Debate: "What's the best thing to do with a family business whose members have lost their emotional attachment?"

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Howard Leigh is a partner at Cavendish Corporate Finance, an independent specialist advisor to business vendors

Tom Davidow says:

The larger the family business and the more successful the family has been in passing the ownership on to the next generation, the higher the number of owners. Each of these owners will have different levels of involvement with the business as well as a different emotional connection to it.

Members of a family business traditionally link their identity to that of the business; being the business owner helps define them. However, as ownership gets passed to succeeding generations, family members tend to become less connected to it emotionally. When that connection becomes purely financial, family members see it as an asset that does or doesn't yield a financial return on their investments.

A large number of non-active, disconnected family shareholders can be a nightmare for management. Unhappy family shareholders can drain emotional energy like nothing else. By having the right point of view and taking the necessary steps, the family can ensure that its members will continue to add value to the business rather than be a drain on it. Here are three ways to minimize problems with multiple shareholders:

See yourselves as a community: The more the shareholder group sees itself as a community with common interests, the more potential there is for that community to be functional. An important criterion for a sense of community is that the individual community member chooses to be there. Otherwise, the pleasure of being there is seriously compromised; the community member can feel trapped.

Spend time on buy/sell agreements: The content of the buy/sell agreement is confined by the creativity and thoroughness of its authors. Attorneys ought to sit with as many of the owners as possible and listen to their concerns. The more informed they are, the more practical and useful the document will be. You can provide the marketplace for the family to buy and sell shares. The company can agree to guarantee the value of the stock so some dollar amount may be used as collateral for a loan to a bank. This arrangement might free up some family members to buy a house or car.

The buy/sell agreement is not a panacea. There are many realities in a family business that will not allow the stock to be as liquid as owning a share in a publicly traded company. There are usually well defined criteria for who can be an owner. The business and/or other family members may not have the liquidity or interest in buying more shares. However, the agreement should be as flexible and creative as possible. Understand that the emotional and financial privilege of being a family owner can be very different for members of the same family.

Encourage regular communications: Every good community needs to be well informed about its activities, the challenges it faces and how its leadership is dealing with those challenges. It's important to have ongoing scheduled community meetings where the leadership informs and the membership asks questions. All shareholders ought to receive information about the financial performance of the business, its strategic goals, capital expenditures and other important information. Regular meetings allow for the sharing of information and offer the opportunity not only to explain the financial performance, but also place that performance into the context of the marketplace.

Consistently scheduled meetings prevent the undesirable occurrence that the community gathers for the first time

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because it is being confronted with a significant issue such as whether keep or sell the family business.

Howard Leigh says:

Most family businesses are started by strong-willed, determined individuals who have the energy, tenacity and vision to launch a business on their own. Founders will feel a strong emotional connection to the business they have grown and cultivated and often wish to pass on their company to the next generation of family members, However, keeping it in the family is not always the best option for the family or the business, especially when the number of shareholders increases with each generation.

I have worked with many family businesses that would benefit from selling the company even though the decision is not an easy one to make.

Pressure is frequently applied to succeeding generations to "help out" and "do the decent thing" by working within the family business, a business that may even bear the family name. Members of the next generation can find themselves pressured to working within the business when in fact a completely different lifestyle and occupation would be much more suitable and desirable.

Forced succession is usually detrimental to the business. For example, I recently encountered a company being run by a seventh-generation family member who felt under extreme strain, which he found difficult to accommodate. When he took over the business it was at the point of impending disaster and he felt immense pressure not to be the family member who lost the family business.

Instead of growing from generation to generation, the business had been passed down to emotionally unconnected family members and had consequently not made much progress.

The individual concerned had never wanted to run a business and so eventually too the difficult decision to sell. Although it was a hard choice to make it was in the interest of both the business and the family; the previous owner was much happier being an employee with no decision-making responsibilities and the company could once again grow under new management.

Time and again discussions between parents and children as to the future of the business leads to headed rows. In these instances a family business can divide rather than unite the different family members and generations and prove very damaging to both family and business relationships.

Once case I was involved in saw a father tell his son he wished he had never invited him to join the family business. The son believed he had given 10 years of good, loyal and dedicated service and was aghast his father should think this.

When questioned further about his reasoning for the comment, the father revealed it was not his son's service that was the problem but the breakdown of a normal family relationship between the pair. The father explained he wanted to spend time talking to his son about family, children, sport and other normal bonding issues, but instead was constantly battling head-to-head in meeting rooms full of lawyers and accountants.

Another business I have worked with was founded in the late 19th century and by the time it was sold had some 70 shareholders, all of whom had completely different objectives and needs. For some the annual dividend was a lifesaver that enabled them to keep going, for others it was complete irrelevance that didn't cover the costs of heating a swimming pool.

Shareholder meetings were not happy events and eventually management grew tired of being the custodian of family wealth where even simple decisions could not be taken. The company was advised to form a small executive committee with representatives from each of the different groups within the shareholders. The business was then sold at a price that enabled each to have their own wealth management.

There are, of course, many examples of businesses that survived the family trauma. However, this is a small proportion of the tens of thousands of businesses started by determined entrepreneurs. Many founding shareholders, instead of looking to a potentially uninterested next generation, decide to capitalize at a time when the business still has premium value.