

Founders and corporate governance part 3: Switching your business

Executives & Entrepreneurs

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Corporate governance can help founders like you **switch** your business plan by:

- Demonstrating your sustainability credentials, an increasingly important part of buyers' due diligence processes and their identification of acquisition targets.
- Supporting your stakeholders as they adapt to change, helping to smooth tensions and provide business continuity through the tense sales process.
- Helping you disentangle commercial and personal wealth, a key part of building a financial plan and the resources for your next venture.



Source: Getty Images.

You're a founder. You've built a successful business. And now you're looking to move on.

Corporate governance—the structure of rules, practices, and policies that underpin how you direct and manage your company—is not your most pressing priority.

Corporate governance is a distraction from finding a buyer for your firm, handing it over to your heirs, or investing in your next venture.

If the above statements ring true for you, we believe it is important to stop. Step back. And think again.

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This is the last in a series of three articles examining why corporate governance can be a worthwhile early investment for founders.

In the first article, "[Founders and corporate governance part 1: Starting your business plan](#)," we showed how robust thinking, thorough documentation, and execution of corporate governance can help founders like you **start** your business plan.

In the second article, "[Founders and corporate governance part 2: Scaling your business](#)," we highlighted how corporate governance can help **scale** your business through two main channels: your people and your supply chain.

In this third and final article, we'll discuss how corporate governance can help **switch** your business—whether a sale, a family transition, a buyout, or a winding down.

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So, can corporate governance help *switch* your business?

Founders may find that the time of switching business—whether selling it, passing it on, or winding it down—is one of scrutiny.

Prospective buyers, managers, and appraisers may all want to look deeply into your firm's affairs...and even your own.

Corporate governance provides a framework that helps you switch business in as smooth a way as possible, with minimum disruption to operations and little intrusion on your personal life.

We identify three ways corporate governance can help your business transition:

1. Corporate governance around sustainability gives you more switching options

Sustainability regulations—and your response to them—can not only unlock new operational opportunities. They can also have a major bearing on your business exit.



Source: Getty Images.

In our recent paper [Three ways sustainability transparency can affect your business exit](#), we discussed how documenting and promoting transparency around environmental, social, and governance factors may help you secure the exit valuation you want and cement your business' sustainability performance after you leave.

Founders, who have placed sustainability at the core of their operations, will need to do more than show their sustainable product and the profits behind it.

We believe it is crucial to document your firm's sustainability strengths, shortcomings, and improvement plans as an integral part of the information you provide for bidders' due diligence.

We have also demonstrated that you would benefit from understanding, recording, and communicating sustainability information through a buyer's lens.

Will prospective bidders see your firm as an ESG leader (worthy of a valuation premium due to your competitive sustainability edge), such that you need robust practices and policies that help your firm repeat its sustainability success?

Do you have the framework in place to show how you can boost commercial and sustainability performance, so your firm attracts buyers that see you as an ESG improver?

Have you built a robust corporate governance approach that shows the power of ESG engagement with the right strategic partner, so buyers can easily see how acquiring your firm would unlock profits and societal good through partnerships and synergies?

2. Corporate governance helps stakeholders adapt to change

Coping with change is a challenge for all human beings. How you, as a founder, cope with change as you switch your role in the business will bring personal and professional hurdles.

During times of transition—and of great emotion too—having a well-documented, flexible plan set out in calmer days can pay dividends.

Corporate governance is crucial if the switch you contemplate is to find an external buyer.

As we discussed in our research paper [Talk, plan, do – a guide to business succession and exit](#), private buyers will likely demand that target companies provide administrative, financial, and increasingly sustainability data before considering any offers.

Founders can undertake professionalization and the recording of corporate practices only when approached. But is this wise?

Shouldn't founders focus their energies on leading the business's operational performance and presenting its financial and societal potential in the best light to buyers? Your talents are likely best deployed here, rather than delegating day-to-day management to others while you work on paperwork.

Think too about how you prepare other stakeholders for a switch in corporate control.



