The Psychology of Transitions – Moving Owners to Action

Allie Taylor, PhD & Andrew Taylor

Version 1.1
www.clearwaterinsights.com

Advisors for small to medium business owners often cite 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 taking action. Yet, because 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 interpersonal 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 through sale or family succession 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 their lives have been defined by their role and they are unprepared for the level and intensity of emotions that they experience during and after they exit their role.

Consulting with businesses that have gone through either a failed or a sudden and unexpected owner exit drove home the profound financial cost of ignoring the soft side of this inevitable transition. 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. When advisors attempt to activate owners to consider their end game, they trigger a psychological reaction that adds to the emotional complexity. And, because the owner's reaction occurs at the subconscious level of their psychological experience, advisors inadvertently build resistance leading to a self – reinforcing cycle of increasing resistance 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. To compound matters, this void exists 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 must 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 transition. 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 transition 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 and better outcomes for the owners they serve.

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 apparent that the needs of the client come first. Yet, when we meet with these professionals about the concept of transition 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 revealed 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 invested trying to get owners to plan for their inevitable transition. Despite an owner's ability to acknowledge the importance of transition planning, they routinely fail to do so. The sad reality is that most studies agree, ~67% of business owners are insufficiently prepared for their business transition. 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 to help them be more effective. The tradeoff is increased requirement for 1:1 relational engagement and increased delays with no guarantees that moving outside core competencies will provide the desired results.

Considering 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 because at the core the issue is related to complex human behavior. Thus, we offer advisors an inside look at the characteristics and traits that shape these behaviors along with actionable insights that advisors can use to move owners to action more effectively.

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 transition preparation, 5 behaviors that all owners experience, and how these characteristics and behaviors impact their ability to transition 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 by understanding their Owner Transition Profile™ .

THE SECRET SAUCE

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 below the surface and there are common personality traits driving 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 become wildly successful and build mid-to-upper market organizations. While these 5

traits form the Secret Sauce of entrepreneurial success; they 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 transition preparation and hinder an advisor's ability to motivate owners to plan for transition.

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, but they also 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 because they believe they can make it happen despite what others (including their own management team) might say.

TRANSITION 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 transition at will, and thus, see little need to mitigate the risk of failing to plan for transition. 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 transition 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 reporter's 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, know they are true, but do nothing.

Planning your own funeral is one step beyond buying life insurance. Planning your funeral means facing your own mortality, legacy, shortcomings, 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 transition 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 most 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 to transition 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 underlying 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 must 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.

TRANSITION 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 instinctive response. Ask an owner (whose innovativeness has not been well-formed), "what do you have to stop doing to achieve your goals" and the regular response is, "why would I say no to an opportunity?".

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. While researchers argue the nuance of trait innovativeness versus ADHD advisors are left to figure out how to get results. When unchanneled innovativeness and/or ADHD are present, behavior patterns result in a business that is critically dependent on the owner for operational management, growth, and innovation. When buyers or investors compare a highly disciplined business that has robust processes and replicable, scalable systems with one that has lots of "half-baked" products and services, the choice is easy. Buyers and investors will value the former business higher or apply a significant reduction in valuation for the latter business.

To compound issues, owners and advisors do not speak the same language and there are fundamental differences in how they view the world. Given an entrepreneur's propensity for innovativeness and valuing their own methods over those an advisor imposes on them, owners may become disinterested in a process experienced as serving the advisor's needs. Advisors, on the other hand, live in a far more black and white world. While owners may feel like going through the advisor's process is akin to slogging through quicksand, advisors are doing what is required to deliver a technically competent outcome that serves the owner's long-term best interests and remains in compliance with regulatory and licensing bodies.

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 transition 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 transition 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 transition, so that business valuation is maximized, and the organization is built to last has the potential to transition on top. But transitioning 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 transition 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 can 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 transition process.

NEED FOR ACHIEVEMENT

The need for achievement is a prominent trait among successful owners that drives them to scale and grow businesses in ways others cannot.

According to the U.S. Bureau of Statistics only 4% of businesses ever get over $1 million and 0.000061% get over $50 million in annual revenue. At the very core of an entrepreneur's psychological make up is the almost insatiable need to reach new heights, conquering prior levels of achievement over and over to beat the competition on the owner's terms. Owners feel little (if any) need to achieve goals set by others.

ENTREPRENEURIAL STRENGTH

Steve Jobs was the epitome of an entrepreneur driven by a high need for achievement. Jobs' need for achievement was so high that he created "reality distortion fields" sucking 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 perfection.

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 builders never satisfied with the status quo. Repeatable business success 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: An advisor's goal is to move an owner to action. The owner's goal is to push a major product launch, deal, system build, or opportunity across the finish line. Meeting the advisor's goal means diverting their efforts to something that is tedious, time consuming, does not contribute to achieving today's urgent goals, and it isn't going to be relevant for years to come. Given that context, what can an advisor do to make planning 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 succession as a goal they must achieve. In fact, since exiting the business is the antithesis of growing the business, many owners are averse to the concept. What about a business owner's desire is to maximize enterprise value? In recent years, some advisors are using this approach as a means of overcoming 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 effort. Thus, leading owners to the false belief that an organizational structure, will, trust, or buy-sell agreement will serve their succession/exit needs.

