

# FORE SIGHT

PRACTICAL IDEAS FOR BUSINESS MANAGEMENT

## LOOKING AHEAD

### Get Started Early with Transition Planning

It's inevitable. At some point, you will want to leave your company and move on to what's next.

If this idea makes you nervous, you're not alone. Approximately 40 percent of business owners would like to exit their companies in the next five years, but only 25 percent have a plan to do so. Obviously, leaving the company is not an easy decision, but planning ahead will ensure that the company will continue to thrive.

Of course, a thriving company is desirable not only because it's a meaningful legacy, but also because it's an income stream to fund the owner's future. Here are some things to consider to ensure that your company is left in good condition:



**Figure out who's next.** Deciding who's best qualified to take over is a crucial decision. Perhaps it's a son or daughter. Maybe it's an experienced employee. Or perhaps it's an outsider who can help the company reach the next level.

Choosing a family member deserves special consideration. Don't assume, for example, that the oldest child is the most qualified or most interested in leading the company. Also, avoid unconventional arrangements such as having siblings share "equal" management duties. This is likely to fail as a long-term solution, since "management by committee" rarely works.

It's often wise to solicit outside input on this decision from a trusted advisor who either knows your company well or has experience in transition planning. He or she will be less emotionally attached and can add an unbiased opinion to the discussion.

**Identify success factors.** As the owner, what are you doing now that is essential to the company's success? For example, do you develop and maintain most of the client relationships? Are you integral to the product development cycle? Is hiring new talent part of your job?

All of your responsibilities must be identified and transitioned, either to the

new leader or to someone else on the staff.

**Put it in writing.** Putting a transition plan in writing helps to make it "real." It also provides a way to check progress. The plan should cover the details of the transition — the "who, what, when, where and how." Share the plan with the management team so that they know what to expect.

**Clean up.** Most businesses are in need of some reorganization. Now's the time to clean up the company and get it in good shape for the next generation. For example, get the right team in place at all levels. Limit discretionary spending. Update insurance policies and leases. Improve your management information systems. Address all of the things that have been overlooked while the business has been growing.

The key to success with a transition is to start planning early. Realistically, it will take at least a few years to get the company set up for success. And when the time comes, go. Trust that you have put in place the right team to lead the company into the future.

*Thinking about succession planning? Our firm can assist you in working out the details.*

2 Fraud Prevention

3 Performance Appraisals

4 Crafting a Mission Statement

# How to Protect Your Business from Fraud

The typical Canadian company loses 5 percent of its annual revenues to fraud. More than a quarter of fraud cases result in losses of \$1 million or more. Companies with fewer than 100 employees account for 42 percent of victim organizations. Not surprisingly, these smaller companies suffer disproportionately large losses. The departments where most fraud occurs? Sales, upper management, accounting and customer service.

These shocking statistics, reported in the Association of Fraud Examiners' (ACFE) report, *Detecting Occupational Fraud in Canada: A Study of its Victims and Perpetrators*, are a jarring reminder that fraud is not uncommon. It happens in companies of all sizes, in all industries. Among the study's thought-provoking findings:

**Watch the wise guys.** Approximately 71 percent of occupational frauds are committed by men. A vast majority have college degrees and have never been charged with a crime. Employees in two tenure categories — under two years, and between five and 10 years — are the most likely perpetrators. Perpetrators with higher incomes are associated with

larger losses.

Interestingly, collusion is not rare: 42 percent of fraud cases were committed by two or more employees working together.

**Tips are top.** The ACFE study reports that 42 percent of frauds were detected via tips from employees, vendors, customers or anonymous sources. Unfortunately, only 19 percent of fraud cases were uncovered by internal controls.

Organizations with a tip line or other fraud reporting mechanism suffered much lower median fraud losses than organizations without a reporting system. In addition, the use of a tip line reduced the time it took to detect fraud from 24 months to 18 months.

**Money talks ... and walks.** Cash can be stolen in many ways, but the most common cash disbursement frauds occur via billing schemes. In these cases, criminal employees set up a shell vendor, bill the company for fictitious services or include personal charges on a company credit card.

Other popular methods of stealing include cheque tampering, fraudulent electronic transfers and payroll schemes. (Ever heard of ghost

employees? These are "ghosts" added to the payroll so the fraudster can collect their cheques.)

## Audits and ethics work.

Organizations that perform surprise audits on a regular basis experience much lower fraud losses than those that do not. Conducting fraud and ethics training also increases the perception that fraud will be detected, illustrates that fraud will not be tolerated and reinforces the importance of reporting fraud. These anti-fraud tactics reduce the time to detect fraud by as much as six months.

Clearly, occupational fraud can be very damaging. Victim companies not only suffer financially, but also culturally. Camaraderie and trust often get washed away in scandal, and it can take years to get a company back on track.

