TAKING CARE OF YOUR PEOPLE, PART 1: FAMILY

You've heard it so many times, it's become a cliché: "make sure your mask is on and, oxygen is flowing before helping others."

The analogy here is that as a leader you are best able to help others when you are firing on all cylinders yourself. I trust that you have seen your business leadership be most effective when you are in a good place personally. At this stage in the process, it is important that you think about how you can best lead your people, both inside and outside of the company, when you exit.

Before we dive into the Second Wave process and the tools that will help you move through it, I want to spend some time talking about your duty to think about "your people" as part of this process. Thoughtfully and intentionally setting them up for success in your exit process will benefit your sense of purpose on the other side of active involvement in the company. Though you will spend time thinking specifically about the different communities you want to invest in as part of the Second Wave process, the purpose of this chapter is to get you thinking about how and why your family and employees will be affected by the entire transaction process.

As a leader, I would assert that you have a responsibility, to the best of your ability, to ensure they are affected positively. Doing this successfully will leave you with a strong sense of gratification and purpose as you step into the second wave knowing you've given appropriate consideration on the impact on those around you.

<u>Shareholders vs. Stakeholders</u>

In a presentation I frequently give to groups of business owners, I ask the question "*What is the job of a publicly traded CEO*?" Pretty quickly, someone usually answers "To grow shareholder value."

After seeing nods around the room, I then ask, "*What is the job of a CEO of a privately owned business?*" After what is typically a much longer pause and a

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couple of other answers, someone will inevitably say "*It's the same job…the same thing,*" which is true.

The good news is that owners of private companies typically have a greater ability to consider their stakeholders, not just their shareholders.

My experience is that not only are owners' views of the purpose of their business often incomplete, but their views of who the business impacts is typically incomplete as well.

As you already know, your business doesn't just have shareholders, it has stakeholders. The ones that may come to mind easily include your family, your employees, your community, your customers, and your vendor base. You need to understand and clarify who those stakeholders are, and how the exiting of your company will impact them.

If you've done some work to define what the core values of your Company are and are actively using those core values to hire, fire, recognize, and reward your team, then you may be further down the road on establishing the bigger purpose for the business, who the stakeholders are, and what is a transaction that is consistent with those core values and addressing your true stakeholders.

Your Company and entrepreneurial journey are about more than money, right? It's about people…and you often only get one shot at this transition. My objective here is to help you think through and be certain that you do it as best as possible for you and your complete list of stakeholders.

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Your entrepreneurial journey is not solely about building financial value for company *shareholders*. It's about building value, financially and otherwise, for ALL your *stakeholders*. A stakeholder is anyone in your life who the success or failure of your business impacts - directly or indirectly. Consider all the people who have a stake in your business and how the sale may affect them. Who are your stakeholders? What do you want them to experience during the process of the sale of your company? What do you want them to experience at the end of the transaction?

share·hold·er

/'SHerˌ(h)ōldər/

noun

noun: shareholder; plural noun: shareholders; noun: shareholder; plural noun: shareholders - an owner of shares in a company.

stake·hold·er

/'stākˌ(h)ōldər/

noun

plural noun: stakeholders

a person with an interest or concern in something, especially a business.

denoting a type of organization or system in which *all the members or participants are seen as having an interest in its success*.

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Instructions:

- Brainstorm the names of the people who will be impacted by the sale of the business.
- Circle 5-10 names that deserve or require particular attention from you during this process. Examples might include your spouse, business partner, children, or parents.
- List these individuals on the top ten list
- Once you have a list of your Stakeholders, consider the part each of them played in your success and that of the business. Consider how you'd like them to be a part of your life after the sale of the business. Making a Stakeholders Plan allows you to express gratitude as well as plan for positive impact on their lives post-sale.

Questions to consider:

- How will those you care about most be affected by your decision to sell your business?

- How will the changes they experience impact your relationship with them?

- What will ensure your relationships with key stakeholders are better than ever in the Second Wave life?

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- What new possibilities in your Second Wave life will enhance your relationships?

- How do you hope to impact your employees when you exit, and how do you want them to remember you?

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Stakeholder Guide

Your entrepreneurial journey is not soley about money. It's about people. Consider all the people who have a stake in your business and how the sale may affect them. Proactively think through who they are and what you want for them at end of the transaction.

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The Stakeholders Plan

Stakeholders: *Family, employees, community, vendors, friends, investors, supporters*

1. Brainstorm the names of all the people who will be impacted by the sale of the business.
2. Circle the Top 10 names that deserve or require your special attention.
3. Transfer those names to the Top 10 List.

