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An Examination of the Progressive and Regressive Factors that Business Owners Consider When Choosing Whether or Not to Implement an Exit Strategy

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An Examination of the Progressive and Regressive Factors that Business Owners
Consider When Choosing Whether or Not to Implement an Exit Strategy

by

David C. Pickard

A dissertation submitted in partial fulfillment of the requirements for the degree of Doctor of Business Administration with a concentration in Marketing Muma College of Business University of South Florida

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Chapter One: M&A for Privately-Held Businesses in the Lower-Middle Market

At A Glance

There are options for the small business owner when he or she faces the inevitable decision to exit their respective companies. These options may include family or employee succession planning, selling to a third party, or simply closing the doors and liquidating assets and receivables. This paper highlights the professional mergers and acquisitions (M&A) industry for small businesses in the lower middle market and summarizes a selection of available academic writings on the topic.

Executive Summary

The question explored in this paper is “What characterizes the M&A industry for lower middle market micro-cap companies?” M&A can be defined as a consolidation of companies or assets through a variety of financial transactions. The lower middle market micro-cap industry in the US can be defined as privately-held small businesses with annual revenue between $1 million and $25 million.

The motivation for writing this paper is in response to the limited available public and academic information on the topic of exit planning for small businesses. The methodology for obtaining information to contribute to the paper began with an initial academic literature review and informal ten industry expert interview process from a leading US M&A firm. The following four insider insights are highlighted from those interviews.
The aging population should trigger significant industry changes and foster growth. Baby boomers own an estimated 2.34 million businesses in the US and employ nearly 25 million people (Project Equity 2018). The need to transfer their business in order to enter retirement should increase the need for exit planning and M&A services.

Technology continues to change communication and processes within the industry. The introduction of the internet disrupted industries in the 1990s and continues to change the way M&A is handled for lower middle market companies each year. The way in which advisors, buyers and sellers interact is much faster and more transparent today. The way in which businesses are marketed and sold may become more automated in the coming years.

Private equity (PE) buying groups’ lead transaction activity in small business acquisition. Today, PE represents approximately 60% of lower middle market transaction dollar volume. This is up from an estimated 30% just 10 years ago.

More research should be done to better understand the factors that business owners face when choosing whether or not to implement an exit strategy. It remains a bit of a mystery on when, why, and how business owners decide to begin the exit planning and M&A process. There are an estimated 80% of small business owners in the US that currently do not have a well-defined exit strategy. This likely will produce an issue for all stakeholders involved.

Introduction

For the hundreds of professional M&A advisors in the US, obtaining proprietary information pertaining to privately-held small business ownership and transfer details can be difficult to
obtain. Due to the private nature of the industry, most transactions are anonymous and confidential. This presents a practical problem for current business owners as advisors lack

The goal of the paper is to provide resources and an informative guide for professional advisors to use in understanding where to go and how to obtain important industry information and data. An outline of the paper includes: the stakeholders involved, an overview of the total number of professional M&A advisors, an estimate of the industry size and types of businesses, a SWOT (strengths, weaknesses, opportunities, and threats) analysis of the M&A advisor industry, the professional M&A process, a brief literature review, recommended industry books and reference materials

The table below outlines data sources for finding information out about the lower middle market industry. The sources include three government, and three private sources and their key contribution or value.

Table 1: Major Public & Private Data Sources

<table>
<thead>
<tr>
<th>Source</th>
<th>Name of publication or site</th>
<th>Title</th>
<th>Key message or value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td><a href="https://www.sba.gov">https://www.sba.gov</a></td>
<td>Small Business Administration</td>
<td>Provides support and data for America's small</td>
</tr>
</tbody>
</table>
Table 1 continued

<table>
<thead>
<tr>
<th>Thomson Reuters</th>
<th><a href="https://www.thomsonreuters.com">https://www.thomsonreuters.com</a></th>
<th>Small Cap M&amp;A review</th>
<th>Summarizes M&amp;A activity for private businesses and provides a ranking of transactions and value</th>
</tr>
</thead>
<tbody>
<tr>
<td>MergerStat</td>
<td><a href="https://www.bvresources.com">https://www.bvresources.com</a></td>
<td>FactSet Mergerstat</td>
<td>Paid subscription service that provides details on public and private transactions</td>
</tr>
</tbody>
</table>

Stakeholders

There are many important industry stakeholders who include business owners & stockholders, family members, employees, customers, suppliers, buyers, advisors and professionals, government agencies, and local communities. The impact of M&A activity is wide-spread and may cause a ripple effect for local communities.

Table 2: Stakeholder Description

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Owners &amp; Stockholders</td>
<td>Individual who owns a business entity in an attempt to profit from the successful operations of the company. Typically holds decision making abilities and first right to profit.</td>
</tr>
<tr>
<td>Employees</td>
<td>Individuals’ who perform some type of service for a company in exchange for money or other form of compensation. This includes traditional and independent contractors.</td>
</tr>
<tr>
<td>Customers</td>
<td>A person or business that purchases a good or service from a store or business.</td>
</tr>
</tbody>
</table>
Table 2 continued

<table>
<thead>
<tr>
<th>Suppliers</th>
<th>Any service or product-based vendor that a firm uses to complete a sale or fulfill a customer need.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyers</td>
<td>Buyers of small businesses are made up of many types including high net worth individuals, competitors, international firms, large conglomerates, other small businesses, and private equity groups.</td>
</tr>
<tr>
<td>Advisors &amp; Professionals</td>
<td>Business brokers, advisory firms, and real estate agents often play a large role in lower middle market M&amp;A transactions. Their roles include valuing companies, finding buyers, organizing meetings, listing the company for sale, negotiating contracts and ultimately processing the sale.</td>
</tr>
<tr>
<td>Government agencies</td>
<td>A government or state agency, often an appointed commission, is a permanent or semi-permanent organization in the machinery of government that is responsible for the oversight and administration of specific functions, such as an intelligence agency. Agencies can be established by legislation or by executive powers.</td>
</tr>
<tr>
<td>Local communities</td>
<td>A local community is a group of interacting people sharing an environment. In human communities, intent, belief, resources, preferences, needs, risks, and a number of other conditions maybe present and common, affecting the identity of the participants and their degree of cohesiveness.</td>
</tr>
</tbody>
</table>

Method

The following section outlines the investigator’s background, method and steps in the research protocol including data gathering, analysis, exploring research articles, and utilizing analytical tools.

Investigator’s background

David Pickard, Senior Managing Director, Alpha M&A Group

Mr. Pickard is an industry specialist in the lower middle market mergers and acquisitions industry. He has helped thousands of small business owners across North America develop their exit strategies. He is responsible for the review, initial analysis, and selection of new clients that choose to enter M&A process.
Prior to joining Alpha M&A Group, Mr. Pickard worked in various sales and marketing roles for publicly-traded and industry leader Stanley Black & Decker, and also with privately-held middle market firms Bond Manufacturing, and The Brinkmann Corporation.

Sources of information used
The sources of information are from various governmental websites and databases, research academic and trade journals, The Wall Street Journal, Harvard Business Review, and internal proprietary databases at Generational Equity.

There were multiple steps in the research protocol
The first step in the research process involved an initial review of available academic articles related to exit planning for entrepreneurs. The second step was to analyze industry trade journals and articles. These included but were not limited to Pitchbook, Merger Stat, Harvard Business Review, and The Wall Street Journal. The third step was to research available government and public data on the web. The fourth step was to interview ten industry experts. The fifth step was to aggregate the data. Exhibit 2 in the appendix list the names, titles, and expertise of the individuals interviewed.

Analysis
The following section outlines important aspects of the lower middle market micro-cap mergers and acquisitions industry: an estimate of the total number of exit planning advisors, total number of businesses that fall within this category, business types, ownership types, market cycles (seller’s v. buyer’s), and other factors that contribute to market cycles and growth.
Estimate of the total number of professional M&A advisors in the US

According to the top-rated reporting agency Thomson Reuters, there are approximately 690 professional advisors in the US serving the lower middle market micro-cap industry (see exhibit 4).

Estimate of the total number of small businesses and types

A small business can be defined as any business with less than 500 employees (US Bureau of Labor Statistics 2017). Businesses can be either a services or products-based company and categorized as follows: High Technology, Real Estate, Healthcare, Financials, Industrials, Consumer Products and Services, Media and Entertainment, Energy and Power, Materials, Retail, Consumer Staples, Telecommunications (Thomson Reuters). There are an estimated 27.9 million+ “small businesses” in North America (SBA 2018) and they can be classified into four segments (HBR, the 4 types of small businesses).

Table 3: Estimate of the Total Number of Small Businesses and Types

<table>
<thead>
<tr>
<th>Types</th>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-employee</td>
<td>23 Million</td>
<td>Sole proprietorships</td>
</tr>
<tr>
<td>Main street</td>
<td>4 Million</td>
<td>Local businesses serving consumers</td>
</tr>
<tr>
<td>Suppliers</td>
<td>1 Million</td>
<td>Suppliers to other businesses (B2B)</td>
</tr>
<tr>
<td>High growth</td>
<td>200,000</td>
<td>Fast-growing, innovation-driven</td>
</tr>
</tbody>
</table>

Industry expert interviews

The following is a chart with the 10 industry experts that were interviewed at Alpha company. The industry experts were chosen due to experience, expertise, and recommendations of peers.
Table 4: Industry Expert Interview Schedule

<table>
<thead>
<tr>
<th>Participant</th>
<th>Title</th>
<th>Years of Industry Experience</th>
<th>Expertise</th>
<th>Interview length (in minutes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Senior M&amp;A Advisor</td>
<td>10</td>
<td>Research and education</td>
<td>25</td>
</tr>
<tr>
<td>2</td>
<td>Senior M&amp;A Advisor</td>
<td>13</td>
<td>Research and education</td>
<td>11</td>
</tr>
<tr>
<td>3</td>
<td>Senior Managing Director</td>
<td>25</td>
<td>M&amp;A sales</td>
<td>19</td>
</tr>
<tr>
<td>4</td>
<td>Chairman, Exit Planning / Valuations</td>
<td>42</td>
<td>Exit planning</td>
<td>23</td>
</tr>
<tr>
<td>5</td>
<td>Senior Vice President - Exit Planning / Valuations</td>
<td>13</td>
<td>Exit planning</td>
<td>14</td>
</tr>
<tr>
<td>6</td>
<td>Research Analyst</td>
<td>19</td>
<td>Research</td>
<td>14</td>
</tr>
<tr>
<td>7</td>
<td>Senior M&amp;A Dealmaker</td>
<td>32</td>
<td>M&amp;A Sales</td>
<td>21</td>
</tr>
<tr>
<td>8</td>
<td>Senior M&amp;A Dealmaker</td>
<td>22</td>
<td>M&amp;A Sales</td>
<td>14</td>
</tr>
<tr>
<td>9</td>
<td>Executive Assistant</td>
<td>28</td>
<td>Administrative</td>
<td>32</td>
</tr>
<tr>
<td>10</td>
<td>Director of Corporate Marketing</td>
<td>26</td>
<td>Marketing</td>
<td>16</td>
</tr>
</tbody>
</table>

Common themes:
1. Aging population
2. Technology
3. Private equity
4. Education
5. The need for business owner education
**SWOT Analysis**

10 individual interviews with more than 200 minutes of conversation were transcribed and analyzed. In each interview, the interviewer asked the expert to state the strengths, weaknesses, opportunities and threats of the exit planning industry. The SWOT is built from the perspective of the professional M&A advisor and how it impacts his or her industry.

Table 5: SWOT Analysis

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>OPPORTUNITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aging population could increase need for exit planning in the near-term</td>
<td>Educate more business owners</td>
</tr>
<tr>
<td>Proprietary knowledge</td>
<td>Access to potential clients</td>
</tr>
<tr>
<td>Low interest rates / Availability of cash</td>
<td>Understand market trends</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>WEAKNESSES</th>
<th>THREATS</th>
</tr>
</thead>
<tbody>
<tr>
<td>No sense of urgency since market is good</td>
<td>Technology could make it easier for owners to sell their own businesses</td>
</tr>
<tr>
<td>Seller greed</td>
<td>Major macroeconomic downturns</td>
</tr>
<tr>
<td>Increased competition</td>
<td>Increased consolidation could make it more difficult for exit planners</td>
</tr>
</tbody>
</table>

*Steps in the Professional M&A process*

The professional M&A process at my company was built around standard industry practice and consists of the following 16 steps.

1. Business owner’s decision to implement an exit strategy
2. Exit planning document creation
3. Exit planning strategy
4. Seller’s decision to go to market
5. Develop buyer prospects
6. Distribute profiles
7. Confidentiality agreements
8. Distribute offering memorandum
9. Buyer visits
10. Limited auction
11. Negotiate deal structure
12. Letter of intent
13. Due diligence
14. Definitive purchase agreement
15. Deal closing
16. Payment from buyer

Literature Review

The following is a chart that outlines a selection of 20 academic research articles that relate to exit planning for small, privately-held businesses. The articles were discovered from Google Scholar using keywords such as ‘Exit Planning’, ‘Succession Planning’, ‘Entrepreneurial Intention to Exit’, ‘Exit Strategies’, and ‘Decision to Exit’.

The chosen articles were grouped into four themes: entrepreneurial intention, exit strategies, exit decision, and succession planning. The author’s name, year published, and key contributions are illustrated. This is only a small sample of what is available. Many of the available articles and
studies were done prior to the Great Recession in 2008. Therefore, the current analysis should provide important updates to the industry.

