

MBA

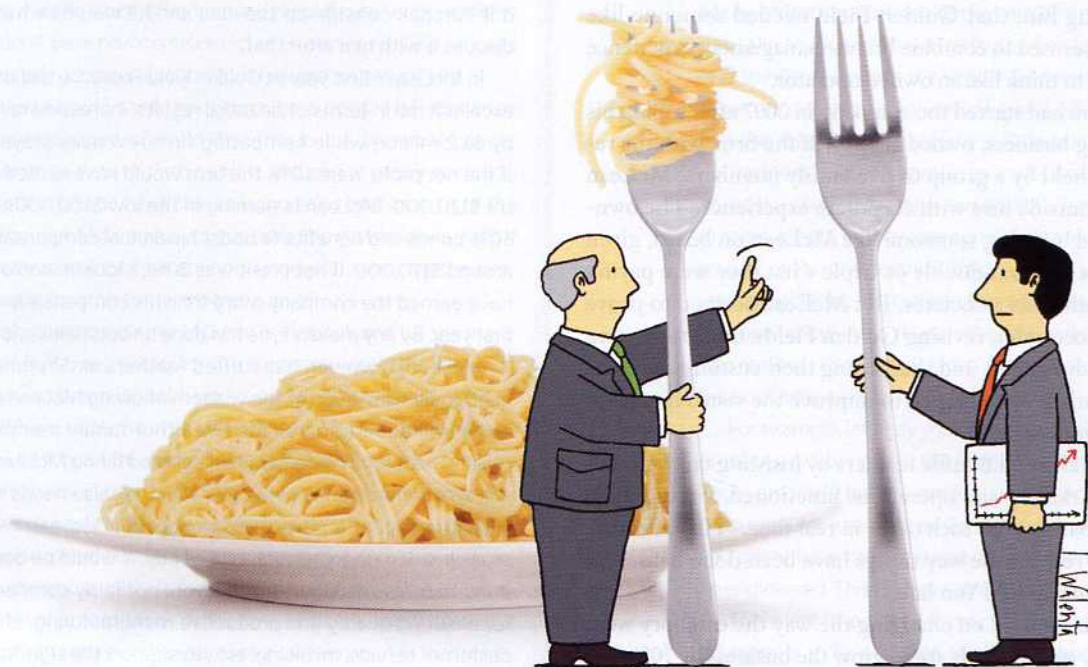
ALL- STARS

DO YOU NEED AN MBA TO CLIMB TO THE TOP? NO, SAYS BANK OF NOVA SCOTIA'S RICK WAUGH. BUT IT DOESN'T HURT



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NO FIELDS OF JOY

A MANAGER WANTS AN EQUITY STAKE, BUT HIS BOSSES AREN'T SO KEEN ON THE IDEA

THE SITUATION: "IT HASN'T OCCURRED TO US TO OFFER EQUITY TO OUR EMPLOYEES," SAID GREGORY YURCHAK. THE FOUNDER OF SASKATOON'S GOLDEN FIELD FOODS, A MANUFACTURER AND MARKETER OF ORGANIC WHOLE GRAIN PASTA PRODUCTS, WAS SPEAKING TO SIMON MCLEAN, PRODUCT MANAGER FOR THEIR GOLDEN FIELD LINE.

McLean had set up a meeting with Yurchak to ask for an opportunity to buy into the five-year-old company. "Please consider the fact that we already pay you a very competitive salary, we have a healthy bonus plan and great benefits," Yurchak continued. "Now if you'd like to share your breakthrough idea with me, I'd love to hear it."

McLean let the faintest sign of disappointment cross his face. He had spent a lot of time outside of work investigating his new product marketing ideas and wasn't keen to reveal the results. He tried to think of a way to steer the conversation back to the issue of equity ownership.

In his first year as product manager, McLean had increased sales in Golden Field's pasta lines by 20% to \$6 million, in a market where competitors were seeing no growth. With eight years of brand management experience at a major midwestern U.S. consumer products firm, McLean had taken the Golden Field Foods opportunity in Saskatoon in October 2011 to be closer to his family. The pay was competitive for someone of his experience level — in the low six figures — and it came with a bonus plan of up to 30% of base salary, among other things. Yurchak had impressed McLean, telling him that Golden Field needed someone like McLean, who seemed to combine brand-management experience with the ability to think like an owner-operator.

