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Certified Public Accountants and Consultants

Business Owner's Perspectives

SUMMER 2019

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Be Smart About Exit Planning

There's an old business adage that says the day you start your company is the day you should begin planning to leave it. While that might be unrealistic, the sentiment is sound.

The more time you give yourself to plan your exit, the more likely it is that you will exit smoothly.

Determine what you want. Some business owners feel strongly about keeping the company in the family. Others simply want top dollar for the business they've worked so hard to build.

Take time to consider your long-term goals. What you ultimately want out of your business will determine how you will run it and how and when you should leave it.

For example, how much cash will you need for retirement? What is your estate plan? Do you have a succession plan? Are there ready buyers? Being realistic about the future may cause some discomfort, but it's required so you can exit your company on your terms.

Keep working on the business. Older owners tend to get complacent about the business. They might stop investing in research and development, avoid new technology, or ignore the latest industry trends simply because they are either set in their ways or they're weary after tending to the company for so many years.

This is a mistake. To maximize value in your business, you must keep it in top shape. The pool of buyers—not to mention the price you'll get—for a vibrant, progressive company is much more robust than for one that's behind the times.

Make yourself dispensable. You are likely proud of your company and its impact on the industry and community. It's understandable to have a fair amount of ego in your business success—after all, this company is your "baby," and you, your family, and colleagues have made it what it is today.

However, for your company to thrive, you must make yourself dispensable. The company must be able to survive without you at the helm, or you'll have little to sell or pass to the next generation.

Take steps to grow new leaders by creating a rigorous training program and sharing your customer relationships with the next generation of management. Be strategic about working your way out of a job.

Create a road map. Many owners joke about what they'll do during retirement—play golf, sit on the beach, or sail around the world. But this is a serious topic. What are you going to do?

Create a road map that lets you see what the future looks like. Insert dates by which you need to accomplish certain goals, like getting your golf game in shape or buying that sailboat.

Also, keep in mind that entrepreneurs generally get antsy with too much free time. Volunteering or even starting another company may be in your future!

Consult with your financial advisors now to discuss the big picture. Sound planning now will facilitate exciting choices ahead.

Make FAST Goals

For years, management experts have suggested setting goals that are specific, measurable, achievable, relevant, and timebound, or SMART. There's a new goal-setting technique getting attention—one that the MIT Sloan Management Review says "beats SMART." This new technique is called FAST, which stands for frequently discussed, ambitious, specific, and transparent.

What's Better About FAST

While SMART is good, FAST may be better. According to MIT, setting SMART goals can undermine the "alignment, coordination and agility that's needed for a company to execute its strategy." This is especially problematic when SMART goals are linked to earned incentives because it motivates employees to set relatively low goals so they can be more easily met.

Using FAST goal-setting techniques corrects some of these disadvantages and can help companies improve—and correct course—more quickly. Here's a look at the FAST way to set goals:

Frequent discussion: Many companies tie achieving goals to annual reviews, bonuses, and raises. Goals and progress toward them are examined maybe once or twice a year and are most often discussed only in the context of a performance review. The FAST technique suggests frequent discussion to review progress, allocate resources, prioritize initiatives, and provide feedback.

Keeping goals top of mind accomplishes several desirable outcomes. For example, talking about goals frequently—once a quarter, say—keeps employees focused on priorities and provides guidance for key decisions. It also allows for timely changes if things aren't going in the right direction.

Ambitious: In goal setting, the expression "you get what you pay for" is true. If you tie employees' financial incentives to goal attainment, it's likely that employees will meet those goals. Of course, it's also likely that those goals weren't very ambitious to start. It's human nature to "sandbag" by setting easily attainable goals, especially when they are tied to rewards.

By setting goals that are ambitious—challenging but achievable and realistic—you are more likely to seek creative, innovative solutions instead of using tried-and-true ways to get results.

Ambition and achievability must be balanced. At Google, which uses the FAST technique, employees are expected to achieve 60 to 70 percent of their goals, but not all of them. Google also separates goal attainment from compensation decisions, believing that intrinsic motivation is the key to achievement.

Specific: Studies in organizational psychology have shown that concrete metrics and milestones lead to success. Clear expectations, managed with frequent feedback, are also important.

