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From her early career buying, transforming, and selling failing small businesses to executive roles, Allie has worked in both the non-profit and for-profit spaces domestically and internationally. She leverages this experience and her education (Bachelors in Biology and Chemistry, Masters in Marriage and Family Therapy) to serve owners and their advisors in the low-to-mid market space at points of significant organizational transition (scale, sale, succession).

DISSERTATION SUMMARY: NEW FINDINGS HELP OWNER-MANAGERS BEAT TRANSITION ODDS

Owner experience, advisor observations, academic literature, and popular books agree - significant transitions (scale, sale, succession) fail more often than they succeed in the low to mid-market business environment. Economic realities of failed transitions are quantified in unrealized shareholder returns, unrecoverable financial costs, and wasted opportunity costs. But, the more profound impact lies hidden below the surface in the mind of the owner-manager. When successful people run into a challenge they cannot conquer (scaling through a growth curve or exiting their business) they pay an emotional premium that can be more costly than any financial losses.

Whether attempting to scale a business, engage in leadership succession, or sell a business, all three significant transitions require owners to make a psychological shift that enables them to succeed both during the transition and once it is complete. With more than 28,000,000 businesses in the United States only ~17,000 ever exceed $50M in annual revenue and 96% never exceed $1M in annual revenue (US Business Census, 2012). Clearly, scaling presents challenges and while all transitions are difficult, the most challenging is the owner-manager exit (particularly for founders). According to experts in the merger and acquisition field, the vast majority of businesses fail to sell on their first attempt largely due to the owner's psychology (Peters, 2012). What distinguishes owners who make the shift and scale through growth curves or exit from those who cannot?

This study sought to understand the psychological dynamics that either impinge on or enhance an owner-manager's transition efforts so that more owners achieve their goals and enjoy lives of satisfaction and significance. Building on more than 40 years of academic research in business and psychology, insights from experienced advisors, and the groundbreaking qualitative understanding of the owner's experience provided by Bo Burlingham in *"Finish Big: How great entrepreneurs exit their companies on top"*, this study examined critical psychological dimensions in the context of a theoretical framework that can be translated to solve practical business needs.

This article describes academic understanding gained through the quantitative dissertation research of Allie Taylor, PhD about an owner's psychological inclinations towards transition in a format that is impactful for owners and their advisors. The quantitative study involved insights from 133 owners actively responsible for management of the business (owner-manager) as opposed to passive shareholders. Both significance and identity were found to be critical indicators of an owner-manager's inclination for transition success. This finding offers a powerful opportunity for owners to proactively measure their transition readiness and, in so doing, increase their opportunity for transition success.

THE CHALLENGE

Building a successful business requires tremendous stamina, resilience, passion, and drive. It also requires a certain psychological predisposition (we'll refer to this as "wiring"). That wiring leads to predictable patterns that allow successful owners to achieve and maintain various levels of organizational success. Even with this wiring, a vast majority of owners will hit a ceiling beyond which they cannot scale. And, when the time comes to exit an even greater majority will struggle with transitioning out of their business on their own terms and in their own timing.

By taking a systems thinking approach we quickly recognized distinctions between owners that achieved successful transitions and those that did not. These insights pushed us beyond the business dynamics to the psychology of owners and their management teams. A prominent experiential pattern quickly emerged. "Who" the owner is and "how" they lead their business determined their level of success.

Experientially, the case that really drove this home for us was a client we'll call "Peter". He was a brilliant 72-year old engineer turned real estate development mogul who built an impressive business. The world believed that he had exited his role as owner and the eldest of his 3 daughters, Joan, was running the business. But, that couldn't have been farther from the truth. As CEO Joan couldn't make even a moderately serious move without first getting dad's approval.

About the time Peter was reported to be transitioning out of his for-profit role, he became frustrated with the leadership of his local church and he did what any driven entrepreneur would do. He decided to solve the problem himself by starting a non-profit. In a few short years he had grown the non-profit to an annual revenue of approximately $12M. Peter became frustrated because it had plateaued over the prior 3 years despite considerable attempts to scale.

Peter blamed staff, volunteers, consultants, economic climate, and systems for the scale challenges. However, during this period, Peter had tried to transition his leadership of the non-profit 2 times and was in the midst of his 3rd attempt. Could the 2 challenges be related? As we began the engagement the root causes for failing to scale and failing to exit leadership became clear - the psychology of the founder - Peter. Not only was his identity fused to his role, but he derived his strongest sense of significance from being a founder and "former" business owner.

