

The REAL WORK:

Developing Aligned, Competent, & Committed Next-Generation Shareholders

By Henry Landes, Founder, DVFCB

In the **ownership transition process**, business families often do not appreciate the critical difference between a single controlling owner and multiple minority shareholders of most succeeding generations.

A single controlling owner, often a founding entrepreneur, makes all the *critical calls* of ownership. It's a very efficient and flexible form of ownership with few meetings and written plans; "Hey, it's all in my head!" The single owner is indeed the *ruler*, making the rules about vision, values, levels of risk, compensation, management accountability (or lack of it), and a variety of other policies determined by the owner.

However, **when ownership is held by two or more minority shareholders, there is a major change in the game!** Single controlling owners are playing golf ... not a team sport. Minority shareholders, on the other hand, are playing a team sport which is much more comparable to basketball or even soccer!

We often say to next-generation shareholder candidates, "You probably will never be an owner the way your father or mother has been. You will be a shareholder. You will only own part or a share of the business which radically shifts the game! You will not have the personal flexibility or the freedom of the senior generation in matters of ownership."

Changing both the **who** of ownership and the **form** of ownership (sibling partnership or cousin consortium) represents a quantum leap into new territory requiring new structures, processes and skills ... which is why the odds of success decrease for many business families!

For many of our members and clients, **the major challenge of ownership transfer is the development of an aligned, competent and committed next generation shareholder group** ... which takes energy and time, months or often years. Building a shared, unified vision in the next generation includes many steps like learning from the best practices of other successful business families through active participation in our **Family Business Learning Community** and reading *Family Business Magazine* and other family business books such as *Love, Power & Money*. Our **Family Business Peer Groups** also provide a proactive, efficient foundation for learning about ownership.

The REAL WORK is for you and other family members to develop a *Shareholders Covenant*. This is much more than your shareholders' agreement or buy-sell agreement drafted with your attorney. The *Shareholders Covenant* is a non-legal "heart-to-heart" written statement defining the values, vision, philosophy, policies and goals of the shareholder group. Hopefully even spouses can be included in this process as shareholders test their capacity to speak with "one voice" — and discover if there is sufficient alignment to create competitive advantage in the marketplace and a foundation which serves both the family and business for generations.

Most next-generation shareholders need the assistance of experienced family business advisors to craft a comprehensive *Shareholders Covenant*, a critical component of **The Multi-Generational Journey**.

5 TEAMS WORKING TOGETHER With Clear Roles, Responsibilities & Boundaries