What happens when exit is an owner's goal? Why do so many get all the way through the due diligence phase and then just before the deal closes the owner inexplicably falls back in love with their business? Or eject from family succession in favor of a sale only to eject from the sale process and return to succession? Owners offer a host of business reasons but, none of the reasons provide sufficient explanation for buyers, family members, or their advisors. Owners are not being disingenuous,

they are experiencing tension (dissonance) in the inner world that they are often unaware of as they lack both insight and language for the experience. When this occurs, advisors are left dumbfounded.

While beyond the scope of this paper, there are some remarkably 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 settled into a comfortable role leading at a scale that was satisfying. Eventually the plateau leads to dissatisfaction and the owner is blind to the rationale for their discontent.

Other explanations involve the owner's need for goal achievement making it difficult to willingly be held accountable for shortcomings and avoid being measured. This phenomenon is an expression of atychiphobia. Yet others struggle with family dynamics and the business is the place where they feel successful, in control, stable, and able to realize their goals. When family issues are challenging, the business is a haven.

In these situations, the entrepreneur's need for achievement did not go away, it simply went dormant. When potential buyers become interested the need for achievement can get reinvigorated. When family succession becomes a reality, they hold on tighter. 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 family members. It is a costly experience financially and emotionally.

HOW TO ENGAGE

Advisors will encounter the owner's need for achievement. The question is, "how can advisors help owners focus this strength so that owners value transition as the ultimate ownership challenge and measure of entrepreneurial success?" When approaching transition, 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 exploratory dialogue that would bring the dissonance to the surface. One helpful solution is to take an oblique approach. Ask the owner to imagine what life looks like 1-year, 3-years, 5-years, and 10-years in the future. Create a series of questions to foster the development of a vivid picture at each stage.

Another useful approach is to provide scenario-based options the owner can explore in a way 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 them 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 don't throw good time and effort chasing a deal that won't close. But, instead of walking away from the relationship, change the paradigm.

View transition as a journey, 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 remain open minded are better positioned to salvage the deal. Ignoring the owner's early warning indicators has a negative impact on all parties (buyer, advisor, family members and owner). Astute advisors recognize the signs early and encourage owners to explore delaying their transition rather than trying to drag the owner across the finish line.

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 transition that will make for a smoother future transaction. When the owner is truly ready to transition their role, 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

Some artists can sit with a block of clay and a sketch knowing exactly what they want the final product to become. Other artists will look at the block of clay having no idea what the product will be and 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, 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 it. Their innovation will come out as each stroke and caress of the clay reveals something new about its nature. The first artist adjusts 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 the nuances of which are revealed only after it is fired and glazed. At the end of the day, the art expert would be blind to the creative process focusing only on the result.

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 needed produce the envisioned results. 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 being a complete leader requires attention to all three signals. It is not rocket science to deduce that the head describes hard data and logic, heart describes emotional intelligence, and guts describe experienced intuition. Entrepreneurs rely on the guts component to navigate ambiguity. This capability is essential as each new level of success takes them to uncharted waters. Eventually patterns of behavior that reinforce their ability to both live in ambiguity and trust their gut increasingly dominate the need for advanced planning and data driven decision-making.

TRANSITION 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 transition. And, while the entrepreneur can function well in ambiguity, their organization cannot. When this trait is expressed during transition, it becomes a hindrance that prevents owners from seeing the need to develop a plan and help others move toward a common transition objective. 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 need leaders skilled at creating vision, gaining alignment, and driving execution. 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. That means being disciplined about building organizational capacity.

Unfortunately, far too many owners bask in their comfort with ambiguity and fail to build the organizational capacity necessary to optimize the business. The worst outcomes occur when owners unwittingly 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. But systems, processes, and people can feel like a strait jacket restricting an owner's ability to be true to the natural wiring that led to their success.

Getting the most out of their tolerance for ambiguity requires owners first recognize patterns of thought and behavior that prevent them from seeking greater clarity. Is the owner being willfully ignorant, engaging in avoidance, or simply blinded by biases and faulty mental models? In what ways are the behaviors currently serving the owner? Can the needs being satiated by their behaviors be met in other ways? These are the types of questions owners can explore before moving to action to increase the likelihood of a successful transition.

HOW TO ENGAGE

Ambiguity triggers emotion that is difficult to rationalize using logic.

Neuroscience researchers have linked ambiguity tolerance to activation of the amygdala and the orbital prefrontal cortex. These brain regions are responsible for both processing emotions and responding to fear, which leads researchers to believe that an owner's high tolerance for ambiguity makes them more resistant to things that create fear in others. Hence, an advisor's use of "risk mitigation" is unlikely to move owners to action.

Advisors that leverage curiosity to engage the owner's innovativeness, need for control, and tolerance for ambiguity by gamifying the problem are likely to get better results. Assuming you have sufficient relational capital with the owner, try engaging in an ideation session exploring possible futures, hopes and dreams by asking questions that help the owner create a variety of scenarios.

Start by asking where the owner was exactly 10-years ago. How has their life changed since then? What's stayed the same? Help them describe the scene in vivid detail, focusing on the emotion. Among the things that have changed, what could they not have imagined 10 years ago? Once you have a vivid scenario including the emotions, flash to 10-years in the future. Have the owner imagine waking up in a world where they are free to do whatever they like as family and business are thriving independent of their day-to-day leadership. What does that world look like? Who is there? How does it feel? This process unlocks their imagination, reduces the threat of having to make decisions, and allows the owner to begin imagining a new reality where they have already successfully transitioned their role.

