The Power of Distinct Owners as Value Catalysts

By Massimo Massa and Ludo Van der Heyden , INSEAD; and Kai Taraporevala , non-executive director

Uncovering the unique elements owners need to achieve business success and resilience.

In the realm of business myths, one common misbelief stands out: the idea that shareholders are insignificant players, mere cogs within the corporate machinery. This perception, conceptualised in **Berle and Means's influential 1932 work**, abstracts away shareholders and positions managers as the true custodians of corporations.

However, their narrative largely focuses on a mere fraction of global firms – those publicly listed in the United States. Worldwide, there are over 300 million companies, of which listed ones account for a mere 0.02 percent.

Our book ***Value Creation for Owners and Directors*** addresses the 99.98 percent of firms where founders and owners are vital for achieving sustained success. These owner-leaders face many challenges in growing and sustaining their businesses, including managing their own transitions from successful founders to effective owners. We uncover the pitfalls they encounter that often lead to **unintended value destruction**.

Unpacking the “hardware” and “software” of value creation

Firms with owners who truly lead (as opposed to passive owners) are, in our view, better equipped to navigate the formidable economic and social challenges of our times. Our book provides guidelines for this leadership journey. We emphasise the importance of cultivating a supportive and challenging environment through effective governance practices including ownership boards. This approach is distinct from the typical leadership narrative that centres on executives or boards of directors.

Our blueprint for owners eager to create value rests on three pillars: hardware, software and humanware. The hardware section explores how value creation is intrinsically structured by **the mission** owners define for their firm, rather than through external metrics like share price or EBIT. This observation serves as the foundation for a novel framework structured around “three boards” (Owners, Corporate and Business) – an integrative governance architecture designed for effective value creation.

CEOs and their executive team are tasked with turning the mission into reality. This involves crafting goals and strategies that align operations with the owners’ mission and that acknowledge constraints such as industry competitiveness or regulatory and legislative norms.

The framework also elucidates the key and complementary role played by corporate boards: They ensure the real synergy of executive-proposed goals and strategies with the owners' mission. Validation, strategy refinement and safeguarding owners' control over their businesses are primary responsibilities of these boards. Competencies like strategic and counterfactual thinking are imperative for corporate boards aiming to enhance owners’ value.

The second pillar for value creation pertains to the development of an effective software among the three boards that jointly govern owner-led firms. This section presents a framework for effective communication and decision-making within and across each board. It examines the influence of biases on decision-making at both individual and group levels and provides actionable recommendations for boards to formulate and adopt leadership strategies that better manage pervasive biases.

Honing in on humanware

The humanware aspect is the third pillar of the value creation tripod. After all, ownership, governance and value creation are inherently dependent on the human characteristics of directors and executives, and particularly owners. People bring their unique characters and personalities to ownership and the boards they contribute to. Their personal histories, memories, myths, ideologies, anxieties and dreams also shape their ownership conduct.

The ownership profiles presented in the third part of the book demonstrate that no single individual possesses all the necessary talents required for a specific venture or enterprise to succeed over time. Effective owners are aware of their talents, leveraging them as their “secret sauce” for effective ownership. However, it’s equally important for them to identify the talents they lack and must make up for. These gaps can be bridged by acquiring and nurturing competencies, although they will never be a complete match for missing talents. Consequently, relying on trusted advisers and allies who possess the requisite talents becomes a prudent strategy for value creation, and particularly in mitigating potential value destruction.

In difficult times, adept owners, fuelled by their unwavering drive and clear sense of purpose, contribute significantly to the sustainability and longevity of their firms. Much like athletes, they are driven by inherent talents, yet develop and refine their game over time, using setbacks as opportunities for vital reflection and learning. They are typically guided and inspired by mentors whose wisdom, advice and principles play a fundamental role in developing their ownership craft.

The unique and idiosyncratic dynamics of ownership are illuminated through the life stories of several owners in the third and final part of our book. Each owner, successful or not, offers his or her unique perspective on the multifaceted nature of the ownership journey. We illustrate the diversity of approaches and styles by showcasing three of those owners.

The pure owner: Warren Buffett

Warren Buffett, the owner of Berkshire Hathaway, needs little introduction. Buffett has consistently made the major investment decisions for his firm after consulting with his small staff and his long-time partner, Charlie Munger. Governance and management of investee companies are left to professional CEOs and their boards. Buffett’s business is ownership in its purest form; investments and capital allocation are his only focus.

Buffett exemplifies the importance of having a distinct ownership mindset and philosophy. His success stems from an unwavering focus on developing and attaining financial valuation mastery, coupled with a passion for the investment business and an undeniable aptitude for corporate valuation.

Buffett’s dedication to studying companies and trusting their management stems from his belief in capitalising on market mispricing in the short and medium term, while maintaining a long-term investment perspective. Remarkably, he has applied this principle of “sticking to one’s knitting” to succession planning, channelled a significant portion of his wealth into foundations – most notably the Gates Foundation – alongside several others overseen by his children.

The collaborative owner: Dominique Moorkens

Unlike Buffett, Dominique Moorkens, a Belgian second-generation owner, was schooled in owner-management by his father. This allowed him to take charge, at an early age, of automobile concessions, successfully transforming them into thriving businesses.

After his father's passing, Moorkens shifted from management to governance, reshaping the family's automotive distribution company's structure. He and his siblings reorganised their father’s multiple businesses under a single holding company, Alcopa. They introduced professional governance practices, including appointing independent board members and an independent chairman. This proved crucial in navigating transitions and adapting to changing business contexts while preserving family unity.

Post Moorkens’s CEO tenure, succession challenges involving non-family CEOs led to an unusual dual co-CEO arrangement by the third generation, taking Alcopa in a new direction beyond the automotive industry. Even in retirement, Moorkens's active involvement as an investor and mentor, along with preparing his daughters for their ownership roles, continues to exemplify his adaptability and collaborative leadership.

The resilient owner: Anu Aga

Anu Aga travelled a very different route to second-generation ownership of Thermax, an Indian family business. Initially a social worker, Aga’s involvement in the family’s manufacturing firm began when her future husband joined the business. After the death of her husband – who had taken over the company – she assumed the role of executive chairperson. She steered the company through a downturn, implementing changes that produced a successful turnaround.

Despite personal tragedies, including the loss of her son, Aga's resilience and commitment to giving back to society remained constant. She ensured a smooth succession by passing the chairperson mantle to her daughter, Meher, who has ensured that Thermax continues its growth trajectory while emphasising ethical values and stakeholder care.

Aga's mindful approach and openness to help and advice are traits often absent in second and subsequent generations of ownership. She highlights the significance of supportive family foundations, open communications, constructive dialogues and decisive actions. In contrast, the lack of such unity can lead to tragic consequences, as families may fail to listen to each other. This can ultimately destroy the very bonds that hold these families together, with destructive consequences for their businesses.

Lessons from successful owners

These different profiles bear a common message: Ownership is an intensely human experience, marked by remarkable achievements as well as extraordinary trials and setbacks, and one where resilience is built by turning defeats into future victories.

They serve as poignant reminders of the crucial ingredients for sustainable and successful ownership ventures: an unrelenting search for mastery in what one does, effective governance enabling trust in management as well as board members, family cohesion and support, strategic succession planning and an unfaltering spirit of open-mindedness.

The continuous pursuit of effective governance should remain a steadfast goal for owners, transforming into a recognised and verifiable competence over time. This transformation, with governance at its core, is motivated not only by expanding ownership responsibilities in chaotic contexts but also by rising concerns over corporations’ impacts on society and the environment.

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About the research

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