Here at The Family Business Consulting Group, we are committed to supporting the health, growth and perpetuation of family-owned businesses. We know that they make significant contributions to economies around the world. Family businesses can also be a stabilizing force and a reward to the families who own them, employees who work for them and the communities where they reside. Therefore, it may be surprising that we would want to discuss when to sell the family business. The truth is that keeping your family business may not always be the right answer. There are certainly situations where selling the family business is the best answer; in some cases, it may be the only answer. It is also important to note that we do not view selling the family business as a failure. Unfortunately, statistics that measure survival rates of family business tend to equate selling the family business with its demise.

While the business has not “survived” in terms of a given family’s ownership (although in so many cases it survives with new owners), sale of the business can actually be a great success for the family owners. It can provide financial freedom to accomplish other goals, allow family members to truly focus on family and promote application of the family’s talents in other arenas (e.g., philanthropy).

That said, many families consider selling their businesses at some point in their careers. For those who have invested years of work, financial capital and often their identities in the legacy of the business, letting go is very difficult. For many, the decision to sell may be laced with guilt of letting down the family or failing to fulfill the legacy as well as feelings of failure.

If you are a family considering a sale of your business at some point, we hope that the following list of valid reasons to sell the business can serve as a tool in facilitating the sale discussion with your shareholders. If you have never considered selling the business but see your situation reflected on the list, you might want to give the option of selling at least some consideration.

Reasons to sell the business tend to fall into three categories:

- Destructive family dynamics
- Inability to support a viable business under current ownership
- Lost passion for business

Destructive family dynamics may be self-explanatory, but it is also helpful to identify its warning signs. If you see any of the following present in your business, you may want to consider a sale:

- Dissension within the family is destroying the economic value of the business.
- Dissension within the family concerning the business is doing lasting damage to family relationships.
- Family employees and/or owners have come to resent the business due to the impact it has had on the family.
- Family members are no longer speaking with each other due to intense conflict over family business issues.
- Family shareholders have resorted to lawsuits as a way to settle differences.
- Next-generation owners are incapable of working as a team.

If any of these elements are present in your business, we are not suggesting you give up hope. The first step is to identify the problem and discuss it as an ownership group. At that point, it may be appropriate to bring in outside help. If you have already used a family business consultant and have not been able to resolve the dissension or come to compromises the family can live with, sale may be the best option. We should note, however, that some families succeed in running businesses for decades surrounded by unresolved family dissension. This scenario is certainly an option, but one that the family should consider carefully given the lasting damage it can do to the family and the business.

Even if the family owners get along, it may be that preservation of the business is impossible under current ownership. The inability to support a viable business can come from a number of sources.

- If you believe that the next-generation owners are not capable of maintaining the culture and values of the organization, it may be best to sell to other owners who are. This notion seems counterintuitive, since one of the reasons families stay in business together is to perpetuate their business culture. However, in certain cases the next generation may not be good stewards of the asset, particularly if they have been unable to internalize the values and sense of stewardship.
- The business may not be able to compete in the current environment. If you have concerns that the problems your business faces are beyond the abilities of the current ownership group to manage, you may want to consider selling to someone who has the skills or resources to improve the business.
- If the family would like to maintain ownership, you can and should consider bringing in outside management. But, if the shareholder group is not up to the challenge of changing the business to meet the current competitive environment, it may be time to sell.
- The business may require a capital infusion to remain viable. If current owners do not have access to the capital necessary to maintain the business, either through additional equity from family or through debt or equity from other sources, then selling to someone with access to those resources may be best.
- Current owners require capital to retire and the business cannot provide the funds. In this case, the next generation can step up to the plate to buy the business from the current generation. But if next-generation members do not have the ability to secure funding, then the business may need to be sold. It may also be that next-generation members do not have the desire to buy the business, but this fits more appropriately in our third category.

The last but probably the most important reason to sell is if owners no longer have a strong passion for the business. Particularly for businesses that require a great deal of owners’ attention, it is crucial that owners maintain enthusiasm for the business. If owners’ commitment wanes, it is time to consider whether holding the business makes sense. At this point, the decision to sell becomes a purely economic one.

If keeping the business is more financially lucrative than selling, absent other issues, maintaining the business with non-family management makes sense. But, even in this situation, if owners have other interests and the desire to unlock capital to invest in those interests, selling the business can make sense. One test of passion is to have owners identify the benefits they perceive from the business. If they cannot identify benefits beyond money that make the business worth keeping, it is time to decide if selling would be more lucrative than keeping the business.
While this list is certainly not exhaustive, we hope it has given you some food for thought. We would be negligent if we did not address the fact that sale of the entire business is one option to address the problems raised above. There are certainly others. Buying out part of the ownership group, bringing in outside management or bringing in an equity partner may be other options. In the next part of our series, when we discuss how to have the sale discussion with your ownership group, we will address some of those options.

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