The Psychology of Transitions - Moving Owners to Action

Allie Taylor & Andrew Taylor

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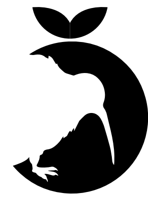


Advisors to small to medium business owners know the grim statistics and high cost that is paid through destruction of wealth and legacy when 67% of business owners fail to plan for their inevitable exit. Despite advisors providing years of wise counsel, data, and skilled technical advice, owner clients are no closer to moving to action. Yet, as a result of advisors' efforts, owners report knowing that exit/transition planning is important. The question is, "why won't owners take steps to control the most significant personal and organizational transition of their professional life?" or more importantly, "what can advisors do to break this cycle and move owners to action?"

The Psychology of Transitions is a conceptual model that describes the intra-personal dynamics experienced by entrepreneurs when they confront the reality that a significant, often life-defining role as a business owner is going to end. After years of working with entrepreneurial owners going through significant transitions it became apparent that exits are particularly difficult and there is very little help available for the owner or for their advisors to guide them through the "soft" side. Many truly entrepreneurial owners find that (to varying degrees) their lives have been defined by their role and they are unprepared for the level of dissonance that they experience during and after exit.

Consulting with businesses that have gone through either a failed owner exit or a sudden and unexpected owner exit drove home the profound financial cost of ignoring the soft side of exit preparedness. Basil Peters, a leader in the merger & acquisition (M&A) space, reports that for the vast majority of salable businesses that fail to sell it is "the owner's psychology" that gets in the way. The conundrum is that when advisors attempt to activate owners to consider their end game, they add to the emotional complexity. And, because the owner's reaction occurs at the subconscious level of their psychological experience they inadvertently build resistance leading to a self-reinforcing cycle that is not well understood by owners or their advisors.

While considerable academic and popular literature exists regarding exit planning, business owner exits, succession planning, M&A, tax strategies and the other "hard sciences" of exiting the business, there is a void when it comes to the soft side. In this void resides the potential to help advisors and technical professionals maximize their own investment of resources while they help business owners maximize and protect the wealth and legacy they have spent a lifetime building. This void is before business owners realize the pain is too great to ignore, before the failed exit, before the destruction of wealth and legacy, before owners stop listening to advice, before owners exit without a plan, and before families have to pick up the pieces. The void is challenging and technical professionals (lawyers, accountants, bankers, valuation experts, private equity firms, insurance and wealth professionals, etc.), while highly skilled in their discipline, are generally not trained for interacting with the soft side of owner exit. Advisors that attempt to address this challenge have shared stories of being put in a position of "therapist" or "counselor" and feeling unequipped or unable to get results forcing them to walk away from viable deals and opportunities.

By the end of this paper, advisors will have a better understanding of the common psychological traits shared by successful entrepreneurial business owners. They will also understand why these characteristics lead to intra-personal challenges and why exit can be the owner's ultimate psychological challenge. In addition, we will provide insights that make both identifying bad deals and increasing deal success a possibility. With increased deal success comes an increased return on advisors' investments of time and money.

THE ADVISOR'S DILEMMA

Over the years we have worked with many specialized professionals that employ a personalized, client-centered approach to their practices. From their mission and vision statements to their value propositions and the way they prioritize their calendar, it is clear that the needs of the client come first. Yet, when we meet with these professionals about the concept of exit psychology they consistently raise the issue of being unable to meet a fundamental need that serves the best interests of their business owner clients - getting them to plan for life beyond their business.

Exploring the topic with various advisors has led to a common set of behaviors displayed by their owner clients in response to the advisor's methodology for approaching this important topic. Advisors consistently describe the significant amount of effort and resource that has to be put into getting owners to plan for their inevitable exit. Despite an owner's ability to acknowledge the importance of exit planning, they routinely fail to do so. The sad reality is that most studies agree, the vast majority of business owners (˜67%) are insufficiently prepared for their business exit. Thus, the advisor's dilemma is what we refer to as a Knowing-Doing Gap.

To close the gap, most advisors go to their area of expertise using data and information to persuade owners to engage. It makes complete sense from the advisor's perspective because information and technical expertise are the waters advisors are trained to swim in. Unfortunately, this method has proven to be reliably inefficient for moving owners to action. In some cases, advisors have learned the art of coaching, counseling, and conflict resolution in order to help them be more effective. The trade off is increased relational intensity and increased delays with no guarantees that moving outside core competencies will provide the desired results.

In light of these challenges, how do advisors resolve their dilemma and help owners begin to explore the concept of leaving their business? Are there silver bullets, quick programs, or special formulas for success? Unfortunately, the answer is, "no". Nobody can offer magical solutions that can resolve the advisor's dilemma for all owners in a single paper because at the core the issue is related to complex human behavior. Thus, we offer advisors an inside look at the characteristics and traits common to entrepreneurs along with actionable insights that they can use to more effectively move owners to action.

The advisor's dilemma is what we refer to as the Knowing-Doing gap. Closing this gap is not a function of providing more awareness and information. . .

We start by describing 5 entrepreneurial traits and their impact on exit preparation, 5 behaviors that all owners experience, and how these characteristics and behaviors impact their ability to exit well. In addition, we explore the owner's sometimes-flawed search for significance in their business that makes achieving significance beyond their business even more difficult. We conclude with profiles of 4 owners that most advisors will have met in the course of their work and demonstrate how the advisor can better interact with these owners in light of the owner's exit profile.

THE SECRET SAUCE

Individually, successful low to mid market business owners are as unique and diverse as the stars in the sky or the pebbles of sand on the beach. But, dig under the surface and there are common traits that drive their success:

1. Risk taking propensity
2. High innovativeness
3. Need for achievement
4. Tolerance for ambiguity
5. Need for control.

Research efforts consistently identify these traits among business owners that reach the low to mid-market business threshold (~30% of all startups) or an even smaller percentage (~0.16%) of this group who go on to be-

come wildly successful and build mid-to-upper market organizations. These 5 common traits that are the Secret Sauce of entrepreneurial success can simultaneously become a poison pill. In many cases the very traits that made the owner successful in building their business are the traits that unwittingly fuel their resistance to exit preparation and hinder an advisor's ability to motivate owners to take action and plan for exit.

Risk taking

From the moment an entrepreneur takes their first steps toward launching a business or considers becoming the next generation owner responsible for an ongoing business they put their reputation, personal finances, career, and psychological well-being on the line. Owners face choices filled with uncertainty, ambiguity and complexity for which they alone are responsible throughout the business's life-cycle. Decisions must be made in the face of imperfect information with no guarantee of success. The consequences of failure could mean that a lifetime of blood, sweat and tears are lost with one bad decision.

Entrepreneurial Strength

While most would run from such pressure, entrepreneurs not only embrace it, they thrive in the face of it. The act of risk taking is not unique to the entrepreneur, but the types of risks they take and the regularity with which the risks are taken provide intriguing insights into what sets them apart. Most notably, entrepreneurs tend to take measured, prudent risks that they have some ability to directly influence or control. Entrepreneurs are not the type of people to spend their last few dollars on a lottery ticket hoping it pays off or jumping in a barrel and riding over Niagara Falls to see if they survive.

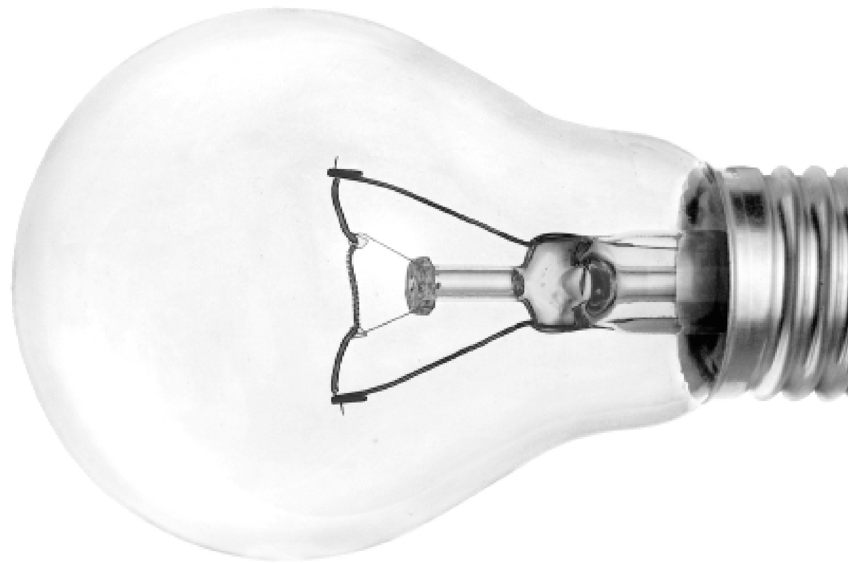
Entrepreneurs take risks that push them to excel. They drive through the toughest obstacles and make the impossible possible. They invest in a new product line, set high expectations for every aspect of its development, and promise what most would call unrealistic target dates because they believe they can make it happen despite what others (including their own management team) might say.

