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# Keys to Success in Succession & Leadership Transitions

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# Agenda

- Succession planning road map
- Management succession & continuity
- Incentive compensation



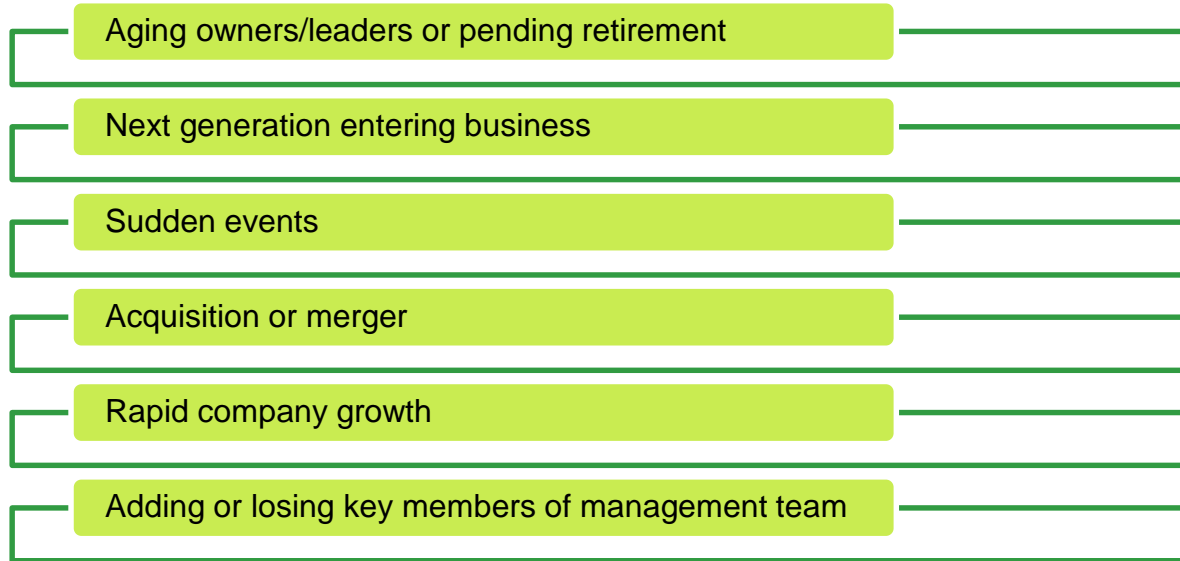
# SUCCESSION PLANNING ROAD MAP

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# Identifying the Need: Triggers



# Components of Succession Planning

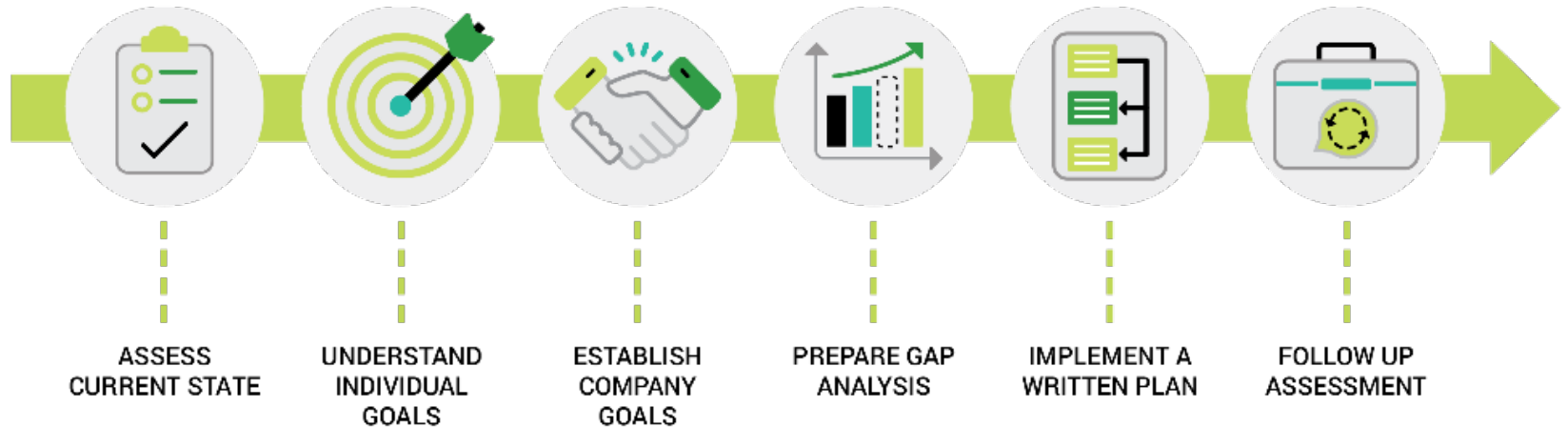
## Management succession

- Assessing the leadership potential and defining the competencies and capabilities necessary for managers to be successful

## Ownership succession

- Ensuring ownership transition meets the needs of the exiting owners and provides the appropriate structure and resources to reward and retain the leadership team

# Baker Tilly Succession Planning Road Map



# Step 1: Assess Current State

**Objective:** Understand the current state of succession planning and assemble source documents and references

## Procedures:

- Initial discussions with key leadership personnel
- Gather all relevant information
  - Current and future cash flow
  - Governance structure
  - Leadership roles and responsibilities
  - Strategic plan
  - Buy/sell agreements
  - Estate plans
  - Valuation reports
  - Retirement reports
  - Deferred compensation plans
  - Identified future leaders
  - Key strategic partners
  - Liability exposure



