



Planning a successful transition

As I see it **Tom, Greg and Lauren Hitchman**

*Naylor Group Inc.
Oakville, Ontario*

In 1984, Tom Hitchman bought a little business that was struggling. At the time, it was doing about \$2 million worth of sales and had 12 employees. He went on to build Naylor Group into a leading family-owned mechanical/electrical/communication contractor, growing sales to \$56 million this year and staff to 250 people. Today, the company specializes in two specific areas: mechanical/electrical service of primarily owner-occupied and institutional buildings and construction/design-build projects. Most recently, it has been involved in solar installations both on buildings and in ground-mount installations. Naylor Group now has four offices in Cambridge, Brampton, Oakville and Richmond Hill, Ontario.

Tom's children, Lauren and Greg, got their start in the business as teenagers, working in the summers through high school and university. "I remember having a conversation with my father when I was in university and deciding that I did want to work in the family business," says Lauren, now 28. "But we also decided that I would work outside of the company first, to get broader experience." She worked as an analyst at Manulife Financial and in sales at Xerox. For his part, Greg has worked his way up the ranks, focusing on the technical side of operations and holding several varied roles in the business. Greg also worked at another business in the call center area – part of this experience included managing a 150 person call center for three months in Bangalore, India.

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That early conversation with Lauren came out of a succession planning strategy Tom Hitchman was already in the process of implementing. “About 10 years ago, I engaged PwC because I wanted to give the children the opportunity to take over the business,” says Tom. “I also felt that if they didn’t, then as a family we would have to sell it. In that case, we had to bring in younger managers to have a viable business on a go-forward basis and to continue to build value. The plan was to develop those managers, have them get their MBAs, and they could either be there for my children should they decide to stay in the business or by having a strong management team in place, they would help sell it.”

Tom was in his early fifties at the time and knew that if he wanted to continue to build value and grow the business, he needed to prepare to transition to younger talent. He owned 100% of the company in a holding company, but in 2001, he modified the ownership structure and created a family trust which now owns the business and all the growth in the business. Lauren and Greg are its beneficiaries. “We weren’t just talking about succession, we created a structure that clearly indicated they would be the future owners of the company,” says Tom. That sent a signal to the rest of the organization as well. “By setting up a proper transition for succession and doing it early, it’s not just a benefit for my children, it benefits the younger people in the company to know this is a family business and there are people in their late twenties who are going to take over,” says Tom. “In effect, you are telling them this is a great company to build a career with over the next 30 or 40 years. That’s huge.”

It was at that point that the Hitchmans also established and put into effect a family charter in order to avoid any conflicts that might arise. “The charter provided guidelines around how to deal with conflict, and addressed things like spouses working in the business,” says Lauren. “We made decisions early on about what the future would look like as we began working together as a family and set processes in place.”

They also have a family council and once a year, a third-party consultant meets with both the children and Tom individually and then again together to discuss where they are as a group and talks about plans going forward. One of those plans is for Tom to move out of the day-to-day operations within the next three to four years and into a more strategic role as chairman.

“Working with a facilitator has been very helpful,” says Greg. “The key to the success of the transition is communication. You have to be proactive. A third-party can help ensure everyone gets their points across and brings everything to the table. One of the exercises Lauren and I are working on is writing down exactly how we want to run the business in terms of the decision-making process and level of authority we will have. It’s important to do that before you have the responsibility and before any emotion is attached to decisions. This way we have an agreed-upon process before any decisions have to be made.”

The succession planning process has also had unexpected benefits. “By giving Lauren and Greg more responsibility and having them show their capability and earning the respect of their peers, we also realized the potential of our younger people. As a result, they will likely move along faster than they might have otherwise,” says Tom. Tapping into that talent and energy will be critical to Naylor meeting its aggressive growth strategy of increasing revenues to \$100 million by 2016. “As an outgoing leader you have to show your future managers the destination of the company and help prepare them to get there.”