

What Would Happen to Your Business if You Weren't There?

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Business owners - when we finally emerge from the coronavirus pandemic, how would you like to take a nice, long vacation? I'm not talking about a week at your favorite spot on the beach or in the mountains. I mean a month, three months or more. Can't imagine being away from your business that long? It's ok, most owners can't. You may have poured most of your working life into your business, and you may have made significant monetary and other sacrifices to build it to where it is today. How can you risk all that by stepping away from it, even for a few months?

You may not be thinking of exiting your business any time soon. But do consider that you will exit someday. If you want to make sure you do so on your own timeline, and for the amount of money you want, spend some time thinking about “Institutionalization of your Management Team”.

An institutionalized management team is the “M” in the I.M.G.O.O.D.[™] checklist –which outlines these key value drivers:

I – Increase and manage cash flow

M – Institutionalized Management Team

G – Documented Growth Strategy

O – Optimized Financial Statements

O – Operations and Process Documentation

D – Diversified Customer Base

From a strategic perspective, institutionalizing your management team simply means that you have the right people in place so that your business could continue uninterrupted if you are not there for a time. As the owner, and maybe the founder of your business, you have unique skills, knowledge and relationships. You want to begin to transfer those assets to the proper management team, years before you consider an exit.

Consider the most common kind of exit – a sale to an outside third party. Even though you might think you will want to stay on in the business for a period of time after you sell, most owners find this very difficult to do. Who wants to report to someone else, after being your own boss? Also, emotionally it can be difficult to disengage in the way that is necessary when someone else is in charge.

Knowing that your stepping away will likely come faster than you think, the buyer will want to know you have institutionalized management in place before the transaction. If not, you can face at least one major challenge...

Valuation – the buyer will not pay the same multiple of your earnings if they are unsure about who will continue the operations day-to-day after the transaction. A major component of pricing a business for sale is simply the discounted value of all the future cash flows. To the extent there is lack of certainty about those cash flows, valuation is reduced.

Here are some key steps to follow to institutionalize your team:

- 1. Assess your people.** You probably have a great team in place, maybe including loyal employees who have been with you for years. But think about your current employees in the context of your future needs (i.e. when you are gone). It may be that you need to provide additional training to existing staff, for instance moving a controller up to a CFO position. Or it maybe that the controller has maximized their personal potential, and you need to hire a CFO to oversee the financial part of the team. Make sure you have the “right people in the right seat on the bus”. If not, begin making those adjustments now.

- 2. Spend some time clarifying the Roles and Responsibilities of everyone in the organization, starting with you.** Start by listing everything you do on a recurring basis in the company. This can be a tedious process, but if you have never done it before, it can be enlightening. You already know you are busy – but you may be shocked at how many activities you are doing that can be delegated to someone else. As you begin to do that, you will add Roles and

Responsibilities to the lists of others. Over time, those responsibilities are transferred, along with their accountability. Eventually, - 'ownership' of those responsibilities can be transferred too – that's a successful exit.

3. From a tactical standpoint, here's a practical tip for our current 'quarantine' situation: Spend a lot of time with your leadership team, even if that means 'virtually' for now – on the phone, text, email or using one of the many video conferencing platforms. Focus on really connecting with them – not just from an operational standpoint, but at a really personal level. Do you know about their family and their current circumstances? Has someone in their family been impacted by the coronavirus, either directly or indirectly from loss of income or the job of a spouse?

If team members are working remotely, discuss with them the importance of setting boundaries; it is important and healthy to have a separation between work and personal time. Showing empathy and really making sure they know you care about them personally is a great way to deepen relationships and strengthen your team.

Your team is likely looking for and craving leadership and structure to help them balance their personal and work life in an unstructured environment. Be sure to clearly communicate and reinforce their responsibilities and how they may have changed during the current health crisis. Further, ensure they understand and are fully empowered to make decisions and execute initiatives to fulfill their responsibilities. Finally, reinforce expectations and accountability. The more structure you can provide as a leader, the more efficient, productive and engaged your leadership team will be.

Having an institutionalized team in place before you consider any kind of exit strategy can help ensure you are able to focus on the things that matter to you most when you do exit. In the meantime, it can also be a critical component of your business continuity plan, should something unexpected happen. The current environment is an excellent time to spend more time with your team, even while we may be physically further apart.

The Brightworth Business Exit & Transition Services Team (BETS) is standing by to assist you with navigating through the COVID-19 health crisis, achieving your exit objectives, and maintaining your exit and transition timeline.

Have more questions about strengthening your team during challenging times? Click here [1].

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