Breaking goals into specific tasks and milestones helps as well, forcing strategic players on the team to think critically and encouraging the more tactically minded employees to align interim steps with greater goals. Specificity also makes it easier to adjust as you go. You can quickly determine what's working and what's not while keeping the big picture in mind.

Transparent: Perhaps the most interesting of the FAST elements, transparency means that all employees can see how others are performing relative to their goals. The idea is that peer pressure will motivate performance and underscore how individual performance supports company-wide goals.

While some assume that employees would not want to make their goals public, employees using FAST generally report that the upside of transparency—boosted performance, shared aims, and advice from others in similar circumstances—outweigh the downside.

What's the State of Your Buy-Sell Agreement?

When you launched your business, you had a lot on your mind. One was probably not a buy-sell agreement. However, if your company has more than one shareholder or partner, operating your business without a buy-sell agreement is risky. Despite good intentions and careful choices, bad things happen.

A partner or shareholder's illness or death, a shareholder dispute, bankruptcy, divorce, or addiction issue can shake the company. Even a planned retirement can throw a wrench into an otherwise smoothly running management scenario.

Cover the Bases

A buy-sell agreement, often incorporated into an operating agreement, dictates what will happen when a partner or shareholder leaves the company.

The agreement includes several legally binding provisions. For example, the agreement describes "triggering events," or the circumstances under which it will go into force.

It dictates who can buy a departing owner's shares, which may include third parties or be limited to other owners. It also dictates whether the corporation or partnership has a right of first refusal to the extent that transfers are allowable to third parties.

Having the agreement in place minimizes the possibility that shares can be sold or left to individuals or businesses that might create an undesirable or untenable partnership for the remaining shareholders.

The agreement also defines how the departing shareholder's interest will be valued, including valuation method, purchase funding, and payment terms.

The valuation clause typically includes one of three types of pricing mechanisms: fixed price, formula, and valuation analysis. Most financial advisors agree that a fixed price is unworkable because it's out of date as soon as it is created.

Formulas are more flexible and are designed to reflect current price based on inputs at the time of the triggering event. The challenge with this method is agreeing on the various inputs and nuances.

A valuation appears to be the "fairest" way, but like a formula, it involves inputs, the standard of value, discounts, valuation date, and appraiser. These issues must be discussed and agreed upon in advance.

Agree Now, Implement Later

Circumstances around a triggering event are typically emotional and involve one partner's interests. For this reason, it's important to decide on the buy-sell agreement early—when everyone is amicable and the business is running smoothly. An unemotional discussion is likely to result in a more reasonable arrangement.

A buy-sell agreement is a legal contract and is therefore drafted by an attorney. However, your CPA should be involved up front to help refine the valuation clause and review the document with your financial interests in mind. Buy-sell agreements also have tax implications, so your CPA can advise you on structuring the sale or buyout to minimize tax liabilities.

If you don't have a buy-sell agreement, now's the time to make one. If you already have a buy-sell agreement, be sure to review and update it annually.

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Your Mission Statement: What is Your Why?

Why are you in business? Why are you working so hard to make your enterprise successful? Why are you excited about the future of your company?

Answering these lofty questions is a must for business owners because articulating the "why" gives your work meaning. Finding the why also provides the basis for one of the most important tenets your company can develop— its mission statement.

Your mission statement gives you an opportunity to codify, institutionalize, and immortalize your purpose. It's a promise to yourself and your family, employees, and community. It allows you to differentiate your company, state your goals, and reflect your values in writing.

Creating a mission statement doesn't have to be a long, drawn-out process. In fact, the best mission statements are often the most straightforward.

Define

Use your mission statement to not only succinctly define what your company does, but also define your approach to business. Use authentic, concrete language and avoid jargon and buzzwords, which don't age well.

Inspire

Keep various audiences in mind—your customers, your employees, and your family. What does your company do for them? Your mission statement should reflect your culture and attitude toward the people you serve. It should demonstrate your values and ethical standards as well.

Believe

Though it might be only a few sentences long, your mission statement can serve as a guide for company decisions, such as hiring, expansion, or strategic investments. As you contemplate various alternatives, keep your mission in mind. It can add clarity to next steps.

Your mission statement should be a living document. While the essence of your company might not change over the years, your brand will certainly morph over time, and your mission statement should adapt with it.