Exit Challenge

Risk-taking behaviors are a major source of fuel behind the advisor's dilemma. Entrepreneurs are very confident in their own ability, believe they can exit at will, and thus, see little need to mitigate the risk of failing to plan for exit. Regardless of how many times advisors quote Benjamin Franklin or Winston Churchill who provide variations of the same admonition, "failing to plan is planning to fail", most owners will not embrace the need to mitigate risk until they are ready. Hence, going after the "risk motive" as a means of external motivation (while valid) will have little impact for most owners.

Advisors who work in the exit space share a lot in common with life insurance agents and funeral home directors. All humans know they are going to die someday, that is an unavoidable reality. We also know that young people die unexpectedly and that accidents and illness happen. How many times have we seen reports on the evening news about a tragedy followed by the grieving family's lament that "things like this happen to other people, you never think they are going to happen to you…but, it did" followed by the reporters sympathetic acknowledgment.

Life insurance agents and funeral home directors have been struggling with this marketing challenge for years. The messages are packaged in a variety of appeals that range from focusing on fear of what will happen if a person dies leaving their family penniless, to empowering them to take control of their own funeral plans. We have all heard the messages and they have fallen on deaf ears. We choose to forgo doing the wise thing (purchase life insurance and a funeral package) and accept what is perceived to be a very low risk.



Planning your own funeral is one step beyond buying life insurance. Now, you have to face your own mortality, legacy, shortcomings, and inadequacies, would haves, should haves, and could haves. This is where the pain of facing the inevitable is far greater than the risk of choosing to ignore the issue. The very nature of a robust exit plan forces an owner to confront their strengths and weaknesses along with the strengths and weaknesses of their business. Bright lights are shined into dark, hidden places and many owners do not have the inclination or motivation to explore this uncharted terrain. When advisors try to take owners to this place of self-examination and reflection the majority of owners would rather embrace risk than embrace the pain of this process.

How To Engage

Like most strengths, the entrepreneur's ability to tolerate high levels of risk required to build a business becomes their weakness and a barrier with regard to exit planning. Overcoming the risk barrier will not be accomplished by offering more information, technical solutions, seminars, or lectures. In fact, overcoming the risk barrier should not be an advisor's focus. Solving the advisor's dilemma with regard to entrepreneurial predisposition to embrace risk requires leveraging the owner's other strengths to mitigate this barrier.

Innovativeness

Author and management consultant, Peter Drucker makes the inextricable connection between innovation and entrepreneurship. He wrote,

> *"Innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned, capable of being practiced. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation."*

Entrepreneurial Strength

If there were a secret switch in the minds of entrepreneurs it would be related to innovation. The Gallup organization has a model called StrengthsFinder and the undergirding premise is that focusing effort on building a person's strengths will produce significantly better results than putting 10 times the effort into building weaknesses.

Gallup posits that strengths are a person's innate natural talents. These innate talents are likened to diamonds in the rough that have to be shaped, cut and polished before they have their greatest value. Entrepreneurial innovativeness follows the same concept. When an entrepreneur first launches their business they are following their natural wiring. The drive for innovation, to create something out of nothing, and to change their world can become an all-consuming effort. This drive doesn't go away once the business is established.

Exit Challenge

Unpolished, innovativeness can lead to an insatiable desire for the next great product or service, a lack of consistent business processes and systems, and a host of other challenges. In many cases the founding owner's innovativeness is the generator of new ideas, products, sales tactics or business direction. In the worst cases the business becomes full of half-started ideas that remain unfinished draining time, focus, and money with owners saying "yes" as an almost instinc-

tive response. But, ask an owner (whose innovativeness has not been well-formed), "what do you have to stop doing in order to achieve your goals" and the regular response is, "why would we say no when we can do all of it?"

This pattern results in poorly channeled innovation leading to a business that is fundamentally unattractive to buyers because it is critically dependent on the owner for growth and development. When buyers compare a highly disciplined business that has refined processes and replicable, scalable systems with one that has lots of "half-baked" products and services, the choice is easy. Buyers will value the former business higher or apply a significant deduction in valuation for the latter business. A recent study by the London School of Business demonstrated that the prevalence of ADHD among entrepreneurs is 5 times more common than among the general population. Beyond the challenge of focusing entrepreneurial innovation to build organizational capacity, advisors may experience entrepreneurial innovation as a lack of focus and discipline that makes exit planning more challenging.

Owners and advisors do not speak the same language. There are fundamental differences in how they view the world. Given an entrepreneur's propensity to value their own methods over those that are imposed on them, they may become disinterested in a process that is experienced as a template driven effort. Advisors, on the other hand, live in a far more black and white world than those of their owner clients. While owners may feel like going through the advisor's process is akin to slogging through wet cement, advisors are doing what is required to deliver a technically competent outcome that serves the owner's long-term best interests.

How to Engage

Drucker's quote provides a roadmap to achieving the advisor's goal of helping owners maximize their wealth and legacy through effective exit planning and execution. The owner's innate ability needs to be refined, their energy focused, and principles that lead to successful innovation established. The practices required to achieve this goal are the practices that will lead owners to embrace the concept of developing a robust exit strategy and establishing a commitment to achieving the long-term objectives required for maximizing the value of their business.

An owner who sees the power resident in creatively innovating their exit, so that business valuation is maximized and the organization is built to last has the potential to exit on top. But, exiting a business on top will require the owner to be both patient and diligent over a period of years. What's more, the owner is going to have to rely on the expertise and assistance of outside advisors to produce the desired results.

To sustain the owner's engagement, focusing on innovation must be a genuine effort and not an advisor's thinly veiled marketing strategy. The key difference between the two approaches rests in the advisor's posture and philosophy. Advisors who move beyond the silo of their own expertise create environments conducive to harnessing an owner's innovative energy by encouraging and inviting advisors from the other disciplines into the process.

In these environments, owners derive significant benefit by working with leading edge practitioners who foster innovation, engage an owner's natural wiring, and provide a platform for healthy conflict that is transparent and leads to robust decision-making processes for advisors and owners. Some would argue that what is being described here occurs every day in some family office settings where multiple disciplines (tax, wealth, legal, business development, etc.) and skill sets all reside in the same firm, but having the skills under one roof does not make the process innovative or collaborative.

If the "one roof" firm is under one roof, but operates in silos, it is not collaborative. If the firm values systems and processes higher than it values creativity, it is not innovative. If the firm focuses primarily on exit as a risk mitigation exercise, it creates avoidable barriers between the firm and the owner. On the other hand, if the "one roof" firm and/or external group of skilled independent experts are able to build a collaborative, innovative, cohesive experience of idea generation and exploration they have found a model that is useful and is created in the style that best serves an entrepreneur. This approach also provides the opportunity to engage the entrepreneur's need for goal achievement and control as strengths in the exit process.

Need for Achievement

The need for achievement is also referred to, as the “need for goal attainment” and it is a strong entrepreneurial trait. At the very core of an entrepreneur’s psychological make up is the almost insatiable need to reach new heights and beat the competition with standards of excellence that will not be compromised.

Entrepreneurial Strength

Steve Jobs was the epitome of an entrepreneur who was driven by a high need for achievement. Jobs’ need for achievement was so high that he was said to have created “reality distortion fields” that sucked people into an inexplicable belief that the impossible was possible. In Jobs’ case his reality distortion field created a need for achievement that extended beyond him to others. He pushed those around him to achieve what logic and common sense would say is an unreachable goal, all while demanding nothing short of excellence.

The need for achievement was the first trait to be associated with successful entrepreneurs when research began. Since those early days, research consistently affirms that the implications of this trait cannot be underestimated. People with a high need for achievement are more likely to be labeled as “Type A” personalities. They are driven, relentless, insatiable and they have to be because building a successful business requires persistence, perseverance, courage, and drive to move from vision to reality over and over again. The need for achievement is the fuel that sustains entrepreneurs on their quest to achieve bigger, better, more.

Exit Challenge

The flip side of the entrepreneur’s need for achievement is the brick wall that advisors run into when they bring up the concept of exit/succession/transition planning. Consider the appeal from the entrepreneur’s perspective. They are likely working on some major product launch, deal, or opportunity and the advisor wants them to divert their efforts to focus on an event that can be quite time consuming, doesn’t contribute to the focus of today’s urgent goals, and it isn’t going to happen anytime soon. Given that context, what can an advisor do to make exit so compelling that previously resistant owners immediately appreciate the value and become willing to remove the brick wall?

