



Exit Planning

NAVIGATOR

Exit Planning Strategies for the Entrepreneur



Issue 123

Transferring Management Responsibilities Prior to Your Business Exit

The Importance of Creating a Plan to Ensure a Smooth Ownership Transition

Many business owners find that transferring management responsibility is an important issue for them to address when they are thinking about leaving their business. However, many tend to overlook this important business exit element because they get too wrapped up working *in* their business rather than working *on* their business. Many owners may have some people in mind to transfer management responsibility to, but they may not have a good idea of how to accomplish their desired management transition goals.

To help illustrate the importance of a management responsibility transfer plan, we will look at the hypothetical case study of Will Tryon, an owner of a successful manufacturing company.

Will Tryon, owner of a thriving pre-cast concrete manufacturing company, was used to doing things his way. That's why he owned a business rather than working for someone else. As he started giving thought to slowing down and eventually transferring the company, he didn't know to whom he should transfer responsibilities. Will secretly hoped his college-bound child would eventually take over the company, but he also knew he needed to involve his management team in the running of the business. Figuring out how to involve his management team in the process, however, was especially perplexing for Will because he was an owner who was not used to sharing ownership-type decisions.

If you have found yourself in a similar situation as Will's, then you may be asking yourself what the next steps should be to properly transition management responsibilities, while still meeting your overall exit objectives at the same time. We'll use Will as our example in this article and the succeeding three **Exit Planning Navigator®** articles to address this question, as well as the following topics.

1. Why is creating a plan vital to your business – even if your exit is years away (like Will's) and even if you do not have your management team fully in place? (Hint: this is a great way of testing important employees for management ability gradually over time).
2. What does the plan consist of? What duties should you shift and when?
3. How do you create the plan and who can help you?

When addressing the significance of transferring management responsibilities, it is important to first work with an Exit Planning Professional who can help you create an organized and actionable plan. When Will met with his Exit Planning Professional, he soon realized that designing a management responsibility transition plan in advance would have a significant impact on the success of his business exit. Some of the reasons that Will and his representative identified for the plan's importance include:

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- A strong management team is key to a successful business exit. Your management team should include people who are responsible for setting and implementing the company's strategic direction, aligning strategic objectives with the company's mission and vision, monitoring and controlling high-level activities with the business plan, and motivating and supervising other employees. In many small companies, this "team" consists of one person, generally the owner. To build a championship organization, however, the management team should include people with a variety of skills. In addition to talent, you need a management team with staying power.
- An advanced plan can improve the company's ability to achieve maximum value in the marketplace, regardless of who might want to purchase the company. This is due to the fact that when owners are thinking about transitioning management responsibility ahead of time they are more likely to put the right people in the right place to help improve the value of the business and maximize the likelihood of success of the ownership transition. You need to take into consideration who is doing what in your company and create a strategy for you to smoothly transition out of your current management responsibilities because when you sell your ownership interest, you won't be in a position to run the company anymore. One of the first questions prospective buyers ask is "Who runs the company and are they willing to stay?" If the answer is, "The owner is in charge, likes to manage everything, and wants to leave soon after closing," the value of the company typically plummets and buyers may look elsewhere.
- A company that successfully transfers management responsibility from an owner to the next generation management team tends to be more stable. This stability may be created because there isn't a lapse of management responsibility during the business transfer, and management duties are less likely to fall through the cracks when you have a secure plan in place. This helps to ensure that operations will continue to operate smoothly before, during and after the owner leaves the company.
- A pre-established plan may help reduce the stress level and time commitment that can be associated with making one of the biggest financial decisions of your life. By working with a trusted advisor team, you can make management transition decisions ahead of time, monitor the shifting in responsibility and make any needed adjustments before you relinquish control of the business. That way you can be assured that your business will continue in good hands after you depart to play golf, travel, start a new business or do whatever it is that you are planning to do during your new life.
- A structured plan supports the continuous forward movement of the company. In the unfortunate event that you are unexpectedly unable to run the business, your company can face a very desperate situation if there isn't a plan in place that provides for other people besides you to take control and run the business. If you suddenly die or become permanently disabled in a way that makes you unable to participate in the company, then a structured management transition plan helps to stabilize the company and support its continuous existence.

As we have discussed, creating a management responsibility transition plan is an integral component to a successful exit plan. It is important to not only establish strong business value, but it also can be an important factor to the continuity of your business. In the next **Exit Planning Navigator®** articles, we will look at which duties you should shift and when, as well as who can help you with the creation of the plan.

If you have any questions about transferring management responsibilities prior to your business exit, please contact Kevin Short, Managing Director (kshort@claytoncapitalpartners.com).

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