Table 6: Literature Review

<table>
<thead>
<tr>
<th>Theme</th>
<th>Author</th>
<th>Date</th>
<th>Key Contribution(s):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial Intentions</td>
<td>Krueger, N.F.</td>
<td>2000</td>
<td>Study found that the Theory of Planned Behavior is a better indicator of predicting entrepreneurial intentions than Shapero's model of entrepreneurial intent</td>
</tr>
<tr>
<td></td>
<td>Bird, B.</td>
<td>1988</td>
<td>Argued that the implementation of entrepreneurial ideas directly relate to entrepreneurial intentions</td>
</tr>
<tr>
<td></td>
<td>Fayolle, A.</td>
<td>2013</td>
<td>Paper presents a discussion of new perspectives of research on entrepreneurial intentions can be summarized in five main areas.</td>
</tr>
<tr>
<td></td>
<td>Ambad, S.N.</td>
<td>2015</td>
<td>Tested 351 Malaysian students and results suggested TPB can predict entrepreneurial intention to start a business</td>
</tr>
<tr>
<td></td>
<td>Wennberg, K.</td>
<td>2010</td>
<td>Developed and tested a new conceptual model regarding entrepreneurial intentions to exit a business</td>
</tr>
<tr>
<td>Entrepreneurial exit strategies</td>
<td>Alajoutsijarvi, K.</td>
<td>2000</td>
<td>Provided managerial suggestions for &quot;beautiful exits&quot; and communication strategies that should mitigate exit issues.</td>
</tr>
<tr>
<td></td>
<td>DiTienne, D. Chirico, F.</td>
<td>2013</td>
<td>Drawing upon threshold theory and socioemotional wealth perspective, the authors developed a guiding conceptual model that contributed to portfolio entrepreneurship and exit literature.</td>
</tr>
<tr>
<td></td>
<td>Moller, K.</td>
<td>2000</td>
<td>Employed theory-driven case study to examine the effectiveness of exit strategies</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Year</td>
<td>Summary</td>
<td></td>
</tr>
<tr>
<td>-----------</td>
<td>------</td>
<td>---------</td>
<td></td>
</tr>
<tr>
<td>Mulholland, K.</td>
<td>1997</td>
<td>The article presented available business exit strategies for family owned firms and made suggestions on discovering the right fit.</td>
<td></td>
</tr>
<tr>
<td>Brauer, M.</td>
<td>2006</td>
<td>A review of divestiture research revealed most entrepreneurs do not plan their exit well.</td>
<td></td>
</tr>
<tr>
<td>Leroy, H., Manigart, S., Meuleman, M.</td>
<td>2007</td>
<td>Surveyed 172 micro-firms in Belgium and revealed the Theory of Planned Behavior may indicate decision to exit from a quantitative perspective.</td>
<td></td>
</tr>
<tr>
<td>Boeker, W.</td>
<td>2012</td>
<td>Research outlined factors influencing founder departure.</td>
<td></td>
</tr>
<tr>
<td>Cardon</td>
<td>2012</td>
<td>Research explores experience variables that impact the choice of exit.</td>
<td></td>
</tr>
<tr>
<td>DeTienne, D. Justo</td>
<td>2007</td>
<td>Explores impact of family situation on decision to exit.</td>
<td></td>
</tr>
<tr>
<td>DeTienne, D.</td>
<td>2007</td>
<td>Argues exit planning as a critical component to the entrepreneurial process. Summarizes exit planning literature.</td>
<td></td>
</tr>
<tr>
<td>Churchill, N.</td>
<td>1987</td>
<td>Presented a research framework for family business and considered non-market based transfers of wealth and power.</td>
<td></td>
</tr>
<tr>
<td>Cucculelli, M.</td>
<td>2008</td>
<td>Study found that the maintenance of management within the family had a negative impact on firm performance.</td>
<td></td>
</tr>
<tr>
<td>Handler &amp; Kram</td>
<td>1988</td>
<td>Indicated that the failure to plan is because of resistance on many levels.</td>
<td></td>
</tr>
<tr>
<td>Stavron, E.</td>
<td>1999</td>
<td>Analyzed 673 family firms and found that only 20% had a written succession plan.</td>
<td></td>
</tr>
</tbody>
</table>
Table 6 continued

| Villalonga, T. | 2004 | Study found that when descendants serve as CEOs, firm value is destroyed |

Discussion

The available academic writings on entrepreneurial intentions are more weighted on intentions to start a business, not exit one. A review of the writings suggests there is an opportunity to contribute to the body of knowledge related to factors contributing to entrepreneurial exit strategy decision making.

Some questions practitioners and scholars might consider discussing are:

1. Why do practitioners and scholars focus more on the psychology behind starting businesses and not exiting them?
2. What are the key factors business owners consider when choosing whether or not to implement an exit strategy?

Conclusions

Several conclusions and new questions about the future of the mergers and acquisitions industry might be made from this analysis.

1. The effects of the aging population should continue to drive industry changes and growth.
   a. As more business owners reach retirement age, the need to transfer their business to either family or third parties should deliver transaction frequency for advisors.
2. Technology should continue to drive changes within the industry.
a. The introduction of the internet caused major changes in every industry.

b. The way in which advisors, buyers and sellers interact is much faster and more transparent today.

c. The way in which businesses are marketed and sold may be much more automated in the coming years.

3. More private equity or buying groups should continue to take share in small business acquisition.
   a. Today, PE represents over 60% of lower middle market transactions from a value perspective. This is up from 25 to 30% of transaction value just 10 years ago.

4. More research should be done to better understand the factors that business owners face when choosing to implement an exit strategy or not.
   a. It remains a bit of a mystery on when, why, and how business owners decide to begin the selling process.
   b. There is little written on the topic of exit planning in the academic literature and a general lack of understanding from practitioners.
   c. Primary research questions would be:

5. Why do some owners have an exit strategy and some do not?

6. What are the key factors that are considered when deciding to implement an exit strategy?
Chapter Two: Interview Summary

Introduction

This purpose of this dissertation is to examine the progressive and regressive factors that affect a small business owner’s decision to implement an exit strategy. An exit strategy can be defined as an entrepreneur's strategic plan to sell his or her investment in a company he or she has controlling interest in. An exit strategy gives a business owner a way to reduce or eliminate his or her stake in the business and, if the business is successful, make a substantial profit. Exiting a business is a complicated process which includes among other things, the evaluation, preparation, marketing, and ultimate sale of the business. Progressive factors push an owner to exit and regressive factors pull an owner away from exiting.

A recent poll (Harris 2017), estimates that 60% of small business owners in America do not have an exit strategy in place. The question then, is why is this the case? While it is understandable that an owner might want to wait until a predetermined retirement age to exit his or her business, failing to have an exit strategy in place, particularly when there is a lot at stake, is an important and interesting phenomenon to study.

My focus is on the lower middle market of the mergers and acquisitions (M&A) industry. This can be defined as privately held firms under $25 million in revenue. There are an estimated 28.8 million small businesses in the US representing 99.7 percent of all US businesses (US Small Business Administration 2013). Small businesses employ nearly 56.8 million adults or 50% of
the US workforce. So, what happens to owners and stakeholders of the business when there is no exit strategy in place and they are forced to exit? Studies show that transaction value decreases, and terms are generally unfavorable when there is no strategy (DiTienne 2010). Clearly, this poses a potentially large problem for the industry and the many stakeholders that rely on small businesses for their livelihood.

Table 7: Stakeholder Descriptions

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Owners &amp; Stockholders</strong></td>
<td>Individual who owns a business entity in an attempt to profit from the successful operations of the company. Typically holds decision making abilities and first right to profit.</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>Individuals who perform some type of service for a company in exchange for money or other form of compensation. This includes traditional and independent contractors.</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td>A person or business that purchases a good or service from a store or business.</td>
</tr>
<tr>
<td><strong>Suppliers</strong></td>
<td>Any service or product-based vendor that a firm uses to complete a sale or fulfill a customer need.</td>
</tr>
<tr>
<td><strong>Buyers</strong></td>
<td>Buyers of small businesses are made up of many types including high net worth individuals, competitors, international firms, large conglomerates, other small businesses, and private equity groups.</td>
</tr>
<tr>
<td><strong>Advisors &amp; Professionals</strong></td>
<td>Business brokers, advisory firms, and real estate agents often play a large role in lower middle market M&amp;A transactions. Their roles include valuing companies, finding buyers, organizing meetings, listing the company for sale, negotiating contracts and ultimately processing the sale.</td>
</tr>
<tr>
<td><strong>Government agencies</strong></td>
<td>A government or state agency, often an appointed commission, is a permanent or semi-permanent organization in the machinery of government that is responsible for the oversight and administration of specific functions, such as an intelligence agency. Agencies can be established by legislation or by executive powers.</td>
</tr>
</tbody>
</table>
Table 7 continued

| **Local communities** | A local community is a group of interacting people sharing an environment. In human communities, intent, belief, resources, preferences, needs, risks, and a number of other conditions may be present and common, affecting the identity of the participants and their degree of cohesiveness. |

There is a significant number of existing academic studies that focus on the topic of mergers and acquisitions. Most of the academic research articles on M&A activity report on transaction information for large publicly traded companies and on entrepreneurship and business start-ups (Krueger 1993). The lack of research about activity in the private market is most likely due to the difficulty of obtaining information about private business. Most of the quantitative data about small businesses comes from public sources such as the Bureau of Labor Statistics, Small Business Administration, and the US Census Bureau. Other valuable sources of information for M&A activity can be purchased from public and private firms such as Thomson Reuters, MergerStat, and Pitchbook. Specific details about smaller transactions can be difficult to obtain as they are not often in the local paper, or in national newspapers such as the Wall Street Journal. An initial review of the literature fails to help the practitioner identify a clear conceptual model that could specifically uncover the important factors business owners should consider when implementing an exit strategy.

However, there are some existing predictive conceptual models that may be a good gauge for an owner’s intent to start a business. One such model is Ajzen’s (1991) Theory of Planned Behavior (TPB) model. The model was tested successfully for new business start-up prediction against another model in Krueger’s paper ‘Competing Models of Entrepreneurial Intentions’ (1993).
TPB links one’s beliefs and behavior. It is a widely used and cited model to predict behavior that contains three constructs; attitude, social norms, and perceived behavioral control.

| Attitude is a way of thinking about something.  
| Social norms are informal understandings that drive behavior.  
| Perceived behavioral control pertains to an individual’s perception of their ability to perform a specific behavior. |

These three constructs lead to intention which may or may not lead to behavior. Studies have shown that intention leads to behavior only some of the time. The question then is there a better model that could be developed to more accurately predict entrepreneurial behavior specifically relating to implementing an exit strategy? In this study I propose to use the TPB for exit strategy implementation prediction. In addition to TPB, I will also utilize stakeholder theory. This is a theory of organizational management and business ethics that addresses morals and values in managing an organization. Since there are many stakeholders involved in small business including employees, customers, suppliers, etc. I believe that stakeholder theory is a relevant theory for this proposed study.

The main research question I address is “What are the progressive and regressive factors that affect a business owner’s decision to implement an exit strategy or not?” The unit of analysis is at the individual business owner level. I propose the following research hypotheses for the study. H1: The business owner’s attitude towards implementing an exit strategy is correlated with the likelihood that he/she will have an exit strategy in place. H2: Higher social pressure to
exit a business is correlated with the likelihood of implementing an exit strategy. H3: The decision to implement an exit strategy is correlated with the level of perceived control over the decision.

To test these three hypotheses, I conducted a qualitative study utilizing grounded theory methodology for structured field interviews. This was selected as the best approach to obtain the information needed to test the hypotheses and predictive model. With much to learn about individual attitudes, social norms, perceived behavioral control, intention, and behaviors of business owners, new information was sought to through this study to potentially assist in confirming the TPB model or perhaps create a new one.

The overall goal of the study was the potential to help bridge the gap between industry practice and academic theory specifically relating to entrepreneurial activity and exit strategies. If an effective model can be established, the practitioner working within the advisory space could be more effective in helping the business owner implement an exit strategy while the researcher could benefit from a current, first step qualitative study to cite, develop current theory, and potentially expand and replicate.

The dissertation deliverables are a collection of three papers: an industry analysis with literature review, an interview paper, and a research for practice paper. All three papers are written by a practitioner from a researcher’s perspective. The study aimed to produce new knowledge for practitioners working in the mergers and acquisitions field to increase exit strategy
implementation rates as well as potentially build upon the academic researcher’s knowledge and theory development on the topic.

Research Question and Unit of Analysis

The study investigates the progressive and regressive factors a business owner considers when deciding to implement an exit strategy. The current issue the M&A industry faces is the high percentage of small business owners who have not implemented an exit strategy for their businesses.

The research question is “What are the progressive and regressive factors that affect whether or not a business owner implements an exit strategy”. The first part of the question pertains to uncovering the specific factors that move the business owner to implement an exit strategy (Progressive).

- One example of this could be of an owner who has a positive attitude about exiting and chooses to do so.

- Another example could be of an owner who feels pressure from a spouse to exit and decides to do so.

The second part of the question pertains to uncovering the specific factors that prohibit an owner from implementing an exit strategy (Regressive).

- An example of this may be that an owner has a poor attitude about leaving a business and does not feel like he or she wants to.
• Another example of this could be an owner who feels pressure from a peer to remain in the business and chooses not to implement an exit strategy.

The study examines how these progressive and regressive factors work together, which factors are more important, and to determine if the TPB model fits to predict behavior. Further studies will be testing whether other models work best in understanding owner behavior in my setting.

The unit of analysis of this study was the individual level, specifically the individual business owner. In future research many other individuals could be studied that directly or indirectly relate to the business. For example, other stakeholders such as employees, customers, suppliers, accountants, lawyers, and advisors could be included. Such future research could focus on the impact of other stakeholders such as employees, etc. on the exit strategy decision by business owners.

Substantive Focus
The estimated 27.9 million+ “small businesses” in North America can be broken down into four segments (HBR, the 4 types of small businesses).

