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Making a graceful exit

Five best practices will help your family to thrive—not just survive—after the sale of your business.

We've all heard horror stories of a family business sale gone awry. Often the problems result from lack of coordination and cooperation among divergent family factions. Yet with sound advice and good planning, an exiting family won't just survive a sale; they'll thrive—personally and financially.

The key to a successful sale is to achieve buy-in and appropriate engagement from all family members involved. Five best practices have been shown to help smooth the transition.

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1. Realistically confront the difficult family decisions. Be upfront with yourself and your family about your needs, the demands of the business, and the aspirations and abilities of your family members. Pose the provocative questions, understand the economic realities of the marketplace facing you, and learn the opportunity cost of inaction.

Ask yourself the challenging questions. Does your next generation have the skills necessary to successfully run the business? Will you really be able to take a step back from the company? If you sell to a family member, will the banks allow you to remove your personal guarantee after the closing, or will you still be financially liable? If you will still be at risk, will you be able to sleep soundly?

These questions require forthright and, at times, brutally honest answers. Your family may not always agree with your position. However, placing the issues on the table for discussion allows for creative solutions to arise and stimulates cooperation. Running headfirst into conflict seems counterintuitive to smoothing a transition, but divergent viewpoints can be addressed more effectively in a thoughtful, controlled way at the beginning of the exit process.

For example, in one fast-growing family corporation, the owners were skeptical about a third-generation manager's abilities to continue running a significantly larger operation, yet this family member wasn't ready or willing to leave the industry or stop working. The family discussed everyone's aspirations upfront and developed a sale strategy to provide for the creation of a smaller, spin-off business unit for the founder's grandson to own and manage. The original family business was sold to a strategic buyer, allowing the grandson to continue working in a space structured for his success. Exiting the business at that time allowed the family to preserve the wealth generated by the firm's growth and distribute it among themselves. All parties supported this transition strategy because the deal was structured so that everyone's needs were met.

In another case, the principal shareholder of a company was in the precarious position of having nearly 90% of his assets tied up in the family business. With the guidance of his wife and other concerned family members, he realized the logic of diversifying his wealth and taking money off the table. Yet this owner loved working and wasn't interested in retiring. His advisers were able to structure a deal with a foreign purchaser willing to pay a premium for the company and retain the owner as CEO of the newly acquired firm.

Younger generations should also be encouraged to confront the challenging decisions, and given the opportunity to do so. Consider the case of a third-generation manufacturing company that had selected and was grooming a fourth-generation leader. After some lengthy introspection, the great-grandson decided not to continue in the position his parents wanted for him. Although disappointed, the business leader eventually understood that inaction would be costly for the entire family. The industry was consolidating, and the firm needed either to grow or to take advantage of the market opportunity to exit. In order to preserve the family's wealth, the decision was made to act. Had the owner and the potential successor not confronted the difficult issues and instead continued with the status quo, they would have risked erosion of the firm's value.

2. Plan for everyone's future. The sale of a business used to be the grand finale to a business owner's career. Today, it is often just one step toward living a rich and fulfilling life. Focusing on life after the sale will help elevate everyone's mood as the transaction moves along.

With the input of your family, develop a post-sale plan for all family members involved, not just the founder, current leader or chief executive. Everyone should have a goal to focus on—whether it's a new business venture, philanthropic causes, or finally training for a marathon.

Planning for the next phase is a serious process. Financial advisers, wealth managers and career coaches can add insights. Financial professionals can often help you determine how much you really need to take away from a sale in order to meet your goal, whether it's acquiring your dream vacation property or establishing a family foundation. Personal coaches can help you assess your next step.

This type of future planning is essential for all generations involved in the business, but it's especially critical for family members who are not necessarily opting out of the industry, and who may have mixed emotions about the sale. Careful legal consideration should be given during the negotiations to younger family members' long-term career aspirations.

3. Seek to preserve or improve lifestyle. When considering the future, ask: What elements of the family's lifestyle would each member like to preserve? Some may perceive the sale of their business as a loss of their status within the community. Yet such losses are often offset by other activities: philanthropic endeavors, a new business venture or increased involvement in community organizations.

Consider the "perks" of business ownership. The list can be significant, including access to corporate travel arrangements and luxury box tickets for the local sports team. These can lead to some of the most interesting negotiations prior to a closing. Advisers should carefully consider these details to help avoid 11th-hour issues. Ideally, each family member should privately prepare a "wish list" of lifestyle accommodations to be addressed during the pre-negotiation process. Then, discussion can be handed upfront with a greater chance for peaceful resolution.

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4. Communicate openly and directly. Start communicating with your family early, and make sure to update everyone regularly. If you already have a family board of directors or a family council, use that forum to discuss all developments involved in the sale process. If you don't have an organized avenue for these discussions, you might want to institute meetings to update everyone. Regular communication is especially crucial if some members work in the firm and have insider access to deal information. Allow the external family members time to process the significance of new developments.

Acknowledge that everyone has a role and give them a voice. A 1985 study of family farm transitions that appeared in *Rural Sociology* noted that in-laws were the ones with the most stress in a farm transition because they lacked an outlet for airing their concerns. Be sure to include spouses, when appropriate. Allow time for all family members to voice their opinion, but set ground rules for respectful discussion in advance, and adhere to them. Keep conversation calm and controlled, and focus on the business decisions at hand.

Remember, you will never satisfy everyone's wishes. However, knowing and understanding their priorities and sensitivities provides you with the greatest chance of engineering a winning transaction that will be acceptable to all.

5. Assemble a dream team. Skilled advisers have years of experience dealing with the intricacies of family businesses and can serve as an impartial third party to help address conflict. Surround yourself with competent, experienced M&A attorneys, accountants, wealth managers and investment bankers to guide you through this transition, so you can reassure yourself that you have conducted a thoughtful process that satisfies all your needs.

A custom-built exit strategy

When owners choose to exit the family firm, heightened emotions further complicate a complex business process. If you follow these best practices, you can custom-structure your exit strategy to address your family's unique circumstances, and allow for creative possibilities. FB

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