Seeing Below the Surface:
The Wealth Manager & The Business Owner

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Successful entrepreneurs are almost always the wealthiest of any wealth manager's portfolio. A generation of these entrepreneurs are facing a business exit. The wealth manager has a potential position of profound influence in helping business owners successfully exit their business. Done well a sale/succession transaction has the potential to significantly boost the liquid assets the wealth manager is able to manage.

Yet, in survey after survey business owners consistently evidence a resistance to taking the actions necessary for a successful exit. We argue that the response to this dilemma is not one that most wealth managers are used to. In fact, it is completely counter intuitive. That is, business owners are not going to be motivated by external factors that the wealth manager thinks are so important. Helping the business owner requires understanding what you cannot see because what keeps an owner from action has nothing to do with numbers and everything to do with their psychology.

Wealth and Asset Managers (WAM) are uniquely positioned in the business transition landscape. They are often the only professionals at the deal table that have continuity of relationship with the owner(s) prior to, during, and after the transaction. This unique positioning gives skilled WAM professionals a poignant opportunity to effect positive change, help business owners Finish Big, and join an elite group of business owners that exit on their own terms in their own timing and transition to a life of satisfaction and significance.

Getting owners to engage in transition planning has been one of the most perplexing objectives faced by WAM professionals. Every tool in the WAM's arsenal is tried and yet business owner clients continue to make choices leaving themselves exposed to multiple risks ranging from a lack of asset diversification and risk mitigation to complete wealth and legacy destruction. Advisors consistently lament the insanity of this unwise and unnecessary dilemma.

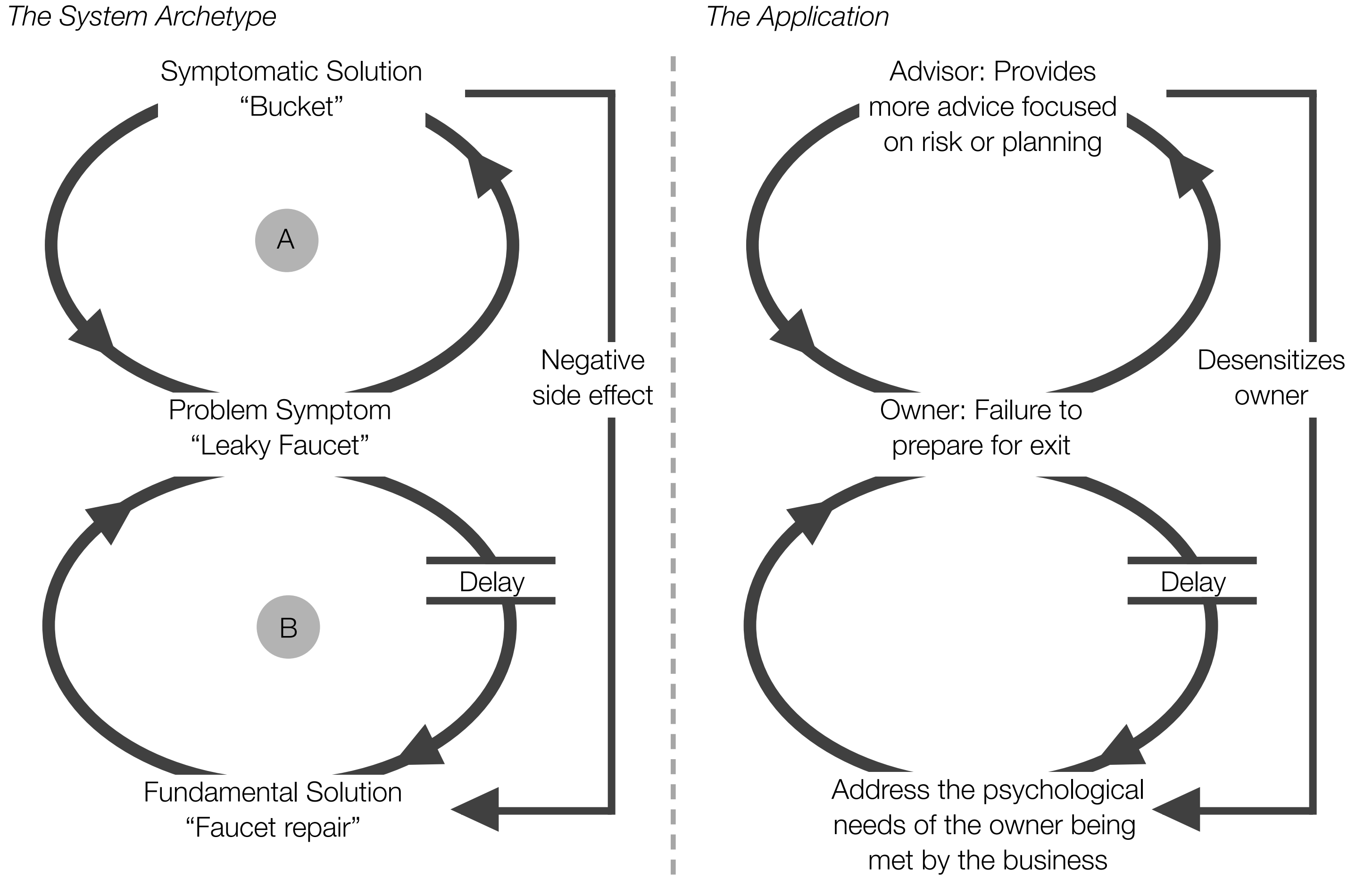
Meanwhile, in study after study owners report knowing they should plan for their transition, but acknowledging they have taken little (if any) action. This is the "Knowing-Doing Gap" and it is the advisor's dilemma, not the owners. Why does it exist and what can be done to solve it? Answering that question requires understanding the 5 common characteristics and behaviors of successful owners along with the system context in which this dilemma is perpetuated.