Since nearly 2/3’s of all owners lack a succession plan of any kind, it is safe to say that most owners do not view exit as a goal they must achieve. In fact, since exiting the business is the antithesis of growing the business, many owners experience considerable dissonance at the thought. An achievement business owners desire is to maximize enterprise value. In recent years, some advisors have moved toward this approach as a means of overcoming exit planning resistance. The challenge is that this approach is often provided through a limited lens offered as an extension of the advisor’s work and not as a holistic and robust planning effort. Thus, leading owner’s to the false belief that an organizational structure, will, trust, or buy-sell agreement will serve their succession/exit needs.

Even when owners feel as though their business goals have been achieved, and they put the subject of exit on the table, advisors consistently report facing a phenomena of owners getting all the way through the due diligence phase and then just before the deal closes they suddenly and inexplicably fall back in love with their business. The deal seems to be progressing well

and then "all of the sudden" there is an epiphany and the deal is canceled for a host of purported business reasons. But, none of the reasons provide sufficient explanation for buyers or advisors. When this occurs, advisors are left dumbfounded.

While beyond the scope of this paper, there are some very interesting psychological dynamics around the need for achievement and an entrepreneur's relationship with their parent(s) (particularly fathers) that shine light into the darkness of this phenomenon. A grossly oversimplified explanation is that whatever the entrepreneur had to prove was proven and they simply reached a plateau. This plateau led to dissatisfaction because there were no new business goals to achieve.

In these situations, the entrepreneur's need for achievement did not go away, it simply went dormant. But, when potential buyers become interested the need for achievement is reinvigorated. It is as if the owner suddenly heard a siren call and could not resist falling back in love with their business. This siren call is frustrating for most advisors and a costly experience for others who rightly want to know if there is a way to identify the phenomenon early in the process before they invest time and money.

How to Engage

Advisors will always experience the owner's need for achievement. The question is, "how can advisors help owners focus this strength so that they value exit as the ultimate ownership challenge and measure of entrepreneurial success?" When approaching exit, it is important to keep in mind that owners are not being dishonest in their dealings with advisors. Human beings are complex psychological creatures with an innate ability to self-deceive and these owners are simply responding to internal drivers. In this scenario, owners are not the only parties susceptible to self-deception. While advisors report being dumbfounded or surprised by the owner's "sudden change of heart", they regularly report having had a "gut feeling" that the deal wouldn't close.

Digging deeper with advisors it is common to learn that the warning signs were there, but the advisor didn't engage the owner in an intellectually robust and skilled dialogue that would bring the dissonance to the surface. For advisors, the best approach is to explore the owner's need for achievement early in the advisory relationship. Seek to discover the owner's existing level of self-awareness, explore their self-concept on the issue of achievement, and identify potential areas where this trait can be positively leveraged.

A useful approach is to provide scenario based options for the owner to explore that gives them permission to fall back in love with their business sooner rather than later. While counterintuitive, advisors have a choice, they can push the owner to close the deal and risk the owner pulling out at the eleventh hour, being disgruntled, tarnishing the advisor's reputation, or advisors can maximize their investment. By maximizing the advisor's investment we mean, acknowledge the sunk costs are gone and not recoverable. Instead of walking away from the deal, change the paradigm.

View exit as a process, not an event. Recognizing that advisors have a vested interest in the deal closing and they are equally capable of self-deception, advisors must remain alert and ready to adjust their posture. In situations where the owner's dormant need for achievement has suddenly reawakened, advisors that stay alert and refrain from willful ignorance are better positioned to salvage the deal. Ignoring the owner's early warning indicators ultimately has a negative impact on all parties (buyer, advisor and owner). Astute advisors recognize the signs early and encourage owners to explore delaying their exit and maximizing business value rather than dragging the begrudging owner forward to close the deal.

Giving owners the freedom to fall back in love with their business earlier rather than later will not only save time and money, but it is likely to build trust and loyalty. In the process, the advisor will earn the right to be heard and continue to be an asset to the owner. With the advisor's guidance, the owner is likely to increase the value of their business. In addition, the owner will have learned lessons about exit that will make for a smoother future transaction. When the owner is finally truly ready to exit, the advisor who embraced the ambiguity of the situation and walked alongside in the interim is most likely to be the owner's first call.

Ambiguity

Entrepreneurs thrive in ambiguity. This driver is what often sets them apart from managers and some professional CEOs. Uncertainty, complexity, and instability are some of the greatest obstacles a modern business leader faces and all of them create ambiguous challenges. For entrepreneurs, a tolerance for ambiguity might be the hidden ingredient in the secret sauce of their success.

Entrepreneurial Strength

An artist can sit in front of a block of clay with a sketch and know what they want the final product to become. Other artists will look at the block of clay having no idea what the end product will be. Instead, they begin to work the clay letting the ultimate expression unfold as their creative energy flows from their mind through their hands to the clay. In the first case, it would appear that the artist is free from ambiguity. They are decisive and can clearly articulate the desired output they want to achieve. The second artist may appear to lack clarity or planning ability, but appearances can be deceiving.

Both artists will begin to shape the clay and both will respond to the potential and limitations resident within the media. Their innovation will come out as each stroke and caress of the clay reveals something new about its nature. The first artist will make adjustments along the way and while the final product may come out largely as they described there will be nuances in the piece that could not have been envisioned. The second artist, being less restricted and bound to an initial idea will also produce a piece with nuances they did not envision. At the end of the day, the art expert would have no idea which pathway was chosen unless they interviewed the artists.

Entrepreneurs will build their business and embrace ambiguity as a form of freedom to explore nuances and respond to their environment. Even with a well defined business plan they do not feel compelled to look at a challenge or opportunity and know every stroke and caress that must be taken to produce the result they are looking for. One owner may ignore all the information and data available and go with their gut while the other follows the data and makes a similar choice. Or, they could both decide that there is no need to make any decision at all and let time reveal the right course. Both may use ambiguity as an opportunity to maximize their outcome.

Dotlich, Cairo, & Rhinesmith developed a model called "Head, Heart and Guts" taking the position that all three are required to be a complete leader. It is not rocket science to deduce that head is the hard data and logic, heart is about emotional intelligence, and guts are about evaluating and taking risk. Entrepreneurs epitomize the guts aspect of leadership. In many cases, they have few options other than to embrace ambiguity and go with their gut in the beginning. Very soon entrepreneurs build patterns of behavior that reinforce their ability to both live in ambiguity and trust their gut. When owners are free of time sensitive pressure and external forces that demand a decision, they will rest quite comfortably in the zone of ambiguity.

Exit Challenge

The dark side of having a tolerance for ambiguity is that some owners are quite comfortable living without a plan, particularly a plan that includes steps for their own exit. And, while the entrepreneur can function well in ambiguity, their organization cannot. When this trait is not well managed it becomes a hindrance for the owner's successful exit and for achieving organizational scale and growth. In fact, advisors that focus on building organizational capacity and business value may find themselves battling the owner's tolerance for ambiguity more than any other entrepreneurial characteristic.

To maximize value, organizations require clarity, vision alignment, and a strategy. To maximize people and

make them a firm's competitive advantage, staff must have well-defined measures of success and access to systems that support their efforts. Far too many owners bask in their comfort with ambiguity and fail to build the organizational capacity necessary to maximize business valuation. Or, even worse, some owners make the business critically dependent on their tacit knowledge and positional authority.

In the secret sauce of entrepreneurial success, ambiguity is the trait responsible for the greatest loss in business valuation, wealth destruction, and legacy failure. This is the trait that will sneak up on owners and pull the rug out from under their success. A desire for flexibility, nimbleness, and rapid response works with their ambiguity driver to resist organizational development.

Systems, processes, and people can feel like a straight jacket that restricts an owner's ability to be true to the natural wiring that led to their early success. Of all the traits that are part of an owner's innate wiring, ambiguity is the one owners must intentionally develop so that it is truly their strength and not their Achilles Heal. Once ambiguity becomes their Achilles Heal it provides fuel for (and is also fueled by) their need for control leading to a cycle that has personally and organizationally destructive tendencies.

How to Engage

The ambiguity driver comes with an emotional premium. Approaching the ambiguity challenge using a concrete and logical argument for something that has an emotional premium will fail 9 times out of 10. In these cases, the advisor is unlikely to sway an entrepreneur who feels no compulsion to choose and more information will not create behavior change. Instead, using data and information may have the opposite effect, driving the owner deeper into their comfort zone of ambiguity.

Options are the key to dealing with ambiguity. Acknowledge that successful owners may not know (or feel the need to know) all the answers to an event that they do not envision taking place anytime in the near future. Establish an opportunity for uncertainty and open-endedness in the conversation. Generate insightful, exploratory questions that prompt thinking beyond the here and now. Allow the owner to become curious and explore the concept of exit by leveraging their need for goal achievement and control.

