

What Do Family Business Owners Deserve?

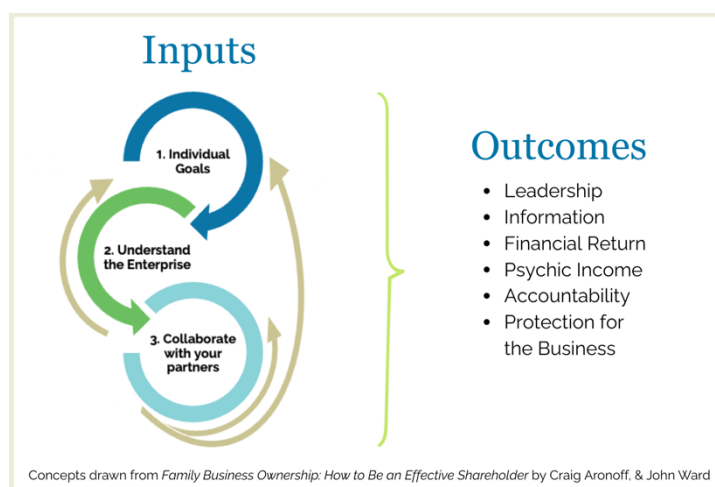
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Family business owners often wrestle with an important question: What do they truly deserve? While they should expect certain things—such as financial returns, business stability, and a sense of purpose—many struggle with the feeling that they haven't earned these benefits, especially when ownership is inherited rather than built from the ground up.

The reality is that owners deserve both responsibilities and rewards. Strong ownership teams don't just inherit benefits—they earn them by thinking and acting as owners, regardless of whether they work in the business. Let's explore how different generations of a family business navigate this journey.

Earning Your Share as a Family Business Owner

As a family business owner, earning what you deserve can look very different—especially if you don't work in the business or have inherited shares. On the left side of Figure 1, you'll see three steps we believe help family business owners earn what they deserve. Earning as an owner means doing the work of ownership—not just operating the business, but thinking and acting like shared owners and contributing to the outcomes that owners receive.



The examples below illustrate how a family business evolves over time, from the founder's stage to transitions into the second and third generations. Awareness of these steps is critical in maintaining a strong family business.

1. **Define Individual Goals:** Each owner should clarify their financial and non-financial expectations, whether it's income, reinvestment, or social impact.
2. **Understand the Business:** Owners must actively learn about the company's financial position, competitive landscape, and strategic needs.
3. **Collaborate as Owners:** Through structured discussions, develop a shared ownership vision that aligns their diverse goals with the business's realities.

G1: The Founder's Focus on Growth

Consider a first-generation (G1) founder who builds a family business from scratch. In the early years, the focus is clear: growth and reinvestment. Every dollar is put back into the business to strengthen its foundation. There's little collaboration with others because the founder is the sole decision-maker, adjusting plans in real-

time based on what the business needs to survive and expand while meeting the basic needs for the security of the founder's family.

Transitioning to G2: Balancing Income and Growth

As the founder nears retirement, the transition to second-generation (G2) ownership begins. Now, the priorities shift. The founder may want steady income from the business to replace their salary, while G2, eager to take the reins, sees opportunities for expansion and reinvestment.

At this stage, successful transitions happen when family members align on goals. Each owner—whether active in the business or not—must clarify their financial and personal objectives. The founder may prioritize security and stability, while the next generation is focused on long-term growth. The key is to match these goals with the business's actual capacity. This balancing results in G2 taking over with a plan for G1 cash distributions, while also having available cash for the G2 vision and operational strategy.

Adapting to Business Needs: The Growth Challenge

After a few years under G2 leadership, an unexpected competitive shift threatens the business. To stay viable, the company needs a major investment—a new production line and a technology upgrade. But funding this growth means tough choices: reducing distributions to the founding family member or taking on debt.

Here, the ownership group must revisit their original agreements and reassess priorities. G2 might argue for reinvestment to ensure longevity, while the retired founder worries about reduced income. Through open discussions and collaboration, they adjust expectations and find a path forward that balances income, growth, and sustainability.

The G3 Challenge: Finding Their Place as Owners

Fast forward 20 years, and a third generation (G3) has entered the picture. Seven family members—none of whom work in the business—have inherited or been gifted ownership stakes. Leadership has transitioned to a non-family CEO, while G2 remains in control and excludes G3 from ownership decisions.

As G2 ages, tensions begin to surface. G3 owners feel disconnected. They're unsure of their role, the influence they hold, or what they should expect as owners. Some question whether they should be receiving distributions, while others prioritize non-financial concerns, such as ensuring the company pays fair wages or contributes to the community.

Following the loss of the last G2 member, the G3 finds themselves in the driver's seat but without any direction. The company had maintained the growth approach for many years, with success. However, G3 then enters the process with limited context and history, and without full awareness of the challenges involved in making the trade-offs and balancing income, growth, and sustainability that had proved successful in the past.

To move forward, G3 must dig into the work of ownership:

1. **Define Individual Goals:** Each owner should clarify their financial and non-financial expectations, whether it's income, reinvestment, or social impact.
2. **Understand the Business:** The work of the G3 owners is developing an understanding and acceptance of the business capabilities and needs to the extent those relate to achieving owners' goals. Lacking

first-hand involvement, G3 must proactively learn about the company's financial position, competitive landscape, and strategic needs from management and independent financial reporting.

3. **Collaborate as Owners:** Through structured discussions within the ownership group, and informed by what they have learned about the business, G3 can develop a shared ownership vision that aligns their individual goals with the realities of the business.

Adding Structure: Governance Is Key

As a business grows and ownership becomes more complex, so do the roles of its owners. G3 needs to add structure to ownership meetings, allowing for open dialogue and shared decision-making.

The next step is creating a functioning board of directors. A board plays a critical role by helping owners and management align their priorities. The board helps translate the owners' goals into actionable plans, ensuring that management and owners are on the same page. The board will also facilitate healthy discussions, ensuring the business is headed in the right direction and balancing the needs of the owners with the business's realities into a plan to "get owners what they deserve."

Earning What Owners Deserve

So, what do family business owners deserve? The answer isn't just about financial rewards—it's about responsibility, engagement, and alignment. Owners must actively participate in shaping the future of the business, even if they don't work in it. By defining goals, understanding the business, and collaborating as a unified ownership group, they create a path toward shared success.

Ownership isn't just a privilege; it's a role that requires effort. The more family business owners invest in learning, communicating, and adapting, the more they will truly deserve—and receive—the benefits of ownership.

Figure 1 reference: *Family Business Ownership: How to Be an Effective Shareholder* by Craig Aronoff and John Ward.

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