

How will staff affect my succession plan?

Key Points

- key staff are integral to your business and to your succession
- your staff affect your business, your lifestyle and consequently your retirement
- an effective Staff Incentive Program will focus your staff on growing the value of your business, retain your staff and provides an excellent building block for your business succession

Useful Websites

www.bstar.com.au

Most business owners would agree that it is becoming increasingly difficult to attract and retain good staff. There is increased reporting on the skills shortage in various industries and there are no signs that this is going to change. So how important are key staff to your firm?

Many firms would suggest that a lack of suitably qualified, motivated staff is a major issue restricting the growth and security of their business.

This has several significant adverse implications. If not managed, it will adversely affect your business, your lifestyle and consequently your exit from the business. These implications include

1. Difficulty in attracting new staff
2. Retaining existing staff
3. An increase in labour costs
4. Less stability in the workforce
5. Increased stress for the business owner
6. Commercial opportunities are foregone (and end up with the businesses who are better at staff recruitment/retention)
7. Business owner spending more time on staff and less time on clients

Without good staff you are unable to grow your business and your business will remain owner reliant. Both of these issues will adversely affect the value of your business and hence the quality of your retirement lifestyle.

It is critical for every succession plan to include strategies for staff recruitment and retention. It is also vital that staff are committed to contributing to the objectives of the business.

Your succession plan must include strategies that address the following:

- the loss of key staff
- the inability to retain staff
- the inability to recruit staff and
- the absence of staff working towards the goals of the business

as each issue can reduce the value of your business.

Furthermore, if your business is reliant on you as the owner, it will restrict your succession options and adversely impact on your work load and lifestyle

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Effective Use of Staff

Effective Succession Planning addresses the above issues and provides suggested strategies to overcome them. Succession planning strategies for attracting and retaining key staff include:

1. Becoming an Employer of Choice
2. Introducing Staff Incentive Schemes
3. Choosing a Staged Exit

The first step in becoming an Employer of Choice is to differentiate your human resource management strategy. This applies to all stages of employment – recruitment, management and future ownership.

Recruitment

To ensure you recruit the right person for the long term, utilise personality, aptitude and psychometric testing as tools for predicting behaviour and matching skill sets with job requirements. Your employment and incentive agreements can include clearly defined position descriptions, personal development programs and training schedules. Provide new staff with a copy of your business' Life balance charter as evidence of your commitment to a balance between work and lifestyle. Be flexible in your work conditions.

Management

Create a team environment that encourages strong communication with your staff through regular meetings and social events. Involve staff in client management and discussions concerning the company's direction – make new staff a part of your business from day one.

In managing your staff, you need to stay in touch with their needs. Examples of this is to offer to contribute to the cost of child care for women returning to work after having a baby and the provision of coaching and mentoring to staff.

When a staff member leaves the business, find out why they are leaving by undertaking an exit interview, and take notice of what they have to say.

Encourage staff to grow your business by rewarding performance. One of the key points of differentiation that Generation Yers are looking for is remuneration based on performance. They are a generation of consumers wanting an instant lifestyle. This is why performance based rewards are important.

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Staff Incentive Schemes are becoming more common and are an integral component of your Human Resource (HR) strategy. Benefits include improved staff retention; a more focused workforce; incentives to grow profit and value; tighter control over employment costs and productivity levels and building a pool of committed future successors.

Future Ownership

If your business succession plan includes offering equity to key staff, you need to ensure that you are going into business with someone who has similar values, standards and ethics (ie whether 'alignment' exists between potential future co-owners and yourself). This does not necessarily mean similar skills. Your business can benefit from a combination of complementary skills sets (i.e. technical excellence with marketing flair). This situation is quite common when you have owners and future successors with age differences.

There are many benefits to you, as the owner, of a staged exit from your business. The benefits include having a strategic rather than a fully operational focus on the business; the realisation of capital in a tax effective manner over a period of time; and continued wealth creation from the growth in the future value of the business.

A staged exit can be a preferred succession option for owners not yet ready to retire, as control is retained whilst enjoying a more balanced lifestyle.

For future successors, there are two important concerns at the forefront of their minds. These concerns are:

- How do I fund my entry? and
- Is investing in this business the best wealth creation opportunity?

Your business succession plan can also include funding arrangements for future successors. Your plan must clearly document how much they can afford to borrow and how the debt will be repaid.

Many future successors may have limited personal equity and surplus income so you may need to share the future growth in value of your firm to improve their funding situation.

Summary

Clearly, staff play a major role in your succession.

Firstly they determine the value of your firm.

Secondly, they provide an excellent 'pool' from where your future successor may be sourced.

An effective Staff Incentive Program will focus your staff on growing the value of your firm, retain your staff and provides an excellent building block for your business succession.

For further information regarding the above topic please contact Ian Sweet or Duncan Miles on (03) 5221 6399.