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HOW TO COMMUNICATE YOUR 'EXIT PLAN' TO YOUR MANAGEMENT TEAM

It is sometimes difficult to know how much information to share with your management team. From "playing it close to the vest" to "open book" management, different companies have different cultural approaches to these issues. In addition to deciding how much information you want to share with your key people, you also need to decide when to share certain information. When it comes time for an owner to discuss their exit plans, many do not want to involve their key people in these conversations. Most owners will think that this is a highly confidential conversation and they only want to involve their key people when it is necessary to do so. Moreover, the concerns that many owners have about their employees and managers is that they will see the owner's exit as the end of their career and will begin looking for employment elsewhere.

This newsletter is written to give owners who are considering a future exit some thoughts as to how to handle these delicate conversations with your management team. We begin with the idea that the Company goals can, and perhaps should, transcend your personal goals.

Putting the Company First

Most owners do, in fact, put their companies first and make great sacrifices over the years to keep the Company successful. However, owners are well served in realizing that they will not live forever – and this is no secret to your key people. Your managers who are looking for job security will eventually ask about the long-term plans both for you and for the Company. Think about it – these managers are smart enough for you to trust to help you run your company but you may not give them enough credit to contemplate what happens to your company, and their careers, once you are no longer running the business. Your employees will most likely appreciate knowing what the future holds for the company - with or without you - so that they can align their future plans with a Company that has a succession plan mapped out.

The 'Future Investor' Conversation

Countless owners wonder how to handle the 'exit planning conversation' with their key people. One favorable way to introduce the idea of an exit to your managers is through the language of a 'growth capital' or a 'future investor'. This conversation simply lets the managers know that, as the owner, you are constantly seeking ways to grow and improve the company. And, at this juncture, it may make sense to begin talking to 'future' (outside) investors who have experience in growing companies to the next level. By keeping the idea broad, and not focusing solely on your departure from the business, managers can start to think about the future of the company on its own and not so closely tied to you as the owner. Plus, the idea of a 'future investor' also speaks to the growth of the business and, ideally, to the fulfillment of a strategic plan that the key people are a part of designing and executing.

By handling the conversation this way, managers can see into the future and feel comfortable that there will be growth for the business and that another party will be interested in helping them compete and succeed in the marketplace leading to a more satisfying career for that employee. This keeps the managers focused on the future and paints an indirect picture of the business without you, the owner. In reality, this is all that is really happening with an exit transaction, particularly to an outside / industry / private equity buyer. In the end, a buyer / investor in your business is purchasing the future value and potential of the company – and that is good for everyone.

So, by positioning the conversation with your managers in this regard, you remove the personal aspects of the exit planning and communicate the future growth and potential of the company to your managers.

The Range of Emotions that Managers May Experience

Now some of this advice is a lot easier

said than done. Some owners will continue to be concerned that managers will see the owner as greedy, selfish and only looking to 'line their own pockets' off the sweat of the collective hard-work of the team over the years. These owners focus on their 'cashing out' of the business being perceived as a selfish act, perhaps even viewing an exit as leaving the team on their own while the owner rides off into the sunset with a large payday.

It is important to note that an owner's fear that this may happen often is not grounded in reality. Remember, you've worked hard, pursued a vision and took risk to build your business. Hopefully, you've made good choices when it comes to your management team. Managers who have good business sense, which we'll assume yours do, should understand that exiting a successful business is typically the common goal and something that should be expected of a business owner. As long as you can find a balance between personally reaping the rewards of the sale while still protecting the future of your employees and the company itself – then typically your managers and employees will be supportive. They will also benefit from the new ownership, certainly more than if you made no plans and allowed the business to fail. In fact, key people may welcome and celebrate the change, inspiring them to drive the success of the business higher.

If you do not communicate in a pro-active way, then you are relegated to the option of not communicating any of your exit plans to your management team. This is arguably fraught with more hazards than pro-active communications.

The Consequences of not Communicating Your Plans

Let's look at some of the possible results of a lack of communication on this important issue. By making all the major decisions on the transfer of the business without input from your management team, you are potentially sending them the message that they aren't part of the future of the business. This may be the perception of the management team because they will think that if they were a vital part of the future of the company they would have been consulted on this transformative decision. That can be a very large hole to dig yourself out of.

In addition, while you try to keep the sale of your business a secret from your employees, as well as your entire management team, you'll be taking on a huge responsibility – managing the sale of the business on your own

can be overwhelming. And, eventually, your future owner will want to meet the managers and interview them prior to a sale transaction completing.
Worse yet, your key people may stand in your way of a successful exit by deciding, when the transaction is far enough along, that they are going to ‘strike’ on the deal unless they are also well compensated.

Overall, solid communication has a pretty reliable track record with better understanding and a more amicable transition as a process moves along.

Concluding Thoughts

The communication about your exit to your employees and your management team will have to take place at some point - it’s unavoidable. By strategically planning how you will position your future exit plans and who you will involve and at what point in the transaction, the process most likely will go much smoother for you, your management team and your employees. Remember that people and businesses go through cycles and, once educated on these issues, it is typically not beyond a manager’s ability to understand this and to be supportive of your decisions, making for a more successful exit for you and your business.

If you have questions or would like to explore these ideas further, we'd be happy to connect. Reach out to Ed at ed@egwealth.com

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