Peter is not alone. He may be an extreme example, but he is in good company. We, like all professionals who work with low to mid market owners have our share of "Peter" stories.

Examination of the psychological differences between owners that failed to successfully achieve transition goals, those that achieved and sustained the hard fought changes, and those that initially realized their goals, but returned to previous patterns soon after the engagement forced us to the business and psychology literature. There was no shortage of research on low to mid-market business owners (aka: entrepreneurs, owner-managers, CEO-owners), but very little exists to describe how to address the observed challenges. Solving this conundrum required Allie to enter a PhD program in business psychology and focus her dissertation on understanding the fundamental issues owners experience at these significant points of transition (scale/sale/succession).

Some startling insights about scaling were gleaned early in the research including:

- Only 4% of all businesses in the United States (US) exceed $1M in annual revenue (AR)
- Approximately 0.28% reach or exceed $15M AR
- Of the 28 million businesses in the US fewer than 17,000 (.00061%) reach or exceed $50M AR (for more details check out the 2012 U.S. Business Census)

We also found interesting patterns with regard to business transitions (sale & succession):

- Most owners do not give any thought to their exit until they make a decision to do so (Detienne & Cardon, 2006)
- The vast majority of owners are dissatisfied and/or profoundly dissatisfied within 12-months of exiting their business (PwC 2014; Burlingham, 2013)
- Multi-generational family businesses get more complex and have a higher failure rate with each successive generation (Kets de Vries, 1996, 2003; Kets de Vries, et al. 2007)
- Leadership successions rarely succeed the first time and often take longer than expected (Burlingham, 2013)
- Most third party transactions do not close on the first attempt and the failure is most often attributable to the psychology of the seller (Peters, 2012)
- Owners that beat the odds to transition on their own terms go through four critical stages: Exploratory, Strategic, Execution, and Transition (Burlingham, 2013)

When we examined the literature on change management, scaling, and start up success the rates of success were no better than those observed in the sale/succession efforts. In fact, the trends were so similar that our initial thought was to focus the research on comparing these three major types of organizational transformation phenomena to determine if we could identify patterns that could lead to behavior change. However, the nature of a dissertation requires a focused research question and the ability to finish the research in a reasonable period of time. After careful consideration our tactical decision was to focus the research on the one thing that is common to all business transformation success – *the psychological inclinations of its owner(s).*

More than 40 years of research led to a theoretical framework that recognized:

1. The interaction of five personality characteristics common to successful owners;
2. How those characteristics are used to satiate certain motivational drivers; and
3. Two specific behaviors displayed by owners that enhance or inhibit transformation success.

Building on the work of earlier researchers ranging from family business dynamics, behavioral psychology, personality psychology, behavioral economics, merger and acquisition studies, entrepreneurship, and change management (to name a few) this research focused on filling a gap between describing entrepreneurial phenomenon and creating the potential for intervention to help owners achieve their transition (scale/sale/succession) goals.

By identifying and measuring key behaviors that directly impact an owner's capacity for exit, the hidden is made known thereby creating a lever for change to proactively address psychological barriers that impede success.

Our ultimate goal in undertaking this project was to increase the number of owners who transition successfully.

In the near term, this study offers three significant contributions to the extant literature:

1. Providing an objective measure that owners can use to gain personal insight as they attempt to make sense of the transition experience, break through barriers, and achieve their goals.

2. Enhancing academic understanding of entrepreneurial transition by leveraging existing research to develop a robust psychometric that provides measurable insights for owners and their advisors.

3. Offering an accessible, easily administered mechanism for differentiating owners who are more likely to successfully transition their business with little or no psychological intervention from those who are more likely to face emotional and psychological challenges that impinge on their ability to close the deal. Trusted leadership advisors will be better equipped to assist owners by having a quantitative understanding of psychological levers available for change.

In alignment with the requirements for a dissertation study, a single transition process was selected. Based on existing literature the most challenging transition experience successful owners face is their exit from the business. Extant literature, personal experience, and interviews with owners and advisors, identified entrepreneurial role-identity fusion (ERIF) as the essential behavior that is under described in the literature and most germane to the exit process. A fit-for-purpose scale was developed based on the existing RIF scale developed by Swann, et al. (2012) at the University of Texas at Austin.

