A REFLECTION ON THE SALE OF A FAMILY BUSINESS AS AN EVENT OF 
TRAUMA

By James E. Hughes, Jr., Esq.

During my 32 years of law practice with families, I have frequently been confronted with certain paradoxes in trying to understand how to help them overcome “Shirt Sleeves to Shirt Sleeves in Three Generations”. One of the most baffling occurs when a family sells its business, reaps significant financial rewards from the transaction, and then within two or three years the family falls apart. To the outside world the family appears to succeed mightily, while in my inside experience of the same family the sale of the business all too frequently causes a decline into depression and sometimes even into chaos and disintegration. Why should this be? In searching for the answers to this paradox of apparent gain and actual loss, I discovered, through the work of Peter Levine and his book *Waking the Tiger* the answer to trauma in its deepest psychological sense.

In his book Peter Levine teaches that human beings possess, deep in our reptilian brains, a third response to danger called “freeze”, in addition to the well-known “fight and flight” reactions. Mr. Levine, who is by profession a psychologist, has spent his life dealing with this third response and its impact on trauma victims. He believes that many individuals spend countless years of unsuccessful therapy, while leading unfulfilling lives, because their response to a traumatic event is not correctly diagnosed as an incident of trauma to which they responded by freezing rather than fighting or fleeing. Mr. Levine believes that when an organism responds to danger by freezing it traps energy deep within itself which must be released before it can regain a complete state of health. In his book, Mr. Levine gives multiple examples of this phenomenon, two of which I will offer here as a further explanation of his theory.

Mr. Levine explains that some of his patients find interaction with any part of the medical profession an extremely stressful experience, even when they are completely healthy. He has discovered that some of these patients were given ether as an anaesthetic when very young. The trauma of the ether mask being placed on the face to receive the drug has left a profound fear in those patients. Mr. Levine argues that the trauma of the administration of the ether and the
resulting fear of suffocation causes a freezing of energy. He explains that the patient must be able to unfreeze this trapped energy to release the trauma.

A second example given by Mr. Levine is the frozen energy caused by sexual abuse. Mr. Levine has had success with many patients who had been unable to benefit from normal psychoanalysis. His approach to the problem as one of trauma, rather than psychological impairment, has proven highly effective in patients where no other form of therapy has succeeded. *Waking the Tiger* explains the process of how Mr. Levine assists the patient with the release of this frozen energy.

In the two years since I encountered Mr. Levine’s philosophy, I have been fascinated by the possibilities offered by the theory of this third ancient response particularly as it relates to families who sell their businesses. In my legal practice, I have represented many families in such transactions and I also have my father’s fifty years of legal experience to draw on. Frequently we have shared with each other how “traumatic” these transactions often prove to be for the family. It is only now, through Mr. Levine’s insight, that I am beginning to understand how correct we have been. To more fully comprehend why I believe the sale of a family business is often a traumatic event so serious that it traps the family’s energy, I will give some examples of the types of issues which are symptomatic of trauma that arise after a family sells its business.

For many families, the business comes to represent its core. The family’s stories and myths evolve around the business and the family’s relation to it. These stories often include the family’s virtues and values as illustrated by the lives of the individuals who started and managed the business in its times of success. In addition, the positions of family members on community boards such as the church, country club, Rotary and politics are often a function of the businesses’ significance as a local institution. Now suddenly the business is sold. The family finds that its stories and myths, its legends, values and virtues and even its position in the community have been sold as well. The family’s realization of all these deeply painful losses, which were likely never considered prior to the sale, occur as an event of trauma leaving them with frozen energy that they have no way of releasing. The sale is seen by the outside world as a great accomplishment. The newspapers report the financial success of the family, but it is a dubious blessing, at best. The family begins to confront not only its losses, but the challenges of creating new stories, new virtues and new positions as a family with money, but without a center.
Second, for many younger generation family members, work in the family business has been a goal since early childhood. These young people are often the best of their generation and have spent time absorbing the virtues and values relating to the family-owned business. They have prepared themselves academically and psychologically for the opportunity to work in the business, and are often those who are called in their individual life journeys to management and the growth of the family’s financial capital. With the sale of the family business, all of their dreams and hard work disappear. Rarely, if ever, were their needs carefully considered before the sale. Most often they are thought of fondly by the generation selling the business as the most flexible and able of the next generation. So, says the older generation, we need not worry about their ability to discover new opportunities. Unfortunately, such rationalization of another’s thoughts and opinions is seldom justified. In fact, these young people can take years to recover from the impact of the sale of the business. To find oneself shocked to the core, virtually without warning, is to experience deep trauma and the freezing of energy which accompanies it. When we realize that the wealth of a family consists not only of its financial status, but far more importantly of its human and intellectual resources, we can appreciate how much damage and loss of a family’s true wealth can occur if its finest younger generation members suffer an event of great trauma. Knowing that this can happen, recognizing it well before the sale, and being sure that younger generation family members receive counseling on career opportunities outside the business, can vastly improve this process. However, should younger generation members exhibit the effects of post-sale trauma, recognizing the symptoms and working to unfreeze the trapped energy enhances the family’s overall chance of surviving the sale of the business with its most important assets, its human assets, intact.

