



Institute for
Family Business
with UCG

Family Business Challenges

Fostering Responsible Ownership



The *Family Business Challenges* series

This guide is part of the *Family Business Challenges* series commissioned by the IFB Research Foundation. The series offers practical guidance for family business owners seeking to manage the unique challenges and opportunities they encounter.

The series provides concise information on a broad range of topics – covering family business dynamics, governance, performance, succession and family business wealth.

Each guide, which is illustrated by a real-world case study, is divided into three sections:

1. **Defining the challenge** – clarifying the issues and summarising expert thinking.
2. **Actions to consider** – ideas and strategies to help family business people meet the challenge.
3. **Resources** – annotated further reading.

The publisher

About the IFB Research Foundation with UCG

The IFB Research Foundation with UCG is a charity (no. 1134086) established to foster greater knowledge and understanding of family firms and their contribution to the economy and society, as well as the key challenges and opportunities that they face.

The Foundation's vision is to be the UK's centre of excellence for family business research, and to this end its publications are designed to create a better understanding of family business for the benefit of all stakeholders. Alongside *Family Business Challenges*, its work covers a broad range of publications, including:

- *Family Business Sector Report* – benchmarking the size and importance of the sector.

- *Family Business Research and White Papers* – thought leadership on key family business characteristics and issues.
- *Family Business Case Studies* – showcasing family business exemplars.

The Foundation disseminates knowledge and best practice guidance through printed publications, online media accessible via the IFB website and other activities, including the IFB Research Foundation Annual Lecture.

About the IFB

The Foundation works closely with its sister organisation, the Institute for Family Business, which is a membership association representing the UK's family business sector. The IFB is a member of FBN International, the global network for family businesses.

www.ifb.org.uk

Fostering Responsible Ownership

1 Defining the challenge

Family business owners have special responsibilities. The business often represents a key part of a family's financial wealth but also of that family's tradition and legacy. Owners perceive their participation as a heritage on loan, which they need to cherish, steward and help to develop.

"Conscripts", not volunteers. In older family businesses, ownership tends to expand and devolve to family members who are increasingly remote from day-to-day operations. Also, these shareholders usually don't become owners by choice – they acquire their shares by inheritance or a gift – and there's a risk that they can feel "locked in" if there is no liquid market in the company's shares.

Role confusion. It is not the shareholders' job to manage the company, and the board of directors is appointed to provide corporate

governance and to hold management accountable. Family owners often misunderstand these distinctions (see Exhibit 1).

Branch politics. The different needs, expectations and ambitions of owners who work in the business, and those who do not, often cause conflict (see some examples of these in Exhibit 2). When shares pass down the generations within family branches, perceived unfairness due to numerical imbalance or alleged favouritism can undermine family unity and the effectiveness of family business ownership.

Exhibit 2: Family business "insiders" and "outsiders": How perspectives can differ

Owners "inside" the business

Have more access to knowledge and information.

Are so steeped in the business that they fail to recognise what others do not know.

Have power and status and can make important decisions.

Work hard and carry a heavy burden.

Sometimes view owners outside the business as an interference or as parasites.

Owners "outside" the business

Have less access to knowledge and information.

Want to feel more connected to the business, or might prefer to exit.

Sometimes are confused and overwhelmed by the responsibilities of ownership.

Often feel disrespected by owner-managers.

May suspect owner-managers of being greedy, receiving inflated salaries and perks.

Exhibit 1: Ownership defined

"Business owners have proprietary rights over the assets of a business, which entitles them to be concerned about the direction, performance and security of the business, but doesn't give them any implicit right to interfere with day-to-day operations....

"For example, the family may require the business to produce a gross return on investment (assets employed) of 15%, or it could insist that the company only trades with suppliers involved in ecologically sustainable activities. It's then the job of the directors and managers of the business to decide how they'll achieve the family's desired results (and if it makes commercial sense to do so). The owners shouldn't interfere with this process."

Source: Jon Kenfield (2011) *The Solutionist Guide to Family Business*. Melbourne: The Solutionist Group, pp.35 and 149.

Source: Adapted from Craig E. Aronoff and John L. Ward (2002) *Family Business Ownership: How To Be an Effective Shareholder*. Marietta, GA: Family Enterprise Publishers.

Responsible ownership attitudes.

Addressing these complex challenges involves recognising the hallmarks of responsible family ownership. Responsible owners:

- **Have a common vision of the family enterprise**, as well as agreement about its long-term objectives.
- **Are active towards the business**, visibly demonstrating their commitment to the company's actions, continuity and development.
- **Provide “patient capital”**, taking a long-term view of investments and returns.
- **Address the needs of multiple stakeholders** – the company, the family, other owners, employees, customers and society at large.
- **Understand “emotional ownership”**, as measured by factors reflecting care, psychological attachment and identification with the values of the family enterprise.

Responsible ownership strategies.

Successful families promote ownership group effectiveness by:

- **Articulating a clear and powerful vision** for the family and the firm. A shared sense of values and vision that becomes a guide for decision-making and action.
- **Planning ownership**, so family members have a unified stance on, for example, whether in-laws and/or non-family can be owners, the rules for next-generation ownership and the principles underlying the company's dividend policy.
- **Educating for ownership**. Responsible owners see themselves as “enterprising stewards” ensuring family owners understand their role and do not make inappropriate demands of board members and managers. (See the five-point framework for ownership education in Exhibit 3.)
- **Preparing the next generation for ownership** – encouraging enthusiasm

for the family enterprise, and setting up age-appropriate financial learning and development programmes.