Yurchak, who had started the company in 2007 after selling his family's farming business, owned about half the firm, with the remaining stake held by a group of five family members. McLean was their first outside hire with corporate experience. The owners had debated bringing someone like McLean on board, given that his salary alone was double or triple what they were paying each of their other six associates. But McLean seemed to prove his worth in short order, revising Golden Field's trade marketing program and advertising, and sharpening their customer presentations. A month ago, he helped to improve the visual impact of their product packaging.

However, McLean did ruffle feathers by insisting on overhauling the way marketing and operations functioned, forcing them to share information with each other in real time. "He's effective, but he doesn't respect the way things have been done before," a disgruntled manager told Yurchak.

McLean was focused on changing the way the category went to market. "My stretch goals are to grow the business by 20%. I'm fairly certain our momentum from last year will allow us to do that. But what if we can achieve a step change in growth? There are at least three viable product partnership opportunities that I've investigated. If they come to fruition, we could double our market share next year in pasta alone," he had confided to a friend.

McLean was interested in making a large impact on the company he was working for and being rewarded for it. "I bring a lot to the table and it wouldn't be unreasonable to think that I could spend a good part of my career at Golden Field," he said. "Having the bonus ceiling of 30% of salary in place is becoming less appealing to me. I want to be more than just an employee." His friend retorted: "Maybe you should take your ideas elsewhere."

Instead, McLean brought up the issue during his Monday morning meeting with Yurchak. After the business issues were discussed, he talked about the potential to achieve rapid sales growth — beyond what was already in the stretch plan — and asked for the opportunity to buy into the firm.

Yurchak, however, had made his position on equity ownership clear: He had not considered that anyone outside of the family would be owning a stake. McLean wondered how to respond appropriately.

THE EXPERT VIEW

→ **Tove Rasmussen** *Partners Creating Wealth*

To move forward, Simon McLean needs to understand what his boss, Gregory Yurchak, sees as the pros and cons of equity ownership. Since McLean only knows that Yurchak has not considered equity incentives, he can exit the current conversation gracefully by saying he would really appreciate it if Yurchak considered the idea and he would be happy to discuss it with him after that.

In McLean's first year at Golden Field Foods, he had done an excellent job in terms of financial results, increasing revenues by \$1.2 million while competing firm revenues stayed flat. If the net profit were 10%, the firm would have earned an extra \$120,000. McLean is earning in the low \$100,000s plus a 30% bonus and benefits to boost his annual compensation to around \$170,000. If net profit was 20%, McLean would easily have earned the company more than his compensation in his first year. By any measure, he has done an outstanding job.

McLean, however, has ruffled feathers and Yurchak will need to be convinced of the wisdom of giving McLean equity, as he will need to persuade five other family members to make it happen. The owners had debated hiring McLean; they will also debate equity ownership. Yurchak also needs to consider the impact on the other managers if McLean receives stock in addition to his high rate of pay. It would be demotivating to other managers if they were not fairly compensated for ensuring quality and productive manufacturing, effective customer service, invoicing, etc., to support the significant increase in business.

On the other hand, an employee stock ownership plan (ESOP) could motivate other managers to achieve the level of growth that McLean believes is possible. Profit sharing is another option. But McLean has opened the issue of incentive compensation so Yurchak needs to understand the type of incentive, if any, to give, when to give it and who should receive it. This will take six to 12 months to properly implement. A further consideration for McLean is that there are likely not a lot of businesses in Saskatchewan that would hire him at his regular rate of pay. There may be some trade-offs he is willing to make in order to stay close to his family.

While Yurchak considers his position on equity ownership, McLean would do well to step back and look at the situation as an owner. He could consider the impact of his request on the company, and which incentive plan would suit the culture of the company and be most fair to all employees. During this time, McLean can also focus on earning the trust of Yurchak, showing that he can implement effective new marketing strategies while respecting the old ways and accomplishments of the company.

