



Preparing the Next Generation to be Stewards of Family Wealth

PROFESSOR JOHN DAVIS
Cambridge Family Enterprise Group
MIT Sloan School of Management



VIRTUAL MASTERCLASS
CONSTELLATION ASSET MANAGEMENT
MARCH 23, 2021



JOHN A. DAVIS

Authority on Family Enterprise,
Family Wealth, and Family Office

Chairman and Founder,
Cambridge Family Enterprise Group
and

Faculty Director, Family Enterprise Programs
MIT Sloan School of Management

jdavis@CFEG.com

CAMBRIDGE FAMILY ENTERPRISE GROUP®

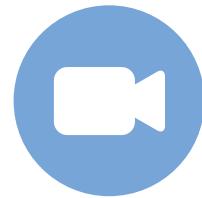
Advisory | Education | Research

We help enterprising families
pursue compelling missions,
solve problems that limit their success,
and build economic and social value
to achieve multigenerational success.

CFEG.com

An effective, online learning environment

VIRTUAL CLASSROOM RULES



Cameras **ON**



MUTE your microphone unless you are speaking



Change your **ACCOUNT NAME** to the name you want to be called



Use the **CHAT** any time to ask a question



Raise Hand

Use the **RAISE YOUR HAND** button (found in the **PARTICIPANTS** list) to ask a question by voice

TODAY'S AGENDA

01

**Multigenerational
Family Success**

02

**Role of Owners
& How to Prepare**

03

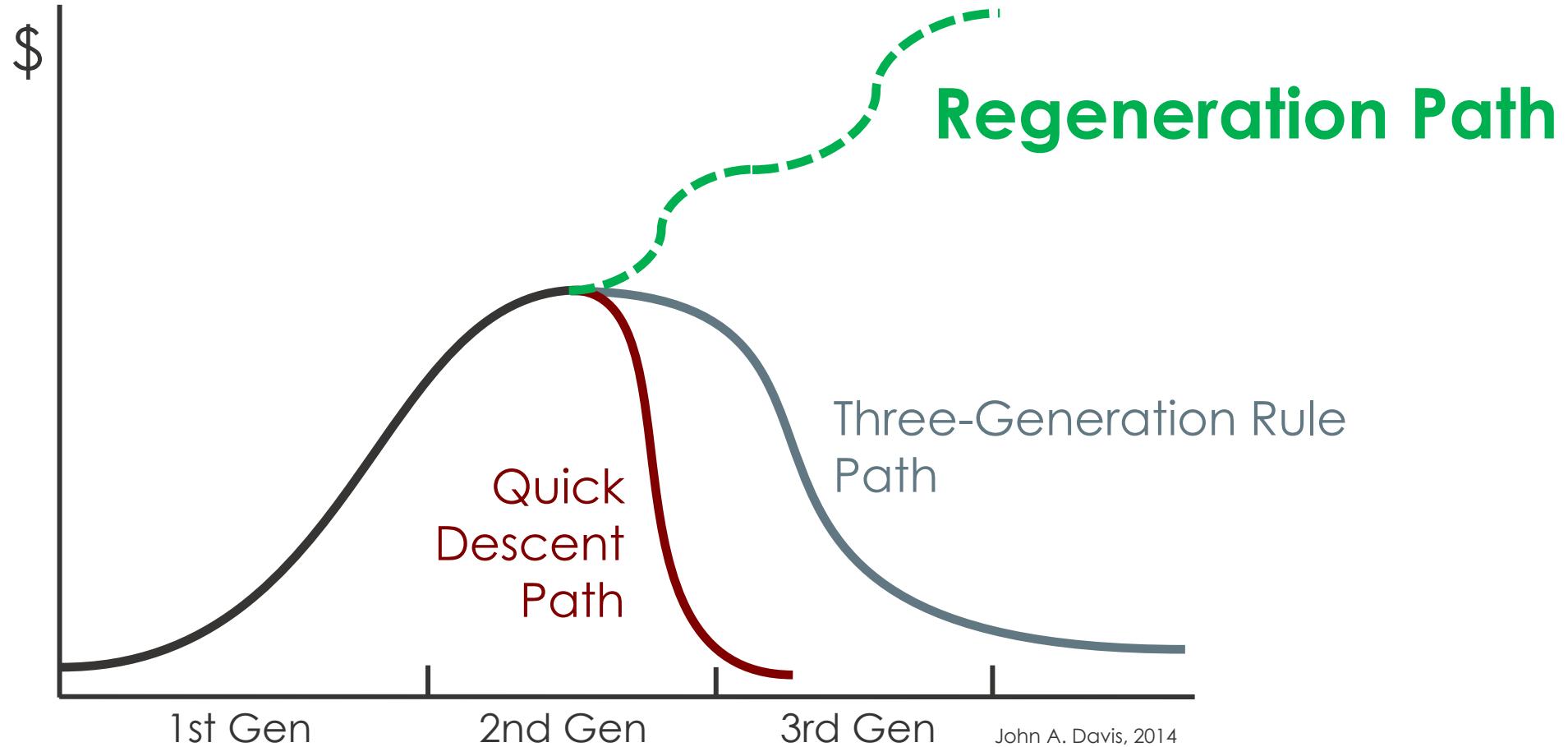
**Developing
Value-Creating
Family Members**

**with a
Healthy Relationship
to Wealth**

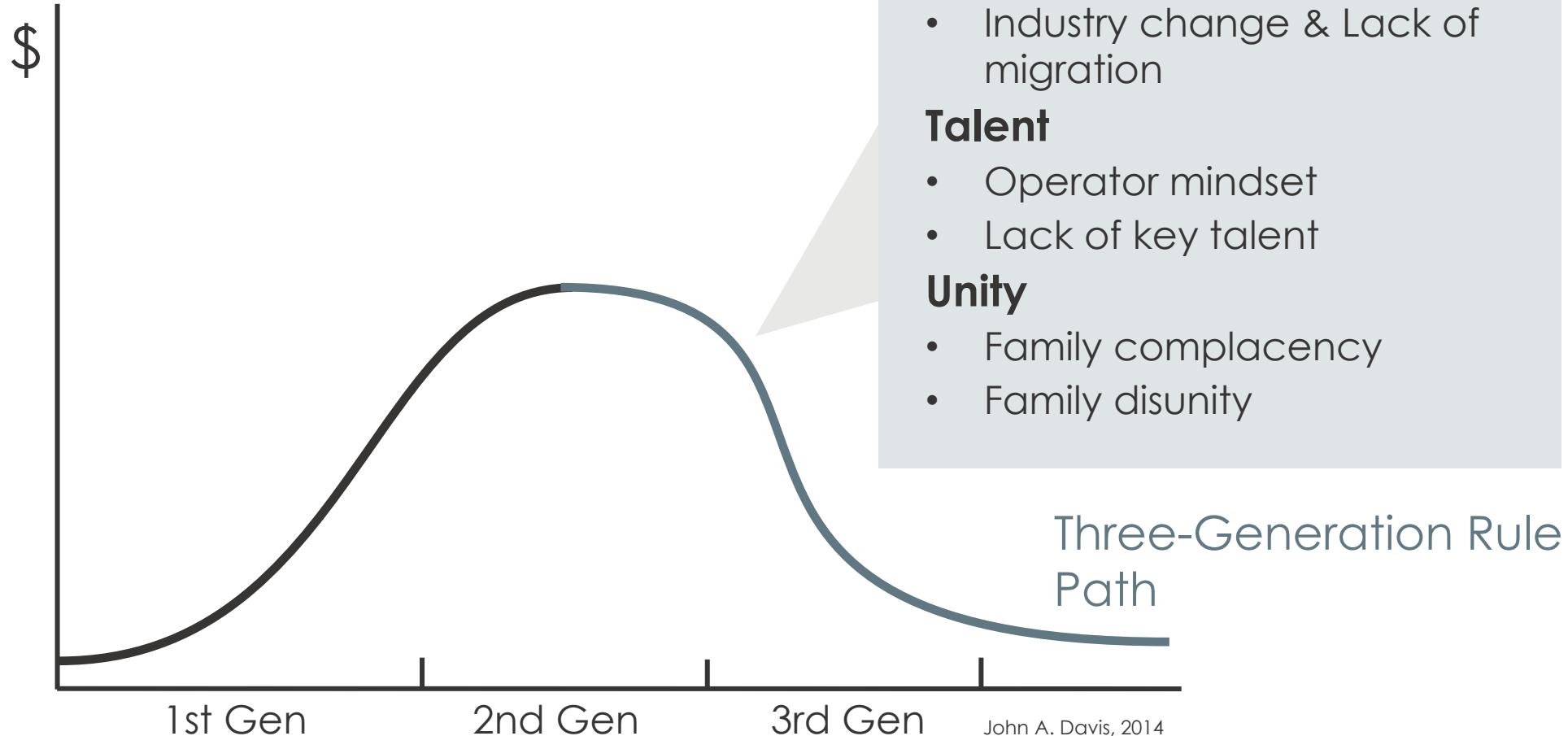
01

Big Picture: The Formula for Multigenerational Family Success

Family Wealth Paths



Family Wealth Paths



PROMINENT CAUSES

Growth

- Declining returns & Overconsumption
- Industry change & Lack of migration

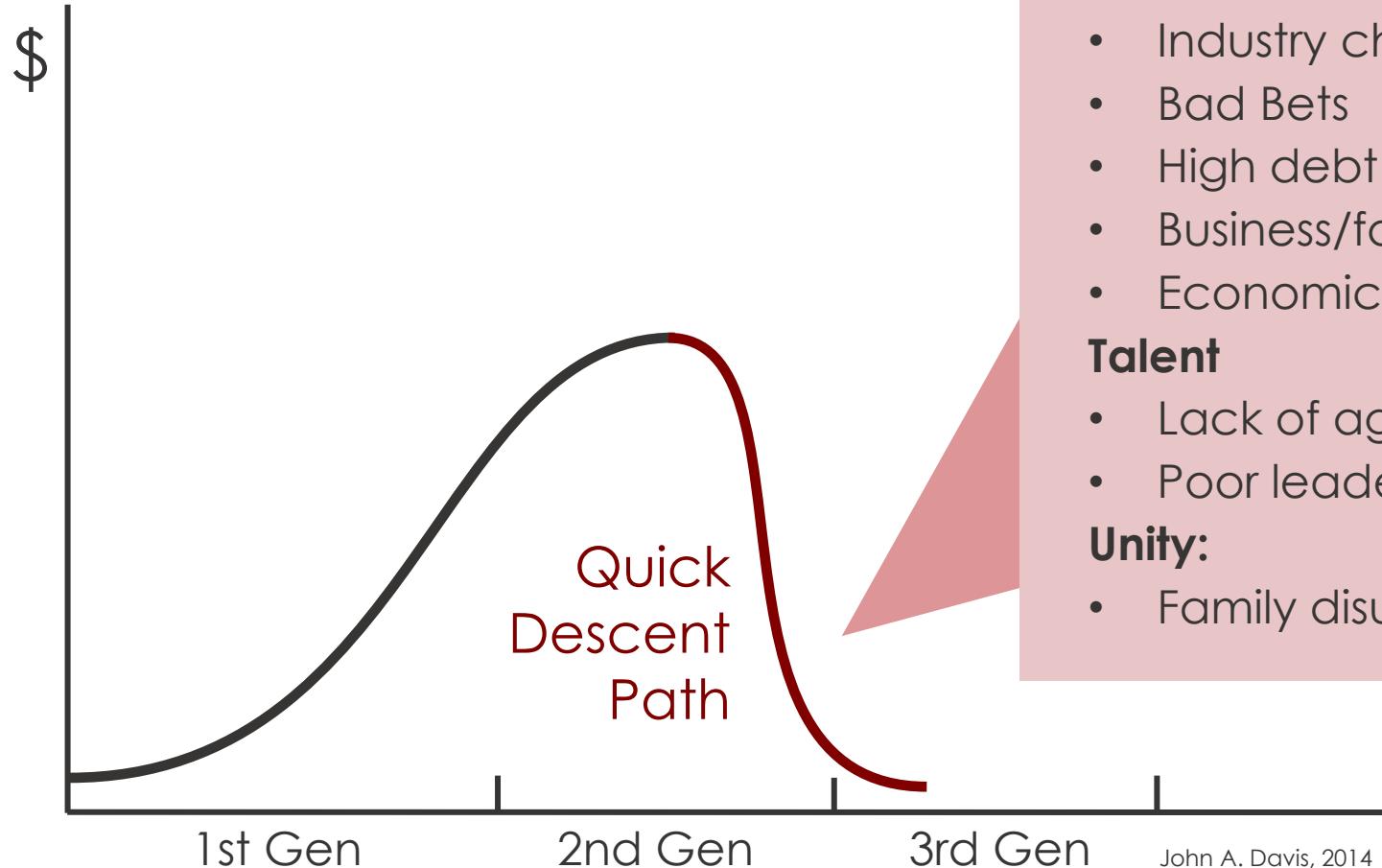
Talent

- Operator mindset
- Lack of key talent

Unity

- Family complacency
- Family disunity

Family Wealth Paths



PROMINENT CAUSES

Growth

- Industry change
- Bad Bets
- High debt
- Business/family tragedy
- Economic disruption/war

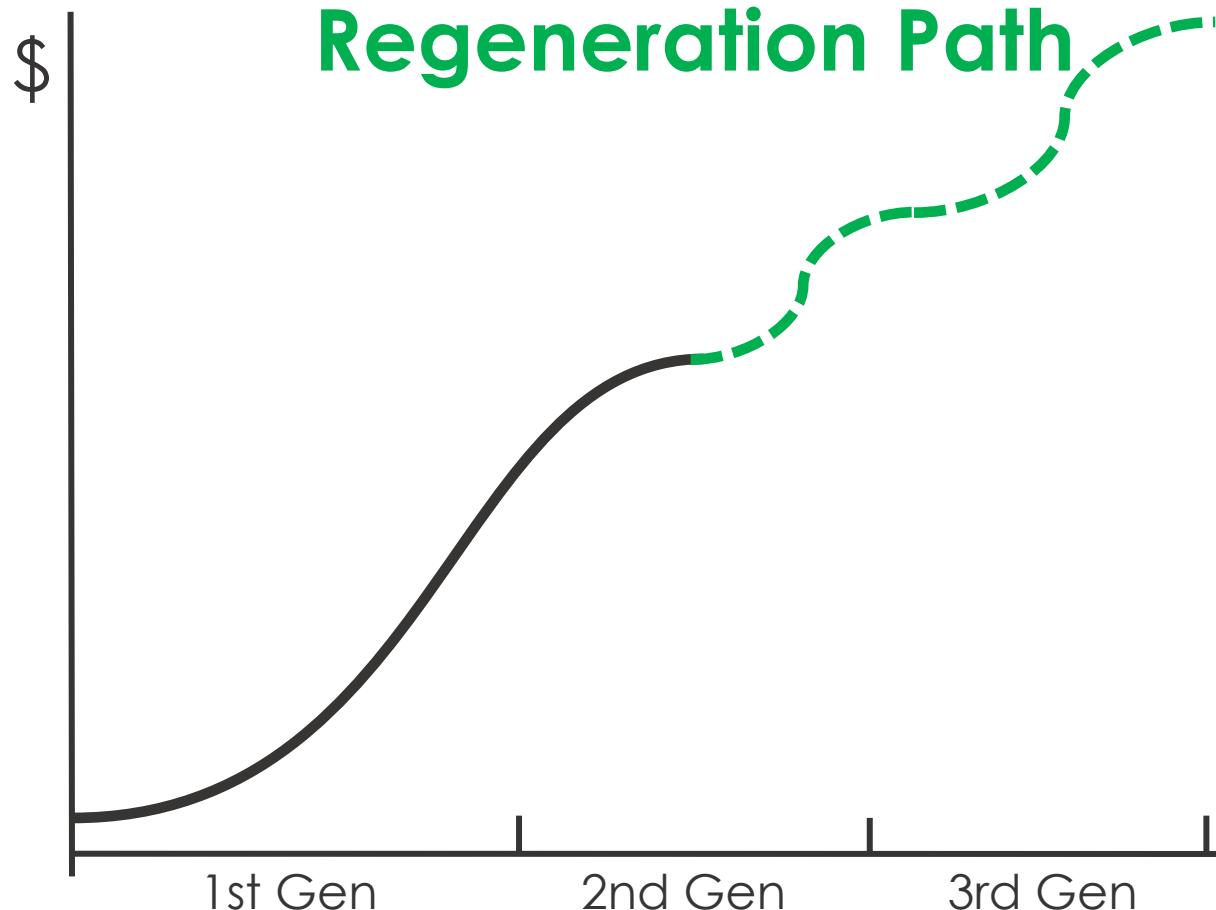
Talent

- Lack of agility
- Poor leadership/advice

Unity:

- Family disunity/family war

Family Wealth Paths



PROMINENT CAUSES

Growth

- *Culture of value creation*
 - Economic opportunities
 - Adaptive portfolio
 - Decisiveness, direction

