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Risky Business: How Impulsivity and Perfectionism Can Undermine the Sale of Your Business

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Why do entrepreneurs miss opportunities to sell their business ventures? For some, the reason may be directly tied to the decisions they made early on in business venture development. We know that the early days of operating a business venture are often challenging. The lack of financial resources, pressure to bring products to market quickly, and overall uncertainty concerning the viability of the venture drive entrepreneurs to take action to survive. These early actions form the business practices that become the norm for how the business operates going forward. Although these business practices are often established to achieve objectives related to survival during early stages of business venture development, these business practices tend to stick over time and persist into later stages of venture development. Accordingly, it is important for entrepreneurs to consider both the short- and long-term effects of business practices established during early stages of business venture development. Two examples of business practices entrepreneurs that may increase chances of business survival early on that can eventually hurt chances of selling a business down the road entail practices characterized impulsivity and perfectionism.

Impulsivity: Overcoming Time Pressure Can Lead to Disorganization

During the early stages of venture development, entrepreneurs often face the pressure to bring products and services to market quickly to beat out competitors and begin generating positive cashflows. Consequently, entrepreneurs may establish business practices characterized by *impulsivity* that prioritize speed over rigor in decision-making. In such cases, entrepreneurs may be willing to make tradeoffs in important areas to achieve objectives in other areas. These types of business practices can accelerate the venture development process to help address temporal pressures during the early stages of venture development. If left unchecked, this can hurt the chance of selling the business down the road, as demonstrated in the following example.

Consider someone who became an entrepreneur after inventing an innovative product that was cheaper and of higher quality than existing products in an industry. Passionate about and fixated on product development, the entrepreneur focused considerable time and energy toward developing new products to drive sales. Achieving considerable success in capturing industry market share eventually led to competitors expressing interest in purchasing the company. However, during the due diligence process, all acquirers walked away from the opportunity. Why? The firm was unable to procure proper historical accounting records. The focus on building an exciting line of products overshadowed administrative responsibilities that seemed less important during the early stages of venture development. By not investing in less exciting aspects of venture development – namely accounting – the entrepreneur was unable to exit the business venture and missed out on a potential multi-million dollar buyout.

The important lesson for entrepreneurs is to not lose sight of the bigger picture during early stages of venture development. If the business works, the less exciting administrative aspects of business venturing that once seemed inconsequential can play a critical role in selling your venture.

Perfectionism: Overcoming Risk of Early Mistakes Can Lead to Key Man Risks

The cost of mistakes can be especially high for a new business venture. Accordingly, entrepreneurs may establish business practices early on characterized by *perfectionism* that emphasize leadership's control over employees, processes, and external communication. These business practices prioritize control over trust in an effort to mitigate the risk of costly mistakes during the early stages of venture development. While perfectionism may reduce risks early on, continuing such practices beyond the early stages of venture development can hamper the chances of selling the business venture one day. Specifically, potential acquirers may recognize a key man risk which is a risk that the business would not be as valuable without the presence of the entrepreneur.

There is substantial evidence that this risk represents a critical factor acquirers consider when performing due diligence on potential targets. Consider Elon Musk of Tesla. If Musk were to leave Tesla, how might this impact the value of the business? On a smaller scale, consider the owner of a local architecture firm who has developed and maintained strong personal relationships with clients over the years to build her business yet was reluctant to extend these relationships to other members of her firm. If she were to step away from the business, would clients continue to work with the acquirers post-acquisition? The success of the business may require so much of the entrepreneur's relational capital that the business is not valuable without her. In such a case, the desire for control can eventually choke out an opportunity to sell the business venture.

The primary takeaway for entrepreneurs here is recognizing that what is needed to succeed early on may not always work later on. Early-stage business practices critical to overcoming barriers to entry may unexpectedly become barriers to entrepreneurial exit if left unchecked over time.

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