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The Psychology of Effective Exit Planning: A Guide for Families and Advisors

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Family firms can help the next generation move forward by understanding and supporting the emotional aspects of the exit for the current leader.

Business advisors widely agree that the biggest barrier to the transfer or sale of a business is often the owner's own internal (emotional) roadblocks. Yet precious little training, tools, or techniques are available to help owners through perhaps the most difficult psychological transition of their lives. This can be especially problematic for first-generation owners who have never seen or been part of a business transfer.

Transition/succession planning experts and researchers cite these common reasons owners give for holding off on planning their exit:

- I'm too busy.
- It isn't that complicated.
- The kids aren't ready.

Because planning and executing an exit is emotionally complex, even when they begin to work on a plan, owners and advisors will focus on more familiar territory: business structure, financial data, taxation, and other quantifiable components of an exit strategy. While more comfortable, it's a mistake to believe that an owner can move through this process utilizing only the same tools they needed to grow and run their business (e.g. good instincts, management skills, business acumen, and a drive for achievement).

In my coaching and consulting work with family businesses and family members since 2008, I have found that addressing the following three areas can foster the exit/transition planning process by acknowledging hidden psychological mechanisms and the needs of the current gen/owner:

1. Loss

When determining a successor (whether a family member, employee, or outside buyer), business owners come face-to-face with their own mortality. Owners of all ages must grapple with the fact that, *even after they have left, the company will continue and life will go on…* a symbolic reminder that the world will march on without us. Like most people, owners have difficulty facing this harsh reality of human existence. To quote the late writer and musical lyricist Neil Peart, "We are only immortal for a limited time."

Other defense mechanisms and reactions often at play include *denial:* "I'll be able to keep doing what I am doing until I am 85 with no negative consequences or impact on the company or family;" *persecution*: "The kids/employees are pushing me out;" *regression*: sudden, unexpected, childish behaviors or communication; and *extinction bursts*: one or more big project(s), endeavors, or major deal(s) that keeps an owner tied to the business for the foreseeable future.

In my experience, listening closely to owners for clues about how they are facing (or not facing) this undeniable loss can provide insights for moving the process forward. In addition, exploring how they have previously managed loss in their lives can lead to fruitful discussions regarding their anxieties, fears, and how they wish to be remembered after their exit (I highly recommend Jeffrey Sonnenfeld's *The Hero's Farewell* for an affirming approach to "owning" the exit).

However, ultimately, open acknowledgement of the closing of this chapter of the owner's life is critical. This can be done with:

- Listening skills and generous empathy from trusted others,
- Sharing the stories of owners who have exited or sold their businesses and successfully moved on to other endeavors, and
- Creating "emotional space" (tolerance and acceptance) for owners' complicated and often contradictory feelings as they move through exit planning.

As one close colleague told me during his own process of transferring his business, "Everything I have to do right now is the *exact opposite* of what I have spent my entire career learning how to do. On a gut level, it all just feels *wrong* ... even though I know rationally, I have to let go."

2. Replacement

Owners in the early stages of exit preparation are less likely to take concrete action and more likely to object to any discussion of their exit. This means it is likely they will frustrate family members who would like to help them plan a transition.

Establishing a relationship with a trusted adviser is critical here. Similar to hiring a CPA or Estate Planning Attorney, family business owners and their family members can identify trained, qualified, and experienced third parties who can help owners begin to consider their life after exit…their "next chapter." Owners are best prepared when they have answers to:

- How will they replace time spent at work?
- What will their social network look like?
- How will they impact or influence others in meaningful ways?
- What will they get excited about doing?
- What will their identity be (how will they see themselves)?

According to the Exit Planning Institute, 76% of owners regretted selling their business one year after the sale. Through recent discussions with another colleague, I have begun to see this experience as a "post-transition/post-deal depression." Exited owners have more freedom and time, but often lack purpose, meaning, activity, social connection, and, in many ways, a new sense of self that must be built. We are all familiar with stories of people who sadly, and suddenly, pass within weeks or months of retirement.

For most owners, it is crucial that they begin exploring, selecting, and engaging in activities *long before* their exit; this can include:

- Joining one or more boards,
- Pursuing meaningful volunteer work,
- Starting a new business,
- Teaching or mentoring,
- Consulting,
- Revisiting interests & hobbies that were abandoned or never fully realized,
- Joining community or philanthropic organizations.

Days filled with golf or playing with grandchildren are not realistic, as they do not satisfy many of those needs that business owners (and almost all people) have for influence, impact, relevance, purpose and, quite often, a healthy and appropriate sense of value to the world.

3. Departure

When the actual departure is not well planned and managed, it increases the chance of post-exit challenges in the business and in relationships with family members. Examples of problematic behaviors include attempts at continued, indirect influence on the company, antagonism towards the next generation or new management, or misplaced anger directed at family and friends.

In making sure that exiting owners are moving *towards* the next part of their lives, not simply dealing with the loss of their business identity, it is critical to mark this important moment in time.

Throughout human history, rituals help us recognize and move through stages of life and significant transitions. I have seen success in owner transitions using rituals such as:

- Creating a look back at the departing owner's impact (through videos, photographs, storytelling),
- Multiple celebrations (in other words, a gathering that includes employees, another with vendors and other business colleagues, and yet another with family members and friends),
- Symbolic representations of the owner's

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contributions. A physical gift that an owner can possess and gaze at can be psychologically helpful not only at the time of exit, but more importantly, in quiet, post-exit moments of doubt, regret, or even despair.

Employees and family members can (secretly) brainstorm these and other ideas to support an effective departure. I have seen the positive impact of:

- Photograph collections on display that highlight the owner's history and development of the business,
- Journals filled with heartful comments, stories, and memories from employees, clients, vendors, and family members,
- Valuable objects of meaning to the owner (such as a gold-plated sample of a manufacturing company's product, or a scale model of a company building or other structure).

These symbols typically include a personal inscription or quote that is meaningful to the owner … and can simply be a saying or expression the owner was known for.

Beyond the Bottom Line

Addressing loss, replacement, and departure thoughtfully can not only assist the exiting owner emotionally, but can also support the very real transition of leadership for the company. Putting in time and effort beyond the legal, financial, and structural components of a transition demonstrates to everyone (employees, clients, vendors, family) that working in a family enterprise goes well beyond an exchange of work and time for financial compensation . It's about being part of something larger than oneself, valuing relationships, respecting legacy, and caring for others' long-term emotional well-being. Together, these all clearly demonstrate what it can mean to work in an enterprise that attends to far more than just the bottom line.

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