



Business
Succession
Partners

The Importance of Succession

A PRACTICAL SOLUTION TO DEALING WITH
AGEING POPULATIONS

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BACKGROUND

How Succession Planning can help rebuild economic growth

Post the Financial Crisis of 2008 most stock markets have had a significant rally mainly we suspect due to the lack of better investment options and an almost incessant attempt by governments to print money devaluing their currencies. However hidden by a possible dead cat bounce there are lingering concerns over employment and sustaining the future growth needed to fund global economies and their ageing populations.

Financial news leads us to the general misconception that economies are dominated by large, multinational enterprises. Their multi-billion takeovers, global expansion plans and more recently risks of mega bankruptcies dominate the headlines.

Surprisingly to most, more than 99% of all businesses are in fact SMEs which provide two out of three of the private sector jobs and contribute to more than half of the total value-add created. For example in Europe during 2012 it is estimated that SMEs accounted for 67 per cent of total employment and 58 per cent of gross value added (GVA).

SMEs are the true back-bone of economies, being primarily responsible for wealth and economic growth, the majority of employment and perform a key role in innovation and R&D.

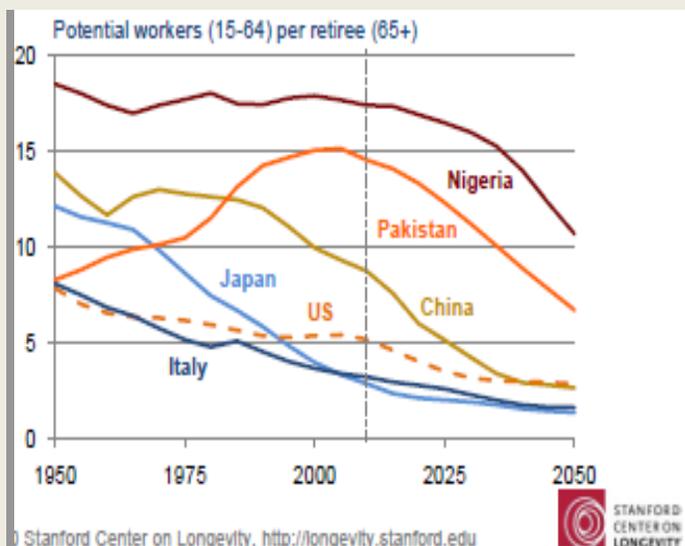
What is even more intriguing is that nine out of ten European SMEs are actually micro enterprises with less than 10 employees. Hence, the mainstays of Europe's economy are micro firms, each providing work for only a few employees.

Despite this, the majority of political attention has been on how to limit banker's incentives and increasing regulatory costs and bureaucracy for businesses. This inevitably will end in more failures of SMEs due to the paralyzing nature of increased administration and therefore limit overall growth needed to move countries out of a longer term depression.

Governments tend to focus on apprenticeship schemes for new graduates and promoting business start ups to solve employment issues. We argue that due to the lack of experience and costs of starting businesses it is less risky to concentrate on helping existing profitable small businesses to continue to grow through the hiring of more experienced workers from larger businesses. In turn larger businesses that can afford to train employees would have the capacity to take on more trainees.

However this article is not designed as a critic of government policy but rather to highlight a practical solution which should help to drive growth while improving oversight and governance not just in Europe but globally. It also aims to solve the pressing ageing demographic issue that occurred due to a combination of a baby booming generation followed by lower recent fertility rates.

Throughout this report we will aim to discuss how BSP provide a solution to hire and manage key personnel in a cost effective manner aligning all interests to the values, culture and objectives of the business. This plan ultimately allows ageing business owners to retain an income into their retirement while allowing sufficient oversight and comfort that their business is being managed by a safe pair of hands. BSP partner with companies taking a carried interest in their long term success..



