

Money and Meaning

By David Lansky

“To Sell or Not To Sell”—That Is Not the Only Question

As an advisor to business owners and their families, many of my clients dream of keeping their businesses in their families. Indeed, the American Family Business Survey¹ found that nearly 88 percent of the family business leaders that they interviewed wanted their families to continue controlling their firms in the future. Nevertheless, family firms are not infrequently sold to non-family third parties. Even though my inclination as a family business advisor, generally, is to support succession within the family, I understand that selling to a third party may well be the right decision for a given family at a given time.

Recently, I have been consulted by a number of business families who were considering selling, who had decided to sell, or who already had sold their businesses to third parties. It was clear in many of these cases that individual and family counseling could play an essential role in contributing to a smooth transaction. Certainly, the prospect of realizing financial value from years, or even generations, of dedication to a family business can be an overwhelmingly positive event in the life of a family. Nevertheless, some of the dynamics and the consequences of a decision to sell can have a negative impact on some key family members that is not always mitigated by the prospect of realized value.

In my work with these families, I was surprised at how infrequently counseling resources were recommended or made available by their legal, financial or investment banking advisors. This is important, because the potential benefits of appropriate counseling at the right time, enhanced family harmony and individual satisfaction, can increase the probability of a smooth transition from one ownership entity to another, and increase the likelihood of a graceful exit for the previous owners. The alternative scenario, where counseling may be beneficial



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but is not acquired, could result in a transaction that is undermined by disgruntled or misguided owners and family members, or in a post-transaction life of resentment, loss, bitterness and disharmony for the previous owners.

How might counseling help? I discuss below some thoughts, certainly not an exhaustive list, about how individual or family counseling might be structured when a business is being sold to a third party, and some of the issues that might be addressed.

Alignment Among Family Members

When married couples divorce, there is often one partner who has been anticipating a divorce for many years, who may be the initiating party, while the other partner had no idea the divorce was coming, sometimes until papers were served. This misalignment with regard to preparedness makes adjustment to the facts of the divorce very difficult for the surprised party and for the family system as a whole. The same may be said about families who decide to sell a business: Some parties may be much more prepared for the event than others. For example, some may have thoroughly thought through how they will manage proceeds of a sale, while others have not entertained even the prospect of a sale.

A lack of alignment may be more pronounced because entrepreneurs generally are not the best communicators. They are decisive and action-oriented. They may think they have communicated the right things to the right people, but the really key message about the serious intent of selling might not have been heard, and the absence of true communication may go unnoticed.

Differences in alignment may be evident between various interest groups: between generations (seniors are often more involved in the planning); between family members who are active and inactive in the business; and between direct descendants of the founder and in-laws. In one family I worked with, the spouse of a key family member active in the business had no idea that her husband would be retiring (because of a sale) until the letter of intent was signed. A lack of alignment in these respects may be invisible to a family's advisors if their primary interactions are

with family members who are active in the business and have initiated the sale.

Lack of alignment between the various interest groups can have an impact in many ways: Employees may get radically different messages from different family members when a consistent message is absolutely essential; family members who feel they have had no voice in the process may be uncooperative during due diligence; family conflict may emerge because of unexpected changes in a family's living situation that result from the sale.

In all of these cases, alignment can be ensured by encouraging families to hold regular family meetings to provide updates on the sale process, to craft a consistent message that family members will provide to employees, and to arrive at consensus about including the right interest groups in the right way.

Weakening of Family Bonds

A unique quality of business families is their need to stay closely connected to each other as they develop as individuals and mature as a family unit. Some people view this as a case of "golden handcuffs," and cannot wait to separate from their family member co-owners; other family members draw great pleasure from the bonding that is enabled by shared ownership. When a family considers selling, these people may fear that sale of the business could weaken their family togetherness.

Families can address this potential stumbling block by discussing their concerns in this regard and by creating other opportunities for those who wish to continue in a collaborative relationship: For example, by working to benefit their communities through shared philanthropy; by jointly managing a portion of the assets that are generated through the sale; or by continuing regular family retreats that may have been a part of running their businesses.

Dealing with Loss

Most of us have learned in various contexts of the five stages of grief that were described by Kubler-Ross in her book *ON DEATH AND DYING: DENIAL, ANGER, BARGAINING, DEPRESSION, AND ACCEPTANCE*. We probably

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understand as well that even a positive change in one's life may lead to an experience of grief that could precipitate a person's journey through these five stages. A person's progression through these stages is enhanced by recognizing the feelings, talking about them with others and by developing action steps to cope with change.

Sale of the family business—even though on the whole a positive event—may precipitate an experience of grief in some people. But what is it that is lost? A client of our firm has recently engaged us to help their family articulate the nonfinancial, or emotional benefits that shareholders receive—and that would be sacrificed if the business were sold. Here is a partial list of their perceived benefits:

- Learning about the management and governance of business
- Learning leadership skills
- Experiencing pride of ownership
- Community recognition
- Annual family council meetings
- Developing relationships with family members in the context of the business
- Connecting with a multi-generation family legacy
- Contributing to the continuation of the family legacy
- Opportunity for social interaction with family members
- Family philanthropy

Reviewing this list gives one a sense of what could be lost when a business is sold, by active and inactive family members alike. Add to this list the fact that some family members, from multiple generations, perhaps not at all ready for retirement, will be losing their jobs when the sale is completed. This can be a very unsettling experience, particularly for family members who may already be vulnerable to emotional difficulties, because they will lose the structure a job brings to daily life, their regular incomes, and familiar working relationships.

I often advise business owners to “retire to something, not from something”—to develop a vision for the future after retirement—to encourage them to take an active role in making their future positive and rewarding. The same advice and encouragement may be given to a family as a whole to assist the family in managing

the change that accompanies a sale. By discussing the reasons for a sale and moving on to the benefits of the new situation and plans for the future, a family can help individual members cope with the change that a sale brings. Treating employees generously can make the sale a more positive experience. A farewell ritual can help family members say good bye. Some family members should consider private counseling if they are particularly vulnerable to emotional difficulties.

Financial Implications

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The last issue I will address here concerns the impact that new found wealth may have on family members. Efforts should be made to inform family members early on about the financial consequences of the

sale, since they may need time to adjust to their new circumstances. Some of the most difficult family situations may develop when individuals have had unrealistic expectations of the financial proceeds of a sale. Calm communication can help create accurate expectations. Families need to decide how much information will be shared with minors and family members who are not principal beneficiaries in the transaction. Many families try to keep the extent of new wealth a secret from their children or in-laws, fearing it will affect their relationships, values and lifestyle. Each family needs to make a thoughtful decision about this, based on the maturity of the children, current relationships and the family's ability to communicate well with each other. Families who intend to manage their wealth collaboratively through a family office or another wealth management structure will benefit from discussions about the purpose of their wealth and the nature of family collaboration.

There are certainly other issues that could reasonably be addressed by a family in the course of a sale. However, the key elements to be taken from this discussion are:

- Even an overwhelmingly positive event can lead to a disruption of individual and family adjustment.
- Thoughtful communication about challenges and their solutions can be immensely beneficial to the people involved.

ENDNOTES

¹ Mass Mutual Life Insurance Company, 2003.