Exit Strategy: Don’t Let Personal Motivations Conflict With Rational Business Decisions

November 5, 2020 8 min read

Opinions expressed by *Entrepreneur* contributors are their own.

It is more than just a bit of demographic trivia that around 10,000 Baby Boomers reach retirement age *each day*. Given that Boomers owned an estimated 2.34 million small businesses as of 2019, this demographic trend, together with the economic consequences of the COVID-19 pandemic, all but ensures serious reverberations for the nation’s economy. This is especially true for business owners who feel motivated to sell their business or retire right now.

Emotions are high

Entrepreneurs who want to sell today face major obstacles, including concerns regarding immediate-term liquidity, ongoing profitability and even the viability of their business model in the post-COVID economy. Prospective buyers are increasingly reluctant to accept the risk associated with a small business acquisition.

The pandemic has created a flashpoint from already existing forces. Personal motivations are enhanced, emotions are high and market fears are almost suffocating. But, after a decade of quantitative easing and low interest rates, the US economy has generated more than $2 trillion in funds available

for investment in private equity transactions alone, per Bain Company. There is pressure to put those investment dollars to work.

Related: 5 Tips to Successfully Sell Your Company

In short, the surge in retirement-age Boomers means many private business owners are seeking to move on to the next phase of life at just the wrong time. That is why now, more than ever, business owners seeking to "get out" need to be sure they have their house in order. But before you do anything, you must understand yourself as a business owner in today's circumstances – in particular, how your personal motivations and emotional attachment to your business can influence business decisions. Remember, the fundamentals of selling a business have not changed, and the overarching question for business sellers is, "How can I learn to be more effective at selling my business?"

Answering this question means leveraging your exit objectives with self-knowledge in the service of executing sound, rational business strategies. The ability to do this will be the key to maximizing the value of your business. It's helpful to focus on the distinct intersection that occurs between the business owner's motivations, market realities and business acumen. In practice, bringing these forces together results in a careful balance that represents an owner's exit plan (also known as a harvest strategy).

Related: Why an Increasing Number of Retiring Entrepreneurs Are Selling the Business to Their Employees

Between a rock and a hard place

Some simple retirement math suggests that we should expect around 130,000 Boomer small business owners to exit this year –and every year for the next decade. However, the demographic shift that began in 2010 (the year the oldest Boomers reached

retirement age) has thus far failed to create anywhere near that much activity. There has been a modest increase in the number of exit transactions. According to BizBuySell, the number of small business transactions rose from 4,569 closed deals in 2010 to 9,742 in 2019. However, this increase is negligible when compared to the number of transactions that could, and perhaps *should*, be happening.

A couple of explanations for this counterintuitive result have been suggested:

- Maybe it is as simple as there not being enough buyers. After all, Millennials (those born between 1981 and 1997) are not typically old enough to buy businesses, and Gen Xers (those born between 1965 and 1980) are not as numerous.
- Perhaps investors have multiple investment opportunities with little or moderate risk and are choosing to avoid high-risk small-business acquisitions.
- Maybe Baby Boomers perceive they will not be able to maintain their lifestyles without their paychecks, so they are choosing to keep working past 65.

Although these observations seem reasonable enough, there is another factor influencing the situation: Many small business owners simply do not know *how* to get out. Over the course of their business's lifecycle, small business owners have served as creator, manager, cheerleader and boss. Their identity is completely wrapped up in the business. To get out seems almost unthinkable. They may *say* they want to sell, but their desires are more complicated than that.

Related: Need a Business Idea? Here Are 55.

The human factor

The emotional aspect of "getting out" has been the subject of much academic study. It is well established in the literature

that owners have often achieved self-actualization through building a business that they imbue with their passion and commitment. These businesses also function for their owners as the primary conduits through which they acquire valuable personal resources that permit important lifestyle choices.

This way of thinking and self-expression, while often conducive to starting and growing a business, can negatively influence the process of developing a harvest strategy. In theory, exits should represent an opportunity for the business owner to celebrate success and to monetize their dreams and ideas. For some owners, it serves this purpose. For others, however, an exit represents a kind of existential failure.

The truth is, many small business owners face a sense of loss when they exit their business, and this grieving must be given time to be processed before the process of getting out can begin. That is why the emotional and mental state of the owner must be handled before any real preparation, due diligence or negotiations can ensue.

Related: Cashing Out: What Every Entrepreneur Should Know Before Selling a Business

Motivation meets rationality

As a business transition and restructuring consultant, one behavioral aspect among small business owners I have found particularly intriguing is the sense of entrepreneurial pride they maintain even in those areas of the business where they have limited expertise – a fallacious line of thinking that can seriously hurt deal prospects.

To see how this plays out, consider this paradox. In numerous interviews with small business owners for my doctoral dissertation, I found that most respondents agreed that reducing information asymmetry could potentially increase payouts for them as sellers. In this context, “information

asymmetry" refers to the difference between what the small business owner knows and understands about their business and what a potential buyer knows. Where there is greater asymmetry, it is generally agreed there will be a negative impact on a seller's ultimate payout.

The term "market signaling" is often used to describe the means by which information asymmetry is reduced by actions on the part of the seller. Effective market signaling means an increased payout for sellers, thus embracing market signaling should be the basis of an effective harvest strategy.

However, despite agreeing that reducing information asymmetry creates value, owners I spoke to repeatedly emphasized that reducing information asymmetry is very challenging. They complained it requires a level of business acumen and a commitment to transparency that may be difficult for them to achieve. Nevertheless, information *must* flow from the owner to the buyer to create value. So how does the business owner who may not possess the necessary business acumen accomplish this? Either through a commitment to personal growth and development or a willingness to bring in necessary outside expertise.

Related: Nearly Half of Business Owners Think the Changes They've Made During the Crisis Will Be Permanent

In all of these interviews, it did not occur to many small business owners – until I prompted them – that they could or would want to hire outside assistance to help them with market signaling. Here is that sense of entrepreneurial self-efficacy manifesting as a harmful bias: While in many cases it is a powerful and positive force for the company, if the mentality expresses itself in the form of "If I can't do it, then no one else can," it can decidedly hamper the prospects for sale.

Inasmuch as an overly developed sense of entrepreneurial self-efficacy prevents business owners from developing or acquiring

knowledge and proficiency in signaling the market, value can be lost. And while this situation might at first appear to reflect an under-appreciation or a misunderstanding of market signaling, my work with business owners suggests this is not the case. It is not that small business owners fail to recognize rational business concerns and opportunities. They very much do; it is just that they live in a sometimes tense relationship with the personal motivations and beliefs often associated with entrepreneurial ownership.

Takeaways

It is an established principle in psychology that awareness is the first step toward change. It is my hope this discussion introduces how certain psychologies associated with what Michael Gerber has called “entrepreneurial seizure,” a phenomenon common among many small business owners, negatively influences an owner’s ability to exit. I hope it has convinced you to keep an open mind and evaluate your own biases when it comes to your business and developing a harvest strategy.

loading…

https://www.entrepreneur.com/article/358051