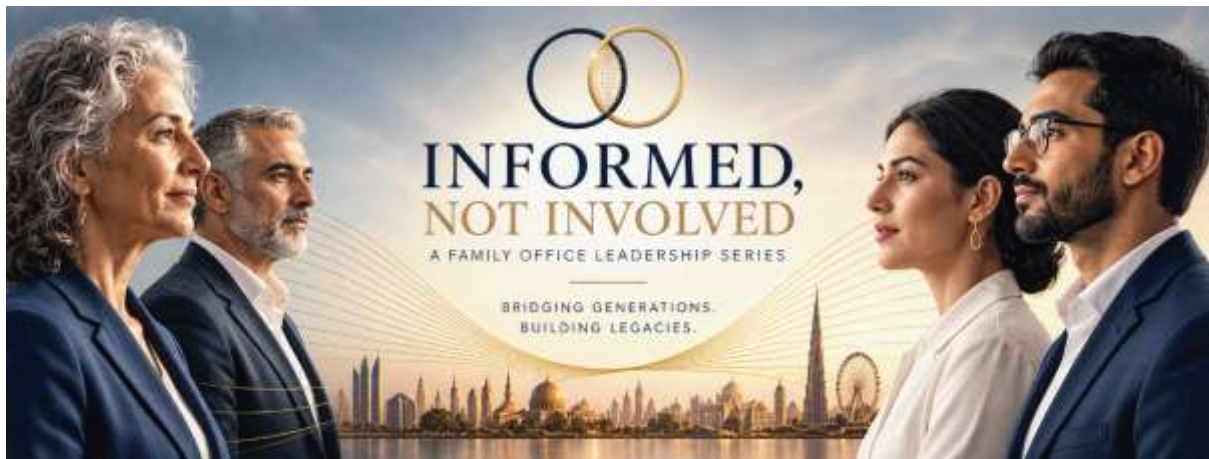




Part 5: What the Company Provided Free of Charge for Decades

The sale has gone through. The money has arrived. For the first time in years, the family goes on holiday and nobody picks up the phone at seven in the morning.

When I meet families at this stage, everything looks in order. The contracts are clean, the tax structure has been thought through, the bank has named a contact, the children have been briefed. Nothing suggests that something has just disappeared.

And yet something has. Nobody notices, because it does not happen on any particular day.

In the first four parts of this series, Naama wrote about families where the next generation is informed but never involved. This chapter is about the reverse: families who are no longer involved, and have never had to learn how to stay properly informed. Both problems have the same cause. The structure that used to do this for them is gone.

A family business provides its family with things no invoice was ever issued for. They appeared in no organisation chart and in no shareholders' agreement. They were simply there, because the company was there. With the sale they stop, without a farewell.

Three of them I see again and again.

The rhythm.

Inside a company, nobody has to summon up discipline to look at figures. The month-end close arrives. The quarter arrives. The budget round in the autumn arrives whether anyone feels like it or not. The auditor has a date in the diary, the shareholders' meeting has a date, the advisory board meets four times a year because that is what the terms of reference say.

Those dates forced the family to sit down, look at the same papers and decide. The calendar held the discipline, rather than the people.

After the sale, people meet when somebody calls a meeting. In the first year this still works, because the old habit carries it. In the second year one date slips, then another. In the third year the family sits down because something has gone wrong.

One set of figures.

Inside the company there was a profit and loss account. Everybody read the same one. You could argue about the interpretation. You could not argue about the figure.

After the sale, what lies on the table is this: two bank portfolios with different reporting dates, a fund that reports twice a year, a property with a valuation from the year before last, a rolled-over stake in the buyer that yields very little information, and a holding in the business the son-in-law is building. Five reporting logics, five cut-off dates, five definitions of return.

What follows has very little to do with money. A discussion about direction turns into a discussion about whose figures are correct. And that one becomes personal quickly, because there is no shared basis left on which to settle it.

The awkward questions from outside.

I only came to appreciate this as a managing director once it was gone. A company is surrounded by people who ask uncomfortable questions and are not paid by the family to be pleasant. The auditor. The bank, when a covenant moves in the wrong direction. The customer who will not accept the price increase. The works council. In some of my mandates, the regulator.

Those people were a nuisance. They were also an early warning system that cost nothing.

A family office after a sale has almost nobody left in that role. The people now sitting at the table are paid by the family. Most of them are perfectly aware of it.

All three losses surface at the same moment, and rarely straight away. They surface the first time a real decision comes up. An investment opportunity with a fortnight's deadline, recommended by somebody the family has known for twenty years. And then it turns out that nobody can say with any confidence who is entitled to decide, up to what amount, and who may object without it becoming awkward at the next family dinner.

Inside the company nobody would have asked. There were signing authorities, a schedule of reserved matters and, in the German context, Prokura, a registered general power of attorney. It had sat in a file for fifteen years and was never discussed, because it was clear.

Here is the part that took me some years to see properly.

None of those structures was ever designed for this family. The month-end close existed because accounting standards required one. The audit happened because a

threshold had been crossed. The board met four times a year because that is the convention. The family inherited a rhythm built for a manufacturer, a lender and a tax authority, and it worked well enough that nobody asked whether it suited them.

That question is now open, and for many families it is open for the first time in three generations. A family that meets twice a year in earnest, with real papers and real decisions, is better governed than one that meets monthly out of habit. A single consolidated statement that everybody actually reads beats five accurate reports that nobody does. And somebody in the room should be there precisely because their income does not depend on the family's approval: an independent board member, an external reviewer, a peer from another family.

The list of what disappeared with the company is also the list of what can now be chosen on purpose.

Very few owners of capital ever get to design their own governance from a blank sheet. This family can, and the window is open now.



Ask yourself

If you were designing the family's calendar from scratch, with no auditor and no bank to satisfy how often would you genuinely want to sit down, and what would have to be on the table to make it worth everybody's time?

Next in this series - Part 6: Why Nobody Wants to Build Structures After the Sale.

