

Ownership-First Businesses

In ownership-first family businesses, investment time horizons and perceived risk are the most significant issues. When shareholders come first, the priority is risk-adjusted economic returns or owner rents—for instance, shareholder value, EBITDA, earning growth rates, and debt/equity and debt/asset ratios.

Ownership-first family businesses have shorter time frames within which financial results are evaluated. Just as impatient and greedy investors on Wall Street, aided by analysts and the media, can pressure well-managed publicly traded companies into short-term thinking, family shareholders inactive in the business, with little understanding of management and the time cycles involved in new strategies or new investments, can hamper effective operation of a family-controlled business. They can cause it to lose the founding culture, which valued the role of patient capital.

Patient capital—one of the significant advantages of many family businesses—disappears at the hands of greedy shareholders. Siblings and cousins, caught in the web of high expectations for short-term returns via dividends, distributions, or the creation of shareholder value, are prone to second-guess family member management. Family managers, who better understand the limited capabilities of the business to deliver on the promise of high returns, are most likely managing in the long-term interest of shareholders. If family unity suffers as a result of this pressure by some family members for high returns and short time frames, a loss of will and vision may result. Family business continuity may be abandoned in favor of immediately recapturing, via sale of the company, the value created by previous generations.

Poza, Ernesto J. Family Business. Mason: South-Western, 2004.