# What Got Them Here Won't Get Them There: Transforming Founder Centric Companies to Maximize Their Value and Close the Sale

Often motivated by business "burn out", a strained business climate or the image of an endless vacation, founders begin to consider selling their business. It seems like a perfectly left brain solution to frustration, malaise or boredom. They may talk to their spouse about how they are burned out or want to extend their winter vacation in Naples, or have more time to visit the grandchildren, and before you know it they are talking to their accountant, lawyer, financial planner or a business broker about selling their business. Their business advisor helps them crunch some numbers, estimate how long it might take to sell the business in the current environment and to determine the value proposition. When all the signs point in the direction of "Sell", why do some businesses fail to execute? Founder reluctance and a founder centric culture will derail the ability of many businesses to "close the deal".

How can these companies change their mindset so that they can implement a successful exit strategy? Which advisors are best equipped to address the right brain thinking that can often instigate or derail the sale?

Over the last several years, exit planning advisors have been thwarted by a business climate marked by declining sales and earnings, shrinking bank credit, and a poor economic outlook. Consequently, there have been few buyers in the market since the beginning of the financial meltdown in 2008. With cash reserves built up over the last 2-3 years, and gradual improvement in economic conditions, companies are showing more interest in buying new businesses. The availability of buyers is estimated to exceed that of sellers in 2011. As more deals are executed, company valuations are expected to increase. This appears to indicate a great opportunity for companies to jump into the market and sell their business. [Reference: "Can 2011 Be a Good Year For Private Company M&A?" by John Hammett, Corporate Finance Associates *Capital Ideas for Business,* Winter 2010; http://www.cfaw.com/library/100/private-company-mergers-acquisitions.php;]

In spite of this, why will many companies fail to capitalize on this opportunity? It is often a right brain, not a left brain, challenge. Which advisors are best equipped to address the right brain thinking that can often instigate or derail the sale?

## Stalled at the Altar

The companies most likely to stall at the altar are those that have what we call a "founder centric culture". These companies, often started by boomers 25-40 years ago, have been operating for more than a generation. If they do not have a succession plan they are looking for some way to capitalize on their biggest investment, their business. What obstacles are inhibiting these companies from successfully completing a sale? Many attribute the failure to execute the sale to factors such as disagreement on price and market conditions. Buyers looking for a good investment may back away from companies that have an immature internal structure and a founder centric culture. Often, the emotional founder ambivalence and founder centric culture of the company are the biggest hurdles to overcome.


27 Mica Lane, Suite 106, Wellesley Hills, MA 02481-1741
www.atlanticconsultants.com
(Phone) 781-235-7555 Email: info@atlanticconsultants.com (Fax) 781-772-2266

**Symptoms of Founder Ambivalence**
Founder ambivalence is marked by:

- Difficulty with following through on action plans suggested by advisors.
- Being pre-occupied by a stream of company crisis that distracts from the big picture.
- An over worked and stressed founder who has no reason to focus on the big picture.
- Lack of a clear personal and family strategic plan to take them into the next 10-20 years
- A clearly defined sense of purpose and mission beyond the business

**Symptoms Of Founder Centric Companies: Signs This Sale Will Stall At The Altar:**

- Company leadership deficits
- Process deficits
- Culture deficits

The business is the founder and the founder is the business. Therein lies the challenge. Their greatest strengths are often their greatest weaknesses. In founder centric companies, you often find a Founder who is actively involved in working in the business, but not ***on*** the business. They are a key rain maker or customer evangelists. They are what we call a Founder Hero because they are often the only one who can serve customers right. There are frequent fire drills and often the founder is the one rescuing the day.

It is what Michaels E. Gerber refers to in The ***E MYTH*** as the conflict that rages among the three hats of entrepreneur, manager, and technician._They may be the chief decision maker and process saboteur; they have no succession plan or strategic plan; They have no advisory board; They simply meet each day's challenge; keep a steady pace and do things in ways that have worked in the past. They see no reason to have a vision or a plan. The company mantra is "we've always done it this way".

**Buyer Red Flags**
Buyers are wary of a lack of process and systems that can survive beyond the founder. They may, or should, have a certain skepticism that this founder will be able to let go of something that gives him or her such a sense of identity and purpose, or that staff, vendors and customers will be able to transfer their loyalty to a new owner.

**Company/Leadership Deficits**
In the founder centric company there are noticeable leadership deficits. While the founder is clearly the culture creator, and larger than life in many ways, the sense of leadership dwindles from there. Often there is a key executive who has been with the company almost as long as the founder and follows his or her path. There are little to no leadership/management competencies or development. If there is a management team, it may be one that does not function effectively.

**Buyer Red Flags**
Buyers may be cautious of such leadership vacuums, knowing that without the founder there is little capacity to decide, execute and achieve results.


27 Mica Lane, Suite 106, Wellesley Hills, MA 02481-1741
www.atlanticconsultants.com
(Phone) 781-235-7555 Email: info@atlanticconsultants.com (Fax) 781-772-2266

**<u>Process Deficits</u>**
In founder centric companies there are often great ambiguities among people in terms of roles and responsibilities. This is further complicated by the lack of a systemized process that allows for efficiency and success. The firefighting caused by last minute crisis ultimately results in the erosion of profits. To further compound the problem, decision making often occurs only at the top and there is no accountability throughout the company.

**Buyer Red Flag**
Buyers observe this cautiously. Process improvement and tightening may create an opportunity to improve profits, but the current state of the organization points to weakness.

