

Future Safe?

There's plenty of planning to do before you can hand over the reins....

It's difficult enough running a business without at the same time thinking about retiring from it. The end plan for business owners will vary, do they want to groom family members or senior executives to take over the running of the business? Do they want to keep a stake in the business and perhaps draw consultancy fees? or is the key objective to build business up to a level where it attractive to either an outside party who will make a straight bid to acquire it or perhaps even in some cases achieve a sale by flotation onto either AIM or via a full listing.

Whilst these seem like incredibly diverse routes the reality is that there is much in common which has to be kept in mind when building a business, there are subjects which if they're not addressed can fatally damage the future for the business. These are matters which are commonly overlooked quite simply because successful business people tend to be very focused on growing their businesses rather than covering off eventualities which they regard as irrelevant or unlikely.

Most businesses prosper by benefiting from fully committed executives who are loyal, focused and dedicated. Family businesses tend to do well in this respect because of the very nature of the family involvement, yet loyalty to the founding proprietor may not transfer to the next generation and certainly may be called into question if there is a change of ownership to a third party. Yet, blindly, many businessmen rely upon the belief that previously loyal staff will remain committed and that is simply not borne out by the facts.

Before even contemplating a change in ownership or control, whether within the family or by way of sale, it is imperative that an objective review is carried out; who is really important to the business and how do they see their future within that business? It is simply not a matter of getting the level of remuneration right but rather ensuring that a longer view is taken, identifying ways in which key personnel can be encouraged to commit to stay with the business over a period of time. Indeed the whole value of the business can slide away if key personnel decide to leave either just before an unannounced sale or after the transaction or when a change of control occurs. The time to protect the position is not in the months running up to a sale or transfer but rather some years earlier, and least when that opportunity exists and before it evaporates.

Having identified those members of the team who are integral to the success of the business, those who have detailed knowledge of customers, suppliers, know how or expertise and generally just as to what make the business work well, the proprietor or the management team have to make sure that those key personnel are properly secured. Of course, in reality one cannot prevent anyone from changing jobs however what you can ensure is that even if someone changes jobs they don't take with them the key knowledge which is integral to the success of the business, what a business owner would usually regard as his trade secrets.

Quite simply ensuring that key personnel are on well

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drawn contracts of employment or service agreements go a long way to protect the business. Properly drawn non-compete covenants, confidentiality provisions and periods of notice are enforceable and yet in many cases are never there. The key is to capitalise on the relationship between employer and employee if not during the immediate honeymoon period then certainly whilst relationship is still positive and constructive.

Moreover senior management may well turn out to be the most suitable successors within the business, but only if they realise they cannot simply walk away and set up in competition.

Thought has to be given as to whether or not sharing equity or granting options to existing management will provide a useful stepping stone when the proprietor wishes to exit the business or whether it will then present a problem if an outside bidder were to make an approach. Carefully drawn contractual arrangements can ensure that proprietor retains total flexibility in this respect.

The key quite simply is to plan early.

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