

TOOL 6

Create an Owner Strategy Statement

It's important to define clear objectives in your family business that determine the rules of the game, how you keep score, what winning looks like, and what moves are not allowed. This is your Owner Strategy, and it's one of the purest expressions of who you are as a family business. There are three key steps to create your Owner Strategy statement.

Step One: Define your Purpose

The first step in crafting your Owner Strategy is defining the purpose of your family business. Purpose answers the “why?” question. Why do you want to own your business together as a family?

If you're not sure you have a clear—and shared—understanding of your family business purpose, you can start to identify it (or test it) through the lenses of growth, liquidity, and control:

- **Do you own the business together to grow it?** You may value growth because it is a path to change your economic situation or because it creates jobs and other opportunities for family members. You may see it as a way to broaden your influence over society. The larger the business, the more you can influence the world. Or you may not value growth at all—if it happens, you might think, that's great, but you might be more than happy with owning a business that stays more or less in place.
- **Do you own the business together to take money out of it?** You may see liquidity as a way to provide for the next generation in a way that your parents could not provide for you. You may view it as a mechanism for funding charitable causes that are close to your heart. Or you may see wealth outside the business as something to be avoided, given its potential to harm the family.
- **Do you own the business together to have autonomy over your lives?** You may want to control your own destiny. Maybe you started the company, or joined it, because you didn't want to pursue someone else's dream. Or perhaps you see control as critical to running the business however you see fit. You may value what the business can do for your family, employees, or community. Alternatively, you may not value control at all, as long as the business seems to be on the right track.

READ MORE

Family Business Handbook

Chapter 5

Value: Create an Owner Strategy to Define Your Success

Pages 79–91

TIP

Keep the following items in mind as you define your family business's purpose:

- The purpose should build family unity by making the family proud of its ownership and of the family
- It should be aspirational, inclusive, and attractive to all generations and the entire family.
- It should encourage family members to spend more time together.
- It should define how you will exercise your right to determine what you will value: growth, liquidity, and control.

There is no right answer to the question of a business's purpose. Most families find that each generation has its own reasons to stay together as a business family. Map the answers above by generation. It's natural that one generation may have a slightly different purpose than the previous generation and that's okay. You just have to make sure that your purpose reflects your current goals, not past ones. Each subsequent generation then updates these reasons for being in business together, renewing and refreshing the purpose of the business.

**From your perspective, what is the purpose for owning this business together as a family?
Record your thoughts in the space below.**

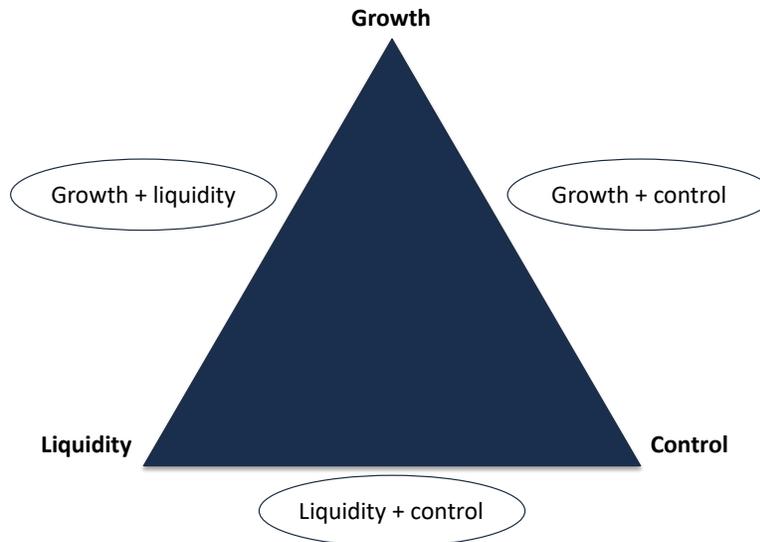
Here are a few examples from other families:

- Preserve the legacy of the company we have created
- Maximize the financial value of our collective assets
- Keep our family connected to each other across generations
- Fund our lifestyle/philanthropy
- Be an example to others in our country
- Improve the lives of people in our supply chain
- Provide employment opportunities to family members
- Maintain a business that speaks to our values

Step Two: Set Your Owner Goals

A purpose is by definition broad and aspirational, something that can't ever be fully achieved. While it is essential in keeping family owners aligned, it does not by itself give enough guidance to business leaders. To do that, the next step in developing an Owner Strategy is to specify your concrete goals, recognizing the inevitable tradeoffs that ownership brings.

A helpful place to start is the Owner Strategy triangle:



Owner goals are, in general, a “pick two” problem. You can choose to prioritize any two of the goals at the expense of the third. Start your conversation as owners by identifying how you have made these trade-offs in the past. Select which of the following best describes your approach over the last five years:

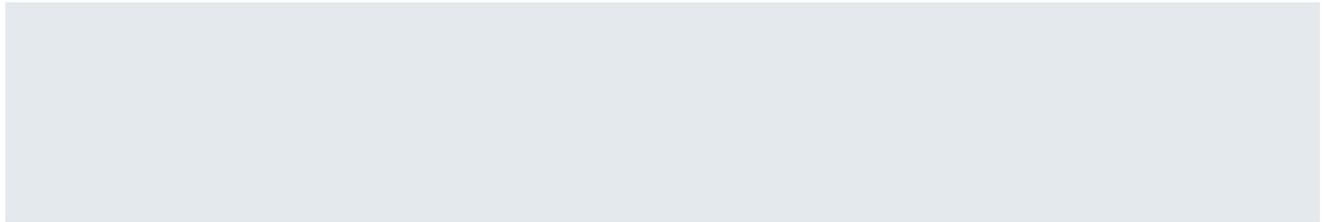
- A. We have focused on growing the company by reinvesting earnings and distributing a low percentage of annual profits
- B. We have balanced growing the company with distributing a meaningful amount of profits to the owners, even if doing so has required using debt and/or nonfamily equity capital
- C. We have distributed a meaningful percentage of annual profits and avoided the use of debt and nonfamily equity capital, even if doing so has meant a lower rate of company growth