THE SYSTEM

Systems thinking is one of the most powerful tools available for understanding why the Knowing-Doing gap exists and how to address it. Peter Senge, author of "The Fifth Discipline" is a systems thinking expert whose model provides clarity and a rich understanding of various system archetypes. This includes "Shifting the Burden", one of the most common reasons for the Knowing-Doing gap.

This archetype describes what happens when addressing symptoms is preferred over solving root causes. Take for example the problem of a leaky faucet. The leaky faucet is a problem, but it is a symptom and not the root cause. A symptomatic solution ("A" in Figure 1) such as a bucket doesn't ultimately solve the problem, rather it more often increases the complexity and challenge of getting results because of negative side effects. Fundamental solutions ("B" in Figure 1) require looking below the surface and identifying the fundamental challenge (root cause) and applying a fundamental solution. However, fundamental solutions are often

Figure 1: Shifting the Burden & The Business Owner



more complex and time consuming - thus the delay.

When faced with the advisor's dilemma, the most common course of action is to apply a quick fix meant to alleviate the symptom. The problem symptom is that owners are not planning for transition. Good WAM advisors trained in the technical wealth management aspects of the problem do what they are trained to do – provide more knowledge in the form of technical information. In the short term this quick fix appears to potentially address the problem, but in the long term it does not fix the problem and the symptom reoccurs.

To compound matters, choosing the quick fix approach often results in side effects that make the problem even more resistant to a fundamental solution. Owners that say they know they should plan also report having advisors who have provided knowledge and information about why they should plan. But, owners are simply not moving to action and instead are becoming more and more desensitized to the advisor's repetitive messages.

Skilled WAM professionals understand the challenge and resist quick fixes, choosing the alternate path of applying a fundamental solution. In so doing, they leverage the owner's inclinations and persist through delays that are inherent in fundamental solutions. Why the delays? Unlike quick fixes, fundamental solutions are often more complex, require more sophisticated approaches, and take more time to achieve the desired results.

In the case of owners who know they should plan, but do not plan the fundamental solution involves positioning the advisor's services, offerings, and messaging in such a way that piques the owner's interest, activates their natural curiosity, and engages their need for goal achievement. Solving the advisor's dilemma with a fundamental solution requires sustained application of interventions that reflect the advisor's best understanding of the natural inclinations, characteristics, and motivations of their business owner clients.