Table 8: Types of Small Businesses

<table>
<thead>
<tr>
<th>Types</th>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-employee</td>
<td>23 Million</td>
<td>Sole proprietorships</td>
</tr>
<tr>
<td>Main street</td>
<td>4 Million</td>
<td>Local businesses serving consumers</td>
</tr>
<tr>
<td>Suppliers</td>
<td>1 Million</td>
<td>Suppliers to other businesses (B2B)</td>
</tr>
<tr>
<td>High growth</td>
<td>200,000</td>
<td>Fast-growing, innovation-driven</td>
</tr>
</tbody>
</table>
For the purpose of the experiment, several limitations and guidelines are noted. First, excluded were non-employee sole proprietorships for the following reasons: these generally smaller in size, and revenue, and are more difficult to access them. Most of these businesses do not have employees, and report revenues under $10,000 per year (SBA). The study focused on the following types of businesses:

- Main street
- Supplier
- High growth

Main street companies can be defined as “typical local businesses” such as dry cleaners, car repair shops, HVAC, etc. that employ several or more employees.

Supplier businesses are the most important segment and will be the primary focus of the study as they represent commercial and governmental supply chain operations with a higher level of sophistication and processes than main street companies.

High growth firms are businesses that have the most potential of becoming a large business.

Other subject requirements were:

- Businesses will only be selected if they have an annual revenue of at least $1 million and no greater than $25 million.
- Each business must be in good standing with the state and have been profitable for the past three years.
• The interviewee must be the key decision maker, own voting rights, and be responsible for implementing his or her exit strategy. To study businesses with multiple owners would be too complicated and difficult to plan.

The geographical area selected for the study was the Texas market to facilitate better planning and follow up for the researcher in adherence to IRB rules and guidelines.

Specific Theoretical Discussions Addressed
In the psychology literature, it is commonly accepted that intentions are the best predictor of planned behavior. Therefore, entrepreneurship is exactly the type of planned behavior (Bird 1988; Katz and Gartner 1988) for which intention models are built. However, while intention models have been useful in understanding business venture formation intentions (Krueger 1993), they have not been used to explain exit strategy implementation.

Situational (job status, informational cues) and individual (demographic characteristics or personality traits) are poor predictors of planned behavior. Therefore, models predicting entrepreneurial behavior by using only situational or personal factors typically perform poorly. The available intention models offer an excellent opportunity to understand and potentially predict owner behavior (Krueger 1993).

To better understand owner exit strategy intentions, I proposed a study using the Theory of Planned Behavior as it is a leading intention-based model to predict behavior. Azjen (1991) proposes that intentions in general depend on perceptions of personal attractiveness, social norms, and feasibility. Krueger (1993) used this model in his paper ‘Competing Models of
Entrepreneurial Intentions’ to test fit for intention to start a business. However, to my knowledge, no prior study has used TPB to examine exit planning.

*Stakeholder theory*

In addition to TPB, the study also incorporates Stakeholder theory. The rationale for including stakeholder theory is that an owner’s decision to sell a business typically has an impact on others. Employees, suppliers, financiers, communities, trade unions, political groups, trade associations, competitors, and customers are all in some way a part of the organization. A potential sale and subsequent transfer of the business ownership has the potential of a ripple effect for all stakeholders involved.

![Figure 1: Theory of Planned Behavior](image-url)
Concepts and Definitions

Figure 2: The Stakeholder Theory of the Firm

Figure 3: Concepts
The M&A landscape is complex. This section defines key concepts and elements beginning with what an exit strategy is, then decomposes the sub-categories of concepts and definitions into three sections:

- Shareholders (Owners)
- Stakeholders (Participants)
- M&A Market Cycle

‘Exit Strategy’
An Exit strategy can be defined as an entrepreneur's strategic plan to sell his/her company. An exit strategy therefore provides a business owner a way to reduce or eliminate his or her stake in the business and, if the business is successful, make a substantial profit. Exiting a business is a complicated process that involves many aspects which include but is not limited to the evaluation, preparation, marketing, and ultimate sale.

Sub Category A: Owner definition and internal factors
These are potential factors that impact the decision to implement / not implement an exit strategy.

‘Owners’
Any owner of stock in a business including majority, minority, or wholly owned shareholders. An owner’s personal considerations, concepts and definitions are outlined below.
‘Boredom v. Burnout’

Boredom can be defined as the state of being weary and restless through lack of interest (Merriam-Webster). Burnout can be defined as the physical or mental collapse caused by overwork or stress (Merriam-Webster).

A recent informal company survey revealed that 52% of business owners ranked burnout as the number one reason they have implemented an exit strategy. This ranked higher than age.

‘Elimination of Personal Guarantees’

Many small business owners personally guarantee loans for their business against individual assets. An example of this could be mortgaging their house or placing their retirement account as collateral for a business loan. Removal of this liability can be a contributing factor for developing an exit plan.

‘Liquidity / Cash’

An owner may have a significant amount of their personal net worth tied up in the equity of the business. As an owner ages or possibly has another interest such as a new business or investment opportunity, cashing out may be a contributing factor for implementing an exit strategy.

‘Uncertain Future’

Industries can change quickly with new competition and macroeconomic changes may affect an owner’s outlook on the future. For example, high growth disruptive start-ups
like Uber in the transportation industry has hindered traditional taxi cab and limousine businesses and, in many cases, eliminated them altogether in many markets.

‘Competitive Pressures’

In 1979, Michael Porter identified five forces, or sources of pressure, that influence competition in an industry and which ‘determine the ultimate profit potential of an industry.’

Figure 4: Competitive Pressures

‘Other Interests’

Other owner interests can mean many different things. There may be interest in starting or focusing on other owned businesses, spending more time with family, or perhaps aspirations to travel or pick up a hobby.
Sub Category B: Stakeholders: Concept and Definition

‘Stakeholders’

Any individual or group that has a stake in a company and is affected in some way by it. This includes those employed by a firm, family members, suppliers of the business, banks or other lenders that help finance the business, the communities the businesses serve, advisors to the business, industry trade groups, government agencies who set policy, direct and indirect competitors of the firm, and customers who buy the products or use the service the business provides.

Sub Category C: Market-related Issues

The M&A market cycle is affected by many factors and experiences periods of expansion (peak) and troughs. Typically, a seller’s market lasts a few years, followed by a buyer’s market for a few years. It is normally seven to 10 years in between peaks. There are many known factors that determine market cycles. Some of these factors include interest rates, inflation, supply and demand, and tax rates. A brief explanation of each concept is detailed below.

‘Interest rates’

Interest rates and selling prices for firms are inversely related. The lower the interest rate, the higher the selling price and vice versa. Buyers that finance businesses with lower interest rates may benefit in many ways including increased cash flows and more favorable business valuations. Currently, interest rates are near an all-time low contributing to a seller’s market.
Figure 5: M&A US Transaction Activity

Figure 6: US Long-Term Interest Rates 1871-2013
‘Supply & Demand’
The law of supply and demand also affects M&A market cycles. Prices are lower when supply (sellers) is greater than demand (buyers), and vice versa. As the chart below illustrates, the effect of the Age-Wave (Baby Boomers) will influence prices in the next decade.

![The Effect of the Age-Wave on Business Sales](chart)

Figure 7: The Effect of the Age-Wave on Business Sales

‘Taxation’
The capital gains tax rate is currently 20%. Historically, this is relatively low compared to the 39.9% rate in 1976. Low capital gains rates typically favor transaction activity. Unlike retiring corporate executives who may have substantial 401k plans to draw on for future income, small business owners’ greatest asset is often the value of their business. Selling their business can trigger significant tax consequences. The current rate has contributed to increases in transaction activity in recent years.
Hypotheses

This study proposes the following three hypotheses. Each hypothesis relates to one of the three constructs from the TPB model that form intention, namely attitude, social norms, perceived behavioral control.

H1: The likelihood of implementing an exit strategy (DV) is a function of the owner’s attitude (IV) towards an exit strategy.

H2: The likelihood of implementing an exit strategy (DV) is a function of social pressures (IV) to exit.

H3: The likelihood of implementing an exit strategy (DV) is a function of the owner’s perceived control (IV) over the exit decision.
Research Design

To test my research, I devised a rigorous qualitative research study. Qualitative research can provide details about human behavior, emotion, and personality characteristics that quantitative studies are not able to provide. Qualitative research usually takes the form of naturalistic observation or structured interviews. In this study, I conducted structured interviews directly with small business owners.

First, I planned and completed an industry analysis and literature review. This allowed me to provide a background and overview of the industry, available literature and sources, and most importantly present the opportunity to identify ways to contribute to the existing research in this area.

The second step was to plan the interview process. Interview questions were developed to match the proposed testable outcome (see appendix). Interview questions must be logical and appropriate in testing a hypothesis. Next, qualified interviewees were identified, and interviews scheduled. IRB approval and guidelines were met, with participant releases signed prior to the interviews. The sample size and location of the interviews factored into the limitations of the study. The pool of potential interviewees was a diverse group of owners based on demographics, type of business, and revenue size. Although a small sample, findings from this initial study in one market may provide ideas for improving future research to potentially increase the generalizability of the results.
Methodology and Data Collection Plan

This study utilized Grounded theory (GT) as an inductive research methodology. GT is “a general method that utilizes a systematic generation of theory from systematic research. It is a set of rigorous research procedures leading to the emergence of conceptual categories. These concepts/categories are related to each other as a theoretical explanation of the action(s) that continually resolves the main concern of the participants in the substantive area” (Grounded Theory Institute 2017).

This method was used as a tool to develop a conceptual model that could characterize the order and importance of decision factors small business owners consider when deciding to implement an exit strategy. A systematic grounded theory approach was applied employing the procedures of Saldana (2016) which include a field interview process. The data was transcribed and coded utilizing the methods of descriptive, pattern, and theoretical coding. Major categories were identified with the application of descriptive coding. Pattern coding was used to develop themes. Finally, theoretical coding was applied to develop propositions to a new conceptual model.

The research methodology involved interviews with 10 separate business owners. Five interviews with business owners who have implemented an exit strategy (Group A) and five interviews with business owners who have decided not to implement an exit strategy (Group B.)
Expected Contribution

The challenges that professional advisory firms in the lower middle market face are numerous, complex, and ever changing. While there is a strong need for exit strategy implementation, the fact remains that a large number of small business owners (millions) are unprepared for their inevitable exit. This has the potential of negatively impacting a large number of stakeholders, such as employees, suppliers, family members, etc. Therefore, the results of this research have the potential to help the practitioner working in the industry to better understand the factors that influence an owner’s decision to implement an exit strategy and owners to make more informed decisions.

Summary of Findings

The following table identifies and applies some attributes to the two groups of business owners who were interviewed during the summer of 2018.

Table 9: Business Owner Attributes

<table>
<thead>
<tr>
<th>Group</th>
<th>Type</th>
<th>Method</th>
<th>Age</th>
<th>Race</th>
<th>Gender</th>
<th>Education</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Medical device</td>
<td>Phone</td>
<td>44</td>
<td>W</td>
<td>M</td>
<td>Bachelor's</td>
<td>5</td>
</tr>
<tr>
<td>A</td>
<td>Veterinarian supply</td>
<td>Phone</td>
<td>68</td>
<td>W</td>
<td>M</td>
<td>Bachelor's</td>
<td>21</td>
</tr>
<tr>
<td>A</td>
<td>IT</td>
<td>Phone</td>
<td>65</td>
<td>W</td>
<td>M</td>
<td>MBA</td>
<td>3</td>
</tr>
<tr>
<td>A</td>
<td>Manufacturing</td>
<td>Phone</td>
<td>75</td>
<td>W</td>
<td>M</td>
<td>High School</td>
<td>3</td>
</tr>
<tr>
<td>A</td>
<td>Industrial Welding</td>
<td>Phone</td>
<td>69</td>
<td>W</td>
<td>M</td>
<td>Bachelor's</td>
<td>2</td>
</tr>
<tr>
<td>B</td>
<td>Pharmacy</td>
<td>Phone</td>
<td>67</td>
<td>W</td>
<td>M</td>
<td>Master's</td>
<td>7</td>
</tr>
<tr>
<td>B</td>
<td>Manufacturing</td>
<td>In person</td>
<td>48</td>
<td>W</td>
<td>M</td>
<td>Some college</td>
<td>3</td>
</tr>
<tr>
<td>B</td>
<td>Restaurant</td>
<td>In person</td>
<td>58</td>
<td>W</td>
<td>M</td>
<td>Bachelor's</td>
<td>8</td>
</tr>
<tr>
<td>B</td>
<td>Irrigation Systems</td>
<td>Phone</td>
<td>61</td>
<td>W</td>
<td>M</td>
<td>MBA</td>
<td>6</td>
</tr>
<tr>
<td>B</td>
<td>Motorcycle Dealership</td>
<td>Phone</td>
<td>60</td>
<td>W</td>
<td>M</td>
<td>Some college</td>
<td>9</td>
</tr>
</tbody>
</table>
Table 9 presents descriptive data of the interviewees. The evidence in Table 9 suggests that these small businesses are operating in a wide variety of industries. The average revenue was $6.8 million and $6.6 million for the owners without and with an exit strategy. Similarly, the average age of the business owners was 64 and 59 years, respectively, suggesting that within this sample population the decision of whether or not to implement an exit strategy is uncorrelated with the owner’s age or size of the business (based on revenues).

Each interview question was formulated to correspond to the appropriate hypothesis. The interviews and answers were recorded on a device, then transcribed. Each transcription was coded after the interview. For example, for hypothesis 1.

H1: The likelihood of implementing an exit strategy (DV) is a function of the owner’s attitude (IV) towards an exit strategy.