# Step 2: Understand Individual Goals

**Objective:** Create a prioritized list of goals for each owner/leader

## Procedures:

- Hold individual Q&As to discuss succession planning key aspects
- List and prioritize goals for owner(s)

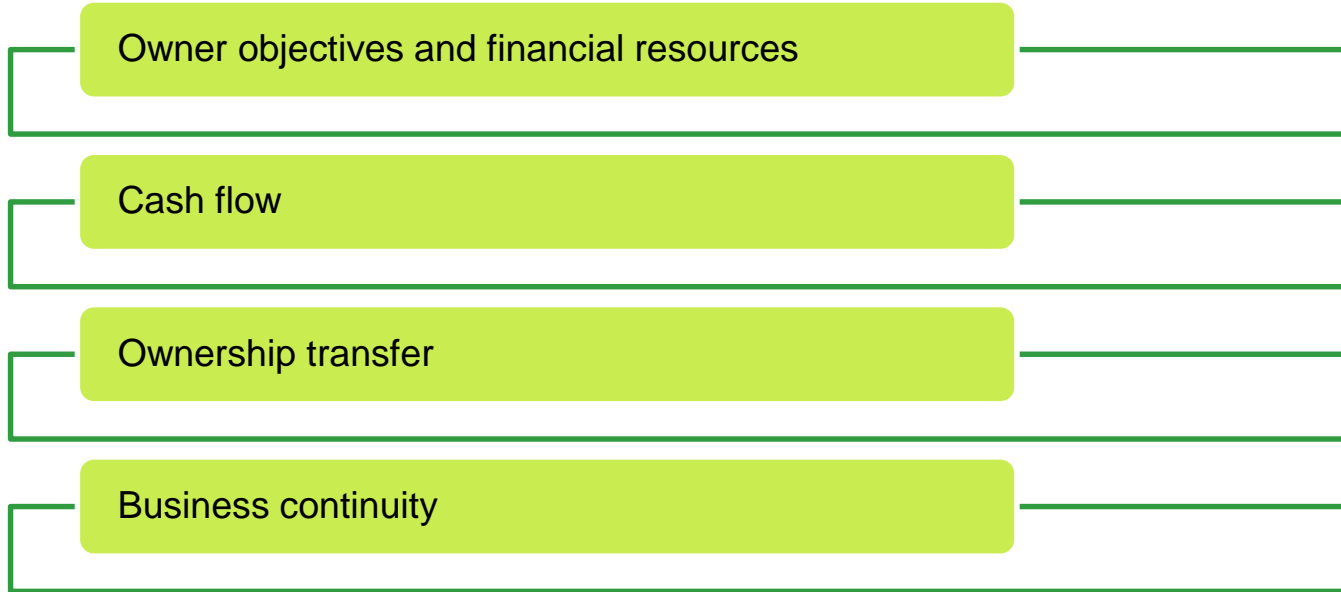
## Key considerations:

- One of the most critical areas of succession planning
- Can be a very time consuming and difficult process
- Expect conflict, negotiations, and concessions





# Step 2: Consideration



# Opportunities: Personal Wealth and Estate Planning

- Define current income needed by family
- Protect future cash flow for estate value
- Personal financial plan
  - Personal assets
  - Business assets
  - Cash flow needs
- Clarify estate plan
- Ownership and beneficiary designations
- Post ownership plan
- Protecting income to family

# Step 3: Establish Company Goals

**Objective:** Prioritize the objectives and goals of the company's succession plan

## Procedures:

- Compare individual responses from step 2
- Identify differences in vision, expectations, and goals
- Create potential outcomes to address differences
- Prioritize goals (impact, difficulty, time, cost, etc.)
- Hold conversations with management



# Step 3: Prioritize Company Goals (Example)

	High Impact	Easy to Implement	Most Difficult	Cost to Implement	Length of Time
Transition role to family successor			X		X
Exit no later than Dec 2019	X				X
Cash-out 25% of stock by 12/19	X			X	
Maintain leadership role			X		
Split real estate from company		X			
Settle unfunded liability	X			X	
Equal distribution to 3 children			X	X	

# Step 4: Prepare Gap Analysis

**Objective:** Produce a gap analysis report highlighting the difference between established goals and the current state of the company

## Procedures:

- Compare assessment of current state with the prioritized company goals to determine misalignment or gaps
- Identify action steps needed to move toward each of the goals



# Step 4: Resolve the Gap

**Personal goal:** Equal distribution to 3 children and transition CEO role to family member

**Company value:** Commitment to employees

## Identified gaps:

- Incentivizing key employees
- Lack of defined roles and responsibilities
- Need for leadership development



# Step 5: Implement a Written Plan

**Objective:** Align the company strategic goals with the most effective ownership change strategy(ies)

## Procedure:

- Assess the pros and cons of each strategy
- Align strategy with company's prioritized goals
- Establish action steps, time frames, and responsibility



# Step 5: Key Issues to Incorporate

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Personal financial and retirement planning

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Estate planning

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Income tax considerations

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Timing

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Current and future company governance structure; buy/sell agreement

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Capital/equity restructuring – voting vs. non-voting (control issues), preferred equity, stock retirement, new company, etc.

