

Private Company Owner Assessment

Evolution and Purpose of Owner Assessment

Owners of private companies face unique challenges. Customers, suppliers, employees, creditors and the government all must be satisfied for the company to succeed. At the same time, business owners must manage personal relationships and obligations – with family members, key employees and fellow investors. Continually changing competitive conditions compel owners constantly to plan for both the short and long term. Throughout this process, the company must generate profits that provide an adequate return on the owners' investment.

With such deep and broad challenges, owners often face issues or conflicts that can be quite difficult to resolve, but without resolution, the financial and personal peace of mind private company owners seek may not be attained. The following assessment identifies issues that require attention and that must be resolved for owners to achieve success.

Just as an MRI is the diagnostic tool doctors employ to identify hidden physical problems, shareholders' answers to these questions present a broad assessment of the business and the shareholders' status as its owners. Like the MRI, this assessment identifies hidden issues and gives direction and priority to find solutions.

While some owners seek help to resolve these issues, many don't want advice from outsiders on such complex and personal matters. When that is the case, this assessment can still be effective. It enables owners, after completing the assessment, to review their own answers to determine if they reveal consistent thinking and realistic goals. Aimed with this perspective, owners can then reevaluate their Company's circumstances and capabilities, and their ownership plans and goals. They can then identify any threats or gaps that exist, establish their key priorities and seek specific professional help when they recognize they need it.

In summary, this assessment provides owners with a comprehensive view of their unique private company investment, and their status as owners, with specific priorities and direction to enable them to make critical decisions to achieve business success and personal peace of mind.

I. Focus on the Future

Progressive private company owners assess their company’s circumstances and their ownership goals in their aim for future success. The key aspects of this assessment include management succession planning, ownership transition planning and strategic planning to build shareholder value in the long term.

A. Ownership Summary and Shareholder Rights

1. The following shareholders own a 5% or greater interest in the stock of the Company.

Stockholders with 5%+	Voting Shares	Non-voting Shares	Total Shares
1.			
2.			
3.			
4.			
5.			
TOTAL			

2. Do the Company’s by-laws, shareholders agreement or investor rights agreement place restrictions on the transfer of Company Stock? If so, how do these restrictions affect your ability to achieve your goals for this investment?

B. Company Performance and Value

1. Do you know the average annual cash that your company generates for its owners, after paying them market based salary and benefits, paying all other expenses and income taxes, and making any required investments for working capital and fixed assets? If so, how do you compute this and how is it reported to shareholders?
2. Do you know the major risks that threaten your Company’s value?
 - a. How do you identify and quantify these risks?
 - b. Based on these risks, do you know what rate of return should you be earning on your private company investment?
3. Do you know what your equity investment in your private Company is worth today?
 - a. Is this value based on the Company’s revenues, profits, cash flow, assets or something else?
 - b. How do you compute that value?
 - c. Do you annually compute and monitor this value and use it in developing your company’s strategic plan?
 - d. Does this value reflect the level of control and marketability of each owner’s equity in the Company?
 - e. Do you understand how to market your Company for investors or to sell it, wholly or partially?
 - f. Do you understand the existing investment and financing climate in your industry, and in the market generally, and the impact of such climate on valuation?

C. Assessment of Management Succession Planning

The Company's management succession planning can be summarized in the responses provided to the following questions.