Talent

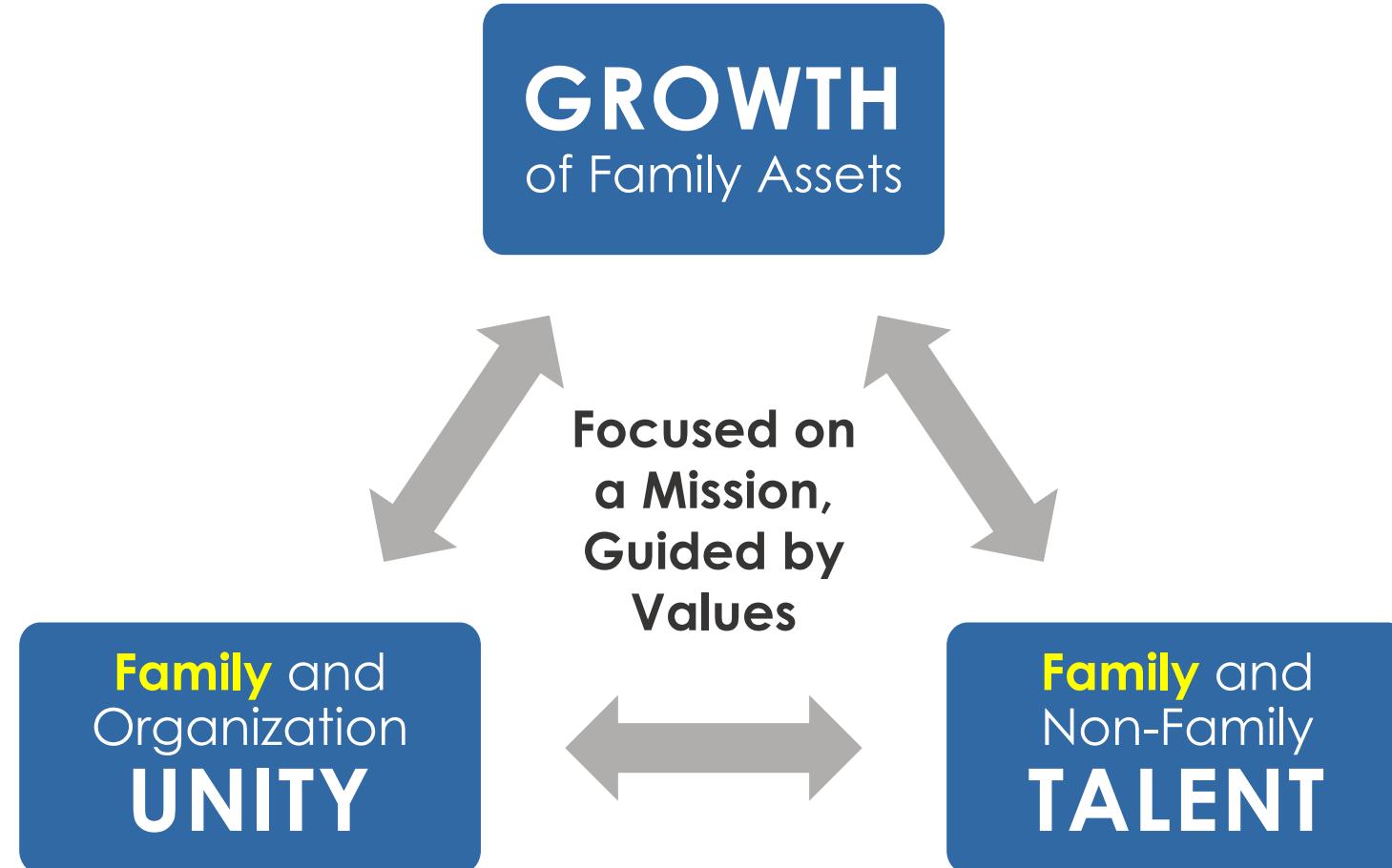
- *Culture of value creation*
 - Key talent in critical roles
 - Wealth Creators + Active Owners
 - Clear qualifications for roles

Unity

- *Culture of value creation*
 - Sense of mission as a family
 - Clear rules and policies
 - Performance and momentum