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Funding sources

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Updating roles and responsibilities

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Training/education/readiness planning for next generation leaders



# Ownership Transfer



# Transition to Family: Gifting or Selling

## Structure and concept:

- Gift/sell a part or all to family members
- Identify and assess readiness of next family owners
- Educate and train
- Transfer of control and management over a period of time
- Income tax planning
- Integrate with estate plan



# Selling to Management

## Structure and concept:

- Sell to management
- Rewards, incentive, and retention for management
- Management possess the abilities and attributes for leadership
- Series of sale events - initially discounted
- Valuation approach
- Cash flows
- Two common approaches:
  - Continuous succession
  - One-time



# Third-Party Management/Absentee Owner

## Structure and concept:

- Retain the benefits as an investor/owner only
- Removed from day-to-day operations
- Continued involvement as owner (BOD)
- Use of existing capital
- Precursor to other structures
- Cash flows



# Employee Stock Ownership Plan (ESOP)

## Structure and concept:

- Qualified retirement plan
- ESOP trust purchases the company
- ESOP buys with leverage
- Participants become indirect owners
- Tax efficiencies
- Cash flow volatility



# Selling to a Third Party

## Structure and concept:

- Third party buyer
- Outright purchase (full or partial)
- New money
- Common buyers:
  - Roll up
  - Competitor
  - Diversification
  - Private equity and venture capital
  - International



# Asset Sale/Liquidation

## Structure and concept:

- Management lacks successors
  - Capital
  - Readiness
  - Leadership
- No family involved
- No suitable third-party buyers
- Sudden event or pending retirement of owner
- Sell the company assets over time in an orderly fashion





# MANAGEMENT SUCCESSION & CONTINUITY

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**Question:**

**Does great performance  
determine a great leader?**

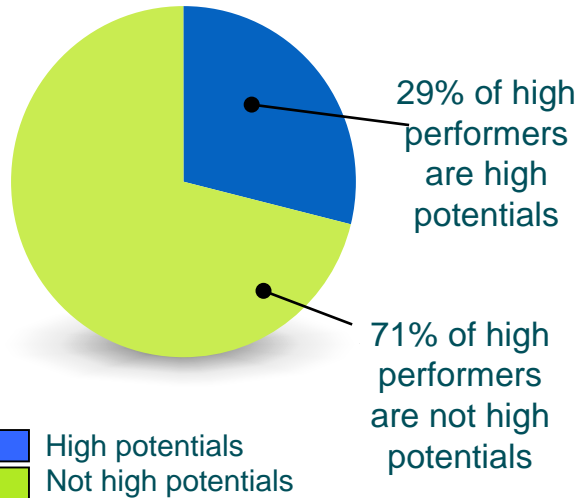


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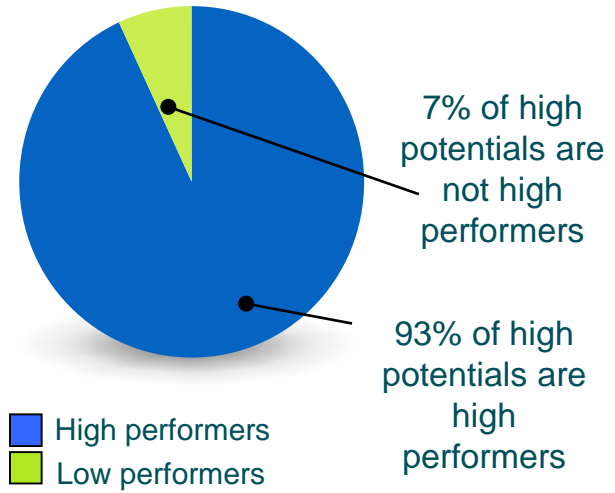
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# Performance and Potential

High performers are not always high potentials...

