SUCCESSION PLANNING

SUCCESSION PLANNING - OPERATIONAL

We were contacted by a private real estate management company owned by two partners. The senior partner was nearing retirement age, and responsible for deals and development. The junior partner was younger, served as the CFO, and was responsible for accounting and management of the property staff. The company had current accounting and management information systems, but the accounting staff spent a great deal of their time fixing errors and trying to locate information to close the books. Heavy involvement in the nuts and bolts of the accounting processes prevented the junior partner from taking a more active role in deals and development, which was a key part of the owners' succession plans. The owners were debating if the organization needed to expand their accounting staff, and at what level.

We conducted interviews with the partners, and selected members of the staff. These interviews raised several issues:

- The staff was not aware of many features of the new accounting system, although they frequently lamented "the old system could do it".
- The staff frequently processed transactions without research or documentation just to clear it from their desk; this complicated the accounting close as needed information was missing.
- The company managed properties with complicated utility bills; one property received 24 separate sewer bills because the residential units all had a unique address. Another received a single electric bill including over 40 separate meters.
- The property managers frequently creates workarounds to process transactions even though the workaround was not approved by management.

We recommended that prior to hiring additional accounting staff or adding additional systems, the organization first optimize what they already had, and properly train the staff. To maximize the efficiency of this process, and to gain organizational support, we proposed a series of workshops to allow the accounting staff identify obstacles and roadblocks, and agree on a bet practice for performing service in the future.

Prioritization was placed on the most impactful areas: those mundane tasks taking up most of the time of the CFO. First up was accounts payable, where sheer volume caused processing delays, which created additional delays in vendor inquiry and duplicate invoice checks. This was alleviated by staff training and a robotic document processing system that quickly cleared the backlog, and could process a day's volume in realtime. The alleviation of this work freed a significant amount of time that was then redeployed on the next highest priority.

As the operation of each accounting area was improved, the organization began to stabilize as less time was required searching for documents or fixing errors. The junior partner had time to become involved with higher value operations such as strategy or development. Rather than hiring several clerical level accountants to research errors and search for documents, the organization chose to hire a more experienced accountant to begin to assume the CFO duties, further freeing the time of the junior partner.

ABOUT US

Cendrowski Corporate Advisors (CCA)
is a full-service financial consulting and litigation support firm with offices in Chicago, Illinois, and Bloomfield Hills, Michigan. Services to the legal, corporate, banking, private equity, venture capital and non-profit sectors include risk assessment, fraud deterrence, litigation support, and investigations. Harry Cendrowski is CCA's founding member and managing director.

A Different Perspective™
CCA professionals, several of whom are authors, bring an average of more than 35 years' experience in the firm's primary areas of expertise to each engagement.

EMPLOYEE STOCK OWNERSHIP PROGRAM

The shareholders of a professional services firm wished to transition from the business but the organization did not have a succession team with the financial wherewithal to fund a buyout. The shareholders wished to maintain the independence of the organization, so a sale of the firm was ruled out.

We asked the shareholders if they had considered an ESOP (Employee Stock Ownership Program). An ESOP creates a ready market for closely held shares and provides an avenue for the transition of the business.

The shareholders decided to implement an ESOP to transition the business. Since the stock was privately held, an independent valuation was required to determine the value of the shares. The ESOP created a trust fund that borrowed funds to purchase the existing shares, and the owners were paid from their shares at that time. Shares in the trust fund were allocated to employees based on an equitable formula, and a vesting plan was defined.

Under the ESOP plan, the company will make an annual contribution to the ESOP to fund the repayment of the loan. Within certain limits, these contributions will be tax deductible to the organization.

The ESOP has been a tremendous success for the company and the employees. The original shareholders were able to receive cash up front for their shares and maintain the independence of the company, two of their major goals. Employees have assumed an ownership mentality and understand the contributions they make to the success of the company, and are incentivized to remain with the company and help the company succeed.

CCA has provided clients with the know-how to implement ESOP solutions in these circumstances, providing cash out exit strategies for ownership while maintaining jobs for current employees. ESOPs are qualified retirement plans permitting indirect ownership of a company by its workforce. Tax law makes such buy-outs attractive to ownership and workforces alike. CCA has assisted several clients with the implementation of ESOPs including coordination of the required legal and financial professionals as well as the involvement of financial institutions.

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UMBRELLA PARTNERSHIP REAL ESTATE INVESTMENT TRUST (UPREIT)

The dilemma required a solution providing for retention of control, access to capital, and long term liquidity effectively monetizing highly appreciated real estate assets and to do this all on nontaxable basis. CCA was able to bring its resources to bear for a rather unique succession strategy. Along with legal and other financial professional service teams, CCA was integral in development of the UPREIT structure, a roll-up capital structure now common-place in the commercial real estate industry. It provided access to public capital markets without giving up control of the assets, and offered effective estate liquidity planning without incurring income tax.

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