This system explains why we often hear WAM professionals and other advisors say, “I wish I had a degree in psychology” or “it feels like I spend more time doing counseling than wealth management”. While it is not possible to be all things to all people, we do encourage WAM professionals and other advisors to do three things:

1. Understand the basics of business owner psychology;
2. Design your processes, offerings, and messaging in an manner that piques owner interest; and
3. Know when you need to call in third party specialists.

UNDERSTANDING THE BASICS OF BUSINESS OWNER PSYCHOLOGY

Research demonstrates that successful business owners reaching the low to mid market threshold ($5M ≤ $500M annual revenue or approximately 10% of all businesses) share 5 common characteristics:

Risk taking propensity: 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. Decisions must be made in the face of imperfect information with no guarantee of success. At it’s worst, the consequences of failure could mean that a lifetime of blood, sweat and tears are lost with one bad decision. Yet, successful owners embrace risk as a pathway to success.

Tolerance for ambiguity: This is the concept of being able to thrive in the face of complexity and uncertainty. Each new level of success brings new levels of uncertainty and complexity that require successful owners to navigate uncharted waters. If owners did not have this characteristic they might not be able to get out of bed in the morning to push through obstacles, demands and challenges that confront them on a regular basis, let alone having to lead the people that depend on them through turbulent waters.

High innovativeness: Successful owners are naturally creative and have a strong drive to blaze new trails, build something from nothing, exploit change and create opportunities. They have an innate belief in their ability to find solutions to their most difficult challenges. Identifying and exploiting opportunities that others simply miss is a testament to the power of this characteristic.

Need for achievement: Entrepreneurs have a strong drive that propels them to constantly raise the bar and reach new goals. If their competitor does “x” in revenue they want to do “2x” and they are never satisfied with second best. Significance comes from reaching heights that set these successful owners apart from the crowd. It is an intense mental state that pushes them to excel.

Need for control: This is perhaps the most commonly referenced characteristic of owners. They have what is referred to as an internal loci of control or a belief that outcomes are a direct result of a person’s actions or inactions. Simply put it means they believe that they can control their environment and the outcomes they experience. People with this characteristic have a heightened sense of responsibility and a strong desire to be self-directed.

Considering the obstacles to success, the relatively low number of businesses that survive and thrive in the low-to-mid market, and the resilience required to endure against overwhelming odds, it makes sense that those who succeed share a common set of characteristics. In fact, these strengths are absolutely essential for owners to have the resilience and drive to succeed in business. But, like all strengths, there is a dark side. In the case of entrepreneurs these very same characteristics that are essential strengths, lead to the Knowing-Doing Gap.

When risk taking propensity, tolerance for ambiguity, and innovativeness combine to create a blind spot for owners it can become a weakness that steals their most valuable resource for a successful exit, and that resource is time. When advisors attempt to overcome this blind spot using messages such as “risk mitigation”, “asset diversification”, and “contingency planning” they are speaking their own language, not the owner’s. Successful low to mid market owners simply do not view the world the same way their advisor’s do, nor do they speak the same language and thus messages get lost in translation.

The sad reality is that the vast majority of businesses in the low to mid market do not sell. In fact, many reports put the failure rate somewhere in the range of 70-80%. Combine this number with the number of business owners that report being “profoundly dissatisfied” with their decision to exit within 12-months of the close and we find that the elite group of business owners that actually achieve a life of satisfaction and significance beyond their business is very small – somewhere around 7 – 10%. What happens to the others? Some businesses are simply not sellable, some become distressed assets and/or face voluntary liquidation, still others continue to be operated until they wind down and close the doors. Why would a successful business owner choose one of these wealth and legacy destroying paths?

The simple answer – they don’t choose it. In fact, most don’t see it coming. Successful business owners are naturally wired to build their business, and exit is the antithesis of building. Therefore, getting into the elite group of owners that exit on top requires business owners to act exactly contrary to their natural wiring and that is not easy because these 5 characteristics are incredibly resistant to change. The good news is that some of their behaviors are more malleable (or open to change).

THE HEART OF THE MATTER

In our research and model there are two types of behaviors, primary and secondary. Primary behaviors tend to be more trait-like and therefore more resistant to change. However, secondary behaviors are more malleable and make perfect targets for effecting change with owners.