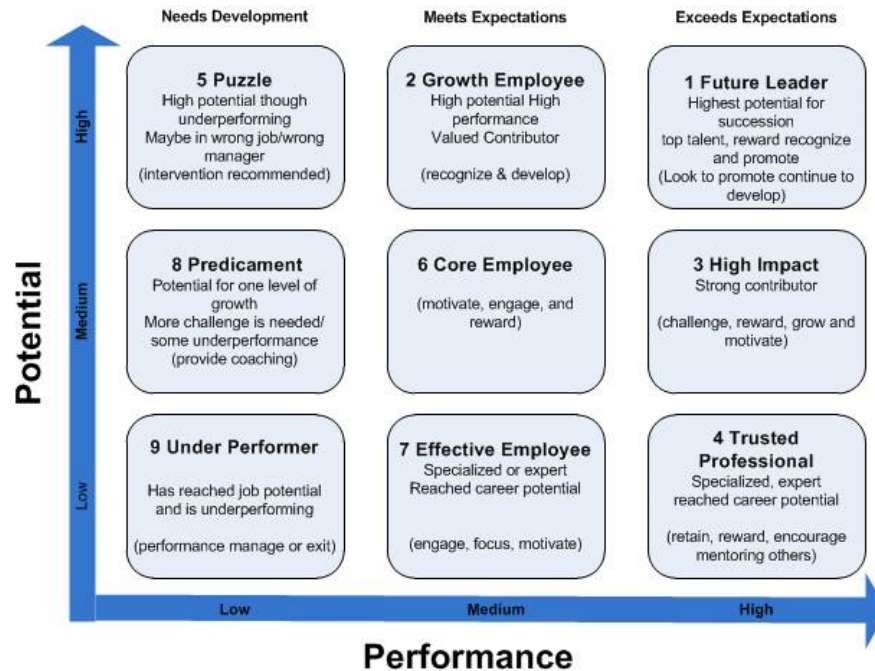


... But, high potentials are mostly high performers

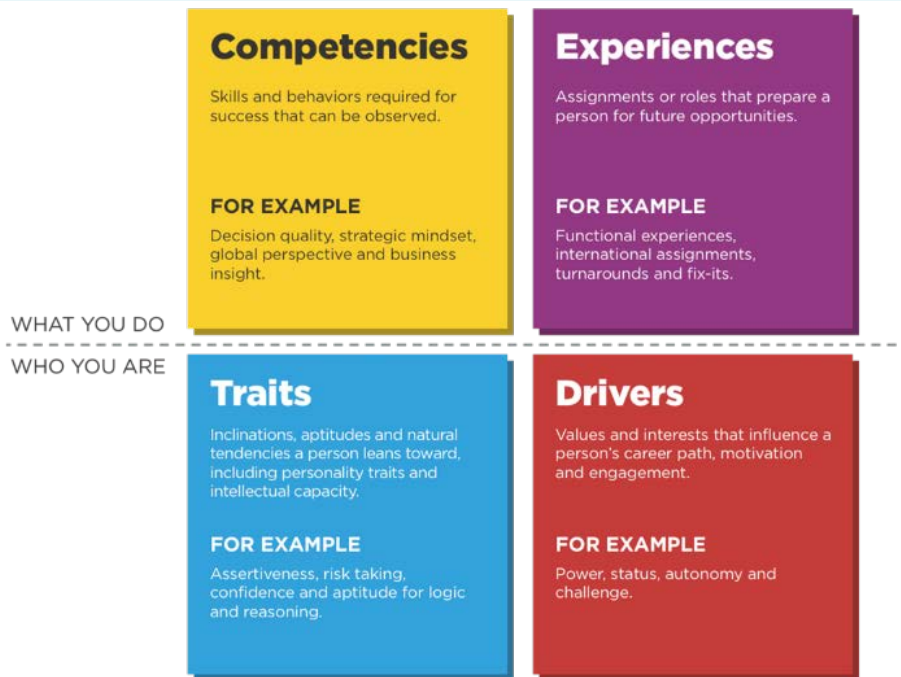


Source: High-Potential Management Survey, Corporate Leadership Council, 2005

# Performance and Potential



# Korn Ferry Dimensions of Leadership & Talent



Source: Korn Ferry



## Defining competencies

- Competencies are observable and measurable skills and behaviors that contribute to workplace effectiveness and career success.

# Competencies Applied



# Role & Responsibility Matrix

<i>Work activities</i>			
<b>E = EXECUTE</b> Performs task	Project Manager	Project Administrator	Accounting
<b>P = PARTICIPATE</b> Consulted or informed during the task or when completed			
<b>A = ACCOUNTABLE</b> Makes sure work is complete and signed off			
<i>Process/Task</i>			
Create Invitation to Bid List bidder list from Master Estimating Bid List	E/A		
Send Request to Bid form to identified bidders		E	
One day after Request to Bid sent: email bidders to confirm receipt, verify contact information and ask for bidding decision		E	
Update Bid Form <ul style="list-style-type: none"> <li>- Green = received</li> <li>- Yellow = bid in process</li> <li>- Red = declined</li> </ul>		E	
Two days before bid due date: email reminder to bidders that have not submitted		E	
Receive subcontractor/vendor bid	E	E	
Save bid as PDF in Job Folder		E	
Enter subcontractor bid in Bid Form	A	E	
PM review of completeness of scope and cost impact of RFI (if any)	E/A		
Identify low bidders in Bid Summary (if UI is bidding) or Budget Summary (if developing budget only)	E		

# Position-Specific Competencies

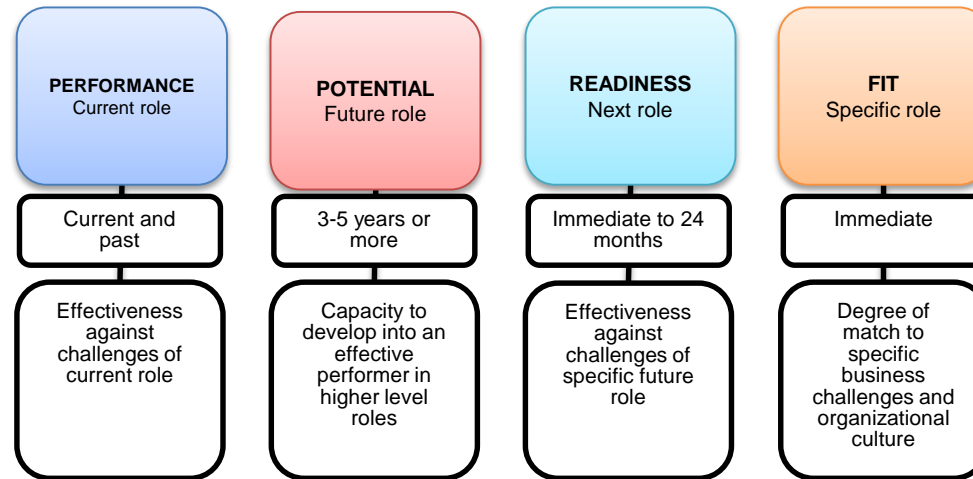
- Understanding the business
- Making complex decisions
- Creating the new and different
- Taking initiative
- Managing execution
- Focusing on performance
- Building collaborative relationships
- Optimizing diverse talent
- Influencing people
- Being authentic
- Being open
- Being flexible and adaptable