This case study was prepared by Financial Post Magazine and the Pierre L. Morrissette Institute for Entrepreneurship at the Richard Ivey School of Business (Western University). The case method is a key learning tool in the cross-enterprise leadership approach used at Ivey. The views represented here are solely those of the case authors. Some details may have been changed to protect privacy.

→ Tammy Hwang

Experience Manager, Innovation Factory

Simon McLean's first reaction should be to try to understand why Golden Field is resistant to non-family members owning a stake in the company. After all, he has already proven that he can perform and he has increased sales in the company's primary product line. Having a better understanding of the concerns for why "outsiders" were never considered as an owner will help McLean alleviate any concerns Gregory Yurchak and his group have.

McLean could take them through a couple of scenarios where one is successful and the other is not. Everyone wins in the event the new initiatives that McLean is recommending are successful and he is able to bring sales and growth to the company. But McLean has to consider the downside as well: If the product partnerships are not successful, what are the consequences from an owner's perspective?

The biggest hurdle for McLean is Yurchak and his partners' preference to keep control of the company within the family. If Yurchak's concern is that he does not want to give up equity if overall shareholder value is not increased, McLean could recommend a pilot or a trial where Golden Field allows a small portion of equity to be earned based on McLean's performance above the stretch goals already in place. This new performance contract could award different levels of equity depending on results.

Another possibility is for McLean to suggest that Yurchak offer him phantom stock in the firm, with the stipulation that McLean can cash out the shares at a certain point in the future, using an agreed upon valuation method (a multiple of price to EBITDA or price to earnings).

Above all, McLean needs to tread carefully. He should take some time to identify Yurchak's concerns before he offers any new suggestions.

→ THE OUTCOME

Simon McLean asked for more time to develop his plan before presenting it to Gregory Yurchak and the rest of the owners and reiterated his interest in owning an equity stake. Yurchak promised to discuss it with the other family members. While McLean was not privy to the internal debate within the family, he could sense it was a very sensitive issue. In the four weeks that followed, McLean on at least six occasions asked to discuss the equity ownership issue, only to be told the family had not come to a conclusion or that they were speaking to lawyers about it. Realizing Yurchak and his family were not willing to give up any stake in the business, McLean met a few recruiters to begin the process of finding another job. "I think they were more worried about the issue of accommodating another voice on the ownership team than they were about growing the business," he said. "In the end, the preference to retain full control won out." **FP**



THE ROAD TO SUCCESS

Inventors need help bringing their ideas to market, unless they're absolute geniuses

Many entrepreneurs make the mistake of believing they can take an idea from sketch to shelf on their own. But unless they're members of a very tiny percentage of absolute geniuses in society, they would be well-advised to seek help in those areas in which they have little or no expertise.

Partners help entrepreneurs undertake the business or company, sharing the risks and profits. They may be experts in some aspect, or they may simply bring additional financing as part of the partnership. Expert advisors, meanwhile, are usually paid a fee for their services and may not want to have an ongoing business relationship beyond providing advice. The reality is that in order to succeed, one or both of these types of individuals are usually necessary.

For example, let's say you have conceived an idea that addresses a major need in the home energy market. You may know precisely how to market such a product once it has been manufactured, but while you know how it should work, you might have no idea about the finer details of how it can be engineered. This is where an expert becomes important.

The most important factor when seeking partners or advisors is to find people or organizations that are truly knowledgeable and reputable. Always go to great lengths to research their background and history. Get references from former clients and check out previous projects or products that they have been involved with to measure their success.

Make sure you do not reveal important or key details of your ideas before you have a confidentiality agreement in place, and remember to carefully read all documents before signing anything.

The same rules apply when it comes to partners. In many cases, partners in a new business are friends or relatives, but this should not override the need for caution and properly drafted agreements and contracts. You'd be surprised how many times friends become bitter enemies when the business becomes successful simply because the initial risk- and profit-sharing arrangements were not clear at the outset.

In short, you will most likely need the help of experts, and possibly partners to succeed. Make sure they are the right ones, and that everything is clearly agreed upon and understood before embarking on any relationship. Doing so can prevent many future problems from arising. **FP**

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