John A. Davis, 2014

Sustaining FAMILY Success



John A. Davis, 2014

PATHWAY 1

BUSINESS FAMILY

Wealth highly concentrated in operating companies that the family controls

PATHWAY 2

BUSINESS + INVESTMENT FAMILY

Significant assets in both operating businesses and financial investments

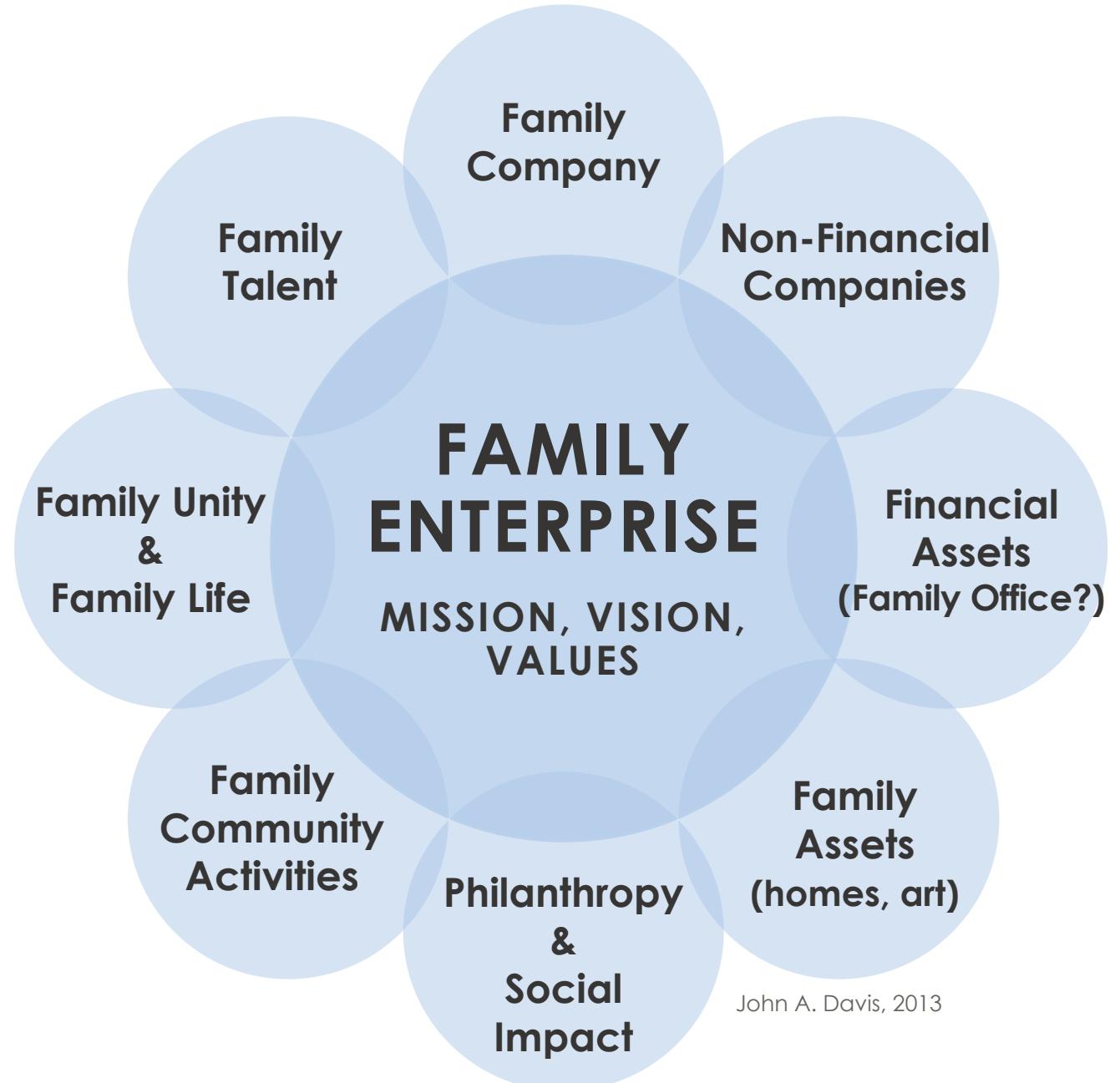
PATHWAY 3

FINANCIAL FAMILY

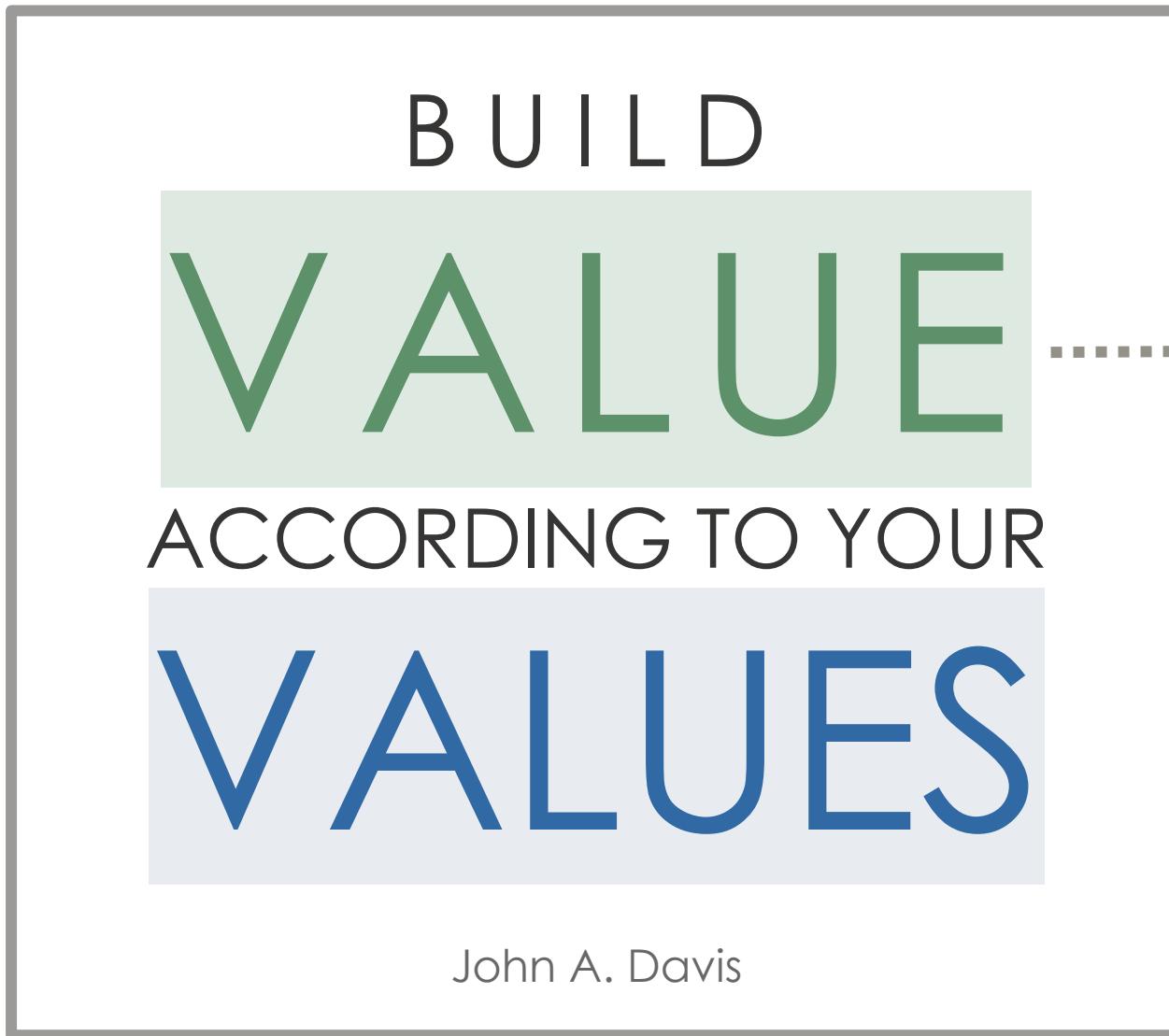
Moved out of operating businesses and into mostly active and passive financial investments

THE FAMILY ENTERPRISE

Collection of the family's meaningful assets and activities



THE WINNING FAMILY MISSION



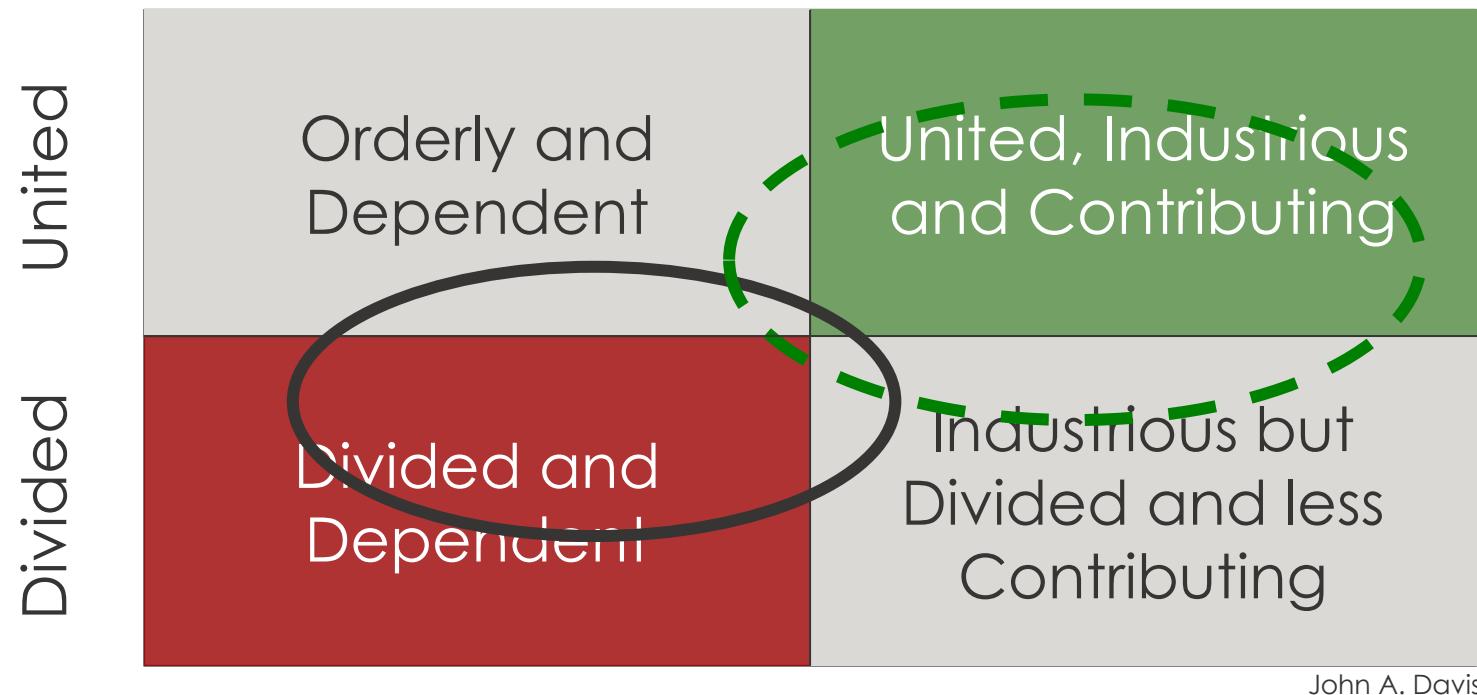
Foundations of Family Enterprise Success



- Particular businesses will come and go.
- But the family behind these businesses can last for generations.
- The family is the enduring value-creation entity.

