

14.4: Getting Out of the Business

Learning Objectives

1. Identify the situations in which an owner may choose to get out of business.
2. Identify and understand the situations that may lead to being forced out of business.
3. Understand the resources that can help an owner make a decision.

There are many reasons why an owner might want to walk away from a business; the choice is oftentimes the owner's. Perhaps the owner wants to sell the business before retirement. Perhaps someone has approached the owner with a terrific offer. Perhaps investors are pressuring the owner for their money. Perhaps no one in the owner's family wants to take over the business. Perhaps it is no longer fun; the entrepreneurial spirit is gone, and the owner's passion has changed. It could be that either the owner or the team is not committed to making things work. "Knowing When to Throw in the Towel," *Fox Business*, May 2, 2011, accessed February 6, 2012, smallbusiness.foxbusiness.com/entrepreneurs/2011/05/02/knowning-throw-towel. Perhaps the owner would like to cash out the equity built in the business. Timothy Faley, "Making Your Exit," *Inc.*, March 1, 2006, accessed February 6, 2012, www.inc.com/resources/startup/articles/20060301/tfaley.html; "Knowing When to Throw in the Towel," *Fox Business*, May 2, 2011, accessed February 6, 2012, smallbusiness.foxbusiness.com/entrepreneurs/2011/05/02/knowning-throw-towel. There are many other reasons as well:

- The owner is spending more time fixing nominal problems, it feels as if he or she is working backward, and no end seems in sight.
- Instead of being the most optimistic person on the team, the owner starts taking a negative view on most of the decisions the team is making about future prospects for growth.
- Continuing with the business may have serious, lasting personal repercussions, such as threatening one's marriage, familial relationships, or health. The potential risk is no longer worth the reward.
- The owner sees the writing on the wall: no repeat or referral customers, no positive feedback from any source, or no demand for the business's product or service. Positive feedback can take many forms: word of mouth, referrals, favorable press, favorable posts and reviews on Facebook and Twitter, and plenty of inquiries. If a business owner is not satisfying customers and attracting new ones, why be in business at all?

When Walking Away Is Not the Owner's Choice

There will also be those times when walking away from a business may not be the owner's choice.

- **The owner wants no one else to run the business and is unwilling to give up equity.** Every small business founder faces the **founder's dilemma**—that is, the dilemma between making money and controlling the business. Dan Bigman, "On the Hunt," *Forbes* 185, no. 2 (2009): 56–59. It is tough to do both because they tend to be incompatible goals. Founders often make decisions that conflict with maximizing wealth. Noam Wasserman, "The Founder's Dilemma," *Harvard Business Review*, February 2008, 1–8. If an owner wants to make a lot of money from a business, the owner will need to give up more **equity** (the money put into the business) to attract investors, which requires relinquishing control as equity is given away; investors may alter the board membership of a business. Noam Wasserman, "The Founder's Dilemma," *Harvard Business Review*, February 2008, 1–8. To retain control of a business, the owner will have to keep more equity, relying on his or her own capital instead of taking money from investors. The result will be less capital to increase a company's value, but he or she will be able to run the company. Noam Wasserman, "The Founder's Dilemma," *Harvard Business Review*, February 2008, 1–8.

In a recent study of 212 new ventures, it was found that in three years, 50 percent of the founders were no longer the CEO, only 20 percent were still "in the corner office," and fewer than 25 percent led their company's initial public offering (IPO). Four out of five found themselves being forced to step down at some point. Dan Bigman, "On the Hunt," *Forbes* 185, no. 2 (2009): 56–59; Noam Wasserman, "The Founder's Dilemma," *Harvard Business Review*, February 2008, 1–8. Although specific to new ventures, this information has a clear message for all small business founders/owners: wanting to make a lot of money while still controlling and running the business are not compatible goals. One must decide which goal is most important, understanding that the choice of letting someone else run the business will likely result in being forced to step down...and perhaps out of the business altogether.

