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VIEWpoint

MANAGEMENT COMPENSATION RESOURCES

How to Grow Your Company Without Being There

> Contrary to what many owners think, it is possible to retire and still own and even grow your business.

A major fear of business owners approaching retirement is "what happens to my company when I leave?" For some, the prospect of selling their company means losing control of the legacy they built and jeopardizing the future of the employees who have been with them over the years. Beyond that, cutting all ties with the business they built can be painfully frustrating.

However, retiring or stepping back doesn't have to mean giving up control of the business.

"The truth is that transitioning out of day-to-day management doesn't mean you have to sell," said Mike Frommelt, principal of Keystone Search. "Sometimes simply stepping back is the best solution. And contrary to what many owners think, it is possible to retire and still own and even grow your business. But to do that, you have to put the right leadership team in place."

Succession planning engages and cultivates top employees to gradually take over responsibilities; or seeks outside talent to grow the business to sell — or to manage it until family members are ready to take over. Successful transition requires the development of a plan that is directly tied to what the owner wants the company to look like once they "step back" as well as what they want their legacy to be related to the company and other pursuits.

Frommelt's three-step process seeks to identify the key elements and underlying desires necessary for a successful transition: Assessment, Acting and Assimilation.

Assess – The first step is uncovering and assessing the owner's desires. How much do they want the business to grow? What is their time-table for stepping back? What kind of lifestyle do they want after they leave? What do they want the leadership team to look like, and how should job responsibilities be divided? What will the company culture be like? What values do they want to maintain? Who will drive strategy going forward? What is the legacy they want to be remembered for? And most importantly, how involved do they want to be after they retire?

"It isn't easy for any owner to step completely away from a company they've built," said Frommelt. "That's why it is critical that the owner is honest about how involved they want to be and shares clear expectations about their involvement going forward."

Act – Choosing the right President/CEO/General Manager is a complicated process. An owner needs to be patient and diligent looking for the right person. Not only does the successor need to share the same core values as the owner, they must also be a strategic thinker with a track record of implementation and action — as well as being able to fulfill an identified functional gap or strategically drive growth within the company.

According to Frommelt, the mistake most business owners make during the hiring process is thinking that hiring a successor is enough to replace themselves in the business.

"It is impossible to find someone just like you that can do it all," said Frommelt. "What you can do is put in a place a management team that can cover the various operational segments. Then you can focus on finding the next leader who can be the business strategist steering the ship rather than rowing it. And once found, you have to set them up to succeed by knowing exactly what succession looks like."

The majority of the time, succession doesn't mean buying the company; most often the right person doesn't want to buy the business - but rather just wants a piece of the upside.

"The type of individual who is right for this type of succession situation places value on 'making things happen' rather than 'owning something,'" says Frommelt. "They typically fall into one of two camps: a person who grew their expertise in a larger corporation and now wants the opportunity to lead; or a person who has led and now wants to finish

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The Smart Way to Take Advantage of a Market Full of Talent

As the Minnesota economy continues its slow recovery, business owners in some sectors are turning their focus from cost-cutting to adding personnel. They may be on to something.

With thousands of people out of work due to layoffs — as well as employed workers feeling secure enough to once again make lateral moves — small businesses have a rare opportunity to add valuable people who come with talent, experience and connections. In many cases, job seekers also come with realistic expectations, understanding that the hiring landscape has changed.

That doesn't mean it's going to be easy to find the people that are the right fit for your business. In fact, it might take some extra time and effort on your end to firm up your compensation philosophy and to sort through candidates to find the ones who are a solid investment for the future.

Hiring can be an uncertain proposition under any economic circumstances but right now, the opportunity is there for you to pick the cream of the cream of the crop. Here are four tips on how to make the most of this opportunity to grow:

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their career with an organization where they can make a larger impact. Either way, this person wants to share in what they make happen."

How an owner shares the upside depends on the situation. Real stock isn't recommended unless it is required by a transition plan or a sale transaction is on the horizon. For privately-held companies, phantom equity programs are commonly used. With phantom equity, participants can either share in future business growth only (like stock options) or share in current business value and future growth (like restricted stock). Business owners need to think carefully before granting real equity to key employees, since phantom equity plans can be very effective in driving key employee behavior and business results; while not requiring the issuance of actual stock.

For phantom equity programs to be effective, the company must be willing to create a formula for business value; be willing to share the formula, and communicate the ongoing values. Additionally, the company has to decide when values will be available for payment (upon sale, after length of time, at a specific age, etc.).