THE STUDY

The overarching study question, "Does the ERIF instrument significantly predict a low to mid market business owner's inclination to exit the business?"

Answering this question required advanced statistical techniques that provide an indication of causation. In this case, the appropriate technique was exploratory structural equation modeling (ESEM). The target population (owner-managers of businesses with between $1M and $500M in annual revenue) was surveyed using an online platform.

Respondents were screened using a demographic questionnaire that was also used for descriptive analysis and certain correlational analysis. The original recruiting period was approved for 90-days using the Pitchbook database. In anticipation of recruiting qualified participants becoming the critical rate limiter for the study, advanced approval was sought during the Institutional Review Board (IRB) phase to both extend the recruiting period and increase the recruiting sources.

Recruiting actually took 372 days using a variety of databases and research partners such as Pitchbook, SDR Ventures, STS Capital, *evolve*, and the National Center for the Middle Market more than 7,000 owners were contacted and 168 completed the consent documents, demographic questionnaire, and research questionnaire. Of those 168 responses 133 usable studies were secured to meet the minimum sample size parameters for ESEM ($n \geq 100 \leq 300$). Of the 133 usable studies 63 individuals completed the DiSC assessment used to establish discriminant validity (meaning items in ERIF that were not supposed to correlate with DiSC scales did not correlate).

The data demonstrated a 2-factor model including both ERIF and a need for significance (nFS) was a better statistical fit for the data than ERIF alone.

Based on the results of the confirmatory factor analysis (CFA), ESEM, and mediation analysis there is support for the conclusion that ERIF acts as a predictor of exit inclination and nFS mediates these effects.

This finding offers support for Weesie (2013) and Burlingham's (2013) conclusions that exit is a profoundly emotional experience and owners who finish well (meaning they achieve a satisfying exit) engaged in a staged transition process.

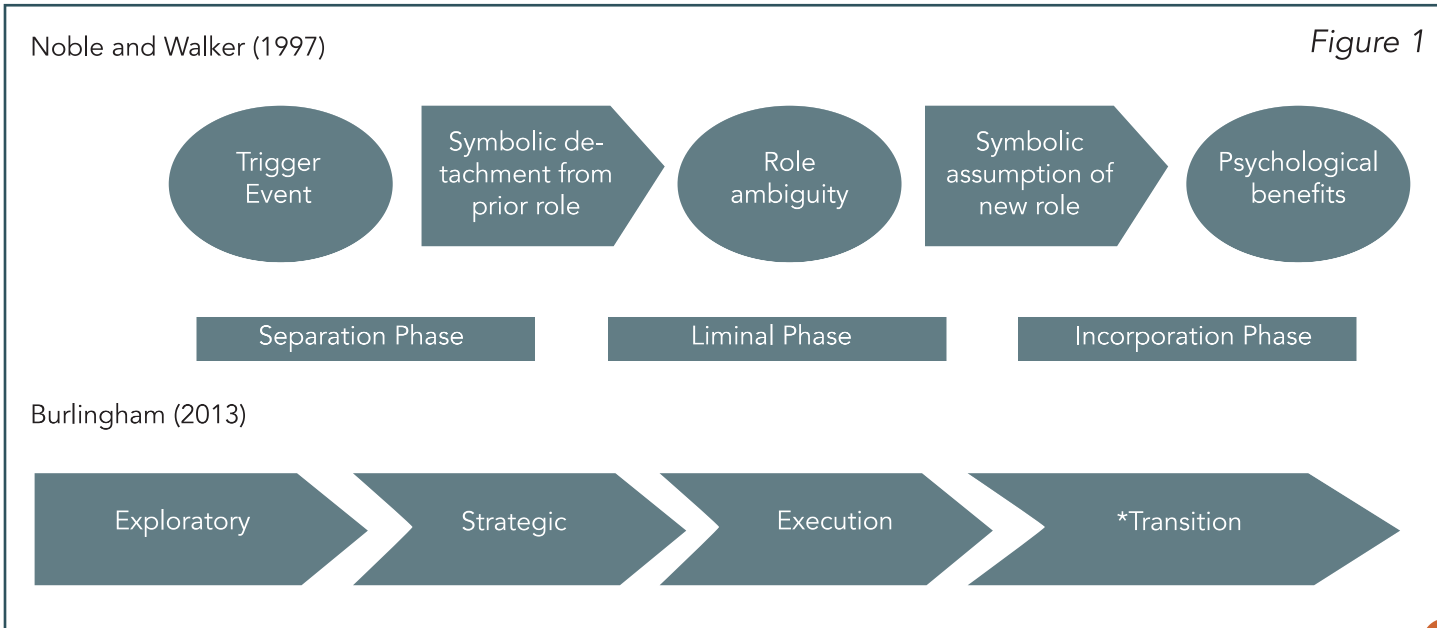
Unbeknownst to Burlingham (2013) at the time of his writing, his qualitative findings also align with findings of Noble and Walker (1997) who studied the impact role transitions have on identity. People in positions of power or prominence derive identify and significance through their role. Like Burlingham, Nobel and Walker identified a stage process (Figure 1) that explains the psychological experience owners undergo. Thus, these findings reinforce the notion that liminality (the notion that psychological changes happen during the in between state while moving from one role to the next) plays a crucial role for owners as they attempt to transition their business.

