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The Psychology Of Exit Planning

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Behavioral Economics (aka Behavioral Finance) has popularized what most psychologists already know about human behavior — that, despite how we like to think about ourselves, we are not purely rational beings.

So, given this fact of modern science, how could we expect human beings to act completely rationally when it comes to exiting their own business? Especially when you consider the blood, sweat and tears that likely went into building and sustaining it?

It is common to ignore the role of irrationality in daily decision-making. While I don't have space here to discuss why that is so, I can provide an example of this lapse. Exit planning specialists and consultants refer to the following as the most common reasons that exit plans are not completed carefully and proactively (as stated by business owners):

- It's too expensive.
- I'm too busy.
- Better to wait until it gets closer; no need to waste time now.
- Buyers will seek me out.

As a result of accepting these statements that need to be debunked or addressed in a rational, logical manner, exit planners fail to acknowledge that much more complex (and interesting!) dynamics are likely at work below the surface. Just as many of you have learned in your career, there are often psychological or emotional reasons why people don't act when it comes to buying life insurance. Why wouldn't that apply to business owners who are getting ready to exit their business?

I have developed an approach that highlights three key areas of the exit planning process: Succession, Readiness and Departure, including recommended strategies for attending to the psychology of the business owner in each of these stages.

Succession

When choosing a successor (whether a family member, employee, or outside buyer), the business owner comes face-to-face with their own mortality. This is when an owner must (on some level, often unconscious) deal with the fact that, even after he is gone, the company will continue.

For many owners, the very narcissism that likely played a role in the birth or success of the business now undermines their ability to make an important business decision: How to replace themselves. Avoidance of this task is fairly typical; who wants to think about their own demise or obsolescence? But other defense mechanisms can often be seen, including denial ("I'll be able to keep doing what I am doing until I am 90"), persecution ("You just want me to pick a successor because you want to see me out of here"), and regression (sudden, unexpected, childish behavior).

By focusing on the business owner's psychological characteristics (though the use of reputable, reliable assessment tools), it is possible to help them understand what unique traits they have brought to their business over the years. At the same time, the assessment process can determine the type of qualities, motivators, and values that the next leader should possess.

Assessment tools have advanced quickly in the past decade. Reputable, reliable tools are now available to help business owners (and HR departments) determine key personality attributes, emotional/social competencies, and even potential "derailers" of current employees and job candidates. (See sidebar: "Finding reputable assessment tools"). Not only can these tools expedite the process of selection, but they can also provide great insight into the owner's interests and values so that he can begin working on his post-exit plans.

Readiness

An owner who is at the early stages of readiness is less likely to follow through on action items, more likely to

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object to any forward motion, and stands a greater chance at causing you unending frustration before you finally give up.

If you have concerns that your client or prospect may not be as ready as he should be, or that significant roadblocks lay ahead, you should be ready to reach out to your extended team. Similar to partnering with a CPA or estate planning attorney, you should consider having someone on your team who is trained in assessing and working with psychological dynamics.

To use my business as an example, when agents refer an exiting business owner client to me, I typically provide an online assessment process. This allows my conversation with the business owner to start as a simple process which helps the advisor better understand the client. However, it quickly and easily turns into an interview to help gauge psychological readiness. The firms I partner with present this part of the process to their clients as a way to avoid missteps during the exit planning process, and as a way to maximize their effectiveness generally with their clients.

Departure

Preparing an exiting owner for his actual exit and the next chapter in his professional life can minimize any irrational backlash such as over-involvement with the company (exploiting a commonly used consulting clause that was part of the agreement), antagonism toward new leadership (expressed to existing employees), or misplaced blame or anger directed at his advisors as he begins to reconsider the sale or exit.

It is key that exiting business owners are moving towards the next part of their lives, not simply dealing with the loss of their business. Days filled with golf are not realistic plans, as they do not satisfy many of those attributes that exiting business owners possess.

Again, partnering with an advisor who can work closely with your exiting owner in creating a solid, specific plan for the exit can eliminate problems and maximize the opportunity for new professional experiences and opportunities.

Finding reputable assessment tools

These tools, typically administered online in 10 to 15 minutes, can provide great value to both the exiting owner as well as their advisors. However, it is critical to make sure the tools you or your team uses are tested well, accurate, and adhere to professional standards of test construction. When considering an assessment tool, the following two questions can help you start to sort the good from the not so good:

Can you please send me a technical manual? (Any reliable test publisher should know that the creation of a comprehensive technical manual is a standard part of test design, and includes standardized components such as theory, construction, and validation).

Can you please send me a copy of the test's review in the Buros Measurement Yearbook? (Buros Institute — www.buros.unl.edu — publishes peer reviews of assessment tools, and is considered a necessary part of credible assessment development).

Dr. Michael Klein is the founder of MK Insights LLC, a professional development group based in Northampton, Mass. He is finishing up his first book, "Trapped in the Family BusinessSM: Diagnosis & Treatment," to be followed by "The Psychology of Exit PlanningSM: A Practical Guide." In June 2009, he presented at MDRT in Indianapolis. Dr. Klein can be reached at mklein@mkinsights.com, or 413-320-4664.

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