So, You've Sold Your Family's Business. Now What?

By: David Lansky, Ph.D.

Selling the family business is a social, emotional and psychological event as well as an economic event.

Over the past 20+ years, I have advised many families who have transitioned from business owners to owners and managers of considerable wealth. In doing so, I have noted a few apparently repetitive dynamics that have emerged in these families. So, while this is by no means an exhaustive accounting, in an effort to help families anticipate and to manage these transitional dynamics, I describe below three distinct patterns which I have observed and suggest approaches to appreciating and managing these dynamics.

1. Ambivalent Transitioning

Although from a liquidity perspective the sale of a business may be viewed as a welcome and positive event, a transaction is often accompanied by ambivalence and mixed feelings:

- There may be a sense of loss because the business has been central to the family's definition of itself for many years.
- While some family members may be well prepared for a transaction because they anticipated it for a while, to others it might come as a surprise.
- Family members who are expected to be delighted with the new wealth might feel overwhelmed by the range of options in philanthropy, travel, education, etc. that new wealth brings ("You can do anything you want." "But I don't know what I want!").
- Some people might view the transaction as a door, opening dreams to the future, while others might view it as shattering dreams of participating in the family's legacy.

A few years ago, I surveyed a group of family members whose business was sold to a third party. The sale was a great success economically and a feather in the cap for the two brothers who managed the transaction. But family reactions were diverse:

- "A great decision."
- "Kudos to my uncle."
- "It doesn't seem real."
- "It's been a conflicted disturbing time."
- "I feel bad that I am not happier."
- "The money doesn't feel real, I'm not sure how to think about it."
- "Dad (one of the brothers who managed the transaction) is very depressed and overwhelmed by the administrative stuff."
- "I couldn't be happier." (Dad)
- "I am not a decision maker anymore."
- "Nothing to do, no one to talk to."

Ambivalence is a normal and healthy response to a significant event in the life of an individual and family. Acceptance of these mixed feelings is an important path to their resolution. People will cope in different ways, and opportunities to share these feelings openly with others, without judgment, will be key to a good path forward.

Grieving a Loss

You may have learned of the five stages of grief described in Elizabeth Kubler-Ross' book *On Death and Dying*: Denial, Anger, Bargaining, Depression and Acceptance. You may understand as well that even a positive change in one's life can lead to an experience of grief that precipitates a person's journey through these five stages. When a business is sold it's not unusual for family members, even those who are likely to benefit substantially, to pass through at least some of these stages: Denial that a sale is necessary or imminent; Anger about having to deal with a significant change in the life of the family; Bargaining around how to prevent, minimize or reconfigure the transaction; Depression as reality actually sets in; and finally, Acceptance of the change and a view to the future.

A person's successful progression through these stages is enhanced by recognizing the various feelings as they occur, talking about them with others and developing action steps to cope with change.

By discussing the reasons for a sale and moving on to the benefits of the new situation, along with plans for the future, a family can help individual members cope with the change that a sale brings. It's perhaps most important (and often most difficult) to create an atmosphere around the transaction that is nonjudgmental of the ambivalence that family members express. When the opportunity for discussion occurs, the focus should be on listening and trusting that ambivalence in most cases will eventually transition to realistic appraisal of the benefits and advantages that a transaction brings.

2. Discovering Purpose

A shared business is often central to the lives of family members, and shared ownership brings with it many elements that contribute to family cohesion and to a sense of purpose, for example:

- Experiencing pride of ownership
- Community recognition
- Regular family meetings
- Connecting with a multi-generation family legacy
- Opportunity for social interaction with family members
- Family philanthropy
- Collective participation in programs and conferences about family business

Understandably, the sale of the business may be considered a threat to family cohesion and sense of purpose. As a result, some families rush to fill the perceived vacuum that a sale has created, but in doing so might not pay sufficient attention to their long-term purpose and strategy, while focusing on short-term tactics related to investments and tax planning.

A few years ago, a client family sold their business and found themselves with hundreds of millions of dollars in liquidity and without a well-articulated investment strategy. They resisted the temptation to take immediate action and invested their funds in very conservative instruments, wanting to take time to adjust and recalibrate. That was 2007. A year later, they looked like geniuses because their investments were stable when all around them were investors losing significant sums!

As One Door Closes, Another Door Opens…

Thankfully, selling the business brings with it opportunities to renew, revise and reinvigorate a family's sense of purpose.

It's important for family members to give themselves "permission" to patiently consider their new and emerging purpose as a family, and their objectives for the continuity structures they are developing, which often include a family office and/or family foundation.

A new set of goals and new shared purpose may be the beginning of a new legacy for the family. Some steps toward discovering a new sense of purpose may include the following:

- Articulating a set of values that would guide living well with significant wealth along with education and development opportunities for family members who may not previously have had access to a great deal of liquidity.
- Understanding the structures such as trusts and partnerships that have been put in place to hold, administer and invest the family's wealth.
- Addressing the difficulty that most families face talking about money in general and, paradoxically, the need to discuss money as it relates to the family's new set of circumstances.
- Understanding the impact of the family's new wealth as it pertains to enhancing the life path of each individual.
- Deciding whether and how to stay together as a family jointly managing the new resources or to

separate and to provide independence to some family members.