Explain your answer in the space below:

Now, think about the next five years. If you had to choose one of the core Owner Strategies for your family business in the future, which one would you select:

- A. Growth-Control: Significantly grow the business, while retaining as much control over decisions as possible
- B. Growth-Liquidity: Significantly grow the business, while also taking out meaningful amounts of liquidity
- C. Liquidity-Control: Take meaningful amounts of liquidity out of the business while not losing control over key decisions

Explain your answer in the space below:



Now, take your understanding of these trade-offs and use it to identify specific owner goals for your family business. They should be specific enough to provide real guidance to business leaders, while leaving plenty of scope for those leaders to choose business strategies to achieve them. Each owner should do the exercise individually and then come together to compare notes. The point of the exercise is to help you understand how you are thinking about tradeoffs. What matters more, what matters less to your family? To what extent are you willing to prioritize one goal over another—and why? Once you have a clear grounding in those answers, you can begin to set your specific owner goals.

Here are some examples of owner goals:

- Double the size of the business over the next five years
- Eliminate the long-term debt of the company
- Distribute 50% of company profits to shareholders to allow them to diversify their wealth outside the business
- Become an industry leader in environmental sustainability
- Transition from family to nonfamily leadership of the business
- Achieve cost leadership in our sector

Step Three: Create Owner Guardrails

Finally, after defining your purpose and owner goals, you need to translate them into specific measurements that leaders of the business can use to make decisions. These guardrails are the final component of your Owner Strategy. They will provide boundaries around standard business strategy decisions, allowing some actions and proscribing others.

TIP

Guardrails are both financial and nonfinancial. Financial guardrails set specific standards of performance to align with other goals. They identify metrics for evaluating performance and the minimum or maximum threshold for each metric. Nonfinancial guardrails define outcomes for which owners are willing to sacrifice financial performance. These guardrails assess more abstract aspects of the company like leadership, business sectors and geographic locations, harmony, and business practices.

Pick three to five financial guardrails to start with. Below are common financial guardrails.

FINANCIAL GUARDRAILS: HOW TO MEASURE SUCCESS	
GOAL AND OBJECTIVE	EXAMPLES OF GUARDRAILS OR METRICS
Growth: Show owners that their assets are earning an expected return relative to peer companies or to other investment opportunities	<ul style="list-style-type: none"> • Returns: ROIC, ROE, ROA, EVA • Asset appreciation: valuation, multiples, discounted cash flow • Top-line growth: revenue, volume (for example, pounds, units) • Earnings growth: EBITDA, EBIT, net income • Investments: growth capex, M&A
Liquidity: Show owners that the business is producing the expected amount of liquidity for uses inside or outside the business	<ul style="list-style-type: none"> • Profitability: gross margin, net margin • Free cash flow: margin, yield, free cash flow to equity • Dividends: yield, payout ratio
Control: Help owners understand and manage significant risks that could threaten their control of the business	<ul style="list-style-type: none"> • Debt: total debt, debt-to-equity, debt-to-EBITDA • Viability: market share, market size • Volatility of earnings (net income, EBIT, EBITDA), cash flow • Stress testing: quick ratio, current ratio • Maintenance capex

Record your financial guardrails in the space below:

SET YOUR NONFINANCIAL GUARDRAILS

What nonfinancial guardrails, if any, would you set for your company for the future? For example, you might have decided that you want to become a sustainable company. How will you measure that? Do you sign up for the UN sustainability goals? Do you want to try to be in the top quartile of sustainable companies in your peer group? Or maybe you want to create a strong culture of employee loyalty. How will you measure that? Maybe you'll aspire to be named one of *Fortune* magazine's "Best Places to Work."

The rating system below can help you understand what's important to you.

Rank the following statements on a scale of 1-5 (1 means you strongly agree, 5 means you strongly disagree.)	1 STRONGLY AGREE	2 AGREE	3 NEUTRAL	4 DISAGREE	5 STRONGLY DISAGREE
Key leadership positions should be held by family members.					
We should participate in particular sectors or geographies or avoid participation in particular sectors or geographies.					
We wish to avoid a predictable and significant impact on harmony in the family.					
We want to increase the company's social responsibility by providing secure employment, paying above-market compensation, exceeding environmental standards, or any other standard that we believe is important.					

Based on your discussion of these areas, identify the nonfinancial outcomes you definitely want to achieve or avoid. Then, record your nonfinancial guardrails in the space below:

CREATING YOUR OWNER STRATEGY STATEMENT

Now that you've understood your purpose, created your owner goals, and set your guardrails, put it all together. Those elements become your Owner Strategy statement.

Craft your Owner Strategy statement in the space below. Remember that a good statement should form the basis of a dialogue between owners, the board, and management. Refer to chapter 5 in the *Family Business Handbook* for tips on how to have a constructive conversation about your Owner Strategy between the rooms.

