PREFACE

This book was born out of real-life challenges for our clients and our insatiable curiosity to understand, explain, and resolve the fundamental issues they face as they and their businesses transition.

One significant issue almost always present involves the integration of ownership interests with the business interests. This issue presents itself in many different forms, but the essence is always the same. Two examples may help explain the issue.

> An owner grew tired of the day-to-day grind of his business and wanted to transition from management. He hired a president to manage the business, and created a board consisting of himself and two outside directors. He never clearly told the board or the president what he wanted as an owner, the board never asked, and the board always sided with him when he objected to plans the president presented. The president got frustrated and quit, and the owner had to reinsert himself into management. What the owner wanted never got integrated into the plans of the business.
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> In another case, an owner wanted to give his business to his four children so they could all share equally in its benefits. He gave voting shares to his two sons (who worked in the business) and nonvoting shares to his two daughters (who didn't work in the business). The brothers ignored their sisters, assuming they didn't understand the business. As a result, the sisters felt unfairly excluded and began to distrust their brothers. Then the two brothers developed different concerns. No mechanisms existed to help resolve their differences, and a power struggle ensued, with the eldest brother claiming the right to make the ultimate decisions. Eventually, they sold the business and the sibling relationships were significantly damaged.

In the second example, the owner confused his daughters' legal rights with management authority, telling his sons that their sisters

should not be involved in management because they didn't understand the business. As part owners of the business, his daughters had a legitimate right to participate, but under the owner's transition plan they had no way to do so. The owner also mistakenly presumed that as managers his sons would always have similar interests. What happened, of course, is that the sons' ownership concerns changed as their individual circumstances changed, and the owner's transition plan did not provide a way for the brothers to resolve their differences.

It is no surprise that people have differing interests. So the challenge is not to understand that the interests of owners and managers are different, or even what those differences are. The challenge is *how* to identify, understand, and resolve those differences with minimal adverse impact to the business, management, and the ownership group. And, more important, how to do this without knowing the specific differences, and regardless of the people or business involved.

We started our analysis by looking at how entrepreneurs of successful businesses function. These individuals are able to identify, understand, and resolve significant differences in their businesses within a short period of time and with minimal disruption. What is it that these individuals do that is so effective? And can these functions be duplicated to help businesses where ownership and management are not vested in one individual?

We identified three basic functions of successful founders/entrepreneurs: a management function, an ownership function, and a balancing function. We then allocated those functions to the three basic groups involved in most businesses: management, ownership, and the board. We think the balancing function is key to integrating ownership interests with the interests of the management. We allocated the balancing function to the board.

Of course, this created another problem for us—talking about boards. In working with owners of private companies, we can discuss many emotional issues: owner conflicts, succession goals, transition challenges, children in the business, "incompetent" management

teams, and so forth. Although owners have difficulty working through these issues, we usually find them at least willing to talk about them. However, when boards came up, we got a different response. We found that owners did not want to talk about boards at all. Not at all! We found a number of reasons they didn't want to talk about boards.

- Some had read stories in newspapers and magazines about the scandals, greed, corruption, illegalities, and cover-ups of public companies and their boards. Such stories cast a negative pall on all boards.
- Many had anecdotal information about boards. They told us things like, "I heard about a guy who got kicked out of his own company by his board." This scenario would be enough to scare any business owner away from having a board.
- Others looked into establishing a board and did not feel there was much flexibility if they wanted to set it up "the right way." They learned such things as "You have to have your CEO on the board; you have to have at least two outsiders on your board; you can't have family members on the board," and so on. Hearing these statements, owners of private businesses come away believing that such requirements will not work in their company. What these owners are really saying is that they don't want others telling them what to do in their own company.

From this investigation, we concluded two things. First, with misinformation our clients had, we could understand their not wanting to discuss boards. After all, who wants to get kicked out of their own company; who wants to be told what kind of board is required and how it has to work; who wants to give a board the power to corrupt their corporation?

Second, we realized that almost all the sources about boards were based on principles for publicly held companies. Missing from these sources was the essential ingredient of all closely held and family com-

panies: owners. Typically, owners of private companies are active in their business, commit most of their adult lives to the care and feeding of it, and are intricately involved with most if not all aspects of it. Shareholders in public companies are not active in the same way that owners of private businesses are. Anyone who has worked with business owners will tell you that. An individual may own a thousand shares of a Fortune 500 company, but does not feel or act like a business owner. Boards in public companies do not work the same way as do boards in closely held and family businesses. That is why our clients resist talking about boards or taking any action to have a board. And who can blame them?

If we talked to our clients about boards, they demanded to know *why* a board was needed for their private business and *how* this board would help. Our clients wanted practical, rational, and easily understandable answers to these questions. We think our book does this.

The Balance Point identifies and explains fundamental issues owners face as they and their businesses transition. The book helps owners understand why challenges exist in the first place and provides different alternatives on how to resolve them. Most importantly, this book explains the existence of an essential function in closely held and family businesses—the balance point—and how to transition the balance point to increase the chance of successfully transitioning the business.

We hope that this text will be the beginning of other books, scholarship, and research about the balancing function in private businesses. We are excited about where these ideas may go. And we hope that our book accomplishes our main objective: to give business owners a practical and reasoned approach to successfully address the challenges involved in transitioning their businesses.