



Strategies for Reducing Risk and Improving Outcomes

As a business owner, you make decisions constantly that you believe will reduce your risk and/or improve your business outcomes. There are countless ways to do this. In this article, we'll present ways to leverage your internal strengths to reduce risk and improve business outcomes. We'll also show you how these strategies can affect your longer-term, post-business planning.

An effective strategy for reducing risk and improving outcomes is having a management team that can run the business in your stead. There are numerous benefits of having such a management team. First, it reduces your company's reliance on you. This can give you more time to focus on the biggest goals you have for yourself, your family, and your business.

Second, it can act as a source of new ideas to improve the business in general. This is especially true if your management team has a diversity of experience. Different experiences can lead to different, sometimes unconsidered, strategies to improve business outcomes.

Third, it often increases the value of your business. Whether you hope to sell to a third party or an insider, or even work until you die, having people other than yourself who can keep the business humming makes it more attractive to potential buyers.

Having a strong management team also ties into your long-term, post-business planning. If you hope to eventually sell your business to insiders, the management team may end up being a qualified buyer, or they may be critical to supporting your children as they take over leadership. This can give you a head-start on bolstering future performance for a strong and healthy company, leading to a more successful transfer.

For example, incentive plans for your management team give them more responsibility, which lets you determine whether they're fitting successors or high-level executives. Incentive plans also motivate the team to continuously improve the business because any rewards are contingent on achieving goals that contribute to your future success. This can allow you to wind down your responsibilities without giving up control while increasing your income, reducing your risk, and improving your outcomes.

To take it one step further, a common misinterpretation is that owners must transfer all of their ownership to insiders at once. This isn't necessarily true. There are many ways to transfer portions of ownership over time, which are often tied to good incentive planning. This can keep you in control while you delegate more responsibilities to other people. It also gives you an out if

your management team proves incapable of meeting or exceeding expectations, which protects you against risk.

If you intend to sell to a third party or work until you die, you can set up different kinds of incentive plans to make your desired path and tenure easier. You might consider a “Stay Bonus” structure in your incentive plan. It rewards managers who stay with the business through and after you transition out of it. This reduces the risk that important players will abandon ship and negatively affect your company’s value.

How can you know whether you have a management team that can reduce risks and improve outcomes? A good indicator is how the business operates in your absence. If you’ve ever taken extended time off only to find yourself addressing business issues on your time off, it’s likely you don’t have a strong management team (the same applies if you feel like you *can’t* ever take extended time off). If you aren’t confident that your management team can run the business well without you, you may want to consider finding managers that can.

To reduce risk and improve outcomes, you’ll likely need to look outside of yourself. But this can be extremely beneficial to yourself, your family, and your business. However, leveraging your internal strengths (or finding strong external managers to join your company) can take time. This means that it’s likely in your best interest to start this planning now, before you absolutely need it, rather than when you need it.

If you’d like help in working through the ways you might reduce risk and improve outcomes in your business, please contact us today.

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