The interviewees were asked the following question:

Question 1: Please describe your attitude towards implementing an exit strategy

Table 10: Question 1

<table>
<thead>
<tr>
<th>G</th>
<th>Type</th>
<th>Answer description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1 Medical</td>
<td>Positive, neutral</td>
</tr>
<tr>
<td>A</td>
<td>2 Veterinarian</td>
<td>Ambivalent, indifferent</td>
</tr>
<tr>
<td>A</td>
<td>3 IT</td>
<td>Neutral, indifferent</td>
</tr>
<tr>
<td>A</td>
<td>4 Manufacturi</td>
<td>Nervous, not motivated</td>
</tr>
<tr>
<td>A</td>
<td>5 Industrial</td>
<td>Positive, No rush or need</td>
</tr>
<tr>
<td>B</td>
<td>1 Pharmacy</td>
<td>Happy, excited</td>
</tr>
<tr>
<td>B</td>
<td>2 Manufacturi</td>
<td>Positive, excited</td>
</tr>
<tr>
<td>B</td>
<td>3 Restaurant</td>
<td>Happy, excited</td>
</tr>
</tbody>
</table>
Table 10 presents the results of asking Question 1. The evidence seems to support that more individuals in Group A (no exit strategy) were either neutral or indifferent in their attitude towards implementing an exit strategy. Conversely, individuals in Group B (exit strategy) answered with themes such as happy, positive, and excited about the idea of implementing an exit strategy. However, it is not possible to determine whether it was the owner’s attitude toward an exit strategy that drove the decision to implement the strategy or having implemented the strategy these owners are now happy, positive, and excited that they have an exit strategy in place.

The second research hypothesis is:

H2: The likelihood of implementing an exit strategy (DV) is a function of social pressures (IV) to exit.

The question posed to the interviewees is:

Question 2: Please describe your spouses and friend’s reaction if you were to tell them or if you told them you are implementing an exit strategy.

Table 11: Question 2

<table>
<thead>
<tr>
<th>G</th>
<th>Type</th>
<th>Answer description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1 Medical</td>
<td>Surprised, but supportive</td>
</tr>
<tr>
<td>A</td>
<td>2 Veterinarian</td>
<td>Positive, welcoming</td>
</tr>
<tr>
<td>A</td>
<td>3 IT</td>
<td>Confused, but supportive</td>
</tr>
<tr>
<td>A</td>
<td>4 Manufacturer</td>
<td>Supportive</td>
</tr>
</tbody>
</table>
The evidence in Table 11 seems to suggest that most owners in Group A (no exit strategy) feel that their spouses and friends would be surprised or confused if told that they are implementing an exit strategy. However, there are exceptions and most indicated that they would ultimately be supported with whatever decision they made. In contrast, for the business owners in Group B (exit strategy) the evidence suggest that spouses and friends were mostly happy, excited, and supportive when they told them they had implemented an exit strategy. However, it is not possible to determine the direction of the effect, that is, whether an owner’s social pressure or support led to the implementation of the exit strategy, or whether the implementation of the strategy may have led to the support from the significant other.

Hypothesis 3 is stated below:

H3: The likelihood of implementing an exit strategy (DV) is a function of the owner’s perceived control (IV) over the exit decision.

The question posed to the interviewees is:

Question 3: Do you feel like you are or will be in control of your decision to implement an exit strategy?
Table 12 presents the results of question 3.

The answers for Group A (no exit strategy) were skewed more in the direction of ‘not in control’, however there were two definitive answers of ‘yes’. So, the results were mixed. The answers for Group B (exit strategy) were all similar and clear, each answered that they felt completely in control of their decision to implement an exit strategy. This may suggest it is possible that the likelihood of implementing an exit strategy is a function of the owner’s perceived control over the exit decision.

Table 12: Question 3

<table>
<thead>
<tr>
<th>G</th>
<th>Type</th>
<th>Answer description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1 Medical</td>
<td>Yes</td>
</tr>
<tr>
<td>A</td>
<td>2 Veterinarian</td>
<td>Somewhat, two other partners</td>
</tr>
<tr>
<td>A</td>
<td>3 IT</td>
<td>No</td>
</tr>
<tr>
<td>A</td>
<td>4 Manufactu</td>
<td>No</td>
</tr>
<tr>
<td>A</td>
<td>5 Industrial</td>
<td>Yes</td>
</tr>
<tr>
<td>B</td>
<td>1 Pharmac</td>
<td>Yes</td>
</tr>
<tr>
<td>B</td>
<td>2 Manufactu</td>
<td>Yes</td>
</tr>
<tr>
<td>B</td>
<td>3 Restaura</td>
<td>Yes</td>
</tr>
<tr>
<td>B</td>
<td>4 Irrigation</td>
<td>Yes</td>
</tr>
<tr>
<td>B</td>
<td>5 Motorcyc le</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Common themes in the study:

The second step in the coding process was to look at patterns or other themes that may have emerged in the interviews. In this process, two other themes were discovered. The owner’s feeling of personal responsibility to others, and the owner’s personal happiness.
**Personal responsibility to others**

Nearly all business owners (both groups) mentioned a personal responsibility to their spouses, families, employees, customers, and suppliers. The owner’s in Group A (no exit strategy) felt a need to remain in the business for others and the owner’s in Group B (exit strategy) hoped their business continued on in the future and that everyone involved or effected were taken care of going forward.

**Personal happiness**

The majority of the owners in Group A (no exit strategy) revealed they were too happy at the moment to stop working in their business. Each seemed to enjoy their work and thought the time had not yet arrived to put an exit strategy together. Conversely, all owners in Group B (exit strategy) felt like their time had come to exit and they no longer felt happy running their business.

**Limitations of the study**

There are many limitations to this study:

- This was a small sample population of 10 business owners interviewed between both groups and these businesses were all located and incorporated in the state of Texas. This small sampling limits the ability to analyze the data and generalize the conclusions. Beyond sample size, the local culture, and business climate in this particular region could have an impact on a business owner’s attitude, social pressure, and perception of control.
- Time constraints and logistical issues did not permit the researcher to get face to face with many of the participants, which were instead conducted as phone interviews. This
may have had an impact on interviewees’ interest and the quality of their answers. In
person interviews were notably longer and richer than those conducted by phone.

- The business owners were randomly selected through a proprietary database and not all available businesses within the state of Texas are included in this database.

Conclusions

1. The evidence seems to suggest that Azjen’s Theory of Planned Behavior might be a usable model in predicting a business owner’s decision to implement an exit strategy. However, more research is needed in order to confirm the possibility.

TPB may fit, but this study’s limitations and small sample size preclude such a conclusion from being declared.

H1: The likelihood of implementing an exit strategy (DV) is a function of the owner’s attitude (IV) towards an exit strategy.

The data is somewhat supportive, but not conclusive. Owners in Group A were mostly neutral or indifferent when asked to describe their attitude towards implementing an exit strategy. Owners in Group B describes themselves as happy, or excited when asked the same question.

H2: The likelihood of implementing an exit strategy (DV) is a function of social pressures (IV) to exit.
The data is somewhat supportive, but not conclusive. Owners in Group A consistently described their family and friends’ reaction as surprised or confused if they were to tell them they were implementing an exit strategy. Owners in Group B consistently described their family and friends’ reaction as supportive and happy.

H3: The likelihood of implementing an exit strategy (DV) is a function of the owner’s perceived control (IV) over the exit decision.

The data collected is strongly supportive, but not conclusive. Owners in Group A answered mostly no when asked if they were in complete control of their decision to implement an exit strategy. Owners in Group B unanimously answered ‘yes’ when asked the same question.

2. Future studies with business owners may wish to use only face to face interviews.

3. Researchers might ask the question ‘Describe your level of happiness with your business’ as a replacement for the attitude question. The studies data showed happiness as a better indication of an owner’s motivation to implement an exit strategy.
Chapter Three: Qualitative Research with Private Business Owners in the US

Exit Strategy Research

Many, if not the majority of business owners in the United States lack a comprehensive exit strategy. The research question is “what are the progressive and regressive factors that business owners consider when deciding to implement an exit strategy or not.”

Research Description

The purpose of this research is to examine the progressive and regressive factors that affect a small business owner’s decision to implement an exit strategy. An exit strategy can be defined as an entrepreneur’s strategic plan to sell his or her investment in a company he or she has controlling interest in. An exit strategy gives a business owner a way to reduce or eliminate his or her stake in the business, and, if the business is successful, make a substantial profit. Exiting a business is a complicated process which includes, among other things, the evaluation, preparation, marketing, and ultimate sale of the business. Progressive factors push an owner to exit and regressive factors pull an owner away from exiting.

The substantive focus is the business owner in the lower middle market micro-cap segment. The micro-cap segment can be described as privately-held businesses between $1 million in annual sales and $25 million. There are approximately 1.5 million businesses in the US that fall within this range (Industry expert estimate based on US Bureau of Labor statistics). Small businesses employ more than 50% of the US population (US Small Business Administration
2017). The motivation for the research is to better understand why so many business owners in the US have no exit strategy when they are in fact operating a profitable, sustainable business. Since there are many stakeholders involved, this phenomenon seems fascinating.

The research question is, “what are the progressive and regressive factors that affect a small business owner’s decision to implement an exit strategy or not?” In order to gather information pertinent to this question, the researcher designed the study method to be qualitative in nature. Known strengths of qualitative research are the ability to draw out rich information in a live question an answer format. Therefore, the study consists of one on one interviews with 10 randomly selected businesses owners. The business owners were found using a proprietary database of a privately-held mergers and acquisitions firm headquartered in Dallas, TX. They were divided into two groups. Group A consists of five business owners that have decided to not implement an exit strategy. Group B consists of five business owners that have decided to implement an exit strategy.

Prior to data collection, the researcher applied for approval of the project through the institutional review board. This formal process took nearly six months to gain approval due to the human subject nature of the project. A copy of the protocol can be seen in the appendix.

Data were collected using a recording device, then transcribed and coded. The coding process included three steps. The first step was descriptive coding. Each paragraph in the interviews was described in one or two words. The second step in the process was pattern coding. Each answer to the specific theoretical questions was analyzed and placed in themes. Five basic
themes emerged from the research. The final step in the coding process was theoretical coding. Two separate theories emerged from the research.

Findings

The following table identifies and applies some attributes to the two groups of business owners who were interviewed during the summer of 2018.

Table 13: Business Owner Attributes

<table>
<thead>
<tr>
<th>Group</th>
<th>Type</th>
<th>Method</th>
<th>Age</th>
<th>Race</th>
<th>Gender</th>
<th>Education</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 1</td>
<td>Medical device</td>
<td>Phone</td>
<td>44</td>
<td>W</td>
<td>M</td>
<td>Bachelor's</td>
<td>5</td>
</tr>
<tr>
<td>A 2</td>
<td>Veterinarian supply</td>
<td>Phone</td>
<td>68</td>
<td>W</td>
<td>M</td>
<td>Bachelor's</td>
<td>21</td>
</tr>
<tr>
<td>A 3</td>
<td>IT</td>
<td>Phone</td>
<td>65</td>
<td>W</td>
<td>M</td>
<td>MBA</td>
<td>3</td>
</tr>
<tr>
<td>A 4</td>
<td>Manufacturing</td>
<td>Phone</td>
<td>75</td>
<td>W</td>
<td>M</td>
<td>High School</td>
<td>3</td>
</tr>
<tr>
<td>A 5</td>
<td>Industrial Welding</td>
<td>Phone</td>
<td>69</td>
<td>W</td>
<td>M</td>
<td>Bachelor's</td>
<td>2</td>
</tr>
<tr>
<td>B 1</td>
<td>Pharmacy</td>
<td>Phone</td>
<td>67</td>
<td>W</td>
<td>M</td>
<td>Master's</td>
<td>7</td>
</tr>
<tr>
<td>B 2</td>
<td>Manufacturing</td>
<td>In person</td>
<td>48</td>
<td>W</td>
<td>M</td>
<td>Some college</td>
<td>3</td>
</tr>
<tr>
<td>B 3</td>
<td>Restaurant</td>
<td>In person</td>
<td>58</td>
<td>W</td>
<td>M</td>
<td>Bachelor's</td>
<td>8</td>
</tr>
<tr>
<td>B 4</td>
<td>Irrigation Systems</td>
<td>Phone</td>
<td>61</td>
<td>W</td>
<td>M</td>
<td>MBA</td>
<td>6</td>
</tr>
<tr>
<td>B 5</td>
<td>Motorcycle Dealership</td>
<td>Phone</td>
<td>60</td>
<td>W</td>
<td>M</td>
<td>Some college</td>
<td>9</td>
</tr>
</tbody>
</table>

Table 13 presents descriptive data of the interviewees. The evidence in Table 13 suggests that these small businesses are operating in a wide variety of industries. The average revenue was $6.8 million and $6.6 million for the owners without and with an exit strategy. Similarly, the average age of the business owners was 64 and 59 years, respectively, suggesting that the decision of whether or not to implement an exit strategy is uncorrelated with the owner’s age or size of the business (based on revenues).
Each interview question was formulated to correspond to the appropriate hypothesis. The interviews and answers were recorded on a device, and transcribed. Each transcription was coded after the interview. For example, for hypothesis 1.

H1: The likelihood of implementing an exit strategy (DV) is a function of the owner’s attitude (IV) towards an exit strategy.

The interviewees were asked the following question:

Question 1: Please describe your attitude towards implementing an exit strategy.

Table 14: Question 1

<table>
<thead>
<tr>
<th>Group</th>
<th>Type</th>
<th>Answer description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 1</td>
<td>Medical device</td>
<td>Positive, neutral</td>
</tr>
<tr>
<td>A 2</td>
<td>Veterinarian supply</td>
<td>Ambivalent, indifferent</td>
</tr>
<tr>
<td>A 3</td>
<td>IT</td>
<td>Neutral, indifferent</td>
</tr>
<tr>
<td>A 4</td>
<td>Manufacturing</td>
<td>Nervous, not motivated</td>
</tr>
<tr>
<td>A 5</td>
<td>Industrial Welding</td>
<td>Positive, No rush or need</td>
</tr>
<tr>
<td>B 1</td>
<td>Pharmacy</td>
<td>Happy, excited</td>
</tr>
<tr>
<td>B 2</td>
<td>Manufacturing</td>
<td>Positive, excited</td>
</tr>
<tr>
<td>B 3</td>
<td>Restaurant</td>
<td>Happy, excited</td>
</tr>
<tr>
<td>B 4</td>
<td>Irrigation Systems</td>
<td>Joyful, thrilled</td>
</tr>
<tr>
<td>B 5</td>
<td>Motorcycle Dealership</td>
<td>Content, Happy</td>
</tr>
</tbody>
</table>

Table 14 presents the results of asking Question 1. The evidence seems to support that more individuals in Group A (no exit strategy) were either neutral or indifferent in their attitude towards implementing an exit strategy. Conversely, individuals in Group B (exit strategy) answered with themes such as happy, positive, and excited about the idea of implementing an exit strategy. However, it is not possible to determine whether it the owner’s attitude toward’s an exit strategy that drove the decision to implement the strategy, or having implemented the

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strategy these owners are now happy, positive, and excited that they have an exit strategy in place.