John A. Davis, 2013

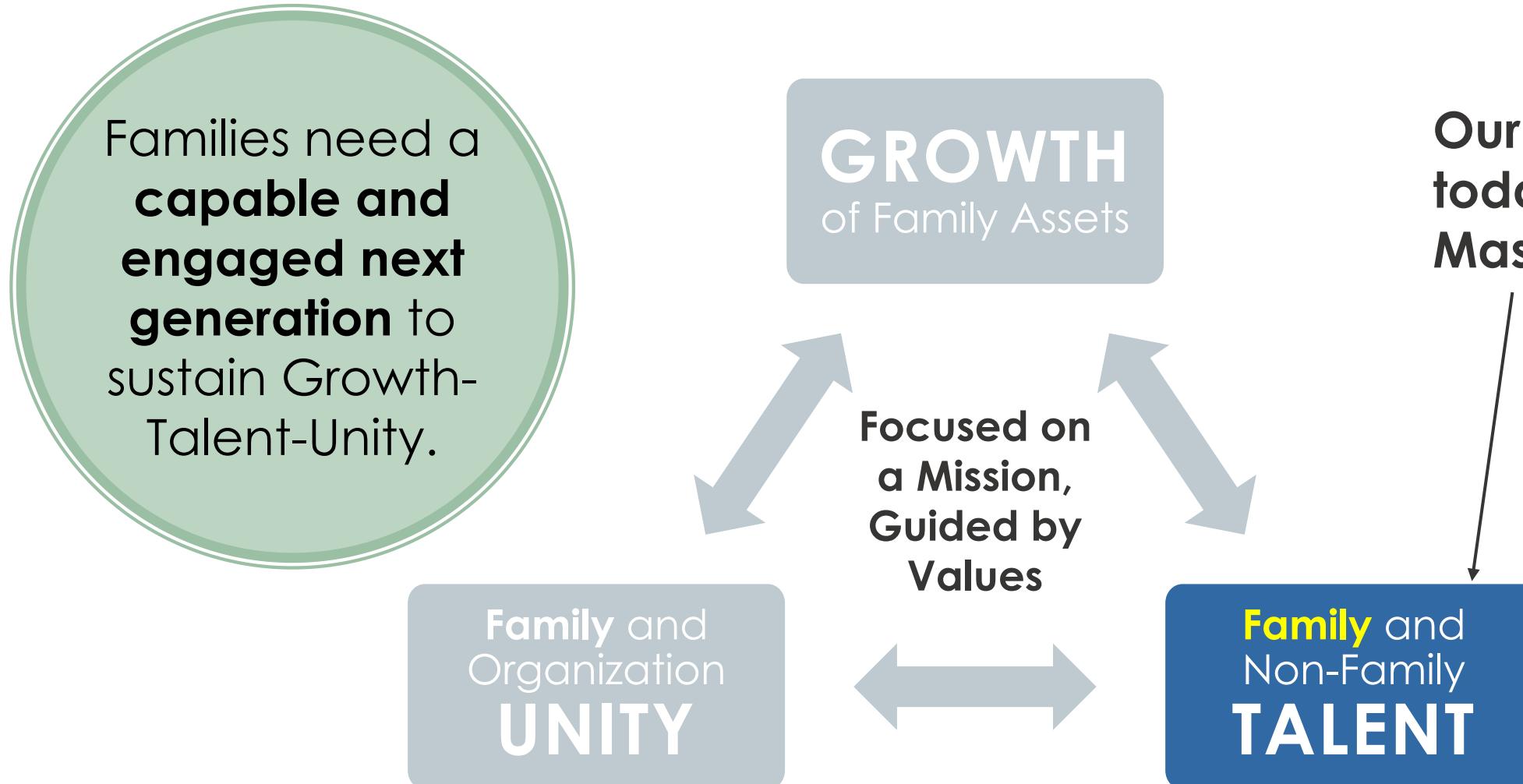
Business Family Types



Consume
Value

Create
Value

Family Sustainability Requires



John A. Davis, 2014

FAMILY TALENT

The family human capital needed to sustain our family and its enterprise.

Innate and purposefully cultivated knowledge, understandings, skills, aptitudes, interests, and abilities of our family members.





The single most important determinant
of family enterprise success and sustainability
is preparation of the next generation.

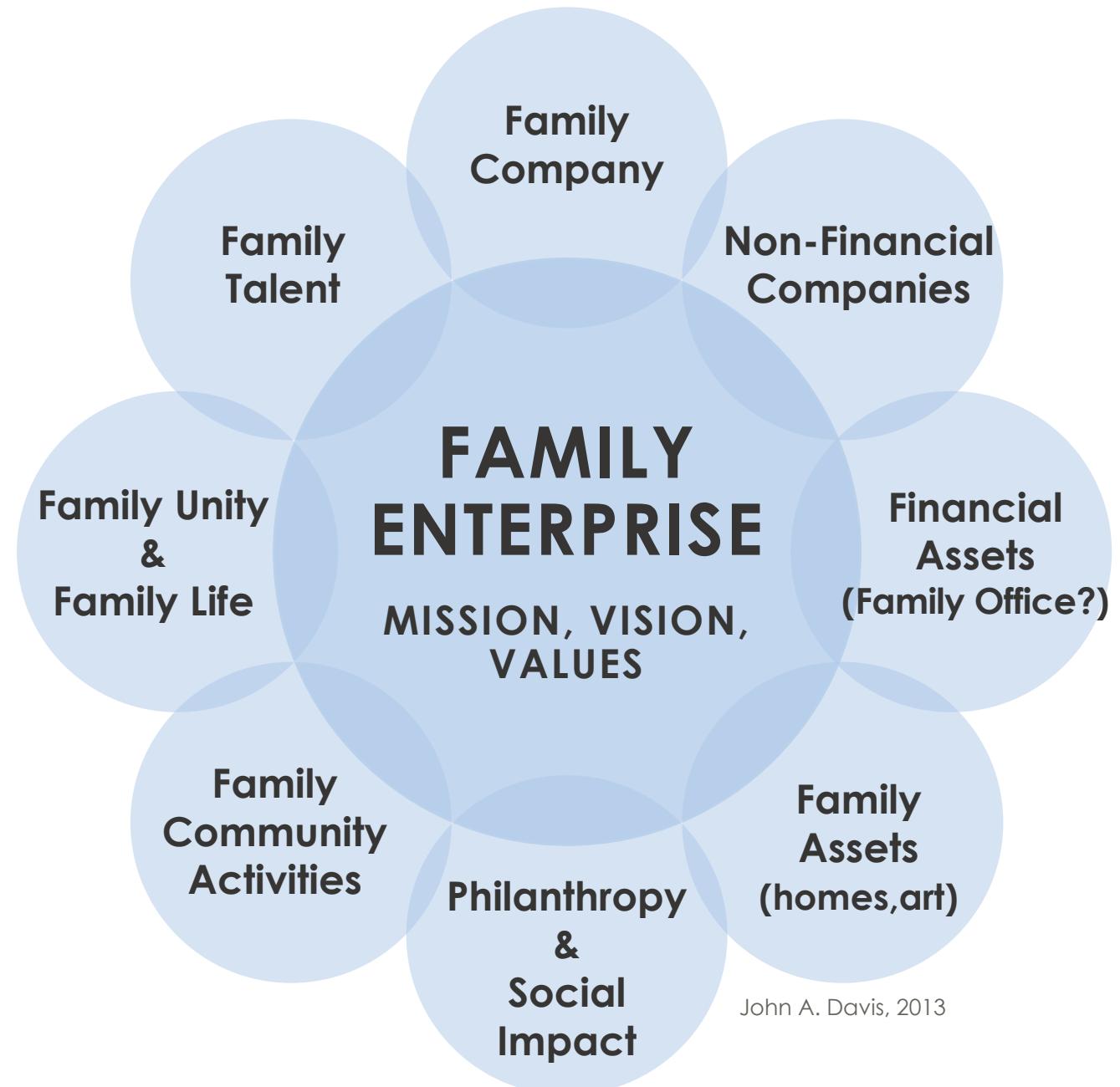
John A. Davis

Prepare the Next Generation to . . .

- **Guide and steward** the organizations and assets that are passed to them
- **Grow family financial wealth and other types of value** with ongoing and new activities
- **Develop themselves** individually to be able to contribute to the family and its enterprise
- **Create a strong team** of family members
- **Build and refresh family unity**
- **Successfully pass the family legacy** to their next generation