*Note: where Burlingham views the final phase as transition, we refer to that as adjustment and recognize the entire process as a transition experience.

Burlingham's phases (Figure 1) and Orange Kiwi's research application are integrated as follows:

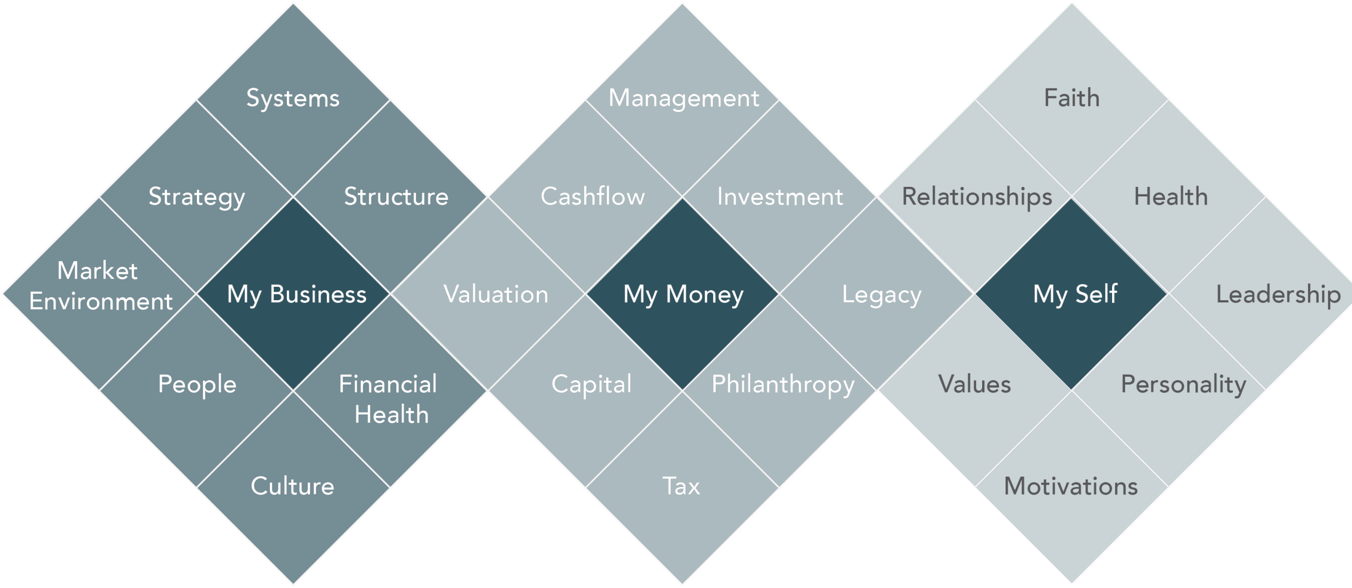
- Exploratory: the phase focused on critical existential questions related to identity, purpose, meaning, goals, values, and desires. It requires defining what and owner-manager does and does not want for their MOM (Management, Ownership & Money), their timeframe for transition, and how these decisions will impact them in three critical domains and 22 variables reflected in Orange Kiwi's M3 framework (Figure 2). The M3 was built to translate the research into a business solution that meets the exploratory needs of owners so that they can enter the strategic phase with clarity and confidence.