CONTROL

Entrepreneurs have an internal locus of control (iLOC). Meaning they believe they can shape their world and control most 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 require others to operate by those rules, creating a psychological castle in which they are king.

ENTREPRENEURIAL STRENGTH

Need for control (nCON) is the elephant in the room. Advisors lament 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 four traits and how they manifest in the life of an owner it is a given that control had to be the fifth.

Walter Isaacson's biography of Steve Jobs details examples of his nCON 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 stopped by a highway patrol officer after going just under the speed that would have 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 the same behaviors he was cited for.

The flip side is that this same level of control and the rules not applying is what made Apple great. From store design and manufacturing facilities to the computer fan's noise level, 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. Entrepreneurs reap rewards from this trait and attribute their success to the leadership style it drives. Every time their behavior leads to success it reinforces their iLOC and the behaviors that result.

TRANSITION CHALLENGE

Thus, it follows that business transition (aka: sale, scale, or succession) presents two significant hurdles for an owner. First, they are moving into uncharted territory requiring new behaviors and they must rely on others (aka: give up control) to win. 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 driven by external forces such as the carrot and the stick (extrinsic motivation), particularly when subjected to the systems built by and serving the goals of other people (e.g., advisors). In the case of exit (sale or succession), owners are confronted with the reality that their life's work is about to be examined under a magnifying glass. Tremendous dissonance is created when their rules of the game are about to be scrutinized, choices constrained by others, and realizing they must let go of control along the way.

Acknowledging gaps, building systems that transform the nature of their control, and opening themselves up to criticism are tough hurdles for owners to conquer. When nCON is the owners biggest challenge, there is a tendency to activate the dark side of other traits, setting up a triangle of self-reinforcing beliefs that serve as a psychological escape route leading to almost intractable resistance. As skilled professional advisors employ processes that make their own business work and rightly expect clients to appreciate the services they have to offer, they inadvertently trigger an owner's resistance.

Now consider that owners have multiple advisors engaged in the process of transition planning. Each advisor focused on doing their bit, their way, believing it is the most important, introduces competing priorities the owner must resolve and increasing complexity. Advisors that are unable to coordinate well increase the owner's resistance. Owners receiving inputs from multiple sources must reconcile competing points of advice, jump through a new set of hoops for each advisor, 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 nCON kicks into overdrive.

HOW TO ENGAGE

It is incumbent upon each advisor to ensure there is a single, comprehensive, and cohesive plan against which all advisors are operating. We often hear advisors say they want to be the "quarterback" of the owner's transition 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 believes their discipline is the right one, the central one that should drive the process.

This inadvertently sets up unnecessary and counterproductive 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 a middleman between the owner and the rest of the advisors.
2. The owner may choose to handle matters themselves and become even more directive than usual, inadvertently screening out critical information.
3. The owner may opt to avoid transition 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. Let the owner be the quarterback. (If your first reaction is, "but they don't know what they are doing, they need my skills" true, read on…)

From the perspective of group dynamics and the owner's psychology, the best play is to make the owner the quarterback. Owners are well served when advisors help them begin with exploration and then reflecting on what they want for their MOM (Money, Ownership, and Management). If done well, owners can develop a robust and insightful blueprint that can be shared with all advisors who can then collaborate to 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 quarterback. Business owners will never have the skills of the lawyer, charitable planner, tax advisor, wealth planner, investment banker, family system expert, and/or M&A advisor. But, with increased self-knowledge and a blueprint in hand, they will be able to determine if their professional team is working well together to achieve the owner's goals. Owners who are empowered in this way are far more likely to work well with advisors and achieve a successful transition.

INCLINATION FOR TRANSITION SUCCESS

Psychological processes at the conscious, subconscious, and unconscious levels of the mind drive human behavior. Most 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, can 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,

Our brains crave safety and seek to preserve the status quo. Changing the way, we think and behave requires tremendous effort and mindfulness. Therefore, diving deep with the owner to bring awareness to their inner world is critical for significant transitions. With respect to successful entrepreneurs, the five common traits (Need for Goal Achievement, Innovativeness, Risk Taking Propensity, Tolerance for Ambiguity, and Need for Control) are only one piece of the puzzle. As a result of our work with owners we appreciated the importance of these well studied attributes, but something was still missing.

The business challenge we sought to better understand is what happens below the surface in the theater of an owner's inner world. What is triggering the flight, fight, or freeze response? How are identity, emotion, and self-awareness involved in the process? Most importantly, what can be done to help an owner increase the likelihood of a successful transition? As a result of Allie's dissertation research, we explored identity, change, emotional self-awareness, and personality styles. This research is the foundation of our model.

The components are divided into primary and secondary attributes for grouping purposes in this model. Primary attributes are those that are trait-like and more resistant to change: Role Identity Fusion (RIF) and Approach to Change (AtC). Secondary attributes are those that, while a core part of personality, are somewhat more open to change. Allie's research and our experience with owners identified three secondary attributes, Emotional Self-Awareness, Personality Style (PS), and Need for Significance (nSig). When measured, we get a snapshot of the owner's inner world that allows us to help them achieve their goals with greater clarity, confidence, and control.

