The Job of Ownership in a Family Business
Part I on Family Ownership

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Supportive owners are the unsung heroes of high performing family companies. When the owners believe in the mission of a company, support long-term investments and performance-oriented management, and are satisfied with sustainable dividends, companies can build strong performance cultures and achieve impressive long-term results. When owners are not united around a mission and/or demand excessive short-term financial rewards, management generally becomes confused about its direction and focuses on short-term and safer gains.

With each generation the number of owners tends to grow, and the owners tend to have more diverse expectations about the company. Some shareholders work in the business, others not. Shareholders who work in the family company generally know more about the business and are more likely to support the mission of the company than are the owners who work outside the family business. But both groups can be important supporters of the family business and both need to be developed and treated respectfully.

Because owners have an important role to play in the family business, it makes sense to consider ownership a job that needs to be performed well rather than a birthright that family members are automatically entitled to. If you were orienting an employee to a job, you would explain first the responsibilities of the job. The legal duties of the ownership job are important but consist only of electing directors to the board and periodically changing the bylaws of the company. But the job of ownership also requires that owners:

- Be knowledgeable about the company's operations, performance, and basic financial condition (including being able to read at least at a basic level the company's financial statements)
- Be able to make suggestions to and ask constructive questions of management and the board in appropriate settings (like shareholder meetings) without interfering in management
- Support business decisions publicly and be a good ambassador for the company
- Know who is on the board, and have an opinion if the board is representing shareholders' interests
- When needed, provide additional capital to the business

Once responsibilities are understood, family owners should then be instructed in their rights to:

- Information about the company, including how it is being managed and its financial accounts
- A reasonable distribution of dividends that first protects the performance of the company
- Elect capable directors (not necessarily to serve as a director themselves) that will watch out for their and the company's best interests
- Decide on the by-laws of the company and agreements among the owners.

Most family owners don't know about the responsibilities and rights of ownership because they have never been told. Obviously, the family needs to have discussions where these responsibilities and rights are discussed. These forums will start to indicate who in the family will treat ownership as a job.

Supportive shareholders are much more common in family companies, which is one reason family companies are superior performers. But the ties between the company and the owners must still be nurtured to make sure the foundation of ownership is strong. Too many family business leaders make the mistake of assuming that because the owners are family, they will ultimately unite and that it isn't necessary to treat family owners as you would a non-family owner—understanding their goals and constraints, providing information about the company, periodically engaging them in discussions about the company, growing the value of their investment and distributing affordable dividends.

Ignoring shareholder relationship management is risky because family shareholder problems tend to build up quietly and then erupt, they do not slowly reveal themselves. For this reason, preventative medicine is the best therapy to ensure a solid shareholder base.

The single best way to develop a strong ownership foundation for the family business and to prevent ownership problems is to choose owners who want to do the job of ownership and can do the job. Family members who are qualified to be owners:

- Are interested in the family business, willing to learn about it, attend meetings, contribute to discussions, and perform formal shareholder duties
- Put the company's needs before the family's interests—they don't demand excessive financial resources from the business or demand jobs in the company for unqualified relatives
- Are willing to sacrifice for the business—reduce or forgo dividend income if necessary and even contribute capital to the business if needed
- Can disagree with other owners and business leaders on certain issues but they get along reasonably well with other owners and respect the business leaders

These standards are basic, not extreme, but not all family members want to or can meet these standards. When family members don't qualify as owners you can try to encourage their interest in the company and increase their skills, and you can also try to mend poor relationships that could affect the shareholder group. If after these actions family members still don't meet the basic qualifications of family business owners, one should not force them into a job they will not do well, could weaken the unity of the ownership group, and could harm the overall performance of the business. We all know of problems caused when family members either don't want to be an owner or don't qualify as an owner but are still given ownership. Why pass ownership to family members who either don't want it or don't deserve it? To do so burdens the next generation with issues that will inhibit its best performance. Parents are in the best position to separate poor-performing owners to keep the ownership group strong but tend not to because they "don't want to treat their children differently."

There are ways out of this bind. Families can develop other assets to pass children who do not qualify as owners of the family business. Or they can give the non-qualified children, non-voting shares so they cannot influence ownership decisions, or they can give the non-qualified family members a promissory note requiring the company to buy out their interests over time. There are solutions to the bind that will work better for everyone concerned.

Developing good owners in a family business begins with the senior generation developing the next generation to respect the family business, not expect the business to fully financially support them, and to gain the skills and understandings to contribute as owners. These discussions and activities can happen in family meetings, in seminars the family sends family members to, and in private education programs.

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Shareholder relationships are a two-way street, a compact. Association with the company delivers benefits for shareholders in return for the shareholders' continuing commitment. Financial benefits (dividends, other distributions of cash, appreciation of the stock's value), social benefits of being associated with family business (networking made possible by being an owner) and business family (feeling part of the family), and psychic benefits (largely pride in being associated with the family, company and their missions) all matter to family owners. Ties between the owners and the company should be cultivated so that the financial benefits of ownership are a reasonably small motivation to owners. In fact, when the financial benefits of ownership become the predominant benefits, a family business typically loses its ability to think and act long-term, a main competitive advantage.

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The Cambridge Institute for Family Enterprise is a global research and education institute dedicated to the real issues facing family enterprises. It is a place where progressive members of family enterprises come to learn, exchange ideas, develop themselves and position their enterprises to be not only successful, but sustainable over generations. Its sister organization, Cambridge Advisors to Family Enterprise, advises multigenerational families around the world on strategies to sustain their success over generations.