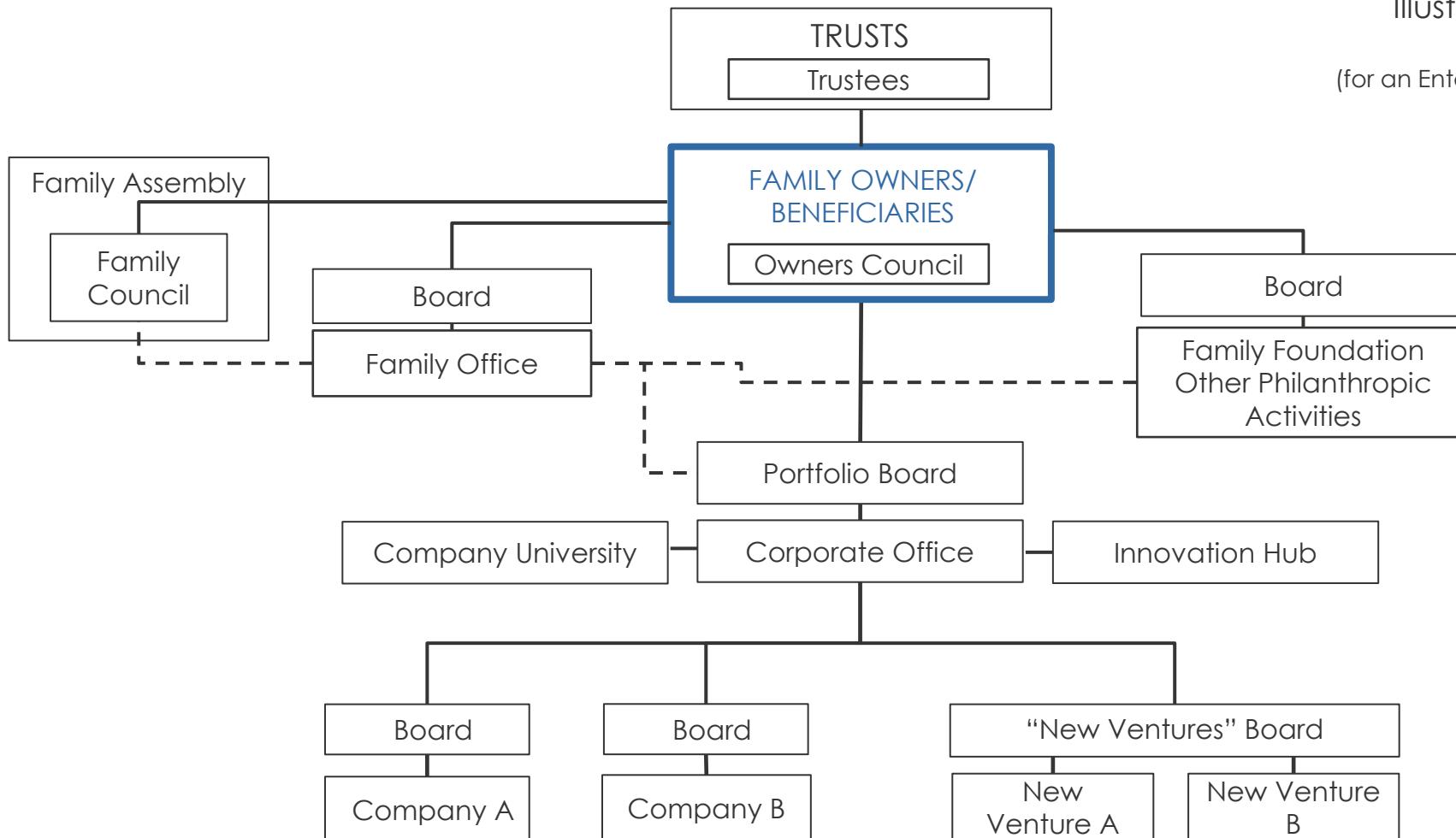
THE FAMILY ENTERPRISE

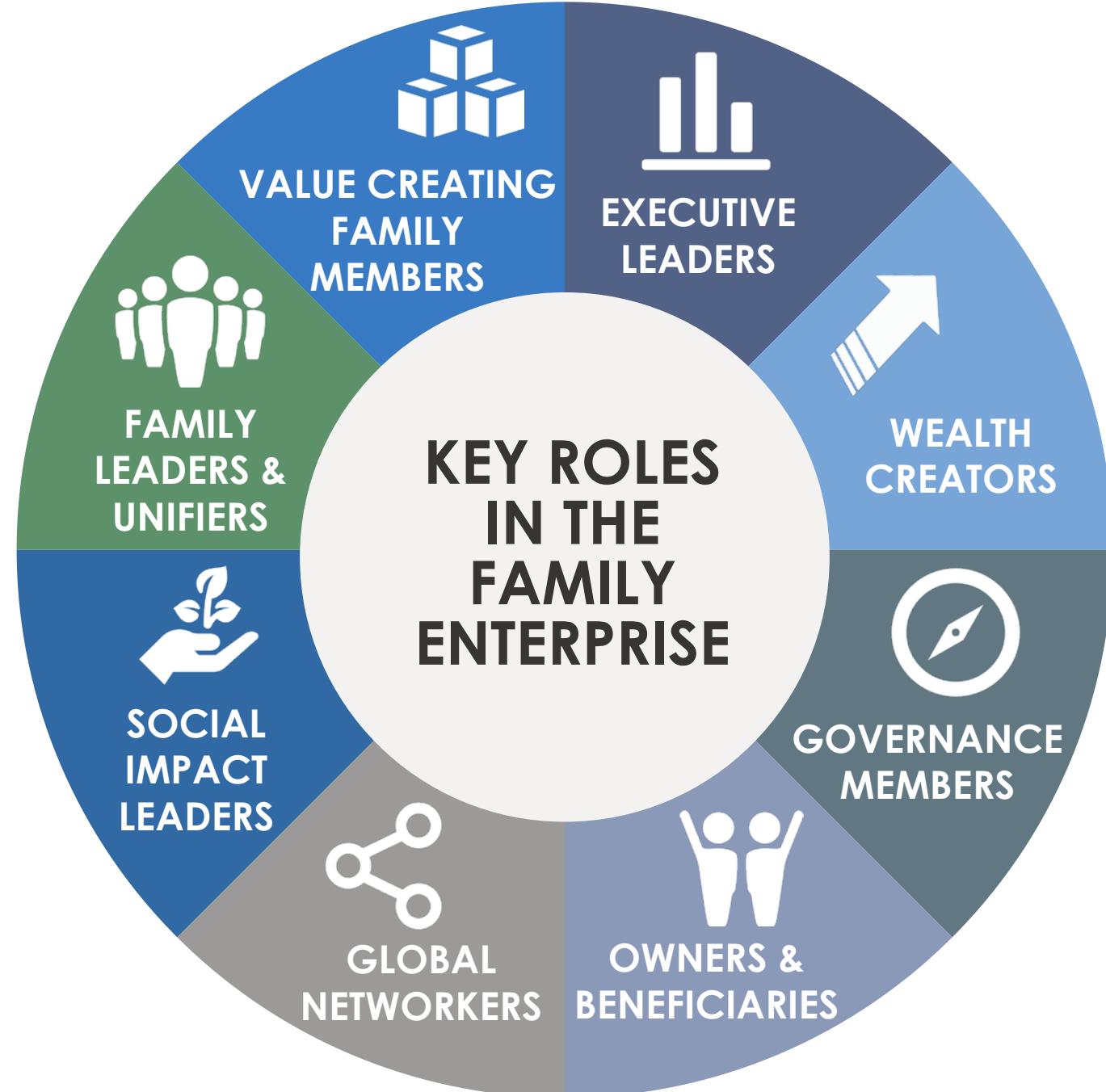
Collection of the family's meaningful assets and activities