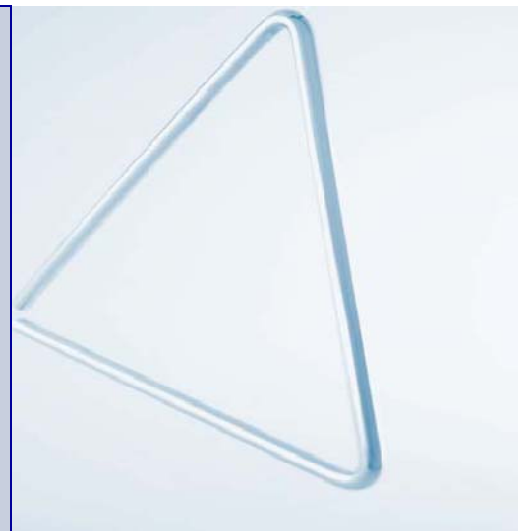
Act now to prevent fraud in your company. A few simple steps can make a big difference.

*We would be glad to share our ideas about how to proactively deter fraud in your company.*

## The Fraud Triangle

Three elements must be present for fraud to occur:

1. **Opportunity.** Employees must have access to data, records, cheques or other information that makes it possible to commit and conceal their crimes.
2. **Need.** Perpetrators are motivated to commit fraud by real or perceived "needs," such as financial difficulties or lifestyle desires.
3. **Justification.** Fraudsters rationalize their crimes. They may feel underpaid or unappreciated. They may want to "punish" the company in some way. Some have convinced themselves that it's okay to "borrow" money as long as they intend to pay it back someday.



# Performance Reviews 101



Employee evaluations. Annual appraisals. Performance reviews. These yearly rites have many names, but one common reaction: dread. Managers often consider it a chore to assess a year's worth of work and are uncomfortable discussing an employee's contribution to the company. Employees often feel the reviews are perfunctory and marginally helpful. No wonder few people look forward to them.

But everyone needs feedback, and performance reviews provide an excellent opportunity to provide guidance and career input for what most companies consider to be their most important asset — their people.

**Why?** Performance evaluations can be extremely effective in increasing employee engagement, facilitating communication, improving work habits and encouraging professional and personal growth. When handled properly, they offer a no-pressure forum for discussing both the employee's professional goals and the company's goals for the employee. Ultimately, they can provide a plan for the future of the employer-employee relationship.

**When?** Performance reviews don't have to happen just once a year. Some companies set up quarterly or even monthly mini-reviews, just to be sure that employees and managers

*Everyone needs feedback. Performance reviews provide an excellent opportunity to provide guidance and career input*

are on the same page. Regular check-ins are especially important to younger workers, who are accustomed to a fair amount of quick and constant feedback.

Note that it is the responsibility of the manager to schedule reviews. Putting them off is disrespectful to the employee, and can create unnecessary tension.

**What?** It may take some of the pressure off both parties to separate performance reviews from salary discussions. (Consider scheduling salary reviews for the employee's anniversary or at a certain time of year company-wide.) With money off the table, it's easier to focus on the performance matters at hand.

Job performance is multifaceted, so the review should cover all aspects of the job. Managers must do their homework and consider what it takes

to do the employee's job well — not only getting the work done, but getting it done on time and on budget. It might also include working well with other employees or customers or both.

The employee may be performing terrifically in some areas and not so well in others. Reviews should include positive feedback as well as input about how the employee might do better. Training and mentoring should be discussed.

**How?** Performance appraisals should be consistent across the company. Every employee should be assessed with the same standards, measurements and tools. This requires training and buy-in from all managers.

Reviews should include time for

both employer and employee to express their thoughts and react to the other's input. Using an appraisal form is a good way to guide the conversation.

The overall content of a performance appraisal should never be a surprise to an employee. In other words, if things aren't going well, don't wait until a scheduled review to correct or comment on poor performance. Conversely, don't hold back on the high-fives, either. People deserve prompt praise for a job well done.

Remember, open, ongoing dialogue is crucial to better performance. And better performance means a better bottom line.

*Interested in fine-tuning your performance appraisal process? Our firm can recommend an HR consultant to help.*

# Mission: Possible

It's hard to put the essence of an organization into just a few sentences, but that is the goal of a mission statement. And while it is certainly challenging, this mission is *not* impossible.

Mission statements define a company's reason for being. They embody the company's purpose, overall goals and aspirations. They can be used internally and externally, so that employees, customers, vendors and prospects know exactly what the company stands for and where it is going.

If your company doesn't have a mission statement, or the existing one is stale, creating a new one can be an enjoyable, team-building experience.

**Look at examples.** There are no "rules" for a mission statement. It can be formal and direct, clever or inspiring. Create a list of companies you admire, both in your industry and elsewhere. Look at their mission statements to get a feel for tone and content.

**Discern what's important.** Ask customers, vendors and employees for words and phrases that come to mind when they think of the company. This will illuminate what people value most about the organization and may be good starting points for discussion.

**Be a standout.** A good mission statement should speak specifically to one company. What is the unique selling proposition of the organization? What's special about

the way it operates? Try to incorporate this difference into the mission statement.

**Spread the word.** Once you've decided on a mission statement, share it. Post it in the lobby, print it on invoices and business cards. Make sure it's on your website, letterhead and other collateral material, and marketing materials. It's a terrific reminder of what others can expect when working with you.

It's good to revisit the mission statement every few years. Things change, and it's important that the company embrace its current state and updated goals.

*What's your company's mission? Our perspective may add value to your mission statement discussion.*



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