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Real-Life Lessons on How Mid-Sized Companies Handle Ownership Transitions

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Business consultant Karen Albritton and attorney Deana Labriola, along with Ward and Smith attorney Matt Thompson, all with personal experience in a variety of companies, discussed several of the tricky issues related to ownership transitions in closely held businesses.

The discussion, during the 2019 Closely Held Business Summit, shed light on issues such as sharing ownership with the leadership team, handling employees (long-tenured, family members, or both) who don't perform well and developing and implementing ownership transition plans.

April Mills, a business development executive, moderated the session and began by asking what factors should be considered when deciding whether to expand ownership in a company to a broader group of stakeholders.

"When you share ownership, you in some ways lose a little bit of control," said Karen Albritton, owner of Thinc Strategy, a strategic planning firm for architecture, engineering, and construction industries. "I know a lot of owners want to be autonomous. That's why they get into business to begin with."

But, she added, retention and succession planning are key reasons to expand the pool of owners, especially among a company's senior leadership team.

Deana Labriola, a business attorney, said it's important for owners to know why they might share equity.

"That actually is a complex decision for the receiver of equity as well," she said. "How are your employees going to receive the equity? It makes it a little more complex for them, too, in terms of tax returns and perhaps being guarantors on loans."

For retaining talent, there are alternatives to equity that business owners should think about, Labriola said, like phantom stock plans or milestone bonuses.

Family Troubles

Matt Thompson, a trusts and estates attorney, noted that business owners frequently want to get family members involved in the company — often their children — but doing so shouldn't be automatic.

"Is that something [the children] want and understand and are they the appropriate people to put into those positions," Thompson said. "Sometimes our clients have to ask themselves, 'Is putting my child in as a manager, as a decision-maker for the company, really what's best for the company?'"

So, what's an owner to do if a family member working in the business isn't a stellar employee?

Family members can benefit from a company's profits, Thompson said, without being in the company all the time — ownership doesn't have to equal management.
"You've got to be careful there," he said. "That can also cause some resentment."

When ownership is shared among a group of siblings, for instance, but not all of them work in the company, conflicts can arise.

The person working in the company might feel as though they are doing all of the work but not getting all of the rewards of ownership. Meanwhile, non-employee owners may feel they're losing out on some of the benefits of working in a company you own, such as a salary and benefits.

Albritton noted that if a manager isn't performing well — regardless of whether they have ownership — the company's leaders have to ensure they've established clear expectations around performance.

"Do you have the agreement on what the role is supposed to be and what the expectations are," she said. "And then do you have regular conversations about how they're performing."

For managers who have ownership or who otherwise are deeply invested in the company, it may also be helpful to provide training or even hire a coach for them, Albritton said.

Buying and Selling Businesses

Company leaders, in addition to their own ownership transition, also sometimes consider acquisition of the company as a viable succession plan.

There are many companies owned by baby boomers now, Albritton said, which don't have a succession plan.

"[This] is actually a great time if you're in business and you're looking to be strategic about how you transition or grow," she said. "But it has to make sense."

Labriola said there are also opportunities fueled by the plethora of private equity investors who are growing the market share by consolidating similar companies in various industries.

"It goes back to being ready for change," she said. "No matter what the transaction is, it's going to change the way you do business."

How a change happens when a company is sold depends in part on who it's sold to. A poll of the audience at the summit revealed that although owners are thinking about ownership transitions, private equity buyers were among the least favored.

That may be, Thompson said, because business owners have other concerns besides getting top dollar when

they sell.

“With private equity, owners worry about what’s going to happen to them, their employees, and the company's legacy, those sorts of things,” he said. Thompson told the story of his father, who owned a company and then retired and sold it. His greatest worry was about the impact the sale would have on the community it served, not necessarily the price.

Given all the issues around the sale of a business, Mills asked the panel how owners can start to have those discussions.

Long-Term Planning Required

Albritton, who worked for a communications agency that was sold in 2012, said her company started the process of planning for a sale in 2004.

“The business changed a lot between that day and when we actually sold it,” she said. “What we thought our options would be then were not what they were at the end.”

For her company, they began the planning by asking what circumstances might lead to a sale of the business.

“The thought process needs to be ‘What are your options?’” Labriola added. “You need to continually evaluate those. … This is a very different question if you're 40 vs. if you’re 65.”

The earlier business owners can begin to think about and discuss these options, the better. Business owners should talk to their trusted advisors and also to their peers, who can often offer useful perspectives. Part of those discussions should be around estate planning — even if the owner is relatively young.

“It’s unfortunate to see a situation where somebody works to build up value, build up a company, only to die owning the company and then the company has to be sold to pay the estate tax,” Thompson said. “With proper planning, that almost always can be avoided.”

Tax considerations are always a factor when selling a business, Labriola added.

Getting advice and perspective at all stages of ownership is helpful, which means a board of directors or board of advisors.

“I would strongly advocate for a board of advisors or a board of directors,” Albritton said. “Because of the perspective, but also the discipline in terms of a quarterly or monthly meeting to discuss the business and gain perspective.”

A board forces company leaders to pull away from their day-to-day activities in the business and consider bigger issues.

Not having a board, Labriola said, is “a huge missed opportunity.”

“The experience, the judgments, and frankly the perspectives of board members,” she said, “They will take you and propel you into better decision-making.”

More insights from Ward and Smith's 2019 Closely Held Business Summit:

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- Live-Action Role-Playing - The Challenges of Working With Family Members
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