The second research hypothesis is:

H2: The likelihood of implementing an exit strategy (DV) is a function of social pressures (IV) to exit.

The question posed to the interviewees is:

Question 2: Please describe your spouses and friend’s reaction if you were to tell them or if you told them you are implementing an exit strategy.

Table 15: Question 2

<table>
<thead>
<tr>
<th>Group</th>
<th>Type</th>
<th>Answer description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 1</td>
<td>Medical device</td>
<td>Surprised, but supportive</td>
</tr>
<tr>
<td>A 2</td>
<td>Veterinarian supply</td>
<td>Positive, welcoming</td>
</tr>
<tr>
<td>A 3</td>
<td>IT</td>
<td>Confused, but supportive</td>
</tr>
<tr>
<td>A 4</td>
<td>Manufacturing</td>
<td>Supportive</td>
</tr>
<tr>
<td>A 5</td>
<td>Industrial Welding</td>
<td>Surprised, but supportive</td>
</tr>
<tr>
<td>B 1</td>
<td>Pharmacy</td>
<td>Supportive, in agreement</td>
</tr>
<tr>
<td>B 2</td>
<td>Manufacturing</td>
<td>Excited</td>
</tr>
<tr>
<td>B 3</td>
<td>Restaurant</td>
<td>Supportive</td>
</tr>
<tr>
<td>B 4</td>
<td>Irrigation Systems</td>
<td>Indifferent, yet supportive</td>
</tr>
<tr>
<td>B 5</td>
<td>Motorcycle Dealership</td>
<td>In agreement, supportive</td>
</tr>
</tbody>
</table>

The evidence in Table 15 seems to suggest that most owners in Group A (no exit strategy) feel that their spouses and friends would be surprised or confused if told that they are implementing an exit strategy. However, there are exceptions and most indicated that they would ultimately be supported with whatever decision they made. However, for the business
owners in Group B (exit strategy) the evidence suggest that spouses and friends were mostly happy, excited, and supportive when they told them they had implemented an exit strategy. However, it is not possible to determine the direction of the effect, that is, whether an owner’s social pressure or support led to the implementation of the exit strategy, or whether the implementation of the strategy may have led to the support from the significant other.

Hypothesis 3 is stated below:

H3: The likelihood of implementing an exit strategy (DV) is a function of the owner’s perceived control (IV) over the exit decision.

The question posed to the interviewees is:

Question 3: Do you feel like you are or will be in control of your decision to implement an exit strategy?

Table 16 presents the results of question 3.

The answers for Group A (no exit strategy) were skewed more in the direction of ‘not in control’, however there were two definitive answers of ‘yes’. So, the results were mixed. The answers for Group B were all similar and clear, each answered that they felt completely in control of their decision to implement an exit strategy. It is possible that the likelihood of implementing an exit strategy is a function of the owner’s perceived control over the exit decision.
Table 16: Question 3

<table>
<thead>
<tr>
<th>Group</th>
<th>Type</th>
<th>Answer description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 1</td>
<td>Medical device</td>
<td>Yes</td>
</tr>
<tr>
<td>A 2</td>
<td>Veterinarian supply</td>
<td>Somewhat, two other partners</td>
</tr>
<tr>
<td>A 3</td>
<td>IT</td>
<td>No</td>
</tr>
<tr>
<td>A 4</td>
<td>Manufacturing</td>
<td>No</td>
</tr>
<tr>
<td>A 5</td>
<td>Industrial Welding</td>
<td>Yes</td>
</tr>
<tr>
<td>B 1</td>
<td>Pharmacy</td>
<td>Yes</td>
</tr>
<tr>
<td>B 2</td>
<td>Manufacturing</td>
<td>Yes</td>
</tr>
<tr>
<td>B 3</td>
<td>Restaurant</td>
<td>Yes</td>
</tr>
<tr>
<td>B 4</td>
<td>Irrigation Systems</td>
<td>Yes</td>
</tr>
<tr>
<td>B 5</td>
<td>Motorcycle Dealership</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Common themes in the study:

The second step in the coding process was to look at patterns or other themes that may have emerged in the interviews. In this process, two other themes were discovered. The owner’s feeling of personal responsibility to others, and the owner’s personal happiness.

*Personal responsibility to others*

Nearly all business owners (both groups) mentioned a personal responsibility to their spouses, families, employees, customers, and suppliers. The owner’s in Group A (no exit strategy) felt a need to remain in the business for others and the owner’s in Group B (exit strategy) hoped their business continued on in the future and that everyone involved or effected were taken care of going forward.

*Personal happiness*

The majority of the owners in Group A (no exit strategy) revealed they were too happy at the moment to stop working in their business. Each seemed to enjoy their work and thought the
time had not yet arrived to put an exit strategy together. Conversely, all owners in Group B (exit strategy) felt like their time had come to exit and they no longer felt happy running their business.

Conclusions

The summary of the key takeaways from the RSP. Normally, these should be under a page and should be sufficiently self-contained that a reader can jump to them and still understand them.

1. The evidence seems to suggest that Azjen’s Theory of Planned Behavior might be a usable model in predicting a business owner’s decision to implement an exit strategy. However, more research is needed in order to suggest the possibility. It might be, but given the limitations and small sample size, such a conclusion cannot be reached.

2. Owners in Group A were mostly neutral or indifferent when asked to describe their attitude towards implementing an exit strategy. Owners in Group B describes themselves as happy, or excited when asked the same question.

3. Owners in Group A consistently described their family and friends reaction as surprised, or confused if they were to tell them they were implementing an exit strategy. Owners in Group B consistently described their family and friends reaction as supportive and happy.
4. Owners in Group A answered mostly no when asked if they were in complete control of their decision to implement an exit strategy. Owners in Group B unanimously answered ‘yes’ when asked the same question.

5. Future studies with business owners might ask the question ‘Describe your level of happiness with your business’ as a replacement for the attitude question. This is likely a better indication of an owner’s motivation to implement an exit strategy.
References


Leroy, H., Manigart, S., Meuleman, M., (2009). Exit process of micro-business: decision to transfer


Reitan, B. 1997. Where do we learn that entrepreneurship is feasible, desirable, and / or profitable? Paper presented to the ICSB World Conference.


Appendices
Appendix 1: Frequently Asked Questions About Small Businesses

Frequently Asked Questions

Advocacy: the voice of small business in government

Small businesses comprise what share of the U.S. economy?
Small businesses make up:
- 77 percent of U.S. employer firms,
- 64 percent of net new private-sector jobs,
- 49.2 percent of private-sector employment,
- 42.9 percent of private-sector payroll,
- 46 percent of private-sector output,
- 43 percent of high-tech employment,
- 98 percent of firms exporting goods,
- and 33 percent of exporting value.

How many small businesses are there?
In 2010 there were 27.9 million small businesses, and 18,500 firms with 500 employees or more. Over three-quarters of small businesses were nonemployers; this number has trended up over the past decade, while employers have been relatively flat (figure 1).

What is a small business?
The Office of Advocacy defines a small business as an independent business having fewer than 500 employees. For the small business definition by industry used in government programs and contracting, see www.sba.gov/content/small-business-size-standards.

What percent of small businesses operate as ...?
The many kinds of small businesses are shown in table 1. The definitions overlap so the shares total more than 100.

<table>
<thead>
<tr>
<th>Kind of Business</th>
<th>Share (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home-based business</td>
<td>52.9</td>
</tr>
<tr>
<td>Franchise</td>
<td>2.0</td>
</tr>
<tr>
<td>Sole proprietor</td>
<td>73.2</td>
</tr>
<tr>
<td>Corporation</td>
<td>19.5</td>
</tr>
<tr>
<td>Employer business</td>
<td>21.5</td>
</tr>
<tr>
<td>Nonemployer (business without employees)</td>
<td>78.5</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, SUSB, SUSB.

How can small businesses’ share of net new jobs be larger than their share of employment, yet their share of employment remains steady?
As firms grow, they change employment size classes. So as small firms grow, their growth counts toward small firm job gains, but if they pass the 500-employee mark, their employment is classified as large firm employment.

Do the unemployed become self-employed?
When finding work is difficult, starting a business can be just as difficult if not more so. But in March 2011, a significant number of the self-employed, 5.5 percent or about 300,000, had been unemployed in the previous year. This figure was up from March 2006 and March 2001, when it was 3.6 and 3.1 percent, respectively.

Which businesses create more jobs—startups or existing businesses?
In the last two decades about 60 percent of the private sector’s net new jobs have been created by existing establishments and about 40 percent from the churn of startups minus closures. While firm births account for many new jobs, job losses from firm closures are equally important in accounting for net effects to employment levels.

Source: Bureau of Labor Statistics, BLS.
Appendix 2: Industry Expert Sample Interview Transcript

David Pickard: Good morning, this is David Pickard, doctoral candidate at the University of South Florida, MUMA College of business. I'm interviewing select industry experts in mergers and acquisitions lower market industry, and I have the pleasure of sitting down with someone who has been in the industry for over 40 years. Good morning.

Industry expert 4: Good morning.

David Pickard: Thank you for your time today. Tell me about what you do and your background?

Industry expert 4: Well, I'm chairman of the evaluation committee at my company. Which means that the committee finalizes the value that we deliver to the customer. This is a new process for us. The way it was in the past the evaluation department associate would come up with a suggested value and run it by the deal maker who's slotted to take the deal.

David Pickard: Okay. Thank you.

Industry expert 4: Now, as for my background, for the previous 13 years I was head of the evaluation department. About 12 and a half years ago I hired my hopeful replacement, and he's been in training, being mentored to take over. He was very patient to last that long.
David Pickard: That's a long training program.

Industry expert 4: Yeah, but he's now doing that job, and he's doing it extremely well I think. He's a sharp guy now.

Industry expert 4: My background, before here I worked at Omega equity for 20 years.

David Pickard: Thank you.

Industry expert 4: Doing business evaluations, it was the same model as here. Just didn't look like that. Before that, I first started in business evaluations with an investment banking firm in Houston. And we did evaluations for all sorts of purposes. Very inequitable opinions, divorce, ESOP, on and on. And I was there probably four years.

David Pickard: Thank you.

Industry expert 4: Then I got a chance to come to Southern California, which was a good idea because shortly after that, the Houston economy died and so did that company.

David Pickard: Was that in the 80's?

Industry expert 4: Yeah, but I got to Omega in like '86, '85? '86.
David Pickard: Okay. Thank you.

David Pickard: And Omega basically started this whole new model

Industry expert 4: Jack Johnson invented the model and started it. And he ran it for a while and managed to sell it to a bank, and they managed to run it into the ground and sell it to a guy named Richard Robinson, who was really sharp. And he made it actually work far better. His model, the way he did the model is how we do it now.

Industry expert 4: Johnson didn't really care much about selling a company. And we took very few of them to market. Robinson was different.

David Pickard: Okay. Thank you.

Industry expert 4: He didn't want it to go to market, it went to market. And then he sold it to Beta Bank, and they had not a clue. They thought that this was going to generate enormous business for their investment banking people and it didn't. And so they shut it down.

David Pickard: Okay.

Industry expert 4: And I was given a choice of either I could be a reduction enforcer, or retired. I retired. I lasted for about a year and a half until BliTech got down here and called me up. And I came here.
David Pickard: Okay, great. So your retired career has been in investment banking?

Industry expert 4: Not necessarily, before that I was in...I went to the University of Oklahoma [inaudible 00:04:27] and wrote some letters, and then I went to Harvard Business School for a MBA. And then I was in the Army. And after that I was in various companies. One was financial services, one was...several were in manufacturing. So I've got a fairly [inaudible 00:04:43] background.

David Pickard: Okay. And then you've been in this area for the last 30?

Industry expert 4: I've been in Dallas for going on, 13 and a half years.

David Pickard: 13, and then before that you were with Geneva?

Industry expert 4: That was in Southern California.

David Pickard: Southern California. But in this [crosstalk 00:04:55]

Industry expert 4: But in this business. I've been in this model for over 30 years.

David Pickard: Okay, great. So...

Industry expert 4: Which kind of makes me older than dirt.
David Pickard: So we talked briefly about the old days, with before computers. How is the industry evaluations, how's that changed over a 30 year period?

Industry expert 4: Well, the evaluation industry as it were, we're barely in it. Because I go to the American Society of Appraisers conference every year for business evaluation. I've been a member forever, since the beginning. And they spend little time worrying about the kind of evaluations we did for transactions. They are into all sorts of esoteric stuff for tax purposes and the like. And that's what most evaluation people do. And of course, that's a different world because there's no test. So say it's worth 20 million dollars. Well okay, the test is does the IRS buy it? When we say 20 million dollars the test is let's sell for that. And of course the definition of fair market value is the number in which the company will sell. Given a willing buyer, knowledgeable of all the facts and not under duress. Well, we're the only people that have it. Now there are plenty of people doing merger acquisitions. And all of them do evaluations, so it's not like we're the only people doing that. But when you go to an ASA conference, these evaluations, they're in a different world.

David Pickard: Our company is basically just scratching the surface of what the [crosstalk 00:06:47]

Industry expert 4: Well we are in the MNA transaction business. So evaluation is part of it in a sideline. Most of the people who attend the ASA conference are in the evaluation business.
David Pickard: Okay.

