Dr Kurt Moosmann, Owner and Director of Moosmann Capital Advisors Ltd.

HUMAN CAPITAL

FINDING THE BALANCE IN FAMILY AND BUSINESS

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ABOUT DR. KURT MOOSMANN

Dr. Kurt Moosmann is an acknowledged advisor to business owning families, family offices and private clients. In addition, Dr. Moosmann chairs the Advisory Board of Headwaters SC (Pittsburgh), which is widely recognised as an industry leader, serving US clients with significant direct investment holdings in operating businesses, and serves as a Member of the Board of Tom Capital AG, in Zurich. He is also a Member of the University Board of the Private University of Liechtenstein (UFL).

FIRM PROFILE

MOOSMANN CAPITAL ADVISORS (MCA) is specialised in serving first generation entrepreneurs to multi-generational business owning families and family offices.

The fully independent and multi-disciplinary advisory capabilities are aimed at delivering tailored solutions to a specific need or, more comprehensively, to provide sustainable strategies for families concerned with their long term wealth preservation.

Moosmann Capital Advisors

Going into business with family is not always as easy as you wish; often business ventures fixate on the potential possibility of heated family arguments and ignore focusing on how future generations will continue to revenue capital for the years to come. We speak with Dr Kurt Moosmann on the key features when dealing with family owned business enterprises and the importance of human capital. This insightful interview reveals the best way to maintain inter-generational wealth.

What is an "Homme d'Affaires" and what services do you offer?

As James E. Hughes Jr. once correctly stated, a Hommes d'Affaires serves families as a benchmark for the applied level of sophistication in relation to their governance structures and development plans.[1] In other words, the Homme d'Affaires aims to create a bespoke decision making process which shall be governed by the core values of the individual family, and that is guided by the long-term objective of multi-generational stewardship. The true essence, in my opinion, lies in the profound sense for trust, responsibility and scrutiny that guides such trusted adviser in safeguarding the family's current private and business interests, whilst building bridges for the future generations to adopt existing governance systems, yet leaving enough flexibility for them to adjust the structures to the ever-changing needs and external factors.

At Moosmann Capital Advisors (MCA) we typically cater to business owning families, family offices and entrepreneurs with multi-jurisdictional backgrounds. We are foremost passionate about preserving and growing a family's human, social and financial capital. By applying the profound experience gained from many years of dealing with complex family situations, we team-up with our clients to develop their appropriate family governance framework, that addresses the family's vision and their corresponding values; this is followed by the creation of tailored plans that address the concurrence of various interest levels, e.g. family, ownership and business. The plans are embedded in a set of rules, structures and processes which shall enable sound decision making and support the framework of the corporate governance.

We firmly believe that a sound family governance must be aligned with mostly pre-existing corporate governance frameworks. Only by blending the two governance systems the stakeholders will be able to enhance their long-term economic value. Complementary to both systems, it's often forgotten, that in order to establish a sound family governance structure, one has to understand the persons' financial demands on the respective business profits. Understanding the individuals' fears, wishes and responsibilities is paramount for building a solid foundation which can stand the test of time.

What are the key features in dealing with family owned business enterprises? Why is the Human Capital component so important?

Business owning families are often overwhelmed with the complexities associated with growing their businesses in a sustainable manner. These complexities tend to become even more challenging when several generations and/or multiple jurisdictions are involved. Irrespective of their genuine understanding for the business, they are often inexperienced in defining, structuring and implementing the proper processes needed to grow or transfer the family's business to the next generation. There are inherent conflicts between the various interests of a family and the tasks of the related business which need to be addressed.

Moreover, principals often underestimate the disruption that a generational transition brings along. The associated risks can easily lead to value erosion or even business failure. Often these business risks are adversely affected by the lack of the principal's willingness to deal with a timely transition of business to the next generation or to competent non-family members. Hence, the interdependencies between the three features: family, ownership and business, are crucial and stand at the forefront of all discussions. Finding the right balance among the different, likely contradicting needs and thereafter, creating the right systems for the family, the owners and the business respectively, will enable the constitution of various implementation plans that ultimately culminate in a lifecycle plan.

To make it even more challenging, such a transformation process is often coupled with the need for capital, and thus we facilitate patient capital from other family owning businesses or family offices to provide for long-term secured funding. This is one of the prevailing reasons why only 3% of all business owning families have been able to make it to the 4th generation and beyond.

With regard to human capital it is interesting that to most people wealth is often associated with the amount of assets they own. As Gary S. Becker once nicely alluded to: "such tangible forms of capital are not the only type of capital (…) economists regard expenditures on education, training, medical care, and so on as investments in human capital. They are called human capital because people cannot be separated from their knowledge, skills, health, or values in the way they can be separated from their financial and physical assets."[2] When dealing with business owning families, the human capital includes the proprietary knowledge the family has gained over the years and possibly generations which have defined and made their business enterprise successful. In this context, the capital is closely connected to the "ins and outs" of doing business, the specific expertise and technical know-how, the important network of relationships with customers, creditors and regulators, etc. Enabling the next generation to become more sensitive towards these kinds of aspects at an early stage, will enhance his or her understanding of the business and the responsibilities associated with ownership, and fundamentally improve the chances for a sustainable transition of business interests to the future generation.

In dealing with families predominantly from North America, Asia and Europe - What complications do you experience in family businesses operating internationally?

Irrespective of whether I work with families in Europe or elsewhere, fundamentally it is and will always remain a people's business. Hence the needs and wishes are often similar, but when it comes to execution and implementation, structures and strategies differ. This is largely driven by the different cultures and legal frameworks the clients are subjected to. For example, depending on whether the family is resident in a common-law country or bound to the laws and regulations of a civil-law country, the estate planning tools or testamentary dispositions may vary. Corporate structures, financing schemes and ownership structures need to be chosen prudently, and anticipated tax consequences need to be well thought through. Especially when dealing with foreign asset holding structures or evaluating foreign investment opportunities, clients tend to continue operating under the same mind-set, thus often paying too little attention to regional conditions; but the proverb "when in Rome, do as the Romans do" strongly prevails. Thus, seeking advice and possibly partnering with local families and family businesses in foreign places in which you want to do business, is in my opinion, an absolute prerequisite. At MCA, we collaborate with seasoned professionals and other family enterprises on various continents to provide locally adjusted corporate development and generational transition solutions.

What issues arise and do you often deal with, in relation to inter-generational wealth transition?

In theory, the long-term preservation of family wealth is a question of human behaviour. Setting the right framework, or governance, will therefore successfully re-energise each new incoming family member and thus mitigate the threat of entropy. But to successfully preserve its wealth, a family must form a social compact among its members reflecting its shared values, and each successive generation must reaffirm and readopt that social compact. A family must also agree on creating a transparent system of representative governance through which it actively practices its values and each successive generation must, once again, reaffirm its participation in that system of governance.

Understanding that inheriting wealth and responsibility is often considered burdensome, rather than a blessing. Young family members who are sought for future management functions within the family enterprise must be accompanied and well-trained before taking on leadership roles. In many cases undergoing an apprenticeship in a foreign company, prior of entering the family business, will help sharpen the level of sensitivity and enhance the understanding for general business processes. There are a number of well-recognised next-generation seminars and conferences where younger family members gradually acquaint themselves with the key value drivers of businesses at large. But irrespective of how early young family members become aware of their future role within the respective family business enterprise, engaging them at an early stage is never wrong, and will allow the principal to evaluate the learning aptitude and individual skills well in advance of any factual transition.

As mentioned above, one of the biggest problems arises from the mere fact that generational transitions are rarely well-planned in advance. Often CEOs or Chairmen of family owned businesses start thinking about succession strategies or possible successors when they will no longer be in the position to fully execute on the transition. Multi-generational stewardship entails the definition that you ought to plan the transition early enough, so that the company is handed over in a better shape than it was handed to you by your predecessors. This bares the responsibility to transfer the human capital - proprietary to any one business - at a stage where the future successors can still process the information with the assistance of the current leadership. In my opinion, transition constitutes the ultimate test for any one entrepreneur who wants to be remembered for having dealt with all stages of true entrepreneurship. **LM**

[1] See James E. Hughes Jr. in "Family Wealth: Keeping It in the Family--How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations" (2004)

[2] Gary S. Becker: "Human Capital" - http://www.econlib.org/library/Enc/HumanCapital.html