- Discussing new philanthropic opportunities.
- Taking time to understand how others may view family members differently after a transaction has occurred: Will new "friends" suddenly appear? Will there be more calls from nonprofits requesting funds? Will old friends disappear because of a perceived change in circumstances?

Patience and a period of pause and recalibration are good practices that help families integrate and adjust to a significant transaction. Successful families will emerge from that pause with a strategic direction and a set of processes to explore, articulate and implement newfound purpose.

3. Redefining Ownership

A family operating company is owned collectively by a family. In contrast, wealth stemming from a sale will be divided, and owned or controlled directly or in trust by *individuals* rather than by a family collective. This difference in how the assets are owned has a huge impact on family dynamics and individual psychology.

Whose Money Is It?

Wealth tied up in an operating company is more restrictive than wealth that is derived from a sale. Although estate and wealth transfer plans will impose certain restrictions on withdrawals and distributions, there are nonetheless potentially greater "degrees of freedom" when a person owns or is a beneficiary of these assets as opposed to owning shares in an operating company. This difference in ownership requires some getting used to by both wealth creators and their beneficiaries.

Moreover, estate plans in the U.S. often rely on generation skipping trusts and other structures that effectively transfer ownership out of a wealth creator's estate and into a beneficiary's estate. This creates a conundrum for many wealth creators. In their effort to reduce taxes, they relinquish control of the assets. So, when it comes to the wealth that has resulted from a transaction, in a family where tax planning has been effective and strategic: *Whose money is it?*

Wealth creators need to understand and accept that they have relinquished control of assets which have been transferred directly or in trust to beneficiaries. Beneficiaries are well advised to understand the newfound rights and responsibilities that accompany their ownership of assets that have resulted from the transaction.

In one family, three siblings in their 30s were beneficiaries of trusts that held stock in their parents' operating company. Dad's cousin had been named trustee when the trusts were first drafted, more than 20 years previously. When the company was sold, the trusts held assets worth over 100 million dollars each. The siblings were charitable and relatively conservative in their distribution requests. Nevertheless, each time a request for a distribution was made, the cousin-trustee seemed to think his most important role was to just say "NO" and then routinely conveyed the request to Dad, his cousin. Dad would then harangue all three of his children about their use of the money and his disappointment in their making requests for distributions, which led consistently to significant family conflict.

Aside from the improper communication between Dad and his cousin, the fact at the time was that each of the siblings had rights to the funds they were requesting. Reconciliation in this family was based on all parties deeply understanding the rights that the siblings had, and included discussion about the fact that Dad no longer had the right to control the funds that he gave to his children.

If a family office is being considered, the additional "degrees of freedom" associated with the new wealth introduce additional elements of ownership complexity. As my colleague Jennifer Pendergast and I noted in our article "Is Good Governance Different in the Family Office Setting?" published in *Family Business Magazine*:

- Due to these additional degrees of freedom, people are free to have more disparity in their financial objectives. The risk, growth and profit profile of a business are somewhat constrained by what business they are in, so owners have to accept that profile or get out. When it comes to investing, there are many more choices and family members can choose profiles that fit their needs, which are typically not going to be the same across the group.
- In addition, in a family office authority is vested in family owners rather than the family operators.

Whereas in the family business, business leaders are usually a limited group of family members and non-family members whose authority is recognized by family and non-family alike, in the family office, every owner may have a legitimate right to interact with managers. This means that there is potential for a greater number of diverse, and potentially conflicting authoritative requests being made of managers. This also means that all owners will be responsible for making more decisions in the family office environment than in the family business environment.

Good Processes

Thus, redefining ownership after a sale means: Recognizing the additional freedoms and losses of control that accrue to individuals; the possibility that decisions will be more diverse and depart from traditional patterns; and imparting the right kind of education and development for people who are less constrained by the cohesive power of a family collective.

Addressing these issues before a sale and revisiting them afterward is good practice. Good processes to do that include:

- Conducting open discussions about the ownership of family wealth and establishing shared expectations in the family as to how the assets will be deployed.
- Educating all parties as to the trusts and other wealth management structures that are in place and the rights that accrue to the beneficiaries. I often begin working with families in transition by scheduling family meetings with estate planners to ensure that all parties are very clear about the plans that are in place. Information is best conveyed when it is part of a process that is repeated over time and conducted in an atmosphere in which people are encouraged to ask questions and assured that they are not stupid because they don't immediately understand these complex matters.
- Ensuring that beneficiaries understand how they can best interact with trustees and what their rights are.
- Taking steps to develop skills and responsibility by providing opportunities for family members to take responsibility for some of their assets: To take responsibility, there needs to be something to take responsibility for.

Conclusion

In summary, these three key dynamics — Ambivalent Transitioning, Discovering Purpose, and Redefining Ownership — are patterns that families navigating a transaction are likely to encounter. It's helpful to appreciate and plan to manage the complexity in individual and family dynamics that accompany a transaction, to ensure successful passage through this new life path.

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