- **The owner is facing bankruptcy.** One study Richard Carter and Howard Van Auken, "Small Firm Bankruptcy," *Journal of Small Business Management* 44, no. 4 (2006): 493–512. found that firms with less sophisticated owners or managers with

respect to experience and training increases the likelihood of bankruptcy as do a deteriorating market and having less access to capital. There can be other reasons as well—for example, employee theft, fraud, or a consumer liability lawsuit that drains a company's assets.

- **The owner may be the cause.** The owner could be killing the company or, at the very least, shooting himself or herself in the foot. There are several ways in which this could happen: Geoff Williams, "Dead Zone," *Entrepreneur*, March 2007, accessed February 6, 2012, www.entrepreneur.com/magazine/entrepreneur/2007/march/174716.html. (1) micromanaging, which may lead to, for example, employees presenting problems or issues but no solutions, unusually high turnover, and never receiving a project that the owner does not change; (2) spending money in the wrong places—for example, spending money on items not needed, such as a fancier location, hiring more staff than needed, and attending costly trade shows with limited or no return on investment; (3) chasing after every customer instead of focusing on the ideal and regular customers that should be reached; (4) the owner is not on top of the numbers, perhaps because he or she is not financially minded and has not taken the time to become financially minded or hire someone as the finance person; and (5) the owner is not a people person, perhaps being a "my way or the highway" kind of person who invests no emotion or warmth when dealing with employees and colleagues, or is an egomaniac.
- **The owner is seriously ill.** Being ill will raise doubts about a company's future, and new businesses are the most vulnerable. Leigh Buchanan, "A Fight for Survival: When the Boss Gets Cancer," *Inc.*, July/August 2009, 106, 108. If there is no one in the owner's family who is interested in or willing to take over the business, this can add additional stress to the situation.
- **The industry dies or implodes.** Sometimes the demand for a service or a product just dies—for example, web-consulting companies during the dot-com bust in 2000 and 2001. Joel Spolsky, "The Day My Industry Died," *Inc.*, July/August 2009, 37–38. Henrybuilt Corporation, a Seattle firm that specialized in designing kitchens from \$30,000 to \$100,000, saw its sales come to a standstill in 2008. Everyone was cancelling projects. The company modified its product and was able to survive. Sarah E. Needleman, Vanessa O'Connell, Emily Maltby, and Angus Loten, "And the Most Innovative Entrepreneur Is..." *Wall Street Journal*, November 14, 2011, accessed February 6, 2012, online.wsj.com/article/SB10001424052970203716204577013501641346794.html.

Resources to Help Make a Decision

The decision to walk away from a business—whether that decision is voluntary or forced—is not an easy one to make. Consult with an appropriate mix of individuals; a partner or partners if applicable, your spouse, your family, an attorney, an accountant, and perhaps someone from SCORE. Each individual can offer a different perspective and different counsel. Ultimately, however, the decision is the owner's.

One thing is for certain. Whether the escape is voluntary or forced, there should be an exit strategy.

KEY TAKEAWAYS

- Escaping from a business is the owner's choice when, for example, he or she wants to sell the business before retirement, someone has approached the owner with a terrific offer, investors are pressuring the owner for their money, no family member wants to take over the business, or it is not fun anymore.
- An escape may be forced when, for example, an owner wants no one else to run the business and is unwilling to give up equity or is facing bankruptcy or is seriously ill.
- The owner should consult with a mix of resources before making a decision.

EXERCISE

1. You are the twenty-eight-year-old founder of a very successful, five-year-old software company. For the last three years, sales have doubled in each year. Last year's sales were \$75 million. A major high-tech firm wants to buy your company. They will offer cash and will sweeten the offer by allowing you the option of being CEO for at least two years. How much would the firm have to offer you to take this deal? How would you know if it was a fair offer? Would you exercise the option to act as CEO for the two years? If you took the offer, what would be your life plans?

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