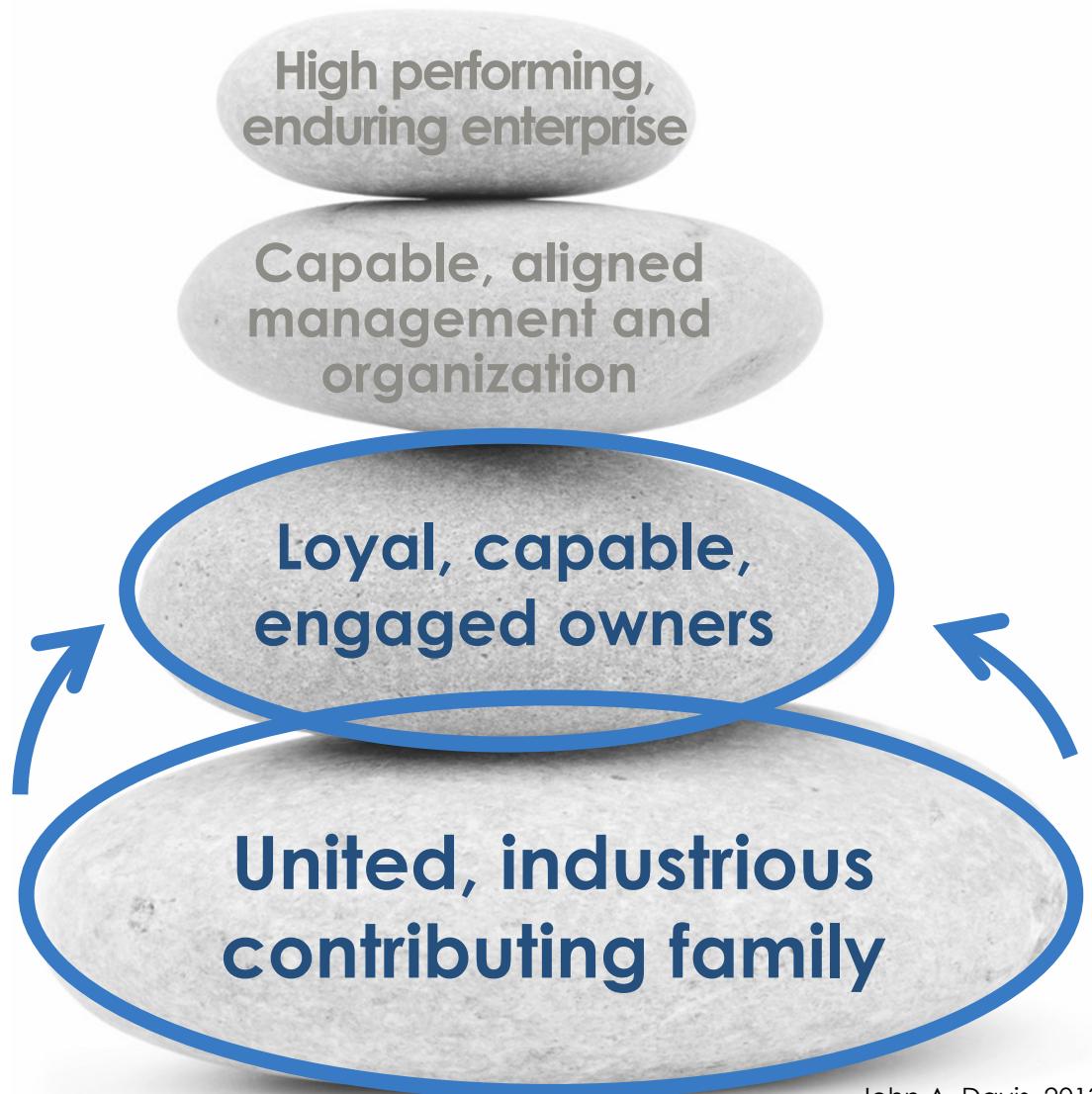


A FAMILY ENTERPRISE WITH INTEGRATED GOVERNANCE

Illustrative Family Enterprise
Governance Map
(for an Enterprise in Advanced Development)







**One of the important tasks
of an enterprising family is
to develop good owners
who can carry the
family enterprise forward.**

02

The Role of Owner of a Family Enterprise

**Take ownership seriously.
Good owners add value.**

**THIS IS YOUR ENTERPRISE.
DON'T TAKE YOUR HANDS
OFF THE STEERING WHEEL.**



GOOD OWNERS PROVIDE THE FAMILY ENTERPRISE WITH:

1 Stability & Security

Oversight of business
Long-term thinking/planning
Risk management guidelines

2 Financial Fuel

Reinvest earnings
New investments for growth
Contribute capital when needed by the company

3 Family Talent

Employees & leaders of Family Enterprise organizations
Board members
Active owners
Wealth creators

4

Strategic Direction

Business direction
Direction for other parts of the Family Enterprise
Key talent selection
Culture influence
Governance model

**Ownership is a job,
but we tend to treat it
as a birthright.**

TYPES OF OWNERS

Obstructive

create or foster dissent among owners

Passive

largely not engaged in ownership duties

Supportive

support governance, stay informed about the business, are prepared for meetings, encourage high standards for the business

Hopefully most owners meet this standard

Active

pivotaly engaged, help make strategic ownership and portfolio level decisions

Usually a small group of family executives and board members

Wealth Creators

active owners who lead the ownership group in placing important capital, business, and people bets

Usually one or two per generation

TYPES OF OWNERS

ENGAGED OWNERS

Obstructive

Passive

Supportive

Active

Wealth
Creators

John A. Davis, 2017

CAPABILITIES NEEDED IN ENGAGED OWNERS

Supportive Owners

- Legacy, Culture, Values
- Support Governance and Management
- Financial Prudence
- Family Unity
- Ambassadors

Active Owners

- Supportive Owners +
- Actively committed to family ownership
- Capable in Strategy and Innovation
- Networking, Teamwork

Wealth Creators

- Active Owners +
- Risk-Taking (placing bets)
- Intrapreneurship, Entrepreneurship, or Portfolio Building
- Leadership

**GREAT OWNERS ARE NOT BORN
THEY ARE GROOMED**



The most important bets **Active Owners** make:

1	STRATEGIC VISION	The strategic aims of the family enterprise. What we want to collectively achieve and own in “X” years.
2	INVESTMENTS	Making bets on investments
		Getting out of bad investment bets
3	PEOPLE	Making bets on people
		Getting out of bad bets on people
4	CULTURE	Protecting and adjusting the culture that we believe is key to our success
5	GOVERNANCE	Designing effective decision-making structures and processes for the Family Enterprise

Qualifications for Engaged Owners

Knowledge-Understandings-Skills		Personal Conduct / Capabilities	
Governance and Organization	Strategy	Effective Communication	Teamwork & Ability to Address Conflicts
Business	Finance & Risk	Commitment of Time & Ideas	Flexibility & Patience
People / Leadership	Legacy, Culture, Values	Willingness to Follow Rules	Financial Discipline

Depth of qualifications varies for Supportive Owner vs Active Owner vs Wealth Creator

Now we turn to a breakout discussion

10 minutes

We will place you into a breakout room.

Developing future **Engaged Owners** of Our Family Enterprise:

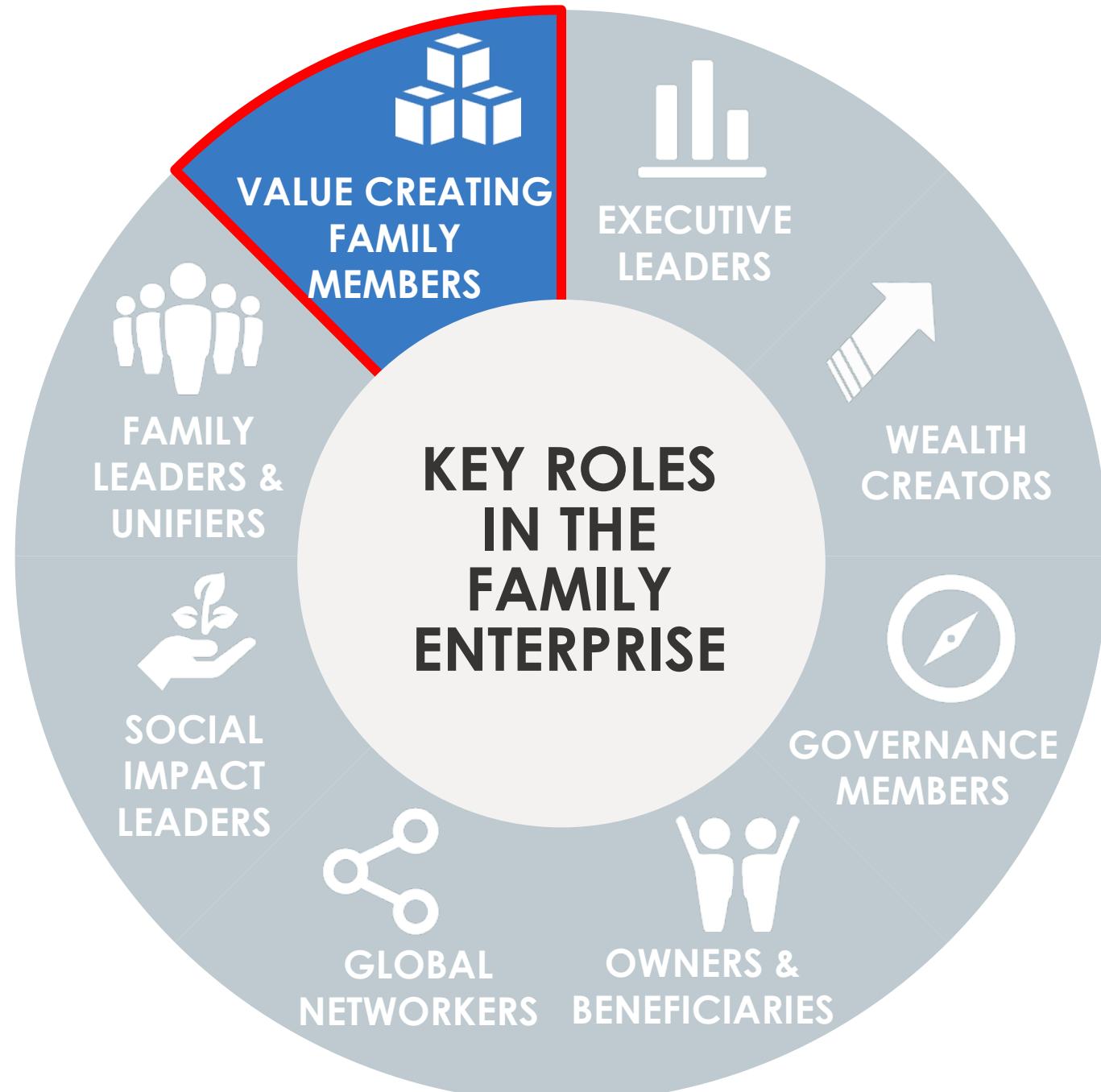
1. How well have we encouraged and developed future **Engaged Owners** of our Family Enterprise?
2. How can we best develop future **Engaged Owners** in our family?

What Have We Learned So Far?

