

The Case for Clarity on Future Ownership

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As advisors to enterprising families, we are engaged by families for a wide variety of reasons: to educate or coach the next generation of aspiring leaders; to help the family address relationship challenges or family tension; and to improve governance structures, just to name but a few. While getting to understanding of the underlying issues or challenges faced by any family business involves listening to the differing points of view of the various stakeholders, we also seek to understand the basic facts on the ground. One important fact is always ownership. Who owns how many of what kind of shares. Ownership is something that can be measured, it is concrete; it comes with specific legal rights, and it is the ultimate source of power in the family business system.

Yet, as objective and straightforward as ownership is on one level, it is also often a “taboo” subject. Likely, in part because ownership represents so much power, people may be uncomfortable speaking honestly about this issue. In addition, sometimes the older generation wants to protect the younger family members or do not believe they are ready to fully understand what they own—or what they will eventually own. Next-generation family members may be curious but do not want to appear “unseemly” in talking about such materialistic matters as stock ownership. Further, there is often the undercurrent of mortality in these discussions, as in many cases, controlling ownership will not pass until the senior generation has died and no one likes to bring up that topic!

However, because ownership is so fundamental, we would argue that it is critically important that families engage in an honest conversation on this topic. What is the family’s vision or aspirations around what ownership

will look like going forward? What is the ownership structure we will devise to fit with our goals around these issues? You might be surprised to hear us say this but, there is an easy solution: if each generation in the family has only one child, conversations around ownership can be greatly simplified! Of course, if that is not a formula that is going to work for you, then there is no “one size fits all” answer for how to address this issue. Social and cultural values will influence the options that a family is willing to consider, and the conversations around making this choice can sometimes be difficult, as not all family members will see it the same way. Just because the conversation might be tense, though, does not mean it is not one that should be had.

If you have more than one child, you have to think through some ownership options—and hopefully engage your family in this conversation. Five common solutions that we see families applying:

Royalty: The most common model, even in the “developed” world, even in the 21st century—where all of the ownership goes to the eldest heir in the family.

Social Democracy: Those who work in the business inherit ownership of the business, whereas other family members get other assets (with a broad goal to somehow make these “equal” in value).

Socialism: Everything gets divided between everyone equally.

Capitalism: Sell the business and invest the money in your kids various dreams as appropriate.

Democratic Capitalism: Start with an even split in ownership between the next generation, with the ability for those who contribute more to earn more ownership over time.

There is no pussy-footing around the reality that the choice made on where the ownership will lie will have a major bearing on power and authority in the system. Minimizing this reality does not serve any healthy purpose. If we are not clear on what ownership will look like going forward (because we are uncomfortable with the harsh choices this may represent), it is hard to make any kind of meaningful plans, as this choice has a bearing on sources of income, how resources are allocated and who has a voice in what decisions.

On the question of “voice,” in addition to determining how legal ownership will be distributed in future generations, the family must also have some understanding of how the ownership group is expected to behave—that is, how does the family understand the privileges and responsibilities of ownership. Is there an expectation that owners take a “laissez faire” attitude, which is to say: “take the earnings you get and be quiet...” (not a model we would endorse) or will the owners develop a “representative democracy,” where they elect a representative group who will vote on behalf of all the owners? Or will they engage in more “pure or direct democracy,” where all the owners vote on everything?

In our experience, for an ownership group to really add value and serve as optimal owners, it is important that they answer a series of questions about their ownership. First, why do we want to be owners (and why are we committed to this)? What are we willing to do to stay educated and informed about our investment? Second, what do we expect as owners? This can be around economic returns, nature of communication from business managers, etc. Third, as owners, what is our vision for the enterprise? How do we define success? Fourth, what is our responsibility as owners (as a group and as individuals)? Related to this is the question of how we will hold ourselves accountable? Finally, as an important question to ensure there is an ongoing dialogue around continuity planning: how can we enhance the emotional or psychological

benefits of ownership (for our generation and for future generations)? That is to say, how does our shared ownership of this asset bring us closer together as a family? Or, how does this add meaning to our individual lives or to our broader community?

Ownership groups that successfully address these questions will be able to genuinely add value in the system in a variety of ways. First, an ownership group that is clear on what it expects from the enterprise will speak with one voice to both management and governance. This helps set the agenda and enables the business to keep a strong focus rather than jump around to the varying whims or concerns of an ownership group that is poorly aligned. In addition, an ownership group that understands its own priorities will provide critical support to the culture of the enterprise, often a tremendous asset and richness in a family business. As stewards of the family name and values, the owners ensure that the business is run with the ethical compass that makes them proud. Finally, not only does this pride usually translate to customer and employee loyalty, it will also feed into continuity planning, as the next generation of future owners will see the emotional rewards that come with this ownership and will be motivated to do the work and preparation that is necessary for them to become educated and effective owners in the future.

What all of this suggests is that the investment in gaining clarity around the future structure and priorities of ownership in your family system will set up a virtuous cycle that will have a positive impact on the entire enterprising family system. While the discussions themselves may be hard (it can feel overwhelming to tackle these fundamental issues), clarity on ownership is so essential, that it is the most important investment in stewardship that you can make. The reward for addressing this taboo topic is a stronger business, a stronger family AND stronger individuals. As owners, you should appreciate that this represents a pretty powerful return on an investment!

To learn more about our firm and how we serve families like yours, call us at (773) 604-5005 or email us at info@thefbcg.com. There is absolutely no obligation.

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