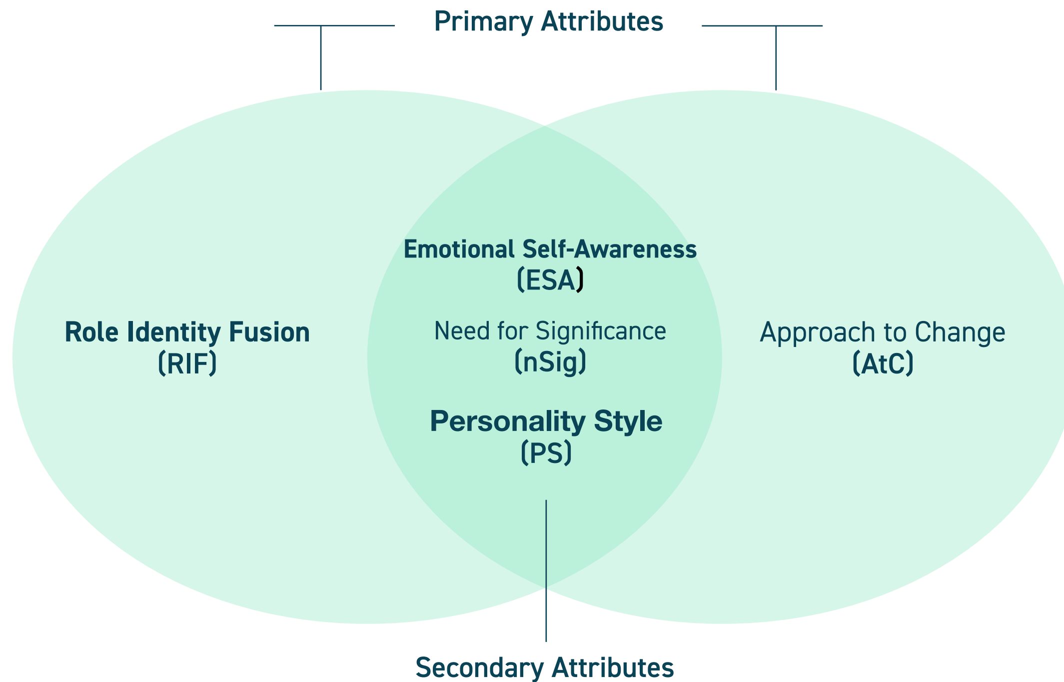
Since the owner's resistance begins with a sympathetic (involuntary) response at the sub-conscious level they are initially unaware of the attached emotion. Despite wanting to change, the mind and body are arming for battle to protect the status quo. This is like wanting to lose weight but not being able to alter the emotion attached to diet and exercise.

In some senses we must trick our own brains into getting out of the way long enough that the pleasure centers of our brain crave new rewards. In our diet example, the endorphin rush from a good workout and the positive emotions when we feel healthier, slip into a size smaller jean, and have more energy outweigh our desire for the sugary, salty, sweet treat we eat while watching TV. Admittedly, owners at points of significant transition face a substantially different and often more complex set of forces and points of resistance.

However, the fact that we can measure these primary and secondary attributes offers a powerful opportunity for both advisors and owners alike. Diving into the deep end to appreciate:

1. The degree of fusion (RIF) that exists between an owner's self and role identities provides insight that takes the conversation from one of "the owner says one thing and does another" to "what does it mean to be different when the transition is successful?"
2. The nature of an owner's approach to change (AtC). Do they value slow, incremental change that improves on what exists? Or do they tend to engage in innovative approaches aimed at changing the status quo, writing their own rules along the way?
3. The degree of emotional self-awareness (ESA). Does the owner regularly engage in self-reflection and remain highly attuned to their inner world? Or are they more blind to their inner world and more reactive to external stimuli?
4. The interplay between their role and their need for significance (nSig). Is their role the primary or only place an owner has their nSig met? Or do they have many sources outside the business?
5. The nature of an owner's personality style (PS) expressed in five dimensions: Openness to Experience, Conscientiousness, Extraversion, Agreeableness, and Neuroticism. Understanding how these five factors are expressed can tell us how best to position communication and manage expectations to effectively engage the owner.

A THEORETICAL MODEL: BELOW THE SURFACE



While the primary attributes (RIF and AtC) are discrete domains, they both influence and are influenced by secondary attributes. Understanding the nuances of these attributes provides important insights and implications for change with respect to significant shifts requiring the owner to be and do differently such as exiting the role as owner, changing ownership structures, family succession, taking on new partners, and other types of organizational transitions.

