WHY DO YOU REALLY OWN YOUR FAMILY BUSINESS?

ARTICLE | 17 FEBRUARY, 2021 01:00 AM | BY JULIETTE JOHNSON

Click to enlarge

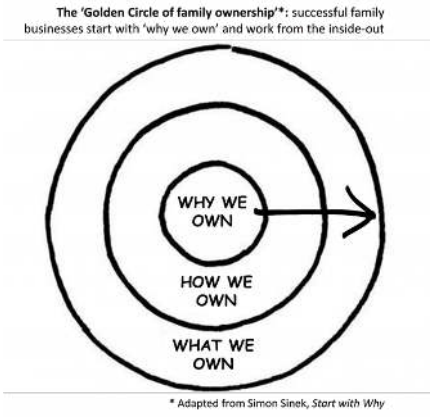


From the onset of the new millennium, business leaders have been increasingly interested in 'purpose'—the idea that they might look beyond the profit motive alone to consider why the business exists and what purpose it serves.

The idea was given popular force by business author Simon Sinek, whose 2009 book *Start with Why* visualised business purpose as a 'Golden Circle'—actually, three concentric circles, with WHY in the inside circle, HOW in the middle and WHAT in the outside circle.

Most company leaders, he wrote, tend to think from the 'outside-in'. They are clear about WHAT they do and sell, and about HOW their business does what it does. Only a few companies, however, venture into WHY they do it: their cause or reason for existing. Sinek argues that truly exceptional companies—such as Apple, Walmart, South West Airlines—think from the 'inside-out'. They start with the WHY question; they are successful because "people don't buy what they do: they buy why they do it."

The 'Golden Circle of family ownership'



While the focus of Sinek's model is business purpose, the Golden Circle is equally useful in helping family business owners think about their ownership purpose.

To be clear: in a family enterprise, business purpose and ownership purpose aren't the same thing. Business purpose—why the business does what it does—is a matter determined by the company's board. Ownership purpose, however, concerns itself with why the owners choose to own the enterprise: only the family can answer that question. It's true that for many families, the board and the owners are the same group of people, but they will be wearing different hats when making decisions in these two distinctive roles.

The question of WHY WE OWN is surely the fundamental question for family business shareholders to discuss and revisit when they meet as owners. But in my 20 years of working with family business owners, experience has taught me that family groups are far more comfortable in the outer circles. They devote the lion's share of their time and energies together—even in dedicated owners' meetings—to WHAT and HOW they own; only rarely (if at all) do they address WHY they own.

"Families devote the lion's share of their time and energies together to WHAT and HOW they own; Only rarely (if at all) do they address WHY they own"

If you're a family owner and this sounds odd, think about the last three or four meetings of your own family council or similar family owner-type forum. Ask yourself: (a) how much of the meeting was spent on performance updates, business strategy, new initiatives, acquisitions and disposals, possible new ventures, or more recently, managing performance through the pandemic (the WHAT), or on matter of governance, ownership policies, next generation education, shareholder communication, or family roles and responsibilities (the HOW)? And then: (b) how much time did we set aside to discuss the WHY questions—what we wish to achieve in owning business as individual family owners and as a whole family, and to what extent we achieve these wishes in reality? If yours is like most family councils, the likelihood is that that you spend most of your time on (a), the WHAT and HOW questions, and hardly any on (b), the WHY ones.

From 'Why I own' to 'Why we own'

This arguably matters less in the early days of the business, while it is still under the sole control of a single founder. The question of ownership purpose is unipolar: the founder knows his or her own drivers and is accountable only to themselves in decision making. Financial security typically features high on a founder's list at start up, but other purposes—particularly those driven by personal needs—may also be present. These could include a wish to fulfil an entrepreneurial dream, a yearning for autonomy or

independence, a platform for 'personal expression', a desire to 'prove oneself' a success, or sometimes simply a wish to have fun.



As the business passes down the generations and the family shareholder base increases, the question of 'Why I own' becomes 'Why we own'—and multiplies by an order of complication. Each shareholder will have their own distinctive perspective on ownership purpose, influenced by factors such as the individual's age, values, experiences, personal needs and whether they have worked in the business. Families that strive to build a shared understanding of WHY they own—based on an appreciation of these multiple perspectives—generally have a sounder basis for thinking about HOW and WHAT they own. They recognise that the HOW and WHAT are enablers in achieving their WHY.

