FAMILY & BUSINESS INTERFACE

Investor Relations Jiu Jitsu in Family-Owned Business

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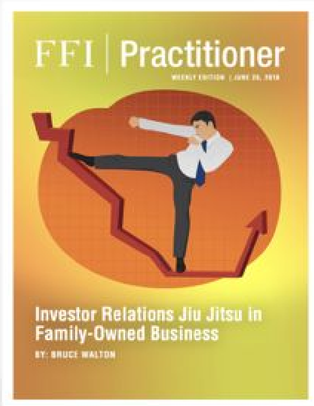

From *FFI Practitioner*

In this week's *FFI Practitioner*, Bruce Walton of Battalia Winston addresses the question of how Investor Relations differ in family-owned businesses. His conclusions, based on interviews with accomplished governance leaders, fall into three common themes – communicate, educate, and "mechanate."

A common truism is that Investor Relations (IR) in a family-owned business doesn't go away; it's just different. But not much has been written about HOW it is different. To get at that, I interviewed 17 accomplished governance leaders, including owners, board members, non-family CEOs, and advisers. I am indebted to them for their good will and thoughtful comments. While there are no simple recipes, some common, practical themes emerged.

A good starting point is to poke at the WHY. The answer goes to the nature of the shareholders. In a public company or private equity-owned (PE) company, investors have consciously bought the stock. The rules of the IR game are known, and stockholders are generally quite knowledgeable. In public companies the focus is on quarterly performance and mandated reporting. In PE the focus is on EBITDA, covenants, performance against plan, and the coming liquidity event. On the other hand, in a family business (here defined as multi-generational) some owners are born or marry into ownership. Emotions, often complex and deep-seated, rule. Experience in, and knowledge of, business varies widely, as do opinions and personal needs. Ownership is a "they", not an "it", and managing that reality takes thought and effort.

The themes that arise fit in three buckets: Communicate, Educate, and "Mechanate."

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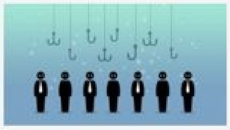

Seats, Sources, and Fish Ponds

FFI Practitioner Article
by: Bruce Walton

When confronted with the need to go outside the family company for new leadership, most families have no idea what that process entails and how to go about it. This case study will help advisers guide clients wrestling with such an issue and recognize the value of resources available to help. Thanks to Bruce Walton of Battalia Winston for the article and case study.

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Communicate

- It is impossible to over-communicate with a family because typically there is no common level of business understanding. Communication must be robust, delivered regularly and be both pro-active and responsive. Report on both the good and the bad. It takes a while to develop a cadence and rules of engagement that fit the family's needs. One first non-family CEO felt that, even arriving with well-established board and family council structures, it has taken almost three years for the communications process to "settle in."

- Do it for life. Once you establish a communications process, it needs to go on forever and with discipline. And remember the cardinal rule of preaching, "Tell them what you are going to tell them; tell them; and then tell them what you told them."

- There is often no easy way to compare company performance to the rest of the market. Some companies do formal, yearly, third party valuations. One creative approach was to take a dollar invested in the stock market in, say, 2000 and chart the value of that same dollar invested in the company. This helps owners understand why the company is worth holding, even if liquidity may be a challenge.

Educate

- To account for varied levels of knowledge/expertise, and to prepare the next generation for wise ownership, education in a variety of ways is a high priority. One-on-one education is important, because people hear and learn differently. There are also excellent governance workshops available through academic programs, associations, and consultancies. A family council can help determine what topics are most important to the family and what are the various levels of understanding on certain issues.

- Owners need to know, "Why are we doing this (action or strategy), now?" It helps to provide context and company history. Looking forward, the timeframe for discussion includes both this year and the next decade.

- The process of educating ownership helps build connections, trust, and good will that pay dividends when the going gets bumpy, as it usually does when the outside world changes or generations transition (either expectedly or unexpectedly).

"Mechanate"

We will use this term to describe the structures, mechanisms, and processes that help things go well.

- What does the family want and what is its risk tolerance? The answers are vital, hard to pin down and can change. To the extent this can be formulated and communicated, with an opportunity for minority positions to be given voice, the CEO, board, and family will benefit.
- Provide for one, provide for all. Special consideration, either financial or informational, for individual shareholders usually brings trouble, so policies and boundaries are important. Shareholder agreements help here.
- How can family members create some liquidity? Emergencies and big events (schooling, houses, divorce, etc.) call for a mechanism to take some cash out without harming the company's viability. There may be a haircut charged to sell stock, but some mechanism is needed.

OWNERSHIP IS A *"THEY"*, NOT AN *"IT"*, AND MANAGING THAT REALITY TAKES **THOUGHT AND EFFORT**.

It can be very helpful for an independent board member, with no personal agenda and a high EQ, to take a lead role in bridging between the family (whether via a family council or more informally) and the board/CEO. This person can also help identify CEO blind spots that may develop.

In the interviews, other CEO success factors often came up. Key concepts included Respect, Patience, and Trust. The latter is built upon: Credibility (clear, coherent, transparent, concise, compelling), Reliability (dependable, owns issues, gets results), Relationships (successfully builds them, listens well), and Stewardship (investors' interests come first, high EQ).

On reflection, Investor Relations in a family-owned business feels a bit like (Japanese) jiu jitsu. You don't win by forcing things, but you can follow the family's force and guide it in constructive ways.

About the contributor

Bruce H. Walton is a partner in the Boston office of Battalia Winston. A co-leader of the Family-Owned Business Practice, he has more than 30 years of executive search experience and primarily recruits CEOs and their direct reports. Bruce can be reached at bwalton@battaliawinston.com.

About Battalia Winston

Battalia Winston is an executive search firm that has been helping companies—from early stage to Fortune 500 companies—find and retain top executives for more than 50 years.

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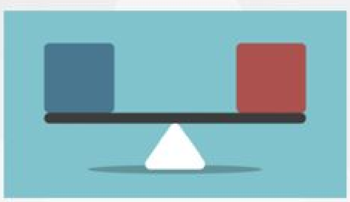
If you enjoyed this article, view the related article that talks about what advisers need to understand about each family's unique values and ownership philosophies before attempting to implement specific governance structures.



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