



FAMILY BUSINESS ADVISOR

AUGUST 2008

COMMON IMPULSES THAT LEAD US TO THE WRONG CONCLUSIONS, PART 2

Last month, we explored four common impulses that do not promote rational decision-making. In the sale or transfer of a Family Business, these impulses can often lead the client or Advisor off track or down blind alleys. In addition, we discussed a variety of strategies to counter these impulses. This month, we will review another four impulses that can lead us to incorrect conclusions.

- 5. Lack of Preparation before the Sale or Transfer of the Family Business.** Our fifth impulse is the dread many owners feel prior to the sale or transfer of their Family business, unless they have prepared for what they will do after the fact. Some owners travel, take up new hobbies or expand the ones they already had. Once their circumstances change, their lives are typically neither as bad nor as good as they had expected—another case of how bad we are at estimating. People adjust surprisingly quickly. *To counter this tendency: Anticipating the income needs of the Owner well before the sale or transfer, so that the funds are available when needed. This discussion must happen well in advance to direct the investments, and is the key to a successful transition.*
- 6. Desire to Conform to the Behavior and Opinions of Others.** Our sixth impulse is a fundamental human trait, and is an accepted principle of psychology. Many times, it is the opinion of an unknown tennis partner or bridge player that dictates the subconscious direction of the Owner. Until that opinion has been exposed to the light of day, it may be fruitless to discuss the matter further. The pressure to follow the herd rather than rely on one's own information and analysis is almost irresistible. *To counter this tendency: Take the road less traveled. Many of the best strategies break away from the trend.*
- 7. "Throwing Good Money after Bad."** Our seventh impulse occurs when large projects overrun their schedules and budgets, and the original economic case no longer holds, but companies continue investing in it to complete the project. This relates back to the brain's impulse to support its earlier inaccurate estimates. *To counter this tendency: See #8.*
The converse of this is the hesitancy to make continued investments in the business based on our own subconscious withdrawal from the active affairs of the business due to health or other matters. *Example: A person is extremely against committing any type of reinvestment in the business, despite the willingness of other parties to purchase the business on very lucrative terms.*
- 8. Lack of Challenge for a Dominant Type Person's Strategies/Proposal.** Our final impulse is the tendency for people to project their way of thinking onto other people--assuming that everyone else thinks the same way they do. Particularly when the Owner is a dominant entrepreneurial type individual, many subordinates around the Owner will tend to tentatively agree or not oppose the Owner's thinking. We can be easily influenced by dominant individuals and seek to emulate them. *To counter this tendency: We must be attuned to these potential impulses and obstacles. It is critically important that Professional Advisors work cooperatively, communicate frequently, and provide a counterbalance to this tendency toward false consensus. Every strategy needs to be tested by a detailed refutation. A team member should be designated to identify the flaws in the strategy being proposed by the team.*

Steve Robison has assisted Advisors and Family Businesses in successfully navigating the sale or transfer of their Family Business with the lowest possible tax impact and the greatest value for the parties involved!

Warm appreciation for material prepared by Charles Roxburgh's "McKinsey's Study on Behavioral Economics," London, UK.



Stephen L. Robison,
J.D., LL.M
Tax and Business

Board Certified in Federal
Taxation Law since 2002

Selected
Ohio Super Lawyer
In Federal Taxation Law
2003-2008

Providing tax and business
Advice to professional
advisors.

- Income Tax Planning
- Tax Audits & Appeals
- Partnership Agreements
- Corporate Tax Planning
- S Corporation Planning
- LLCs
- Like Kind Exchanges

Contact
Robison law firm
11353 Reed Hartman Hwy,
Suite 300
Cincinnati, OH 45241

Toll free:
800-427-7212

Telephone:
513-412-3483

Facsimile:
513-412-3482

Email:
steve@robisontaxlaw.com

Website:
www.robisontaxlaw.com

Our Advisory Services can provide you and your client with affordable high quality tax and business advice, and peace of mind, without risk to you or your firm. Allow Stephen L. Robison, our Board Certified Tax Attorney, to assist you in offering expanded service options to your clients, similar to the foremost Law Firms, without the overhead. Visit our web site at www.robisontaxlaw.com.