Create regular opportunities for business owner clients to informally associate with other business owner clients, particularly those that have exited successfully. Your website can be a powerful resource for adding value for business owner clients. Develop a meaningful and impactful approach to your communications with clients including value added insights that are postured in a positive and active tone. Provide them with resources that make their exploration easy, convenient, private, and on their terms. Be available, but don't be pushy and let the owner's curiosity develop into a personal challenge driven by their internal motivation.

Control

Entrepreneurs are said to have an internal locus of control. Meaning they believe they have the ability to shape their world and control the events of their life. The normal rules do not apply to entrepreneurs, instead they write their own set of rules as they build a successful organization and others must learn to operate by those rules.

Entrepreneurial Strength

Need for control is the elephant in the room. Advisors have likely run into the entrepreneur who is a control freak, the smartest person in the room, or a demanding client expecting high responsiveness. When you consider the preceding 4 traits and how they manifest in the life of an owner it is almost a given that control had to be the 5th.

Walter Isaacson's biography of Steve Jobs is replete with examples of his need for control and brash rejection of rules. One of the most poignant examples of this mental model is a story of Jobs attitude about motor vehicle laws. He refused to put license plates on his car, parked in handicap spaces, and drove at dangerously high speeds on public highways. Once pulled over and barely under the speed that would've required an immediate arrest, Jobs received a stern warning along with the citation. As soon as he was out of the officer's sight, Jobs immediately repeated to the same behaviors for which he was cited.

The flip side is that this same level of control and the rules not applying is what made Apple great. From store design to manufacturing facilities to the noise level on the computer's fan, Jobs expected excellence and would not settle for anything less. While Jobs is an extreme example of the need for control, he exemplifies the value of control as a resource for achieving excellence. Successful entrepreneurs reap self-reinforcing rewards from this trait throughout their careers.

Exit Challenge

Thus, it follows that business transition (aka: exit/succession) presents two significant hurdles for an owner. First, they are moving into uncharted territory where they cannot operate as they have and instead, they must rely on others (aka: give up control) to achieve the goal. Second, if they cannot write their own rules they are not sure the game is worth playing or more transparently, they are not sure if they can win.

Owners tend to be uncomfortable in a world that is driven by external forces such as the carrot and the stick (extrinsic motivation), particularly when they are subjected to the systems that others build for their own purposes. In the case of exit, owners are quickly confronted with the reality that all they have worked for is about to be examined under a magnifying glass. Tremendous dissonance is created when the rules they have built to serve their interests are about to be scrutinized and the owner realizes they may have to change how they operate to achieve the exit goal.

Acknowledging that there are gaps, building systems that transform the nature of their control, and opening themselves up to criticism are tough hurdles to conquer. When control is the challenge an owner faces it has a tendency to activate the dark side of other traits such as tolerance of ambiguity and risk. This sets up a triangle of self-reinforcing beliefs that provides the owner with a psychological escape route leading to almost intractable resistance.

Resistance may be inadvertently compounded as skilled professional advisors employ processes that make their own business work and rightly expect clients to appreciate the services they have to offer. Customizing, exceptions, and other time consuming value add requirements decreases an advisor's profitability and limits the number of clients they can serve. The alternative is that advisors have to charge owners a premium for their services – services an owner doesn't always value. This leads to a catch-22.

Now consider that owners have multiple advisors that, while focused on their own area of expertise, must be engaged in a comprehensive approach to exit planning. It quickly becomes clear that complexity is increased as multiple professional service providers are added to the mix. Advisors that are not able to coordinate well increase the owner's resistance to the exit process. Owners receive inputs from multiple sources and must reconcile differing points of advice, jump through the hoops of different advisor processes, and pay for the privilege of doing so. With no effort at all, advisors inadvertently trip over each other and create unnecessary roadblocks for the owner. That is when the owner's natural wiring and the control driver kicks in.

How to Engage

It is incumbent upon each individual advisor to ensure there is a single, comprehensive and cohesive plan against which all advisors are operating. While all symphony maestros (aka: "masters") can read music and have some familiarity with a variety of instruments, few (if any) are able to play all the instruments. Instead, they hone their own craft of conducting and then select highly trained and skilled symphony members to do their part by playing their own instruments. During the performance, the maestro focuses on bringing the individual components of the music to life by unifying the tempo, coordinating the upbeats and meter, and listening critically to ensure the nuances of the piece come to life.

We often hear advisors say they want to be the "quarterback" of the owner's exit process. Meaning, they want to be the central advisor who coordinates the others to ensure things get done properly. Most advisors have the right intentions and owner's best interests at heart when they position themselves in this manner. The problem is that almost every professional services advisor we have met wants to be the quarterback. This inadvertently sets up unnecessary and counter productive expectations for multiple stakeholders.

Faced with these challenges, owners will take one of three paths:

1. The owner may rely on a single advisor who behaves as most trusted confidant and middle man between the owner and the rest of the advisors.
2. The owner may choose to handle matters themselves and become highly directive inadvertently screening out critical information.
3. The owner may opt to avoid exit planning all together.

Regardless of the path, the owner is not well served and the advisor's investment in client acquisition, due diligence, and other costs are lost. The lesson here is to let the owner be in control from the beginning and recognize this is their transition.

Thus, from the perspective of group dynamics and the owner's psychology, the best play is to make the owner the maestro. Owners are well served when advisors help them begin by knowing themselves (an admonition that will be explained more later) and then reflecting on what they want for their MOM – aka: their Money, Ownership, and Management. If done well, owners are able to develop a robust and insightful blueprint that they can share with all of their advisors who can then build scenarios and make a coherent set of recommendations against which the owner can test their thinking and make informed decisions.

This process makes the owner the maestro. Business owners will never have the skills of the lawyer, charitable planner, tax advisor, wealth planner, investment banker, and/or M&A advisor. But, with increased awareness in the form of self-knowledge and a blueprint in hand, they will be able to determine if their professional symphony is working well together to achieve their goals. Owners who are empowered in this way are far more likely to work well with advisors and successfully engage a robust exit process.

INCLINATION FOR EXIT SUCCESS

With respect to successful entrepreneurs, the 5 common traits are closely related to the 5 measurable tendencies that provide insight about an owner's exit inclination. These tendencies are evidenced in common patterns of behavior that can lead to exit success when the owner positively develops them. But, the flip side is that these tendencies can make the business unsellable, sabotage the deal, or make the process more costly than it needs to be when poorly developed. An important facet of these tendencies is that, in the vast majority of cases, owners are not cognitively aware of the impact they have on exit inclination.

Psychological processes at the conscious, subconscious, and unconscious levels of the mind drive human behavior. The majority of day-to-day interactions occur at the conscious level, but are deeply influenced by the sub and unconscious portions of our mind. Humans, unlike other animals, have the ability to control their emotions at the conscious level, but that is not where emotion begins. Human emotion begins at the subconscious level and is influenced by the cumulative effects of a person's life experience. This is where the fight, flight, or freeze response resides.

First described by Walter Bradford Cannon, a Harvard trained Physiologist in his 1932 book "The Wisdom of the Body", the fight, flight, or freeze response remains a widely accepted theory in both the biological and social sciences. The theory states that a person will respond to perceived threats by either striking back, fleeing or freezing in the face of a perceived threat or attack. Keeping in mind that both the triggers and the responses are emotional reactions to a perceived threat, it makes sense that and owner's "gut" response to business threat manifests as an emotional response of fight, flight, or freeze.

Without a doubt, most emotion can be understood with some effort. As people grow in self-awareness and emotional intelligence they have increased ability to self-regulate. However, simply understanding emotion does not move the owner to change their decision-making or problem solving styles. This is why advisors have little success when attempting to motivate change in an owner with rational, logical, technical information. The behaviors they are attempting to change are not rational or logical, they are emotional and more technical information (legal, accounting, finance) will prove insufficient to overcome the owner's natural inclination to build a business, which is the antithesis of exit.