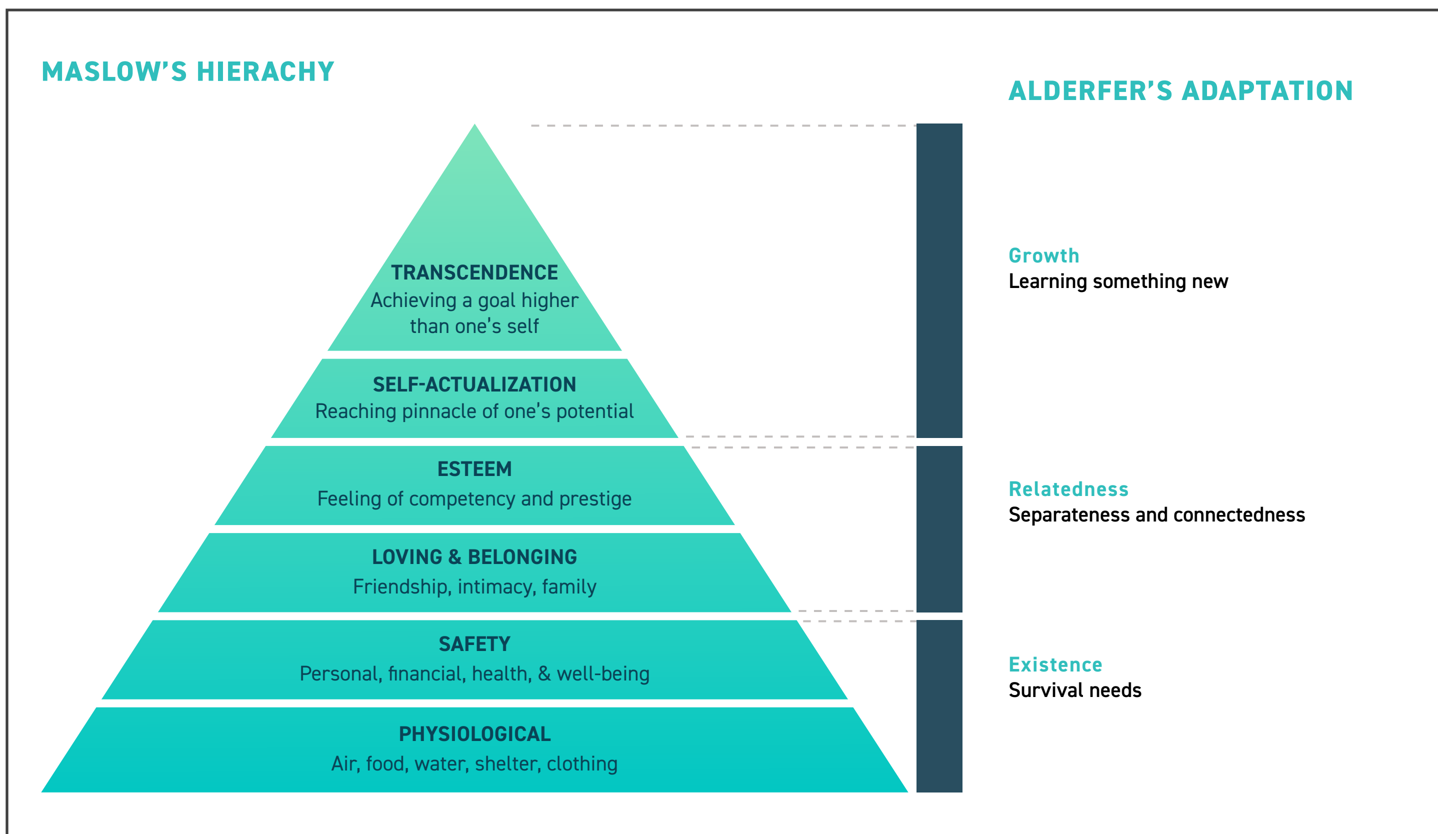
Primary Attributes (trait-like and more resistant to change)

- Role Identity Fusion (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.
- Approach to Change (AtC): is best conceptualized as a preferred problem-solving style occurring on a continuum from adaption to innovation. Owners on the adaption end of the continuum are more inclined toward incremental change, valuing the "tried and true", 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.

Owners that are more adaptive will work well with advisors, partners, or others who value incremental change and are not overly disruptive to the status quo. Owners on the innovation end of the continuum will value advisors that help them explore new ideas and approaches for disrupting the status quo and letting the owner write new rules.

Secondary Attributes (more open to change)

- Emotional Self-Awareness (ESA): is defined as the ability to monitor one's own thoughts, feelings, and emotions to mindfully respond to the world.
- Need for Significance (nSig): this is a need to feel worthy, valuable, unique, and seen. While all people have a measure of nSig, successful owners often have this need met through their role. Allie's dissertation research identified that this attribute has a strong interplay with RIF.
- Personality Style (PS): all humans have a unique way of interacting with and perceiving the world. Researchers and psychologists group patterns of consistent behaviors into categories referred to as styles. These styles are enduring inclinations that describe how a person interacts with and experiences their world. The Five Factor Model (FFM) is among the most broadly accepted.



ENTREPRENEURS & 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 transition 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 transition 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 impacting an owner's ability to engage the transition 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 (nSig.).

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 constructive 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, when achieved primarily through their role, can be destructive to them and their organizations.

ACCEPTANCE & SIGNIFICANCE

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

In the figure below, self-actualizing (Example 1) owners accept themselves for who they are and 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 and valuable for who they are, and 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, dysfunctional 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 – it is an unfillable black hole of need.

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, Loving & Belonging, is that their value and self-worth are performance based and conditional. The implication is that these owners must continue to perform at or above previous levels of success 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. Owners we have worked with describe the very real fear of becoming irrelevant if they are no longer a business owner.

IMPLICATIONS FOR TRANSITION SUCCESS

Owners with a higher level of readiness for transition are more likely to follow Example 1 and owners with lower transition 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 transition successfully, on their own terms, and in their own timing. 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 transition readiness).

RELATEDNESS & ENTREPRENEUR ATTAINMENT

Example 1: Self-Actualization

Acceptance → Resilience → Achievement → Significance

Example 2: Dysfunction

Significance → Achievement → Resilience → Acceptance

In many cases, owners who are not transition ready, but are pressed into transitions by advisors, family, friends, or circumstances are predicted to exhibit value-destroying behaviors and profound emotional distress. Thus, understanding the patterns provides both advisors and owners with an opportunity to proactively 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 even talking about transition, challenging most (if not all) aspects of the transition process, making decisions that lead to making the business unscalable, being demanding and sometimes unreasonable during family succession, or canceling the deal all together 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 or family successor, but can’t explain why other than, “it is just a feeling” or “the chemistry is not right”, or “they’re not ready”.