Source: Getty Images.

Do you have transparent plans in place to explain to employees your prospective business sale, and what this means for their jobs, the company vision, and future growth?

Have you discussed and documented what a sale means for senior managers and your business partners?

Consider whether it makes sense formally to plan and document potential shifts in managers' economic interests, or even whether you are prepared to offer the opportunity to present a rival management buyout or employee ownership proposal, in the event you receive an external offer.

And above all, have you considered marrying your corporate governance framework to a family governance framework so your loved ones understand how a corporate switch affects their personal wellbeing?

Or are you one of the 57% of business owners (identified in a 2018 UBS Investor Watch survey; see **Figure 1**) who are reluctant to pass the business to the next generation because you're worried your heirs will take the business in a different direction or sell it outside the family?

In our research paper [A four-point checklist for your business succession and exit](#), we stress the importance of setting successor discussions in the context of a shared, documented family mission.

Its scope should look at how assets beyond the business might be split, whether equal treatment of family stakeholders works for your family, and how to appraise fairness if family members receive assets with different expected return profiles that could stoke division or resentment.

Figure 1: Corporate governance can overcome obstacles to business succession, like lack of communication among founders and heirs

Question: What is holding you back from retiring and passing the baton to the next generation?

Percentage highly worried about what family members will do



Source: UBS Investor Watch, data as of 8 February 2018.

3. Corporate governance clarifies your financial plan and allocates resources for the next venture

One of the biggest challenges founders face is a blurring between what belongs to the business and what is your own.

Beyond the obvious challenge of time management, it is often not seen as necessary to distinguish between commercial assets and personal ones when a founder wholly owns a business.

But switching business means you can no longer afford this ambiguity.

Putting in place corporate governance frameworks well ahead of a prospective sale or succession can be a sound investment for founders. Early examples can include remuneration frameworks that set limits around manager pay, dividend distribution policies, and the treatment of directors' advances and loans.

As your business matures, prospective buyers or the next generation will want to pore over your accounts and know that what they see is the business's asset (or liability) and not that of the founder.

One of the most common ways external advisors can help founders is to help disentangle commercial and personal finances, then work on helping you build your own personal financial plan.



Source: Getty Images.

For example, corporate governance frameworks could provide the formal policies to spur a disciplined investment approach. By acquiring money externally for a future venture, your eventual retirement, or for building your legacy (rather than earmarking retained earnings), you can gain peace of mind about the availability of funds for future spending needs.

Furthermore, you can provide your prospective buyers or family successors with clarity on which funds remain in the business for operational spending or future investment. This transparency aids cashflow management, the building of a capital investment plan, and decision-making around taking money out of the business.

In [A four-point checklist for your business succession and exit](#), we explain how you can build a flexible financial plan well ahead of time to help you meet your financial goals and spending needs through the pre-transfer, transfer, and post-transfer phases.

We encourage you to think carefully about your day-to-day, lifetime, and legacy needs. Ahead of transfer, the location of assets and the means of funding a sale can be important—bank debt versus a vendor loan, for example.

Personal cashflow planning can help you to meet liquidity needs through earnout periods without potentially having to sell financial assets.

Diversification and choice of vehicles for your personal investments can make a difference to financial outcomes in life after business, such as seeding a new business or moving into retirement.

Why corporate governance makes sense for founders

Throughout this series, we have aimed to show that corporate governance is a good practice for all business owners.

Governance metrics also matter to stakeholders, a group that includes employees, suppliers, regulators, or potential investors (on the last point, please review our paper "[Three ways sustainability transparency can affect your business exit](#)").

Remember that corporate governance should be regarded as a living, open-ended process—one that works best if it evolves with your startup, family, and financial plan.

We advise making corporate (and family) governance a dynamic, not static, undertaking.

And don't be afraid to draw on external expertise for different perspectives or alternative scenarios so that your governance plans reflect your current needs and at the same time stay resilient to uncertainty.

Appendix

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