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Passive Stakeholders: Avoiding Surprises

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This week's issue of *The Practitioner* provides insights on how to avoid surprises and conflicts with passive stakeholders in a family enterprise. George Isaac of GAI Capital Ltd. shares his thoughts on best practices in this blog entitled, *Passive Stakeholders:*

Avoiding surprises. George is also a panelist at the FFI global conference October 16-19, 2013 in San Diego.

Passive Stakeholders: Avoiding Surprises

George A. Isaac, Family Business & Family Office Consultant

As a family enterprise advisor, how often have you witnessed clients surprised by disgruntled family members who are passive stakeholders? For years, everything seemed to be just fine and **then things changed dramatically**, quite often after the business patriarch or matriarch is no longer involved.

But really, should unrest from passive stakeholders come as a surprise to your clients? As advisors and consultants, we have all learned that the needs of individual family members are not only diverse, but that their priorities and interests change over time, and any area where interests do not align can become a flashpoint for family conflict that can affect the enterprise's longevity.

Moreover, passive stakeholders usually have a minimal voice in the management of the family enterprise and often feel "trapped," with little control and few meaningful options to get out.

If you combine the natural evolution of individual goals with what is perceived as an "outsider" position, you have the potential for dangerous situations that can lead to lawsuits, disruption of operations, embarrassing PR, and overall poor family dynamics. **Regrettably such circumstances often set enterprise interests against personal ones**, further exacerbating the family and business dynamics.

To avoid these passive stakeholder problems, **conscious efforts must be made by the active stakeholders** to better meet the needs of passive stakeholders — in advance of these rather predictable circumstances. Some best-practice passive stakeholder strategies that we developed for our clients include:

- Develop a legal shareholder agreement that addresses policy issues, e.g., individual shareholder rights, distribution policies, governance.

- Elect passive stakeholder(s) to the board of directors.
- Name a passive stakeholder as the board chair to provide more balance and stronger communication between active and passive shareholders in decision-making processes.
- Provide board meeting attendance rights for non-board members.
- Invite passive stakeholders to outings, special events, award ceremonies, retirement parties and extended family social events and perks.
- Provide regular financial reports, business plans, and other stakeholder communications to passive stakeholders.
- Avoid any action that makes family members feel like "second class" participants in the business or the family.

By understanding and addressing the differing needs of passive family stakeholders as part the ongoing family and business strategy, you will improve your clients' family dynamics and increase their chances of supporting and fostering long and successful multi-generational family enterprises.

About the Contributor

George Isaac is founder and managing principal of George Isaac Consulting, the management consulting division of GAI Capital Ltd., a Santa Barbara-based investment and management consulting firm, specializing in consulting services to families, family businesses and family office. He will be part of panel entitled "Inspirational Mistakes" at the FFI global conference in San Diego, October 16-19, 2013. George can be reached at gisaac@gaicapital.com.