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 for challenging their purpose, identity, self-concept, and beliefs. These are the elements of the soft side of a business transition 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 most owners regret their exit, particularly if they have not engaged in a robust exploratory process. He further explains that owners who know themselves are better equipped to exit their businesses and those that lack this critical insight will struggle. It makes sense, 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 know 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. Likewise, 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 transition inclination. Basic demographic data that informs the context and projected timeframes is also collected because readiness must be considered relative to factors such as time, organizational size, industry, and experience.

For example, an owner that is exploring transition from a pure curiosity perspective with a horizon of 10+ years who scores low on transition readiness is likely at a developmentally acceptable stage. However, an owner whose transition is imminent, in less than 2 years, in a rapidly changing industry who scores low will likely experience significant personal challenges during the process and (assuming they do exit) the dissonance will persist well into their post exit transition adjustment. Conversely, an individual who scores high on the assessment is less likely to experience unmanageable dissonance during the 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 as high as 75% of owners are dissatisfied within 12-months of their exit. Family businesses going through succession are often faced with incomplete transitions leading to deep family systems issues when the owner has low readiness, and the business suffers.

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 current role.

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, scalable, or transferrable to the next generation. Owners begin to build a skilled team of advisors that specialize at this unique stage of the organizational life cycle to augment their existing staff and advisors, when necessary.

Execution: also referred to as the transaction phase. This is the phase where all the marketing, due diligence, and legal Requirements take place for a sale. The family creates or amends their governing documents (in the family and business) and prepares for a new successor.

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 Adjustment without missing a beat. These owners will have started preparing for this time years, not months before their transition and this allows them to live a life of satisfaction and significance.

Owners who did not engage in a successful Exploratory and/or Strategic phase may complete a transaction or succession, but their Transition will be far more challenging, and they are likely to have significant regret or dissatisfaction during their Transition, particularly if they do not give themselves enough time to prepare.

THE FOUR PHASES OF SUCCESSFUL EXITS

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 (selling or family succession) 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, their family, and the business will reap greater rewards.
3. A successful transition requires owners confront existential questions that are often multi – faceted, result in competing priorities that must 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 resources (time, money, skills) often realize the benefits inherent in this competitive advantage for an optimal 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 the transition is profoundly dependent on the owner's psychology, reinforces the need to ensure owners give themselves ample time. For family succession that is 5 to 7 years and for the sale of a business is 3 to 5 years is the general rule. Although many take years longer and some successful transitions can take less time, particularly when the owner, family, and business have intentionally built the organizational capacity, culture, and leadership to be transition ready as a normal course of business.

While many different aspects could be measured, we have found both experientially and through research that these 5 attributes offer actionable insights and a useful model:

The primary attributes 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. Emotional Self-Awareness (ESA)
4. Need for Significance (nSig)
5. Personality Style (PS)

By examining the interplay between these five attributes, advisors gain insights for how best to approach the owner and the extent to which the advisor must adapt their own style to best serve the owner. Our distinctive approach helps advisors move from "playing amateur psychologist" to being an "informed advisor" empowered to bring their best to serve the owner.

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 the five attributes expressed by entrepreneurs/owners that have a direct and tangible impact on business transition.

[For more information on our assessment and reporting tools for advisors please see the end of this white paper and/or view Here]

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 transition. Four illustrative examples are Foolish Frank, Ready Rita, Conflicted Carl, 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: couldn'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.

Conflicted Carla: somewhere between Foolish Frank and Ready Rita. Carla wants to transition the business, is giving all the right indications that she will sell the business, but neither she nor the business are really ready.

Hesitant Henry: also, somewhere between Foolish Frank and Ready Rita. Henry has tried family succession but that led to family conflict. He has also taken the business to transaction 3 times failing in the middle of due diligence.

Insidious Ingrid: not an owner, just a key influencer who derails all efforts to succeed at transition.

FOOLISH FRANK

- Foolish Frank is perhaps the most challenging profile. On the OTP assessment he scores: 58
- Very high Role-Identity Fusion
- Adaptive Problem-Solving Style
- Very low Emotional Self-Awareness,
- Significance needs met through role
- Competitive and driven personality style

Foolish Frank is in the “Cautious Zone” in terms of transition 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.

Left to his own devices, Foolish Frank will eventually transition his business, but it isn’t going to be pretty. Market conditions, access to capital, staffing issues, the “right successor or buyer”, will all be excuses for why things don’t work out. The real issues are hidden in his inner world. His identity and source of significance are tied to his role. Transitioning his role means losing a vital part of himself and he may become irrelevant. Absent increased emotional self-awareness and ample time, Otherwise, he is likely to sabotage every good effort that would lead to a successful transition and one of the following 3 scenarios will play out:

