



# Small Business Transitions: Semi Retirement for Entrepreneurs

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## Finding Life and Work Balance as a Small Business Owner

A founder-owner—let’s call her Jan—is in her late 50s or early 60s. Jan has been successfully running her business for the last 20-plus years, and while she is not ready to retire or sell the business, she would like to enter semi retirement in order to take a step back, travel and spend more time with her grandkids. Jan’s company has 25 employees, three of whom have obtained the title of “manager.” None of them, though, is currently capable of running the company without Jan. What is she to do?

Whenever we encounter a situation like Jan’s, the first question we ask is “What are you trying to accomplish?”, followed by “How do you envision arriving at that result?” If the answers are unclear, then the first step in the process is to help the founder define both the result they are seeking and the [process to get there](#).

## Considerations in Small Business Transitions

It’s important to note that Jan wanting to take a step back is different than Jan seeking an immediate exit. If she were seeking an exit, the questions would center around the ability to sell the business, how that process would occur, to whom the business might be sold and others. Given our hypothetical, those types of issues may be relevant in the near future and might help guide how the business should seek to operate over the next few years. However, they are not immediately relevant to the issue at hand: how can Jan continue to own and operate the business, but succeed in her desire for more travel and family time?

## What Makes a Small Business Owner Indispensable?

The first step in the process requires an analysis of what makes Jan indispensable to the business. It may be a number of things, including:

- Jan has unique technical abilities.
- She is the primary point of customer contact.
- She is a good, committed leader or motivator.
- She possesses the drive that holds the staff together.

Whatever the reason, once the issues are identified, the next step is to formulate a solution to reduce or eliminate the cause of her indispensability.

If the issue is technical skills, then internal training or education might solve the issue. Or, it might mean hiring someone outside of the business with the necessary skill set. If the issue is operational in nature, then a change in process might be needed (e.g., introducing clients to one of the managers and letting the client know that the manager works hand in hand with them on their account).

If it's structural/internal in nature, then making changes within the organization (e.g. promoting an existing manager to a general manager position) might be required. Finally, it may simply be that the founder is unwilling to let go, and that they fear not being around to supervise operations. Regardless of the basis for the indispensable nature of the founder (or the feeling of indispensability), until that issue is resolved, the semi retirement will not occur.

As an aside, the scenario we've discussed has other relevant implications. For example, take the proverbial plane crash or something more practical like the COVID-19 crisis. If the founder is so essential to the business that it would not survive without their involvement, whether on a short-term or permanent basis, the business structure and processes should be reconsidered, and not just for the livelihood of the founder's family. The business owner should ensure that the business may continue for the benefit of the company's employees (and their families), as well as the customers the business is serving.

On a more practical level, it is imperative that the company governance structure allows for contingencies that can quickly put new management in place to be able to sign contracts, issue checks or take other actions for the company without the necessity of a court order. While vendors may be sympathetic to a death or serious illness, they are not going to want to wait 120 days to get paid while the courts sort things out. Company structures with redundancies and/or contingencies are best able to continue operations regardless of the situation.

## **Semi Retirement and Retaining Star Employees**

Regardless of the motivation for changes, a major issue is how to [retain top employees](#) who may, in the future, become more important to the business. Often, when the founder takes a step back, there are more responsibilities for others. The failure to properly compensate those individuals will—at best—lead to resentment, and at worst, lead to their departures. Should that happen, the founder will have to reverse course on their newfound freedom. While a detailed discussion around compensation structures is beyond the scope of this article, suffice it to say the compensation could include the following:

- An increase in salary and/or benefits
- The implementation of a bonus or performance plan
- [Equity or quasi-equity in the company](#)
- Added freedom, control, authority or respect

In any case, communication with—and input from those who will be affected by your semi retirement—is imperative.

This article does not mean to imply that it is easy to diagnose what makes the founder so imperative, or what processes and structures may be put in place to properly address them. However, with the right analysis and planning, Jan should be able to take that Disney cruise with the grandkids and use her iPhone to take pictures with Mickey, rather than responding to routine emails to ensure business continues.

## About Jeremy Waitzman

Jeremy chairs the Corporate Group at the Sugar Law Firm (Sugar Felsenthal), a national boutique serving the affluent and the companies they own or otherwise control. He advises his clients on significant transactions and operational issues in their businesses. Described by clients as "an essential business advisor" and "a partner in the success of my business," Jeremy has substantial experience representing businesses of all types and sizes from inception, guiding them through significant growth, and often through ownership's exit. His clients include privately-held middle market and emerging growth companies, family offices/funds, investors, C-level executives, boards of directors, family-owned businesses and entrepreneurs. Jeremy counsels clients in the areas of corporate law, mergers & acquisitions, private placements, and general contract law. He represents individuals, closely held businesses, start-up companies and serves as outside counsel to several large corporations. His work with companies often includes strategies for the creation of enterprise value.

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