- Families need to be stewards of their overall wealth not just of particular businesses that they own
- Growth–Talent–Unity is required for a family's long-term success
- So is a Family Enterprise with activities the family is proud of
- Families need different kinds of talent to do well, especially good owners
- To develop Engaged Owners, especially Active Owners, it takes years of training and experiences, so start early

03

Developing Value-Creating Family Members in Wealthy Families with a Healthy Relationship to Wealth



Value Creating Individual + Wealth + Accountability = Good for
the Individual,
Family, and
Society

Entitlement

To believe (or behave as if one believes) that one should receive certain benefits simply by virtue of who one is

- Affluent parents are broadly concerned that their children may:
 - Lack a work ethic
 - Expect others to do everything for them
 - Think they could have everything they wanted
 - Be covetous and materialistic
 - Not be aware of their advantages relative to others
 - Treat other people disrespectfully

Parents want their children to grow up to be “good people”: hard workers, with prudent consumption desires and practices, who respect others, are aware and appreciative of their advantages, and give back.

Source: Rachel Sherman

The Tension

To cultivate these characteristics, parents use two strategies:

Constraint

- Put limits on children's behavior and their consumption of material goods, experiences, and labor
- Place boundaries on kids' entitlement to consume
- Require labor of them to instill a strong work ethic and self-sufficiency



Exposure

- Expose children to class difference to help them understand their social advantages and stay connected to other ways of life
- Help them be comfortable with people different from themselves

BUT ... parents also want their kids to have access to an array of experiences, opportunities, and attention, to be able to develop any interests and skills they desire.

Source: Rachel Sherman

Enterprising Families Work Better When They Have

- A commitment to both helping the family succeed and helping individual family members build a meaningful life
- Commitment to high standards, meritocracy, professionalism + good family behavior (getting along, being respectful, caring for others); leadership, development and accountability
- Ability to make big decisions in a timely way that can disappoint some but there is ultimate trust in the fairness of the system
- Enough talented individuals who like to work and to add value to the family and its enterprise (**Family Value Creators**)
- Enough expressed appreciation plus the will and ways to address bad behavior: abuse, self harm
- Financial discipline that promotes growing value, limiting family consumption, and making good choices

The ultimate foundation for a Family Enterprise is a family with mostly value-creating family members.

1. Want to add value, do useful things, achieve things, help others
2. Are pretty healthy psychologically
3. Are guided by sense of morality and integrity
4. Demonstrate respect for, and sense of responsibility to, themselves and others
5. Largely self-reliant but can play on a team
6. Try (but not always) to get along well with others; can share credit with others
7. Have adequate work, relationship, and money skills (or at least two/three)
8. Have a healthy relationship with wealth

Individual's Relationship with Wealth

It's not the level of wealth,
but a person's relationship
with wealth that influences a
person being a value creator

Positive/Constructive

- Individual aims are motivating
- Be known by your first name not your last name
- Stretching oneself to grow
- Taking prudent risks
- Avoid unnecessary dependencies
- Money, relationship, work capabilities
- Respect others' dignity and accomplishments
- Trust others outside the family with verification
- Expressing caring/love in healthy ways

Developing Value Creators

- Encouraging individuals to discover and pursue their dreams while supporting the family and family enterprise in roles that match their capabilities
- Encouraging individual initiative, stretching and self-reliance
- Build teamwork with others
- Encouraging individual achievement and happiness but letting family members experience failure and learning from it
- Encouraging responsibility to self and others
- Developing work, relationship and money skills
- Emphasizing the importance of family in one's life
- Parents: Modeling good behavior

Now we turn to a group discussion

Continue Learning

FAMILY ENTERPRISE PROGRAMS

2021

GAIN ALTITUDE
AND THINK LIKE OWNERS

OWNING IMPACT

July 19-21, 2021 | VIRTUAL

For enterprising families to set their social impact mission and strategy and build support within the family.

FUTURE FAMILY ENTERPRISE

Coming in 2022

For multigenerational family enterprises, controlled by siblings and cousins in the 2nd generation or later, to prepare for the future together.

FOUNDER TO FAMILY

Coming in 2022

For founder-controlled companies as they build a bridge to the second generation.

Led by Professor John Davis

IN-PERSON MIT Campus | Cambridge, USA



LEARN MORE & REGISTER YOUR FAMILY
executive.mit.edu/family

2021 Family Enterprise Education Programs

REGISTER
CFEG.COM



FAMILY WEALTH

Building a Family Enterprise Wealth Portfolio

From Operating Companies to Strategic Investments



VIRTUAL

June 16-18, 2021



CORPORATE GOVERNANCE

Building a Worldclass Board for the Family Enterprise

Strategic Corporate Governance for Family Businesses



IN-PERSON

Sept 12-15, 2021



FAMILY GOVERNANCE

Making Family Councils More Effective

Strategic Family Governance for Tomorrow's World



VIRTUAL

Oct 9-12, 2021



NEXT GENERATION DEVELOPMENT

Should I Join the Family Business?

A Roadmap for Deciding Whether to Enter the Family Business for Your Career



ONLINE COURSE

SELF-PACED



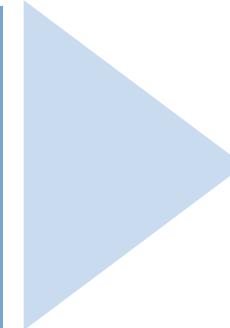
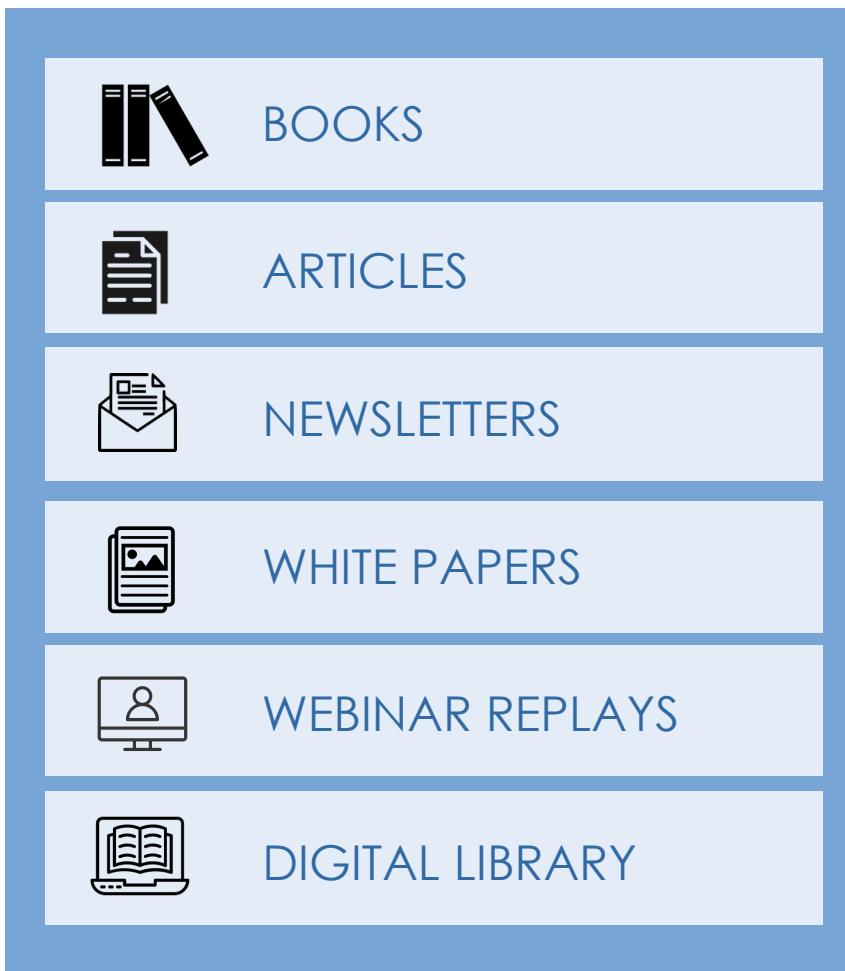
SUBSCRIBE TO OUR
NEWSLETTER

Insights and commentary for family enterprises globally

SUBSCRIBE AT
CFEG.com/newsletter

CAMBRIDGE
FAMILY ENTERPRISE GROUP®

FAMILY ENTERPRISE PUBLICATIONS & INSIGHTS



**Discover useful content
to ponder and discuss
in our Digital Library**

CFEG.com

PROF. JOHN A. DAVIS

email jdavis@CFEG.com

twitter @ProfJohnDavis

MIT executive.mit.edu/family

writing johndavis.com

advisory CFEG.com

CAMBRIDGE
FAMILY ENTERPRISE GROUP®

CFEG.COM



ADVISORY | EDUCATION | RESEARCH