

## Transferring Management Responsibilities: Part 2

### Value Driver 1: A Stable & Motivated Management Team

Transferring management responsibility is an important part of having a stable and motivated management team in place. In this two-part article, we'll begin exploring considerations for some specific areas of management that should be included in your management transfer plan.

### Transferring Management Responsibilities: Part 2

We return to the story of Paul Ferrell, a hypothetical business owner of a thriving pre-cast manufacturing company. As Paul's interest in slowing down and stepping away from the day-to-day tasks of running his business increased, he realized that he needed to transition even more of his responsibilities, such as financial decisions, infrastructure/capital investment decisions and general business duties, to his management team.



Creating a time-based plan that determines who will take over which tasks within a set timetable is critical. Because 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

Owners should consider involving the management

team in the following financial decisions before transferring ownership:

- *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 any budget-related responsibilities, you may want to delegate 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 mismanaging their budget.
- *Cash Flow Management:* As many know, cash is king. So, it's important for your management team to have experience managing the company's cash flow prior to your business departure.
- *Invoicing and Collections:* Have someone else 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 and collects as it does.
- *Increasing or Reducing Debt:* The management team should be involved in decisions regarding the level of debt the company is comfortable carrying.
- *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 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 considering responsibilities 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 responsibility of the development and management 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 members must be on the

same page regarding promotion of the company's core competencies so that the company doesn't get distracted and veer off its chosen path. This involvement with the company's core competencies will help ensure that the management team can continue to build the business on the successful experience that the owner has created over time.

Additionally, the management team should start freeing up 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.)

Transferring management responsibility is an important issue for owners to address when they want to free up some of their own time or are thinking about eventually leaving their businesses.

For more information or to learn how L. Harris Partners can help you grow your business:



Phone 952.944.3303  
[tom.siders@lharrispartners.com](mailto:tom.siders@lharrispartners.com)  
[www.lharrispartners.com](http://www.lharrispartners.com)