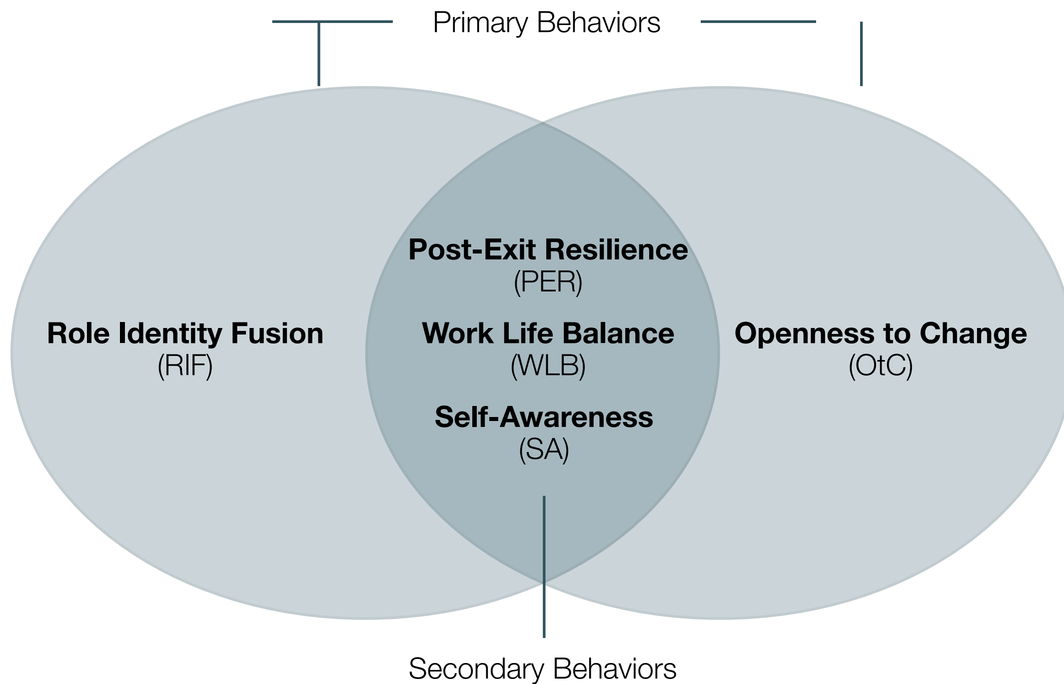
Overcoming exit planning resistance requires understanding the nature (and in some cases the source) of the owner's emotional response. In these liminal moments it is helpful to have a framework or model for understanding what the owner is experiencing. That said, there are a few caveats:

1. Human emotion is rarely logical
2. Human emotion and behavior are incredibly complex
3. Human emotion and behavior are understood along a continuum or via patterns
4. People, while often predictable, are capable of deviating from patterns of behavior with little logical explanation.

The first four caveats are the explanation for the fifth:

5. All models are wrong, some models are useful.

Five Entrepreneurial Behaviors - A Model



Together, these five behaviors provide a robust model for understanding the behavioral inclination of business owners. While RIF and OtC are discrete domains, they both influence and are influenced by secondary behaviors. Understanding the nuances of these behaviors provides important insights and implications for change with respect to significant organizational transitions such as exiting the role as owner, changing ownership structures, taking on new partners, and other types of organizational transitions.

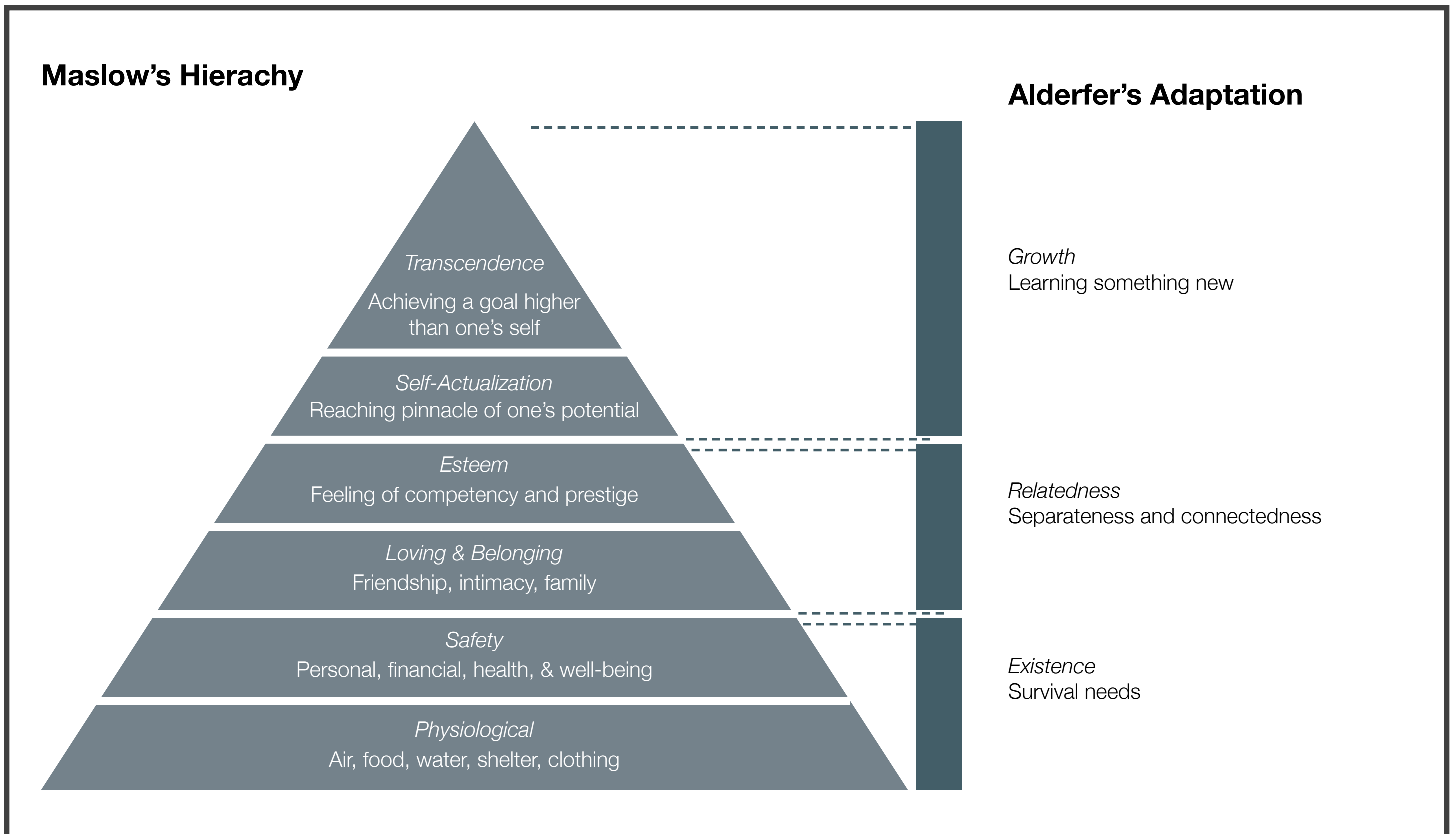
Primary Behaviors (trait-like and more resistant to change)

- RIF is a continuum measure of the owner's tendency to blur the lines between the social or self-identity and the role identity as owner. The more highly fused an owner is, the greater the challenges for transition.
- OtC: is best conceptualized as a preferred problem-solving style. Owners on the adaption end of the continuum are more inclined toward the "tried and true" approach seeking to improve what is and using what has worked in the past. Those on the Innovation end of the spectrum are more inclined toward "blazing new trails" pushing boundaries and testing limits with a stronger desire to try new or untested approaches.

It is necessary to distinguish the characteristic of "Innovativeness" (the tendency to develop and implement creative ideas) from the behavior of "Innovation" as a problem solving style or degree of openness to change. Entrepreneurs have a propensity toward innovativeness and are generally creative idea generators. But, there are important differences with respect to their problem solving styles ranging from adaption to innovation. Owners that are more adaptive will embrace advisors, partners, or others who value incremental change that are not overly disruptive to the status quo. Owners on the innovation end of the continuum will be open to new ideas, willing to explore new approaches, and generally more receptive to constructive disruption of the status quo.

Secondary Behaviors (less resistant and more open to change)

- SA: is defined as the ability to monitor thoughts, feelings, and emotions to mindfully respond to the world.
- WLB: evaluates the degree to which motivational drivers are met through work and/or life domains.
- PER: is defined as the owner's inclination for establishing a meaningful life of purpose and significance after they exit their role as owner.



NEEDS & SELF-ACTUALIZATION

For entrepreneurs, self-actualization is inextricably linked to the traits that combine to form the secret sauce of their success. In many cases, successful business owners are on an emotional quest and the business is the vehicle that facilitates the journey. Owners with high exit readiness are likely to have a higher level of self-actualization and know at a conscious level that the business is not really their ultimate personal reward. However, for those with low exit readiness the nature of their motivation and the deeper, sub and unconscious forces at work are a personal mystery. This dichotomy may seem relatively innocuous, but there are critical and important differentiators that impact an owner's ability to engage the exit process.

Depending on the discipline or model that is applied, the deeper forces of the subconscious and unconscious mind might be called hidden motivators, basic needs, sources of cognitive dissonance, or performance need. One of the most well-known models is referred to as Maslow's Hierarchy of Needs. Maslow first described his theory in a paper titled "A Theory of Human Motivation" in 1943.

Maslow's hierarchy was originally framed as a triangle with 5 levels (Physiological, Safety, Loving and Belonging, Esteem, & Self-Actualization), but he later added a 6th (Transcendence) recognizing that humans have a need to achieve something bigger than them. Clayton Alderfer later grouped Maslow's 6 levels into three distinct sets of needs: a) Existence; b) Relatedness; and c) Growth.

