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## **FAMILY BUSINESS FORUM**

### **Keeping Shareholders Onboard and Content**

**By Donald Levitt**

First-generation family businesses, where mom and dad own and run the business, usually don't have to pay much attention to shareholder issues.

As second-generation family members become owners, and some work in the business while others do not, maintaining unity and harmony within the family and among shareholders can become more of a challenge. This challenge can grow dramatically in third and later generation family businesses. Shareholder disputes regarding business strategy and reinvestment, dividends, liquidity, executive performance and compensation, ownership and management succession, return on investment, and family member employment can end up destroying a family business.

How can family businesses develop cohesive and conscientious shareholders? Let's hear about some "best practices" from an attorney who works with family businesses and from a family business owner/executive.

#### **The Expert**

Carter Neff is an attorney with Shindler, Neff, Holmes, Schlageter & Mohler, L.L.P. in Toledo, Ohio.

"In many family businesses the shareholder meeting is rather perfunctory," notes Neff. "This may be OK if there are only two or three shareholders and they all work in the business. However, if there are shareholders who don't work in the business – like a minority shareholder who started in the business and then left, or second or third generation family members who have inherited stock and don't work in the business – then shareholder meetings can help to keep the lines of communication open so no one feels left out or ignored."

"Shareholders who are not involved can get suspicious and concerned, and feel taken advantage of by shareholders who work in the business and are receiving salaries and other compensation. Their concerns can be about executives receiving excessive compensation and benefits, or they may not agree with investing in business expansion rather than distributing profits," says Neff. When shareholders are displeased, "they may consider filing a lawsuit against the company and the majority shareholders claiming they have been treated unfairly. Shareholders might also sue the board or officers for

mismanagement. For example, if the company leases real estate owned by the majority shareholder, they may claim that the lease is not reasonable.”

“Formal shareholder meetings,” says Neff, “provide shareholders and other family members an opportunity to discuss the business, stay up-to-date, ask questions of the officers, and spend some social time together. This keeps the shareholders involved and fulfills the legal requirement to recognize the rights of minority shareholders.”

### **The Family Business**

John Gorski is the vice president of operations for NAMSA in Northwood, Ohio.

“We started to have shareholder meetings seven years ago,” says Gorski, “when the third generation was very young. Now we have two shareholder meetings each year. One meeting is for everyone in all three generations, and the other meeting is just for voting shareholders and their spouses.”

“We typically meet for one-and-a-half days. We often have our non-family president discuss strategic plans, financial results, and future directions. Other agenda items can include succession planning, rules for family member entry and exit from the business, our compensation philosophy, our family mission statement, board membership, and shareholder expectations. Our Family Council, which rotates the positions of chairman, vice-chairman, and secretary, and our Third Generation Stock Club help to get the third generation involved,” notes Gorski.

“These family meetings take family issues into a forum outside of the day-to-day running of the business so we don’t hash them out in front of non-family employees. We may get into healthy debates, but the family meetings help us develop consensus and unanimity regarding the business.”

### **The Tip**

When your family business has made it to the second generation, it’s time to start having formal shareholder meetings and family meetings. If these meetings sound unnecessary to you – your family business may not make it to the third generation.

*Donald Levitt, president of Levitt Consulting, helps family businesses to succeed as both a business and a family. More information about this month’s topic, and other family business issues, can be found at [LevittConsulting.com](http://LevittConsulting.com).*