



## Business owners' motivation: Entitlement or stewardship?

*Some family members don't share their true feelings about the business until it's too late.*

**A**s THE BANCROFT family struggled with the decision to sell the *Wall Street Journal*, Crawford Hill, a family member, wrote, "We are now paying the price for our passivity over the last 25 years...."

In a letter to his cousins, subsequently published in the *Journal*, he wrote: "Up until the past few months there has never existed a family culture of questioning management.... We never really figured out how to be owners when we needed to most...."

And so, after a very public debate, this large, complex family sold out, and a venerable American institution

"When your name's on the door, you care a lot more," was the mantra of Hader Hardware, a Cincinnati company. The motivation of family members—to sell the business or grow it for the next generation—determines long-term strategy. But some family members don't share their feelings about the business until the buyout deal has been inked.

### Family Asset Balance Sheet

My Family' Asset Balance Sheet is a tool that can help families clarify priorities and prompt discussion. They may be surprised by the level of consensus they already share.

**The family's commitment to the business is a significant business asset in itself.**

passed to the highest bidder: Rupert Murdoch, an Australian publishing entrepreneur who represents a business culture radically different from the sober and-trusted *Journal*.

The motivation for family business ownership is always complicated. Sometimes a company represents legacy, a source of pride or the best glue the family has discovered so far to stay connected. Sometimes a few family members want to harvest the sacrifices of past generations, while others believe their business is a better investment than anything the S&P 500 can offer. Sometimes family conflict persists.

The family's commitment to the business is a significant asset in itself.

Family members are asked to rank the following statements from 1 (most important) to 10 (least important); no two values may be assigned the same rank. Results are tabulated anonymously; the lowest numbers represent the predominant family priorities at this time.

1. The *autonomy* that comes from owning our own business is very important to me; I don't want to work for anyone else.

2. I am concerned that conflict about the business is increasing; my first priority is family *harmony*,

3. I have worked to grow this company in order to make a *profit*; we should choose the most profitable option, whatever that is.

4. The *work* I do is important to me; I want to continue doing the same kind of work I am doing now.

5. My *time* is very precious to me; there are many other things I want to do in life that will not be possible if I keep working in this business.

6. Health insurance and other *benefits* are very important to me; if we ever sell this business, I'm not sure how I'll manage these needs.

7. I enjoy the *synergy*, the shared excitement we generate when we work toward a common goal.

8. Good *health* is my primary consideration; I'm concerned about the stress caused by working in our company.

9. I want to maintain family control, so our children and grandchildren will have the *opportunities* that our company can provide.

10. I want to preserve our *work ethic*; if we sell our company, I'm concerned about the effect that wealth will have on our family.

Families who rank *synergy* at the top of their list are more likely to remain committed owners than those whose primary goal is profit.

One reason why feelings about owning a family business are complex is that ownership comes to members by very different routes. The founding generation may feel they bought every smidgeon of stock with their life's blood; the successor generation probably never actually decided to take on the responsibilities of ownership. Their stock was gifted, sometimes through complicated trusts, as a strategy to manage Granddad's estate.

### A stewardship culture

Succession planning typically focuses on selecting good management, but developing strong owners is critical. Without a culture of Stewardship—not just entitlement—good management can be sabotaged by contentious owners.

Stewardship means caring for a resource that is not fully possessed, but nurtured so it endures and grows and can ultimately be shared with generations to come. The most important requirement of a steward is knowing enough about the company and its strategies to make the right decisions when required.

Entitlement—the feeling that I *deserve* dividends because of a "birth-right"—can become a cancer that will eat away the lifeblood of any family business. It leads to careless passivity about the quality of management, and unwillingness to reinvest in new initiatives, because dividend checks might not be so stout. When a buy-out offer comes along it is too late to begin doing the hard work that own-

ership requires.

When 11 grandkids—cousins raised in separate households—own the company, how will they make decisions together? How much control will the successor CEO have, if he owns one-eleventh of the stock, unless there is consolidation of ownership? Will an effective board of directors be developed?

Some large families develop a form of voting trust; each branch has one vote and one representative. If you want an investment with minimum responsibility, try the stock market. Holding stock in a family firm requires a different commitment.

Sometimes the buy-sell agreement is designed to discourage family members from selling stock to prevent a run on the company, but this can lead to discontent: "All I have is a piece of paper, even though I'm supposed to be rich." As the number of owners multiplies, pressure to sell the company will increase if family members feel they are not benefiting sufficiently or have lost control

over management.

Merger and acquisition specialists are fishing all the time for profitable family businesses. Family cohesion will be required to make the right decision under pressure.

Taking the helm of a \$100 million company is an entirely different proposition from leading a start-up. Sometimes the DNA does not fall in the right generation at the right time; sometimes the heir apparent becomes ill or, the company faces unexpected challenges. At that point, hiring competent outside management, while retaining ownership, may be your best move.

### A successful owner

It takes special competencies to be a successful owner of a family business. Here's a job description:

#### Goals

- Committed to the vision, mission and strategies of the business.
- Supports growth—not only sur-

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# Gauging and reducing risks

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rocal, with the benefits flowing to either party depending on the circumstances.

4. *Initiating processes to reduce the overall risk profile.* Managing systematic risk often evolves into prudent "business practices. Cash management techniques, human resource practices and decision-making processes have developed over years of trial and error and refinement.

Entrepreneurs often bristle at the thought of initiating procedures to govern functional areas, particularly the hiring and firing of employees. As organizations grow, however, processes take on a larger risk management component because the entrepreneur is less involved in day-to-day decisions. Growth necessitates delegation of authority, and established processes ensure that authority is exercised reliably.

### A multitude of techniques

Family businesses must consider both specific risk and systematic risk as they chart their path for the future. The good news is that entire industries exist to help families in that endeavor, offering literally thousands of different techniques. The bad news is that many techniques are specific to a narrow universe of risks with limited application in other areas. Additionally, techniques are scattered throughout different disciplines, making it difficult to identify the available alternatives. Despite the difficulties in managing systematic risk, families that attempt to do so increase the probability of a better result when it comes to both the growth and survival of the family business. FB

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