

# Chapter 4

## The Strategic Divestment Decision in the Family Business Through the Real Options and Emotional Lenses

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### **ABSTRACT**

*Divestments have received little attention in family business research, although representing one of the most important strategic and financial decisions. Additionally, they have been insufficiently studied from the owning family's emotional perspective. This chapter contributes in filling these gaps by focusing on the core entity of the family business as object of divestment from the Real Options and Regret theoretical lenses. It suggests a characterization of the family business divestment decision and a series of propositions with case vignettes around configurations of divestment options, their valuation, and influence in different emotional family business archetypes.*

### **INTRODUCTION**

Divestments are among the most important strategic and financial decisions in organizations. They started to gain scholarly interest in the 1980s (Montgomery, Thomas, & Kamath, 1984, p. 830) and have been increasingly studied since, mainly in relation with the financial value creation (Haynes, Thompson, & Wright, 2000; Kaplan & Weisbach, 1992; Lee & Madhavan, 2010; Rosenfeld, 1984). In family businesses, however, the underlying processes of divestment decision-making do not only obey financial and strategic logics but also emotional logics.

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As the headline of an International New York Times article puts it, “*Selling a business involves more than money*”. Founders often have a deep attachment to their company, making of their divestment an emotional and a reversible decision. It is indeed not uncommon for founders to buy back their company shortly after the sale (Sullivan, 2016). Examples of family owners and managers who faced the emotional dilemma of selling or not selling the family business are not hard to find.

In August 2019, The New York Times featured an interview with John Brooks, four years after the sale of Malt-O-Meal, his family’s business which was the fourth-largest cereal producer in the USA. Mr. Brooks acknowledged that the sale was not satisfying as it left a void in his life and set the three branches of the family apart. He wished the family still owned the company (Sullivan, 2019).

In 2011, The Guardian and ProPublica’s headline stated “*Bancroft family members express regrets at selling Wall Street Journal to Murdoch*”. This sale was concluded following Murdoch’s offer for a significant premium to the share market price, in a context when newspapers share prices were flagging. The article featured quotes from some family members who were happy with the price they got while others were confessing that looking back, they wished they did not sell their shares (Tofel, 2011).

In 2008, the American Anheuser-Busch, also known as the “King of Beer”, was sold to the Belgian AB InBev. As reported in the book documenting the sale, members of the senior generation looked at how much money they were personally going to make. For August IV, member of the young generation, however, “it wasn’t about the money.” Acknowledging the enduring emotional tie he has to the business, August IV tried to prevent the deal at any cost. When the senior generation, Patrick Stokes and his father, decided to sell out, it became very hard for him to do anything at that point though (Macintosh, 2010, pp. 315-316).

In 2006, Pierre-Emmanuel Taittinger, member of the younger generation, was prone to regrets following the sale of the French century-old Taittinger House of Champagne to the American investment fund Starwood Capital. Taking up the challenge of reconsidering his family’s divestment decision, he managed to buy it back at a significantly higher value, less than a year after the initial sale. All these examples illustrate the role of family emotions, namely regret, when it comes to divestment.

Still, most of this literature to date has overlooked the underlying emotional processes of divestment. This phenomena was initially explained by the secrecy surrounding the divestment process (Hayes, 1972) as well as by the sensitive and confidential nature of divestment as a research topic (Duhaime & Baird, 1987, p. 495). Additionally, divestment is sometimes not thoroughly planned (Hayes, 1972) and monopolized by a restricted group of managers from the headquarters (Torneden, 1975). These explanations are particularly true for family businesses which are known for their reluctance to publicly disclose information (Davis, 1983; Lee, 2006). Also, the emotional rationale is by far more complex in family businesses than other types of businesses given their hybrid identity intermingling family and business systems (Davis, 1983; Sundaramurthy & Kreiner, 2008).

The scarce studies acknowledging the emotional dimensions have viewed divestment processes as more painful and emotionally unsettling than acquisition processes, leading to more time needed for the CEO to develop the decision in the organization (Lindgren & Spångberg, 1981, p. 44). Many divestment decisions tend to occur after the CEO has been replaced, since new CEOs are more likely to display lack of emotional resistance in initiating a divestment process (Lindgren & Spångberg, 1981, p. 38). The social context of different types of major shareholders also affects corporate divestment behavior (Fleischhacker et al., 2015), particularly in family businesses (Hirigoyen & Basly, 2018). “The money for tears” metaphor (Fleischhacker et al., 2015) seems to best illustrate the emotional difficulty of mak-

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