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What it Means to be an Investing Owner and Why it's so Important

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Aligning owners' expectations on the performance and outlook for jointly held assets is a unique and complicated task faced by multi-generational family businesses. In most cases of ownership groups beyond G2, owners have not made a conscious choice to be invested together but have rather been tied together by estate plans, career paths or possibly even guilt from prior generations.

As research shows, disagreements over money are a common source of family discord and divorce. Asking a group of individuals with differing needs for capital, risk profiles, ages and life outlooks to agree upon their expectations for a joint investment is a challenging proposition. Add in family history and the potential baggage that accompanies discussing money, asking for money or articulating firm expectations concerning what a business delivers make the problem only more complicated. For this reason, many ownership groups shy away from direct discussion about their expectations as investing owners. They prefer to focus on their roles as operating owners or as family members.

However, owners have both a right and responsibility to ensure their investment performs well. If perpetuating the family business across generations is the family's aspiration, owners need to ensure that the business will not only survive but thrive.

Avoidance Isn't an Option

Neglecting the discussion of owners' expectations has several downsides:

- If expectations are not commonly held across the group, disagreements will inevitably occur.
- The management team needs clear direction on expectations in order to be successful.
- Accountability is created by holding management responsible for reporting against clearly defined expectations. In their absence, performance may be sub-optimal.
- If owners don't see a clear benefit to their ownership in financial terms, not just emotional terms, over time they may opt out or become dis-enfranchised.
- Avoiding a dialog about business performance is a missed opportunity for family members to come together around mutually defined goals.
- Discussing ownership expectations prepares family to deal with potentially difficult questions before they arise (e.g., Should we sell? What do we do if we need to buy out a branch of the family? What if the long-term outlook for our business is not favorable?).

Why is Discussing Ownership Expectations so Difficult?

Owners often fear they will sound greedy for expecting a competitive financial return from their investment. They may feel that their ownership is a gift, and they have no right to expect anything from it. We take a different point of view: To be a good steward, owners have a responsibility to ensure their business performs well.

Another reason owners don't discuss business performance is that it can create tension with family members in management. If owners are skeptical of performance, they are questioning the capabilities of their fellow owners. For this reason, clearly defined roles and responsibilities for owners and a formalized path for communicating them to management (ideally involving the board as a moderator), is most helpful.

Sometimes owners feel they don't have enough knowledge or information to have an informed point of view. In the sidebar on rights and responsibilities, gaining that education is listed as a responsibility of ownership. In return for the benefits provided by ownership, expecting that owners educate themselves is fair.

And, last but not least, discussing money is often a taboo topic. Individuals, even (and maybe especially) those who are related to each other, can have vastly differing views of how much is enough and how it should be spent. Instead of framing the conversation around "how much money do we expect," consider instead the higher level discussion around "what is the purpose of our wealth." This question can provide a more fruitful and thought-provoking conversation, which can lead to expectations about business performance.

Ensuring a Productive Dialogue on Owners' Expectations

Knowing the topic is challenging, here are some suggestions for kicking off and managing the discussion going forward:

Start with the work you have already done. If your family has a values or mission statement, this can provide great context for a discussion about money in a way that's not just about dollars and cents. Talk about how the mission and values inform your expectations from the business. If you don't have these foundational pieces, they can be a good place to start.

Understand and acknowledge your history. Hold a conversation about how the family has (or hasn't) discussed financial issues. Discuss the pros and cons of the historic approach and agree to what you want to keep and what you want to leave behind.

Owners' rights:

- Define the composition of the board and elect directors.
- Set policy governing employment of family members.
- Plan for orderly ownership succession.
- Receive accurate, timely and transparent reporting on business performance.
- Participate in ownership group conversation to clarify owners' expectations of the business.

Owners' responsibilities:

- Develop family governance structure and process to ensure effective interaction between family and business, and actively participate.
- Make informed choices in director elections.
- Provide collective family input on issues at the intersection of family and business (e.g., family employment, financial expectations, code of conduct, family role in leadership).
- Provide well-prepared family directors to participate on the board.
- Develop clear expectations of role and responsibilities of family directors (e.g., mandatory attendance of quarterly shareholder calls).
- Educate themselves on the business so that they can make informed ownership decisions.
- Participate in activities available to educate shareholders (e.g., meetings, calls, conferences).

Acknowledge ownership group differences upfront. Generations bring different perspectives, as do family members who are employed vs. not employed, and owners who have larger stakes vs. smaller. Pointing out these differences and encouraging individual to seek to understand others' points of view can lead to productive dialog.

Come armed with facts. Grounding your discussion in data can help avoid conflict. Bring information to understand how your business has performed compared to how others businesses like yours have performed. Work with management to understand what is feasible to expect of your business given its industry and competitive position. And ask management to share its strategic plan and long-term outlook for the business.

Keep it simple. Set too many expectations and they are likely to be conflicting, or at the very least confusing. Start with what is most important. For some families, that may be dividends while for others, it may be growth.

Ground decisions in an understanding of the owners' role in the governance system. Owners' involvement in setting expectations can be uncomfortable for management if they fear owners are going to veer into operational decisions. It is important to keep owners' conversations grounded in the "what" and "why" and not the "how." The goal is NOT to give management input on acquisitions, capital investments, etc., but it is important to provide input on whether growth vs. generating near-term financial returns is.

Conclusion

While these ground rules will not guarantee the conversation will be easy, they should help to diffuse some of the tension inherent in the process of discussing financial expectations. Our experience is that families take great pride in holding productive discussions around expectations, precisely because they are difficult conversations to have.

One final piece of advice from a client going through this process: "You have to walk slowly to go far." Keep in mind that ownership discussions cannot be rushed or parties will not feel they had an opportunity to be heard or to appropriately think through the important decisions before them. And remember to take needed breaks on the journey and to celebrate successes along the way!

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