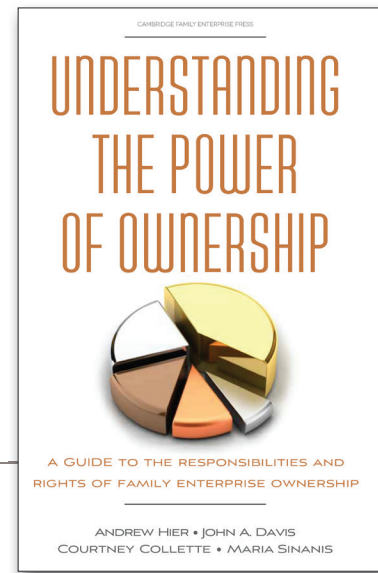


*Excerpt from the forthcoming book*

## Understanding the Power of Ownership: A Guide to the Responsibilities and Rights of Family Enterprise Ownership

*John A. Davis, Andrew Hier, Courtney Collette, Maria Sinanis*  
Cambridge Family Enterprise Press, 2015.



### THE SIGNIFICANCE OF OWNERSHIP

Family owners have long time-horizons, are sentimentally attached to the family company and are emotionally involved with one another. Their special connections to one another, to the business, and their shared history bonds family owners to the business for more than financial reasons. Their family nature makes them sensitive about inequality and conflict; their business connection leads them to pay attention to economic performance and to favor the goals of the company over those of an individual.

Family owners generally consider themselves a permanent group. This exclusive club does not usually change often, making the ownership group effectively closed for long periods of time. A family ownership group is difficult to enter and leave. One generally becomes an owner through family inheritance and it is typically very difficult to leave the ownership group—for legal, financial or family reasons. These factors make family ownership groups a valuable asset to the business due to their stability, yet, at the same time can be complicated to manage.

Owners are a high-status group in the family business system, but usually receive little attention unless they are upset, have serious internal conflicts, or interfere with management. This is unfortunate since the family ownership group is responsible for meaningful tasks, and when it functions well, provides the business with the stability that allows family companies to outperform their non-family competitors. When it under-functions or is wrought with conflict, a family ownership group destabilizes and weakens the business.

Ownership is the ultimate power base in the family business system because ownership confers strong psychological benefits, financial gain and oversight powers to its holders. Owners hold critical decision-making authority for the strategic direction of the business and are turned to for oversight over the business. The ownership group drives the goal setting and strategic

discussions in the business and on the board. The ownership group is highly influential in determining the profile of risk that will be tolerated by the family enterprise and how the financial benefits of the family enterprise will be allocated. Current owners, subject to agreements or estate planning documents, also typically have the power to determine their own successors, giving them power even over the future of the business once they are no longer owners. (The responsibilities of owners are explained further in Chapter 2 of the forthcoming book, *Understanding the Power of Ownership*, Cambridge Family Enterprise Press, 2015.)

The role of an owner can be nebulous in family companies. Some owners may have voting rights; some may not. Some may own the shares outright; some may be beneficiaries of a trust that owns shares. Some may have partnership interests. Some are majority owners; some minority. Some form ownership blocks that vote as a unit; some vote independently. Not only can the ownership structure cause confusion for owners, but many family members do not even know whether they are owners.

**“In many family companies, the number of owners who do not work in the business outnumber those who do. Many family owners have little to no exposure to the enterprise, yet are required to make ownership decisions about it.”**

Because ownership holds so much power in the family business system, it is often among the most secretive topics in the business and family—even more than money. Families can, and often do, go an entire generation without openly discussing who owns the company, in what proportion, and who will become owners. Next generation members can go decades without knowing when they will receive shares. This avoidance and secrecy can result in inadequate discussions and plans around ownership issues such as perceptions of unfairness, inadequate preparation for ownership, conflict and failure to plan for succession.

But ownership issues must be addressed because they set the stage for so much of the behavior in family business systems and set the family company on a path with impact felt for generations. How the owners see and treat the family business has much to do with whether it will survive and be perpetuated. To illustrate just how central ownership is, the healing of a dysfunctional family business system often requires interventions around ownership

policies, owner governance, giving shareholders a voice and mending relationships among owners.

## DEVELOPING COMPETENT OWNERS

Having capable and engaged owners is essential at every size, age and stage of a family enterprise. Whether or not family owners work in the company, they must have the knowledge and competencies to fulfill their ownership responsibilities. In smaller family enterprises where many owners work in the enterprise and deeply understand its strategic vision, operations, and key success factors, most (though not all) of the competencies required are acquired through their employment at the company. However in larger, older and more complex family enterprises, the number of owners who do not work in the business outnumber those who do. Many family owners have little to no exposure to the enterprise, yet are required to make ownership decisions about it.

Family enterprises need to devote the resources to designing education programs for their owners, exposing

them to aspects of the enterprise, and keeping them connected to the family, its values and heritage, and the enterprise. Of course it is a two-way street, and owners must also be interested and active in these efforts. Owners must also shift from viewing their ownership as a birthright to seeing it as a job—with important responsibilities—where high performance is a critical piece of the success of the family enterprise.

Owner preparation is most effective when it starts early, is deliberately designed, effectively planned, regularly offered, and is available to all current and future owners. This chapter discusses the advantages of establishing an owner preparation program, who ought to be involved in designing and implementing such a program, and how families can proceed with designing and implementing a program for their owners.

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