**<u>Culture Deficits Are Created By The Leader/ Founder</u>**
In founder centric companies there are often extreme levels of morale and engagement. Larger than life personalities often create a tightly woven family of employees. They are loyal to the founder and the founder is loyal to them. There are blessings and curses with this.

As the company grows it is difficult to change the guard and the guard is not always adaptable to change.

The culture is often marked with crisis du jour, stress, complacency, silos, no sense of accountability. There are challenges with retention/talent attraction, an aging work force, lack of diversity, change resistance, and no sense of vision of the future due to strategic plan deficits.

**Buyer Red Flag**
Buyers eye this phenomenon guardedly. They understand that if the founder leaves there may be a vacuum too big to fill and the loyalty will soon dissipate. Buyers are looking for a company that can evolve beyond a company founder. As buyers observe the challenges of a founder centric company often the financial value begins to diminish.

**What can a founder and their advisor team do to reshape their company and make it buyer friendly?**

**Steps In Evolving From A Founder Centric To A Buyer Friendly Company**
Buyer friendly companies have evolved from a founder centric culture by implementing best practices in leadership, management, organizational development and process/ profit focus. They differ from founder centric companies in that they focus primarily on working ON the business rather than IN the business, utilizing a more systematic business process. The following steps are needed to evolve the company from founder centric to buyer friendly.

**Key Advisors Needed At Each Step**
To execute a sale that maximizes the company value, key advisors must work together and in tandem to help reset the company's GPS.


27 Mica Lane, Suite 106, Wellesley Hills, MA 02481-1741
www.atlanticconsultants.com
(Phone) 781-235-7555 Email: info@atlanticconsultants.com (Fax) 781-772-2266

**Steps And Advisors Needed In Resetting Founder GPS**

1. **Founder Readiness: Creating A Legacy And Resetting The GPS Personal Strategic Planning:**
   ADVISOR: Business Coach

   The execution of a sale begins with a focus on legacy and personal strategic planning combined with corporate strategic planning. This enables the founder to create a vision, mission, values, and goals for him/herself, as well as leaving the business in a position that commemorates their legacy of success.

2. **Building a Leadership Bench:**
   ADVISOR TEAM: Management Consultants; OD/Coach; Recruiter

   The company and the founder need to prioritize building a leadership/management bench by identifying key leadership capabilities and competencies, and through training or coaching in house managers or recruiting new blood. There also needs to be some team building to solidify a cohesive team to set and execute goals and to develop a new organization chart that clearly defines roles and responsibilities.

3. **Developing A Strategic Plan: Assessing the company SWOT:**
   ADVISOR TEAM: Business Coach/ OD Consultant Corporate Strategic Planner

   As with a personal legacy, the founder and executive team need to create a strategic plan that closes the gap of vision and current reality and sets executable goals for:
   - Decentralized decision making
   - Management competencies
   - Process improvement
   - Innovation
   - Increased revenues

   It is necessary to set the stage for growth and operational effectiveness that will attract the right buyer at the right price. The discipline of executing on a 1-3 year plan will much better position themselves for a good sale.

4. **Creating And Managing Change:**
   ADVISOR TEAM: Business Coach, Organizational Development or Management Consultant

   Help create the change necessary to maximize the volume of the business. Heath & Heath's book, The Switch, is a good reference for this. This step is not only a process improvement leap, but a mindset and cultural leap as well.

5. **Crunching The Numbers:**
   ADVISOR TEAM: Financial Planner/Accountant to help owner finance the future

   Understanding what the owner needs, what they have, and closing the gap


27 Mica Lane, Suite 106, Wellesley Hills, MA 02481-1741
www.atlanticconsultants.com
(Phone) 781-235-7555 Email: info@atlanticconsultants.com (Fax) 781-772-2266

6. **Positioning the Company for Sale: Cross functional Team Approach**:
   ADVISOR TEAM: Lawyer, Coach, Financial Planner and Accountant

   Addressing the 4 legged stool: the legal, financial, long term financial goals and the personal legacy the owner wants to create

7. **Finding The Buyer:**
   ADVISOR: Broker

   Identify the new value of the company and determine the strategies for selling and finding the best buyer.

8. **Executing The Sale:**
   ADVISOR TEAM: Lawyer, Accountant, Coach, Broker, Financial Planner.

   This is where seller ambivalence most rears its head. The collective input of all advisors, particularly the coach who best knows the right brain challenges needed to help take the founder to the altar.

**Conclusion**

Both advisors and sellers can benefit from the lessons learned from implementing these steps. Evolving from an Entrepreneur to Founder owner to Leader is not an easy or fast process. However this can be accomplished in 6-12 months once the founder mindset is fully engaged in the process and the outcome. Specialists in behavioral economics and organizational culture are essential to unbind the organization and leader from a founder centric mindset and homeostatic behavior. Experts in this field are an essential part of the Exit Planning Team that provides right brain balance to the left brain experts.

A sale that maximizes the value of the company can best be reached when the first 7 steps are completed. As the founder resolves their ambivalence they become more confident and committed to the sale. In turn, buyers respond with a similar confidence and enthusiasm. It is only through creating the changes inside and outside the founder and the company that the sale can be fully achieved at its greatest value and without last minute ambivalence that can undermine the final signing of the agreement.


27 Mica Lane, Suite 106, Wellesley Hills, MA 02481-1741
www.atlanticconsultants.com
(Phone) 781-235-7555 Email: info@atlanticconsultants.com (Fax) 781-772-2266