VRH Business Psychologists Newsline

Vernon Roche Hodgson, Inc.
Management Consultants
Business Psychologists

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Family Friction in the Small Business

For more than 100 years, the Modesto Steam Laundry operated in California, surviving the Great Depression, two world wars and numerous technological changes. It was even getting by in the current economic crisis.
Despite its success, the business is closing this summer.
For decades, it has been owned by the same family with brothers Harold and Ed working side by side. When they died, the business passed on to their descendants.

What followed were numerous disputes between family factions, ultimately yielding to a court-appointed receiver who ordered the business liquidated. That decision marks a sad end to a local business with a proud history and 19 loyal employees who suddenly found themselves out of work.

Unfortunately, the fate of this family-owned business can - and too often does – befall many similar small, family business ventures. Family friction can kill even the most successful operation.

Family-owned businesses too often do not put a framework in place that spells out the responsibilities of all the parties involved, thereby clarifying responsibilities as well as protecting everyone's interests. As a result, there are misunderstandings, disagreements and hurt feelings that can drag any business down.

When a business transitions from one generation to the next, it is critical that all family members have a unified vision. Without clearly defined responsibilities and business objectives that everyone agrees to, even close family members can feel left out.

For those who do not agree with what the rest of the family wants, the best move may be to buy them out. But even that becomes problematic. If they feel shortchanged, or disrespected, buying out dissident family members leads to much unpleasantness at future family gatherings.

That is why it is so important for family businesses of all sizes to invest the time and effort into planning for anticipated business / ownership transitions.

Those who specialize in estate planning and succession planning, as well as finance and business organization law, can be essential resources in orchestrating and smoothing this transition. For entrepreneurs who have spent most of their lives building up a business, it will take some time to work through the complexities that lead to smooth business and relationship transitions. Discussion and planning should begin five years before any target transition date to ensure plans are in place and the present business owner's wishes will be honored.

It is vital that family business owners put together a team of professionals to help them implement such plans. Such teams typically include a lawyer, accountant, business psychologist and insurance expert. The goal is to ensure an orderly transition of the business while maintaining harmony among family members.

Of course, lining up all this integrated team of professionals and dealing with these business issues will be an investment of time and money. The price might seem high, but the price of not doing it can be higher.

Adapted from D. W. Hill. *Modesto Bee*. June 2009

The Psychology of Sellers in a Down Market

Excerpted from Dr. Dehlinger's keynote presentation to Midwest Business Brokers and Intermediaries, Spring, 2009

I'm going to spend the next few minutes "talking in circles." Those of you with experience working with psychologists might think that's the norm. However, let me clarify, as a business psychologist and consultant, I've spent the past 25 years working primarily with organizations as well as individuals in some aspect of talent management – what used to be called human resources. In that capacity, assignments have ranged from executive selection to coaching and leadership development, organizational restructuring and succession planning. All these activities had as their objective improving organizational and individual performance. Additionally, over the past ten years, increasing time has been spent working with family businesses, not only in related talent management matters, but also in ownership/leadership transition. It is here where I want to spend a few minutes of our time.

I've been asked to speak with you about the "psychology of sellers in a down market," and it is hard to argue that we could get more down than we are now. The first thing I would tell you, however, is that the distinction is one of degree more than substance. Whether the business climate is up or down, the emotional issues confronting the family business owner/seller are fundamentally the same. A down market simply ratchets up feelings of not being in control; stress, anxiety, anger, depression, all increase in such a climate. All of this means the transaction, where many of you focus your attention, becomes

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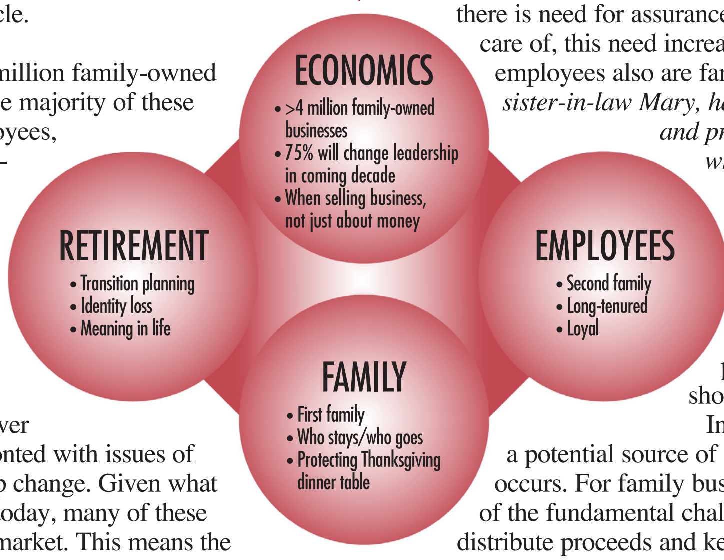
ever more fragile. I'm going to spend the next few minutes talking about the primary emotional factors experienced by small business owners when approaching the sale of their enterprise and hopefully increase your understanding of what is going on with them behind the transaction.