Both men defined these needs as motivational drivers that generate human behavior. They recognized progress through the levels as sequential in nature and referred to the process as self-actualization. A person was said to have achieved self-actualization when they reached the pinnacle of their potential. The model posits that dysfunction results when the lower levels go unmet or are inadequately met.

In addition, research has described societies that reward motivation based on esteem or love as inadvertently fostering development that gets stalled at these levels. (Many Western cultures function with emotional rewards of love and esteem.) According to Maslow's model, while all humans have the potential to reach Transcendence, it is impossible to progress to higher levels until the basic needs in the lower level are met. Unmet needs become negative drivers of motivation and the longer the need goes unmet, the greater the need becomes. For example, at the Physiological level, if food is scarce hunger results. The longer the hunger goes unmet the hungrier a person becomes.

For entrepreneurs whose journey toward self-actualization or transcendence gets stalled, there are two basic unmet needs that persist into adulthood. These unmet needs reside at the level of Alderfer's "Relatedness"(or Maslow's Loving/Belonging, and Esteem levels). These motivational needs are not unique to the entrepreneur, but in the entrepreneurial context, they are expressed as a need for acceptance (of self and by others) and a need for significance.

Acceptance resides at the lower of the two needs (Loving and Belonging level) and the need for significance is at the higher level of need (Esteem). Entrepreneurs that develop self-acceptance have greater resilience that drives their ability to sustain themselves until they achieve their goals and attain positive forms of significance. Entrepreneurs who are unable to satiate the need for acceptance (particularly their self-acceptance) will be motivated by a need for both acceptance and significance that can be destructive to them and their organizations.

Acceptance & Significance

Since Maslow's hierarchy is predicated on the theory that the lower level needs must be realized before the higher level needs can be met, what happens when entrepreneurs try to get their needs met in reverse?

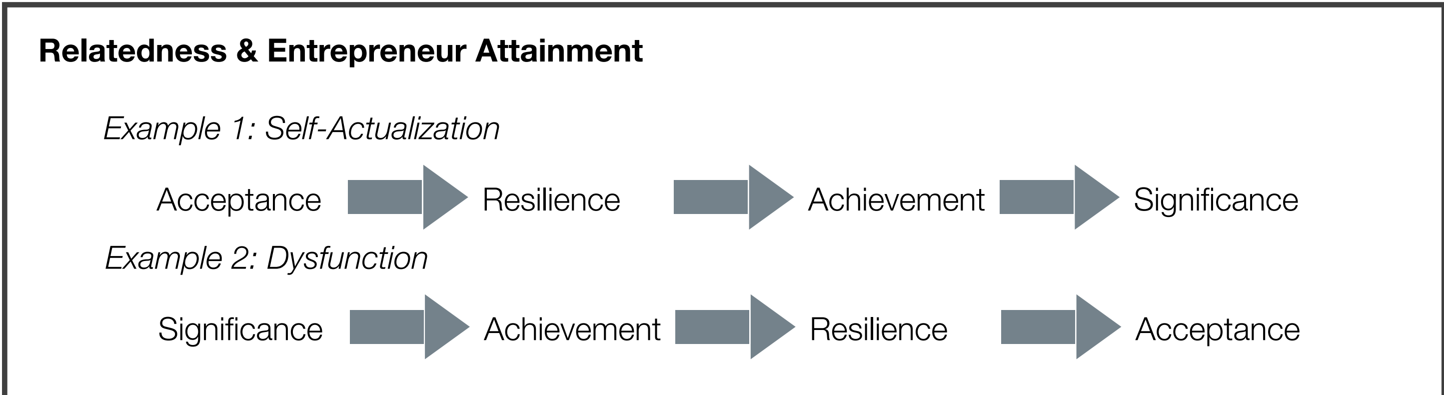
In Example 1 below, owners who accept themselves for who they are have a greater level of resilience to sustain them until the goals are achieved. Their significance is internally derived based on a sense of personal accomplishment (Loving & Belonging) and is not dependent on external validation (Esteem) by others. Owners who follow this pattern see themselves as separate from their business. They are valuable for who they are and not what they do and more to the point, they are not defined by what they do. Their social self is distinct from their role as owner (their work or professional self).

In Example 2, owners begin with a need for significance derived through external validation (Esteem) by others. Their significance comes through their achievements and their successes are necessary to sustain resilience until they have sufficient external validation that they feel valued and accepted. But, this acceptance is waning and must be constantly reinforced. These owners fail to achieve the basic needs in Maslow's Loving & Belonging level.

Basic needs at the Loving & Belonging level are about unconditional love and an emotional state of being that provides security and confidence. The reason acceptance wanes quickly among entrepreneurs who fail to achieve the basic needs in Loving & Belonging level is that their value and self-worth are performance based and conditional. The implication is that these owners must continue to perform in order to be accepted. They may have a hidden fear that if they cease to perform well in their businesses they will have no value to themselves or others. Some fear becoming irrelevant if they are no longer a business owner.

Implications for Exit Success

Owners with a higher level of exit inclination are more



likely to follow Example 1 and owners with lower exit readiness are more likely to follow Example 2. In other words, owners who achieve a higher level of self-actualization are expected to have a greater inclination to exit successfully and on their own terms. Conversely, from an advisor's perspective, they should expect to see increased value-destroying behaviors from an owner that has a high unmet need for significance and acceptance (low exit inclination) than they would expect from an owner whose significance is purely a byproduct of their success.

In many cases, owners who are not exit ready, but are pressed into exits by advisors, family, friends, or circumstances are predicted to exhibit value-destroying behaviors. Thus, understanding the patterns provides both advisors and owners with an opportunity to pro-actively address potential challenges. Identifying the fight response pattern will always be much easier to detect as it will be expressed overtly. Overt behaviors include: avoiding exit all together, challenging most (if not all) aspects of the exit process, making decisions that lead to making the business unsellable, being demanding and sometimes unreasonable, or canceling the deal altogether with little or no explanation.

Covert behaviors are usually much harder to detect. Most advisors who get a "gut feeling" the deal won't close should follow their intuition, it may be the best early warning sign. An experienced advisor's intuition will pick up on subtle cues from the owner and they may quickly realize that the owner's words and actions don't always align. Owners will promise to produce documents, but fail to do so with a series of plausible and seemingly understandable reasons. Or, perhaps the owner is unable to decide on a buyer, but can't explain why other than, "it is just a feeling" or "the chemistry is not right".

Regardless of what defense mechanism is used, at the core of this process is the owner's psychology. It is the place where their past, present, and future come together in a perfect alchemy that challenges their purpose, identity, self-concept and beliefs. These are the elements of the soft side of a business exit that no amount of hard side technical expertise or information can overcome. Bo Burlingham, author of *"Finish Big: How Great Entrepreneurs Exit Their Companies on Top"* and a former editor-in-chief of *Inc. Magazine*, asserts that the vast majority of owners regret their exit, particularly if they have not engaged in a robust exploratory process. He further explains that owner's who know themselves are better equipped to exit their businesses and those that lack this critical insight will struggle. Thus, it makes sense that the soft side of an owner's psychology is the source of intangible negative value drivers that vex advisors and owners alike.

Overcoming value destroying behaviors and other roadblocks to a successful deal should begin before advisors experience the challenge. Why? Think of it from a disease model perspective. Physicians assert that disease processes are much easier to diagnose in the late stages, but much harder to treat. Diagnosis in the early stage, when the disease is much easier to treat, achieves the best outcomes and requires the least traumatic interventions. Hence, advisors are best served by honing their craft, learning to recognize early warning symptoms, and building mechanisms for assessing owners in much the same way that physicians learn to recognize disease patterns.

ASSESSING AN OWNER'S TRANSITION PROFILE

What tools and resources are available for owners and advisors who want to understand the early warning signs and maximize the potential resident in this business life stage? For individual owners this begins with what we call the Owner's Transition Profile. The online instrument was developed in conjunction with PhD research to measure the 5 psychological behaviors that impact exit inclination. Basic demographic data that informs the context and projected time-frames is also collected because readiness must be considered in light of factors such as time, organizational size, industry, and experience.

For example, an owner that is exploring transition from a pure curiosity perspective and does not plan to exit for 10+ years who scores low on transition readiness is likely at a developmentally acceptable stage. However, an owner whose exit is eminent, in less than 2

years, in a rapidly changing industry who scores low will likely experience significant personal challenges during the exit process and (assuming they do exit) the dissonance will persist well into their post exit transition. Conversely, an individual who scores high on the assessment is much less likely to experience personal challenges and unmanageable dissonance during the exit process. This means that skilled advisors proficient at applying these concepts to achieve the right approach for the right client at the right time will increase their own ROI.

Burlingham's extensive qualitative interviews with entrepreneurs at various stages of exiting their business demonstrate this paradigm well. For those who had exited he found various degrees of satisfaction and success. His findings concur with other studies that recognize a high level of dissatisfaction among owners who exit. Some studies report findings as high as 75% of owners are dissatisfied within 12-months of their exit.