PRIMARY BEHAVIORS

Role identity fusion: The tendency to blur the boundaries between the self-identity and the role identity. Complete fusion means an owner does not know who they are apart from their business and exiting means leaving their core identity. Owners with good identity separation are able to move in and out of their roles with little or no disturbance.

Adaption-Innovation: Also known as openness to change this scale measures the owner’s inclination to prefer the tried and true or blazing new trails. Those that prefer the tried and true are less open to change and those that prefer to blaze new trails are more open to change.

Three Stages of Working With Business Owners

SECONDARY BEHAVIORS

Self-awareness: An owner's ability to monitor their thoughts, feelings, and emotions to mindfully respond to the world.

Work-life balance: The degree to which key motivational forces are satiated through the role and work of the owner as compared to other areas of life.

Post-exit resilience: The capacity an owner has to live a life of satisfaction and significance beyond their role as owner.

Taken together, these behaviors provide a roadmap for change, but in order to move owners to action, first you have to capture their attention in a way that works with their personality and avoids building resistance.

WHAT'S A WEALTH MANAGER TO DO

The first response should not be a knee-jerk reaction. For example, simply changing a few words on a website would be an insufficient response. Instead we recommend a 3-stage approach that includes activation, evaluation, and engagement.

Activation requires stimulating an owner's natural curiosity and competitiveness to create a sticky opportunity that is so intriguing it compels them to want more. How do you create a value proposition that moves an owner to viewing transition (exit) as a natural part of their organizational life cycle that has rewards and opportunities they desire? Like all successful professionals, you have to get in the mind of your client, explore your environment, and figure out how you can provide value adds that pique the curiosity of your owner clients and offer them something they care about. One of the things many owners care about is self-improvement, particularly if it is tied to improving their organization's bottom line.

Evaluation is about helping individual owners take an objective, rigorous, and honest look at their own strengths and weaknesses and how these might help them excel or how they could be holding them back from busting through the organizational challenges they face. In cases where there are multiple owners it is important to evaluate each owner as an individual and how they function together as a group. The reason it is so important is summed up best in a statement by psychologist Carl Rogers: "The curious paradox is that when I accept myself as I am, only then can I change." Owners who know who they are and what they want are better able to overcome challenges of self-deception and the paradox of success. These are critical barriers to helping owners engage the concept of exit and transition.

Engagement and keeping owners sticky over the long term is a bit trickier. It requires working with their resistance and not against it. This is best accomplished by recognizing that owners are naturally curious, innovative, and driven to achieve. But, they are also unique and often times there are very few people with whom they can be completely transparent. Employees usually have peers that offer support, encouragement and a resource for personal growth and development. Business

Case Study

- $25M (EV) Company
- Innovative Industrial Process Solutions
- Owned by "Bob" and "Jean"
- Bob & Jean are the founding owners, now in early seventies and looking to exit
- John and Sally are adult children, John to take over the business

Bob and Jean attended one of Orange Kiwi's local owner forums (Activation) as sponsored by the wealth management division of a national financial institution. Bob and Jean were clearly engaged by the content, with Jean making sure that Bob knew the subject at hand was him! They had been attempting to exit their business for sometime, only to repeatedly pull out of viable deals from interested and qualified investors.

Subsequent to the event, Bob and Jean both took Orange Kiwi's 15 minute online assessment (Evaluation) which helped create a clear picture of their respective needs, strengths and challenges. It was clear that as a family they did not have confidence and clarity as to what they wanted at the point of exit. At that point Orange Kiwi and the wealth manager developed a cohesive customized approach (Engagement).

This custom approach included Orange Kiwi doing initial interviews with each family member. This pre-work allowed Orange Kiwi and the wealth manager to execute a collaborative 1-day on-site working session to stress test potential scenarios (paid for by the owner). Subsequently, the family had the confidence and clarity they need to effectively engage the exit process and a highly trusted investment banker was brought to the table.

Approximately 7 months after the forum the business has gone to market and is expected to fetch ~$28M. The wealth manager is set to gain new clients as both the parents and children bring significant associated AUM.

owners rarely have a group of peers with whom they can explore their experiences, beliefs, and perspectives. There are very few places where successful owners are truly known and free to "not lead".