1. List and briefly describe the **most important** skills your senior managers must have for your Company to grow and prosper.
2. List the key individuals on your senior management team and for each, briefly describe:
 - a. Major functions they perform in the Company
 - b. Major strengths they bring to their jobs
 - c. Major weaknesses that affect their work
3. Describe each manager's likely future role in the Company:
 - a. Stay in current position
 - b. Advancement to new position (describe)
 - c. Termination, retirement, voluntary resignation (describe why)
4. What age is each manager and how do you expect this to affect the company?
5. List any key management skills that the Company lacks and why that vacancy exists.
6. For each family member who works in the Company as a current or likely future member of your senior management team, please describe:
 - a. Primary strengths
 - b. Primary weaknesses
 - c. Major business and/or other accomplishments to date
 - d. Main criteria, if any, which will determine their advancement in the Company.
 - e. Their work ethic compared to yours (higher or lower)
 - f. Their interest in the business compared to yours (higher or lower)
 - g. Their tenure and plans for the future
7. Are all legal documents (shareholder agreements, employment agreements (including non-competition, non-solicitation, confidentiality and severance agreements), option agreements, executive compensation agreements, board authorizations, etc.) for succession planning in your Company accurate and up-to-date, and if not, why not? When did you last review these documents with your corporate counsel?
8. For succession planning, all organizations need to have identified future leaders, either family or non-family, who can successfully run the company to serve the owners, employees and the customers. Traditional succession planning occurs through a triggering event of retirement or death. Many private company owners now believe succession planning should be a function of financial affordability and personal preferences rather than traditional triggering events. If affordability were now possible through financing sources that permit the current owner(s) to receive cash in a buyout that also enables the next generation to run the Company sooner versus later, would you pursue this strategy if it were for everyone's benefit?
9. Do you understand the different ways in which the buyout described above might occur?
10. In the event of your death or illness, is your spouse or other beneficiary capable of managing your investment in your business? If not, who have you identified to manage this investment and is that person capable and available to do it?

D. Assessment of Ownership Transition Planning

The current and likely future ownership of your Company, and when such transfers will occur, can be summarized in your answers to these questions.

1. Do you believe you have sufficient wealth in the equity you own in your Company, plus retirement savings and non-retirement savings to adequately enjoy the quality of life you desire? What about for future generations?
2. Are all estate planning documents for your personal and business affairs accurate and up-to-date, and if not, why not? When did you last review these documents with your attorney?
3. Will your estate planning enable the ownership of your Company to go entirely to family and/or others and not to the government?
4. If you were able to look at your business from the outside and forecast three years from today, what would your forecast look like?
 - a. Business that is increasing its revenues and profits
 - b. Business that is maintaining its revenues and profits
 - c. Business that is losing its revenues and profits
5. Many private company owners diversify their wealth by splitting up or transferring some ownership of their company. The benefit of this technique is to take wealth out of the company, where it is illiquid, and reinvest that wealth to achieve improved liquidity, safety (through diversification) and return on investment. This strategy often requires another investor to become involved with the business. On a scale of 1 to 10, with 1 meaning it absolutely makes sense to me and should be done today, to 10 meaning it is not about return on investment, it is about my freedom to run my business and I would never share ownership and control, with an outside investor, where would you fall on this scale?
6. Regarding your ownership interest in your private Company, choose from the list that follows the description(s) that best portrays your current ownership transition plans.
 - a. I have made no plans and don't expect to for some time.
 - b. Selling, gifting or otherwise transferring my stock is not something I want to think about.
 - c. Keeping the business "in the family" is essential to me.
 - d. I expect to pass ownership to my children or other specific individuals (identify _____) through sale or gift, but I don't know when.
 - e. I want to gift stock, but do not want to give up control of the Company.
 - f. I am currently transferring stock as part of my estate plan.
 - g. I intend to sell in _____ years. The triggering event is _____.
 - h. I will sell as soon as economic or industry conditions improve.
 - i. I must sell by _____ because of _____.

E. Assessment of Strategic Planning

The Company's competitive position can be summarized in your responses to these questions.

1. How is your Company's competitive strategy – its strategic plan – established? How often do you review your competitive position and update this plan?
2. List the three most important strengths or advantages the company possesses over its competition, and for each, identify whether this advantage is increasing or decreasing.
3. List the three most important weaknesses or disadvantages the company possesses over its competition, and for each, identify whether this disadvantage is increasing or decreasing.
4. Do you see competitors affecting your Company's profits? If yes, who are the competitors, what are the threats, and how serious are those threats?
5. In what key functional area or areas in your organization do you believe you have a weakness or gap, and why does that gap exist?
6. If you did not own your Company, and if this decision were strictly financial and not personal, would you invest in your Company considering its current competitive position in your industry? If you would, and if this decision were strictly financial and not personal, how much would you be willing to pay to own 100% of the equity in the Company, considering its current competitive position and profitability?