BRAINSTORM

Wife, Joan

George, partner

My Kids

Mom & Sisters

Advisory Board
- Sam
- Chloe
- Nancy
- Frank

Sharon, coach

Rober, mentor

Maggie, admin for 15 years

Joel, team leader from the start

Mitch, original investor

TOP 10 LIST

Joan
Kids
Maggie
George
Robert
Joel
Sam
Chloe
Nancy
Frank

COMPLETED BY John Davis. DATE 1/15

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> *"… you often only get one shot to show them you care about their stake in the game during this transition."*
>
> *– Andrew Williams*

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Stakeholder Guide

Once you have your list of stakeholders, consider the part they played your success and that of the business. Making a Stakeholders Plan allows you to express gratitude as well as plan for positive impact on their own futures, post-sale.

Thoughts to ponder:

How will each of the important people in your life be affected by your decision to sell the business?

How will the impact on them impact your relationship?

What will ensure that your relationships in your SecondWave Life™ will be better than ever?

What new possibilities will open up that can enhance these relationships?

What gifts in the form of expertise and lessons learned do you want to leave with your employees as you exit?

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The Stakeholders Plan

1. Rewrite the name of each stakeholder.
2. Think about what that person deserves when it comes to the sale, your transition, or life post-sale.
3. Identify your ideal or desired impact on each of your stakeholders.
4. Note the action to be taken that will lead to the desired impact.

NAME	DESERVED	DESIRED IMPACT	ACTION
Joan	My support & time	Stronger marriage, more time together	Plan celebration trip
Kids	My time & help	Healthier, happier, prosperous lives	Set up time for 1 on 1 trips & put quarterly meetings on calendar
Maggie (admin)	Job security & financial gratitude	She feels appreciated & confident about her future	Meet with the stay bonus doc finished & explain details
George (partner)	An apology & collaboration	We part ways as friends	Meet at attorney office and discuss purchase agreement & equity
Robert (mentor)	My thanks & continued friendship	He knows how important he is to me	Arrange lunch meeting, have notes & card prepared
Joel (team leader)	Job security & financial gratitude	His income increases & he keeps his position	Arrange lunch meeting, have notes & card prepared
Sam (Board)	My thanks & financial compensation	Gratitude bonus	Meet with the stay bonus doc finished & explain details
Chloe (Board)	My thanks & financial compensation	Gratitude bonus	Meet with the stay bonus doc finished & explain details
Nancy (Board)	My thanks & financial compensation	Gratitude bonus	Meet with the stay bonus doc finished & explain details
Frank (Board)	My thanks & financial compensation	Gratitude bonus	Meet with the stay bonus doc finished & explain details

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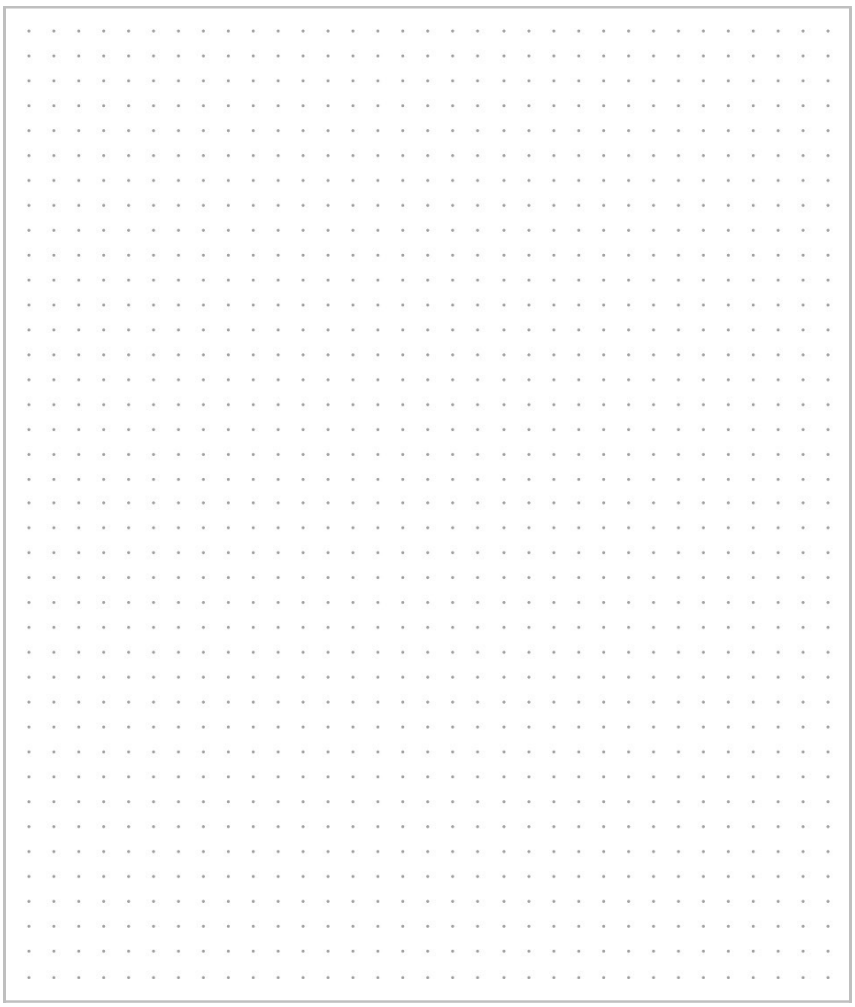
SecondWave

