



Value Driver 1: A Stable & Motivated Management Team

Many business owners find that transferring management responsibility is an important issue to address when they are thinking about finding more free time and eventually leaving their business. Others, however, overlook this important element because they get too wrapped up working in their business rather than working on their business. Many owners have people in mind to transfer management responsibility to, but they may not have a good idea of exactly how to accomplish their desired management transition goals.

The Importance of a Management Responsibility Transfer Plan

Let's consider Paul Ferrell, the hypothetical owner of a successful manufacturing company, to illustrate the importance of a Management Responsibility Transfer Plan.



Paul 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 begin transferring responsibilities. Paul 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. As an owner not used to sharing ownership-type decisions, he was not sure how to involve his management team in the process.

If you've found yourself in a similar situation, you may be wondering what the next steps should be taken to properly transition management responsibilities while still meeting your overall business objectives.

It's important to first work with a qualified advisor to help you create an organized and actionable plan. When Paul met with his advisor, he realized quickly the many reasons for designing a management responsibility transition plan in advance:

1. **Promote a Successful Exit.** A strong management team is the 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.

2. **Achieve Maximum Value.** 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. Because when owners begin 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. It is important to consider the "who is doing what" in your company. It is also important to create a strategy 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.
3. **Improve Stability.** 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.
4. **Reduce Stress and Free Up Time.** A pre-established plan may help reduce the stress level and time commitment 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 rest 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.
5. **Support Forward Movement.** 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.

Creating a management responsibility transition plan is an integral component to the eventual successful exit from your business. It is important to not only establish strong business value, but it also can be an integral factor to the continuity of your business.

In the next newsletter, 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 increasing the value of your business prior to your exit, please contact us. We can help you identify and strengthen the current Value Drivers in your business, install additional Value Drivers, and create a road map to meet your overall exit objectives.

For more information and guidance on increasing the value of your business, contact us.