

Optimizing Ownership: Values, Vision and Goals

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Just what do good owners do? While owners have certain legal rights and powers, what often distinguishes outstanding owners is their willingness to limit their own rights and do what's right, long-run, for others' other shareholders, the business itself as an institution, the family, employees and the community surrounding the business. When owners are united, committed, and responsible, they make it possible for managers to do their jobs in an optimal way. Managers know where they stand, they know what the goals are, they know the owners will support them for the long term and they know they can focus on the business instead of mediating or fearing shareholder disputes. In other words, a good ownership group is an outstanding asset to a family firm.

Ownership's first and foremost joint responsibility is to establish the values, vision and goals that guide the business and provide its framework. A statement of values can include such treasured concepts as innovation, trust, family, integrity, community and openness. When family owners are clear about their agreed-upon values, they add richness, meaning and strength to the business' culture. The owners' vision for the business is shaped by their values and encompasses two aspects:

1. The nature of the business. Do the owners want a diversified, multi-business company, or do they want to stay in one industry? Do they want to be local or regional, or do they want to be global? Do they want a business that welcomes family

members as employees or that relies on non-family management or both?

2. The structure of their ownership. The owning family must agree on and be clear about who can own shares and who can vote them. Some families want public ownership, others want private partners, and some want neither. Some families concentrate voting rights in trusts or general partners. Others eagerly distribute the shares quickly throughout the family and democratize voting privileges.

Owners must also seek agreement on goals for the business that satisfy their own interests and secure their commitment and yet are reasonable for management to meet. Four areas for which owners must set goals are:

1. Growth. For example, how fast do the owners want their business to grow and how large do they want it to become? Do they aim for rapid growth or seek growth at a steadier, more controlled pace? Do they favor growth in revenues or profitability?
2. Risk. What risks are they willing to take as an ownership group? What strategy presents the most or least risk? What level of risk will be best for the business and the family?
3. Profitability. What level of profitability do the owners desire? What level is acceptable? What is unacceptable?
4. Liquidity. The ownership group needs to give

thought to liquidity, that is, how business assets can be converted to cash to fulfill the desires of individual owners who want to redeem their shares and how profits will be used. One of the owners' tasks is to develop a redemption policy, setting forth the conditions under which shares can be redeemed and the process for such redemption. Owners also establish the dividend payout ratio as a guide to the percentage of profit retained in the business and the percentage distributed to shareholders.

These four areas are, of course, interdependent. More of some means less of others' more growth usually means less liquidity. The trade-off a family chooses among its goals will reflect the owning family's values and vision for the business. One family may believe that the best way to assure owners' long-term commitment is through generous dividends and redemption opportunities. Another family may settle for smaller returns so that funds can be reinvested in growth or diversification that will eventually provide exciting careers for next-generation family members.

Once goals are established, ownership then should serve as a partner in strategy. This means helping management and the board to understand owner goals as a basis for developing the business strategy and then embracing and supporting the strategy that is proposed by management and endorsed by the board.

Another key role of ownership is to assure excellent governance. It is a function of the owners to establish a process for choosing the board of directors, and they must be diligent about seeking, attracting and electing the best directors they can find directors who will help

the owners achieve their goals. The owners themselves, as an owners council or shareholder group, can set an example of excellence in governance as they go about setting up their own decision-making process. If the process is seen as just and fair, owners' differences can be more readily accepted and worked through. If not, unity and commitment are very much at risk.

On the family side, owners can lend encouragement and assistance in setting up a family council, family committees, family meetings, and the like. Still another major responsibility of ownership is to address the issues that define its relationship with the business and to develop policies around them.

Among the matters that owners need to address through policies are: interactions with management and directors, what information should be shared with owners, confidentiality, conflicts of interest, shareholder relations expenses, estate planning, share redemption, dividends, charitable giving, succession to governance roles and board effectiveness. Some policies will be unique to the shareholders themselves (a shareholder relations expenses policy, for example), while others may overlap policies that affect the whole family, such as estate planning. We have often stated "Ownership Matters. Our experience and research tells us that the impact is huge — especially when owners accept responsibility for the work that only effective owners can do."

This article was adapted from *Family Business Ownership: How to Be An Effective Shareholder* by Craig E. Aronoff and John L. Ward.



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