Consider two family enterprises, each successful but operating from a different purpose. One is a dynastic European family, whose purpose is the long-term preservation of family wealth to enable each new generation to enjoy financial independence and pursue their dreams. HOW do they accomplish this purpose? By imbuing successive family members with the family's values; educating them to be good governors of the business; providing them with opportunities to learn and practice entrepreneurship outside the business; and by bringing in top-class non-family professionals to manage their enterprises. There is no expectation that the enterprise will provide jobs for family members, as the family believes that it is easier to hold professionals to account than one's own family. The WHAT is the business itself, a complex international conglomerate, which benefits from the clear governance and boundaries that the family has set (their HOW) and which in turn act as an enabler of wealth creation and a springboard of opportunities for individual family members (their WHY).

"The two families work from the inside-out, are clear-eyed about their WHY… and the rest follows"

The second example is a business owned by a large Indian family. The business employs several family members from across the various branches. The elders welcome family members into the business, taking care to ensure that each enters the company in a role and at a level suitable to their abilities. This approach stems from a primary ownership purpose, which is to provide a source of financial security through employment for the extended family. No matter that there are more competent people on the outside and that there may be some impact on group performance—that is a trade-off that the family understands and is willing to make, albeit within sensible limitations and proper accountability.

In some ways, these two businesses could not be more different in their approach and outlook. But for all their differences, each exemplifies its own version of family success, because the enterprise enables the family to achieve the purpose for which it is intended. The two families work from the inside-out, are clear-eyed about their WHY… and the rest follows.

Losing sight of the WHY

There's a story by Heinrich Boll, commonly known as the 'Mexican fisherman parable', in which a banker tries to convince a fisherman to take his business to ever-greater heights; were the fisherman to follow the banker's advice, he would succeed only in distancing himself from the reason he owns the business in the first place.

Like the banker in the story, families in business can sometimes confuse business success with family success. They are apt to believe that the more successful the business becomes, the more successful the family—having amassed wealth, power and status—also becomes.

But as business success can facilitate family wishes and dreams, it can just as easily stifle them.

Take the case of a second-generation family business which has morphed over several decades from modest beginnings into a large and successful international group of businesses. The founder and his two children have spent their entire careers in the business, each having played a key role in its success. As the years have gone by and the business has mushroomed in size and complexity, the family have felt increasingly consumed by it. They continue to put in long days, travel the world, but work in roles they now find limiting, as they are required to spend most of their time managing people, process and complexity, with little opportunity for the kind of strategic or entrepreneurial contributions they were able to make in the past.

LOSING SIGHT OF THE WHY: A PARABLE

An investment banker is standing on the pier of a tiny coastal village, when a small boat with just one fisherman docks. Inside the boat are a few large fish. The banker compliments the fisherman on his catch and asks how long it has taken him: "Only a short while," responds the fisherman.

The banker asks, why didn't he stay out longer and catch more fish? The fisherman says he has enough to support his family's immediate needs. The banker's curiosity is aroused: "But what do you do with the rest of your time?" to which the fisherman replies, "I have a nap, play with my kids, take a stroll with my wife, and each evening, I sip wine and play guitar with my friends. I have a full and busy life."

The banker scoffs: "I could help you. You should spend more time fishing and with the proceeds, buy a bigger boat. With the proceeds from the bigger boat, you could buy several boats. Eventually you'd have a fleet of fishing boats. Instead of selling your catch to a middleman, you'd sell directly to the processor, eventually opening your own cannery. You'd control the product, processing and distribution. You'd need to leave the village and move to a big city, from where you'd run your expanding enterprise."

The fisherman asks, "But how long will this all take?" and the banker replies: "Fifteen to twenty years." Asks the fisherman: "And then what?" The banker explains: "Well that's the best part. When the time's right, you sell the company and make millions."

"Millions! .... And then what?"

"Then what?!" exclaims the banker. "Then you could retire. Move to a small coastal fishing village where you'll sleep late, play with your kids, take strolls with your wife, and each evening, you can sip wine and play guitar with your friends."

While the company is flourishing, it has been allowed to drain all the vitality out of the family, leaving them feeling enslaved rather than empowered by what they have created. They have become so overwhelmed by the HOW and the WHAT of ownership, that they have lost sight of WHY they own the business in the first place. Instead of owning a business that serves the family, they have become a family that serves the business.

Reconnecting with the WHY

Families that find themselves in this kind of situation can move forward, but it requires will and effort to change the conversation. By starting inside the Golden Circle and working their way outwards, families can rediscover their purpose and realign why they do what they do (see the table of suggested discussion questions for family owners, below).

QUESTIONS FOR A FAMILY DISCUSSION ON OWNERSHIP PURPOSE	
Why we own	• Why do we own a family enterprise? What does it mean to us? What benefits does (or should) it bring? • To what extent do we all share the same purpose? Where differences exist, can we accommodate them? • Has purpose changed over time, and if so, how? What implications do these changes have? • What do we wish to pass on to future generations?
How we own	• Are we as family members in the right roles to fulfil our purpose? Do we have the right capabilities for what the business needs today and in the future? • Does our role protect or expose the business? Do we help or hinder business change? Do the roles we play help or hinder us to achieve our view of purpose?
What we own	• How does the reality of what the business has become impact us and our family? • To what extent does the business serve the family – or conversely, does the family serve the business?

