Emotional Ownership
By: Kent Rhodes and Dana Telford
The Family Business Consulting Group

“Let’s go to work!” Dad would call out through my bedroom door. I’d rub my sleepy eyes and tumble out of bed for another Saturday morning of work at our family-owned resort.

Some might say this was demanding too much of an 8-year-old like me, but looking back on it now I see that these weekend work sessions were more than chores leading to an allowance. My dad was instilling in me an ethic of hard work and helping me to understand how important it is to be a steward of the family business.

Fast-forward 20 years. As a result of dad’s ambition, and my work and dedication, our family business has flourished. I’ve made sacrifices. I’ve held off on starting a family. I’ve turned down offers of executive positions in Fortune 500 companies. It’s simple - I’ve given this family business my all, and will someday be proud to call it my own. Even though I’m not yet an owner, I no longer see the business as “his” but as “ours.”

These feelings, expressed by a second-generation family member in the hospitality business, provide a real-world glimpse into the topic of Emotional Ownership (EO). In a 2008 study conducted by the London Business School, researchers looked at how emotional ownership in the family firm impacts both family and business. For the study, the authors defined emotional ownership as “a sense of closeness and belonging to the family business (attachment) and to what extent emotional ownership helps shape how family members’ self-identities are tied to the family business (identification).”

What is Emotional Ownership?

Nigel Nicholson, who first coined the phrase “emotional ownership,” believed that it is a significant factor in motivating members of the next generation to continue in the family business: It’s not just about being drawn to make a good living; it’s about dedicating energy and time to an organization for which they feel a sense of pride. “Emotional ownership is the golden thread that underwrites a family business’s future existence. EO is a natural state of mind in a healthy family, but it needs to be nurtured from quite early on and can be easily disturbed by bad parenting and lack of engagement,” says Professor Nicholson.

As a family business owner, you know how important hard work and sacrifice have been in making your business what it is today. You know the value of setting a goal and disciplining yourself to work toward reaching it. You’ve most likely pulled a son or daughter out of bed as a child to help at the family business on an early Saturday morning. By so doing, you’ve created a sense of ownership — emotional ownership — in him or her.

Although emotional ownership is by and large a positive attribute associated with a family business, it does need to be managed. As the current generation business owner, it is your responsibility to openly communicate with the next generation about your expectations and commitments related to the future of the business. For example, does the next generation believe you have promised ownership as a reward for those early Saturday mornings and years of dedication? What if
you decided to sell your share to the next generation or to someone else? If you have not yet asked these and other specific questions about future ownership and expectations, get to it. You owe it to your family to be specific about your plans and to listen and understand their feelings and hopes. Doing this doesn't ensure that tension will never arise regarding emotional ownership, but it will put the odds more in your favor.

The Power of Emotional Ownership

Our own John Ward emphasizes that emotional ownership is important because when owners feel or experience their ownership as more than a transaction, then they act in committed ways that translate into active stewardship of the entire enterprise. And in turn, good stewards show care for their assets, investing in them for their family and associates and for the benefit of the broader community. They understand what “built to last” means and recognize that while financial value is important, it is only one of the values that provide the foundations for the enterprise their families own. They appreciate that legacy is comprised not just of material goods but also of deeply held values - and they realize that when material wealth has passed to future generations without values, all are in peril.

A great illustration comes from a client’s story about her 10-year-old son. The boy asked for a bicycle. She bought him one, only to be disappointed when he lost it within a month. He asked for another one and she bought him a similar bike. After he left it at school and it was stolen she realized her mistake. When he asked for a third bicycle she said, “You save half of the money and I'll pay for the rest.” Together they set a goal for him to earn $55 so that he could get the $100 bike (plus sales tax) he wanted. He did odd jobs around the house and saved his earnings and allowance two months in order to get the bike. “He’s had that bike for three years,” she said. “Why? Because it represents his work and savings.”

According to researcher and consultant, Annie Huff, M.A., when that sense of ownership among family members goes beyond financial ownership, a strong tie develops between the next generation and the family business. “Some members of business families describe this strong bond as something that always draws them back to the business: They feel that they are participating in and contributing to the success of the enterprise and their extended family, resulting in “psychic income: as an important and unique bonus of family business ownership.”

Annie goes on to describe two potential sources of EO in the next generation. “Emotional ownership can come from two places: (1) A self-generated, positive feeling in a son or daughter that the family business is, or will belong to them as a reward for their work and loyalty; or (2) the belief in the words of the current generation, who have consistently said, “Someday this will be yours.” As a result, the child no longer sees the business as Mom’s or Dad’s, but as theirs together, further strengthening the psychic income that can be developed as a part of a robust continuity plan.

Clarifying Expectations

Be warned, however. There is a dark side to emotional ownership that surfaces when the business is sold to an outsider rather than given or sold to the next generation. Even if the sale of the business is necessary to settle a legal issue, provide income for the parent’s retirement or because the next generation can’t afford to buy it, those who have emotional ownership will not take it well. Some of the highest-conflict, worst-case scenarios we have seen as family business advisors come as a result of a surprise sale by parents to a non-family owner after the next generation has worked for many years in the business with only the promise and hope of future ownership.

In order to reap the benefits of emotional ownership rather than sow seeds of discord and frustration, pay attention to the following keys:

- Identify your family’s core values and how family members exhibit them;
- Clarify your vision for the future of the family and ownership of the business;
- Ask if this vision matches up with the next generation - and listen to their reply;
- Set specific goals for the passing of leadership and shares to the next generation;
- Capture goals and expectations in policies and, where appropriate, agreements;
• Meet at least twice each year to review the plan and hold each other accountable;
• Pay attention to verbal and non-verbal cues when discussing ownership;
• Talk openly about the benefits and burdens of family business;
• If conflict emerges and persists, seek out professional family business advice;
• Express gratitude consistently and focus on the positive steps achieved.

When the road between emotional ownership and actual ownership is clearly defined and understood by all family members, both generations will derive great benefit. Current generation members will be able to rest assured that their financial future is safe and that their family business will be in good hands in the future. The next generation will have a greater promise of a tangible reward for years of dedication, passing up non-family business career opportunities and the early Saturday work sessions.

By taking the time now to set the vision, clarify expectations and map out a plan for achieving continuity, you will take important steps toward turning emotional ownership into a shared sense of pride and trust that protects and strengthens your family business.