Third, the transition from being an industrial or service family to being a financial family is a necessary consequence of the sale of a family enterprise. For many families the human and intellectual skills, and therefore the wealth they have developed, lie with their enterprises. These families discover that the skills they need to manage a financial business are absent and must be acquired. Since the family lacks these abilities it must look elsewhere for the people it needs to manage the new enterprise. Regardless of whether the family creates its own private financial office or seeks institutional help, it will have to learn new skills to manage these relationships.
Frequently the initial results of this exercise are unsatisfactory. Most often the family has no plan for the investment of its financial assets. As it does not understand the risks of this new world of financial investing, it stays in cash for years losing the proper returns which market savvy investors receive. Equally, it often rushes into investment classes it does not understand with the disappointing results untutored investors all too often incur. Finally the family often trusts the wrong people since it has no experience in finding the right ones. All three of these processes are a by-product of a family organization that is not behaving in the manner of a functional financial institution; it is a family in financial dysfunction. Dysfunction is the term psychologists and sociologists use to describe behavior that is aberrant. Why does a satisfactorily functioning business family become dysfunctional after the sale of its business? Because of the jolt to its system the sale represents. As in my first example, it is rare, if ever, that a family has considered what life after the transaction will be like. Rather, all efforts are concentrated on obtaining the highest possible price for the business without knowing that 10-15% of the proceeds will be frittered away in under-productive assets in the two years following the sale. Trying to recover from the loss of that amount of financial capital is a burden that many families never fully overcome. Again, the trauma of the sale, and its consequence in frozen family energy, impedes the family’s attempts to regain its balance. It will remain unbalanced until it can unfreeze that energy.

Fourth, the family governance system that existed prior to the sale of the family business rarely can survive the sale. In most families the chosen method of joint decision making is similar to the making of sculptures with toothpicks; any small shock to the system and it collapses. In the case of the sale of a family business, the interruption is far from mild and the system fails. The family now finds itself in the unchartered waters of becoming a financial family with no appropriate decision-making system to support its efforts. Again the trauma of the sale has frozen a critical part of the family’s wealth preservation system. Until the family can create an entirely new governance structure it will be faced with making decisions in, at best, a partial vacuum. Unfreezing the trapped energy through the process of creating a new governance structure is often the best way for a family to come to grips with the trauma it has suffered and the healing process it must recognize and accomplish.
Creating a representative system of governance offers the family new roles for members; an opportunity to develop a new vision and mission for the family; frequently to develop philanthropic vision and education; and ultimately a constitution to establish the rules, duties and obligations of the various family members to each other, to the family as a whole, and to society.

The risk of trauma to the family governance structure from selling its business can be mitigated by starting a process well before the business is sold that does three things:

1. recognizes the real possibility that the sale of the business will be an event of trauma;
2. creates an environment within the family that permits the acknowledgment by individual family members, and by the family as a whole, of the possibility that they will experience a profound sense of loss with the sale of the family business.
3. offers positive grieving rituals that acknowledge the passing on of a deeply valued family member.

Through the process of learning together, and through open discussions, the warm healing air begins to flow through the trapped frozen energy and the family’s trauma is overcome.

To many professionals and their clients, the sale of a family business is a transaction which ends with a closing and the transfer of the proceeds. To the family, however, the consequences remain a part of its family fabric forever. The sale represents an important event in the family’s history. Frequently, the history of the family after the sale is not a pretty one. Too often it is filled with stories of individual financial trauma and dysfunction. Rarely is the story’s outcome known to the professional who represented the financial interests of the family during the transaction.

For a true professional, following the ancient Greek wisdom, “do no harm”, not to know and understand the possible outcome to a family and to its human, intellectual, and financial capital from the sale of its enterprise is to place him or herself in grave danger of failing this simple test of professional ethics. Professionals have a duty to their clients to know such things
and to pro-actively engage their clients in discussions about these issues long before a transaction is contemplated. Equally, professionals have a duty to actively assist their clients during and after the sale of their businesses with the next phase of their history to assure that the transaction will not prove to be an event of trauma.

It is fundamentally important to the successful preservation of a family’s wealth that its human, intellectual, and financial capitals are not dissipated through the trauma and accompanying freezing of a family’s energy that too often results from the sale of the family business. It is incumbent on the family members charged with wealth preservation, and on the professionals that service them, that they be alerted to the possibility and danger of trauma in this most important of family transactions; the sale of the family’s business.


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