Figure 1



The M3 Framework

Figure 2



- Strategic: This phase identifies tactical options and works through a convergent decision making process for achieving transition goals established in the exploratory phase. It involves building a transition team, doing the work of maximizing shareholder value, developing a self-identity that is distinct from the role identity and building stepping stones to the future reality. The owner-manager must begin to view the business as distinct from the self.
- Execution: for sale or succession, this is the stage when the transaction and legal transfer occurs. At the end of this phase the owner-manager (usually) realizes a liquidity event and relinquishes his responsibilities, privileges, and rights associated with the role. (If this were a scaling process the owner-manager would detach from certain role responsibilities and assume others pushing the organization, the management team, and herself to a new level.)
- Transition (Orange Kiwi calls this phase Adjustment): In the case of a sale or succession this is the phase where the owner-manager steps into whatever comes next beyond his role as owner. In the case of scaling the owner has assumed the demands of leading the business at increasing levels of complexity that come with scaling and his team now carries responsibilities he has discharged as a normal course of their new roles.

While a full discussion of muti-owner businesses is beyond the scope of this paper, we would be remiss not to briefly discuss the implications. In the case of multiple owners the complexity of this process increases exponentially, particularly in the case of closely held family businesses. Each owner must explore their individual wants, desires, and needs along with the impact on the shared business and joint financial realities. Aligning these dimensions to meet each owner-manager's timing preferences, developmental needs, and goals often requires external skills and a longer lead-time. In the case of a family business the interaction effects of the family system, business system, and the individual cannot be underestimated.

WHAT DOES THIS MEAN FOR OWNERS AND THEIR ADVISORS?

Let's put it in context of an owner's role transition journey. First, it is important to note here that while this study focuses on exit, every time an owner scales her business to a new level, her role changes. Thus, owners face critical liminal challenges throughout the lifecycle of their business. According to the data, owners that continually transform their leadership and their business are able to leverage their psychological constitution in ways others cannot or do not. Consider this: owners who grow sustainable annual revenue ≥ $1M represent only 4% of the 28 million businesses in the U.S. (United States Business Census, 2012). Based on the data, there are predictable attrition rates as businesses scale through various annual revenue barriers. We believe answers are found in the psychological domain and involve the complex interplay of personality characteristics, motivational drivers, and behaviors. Creating a mechanism that allows owners to understand and leverage their natural wiring offers a powerful opportunity for improving outcomes for owner-managers in all three major transition domains.

Characteristics

Owner-managers that successfully transform their business beyond a lifestyle business (lifestyle < $1M annual revenue) routinely demonstrate five common characteristics:

- Risk taking propensity: from the moment an owner starts a business or takes over an existing business they put everything on the line – their financial security, reputation, career, relationships - and sometimes sanity. For many owner-managers, not doing this is the greater risk as it would mean subordinating their desires, goals, and dreams to work for someone else. As a result, successful owner-managers view risk differently than most. Where advisors will press for owners to diversify their asset base, refrain from entering markets that are unproven, take on insurance, and develop risk mitigation plans (among other things) most owners will eschew such advice in favor of prudent risks they deem necessary for the health and welfare of their business.
- Tolerance for ambiguity: the ability to be comfortable with a lack of clarity, uncertainty, and complexity where outcomes are unknown. Owner-managers who scale the business to new levels are constantly faced with uncharted waters that must be navigated. This does not mean owners reject all planning, many will have well thought out growth plans for the business. But, it does mean that they are comfortable not having every nuance and detail sorted out, particularly for things they deem irrelevant or unlikely to happen for many years.
- Innovativeness: Of the five characteristics innovativeness is the most complex, comprised of two components "trait innovativeness" and "behavioral innovativeness". As a trait, innovativeness is the propensity to identify, interpret, and act upon business opportunities in new and unique ways. This is what gives owners confidence that they can solve problems just in time with fit-for-purpose solutions - often creating something from nothing. As a behavior it is a measure of openness to change and a willingness to try new things. This is where things get a bit more complicated. Openness to change (OtC) is a measurable construct in all people. For owners OtC can be multi-faceted and most often we find a greater inclination for innovation in the product/service/sales arena and less in the back end systems and infrastructure aspects. Once an owner has blazed a new trail they may adopt an "if it's not broke, don't fix it" mental model. Generally speaking, this allows them to continue to push the envelope and drive the business forward, but it can also create limitations to scale.
- Need for goal achievement (nACH): was one of the earliest identified entrepreneurial characteristics. It is defined as a pattern of cognition, affect, and motivation that drives a person to focus persistently on business tasks to accomplish a desired result. Successful owner-managers are competitive by nature and they are rarely satisfied with the status quo. While they are intrinsically motivated to fulfill a nACH, the goals must be their own. Owners rarely internalize extrinsic motivation and adopt goals deemed by others to be in the owner's best interests.
- Need for control (nCon): this characteristic is described as a desire and belief that a person can control the events and outcomes in their world. This behavior stems from an internal loci of control and it works in two ways: (a) it is a key force that allows owner-managers to drive past barriers and obstacles that crush others; and (b) it can cause them to inadvertently act in ways that are contrary to maximizing their financial interests. Harvard's Noam Wasserman (2012) compared the owner's nCon to their wealth creation. Owners that had the highest levels of nCon (personally held roles on Board and CEO/Pres.) realized about half the shareholder value of those who relinquished control. The question becomes what do owners value more, being rich or being king? The answer for many is "being king" even when they proclaim "being rich" is the priority due to a competing covert need to satiate nCon. The rare few who claim "being rich" is the priority and succeed in this endeavor continuously transform their leadership, diffuse power into the organization, and focus on expressing nCon through their nACH.

Clearly, these characteristics operate as a source of strength, resilience, and perseverance for owners that successfully scale their businesses. While scaling transitions are demanding, they pale in comparison to an owner's greatest transition challenge – their exit where these strengths often become weaknesses. "Once an entrepreneur (aka: owner-manager) always an entrepreneur" and that means owner-managers must find new outlets for expressing these characteristics and satiating their psychological needs beyond their role.

Continuous business transformation requires continuous refinement of these characteristics into strengths that are fit-for-purpose at succesive levels of organizational leadership demand.

These essential characteristics for building a business impinge not only on exit, but also on scaling efforts. In many cases, organizations may reach a seemingly impenetrable glass ceiling only to find that the greatest limiter to growth is the owner's capacity for self-transformation. In order for the business to operate differently, owners must transform how the lead themselves and *then* how they lead others. Regardless of the type of transformation process an owner faces (scale/sale/succession) the realities of their personality will either continue to be strengths that push them to the next level or they will become inhibitors for success. Overcoming these challenges requires leveraging the inherent power of the human mind and looking for ways to harness the resident strength. That investigation points directly to motivational drivers. Overcoming these challenges requires harnessing the inherent power of the human mind. That investigation points directly to motivational drivers. Motivational drivers are enduring psychological needs that must be satiated to achieve and maintain health. They are the fuel of human will.

Motivations

Researchers Ryan and Deci (2000, 2008) developed a model called the self-determination theory (SDT) of motivation. The model's premise is that achieving and maintaining psychological health depends on one's ability to satiate three motivational drivers,

1. Autonomy: the need to exercise free will and choose one's path in the world;
2. Relatedness: the need to care for and be cared for by others; and
3. Competency: the need to feel effective, capable, and successful in the world.

Satiating these needs occurs by living out a person's natural inclinations through their personality characteristics. For successful owner-managers that means satiating the motivational drivers by expressing 5 common characteristics - most often through their role as owner.

As with all dynamic systems there are reactive forces that enhance and impinge on success. From a biological point of view human systems seek the comfortable, status quo (homeostasis). When a person experiences a disturbance in a system that is meeting their needs they experience a threat (often at a subconscious level) that leads to cognitive dissonance (tension). Ameliorating this tension means trying to return to the status quo and this process can cause owner-managers to self-sabotage or fall into one or more of the transformation pitfalls described by Quinn (1996; panic, exhaustion, fear of failure, stagnation, disillusionment). When owner-managers describe feeling weary, frustrated, stuck the symptoms are often traceable to one of these pitfalls. But, symptoms are not root causes. Digging deeper we find that "stuck" owners have not done the necessary introspective work to prepare themselves and their business for the realities of transformation.