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, there is an opportunity for helping him turn things around. Crisis is a moment in time where people can be 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 supportive executive coach skilled at working with the psychology of owners, who can help Foolish Frank navigate his inner world. The skilled support is essential for creating lasting change beyond the crisis. If he doesn’t internalize the change, once things start to get better, Foolish Frank will go back to his old ways.
3. Foolish Frank gets an offer to sell that is 10x the valuation he expected with every term he wanted met. Will the notion that “everyone has a price” hold up? Foolish Frank is often the exception to the rule and this will be yet another example. Foolish Frank is likely to accept the offer and then unwittingly engage in acts of self-sabotage putting the deal at risk. In addition, it won’t take buyers long to find legitimate reasons to give haircuts (reduce the price they are willing to pay). And, if the deal does close, Foolish Frank 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 and guiding them through a process. 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. Unfortunately, Foolish Frank is in the tail of the bell curve on the wrong end. Meaning, that his psychological readiness is substantially underdeveloped and his business

READY RITA

Unlike Foolish Frank, Ready Rita is on the other tail of the bell curve. She has the capacity to engage her highly skilled experts, family, and staff to begin planning her transition. Ready Rita is in the "Sweet Spot" of transition readiness.

- Ready Rita has the optimal profile on the OTP. On the OTP Assessment she scores: 205
- No role-identity fusion
- Innovator Problem Solving Style (strong openness to change)
- Very High Emotional Self-Awareness
- Needs for Significance met outside her role
- Competitive, goal oriented, and collaborative personality style

Ready Rita built her business with a competent and high functioning management team responsible for the day-to – day. She has ensured there are systems, processes, and skilled people in place who are empowered to achieve the firm's objectives. This does not mean she has become a laissez faire leader. Instead, Ready Rita has a very clear set of decision-making criteria and expectations in place, reserving 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 allows her to enjoy a life of significance and satisfaction regardless without being dependent on being an owner to meet those needs.

Ready Rita has actively engaged the exploratory and strategic phases of transition planning and she appreciates the benefits of an optimized bottom line that will result in an increased business valuation. Over the last 4.5 years Ready Rita has been steadily preparing the business and her family for her transition. As a result, she owns a business that is operating efficiently, achieving its mission, and driving profit to the bottom line. The business and Rita are well-positioned for a successful family transition or the sale of the business. Rita's current challenge is evaluating her options (including the potential for an ESOP) and deciding on the best path forward.

Ready Rita built a team of professional advisors that function as a cohesive team of external experts who are executing against a common plan for achieving her goals. The team functions external to the business in much the same way that Ready Rita's management team functions internally. She has set high expectations for both, doesn't suffer fools, and demands results. One family successor has already self-disqualified, deciding that owning the business is more risky than they are comfortable with. A second successor continues to pursue the opportunity but is in the 4th year of a 5-year development plan and is falling short. They are currently engaged in executive coaching and an evaluation will be made in 6-months. If the gaps can be closed, Rita and the Board have agreed to move forward with family succession.

If the gaps cannot be closed, Ready Rita will move forward with the transaction. The successor will have first right of refusal as Rita's preference is to keep the business she founded in the family. However, when the right strategic buyer is identified, Ready Rita will be prepared to act and realize an optimized business transition on her terms and in her timing because she has been proactive and given herself options.

CONFLICTED CARLA

Conflicted Carla is somewhere between Foolish Frank and Ready Rita. She is in the moderate zone of the Conflicted quadrant.

- Conflicted Carla is in the middle of the bell curve. On the OPT assessment she scores: 152.
- High role-identity fusion
- Moderate Emotional Self-Awareness
- Innovator Problem Solving Style (strong openness to change)
- Moderate degree of Significance needs met through role
- Fast paced, outspoken, and people-oriented personality style.

Conflicted Carla has a set of external advisors that have been in place for many years, some for the entire 38 years the business has operated. However, Carla prefers to run the show and her advisors have never been in the same physical or virtual space. Instead, Conflicted Carla keeps the professional services providers in the silos of their own discipline.

Several of Conflicted Carla's advisors have asserted the need to plan for transition and even made independent attempts at putting a succession plan in place. There is a will, a trust, and a directive for Conflicted Carla's brother-in-law who will take over in the event Conflicted Carla is incapacitated. (The brother-in-law is a college professor who teaches business, but he has never actually run a business.)

The business attorney suggested that Carla talk with an investment banker who did an initial assessment of the business. Conflicted Carla, the business attorney, and the investment banker met to discuss options and the result was that Conflicted Carl 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 Conflicted Carla claimed that the business has already been reviewed and readied for an ownership transition.

Conflicted Carla is not being dishonest. The prior experience was enough to ingrain a set of false beliefs that are psychological anchors that must be dislodged before any advisor will be able to move her to action. 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.

Conflicted Carla needs options, and she needs to be the architect of those options. A carefully selected set of questions that tease out the challenges over time will provide clues to helping Conflicted Carl overcome the personal barriers to transition. Trained advisors use the assessment results to understand that Conflicted Carla'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 Emotional Self-Awareness, openness to change, and leverage her personality style to help Conflicted Carla find new opportunities for meeting her psychological needs.

HESITANT HENRY

Hesitant Henry is also somewhere between Foolish Frank and Ready Rita. He is in the Hesitant quadrant.

• Henry is also in the middle of the bell curve. On the OPT assessment she scores: 131

- Moderate role-identity fusion
- Moderate Emotional Self-Awareness
- Adapter Problem Solving Style (low openness to change)
- Moderate degree of Significance needs met through role
- Cautious, reflective, questioning, and skeptical.

