

The Entrepreneur Dilemma

Are you prepared?



A truly entrepreneurial mind is a rare and special thing. Building a successful business from scratch requires an owner with a great array of exceptional characteristics.

These characteristics—which include risk taking, tolerance for ambiguity, and obsessiveness about both achievement and control—can often come back to haunt business owners when it comes time to transition the business to new stewards, whether those stewards are the owner's heirs, current employees and partners or outside acquirers.

Business transition planning is not typically the best match for an entrepreneurial brain. Entrepreneurs won't shy away from the necessary hard work, but the nature of that work—self-reflective, multiple stakeholders, lots and lots of procedural boxes to be checked—is not the work that entrepreneurs tend enjoy doing.

Although 50% of owners felt a transition plan was important to their future and the business's future, nearly 80% had not written a transition plan.¹ Since every entrepreneur knows that their role as founder/key employee will end eventually (and that a transition plan is, in theory, very important), we can only assume that the issue comes down to a lack of time and priority. **This is the dilemma.**

Unfortunately, this is also hard to delegate—the process is too important and personal to give to anyone else. But if business owners are aware of the danger of not taking action, they can easily take steps to mitigate these business transition planning problems, as we discuss below.

So, what are these exceptional characteristics, exactly?

Taking Risks: Anyone who has started and grown a business has taken numerous calculated risks that many would find unbearable. This is partly just individual psychology, and partly learned behavior in the case of successful entrepreneurs who become more confident when their risk-taking pays off.

1. The Psychology of Transitions by Allie and Andrew Taylor, www.clearwaterinsights.com

This appetite for risk, and attendant confidence, might not be beneficial when it comes to transition planning. Mistakes made when growing a business can be overcome in future operating years, but the step of transitioning away from the business is final—there are no do overs. Further, the personal and emotional decisions within a transition are entirely different than the things the typical entrepreneur has learned to do during their career. Finally, business transition planning is all about solving problems by removing risks through careful planning—an often-painstaking process that generally does not align well with the entrepreneur’s mindset.

Living with Ambiguity: While most people struggle with ambiguity, good entrepreneurs thrive under it, navigating unfamiliar paths and through economic uncertainties over and over again. Repeated successes can reinforce their willingness to trust their gut or proactive planning to make decisions.

This comfort-in-uncertainty trait can be a huge obstacle to business transition planning, which often includes proactive steps well ahead of a transition that remove uncertainties and make the business more sustainable, more transferable and ultimately more valuable. Entrepreneurs are thus asked to shift their perspective 180 degrees when the time comes, and many struggle to do so.

Need for Achievement: From our experience, entrepreneurs are far more achievement-driven than the average person. They have to be, to take a business from concept to execution to scale. This can sometimes be an almost primal urge to identify and conquer where others fear to tread.

Clearly, this urge runs counter to any efforts at business transition planning. An owner obsessed with the next frontier, the next market, the next big idea would recoil at the notion of actively planning an end to that process which drives them. We often counsel clients to find ways to split their role as owner and key employee, so they can begin to separate the key decisions they need to make and weigh those decisions properly from both a personal and business perspective. But on their own, entrepreneurs often fail to see this conflict of psychological interests.

Need for Control: Entrepreneurs can be extreme control enthusiasts, with an insatiable need to shape and control their environment. They want to play by their own set of rules, and they want (or, if possible, require) others to operate by those rules as well. This trait strongly complements a risk-taker’s activities—the ultimate expression of someone’s ability to accept the things they can’t control.

However, need for control can become an obstacle in a transition process where the concepts, nomenclature and rules of engagement are all unfamiliar. Operating outside of their comfort zone forces them to depend on advisors that they may not fully know or trust; more broadly, these personality types often resist the transition process because it already has clear rules and the entrepreneur’s ability to control it is typically limited compared to what they are used to.

Being Innovative: A final trait to note is that entrepreneurs often seek success through innovation—they naturally seek out economic “blind spots” and attempt to create something of value in those spots where nothing previously existed. Creativity and flexibility are valued traits in a business owner, but such people are generally repelled by what they view as a rigid, boring, black and white technical process such as business transition planning.

Now what? How do you overcome these challenges?

Answering that question involves a far lengthier discussion than we can fit here, and the answer is different for every situation and every entrepreneur. However, one general concept that we believe is helpful in most situations is that of “transaction readiness.” Many entrepreneurs are simply not ready to engage in meaningful transaction planning or see it as too far away to prioritize; in some cases, clients come to us with concerns that they are being pressured to exit before they are ready. But we find that many of our clients are nonetheless eager to take concrete steps to put themselves and their company in the best position possible to respond to a transition opportunity.

To prepare yourself and your business to be “transaction ready” will still require a good deal of thought and execution over time, which is why our strongest recommendation to any entrepreneur is to ensure that they are working with an advisor that they trust—not only when a sale or transition is imminent, but in the months and ideally years before such a transition comes to pass.

One way to know whether an advisor is worthy of your time: Do they come into the room with all the answers, or do they mostly spend time asking questions and listening. While the former approach may feel more comforting at first, the latter approach is the only one that will get you started on the right track. Your advisor’s first job is to help you identify the right questions you should be asking yourself; only then can you and your team of partners and advisors begin coming up with answers.

That list of questions often follows a general outline as shown below. But it is almost always supplemented with a longer list of questions tailored to the client’s industry, company and personal situation.

Personal Readiness Questions

1. What are my specific goals out of a sale transaction?
2. Which transaction path/type would achieve those goals the best?
3. What do I need to net out of the sale/transition to make my post-close plan work?
4. What is my ideal plan/life after the sale/transition?
5. What can I work on in advance to improve my personal readiness and achieve an optimal outcome?

Business Readiness Questions

1. What is the true future potential of my company?
2. How can I best communicate that to potential buyers?
3. How transferrable/salable is my company?
4. What could prevent me from getting the sale I ideally want?
5. What can I work on in advance to improve my business’s readiness and achieve an optimal outcome?

A good lead advisor will oversee a process that allows the entrepreneur to retain clear leadership of the “transition team’s” efforts; does not have a professional or personal bias favoring or against one solution and is interested in a long-term vs transactional relationship. We believe the process should always begin with a discovery conversation that explores and reflects on the entrepreneur’s comprehensive goals and aspirations, and ideally the advisor will offer a breadth of insights, education and leadership across many different disciplines, from transactional execution to post-transition strategic financial advice.

Conclusion

Navigating change is never easy, and it is only palatable when it’s on your own terms and the motivation to make a change comes from within. When you are ready, we believe that time spent preparing the company to sustain itself beyond your time at the helm will greatly increase the odds that all stakeholders—you included—will be happy with the results down the line.

Our **Entrepreneur Transaction Readiness Assessment** is a tool we employ with entrepreneurs planning on a future transition and seeking insights/criteria to assess the readiness of their business transition. Responses illuminate current position and outlook in anticipation of a business transition or, on actions taken to date.

The views expressed are those of the author and Brown Advisory as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be and should not be relied upon as investment advice and are not intended to be a forecast of future events or a guarantee of future results. Past performance is not a guarantee of future performance and you may not get back the amount invested.

The information provided in this material is not intended to be and should not be considered to be a recommendation or suggestion to engage in or refrain from a particular course of action or to make or hold a particular investment or pursue a particular investment strategy, including whether or not to buy, sell or hold any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. To the extent specific securities are mentioned, they have been selected by the author on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is intended solely for our clients and prospective clients, is for informational purposes only, and is not individually tailored for or directed to any particular client or prospective client.

Any accounting, business or tax advice contained in this communication, including attachments and enclosures, is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties.