

What Family Business Owners Deserve

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Every owner has certain legal rights, for example, the right to vote their shares, if they have voting stock. In a family business, however, where intimacy and emotion co-exist with bottom lines and strategic planning, it's much more important to consider what owners — ALL owners — deserve and should expect from their position as shareholders. Ideally, family business owners deserve:

A Financial Return. Ownership means having one's capital at risk. Some family businesses fail to reward ownership with either dividends or the opportunity to sell shares. Sometimes family businesses make working in the business the only way to receive a financial return. This is a dangerous approach that confuses ownership and compensation unless ownership is restricted to those who work in the business. While family businesses often have goals in addition to financial return, a tangible financial reward is an appropriate expectation for owners of any business asset.

Leadership. This means competence, trustworthiness, vision and all the other things that go into managing a company for growth and success.

Information. Shareholders deserve adequate information from the management and board of directors. Further, shareholders deserve "transparency" from management—that is, managers need to be open about their plans, pay and performance. Management that is miserly and secretive with information breeds distrust on the part of shareholders who do not work in the business.

Psychic Income. In addition to financial reward, family business owners deserve a sense of belonging and a

sense of purpose as a result of their ownership. They should be able to feel that they are participating in and contributing to the success of the enterprise. Psychic income is an important and unique bonus of family business ownership. If you as an owner are not experiencing psychic income or if, worse, you feel a real sense of emotional cost as an owner, then something is wrong and needs to be addressed. (Unfortunately, we find that in some family businesses, owners are expected to subsist entirely on psychic income. We don't think that's appropriate either).

Accountability. Shareholders should have clear criteria as to what they can expect from the board of directors and each other. Accountability, the process of being responsible to established criteria, takes a number of forms in family businesses:

1. A set of values. Management should be able to demonstrate that it is running the company in accordance with values set forth by the family.
2. Performance standards. The board and top executives need to articulate what ownership can expect in terms of short-term and long-term performance. Goals relating to profitability, return on investment, growth, and other financial criteria should be made clear, with results reported on a timely basis.
3. Processes that assure accountability. There should be a board of directors with independent board members on it (see below), as well as rules and policies and procedures that govern the processes.
4. Non-financial goals. The desire for financial return is a given. However, family businesses have other goals

as well—in such areas as new product development, employee relations, community relations—and philanthropy. Accountability needs to be established for non-financial goals as well as for financial ones.

A Board of Directors. We think business owners deserve a competent board that includes exemplary outside directors—business leaders from other companies who can complement your team and help you take your business where you want it to go. (In the process, they'll help increase the financial reward to owners.)

Respect. This includes an honest effort to be listened to and responded to, in terms of one's goals as an owner. Owners deserve to be taken seriously and to be heard (although they cannot always expect to have their way). Respect also means that the business should not be used to attempt to control the behavior of adult shareholders playing favorites with jobs or perks or manipulating dividends.

Protection for the Business. Family business assets represent long-term commitments. Few family businesses can offer to redeem shares at a shareholder's discretion. Shareholders should not be permitted to put the business at risk by giving or selling their stock to inappropriate owners. Shareholder agreements should be developed to deal with such issues. A business-owning family needs to find a balance between freedom of the individual welfare of shareholders, and the integrity of the business.

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