

Investor Relations: Building Connections and Continuity for Family Enterprises

By: Michael Fassler and Nicole Bettinger Zeidler, The Family Business Consulting Group

Most business-owning families we encounter have a goal of achieving multi-generational continuity. With multi-generational continuity comes multi-level complexities often due to the overlap of family, ownership and management roles. In particular, many family ownership groups evolve to the point where some owners work in the business (operating owners) and some do not (non-operating owners). This can result in owners not clearly understanding their roles or responsibilities which can hinder effective decision-making. By taking an investor relations approach to connect the family ownership group, a family-owned business can increase the likelihood of long-term success across generations.

Let's start with what "investor relations" means in the context of a public company. According to Investopedia, *"The investor relations (IR) department is a division of a business, usually a public company, whose job it is to provide investors with an accurate account of company affairs. This helps private and institutional investors make informed decisions on whether to invest in the company."* In other words, the goal of investor relations is to share an accurate story about the company such that investors want to invest in it and/or stay invested in it.

Family-owned businesses also have investors, who happen to be family members. A primary difference between a public company investor and a family-owned business investor is that public company investors make a conscious decision to invest in a company and a family-owned investor often comes into their ownership position through gift and/or inheritance. Although the family-owned business investor often does not consciously decide to invest in their family's business, they can and do make decisions about whether to stay invested and carry out the responsibilities of ownership as they benefit from the rewards of ownership.

Benefits of an Investor Relations Approach

Ensuring Patient Capital

One of the strengths many family businesses have is that their investors tend to be more patient with their investment and the return expected on that investment. They are more willing to keep their investment in the family business, rather than more quickly withdraw or expect immediate financial return, in exchange for a greater return in the long-term. This is known as "patient capital."

Keeping owners well informed using an investor relations approach can positively impact the satisfaction level of family owners. Management uses capital to fund the business strategy, with the goal of growing the value of the business. The more patient the capital, the longer owners are willing to hold on to their investment, thereby increasing the chance management will achieve this goal on behalf of the company and its owners.

Two-Way Street for Communication

One of the significant benefits of an investor relations approach is that it provides the owners, working in conjunction with management and the board, an opportunity to develop and [share their expectations regarding growth, risk, profitability, liquidity](#) and non-financial expectations. This conversation increases owner engagement and provides management and the board with clarity so they can better develop and implement strategies which are most likely to meet or exceed those expectations.

On the other side, investor relations can also provide owners with insight to what strategic decisions, initiatives and challenges the business may be facing. This can help owners who are not involved in the day-to-day business operations continue to be connected at a high level, while not interfering with management activities.

Having an understanding about where the business is headed and why helps family business owners stay engaged and supportive of the business. Compared to not knowing and making assumptions (often wrong), when owners develop a negative and perhaps untrue narrative about what is happening.

Building Emotional Connection

As family businesses get further and further into multi-generational ownership, chances are that fewer and fewer family members work in the business. The emotional tie and connection back to the business can become increasingly distant as family-owned businesses evolve from all or mostly operating owners to a combination of operating and non-operating owners or no operating owners. Family owners that become emotionally disengaged and disconnected often have less of a desire to want to maintain their investment in the business.

The investor relations approach plays a critical role in strengthening or cementing this connection between family owners (particularly non-operating owners) and the business. Investor relations in a family business doesn't mean just simply sharing financial statements or strategic performance. Investor relations tells the story of the whole business, including the family's influence and effect on the business, employee relations and morale, preserving family legacy, community involvement and business culture.

The “Investor Relations” Approach in Action

A third-generation wholesale distribution family business has 20+ shareholders and most owners are non-operating owners. The long-standing owners' mindset was established when the founder began transferring shares to the second generation. Even though the shares were gifted and the founder remained in control of the business during his lifetime, the family members were outright owners of those shares. Therefore, they deserved to be kept informed about major changes in the business, the value of the business and the return (cash and appreciation) they were earning on their investment.

Quarterly reporting to owners, annual shareholder meetings, dividend policy and dividend flow, a share redemption program and process, and an annual valuation of shares have been long-standing practices which have stood the test of time and helped keep the family feel connected to and invested in the business. This

commitment to investor relations has been instrumental in the business's ability to continue to grow, with no family members wanting to cash in their ownership shares.

Great! Where do we begin?

Get in the Right Mindset

To be most effective with investor relations, the management team and the board should have a mindset which values and respects the rights and expectations of family owners. They need to view family owners and their support as a strategic asset to have capital that is supportive of the strategic direction of the company.

Needs of the Family

Start by looking at the needs of the family and of the business. A facilitated shareholder/family owner survey is often used to gather this information. The questions may focus on:

- Satisfaction with access to company information (financial and nonfinancial)
- Shareholder priorities and significances
- Propensity and willingness for risk-taking
- Desired types of information needed for decision making

Designing Your Investor Relations Program

For those family businesses who engage their shareholder group with an investor relations approach, some of the common practices include:

- **Strategize:** Articulate a strategy for investor relations which is in keeping with the size and scope of the shareholder group, company, family and the family's culture.
- **Designated Point Person:** Investor Relations is a real job! Depending on the size of the company and its organizational structure, the CEO and Board Chair or a designated investor relations employee working in conjunction with the CEO and Board Chair head up the investor relations program.
- **Communicate!**
 - Shareholder orientation program for new shareholders
 - Quarterly report from the CEO and Board to shareholders
 - Master calendar for investor relations activities to keep the program on track

- **Involve Others:**
 - Engagement with the Family Council to begin early with [educating the next generation of owners and developing an owners' mindset](#)
 - Focus on current shareholders and in conjunction with a Family Council, support development of the next generation of shareholders
- **Get in the Sharing Mindset:**
 - Share financial information with owners in a manner which is understandable by a family group with diverse understanding of financial matters
 - Share information about the company's strategic direction, business leadership succession, business governance and how it is evolving; how the company is performing relative to owners' expectations for growth, risk, profitability and liquidity; and on non-financial expectations such as ESG and DEI goals, community support and employee engagement.
 - Provide exposure of the management team to the shareholders
- **Get Together:** Plan for and hold an annual shareholder meeting in a way that engages shareholders
- **Have Patience and Understanding:** Be patient with what can be a diverse group of shareholders in terms of understanding and knowledge, knowing that some will be responsive to efforts and some will not
- **Get Feedback:** Obtain feedback from shareholders on the effectiveness of the interactions
 - Periodic shareholder surveys
 - Regular facilitated discussions about what is currently important to shareholders and how their views are evolving

In Closing

Many families who have taken an investor relations approach with family owners refer to this as "family shareholder" or "family owner" relations. You may already have many of these practices and habits in place. Those families that adopt a more structured investor relations approach with their family ownership group can positively impact the achievement of multi-generational continuity.

Based on our experiences, whenever you transition from operating owners to a combination of operating and non-operating owners, you should consider starting a family owner relations program. This provides a mechanism to help family owners not working in the business to connect with their investment both on a financial and emotional level as they often have a great sense of responsibility, and it provides them with a means to participate. Even if you have all operating owners, taking time to meet, discuss and make decisions about ownership matters can be an important contributor to achieving multi-generational continuity. business and family.

Michael Fassler and Nicole Bettinger Zeidler are consultants with The Family Business Consulting Group.

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

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