- **Building governance structures** that help family members to draw up rules and policies to underpin a cohesive approach to the family's involvement in the business.
- **Defining a succession plan** that ensures the issue is on the “family agenda” at an early stage. Succession must be a recurrent theme in communication between parents and children, leading to the development of a crystal-clear plan that's laid down in writing.

Exhibit 3: Key topics for an ownership education programme



A family business can only fully develop its potential if it has a group of capable and responsible owners. They need to play an active role in building effective ownership structures and in developing a consistently applied ownership vision and strategy.

2 Actions to consider

- What work do we need to do on a strategy aimed at securing responsible, effective and stable ownership of our business?
- Do we have agreed positions on difficult and potentially contentious issues that will face the family in their capacity as owners?

- Are family members actively learning about family business, about our company in particular, and about the rights and responsibilities of ownership?
- Do we respect managers and avoid interfering in their operational responsibilities?
- Should we set up a mechanism to allow family members to redeem their ownership if they wish, thereby facilitating “pruning” of the family tree?
- As the owning family, do we have regular family meetings to review our progress and objectives?

Case study: A.F. Blakemore & Son Ltd

For Peter Blakemore, the MD of third generation food and drink supplier A.F. Blakemore & Son, a clear and strong vision for the business and the family’s involvement in it is a crucial ingredient of their ownership strategy. This culture is defined in “The Blakemore Way”, a set of statements outlining the purpose and the longstanding values of the Blakemore family.



Peter Blakemore,
Group Managing Director

Founded in 1917 by Peter’s grandparents, Harriet and Arthur Blakemore, the business began life as a counter service grocery store in Wolverhampton.

Over the past century, under the stewardship of Arthur’s son Frank and grandson Peter, the organisation has grown into one of the largest privately owned companies in the UK. Annual turnover today exceeds £1 billion and the group employs some 8,000 people.

Food and drink has always been the lifeblood of A.F. Blakemore, and their business divisions now encompass retail, wholesale, distribution and shop-fitting. Peter joined the company in 1965 and pioneered the development of “cash & carry” wholesale self-service depots, as well as building up the firm’s trading relationships with the “symbol groups”. Having joined SPAR in 1975, Blakemore’s has been a wholesale distributor for them ever since: as a family business, they feel well placed to understand the needs and values of their SPAR independent retailers. The group also owns 321 stores through its retail arm.

The family has always taken a planned and proactive stance when it comes to managing their ownership of the business. When Peter’s father Frank died in 1986, the majority of the company’s share capital was placed in trust for current and future generations. Private family ownership is seen as helping to ensure the company can be flexible and independent, able to make unpressured decisions that are not just about seeing a rapid profit. Three family members currently work alongside Peter in the business – Gwendolyn, Peter’s mother, who is Group Chair, plus two of Peter’s children representing the fourth generation.

The family also believes they have a special responsibility as guardians of the company culture and values, and in 2006–07 both family and independent directors worked hard to finalise “The Blakemore Way”, setting out the guiding principles underpinning their approach to business. The document explains the Blakemore’s family values and includes a statement of core purpose – “to grow the family business in ways that are profitable and sustainable for the benefit of staff, customers and community.”

Peter is convinced that responsible ownership strategies grow out of having such a clear and powerful statement of values and vision: “It helps stakeholders to understand where we’re coming from,” he explains, “and it makes it crystal clear that we’re a committed family in business for the long term.”



3 Resources

Articles and reports

Responsible Ownership: Perspectives on Best Practice

A briefing guide by the Institute for Family Business in association with the Family Business Network.

Aimed at helping family shareholders (and family members expecting one day to become shareholders) to achieve a more effective and successful approach to the ownership of their business.

A Family Roadmap For Responsible Ownership

In *Family Legacy and Leadership: Preserving True Family Wealth in Challenging Times*, by Mark Haynes Daniell and Sara S. Hamilton (pp.43–46), published by John Wiley & Sons (2010).

A checklist of activities designed to help preserve family wealth and harmony across generations.

Emotional Ownership: The Critical Pathway Between the Next Generation and the Family Firm

Åsa Björnberg and Nigel Nicholson, published (2008) by the Institute for Family Business.

The report analyses the sense of closeness and belonging to the family business that helps family firms create their unique competitive advantage.

Pruning the Family Tree: An Unexplored Path to Family Business Continuity and Family Harmony

Johan Lambrecht and Jozef Lievens, *Family Business Review*, Vol. 21, Issue 4, pp.295–313, December 2008.

Research indicating that introducing simplicity by pruning ownership can be worthwhile, and arguing that there's no contradiction between pruning and governance of the family and the business.

Books

Family Business Ownership: How To Be an Effective Shareholder

Craig E. Aronoff & John L. Ward. Marietta, GA: Family Enterprise Publishers (2002).

A guide for shareholders based on the premise that ownership ought to be interesting, challenging, profitable and spiritually enriching.

Raising Financially Fit Kids

Joline Godfrey. Berkeley: Ten Speed Press (2013).

Ten core money skills applied across five developmental life stages, backed up with age-appropriate activities.

Family Business Challenges

The *Family Business Challenges* series of guides offer practical guidance for family business owners. Each guide identifies issues commonly faced in a particular topic area, suggesting strategies for managing the tensions and competing demands that arise. Titles include:

Family business dynamics

- Understanding Family Business
- Maintaining Family Values
- Developing Stewardship
- Promoting Sustainability

Family governance

- Managing Differences
- Building Family Governance
- Strengthening Family Communication
- Fostering Responsible Ownership
- Managing Communication:
Owners and the Board

Family business performance

- Fostering Entrepreneurship
- Professionalising the Board
- Maximising People Capital
- Employing Advisers

Family business succession

- Engaging the Next Generation
- Planning Succession

Family business wealth

- Selling the Family Business

Growing successful enterprises
for generations to come

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