David Pickard: [crosstalk 00:06:59]

David Pickard: So before, you mentioned you were one of the first in the world to actually do evaluation on a computer.

Industry expert 4: Yeah, it was kinda funny. It wasn't really well done either.

David Pickard: Okay.

Industry expert 4: I had a PC junior, which was well...my iPhone is a thousand times more powerful.

David Pickard: That's interesting.

Industry expert 4: But I got started. I figured out how to do...see, the point is, there's a lot of math to be done in the financial analysis of a company. Before you could even get to the evaluation. And we use an excel spreadsheet. We enter data and it does a lot of squirreling around and helps us get there. I was doing it by hand, and not probably doing as good a job as I can now.

David Pickard: Okay. So that's one...

Industry expert 4: So we're helped by that and by the fact that the same Excel
spreadsheet sends numbers to boiler plate evaluation. And I'll remember random documents.

David Pickard: Okay.

Industry expert 4: It would have to be done by hand.

David Pickard: Okay.

Industry expert 4: Now, I use the term boiler plate and everybody gets all exercised. You're just sending out boiler plate. No. Not really. The numbers that are presented are always the same, so that's boiler plate. But you can't analyze a company and value it using boiler...you have to think. You have to write your own.

David Pickard: You know, internally it takes us 60 to 90 days to present an evaluation for a client. Is that average in the industry, or...?

Industry expert 4: Well that depends. Why is it 60 to 90 days and why isn't it 30? It could be 30.

David Pickard: It could be 30.

Industry expert 4: It depends on primarily on the client. If the client gives us all the
data on day one, we can roll. Now, the other part of that, reason it takes a little while is because each person has way more than one client. They have to juggle things. Now, when I was at Underwood New House just starting off, I would have maybe one or two clients. And they would insist the guy that wanted an evaluation needed a number of [inaudible 00:09:18], I would get all the data on day one. So that was a different world. And it didn't need to take very long. The longest I took was on my very first one when I didn't know what I was doing and took a month. And after that, nothing took that long. So but here it takes longer because the clients, when they come to us, don't quite...they don't have all their data ready.

David Pickard: Mm-hmm (affirmative)

Industry expert 4: Most cases they weren't really thinking they were going to do this. So getting all the stuff together that we need is a problem.

David Pickard: Okay.

Industry expert 4: But once they are sufficiently [inaudible 00:09:50] we can do it.

David Pickard: Yeah. And then [inaudible 00:09:51] management at that point in time. How many that you have going on.

Industry expert 4: Right. So sometimes we'll get one done in 30 days or less. Be criticized for it, obviously you guys didn't spend any time thinking about it. Well, yes
we did.

David Pickard: Right. So my main focus of this paper is to talk about, what do you see in the future from an exit planning perspective? And on focus on one million to 25 million dollar companies, which is very small lower market micro-cap. You've seen a lot of changes in company types and trends in the industry. Where do you see exit planning going in the next 10 years?

Industry expert 4: Well, most people in companies in the range you described, are far more focused on today. Than anything else. But the buyer isn't focused...he isn't buying today. He's buying what this company can do in the future.

Industry expert 4: So the owners of many of these companies have two problems: one, it isn't running as well today as it could and should. And they have no idea where it's going.

David Pickard: Mm-hmm (affirmative)

Industry expert 4: And there are things we can do to help them sort that out. I mean we know for example, what their specific company needs to look like to be more valuable in today's market. And we know it's sometimes hard to tell them how to grow. Because we may not understand that. But we do know that we can talk to them about the fact that we need to be thinking ahead. They need to be creative. I think too many of these business owners rest on their laurels. A lot of these company owners are making a lot
of personal money. So what's the point in risking the golden goose? I might kill it.

David Pickard: Right.

Industry expert 4: Well yeah, but if you seriously want to make a lot of money selling this thing, you've got to invest and you've got to grow. And you've got to figure it out. You can't do like Kodak and rest on your laurels and go bankrupt.

David Pickard: So this represents a lot of wealth in America. The small business owner, one to 25 is...it encompasses all industries. Could be family owned businesses, generational businesses, things of that nature. Do you foresee more small business owners in that range investing in advisor services in the next 10 years? Or do you think, because now their options are what? They'll just orderly liquidate the business, they'll go with their accountant, their broker or lawyer? Not everyone hires a firm like GE to do their services. Do you foresee that trend continuing around the same types of numbers? Or do you think more and more people will become educated and invest?

Industry expert 4: That's a hard one because...nobody's gonna buy something they've never heard of. I remember when I first started doing business evaluations, I didn't even know that that wasn't something you could do.

David Pickard: Right.

Industry expert 4: And I think a lot of these people don't have any idea that exit
planning is something you could do. And then when they hear the words exit planning, it doesn't resonate with them like it should. They think "exit planning." Getting me out right quick.

David Pickard: Right.

Industry expert 4: No, it doesn't.

David Pickard: It doesn't.

Industry expert 4: And so there's a lot of education that needs to be done to explain...maybe we need a better word than exit planning, I think.

David Pickard: Because of the opportunity?

Industry expert 4: And so that they understand that there are things they can do to make their company better or saleable. Worth more. Now the other part of that problem is, oh my god, you mean I have to actually work hard?

David Pickard: Mm-hmm (affirmative)

Industry expert 4: And do things I have no idea how to do? I mean we're asking these people to do things they don't know how to do.
David Pickard: Right.

Industry expert 4: They're comfortable running a company on a day to day basis.

David Pickard: Right.

Industry expert 4: Now, can they get outside their comfort zone? Some of them can and many of them can't.

David Pickard: So, from an exit planning industry perspective, we touched on a really important point. We're one of the only companies that is going around doing what we do, we do seven conferences a week. 28 a month. Over 300 a year, and we're getting between 10 and 20 business owners at each conference. Do the math, it's only six thousand. Or plus. And there's millions of businesses.

Industry expert 4: We're getting such a tiny percentage it's a joke.

David Pickard: Right.

Industry expert 4: And I sometimes wonder why we can't increase that percentage. Just a little bit.

David Pickard: Just a little bit.
Industry expert 4: So I think we're one of the few companies who combine MNA and exit planning. There are a lot of people out there that do exit planning.

David Pickard: Mm-hmm (affirmative)

Industry expert 4: In fact I think Jason and Celeste are both members of whatever that group is.

David Pickard: Right.

Industry expert 4: And I've been to a meeting or two, but they don't do MNA.

David Pickard: Right.

Industry expert 4: There are a lot of companies that do MNA. I know a lot of people from Geneva days who are now out on their own doing MNA. Very well, but I don't think they advertise exit planning. Promote that.

Industry expert 4: So in a way we're unique. There's probably someone else doing it, but [inaudible 00:15:33]

David Pickard: Right. Right. So there's a big opportunity for education in the 10 years. It would be a huge endeavor to target more of the business owners that need exit planning and MNA services. And the question becomes, how do we do that?
Industry expert 4: How do we find somebody who could really avail themselves as what we see as exit planning? And is willing to do the work involved? I think too many of our clients come to us thinking, "well I'm gonna get rich quick." And this is going to be easy sale. And it's rarely that.

Industry expert 4: Now, I don't know how you'd target the ones that are a better candidate for improving their company and all that. It'd be interesting, I don't know if we've ever run statistics on how many companies come in here and run through our exit planning process, increase their value and sell. There are companies like that, but I don't have any. But that would be ideal.

David Pickard: Mm-hmm (affirmative)

Industry expert 4: That way I think we're doing more of a service than other.

David Pickard: Okay. Do you have any other thoughts on future changes? You know we got baby boomers coming? Or already at the point where you've seen a lot of baby boomers trying to do exit, or they will exit in the next foreseeable future. How do you think that's going to impact MNA?

Industry expert 4: I think we need to think a little bit more about the different age groups of the population. Yet the baby boomers and millennials and all these people.
Industry expert 4: And they're all different. And they all react differently. And I don't think we really take that into account. I mean how do you sell to a baby boomer?

David Pickard: Yeah.

Industry expert 4: What we're selling to is old white guys.

David Pickard: Right.

Industry expert 4: And they have their view. But it's not the same, necessarily as the other. I mean like for example, the millennials are a classic case. They don't like to work eight to five and have no flexibility at all. And so if you treat them that way, they don't hang around. That's why I never treated them that way in this department. And as a result the turnover rate was nil. You got to figure them out.

David Pickard: Mm-hmm (affirmative)

Industry expert 4: And then figure out how to sell to them. How to relate to them.

David Pickard: Mm-hmm (affirmative)
Industry expert 4: And I think that's...I don't know what we're doing in the sales department.

David Pickard: That's fine. Our conferences now, or baby boomer cold white guy. You know, centered.

Industry expert 4: Yeah, that's a whole white guys in there.

David Pickard: So that's an interesting point. I mean we create another channel or something.

Industry expert 4: I mean you got two issues there. Number one, you gotta get somebody besides the old white guys in the seminar.

David Pickard: Right.

Industry expert 4: So the call center or however we surface our potential clients, has to change.

David Pickard: It's a dated model.

Industry expert 4: Absolutely. Way dated. It's obsolete I think. We need to figure out...I mean people don't want to go to seminars.
David Pickard: No.

Industry expert 4: You just talked earlier about one that you're going to go visit, you wouldn't go to a seminar.

David Pickard: No.

Industry expert 4: And the better companies I think, are kinda like that. We need to figure it out.

Okay, so it costs us more to [crosstalk 00:19:08] and sell them that way.

David Pickard: Right.

Industry expert 4: But when you sell them you make a lot more money.

David Pickard: Right.

Industry expert 4: You sell an HVAC contractor the companies.

David Pickard: That's how you get more of the better ones in here, the more success fees and things of that nature.

David Pickard: Yeah, it's interesting because from an education point perspective, it would help the economy, would help the greater good for people to have a plan. For not
to be a knee jerk reaction to sell their business or have an unforeseeable medical condition where they just have to get out.

David Pickard: If they were ahead of it, the curve and how to plan...but how do you get those people to be educated? What's the best format for that?

Industry expert 4: I think you're hitting on something important. Which is we need to be able to find people who aren't in panic mode.

David Pickard: Right.

Industry expert 4: And who are willing to get on board with making a company worth more than what it is.

Industry expert 4: Problem is, if you get somebody who is in a panic mode, well he's also got some crazy idea of what the company's worth. And we tell him what it really is worth and then he's not happy. And it may or may not go to market.

David Pickard: Right.

Industry expert 4: But if on the other hand, you've got a guy who is interested eventually in selling, he knows his kids aren't gonna take the business and all that. He's got several years to do it. And you work with him...
David Pickard: Get him in the mix early.

Industry expert 4: Yeah, and say "Okay, your value is 10 million dollars now, but what do you want and how are we gonna get you there?"

David Pickard: Right.

Industry expert 4: I think that's a much better relationship.

David Pickard: Much better.

Industry expert 4: But you gotta find those guys. The ones who are in a panic will come to the seminar.

David Pickard: Yeah.

Industry expert 4: The others won't even talk to the call center.

David Pickard: Right. I was in Kansas not too long ago and sat down with a man and his wife who were looking to sell their business. He asked, "How long does this process take?" And I said, "You know on average, it can take nine to 14 months to get a deal done, give or take." You know everything's different. Could take a couple months, could take a couple years. And he goes, "I got six months." And I asked why? And he said, "I have cancer, the doctor gave me six months to live."
Industry expert 4: Oh boy.

David Pickard: And then he asked, "Can we fast track this?" And I said we'll do our best. That's sad. How many of those people are out there though?

Industry expert 4: A lot. Oh yeah. And they don't get motivated until the doctor says they got cancer or whatever it is. I mean it's not always cancer but, we need to find people who want to sell based on something other than external calamity.

David Pickard: Okay good.

Industry expert 4: Our company needs to find companies that are doing well. A lot of these people want to sell because they know their company's going to hell in a hand basket. And they want to get rid of it quick. But you can't fool anybody. We're not stupid, we can see that it's going to hell in a hand basket. And we know the buyer will too. So those guys aren't very good either, but they're anxious to sign up.

David Pickard: It would be interesting to see from an impact perspective, if better business owner education could be a factor in the M&A business.

Industry expert 4: That would be good to look at. I think you should look at that.
Appendix 3: Reviewer Background

The process through which the decision to perform the IA was made for in three parts.

1. A firm, industry, and academic knowledge gap exists for detailed, accurate, and real-time information pertaining to this narrow space: merger and acquisition activity for businesses between $1 million and $25 million in revenue.

2. The author is a full-time industry participant and student and finds the data collection and presentation useful for his current and future career aspirations.

3. This IA is the first of three deliverables in a traditional dissertation requirement.

The IA Protocol

The data sources were identified using standard search engine techniques, including google scholar, and extensive interviews with industry experts. Research and trade literatures, and government websites were the primary sources. Much of the information posted on the web can be considered unverifiable and therefore rejected. The majority of reliable information came from government sources.

Permissions

Since the interviews were anonymous and no specific names or proprietary company information was used, no permissions were necessary prior to publication. The charts, and graphs used were developed or recreated by the author.
Appendix 4: Major Public & Private Data Sources

Table A1: Major Public & Private Data Sources

<table>
<thead>
<tr>
<th>Source</th>
<th>Name of publication or</th>
<th>Title</th>
<th>Key message or value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td><a href="https://www.sba.gov">https://www.sba.gov</a></td>
<td>Small Business Administration</td>
<td>Provides support and data for America's small businesses</td>
</tr>
<tr>
<td>Thomson Reuters</td>
<td><a href="https://www.thomsonreuters.com">https://www.thomsonreuters.com</a></td>
<td>Small Cap M&amp;A review</td>
<td>Summarizes M&amp;A activity for private businesses and provides a ranking of transactions and value</td>
</tr>
<tr>
<td>MergerStat</td>
<td><a href="https://www.bvresources.com">https://www.bvresources.com</a></td>
<td>FactSet Mergersta t</td>
<td>Paid subscription service that provides details on public and private transactions</td>
</tr>
</tbody>
</table>
Appendix 5: IRB Protocol

Study Protocol

Title: An examination of the progressive and regressive factors that affect a business owner’s decision to implement an exit strategy

1. Rationale for the study, area of current scientific concern and why the research is needed

As a senior level marketing development director in the Mergers and Acquisitions industry, I help identify and engage small business owners open to the development and implementation of an exit strategy for their businesses. Studies appear to reflect a high percentage of business owners in the United States do not currently have an exit strategy should the need to sell their business become apparent for varied reasons. The study aims to interview a sample group of business owners to endeavor to suggest possible barriers to the consideration, development and implementation of this essential task.

