

A NOTE TO BUSINESS OWNERS

This book is for owners of closely held and family businesses. We've worked with you for years. We know how important your business is to you. We understand the sacrifices and the enormous effort you have made to keep your business successful.

This book is especially for owners in transition. We understand the challenges you face as your business grows and expands to include senior managers and other owners. Whether you are transitioning your role in management, your relationship with other owners, your level of involvement in the business, or just altering the way you think about your future, these challenges are significant and real. Here are some of the challenges you may be facing:

- » You may want your senior managers to take on more responsibilities. What do you do? What is your role if your senior managers do take on more responsibilities? How do you guide your business, retaining the role you want yet giving others the responsibilities you want them to have?
- » You may want to transition your business to your children. How do you do this? You know it isn't as simple as just "letting go" by establishing a board that includes outsiders and giving the next generation their chance.

- » You may want to sell your business in the next few years. What can you do now to increase its value? How can you show potential buyers that the company is not just you? And how can you do this and still keep your power until the business is sold?
- » You may want to sell your stock to other shareholders. How do you ensure that you receive all your payments without staying involved in the company's operations? What can you do?
- » You may be a next-generation owner who works in the business. You (or your spouse) may wonder what your role is and when your time will come. You may be told to bide your time, that you cannot do anything until the senior generation "lets go." You may see this as the best (or perhaps only) solution, but at some level you wonder what happens to you and your family as you wait. Is there another way?
- » You may be a next-generation owner who doesn't work in the business. You (or your spouse) may have questions such as, Am I supposed to do anything? Can I speak up about my concerns or ideas? How do I find out what is going on? Are my siblings who are employees supposed to take care of my shares when Dad and Mom are gone, and, if so, what can I do if I have different ideas? You may be told that your ownership is a gift, so be happy with it. Or you may be told that the managers will run the business and that as an owner you don't need to do anything. You may be given nonvoting shares with the understanding that you have ownership but no say in the business.

These are just some of the challenges you may face when you and your company begin to transition. We believe you will be in a better position to handle these challenges if you understand the fundamental principles of business transition and if you have a practical framework to help you implement solutions. *The Balance Point* provides this information.

We know you will take what is useful from this book and discard the rest. That's OK. If you find ideas in this book that you like, begin implementing them at your own pace, in your own way, and keep moving forward.

OWNERSHIP

Our book focuses on ownership. In most businesses we work with, owners don't have clear responsibilities (if they have any at all). And while owners generally get along with each other, they usually don't have a lot of experience working together. Often they have different (sometimes conflicting) interests and ways to pursue them. If owners can't reach common ground or don't know how to "speak with one voice," each will pursue their individual interests. When this happens, conflict often results.

Most conflicts can be traced to differing values, needs, and goals among owners, or between owners and managers, and how these differences are resolved (or not resolved). This book explains how business owners and managers can get their values, needs, and goals addressed in a way that helps closely held businesses grow and strengthens family businesses.

THE BALANCE POINT

This book also focuses on an idea we call the "balance point." All closely held and family businesses have a balance point. The balance point is a place where owners' values, needs, and goals are integrated with managers' values, needs, and goals. "Balancing" is the act of integrating ownership and management interests.

We believe all business owners should know where the balance point is in their company and how it works. Also, they should understand when to transition the balance point and their transition plan should describe how they are going to transition the balance point.

UNDERSTANDING THE BALANCE POINT IS KEY TO RUNNING A SUCCESSFUL BUSINESS, AND TRANSITIONING THE BALANCE POINT IS KEY TO TRANSITIONING THE BUSINESS SUCCESSFULLY.

Understanding the balance point is key to running a successful business, and transitioning the balance point is key to transitioning the business successfully. This book provides a comprehensive yet practical approach to balancing owners' and managers' interests and explains when and how to transition the balance point.

OUR BASIC BELIEFS

We want to explain, up front, the basic beliefs that underlie our ideas in this book. We hope you agree with them, and won't feel we are persuading you to do something you don't want to do.

- » Owners have an important role and significant responsibilities *as owners*. Individuals who ignore their ownership role and responsibilities substantially increase the risks of long-term conflict and affect the company's well-being, especially when there are multiple owners or when owners are different than managers.
- » Owners, managers, and directors have separate and distinct responsibilities and different roles yet are interdependent, so they must work together.
- » Owners and managers are the primary problem solvers. Owners solve ownership problems; managers solve management problems. The board is the balance point between the owners and managers, helping each solve their respective problems.
- » Conflict may result when
 - owners don't know what they are supposed to do.
 - owners don't have specific responsibilities or don't perform them.
 - owners don't work at the company but try to manage it anyway.
 - managers don't perform their specific responsibilities, especially when the manager is also an owner.
 - managers don't know, and have to guess, what the owners want or ignore the owners' values, needs, and goals.

