

Should We Hold, Sell or Consolidate Ownership of the Family Business? Navigating the Discussion and Decision Process

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The long-term vision of multi-generational continuity of the family's business is a common topic among our client families. Inevitably, the challenging discussion around "Should we hold, sell or consolidate ownership of the family business?" comes up among family members. What defines success is different for every family, but a key ingredient for both business continuity and family harmony is for family shareholders to be aligned in their vision for the family enterprise. Having a solid process in place to navigate the necessary discussions and decisions related to hold, sell or consolidate helps ensure a unified family and ownership group, regardless of the outcome.

Mindset Sets the Stage

Having an open mind to entertain conversations about the sale of the family business sets the stage for a good discussion and decision-making process. As diversity within an ownership group increases, being receptive to the "hold, sell or consolidate" discussion rather than "forever ruling out a sale" sends the message that the interests of the ownership group are being fully considered. Be accepting of the premise that selling in and of itself is not necessarily a negative result and, in the right circumstances, it can be very positive for both the family and the business.

For example, in the case of one sibling ownership group there was a history of divisiveness between the "insiders" who worked for the company and the "outsiders" who did not. There was increasing pressure by the outsiders to consider selling the company. Once the discussion was opened, the realities around the sale were revealed including what it entailed and the impacts on the family.

As a result, the sibling ownership group emerged unified on their vision for the future that provided the break-through for their ownership continuity to the next generation to go forward.

In an unfortunate case, a family whose business was in a rapidly consolidating sector refused to consider selling due to respect for the legacy. This resulted in "holding on until the end" amid a tremendous decline in enterprise worth before a sale became the only means to salvage some value.

Another scenario involves a large cousin-stage family business with several family members who simply wanted to go their own way. With the bulk of their individual wealth tied to the fortunes of their family business, these family members wanted to diversify their investments by selling their share in the family operating company. Their increasing demands to take more money out of the company was creating significant pressure on the operating companies' efforts to grow amidst steep competition. The shareholders created a forum where they could openly discuss their viewpoints and agree to buy-out terms at a fair price that would also enable those who wanted to continue as stewards of their family business. This allowed this family to consolidate ownership and at the same time perpetuate the family business into the next generation. By creating a safe forum for difficult conversations and sticking to a clear process, the family was able to navigate competing visions while maintaining their harmonious family relationships.

Initiation of A Discussion

The initiative for a discussion can arise from an internal or external prompt. An example of an external prompt is when the CEO receives a letter of interest from a third-party prospective buyer. Having a process in place for responding to the request before the inquiry occurs helps prevent wasting energy and exposing the family business system to the risk associated with engaging in dialogue about a sale.

The ownership group can provide their board of directors the guidelines under which they would consider a sale. With this knowledge, the CEO is positioned to share the inquiry with the board. Then the board, on behalf of the ownership group, can decide whether the inquiry warrants further consideration. With this structure in place, the dialogue is contained at the board level for inquiries that do not fit within the guidelines and reduces the risk of anxiety within the family business system due to rumors about a sale. For an inquiry the board believes warrants further consideration, the ownership group can then be engaged in an appropriately structured way to consider it.

An internal prompt could come from the ownership group itself or arise from a strategic planning process undertaken by management. Internal prompts provide opportunities for ownership groups to engage in nonurgent discussions about selling the business. If the discussion leads to a point where a sale makes more sense than continued ownership by the family, sale options can be further evaluated in a structured way with the support of appropriate professionals.

Another outcome can be that the ownership group affirms or renews their purpose for continuity within the family resulting in more commitment to make the investments necessary to execute the strategy. Whether an internal or an external prompt, a key is clarity throughout the family business system regarding ownership group intentions and expectations.

