Protecting Employees and the Community During a Sale

The following is adapted from our new book, Your Next Adventure: Planning for Life After the Sale of Your Business. The book shows you how to craft a robust transition strategy that considers your business, personal, familial, and community needs. From pre-sale to post-sale, you'll learn how to plan ahead, assemble the right professional advisors, and incorporate your values, legacy, and loved ones into every choice you make.

The affinity business owners feel for their employees, no matter their station within the company, is unique and heightened by a sense of pride.

Many of these employees are people who have been with them from the start of the company for younger businesses and potentially decades for more established businesses. There's often a sense of familial connection. The company they've built has created an environment that contributes economically to both families and the community as a whole, providing jobs that allow their employees to provide for their families and support to the community it wouldn't have otherwise. The business plays an important role in their prosperity and future.

The sale of a business so involved in the people it touches creates a need for careful preparation and awareness. There are always potential situations you hope won't happen post-transition. Once you sell your business and the new owner has taken full control of operations, those activities are out of your hands. *The business is going to change*. As such, it's important to consider the various possibilities of changes the new owner may make, including those that could affect the future of your employees, the community, and the reputation of you and your former company.

Pride in Community and Employees

You, as the business owner, likely feel protective of your employees. You want to ensure their livelihood continues beyond a company's transition to new ownership. With few exceptions, active provisions are made on their employees' behalf by people-invested owners. There's a level of recognition that a great deal of success is owed to the hard work of employees.

Your company may be one where employees have been with the business for generations, just as your family has. Perhaps there are even multiple generations working within your company. There's a visible commitment and connection with the community. Therefore, it's fairly instinctive to factor in the welfare of your employees when considering who might be the best partner to buy your business.

The community component is also particularly strong if the community has come to depend on the company for support. This could mean long-term support for the local library, funding the building of soccer and baseball fields, or even providing turkeys to families or nonprofits on

Thanksgiving. The company has become a major presence in the lives of the local citizens. A large company is often both a major employer and an integral part of the community it resides in. The loss of that business would significantly impact that community in a multitude of ways. Owners recognize this, and many experience a genuine sense of responsibility toward the community, so they do what they can to keep the business there. They want to continue to support the community they've grown up in and come to love.

Preparation and Negotiation

When you're considering selling, you will face a host of possible situations. As you begin to make decisions, consider the ramifications of all available options. Who you choose as a buyer may put your employees at risk and your reputation in the community at risk as well.

Protecting Employees and Community

Not all businesses have a large number of employees. Some businesses, though valuable, may not have enough employees to be influential in the community or make a large impact on the community, should it be relocated or closed. For other companies, their employees aren't centrally located, so the impact on the community is minimal. An educational publishing company which maintained a group of dispersed, contracted freelancers doesn't affect the community like a business with three hundred employees in a single building.

For many business owners, however, they have a centrally located operation, or multiple branches in different communities, where employees work in a shared environment and become a fairly close-knit team. Dramatic shifts in the operations and location of those businesses would have a significant impact on the employees and the community the company has become a part of.

In one recent situation, a patriarch was considering selling his company. He was given the opportunity to sell to an in-market competitor, which would have offered him a substantial premium over an out-of-market acquirer. However, he was determined not to sell to that buyer because he knew that they would close down his location, release most of the employees, and move operations into their more central location in Boston. Instead, he sought out a better geographical fit: a buyer who would view his location as a strategic move into a new market with skilled workers.

From a negotiating standpoint, if you are genuinely interested in the community and in your employees, you have some ability to seek assurances that the company will remain where it is and that the new buyer will retain most positions or otherwise not eliminate jobs. No buyer will allow themselves to be contractually restricted, however, and while anything can be negotiated, long-term guarantees are rare.

Another strategy that is sometimes used is for the owner to retain the real estate where the company is located and make sure the company is tied to a leasing contract for a long period of time. The purpose in this is to keep the community benefiting from the company for the long term.

In reality, economic circumstances change, and a buyer needs to be able to make their own decisions, so you will not receive iron-clad commitments. Your best option is to sell to people you trust who have a similar commitment to the community and employees that you do.

Protecting Reputation

An owner of a small specialty manufacturer had built his business from scratch and, over the years, had become a leader in the community. After the sale of his company years later, the buyer chose to keep the name of the business and retained its history on the website. Post-transition, our client received information from someone inside the company that the company's work environment had begun to receive scathing reviews online.

The former owner realized that people could go to the company website and connect his own name to this company and product. He had retained a minority share in the company, so he decided to address his concern with the current owner by requesting that the family name be removed from the history posted on the website, which they did.

While you as an ex-owner would like to continue your legacy, you also need to consider protecting yourself.

Empowering Your Management

Most owners have an understandable affinity for their employees and work even more closely with the senior management team. Often, it is the strength of the team that the buyer values most highly in the success of the acquisition. Business owners often take special steps to ensure the future success of their senior management team.

Figuratively speaking, the senior management team sits halfway between the employee pool and the owner. Senior managers are employees, but the business owner has worked more closely with these individuals than with anyone else. The senior management team generally works longer hours and is involved in business strategy, so it has an arguably stronger influence over the success and life of the business. As such, those individuals represent the owner's best employees as well as the bridge between owners and employees.

A strong management team contributes to the value of the business. When the sale is being negotiated, a strong management team that can run the company absent its owner is a selling point for the business. While some business owners take pride in being able to say, "This place can't run without me," a potential buyer wonders, "So what am I buying with this acquisition?

How much is dependent on the current owner's continued involvement?" Buyers want to know about the management team and about who might be lost in the transition. As a business owner, you should be thinking about where your team stands and discussing ways to retain and empower management.

The business will change when another owner steps in. You need to consider how the company is positioned in the community and how the management team is positioned within your company. Consider your continued connection to that business in the new environment and begin preparing early on to ensure you are ready for any advantages or challenges that may present themselves.

Selling your business will inevitably affect various stakeholders, but by planning ahead, you can help protect your employees and community during and after the transition.

For more advice on business transitions, you can find Your Next Adventure on Amazon.

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