# Competencies that Drive Business Success

1. Ensures accountability
2. Manages complexity
3. Plans and aligns
4. Nimble learning
5. Cultivates innovation\*
6. Drives results
7. Decision quality
8. Directs work
9. Courage\*
10. Situational adaptability\*
11. Resourcefulness
12. Attracts top talent

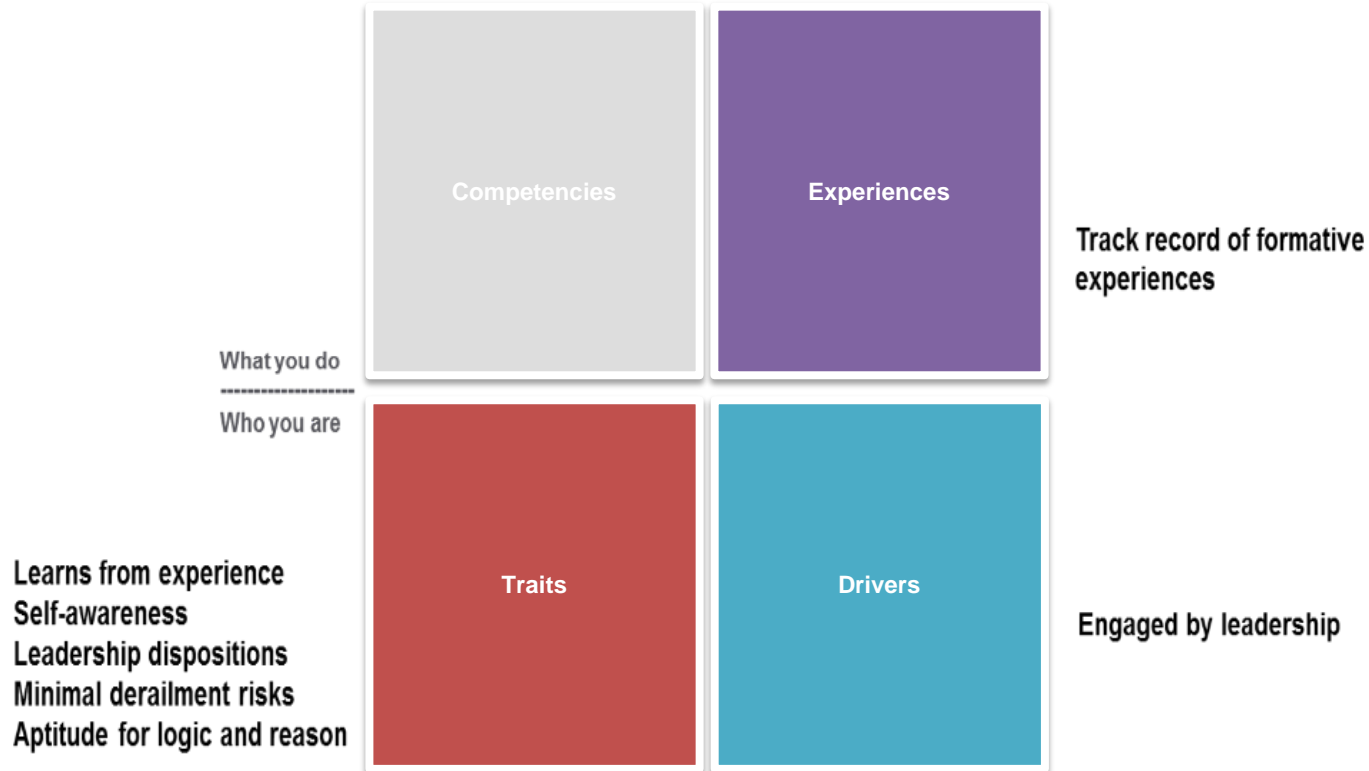
# Korn Ferry: Dimensions of Talent



# What is Leadership Potential?

Your *capacity*  
and *interest*  
to *develop* the *qualities*  
required for effective performance in a  
*significantly more challenging*  
leadership role.

