A Continuity White Paper

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The Purpose of an Owner's Council In Family Enterprise

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Introduction

Owner’s Councils are among the least understood and least used structures in family enterprise. Properly crafted, however, Owner’s Councils can play an important role in guiding a family business, ensuring succession, and managing conflict among all stakeholders.

Problem Statement

Understanding the purpose of an Owner’s Council is key to creating lasting value.

Previous Options

Integrating ownership discussions with board meetings can often be unavoidable and counterproductive, when and Owner’s Council does not exist.

Solution

Owner’s Councils can be crafted for families with many owners as well as for families with concentrated ownership.

Implementation

Owner’s Council’s can be a stand-alone structure or a committee of the Family Council.

Summary

Provides owners’ vision for strategy development
Manages conflict
Improves owner’s relationships with board
Attends to shareholder responsibilities

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Owner's Councils are among the least understood and least used structures in family enterprise. Properly crafted, however, Owner's Councils can play an important role in guiding a family business, ensuring succession, and managing conflict among all stakeholders.

Typically, the creation of an Owner's Council is considered when there are a large number of family-member owners that are divided among several family branches. As the interests of disparate family branches and individual shareholders, diverge – as is common with time – branchism (or 'tribalism') can damage the ability of a board of directors to do its job of serving the interests of all shareholders. In these cases, issues of branchism should be addressed outside the boardroom, so that the ownership group can find alignment and speak to it's board with (more or less) one voice.

Owner's Councils can also be useful when the ownership group is small. In such family businesses, all or most family-member owners might also have roles in business operations or on the board. This presents a different problem: lack of role clarity. When ownership, management and governance of a family firm is split among a very small group of family members, each family member likely will have dual or triple roles. Board meetings – even when there are independents on the board - may be rife with conflicts of interest (real or perceived) and conflict-ridden decision-making. In these cases, having a separate and distinct venue to approach issues from the perspective of 'owners' can bring greater clarity, and calmer discussion, to the situation.

Whether the impetus for an Owner's Council comes from the need to coral large numbers of family owners, or from the conflict and confusion arising from more concentrated ownership, the core purpose of an Owner's Council is the same. That purpose is to provide the board with a clear, informed directive regarding 'VISION'. The owners need to communicate clearly to the board what they want their enterprise to 'BE'. This 'vision' could include growth and profitability targets, distribution targets, family employment expectations, and values or corporate culture issues that owners expect their business to pursue.

The development of an owner's vision must be an informed process. This means that those developing the owner's vision must understand what is possible for their enterprise to achieve, and the risks involved in doing so. They must have a solid understanding of their industry, their enterprise and their leadership group. The board can help the owner's council achieve this understanding by providing useful information to shareholders, but owners can and should take initiative to learn about their industry themselves and get assistance as needed to better understand their company's financial reports.

With a large group of family owners, some shareholders may not be interested in devoting the time it take to be substantively informed and engaged. An Owner's Council should, therefore, be a core group of owners devoted to understanding both the family and its business so that its members can have effective discourse concerning corporate vision.

When there is a more concentrated ownership group, with family owners having multiple roles in the business and on the board, it is likely that these owners have ample information regarding the interests of the owners (i.e. themselves), as well as the company and its industry. Their challenge is to be able to think clearly about their vision as owners separate from their responsibilities as board members or interests as employees. Without an Owner's Council, these conversations typically happen at board meetings, where they can be disruptive to the corporate governance process.

It is the board's responsibility to inform owners of their opinion regarding the plausibility of achieving their vision for the company. Once a clearly articulated vision for the company is identified by the owner's council, and accepted by the board, the board can then execute it's main charge – to work with the executive leadership team to develop and approve a strategic plan intended to achieve the owner's vision.

Developing an owner's vision is the process of defining what the ownership group wants their business to be. It is often useful to frame this work in comparison to other companies. Having a concrete example of other organizations that have characteristics that the owners would like their firm to aspire to, can bring a level of clarity to the vision that flowery, inspirational language alone cannot.

Owner's Councils play other, more perfunctory but no less essential roles. The Owner's Council is where shareholder agreements, exit options, and owner-board relationships are discussed so that recommendations can be made to the greater shareholder group. A more expansive list of owner's council responsibilities might include:

- Articulate shareholder's vision for company
- Communicate expectations of the values and culture to which the company should aspire
- Owner-Board relationships and board performance review
- Recommendations for board member nominations
- Recommend corporate performance metrics to be evaluated/tracked
- Communicate shareholder expectations
- Ensure transparency for shareholders
- Re-evaluate shareholder agreements
- Recommend family employment policy
- Define policy for transitioning ownership
- Manage risk of ownership (pre-nups, trusts, confidentiality, insurance)
- Communicate risk profile of owners to board
- Communicate liquidity needs of owners to board

Owner's Councils sometime operate as a committee of the Family Council. After all, in a family business, family owners are a subset of the family at large. This can be a significant advantage to the family. Having an organized structure focused on family development can leverage the effectiveness of the Owner's Council. The family council can work with the owner's council to develop educational programs whose purpose is to prepare family members for future ownership. In addition, the family council can provide a conduit of information about family and branch interests to the Owner's Council.

It must be noted that Owner's Councils may be essential for some families and may be not needed for others. With every new structure comes cost, effort and risk. It is essential that when families consider developing a formal owner's council, it should be for a specific purpose. Developing structure for the sake of structure, or because it is something that has worked for another family, can often be counter productive. But, being aware of the wide variety of ideas that have been developed for family enterprises provides valuable opportunity for discussion – and that may prove to be effective by itself.

Having a separate and distinct forum where shareholders (or their representatives) who are well informed and charged with specific responsibilities that are unique to owners is where probably the most fundamental question concerning ownership can be asked: "Are we buyers or sellers of this asset?" Actually selling the asset may be unthinkable for some family shareholders. But, asking this question can spur valuable discussion concerning what shareholders may need to see in the performance, management and governance of their shared enterprise to be a 'buyer'. Complacency from passive ownership can be destructive to the long-term success of the enterprise. Owner's Councils can provide the structure needed to keep ownership relevant and owners focused on the right things.