



FAMILY BUSINESS ADVISOR

July 2008

COMMON IMPULSES THAT LEAD US TO THE WRONG CONCLUSIONS

For many, the transfer of a Family Business can paralyze the Advisor as well as the Owners. There are so many decisions, and so many choices. What should be tackled first? There is, in fact, a logical sequence that can be followed flawlessly.

Before we jump in, start asking questions, and forming strategies, we need to understand the subconscious forces at work in the minds of our clients as well as team members. The field of Behavioral Economics studies human behavior in order to anticipate common impulses that do not promote rational decision-making.

This article will discuss four of these common impulses. Next month, we will review another four impulses that can lead us to the wrong conclusions.

In transferring or selling a business, these subconscious impulses can often lead the client or Advisor off-track or down blind alleys. In addition, we have provided below some of the common ways to counteract these impulses.

1. **Overconfidence.** Our brain can be overconfident in its abilities especially in making accurate estimates. These characteristics can have perilous consequences when it comes to developing long term strategies, based on our client's estimates of what may happen. Often I have seen client's projections and estimates of uncertainties to be unrealistic or overly optimistic. *To counter this tendency: Purposely scale down projections by 25% to allow for unexpected issues.*
2. **Mental accounting** is defined as "the inclination to categorize and treat money differently depending on where it comes from, where it is kept, and how it is spent." Many business owners spend impulsively as long as it is "deductible." *To counter this tendency: Judge all investments on a consistent criteria. Be wary of spending which has been re-classified to make it acceptable.*
3. **The "Status Quo" Bias** gives people a strong desire to hang on to what they own. Owning something makes it more valuable to the owner, and this makes Owners reluctant to sell businesses. Many business owners fail to invest outside of their business. When it is time to transfer or sell the business, Owners must obtain the highest conceivable price to maintain their standard of living. *To counter this tendency: Remember that the failure to sell now may result in a lesser sale price later when health issues, death or business losses deteriorate the value of the business. Many Owners change their business investment strategies in manner and scope as they approach retirement.*
4. **Anchoring.** Present the brain with a number. Then ask it to make an estimate of something completely unrelated, and it will anchor its estimate on that first number. Anchoring can be a powerful tool in negotiations. Unscrupulous negotiators will name a high sale price initially for a business to get the attention of the owner. Later, the Buyer chisels away at the sale price until it is unrecognizable. *To counter this tendency: Consult with an objective firm to more accurately value your business.*

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



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

Board Certified in Federal
Taxation Law since 2002.

Selected as Ohio Super Law-
yer
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 us at:
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 and 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.