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Dealing with Outside Shareholders in Asian Family Firms

- Posted by Christian GG Stewart on May 30, 2013 at 10:40pm
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In Greek myth, the Trojan war ended when the invading Greeks built a great wooden Horse which the Trojans took inside their City Walls. While they slept, the Greek soldiers came out of the Horse, let in the rest of their army, and sacked the city. However their destruction was so great the Greeks offended the Gods, and as a result, most of them never made it home again.

In many Asian family firms, the family members in management roles (the "Managers") seem to be operating from the principle that their "outside shareholder" siblings or cousins need to be kept at a good arms-length distance from the business. Any suggestion that perhaps there should be "more engagement" with the outside shareholders is often seen as a recommendation to bring the Trojan Horse inside the city walls!

Typical explanations from family Managers for their stance include:

- "What if they asked us to sell the business?"
- "What if they want to change things?"
- "They are not qualified to comment on the business!"
- "We don't want to waste time answering all of their questions!"
- "I need to demonstrate that I am a strong decisive leader for the business!"

The basic fear is that any engagement with the outside shareholders would somehow lead to interference in management. These concerns should not be taken lightly by the advisor. In many Asian family firms there is likely a history of poor boundaries between family and business matters. As such, past dealings with outside shareholders may not have gone well. Fear of engagement could also arise from the Manager being a younger sibling having to deal with outside shareholders who are older than him or her. In addition, the Asian family business founder would never have modeled any degree of accountability to shareholders.

However the strategy of keeping outside shareholders at an arms-length to the business has some serious downsides, of which the advisor should make family Managers aware. The likely consequences of a strategy of avoidance are that the outside shareholders will stop supporting management; emotional commitment to the business will fade; the owners will not be properly educated about the business and won't be able to make ownership level decisions. In Asian family firms, these factors will lead to the failure of the business.

Family Managers also need to be encouraged to think about the possible benefits of a strategy of appropriate engagement with their outside shareholders. Benefits could include the ability to discuss topics such as exit plans and dividend policies; engagement would allow the shareholder role to be properly institutionalized, therefore less dependent on individual personalities; and engaged owners would be more likely to support the managers as they pursue their long term strategies for the business.

Advisors should also be realistic though and encourage family Managers to articulate their fears and concerns about greater engagement. This might bring up issues like the need to invest time in defining the ownership role; the need to get help in overcoming family patterns of interacting; the possibility that an outside shareholder may still interfere in an inappropriate manner; the possibility that family Managers could be held more accountable than they have been in the past, or that there might be calls for greater levels of transparency than in the past, and so on. Articulating the possible fears and concerns is an important part of the process because then it gives the advisor the ability to work with the Manager on strategies for addressing the concerns.

At first sight the debate here appears to be about whether to engage with outside shareholders – or not to. But treating your outside shareholders like they are a Trojan Horse that must be kept out of the city walls is a destructive mind set the end result of which will be a "lose/ lose" scenario for both Managers and shareholders. Successful Managers have to find a "win/win" solution for relating with their outside shareholders.

In substance the question for the family Manager is actually how to create a family business culture whereby you have both outside shareholders who are educated about the business and remain emotionally committed to it ("Yin"); and at the same time, outside shareholders who do not interfere in management issues ("Yang").

Family Managers should be encouraged to consider finding their own pathways to achieving this balance between "Yin" and "Yang". When they are ready, the tools that could help to provide this balance can include:

- facilitated family meetings at which the family members define the role of ownership for their business as well as what it means to have a proper boundary between ownership and management;
- using non-family, non-executive directors, who can help to balance both the ownership and the management perspective;
- the concept of "fair process" in decision making, that just because you take into account the view of your shareholders before you make a major decision, it does not mean that you have given up your power and responsibility to make the decision; and
- teaching family Managers to learn how to listen to their outside shareholders,

The help of Dennis Jaffe and Linda Betts in reviewing and commenting on this posting is gratefully acknowledged.