Covid has been a catalyst for these conversations in many families, particularly those which have been shaken by the pandemic's impact on their business, or who have had unexpected time together to reflect during lockdown. For some, this reflection on ownership purpose has been existential: family owners have looked in the mirror and asked themselves: "Has our success enabled us to lead the lives we want?" Their answers have often been surprising, sparking further discussion and debate.



The strongest families are those that treat this conversation, not as a one-off, but revisit it time and again. Just like the business itself, ownership purpose never stands still; it exists in a state of continual evolution as motivations change, priorities shift, spouses marry in, and the next generation comes up. The author Jay Hughes talks of the "deafening silence" he has encountered among the rising generation "in the face of the enormous creativity and enormous voice of what we see often as the creator or founder generation."

Each new generation, he says, must make ownership relevant and meaningful to them; they need to define their own dreams, rather than inherit someone else's, and find their own purpose in ownership.

I worked recently with three second-generation siblings, who exemplify Hughes' exhortation. Five years ago, their father died suddenly. The business he left to them was well-managed by a non-family professional team, but short on cash. And in addition to the business, they were bequeathed his beloved estate—an important place for the family to gather and spend time together.



The siblings were presented with a difficult decision: their father's attachment to the property exerted a strong emotional pull on them, but the cost of maintaining and repairing the estate had become an unsustainable drain on the trading business. Many families faced with a similar situation might have quickly dissolved into argument and rancour, but not this group of siblings. They were a close family and had often discussed their motivation for continuing to own the business, which for each of them was broadly the same: to be provided with the means to live financially independent lives. While their father was alive, the estate was an emblem of his success and identity, but after his death, this no longer felt relevant. Their eventual decision to sell the estate was painful, but they were able to make it collectively, because it was true to their purpose.

What strikes most about the siblings' approach is their common language about family ownership purpose. This shared understanding had developed only as a result of regular conversations among them over the years. It meant that, when the time came for a potentially divisive discussion about WHAT they owned, they were equipped to deal with the matter calmly, respectfully and sensitively with each other.

Managing difference in ownership purpose

Few families are as open as the siblings. Perhaps this is because many carry a fear that initiating dialogue of this kind in their own family will expose differences—and in doing so, might reopen old wounds or form new ones. Better to 'keep the peace', runs the logic, by avoiding these conversations altogether.

The reality is that where there are many owners, different perspectives on ownership purpose are inevitable. One person might want family security from the business, another might see it as a support for their new venture, while for a third, it might represent the opportunity to fulfil a philanthropic dream. More often than not, differences can be accommodated, as the business may comfortably allow for the different wishes of multiple family members to be fulfilled alongside each other.



It is, of course, sometimes the case that differences are harder to reconcile, but at least by opening up the discussion and building understanding, the family can acknowledge these differences, and then explore together how to find a way forward. Family owners that engage in this activity do not just build stronger familial relationships; they also reduce the risk to the business of future shareholder conflict, or even fracture.

These are not always easy conversations to have, and it is not always predictable where they will lead. It is, however, the case that the families who find the courage to talk openly with each other - and who have the discipline to do so on a regular basis—will develop an enviable mix of cohesion and flexibility, enabling them to handle any issue or eventuality that the future holds in store for them.

RELATED CONTENT:

Fostering family dynamics that boost entrepreneurship

Does your family business need a war room?

About the Author »

Juliette Johnson

Consultant

Juliette established her boutique consultancy firm in 2013 after more than 15 years of experience as an adviser, facilitator and educator to family businesses and wealthy families.

With previous roles as head of UK family business at Coutts & Co and director of the BDO Centre for Family Business, she has developed a strong reputation for helping families transition their family businesses and their family wealth, smoothly and harmoniously from one generation to the next.

Related terms: Apple, author Simon Sinek, book, business, case study, catalyst, coach, cohesion, companies, consultant, education, employment, extended family, family business, family council, family leadership, family office, family ownership, family roles, FB News, financial security, flexibility, founder, france, golden circle, good governance, governance, India, juliette johnson, mentor, mission, next generation, NXG, ownership policies, preservation of family wealth, private wealth, responsibilities, shareholder communication, shareholders, South West Airlines, Start with Why, succession, succession planning, trusted adviser, Walmart, wealth with purpose, Ownership and Management, Succession, Family Business, FB Wealth, Governance, Coaching, policy