Hesitant Henry has been working on transition for several years. He has is the majority owner and has transferred 15% of the ownership equally to his three children. Two of his children (a son and daughter) are in the business and one (the youngest son) left the business out of frustration with the slow pace of change. Henry has explored selling the business and transferring operational management to his eldest son and daughter. He has also explored gifting and selling ownership to his children. When this conversation arises, he gets stuck on issues of fairness.

Henry finds a new seminar to attend every time his wife reminds him that he is 76-years-old and not getting any younger. Sitting in his office he looks at the at his shelf lined with binders and books from exit planning and ESOP to scaling and maximizing enterprise value. Yet a nagging need for more information remains. Advisors are happy to meet with Henry to educate him on the options on risk mitigation, taking chips off the table, and novel wealth transfer strategies optimize tax efficiencies. Yet, Henry will not move to action.

After the third failed transaction attempt, the family and other executives in the business have grown weary. Despite knowing his son is ill-equipped for the role, staff are now actively campaigning for the management transition just to make the pain stop. Henry's son reached out for help.

Henry has a strong sense of himself apart from his role. However, he has an incremental approach to change. When he enters the diligence process the pace quickens and he has not done the necessary exploratory work to create clarity and confidence for the decisions that must be made quickly. As the pressure of the transaction mounts Henry provides a business reason that allows him to escape without having to confront the dissonance in his inner world.

Henry needs a set of advisors that can help him work through the family issues to gain clarity and alignment on what they do and do not want. He will continue to struggle if the family issues are not addressed in the process. In addition, his approach to change is adaptive meaning the process needs to be broken into discrete pieces with as much advanced prep as possible. Helping Henry develop a plan that gives him a sense of control before moving to action is critical.

A NOTE ABOUT INSIDIOUS INGRID

Insidious Ingrid is the only member of the cohort that is not an actual owner. It would be easy to dismiss her role in the Transition process, if it were not for the fact that every time you turn around you are tripping over her. The upside is that not every owner has an Insidious Ingrid on the "unofficial" transition 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.

The good news is that you won't find Insidious Ingrid on Ready Rita's team. The bad news is, there may be more than one Insidious Ingrid on Foolish Frank and Conflicted Carl's teams.

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's transition profile as part of the whole system. Thus, we employ well established systems thinking, sound business thinking, and research-based group dynamics in conjunction with our OTP assessment to help advisors understand the entire system.

CONCLUSION

The 5 Entrepreneurial traits (Risk Taking, Innovativeness, Need for Achievement, Tolerance for Ambiguity, and Need for Control) and the 5 attributes (Role-Identity Fusion, Approach to Change, Emotional Self-Awareness, Need for Significance, and Personality Style) provide both language and a framework for understanding the psychology of owners at points of transition.

Many of this model's elements have existed and been individually explored by skilled researchers for decades. Our exploration, coalescence 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 inner world.

While there is considerable access to skilled professional services in the "hard" business disciplines about the technical aspects of transition, they reside primarily at the strategic and tactical levels of the process. In addition, there is very little research-based knowledge available to owners and advisors about the most poignant component of transition, 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 transitions will happen, but we believe by creating the opportunity for advisors and owners to approach transitions with greater understanding, clarity, and transparency the number of successful transition journeys 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 transition success, preserving an owner's wealth and legacy, and maximizing an advisor's investment comes from understanding an owner's psychology. Advisors can provide better guidance and recommendations for their clients when they can identify the owner's inclination for transition. In addition, advisors can maximize their limited resources by focusing on the right resources at the right time to serve the right owners with greater effectiveness.

ABOUT THE AUTHORS

Dr. Allie Taylor is a Business Psychologist, family business owner, researcher, trusted advisor, board member, speaker, and consultant. Allie is passionate about helping owners leverage their psychology so that it remains a strength and does not get used against them when it matters most, at points of significant transition. She and her team serve clients in North America, Australia, New Zealand, and the United Kingdom.

Andrew Taylor is an experienced business leader, family business owner, 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.

Clear Water Insights provides the business transition tools advisors need to fully prepare clients for their business transition journey.

Unlike traditional transition planning solutions, which mostly focus on financials or business attributes, our transition assessments provide the personal insights advisors need to empower owners with greater clarity, confidence, and control.

Our assessments were designed and developed by Dr. Allie Taylor, Ph.D. from the business transition consulting firm, Orange Kiwi. They are based on her award-winning research into the psychology of owners and management teams at points of significant transition. Part diagnostic, part roadmap, our tools help advisors measure transition readiness and capacity on multiple levels and deliver more satisfying transition outcomes for business owners.

Get in touch to learn more about how our transition tools and training give you the actionable insights and common language to help lead your clients to a better transition.

Web: clearwaterinsights.com

Email: info@clearwaterinsights.com

LinkedIn: https://www.linkedin.com/company/clear-water-insights

©2022: Orange Kiwi, LLC. PO Box 3765, Tustin, CA, 92781

www.orangekiwillc.com

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, excepted as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher.

Information and views provided through the Plan for Transition website and its online assessment tool are generated based on user inputs, the feedback is general in nature for your consideration and is not legal, tax or investment advice. Neither Plan for Transition, nor Orange Kiwi make any warranties as to accuracy or completeness of the information, including but not limited to information provided by users and/or third parties, does not endorse any non-Orange Kiwi companies, products, or services described here, and takes no liability for your use of this information. Information and suggestions regarding business risk management and safeguards do not necessarily represent Orange Kiwi's business practices or experience. Please contact your own legal, tax, or financial advisors regarding your specific business needs before taking any action based upon this information.