Behaviors

As motivational drivers are satiated through the expression of personality characteristics a series of predictable behaviors are developed. Owner-managers exhibit both the behavioral dimension of the innovativeness trait (OtC) and a behavior referred to as entrepreneurial role identity fusion (ERIF). Our research also demonstrated that an additional factor, the need for significance (nFS), is at play. This last construct requires further study and definition, but what we determined from our initial study and the extant literature is that nFS significantly mediates the effect of ERIF on an owner-manager's exit inclination.

In plain English that means: greater levels of role-identity fusion (ERIF) and higher need for significance (nFS) met primarily through the business results in more challenging owner transitions.

That is not to say owners with identify fusion and need for significance cannot successfully transition, it simply means that they must allow sufficient time and dedicate appropriate resources to preparing themselves and their business by going through robust exploratory and strategic phases.

Conversely, owner-managers that continuously grow and scale their businesses through all manner of obstacles and challenges have invariably invested concerted resources (time, effort, money, people) on transforming himself so that he is able to continue to satiate his motivational drivers through his personality characteristics and overcome subconscious threats as his role evolves. Owner-managers that engage in this continuous improvement tend to have well-developed self-identities that are distinct from their role identities and they are able to move in and out of various roles with little dissonance. In addition, they tend to express greater OtC and find significance outside of their role as owner. Yet, even in these cases owners are wise to recognize the considerable distinction that exists between scaling and exiting.

THE BUSINESS VALUE OF THE RESEARCH

Contextual forces put owners in a quandary. Research demonstrates their greatest benefit rests in the exploratory phase, but strategic and execution phases are often prioritized by the market where the majority of expertise, opportunity, and available resources are focused. The old addage "follow the money" provides the explanation for the quandry. The strategic and execution phases are the point when external professionals are economically incentivized by money in motion. This reality is compounded by the complimentary these phases have with an owner's natural inclinations.

However, considering the rate of transition failure (as high as 70-80%) and the associated costs for owners and advisors, present understanding falls short. Owners and investment bankers or private equity firms and buyers may invest tens or hundreds of thousands of dollars (or more) on a transaction that fails to close. Not only is each of those parties impacted, but the business, its employees, customers, suppliers and others are also impacted when a transaction goes sideways. By extrapolation we can infer that the economic value of the exploratory phase far out weighs the cost.

Again, we turn to Burlingham's work to drive home this point. Perhaps the most significant finding of his 75 owner case study approach was that ultimate outcomes are deeply impacted by the transition process. Of those who had exited, the vast majority was dissatisfied with their exit. More specifically, the common factor that differentiated those that were unhappy (~75%) from the few (~25%) that were happy is their engagement in the exploratory phase. Those that were happy took the time and sought the assistance necessary to prepare themselves and their business for this significant transition. Those that were unhappy skipped the exploratory phase altogether or engaged in only a cursory exploration often in reaction to a trigger event.

Increasing the number of owners that transition successfully requires a shift in mental models. From a cognitive behavioral standpoint a person's thoughts (cognitions) are both the source of the problem and the source of the solution. By changing cognitions in one or more primary schemata (self, other, world) the identified problem will dissipate (Beck, 1976). The behavioral component of the model posits that in the process of changing behavior, cognitions will be impacted and change will result. From a business psychology perspective, the critical factor for transition success rests in making sufficient time, resource and effort available to help owner-managers increase awareness of below the surface, hidden, cognitions so that they can transform mental models and align behaviors to achieve their transition goals. This is the core work of the exploratory phase and it lays the foundation for long-term success in the adjustment phase.

Perhaps one of the most important practical implications from this study is that low-to-mid-market business owners have a new opportunity for self-discovery that may directly impact their business success and long-term satisfaction. The data about business growth, exit, and change efforts is clear – there are more failures than successes. While there is still more to learn about what separates owners that transition successfully from those that do not, this study takes a meaningful step forward by identifying the relationship between Identity Fusion, Significance, and Exit Inclination. The measurability of ERIF combined with existing instruments that measure OtC provides an excellent roadmap for owners, advisors, and skilled practitioners to increase the number of owners that achieve their transition goals.

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The complete dissertation may be downloaded from http://orangekiwillc.com/phd-dissertation/

A transition readiness assessment based on this research is available for both owners and their advisors. Contact the author for more information.

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