

Wealth Strategies

SILVER BRIDGE INSIGHTS

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Sale of the Family Business

Managing through the transition

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Owners of successful family businesses are often so busy running their respective enterprises that long-term planning can get pushed aside until a crisis emerges. Yet creating a viable transition plan is critical for the future of the company—and for the family that started it.

On October 20, 2009, Silver Bridge Advisors partnered with Private Wealth Magazine to host the luncheon panel discussion: “Sale of the Family Business: Managing through the Transition.” The speakers included Christa Hagearty, President of Dependable Cleaners; Gretchen Davidsen former executive of New England Health Imaging; Cynthia Adams Harrison, Ed. D., LICSW of Thomas D. Davidow & Associates; and Charles Shirley, CPA, MST and Tax Director for PricewaterhouseCoopers in Boston.

Overall, the panel emphasized the importance of creating a structured plan that incorporates the major concerns of family members, especially the concerns of those who will be closely involved with running the business.

Seek and destroy the “monsters under the table”

Family secrets can create family tension and discord if they are not exposed in a safe environment, said Dr. Adams Harrison. Every family has secrets and issues—monsters—it would rather not discuss. Christa Hagearty described how she “wanted to take out, describe and dissect the monsters” before her family moved forward with a buyout. As Gretchen Davidsen described it, once you get the “sand box stuff” out in the open and the issues have been worked through and resolved, real progress can be made regarding decisions about the family business. Both Davidsen and Hagearty’s fathers consulted with executive coaches and carefully selected advisory boards to help them create viable transition plans with family members.

Be prepared for psychological triggers

Owners often feel a profound sense of loss at the sale of their business, even if they are excited about the succession plan and the next phase of their life, explained Dr. Adams Harrison. Owners may grieve and perhaps question the qualifications and abilities of younger family members and the professional staff tasked to take over daily operations—which is why putting a formal, proactive transition plan in place before succession occurs is so important, urged both Hagearty and Davidsen. Hagearty’s father was reluctant to part ways with the business. “Father would complain when we’d move too fast,” Hagearty recalled. He needed a lot of time in between each step of the buyout to work through the emotions that came up, causing Dependable Cleaners to take more than five years to complete the transition process.

Family is the glue, but a post-transaction plan is key, too

During and post-transaction, spending quality time as a family is a key success factor to a successful transition, said Dr. Adams Harrison. Family members that go on retreats and vacation together tend to be happier and feel more connected during the transition and afterwards. By putting a step-by-step transition plan in place, families create a safe environment for everyone post-buyout.

Dauidsen acknowledged the key role her family's advisor, a consulting engineer and her business school professor at Babson, played to create a smooth transition plan for the buyout of her father's medical imaging company, New England Health Imaging. With the help of their family advisor, Dauidsen and her siblings formed a team to work on managing the post-liquidity assets. Aside from being a wonderful bonding experience, "we were able to go into established planning mode and make the right decisions," she said.

Hagearty agreed with the importance of creating a transition blueprint, adding that she gave her father an "end plan" in modules. Each module gave her father various possible ways to conduct the buyout, and promised him the family would wait until he was ready to move. Eighteen months later, he approached his daughter and said he was ready to get started. "The emotional issues, not financial ones, were insurmountable; the executive coach helped in many ways," she said. "It was my father's responsibility as patriarch to make final decisions about the buyout and the family." Not quite ready to retire, Hagearty's father has let go of the responsibilities of ownership, and works for her as a consultant. "He's an incredible mentor and an invaluable resource," she said. "Fuel is a huge part of our business, so in 2008 when utility costs rose from 6-9% of our costs to 14-15% of our business, his involvement at points when it was needed was invaluable," she recalled.

A new era: creating a dynamic family structure

Dr. Adams Harrison described the importance of creating a structure for family enterprises in order to achieve successful long term dynamics. Having a formal process in place helps a family determine: "How are we going to meet, where should we gather to do business as a family; or to focus on the passions of the family, philanthropic or otherwise," she said. It also sets up patterns of communication to discuss family matters in a liquidity event or otherwise. "The loss can be so incredible when selling a family business," Dr. Adams Harrison explained. "You have to create a structure for the family to gather," she said. That way, family members can conduct business in an atmosphere of accountability and transparency across the generations, a key part of maintaining open, healthy relationships in and outside of the business. ■

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