2. Background information, description of existing research and information that is already known.

The estimated 28.8 million+ “small businesses” in North America can be broken down into four segments (HBR, the 4 types of small businesses).
<table>
<thead>
<tr>
<th>Types</th>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-employee</td>
<td>23 Million</td>
<td>Sole proprietorships</td>
</tr>
<tr>
<td>Main street</td>
<td>4 Million</td>
<td>Local businesses serving consumers</td>
</tr>
<tr>
<td>Suppliers</td>
<td>1 Million</td>
<td>Suppliers to other businesses (B2B)</td>
</tr>
<tr>
<td>High growth</td>
<td>200,000</td>
<td>Fast-growing, innovation-driven</td>
</tr>
</tbody>
</table>

For the purpose of the experiment, several limitations and guidelines are noted as follows:

I will exclude non-employee sole proprietorships for the following reasons:

A. Their general smaller size, revenue, and the difficulty of access. Most of these businesses do not have employees with revenue under $10,000 per year (SBA).

B. Main street, supplier, and high growth businesses will be considered for the study. Main street companies can be defined as “typical local businesses” such as dry cleaners, car repair shops, HVAC, etc. that employ several or more employees.

C. Supplier businesses are the most important segment and will be the primary focus of the study as they represent commercial and governmental supply chain operations with a higher level of sophistication and processes than main street companies. High growth firms are businesses that have the most potential of becoming a large business.

D. Businesses will only be selected if they have an annual revenue of at least $1 million and no greater than $25 million. In addition, each business must be in good standing with the state and have been profitable for the past three years.
E. The target business must be owned 100% by one individual, the key decision maker and responsible for implementing an exit strategy. To study businesses with multiple owners would be too complicated and difficult to plan.

The geographical area for the study will be the Dallas, Texas market to simplify planning and follow up for the researcher and to provide ease in compliance with IRB rules and guidelines.

3. The research question, objectives and purpose.

RQ: What are the progressive and regressive factors that affect a business owner’s decision whether or not to implement an exit strategy?

The progressive factors address the process undertaken by a business owner in his/her decision to implement an exit strategy. One example of a progressive factor could include whether an owner has a positive attitude about exiting and when faced with an opportunity to exit chooses to do so. Another example of this could be of an owner who feels pressure from a significant other or business partner to sell and decides to do so. Regressive factors then, pertain to uncovering specific factors that prohibit an owner from implementing an exit strategy. An example of this may be that an owner has a poor attitude about leaving a business and consequently has no desire to create an exit strategy. Another example could be an owner who feels pressure from a peer to remain in the business and chooses not to implement an exit strategy.
The objective and purpose then of the study is to examine how these factors, both progressive and regressive in nature may coexist during a business owner’s decision-making process, determine which are most important, and to apply the Theory of Planned Behavior (Azjen 1990) model fits to predict behavior as appropriate. I will also consider other models as appropriate to gain a better understanding of owner behavior in specific setting as a decision is under consideration.

4. The study design including information that is needed to answer the research questions

To answer my research question, I propose a rigorous qualitative research study. Qualitative research can provide you with details about human behavior, emotion, and personality characteristics that quantitative studies do not address. Qualitative research usually takes the form of naturalistic observation or structured interviews. In this study, I will be conducting structured interviews directly with small business owners.

First, I will complete an industry analysis and literature review. This will provide a background and overview of the industry; available literature and sources; and perhaps most importantly, present the opportunity to identify ways to contribute to the research in this area. The second step is to plan the interview process. Interview questions will be developed that match the proposed testable outcome. The interview questions must be logical and appropriate in testing the hypotheses. Next, qualified interviewees must be identified, and interviews scheduled. IRB approval and guidelines must be met, and releases signed prior to the interviews. The sample size and location of the interviews
will factor in the limitations of the researcher. The pool of potential interviewees will be a diverse group of owners based on demographics, type of business, and revenue size. For example, if this works in one market for this study it might be an idea for future research to expand with the goal of reaching a highly generalizable level.

To aid in the validation of the research, a second set of data might be collected from independent certified public accountants (CPA) in the Dallas market, if time allows.

5. Sample size

The proposed sample size would be 20 small business owners in the Dallas / Fort Worth metro area. The principle investigator currently lives in this area.

6. Study Population inclusion and exclusion criteria

The proposed study population would include individuals 18 years or older, English speaking, male or female, any private business owner whose business is greater than $1 million in revenue but less than $25 million in revenue, in good standing with the state of Texas. Any business owner under the age of 18, non-English speaking, owns a business with less than $1 million in revenue or greater than $25 million in revenue, in poor standing or bankruptcy, or incorporated outside of the state of Texas.

7. The expected results of the research, such as reports, papers, and contributions to theory
The challenges that professional advisory firms in the lower middle market face are numerous, complex, and ever changing. While there is a strong need for exit strategy implementation, the fact remains that a high number of small business owners (millions) are unprepared for their inevitable exit. This has the potential of negatively impacting a large number of people. Therefore, the results of this research has the potential to help the practitioner working in the industry better understand the factors that influence an owner’s decision to implement an exit strategy and then help owners make more informed decisions.

Here are three proposed contributions that hopefully will help solve these problems.

1) An Industry Analysis and literature review specifically tailored for the lower middle market that practitioners and academics could benefit from.

2) A practical, yet research-focused qualitative study that produces a useful exit strategy implementation intention model (or verifies TPB) that offers a coherent, parsimonious, generalizable, and robust theoretical framework for understanding and prediction.

3) A quick summary of why the study was done and key takeaways for managers

Outline: Collection of papers

The goal of the complete dissertation is the successful delivery and defense of three papers: An Industry Analysis with Literature Review paper, an Interview paper, and a Research for Practice paper, all geared for MBR submission.
Industry Analysis paper (including literature review)

The paper would have a narrow focus, specifically on the $1 million to $25 million M&A exit planning industry within the United States. It should identify the relevant sources of information in the industry including databases, trade publications, and research publications. It should report the results of the analysis, present a summary of the key insights from a practitioner’s viewpoint. Lastly, the author will speculate on how the industry is likely to change in the near and long-term future.

Interview paper

The paper would provide a background of the individual business owners being interviewed, include transcripts of the interviews in a question and answer format, and present the key findings from the interviews in a research context.

Research for practice paper

This paper would describe the research project in a concise, approachable way. It would present a summary of the results and list the key takeaways for managers.

The three proposed papers should complement each other and help close the gap between research and practice. The practitioner should gain a scholarly perspective on the industry, understand more clearly where to access key information, be given a conceptual model to work off, and key takeaways for improving current marketing strategies that target the right individuals for improving exit strategy implementation. Also, it should provide the academic researcher a practical perspective on the industry, rich data on a limited number of small business owners, and ideas for future research.
and theory development.

8. Name of the Principal Investigator and Faculty Advisor if applicable

Interviewer is the principal investigator. He is a DBA student in his final year at USF. Robert Tiller, Dahlia Robinson, and Grandon Gill are the faculty advisors.

9. Any potential risks to the subjects:

There are no known risks to the subjects for volunteering to participate in the study.

10. Any experimental procedures or interventions that will be implemented.

This is a structured, qualitative interview and therefore will be no experimental procedures or interventions in the study.

11. Any potential benefits to subjects

There are no known benefits to the subjects for volunteering to participate in the study.

12. Human subject considerations including description of the informed consent process; if applicable include a discussion of safeguards that are in place to protect potentially vulnerable subjects such as children, prisoners, the cognitively impaired, institutionalized or be maintained
Since subjects will be adult business owners who have provided consent to be interviewed, safeguards to protect children, prisoners, the cognitively impaired, institutionalized or critically/terminally ill will not be addressed in the study. The privacy and confidentiality of the intended subjects are safeguarded by a signed confidentiality agreement (attached) that stipulates that the information acquired will not be disseminated and used without identification of the subject for the purpose of limited dissertation research.
Appendix 6: Interview Question Template

1. Tell me about your business and what you do
2. How much of the business do you own?
3. How old are you?
4. Are you married? Does your spouse work within the business?
5. Do you have any children working in the business?
6. Tell me why you have decided to implement an exit strategy or not?
7. Describe your attitude towards implementing an exit strategy?
8. Describe your family and friends’ reaction when you told them you had decided to implement an exit strategy
9. Did you feel completely in control of your decision to implement an exit strategy
10. Describes some strengths, weaknesses, opportunities and threats to your business.
Appendix 7: Transcript example

Group B: Owner who decided to implement an exit strategy

Interviewer: Hello, this is Interviewer, doctoral candidate for the University of South Florida. I am interviewing several business owners in the state of Texas for a research project, and I have the opportunity to talk with Rusty today. Hey Rusty, how you doin'? 

Participant B3: Doing great.

Interviewer: Well thank you for your time today. I'm investigating factors that business owners consider when implementing an exit strategy, so I understand that you've decided to sell your business. Is that right?

Participant B3: Correct.

Interviewer: Okay, good. So tell me a little bit about your business and what you do.

Participant B3: Okay, we are a 23, 24 year old company, and we find ourselves needing to retire, or lessen our workload on a daily basis. To that end, we hired a management team and whatnot to run our businesses but still we want to exit and be free of the daily responsibility and a lot of the day to day employee issues that we deal with.

Interviewer: Okay. What type of industry is it in?
Participant B3: It's a restaurant.

Interviewer: It's a restaurant. Okay, great. And it is incorporated in the state of Texas, is that correct?

Participant B3: Yes, sir.

Interviewer: Okay, good deal. And how did you get into the business?

Participant B3: I like to cook, and thought being in a restaurant would be a great venue to do that, and realized that after 34 years in this industry that cooking is a wonderful part of it, the recipe involvement aspect is, but the business side of it is what drives any business. Dealing with employees, regulatory issues, land, leases, and all of that and while I love all of that... again the restaurant business is not just for someone who likes to cook. It is a business like any retail establishment, or any business that you would want to open it. There's so many more moving parts in it, that it has been fun and challenging and a lot of work.

Interviewer: A lot of work. Well congratulations on owning a business, especially for that long, and staying in business and being profitable is quite an accomplishment, so congratulations on that. That's awesome. So how old are you, Rusty?

Participant B3: I am 58 years old.

Interviewer: 58, and you're married?
Participant B3: Yes.

Interviewer: Okay, great. And do you have any children working within the business?

Participant B3: I have one daughter that currently works in the business as a server, as a waitress.

Interviewer: Good, and does she any aspirations of taking over one day?

Participant B3: Absolutely not.

Interviewer: (laughs) Absolutely not. So I've got a couple questions around theoretical development for business owners, so how would you describe your attitude towards developing and exit strategy?

Participant B3: Attitude as to why, or generally?

Interviewer: Just generally speaking as maybe positive, negative, or just welcoming... Just some adjectives to describe your attitude towards it.

Participant B3: Very positive. I like the idea of the end result.

Interviewer: Okay.
Participant B3: I think we have a very viable business that could be around for another 75 years total, or 100 years total, or more. I think it is an opportunity to carry on my life with less stress, but it is also a great opportunity, a very well-established business that has a lot of tools in place that will make it easy for the new operator to step right in and continue the plan and tweak it the way they want to run it. It's an exciting process for me to exit a business that I think has sustainability well into the future.

Interviewer: Great. Thank you for that. How would you describe your friends, let's start with your family, first. If you've articulated to them that you'd like to exit, what was their reaction, your wife's reaction and your family?

Participant B3: My wife's reaction is she's all for it. It allows us more free time, family time, money to travel and to solidify our future, and to have a great retirement. I've only told one family member, a daughter that is out of state.

Interviewer: Okay.

Participant B3: And she thinks it's about damned time to do it! The other two are still close to the business. One is worked in it, so I don't want anyone, any chance of knowledge of the sale or what I'm going for-

Interviewer: So you've kept it-

Participant B3: To slip out. Kept it very confidential within the family, except with my wife and one daughter that is very influential to...
Interviewer: Can you say they were supportive in your decision?

Participant B3: Oh yes. Very much so. Yep, they wonder what I'm gonna do, I'ma enjoy life. The good thing with me is that I have a consulting business, that helps retail businesses, so it's nice to be able to transition away from a day to day business and be very flexible in my work hours and what clients I want to help.

Interviewer: Well good.

Participant B3: I think it will be a good fit for me.

Interviewer: Oh good. So you have a transition plan you've thought through, next steps, and you're exited about the future. That's great.

Participant B3: Right. [crosstalk 00:05:50] in the business but not on a daily basis.

Interviewer: Okay, so next question. Do you feel any social pressure or anything around your friends? I'm sure you've been in the community for a while, so would you feel any social pressure for remaining within the business?

Participant B3: No, my biggest guilt or fear, I would think, would be to our deaths on a daily basis. I want to make darn sure that whoever purchases the business would want to stay very involved in the community, and I want to find a quality operator that would value the community, value our team, value the food we serve, and continue on. So I think one of my concerns as far as exiting, is making sure that I make a very good
decision for the community that supported us for over 25 years here.

Interviewer: Yeah, that makes a lot of sense. Last question in this category. What is your perception of your control over your decision to exit? Do you feel like you're in 100 percent control of it?

Participant B3: Yes, I mean I need to work with a company that allows me to feel confident that they have our best interests at heart, and will make the right decision as to whom they present the business to just because I have a huge responsibility to our community and to our team to make sure that they're well taken care of.