# Korn Ferry Framework & Leadership Potential



# Experience Matters

## Current role and organization

- Type of company, years of experience, most recent role

## Career history and experiences

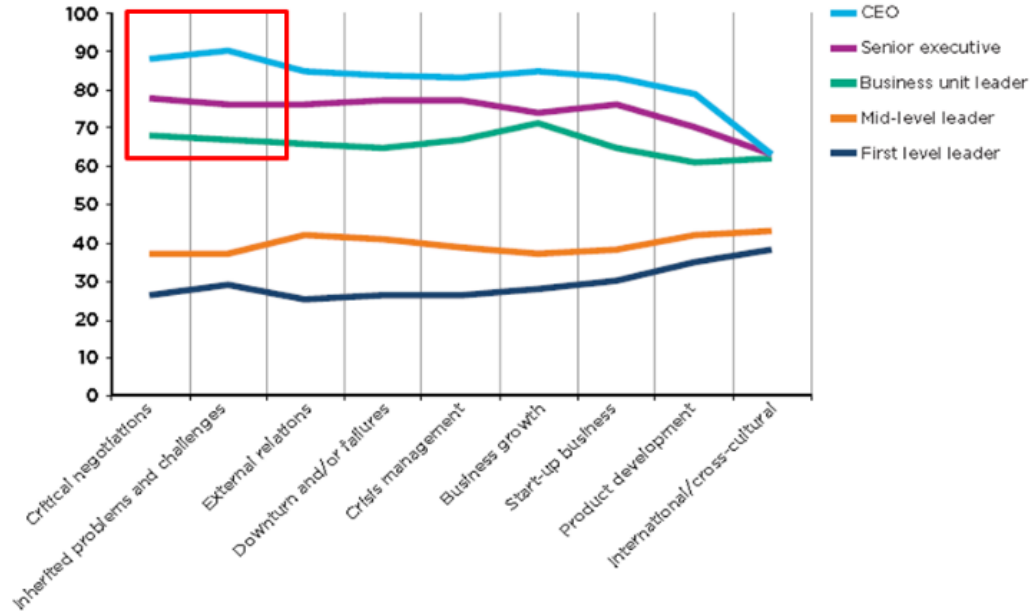
- Years in management, board experience, number of FT positions held

## Work styles and preferences

- Leadership style, approach to dealing with people, work preferences
  - I behave the way I tell others I behave
  - I work best when goals are clear and the course is well defined
  - People know I have insight into why others behave as they do
  - Doubt leaves me reluctant to advocate for my options

# Formative Experiences

Figure 5. Prevalence of key formative career experiences by management.



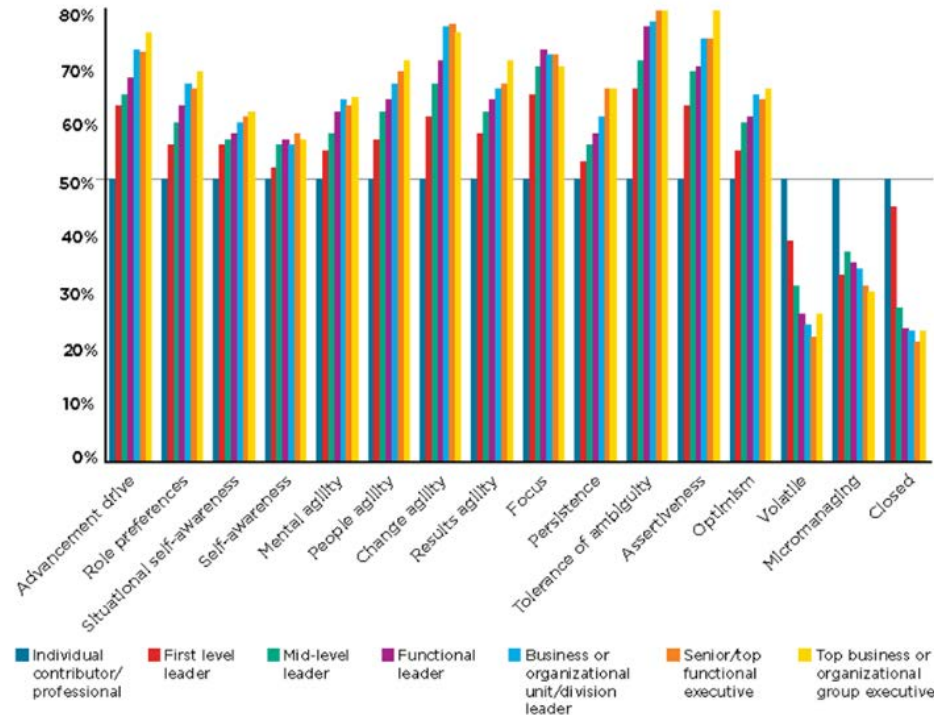
# Signposts of Leadership Potential



Source: Seven signposts: The unmistakable markers that identify high-potential leaders. By Bruce Sevy, Vicki Swisher and J. Evelyn Orr.

# What Differentiates Leaders?

Figure 9. Progressive increase (decrease) in scores with level.




- Advancement drive
- People agility
- Change agility
- Results agility
- Focus
- Assertiveness
- Tolerance of ambiguity



# Drivers

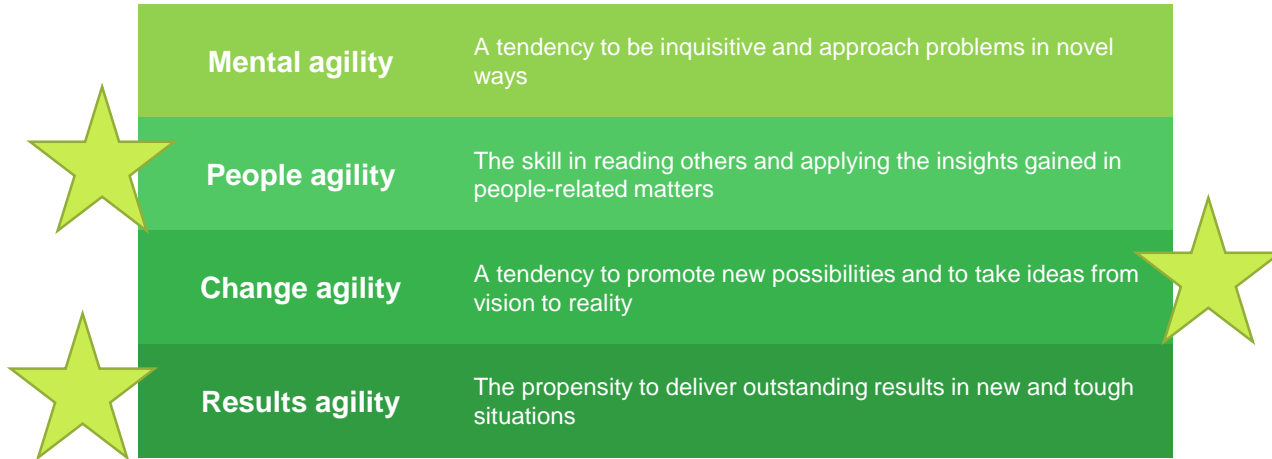
How interested and driven you are in pursuing the challenges and work of leaders



