



With more than 20 years of experience of advising foreign owner managed businesses PKGT is ideally placed to advise on succession planning....

..... and realisation of an exit strategy. We have developed a framework of potential issues which need to be addressed if the business is to survive the transition of management from the founder to successors, be they family members, employees or indeed outside managers. Cultural issues can play a significant role as the business moves from a “home jurisdiction” mentality to being more and more “Polish”. In particular the management style will need to change.

The list of issues outlined below is not exhaustive and not all issues will be relevant to a particular entity. At PKGT we can undertake a “hand holding” exercise starting with an assessment of the current position, identifying problem areas, looking at possible solutions and helping the client with implementation. As ever the role of the consultant is primarily to help the owner manager take an impassioned view of the business they have built up over a number of years and to share with the client experiences gained across a wide range of owner managed businesses.

In the course of an initial consultation our consultants will be able to identify those issues relevant to the individual client and will formulate a strategy for resolution.

The following list is not exhaustive and not all factors will be a problem to any individual business:

### **Succession**

Many if not most owner managers set up their business not with a view to building up a “nest egg” for retirement but as part of an evolving process moving from an idea to building a business. When questioned most owners have never addressed the issue of when they will retire and have certainly not have looked at how to realise the locked in value. In many case the business is the only asset of the individuals with no funds set aside outside of the business itself.

Working with the owner we can help outline the various options available, question motivation and develop an exit strategy irrespective of whether this involves handing on to family members, appointing employees to management, appointing outside professional managers or indeed a trade sale of the business.

In many cases the owner will be aware of options but never had the time to take a long term view. Each exit strategy will require different actions to be taken.

Foreign owner managers operating in Poland will often face the difficulty of not fully understanding the tax and commercial aspects of disposing of a Poland based business.

## **Remuneration and profit extraction**

Many owner managed businesses generate profits for the owners which do not fully compensate for the time and effort devoted to the business. In Poland we have noted time and time again that middle management and employees will assume that the owner is not entitled to a suitable level of remuneration and will happily let the owner reinvest spare cash flow in the business. Moving to succession we believe that it is vital that the owners draw remuneration commensurate with the skills and time and effort devoted to the business. If the business is not capable of generating the necessary profits then the implication must be that the owner would be better served by devoting time and effort elsewhere.

In particular it is imperative that the owner spreads risk by holding some of his wealth in assets other than the business which of course means that the business must generate positive cash flow over and above a minimum required to survive so as to allow for such investment.

## **Ownership**

In many cases the business will have been set up with more than one owner and the share holding may no longer reflect what the parties contribute to the business.

Many of the businesses set up by foreign investors will have been subsidiaries of already existing domestic companies with share holding divided amongst the families of the original investors. Such a split of share holding can make a trade sale difficult to achieve and will also hamper an equitable split of profits between working and non working owners.

In addition the foreign owned Polish business will most probably have been managed by a narrower group of individuals than the home jurisdiction leading to feelings of potential exploitation.

## **Family issues**

Many if not most owner managed businesses can be classified as family owned. Often for tax planning reasons non active family members will be paid remuneration which distorts business profitability and is not acceptable when non family members start taking an active role in management.

In most cases sooner rather than later family conflict arises due to the lack of differentiation between remuneration for work actually done and dividends. A move towards commercially based remuneration with non active family members entitled only to dividends and capital gains on disposal of shares will be necessary.

## **Outside management**

Increasingly children wish to pursue their own careers rather than taking over the family business. The issue then arises of either training existing staff into a management role or recruiting outside professionals.

With many owner managed businesses being run on a 24/7 basis non family directors and managers can very quickly find themselves excluded from both business discussions and the decision making process. Accordingly it is important that the management process is formalised and conducted in business hours involving the whole management team. Areas of competence and responsibility need to be defined and corporate governance implemented. In particular non business family expenditure needs to be met from salary and dividends and not directly from company cash.

### **Retirement**

The owners need to be aware that going forward the business may not be capable of both paying satisfactory remuneration to management and payment of a pension (however formulated) to former manager owners.

In most cases a separate pension fund comprising non business assets is advisable and indeed the sooner the owner managers start saving outside the business for their future the better.

Although in many cases a trade sale may be possible the ever increasing rate of change in the economy and reduction in the life cycle of businesses realisation of investment may prove impossible.

Added to which potential Polish investors often take the attitude that they are not prepared to pay to buy a future profits stream.

### **Marketing**

Very often the “pipe fill” of orders and client acquisition is reliant on the personal business connections of the owner managers. Moving to a professionally managed business will require the formalisation of sales and marketing activity. Clearly this may require a different approach in the case of exports and a different strategy if reliance is to be placed on the local market.

### **Knowledge of the competition**

In an ever more competitive business environment it is vital that a company has as much information about its competitors as possible. This includes knowledge of the products, cost base and ability to survive a downturn in the market place.

### **Strategic planning**

Often times the owner manager is too close to the business to be able to see the wider perspective. As the product/ service life cycle becomes shorter and shorter strategic medium term planning becomes a necessity. Owner managers need to “take time out” to consider the future and an outside mentor can help in the process not least by posing difficult questions.

### **Financing**

For many if not most owner managed businesses relative lack of access to external sources of finance is a significant factor inhibiting growth and innovation. Businesses will have typically

acquired assets which are now non performing, a lack of proven profitability where family expenses are passed through the business makes raising bank finance difficult whilst business angels willing to finance smaller entities are few and far between.

### **Management accounting and reporting**

Most owner managers have an in built ability to control a business on the basis of personal observation and informal reporting processes. As the business grows the need for formalised accounting and reporting systems becomes apparent particularly if proper systems of internal control are to be implemented.

With a wealth of software available the danger of creating “information overload” becomes an issue.

Issues such as the trade off between detailed and fully accurate information provided too late to influence decisions and providing less detailed and less accurate information on time become paramount.

### **Conflict resolution**

A trusted outside adviser can prove invaluable in identifying potential areas for conflict amongst business partners and help in resolving conflicts as they arise.

**As well as advising in the core areas of concern at PKGT we can provide support in the areas of legal, IT, asset optimisation, business plans, raising of finance, key staff recruitment, business process optimisation and others.**