The Stakeholders Plan

Stakeholders: *Family, employees, community, vendors, friends, investors, supporters*

1. Brainstorm the names of all the people who will be impacted by the sale of the business.
2. Circle the Top 10 names that deserve or require your special attention.
3. Transfer those names to the Top 10 List.

BRAINSTORM



TOP 10 LIST

COMPLETED BY _____. DATE _____

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The Stakeholders Plan

1. Rewrite the name of each stakeholder.
2. Think about what that person deserves when it comes to the sale, your transition, or life post-sale.
3. Identify your ideal or desired impact on each of your stakeholders.
4. Note the action to be taken that will lead to the desired impact.

NAME	DESERVED	DESIRED IMPACT	ACTION

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STAKEHOLDER FIRST TEAM: YOUR FAMILY

Now that you've thought about who your stakeholders are, it's time to recognize and address that there is a cost to being an entrepreneur that sometimes doesn't show up on an income statement but certainly does on your personal balance sheet. Unfortunately, that cost typically is the impact on relationships closest to you, most frequently your family.

Regardless of how your family relationships work, they'll be impacted by your exit process, and they will matter when it's finished. Understanding our relationships with both our family members and stakeholders, however they look today, is critical to achieving a sense of peace in this process by knowing you have considered all those that you care about who are impacted by your decisions on this journey. These relationships may currently exist both in and out of the company itself, and I urge you to think about both.

Do you have your next generation or even two generations of family working in the business? If so, I would suggest that one of the most important things you can do as you think about exiting your company (now or down the road) is to make them go to work somewhere else for a period of time.

Here's my rationale: in your market, or in other places nearby, there are incredibly well-run businesses with practices and culture that your business would do well to emulate. Why not have next generation family members go work there, learn from great companies, and leverage those practices back at the family business? Doing this will also encourage your family members in the business to build a sense of personal identity that is larger than the family company, which will positively impact them, the family, *and* the company.

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By working elsewhere, family members will also develop a strong sense of empathy for other employees, which is critical to being a strong leader. I encountered a family member once who had only ever worked for his father. The unfortunate outcome of that was that the individual failed to develop empathy for their people. They never knew what it felt like to be an employee and as a result didn't see the nuances and types of issues that frustrated r team who aren't shareholders.

As you well know, your business impacts your family members who are involved in both positive and negative ways. As a leader, you are charged with setting *them* up for a maximum sense of purpose when you leave. I believe this includes developing them to be strong, strategic, and empathic leaders.

A second thing to consider before you begin your transaction, as it relates to preparing your family relationships, is how and when you will engage them in conversations about your exit. In a later chapter we'll talk a little bit more about exit planning and advisors, who play a crucial role in helping you to invest the time to get these key parts of a transition well-documented and thought through. Family in the business and family outside the business need to know what is happening, and you need to have dialogue with them about how it will play out.

I've met families who were preparing to engage me to sell the company who no longer have Thanksgiving dinner together because of business-related feuds. That is a sad thing to see and should also be avoidable if the entire family feels included and informed on these business decisions. However, it does require some hard or honest conversations to be had.

It's critically important to engage your family in these conversations. It will take a weight off your shoulders knowing your family feels as though they are a part of the process, and your relationships will be intact at the end of it all. Though it may possibly be uncomfortable, familial conversations about your exit plan are a part of setting your family up for success and empowering them to benefit from whatever *your* purpose is after the sale.

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The Second Wave process™ will change you because you are gaining a vision for what is next, and as a result may create change for your family as well. I often remind clients (and my family) that "life *is* change" and there's nothing wrong with that. However, failing to have these conversations can result in major - but totally unnecessary - implications going forward. Please don't ignore the need to have the right conversations with your family.

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TAKING CARE OF YOUR PEOPLE, PART 2: WORK TEAM

Now, let's discuss the importance of spending time preparing your work team for your exit from the company. There are two key questions you need to ask yourself to do this:

How do you thank them for what they have done for the Company while you were the owner? And,
Who is the best next controlling shareholder and what opportunities does that create for your people?