II. Owners Goals and Emotional Competence

The following questions provide insight into the intellectual and emotional thought process owners and perhaps other key stakeholders employ to make decisions. These questions focus on how these individuals prioritize and manage important issues.

This assessment helps your private Company owner(s) in the following areas:

- Clarify critical issues that can confuse or complicate important decisions.
- Illustrate how you manage your decision process and identify areas of vulnerability.

A. Personal Financial Issues

These questions relate to your personal wealth and spending habits:

1. What is your Company's typical net profit after paying you and other family members a market level salary and benefits and paying the Company's income taxes?
2. What is the annual spending lifestyle to which you and your family are accustomed (net after tax cash that you annually spend)?
3. Do you have a sense of what your investment in your Company is worth today, net of any debt? If yes, how much?
4. What is the current value of your retirement assets?
5. Will your estate planning enable the distribution of your investment in your Company, at its current fair market value, to go entirely to family and/or others and not to the government?

6. For your investable assets, retirement and non-retirement, how do you decide what investments to buy and what investments to sell?

B. Owner(s) Goals and Decisions

1. What concerns you most about your business and why?
2. What issues have you tried to resolve that remain unresolved relative to:
 - a. Company direction
 - b. Company leaders
 - c. Company ownership
3. Consider your own role and responsibilities in the Company.
 - a. What concerns do you have regarding your spouse, children and grandchildren?
 - b. What concerns do you have regarding any other people related to the Company?
4. Reviewing Your Past: Most owners have a team of advisors – accountants, attorneys, bankers, and investment consultants – to help them to make key decisions. These advisors find, however, that they cannot complete some tasks because of the business owner’s delay or unwillingness to decide. As you look back over the last three years, what key decisions did you postpone and why?

a. Describe the unresolved issue _____ and circle appropriate reason why it was not resolved.

- 1) After analysis, it was not important.
- 2) After analysis, it was not as helpful as everyone thought.
- 3) After analysis, too many variables to decide, and best postponed.
- 4) Not enough information to come to a decision.
- 5) Not sure if the decision is the right one.
- 6) Too busy doing other things to spend enough time to analyze and come to a meaningful decision.
- 7) Other – describe

b. Describe the unresolved issue _____ and circle appropriate reason why it was not resolved.

- 1) After analysis, it was not important.
- 2) After analysis, it was not as helpful as everyone thought.
- 3) After analysis, too many variables to decide, and best left to postpone.
- 4) Not enough information to come to a decision.
- 5) Not sure if the decision is the right one.
- 6) Too busy doing other things to spend enough time to analyze and come to a meaningful decision.
- 7) Other – describe

5. Considering Your Future: As you look forward to the next three years, what significant decisions do you need to make about the Company and why?
6. When confronted with Company decisions, do you:
 - a. Analyze the facts and act appropriately
 - b. Go with your gut
 - c. Other – please describe
7. What family issues have been a source of concern in the recent past and probably will continue in the foreseeable future?
8. In this broad assessment of your private Company, what is the one predominant area on which you want to focus as your top priority for decisions? (The examples that follow illustrate such issues. Please review them before answering this question and check any items that reflect your circumstances.)
 - a. Is my business growing or shrinking, and do I really know why?
 - b. Do I have the people in place to enable my business to continue to run prosperously?
 - c. Am I trying to do too much in running my business because of the company's lack of talent beyond me?
 - d. In case of my death or disability, do I have in place adequately experienced and skilled people to run my business for my customers' benefit and, equally important, to protect the value of my business for my family's benefit?
 - e. Have I failed to complete legal or business contracts, such as a will, estate plan or shareholder agreement because I was unable to make decisions on questions asked?
 - f. What realistic exit strategies exist for my investment in my Company?
 - g. How can I find the right buyer for my Company and get the best price if I sell?
 - h. When should I sell my business?
 - i. Do I continue to run my Company and assume substantial risks of ownership because:
 - (1) This is what I enjoy doing most even if it results in a poor investment strategy, or;
 - (2) I really don't know what I would do with my life if I sold out, or;
 - (3) I cannot resolve succession issues that involve key family members or employees?
 - j. I have one or more key people who I think are sound managers. But, I really don't know if they would be capable of running my business if I wanted to slow down and transition ownership to them, and I don't know if they would want the responsibility of ownership.
 - k. My business and industry are changing, and I am very concerned about what my company's competitive position will be in three to five years.
 - l. I want to get the most out of my business, but I also want to minimize its value for estate and gift tax purposes. I worry how that contradiction might hurt me.
 - m. I want to expand my business by acquisitions, but I don't know if we are ready or if I could achieve a good return on my investment.