Burlingham discovered the distinguishing feature resident among the very small percentage of owners who Finished Big (exited in their own timing, as close to their own terms as possible, and went on to live a life of satisfaction and significance beyond their business) all successfully completed four critical phases.

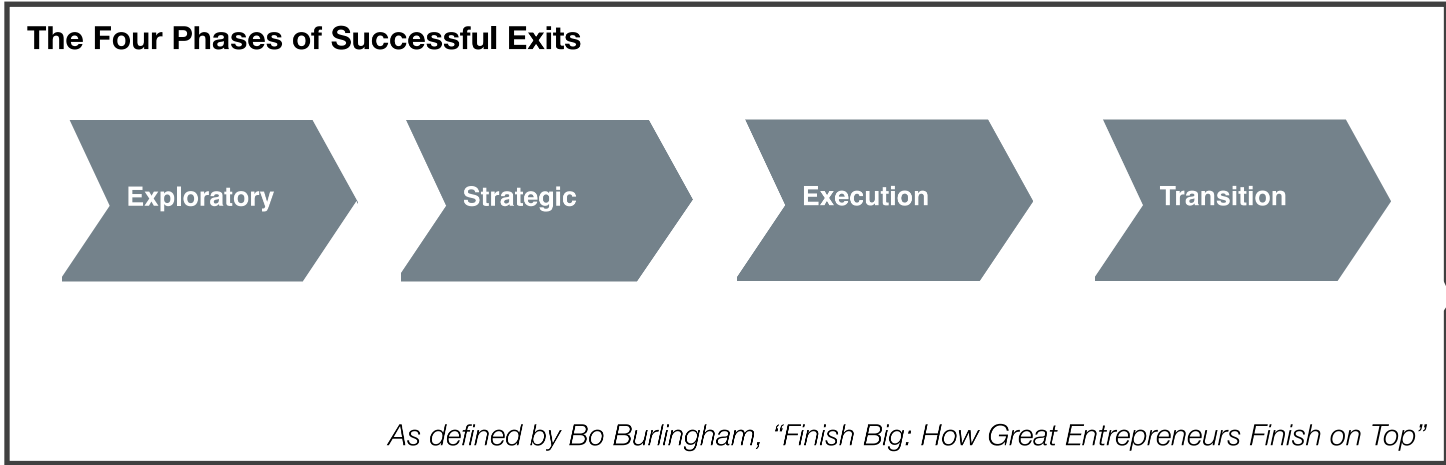
Building on Burlingham's findings and our own research we have adopted and augmented these four phases as follows:

Exploratory: this is the phase where owners do the deep introspective work of discovering who they are apart from their business, what they want for their MOM (Money, Ownership, and Management/Governance), and what they do and do not want for themselves and their business beyond their exit.

Strategic: in this phase owners are examining the exit scenarios available given their goals, timing, and current state of the business. They begin to view their business as a product and work diligently to make it sellable and build in the value drivers that will maximize enterprise value at sale. Owners begin to build a skilled team of advisors that specialize in unique stage of the organizational life cycle to augment their existing staff and advisors.

Execution: also referred to as the transaction phase. This is the phase where all the marketing, due diligence, and legal requirements take place. It is in this phase that quality advisors will make the difference for owners. M&A advisors who took the time to understand the owner's goals (established during the Exploratory Phase), help them refine their strategic approach, and bring buyers that will allow the owner to realize their ideal transaction terms deliver real value for the owner.

Transition: at the end of the Execution phase the owner moves into whatever comes next. For those that have been "building the bridge while they walked on it" this phase is already set and they are able to move fully into Transition without missing a beat. These owners will have started preparing for this time years, not months before their exit and this allows them to Finish Big and live a life of satisfaction and significance. Owners who did not engage in a successful Exploratory and/or Strategic phase may complete a transaction, but their Transition will be far more challenging and they are likely to have significant regret or dissatisfaction during their Transition.



As defined by Bo Burlingham, "Finish Big: How Great Entrepreneurs Finish on Top"

There are 3 reasons why time will either be the owner's greatest competitive advantage or their greatest handicap:

1. Building value drivers requires intentionality and often requires owners to behave and lead in ways they have not in the past. There will be a learning curve.
2. Exit is a part of the organizational life cycle that has unique organizational and personal demands. Owners that give themselves time to optimize the process for themselves and their business are likely to reap greater rewards.
3. A successful exit and transition requires owners to confront existential questions that are often multi-faceted, result in competing priorities that have to be reconciled, and impact multiple stakeholders.

All of this takes time. When owners wait for a so-called "trigger event" (death, divorce, disability, disaster, distress, or disagreement) they often rob themselves of their most precious resource – time. Those that do engage and devote sufficient resource (time, money, skills) often realize the benefits inherent in this competitive advantage – an optimal exit and successful transition.

How much time is required?

Burlingham's guideline is "years not months" based on his interviews with owners who were and were not successful at transition. Recognizing that all owners and their businesses have unique contexts and needs, along with the reality that the greatest single determinant of transition success is the owner's psychology, it makes sense that answering this question requires understanding the readiness of owners to engage the process.

While there are a multitude of aspects that could be measured we have found both experientially and through research that the 5 behaviors in our model provide actionable insights and a useful model.

The primary behaviors measured by the online instrument are:

1. Role-Identity Fusion (along a continuum from separation to fusion)
2. Openness to Change (along a continuum from Adaption to Innovation)

The secondary behaviors that are measured included:

3. Self-Awareness (SA)
4. Work-Life Balance (WLB)
5. Post Exit Resilience (PER)

By examining the interplay between the primary behaviors owners and advisors are able to appreciate the degree of change required (if any) to prepare the owner for a successful transition. With this insight in hand advisors can turn to three levers of change and examine the relative strength and weakness of the owner's SA, WLB, and PER. These indicators allow us to guide advisors and owners using appreciative inquiry and reflective questions to help prepare the owner for a successful transition. Given the effort often required to change behaviors, the more time an owner has the better.

Recalling that all models are wrong and some models are useful, we would be remiss to neglect the limitations of the model. Our objective is to provide a robust tool that yields actionable insights when considered against the broader context for the owner's transition. This model is not designed as a diagnostic instrument, it does not detect pathology, nor is it a comprehensive measure of personality. Instead, it is designed to specifically measure 5 key behaviors expressed by entrepreneurs/owners that have a direct and tangible impact on business exits.

[For more information on our assessment and reporting tools for advisors please see the end of this white paper and/or www.orangekiwillc.com]

Owner Personas

These assessments and profiles are most easily understood in the context of personas. A persona provides a sketch of the key attributes of a particular type of person. In this case, we are looking at the personas as they relate to business exit. Four illustrative examples are Foolish Frank, Ready Rita, Posturing Pat, and Insidious Ingrid.

Foolish Frank: hires an advisor, but doesn't let her do the job he hired her to do. Instead, he procrastinates and leaves his advisor hanging in the breeze putting his own self-interests at risk.
*Ready Rita: c*ouldn't be more different from Foolish Frank. She's built a cohesive team of advisors, a clear strategy, and a coherent set of actions that she has been working towards for 4.5 years.

Posturing Pat: somewhere in between Foolish Frank and Ready Rita. Pat wants to exit the business, is giving all the right indications that he will exit the business, but neither he nor the business are really ready.
Insidious Ingrid: not an owner, just a key influencer who derails every attempt to get the deal closed.

Foolish Frank

Foolish Frank is perhaps the most challenging profile. On the assessment he scores:

- Very high Role-Identity Fusion
- Adaptive Problem-Solving Style (low openness to change),
- Very low Self-Awareness,
- Very Weak Work-Life Balance, and
- Very Low Post-Exit Resilience.

Foolish Frank is in the "Danger Zone" in terms of exit readiness. Everyone has a Foolish Frank or two in their lives. These are the emperors with no clothes on. They are often brilliant, but they are also resistant to advice and have such a severe lack of self-reflective ability that (barring a miracle or catastrophic event) they are unlikely to be intrinsically motivated to change.
Foolish Frank will exit his business, but it isn't going to be pretty and unless he does a significant amount of personal development he is likely to sabotage every good effort that would lead to a successful exit. It is quite likely that this exit will follow one of 3 scenarios:

1. Foolish Frank dies and advisors will help his heirs clean up the mess. Even with a will or trust it is almost certain that Foolish Frank built the business around him and there will be enormous gaps in tacit knowledge, management strength, systems, and his heirs will be ill-prepared.
2. Foolish Frank has a personal or business crisis that forces him to acknowledge he can't overcome it alone. Recognizing the reality of this situation and asking for help is a significant shift in Foolish Frank's mental model. If he comes to an advisor early enough they have got a shot at helping him turn things around. Crisis is a moment in time where people are more open to change than at any other point. Assuming Foolish Frank brings the situation to the table while there is still time, putting together the right turn around team is critical – and that team must include a strong executive coach who can help Foolish Frank internalize lasting change. If he doesn't internalize the change, the danger is that once things start to get better, Foolish Frank will jump ship and go back to his old ways.
3. Foolish Frank gets an offer he can't refuse. It has been said that, "everyone has a price." In most cases, I think that is true, but Foolish Frank is often the exception to the rule. Even if the right offer comes along and Foolish Frank chooses to accept, it is quite likely that he will unwittingly engage in acts of self-sabotage putting the deal at risk. And, if it does close, he will almost certainly regret the sale, bemoan the fact that his advisors let him down, and drive his family nuts.