- boards manage the company or decide what the owners will get from the company.
- » Decisions balancing the interests among the owners and between the owners and managers are made in every closely held and family business. Family business owners should understand how these balancing decisions are made and who is making them.
- » To be successful, every board must serve a purpose. If you can't see the value of changing your current board arrangement, then keep the arrangement you have.
- » No single type of board arrangement works for all closely held or family businesses. The arrangement you choose must reflect what you want to accomplish and are willing to accept.
- » Sometimes the existing board arrangement in a closely held or family business will work just fine. Not every business needs every arrangement discussed in this book.
- » It is possible to have a board of one. A board is defined by what it does, not by its size.
- » Boards don't have to include nonowners and nonmanagers—individuals commonly referred to as “outsiders.” Likewise, boards don't have to include owners or managers—individuals commonly referred to as “insiders.” A board is defined by what it does, not by who is on it.
- » Board arrangements must satisfy several legal standards. Directors have the duty to ensure that the company is properly managed, along with duties of care and loyalty to the business. The principles in this book are entirely consistent with the law and actually help directors fulfill their legal responsibilities.

AN OVERVIEW

Chapter 2 explains our idea of the balance point and the act of balancing. We discuss who generally acts as the balance point. You'll

see that balancing occurs all the time in your company. Chapter 3 identifies four circumstances when you may want to consider changing who acts as the balance point. If you already changed your board arrangement, but aren't happy with the results, this chapter will help you understand why the board is not meeting your expectations.

Because balancing integrates owners' and managers' interests, Chapter 4 explains what owners do, and Chapter 5 explains managers' responsibilities in the act of balancing. Chapters 6 and 7 explain how the balancing is done—that being the balance point is the responsibility of the board of directors and the act of balancing is its major activity. Many entrepreneurs and managers have a great

**A BOARD IS DEFINED BY WHAT IT DOES,
NOT BY ITS SIZE OR WHO IS ON IT.**

deal of resistance to boards and, often, for good reasons. Throughout this book, we make it clear that those

serving as the balance point have a critical role in the company's success and the owners' well-being. Board members may include only the dominant business owner (making it a board of one); all owners, family, managers, or outsiders; or any combination of owners, family, managers, and outsiders.

Chapter 8 identifies seven ways to structure the balance point. We explain the essential characteristics of each structure so you can choose the one that works best for you and your business. There is no one "best" arrangement for every business.

Chapters 9 and 10 describe the nuts and bolts of putting together a board that can act as the balance point in your company. Chapter 11 shares some thoughts for the professionals who work with businesses in transition. Chapter 12 contains our conclusions.

WORDS WE USE

We want to give you some insights as to the words we use in this book. An *entrepreneur* is that one person who is the driving force and significant decision maker within the company (but not neces-

sarily the creative innovator of new products, services, or businesses). *Owners* or *business owners* are those who own stock or other equity in a closely held or family business. They may be managers, employees, investors, or members of the same family or two or more different families, or any combination of these relationships.

Managers include those officers or senior executives responsible for the company's business planning process and the business results. That may include only the entrepreneur, or also the company's senior executives or a management team.

We tried to avoid using the word “governance” because often it is a foreign word to business owners. We prefer to use the word “balancing.” *Balancing* is the process of working with owners and managers to help them fulfill their respective responsibilities and work through their competing or unclear values, needs, and goals. In other words, balancing (or governance) is the act of integrating the interests of the owners on the one hand and the interests of the managers and the business on the other hand.

The *board* is the board of directors, the group doing the balancing—it has a purpose that the owners and managers understand and has a clearly defined decision-making process. A balancing board is the *balance point*. We are not referring to boards having no function other than to comply with the law, nor are we referring to a board of advisors. We call a board of advisors an *advisory group*. Unless otherwise noted, when we use the word “board” in this text, we are referring to the balancing board.

We use the term *balance point* in two ways. It's another name for a board of directors who do the balancing functions we describe in this book. You will encounter phrases like “the balance point makes sure that” (the board makes sure that) or “the entrepreneur's role as the balance point” (the entrepreneur's role as the board).

Balance point also refers to who is doing the balancing. In this case, we mean the individuals doing the balancing. You will read phrases like “the entrepreneur is the balance point” (the entrepreneur wants to do the balancing himself or herself) or “who will be the

balance point?” (who will make the balancing decisions?). So, while the balance point is the place where the balancing gets done, it’s also who is doing the balancing.

When we talk about owners, managers, boards, the business, and the company, our context is usually a corporation. As a result, owners are shareholders, board members are directors, managers are, well, managers and/or officers, and the business or the company is the corporation. Some readers may assume that officers are those who sit on the board. That is incorrect. Officers are those individuals elected by the board to hold specific positions within the corporation. Common titles include chief executive officer (CEO), president, chief financial officer (CFO), treasurer, chief operating officer (COO), vice president, and secretary.

We use *company* and *business* synonymously. Generally, these terms are universally applicable to all business entities. When referring to legal arrangements, however, the terms are not universally applicable. For example, when we refer to the legal duties existing between the board and the company, we mean duties the law imposes on directors of a corporation. If your entity is not a corporation, but is, for example, a limited liability company or partnership, the precise terms may differ from what we use in this book. Differences may also occur based on state laws. Address particular legal questions to a lawyer experienced in business law, family businesses, and/or succession law.

A glossary at the end of the book includes the more important terms we used in the text. Appendix 1.1 includes some perspectives that will help you apply the principles in this book to entities other than corporations.

We thank you for reading this book. We believe it will help you make your business even more successful and enjoyable for yourself, your other owners, your managers, your employees, and your family.