In the early stages of being engaged by a client, they typically begin by telling me, "I don't want my people to know this is happening." All advisors working on sale transactions and exit plans highly respect the need for confidentiality when we work with our clients. However, there is a difference between subjects that are confidential, and subjects that are just uncomfortable. Telling your employees you have initiated the process of exiting the company falls into the latter category. So, when a business owner tells me they don't want any employees to know about their exit, my general response is, "You don't hire dumb people do you? Whether or not you'd like to admit it, your employees are thinking about when you will exit the company. They are also likely talking about this - and wondering what you are planning to do - with their peers and families and wondering how it impacts them."

You cannot appropriately thank your employees for their work under your leadership or fully prepare them to succeed in *their* second wave - when you are gone - if you do not let them know that you are engaging in conversations about an exit plan. If you choose not to do this, you may say "thank you and good luck," as you leave, but I promise your employees will certainly not feel thanked, prepared or particularly lucky.

These may feel like challenging conversations to have, but the reality is that your silence on the topic makes the process worse. You don't need to share every detail on your transaction process with them, but if you share pertinent

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details relating to how the sale will affect them, you will gain a sense of confidence and fulfillment that you are leaving your work team as best prepared as you can to succeed after you leave.

Now obviously, the makeup of your leadership team, family vs non-family, will also impact the way you go about this, but be conscious that your team is talking about this to each other, whether you are talking to them about it. It's okay to tell them you "don't plan to die at your desk" and that you are working with people to execute a plan.

Truthfully, your employees are counting on you to do this well. Your team typically has a wide range of tenures; some folks have been with you a long time while in the post-COVID years you probably also have a decent number of relatively new faces. All of them are counting on you doing this well so their work life is disrupted as little as possible. They also want you to do this well because they respect you as a leader.

One of the things for you to consider in this process is what part of, if any, of the proceeds do you plan to share with your team? There is no rule of thumb for this because every business is unique in the makeup and tenure of the leadership team.

As an example, one of my favorite tools is the "stay bonus." This is a set amount of money you would share with each key member of your leadership team. They are awarded half of the money on transaction day, and the second half of the money after some predetermined period under the assumption that they haven't quit. This type of arrangement creates a leadership team that is fully incentivized to make sure the business continues to grow and performs on a trend equal with what the buyer is expecting. This often helps to assure that you receive full payout on any seller note or earnout arrangements. (Of course, if the leadership team member is terminated by the buyer without cause, they should still be eligible to earn their stay bonus.)

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If you think about these things thoroughly and have conversations early in the game, your employees will feel your gratitude for the tenure, and they will be incentivized to help the company grow when you leave.

The second part of taking the best care of your work team involves who is the next owner and how do they align with your current employees? If you are transferring the business to your Family or the current leadership team, this is relatively easy. If you are going to transfer externally, this highlights one of the value propositions that an M&A advisor brings. They will fully vet the market of potential acquirers, not just with respect to the financial element, but equally if not more importantly - with respect to who is the best cultural fit. The next owner should be the person who also provides the best opportunities for your team when you're gone.

I once sold a client to the U.S. arm of a major corporation that was based in the UK. There were five partners, with the older partner owning majority control and the four younger shareholders who were staying each held minority shares. This large strategic buyer was the highest financial bidder in our process, yet the four younger partners were hesitant to sell to the largest player in their industry. That was until they fully understood what the new salary structure, benefits and opportunities for career growth were going to be. Then they realized it really was a win-win for everybody, and we closed a great transaction.

The important thing to remember is that life is going to change for everyone involved – sometimes a little, sometimes a lot. Don't ever use the phrase "nothing is going to change." Even if the acquirer only changes the color of the sign, that's change! As you know, some people struggle to deal with change in life. After the business is no longer under your control, you won't have an impact on how much change does or doesn't happen. So, take advantage of the influence you have now to thank your employees well, financially or otherwise, and provide them with the opportunity to grow and develop under the next leader.

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As we are now moving into the Second Wave process, I want you to reflect on these two important groups we just discussed: your family and your work team. Yes, the point of the process you will soon walk through is to discover YOUR purpose in the second wave of your life. However, these two groups are likely a huge part of the purpose of your business, and your leadership has impacted them greatly. Please trust in this statement, and return to it as motivation:

Your sense of purpose you draw from both the current season of your life AND the second wave of your life will deepen when you know you have sufficiently prepared your family and employees to grow and succeed in the wake of your exit from your company.

Having thought through these truths and understanding that your purpose in the second wave of life is much bigger than you and your company, it's time to begin learning and utilizing the Second Wave tools.

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