First of all, let me give you some context – some **Economic** perspective – which is our first circle.



- At present, there are over four million family-owned businesses in the United States. The majority of these businesses have less than 10 employees, so we're talking about small, close-knit businesses. Some entrepreneur's dream.
- Additionally, across North America, studies have shown that three-fourths of current family businesses will have to deal with leadership change in the coming decade. This means three million family-owned businesses over the coming ten years will be confronted with issues of succession, ownership or leadership change. Given what we know of the economic climate today, many of these transitions will occur in a "down" market. This means the business owners' anger, frustration, stress – loss of control – all of these feelings will escalate over the course of such transition.
- Here is another economic reality. Family business owners/entrepreneurs are well-informed people. They understand the nuts and bolts of running their business. Typically they start with nothing and grow their business to substantial size. Cash flow, profit/loss statements, budgets; these are all things they understand. They know how to run their business. They do not know how to sell their business. That usually is an once-in-a-lifetime experience for which they are unprepared. Thus, they turn to transaction experts (e.g., business brokers, accountants, bankers, lawyers) for help in getting the best price for their business. It is at that point that such professionals work their transaction magic: Conduct business valuations, clean up balance sheets, source buyers, arrange financing. Essentially, "doing the deal." All of these represent necessary steps to make the transaction happen. Underlying these actions is a universal truth: When dealing with a family business, it is never "just about price."

It's also about **Employees**, our second circle.

For most family business owners, employees represent their second family. Remember, the majority of small businesses have less than ten employees. These individuals have typically grown up in the business with the owner/entrepreneur. Strong loyalties have developed as they all have contributed to the growth and success of this family business. When it comes time for a transaction, the business owner wants assurances that his second family is well taken care of. Such concern escalates in a "down" economy, sometimes taking the form of contractual elements in the sale of a business (e.g., All employees will be retained at least 12 months following sale.).

It's never just about price; it's also about **Family**. This is our next circle.

Family members both in and outside the business can represent significant sources of concern and stress for the transitioning business owner. For example, at some point in the transaction process there will be discussions of who stays and who goes. If there is need for assurance that employees will be taken care of, this need increases dramatically when those employees also are family members. *Uncle Charlie, or sister-in-law Mary, have worked here since inception and probably can't get another job; what's going to happen to them?*

A related source of family stress can arise when brother-in-law Tom thinks he might be interested in buying the business, and since he is part of the family, special purchase privileges (i.e., discount pricing) should be accorded.

Invariably, financial issues become a potential source of conflict when a transaction occurs. For family business owners seeking to sell, one of the fundamental challenges they face is how to distribute proceeds and keep the family intact. A variation of this occurs when one child is picked as second-generation successor to the business over other siblings.

As family business owners wrestle with such business and blood dynamics, the ultimate goal is to preserve the sanctity of the Thanksgiving dinner. When *all family members* gather around the holiday table, it is important for these business owners that all family members gather around the holiday table in harmony.

Once again, it is never just about price; it's also about our fourth circle, **Retirement/ Transition**.

For most of these entrepreneurs, transitioning to life without business as their central focus represents a serious identity loss. Questions of "Who will I be if I am not a business owner?" "Where will I go in the morning?" "Will I be happy without business ownership?" These all represent unfamiliar and seemingly insurmountable challenges.

If this transition to something other than business ownership is involuntary, for reasons of health, divorce or financial setback, emotional distress can easily double. Not only is there loss of identity but also loss of control – and it is their need for control that drives most entrepreneurs to want to start and grow their own business!

For those who represent transaction experts, professional resources brought in by the business owner when a sale is necessitated, expect that you will encounter resistance. Problems in psychological/emotional areas often are manifested in economic concerns because business owners do not want to openly admit, nor discuss with relative strangers, their personal concerns. Thinking about exiting the business means they must come to grips with personal identity issues, family dynamics and their own

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mortality, none of which are comfortable topics of discussion for the typical business owner. Many simply do not want to think about the day when they retire and are no longer running the business. As a result, what is raised as impediments to the transaction are economic concerns: The need for more money in the sale of the business; a postponement of the closing date; various restrictions to the sale; or the buyer suddenly being deemed unworthy.

As a transaction expert, when you hear such concerns raised, look beyond to the unstated interests. Look beyond these economic objections to the emotional factors that might be at work.

The analogy I often use is that of holistic medicine. Think in terms of economic symptoms, but look for emotional causes. Engage the business owner in a holistic process, not simply a financial transaction, and you will be far more likely to close the sale in a way that also bridges the full range of needs of the business owner.

