

## The Importance of Shifting Core Duties Prior to Your Exit

To illustrate the importance of shifting core duties prior to your exit, let's introduce Will Tryon, our hypothetical business owner of a thriving pre-cast manufacturing company. When Will began thinking about who he should transfer management responsibilities to and which responsibilities should be transferred first, he quickly became overwhelmed because the degree of responsibilities he held as the company's owner were complex and ingrained in his everyday routine.

To help Will simplify this sometimes complicated process, Will's Exit Planning Advisor helped him identify the top five areas that he needed to focus on to design his management responsibility transition plan. These areas included human resources, sales and marketing, financial, infrastructure/capital investment, and general business duties. The remainder of this article will discuss the critical issues associated with human resources, as well as sales and marketing that need to be addressed in a management transition plan.

As we 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.

### Human Resources

Similar to the majority of business owners today, Human Resources was the number one area that Will wanted to transfer responsibilities to his management team early on in the process. When you get to the point where you can see the light at the end of the tunnel and your business exit is nearing completion, you may find yourself in a similar situation as Will – tired of dealing with the sometimes tedious, difficult and time consuming processes within the human resource realm of the business. The areas within human resources that you may want to consider transitioning responsibility include:



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- Compensation Analysis: Should you be paying a staff person \$24,000.00 a year, \$36,000.00 a year? How do we decide? How do they fit into the overall organization? The management team should begin paying attention to these questions and making some of these decisions.
- Allocation of Duties: The management team should be involved with assigning employees in the company to the appropriate duties.
- Employee Morale: When people are upset, they're unhappy and may become dissatisfied with your job. Whose responsibility is it to address that and to try and turn it around? The management team should start dealing with these issues early in the Exit Planning Process.
- Employment Law Compliance Issues: You will want to start training your management team on what it needs to do in terms of hiring practices, firing practices, promotions and demotions, employee reprimands and things of that nature. You can get your business attorney to participate in this area, but you need to figure out who's going to be responsible for it and make sure that they have the information and the training that they need to carry out the duties associated with employment law compliance.
- Internal Policies and Practices: Are employees going to be required to come into the office at 7 a.m. or 8 a.m.? Should they work 37 hours a week or 40? Should you have a policy of telling everyone that the company has the right to read their e-mails so beware or should you have a policy built on trusting your employees? These kinds of issues and how management relates to the employees in the business should all be tasks and duties that get switched over to the management team so that you can relinquish your responsibilities in this area early in the Exit Planning Process. It also is helpful for the management team to take over these duties ahead of time so it has the experience and the skills it needs to continue running the company after your exit.

## Sales and Marketing

In order to ensure the longevity of your company, the management team should be looking at ways and areas in which it can promote the business and its reputation within the community and specifically in your industry. To do this successfully, the members of the management team need to be aware of what the company's reputation is and how they can appropriately represent the company's personality when they are in the field communicating with prospects and the marketplace in general. The questions that should be brought up to address a company's sales and marketing strategies should include:

- What are the current and future target markets that we want to participate in?
- Who is our ideal customer?
- Should we be focusing on expanding our services or products to our existing customers or should we focus our efforts on generating completely new business?
- How do the sales and marketing initiatives fit into the overall short-term and long-term plan for the company?

You also will want your management team to be familiar with the sales objectives of the company.

- What sales goals should the company be expected to accomplish on a monthly, quarterly or yearly basis?
- What are the benefits to achieving the sales objectives and the consequences for not achieving them?
- What does the competitive environment look like?
- Who is the competition, what are they doing and how is your company better than the direct competition?

As you can see, the sales, marketing and human resources duties of the company are key responsibilities that you should consider transitioning to your management team early in the Exit Planning Process. This will help to free up some of your time as a business owner and allow you to focus on life after you exit your business.

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 in 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 also will 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 for 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.
- **Increasing or Reducing Debt:** The level of debt that a company is comfortable carrying are financial decisions 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 also can 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, 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 these issues and/or have questions about transferring management responsibilities prior to your business exit, please contact us to discuss your particular situation. We can help you create a management responsibility grid that systematically lists the management responsibilities that you currently perform and action items for successfully transferring those duties to your management team.

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