Assimilate – A structure needs to be put into place to ensure the success and growth after the offer of employment has been accepted. This includes outlining a compensation program, and developing an employee contract that outlines responsibilities and expected behaviors for the successor and the owner.

"When an owner stays involved in some fashion, there is the tendency for them to 'helicopter in' and make decisions about daily operations and indirectly undermine the successor," said Frommelt. "Cutting all ties with the business they built can be frustrating and virtually impossible for some, but by outlining the responsibilities for both parties, it avoids conflict and provides a specific role for the owner."

The specific role for the owner should include a significant one-year plus onboarding/transition period and coaching from the owner for the new leadership team. Additionally, the owner should form an objective board of directors or advisors representing a mixture of backgrounds to advise and guide the company. This kind of owner involvement is critical for a successful transition.

Stepping back doesn't have to mean losing control of your business and it doesn't mean having to sell either. Whether it's preparing family members for the next level of leadership, finding internal employees to take greater roles, or recruiting an outside leader to move things forward, succession planning around leadership is critical. The upside is if this is done well, you can start enjoying the fruits of your labor while continuing to build your net worth.

It's a Little Known Fact

With acknowledgments to Cliff Claven, that master of trivial knowledge from the sitcom *Cheers*, here is a little-known fact for your reading enjoyment:

> *Qualified and non-qualified retirement plan payments are taxable as income in the state you legally reside when the payment is received, as long as the payments are part of a series of substantially equal periodic payments for life, or over a period of at least 10 years.*

You might be thinking, "gee thanks Cliff – what the hell does that mean?!?" Well, let's assume that you currently live in a relatively high income-tax state (like Iowa, Minnesota, or Wisconsin). Next, imagine that you retire and change your legal residence to Florida, Texas, Nevada, South Dakota, or another no income tax state.

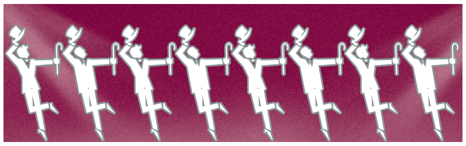
If you have qualified / non-qualified retirement benefits that are payable for life, or in installments over 10 or more years, **you may be able to permanently defer state income taxes** (that's right, never pay state income taxes!) **on those retirement plan benefits**. This is all governed by a Federal rule, the "Source Tax Law," and as long as you comply with the payment for life or 10 or more years provision, state law cannot override it.

Here in Minnesota, the "Land of 10,000 Lakes… and 11,000 Taxes" — the top marginal income tax bracket is now as high as 9.85% depending on your filing status, which could add up to thousands of dollars in tax savings on your retirement benefits! (This is where our lawyers want us to remind you to consult your personal tax advisor for specific guidance on this issue…)

(*That's right — never pay state income taxes!)

Now, who says newsletters don't provide any value?!? (Hopefully, not you! ☺) We wish you a happy, healthy, and prosperous new year in 2014. Please let us know if we can be of assistance to you in the areas of compensation and benefits for key management employees in your organization.

(*Smart Way*, continued from page 1)



1. Be forthright with job candidates. You can't take a chance on filling a position with someone who's not going to work out. It's up to you to be clear about expectations. Be forthright about responsibilities, your compensation philosophy, the potential career path and the culture of your business. In short, make the candidate absolutely aware of what he or she is getting into. Then look for red flags and trust your best instincts.

2. Look beyond the résumé. Résumés can be an accurate portrayal of a candidate's talent and experience, but you would be negligent to take them at face value. Whenever possible, verify that the candidate possesses the basic competencies required by seeing some actual job-related performance. Whether through a simple written exercise or demonstration, validate that the applicant can handle the core functions of the job.

3. Sell the opportunity. If you're pursuing someone who's coming from a major corporation or coming down in salary, you want to sell them on the opportunity at your company. Appeal to their sense of accomplishment and recognition by emphasizing how they can make a real difference at a smaller company. Talk about how they can get back to doing what they do best free from corporate bureaucracy.

4. Consider all of your options. Beyond hiring a full-time employee, you can hire a part-time employee, an independent contractor or a temporary worker. An employee on the payroll may be more committed to working for the benefit of your business. But he or she also comes with the responsibility for salary, employment taxes and insurance. Contractors or temps offer less risk and allow you to get a glimpse of someone's talent and execution. They may have a different level of commitment, though, and could be juggling other jobs. Take time to consider which hiring option could best meet your staffing needs.

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