One effective way of accomplishing this is to partner with experts in business psychology or family dynamics to ensure all of the business owner's needs are being addressed. In essence, go "full circle" in the service of your business owner client.

Jonathan E. Dehlinger, Ph.D.
March 10, 2009

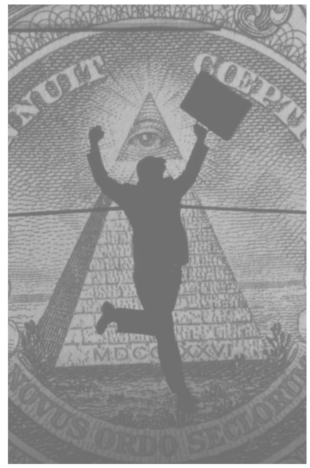
Reflections on Your Career

The following questions – and more importantly your honest answers – can provide insights into the course of your career, how it has evolved and where it is taking you. No one has to see your answers. As you reflect on experiences and career choices, you may see a pattern, clarify a strength or weakness, or simply harvest food for thought.

1. Your first day at your last job, what was it like?
2. If you wrote an email to yourself on attitude adjustment, how would it read?
3. What did you love as a child that reveals itself today in how you work?
4. Write about a phone call that changed everything in your life.
5. Write about the book that influenced your career.
6. If you could ask a former boss one important question, what would that question be?
7. What happened on a workday that was different?
8. What would you be doing now if you did not get that job?
9. What if you finally get to do what you have always wanted? Describe what your life would be like.

Career counseling – with students and mid-career adults – is a prominent element in VRH services; however, even occasional self-reflection can be instructive in guiding thinking about career choices.

Keep Employees Motivated Even When Resources Are Tight



Psychologists from New York University surveyed 1,000 employees finding that even more than good wages/benefits, employees who held positive views of their employer, as well as their place within the workgroup, were more likely to work hard and perform beyond expectations. (*Journal of Applied Psychology* (Vol. 94, No. 2).

How can you motivate employees when budgets are tight? Some examples provided by Human Resource Managers across North America include the following:

- Extra time off for personal/family events or for volunteer work at a favorite non-profit
- Flexible work schedules
- Lunch with boss/CEO
- Casual dress day
- Team or department lunches
- Recognition in front of peers for accomplishment
- Small gifts to spouse for their support
- Thank you notes for good work
- Identify and recognize "employee of the week/month"

These and other activities have been used in many organizations at one time or another. The key to sustaining employee commitment in uncertain times is sincerity in the expression of appreciation. In the best managed organizations, the above activities are simply visible examples of an engrained culture of respect and appreciation for the efforts of all.

Are Your Work Teams Effective?

An analysis of 22 years of applied psychology research shows that teams tend to discuss things they already know and that "talkier" teams are less effective. Talking more amongst themselves is not the same as sharing useful information. It is more important *what* teams are talking about. Teams communicate better when they are instructed to come up with a correct, or best, answer rather than a consensus. (*Journal of Applied Psychology* (Vol. 94, No. 2).

How to Develop a Leadership Style

Leadership is less about the manager and more about the people and the organization. Leadership styles are not something you 'try on' like so many suits, to see which fits. Rather, leadership styles today need to be adapted to particular demands, the particular requirements of the people involved and the challenges facing the organization.

In his book "Primal Leadership," Daniel Goleman, who popularized the notion of "Emotional Intelligence," describes six different styles of leadership. He posits the most effective leaders are able to move among these styles, adopting the one that meets the needs of the moment. How many of these styles are included your leadership repertoire?

Visionary. Appropriate when an organization needs a new direction. The goal is to move people towards a new set of shared dreams leaving to them latitude to determine how the organization will get there.

Coaching. This one-on-one style focuses on developing individuals and helping them connect their goals to the goals of the organization. Coaching works best with self motivated employees and must not devolve to micro-managing.

Affiliative. This style conveys the importance of teamwork by connecting people to each other, increasing quantity and quality of information flow.

Democratic. This style draws on the collective knowledge and skill of workers and creates a group commitment to organizational goals. It works best when organizational direction and priorities are clear. This consensus-building approach is not suited to crisis situations that demand quick decisions.

Pacesetting. Here, the leader sets high standards for performance, intent on doing things better and faster, and expecting the same of everyone. This is an approach best used sparingly as it can undercut morale and make people feel as if they are failing.

Commanding. The classic "military" style leadership – often used but often ineffective. Because it rarely involves praise and frequently employs criticism, this leadership style can diminish morale, job satisfaction and productivity. Effective in crisis situations where an urgent turnaround is needed; however even the modern military has come to recognize the limited usefulness of this style.

Adapted from "Primal Leadership," Daniel Goleman. 2002.

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