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Exit Planning

NAVIGATOR

Exit Planning Strategies for the Entrepreneur



Issue 126

Transferring Management Responsibilities Prior to Your Business Exit

The Importance of Shifting Core Duties Prior to Your Exit: Part Two

In the last **Exit Planning Navigator**® issue, we discussed the critical issues associated with human resources, as well as sales and marketing duties that need to be addressed in a management transition plan. We will continue our discussion on the critical management responsibility transition areas that owners need to address prior to their business exit by referring back to our hypothetical business owner, Will Tryon. As Will became more interested in slowing down and stepping away from the day-to-day tasks of running his business, he realized that he needed to transition even more of his responsibilities to his management team, such as financial decisions, infrastructure/capital investment decisions and general business duties.

As we continue to describe the management duties that need to be transitioned, it is critical to note the importance of creating a time-based plan that determines who will take over which tasks within a set timetable. Since transferring management responsibilities can take some time, we recommend that you start creating the plan at least five years in advance of your target exit date.

Financial Situations

There are many financial situations in a business that affect the overall outcome of the company. The financial decisions that owners should consider involving their management team before they transition their ownership interests include the following areas:

- **Budget Development and Management:** Developing and managing a budget can be one of the most important financial elements of a business. If your management team has not had the opportunity to take on responsibility for a portion of the company's budget, then you may want to delineate this responsibility to them for a few years prior to your exit. This will help the management team see what the budgeting process looks like and understand the consequences of missing their budget before you decide to exit your business. Transferring this responsibility will also help you determine whether your management team is capable of managing a budget properly.
- **Cash Flow Management:** As many of us know, cash is king. So it is important for your management team to have experience with managing the company's cash flow prior to your business departure.
- **Invoicing and Collections:** It is important to have someone other than the owner manage the invoicing and collection processes of the company. This person(s) isn't necessarily making collection calls or sending out invoices, but someone from the management team needs to have a sense of why the company invoices in the certain way that it does, as well as collects in the manner and the timeline that the company does.

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The Importance of Shifting Core Duties Prior to Your Exit: Part Two (continued)

- **Increasing or Reducing Debt:** The level of debt that a company is comfortable carrying is a financial decision that the management team should be involved in before the owner of the company transitions his or her ownership interest.
- **Funding for Future Growth:** The management team should be involved early on in the decisions associated with the financial support for the future growth of the company.
- **Business Contracts and Obligations:** In order to smoothly transfer management responsibilities, the management team needs to be aware of what contracts the company is obligated under, how long the contracts are agreed upon and the consequences for getting out of a contract sooner than the initial agreement.

Infrastructure/Capital Investment

It can be important for your management team to start thinking early in your Exit Planning Process about the need for investing in current and future projects, as well as the cost/benefit analysis for each of the company's investments. It can also be important for the management team to conduct an initial analysis on how the company is going to fund the company's initial investments, and how the company is going to accomplish a favorable return on the investment.

General Business Duties

When you look at the general category for skills or responsibilities that you might transfer from one generation to the next, it can be beneficial to first look at the implementation of the business plan. The management team should take over the development and management of the business plan, whether it is a detailed written plan or a more casual plan with specific bullet points. Either way, the management team should take responsibility of this important plan before the owner exits so management can have a clear picture of where the company is going in the future.

The management team also needs to be familiar with the company's core competencies and the members of management need to be on the same page in terms of promoting the core competencies of the business so that the company doesn't get distracted and veer off its chosen path. This involvement with the company's core competencies will help to ensure that the management team can continue to build the business on the successful experience that the owner has already created over time.

Additionally, the management team should begin freeing up some more of your time prior to your exit by taking over the following general business responsibilities.

- Community Involvement
- Company "Fun" Policy
- Regulatory Compliance
- General Operations (Determining Accounting Software, Shipping and Receiving Procedures, etc.)

As we have discussed in this article and in the last few **Exit Planning Navigator®** articles, transferring management responsibility is an important issue for owners to address when they are thinking about leaving their businesses. If you are dealing with any of the issues addressed in this series of articles and/or have questions about transferring management responsibilities prior to your business exit, please contact Kevin Short, Managing Director (kshort@claytoncapitalpartners.com).