

Becoming an enterprising family

When a family decides to sell their business, the transaction that transpires is not purely financial. Fredda Herz Brown and Dennis Jaffe discuss how a family can evolve into a well-structured, diversified, financial entity, working together across generations

The Bolton family owned a large plastics manufacturing firm which had developed a number of patents for products during its 50 years. Like others, the plastics industry was undergoing a consolidation with manufacturers buying related manufacturing companies and taking over distribution channels. The senior Bolton brothers, Kevin and Brian, now in their late 60s, were proud of what they had accomplished in expanding what was a very small company inherited from their father. They fully expected to keep it in the family for the generation to come.

Indeed, they had already been joined by two members of the third generation. In keeping with the family employment policy, each of the children had entered the firm after spending three years in positions in another company. Both young men, one 30 and the other 38, enjoyed their work and were active in the industry. While the family had often discussed the challenges facing their firm, they had never come up with a firm plan or decision. So the third generation sons expected to become the next generation leaders.

One day a competitor offered a huge premium over their current value for them to merge and become part of a larger distribution network. Kevin and Brian did as they often did, which was to put them off by saying they would think about it. This time, however, they did think about it and together decided that it was time to achieve some liquidity by agreeing to the merger. After agreeing to sell 49% of their firm to the other firm, the two brothers announced the change the next day to their sons and then to the family at a previously scheduled meeting.

Kevin's son was at a senior level in the company while Brian's son was more junior, but both were extremely upset. It was unclear whether they were distraught due to the decision or the fact that they felt marginalised by the decision making process. They felt that their opportunity for leadership, and that of the future generations, had been cut short. The other members of the third generation were married and working elsewhere, and had children of their own. Brian's daughter and her husband were investment professionals at a large New York trust company; they understood the need to diversify the family holdings and therefore the need for liquidity. They envisioned assisting the family in choosing an investment strategy and advisers.

One of the conditions of the merger was that the family maintained operational control of their company and that all currently employed family continue to work. The older generation would remain in place for three years, while the younger generation could make their decision about length of employment when the option went into effect in 10 years. While they would not be out of a job, the two sons felt that it would no longer be "their" company and they didn't know whether they wanted to stay under those conditions. They were upset that they had never thought about or planned for such an outcome.

A CHANGE OF FOCUS

While it would be easy to see the \$40 million deal purely as a financial transaction, it was really part of a process that occurs in families that share/own several assets together. That process moves a family from one of owning a business and building wealth to one that experiences the wealth and can build many other assets. Their focus moves from a single business to many enterprises and opportunities. This transition brings to the forefront many questions and dilemmas for any family. Clearly, the decision making process was based on a variety of factors and while it had been anticipated and discussed for years, the decision was made very rapidly because the contingencies came together. Thus, family members, even those making the decision, may feel unprepared for its consequences.

One of the first decisions the Bolton family had to make was whether to handle their new liquidity together; that is, as one family rather than two branches. What will be their reason for being; what do they envision for the future of their family? For a family that has owned a business for generations, this may be the first time they have considered whether they want to remain together as partners. While they are aware of the financial advantages of pooling their money in terms of the access to investment funds and deals, if they have different values regarding money and investing, working together may lead to strains. They need to re-examine their family values about business and wealth, to see whether joint endeavours are desirable. One or more members of the

next generation may want to go it alone, and leave the family partnership.

FAIR SHARING

Deciding to share assets beyond the business also means that the Boltons must decide if they want to share the risks that go with the positives – not just financial risks, but risks of human capital. Sharing assets means that families are joined together and what befalls one also affects the other. So, for instance, the Boltons will have to consider the potential situational and normative changes their families will be experiencing over the next few years, and how these can be anticipated and offset. Family groups at different life stages, or with different approaches to money, may want to invest their money differently. For example, some families look for new businesses to invest in, and utilise their family talent, while others desire a more passive role in investments, and seek a lower risk portfolio.