<b>Advancement Drive</b>	A leader's drive to advance through collaboration, ambition, challenge
<b>Career Planning</b>	How narrowly or broadly focused are career goals and how specific is career plan
<b>Role Preferences</b>	Prefers roles requiring versatility and achievement through others vs. professional mastery and expertise

# Learning Agility

The extent to which leaders extract lessons from experience and leverage them in novel situations



# Leadership Traits

Dispositions leaders possess that make them naturally inclined to lead

	<b>Focus</b>	The balance between attending to details and keeping an eye on the big picture
	<b>Persistence</b>	The passionate pursuit of personally valued long-term goals
	<b>Tolerance of ambiguity</b>	The capacity to deal effectively with uncertainty or confusing situations
	<b>Assertiveness</b>	The willingness to assume a leader role and comfort with leadership
	<b>Optimism</b>	A tendency to have a positive outlook

# Development Priorities

#1

**Define where you want to go with your career and your life.** Leaders who successfully advance along the leadership career path have closely held and highly valued long-term personal goals which help them focus and sustain them through difficulties and detours. Consider carefully what is really important to you and try to adopt long-term personal goals that you value. Take inventory and examine what is truly motivating to you as you consider your lifetime goals. Try to list them and define what is truly most important to you. Consider how your career plans contribute to achieving these long-term personal goals. Consider what has caused you to deviate from your long-term goals and think about how you might manage these detours most effectively. If your long-term or lifetime personal goals are incompatible with advancement as a leader, consider how to adjust your professional goals to align with your closely held personal goals.

#2

**Gain perspective in your work experience.** In terms of experience, perspective means that you have had multiple vantage points on the same thing—for instance, understanding the staff and line role perspectives about budgeting or operating plans. Your results suggest you would benefit from widening your perspective. The easiest way is to gain experience in a different type of role (staff vs. line), functional area (e.g., sales vs. operations), or market (by working in a different country or culture).

#3

**Push yourself and your team harder.** You'll never know how much you or your team can accomplish if you've never hit your limits. Your results suggest you would benefit from setting more challenging goals. You don't want to overdo it or to set impossible goals. Challenging goals, clear expectations, good feedback, and personal accountability bring out the best in most people. Try setting the bar higher and prepare to be surprised by what people can accomplish.

