’ running from the past, through the present and into the future. This bond is a crucial factor that helps family firms all over the world to create their unique, competitive advantage.

This report by Åsa Björnberg and Nigel Nicholson of London Business School studies the nature of emotional ownership in the next generation – how it is built and how it is eroded. This report is the first to ask these questions, drawing on a sample of over 600 next generation members from sixty-seven countries. Among the discoveries, the authors find that family ‘climate’ and proactive engagement play a central role in enhancing emotional ownership – but excessive formality and certain types of conflict diminish it.



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