Advisors: Normally an advisor's focus is on managing client expectations. In this case, advisors are wise to manage their own expectations and be realistic about what can and cannot be achieved with a Foolish Frank. Until Foolish Frank can fully engage the self-exploration aspects of preparing for exit it is prudent to resist the temptation to push him through the exit process.

Ready Rita
Unlike Foolish Frank, Ready Rita has the capacity to engage her highly skilled experts and begin planning her exit. Ready Rita is in the "Sweet Spot" of exit readiness. Her assessment profile demonstrates:

- Very High Self-Awareness
- Innovator Problem Solving Style (strong openness to change)
- Strong Work-Life Balance.
- Very Low Role-Identity Fusion
- Very Strong Post-Exit Resilience.

Ready Rita built her business so that it can function extremely well with her management team responsible for the day-to-day. She has ensured there are systems, processes, and people in place that are skilled and empowered to achieve the firm's objectives. This does not mean that she has become a laissez faire leader. Instead, Ready Rita has a very clear set of decision-making criteria and expectations in place reserving only a limited set of critical decisions for herself. Ready Rita knows who she is apart from the business and has reached a level of self-actualization that fosters the development of life beyond her business.

Ready Rita has actively engaged the exploratory and strategic phases of exit planning and she appreciates the benefits of an optimized bottom line and resulting increased business valuation. Over the last 4.5 years Ready Rita has been steadily preparing the business for her exit and she has realized the very tangible positive impact on her bottom line that this effort continues to yield. Ready Rita has a team of professional advisors that function as a cohesive team of external experts who are executing against a common plan. They function external to the business in much the same way that Ready Rita's management team functions internally. When the right strategic buyer comes along, Ready Rita will be prepared to act and realize an optimized business valuation.

Posturing Pat

Posturing Pat is somewhere between Foolish Frank and Ready Rita. The readiness assessment indicates a:

- Moderate Self-Awareness
- Moderate Openness to Change
- Weak Work-Life Balance.
- Very High Role-Identity Fusion
- Weak Post-Exit Resilience.

Posturing Pat has a set of advisors that have been in place for many years, some for the entire 18 years the business has operated. Despite having been in place for an extensive period of time the advisors have never been in the same room. Instead, Posturing Pat prefers to have the professional services provided in the silos of their own discipline.
Several of Posturing Pat's advisors have asserted the need to plan for exit and even made independent attempts at putting a succession plan in place. There is a will, a trust, and a directive for Posturing Pat's brother-in-law who will take over in the event something happens to Posturing Pat. (The brother-in-law is a college professor who teaches business, but he has never actually run a business.)

The business attorney suggested Posturing Pat talk with an investment banker who did an initial assessment of the business. Posturing Pat, the business attorney, and the investment banker met to discuss options and the result was that Posturing Pat rejected the banker's report stating, "The report is a useless piece of garbage". The business attorney never raised the issue again. When the accountant broached the subject Posturing Pat claimed that the business has already been reviewed and readied for an ownership transition when Posturing Pat is good and ready.

Posturing Pat is not being dishonest. The prior experience was enough to engrain a set of false beliefs that now must be overcome before any advisor will be able to penetrate Posturing Pat's psychological barriers. For advisors, this does not mean they should stop having the conversation, it does mean that they need to change how they are having the conversation and what the content of the conversation is focused on achieving.

The content of the conversation should go back to Posturing Pat's prior experience and build out form there. A carefully selected set of questions that tease out the challenges over time will provide clues to helping Posturing Pat overcome the personal barriers to exit planning. Trained advisors use the assessment results to understand that Posturing Pat's core issue is Role-Identity Fusion. These advisors are then able to engage in ways that help to build on the moderate level of Self-Awareness to develop Work-Life Balance and Post-Exit Resilience as part of the exploration process or strategic phases of the exit planning process.

Insidious Ingrid

Insidious Ingrid is the only member of the cohort of personas that is not an actual owner. It would be easy to dismiss her role in the exit process if it were not for the fact that every time you turn around you will be tripping over her. The upside is that not every owner has an Insidious Ingrid on the "unofficial" exit team. But, Insidious Ingrid is part of the process and ignoring her will only make the process harder on everyone.

As an advisor, if your first reaction is absolute certainty that having Insidious Ingrid in the room will make things more complex, more draining, more time consuming, and considerably more challenging than it should be, your instincts are correct. But, not having her in the room means that progress is likely to get undone when the owner leaves your office. The truth is, if she is part of the team you are dealing with her at every step of the process (at least indirectly) and there are times when putting her at the table is prudent.

A Note About Multi-Owner Businesses

In many cases advisors will be dealing with multiple owners and/or multiple generations and levels of ownership. In these cases, it is critical to consider each owner profile as part of the whole system. Thus, we employ well established systems thinking, sound business thinking, and psychological theories in conjunction with our basic assessment.

CONCLUSION

The 5 Entrepreneurial traits (Risk Taking, Innovativeness, Need for Achievement, Tolerance for Ambiguity, and Need for Control) and the 5 behaviors (Role-Identity Fusion, Openness to Change, Self-Awareness, Work-Life Balance, and Post-Exit Resilience) provide both language and a framework for understanding the psychology of owner exits. Many of this model's elements have existed and been individually explored by skilled researchers for decades. Our exploration, coalescing of ideas, and subsequent building of the model was born out of a strong desire to help owners avoid unnecessary wealth and legacy destruction by helping their advisors address the hidden challenges of the owner's psychology.

While there is considerable access to skilled professional services in the "hard" business disciplines about the technical aspects of exit, they reside primarily at the strategic and tactical levels of the exit process. And, there is very little research-based knowledge available to owners and advisors about the most poignant component of exit, the owner's psychology. Our goal is to work with other thought leaders, researchers and subject matter experts to continue to refine and develop understanding that leads to actionable insights. Failed business exits will still happen, but we believe by creating the opportunity for advisors and owners to approach exits with greater understanding, clarity, and transparency the number of successful exits will increase.

Owners have invested years of hard work and families have sacrificed precious time that can never be recovered. The wealth and legacy that has been built should be maximized and not destroyed in the last mile. Built with both owners and advisors in mind, the model is designed based on the reality that the greatest opportunity for increasing exit success, preserving an owner's wealth and legacy, and maximizing an advisor's investment comes from understanding an owner's psychology. Advisors are able to provide better guidance and recommendations for their clients when they can identify the owner's inclination for transition and the levers for change to move them to action. In addition, advisors are able to maximize their limited resources by focusing the right resources at the right time to serve the right owners with greater effectiveness.

ABOUT THE AUTHORS

Allie Harding is currently pursuing her PhD at the Chicago School of Professional Psychology and her developing dissertation is focused on change and effectiveness at the point of business owner transition. Working as an accomplished organizational consultant, Allie has assisted senior leaders, boards, and the organizations they serve at critical points of transition. Her background in business and psychology enables her to provide powerful insights to business owners and their third party professional advisors. Email: allie@ockiwi.com

Andrew Taylor is an experienced business leader and consultant. Drawing on his experience serving Fortune 500 clients at McKinsey & Company, Andrew has served in executive roles in both New Zealand and the United States. He provides advisory and consulting services to businesses at the point of transition. Email: andrew@ockiwi.com

Orange Kiwi is the expert in the psychology of entrepreneurs at significant points of transition and exit.

We specialize in working with advisors and business owners to achieve successful business transitions.

Many business owners (and indeed advisors) see transition and exit as a straightforward process involving decisions on taxation, legal compliance and wealth management. But, our research and experience prove that the process is far more complex: it's a journey that affects every aspect of the owners' lives, including their emotional and psychological wellbeing.

The conundrum: very few business owners have the time or inclination to "lie on the couch and process the experience". That's where Orange Kiwi comes in with proven fit-for-purpose business solutions.

Our work is used by a number of different client groups including wealth managers, investment bankers, third-party investors and business owners themselves so as to gain critical insights that can make or break business opportunities.

To discover how we can help you achieve your business outcomes please contact us today.

Web: www.orangekiwillc.com

Email: info@orangekiwillc.com

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