**Define your career direction.**

Career planning

**Seek different perspectives at work.**

Perspective

**Challenge yourself and your team.**

Persistence



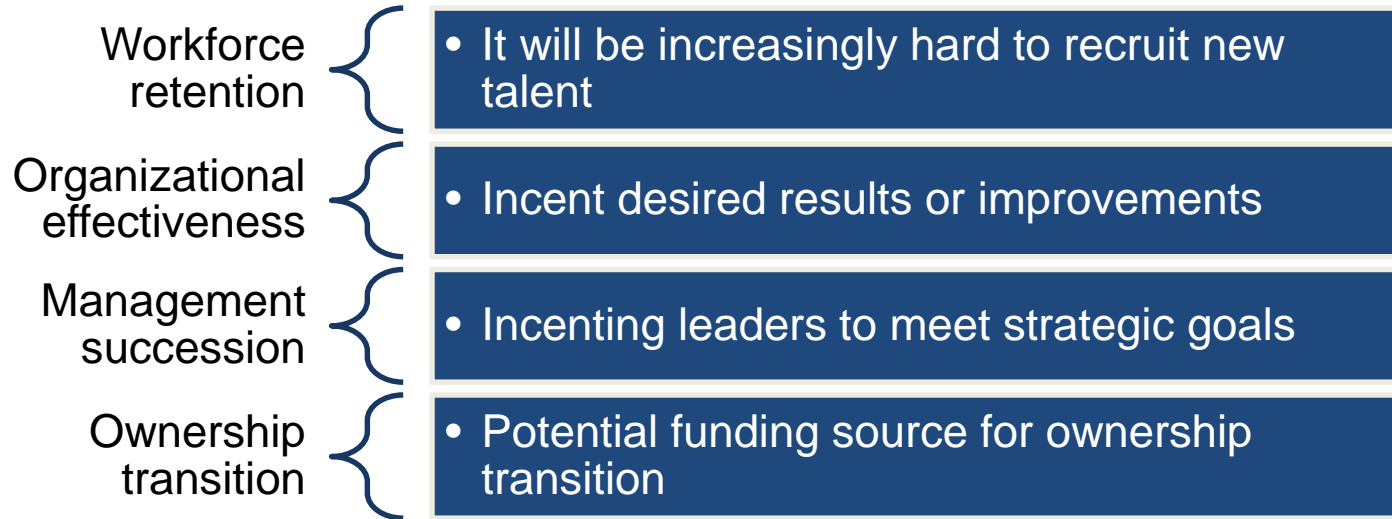
# INCENTIVE COMPENSATION

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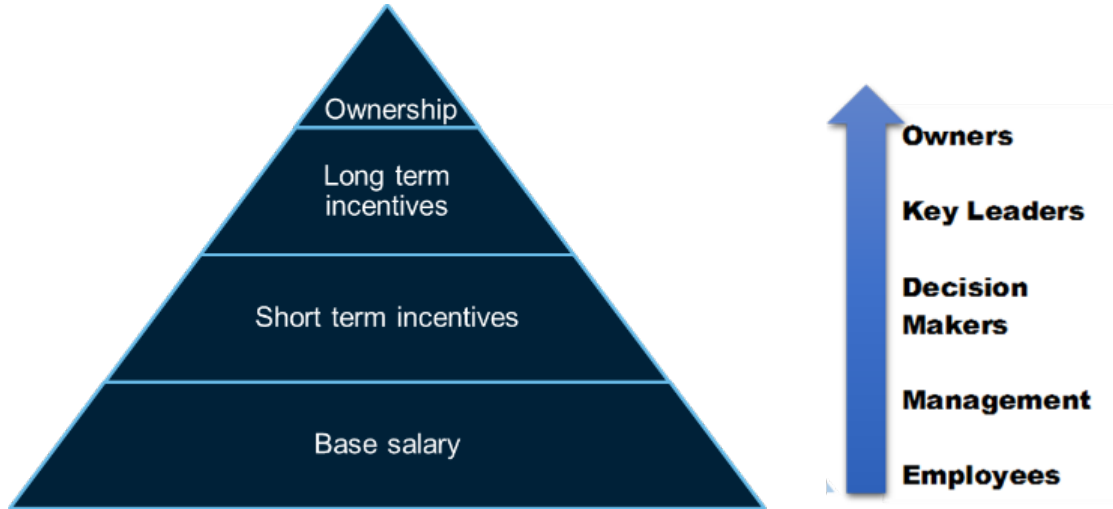
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# Why Compensation?



# Compensation Strategy

Establish a compensation system that is based upon company profitability, individual performance, and compensates employees in-line with or above industry averages.



# Short-Term Incentive Trends

- Most companies use 1 – 3 short term incentive practices
- Link pay with performance through formula based plan
- 3 – 4 metrics to measure performance
- Transparency of compensation and performance scores



# Long-Term Incentive Trends

- Align reward program with shareholder expectations
- Link rewards to organization success over a multi-year period
- Provide wealth accumulation opportunities
- Deliver market-competitive total compensation

# Role-Specific Performance

Employee performance report		
Revenue growth		Score
Utilizes market knowledge to strategize new business development	2	2.2
Demonstrates ability to observe and anticipate market trends	2	
Uses financial analysis to generate, evaluate, and act on strategic opportunities	3	
Directs business developments activity in region	2	
Executes business development strategy and plans for market	2	
Manage contractual risk		Score
Oversees quality assurance and risk compliance	3	2.5
Provides effective management of key client relationships	2	
Develops and executes contracts that meet company's market objectives	2	
Provides support for project-specific due diligence	3	

VP regional manager		
Performance factor scorecard		
Expense management		Score
Oversees all regional office and related project expenses to meet bottom-line results	2	2
Responsible for effective use of subcontractors/vendors	1	
Ensures company profitability guidelines are followed	3	
Follow defined business process		Score
Maintains operational requirements as defined by management	2	1.8
Communicates issues effectively with President/COO	3	
Utilizes internal and external resources effectively	1	
Works with appropriate internal approval governance	1	
<b>Overall performance factor score</b>		<b>2.1</b>

# Formula Based Plan

1 = *minor contribution*

2 = *significant contribution*

3 = *major contribution*

Overall performance score	% of bonus awarded
>1	0
1.0	20%
1.5	40%
2.0	60%
2.5	80%
3.0	100%

# Transparency Drives Performance

Compensation	2017	2018	2019
Annual base salary	\$185,400	\$205,000	\$205,000
Incentive bonus opportunity %	<i>Discretionary</i>	30%	30%
Incentive bonus opportunity \$		\$61,500	\$61,500
Performance score %		60%	80%
Incentive bonus earned	\$20,000	\$36,900	\$49,200
Business development commission	\$52,400	\$91,850	\$121,680
<b>Total cash compensation</b>	<b>\$257,800</b>	<b>\$333,750</b>	<b>\$375,880</b>
Deferred compensation award (3 year vesting)	<i>New in 2018</i>	\$45,000	\$45,000
Cumulative deferred compensation		\$45,000	\$90,000
<b>Total compensation value</b>		<b>\$378,750</b>	<b>\$420,880</b>



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# Succession Action Plan

- Understand current state of succession plan and individual goals
- Have open conversations about ownership transfer
  - Timing
  - Financing
  - Governance
- Establish timeline to transfer leadership responsibilities and ownership
- Assess and develop leadership potential
- Utilize incentive compensation to reward performance, drive desired behaviors, and fund ownership transfer

# Connect with us



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Questions?

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