Shared Vision

Having your family's vision for your future well-articulated and periodically reviewed pays tremendous dividends when it comes to the discussion and decision

about holding, selling or consolidating. A shared vision provides the context for the dialogue, serves as a benchmark against which to consider options, and creates the environment for more open discussions and creative alternatives. Straight-forward statements of what the family wants or intends provide essential guidance for the discussion:

- Our family's preference is to maintain ownership of our business, but we will not rule out the possibility of a sale.
- We intend to keep a large portion of our family's capital together and invest and manage it together whether we keep or sell the business.
- In addition to a reasonable financial return we expect our family's business to provide continuing opportunities for us to work together as owners, and for those interested and qualified, to work in the business.
- We will provide a choice to individual family owners regarding holding or selling their ownership interest and a mechanism to consolidate ownership that does not put the enterprise at risk when individual owners prefer liquidity.

Guiding Principles

Having discussion guiding principles in place prior to these conversations helps members be productively engaged, keeps the meetings on track, and reduces the risk of a divisive outcome. Examples of discussion guiding principles which have worked particularly well for "hold, sell or consolidate" discussions are:

- We will speak with one voice to the board and management.
- We will recognize and respect diverse points of view.
- You must give to get.
- We acknowledge and will collectively care for individual family member needs and interests.

Important Steps for the Process

The "hold, sell or consolidate" discussion and decision process is normally charged with emotions and diverse viewpoints. To achieve a positive outcome, it is essential

for all stakeholders to clearly understand each other's roles and responsibilities: who has a voice; who has a vote; how the decision is made (majority, super-majority, consensus, etc.); and who gets to know what and when. To have clarity on each stakeholder's role, everyone must have an understanding of what their family and business governing documents have to say on these topics. Educating or re-educating everyone about their role in the process is an ongoing challenge.

If the governing documents do not adequately address "who" and "how," further work should be done to add this structure. For example, larger shareholder groups might appoint a committee or ask their Family

Council or Owners Council to engage with the board and management on the topics associated with "hold, sell or consolidate" and develop a recommendation for the full ownership group to consider. In some cases, updating governance documents is warranted. If stakeholders stick to their role, it is more likely that discussions will stay on track without becoming divisive and, at a minimum, all will be able to live with and support the outcome of the process.

Prepared Owners

An ownership group functions best while contemplating the question of "hold, sell or consolidate" when every member has a threshold level of knowledge about the relevant topics such as:

- The company's business model and factors impacting value
- The valuation methodology differences for internal transactions and external buyers
- The financial performance of the company and how it is trending
- The implications of pursuing a sale and not closing
- The characteristics of a realistic offer which has a reasonable likelihood of closing.
- The financial implications of holding and the financial implications of selling
- The non-financial implications of holding and the non-financial implications of selling

Building this knowledge over time and in advance of when the question is called is one of the keys to an effective process. It also equips each person to productively participate in the dialogue.

Digging Deep

"Hold, sell or consolidate" discussions involve some soul searching by the ownership group as they move toward alignment on the future. Having some reflection

questions for individuals to consider and then share their answers with the group helps everyone understand one another's motivations and intentions. This understanding is an important step in achieving alignment on what the group

wants and their expectations.

Some individual reflection questions to consider include:

- What is our family's purpose for continuing to own this business?
- Is our family the best owner of this business? Why or why not?
- Does my ownership in the company provide me with a source of pride and connection? Why or why not?
- What is my viewpoint about the future of the company and my future with the company?
- Under what circumstances might I consider selling my share of the business?
- Under what circumstances would I consider that selling the whole business is a good idea?
- Is there a clear connection between a better quality of life for myself and my immediate family and our involvement in our company? Why or why not?
- If I did not already have an investment in our company, is it a company in which I would choose to invest? Why or why not?
- Is the market and environment in which our company operates attractive for the future success of our company? Why or why not?

If I did not already have an investment in our company, is it a company in which I would choose to invest?

Summary

Successfully navigating through the discussion and decision process can strengthen the ownership group and be a positive result for the family and the business regardless of the eventual decision. It is likely inevitable that the question of “hold, sell or consolidate?” will arise

at some point in the life of your family business. We encourage you to put a process in place to have this discussion ahead of the question being called. Doing so will best position your family and your business for successful continuity of family relationships and stewardship of your family’s wealth.



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