Demographic of Shrinking Populations

Ageing populations are the result of lower birth rates and increasing life expectancy or often a mixture of both. The IMF predicts that by 2050 there will only be 4 people in the working population for every person over the age of 60yrs old. This is down 66% since 1950 and the lowest in history. This will have an effect on everything from economic growth, savings, debt, investment, consumption, labor markets, pensions, taxation, family composition, housing demand, migration trends, healthcare, voting patterns and political representation. Looking after the elderly is not just an obligation but a necessity for us all. How we leverage the values, traditions, culture, wisdom, leadership skills and work ethic while affording to pay for increasing healthcare costs and longer retirements will shape the future of our personal finances, companies, charitable donations and overall economies that we take for granted.

Ready or not

The Global Aging Preparedness Index assesses how well prepared 20 major countries are to maintain a decent living standard for future retirees without overburdening workers.

Fiscal Sustainability Index	Income Adequacy Index
This index ranks countries according to the projected burden of their old-age benefit systems.	This index ranks countries according to the projected living standard of the elderly.
1 India	1 Netherlands
2 Mexico	2 Brazil
3 Chile	3 United States
4 China	4 Germany
5 Russia	5 United Kingdom
6 Poland	6 Australia
7 Australia	7 Sweden
8 Japan	8 Chile
9 Canada	9 Spain
10 Sweden	10 India
11 United States	11 Canada
12 Korea	12 Japan
11 Switzerland	11 Poland
14 Germany	14 Switzerland
15 United Kingdom	15 Russia
16 Italy	16 France
17 France	17 Italy
18 Brazil	18 China
19 Netherlands	19 Korea
20 Spain	20 Mexico

Source: Jackson, Howe, and Nakashima (2010).

One of the agreed ways of solving the ageing population issue is to increase the age of retirement. Recently governments such as Singapore have been offering grants to companies to employ older workers. However it is up to private companies to reform to create the right environment to allow for ageing employees and some larger auto manufacturers are doing exactly that..

Those that can afford to should invest more into nurturing new talent within their business for a longer period of time. This should in turn translate to more stable companies that can grow sustainably within an environment where they benefit from the continued oversight of more experienced partners and owners.

Where family nepotism is concerned businesses can still allow for siblings to take over the business however processes and sufficient governance should be put in place to solve any potential conflicts of interest. Serious consideration should be given to whether this is the best course of action for the business, its employees and other shareholders. Most business break ups are emotionally driven rather than for strategic reasons.

Hiring isn't easy!

How to avoid common mistakes

Whether you have an internal HR department or you outsource it, many businesses underestimate the importance of hiring personnel or provide limited training for new recruits. It is no wonder that the longest and most well run companies have the best graduate training programs and this in turn helps to entice the best students. The problem is that most of us get caught up in the day to day task of earning money and we approach the problem of training too late if at all. Headhunters are incentivized like bankers, they are mainly transactional focused and take very little carry in the long term success of the client. Hopefully the recent economic downturn will force companies to adopt a more client centric business model. The solution is simple. Align the interests of the headhunter or HR person with that of company by adding a success element over a longer period of time. This also helps your service provider or employee to buy into the culture of the firm causing less turnover and therefore saving money.

Our proposed solution

It is impossible to create a single solution that covers all businesses and circumstances adequately however in our opinion the only way to ensure that plans have the best chance of success is to align interests accordingly.

*How do we do this? We use the **CIA***

Culture - The first thing is to revisit the corporate culture of the firm. If there is no opportunity for development or success internally this needs to be created. There are a number of ways to do this via incentives or creating partnerships. Number of year's service is extremely valuable and should be rewarded. Hiring internally should be first priority. Developing a strong corporate culture, goal and incentive program will aid in attracting talent from outside the firm.

Incentives - Hiring good people does not have to mean paying high salaries or hiring from well known institutions. In fact this often sets unrealistic expectations. Reward should be related to long term productivity. After all if they are not prepared to buy into the future of the company they are probably not the right person for the company.

Arbitration and alignment of interests – BSP's board of advisors act as an arbitration committee to manage conflicts as and when they appear. No relationship is perfect and there will be times when relationships are stressed. BSP's incentives are aligned so that it is in our interests to do what is best for the long term success of the business.