Interviewer: Okay. Maybe I didn't articulate exactly what I meant. That's okay! Let me rephrase that. So your decision to implement an exit strategy, your decision to prepare and sell your company, were you 100 percent in control of that decision?

Participant B3: Yes.


Participant B3: Okay.

Interviewer: And do you have any partners or anybody else involved-

Participant B3: I do have a business partner, but it's an entity, basically.
Interviewer: Okay.

Participant B3: I mean it's a family, and they do an investment, but their investment is on the sale side of it. I think it's going to realize they've never taken a salary out of it, they've always been supportive, and it was almost... well, sounding weird, it was an ego trip for them to be involved in a restaurant. Some people just have an emotional...

Interviewer: Yeah, its a prime, cool business.

Participant B3: Yeah, fun, cool business, but it never made any money for them, but they're looking forward to the transition, mainly for me.

Interviewer: Okay, well good. Sounds great. This next question, as a small business owner, entrepreneur, for the last 30 years or however you've been involved, what would you say were some of the strengths... I'm doing a SWOT analysis, so strengths, weaknesses, opportunities, and threats.

Participant B3: Right.

Interviewer: So, what would you say if you kinda walked through those four different quadrants? What would you say some of the strengths of owning a small business verses the... this isn't a chain restaurant per say, but you're competing against larger, or you're competing against entertainment, or other options for people from a food service
perspective. So what would you say some of your strengths are?

Participant B3: I think the strengths of owning a business... Is that what you're asking?

Interviewer: Yeah [crosstalk 00:09:14] a small business verses the competition.

Participant B3: The competition. I think the small business is one you control your destiny, depending on how much effort, work you want to put into it, and you get a creative side that you probably would not get access to if you were in a chain where everything is set, or a small retail chain, things are basically set for you and you're limited in your control. And especially with a chain restaurant, it's all about the bottom line. I think we've been able to build a great restaurant with a great culture that caters to our guests. My opinion is if you do that, the bottom line takes care of itself.

Interviewer: Right.

Participant B3: If you are in a chain restaurant, you must deliver, you must follow this recipe for their business success you have to worry about stakeholders and shareholders and whatnot, any you're not really in control, and I love the idea that if you mess up it's on your shoulders. You dig yourself out, for having messed up or having decisions that weren't quite right, and you're able to recover and see the merit in your actions, good or bad. If you mess up, you know straight away, and when you try to recover from that, it's you that made that happen.

Interviewer: Right, so you have a lot of responsibility-
Participant B3: Right, and it gives you a lot of satisfaction to know that you can recover and if you try five different things, you know what to do the next time so you don't mess it up. And you're not able to do that if you're with a chain. You have to follow their recipes, and you can't really think outside the box.

Interviewer: Okay, and as far as the weakness from a small business owner verses... What would you say?

Participant B3: One is your financial success is based on you, or your financial failures are based on you. Having a chain, someone with the pockets and the experience to run a duplicate of a sustainable business is there with a chain. And so you've got to be able to have the guts to get out and try it on your own, and learn from your failures without killing the businesses, and after 34 years in this business, I've come close to bankruptcy a many, many times and I wouldn't have to worry about that, or have that stress if you're in with a larger group, something that had deeper pockets, were able to help you through that transition. So the weakness is you can be your own worst enemy, if you don't pay attention.

Interviewer: Yep, that's good. And some opportunities for the business, if you were to expand, or the future. You mentioned earlier you'd like to see this continue, the brand continue for, gosh, 75, 100 years in the future. What would be the opportunities for that?
Participant B3: I think our restaurants are very scalable. Over the last five or six years we've had to simplify our operations, as many businesses have across the country with commodity pricing, scarcity of employees, just where we are in the growth that central Texas is experiencing. It is hard to get employees so we've had to change our operating philosophy to deal with the employees that we have or have coming into our business. I think a lot of blue collar work has been outsourced across the country to other countries, whether it be Asian countries or even just different areas, and our production needs have needed to decrease. So to that end about five years ago where we had 300 prep items on our menu on a daily basis, we've reduced it to 75 prep items, and for us to remain relevant in the community, relevant in food, and relevant in the workforce that we're getting, we've had to simplify operations.

Participant B3: I think a lot of blue collar workforce operations have gone overseas, and so those blue collar workers are now heading to retail. That sect of employees want to come in where we do the same thing everyday, and we've had to devise our processes so they're very consistent, which has made us better operators I believe, because we are able to see this change, and know that the employee basis that used to be very creative and wanted to build their own restaurants and do their own thing have kinda gone away. We realize that not every one of us can be a multimillionaire chef that you see on TV. There is a lot of hard work that goes into it, and we've lost a lot of passion in the restaurant business over the last few years, and been replaced with more blue collar workers and we've had to change operations to accommodate that skill set.
Interviewer: Okay, good, so you streamlined the menu, the prep items, you've streamlined your processes and improved processes... those are continued opportunities for the future. I will say you have the best Margarita in Texas for the value.

Participant B3: Oh well, thank you! Thank you very much.

Interviewer: Alright, and last, what are some threats, some things that may keep you up at night about your business?

Participant B3: You have to constantly innovate. You're only as good as your last meal. People will dump you like a hot potato if you don't deliver. So we practice defensive management. We want to defend our guest from ever going to the competition, and if they go to the competition, that we are so much better or our culture or our friendliness, hospitality has them coming back to us, because what that magic thing that we feel we have is not about whether, a chain or another restaurant. By the time you come into our restaurant the second or third time, we should know your name. We should know your preferences, know what you like so that we defend you from going to the competition. That said, great food establishments, great hospitable restaurants are popping up all the time. Our growth in this region, we've got three, actually now four new restaurants, local restaurants that are coming in within blocks of our business right now, because we have such a huge growth in our community, and it scares me to death. Can we have what it takes to do this? Can we continue to do this? As I want to slow down, I feel like I'm going to have to jump back in the business on a daily basis and defend our business, and that's scary and keeps me up at night. Can we do that? Do I have the
team to do that? Are we engaged enough? Are we innovative enough to make sure that we stay relevant, and on the top of every whisper of a dying establishment.

Interviewer: Wow. That's-

Participant B3: And we have huge restaurants. One's 660 square feet, the other's 770 square feet. We need volume to make them work.

Interviewer: Right. So you're faced with that challenge as well. So that's great. So, awesome. That's excellent information. Those are all my questions, and I certainly value and appreciate your time, and do you have anything else to add?

Participant B3: No.

Interviewer: Okay, I'm going to go ahead and stop recording.
Appendix 8: Consent Form

Study ID: Pro00033332 Date Approved: 4/23/2018

Informed Consent to Participate in Research Involving Minimal Risk

Pro # 00033332

You are being invited to take part in a research study. Research studies include only people who choose to take part. This document is called an informed consent form. Please read this information carefully and take your time making your decision. Ask the researcher or study staff to discuss this consent form with you, please ask him/her to explain any words or information you do not clearly understand. We encourage you to talk with your family and friends before you decide to take part in this research study. The nature of the study, risks, inconveniences, discomforts, and other important information about the study are listed below.

We are asking you to take part in a research study called:

An examination of the progressive and regressive factors that affect a business owner’s decision to implement an exit strategy

The person who is in charge of this research study is David Pickard. This person is called the Principal Investigator. However, other research staff may be involved and can act on behalf of the person in charge. He is being guided in this research by Bob Tiller.

If possible, the research will be conducted at the owner’s place of business. If not possible, then a phone call may be permitted.

Purpose of the study

The proposed study is a qualitative research design that intends for the investigator to interview business owners with the goal to better understand the factors they consider when deciding to implement an exit strategy or not.

Why are you being asked to take part?

We are inviting you to take part in this research study because you are 18 years or older, speak and understand English, and a business owner of a company above $1 million in revenue and below $25 million in revenue located in Texas.
Study Procedures:
If you take part in this study, you will be asked to:

- Be interviewed one time by the principal investigator in a question and answer format.
- Questions may involve demographic questions and questions surrounding your business.
- The expected duration of the interview will be approximately 30 minutes to an hour.
- The research should take place at the owner’s place of business or via phone if needed.
- The interview will be recorded using a device and the principal investigator and research team will have access to the recordings. The tapes will be maintained on a secure cloud database (USF BOX) for a period of 5 years after the final report is submitted to the IRB. After 5 years, the tapes will be purged from the USF Cloud database.

Total Number of Participants
Approximately 20 individuals will participate in the study.

Voluntary Participation
You do not have to participate in this research study.

Benefits
We are unsure if you will receive any benefits by taking part in this research study.

Risks or Discomfort
This research is considered to be minimal risk. That means that the risks associated with this study are the same as what you face every day. There are no known additional risks to those who take part in this study.

Compensation
You will receive no payment or other compensation for taking part in this study.

Privacy and Confidentiality
We will keep your study records private and confidential. Certain people may need to see your study records. Anyone who looks at your records must keep them confidential. These individuals include:

- The research team, including the Principal Investigator, study coordinator, and all other research staff.
- Certain government and university people who need to know more about the study, and individuals who provide oversight to ensure that we are doing the study in the right way.
- The USF Institutional Review Board (IRB) and related staff who have oversight responsibilities for this study, including staff in USF Research Integrity and Compliance.

We will record all interviews using an electronic device. If you choose not to be recorded, then you cannot participate in the study. We may publish what we learn from this study. If we do, we will not include your name. We will not publish anything that would let people know who you are.
You can get the answers to your questions, concerns, or complaints
If you have any questions, concerns or complaints about this study, or experience an unanticipated problem, call David Pickard at 817-718-2509.
If you have questions about your rights as a participant in this study, or have complaints, concerns or issues you want to discuss with someone outside the research, call the USF IRB at (813) 974-5638 or contact by email at RSCH-IRB@usf.edu.

You can refuse to sign this form. If you do not sign this form you will not be able to take part in this research study. You can revoke this form at any time by sending a letter clearly stating that you wish to withdraw your authorization. If you revoke your permission:
• You will no longer be a participant in this research study;
• We will stop collecting new information about you;
• We will use the information collected prior to the revocation of your authorization. This information may already have been used or shared with others, or we may need it to complete and protect the validity of the research; and

To revoke this form, please write to:
Principal Investigator David Pickard
For IRB Study # 00033332
2500 State Highway 121
#718
Euless, TX 76039

While we are conducting the research study, we cannot let you see or copy the research information we have about you. After the research is completed, you have a right to see the information about you, as allowed by USF policies. You will receive a signed copy of this form.

Consent to Take Part in this Research Study

I freely give my consent to take part in this study. I understand that by signing this form I am agreeing to take part in research. I have received a copy of this form to take with me.

Signature of Person Taking Part in Study ____________________________ Date __________

Printed Name of Person Taking Part in Study ____________________________

Statement of Person Obtaining Informed Consent

I have carefully explained to the person taking part in the study what he or she can expect from their
participation. I confirm that this research subject speaks the language that was used to explain this research and is receiving an informed consent form in their primary language. This research subject has provided legally effective informed consent.

_______________________________________________________________
Signature of Person obtaining Informed Consent                     Date

_______________________________________________________________
Printed Name of Person Obtaining Informed Consent
4/23/2018

David Pickard
Muma College of Business (DO NOT USE FOR IRB 2.2.3)
150 Parish Lane
912
Roanoke, TX 76262

RE: Expedited Approval for Initial Review
IRB#: Pro0003332
Title: An examination of the progressive and regressive factors that affect a business owner’s decision to implement an exit strategy


Dear Mr. Pickard:

On 4/23/2018, the Institutional Review Board (IRB) reviewed and APPROVED the above application and all documents contained within, including those outlined below.

Approved Item(s):
Protocol Document(s):
Study Protocol

Consent/Assent Document(s)*:
Informed Consent Form V1.pdf

*Please use only the official IRB stamped informed consent/assent document(s) found under the "Attachments" tab. Please note, these consent/assent documents are valid until the consent document is amended and approved.

It was the determination of the IRB that your study qualified for expedited review which includes activities that (1) present no more than minimal risk to human subjects, and (2) involve only procedures listed in one or more of the categories outlined below. The IRB may review
research through the expedited review procedure authorized by 45CFR46.110 and 21 CFR 56.110. The research proposed in this study is categorized under the following expedited review category:

(6) Collection of data from voice, video, digital, or image recordings made for research purposes.

(7) Research on individual or group characteristics or behavior (including, but not limited to, research on perception, cognition, motivation, identity, language, communication, cultural beliefs or practices, and social behavior) or research employing survey, interview, oral history, focus group, program evaluation, human factors evaluation, or quality assurance methodologies.

As the principal investigator of this study, it is your responsibility to conduct this study in accordance with IRB policies and procedures and as approved by the IRB. Any changes to the approved research must be submitted to the IRB for review and approval via an amendment. Additionally, all unanticipated problems must be reported to the USF IRB within five (5) calendar days.

We appreciate your dedication to the ethical conduct of human subject research at the University of South Florida and your continued commitment to human research protections. If you have any questions regarding this matter, please call 813-974-5638.

Sincerely,

John Schinka, Ph.D., Chairperson
USF Institutional Review Board
About the Author

Author is a mergers and acquisitions advisor focused on identifying companies that have a need for developing an exit strategy, and helping business owners prepare their company for an optimal sale. David is currently a senior managing director with Generational Equity, based in Dallas, TX. He began his career in the marketing track with Black & Decker in 1999 and continued along that path until venturing into the entrepreneurial space. He started a small business in 2010 that supplied outdoor and recreational products to Walmart & Home Depot stores across North America. David learned the importance of having an exit strategy upon exiting this business and his passion became helping as many business owners as possible in that area. David graduated from Southwestern Assemblies of God University with a Bachelor of Science in Business Management (B.S.) in December 1999. He graduated with a Master of Business Administration (M.B.A.) from the University of South Florida (USF) in May 2007 and expects to earn his Doctor of Business Administration (D.B.A) from USF in 2018.