If the Boltons decide to continue to share their growing pool of assets, they need to determine what decisions must be made and how this will be done. The original plastics business will now be one of the holdings of the family and there will be some major decisions with regard to it in the next few years. They must also decide what constituents make which decisions, therefore defining a need for structure or groupings where family members can participate in the relevant decisions. The two brothers made the decisions as family business leaders, so who will now be part of the decision process? How will these choices be made? Some families want to represent family branches equally, others want each individual in a generation represented, and still others opt for a small group of trustees or independent experts. These are value questions for the family, not correct or incorrect approaches.

While finding the best people to make decisions, a family may also view governance as a vehicle to develop the talent, capability and engagement of members of the next generation. Making decisions assist the family in developing the next generation as joint owners, stewards of the family's financial, human and social capital. The degree to which young family members have the opportunity to work together will prepare them to work through any difficulties in their governance as it has been defined. But since the assets involved may be huge, and the consequences of poor or naïve decisions so costly, the family has to balance the desire to get people involved with checks and balances on what is decided. The hierarchy of the family business must give way to a new set of leaders who represent all the family owners.

AN ENTERPRISING DECISION

For these reasons, the decision to sell a family legacy asset is

a choice that almost always leads to a thorough reassessment and redefinition of the family's governance and rationale for working together. The effects of a liquidity event bring up questions for each individual, for the family as a group, for how the family wants to provide for the next generation, and what they want to give back to society. While the decision to sell may have been made by the older generation, the choices in the above areas concern everyone. While not everyone will have equal say in every choice, the convening of the whole family (as defined by the family itself) at a large family event, followed by the creation of task forces or working groups, is the response that many families have to the sale or ownership transition of their family business.

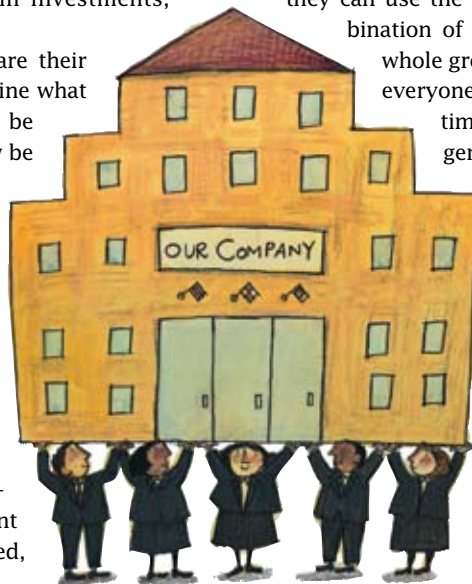
After a lot of planning, the Bolton family set up a three-day, whole-family retreat to explore the major issues, starting with what they want as individuals and as a family, and then how they can use the financial gift to achieve those goals. A combination of small group discussions and sharing in the whole group made for a high involvement event where everyone had a voice. It was pretty clear that this was a time where the options were fluid and the older generation did not have a strong preference for any particular path. They really wanted guidance from everyone.

Over the course of a year, the family crafted a statement of mission, vision and values (after a half dozen drafts) that set forth the key principles of how they will operate as a multi-generational family. Then, they set up structures that enable them to make decisions and act on these values, and policies that define clearly who participates and what entities make which choices for the family. For example, financial decisions were made by an investment council, but decisions about family events and education were made by a family council representing all generations. The family also began to define what the next generation can expect from the family – in terms of

inheritance, education, support and involvement – and also what the family expects of each family member in return.

From an original family business, a family can evolve after a sale into a diversified financial entity, with family groups that support each member of the family to achieve their personal goals, and for the family as a whole to work together on shared projects like businesses, investments and philanthropy. This work represented a major commitment of time, energy and funding for the Bolton family, but it would not have happened unless, or until, Kevin and Brian made the initial decision to diversify the family from one legacy business to several family assets. Making such a decision is the beginning, not the end, for an enterprising family. ●

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Selling up: with proper planning, new heights for the family enterprise can be achieved