- n. I've been approached to sell my business, but I don't know if I should or if I should trust the buyers or accept their offer.
 - o. The grind of the business is getting to me, but I cannot identify any acceptable solutions to this dilemma.
 - p. I do not believe that any of my family members who are competent want to get into my business and I worry about its future in case of my death or disability.
 - q. I have family members in the business because I want to or have to, but I recognize their limitations and don't know how to deal with them in my succession planning.
 - r. In planning my family's future in my estate, I want to be fair to both my children who work in my Company and those who don't or can't.
 - s. In planning my Company's future, I know that certain family members are less capable or less driven than others, and I struggle with how to include them in the Company but limit their authority.
 - t. This Company is my family's legacy, and I am honor-bound to continue that legacy.
 - u. I don't have time to think through a lot of long-term issues because I am so busy just doing what I need to do day-to-day.
9. Describe why you are currently running your Company – for the money, challenge, family responsibility, etc.
 10. If you did not run your Company, how would you like to spend your time, whether in a business or non-business way?
 11. Are your financial and personal goals for your Company the same as the goals of other shareholders? If not, are differences resolved, and if so, how?
 12. Do you have the current professional assistance, either inside the Company or from outside advisers, that will allow you to attain your goals? If you are not sure, have you ever investigated the issue?

III. Key Stakeholder Issues

The following questions explore key stakeholders in your organization who exert significant influence on the corporation or its leadership, including co-owners, partners, key executives, employees or family members. Most owners recognize that select stakeholders, active or passive, have opinions on the work they do, their contribution to the Company, the performance of the Company, and the Company's ownership or direction. These questions examine the needs and goals of these stakeholders as they relate to other issues identified in the assessment.

1. Who are the key stakeholders in your organization who should be interviewed for this assessment, including those who have agendas that differ from yours?
2. Are there other stakeholders in the organization or in your life who should be interviewed to obtain their perspective on the Company? On their role in the Company?
3. Who are the partners or shareholders whose age, career goals, wealth, family circumstances or business objectives give them different goals for their investment in your private company than you have?

4. Who are the key people in your Company who have different agendas that disrupt Company progress or culture?
5. Who are the people in your organization, beyond yourself, whether by knowledge, skill or contacts, who are most important to the overall culture and success of your Company, and why?
6. Identify any key stakeholders who you believe have different objectives than you or who, at times, have made it difficult for you to lead your organization because of their resistance.
7. Describe issues you think should be explored with each stakeholder.
8. Do you have any family members or others you are close to personally whose roles in your organization need to be explored for your own reasons?
9. In the event of your death or illness, is your spouse or other beneficiary capable of managing your investment in your business? If not, who have you identified to manage this investment? Is this person capable and available?
10. Identify issues that you expect to face in the next 3 years that will require input and buy-in from key stakeholders.

IV. Private Company Owner Priorities

Based on your answers to these issues addressed in this assessment, identify and explain your most urgent or two most urgent goals related to your private Company.