The success of groups like Vistage, Young President's Organization (YPO) / World President's Organization (WPO), Entrepreneur's Organization (EO), Convene and others are a testaments to the fact that CEOs value peers. While these groups are not exclusively for business owners and they are focused on the growth-phase of the organizational cycle, not the transition or post transition phases, they do offer some keen insights that advisors can leverage to create sticky opportunities for owners. Evolve is a peer group organization that was founded by former mid-market business owners. While growing and leading their businesses they found tremendous value as members of Vistage, but when the time came to exit they simply needed something that wasn't offered – wisdom from peers and those who had exited.

Bo Burlingham, former editor of Inc. Magazine, author of "Finish Big: How Great Entrepreneurs Exit Their Companies on Top", "Small Giants: Companies that Choose to be Great Instead of Big", "The Great Game of Business" (to name just a few) interviewed a number of Evolve members when he wrote "Finish Big" and discovered just how important peer groups are. In fact, peer groups are central to the phase of exit that is most crucial for business owners – the Exploratory phase (see our white paper - "The Psychology of Exits" for more information on the phases of exit). Helping owners engage in a robust exploratory process that helps them discover who they are apart from their business, what they do and do not want for their MOM (Money, Ownership, & Management/governance), and what they want for themselves after the deal is done is essential for achieving a successful exit. And, perhaps more importantly, it improves the odds of achieving a successful transition and living a life of satisfaction and significance beyond their role as owner.

CONCLUSION

No matter how hard an advisor tries, they will NEVER be able to change an owner. But, when an advisor changes the way they interact in a system they change the system and that gives way to producing new outcomes. In the case of the "Knowing-Doing Gap" the advisor's dilemma is a choice between applying the quick fix of providing more technical information and perpetuating the system or perturbing it by applying the fundamental solution of addressing the psychological needs of the owner that are currently met through the business. Owner's have no need to achieve somebody else's goal (ie., the advisor's need for the owner to plan for exit), but they are relentless when they set out to achieve their own goal. Once planning for transition becomes the owner's goal, the advisor's technical expertise takes on new value and meaning.

WAM professionals are uniquely positioned for positive disruption to the routine exit planning noise that pervades an owner's world. Take a small step and simply offer them something different. Think about your systems and processes – are they designed with owners in mind or are they designed from your worldview, needs, and desires? Examine your messages – do they pique an owner's curiosity or fuel their resistance? Reflect on your last meeting with a business owner – did you create scenarios and room for exploration or did you offer a series of recommendations or maybe even "the one right" answer? What do you have in your arsenal that keeps owners sticky and engaged?

Here are three ways we can help you create environments that foster owners moving to action:

1. Work with you to design and execute a business development pipeline designed for activating current business owner clients and attracting new business owner clients.
2. Work with you to maximize your investment of resources by focusing on the right owners at the right time with an owner centric approach. (And, knowing when to say "no more investment of resources" on owners that are unlikely to move to action.)
3. Work with you to keep owners sticky and engaged over the long term while they develop the capacity to transition themselves and their business so that they are able to join the elite group of owners that finish big.

Our goal is to see more business owners Finish Big by helping you serve business owners well. Doing that means engaging them more effectively at the exploration and strategic phases, which will increase the opportunity for you to participate more fully financially throughout the life-cycle of the business owner.

ABOUT THE AUTHORS

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ORANGE KIWI

Successful entrepreneurs are highly valued wealth management clients. A critical life-stage for such business owners is exit and succession. Wealth managers can play an instrumental role in helping prospects and clients succeed at this critical season. This is inevitably complex and challenging because for an owner a business is not just an asset class, rather it is in many cases their life work.

At Orange Kiwi, our PhD based expertise is the psychology of entrepreneurs at the point of exit. We serve both some of the nations largest wealth management institutions as well as smaller regional firms in helping them:

- Design and execute innovative business development funnels that are proven to unlock existing business owner clients and engage new prospects
- Work with the advisor, and the individual business owner/family who need help with the “soft stuff” just as much as they need technical investment advice
- Understand what makes the business owner psychologically different from most other clients and what it means for marketing and client services.

For more information please contact us today.

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